

## [AIPLA Reports](#)

A Periodic Notification of AIPLA Activities and  
Current Developments in Intellectual Property Law  
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October 6, 2006

- [President Signs Trademark Dilution and Copyright Correction Bills](#)
- [House Passes Bill on Pilot Program for Designating Judges in Patent Cases](#)
- [Oral Argument on Jurisdiction Considers Scope of Lear v. Atkins](#)
- [Government Amicus Brief Urges Review in Section 271\(f\) Case](#)
- [AIPLA Submits Comments on PTO Strategic Plan for 2007-2012](#)

*Legislation/Trademarks/Copyrights*

### **President Signs Trademark Dilution and Copyright Correction Bills**

President Bush on October 6, 2006, signed legislation that reforms the trademark dilution provisions of the Lanham Act (H.R. 683) and that makes technical corrections to the Copyright Act with respect to proceedings of the Copyright Royalty Board (H.R. 1036).

#### *Trademark Dilution*

H.R. 683 revises the dilution provisions of the Lanham Act by adopting a liability standard of likely dilution rather than actual dilution, responding to the Supreme Court decision in Moseley v. V Secret Catalogue, Inc., 537 U.S. 418, 65 USPQ2d 1801 (2003). Thus, a revised Section 43(c)(1) of the Lanham Act provides injunctive relief for uses of a famous mark or trade name in commerce “that is likely to cause dilution by blurring or dilution by tarnishment, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”

The legislation also provides definitions for a “famous mark,” “blurring,” and “tarnishment,” clarifying that: (1) protection does not require inherent distinctiveness, (2) tarnishment is actionable despite dicta in Moseley, and (3) marks known only in niche markets are not covered.

The House of Representatives initially passed H.R. 683 in April of 2005, after which the Senate in March of 2006 made three changes to the House-passed bill: (1) the “fair use” exemption was extended to the “facilitation of such fair use”; (2) the owner of an unregistered trade dress would have to prove the fame of the trade dress itself; and (3) “non-commercial uses” would be expressly exempted from liability. That is the version that was agreed to by the House on September 25th and that will be presented to the President for his signature.

To read H.R. 683 as passed by the Senate and approved by the House, click [here](#).

#### *Copyright Amendments*

H.R. 1036 makes technical corrections to the Copyright Act, directed at the legislation that created the Copyright Royalty Board in 2004 to replace the Copyright Arbitration Royalty Panel system. Sections

801-804 are amended to eliminate grammatical errors and ambiguities in the provisions concerning copyright royalty judges. It is also clarified that prior determinations and interpretations of copyright arbitration royalty panels are considered to be part of the body of past statutory license decisions.

Other amendments relate to procedures before the Copyright Royalty Board, such as filing requirements for written direct and rebuttal statements and the triggering date for instituting Section 112 and 114 proceedings. In addition, the amendments clarify the relationship between the Copyright Royalty Judges and the Librarian of Congress, who share responsibility for functions that relate to the authority to distribute royalties and the actual distribution or disbursing of such royalties.

The legislation was passed by the House on a voice vote in November of 2005. It was passed by the Senate in July of 2006 after the text of H.R. 5593 was added to the legislation. H.R. 5593 was introduced in June of 2006 to explicitly authorize the Copyright Royalty Judges to distribute, prior to the end of a royalty distribution proceeding, part of the royalty pool when it is established who the rightful claimants are.

To read the House Report on H.R. 1036, click [here](#). To read the Senate amendment to which the House agreed on September 25th, click [here](#).

Back to [TOP](#)

#### *Legislation/Judiciary/Pilot Patent Litigation Program*

#### **House Passes Bill on Pilot Program for Designating Judges in Patent Cases**

The House of Representatives on September 28, 2006, passed legislation (H.R. 5418) to institute a judiciary pilot program that would assign more patent cases to those judges who have expressed an interest in hearing such cases. A counterpart bill (S. 3923) was introduced in the Senate on September 21, 2006.

Under the legislation introduced by Rep. Darrell Issa (R-Calif.), district court judges expressing an interest in hearing patent cases would be so designated, and undesignated judges would be permitted to decline to hear patent cases. Patent cases would be randomly assigned to all judges in the first instance, but should an undesignated judge decline to hear a patent case, it would then be randomly assigned to one of the designated judges.

The pilot program would be implemented in no less than five district courts, across at least three different judicial circuits, and the district courts would be selected by the executive director of the Administrative Office of the Courts (AO) from the 15 district courts with the largest number of patent cases filed.

