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COMMENTARY

The Role of Mediation in the Post-*Tafas v. Doll* World

By Louis J. Knobbe, Esq., and Hon. William McDonald (Ret.)

"We shall sell no wine before its time," says an old wine advertisement.

Is the Federal Circuit in *Tafas et al. v. Doll*, 559 F.3d 1345 (2009), telling the U.S. Patent and Trademark Office you shall not issue a patent before its time — as determined by the patentee?

A thorough analysis of the *Tafas* decision can lead to that conclusion. But an intelligent use of mediation before an experienced, skilled mediator can eliminate the negative aspects of any resultant delays.

On July 6 an 11-member panel of the U.S. Court of Appeals for the Federal Circuit voted to rehear the *Tafas* case *en banc*. However, the issues discussed in this paper and the relevance of mediation will not be resolved by the court's decision.

In *Tafas* the court addressed the U.S. District Court for the Eastern District of Virginia's summary judgment ruling that four recently promulgated PTO rules, Final Rules 75, 78, 114 and 265, exceeded the scope of the agency's rulemaking authority.

Rule 75 limits the number of claims an inventor can file in a patent application to five independent and 25 total unless the applicant also files a detailed "examination support document" meeting the requirements of Rule 265. Rule 78 limits the inventor to two continuation applications unless the inventor can file a petition that the "amendment, argument or evidence" could not have been submitted during the filing of the prior application. Rule 114 limits filing a "request for continued examination" unless the inventor can file such a petition.

While mediation is widely recognized as a successful technique for dispute resolution, it can also greatly enhance reaching a fair agreement between an inventor/start-up and a third party interested in acquiring future patent rights, regardless of whether a troll is involved.

After affirming in part and vacating in part, the Federal Circuit remanded. Specifically, the court said the final rules were procedural rules within the scope of the PTO's rulemaking authority. However, the court then found Rule 78 was invalid. It remanded the case to the District Court for further proceedings consistent with the opinion.

The Federal Circuit specifically directed the District Court to address a number of issues, including whether any of the final rules were arbitrary and capricious. Language in the appeals court's opinion expressed concern that the final rules not be interpreted so as to increase the burden upon the applicants to the point that they "will be effectively foreclosed from obtaining the patent rights to which they are entitled."

A bit of history is helpful in putting the concerns of the Federal Circuit and the PTO in context.

In today's dynamic economy, the time required for commercial development of an invention is often measured in months (or in the case of a new software app for the iPhone, a few days). In contrast, the length of time required to obtain an issued patent is several years, and growing longer each year. The lone inventor or start-up company increasingly will find it financially difficult to ever enjoy the "exclusive right to their … discoveries" promised by Section 8 of the U.S. Constitution.

Louis J. Knobbe *is an intellectual property lawyer and full-time mediator and arbitrator with* ***JAMS****, the world's largest private alternative dispute resolution provider, in its Orange County, Calif., Resolution Center. He has more than 40 years of experience, including resolving disputes involving patents, trademarks, copyrights, unfair competition, trade secrets and right of publicity.* ***Hon. William McDonald*** *(Ret.), a full-time neutral based in JAMS Orange County Resolution Center and a former supervising judge of the Orange County Complex Civil Litigation Panel, has 35 years of judicial and legal experience in resolving a broad range of disputes, from intellectual property to mass torts and complex construction defect matters.*

Conversely, many have expressed a concern that the delays in obtaining a patent are being exploited by the so-called "patent trolls." The troll drags things out before the PTO until it is clear what part of the applicant's invention is commercially important. The troll then makes sure the final issued form of the patent covers that aspect and springs it upon the unsuspecting industry, demanding the users take a license and pay a royalty.

A troll in Scandinavian folklore was a member of an ugly, evil race of supernatural beings. The troll typically would hide under a bridge and then spring out at the unsuspecting traveler crossing the bridge. The troll would then demand tribute from the traveler for the right to cross the bridge.

Tafas v. Doll followed the enactment of several rules by the PTO to limit both the number of applications that could be filed on a single invention and also the number of claims in each application. The reason advanced by the PTO for the new rules was that the agency was faced with a "large and growing backlog of unexamined patent applications." The Federal Circuit generally upheld the PTO's rule-making authority but struck down Rule 78, which limited the number of continuation applications to two.

Although the new rules, including those upheld, are currently in abeyance pending further proceedings before the District Court and perhaps again before the Federal Circuit, it is quite possible the rule limiting the number of claims per application will be reinstated.

It is also possible the PTO may amend Rule 78 in line with the concurring opinion suggesting that a revised rule addressing only two serial continuances, the first co-pending with the original application and the second co-pending with the first, would be permissible. Such a rule would not affect filing a plurality of parallel continuances with claims selected for patent art units offering differing prosecution delays, which in the case of computer-related applications can be as long as nine years.

The net effect of the *Tafas* decision may thus result in even more applications being filed and yet more delays as controlled by the applicant before a final patent issues. The sine qua non of current patent prosecution practice is to have at least one application pending in the PTO during resolution of a dispute.

In this manner, patent counsel has the maximum flexibility to add claims to correct deficiencies asserted by an infringer. One example of a deficiency is that the issued patent being asserted against the infringer has overly broad claims that appear to be invalid in view of prior art cited by the infringer. Another example is that the issued claims are valid but overly narrow and of little value because the infringer has designed around them.

Even though a U.S. patent can offer, upon issue, an extended monopoly of several years, the burdens of both invention development and patent costs are incurred before the start of this patent monopoly. Although the current trend of patent deferment does not paint a rosy picture for either inventor or entrepreneur, it does offer an opportunity and challenge in our capitalist high-tech society for bridging the gap between capital sources and the inventor or start-up company.

