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Supreme Court

Supreme Court Tangled Up Separating Issues On Divided Infringement of Patented Methods

BNA Snapshot

Summary: Supreme Court justices appeared unable to separate issues related to direct or induced liability for infringement when more than one party performs the steps of a patented method claim.

By **Tony Dutra**

April 30 — Standards for finding liability for infringement of a patented method claim when multiple parties are involved eluded the Supreme Court justices in oral argument April 30 in *Limelight Networks Inc. v. Akamai Techs. Inc.*, (U.S., No. 12-786, argued 4/30/14).

The case was the last the court will hear until next October. With quotes from justices such as “Perhaps I’m just confused,” “Maybe I don’t understand” and “I have no idea,” maybe the court wished it had ended this session a day earlier.

The joint or divided infringement issue comes up frequently in Internet applications, as here, where a service provider offers a service requiring interactive inputs from a customer. However, the difficulty in placing liability on one party also arises with method patents in areas such as banking, mobile phone communications, casino games and the life sciences—such as when a lab conducts a test and a physician acts on the result.

The problem in cases like this is in the intertwined relationship between direct and induced infringement, under Sections 271(a) and (b) of the Patent Act, respectively. The court was unsure whether it could resolve the latter—the only question presented in the cert petition that was granted—without resolving the former. And at least two justices acknowledged that the former had not been adequately briefed because the court did not grant the conditional cross-petition that would have brought that question front and center.

A suggestion by the respondent’s counsel that the court should conclude that the cert petition was improvidently granted was not greeted warmly. However, the court may take one of two other paths that would not wrap up the issue immediately.

First, the court gave some support to the idea of issuing an opinion that simply vacates the split decision on inducement by the U.S. Court of Appeals for the Federal Circuit that led to the granted cert petition, with a remand to have the appeals court try again under direct infringement theories.

Second, the court could grant the cross-petition, order more briefing on joint direct infringement and rehear oral argument next term.

The Case So Far

Akamai Technologies Inc. and Limelight Networks Inc. offer competitive “content delivery networks” (CDNs), storing and delivering website content to Internet users on behalf of website operators.

Akamai owns a patent (**U.S. Patent No. 6,108,703**) on a “Global Hosting System” for web content. Limelight can only infringe the patent if it performs some steps of the asserted method claims and the websites of its customers perform the remainder.

The Federal Circuit, sitting en banc, was divided 6-5 in this case. ***Akamai Technologies Inc. v. Limelight Networks Inc.*, 692 F.3d 1301, 104 U.S.P.Q.2d 1799** (Fed. Cir. 2012) (en banc) (**173 PTD, 9/7/12**).

The appeals court took the case to review its recent jurisprudence on joint direct infringement, highlighted by an opinion in 2008 in *Muniauction Inc. v. Thomson Corp.*, **532 F.3d 1318, 2008 BL 146916, 87 U.S.P.Q.2d 1350** (Fed. Cir. 2008) (**137 PTD, 7/17/08**).

While joint direct infringement is acknowledged by all to be possible under common law theories of attributing one party's actions to another, the Federal Circuit's cases now limit such attribution to when one has “control or direction” over the other, which can be met only by an agency relationship or a contractual obligation by one party to the other to perform the steps.

However, the en banc court effectively ignored direct infringement in coming to its decision here, and it instead addressed only inducement. The court overturned its inducement standards of the past in holding that a patent owner claiming induced infringement—under *Section 271(b)*—no longer had to show that a single induced entity is liable for direct infringement under **Section 271(a)**. Under the appeals court's changed standard, Akamai in the instant case could conceivably hold Limelight liable for inducing website operators to use Limelight's CDN.

Friends of the Court Split

The court granted cert to address Limelight's inducement appeal on Jan. 10 (**08 PTD, 1/13/14**).

“Is there any policy reason for—that could support a holding—if you were in Congress, support the conclusion that there was not infringement on the facts here?”

Justice Samuel Alito

Akamai filed a **conditional cross-petition** on the Federal Circuit's non-decision on direct infringement. *Akamai Techs. Inc. v. Limelight Networks Inc.*, No. 12-960 (U.S., review sought Feb. 4, 2013) (**05 PTD, 1/8/13**). The court considered the two petitions in the same conference, but made no decision on the cross-petition.

Friends of the court filed 22 briefs on both sides of the case (**74 PTD, 4/17/14**)(**75 PTD, 4/18/14**). The U.S. government supported Limelight's position and shared time at oral argument with the petitioner. The American Intellectual Property Law Association joined Akamai in arguing that both direct and induced infringement theories should be applied here.

In its April 22 **reply brief**, Limelight charged Akamai with trying “to deflect attention” from the inducement question presented in the case (**79 PTD, 4/24/14**). Based on the way oral argument proceeded, if that was Akamai's intent, it succeeded.

Avoiding the End Run

Aaron M. Panner of Kellogg, Huber, Hansen, Todd, Evans & Figel, Washington, represented the petitioner, splitting time with Assistant to the Solicitor General Ginger D. Anders. Seth P. Waxman of Wilmer Cutler Pickering Hale & Dorr LLP, Washington, argued on behalf of Akamai.

