

The Court of Appeals for the Federal Circuit recognizes two ways in which a patentee's right to enforce a patent against downstream buyers may be limited after a first sale of a patented article: patent exhaustion and implied license. The law surrounding those doctrines is complex, and the doctrines have been the subject of confusion and argument for many years.

## Patent licensing details could hinge on Supreme Court decision

This fall, the U.S. Supreme Court is expected to hand down a decision that could help end the confusion. Or it could add to the uncertainty or maintain the status quo. The case of *Quanta Computers v. LG Electronics* could prove pivotal in patent law. Its outcome is eagerly awaited.

Under existing precedent, an implied license exists when products that are sold have no non-infringing uses and the circumstances of the sale "plainly indicate that the grant of a license should be inferred." In considering exhaustion, the court looks for an unconditional product sale — one that would indicate the patent owner's rights had been exhausted with the first sale.

In *Quanta*, LG Electronics licensed its entire portfolio for computer systems and components to Intel, but did not intend

for the license to extend to subsequent downstream purchasers.

Quanta bought Intel's chips and then used them in systems that allegedly infringed LG's patents, although Intel specifically notified Quanta that it did not have a license to practice LG's patented technology.

Intel's notice to Quanta effectively precluded an implied license defense, the district and Federal Circuit courts agreed, but the Federal Circuit overturned the district court's decision that LG had exhausted its patent rights by licensing Intel.

"The Supreme Court has, in effect, three alternatives in this case," says David Airan, a member in LVM's Chicago office. "It could maintain the existing Federal Circuit framework, reverse the Federal Circuit and broaden a 'first sale' defense, or reverse the Federal Circuit on narrow grounds that could require changes in the way licensing agreements are drafted."

The results, says John Kozak, a member in LVM's Chicago office, would be very different in each case.

"While the Supreme Court could clarify a confusing area of patent law with its *Quanta* ruling, it could also raise more questions than it answers," he says. "A very broad decision could have far-reaching and undesirable effects — one of which might prohibit many economically efficient licensing transactions."

If the court opts to maintain the status quo, the doctrines of implied license and patent exhaustion would remain relatively weak and would be used in narrow, but not improbable, circumstances.

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# Ongoing debate surrounds music performance rights

For the first time, U.S. record labels and recording artists are entitled to certain royalties when their recordings are performed publicly, but the legislation authorizing the payments is vague and debate continues to rage.

Writing in the January 2008 issue of *The Licensing Journal*, Kevin Parks, a member in LVM's Chicago office, notes that about the only thing on which everyone agrees is that the questions being raised have billion-dollar answers.

In his article, Parks traces the history of public performance rights and discusses the three most recent pieces of legislation that set the stage for transforming that history. Traditionally, performance royalties have been paid to music publishers and songwriters only, leaving recording artists and labels with no ongoing revenue stream.

Now, however, changes to copyright law mean recording artists and labels receive royalties from "digital" public performance of their music, such as Internet and satellite radio. Songwriters

and publishers continue to collect payments from both traditional and digital public performances.

Setting aside for a moment any possible inequity in that situation, Parks says a primary issue with the new laws is their lack of definition. Section 114(g) of the Copyright Act, for example, requires that royalty payments go to "the recording artist featured on [the] sound recordings," without defining what "featured" means. The question becomes critical with groups, especially bands such as Tom Petty and the Heartbreakers or The Dave Matthews Band, whose names reflect both an individual and a band. Should payments go to all members of such groups in equal shares, or through some other formula?

The Copyright Act also does not address how long recording artist royalties will be paid, whether and how they may descend to artists' heirs, or whether they may be sold or assigned to third parties.

Another point of contention arose in December, when the Performance Rights Act was introduced in an effort to include

traditional radio broadcasting, as well as digital public performances, in labels and artists' royalty rights. That sparked heated debate that is ongoing, with both label/artist advocates and broadcasting interests descending on Capital Hill in record numbers.

As the music and broadcasting industries quibble, however, Parks says, consumers have taken matters into their own hands. Using peer-to-peer sharing networks, technologically savvy listeners are moving away from owning music and toward sharing it.

Still, as Parks points out, the bright spots with the legislation are, first, that artists and labels are receiving royalties at all, and, second, that it is helping to clarify the digital future of music. It is a future that promises untold fortunes for those who help shape it.

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## Renewed opposition stalls patent reform legislation

Patent reform legislation that seemed likely to win Congressional approval this year now may be in jeopardy, thanks to a newly mobilized opposition and some dissension among supporters.