In so doing, it may help the so-called troll, but that is not necessarily bad. How many bridges would not have been built if the cost of construction could not have been covered by tolls for the privilege of crossing them?

Professional mediation conducted by a mediator with prior patent litigation, patent prosecution experience and patent licensing experience offers one solution. While mediation is widely recognized as a successful technique for dispute resolution, it can also greatly enhance reaching a fair agreement between an inventor/start-up and a third party interested in acquiring future patent rights, regardless of whether a troll is involved. Mediation is often successful in obtaining consensus between parties for a number of reasons. Often, a primary reason is that a neutral and totally independent mediator can influence both sides to reach a mutually agreeable result.

Mediation can be initiated by the inventor/start-up company, an interested investor or a prospective licensee. For example, a manufacturer of racks and cabinets for home closets systematically reviews published patent applications in its field.

It discovers a new storage rack invention by an inventor. The company's due diligence prior to initiating the mediation starts by having its patent counsel perform a novelty search to locate pertinent prior art. This search is to ascertain other earlier issues and pending applications to determine if the inventor's invention is novel or already anticipated by the prior art.

Note that the thrust of this preliminary investigation is not to critically review the inventor's pending claims but rather to evaluate whether patentable broad claims are feasible. While the inventor's pending application will have one or more claims on file, the scope and value of these pending claims are relatively unimportant, since additional claims can be filed following a successful mediation, either in the present application or in continuation or divisional applications.

Armed with the knowledge that the inventor has made a potentially patentable invention, the company can proceed to open direct negotiations with the inventor or suggest that the parties meet with an independent neutral mediator experienced in both patent prosecution and patent licensing. While direct negotiations often are successful, the offer to meet with a neutral will often be less threatening to an inventor and will also be viewed as a serious interest in the invention.

In another example, a start-up company is developing a wireless in-flight entertainment center for retrofitting commercial airplanes in which each seat is supplied with its own television screen. However, the company has been advised by its patent lawyers that it should file at least six U.S. patent applications plus a "patent cooperation treaty" application for patent protection outside the U.S. Further, the company's total patent prosecution budget in the U.S. and foreign countries may well exceed several million dollars for additional filings, conferences with patent examiners and other prosecution costs.

Faced with years of patent prosecution and attendant costs, the start-up company directly seeks to open negotiations with a prospective collaborator, a worldwide supplier of goods and services to the airline industry. Several different issues have frustrated this approach, and the parties have not been able to agree on the terms of a mutual confidential disclosure, a not-unusual impediment for getting together.

However, in their initial meeting in the confidential setting of a formal mediation, the parties are able to discuss their respective needs, particularly the start-up company's need to keep information confidential until the foreign applications have been filed and the supplier's need to avoid having its hands tied for an extended period of time, particularly if an agreement cannot be reached. An experienced mediator can then assist the parties to recognize quickly that a mutual confidential agreement for a limited period is in their best interests and can enable the mediation to continue to a successful outcome.

Another issue frequently frustrating inventors and start-ups is the "not invented here" syndrome at large companies, which will often cause reluctance by a prospective collaborator to spend much time or energy in reviewing an outsider's invention. However, the offer to mediate will show to the large entity the start-up's serious interest in entering into a collaborative relationship and also give the large entity more confidence in dealing with an individual inventor or small start-up company.

In sum, the perceived problems caused by a lengthy prosecution period before the PTO can be turned into a good business opportunity for all by using an experienced and independent neutral patent mediator. The mediator can help the parties develop a mutually profitable business relationship based upon the stronger, more focused patent claims resulting from the lengthy prosecution.

COMMENTARY

Intellectual Property Rights in Government Contracting

By William C. Bergmann, Esq., and Bukola Aina, Esq.

Introduction

In the global economy, Intellectual Property rights — including patents, copyrights, trademarks and trade secrets — are often some of the most valuable assets owned by a company. Maintaining IP rights is crucial to both small and large companies, especially within industries that are highly technical.

Companies engaging in business with government agencies are faced with a unique set of issues related to retaining and protecting their IP rights. Government contracting has the advantage of providing a company with access to federal funding for (a) research and development work relating to new technology, and (b) further contract work leading to the commercialization of that new technology for use by the government or the private sector.

Companies engaging in business with government agencies are faced with a unique set of issues related to retaining and protecting their IP rights.

Government contractors can retain a significant portion of their IP rights during this process, but only by adhering to various statutes and regulations.

In addition to protecting their own IP rights, contractors must be prepared to defend themselves against infringement claims that may be brought by other companies as a result of work performed under government contracts. This issue often occurs when the government awards a contract to one of two competitors and the other company alleges that carrying out the contract necessarily violates its IP rights.

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Title 28, Sections 1498(a) and (b), provides for the filing of a patent or copyright infringement action against the United States in the U.S. Court of Federal Claims for allegedly infringing acts by the government or by its contractors or subcontractors during the performance of work under a federal contract. Because government contracts often incorporate indemnification provisions, contractors may be liable to indemnify the United States for damages suffered as a result of allegations of infringement by others.

An aggrieved contractor also may bring suit under this statute if the company believes the government is infringing its IP rights. The Federal Acquisition Regulation has several provisions that relate to such IP disputes.

