



# IDEAS ON INTELLECTUAL PROPERTY LAW



JUNE/JULY 2012

**Copy that — or not**

Congress can restore copyrights to public domain works

**Too abstract**

Court invalidates patent of automated auto loan service

**Federal Circuit clarifies “co-inventor” test**

**Psychic didn’t see trademark loss coming**

PATTERSON |  
THUENTE | IP

# Copy that — or not

## *Congress can restore copyrights to public domain works*

You might think that, once a copyrighted work enters the public domain, you're free to use it unconditionally from there on out. But you'd be wrong. In one of the most eagerly anticipated intellectual property cases of 2012 — *Golan v. Holder* — the U.S. Supreme Court held that Congress can restore copyright protection to works that had been in the public domain.

### Legal challenge

In 1994, Congress passed the Uruguay Round Agreements Act (URAA) to bring the United States into full compliance with the Berne Convention, the principal agreement governing international copyright relations. The Convention requires member countries to protect the works of other member states unless the works' copyright term has expired in either the country where the protection is claimed or in the country of origin.

When the United States entered the Berne Convention, it didn't protect any foreign works in the U.S. public domain — including many works that were never protected here in the first place. With URAA, Congress began granting foreign authors copyright protection to works that were protected in their country of origin but formerly lacked U.S. protection because:

1. The United States didn't protect works from the country of origin at the time of publication,
2. The United States didn't protect sound recordings fixed before 1972, or
3. The author hadn't complied with certain U.S. statutory formalities.

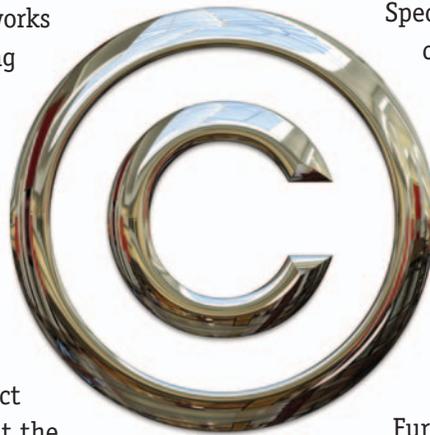
URAA was challenged by orchestra conductors, musicians, publishers and others who had previously

enjoyed free access to works considered to be in the public domain but to which Congress had restored copyright protection. The challengers claimed that Congress' removal of works from the public domain exceeded its authority under the Copyright Clause of the Constitution.

They further argued that URAA violated the First Amendment rights of those who had used the works while they were freely available. The case eventually made its way to the Supreme Court.

### Not the first time

The Supreme Court found that the Copyright Clause doesn't exclude the application of copyright protection to works in the public domain. It dismissed the plaintiffs' argument that the clause's restriction of a copyright's lifespan to a "limited time" prevents the removal of works from the public domain.



Specifically, the Court noted that the clause contains no "command that a time prescription, once set, becomes forever 'fixed' or 'inalterable.'" And the "limited time" for the works at issue hadn't already passed because a period of exclusivity must begin before it can end, and many of these works had formerly been denied U.S. copyright protection.

Further, passage of URAA wasn't the first time Congress had extended protection to previously unprotected works. Several private bills have restored the copyrights of works previously in the public domain. Congress has also passed generally applicable legislation granting copyrights to works that had lost protection. According to the Supreme Court, these actions confirm that Congress doesn't understand the Copyright Clause to preclude protection for existing works.

## The “orphan works” conundrum

Another key aspect of *Golan v. Holder* (see main article) was the majority opinion’s rejection of the dissent’s concerns about “orphan works.” These are older and more obscure works with minimal commercial value that have copyright owners who are difficult or impossible to track down.

According to the dissent, “Unusually high administrative costs threaten to limit severely the distribution and use of those works — works which, despite their characteristic lack of economic value, can prove culturally invaluable.”

