

Colorado Bar Association  
**INTELLECTUAL PROPERTY SECTION**  
**NEWSLETTER**

**November 2009**

**November IP Section Event**

**THE INTERPLAY OF PATENTS AND STANDARDS**

Jud Cary, Vice President Video Technology Policy and Deputy General Counsel, CableLabs

Aaron Brodsky, Director, IP Law Group, Sun Microsystems

Lexy DeVane, General Counsel, MPEG-LA

David Rudin, Senior Attorney, Microsoft Corporation

**November 18, 2009; 11: 45 a.m. – 1:15 p.m.**

**CableLabs, Louisville, CO**

Co-sponsored by Silicon Flatirons

1.5 CLE credits applied for

Technologies often require a critical mass of adopters to succeed, and Standard Setting Organizations (SSOs) have assumed an increasingly critical role in this process. In digital video, cable equipment, satellite communications, and 3G wireless technologies, for example, equipment makers, purchasers, and other interested parties have collaborated to set the standards that will be used for next generation products.

However, this process (where competitors agree on a standard to be adopted in advance) has led to charges of collusion in certain instances. Some holders of intellectual property rights (IPRs) have also been accused of "patent hold-up." This involves accusations that they withheld key information about their patents with the express purpose of demanding high royalties to use technology that becomes part of the standard. SSOs have responded in various ways, such as requiring front-end disclosure of IPRs or an after-the-fact requirement to license IPRs at "reasonable and non-discriminatory" (RAND) terms and conditions.

We have brought together a world-class panel to address these issues, and they will evaluate the benefit provided by SSOs and the extent of the problems associated with the standards process. The panel will examine the various proposed strategies to address the problems, and whether they are effective or counterproductive. The panel will provide both practical advice and policy insights to assess how certain trends will play out over time. The

event will be of interest to a wide range of practitioners, as Jud Cary will open the event with a broad overview on certain key issues. The discussion will then turn to specific issues that will be of interest to more seasoned practitioners.

*Cost: \$35 for IP Section Members, \$45 for the general public, and CU/DU Law students are free. Includes a catered lunch. RSVP by calling (303) 860-1115 ext. 727 or by emailing lunches@cobar.org before Noon on Monday, November 16, 2009.*

*Cancellations after Monday, November 16, 2009 and no-shows will be billed for the cost of the program. Checks can be sent to the Colorado Bar Association, 1900 Grant St., Suite 900, Denver, CO 80203. Also, please call or e-mail your RSVP when sending a check. Checks should be made payable to the CBA. If leaving a message, please spell your name, specify that you are attending the Intellectual Property Section November Luncheon, leave your phone number, and specify if you would prefer a vegetarian lunch.*

## Future IP Section Events

### December IP Section Event

## USING NON-COMPETE AGREEMENTS TO PROTECT TRADE SECRETS

Victoria Cundiff, Partner, Paul Hastings, New York, NY

**December 9, 2009; 11: 45 a.m. – 1:15 p.m.**  
**Denver ChopHouse, Large Banquet Room**

*Bilski*, *KSR*, uncertainty about patent protection, and a changing economy are among the factors that have increased the focus on using trade secrets law to protect intellectual property. One conundrum of trade secrets law is that the trade secrets owner must take reasonable measures to protect trade secrets, but generally also must disclose its secrets to employees or business partners to fully exploit them. To prevent diversion of trade secrets by former trusted insiders, one of the most commonly used protective measures is some form of competitive restraint—whether a non-disclosure agreement that builds in the concept of “inevitable disclosure”; a customer non-solicitation agreement; or a limited ban on competition after the relationship, whether commercial or employment, comes to an end. Non-compete agreements implicate at least two fundamental policies—the need to protect trade secrets (and business relationships), on the one hand, and the need to protect employee and business mobility on the other. The law balancing those public policies is jurisdiction specific and varies widely throughout the United States (and, indeed, throughout the world). Further, the balance can change: non-compete law is currently undergoing significant transformation in many states, both in the courts and in pending legislation. Colorado is in the vanguard of states that have addressed some of the conflicting policy concerns relating to non-compete agreements through legislation. The Colorado model is gaining an increasing following throughout the country.

In her presentation, Victoria Cundiff will consider emerging trends in non-compete law as seen in the courts and in the legislatures; examine some of the key litigation themes evolving in litigating non-compete, inevitable disclosure, and trade secrets cases throughout the country; and discuss best practices for organizations that may find themselves focusing on trade secret protection and non-compete issues in multiple jurisdictions. She will also address some of the ethical issues arising in non-compete litigation.

**Presenter:** Victoria Cundiff chairs the global trade secrets practice at Paul, Hastings, Janofsky & Walker LLP (ranked in the top tier by *Legal 500*), where she is based in New York. She has litigated non-compete, inevitable disclosure, and non-solicitation agreements throughout the country and has helped organizations establish agreements and policies to protect trade secrets across multiple jurisdictions. She has also written widely on non-compete and trade secrets issues, including *Reasonable Measures to Protect Trade Secrets in a Digital Environment*, 49 IDEA 359 (2009) and *Preventing the Inevitable: How Thinking About What*

*Might Happen Can Help Insure That It Won't*, 12 N.Y.Bus. L. J. Vol. 2 (Fall 2008). She is a Visiting Lecturer in Law at Yale Law School, a graduate of the University of Denver and of the Yale Law School, and is admitted to practice in New York, Colorado, and the District of Columbia.