Government Contracting and the Disposition Of IP Rights

The disposition of rights to IP that is created during the performance of a federal contract is governed by U.S. statutes and/or regulations. The general policy of the United States, which is reflected in these laws, is to allow contractors to retain ownership rights in IP that is developed with federal funding as long as the government obtains a non-exclusive, paid-up license to use such IP. *See* Presidential Memorandum to the Heads of Executive Departments and Agencies on Government Patent Policy issued Feb. 18, 1983; Executive Order 12591 (Apr. 10, 1987), 52 FR 13414, 3 C.F.R., 1987 Comp., p. 220.

This policy is based on the rationale that a contractor is better positioned to commercialize a new technology than the federal government.

Important statutes and regulations governing the disposition of IP rights in government contracts are discussed below.

Patent Rights: Chapter 18 of Title 35 (35 U.S.C. §§ 200-212)

The disposition of patent rights in inventions made with federal funding for small businesses and nonprofit organizations is governed by Chapter 18 of Title 35 (35 U.S.C. §§ 200-212).

The main provisions of Chapter 18 can be summarized as follows:

- Nonprofit organizations and small businesses may elect to retain title to subject inventions, *provided* that the funding agreement may indicate otherwise in certain circumstances (35 U.S.C. § 202[a]). For purposes of these provisions, "subject inventions" are defined as "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement" (35 U.S.C. § 201[e]) and "funding agreement" is defined broadly as any contract, grant or cooperative agreement entered into between any federal agency and the contractor for the performance of experimental, developmental, or research work. 35 U.S.C. § 201(b);
- The government retains a nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention for or on behalf of the United States throughout the world. 35 U.S.C. § 202(c)(4).
- Duties of the contractor include disclosure of the existence of each "subject invention" to the government, election to take title to the invention, and prosecution of the patent application for the invention. The funding agreement may also require the contractor to report on the real world utilization of the invention. Failure to observe these duties may result in the title to the invention vesting with the government. 35 U.S.C. § 202(c).
- The federal government retains "march-in" rights to force the contractor to grant a nonexclusive or exclusive license to others in a particular field of use if the contractor is not taking reasonable steps to achieve the practical application of the invention in the field of use or for public health or safety reasons. 35 U.S.C. § 203(a).
- U.S. industries are promoted throughout Chapter 18, for example, in the granting of title to invention rights (Section 202[a][i]), the manufacture of subject inventions (Section 204) and in the licensing of inventions owned by the federal government (Section 209[b]).

Section 210 of Title 35 states that the provisions of Chapter 18 take precedence over any other conflicting statute and specifically lists 21 different statutes over which it takes precedence. Section 210 even goes so far as to provide that it takes precedence over *future* acts of Congress unless such act specifically states that Chapter 18 does not apply.

Patent Rights: Presidential Memorandum to the Heads of Executive Departments and Agencies on Government Patent Policy

The statutory provisions governing the disposition of invention rights for small businesses and nonprofit organizations found at 35 U.S.C. §§ 200-212 (formerly Chapter 38) were extended to all other government contractors by President Reagan in the Presidential Memorandum to the Heads of Executive Departments and Agencies on Government Patent Policy, dated Feb. 18, 1983.

This presidential memorandum states that:

> To the extent permitted by law, agency policy with respect to the disposition of any invention made in the performance of a federally-funded research and development contract, grant or cooperative agreement award shall be the same or substantially the same as applied to small business firms and nonprofit organizations under Chapter 38 of Title 35 of the United States Code.

Effectively, this presidential memorandum grants title to certain inventions made with federal funding to all contractors, including those that lack small business or nonprofit status.

As in 35 U.S.C. §§ 200-212, this provision was originally limited to inventions stemming from a "federally funded research and development contract, grant, or cooperative agreement." This limitation was removed by Section 1(b)(4) of Executive Order No. 12591, dated April 10, 1987, which extends "to all contractors, regardless of size, the title to patents made in whole or in part with federal funds, in exchange for royalty-free use by or on behalf of the government."

Because the executive order extends a license for use "by or on behalf of the government," federal contractors and subcontractors are also included within the scope of the license as long as the work they are performing is within the scope of their contract.

Copyrights and Trademarks

Ownership of copyrighted works created with federal funding is generally covered by the provisions of the government contract. Under 17 U.S.C. § 105, copyright protection is not available for any work of the U.S. government, but the United States is permitted to contract out the work and then receive title of the resulting copyrights by assignment, bequest or otherwise.

To obligate the contractor into assigning to the United States any copyrighted works created during the performance of the contract, the government will insert an appropriate FAR clause (discussed further below) into the contract.

Unlike copyrights, the United States can create its own trademarks.

As with copyrights, the ownership of trademarks created with federal funding is generally covered by the provisions of the government contract. Unlike copyrights, however, the United States can create its own trademarks. Thus, the government contract can specifically assign to either the United States or the contractor any trademarks developed during the performance of the contract. Note that disputes over ownership of trademark rights created during the performance of a government contract occur infrequently.

Federal Acquisition Regulation Clauses

The Federal Acquisition Regulation located at 48 C.F.R. Chapter 1 codifies the policy of the United States regarding ownership of IP developed during the performance of a government contract and applies to almost all procurements.

Parts 1-51 of the FAR provide government policies and contracting procedures and include an explanation of the rules and clauses which apply to specific situations.

Part 52 of the FAR contains the actual contract clauses, akin to the boilerplate used in private contracts, which are to be used in government contracts.

FAR clauses often implement statutory or policy directives of Congress or the president and the language contained therein cannot be changed by contracting officers. With respect to some FAR clauses, their insertion into the government contract is discretionary on the part of the contracting officer and the contractor can attempt to negotiate whether those clauses will be used.

