

ideas on

INTELLECTUAL PROPERTY LAW

Current issues on patents, trademarks and copyrights

Buying Can Get You In as Much Trouble as Selling

A person or company can't validly obtain a patent unless the patent application is filed within one year from the date when the invention is sold or goes on sale. Case law is clear that it does not normally matter whom — whether the patent holder or someone else — makes the invalidating sale or offer of sale. But this point was forcefully driven home in two recent cases: *Special Devices Inc. v. OEA Inc.*, and *Brasseler, U.S.A. I L.P. v. Stryker Sales Corp.*

The OEA Facts

OEA invented a component known as an “all-glass header” for use in automobile air bags. The company, however, lacked the capacity to manufacture the header, so it contracted the manufacture to Coors Ceramics Co. Both

agreed that Coors would make and sell to OEA 20,000 units of the header to start, and then meet annual requirements of headers thereafter. After reaching this agreement with Coors, OEA waited more than a year before filing a patent application on the header.

After its patent issued, OEA threatened competitor Special Devices with an infringement suit. Special Devices then sued OEA for a declaratory judgment that its product didn't infringe and that OEA's patent was invalid. The trial court held the patent was invalid because the headers' sale from Coors to OEA had taken place more than a year before the application was filed. OEA then appealed to the Federal Circuit, protesting that its own purchase of headers from its own supplier for

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incorporation into its own inventory was a different kind of transaction, which shouldn't invoke patent law's on-sale bar. But the appellate court affirmed the trial court's ruling, holding that a sale *to* the patentee was no different than a sale *by* the patentee.

On-Sale Bar Defined

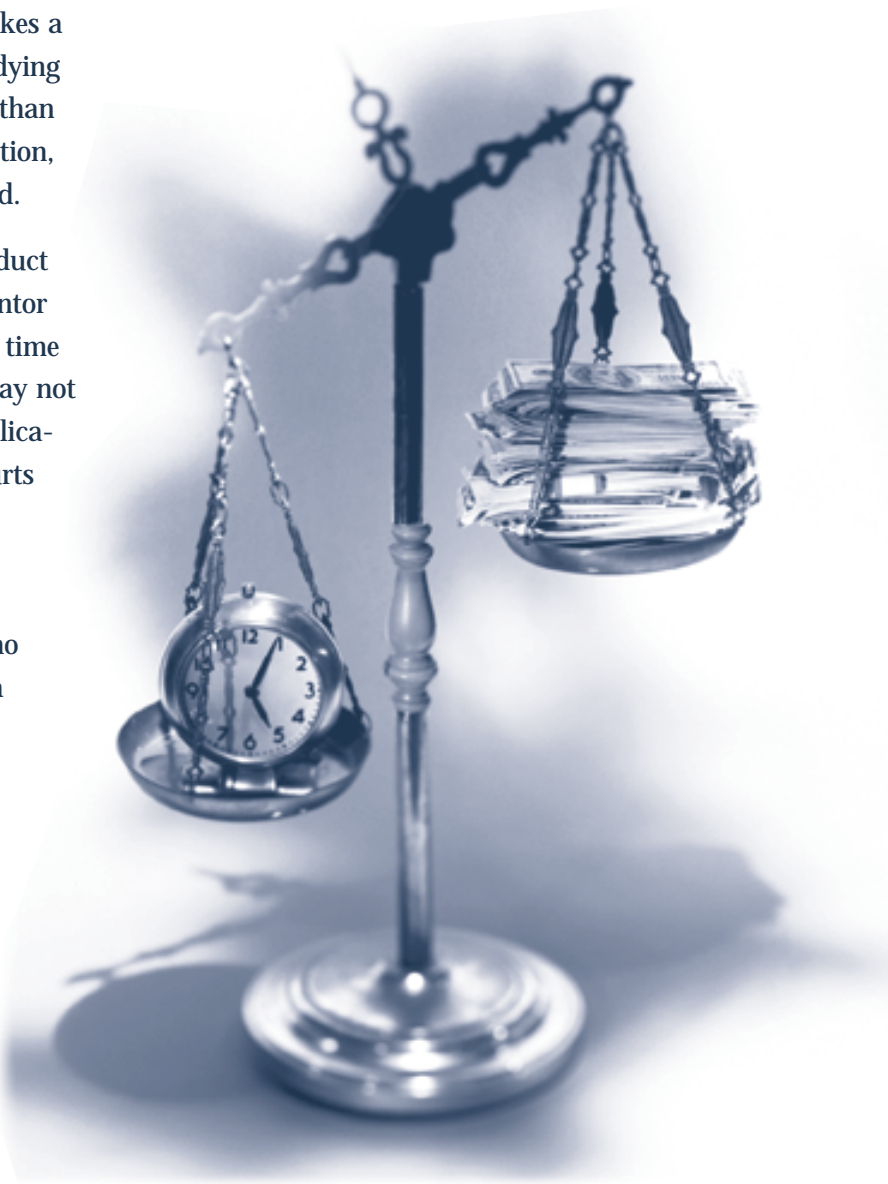
The legislative purpose of the on-sale bar is to prevent an invention from being exploited for more than a year before the start of the patent process. Otherwise the invention would be unavailable to the patentee's competitors for considerably longer than the term of the patent. When the patentee itself makes a commercial sale of a product embodying the invention, and then waits more than a year before filing a patent application, no valid patent can then be obtained.

