



# IDEAS ON INTELLECTUAL PROPERTY LAW



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## SCOTUS: Timing is everything in patent infringement cases

Three years ago, the U.S. Supreme Court ruled that “laches” — a plaintiff’s unreasonable delay in pursuing an infringement claim — couldn’t preempt a claim for damages sustained within the Copyright Act’s statute of limitations. Now the Court has extended its reasoning to patents, eliminating the laches defense for infringement allegedly committed within the Patent Act’s six-year statute of limitations. The Court’s decision rejects the position long taken by the Federal Circuit Court of Appeals, which hears all appeals involving patent infringement.

### THE FACTS

SCA Hygiene Products Aktiebolag (SCA) owns a patent for a disposable diaper used by potty-training children as well as incontinent adults. In 2003, it notified First Quality Baby Products that its adult incontinence products infringed the patent. First Quality responded that its own patent preceded SCA’s, rendering SCA’s patent invalid. In 2004, SCA sought re-examination of its patent, and, in 2007, the U.S. Patent and Trademark Office (USPTO) confirmed that patent’s validity.

SCA waited until 2010 to sue First Quality for infringement. The trial court dismissed the case before trial on the grounds of laches and

equitable estoppel. While SCA’s appeal was pending, the Supreme Court issued its ruling regarding the defense of laches in copyright infringement actions. Nonetheless, on appeal the Federal Circuit affirmed the trial court’s laches holding. SCA then appealed to the Supreme Court.

### THE COPYRIGHT ANSWER

As the Supreme Court explained, its holding in the copyright case, *Petrella v. Metro-Goldwyn-Mayer, Inc.*, rested in part on separation-of-powers principles. It’s up to Congress to establish a hard and fast rule for what constitutes a timely lawsuit. Allowing a laches defense to bar an infringement action brought within the statute of limitations would equate to allowing the judicial branch to override this.

Moreover, the Court said, laches developed as a “gap-filling” doctrine, intended for situations where Congress hasn’t provided a fixed time limitation. Where Congress *has* established a statute of limitations, no gap exists, and the rationale for laches doesn’t apply.

### THE PATENT DEFENSE

The Court concluded that its reasoning in *Petrella* “easily” fit the six-year statute of limitations for patent infringement claims, too. According to the Court, that limitation represents Congress’s judgment that a patentee may recover damages for any infringement committed within six years of the claim’s filing.

It dismissed the notion that Section 282 of the Patent Act codified the laches defense. Sec. 282 provides that “unenforceability” is a defense to claims of patent invalidity or infringement. First Quality argued, and the Federal Circuit agreed, that laches was a defense based on unenforceability, and, therefore, the section codified laches as a defense to all infringement claims — including those for damages suffered within the six-year period. But



## A POSSIBLE ALTERNATIVE TO LACHES

The U.S. Supreme Court eliminated the laches defense within the statute of limitations period (see main article). But accused infringers may have another weapon when they believe patentees have acted inequitably. The Court explicitly noted this option in its *SCA Hygiene Products Aktiebolag v. First Quality Baby Products* decision.

As the Court observed, “the doctrine of equitable estoppel provides protection against ... unscrupulous patentees inducing potential targets of infringement suits to invest in the production of arguably infringing products” or engaging in another act that somehow misleads the defendant. Equitable estoppel bars an infringement claim if the defendant can show:

- The patentee used misleading conduct to make the defendant reasonably believe the patentee didn’t intend to enforce its patent against the defendant,
- The defendant relied on that conduct, and
- Due to its reliance, the defendant would be “materially prejudiced,” or significantly disadvantaged, if the patentee were allowed to proceed with its claim.

The appellate court in *SCA Hygiene* held that equitable estoppel might apply, but the Supreme Court didn’t consider this issue. It’s possible that the defendant could ultimately prevail on the basis of equitable estoppel, rather than laches.



the Supreme Court found that “it would be exceedingly unusual, if not unprecedented, if Congress chose to include in the Patent Act both a statute of limitations for damages and a laches provision applicable to a damages claim.”

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Allowing a laches defense to bar an infringement action brought within the statute of limitations would equate to allowing the judicial branch to override Congress’s decision to establish a hard and fast rule for what constitutes a timely lawsuit.