## **January IP Section Event**

### **THE VALUE OF PATENTS IN EARLY STAGE COMPANIES (Rescheduled from October)**

Ted Sichelman

**January 14, 2010; 11: 45 a.m. – 1:15 p.m.  
Denver ChopHouse, Large Banquet Room**

Professor Sichelman and a team from the UC Berkeley Center for Law & Technology recently conducted the first comprehensive survey in the United States on patents and entrepreneurship. After six months of collecting data from nearly 1,500 start-up and early stage companies, the research team has now tabulated and analyzed the results. Professor Sichelman will present his groundbreaking research findings on why start-ups patent and the effects of the patent system on entrepreneurial companies.

In his presentation, Professor Sichelman will analyze the drivers of patenting by entrepreneurs. The presentation will also examine the role of patents in investment, financing, acquisition, and IPOs, with Professor Sichelman sharing his insight on the commercialization of inventions. He will also analyze the role of patents and patenting in collaborative innovation. This presentation will be of interest to IP attorneys, entrepreneurs, VCs, and others involved in early stage companies.

#### **PRESENTER:**

Before joining the faculty at USD, Professor Sichelman was a fellow at the University of California, Berkeley, Boalt Hall School of Law. Previously, Professor Sichelman practiced in the areas of intellectual property litigation and transactions, appellate litigation, and venture finance at the law firms of Heller Ehrman and Irell & Manella. Professor Sichelman also clerked for Judge A. Wallace Tashima of the U.S. Court of Appeals for the Ninth Circuit. Before practicing law, he founded and ran a venture-backed software company, Unified Dispatch. Professor Sichelman designed the company's software and is a named inventor on several filed patents.

Professor Sichelman earned his J.D. from Harvard Law School and an A.B. from Stanford University. His numerous publications include: "Commercializing Patents," in *Stanford Law Review* (forthcoming 2010); "Patenting by Entrepreneurs: An Empirical Study," in *Michigan Telecommunications & Technology Law Review* (forthcoming 2010); "High Technology Entrepreneurs and the Patent System," in *Berkeley Technology Law Journal* (forthcoming 2009); and "Why do Start-Ups Patent?" in *23 Berkeley Technology Law Journal* 1063 (2008).

## **ANNOUNCEMENTS:**

### **IP Section Bylaws Approved**

At the September 23, 2009 IP Section Luncheon, the IP Section membership approved a set of proposed bylaws. The approved bylaws were forwarded to the Colorado Bar Association Board of Governors for final review and approval

The IP Section Leadership is pleased to announce that the Bylaws were unanimously approved at the November 7, 2009 Board of Governors meeting. Announcements about the selections for Advisory Board will follow shortly. The bylaws as approved by the membership and the Board of Governors are available for download:

[http://www.ipsectioncolorado.org/content/Bylaws/IP\\_Section\\_Bylaws\\_Final\\_Proposed\\_Unmarked.pdf](http://www.ipsectioncolorado.org/content/Bylaws/IP_Section_Bylaws_Final_Proposed_Unmarked.pdf)

The Bylaws provide that least one Advisory Board member shall be an IP Section member with no greater than five years of practice experience. Interested IP Section members with five years or less experience are encouraged to email the IP Section Officers, and include a statement of interest.

### **The Copyright Society**

The Copyright Society of the USA Rocky Mountain Chapter and Intellectual Property Law Society of the University of Denver College of Law present a special screening of ***COPYRIGHT CRIMINALS: This is a Sampling Sport.***

Date:

Monday November 16, 2009

Location:

University of Denver College of Law  
2255 East Evans Avenue, Denver  
Room 270

Cost: Free

Time: 6:00 PM

Reception to Follow

Description:

This breakthrough film examines the creative and commercial value of musical sampling, including the related debates over artistic expression, copyright law, and (of course) money.

This documentary traces the rise of hip-hop from the urban streets of New York to its current status as a multibillion-dollar industry. The film showcases many of hip-hop music's founding figures and also features emerging hip-hop artists. The film provides an in-depth look at artists who have been sampled, including commentary by funk legend George Clinton.

As artists find ever more inventive ways to insert old influences into new material, this documentary asks a critical question, on behalf of an entire creative community: Can you own a sound?

To RSVP please email [IPLS@law.du.edu](mailto:IPLS@law.du.edu)

Parking is available in the parking garage underneath the Law Building

Parking passes will be provided upon request

### **Taped IP Section Luncheon Meetings**

CBA/CLE tapes the IP Section Luncheons for later access and CLE credit. The following IP Section meetings are now available online:

Global IP Strategy  
Reexamination

They can be found at:

<http://www.cobar.org/cle/onlineprograms.cfm?nextrow=1&majorcat=Intellectual%20Prop>.

In addition, the CBA/CLE Program "Life Cycle of Patent Litigation" can also be found at the same link.

### **Call for Suggestions or Ideas**

The IP Section Officers are also soliciting your suggestions and ideas for topics and speakers for our Luncheon programs for 2010. Please forward any comments you may have to Nina Wang at [nwang@faegre.com](mailto:nwang@faegre.com).