Probably the toughest problem Panner faced was the lack of sympathy for his client. For example, Justice Elena Kagan characterized as a deliberate “end run” the act of getting another party to perform a method step to avoid infringement liability.

Justice Samuel A. Alito waited until Anders was up before asking: “Is there any policy reason for—that could support a holding—if you were in Congress, support the conclusion that there was not infringement on the facts here?”

Justice Stephen G. Breyer joined in that question and Anders failed to satisfy either's concerns. Justice Antonin Scalia stepped in to provide an answer.

"The policy reason is someone who does not even know about the existence of the patent, who happens to be one of the people who performs one or more of the steps, is suddenly automatically liable," Scalia said. "That's the policy reason. It's a strict liability tort."

Intertwined Provisions and Policy

However, that brought the question back to Section 271(a) and strict liability for direct infringement, causing Anders to put it back on the court to determine "what tort principles to incorporate in 271(a)." She acknowledged the *Muniauction* principal/agent relationship as one that could lead to a finding of joint direct infringement, but she said there was "a significant concern" should the court choose "to broaden that out."

Kagan said the Federal Circuit had thus been "very clever by putting it into a 271(b) box and avoiding the strict liability consequences of what they were doing, but also avoiding the possibility of an end run of the patent law."

"And also avoiding the text of the statute," Scalia said to laughter.

"There is that problem," Kagan said, joining the audience.

"And it's under those circumstances that I say okay, let's go with what we've had for 30 years, and if Congress feels they should change it, change it."

Justice Stephen Breyer

Kagan, in an earlier discussion with Panner, had noted that the direct infringement question is still within the Federal Circuit's purview if the high court reverses on inducement.

"If they did reach it a second time around and they decided well, now that this inducement theory is not available to us, we think that there is a real problem here, that there is a kind of end run around the patent law and so we're going to change what we think on the 271(a) question," Kagan said of the appeals court. "If they did that, it would be right to say it would render our opinion on the 271(b) question a nullity?"

Chief Justice John G. Roberts Jr. came to Panner's rescue in this colloquy:

Roberts: I just want to make clear, you're saying that under existing law, the question presented makes a huge difference; if existing law is changed, it may not make a difference?

Panner: That's exactly right.

Roberts: I suppose that's true in every case we hear.

Panner: That's well said, Your Honor. Thank you.

Let Congress Decide, But What?

Kagan persisted, but Panner, nearing the end of his argument time, closed by reiterating his primary point.

"The Federal Circuit did make a policy judgment, tried to amend the statute to reach a result that they thought was fair in the particular case," he said. "That's a job for Congress."

In a discussion with Waxman, Breyer gave hints that he agreed, but in a way that Panner would probably not like.

Breyer insisted that the issue was complex because "of so many different kinds of situations with so many different steps in method patents where so many rights and wrongs of it are differently at play." And then he said, "And it's under those circumstances that I say okay, let's go with what we've had for 30 years, and if Congress feels they should change it, change it."

The reference to 30 years would appear to indicate he was in favor of reversing the Federal Circuit's new view of inducement, but the Federal Circuit's *Muniauction* view of direct infringement is only six years old as well. Indeed, Waxman said that if anything the Federal Circuit has done recently is "new," it is what the appeals court decided in 2008.

It was unclear whether Breyer was thus also asking whether the Supreme Court should do something here to roll jurisprudence back to the pre-2008 view of more opportunity to find "direction or control" by one party under Section 271(a).

Claim Drafting

One possible way out for the court was the suggestion that the problem here was a result of inadequate claim drafting by Akamai, but the court appeared to have no taste for that argument.

The minority opinion in the Federal Circuit's en banc decision below put much of the problem on the structure of Akamai's asserted patent claims. Panner relied on that to some extent, citing the "long understood principle of patent claim drafting that method claims should be drafted from the point of view of a potential infringer so that all of the steps can be carried out by that potential infringer."

Roberts and Scalia nevertheless believed that infringement of all such single-actor claims could be avoided by one party "outsourcing" or otherwise "making it attractive" to perform at least one step.

The U.S. government's amicus brief acknowledged that single-actor claim drafting is not always possible, and Justice Sonia M. Sotomayor requested examples. Anders mentioned "patents that involve the use of different machines that have to be operated by two people."

But Waxman had a better example.

Let's assume that there is disclosure and patenting of a cure for cancer or a novel treatment for cancer that involves, as they often do, the administration of different drugs sequentially. And two parties get together and say, I'll administer drug 1, you administer drug 2, and we can take advantage of this marvelous patented process without paying anything, [without] giving anything whatsoever to the company that spent a billion dollars and 25 years developing.

Will the Court Postpone?

As noted above, the court could follow Breyer's suggestion to reject recent jurisprudence by the Federal Circuit on divided infringement, on inducement only or adding statements about direct infringement.