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The Court also faulted the appeals court and First Quality for relying on lower court patent cases decided before the Patent Act was enacted in 1952 to argue that Sec. 282 permitted the pre-1952 practice of allowing the laches defense

against damages claims. To the contrary, the Court found that the most prominent feature of the relevant law at the time was the “well-established rule” that laches couldn’t be invoked to bar a claim for damages incurred within a limitations period set by Congress. And neither the appeals court nor First Quality cited a sufficiently broad and unambiguous consensus of lower court decisions that could support the inference that Sec. 282 codifies a different rule for patent law.

### TIME IS PRECIOUS

The Supreme Court’s elimination of the laches defense within the statute of limitations period means that accused infringers must be more cautious about assuming they’re safe just because they haven’t heard from patentees in several years. Once an accused infringer receives notice from a patentee, it may make sense to promptly pursue legal action to obtain confirmation that they’re not actually infringing another party’s patent, whether from a court or the USPTO. □

## Access denied

### *Court shuts down copyright infringement claims*

**V**ocabulary matters in the courts, as one company found out recently. According to the Ninth Circuit Court of Appeals, the term “volitional conduct” has nothing to do with voluntary actions when it comes to direct copyright infringement. The court explained the meaning in a case where it also denied a copyright holder’s secondary liability claims for infringement.

#### CASE DOWNLOADED

The Usenet is a collection of users whose computers connect to each other to exchange messages. Giganews, Inc., owns and operates several Usenet servers and provides fee-based access to content it stores on its servers, as well as content stored on other Usenet servers. Most content is uploaded by Usenet users.

Perfect 10, Inc., owns the copyrights on thousands of adult images, many of which have been illegally distributed over Giganews’ servers. It sent Giganews numerous letters fashioned as takedown notices under the Digital Millennium Copyright Act.

When Perfect 10 sent Giganews machine-readable, unique IDs associated with uploaded content, Giganews quickly removed the infringing material

from its servers. Perfect 10 then faxed Giganews notices with illegible IDs. Giganews requested legible IDs in a machine-readable format. Perfect 10 declined to provide the requested IDs.

Perfect 10 sued Giganews for direct, contributory and vicarious infringement. The trial court ruled in favor of Giganews, and Perfect 10 appealed.

#### “VOLITIONAL” FILTER EXPLAINED

In reviewing the direct infringement claim, the Ninth Circuit emphasized that the word “volition” in the copyright infringement context doesn’t refer to an “act of willing or choosing” or an “act of deciding.” Instead, the volition element of direct infringement is a basic requirement of causation. In other words, direct liability must be based on conduct that directly caused the infringement.

Perfect 10 argued that Giganews directly infringed its exclusive rights to display, distribute and reproduce its material. But the appellate court disagreed, finding that Giganews didn’t take any active role in the display, distribution or reproduction of the images. While Giganews provided a tool for viewing images, it was the users who called up the images and caused them to be displayed. Giganews

merely passively stored material at the direction of users to make that material available to other users on request. Any distribution was done automatically when users requested uploaded images — not as a result of volitional conduct by Giganews. And Giganews didn’t “instigate” the copying, storage or distribution of the images.

#### SHARED LIABILITY REJECTED

The appeals court also affirmed the lower court on contributory



and vicarious liability. Both are a type of secondary liability for the infringement of others.

To establish contributory liability, a plaintiff must show that the defendant significantly contributed to or induced the infringement. A computer system operator significantly contributes to infringement if it:

1. Has actual knowledge that specific infringing material is available using its system, and
2. Can take simple measures to remove the infringing material.

The appeals court found that Giganews lacked the requisite knowledge and had no such removal measures available.

Inducement liability requires a showing that the defendant distributed its device or product to promote its use to infringe copyrighted material. The court found insufficient evidence of such intent.

As for vicarious liability, Perfect 10 needed to show that Giganews received direct financial benefit from the specific infringing activity at issue. But it presented no evidence that customers were drawn or subscribed to Giganews' services because of the Perfect 10 images.