The FAR also includes different versions of certain clauses and guidance as to which version should be used particular circumstances. The contracting officers, with input from the contractor in some instances, decide which versions of the FAR clauses apply where the language of the FAR leaves room for interpretation.

The FAR policies and provisions regarding IP rights are found at Chapter 1, Part 27, including 27.402, which expresses the government's policy with respect to copyrights in data and software. This section recognizes that, in general, both the government and the contractor have an interest in data and software rights.

As such, the applicable FAR clause (52.227-14, discussed below), includes five alternate clauses that a contracting officer can select from, depending upon the specific circumstances, in order to allocate data rights between the contractor and the government in varying degrees.

The actual FAR contract clauses are generally found at Part 52.227. Significant clauses relating to patent, copyright and data rights include:

- 52.227-11 and 52.227-12: incorporating the statutory provisions of 35 U.S.C. §§ 200-212 discussed above and granting title in subject inventions to the contractor, subject to several conditions, the contracting officer will use either 52.227-11 (short form) or 52.227-12 (long form) as appropriate.
- 52.227-13: rarely used, but if applied, requires the contractor to assign patent rights in subject inventions to the government.
- 52.227-14: main contract clause outlining the respective rights of the contractor and the government in data and software that precedes the performance of contract work, and also outlining the rights in data and software created during the performance of the contract.
- 52.227-15 through 23: additional clauses for use in particular circumstances to delineate the allocation of data and software rights among contracting parties.

As discussed above, under 35 U.S.C. § 201(e) the government takes certain rights in any "subject invention" which includes "any invention of the contractor conceived or first actually reduced to practice in the performance of work under a funding agreement."

The implications of this provision are that regardless of whether the contractor has *constructively* reduced the invention to practice (*i.e.* applied for a patent application for its inventions), the government obtains rights in that invention if it is first *actually* reduced to practice (*i.e.* first successful testing of the invention occurs) during the performance of the contract.

Tips

Given the provisions of the FAR and Section 201, whenever possible contractors should:

- Actually reduce their inventions to practice by developing an experimental model or prototype prior to entering into a government contract;
- Meticulously document work done prior to entering into the contract to show when the inventions were first actually reduced to practice;
- Disclose to the government in responses to requests for proposals that they intend to rely upon pre-existing technology in performance of the contract and describe in detail the pre-existing technology;
- Ensure that key contract clauses are incorporated into subcontracts;
- Make timely reporting of subject inventions as required under the FAR clauses;
- Elect title to subject inventions;
- File for patents on subject inventions or notify agencies of a decision not to file;
- Acknowledge government support and the United States' license in the invention;
- Submit annual utilization reports;
- Ensure that any royalties received for the utilization of subject inventions comply with applicable regulations; and
- Determine if more favorable or more appropriate FAR clauses may be substituted within the contract.

Government Contracting, IP Infringement Claims

Under 28 U.S.C. §§ 1498(a) and (b) the government can be sued in the U.S. Court of Federal Claims for patent and copyright infringement. Under 15 U.S.C. § 1122, the government can be sued in the district courts for trademark infringement.

Statutory Provisions of 28 U.S.C. § 1498

Although claims of IP infringement against the government are similar to claims against a private party and the elements necessary to prove infringement are the same, some crucial differences exist.

These differences stem from the fact that the right to bring patent and copyright claims against the government is based upon the waiver of sovereign immunity found in the text of Section 1498, rather than on the right to bring suit for patent infringement under Title 35 or the right to bring a copyright infringement suit under Title 17.

The government may require contractors to indemnify it for damages suffered because of infringing acts committed during the course of contract work.

Although the case law and the FAR provisions often refer to the government as committing "infringement" based on the language of the statute, the government does not technically "infringe" patents or copyrights but rather may be said to commit "unauthorized use or manufacture."

Because a claim against the government for unauthorized use of patents and copyrights is based on a waiver of sovereign immunity, and such waivers are to be construed narrowly, many of the remedies available to a patent and copyright holder in an action against a private party are not available against the government.

For example, the government cannot be enjoined from further unauthorized use, found to "willfully" infringe or be subject to enhanced damages and attorney fees (because its use is permitted as a sovereign, and the statutory waiver of immunity does not encompass enhanced damages for willful infringement), or liable for induced or contributory infringement.

An aggrieved patent or copyright holder may obtain damages in the form of "reasonable and entire compensation" by way of an action brought in the U.S. Court of Federal Claims. While the government can in theory be liable for lost profits, it is difficult for a patent or copyright holder to obtain this measure of damages in practice. Under the statute, the government's contractors and subcontractors do not have direct liability for the unauthorized use or manufacture of a patent or copyright.

Indemnification Obligations Under Government Contracts

While companies may not be sued directly in the district courts for infringement arising from work performed under a federal contract, by operation of the appropriate FAR clause the government may require contractors to indemnify it for damages suffered because of infringing acts committed during the course of contract work.

In general, the guidelines instruct the contracting officer to insert an indemnification provision into a contract for a commercial item, rather than when the contractor is engaging in research and development work.

Regardless of whether the FAR clauses require a company to indemnify the government for IP infringement damages, a contractor may intervene in a Court of Federal Claims action to protect its interests.

Contractors are likely to intervene because:

- They will at least have to participate in the action to respond to discovery requests;
- They will likely wish to take advantage of some of the benefits of becoming a party to the litigation (*i.e.* the ability to take discovery, file briefs and participate in the proceedings to the extent desired); and
- They will likely choose to support the government in the defense of the action for business reasons. For example, to avoid the potential adverse effect of an infringement finding against their product in a Court of Federal Claims action.