"The fate of the cross-petition could produce an interesting wrinkle."

AIPLA's James D. Crowne

Based on the smiles on the justices' faces and the laughter in the room, the court is unlikely to take Waxman's suggestion that "the best option for the court would be to simply dismiss the petition as improvidently granted."

However, they are more likely to consider his alternative. Or as James D. Crowne of the American Intellectual Property Law Association put it to Bloomberg BNA after the session, "The fate of the cross-petition could produce an interesting wrinkle."

"I think the court came to the halting realization that it had taken up the wrong issue, or at the very least it took up an issue which might not ultimately matter," J. Michael Huget of Honigman Miller Schwartz and Cohn LLP, Ann Arbor, Mich., told Bloomberg BNA after the argument. "Ironically, the court created a 'divided infringement analysis' issue by not granting the cross-petition for certiorari in the first place to address the question of the standard for finding infringement when separate parties act in concert to infringe a patent."

"Although that might be somewhat unusual procedurally, several justices expressed concern with addressing 271(a) on the current briefing," H. Wayne Porter of Banner & Witcoff Ltd., Washington, told Bloomberg BNA of the possibility of granting the cross-petition now.

For example, when Justice Ruth Bader Ginsburg asked Anders for the government's position on joint direct infringement, Anders gave reluctant support to Waxman's idea. "If the court were to decide that issue," she said, "we think it probably should order further briefing."

Breyer also hinted something similar.

"I become very nervous about writing a rule that suddenly might lead millions of people to start suing each other," he said, referring to direct infringement. "And that's what I would not like to do unless I have pretty thorough briefing on this subject."

"It would have made sense to grant the cross-petition, but I think they could decide the case without it," AIPLA's Crowne said. "The most important part of the inducement case is evidence that all of the steps of the method were performed to demonstrate the underlying infringement."

Crowne thus appreciated that Waxman distinguished that "you can have an infringement without liability," but then again, he was not convinced the justices were making that distinction.

"It's really hard to tell where the majority is," he said.

"If the court does not think that it must address 271(a), I think the court would be willing to simply reverse or affirm and indicate that it's up to Congress to fix any perceived problems or gaps in the law," Porter told Bloomberg BNA.

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For More Information

Transcript is available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/12-786_i4dj.pdf.

Crowne is a member of this journal's advisory board.

DESIGN PATENT LAW STAKEHOLDERS IDENTIFY TRENDS DISTINGUISHING UTILITY PATENT RULES

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Design Patent Law Stakeholders Identify Trends Distinguishing Utility Patent Rules

By Tony Dutra

2014 Design Law Symposium

Takeaway: Instant knock-offs, software application screen design, 3D printing and other trends create problems in design patent law more akin to intellectual property regimes other than utility patent protection.

Nov. 24 (BNA) -- Is design patent law at a crossroads? Stakeholders at a Nov. 21 conference in Washington, identifying points of divergence from both the statute and jurisprudence as to utility patents, asked whether Patent Act changes specific to design are required, or even whether a special scheme-similar to that adopted for boat hull designs-is necessary.

The common theme throughout the session was that the Apple v. Samsung case, to be heard by the Federal Circuit on Dec. 4, is largely responsible for exposing the differences.

Trends Creating Upheaval

The 2014 Design Law Symposium was held at George Washington University Law School before about 150 attendees. GW Law School, the Center for Intellectual Property Research at the Indiana University Maurer School of Law, and the law firms of [Banner & Witcoff Ltd.](#) and Sterne, Kessler, Goldstein & Fox PLLC hosted the event and supplied moderators for four panels.

After separate 1.5-hour discussions each on remedies, functionality and prior art, Sterne Kessler's Tracy-Gene G. Durkin and Robert S. Katz of Banner & Witcoff held a "town hall discussion" with several votes that indicated a divide among stakeholders-not only patent lawyers but industrial designers as well-in answering the question: Are changes needed?

Katz identified the most significant trends causing the stress and possible need for statutory change:

* Knock-off designs are appearing on the market as soon as the patent application is disclosed, creating a period without remedy and giving the knock-off maker early entry. The audience was evenly divided as to their support for a move to a registration system similar to copyright, a preference preferring the examination system, and those calling for a "hybrid" system of quick registration and an optional follow-up examination.

* Protection for graphical user interfaces-"temporary designs" because they do not remain constant on the screen-is driving much of the discussion. Michael Risch, professor at the Villanova University School of Law, challenged Apple's D,604,305 screen design patent, one part of the Apple v. Samsung case, to the dismay of a few audience members who defended awarded protection to GUIs.

* More vexing in the potential outcome of Apple v. Samsung is how it will affect remedies available to design patent owners. Issues include whether protection of a portion of a product can justify an injunction against the entire product, whether the damages calculation requires apportionment, and how to deal with unjoined ongoing infringement. An apportioned royalty won't stop copycats, Perry J. Saidman of Saidman Design Law, Silver Spring, Md., said. "They will just keep going. It'll be a cost of doing business."

