ideas on intellectual property law

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Attorneys' fees in intellectual property cases

Does private business conduct meet exceptionality requirement?

American law generally requires both winning and losing litigants to pay their own attorneys' fees. But our intellectual property laws are an exception. They permit a court — in its discretion — to award attorneys' fees to a prevailing litigant. This requires the losing party — whether plaintiff or defendant — to pay the winning party's attorneys' fees. But in patent and trademark cases, courts can do this only in "exceptional cases."

So what kind of case is "exceptional"? This issue arose when Abbott Laboratories tried to develop a pharmaceutical product for treating respiratory-distress syndrome in premature babies.

WHAT CONDUCT LED TO THE FEES?

Abbott took two parallel roads in its development efforts. At first, Abbott was collaborating with ONY Inc. in ONY's efforts to develop a calf-lung-surfactant extract (CLSE) product. But Abbott also took a license under two U.S. patents owned by Tokyo Tanabe Co. Ltd. (Tanabe) covering a different product — Survanta® — designed to do the same job.

Trying to cover both bases, Abbott maintained close contact with ONY from 1983 to 1991, meeting periodically with ONY personnel to discuss the development, composition and testing of CLSE. In 1984, ONY fully disclosed its technology to Abbott so that Abbott could do a patentability search on CLSE. The search revealed that CLSE was probably not patentable, and Abbott informed ONY of its finding.

What Abbott didn't tell ONY was that the search also uncovered the Tanabe patents. Instead, Abbott encouraged ONY to push forward with its CLSE development and said that it looked forward to working with ONY in the future. But in the meantime, Abbott was developing Survanta under its Tanabe license — worrying that ONY might obtain FDA approval for CLSE before Abbott could do so for Survanta.

In 1991, Abbott won the race: It obtained FDA approval for Survanta. A few years later, Abbott informed ONY that it believed CLSE infringed the Tanabe patents. ONY then sued Abbott for a declaratory judgment that CLSE didn't infringe and that the Tanabe patents were invalid. Abbott counterclaimed for patent infringement.

What is equitable estoppel?

Equitable estoppel is an established legal doctrine comprised of three elements:

1. **One party — in bad faith — must mislead another party into believing that it won't be sued,**
2. **The other party must reasonably rely on the misleading behavior, and**
3. **The misled party must suffer some sort of prejudice if the first party sued.**

If a court finds that these elements exist, the party who misled the other is prevented (estopped) from suing.

DID ABBOTT ACT IN BAD FAITH?

The trial judge ruled there was no infringement and that Abbott was "equitably estopped" from asserting infringement of the Tanabe patents against ONY because of Abbott's behavior toward ONY during the CLSE development. (See "What is equitable estoppel?" above.) Abbott, in bad faith, led ONY to believe that it wouldn't obstruct ONY's efforts to bring CLSE to market. It failed to advise ONY of the Tanabe patents, and ONY reasonably relied on Abbott's misleading conduct. The court concluded that ONY would suffer harm if Abbott were allowed to use the Tanabe patents to block CLSE's path to the marketplace.

In addition, the trial court held that Abbott's misconduct not only required a finding of equitable estoppel, but also made this case exceptional. Accordingly, the trial court ordered Abbott to pay ONY's attorneys' fees — amounting to $6.5 million. Abbott appealed the attorneys' fee award.

IS PRIVATE BUSINESS CONDUCT EXCEPTIONAL?

The appellate court first looked at the history of attorneys' fee awards against patent infringement plaintiffs. It noted that previous awards were made only where the patentee obtained its patent or litigated an infringement claim in bad faith. Typical cases included the patentees misleading the Patent and Trademark Office (PTO) or litigating the issue of infringement improperly. It also included litigating frivolous or unfounded claims. In other words, such attorneys' fees were only awarded for improper conduct in the PTO or in the courts — never for private business conduct.

The appellate court ruled that no improper conduct occurred before the PTO or the courts in this case. Thus the issue was whether the court should extend "exceptionality" to encompass private business conduct.

The appellate court decided it wouldn't extend the boundaries that far. It noted that attorneys' fees are normally not granted at all under United States law, and that even in patent and trademark cases they are limited to "exceptional" cases.

DOES THE LAW GUARANTEE BUSINESS MORALITY?

In effect, the court's decision limited the patent and trademark laws to their particular spheres of concern. The court refused to turn the patent and trademark laws into guarantees of general business morality.