Important FAR Clauses Related to IP Litigation

- 52.227-1: confirms that the work done by the contractor and any subcontractor is done on behalf of the government, and that any infringement action is against the government pursuant to 28 U.S.C. § 1498 and not against the contractor;
- 52.227-2: obligates the contractor to notify the government of any allegations of patent or copyright infringement arising during the performance of the contract and obligates the company to assist the United States in defending against any infringement claims. The government will pay for the cost of assisting in the defense of a claim unless an indemnification clause is included in the contract;
- 52.227-3: obligates the contractor to indemnify the government against liability for patent infringement occurring during the performance of the contract. The contractor must be given notice of the action and be allowed to participate in the defense; and
- 52.212-4: incorporates several commercial contract terms, and includes paragraph (h), which obligates the contractor to indemnify the government against any liability for patent, trademark and copyright infringement arising from the performance of the contract.

In general the guidelines instruct the contracting officer to insert an indemnification provision into a contract for a commercial item rather than when the contractor is engaging in research and development work.

Tips

When entering into a federal contract and when faced with potential litigation over government sales, it is important for a contractor to:

- Make sure flow-down clauses are incorporated into subcontracts;
- Determine whether to intervene in the case if the government is sued over goods or services the contractor has supplied, the determination of which may be based in part upon whether it must indemnify the government and whether there is a commercial market for the IP;
- Plead lack of jurisdiction as an affirmative defense in a district court action dealing with government sales; and
- Notify the government of patent rights that may be involved in a new federal contract.

Conclusion

IP rights are an important part of federal contracting. Provided that companies comply with contract clauses covering the disposition of IP rights, they often have the opportunity to develop and retain these rights while being funded by the United States. Government policy encourages this, and the United States usually takes a nonexclusive license in the IP being developed. However, contractors must be aware of provisions relating to infringement actions against the government that are based on the contract work they performed, in order to minimize their associated liability.

COPYRIGHT INFRINGEMENT

Photographer Sues ESPN for Infringement Of Triathlete Photo

***Martin v. Walt Disney Internet Group et al.*, No. 09-1601, *complaint filed* (S.D. Cal. July 23, 2009).**

ESPN knowingly used pictures of a celebrated triathlete without permission, the professional photographer who shot the images alleges in a federal copyright infringement complaint.

The photographs became even more valuable after the triathlete was killed in a shark attack while training for a different event, plaintiff Sherry Martin says.

Martin photographed the Solana Beach Triathlon in California in July 2007, according to the complaint filed in the U.S. District Court for the Southern District of California.

She had a license agreement with Osamu Chiba, owner of Opix Photography, under which Chiba could sell individual printed material using her photographs, but not any high-resolution digital images.

Nine months after the Solana Beach Triathlon, triathlete David Martin (no relation to the plaintiff) was killed by a shark while training for another event.

NBC requested a license to use one of Sherry Martin's photos of David Martin. Because Sherry was out of the country, Chiba negotiated a limited license with the network.

Martin subsequently approved the license because of the breaking-news aspect, but claims that she warned Chiba that he had no authorization to license her works.

One month after David Martin's death Chiba nonetheless granted a license to Competitor magazine for $50 to use one of Martin's images.

Martin contacted the publisher directly to convey that it did not have permission to use her images, but it did so anyway, she alleges.

Competitor then sold the image to ESPN, which then used it in an article on its Web site Oct. 15, 2008.

The magazine never had the right to sell the image to ESPN, and ESPN had no authority to use the photograph, Martin contends.

She says she sent the network's legal department a cease-and-desist letter and contacted an ESPN network producer, who initially denied knowledge of any possible infringement. Two weeks later the producer called Martin and allegedly admitted that he obtained the photograph from Competitor and assumed it was okay to use it.

ESPN's in-house attorney also admitted that the network did not have a license from Martin to use her photograph, the suit says.

"The facts demonstrate that ESPN and Competitor knew that any copying and use of Sherry Martin's image was for promotional and commercial purposes, that she owned the rights to the image, and that copying and publishing the image would constitute copyright infringement, said Martin's attorney, **Stephen Kennedy** in Dallas.

"This case is not about making money," he said, "but about defending the rights of artists who produce something unique."

Martin's complaint includes causes of action for copyright infringement and unjust enrichment."

"This is a signature case that we hope will serve as a means for communicating to the publishing industry that the rights of the individual copyright holder must be respected," Martin said.

Martin is represented by Stephen Kennedy of Kennedy Law in Dallas and Mark Edelman of the firm's San Diego office.

See Doc Sec A (P 21) for the complaint.

COPYRIGHTS

GOP Candidate Defends Use of Don Henley Songs in Campaign Ads

***Henley et al. v. DeVore et al.*, No. 09-481, *answer and counterclaims filed* (C.D. Cal. July 16, 2009).**

California state Assemblyman Chuck DeVore has moved to dismiss musician Don Henley's copyright infringements claims over the Republican's use of two of his songs in campaign video advertisements.

The founding member of the Eagles says DeVore used his songs "The Boys of Summer" and "All She Wants to Do Is Dance" note for note and rewrote the lyrics to suit his campaign against Democrat Barbara Boxer for the U.S. Senate.

DeVore then posted video versions of the new songs on YouTube, according to the complaint, filed in the U.S. District Court for the Central District of California. *Henley et al. v. DeVore et al.*, No. 09-481, 2009 WL 1147009, *complaint filed* (C.D. Cal. Apr. 17, 2009).