### **IP Newsletter**

Subject to editorial discretion and review, the IP Section newsletter is open to the submission of short articles and columns on IP topics of interest. If you are interested in contributing, please contact Nina Wang at [nwang@faegre.com](mailto:nwang@faegre.com).

### **IP Section Website**

Don't forget to check out the Colorado Bar Association website. Please refer to it often for updates on news and events.

<http://www.cobar.org/group/index.cfm?EntityID=PATENT>

The Colorado Bar Association has posted member directories for each practice section on-line. See ours at:

<http://www.cobar.org/directory/sections.cfm?section=PATENT>

Our contact at the Colorado Bar is Melissa Nicoletti, the Director of Sections and Committees. She can be reached at (303) 824-5321, or [melissan@cobar.org](mailto:melissan@cobar.org).

## **IP Section Blog**

The IP Section blog is at <http://www.ipsectioncolorado.org/>. You can find news from and links to other Colorado and national IP resources, connect with other IP Section members, provide input to Section Officers, and get up-to-date information about IP Section activities. Be sure to register to get the full benefit of the blog.

## Recently Filed U.S.D.C. Colorado Cases

CAPTION	TYPE	CASE NO.	JUDGE	FILING ATTORNEY(S)
Pfizer Inc. et al. v. Sandoz Inc.	Patent	09cv2392	Christine M. Arguello	Diane Jennifer Hellwig Wheeler Trigg O'Donnell LLP
Defender Industries, Inc.	Trademark	09cv2400	Philip A. Brimmer	Erik G. Fischer Erik G. Fischer, LLP William W. Cochran Cochran Freund & Young LLC
Sandoz Inc. v. Pfizer, Inc. et al.	Patent	09cv2457	Walker D. Miller	David C. Doyle Morrison & Foerster, LLP
Rockware, Inc. v. Engius LLC	Trademark	09cv2464	Wiley Y. Daniel	Erich L. Bethke Canges, Iwashko Bethke & Bailey, P.C.
Pinelli v. Mancini et al.	Patent	09cv2510	Wiley Y. Daniel	Erik G. Fischer Erik G. Fischer LLP William W. Cochran Cochran Freund & Young LLC
Home Design Services, Inc. v. Starwood Construction Inc. et al.	Copyrights	09cv2503	Walker D. Miller	Anthony M. Lawhon Parrish Lawhon & Yarnell, P.A.
e.Digital Corporation v. Pentax of America, Inc. et al.	Patent	09cv2578	Marcia S. Krieger	James Y.C. Sze Matthew S. Yungwirth Duane Morris LLP
Spyderco Inc. v. Sarge International, LLC	Patent	09cv2612	Wiley Y. Daniel	Robert R. Brunelli Sheridan Ross P.C.
Thule Organization Solutions, Inc. v. Agva Singapore Pte Ltd.	Patent	09cv2640	Christine M. Arguello	Benjamin B. Lieb Sheridan Ross, P.C.
Foresight Products, LLC v. Bond Manufacturing Company	Trademark	09cv2629	Christine M. Arguello	Kimberly M. Hult Hutchinson, Black and Cook LLC

Please email Nina Wang at [nwang@faegre.com](mailto:nwang@faegre.com) with any interesting Colorado District Court IP decisions or IP news involving Colorado Companies.

# IP LAW DEVELOPMENTS FROM BNA

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*Patents*

## **Justices Seem Doubtful About Patentability Of Business Methods in Bilski Oral Argument**

Questions by justices of the U.S. Supreme Court in a highly anticipated Nov. 9 oral argument revealed doubt that a method of hedging consumption risk in commodities should be patentable and more generally hinted that the justices are suspicious of the concept of patenting a business method in the absence of a meaningful physical implementation ( *Bilski v. Kappos*, U.S., No. 08-964, argued 11/9/09).

Although the government was defending the Patent and Trademark Office's rejection of the patent application at issue, a deputy solicitor general appearing for the PTO actually found himself in the position of defending the continued viability of business method patents so long as the invention is tied to a machine, as ruled below by the U.S. Court of Appeals for the Federal Circuit.

The discussion ranged beyond the confines of business methods and the justices also directed questions to counsel regarding software patents and patents on electronic signals.

### *Supreme Court Takes Case Over SG's Objection*

The Federal Circuit's creation of a "machine-or-transformation" test for determining whether a method or process can be patented in *In re Bilski*, 545 F.3d 943, 88 USPQ2d 1385 (Fed. Cir. 2008) (77 PTCJ 4, 11/7/08), brought into question the patentability of business methods in the form of a partial retreat from *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368, 47 USPQ2d 1596 (Fed. Cir. 1998) (56 PTCJ 346, 7/30/98).

The Federal Circuit ruled that a process for predicting and hedging risk in commodities markets was not patentable because it was not tied to a machine and did not result in a physical transformation. *Bilski* did not directly rule that all business methods are nonpatentable; instead, the court held that a business process could be patented if it is tied to a particular machine or if it transforms an article to a different state or thing.

A government brief opposed the granting of certiorari and expressed support for the machine-or-transformation test (78 PTCJ 32, 5/8/09). Nevertheless, the Supreme Court granted the petition June 1 (78 PTCJ 145, 6/5/09).