The bill provides that a participating court must be staffed with at least 10 district judges and must have at least three judges who asked to hear patent cases. It includes requirements for the AO to report to Congress on the various aspects of the program, including the following: (1) reversal rates at the Federal Circuit on claim construction and substantive patent law, (2) the time from filing to the beginning of a trial or entry of summary judgment, (3) evidence that the court's venue is chosen to ensure a given outcome, and (4) an analysis of whether the pilot program should be expanded.

The pilot program would not limit requests for reassignment or transfer of cases, and senior judges could not be designated for patent cases unless a regular active service judge in the district is so

designated. It would apply only to cases commenced on or after the designation of district courts by the AO, and would be funded with an authorization of \$5 million for court education and law clerks with technical expertise.

To read the House floor proceedings on the bill, click [here](#).

Back to [TOP](#)

*Supreme Court/Declaratory Judgment Jurisdiction/Oral Argument*

**Oral Argument on Jurisdiction Considers Scope of *Lear v. Atkins***

*Medimmune Inc. v. Genentech, Inc.*, U.S., No. 05-608, oral argument 10/4/06.

The Supreme Court heard oral argument October 4, 2006, on whether a patent licensee that continues to make royalty payments may bring a declaratory judgment action for invalidity. While the question on review was addressed to case or controversy jurisdiction, the questions from the Court suggested some interest in the public policy issues of licensee challenges to patent validity.

The Federal Circuit ruling below said that a licensee who continues to pay royalties may not bring a declaratory judgment action of patent invalidity, adding that the result is not affected by the patent policy discussion in *Lear v. Atkins*, 395 U.S. 653 (1969). The issue, according to the Federal Circuit, is not *Lear*'s bar against licensee estoppel but the Constitution's case or controversy requirement, which is not satisfied unless the licensee has a reasonable apprehension of being sued.

The question presented for review is the following:

Does Article III's grant of jurisdiction of "all Cases ... arising under ... the Laws of the United States," implemented in the "actual controversy" requirement of the Declaratory Judgment Act, 28 U.S.C. 2201(a), require a patent licensee to refuse to pay royalties and commit material breach of the license agreement before suing to declare the patent invalid, unenforceable or not infringed?

*Petitioner's Argument*

Notwithstanding the question presented, Chief Justice John Roberts asked Petitioner's counsel John Kester, Williams & Connolly LLP, if a specific provision in contract barring the licensee from bringing suit would have been enforceable. The ensuing discussion proceeded to spin around the distinction between that which is "enforceable" and that which is "jurisdictional."

Justice Ruth Bader Ginsburg suggested that the Federal Circuit could have reached the same conclusion by finding a "failure to state a claim" under Fed.R.Civ.P. 12(b)(6) or estoppel under Rule 8(c), instead of a lack of jurisdiction under Rule 12(b)(1). Although Kester attempted to bring the Court back to the jurisdictional question presented, Justice Anthony Kennedy said that it might be necessary as a matter of policy for the court to address the enforceability of contractual bars to validity challenges. Kester answered that issues of enforceability would be constrained by *Lear*.

Chief Justice Roberts probed the possibility that the patentee might want the benefit of a judicial confirmation of patent validity to enhance its demand for royalties, and asked if an agreement or settlement could bar a suit by the patentee. Kester observed that the agreement would not be a bar, adding that the public policy factors of *Lear* would permit such a suit where a genuine dispute is

demonstrated. Responding to Justice David Souter, Kester said that the Article III interests in this case are satisfied because the dispute is over money, not some abstract or hypothetical disagreement.

Justice Antonin Scalia challenged Kester's suggestion that a contract to pay money to the holder of a patent that may be invalid is against public policy. Kester answered that the agreement was to pay for a valid patent, not an invalid patent. Justice Roberts commented that the Petitioner continued to pay for patents it questioned because of the threat of treble damages and an injunction, but suggested that the public policy weighs in favor of giving effect to the remedies Congress enacted to protect patent holders.

### *Government's Argument*

Appearing as an amicus curiae for the Petitioner, Assistant to the Solicitor General Deanne Maynard agreed that the Constitution's case or controversy requirement is satisfied in this case because there is a dispute over money. She acknowledged that the Court's cases are not clear about the enforceability of a contract provision in which the licensee gives up the right to challenge the patent.

Chief Justice Roberts asked about a dispute between the patentee and licensee that goes to litigation and then settles; does the settlement remove a controversy for any subsequent litigation, and would the policy of keeping patents open to challenge trump the settlement for later disputes, he asked. Maynard said there would be no Rule 12(b)(1) jurisdictional problem, but the settlement could support a Rule 12(b)(6) dismissal.