* 3D printing adds a copyright-like "Napster problem," because the profit-making infringer creates only a digital model of the patented design and no finished product. Users are the actual copiers, and the negative publicity of copyright owners bringing infringement cases against end users is still fresh in stakeholders' minds.

* Obviousness analysis has created specific problems for courts because "design is a unitary thing," as Christopher V. Carani, McAndrews Held & Malloy Ltd., Chicago, said. That fact makes it difficult to understand exactly what a court is doing when it combines prior art references to find obviousness, according to one audience member.

And pervasive throughout the discussion was the fact that infringers come in three types-direct competitors, such as Apple and Samsung in the mobile phone market; knock-off manufacturers, more similar to generic drug makers; and downstream suppliers of patented parts, such as for automobiles.

Does Section 289 Need Tweaking?

That difference led Sarah Burstein of the University of Oklahoma College of Law, in the panel on remedies, to ask a fundamental question: "What's the point of design patents? To deter copycats, or to incentivize creative design?"

The remedies session, moderated by Katz and John Whealan, associate dean for intellectual property law at George Washington, featured a debate on interpretation of Section 289 of the Patent Act, 35 U.S.C. §289, which is specifically directed to damages for design patent infringement. Section 289 makes the infringer "liable to the owner to the extent of his total profit, but not less than \$250," in addition to "any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement."

All participants agreed that \$250 is absurdly low, but the primary question was as to the meaning of the word "extent." Maurer Law School Professor Mark D. Janis contended that it meant the full extent of total profit should be awarded, while Whealan read it to give judicial discretion to award less than total profit.

Natalie Hanlon-Leh of Faegre Baker Daniels, Denver, tied injunction and damages issues in light of Apple v. Samsung, with Apple's inability to establish a causal nexus between the iPhone's design and customers' purchase decisions (223 DER A-3, 11/19/13).

That failure negates the required finding of irreparable harm for an injunction, she said, and, when design is merely one aspect of the purchase decision, causes courts to make the parallel to apportionment as applied in utility patent cases.

Consumer surveys can identify a nexus, an audience member contended. But Katz said the cost of such a survey is so high that it doesn't make economic sense to do it for a "small infringer."

Burstein, Hanlon-Leh and Janis have all filed amicus briefs in the case now before the Federal Circuit (Apple Inc. v. Samsung Electronics Co., Ltd., No. 2014-1335 (Fed. Cir.) (186 DER A-31, 9/25/14).

Functionality Not Really Design Issue

Durkin of Sterne Kessler, Washington, and Richard S. Stockton of Banner & Witcoff LLP, Chicago, moderated a panel on how courts have "factored out" functional aspects of a design patent.

Risch of Villanova presented his argument in the session on GUIs and screen design, arguing that factoring out in design patent law is similar to, and as useful as, filtration in copyright law.

But Saidman insisted, "There is no such thing as a design patent that is invalid for functionality." He noted that Section 171 doesn't even use the word, and said that courts have improperly been interpreting the word it does use-"ornamental"-as "non-functional."

He said that the only true test of functionality is whether there are alternative designs that would perform the same function. If so, the patent undoubtedly is claiming to be about ornamental aspects, he said, and if not, it should be a utility patent and not a design patent.

John J. Cheek, deputy IP counsel at Caterpillar Inc., was on the panel as well, describing the peculiarities of "the parts and component landscape." The firm typically files a combination of utility and design patents on the same part, and, he said, the difficulty is in ensuring that engineers who are not industrial designers avoid using functional language.

AIA Changes to Prior Art Ignore Designs

Carani's presentation was in the panel on prior art. It further featured words of caution about the changes in Section 102 resulting from passage of the America Invents Act, which, he suggested, showed little or no awareness of problems specific to design patents.

For example, Carani said, "Don't get lulled into the idea that you have a grace period." If you show your design at a trade show, he said, and an intervenor copies the design except for one insubstantial change, it can serve as a prior art reference. The AIA assumed a claim of derivation would disqualify third-party intervening prior art, but, he said, "Good luck trying to prove derivation" in design.

Jason Du Mont, fellow at the Center for Intellectual Property Research at the Maurer School of Law, moderated the panel, which also included Elizabeth Ferrill of Finnegan, Henderson, Farabow, Garrett & Dunner LLP, Washington; Mark A. Charles, Washington-based senior counsel at Procter & Gamble Co.; and Brian E. Hanlon of the U.S. Patent and Trademark Office.

Charles's talk was perhaps the most disturbing to prospective patent applicants. He noted the problems his firm is experiencing with designs being prematurely published on the Internet, leading to "all kinds of mockups being posted on the web" that-as patent-defeating prior art-preempt additional design variations the firm is considering.

For example, Charles said, Apple already has to deal with prior art posted on social media sites "suggesting what the iPhone 8 should look like."

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For More Information

Conference materials at <http://designlaw2014.com/sessions/>.