The questions presented for Supreme Court review were:

- Did the Federal Circuit err by holding that a "process" must be tied to particular machine or apparatus, or transform a particular article into a different state or thing, to be eligible for patenting under 35 U.S.C. §101, despite the Supreme Court's precedent declining to limit a broad statutory grant of patent eligibility for "any" new and useful process beyond excluding patents for "laws of nature, physical phenomena, and abstract ideas"?
- Does the Federal Circuit's "machine-or-transformation" test for patent eligibility, which effectively forecloses meaningful patent protection to many business methods, contradict clear congressional intent that patents protect "method[s] of doing or conducting business" (35 U.S.C. §273)?

Of the 66 amicus briefs filed, almost none supported the machine-or-transformation test (78 PTCJ 455, 8/14/09; 78 PTCJ 692, 10/9/09).

### *Court Returns to 1790 Act's 'Useful Arts.'*

Representing patent applicants Bernard Bilski and Rand Warsaw, J. Michael Jakes of Finnegan, Henderson, Farabow, Garrett & Dunner, Washington, D.C., said that the court had recently shown an inclination to overturn "rigid and narrow" tests created by the Federal Circuit, and he encouraged the court to do the same in this case. Jakes argued that the three exclusions already recognized in patent jurisprudence are sufficient for analysis of patentability and the machine-or-transformation test is unnecessary.

Justice Antonin G. Scalia interrupted Jakes's presentation to assert that the term "useful arts" as used in the 1790 Patent Act "meant originally, and still means 'manufacturing arts' [and] always was thought to deal with machines and inventions."

Jakes countered that “useful arts ... encompasses industrial processes, manufacturing processes; but it has never been limited just to those types of processes,” and it would be up to Congress to limit patentability to that narrow field.

But Justice Ruth Bader Ginsburg criticized Bilski's position, saying that should the petitioners prevail, things such as tax avoidance strategies, estate planning, strategies for resisting a corporate takeover, and choosing a jury would be patentable.

Jakes held firm, responding that innovations in all those areas should be patent-eligible, and that other statutory restrictions—novelty and obviousness, most notably—would suffice to prevent undesirable patents in those areas. Justice Stephen G. Breyer linked Scalia's and Ginsburg's arguments and said that the framers of the Constitution could not possibly have intended such an expansive reading of the intellectual property clause. He argued that Jakes' view would allow for patent monopolies to be available to any successful businessman, who “wouldn't be successful if he didn't have anything that others didn't have. He thinks of a new way to organize. He thinks of a new thing to say on the telephone. He thinks of something.”

However, the framers would have considered patents on every business success antithetical to “this great, vast, new continent” of early America, Breyer said.

Breyer previously indicated his interest in narrowing patentability with his dissenting opinion in *Laboratory Corporation of America Holdings d/b/a LabCorp v. Metabolite Laboratories Inc.*, 548 U.S. 124, 79 USPQ2d 1065 (2006) (72 PTCJ 208, 6/23/06).

The Bilski case offered the first opportunity for the court's newest justice, Sonia M. Sotomayor, to be heard on intellectual property issues, a matter of interest, given her experience as an intellectual property attorney before she became a federal judge. Sotomayor joined in the criticism of the petitioners' argument, saying that such a broad view of patentable subject matter would allow a patent on a “method of speed dating.” Her comments seemed to support a test with a required “tie or tether to ... the sciences, to the useful arts,” as described in the solicitor general's brief.

Jakes yielded a little ground, conceding that the framers distinguished “useful arts” from fine arts, and adding that it is generally agreed that one cannot patent a corporation or a human being. However, Jakes noted that certain human activities, such as surgical methods, are patentable.

Sotomayor asked why such human activities should be patentable.

“Do you think that there is some benefit to society from patenting a method to cure someone that involves just human activity, as opposed to some machine, substance, or other apparatus to help that process?” she asked. “Yes,” Jakes replied.

Justice Anthony M. Kennedy took the next shot. He said that if one were to have applied the petitioners' view to claims regarding insurance instruments, after differential calculus led to actuarial science starting in 1680, then actuarial-based insurance might have been subject to a patent monopoly.

“It's difficult for me to think that Congress ... would have wanted to give only one person the capacity to issue insurance,” Kennedy said.

Like Breyer, Kennedy also has a history of criticizing business method patents. In a concurring opinion in *eBay Inc v. MercExchange LLC*, 547 U.S. 388, 78 USPQ2d 1577 (2006) (72 PTCJ 50, 5/19/06), Kennedy characterized them as being subject to “potential vagueness and suspect validity.”

### *Physical Activities or Technology-Based Tests*

Chief Justice John G. Roberts Jr. focused on the facts of the case at hand more than any other justice. He first asked Jakes why Bilski's Claim 1 was more than an abstract idea. How is Claim 1 different from “buy low, sell high?” he asked.

Jakes replied that the difference in the instant case was the reduction to a series of concrete, physical steps.

Roberts interrupted, saying “I’m sorry. Just what are the physical steps? Initiating a series of transactions between commodity provider and market participants? ... You get on the phone and you call the baker and you get on the phone and you call the grocer and say, ‘I can set up a deal for both of you?’ ”

Following up on the insurance analogy, Kennedy asked whether the physical act would be “to go over to the Bureau of Statistics and compile statistics on life expectancy.”

Jakes refused to give in, criticizing any attempt to determine what is a relevant physical act by relying on a “technology” test, “because technology in its broadest sense means the application of knowledge as opposed to general knowledge.”