### SCREENED OUT

This case could prove a cautionary tale for copyright holders interested in pursuing infringement claims against online service providers in similar circumstances. Not only did Perfect 10 lose its case, but it also ended up on the hook for more than \$5.6 million for defense costs and attorneys' fees. □

## How much is enough?

### *Supreme Court clarifies overseas patent infringement liability*

**J**ust how much patent infringement does it take to be liable for damages? The U.S. Supreme Court recently tackled this question in one context, ruling that supplying only one component of an infringing multicomponent invention made abroad doesn't make the supplier liable for patent infringement. With that, the Court established a bright-line test for some circumstances, but created significant uncertainty for others.

#### SINGLE AND READY TO MINGLE

Promega Corporation was the exclusive licensee of the patent on a genetic testing toolkit. It sublicensed the patent to Life Technologies Corporation, which used the patent to manufacture and sell genetic testing kits for certain licensed law enforcement fields. Life Technologies manufactured all but one component of the kits in the United Kingdom. That component was made in

the United States and shipped to the UK for combination with the other components.

When Life Technologies began selling its kits outside the licensed fields of use, Promega sued for patent infringement under Section 271(f)(1) of the Patent Act. The provision prohibits anyone from supplying, from the United States, "all or a substantial portion" of a patented invention for combination abroad in a way that would infringe the patent if the combination were done in the United States.

The jury returned a verdict for Promega, but the trial court ruled in Life Technologies' favor on its posttrial motion, finding that the phrase "all or a substantial portion" didn't apply to the supply of a single component in a multicomponent invention. The Federal Circuit Court of Appeals reversed and reinstated the jury's verdict finding



Life Technologies liable for infringement. Life Technologies appealed to the Supreme Court.

### “SUBSTANTIAL” TAKES MORE

The appellate court found that a party could be liable under Sec. 271(f)(1) for supplying just a single component for combination outside the United States. Noting that the dictionary definition of “substantial” is “important” or “essential,” the court determined that a single important component can be a “substantial portion” of the components. Based on expert testimony, it concluded that the component at issue was substantial under Sec. 271(f)(1).

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Under a quantitative approach, a single component can't qualify as a “substantial portion” that triggers Section 271(f)(1) infringement liability.

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The Supreme Court acknowledged that the ordinary meaning of “substantial” can refer to either qualitative importance or quantitatively large size. But in the statutory context, it found, the term assumes a

quantitative meaning. The Court pointed out that the words “all” and “portion” convey a quantitative meaning and none of the neighboring text supports a qualitative interpretation. And, it held, a single component can't qualify as a “substantial portion” that triggers Sec. 271(f)(1) infringement liability under a quantitative approach.

The Court rejected Promega's “case-specific approach,” which would require a court or jury to determine whether the components at issue constitute a substantial portion under either a qualitative or quantitative approach. It also shot down Promega's proposal to adopt an analytical framework accounting for components' quantitative *and* qualitative aspects. Both of these approaches would only further complicate application of Sec. 271(f)(1).

### UNKNOWNNS REMAIN

The Court's ruling clarifies Sec. 271(f)(1) — but not entirely. It didn't address exactly how many components are required to make a “substantial portion.” It also left open how courts should identify a patent's “components.” Until resolved by the courts, these uncertainties will make it difficult for component suppliers to determine whether they're committing infringement. □

# Why a kit bag doesn't qualify for trade dress protection

Some product features are ornamental and others are functional. One manufacturer recently learned that the hard way when the Seventh Circuit Court of Appeals found that its bag's design and shape were functional — and therefore not protected as trade dress.

## CASE SHAPES UP

Arlington Specialties, Inc., sells “Minimergency Kits,” which come in small fabric bags designed to look like men's Dopp kits (toiletry bags). Urban Aid, Inc., created a custom kit for a shoe distributor to use as part of a sale promotion. The distributor wanted the kits to come in a bag similar to Arlington's bag and gave Urban Aid a photo of that bag to work from.

Arlington subsequently sued Urban Aid, claiming that the shape and design of its bag were protected trade dress. After the trial court dismissed the case before trial, Arlington appealed.



## FUNCTIONAL FEATURES FAIL

Trade dress — a product's design or packaging that's so distinctive it identifies the manufacturer or source — is protected as a form of trademark. Federal trademark law prohibits the use of trade dress in a way likely to create confusion about a

product's origin. However, the doctrine of functionality limits trade dress rights. Product features that are functional, rather than merely ornamental, are subject to patent law. Trademark protection is sometimes preferable because it doesn't expire as long as the mark or dress is used in commerce, whereas patent protection is subject to time limits.