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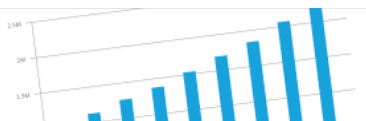


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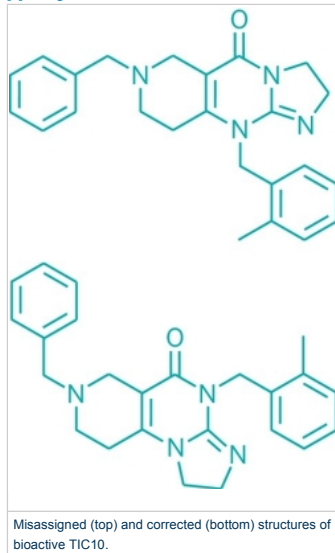
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Misassigned (top) and corrected (bottom) structures of bioactive TIC10.

A promising anticancer agent about to enter human clinical trials is on the hook because of a chemical structure error discovered by scientists at Scripps Research Institute California. The patented compound, known as TIC10 or **ONC201**, is owned by the biotech firm Oncoceutics. However, Scripps has applied for a patent on the corrected structure and has licensed it exclusively to another company, Sorrento Therapeutics.

The reanalysis and relicensing could lead to an unprecedented legal case—the first in which a structural reassignment puts in jeopardy a patent and clinical trials.

Lee Schalop, Oncoceutics' chief business officer, tells C&EN that the chemical structure is not relevant to Oncoceutics' underlying invention. Plans for the clinical trials of TIC10 are moving forward.

Cancer researcher [Wafik S. El-Deiry](#) of Penn State University and Penn State Hershey Medical Center and coworkers found TIC10 in a search of a free [National Cancer Institute](#) database and pinpointed its anticancer activity. They found that the compound kills cancer cells by stimulating gene expression of a tumor suppressor protein called TRAIL (*Sci. Transl. Med.* 2013, DOI: [10.1126/scitranslmed.3004828](#)). TIC10 stands for "TRAIL-inducing compound 10." They used mass spectrometry to try to confirm that the structure of the compound was the same as that listed in the NCI database.

The Penn State group patented TIC10 with that structure (U.S. patent 8673923) and licensed it to Oncoceutics, a company cofounded by El-Deiry. According to Oncoceutics, several research institutions have found TIC10 to be effective in vitro and in vivo against glioblastoma (brain cancer), prostate cancer, melanoma, sarcomas, and lymphoma and to have a favorable safety profile in rat and dog toxicology studies. Oncoceutics has initiated Phase I/II clinical trials of TIC10, supported in part by a Pennsylvania Department of Health grant.

Scripps's [Kim D. Janda](#) and coworkers got interested in TIC10 for use in a possible anticancer combination therapy. When they synthesized the patented structure, they found it to be biologically inactive. But when they obtained TIC10 from NCI, it was bioactive. They used X-ray crystallography and total synthesis to confirm that bioactive TIC10 has a different structure than that shown in the patent (*Angew. Chem. Int. Ed.* 2014, DOI: [10.1002/anie.201402133](#)).

Janda concluded that Oncoceutics and the other research institutions had been working on the bioactive compound but that the company patented the inactive structure. Scripps applied for a patent on the correct structure and licensed it exclusively to [Sorrento Therapeutics](#), where Janda is a director.

When C&EN informed Jerry M. Collins, an administrator of the NCI chemical library that provided TIC10, about the misassignment problem, he said the facility's lead chemist would look into the structure and correct it if warranted.

The structures of many compounds have posed problems before. For example, reagent vendors marketed an incorrect isomer of the Pfizer anticancer agent bosutinib for research purposes ([C&EN](#), [May 21, 2012](#), [page 34](#)). But no patents or clinical trials were at issue in previous cases.



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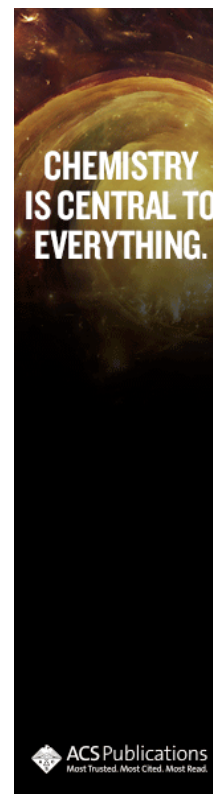
Asked to comment on TIC10, [Nick Levinson](#), the Stanford University postdoc who discovered the bosutinib problem, says, "I find it astonishing that a drug candidate can get this far through regulatory controls and into trials without the key players actually having done the proper quality control. It points to a serious hole in the whole process."

C&EN requested comment on the issue from two patent attorneys who are not involved. [John P. Iwanicki of Banner & Witcoff, in Boston](#), says prior research and publications on bioactive TIC10 could prevent the Scripps patent application from being approved by the U.S. Patent & Trademark Office even though the structure in the Oncoceutics patent is incorrect. And patent attorney Kendrew H. Colton of [Fitch, Even, Tabin & Flannery](#), in Washington, D.C., says the Scripps patent application could run into trouble if isolation or identification of bioactive TIC10 "would have been within the skill of a person working in this field."