This roused Ginsburg, though, who pointed to European law and many other jurisdictions that use “technology” definitions to bar business method patents. “If other systems are able to work with the notion of technology-based, why not ours?” she asked.

Jakes’s response was simply that American jurisprudence has reached a different result. “There are those systems that do have a requirement like that. Ours does not,” he said.

Jakes turned to specific areas to make his point, saying that the fields of operations research, industrial engineering, and financial engineering are all arguably not technology-based according to the typical definition in other jurisdictions. But these are modern technologies, “very much related to our current economy and state of technology,” he said, and should not be considered non-technological by some arbitrary definition that was developed 200 years ago.

But this claim that patentability should be tied to whatever we define as “modern technologies” provided an opening for Scalia to return to the framers and the early patent system. He noted that nobody had patented methods of training horses in the 19th century, and asked Jakes why those methods would not have been patentable in those days.

“I think our economy was based on industrial processes” at that time, Jakes responded.

“It was based on horses, for Pete’s sake,” Scalia said. “I would really have thought somebody would have patented that.”

### *Software, Electronic Signals Discussed*

Several justices directed their inquiries to the transformation prong of the Federal Circuit’s test, although this was not at issue in *Bilski*’s claims.

Jakes argued that the machine-or-transformation test would not have allowed Alexander Graham Bell’s method for modifying an electrical current to send and receive speech—at issue in the Telephone Cases, 126 U.S. 1 (1887)—to be patented, since such a claim would not be tied to any particular machine or transform a particular article.

Kennedy then made another analogy that appeared to question whether the electronic signals at issue in the Bell patent should in fact be patentable. “Electronic signals can be used in a way just like the alphabet can be used,” he said, assuming it was undoubtedly true that one cannot patent an alphabet.

But Jakes replied that he saw no reason not to patent an alphabet, noting that Morse code was essentially an alphabet and the court did find it patentable in *O’Reilly v. Morse*, 15 How. (56 U.S.) 62.

Scalia interjected, stating that the transmission of a Morse code method involved a transformation. Focusing on Bell’s invention, Scalia said that “it was transforming sound into electrical current and then at the other end electrical current back into sound.” Scalia said he was satisfied that such an invention today would thus clearly satisfy the transformation prong of the Federal Circuit’s test.

But Deputy Solicitor General Malcom L. Stewart, representing the government, was not satisfied with Scalia’s analysis, even though it helped his case in support of the machine-or-transformation test. “The reason that Bell’s method was patentable was that it operated in the realm of the physical,” he said.

Should Decision Be Narrow or Broad?

Justice Samuel A. Alito Jr. asked Stewart whether this was the right case to address petitioners’ request to overturn the machine or transformation test. The government’s brief had also argued that *Bilski*’s claims

preempted the abstract idea of hedging consumption risk, so Alito asked whether Stewart would be satisfied with a decision on that narrower, independent ground.

Stewart said he hoped that the court would not be so limiting. “In order for the PTO and the Federal Circuit to go about the business of devising more precise rules as to when particular links to machines are sufficient to create patent eligibility, we first need to establish the basic principle that some link to a machine or transformation is necessary.”

But the justices' discomfort with setting that test as a basic principle became evident, as they looked at the implications of elements of the Federal Circuit's test that were not implicated in Bilski's patent application. “How about if we say something as simple as patent law doesn't cover business matters,” Sotomayor said, seeking to minimize those implications with the simplicity of such a specific ruling.

However, Stewart resisted this suggestion by defending the patentability of some business methods: So to say that business methods are categorically ineligible for patent protection would eliminate new machines, including programmed computers, that are useful because of their contributions to the operation of businesses. And similarly, the Federal Circuit in other cases has held that a claim to new and innovative computer software may be held patentable as a process, as a method of accomplishing particular tasks through the use of a computer and those might be business-related tasks. So to say that business methods were ruled out would itself be a fairly sweeping holding.

But Sotomayor persisted, saying, “I have no idea what the limits of [the Federal Circuit's] ruling will impose in the computer world, in the biomedical world, all of the amici who are talking about how it will destroy industries.” Stewart and the justices then engaged in a protracted argument on the relevance to this case of the Federal Circuit's decision in *State Street*.

Stewart argued that, unlike the instant case, *State Street* “was not construing the statutory term ‘process.’ It was construing the statutory term ‘machine.’” But he also acknowledged that the patent in that case was generally viewed as a business method, and both Kennedy and Breyer seized on that, with Breyer asking whether simply adding a computer to a claim should save an otherwise unpatentable business method.

Roberts then expressed his dissatisfaction with the government's position in the instant case, criticizing the addition of footnote 30 at the end of the government's brief, which said: [P]etitioners' claims might satisfy the machine-or-transformation definition if they involved a machine implementation central to the process of hedging. For example, the method might be patent-eligible if it conducted hedging transactions online, using a computer network to identify counterparties and initiate the transactions, and a microprocessor to calculate the fixed purchase price. “That's like saying if you use a typewriter to type out the process, then it is patentable,” Roberts said. “I think that takes away everything that you spent 53 pages establishing.”

Stewart said, however, that the intent of footnote 30 was to require a much more substantial use of the computer, such as providing “a hypothetical interactive website in which people—parties and counterparties—could essentially find each other by the computer and could agree to terms.” He added that “the computer would be at the heart of the innovation” in such a system.