But in a countersuit DeVore says the videos are parodies of the Henley hits and seeks a declaration that his campaign ads are protected under the fair-use doctrines of the Copyright Act, 17 U.S.C. § 101, and Lanham Act, 15 U.S.C. § 1051.

According to Henley's complaint, he asked YouTube to remove DeVore's infringing "Boys of Summer" video under the Digital Millennium Copyright Act, 17 U.S.C. § 512. The Web site obliged but then put the video back up after DeVore and his director of Internet strategies, Justin Hart, challenged the song's removal.

YouTube told Henley that it would remove the offending video again if he filed a lawsuit requesting such an action.

A couple of days after the "Boys of Summer" campaign video was reposted, DeVore and Hart posted another video, this time using Henley's "All She Wants to Do Is Dance," according to the complaint.

Henley says he "carefully selects the particular causes he wishes to endorse" and selectively licenses his exclusive copyrights.

The one-time Eagles front man adds in his lawsuit that he did not authorize DeVore or Hart to use his work and "does not wish his name or work to be associated" with DeVore or his campaign.

In his countersuit DeVore acknowledges that Henley uses his music to promote his liberal political views.

"Boys of Summer" is about the "essential failure of … [1960s] politics," while "All She Wants to Do Is Dance" is about "Americans' indifference to what Henley perceives to be the misconduct of the Reagan administration in providing money and materials to the Nicaraguan Contras," according to DeVore.

So when he and Hart rewrote the lyrics to attack liberal policies in America, DeVore says, they were clearly parodying songs promoting liberal causes by a well-known liberal activist.

"Simply put, the parodies use political songs performed by a visible supporter of DeVore's political opponents and turn the songs on their heads, promoting conservative political philosophies rather than the liberal politics found in the originals," DeVore says in the countersuit.

DeVore adds that he and Hart have been injured by Henley's accusations and are entitled to unspecified damages.

Christopher W. Arledge, Peter Afrasiabi and John Tehranian of Turner Green Afrasiabi & Arledge in Costa Mesa, Calif., represent DeVore and Hart.

Charles S. Barquist of Morrison & Foerster in Los Angeles, Jacqueline C. Charlesworth and Kelvin D. Chen of the firm's New York office, and Paul Goldstein in Stanford, Calif., represent Henley.

To retrieve the counterclaims (2009 WL 2142902), visit westlaw.com.

COPYRIGHT INFRINGEMENT

7th Circuit Reverses Copyright Judgment For Songwriter

***Janky v. Lake County Convention & Visitors Bureau,* No. 07-2350, 2009 WL 2357929 (7th Cir. Aug. 3, 3009).**

A federal judge erred when he ruled that an Indiana songwriter was the sole author and owner of the copyright for a song used by a county visitors bureau, the 7th U.S. Circuit Court of Appeals has ruled.

The appeals court also vacated the jury award of $100,000 in damages to Cheryl Janky.

The evidence before the U.S. District Court for the Northern District of Indiana established that Janky was only the co-author of the song at issue and that the Lake County Convention & Visitors Bureau had permission to use the composition, the panel said.

According to the opinion, Janky wrote a song titled "Wonders of Indiana" after learning that the visitors bureau was looking for a song to represent Lake County. She obtained a copyright listing herself as the sole author.

Janky was a member of a doo-wop singing group called Stormy Weather at the time. When she showed the song to fellow group member Henry Farag, he suggested that it needed to focus more on the county than on the state, and he wrote lyrics that Janky incorporated into the song.

Janky filed a new copyright registration in December 1999 listing Farag as a co-author.

The visitors bureau began using the song in 1999, without complaint from Janky or the group. In fact, Farag issued a nonexclusive license to the bureau, allowing it to use the song and a video in exchange for the bureau's providing the costs of production, the opinion says.

In July 2003 Janky amended her copyright registration, listing herself as the sole author of the music and lyrics of the song. She filed suit against the visitors bureau for copyright infringement that October.

U.S. Magistrate Judge Andrew P. Rodovich found in her favor. He concluded that in order for individuals to be co-authors, they must have intended to create a joint work, and each must have contributed independently copyrightable material.

The judge found that a jury would have to conclude that Farag and Janky did not intend to be co-authors at the time the song was created and that Farag's contributions were merely minimal revisions of Janky's song.

The issue of damages was tried before a jury, which awarded Janky $100,000.

The visitors bureau appealed to the 7th Circuit.

The appeals court rejected the District Court's conclusion that there was no intent to create a joint work, observing that Janky's inclusion of Farag as a co-author on her copyright registration was strong evidence of that fact.

Janky's after-the fact rationalization that she included Farag merely to express her gratitude to him was at odds with Farag's significant contribution, the panel said.

Without his input, the suggestions he made and the lyrics he wrote, it is unlikely the visitors bureau would have embraced the song the way it did, the court reasoned.

See Document Section B (P. 29) for the opinion.

COPYRIGHTS

'Mac Clone' Maker Wants Out of Chapter 11 After Losing Motion

***In re Psystar Corp.,* No. 09-19921-RAM, order of *relief from stay entered* (Bankr. S.D. Fla., Miami Div. July 1, 2009).**

Following a judge's decision to allow Apple's lawsuit against embattled "Open PC" Mac clone maker Psystar Corp. to continue notwithstanding the company's Chapter 11 bankruptcy filing, Psystar has now asked the judge to release it from bankruptcy.

Psystar filed for Chapter 11 protection in the midst of a long-running copyright infringement lawsuit with Apple.