But what if a competitor sells a product embodying the invention? The inventor may not know about the sale at the time it takes place. Thus, the inventor may not realize it needs to file its patent application promptly. Nevertheless, the courts have usually refused to relieve the inventor from the harsh effects of the patent statute, ruling that it does not matter whether the one who sells the product is the inventor or a competitor. The overriding policy is that once someone, *anyone*, begins commercial exploitation of the invention, the clock normally starts running so that the time when the invention is unavailable is minimized to little more than the patent's term. Even if the invention is stolen from the

inventor and put on sale, a delay of more than a year will bar a patent.

The OEA Ruling

This case seemed unusual in one respect. If OEA's own manufacturing capacity had been adequate, so that it did not have to purchase the headers from an outside supplier such as Coors, its buildup of inventory prior to selling the headers to its own customers would not have triggered the running of the one-year bar. Therefore, OEA could argue that its own purchase of inventory should be treated



differently from other premature sale transactions, because it was just a necessary substitute for in-house manufacture. Moreover, it could argue that commercial exploitation of the header invention commenced when OEA sold the headers out of inventory, not when it began building up its inventory. In other words, a sale to the patentee was different from a sale by the patentee or the patentee's competitor.

But the court ruled that there was no "supplier exception" to the on-sale bar. Any sale, even one going to the patentee, normally triggers the one-year clock. And, the court stated, since OEA was the purchaser, it knew about the Coors transaction and could have filed its patent application within the ensuing year.

The Whole Truth ...

Let's look at another case in which the court held that the on-sale bar applied even though the invalidating sale of the patented product was made to the patentee. Here the situation has a couple of extra twists. In *Brasseler*, the supplier that sold the product to the patentee (Brasseler) was also the product's co-inventor. Therefore the case could just as easily be viewed as a sale *from* the inventor. Thus the patentee had all the more reason to file its patent application within one year of its purchase of the patented product.

... And Nothing But the Truth

But what Brasseler did instead was to run to its patent firm shortly after the one-year grace period had run out, asking that an application be filed immediately. The firm then instructed one of its lawyers to file the application within three days — which he did. But of course, that constituted the proverbial locking of the barn

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door after the horse was gone. So when Brasseler sued a competitor for patent infringement, the patent was held invalid by virtue of the on-sale bar. In addition, the conduct of Brasseler and its patent attorneys raised other issues.

The accused infringer asked the trial court to make Brasseler pay its attorneys' fees on the ground that:

- ⊙ *Brasseler knew or should have known that the patent was invalid, and*
- ⊙ *The patent attorneys, though they did not know when the on-sale event had occurred, failed to investigate before filing suit.*

The trial court agreed with the accused infringer on both points, and awarded attorneys' fees. The Federal Circuit court affirmed on appeal.

The Courts' Reasoning

Both courts reasoned that the patentee knew, or should have realized, that the sale was the kind of transaction that could invoke the on-sale bar, and it certainly knew that the sale occurred more than a year before it notified its

patent firm. But, instead of disclosing the questionable status of its invention, it decided to file a patent application anyway. Brasseler also failed to inform its patent firm of all the pertinent facts, and gave the firm insufficient time to investigate because it wanted the application filed as soon as possible.

On appeal the court concluded that, because of the limited time that they were given, the attorneys were not at fault for filing the invalid application. However, the court concluded that

they were at fault for not conducting an investigation before filing suit on the invalid patent. The court maintained that the patentee's conduct should have raised their suspicions.

The Lesson Learned

Courts have consistently held that any type of sale of a product embodying an invention triggers the on-sale bar. This now clearly includes sales between a patent holder and its own supplier and/or co-inventor. ©

Who Stole My Batch Codes?