Justice Stephen Breyer said there are three possible answers to whether a licensee can attack a contract: never, always, or it depends. However, Maynard agreed that none of those answers have anything to do with the question before the court. She was not able to say whether the licensee's right to challenge is never, always, or sometimes available, although she suggested that each case would have to be examined to determine where on the spectrum it fell. As for Article III, it is not implicated where the parties have a concrete dispute over the validity of the patent, i.e., where money would no longer be due the patentee if the patent is valid. The licensee does not need to breach the agreement to create a case or controversy, she added.

The Government's appearance in the case was not on invitation of the Court, but rather in its role as both a licensor and a licensee of numerous patents. The SG brief recited the Government's its interest in the licensing issues that implicate the core concerns of the Federal Trade Commission and the Justice Department's Antitrust Division.

### *Respondent's Argument*

Maureen Mahoney, of Latham & Watkins LLP, appearing for Respondent, insisted that there is no contract claim at issue in the case, and that none was argued below. She insisted that the issues behind the declaratory judgment action are patent law issues. Nothing in the contract has been argued as providing a right to court and have the court decide whether this patent is valid, and as providing a right to stop paying should the patent be found invalid, Mahoney maintained.

Justice Breyer suggested that the Court should simply decide the question presented—the Federal Circuit's reasonable apprehension test, which seems to lack support—and send the case back on the enforceability issue. Mahoney acknowledged that the contract issue was not argued below, although Justice Ginsburg said the issue was presented to the Supreme Court when the Federal Circuit said a reasonable apprehension of suit was a prerequisite for a declaratory judgment action.

Mahoney contended that the question for a declaratory judgment action is whether there is a genuine fear that the anticipated enforcement action would be prosecuted. The next question is whether the declaratory judgment plaintiff is forfeiting its legal rights to avoid some very severe harm that translates into coercion. That analysis fails here, she said, because this case involves a settlement or compromise; the licensee in this case is trying to adjudicate affirmative defenses to infringement. The claim is neither ripe nor sufficiently immediate because the licensee continues to make voluntary payments under the agreement.

Justice Stevens asked what would result if questions about validity were negotiated and a right to sue were reserved in the contract; can the parties agree to create a case or controversy, he asked. Mahoney expressed some doubt, although she acknowledged that the answer might turn on the extent to which a party appeared to have been coerced in the agreement. What if there were no public policy against limiting the licensee's right to challenge the patent, Justice Breyer asked. The case or controversy requirement would still go unsatisfied to the extent that the action is really asking for advice about a business deal, no matter how much money is at stake.

### *AIPLA Amicus Filing*

AIPLA filed an amicus brief in this case in support of the Respondent. It argued that the Court should affirm the Federal Circuit decision that a lack of sufficient immediacy and genuine adversity precluded Declaratory Judgment Act jurisdiction in this case.

However, it also argued that the Court should not adopt a bright-line rule that such jurisdiction for a licensee's challenge to patent validity requires the licensee to breach the patent license. A concrete and immediate dispute under the Constitution may also exist where the licensor and licensee engage in a legitimate debate over the validity or scope of the licensed patent rights, due to, for example, an unforeseen change in circumstances, and where the licensor makes clear that it will promptly sue if the licensee fails to make timely payments according to its interpretation of the license.

To read the transcript of the oral argument, click [here](#).

To read the AIPLA amicus brief in this case, click [here](#).

Back to [TOP](#)

*Supreme Court/Patents/Extraterritoriality*

### **Government Amicus Brief Urges Review in Section 271(f) Case**

*Microsoft Corp. v. AT&T Corp.*, U.S. No. 05-1056, brief filed 9/29/06.

In a Supreme Court amicus brief, the Solicitor General urged the review of the Federal Circuit's interpretation of 35 U.S.C. 271(f), arguing that the interpretation improperly extends patent infringement liability to computer software copied, distributed and installed entirely abroad.

### *Background*

Section 271(f) makes it an infringement to:

- “supply” from the United States
- “components” of a patented invention

- in a manner as to actively induce “the combination of such components” outside of the United States
- in a way that would infringe the patent if the combination occurred in the United States.

In the district court, Microsoft conceded that its Windows operating system infringed an AT&T patent on a speech compression system ([Re. 32,580](#)) in the United States. However, it appealed the application of Section 271(f) in the damages calculation to include foreign sales of the software. The district court based that decision on Microsoft’s practice of sending a master disk to foreign computer manufacturers for installation of the software or to foreign replicators for further foreign distribution of the software.