Sorrento Therapeutics patent attorney Jeff Oster notes that the company "prepared the patent application with those issues in mind" and believes its claims "are patentable over what will be the prior art of record."

[Jay Lichter](#), managing director of the investment firm Avalon Ventures, in La Jolla, Calif., comments that venture capitalists are unlikely to invest in expensive clinical trials sponsored by Oncoceutics—or by Sorrento Therapeutics, for that matter—until TIC10's ownership is clarified, either legally or via collaboration between the two companies.

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Video streaming service Aereo loses at Supreme Court

Justices say Aereo's Web-based streaming video service violates the performance right in copyright law

Grant Gross (IDG News Service) | 26 June, 2014 01:55

The U.S. Supreme Court has ruled that Web-based video streaming service Aereo, which rebroadcasts over-the-air television through antenna farms, violates the copyrights of TV networks.

The court, in a ruling targeted specifically at the company's technology, decided that Aereo infringes the performance right section of copyright law by selling subscribers a service that allows them to watch TV programs over the Internet at "about the same time" as the programs are broadcast over the air, [wrote Justice Stephen Breyer](#) for the 6-3 majority.

The 2-year-old Aereo -- which was sued for copyright infringement by ABC, CBS and other broadcast TV networks -- argued that it rents each subscriber an antenna and a DVR service. Subscribers individually choose what programs to watch, and unlike cable and satellite TV services, which pay royalties to some networks, Aereo does not give thousands of people access to the same TV show at the same time, [Aereo had argued](#).

The Supreme Court reversed [an April 2013 ruling](#) from the U.S. Court of Appeals for the Second Circuit saying Aereo service was legal because the company makes use of several legal technologies, including mini TV antennas, DVRs and a Slingbox-like streaming service.

But the U.S. Congress in 1976 amended the Copyright Act, negating an earlier Supreme Court ruling, that exempted community antenna television (CATV) systems, a cable-like precursor to Aereo, from copyright infringement claims, Breyer wrote.

Under the definitions of the amended Copyright Act, Aereo performs or transmits TV content that is protected by copyright, he said.

"This history makes clear that Aereo is not simply an equipment provider," Breyer wrote. "Aereo sells a service that allows subscribers to watch television programs, many of which are copyrighted, almost as they are being broadcast."

An argument from Aereo and from dissenting justices, including Justice Antonin Scalia, that the company's service doesn't provide a continuous video stream "makes too much out of too little," Breyer wrote. "Given Aereo's overwhelming likeness to the cable companies targeted by the 1976 amendments, this sole technological difference between Aereo and traditional cable companies does not make a critical difference here."

Scalia, in his dissent, compared Aereo's service to businesses offering photocopying services. "A copy shop rents out photocopiers on a per-use basis," he wrote. "One customer might copy his 10-year-old's drawings -- a perfectly lawful thing to do -- while another might duplicate a famous artist's copyrighted photographs ... Either way, the customer chooses the content and activates the copying function; the photocopier does nothing except in response to the customer's commands."

Digital rights group Public Knowledge questioned the ruling. "It is very unfortunate for consumers that the Supreme Court has ruled against Aereo," said Barteaux Cox, a spokesman for the group. "Aereo is a true innovator in the TV industry and provides high quality and affordable programming for its customers. We look forward to seeing what Aereo will do in response to the Supreme Court's ruling."

The decision may have an "initial effect on technological development," added Ross Dannenberg, an intellectual property lawyer at Banner & Witcoff's Washington, D.C., office. "In the back of their minds, [tech entrepreneurs] will be thinking, 'remember what happened to Aereo? They spent all that money and then were shut down'."

But the Supreme Court went "out of its way in an attempt to prevent the decision from stifling innovation" by focusing on Aereo's specific technology, he added by email.

Although Aereo supporters had raised concerns about the impact of a decision against the company on cloud service providers, the court said those types of businesses should be unaffected, Dannenberg said.

Andrew Goldstein, a partner at Freeborn & Peters in Chicago, agreed that the decision was limited.

"The Supreme Court majority opinion emphasized that they are not ruling on future technologies that are not before them at the moment; and that given the limited nature of the holding the court does not believe this decision will discourage the emergence of use of different kinds of technologies," he said by email.

Remote DVR services may be affected, but other technologies aren't covered by the ruling, he said.

"I do not believe that this decision makes it tougher in general to launch new innovative services," he said. "If anything, this case is a lesson to new technology developers that if you build your business on a loophole in the law, similar to Aereo, your business may be akin to a house of cards."

Grant Gross covers technology and telecom policy in the U.S. government for The IDG News Service. Follow Grant on Twitter at GrantGross. Grant's email address is grant_gross@idg.com.