There's an unsolved problem in unfair competition law. It's sometimes called "product diversion" or "transshipment." Typically it affects upscale products, like designer fragrances and hair care products. Manufacturers prefer to distribute these products only through selected retailers, such as expensive salons. Why? Because manufacturers can rely on them to sell the products at full price.

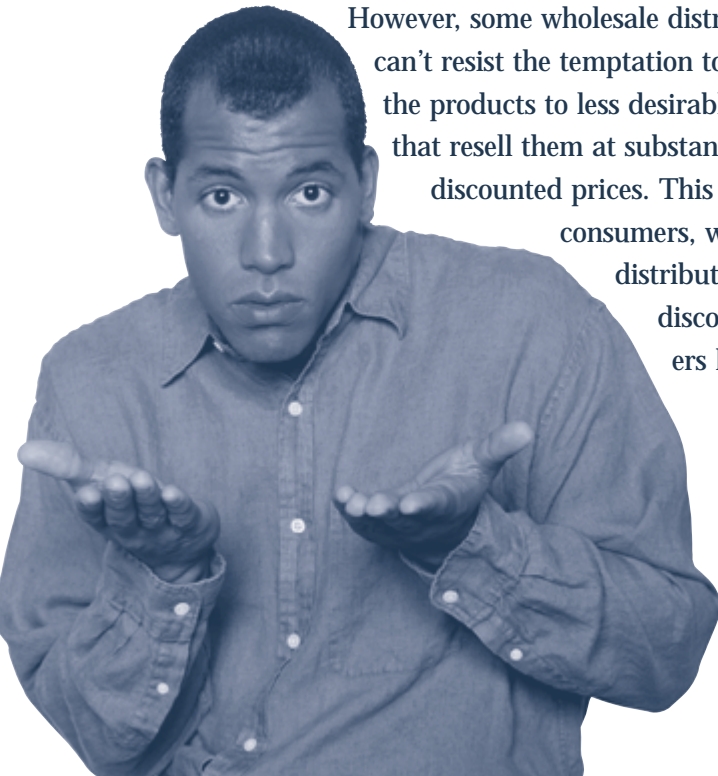
However, some wholesale distributors can't resist the temptation to divert the products to less desirable retailers that resell them at substantially discounted prices. This makes consumers, wholesale distributors and discount retailers happy,

but the manufacturers and upscale retailers unhappy.

Tracking Products

Do the manufacturers have any legal recourse? They have tried a number of approaches. Typically, they make their distributors sign contracts requiring them to resell only to authorized retailers. Then, if some unauthorized product turns up in a discount store, the manufacturer can terminate the offending distributor's contract for breach. But these measures are difficult to enforce unless the offending distributor is identified.

So the manufacturers print batch codes on the product containers and keep track of which batch codes are sold to which distributors. Then, when they find their product for sale in a discount store, they can trace it back to the offending distributor. However, the distributors often foil the manufacturer by removing the



batch codes, leaving the manufacturer with an obvious but untraceable violator.

The First Sale Principle

Trademark law has also been a dead end for the manufacturers, because of the “first sale” principle, which says that someone who buys a genuine trademarked product (the first sale) is free to resell it (the subsequent sale) even though the manufacturer’s trademark is still on it. Such resale is not considered trademark infringement.

But even the first sale principle has its limits. If a seller substantially alters a product, while allowing the purchaser to believe it’s in the same condition it was when it left the manufacturer’s plant, that is trademark infringement.

How Much Alteration Is Too Much?

Is the removal of a batch code enough of an alteration to prevent the application of the first sale principle? In *Davidoff v. PLD*, Davidoff manufactured bottled fragrance products, complete with batch codes, for quality-control and product-tracing purposes. PLD acquired Davidoff products from anonymous distributors who removed the batch codes with an etching tool. Then PLD resold the products to discount retailers.

Davidoff sued PLD for trademark infringement, claiming that PLD was selling products (with Davidoff’s trademark on them) that no longer deserved that name because the batch codes had been obliterated. PLD argued that the product inside the bottle had not been altered at all; only the markings on the outside of the bottles were changed. Furthermore, the altered markings were not conspicuous — they

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were located on the back of the bottle, beneath several lines of printing. But the court observed, “... the etching is clearly noticeable to a consumer,” and ruled in favor of Davidoff.

Why did the alteration make such a difference if it didn’t affect the bottles’ contents? According to the ruling: “In marketing a fragrance ... a vendor is not only selling the product inside the bottle, it is also selling the ‘commercial magnetism’ of the trademark that is affixed to the bottle. ... The appearance of the product, which is associated with the trademark, is important to establishing this image. This makes the appearance of the bottle material to the consumer decision to purchase it. Because the etching degrades the appearance of the bottles, the Davidoff fragrance that PLD distributes is materially different from that originally sold by Davidoff.”