If approved, bills now being considered in both houses of Congress would initiate the first substantive change to U.S. patent law in 50 years. The bills include numerous changes — the recent Senate version is 106 pages long — but the most significant would align the United

States with the rest of the world in using a "first-to-file" system. U.S. patents now are awarded to the first person to invent a product, rather than the first-to-file a patent application. Other countries' patent laws are based on the first to file system.

After three years and more than a dozen Congressional hearings, it actually appeared that the legislation was on the verge of becoming law when opponents renewed their efforts.

"Not only has the opposition become re-energized, but the majority of people

seeking reform can't agree on the provisions of that reform," says John Kilyk, a member in LVM's Chicago office. "That weakens support, while the opposition is much more unified in merely saying 'no' to most, if not all, of the proposed changes. Change rarely benefits everyone, but patent reform has the potential to benefit the majority. Eventually something will happen, but the confidence that it will happen this year has been eroded."

# Accelerated process may speed trademark dispute resolution

An accelerated case resolution process now in use by the Trademark Trial and Appeal Board (TTAB) could shorten proceedings by months for certain cases.

A typical TTAB proceeding can stretch out well more than a year by the time discovery, testimony and hearings have been completed. The new accelerated case resolution process shortens the time to resolve a matter by allowing the parties to brief their cases at the close of discovery and by allowing the TTAB to make findings of fact, thus eliminating the need for testimony and full trial briefing.

When accelerated resolution is appropriate, the TTAB sets a scheduling order for the entire proceeding up front. It includes discovery deadlines and a

briefing schedule, with a decision to be issued within 50 days after briefs are submitted. The entire process can be concluded in months rather than years.

“The process is new to everyone, but it’s something every trademark litigant should consider,” says Mark Niede, an associate in LVM’s Chicago office. “It may ultimately be that a fairly significant portion of trademark cases could fall within the parameters that make this a viable option.”

Cases best suited to accelerated resolution are those that do not include voluminous documentary evidence or numerous witnesses and for which the legal issues are fairly cut and dried. When competing expert witnesses are involved or the issues are complex and involve an

extensive record of evidence, it may not be the best process.

Currently, all litigants must at least consider accelerated case resolution, because new TTAB rules require an initial discovery conference early in the process. Accelerated case resolution must be discussed during that conference.

“The only downside to this process may be that because litigants must agree to it very early after inception of a case, they may find as they go forward that the matter is too complicated,” says Niede. “By then their hands are tied. It’s important to consider carefully whether accelerated case resolution will work before you get into it.”

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## Domain name scams surface in China

Companies that are actively doing business in China may want to secure registered Internet domain names there, but they should not be fooled by e-mails saying other companies are attempting to steal their names.

Many businesses are receiving e-mails to “alert” them that other firms are attempting to register their trademarks or company names in China, Hong Kong or Taiwan. If recipients do not respond within a specified time, the e-mails say, the registrations will be approved.

“A legitimate registrar won’t tell you someone is registering your mark as a

domain name,” says Lynn Sullivan, a member in LVM’s Chicago office. “Not only is it confidential, but registrars have no obligation – and thus are very unlikely to take the time – to search registries for trademarks. We believe these e-mails are marketing ploys to scare U.S. companies into investing with these small Chinese registrars, but there is also some concern that these could be scam companies seeking financial details to defraud companies in other ways.”

When business interests make it advisable to obtain registered domain names in China, she adds, companies

should do so through trusted advisers — their attorneys or information technology consultants, for example.

“Companies all around the world are getting these e-mails, and they’re all basically worded the same way,” Sullivan says. “It appears to be a slightly new twist on a scam that’s been around for some time, and we recommend that our clients either ignore such e-mails or contact us if they question the legitimacy of an e-mail they receive.”

## Patent licensing

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By contrast, a very broad decision that expanded the first sale defense without regard to terminology such as “implied license” or “exhaustion” could open substantial new defenses to downstream parties accused of infringement. Such a ruling could require existing licenses to be rewritten and, in the worst case, cause companies to stop accepting or granting broad cross licenses.

Lastly, a ruling based on narrower grounds could allow patentees to control licensing by drafting licenses that required upstream buyers to sell only

to licensed downstream buyers. In that case, all existing patent licenses would require review and possibly revision, and all new licenses would need to be drafted with an eye to controlling distribution of every product.

“The importance of this case is evident in the number of parties that have filed amicus briefs,” says Airan. “A significant number lined up on both sides, and several weighed in without aligning themselves with either party. This ruling could have extremely wide-ranging repercussions.”

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