But such a website should be no more patentable than using the Yellow Pages to find the parties, Roberts countered, seemingly incredulous that use of a computer to connect the parties should make a difference. Stewart backed off his position slightly, acknowledging that the unanswered questions in the Federal Circuit's opinion represented both “a virtue and a vice” of the machine-or-transformation test. In an attempt to steer the discussion back to the specifics of Bilski's application, he said that “it's inappropriate for us to go on to decide kind of the precise level of substantiality that a machine-or-transformation must play.”

“The point I'm trying to make is simply that we don't want the court, for instance, in the area of software innovations or medical diagnostic techniques to be trying to use this case as the vehicle for identifying the circumstances in which innovations of that sort would and would not be patent eligible,” Stewart concluded, “because the case really doesn't present any question regarding those technologies.”

But Breyer, Stevens, and Kennedy did not let Stewart's reliance on the impact of using a computer die, focusing on the presumed argument that adding software makes a business method claim suddenly patentable. "All you do is just have a set of instructions for saying how to set a computer to do it," Breyer said. "Anyone can do that. Now, it's a machine. So all the business patents are all right back in." Stewart repeated that he thought the court should not go so far as to address the patentability of software that implements business methods, to which Kennedy replied, "You thought we would mess it up," evoking quite a bit of laughter in the courtroom.

#### *No Focus on 1970s Precedents, Section 273*

As previously noted, Sotomayor brought up concerns expressed by amici that other industries would be affected by a decision in this case, and asked Stewart for help in defining a test "that doesn't go to the extreme the Federal Circuit did," that would limit only the patentability of business methods, and not of other technologies. Stewart said that the court should do only what it had done twice before, and "leave open the possibility that some new and as yet unforeseen technology could necessitate the creation of an exception" to the machine or transformation test.

This was a particularly odd twist, since the reference Stewart was making was to two cases relied on by the petitioners.

"The Supreme Court has twice expressly declined to hold that the 'machine-or-transformation' test is the only test for determining whether a process is patentable under §101," the petitioners had argued in their brief, citing *Gottschalk v. Benson*, 409 U.S. 63, 175 USPQ 673 (1972), and *Parker v. Flook*, 437 U.S. 584, 198 USPQ 193 (1978) (385 PTCJ A-1, D-1, 6/29/78).

But even Jakes, when asked by Justice John Paul Stevens for the most important case the court should look to in making its decision, cited the case that followed those two, *Diamond v. Diehr*, 450 U.S. 175, 205 USPQ 488 (1981) (519 PTCJ AA-1, D-1, 3/5/81).

The government relied more on the court's opinion in *Diehr*, though, with its statement that transformation is "the clue to patentability of a process claim that does not include particular machines." The petitioners' briefs also relied on Congress's addition of Section 273 to the Patent Act after the decision in *State Street*. That section offers a defense for accused infringers of business method patents. Petitioners, and virtually every amicus brief arguing in favor of allowing business method patents, argued that Congress used that section to define business methods, must therefore believe that such methods are statutory subject matter, and did not limit the definition to only those business methods that are tied to machines or that transform articles. But that argument received scant attention at the oral arguments. Jakes mentioned Section 273 in response to a question, but among the justices, only Kennedy referred to it otherwise, and only then to mention how it complicated the holding in *State Street*.

By Tony Dutra and Anandashankar Mazumdar  
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*Trademarks*

#### Registrant Need Not Re-Submit Evidence Of Acquired Distinctiveness in Cancellation Case

Evidence of acquired distinctiveness presented by a trademark registrant under Section 2(f) of the Lanham Act during prosecution of a registration applicant automatically becomes part of the record in a subsequent cancellation proceeding, the U.S. Court of Appeals for the Federal Circuit ruled Nov. 5 (*Cold War Museum Inc. v. Cold War Air Museum Inc.*, Fed. Cir., No. 2009-1172, 11/5/09).

Reversing a trademark cancellation ruling by the Trademark Trial and Appeal Board, the court emphasized that a party seeking cancellation bears the initial burden of rebutting a presumption that a registered mark is not distinctive. In so ruling, the court explicitly overruled a 1990 decision by the TTAB that was contrary to this principle. The court also issued detailed instructions on the shifting burdens of proof relevant in a cancellation proceeding.

### *Downed U-2 Pilot's Son Plans Cold War Museum*

Francis Gary Powers was a pilot in a secret Central Intelligence Agency surveillance program in 1960 when his U-2 spy plane was shot down over the Soviet Union, triggering a diplomatic scandal. In 1996, Powers's son, Francis Gary Powers Jr., made plans to establish a museum focusing on the history of the Cold War.

In 2003, Powers filed an application with the Patent and Trademark Office to register the term "The Cold War Museum" as a service mark. A trademark examining attorney refused registration twice, concluding that the term was "highly descriptive" and that under 15 U.S.C. §1052(f), evidence of acquired distinctiveness would be required to make the term registrable. After submission of further evidence by Powers, the PTO issued a registration for the mark.

The Cold War Air Museum is an military aircraft history museum near Dallas. In 2007, the Air Museum petitioned the TTAB to cancel Powers's "Cold War Museum" registration as merely descriptive.