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7 Intellectual Property Mistakes Startup Entrepreneurs Often Make

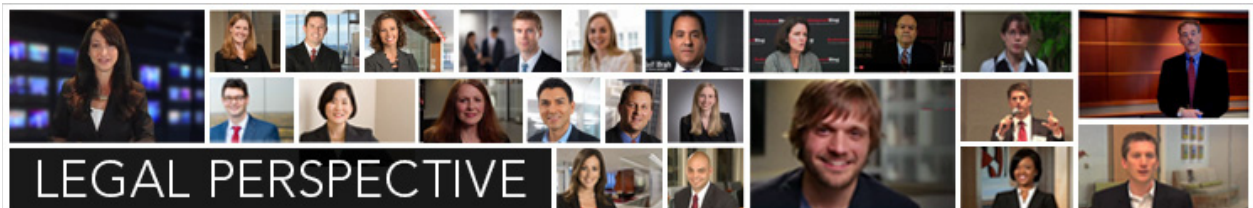
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You have a great idea, a solid team, the beginnings of a viable product that appears to be gaining early traction in the marketplace, interest from investors, and ... *what else?* Well, for one thing: not enough time in the day to get it all done. And for another: you have intellectual property and it needs to be protected.

What's the biggest mistake startup entrepreneurs make with respect to their intellectual property, and what can they do to fix it?

That's the question we recently put to IP attorneys writing on JD Supra, knowing that the diversity of responses would make for interesting reading. We weren't disappointed. Here's what we heard back:

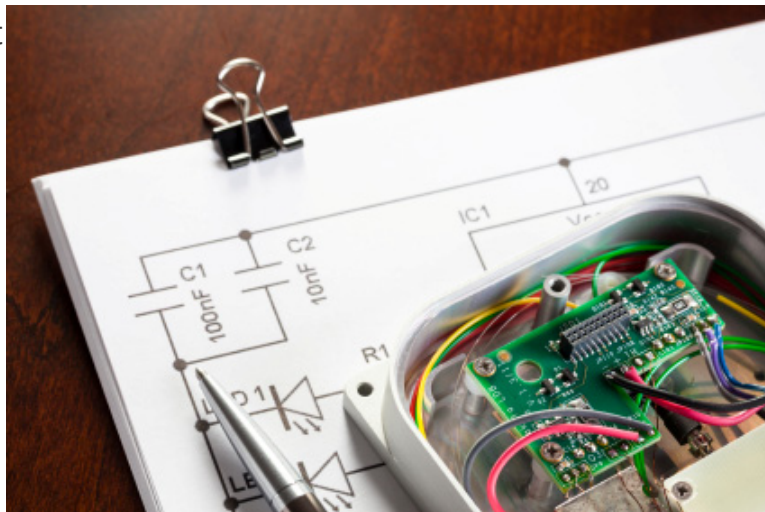
1. Entrepreneurs Don't Invest Sufficient Time, Money, and Thought In Their IP

We heard this sentiment expressed in a number of ways, each with a key takeaway for early IP protection:

Waiting Too Long

From [Scott Smith](#), a Palo Alto-based IP attorney with Dorsey & Whitney: “Startup entrepreneurs have been taught, rightfully so, that they need to be extremely cash conscious and to control burn rate above all else. One obvious way to control burn is to keep legal fees to an absolute minimum. With intellectual property, however, skimping too much in the early days can be devastating in the long term and even in the short term. Almost always, a large chunk of a startup’s most valuable, innovative intellectual property is produced in the early days of the company. After all, it is usually the big, 'Aha!' ideas that make entrepreneurs want to start companies in the first place.

Ideally, a startup will invest a reasonable, manageable amount of its budget to protect these big innovations with patent applications from the beginning, and the money spent will pay huge dividends later, as the company adds further



innovations and iterations to the big ideas. Unfortunately, I have seen many startups that fail to make this investment. Perhaps they file one, poorly drafted provisional patent application, written by the entrepreneur for example, and do nothing else for a year. Or worse, they don't file anything, thinking they will wait until they have more funding before “getting serious” about IP. This can be fatal. The U.S. is now a 'first-to-file' country, which means

if a company waits too long to file a patent application, it may lose the race completely, even if it invented first. Additionally, most countries have no grace period between the time an invention goes public and when the inventors can file a patent application. This means that if your inventive ideas are published or made available for sale or presented at a trade show before you file a patent application, you have lost almost all patent rights immediately outside the U.S.”