The majority countered that the problem isn’t peculiar to works covered by the Uruguay Round Agreements Act, and that it was up to Congress to resolve. Indeed, it asserted, “unstinting adherence” to Berne might even add impetus to calls for the enactment of legislation addressing orphan works.



### Progress of science

The plaintiffs also argued that URAA restoration failed to “promote the progress of science,” as contemplated by the initial words of the Copyright Clause, because it affects only works already created.

But the Supreme Court said that the creation of new works isn’t the only way Congress can promote “science,” which it defined as knowledge and learning. Rather, historical evidence, congressional practice and previous Supreme Court decisions suggest that inducing dissemination of existing works is an appropriate means to promote science.

**The Supreme Court said that the creation of new works isn’t the only way Congress can promote “science,” which it defined as knowledge and learning.**

Considered against this backdrop, the court concluded that URAA fell comfortably within Congress’ authority under the Copyright Clause. Congress rationally could have concluded that adherence to Berne promotes the diffusion of knowledge, and a well-functioning international copyright system

would likely encourage the dissemination of existing and future works.

Full compliance with Berne, therefore, would expand the foreign markets available to U.S. authors. It would also invigorate protection against piracy of U.S. works abroad.

### Free speech not free

The Supreme Court also held that the First Amendment doesn’t inhibit the restoration of copyright. It explained that the traditional contours of copyright protection (such as, “ideas aren’t copyrightable, but expressions of ideas are”) and the fair use defense serve as “built-in First Amendment accommodations.” The Court found no reason to extend “exceptional First Amendment solicitude” to copyrighted works that once were in the public domain.

Moreover, URAA doesn’t impose a blanket prohibition on public access. The plaintiffs can still use the works; they simply must limit themselves to fair use or pay for the right to use, just as they must pay to use works of foreign authors’ U.S. contemporaries.

### Well within the ken

For both users and protectors of copyrighted works, the Supreme Court’s decision clarifies that the public domain isn’t “inviolable.” Legislation removing works from it is “well within the ken” of Congress. ○

# Too abstract

## *Court invalidates patent of automated auto loan service*

In today's high-tech world, the issue of the patentability of computer-related inventions continues to come up. The U.S. Court of Appeals for the Federal Circuit made another contribution to this evolving area of law when it invalidated a patent in *Dealertrack, Inc. v. Huber*.

### District decision

Dealertrack held two patents for a computer-aided method for processing credit applications over electronic networks. The invention automates auto loan processing through the use of a "central processor" that:

- Collects credit application data from dealers,
- Processes the data to conform to the individual application forms of different banks,
- Forwards the completed applications to banks selected by the dealer,
- Receives answers from the banks, and
- Forwards those answers back to the dealer.

**The court found that Dealertrack's claimed process, in its simplest form, explained the basic concept of processing information through a clearinghouse.**

After Dealertrack filed an infringement lawsuit against several parties, the defendants moved to dismiss the case, asserting that the computer-aided method wasn't eligible for a patent. The U.S. Supreme Court has established three broad categories



of subject matter ineligible for patent protection: 1) laws of nature, 2) physical phenomena and 3) abstract ideas.

The district court applied the "machine-or-transformation" test from *In re Bilski*, which requires a patentable process to either be tied to a particular machine or apparatus or to transform an article into a different state or thing. Dealertrack didn't argue that its invention accomplished a transformation, and the district court found that the patent didn't involve a particular machine. Therefore, the court found it an unpatentable abstract idea.

### A real lemon

On appeal, Dealertrack contended that the "computer-aided" limitation in the patent claims' preamble sufficiently limited the claims to an application of the idea. But the Federal Circuit rejected that argument, noting that the claims were silent on how a computer aids the method, the extent to which a computer aids the method, and the significance of a computer to the method's performance.

The court found that Dealertrack's claimed process, in its simplest form, explained the basic concept of processing information through a clearinghouse. "Neither Dealertrack nor any other entity is entitled

to wholly preempt the clearinghouse concept,” according to the court.