Citing *British Seagull Ltd. v. Brunswick Corp.*, 28 USPQ2d 1197 (T.T.A.B. 1990), the TTAB refused to consider evidence of acquired distinctiveness that Powers had submitted during the trademark prosecution process but had not resubmitted during the cancellation proceeding. The board ruled that the term was not distinctive and granted the Air Museum's petition.

Powers appealed.

### *British Seagull Overruled*

Judge Kimberly A. Moore said that it was "clear and unambiguous" that evidence of distinctiveness submitted prior to the issuance of a registration should be considered as part of the record of any related cancellation proceeding "without any action by the parties," as stated in 37 C.F.R. §2.122(b). That provision states: The file ... of each registration against which a petition or counterclaim for cancellation is filed forms part of the record of the proceeding with out any action by the parties and reference may be made to the file for any relevant and competent purpose.

The court said that *British Seagull's* ruling was in direct contradiction to the plain text of this rule. The court said: In *British Seagull*, which related to an opposition proceeding, the Board stated that although the "application file" was automatically part of the record pursuant to 37 C.F.R. §2.122(b), "documents and other things filed in connection with the application" were not. ... This statement conflicts with the plain language of the regulation. Indeed, the Board in *British Seagull* did not discuss the language of 37 C.F.R. §2.122(b) at all; it cited instead to two other Board cases, neither of which discussed the regulatory language and neither of which was factually on point.

Thus, the court explicitly overruled the *British Seagull* decision.

Next, the court ruled that the Air Museum had failed to present any evidence to rebut the evidence of acquired distinctiveness in the record. In fact, according to the court, all of the arguments spoke to descriptiveness rather than acquired distinctiveness.

Given this argument, the court said that Air Museum had failed to establish a prima facie case and that the TTAB had erred in then shifting the burden of proof to Powers to rebut the Air Museum's evidence.

### *Instructions on Shifting Burdens*

Perceiving that the TTAB had been "less than precise" in setting forth the relevant burdens of proof in a cancellation proceeding, the court endeavored to clarify the matter.

According to the court, such a proceeding begins with a presumption that the registration is valid. That presumption can be overcome by preponderance of the evidence, a burden borne by the party seeking cancellation. In addition, that party must first establish a prima facie case of invalidity. Specifically, in a case in which the registration was granted under Section 2(f), the party must make a prima facie case that the term had not acquired any distinctiveness. The court specified:

To satisfy this initial burden, the party seeking cancellation must “present sufficient evidence or argument on which the board could reasonably conclude” that the party has overcome the record evidence of acquired distinctiveness—which includes everything submitted by the applicant during prosecution. Should this prima facie case be established, only then would the registrant be required to present further evidence of acquired distinctiveness, the court said.

The court's opinion was joined by Judges Alan D. Lourie and Richard Linn

Powers was represented by A. Neal Seth of Baker & Hostetler, Washington, D.C. The Air Museum was represented by W. Thomas Timmons of Dallas.

By Anandashankar Mazumdar  
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*Copyrights*

### **Authorized Photographer Owns Copyright In Pictures Taken as Derivative Works**

A photographer authorized to take pictures of toys for their manufacturer owns the copyright in the photos, even if the photos are derivative works depicting the toy characters, the U.S. Court of Appeals for the Seventh Circuit ruled Nov. 5 (*Schrock d/b/a Dan Schrock Photography v. Learning Curve International Inc.*, 7th Cir., No. 08-1296, 11/5/90).

Reversing a summary judgment ruling that the photographer had no copyright, the court said that copyright in a derivative work arises by operation of law, and that the photographer did not need to obtain permission from the toy maker to copyright his photos. The court rejected the lower court's reliance on *Gracen v. Bradford Exchange* for the principle that there is a heightened standard of originality for copyright in a derivative work.

#### *District Court Rules No Permission to Copyright*

HIT Entertainment owns the copyright to “Thomas & Friends” train characters. It licensed Learning Curve International Inc. to make toy figures of its characters, and HIT retained all intellectual property rights in the works produced under the license.

In 1999, Learning Curve hired Daniel Schrock, a professional photographer, to take pictures of the toys for promotional materials. Learning Curve used Schrock's services until 2003 and thereafter continued to use some of his photos in its printed advertising, on packaging, and on the Internet.

In 2004, Schrock registered his photographs for copyright protection and sued HIT and Learning Curve for infringement in the U.S. District Court for the Northern District of Illinois.

Judge Milton I. Shadur granted summary judgment for Learning Curve, holding that Schrock had no copyright in the photos. The court said that the photos were derivative works of the Thomas and Friends characters under the Copyright Act. Relying on the language in *Gracen v. Bradford Exchange*, 698 F.2d 300, 217 USPQ 1294 (7th Cir. 1983), the court held that Schrock needed permission from Learning Curve not only to make the photographs, but also to copyright them.

Because Schrock had permission to make but not permission to copyright the photos, the court dismissed his claim for copyright infringement.

Schrock appealed.

#### *Derivative Work Classification Doesn't Affect Standard*

Schrock first argued that the district court mistakenly classified his photographs as derivative works.

Judge Diane S. Sykes said that the classification of Schrock's photos as derivative works does not affect the applicable legal standard for determining copyrightability, "although as we have noted, it does determine the scope of copyright protection."

"Accordingly, we will assume without deciding that each of Schrock's photos qualifies as a derivative work within the meaning of the Copyright Act," the court said.