Psystar cited the economic downturn and credit crunch as reasons for entering Chapter 11. However, its motion to leave bankruptcy also cited its inability to reach an agreement with one of its largest creditors, the California law firm it hired to defend against Apple's lawsuit, as an additional reason.

Apple originally sued Psystar in the U.S. District Court for the Northern District of California, alleging unfair competition, breach of contract, and copyright, trademark and trade dress infringement.

Psystar allegedly preinstalled unauthorized copies of the latest version of Apple's Mac OS X operating software, called Leopard, on computers it has sold since April last year.

The company also offers unauthorized downloads of "updates" for Leopard, according to the suit.

The complaint says Psystar's activities harm consumers by selling a "poor product that is advertised and promoted in a manner that falsely and unfairly implies an affiliation with Apple."

The contract claim is based on the defendant's alleged violation of the license agreement accompanying Apple's software.

Apple says the software on Psystar's machines lacks some of the features and capabilities of legitimate Leopard versions and that online forums are filled with consumer complaints about Psystar and its products.

The company seeks injunctive relief and damages, including any profits Psystar earned from its allegedly infringing activity.

Psystar has denied any wrongdoing and interposed a six-count counterclaim, alleging violations of the Sherman Antitrust Act, 15 U.S.C. § 1; its state law equivalent, Cal. Bus. & Prof. Code § 16700; unfair competition under Cal. Bus. & Prof. Code § 17200; and copyright misuse.

Apple deliberately designs its OS X system to be incompatible with anything other than its overpriced hardware, Psystar said.

U.S. District Judge William Alsup dismissed the antitrust counterclaims but allowed the copyright-misuse claim to proceed.

A few months later, Psystar entered bankruptcy.

While a bankruptcy filing normally operates as an automatic stay against all pending lawsuits, 11 U.S.C. § 362 allows the stay to be lifted for cause. Apple wants the stay to be lifted to allow its suit against Psystar to proceed to completion.

In support of its motion, Apple argued that its suit should proceed so the legality, or lack thereof, of Psystar's business can be determined. After all, Apple argued, if Psystar is barred from selling its Mac clones — which account for substantially all of its sales — it cannot emerge from bankruptcy as a viable business.

"At some point prior to any attempted reorganization, it must be determined whether the debtor's current business model — selling computers running Apple's proprietary Mac OS X Leopard operating system without permission or authorization from Apple — is a viable business," the motion said.

U.S. Bankruptcy Judge Robert A. Mark granted Apple's motion for relief from a stay.

A hearing on Psystar's motion is set for Aug. 4. Apple is widely expected to ask the court to instead convert the case to a Chapter 7 liquidation on the ground that the bulk of Psystar's business involves illegal sales of its products.

Psystar is represented in bankruptcy by Lazaro J. Lopez in Miami.

Apple is represented in bankruptcy by Paul Singerman of Berger Singerman in Miami.

DIGITAL MILLENNIUM COPYRIGHT ACT

Nintendo Wins Injunction Against Alleged Infringer

***Nintendo of America Inc. v. Chan et al.,* No. 09-4203, 2009 WL 2190186 (C.D. Cal. July 21, 2009).**

Nintendo has won a preliminary injunction against a man who allegedly markets devices intended to evade the security measures for its video game systems.

Judge John F. Walter of the U.S. District Court for the Central District of California agreed that Nintendo was likely to succeed on the merits of its infringement claims under the Digital Millennium Copyright Act, 17 U.S.C. § 1201.

The company's DS products are dual-screen handheld portable game systems. Players insert a Nintendo-authorized game card to play the games.

According to Judge Walter's opinion, the DS games take years and millions of dollars to develop. All the games are copyrighted.

Nintendo alleges that Daniel Man Tik Chan and several of his companies violated the DMCA by importing and trafficking in devices called game copiers. The devices make it possible to bypass Nintendo's technological security measures and play both pirated and copyrighted games on the DS systems, according to the opinion.

Nintendo moved for preliminary injunctive relief against Chan and his companies.

Judge Walter concluded that Nintendo would suffer irreparable injury absent an injunction.

He said that just one game copier enables someone to play hundreds of Nintendo DS games.

Absent an immediate injunction, Judge Walter said, others would be encouraged to import, market and traffic in game copiers.

To retrieve the opinion (2009 WL 2190186), visit westlaw.com.

PATENTS/TRADEMARKS

Michael Jackson on Display at PTO

Fans of the recently deceased King of Pop can still experience a touch of his greatness in a seemingly unlikely venue: the U.S. Patent and Trademark Office.

Through Labor Day, the PTO and the National Inventors Hall of Fame are exhibiting Michael Jackson's patent and trademark applications.

The display will include such items as a patent application that includes Jackson's original drawing and signature for one of his inventions.

U.S. Patent No. 5,255,452, for which Jackson was a co-inventor, describes a "system for allowing a shoe wearer to lean forward beyond his center of gravity by virtue of wearing a specially designed pair of shoes which will engage with a hitch member movably projectable through a stage surface," according to the PTO.

Jackson used the patented invention in his video for "Smooth Criminal," according to PTO spokeswoman Jennifer Rankin Byrne.

Other items on display will include the federal trademark registrations for Jackson's name, used in connection with his recordings and motion pictures.

PATENT SETTLEMENT

Medtronic, Abbott Settle Stent Suits For $400 Million

Medical device maker Medtronic Inc. has agreed to pay $400 million to Abbott Laboratories to settle long-standing patent litigation over coronary stents.

The settlement resolves all outstanding intellectual property litigation between the companies, Medtronic said in a statement.