Nothing to sneeze at

Patent law's doctrine of inherent anticipation

Schering Corp. had a patent on an antihistamine called loratadine, which it sells under the trademark Claritin®. This drug is a big seller because it relieves allergy symptoms without causing drowsiness. But as the loratadine patent expired, the generic drug companies wanted to move into that market. Schering hoped to thwart their entry, on patent infringement grounds, after it obtained another patent on a new loratadine-related antihistamine known as DCL. Recent court decisions, however, have wrecked Schering's plans.

One court decision held that two of the DCL patent's claims are invalid for anticipation by prior art — specifically Schering's own loratadine patent. Schering, however, argued that because the loratadine patent never mentioned DCL, it didn't meet the anticipation requirement.

THE DRUGS

The generic drug companies were planning to sell only the old drug loratadine — not the new drug DCL. Only DCL is now patented; the loratadine patent is expired. So why did the patent infringement issue arise?

Schering's theory was that every time a patient ingests loratadine, the patient's body produces DCL (the patented substance) as a metabolic byproduct. So even if the generic drug companies sold only unpatented loratadine, they would cause the unauthorized production of patented DCL in the patients' bodies. And that would infringe the new patent.

But the generic drug companies argued this incidental production of DCL as a metabolite is nothing new — it's as old as loratadine. So, the same metabolic relationship of DCL to loratadine, which creates the infringement, also creates prior art that destroys the DCL patent's validity. A basic principle of patent law states: That which

infringes if later in time, anticipates if earlier. Because the loratadine patent was published more than a year before the DCL patent application filing and loratadine was known to produce DCL, the loratadine patent anticipated DCL as a chemical entity, making it ineligible for patentability.

DOCTRINE OF INHERENT ANTICIPATION

The court of appeals for the Federal Circuit agreed with the generic drug companies, and wasn't dissuaded by the fact that the loratadine patent didn't mention DCL. The court invoked the doctrine of inherent anticipation: Since the prior art patent disclosed a process — administering loratadine to patients — that inherently produces DCL as a byproduct, in effect the loratadine patent disclosed DCL production. And it did so before the critical date of the DCL patent application.

The court distinguished a case in which the famous physicist Glenn Seaborg was granted a patent on a new chemical element not found in nature — even though it was an inherent byproduct of a nuclear reaction disclosed in a prior art patent. In the *Seaborg* case, the prior art process produced at most one billionth of a gram of the new element in forty tons of other material. So it was undetectable. In this case, on the other hand, DCL was produced as a metabolite in detectable amounts.

That which infringes if later in time, anticipates if earlier.

The court emphasized that its ruling didn't depend on proof that anyone had actually ingested loratadine — and thereby produced DCL as a metabolite — before the critical date. It was sufficient that the process of administering loratadine to a patient was disclosed in a published patent before the critical date, and that the disclosed process would produce that metabolite.

Nor was it necessary for anyone to have realized at the time of the prior art patent's publication that DCL would be produced in the bodies of patients, or to realize that DCL had therapeutic properties. It was sufficient that the production of DCL was a necessary consequence of the process disclosed in the loratadine patent. Because the new patent claimed DCL broadly as a chemical entity in all forms and all environments, a prior publication would anticipate the DCL invention if it disclosed production of DCL in any form and in any environment, including the bodies of patients.

THE DOCTRINE'S FUTURE

Schering — the DCL patent owner — argued the court's decision was unwise because it would preclude patent protection for all future therapeutic metabolites. But the appellate court pointed out that its rationale only affected attempts to patent an entire chemical species. So the door remains open to the patenting of:

- Metabolites in purified form or as part of a pharmaceutical composition (for example, in combination with a suitable carrier material), and
- Methods of therapeutic administration of metabolites.

In fact, nine of Schering's patent claims are limited to pharmaceutical compositions containing DCL, and three other claims are limited to methods of treating patients with DCL. The court held the prior art loratadine patent didn't anticipate these claims.

TIMING OF THE PATENT'S FILING

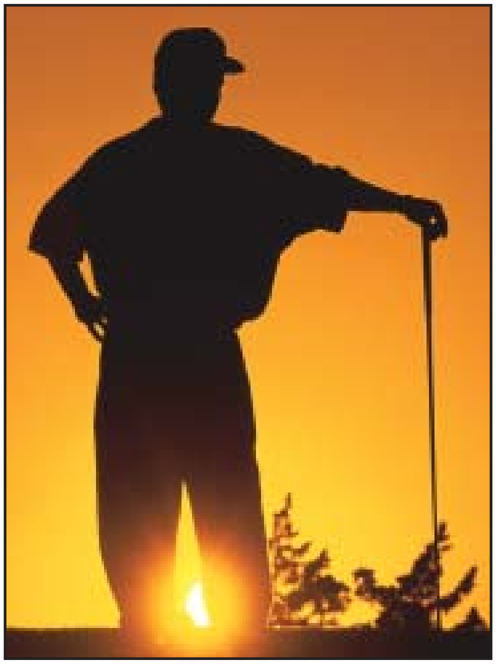
In patent law, timing is everything. A patent or other publication that inherently discloses the invention of a later patent more than a year before the latter's application date renders the latter invention unpatentable.