“Simply adding a ‘computer-aided’ limitation to a claim covering an abstract concept, without more, is insufficient to render the claims patent-eligible,” the Federal Circuit wrote. The court also found it significant that the claims didn’t require a specific application and weren’t tied to a particular machine. Instead, they covered a clearinghouse process using any existing or future-devised machinery.

Finally, Dealertrack argued that the claims were patent-eligible because they covered the use of a

clearinghouse only in the auto loan application process. Nonetheless, the Federal Circuit said, they covered a broad idea: the notion of using a clearinghouse generally. The court ultimately held that the patents were invalid.

### Valuable guidance

In pointing out the deficiencies in Dealertrack’s patent claims, the Federal Circuit provided some valuable guidance on how to satisfy the “machine” prong of the machine-or-transformation test. It also made one thing certain: Merely appending the phrase “computer-aided” to a would-be patent won’t cut it. ○

## Federal Circuit clarifies “co-inventor” test

What makes a co-inventor a co-inventor? It’s a critical question when you consider a co-inventor has the right to exploit an invention without the permission of the other inventors, as well as to license or sell that right without permission or sharing the proceeds. The U.S. Court of Appeals for the Federal Circuit tackled the matter in *Falana v. Kent State University*.

### Developing a protocol

Kent Displays Inc. (KDI), a private organization affiliated with Kent State University, designs and manufactures liquid crystal displays (LCDs) used in electronic devices. In 1997, KDI started a research program to develop a chemical compound that could be used to improve the performance characteristics of LCDs. The compound had to be “temperature independent” because LCDs must operate in a wide range of temperatures.

In March 1999, Olusegun Falana, who was hired to work on the project, developed a synthesis protocol for making a novel genus of chemical compounds. Using it, he synthesized a compound known as Compound 7. Although the compound didn’t completely satisfy the project’s goals, it was a “great improvement” and “significant progress.” Falana resigned later that year.

In early 2000, another researcher synthesized a compound known as Compound 9, using Falana’s protocol. This compound satisfied the project’s goal, and KDI and Kent State filed a patent application. The patent specification identifies Falana’s synthesis protocol as the protocol used to synthesize the claimed class of compounds.





After he learned he wasn't listed as an inventor, Falana filed a lawsuit to correct the inventorship on the patent. The district court found that he'd contributed to the conception of the claimed invention by developing the synthesis protocol. Kent State appealed.

### Joining together

As the Federal Circuit noted, each joint inventor must contribute in some significant manner to the conception of the invention; a contribution to one patent claim is sufficient. In the case of a chemical compound, conception requires knowledge of both the specific chemical structure of the compound and how to make it.

**The Federal Circuit noted that each joint inventor must contribute in some significant manner to the conception of the invention; a contribution to one patent claim is sufficient.**

Kent State contended that, even if Falana had contributed to the protocol method, that contribution was insufficient to make him a co-inventor of the patent's claims, which are all directed at compounds, not methods. The court disagreed. It held that, when the method requires more than just the exercise

of "ordinary skill in the art," the discovery of the method is as much a contribution to the compound as the discovery of the compound itself.

But the ruling came with a caveat. The Federal Circuit stressed that such an inventor doesn't necessarily have a right to claim inventorship of all species within that genus that are discovered in the future. Once the method of making the novel genus becomes public knowledge, it's assimilated into the storehouse of knowledge that constitutes ordinary skill in the art. Further, joint inventorship arises only when the inventors have some open line of communication during or around the inventive efforts.

Kent State argued that Falana hadn't contributed to the conception of Compound 9 because the compound was first synthesized after he'd left the team. The patent claims, though, weren't limited to Compound 9. They claimed a subset of the entire genus. And Falana had contributed to the conception of the genus by providing the method for making the novel compounds. His lack of contribution to the discovery of Compound 9 itself didn't negate his contribution of the method.