The manufacturers have been battling since 1998, according to Abbott spokeswoman Adelle Infante.

In settling, each party agreed not to sue the other over coronary stent and stent delivery systems for at least 10 years.

With the litigation behind it, Medtronic said, it will focus on improving health care for vascular disease patients.

Further details of the settlement were not disclosed.

PATENTS

Patent Suit Underway Over Teva's Plan for Generic Levitra

***Bayer Schering Pharma AG v. Teva Pharmaceuticals USA Inc. et al.*, No. 1:09-cv-480, *complaint filed* (D. Del. July 1, 2009).**

Teva Pharmaceuticals' application to sell a generic version of the popular erectile dysfunction drug Levitra has landed it in the middle of a federal patent infringement lawsuit.

Plaintiffs Bayer Schering Pharma AG and Schering Corp. say Teva notified them in May that it has asked the Food and Drug Administration for approval to sell a generic version of Levitra before the drug's patent expires in 2018.

Schering-Plough Corp., GlaxoSmithKline and Bayer Schering subsidiary Bayer HealthCare Pharmaceuticals market Levitra jointly in the United States, according to the complaint, filed in the U.S. District Court for the District of Delaware.

Schering Corp. is the exclusive licensee of U.S. Patent No. 6,362,178 for Levitra held by Bayer Schering, which was issued in the United States in March 2002.

The suit says Teva's notification letter indicated that the sale of a vardenafil hydrochloride generic would not infringe the Levitra patent because it is "invalid" and "unenforceable."

The plaintiffs want the court to enjoin Teva from infringing the patent and prevent it from attempting to make, sell or distribute its generic before the patent lapses.

The plaintiffs are represented by Jack Blumenfeld and Rodger D. Smith II of Morris, Nichols, Arsht & Tunnell in Wilmington, Del., with Bruce Genderson, Adam Perlman and David Berl of Williams & Connolly in Washington of counsel.

To retrieve the complaint (2009 WL 1939950), visit westlaw.com.

TRADEMARK INFRINGEMENT

This Is How the Mrs. Field's Cookie Crumbles

***Mrs. Field's Brand Inc. v. Batters & Doughs Inc. et al.*, No. 09-0652, *complaint filed* (D. Utah, Cent. Div. July 23, 2009).**

Cookie entrepreneur Mrs. Field's says a Web-based bakery is infringing her trademarked 1-800-COOKIES telephone number.

Mrs. Field's is seeking injunctive relief against New York-based Batters & Doughs Inc.

According to the complaint filed in the U.S. District Court for the District of Utah, Batters & Doughs has registered the Internet domain name www.1800cookies.com.

As a result, Internet customers who use the Web site are directed to Batters & Doughs rather than to Mrs. Field's.

The Mrs. Field's mark is famous and has been in continuous and extensive use for 16 years, according to the complaint.

The company has more than 290 retail locations in the United States and more than 90 stores internationally.

Batters & Doughs and founder John Edwards are profiting from the improper use of the domain name, according to the suit.

The complaint alleges cybersquatting, trademark infringement, trademark dilution, false designation of origin and unfair competition.

In addition to injunctive relief, Mrs. Field's seeks treble damages, transfer of the domain name and an accounting of Batters & Doughs' profits.

See Document Section C (P. 35) for the complaint.

TRADEMARK INFRINGEMENT

Shoe Company Must Pay $3 Million for Willful Infringement

***Mystique Inc. v. 138 International Inc.*, No. 07-22937, 2009 WL 2357029, *judgment entered* (S.D. Fla. July 30, 2009).**

A federal judge in Florida has ordered a shoe manufacturer to pay $3 million in lost profits for its willful infringement of the "Mystique" trademark.

U.S. Magistrate Judge Edwin G. Torres also canceled 138 International Inc.'s Mystique trademark registration.

The evidence established that plaintiff Mystique Inc., a manufacturer of upscale shoes, used the trademark before 138 and that 138 has been well aware of Mystique's prior use since at least 2005, Judge Torres concluded.

Mystique's president coined the name in January 1999 and began selling shoes in the United States as early as January 2000, according to the opinion.

Defendant 138 applied for trademark registration in November 2001. In the application, 138 claimed a first use of June 1, 2000, but the evidence established that it did not use the mark in commerce until late 2000, Judge Torres said.

In 2006 the U.S. Patent and Trademark Office refused to register the plaintiff's Mystique trademark because of 138's prior registration.

Mystique filed suit to cancel 138's trademark registration, subsequently amending its complaint to include claims for trademark infringement.

Judge Torres said the weight of the evidence established that 138 adopted the Mystique mark with knowledge of the plaintiff's prior use.

As early as January 2001, Mystique's shoes were sold in prominent stores like Nordstrom, Neiman Marcus and Saks Fifth Ave. and were widely advertised in numerous fashion magazines.

Given that "Mystique" is an arbitrary mark, it was highly unlikely that both companies would independently create the same mark for their shoes, Judge Torres concluded.

Mystique sought disgorgement of 138's profits, which it calculated were 138's lowest estimated annual sales from 2002 through 2008.

Judge Torres said the evidence supported Mystique's calculation but that such an amount would be an extraordinary windfall recovery.

In the absence of any evidence presented by 138 to establish its costs for production, promotion and marketing, Judge Torres said the company's profit margin was likely not more than 50 percent, or $2.95 million.

It was possible that 138's profit margin was less, "but at some point defendant's failure to satisfy its burden of production and proof must have consequences," the judge said.

See Document Section D (p. 46) for the opinion.

CASE AND DOCUMENT INDEX