Artist hits the links

Trademarks, publicity rights and the First Amendment

Golfer Tiger Woods has registered his name as a trademark for various goods, including art prints. Rick Rush, who refers to himself as "America's sports artist," created a painting that included several images of Woods. This led the golfer to sue Rush for trademark infringement and violation of his publicity rights.

The painting in question commemorates Woods' victory at the 1997 Masters Tournament. The artist sold prints of the painting commercially, with Tiger Woods' name appearing on the envelopes containing these prints, and in other places, as a means of describing the painting's subject. But Rush's name was also prominently displayed as the artist, both on and in close proximity to the painting.



THE COURTS TEE OFF

The trial court granted summary judgment to Rush, and on appeal that decision was affirmed. The appellate court first disposed of the issue of the words "Tiger Woods" as a trademark infringement. It explained that the name was used in a manner that was purely descriptive of the painting's subject, and didn't identify Woods as its source. This use was within the traditional bounds of trademark law's fair use defense.

A more substantial issue was presented by Woods' claim that his likeness — although not registered — was also a trademark, which was infringed by the painting itself. Woods was claiming trademark rights in any possible image of himself, in any pose that he might possibly assume. But the law doesn't allow trademark rights in all possible views of any person or object. You can obtain trademark rights on a particular image — for example, the specific image of the famous flag-raising on Iwo Jima in World War II. But trademark rights aren't broad enough to cover any flag-raising image, however presented. Thus Woods' image trademark claim was also rejected.

FALSE ENDORSEMENT AND PUBLICITY RIGHTS HIT THE BUNKER

The court then dealt with Woods' two other claims that:

1. The painting falsely implied that Woods endorsed Rush's painting, and

2. His right of publicity was violated by his image's use in the painting.

Here the court went beyond ordinary intellectual property law and into constitutional territory.

False endorsement claims normally turn on factual issues of likelihood of confusion: Would the product's target audience believe the celebrity approved this product as an "official" likeness? Or would they believe that the celebrity was simply the involuntary subject of the image? Tiger Woods took comfort from survey evidence in this case indicating that some members of the target audience might draw the wrong conclusion.

Woods' strongest claim, however, was the right of publicity. In these cases the issue usually is whether the defendant is receiving a commercial benefit from the fame of a celebrity — a fame that the celebrity earned through his or her own skill and dedication. Is a celebrity entitled to exclusive control of that fame's commercial value? Certainly Rush chose Woods as his subject precisely because of who he is, and so the artist was in some sense exploiting the public's interest in Woods' persona.

The law doesn't allow trademark rights in all possible views of any person or object.

In the end, the U.S. Constitution's First Amendment held the answer. The court's decision followed a line of cases holding that we must tolerate some level of confusion — and some amount of economic free-riding — as the price for a free society.

IT'S IN THE HOLE

Is it a good idea for a society to forbid artists to paint whatever their muse dictates, unless they get permission and pay for the privilege? Or should artists be free to choose their subjects, even (or especially) if those subjects are famous?

And if the artist is free to paint, shouldn't he or she also be free to make a living by selling those works? If artists can't make a living from their art, they may not produce any art, and our culture will be the poorer.

Therefore, Woods' claims of false endorsement and violation of the right of publicity failed. Intellectual property concerns take a back seat to the artist's constitutional freedom of expression.

Welcome to the Madrid Protocol

The United States has finally entered the world of international trademark registration. For more than 100 years, the Madrid Agreement enabled citizens of its member states to obtain and renew trademark registrations in multiple countries by filing only one application and paying only one fee. Unfortunately, the United States wasn't, and still isn't, a member of the Madrid Agreement.

But in 1996, the international trademark community created a new treaty — the Madrid Protocol — that contained features the United States found acceptable. So, along with many other countries, the United States signed the Madrid Protocol. But due to a diplomatic impasse, it didn't immediately go into effect in this country until Nov. 2, 2003.

The Protocol enables American trademark owners to extend their trademark rights to other Protocol-member countries, provided the trademarks meet the requirements of those countries' trademark laws. And, likewise, it lets other countries extend their trademark rights to the United States, as long as their trademarks satisfy our trademark laws.

You can now register and renew a trademark in many countries with a single application and a filing fee, payable in U.S. dollars. In addition, you can file Madrid Protocol applications in English at the U.S. Patent and Trademark Office.