### *Gracen and Originality*

Learning Curve argued that Schrock's photographs were not original under the generally accepted test, that they were intended to serve the purely utilitarian function of identifying products for consumers, and that—to qualify for copyright protection as derivative works—the photos were subject to a higher standard of originality.

First, the court ruled that Schrock's photographs were not "slavish copies" lacking any independently created expression. "Schrock's artistic and technical choices combine to create a two-dimensional image that is subtly but nonetheless sufficiently his own," the court said. The court also said that the purpose of the photographs was irrelevant.

In what the court considered the most substantial argument, Learning Curve argued that the Gracen ruling established a more demanding standard of originality for derivative works.

In Gracen, an artist who won a competition—to best depict Dorothy from the movie *The Wizard of Oz*—but did not sign a contract to allow the competition sponsor to depict her work on collector's plates, sued the sponsor for copyright infringement. The court held that Gracen could not maintain her infringement suit because her painting, a derivative work, was not sufficiently different from the underlying work to be copyrightable.

The concern expressed in Gracen was that a derivative work could be so similar in appearance to the underlying work that in a subsequent infringement suit brought by a derivative author, it would be difficult to separate the original elements of expression in the derivative and underlying works in order to determine whether one derivative work infringed another.

The court in this case said that, although this concern was valid, "nothing in the Copyright Act suggests that derivative works are subject to a more exacting originality requirement than other works of authorship." The only originality required for a new work to be copyrightable is enough expressive variation from public domain or other existing works to enable the new work to be readily distinguished from its predecessors, the court said, citing *Bucklew v. Hawkins, Ash, Baptie and Co.*, 329 F.3d 923, 66 USPQ2d 1820 (7th Cir. 2003)(110 PTD, 06/9/03). Such a standard did not require a high degree of incremental originality, the court said.

### *Gracen in Light of L. Batlin*

Gracen must be read in light of the Second Circuit's ruling in *L. Batlin and Sons Inc. v. Snyder*, 536 F.2d 486, 189 USPQ 753 (2d Cir. 1976), which did not suggest that a heightened standard of originality applies to derivative works, the court said.

Reading the Gracen case in light of the *L. Batlin* ruling, the court said that two general principles are revealed: the originality requirement for derivative works is not more demanding than the originality requirement for other works; and the key inquiry is whether there is sufficient nontrivial expressive variation in the derivative work to make it distinguishable from the underlying work in some meaningful way.

"If the photographer's rendition of a copyrighted work varies enough from the underlying work to enable the photograph to be distinguished from the underlying work ... then the photograph contains sufficient incremental originality to qualify for copyright," the court said. "Schrock's photos of the 'Thomas & Friends' toys are highly accurate product photos but contain minimally sufficient variation in angle, perspective, lighting, and dimension to be distinguishable from the underlying works; they are not 'slavish copies.'"

Thus, the photos qualify for the limited derivative-work copyright provided by 17 U.S.C. § 103(b), which protects against "the kind of outright copying that occurred here."

The court said that Schrock created the photos with permission and therefore owned the copyright to the photos provided they satisfied the other requirements for copyright and the parties did not contract around the default rule.

#### *No Permission Needed*

The court next said that the district court erred in suggesting that the language in Gracen said that the author of a derivative work must have permission to both make the work and to copyright it.

First, the court said that Gracen's language presupposing a permission-to-copyright requirement was dicta, and mistaken dicta at that.

“There is nothing in the Copyright Act requiring the author of a derivative work to obtain permission to copyright his work from the owner of the copyright in the underlying work,” the court said. “To the contrary, the Act provides that copyright in a derivative work, like copyright in any other work, arises by operation of law once the author's original expression is fixed in a tangible medium.”

The court in *Liu v. Price Waterhouse*, 302 F.3d 749, 64 USPQ2d 1463 (7th Cir. 2002), ruled that contractual provisions govern if the pertinent agreement between parties affirmatively bars the licensee from obtaining copyright protection even in a licensed derivative work.

In *Liu*, an employee of Price Waterhouse LLP (*Liu*), who worried that a new hired programmer would exclude her from future Chinese ventures, entered into agreements with Price to appoint her to head additional projects in China if she met certain benchmarks. In the agreement, Price would own the intellectual property rights to the improved software created by *Liu* and the new programmer.

*Liu* refused to give Price the source code to the improved software and induced the new programmer to assign any copyright in the improved program to *Liu* and register the copyright in *Liu*'s name. Price turned to another consultant and improved the program as well.

*Liu* sued Price for copyright infringement and, finding for Price, the court said that because the owner of a copyright work has the exclusive right to control the preparation of derivative works, the owner could limit the derivative-work author's intellectual property rights in the contract, license, or agreement that authorized the production of the derivative work.

In this case, the court said that “the record doesn't tell us enough about the agreements between the parties for us to determine whether they agreed to alter the default rule regarding copyright or whether Learning Curve had an implied license to continue to use Schrock's photos.”

Because it was unclear whether Schrock could copyright his photographs and maintain an infringement action against Learning Curve based on the contractual understandings between the parties, the court remanded to the district court for further proceedings.

Judges Joel M. Flaum and Ann C. Williams joined the opinion.

Schrock was represented by Mark H. Barinholtz, Chicago. Learning Curve was represented by David G. Hanson of Reinhart, Boerner, Van Deuren, Milwaukee.

By Nathan Pollard  
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