The Federal Circuit affirmed in a 2-1 decision, holding (1) that software can be a “component” of an invention, and (2) that software from the United States that is replicated and installed abroad is “supplied from the United States.” Observing that the meaning of statutory terms is “context-dependent,” Judge Allan Lourie pointed out that for “software components,” the act of copying is subsumed in the act of “supplying,” and that Section 271(f) liability for foreign-made copies is triggered by sending a single copy abroad with the intent that it be replicated. Judge Randall Rader dissented, arguing that the statute may not extend to copies made outside the United States.

#### *Solicitor’s Brief*

The SG brief essentially follows Judge Rader’s reasoning that the software copies made abroad do not satisfy the statute’s condition that components be “supplied from the United States.” The Federal Circuit interpretation, according to the brief, conflicts with the history and text of the statute, improperly extends U.S. patent law to foreign markets, and fails to recognize that a patentee’s remedy for this situation is in obtaining and enforcing foreign patents.

Nothing in Section 271(f) prohibits the making of or the inducement to make components overseas; nor is there a prohibition on the foreign assembly of components made overseas, the brief clarified. The statute applies only to “supplying” components from the United States to actively induce the combination “of such components,” according to the Government, i.e., those components actually supplied from the United States. Because the master disk actually sent from the United States is itself never installed on a computer, Microsoft never supplied a component of those computers, the SG argued. Because the software subsequently replicated abroad constitutes a foreign-made component, it is outside the scope of the statute as well.

The Federal Circuit decision forecloses a technology-neutral application of the statute by denying software companies any avenue to compete abroad without risking massive and open-ended U.S. patent liability for foreign sales, according to the Government. Every other industry that designs a product in the U.S. can use that design to make components to make components abroad without Section 271(f) liability, the brief points out. The efficiencies that copying produces in making and distributing software does not justify construing the supply of one copy from the United States as equivalent to the supply of other copies made overseas. The reasoning is no different than saying that sending one mold abroad constitutes U.S. supply of all items made abroad from that mold. Although Congress intended to prevent American companies from making components in the U.S. for assembly abroad, it did not intend to regulate copying abroad.

To read the government’s amicus brief, click [here](#).

Back to [TOP](#)

**AIPLA Submits Comments on PTO Strategic Plan for 2007-2012**

AIPLA on October 6, 2006, submitted comments on the PTO's draft Strategic Plan for 2007-2012, announced last August (71 Fed. Reg. 50048), supporting the focus on improved quality and timeliness, as well as improved IP protection and enforcement at home and abroad.

The comments stress that the bedrock of any plan for PTO improvements is the securing of adequate and predictable funding of agency operations. In addition to the plan's recited goals, however, AIPLA recommends attention to the following: (1) accountability, i.e., responsiveness, openness, and transparency, not only for practices and services, but also for planning and policies that affect users; and (2) flexibility by seeking input from the private sector and other organizations in government in defining an optimum system.

The plan should also be guided by a recognition that inefficiency and unproductive social costs result from the litigation of subjective patent issues such as inequitable conduct. Thus, the PTO should avoid proposals that tend to add to, or exacerbate, such charges, and should instead emphasize proposals that reduce such unproductive litigation issues, according to the comments.

AIPLA continues to support adequate staffing, through an aggressive program to hire, train, and retain examiners over the next five years and beyond. The comments oppose, however, pendency reduction by rule change rather than by building a fully staffed and adequately trained examining corps. In this connection, the plan should also be expanded to give more attention to office support functions. The significant changes proposed are likely to add to workload, and unless addressed, will adversely affect the ability of the Office to provide quality and timely services.

Other issues addressed in the AIPLA comments include:

- *Legislative Solution to Inequitable Conduct*—AIPLA opposes rule changes and policies that create or exacerbate problems with the litigation defense of inequitable conduct, and urges the Office to support legislative solutions to this problem.
- *Multi-track Patent Examination*—AIPLA strongly opposes the proposal for multi-track patent examination, much of which has been shown in the past to be ineffective and to discriminate among applicants.
- *Proposed Rule Changes*—AIPLA reiterates its previously submitted reservations with respect to proposed rules changes in the area of Claims, Continuations, and IDS submissions.
- *TTAB Inter Partes Proceedings*—AIPLA opposes reducing the length of time required to dispose of inter partes proceedings as this would create substantial disadvantages to applicants seeking a full and fair hearing.
- *Continuing Education*—AIPLA supports appropriate programs for continuing education of those registered to practice before the PTO, even if mandatory, but opposes any requirement for continuing certification testing and any requirement for annual dues or fees at least until the possibility of fee diversion has been eliminated.

To read the AIPLA comments on the proposed Strategic Plan, click [here](#).

Back to [TOP](#)

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Back to [TOP](#)