Time To Celebrate?

But manufacturers should not celebrate just yet. The court’s reasoning may be limited to products whose marketing is so heavily dependent on “image” that a minor cosmetic flaw on the package’s exterior seriously affects salability, even though the product’s quality doesn’t appear compromised. ☹

“G.I. Joe” Battles the Fair Use Doctrine

When movie actor Robert Mitchum died in July 1997, Larry Stern was negotiating to purchase the copyrights to three movies. One film, “The Story of G.I. Joe,” was about World War II as seen through the eyes of famed correspondent Ernie Pyle. Mitchum’s supporting role launched his long movie career and earned him his only Academy Award nomination.

Stern reacted to Mitchum’s death by staying in front of his television set for 10 hours, taking notes on the news programs showing Mitchum in “G.I. Joe.” Stern also added to the proposed sales contract a clause that let him sue for infringements that occurred before he acquired the copyright. Then, after closing the copyright deal, he demanded payments of \$5,000 to \$10,000 from each of about 12 TV news organizations.

All of the news organizations that had shown clips refused to pay Stern anything, taking the position that the fair use doctrine sheltered the clips from copyright infringement liability. Stern then sued CNN, ABC and CBS for copyright infringement. But the court agreed with the networks that the fair use defense applied to this situation, and summarily dismissed the suit.

The Fair Use Doctrine

The fair use doctrine specifically exempts certain reasonable uses of copyrighted material even if the copyright owner refuses permission to use the material. It creates a limited

exception to copyright infringement for purposes such as:

- *Criticism,*
- *News reporting,*
- *Teaching,*
- *Scholarship, and*
- *Research.*

The statute offers four specific factors that may be considered in determining whether fair use is applicable in a case:

Purpose and character. The first factor is the purpose and character of the defendant’s use of the copyrighted work. In this connection the court noted the networks had copied material



from the movie for a transformative purpose. The creation of a new work, the obituary, had a different purpose and character, informing the public of Mitchum's death and educating them about his impact on the arts. The networks did more than just convey a synopsis of "G.I. Joe." In rebuttal, Stern pointed out that the networks acted for profit, but the court noted that news agencies typically are not charitable organizations.

Nature of the work. The second fair use factor is the nature of the copyrighted work. This factor favored Stern to some extent, since the copyrighted film was creative in nature, not just a compilation of historical facts. On the other hand, the film was originally released to theaters in 1945, and has been shown on television innumerable times, so the additional showing of some short clips could hardly be said to have any significant additional public impact.

Substantiality. The third factor is the amount and substantiality of the copyrighted work used by the networks. This factor clearly favored the networks, because the clips ranged from only 6 to 22 seconds in length, compared to 108 minutes for the entire film. Thus the clips were incapable of conveying the original film's flavor to any significant extent. Stern argued that, although the clips were short, they constituted the "heart" of the film. But the court noted that, for the most part, the clip's sound track was suppressed or covered by a voice-over, lessening the segments' dramatic impact.

Fair Use vs. Parody

"The Wind Done Gone" re-tells the story of "Gone With the Wind" from the slaves' point of view, instead of from Scarlett O'Hara's perspective. The copyright owner of "Gone With the Wind" sued the new novel's publisher for infringement. The new book used many of the same characters, settings and plot elements.

On appeal, the court held that fiction and criticism could overlap. It observed that the new novel was not a general commentary on the Civil War-era American South, but a specific criticism of, and rejoinder to, the particular depiction of slavery and race relations found in "Gone With the Wind." Thus, the fact that the author chose to convey her criticisms through fiction didn't deprive her of parody status and a lenient application of the fair use defense.

Effect of use. The fourth factor is the effect of the networks' use on the film's potential market. Here the court observed that the clips were too short to:

- ⊙ Compete with the original film,
- ⊙ Substitute for it in the marketplace, or
- ⊙ Reduce the demand for it in any other way.

Accordingly, the court concluded that the networks' claim of fair use was valid.

What's Fair?

Determining what is fair use is not always this easy. What may be considered "reasonable use" of copyrighted material is almost always subject to controversy. ⊙

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You'll notice a new name, but our focus remains the same.
At CARR LAW, we focus on intellectual property exclusively.

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**Through patents, trademarks, copyrights and trade secrets,
counseling, litigation and licensing.**

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