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Federal trademark law prohibits the use of trade dress in a way likely to create confusion about a product's origin.

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The U.S. Supreme Court has held that a feature is functional if it's essential to the product's use or affects the product's cost or quality. But, according to the Seventh Circuit, a design isn't necessarily the only way to make a functional item — it's enough to be one of many alternative solutions to a problem.

Arlington identified five elements in its trade dress, all of which determined the bag's shape, degree of rigidity and ease of access to contents. And the court found that they were all functional features of the bag. Arlington itself said that customers care about those features for reasons other than source identification, asserting that they affect the bag's quality. “That,” the court said, “is the very definition of a functional feature.” As such, it didn't even need to consider the availability of alternative designs for competitors.

## THE TAKEAWAY

In the end, the appeals court emphasized that the proper question isn't whether the claimed trade dress has less utility than alternatives, as Arlington argued. The right question is whether the design feature affects product quality or cost. ▣

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## IP in an Ever-Evolving World

By Jay Erstling

I recently spoke on the evolving world of IP law at Dennemeyer's Forum on The Future of IP Law & Technology in eight US cities. Here, I share some of my thoughts, as well as what was learned in the Q&A discussions.

### First, a brief look back

Some of the basic principles of IP law have stood the test of time—dating back to the Venetian Patent Law of 1474, in fact. Yet, as society has grown more sophisticated and complex, so have our IP laws and the technology and commercial practices we are trying to protect. IP protection has also grown in its importance as a practice, assuming a more central place in business, public policy and global trade.

The technological revolution can be credited for this shift. As trade and commerce became more global and competitive, the value of IP protection as a way to gain a competitive advantage in the marketplace increased greatly. The tech revolution brought many new discoveries, but at a high price. R&D costs soared to unprecedented levels while copying got cheaper as cost-effective techniques for reverse engineering proliferated. All of this led to industry, with the support of Government, turning to IP protection as a crucial business asset. The growth has been exponential. In 2015, the world filed 2.9 million patent applications. It also filed 8.45 million trademark applications, a number that has doubled every year since 2000.

Another key catalyst for change has been increasing global participation. I was working at WIPO in 1978 when the PCT became operational. It had 18 member countries and received a grand total of 459 applications that first year. The PCT now has 152 member countries, and in 2016, it received 233,000 applications, which is even more remarkable considering that it took the PCT 27 years to reach 1 million filings.

### Now, the future

Advances in technology and artificial intelligence (AI) are going to fundamentally transform law firms and IP offices. Routine tasks will all be performed automatically and there will be a revolution in data gathering and analytics. Search engines won't only pull up references, but they will also analyze them. File and examination histories will become so transparent and complete that they could make IDS's obsolete.

Improving machine translation of patent applications and granted patents will make crossing language barriers easier. The EU, for example, is betting that in about 10 years machine translation will become so good that it will allow the production of legally valid translations into all EU languages.

It is also likely that AI will be at the heart of new legal issues, especially around patent eligible subject matter or the registrability of new, non-traditional trademarks. Questions that seem strange now will be hot issues, such as:

- Can a robot be an applicant for an IP right?
- Do robots have standing to sue for infringement?
- Can a robot be a defendant in an infringement action?

For IP offices, continued growth in filings is going to push worksharing efforts, and truly collaborative search and examination will become the standard. The EU's pending Unitary Patent and Unified Patent Court may become a model for other regional initiatives, perhaps among ASEAN or African countries or even the US and Canada.

Globally the IP world will continue to expand as more countries develop economically and adopt progressive IP systems. We can already see the beginnings of this among the BRICS and ASEAN countries. One result may be more consistent IP enforcement across the globe and more uniform IP rules and practices.

Thankfully, there will still be a lot of work for IP professionals to do. Automating tasks will free us to focus on things that can't be automated: the human side of lawyering. Access to data will allow us to provide deeper, more reflective advice to clients in a more efficient, cost-effective manner. Automation will free us up to provide strategic advice, partner more effectively with clients and provide new, innovative services. Going forward, I think our profession will be more responsive, more efficient and more proficient.

To download Jay's presentation on the future of IP visit [bit.ly/jayerstlingslideshare](http://bit.ly/jayerstlingslideshare).