...if you don't make a decision, the decision might be made for you. -

Chris Sloan of Baker Donelson

A Weak Initial Filing

From [Timothy J. Shea, Jr., Ph.D.](#), a director at Sterne, Kessler, Goldstein & Fox in Washington, DC: “Too often we see initial filings that are poorly drafted, that are either too narrow in focus to provide effective protection or too broad to properly support the claim scope sought, and that contain overreaching, speculative language that prejudice the startup's ability to obtain strong protection for its later inventions. Unfortunately, a weak initial patent filing can be devastating for several reasons. First, much, if not most, of the value of startups to potential investors lies in the company's IP - particularly for companies in the biopharma space where actual products will take years to get to market. A weak patent filing that does not adequately protect the company's key technology and products will substantially reduce the value of the company to potential investors. Second, a weak filing can also convey to potential investors a lack of sophistication on the part of the company regarding its IP matters generally. Third, the initial filing will eventually become 'prior art' (and often the most relevant prior art) to the company's subsequent patent filings. To the extent the first filing is overreaching and contains too much speculative language, it can become a dangerous piece of prior art that is cited by the patent office as a basis for rejecting the company's later patent applications to improvements in the underlying technology. So even though the initial filing may be too speculative to

adequately support the claims pursued in that filing, it can nevertheless still be effective prior art that "poisons the well" for the company's later patent filings. Fortunately, by engaging a competent patent attorney and devoting the appropriate amount of time, thought and resources to its initial patent filing, the company can have a patent application that provides a strong foundation on which to build a valuable patent portfolio around its platform technology and products."

No Clearance Search

[Noreen Weiss Adler](#), partner at Barton LLP: "Companies with a product that involves new technology or a proprietary business process can make a serious mistake by not investing in a patent clearance opinion. Failing to investigate whether your technology infringes on a pre-existing patent can expose the company to punitive, treble damages if it loses a lawsuit based on infringing a pre-existing patent because failure to conduct a patent clearance analysis (although in and of itself does not lead to a presumption that the company willfully infringed on the pre-existing patent) can still be used as evidence to support a claim of willfulness, which in turn can give rise to punitive damages. Additionally, because the value of the IP can be a start-up's most valuable asset, lack of a patent clearance opinion can adversely affect company valuation with a resultant negative impact on the amount of capital a company can raise."

[Eugene M. Pak](#), partner and the leader of Wendel Rosen's Intellectual Property practice group: "In the rush to get things started and conserve funds, start-ups often overlook doing a clearance search for their brands and filing to register their trademarks. Reserving a corporate name with the Secretary of State, or even filing a fictitious business name statement, is not the same as registering one's trademarks. Trademark registration, although not required, gives companies broader rights and helps deter others from using the same or similar marks. Since the registration process can take a year or more, getting started early can be beneficial. Under the federal registration system, one can

file to register a trademark that has not even been used yet (intent-to-use application), so long as one has a bona fide intent to use the trademark."

No Focus on Global Patent Standards

[Salima Merani, Ph.D.](#), partner at Knobbe Martens: "Startups, with their limited budgets in the very early stages, often file patent applications without an eye towards global patent standards. Years later, when it comes time to pursue international rights outside the United States, the deficiencies from the early days can come back to impede or impair the patent portfolio. Sophisticated startups, typically involving some venture firm board members or serial entrepreneurs, not only engage law firms that have a global perspective, but also invest meaningfully in intellectual property and global strategy even when funds are scarce."

No Real Strategy

[Robert Stier, Jr.](#), at Pierce Atwood LLP: "Too often, in a rush to get IP protection, startups assume that all patents are of equal value. They spend money needlessly on patent prosecutions only to obtain claim coverage that is too narrow, and they end up without any real barrier to entry against competitors. Their time and effort would be better spent first understanding the IP landscape and then developing a realistic strategy for cordoning off valuable portions of that territory. That requires more of an investment of time and money up front, but it results in long term savings and a stronger competitive position."

*A strategically-designed patent portfolio is equally as valuable to a company as a robust data package is for its product... - Ray Arner,
Pierce Atwood*

[Ray Arner](#), also of Pierce Atwood: "Start-ups frequently consider patenting on a piecemeal basis, and in an excessively cost-conscious manner. They opt to

spend their money on science rather than legal expenses. This is understandable, but short-sighted. Decisions of this type may cause a start-up to forego formulating a cohesive patent strategy around a nascent product or technology platform. Consequently, their first patent filing is often too soon or too late, or it shoots the project and the patent strategy in the foot. A strategically-designed patent portfolio is equally as valuable to a company as a robust data package is for its product. Investors require both.”

[Chris Sloan](#), co-chair of Baker Donelson’s Emerging Companies group: “This is not to say you should file patents and trademark applications on anything and everything; you can easily spend tens of thousands of dollars doing that. The key is to have a plan and know what you want to protect and when to do it. Put another way, if you don’t make a decision, the decision might be made for you.”

2. Entrepreneurs Seek Patent Protection(s) Too Early

...the key question is how much, and when. - Rick Frenkel, Latham & Watkins

The many points above notwithstanding, [Rick Frenkel](#), a partner in Latham & Watkins’ Silicon Valley office, counters that startups can also place too much emphasis and worry on IP in the earliest stages of the company, thereby “seeking a wide variety of patent protection that later turns out to be unrelated to where the company actually ends up heading.”

Frenkel suggests: “Rather than investing that money with the US Patent & Trademark Office and patent attorneys, it might be better spent on developing the company’s product. Patents are typically used for three major purposes by operating companies (as opposed to patent trolls). First, patents can be used against competitors, to forge a better business position. But this can hardly be true as to startups, since patents take years to grant, and competitors by definition are going to be much better established and with