### Narrowing your focus

The Federal Circuit's ruling may be good reason to draft patent claims more narrowly. Otherwise, you risk someone asserting co-inventorship — and obtaining the rights that go along with it. ○

# Psychic didn't see trademark loss coming

You may have heard stories about poorly drafted licensing agreements backfiring. But have you heard the one about the agreement that cost a man his *identity*? Submitted for your consideration: the unusual case of *Mercado-Salinas v. Bart Enterprises Int'l, Ltd.*, heard by the U.S. Court of Appeals for the First Circuit.

## Looking to the future

In 1995, Walter Mercado-Salinas, a popular psychic and astrologer, and Bart Enterprises entered into a contract for the production and distribution of materials featuring Mercado's psychic and astrological services. Under the agreement, Mercado granted Bart the right to use the "Walter Mercado" trademark.

The agreement granted Bart its rights "during term and throughout the territory," defining "territory" as "the universe." Meanwhile, "term" was defined as "in perpetuity," subject to a termination provision that allowed Mercado to terminate the agreement with 15 days' notice if Bart failed to pay him any agreed compensation within 60 days of the due date.

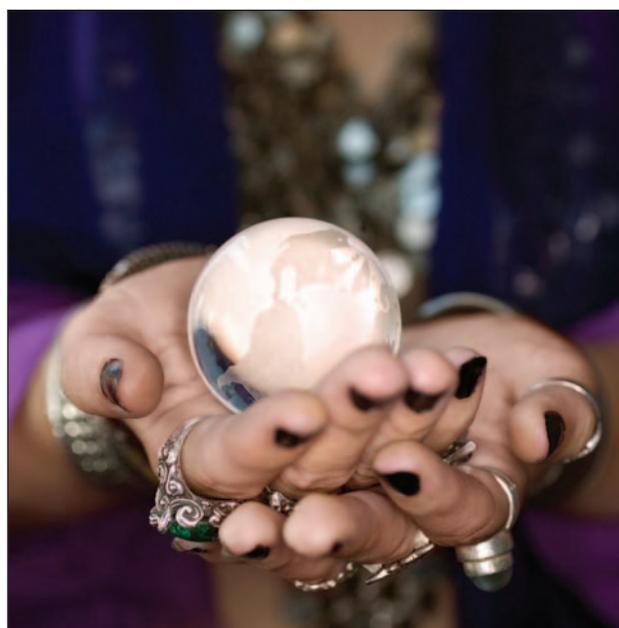
In 2006, a legal dispute arose when Mercado ceased providing services, and Bart ceased to pay him. A jury rejected Mercado's claim that he had validly terminated the agreement. It found that he had violated the agreement, and that Bart owed Mercado no compensation.

In 2009, both parties sought injunctions to prevent the other from using the "Walter Mercado" trademark. Mercado was enjoined from using the mark, and he appealed.

## Missing the mark

The appeal came down to whether the district court abused its discretion in determining that Mercado had assigned Bart the rights to the mark, rather than merely granting a license.

The lower court found that the agreement plainly used the term "assign" in reference to the mark and contrasted this "unequivocal" language with another provision that stated that Mercado "grants to Bart the right and license ... to use Mercado's ... name and likeness." This contrast, the court explained, suggested that the parties intended to grant a full assignment of the trademark.



In addition, the agreement stipulated that Bart had the right to register the trademark in its own name and the right to enforce it in court — rights that typically inure to assignees, not licensees. The district court further cited evidence that the parties took actions consistent with this interpretation.

## Surprising no one

Not surprisingly, the First Circuit upheld the injunction against Mercado. But you can't keep a good psychic down. Shortly after the district court granted the injunction, he re-emerged under the name "Shanti Ananda." ○

Patterson Thuyente Christensen Pedersen, P.A.  
4800 IDS Center, 80 South 8th Street  
Minneapolis, MN 55402-2100  
612-349-5740/800-331-4537  
www.ptslaw.com

## Attorneys

Tye Biasco, P.E.  
Vadim Braginsky  
Daidre L. Burgess  
Eric H. Chadwick  
Douglas J. Christensen  
Aaron W. Davis  
Thomas G. Dickson  
Jay A. Erstling – *Of Counsel*  
John P. Fonder  
Lori L. Frank  
Michael P. Gates  
Christian J. Girtz  
J. Paul Haun  
Casey A. Kniser  
Paul H. McDowall – *Of Counsel*  
Stuart J. Olstad  
Paul C. Onderick, O.D.  
James H. Patterson  
Brad D. Pedersen  
Kyle T. Peterson  
James P. Rieke  
Amy M. Salmela  
Brian L. Stender  
Bradley J. Thorson, P.E.  
John F. Thuyente  
Chad J. Wickman  
Justin Woo

www.ptslaw.com

## Alternative Fee Arrangements for Litigation Matters

By Eric Chadwick

Patterson Thuyente IP has entered into alternative fee arrangements with litigation clients for years and has invested significant resources into many of our client's matters. These arrangements are designed to accommodate clients with a desire for a fee structure other than traditional hourly billing. In return for investing a portion of our fees in the client's matter, or for taking on unusual fee or collection risk, the firm earns an agreed-upon fee based on predefined criteria.

### What are Alternative Fee Arrangements?

Alternative Fee Arrangements (AFAs) are agreements to provide legal services in exchange for compensation based on something other than hourly billing. Arrangements may take the form of contingency fees, fixed fees, success-based fees, or other alternatives appropriate under the circumstances. For example, an AFA might be a mixture in which the firm receives a percentage of its hourly rate, with the remainder contingent on the outcome achieved. Assuming a favorable outcome, the firm would receive a multiple of the fees it placed at risk as a "success kicker." AFAs can also utilize flat fees, providing an agreed-upon cap for phases of a case or an entire case, with the amounts determined before representation begins.

### Why Do Clients Want AFAs?

According to *Inside Counsel's* 2010 Law Department Operations Survey, 3 in 10 clients have 25% or more of their legal fees under AFAs. If trends continue, in the not-too-distant future, AFAs will surpass hourly billing as the preferred method of handling legal matters. Why? The answer is simple. AFAs give clients the comfort of relative budgetary certainty and more predictable cash flows. Clients also recognize the inherent benefits in shifting some risk to law firms because shared risk more closely aligns the interests of the firm and the client.

More fundamentally, however, the willingness of a firm to provide fees on something other than an hourly basis demonstrates its willingness to take the time to understand a client's business goals and work together to achieve both legal and business objectives. These efforts engender a more productive, long-term relationship. And shared risk strengthens client's views of the law firm as one of trusted partner, not a mere vendor of legal services.

AFAs also provide a level of flexibility that hourly billing cannot. Let's suppose, for example, that a client has a legal issue they want resolved in the current fiscal year for tax purposes. Thus, a "win" might be defined as a negotiated resolution in 2012. An AFA can be tailored to provide a performance bonus to the firm if it is able to achieve "on time" results to meet the business objective. Because the firm knows that the client wants a specified result by a certain date, it is free to deviate from typical discovery and motion practice approaches to achieve the goals that are unique to that particular representation. This type of representation can be most effectively accomplished through the use of an AFA.

Patterson Thuyente IP has enjoyed partnering with clients to provide them true value for their legal dollar and the flexibility needed to achieve their legal objectives. While AFAs are common to our litigation practice, they are not limited to this type of representation. For further information on Alternative Fee Arrangements and how you might benefit from them, please contact Eric Chadwick, Patterson Thuyente IP's Litigation Chair, at 612-349-5778 or [chadwick@ptslaw.com](mailto:chadwick@ptslaw.com).

PATTERSON |  
THUYENTE | IP