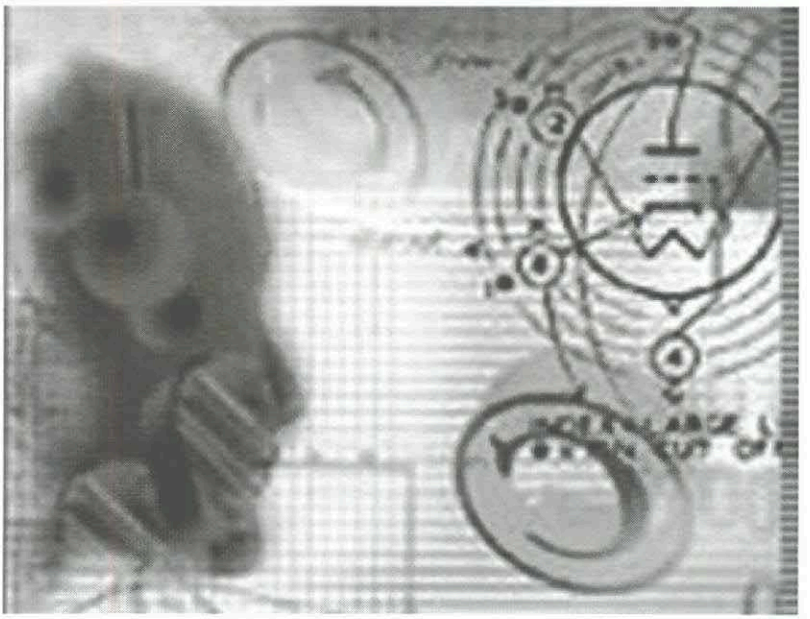
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FRANKLIN PIERCE LAW CENTER



STUDENT INTELLECTUAL PROPERTY LAW ASSOCIATION

FALL SYMPOSIUM

SATURDAY, NOVEMBER 2, 2002

JANDA´ CARTER (CO-SPONSORED BY BLSA): "NEW TRENDS IN PATENT PROSECUTION"

ROBERT ABRAHAMSEN: "MANAGING PATENT LITIGATION FOR SUCCESS"

GLEN SECOR: "DIGITAL RIGHTS MANAGEMENT"

ERIC ELDRED: *ELDRED V. ASHCROFT*

2002 U. S. SUPREME COURT COPYRIGHT CASE

PIERCE LAW
FRANKLIN PIERCE LAW CENTER

Welcome to the Franklin Pierce Law Center

Franklin Pierce Law Center is a private, independent, ABA-accredited law school located in scenic Concord, NH, with an enrollment of approximately 450 students. Students learn in a close, cooperative, informal environment. Our faculty members are committed to academic excellence, scholarship, and the formation of successful and well-rounded graduates. Since its founding, Franklin Pierce Law Center has been recognized internationally as a leader in the field of U.S. and international intellectual property law.

The Student Intellectual Property Law Association (SIPLA) was formed to promote intellectual property issues and a high standard of professionalism in the Franklin Pierce Law Center community and beyond. The organization unites the student body, faculty, alumni, and local intellectual property practitioners. SIPLA brings together the many facets of intellectual property, including patents, trademarks, and copyrights.

This symposium is sponsored by SIPLA to promote an open dialogue of current issues in intellectual property and how these issues will affect the practice of intellectual property in the future. We have invited a series of speakers from a diverse range of specialties and sincerely hope you find their presentations informative and intellectually stimulating.

Student Intellectual Property Law Association
Officers

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Brad Chin

BLSA President
Keachea Dixon

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Agenda

Saturday, November 2, 2002

9:00 AM Registration & Continental Breakfast

9:30 AM **Welcome & Introductory Remarks**

Dean John Hutson, Dean & President of Franklin Pierce Law Center

9:45 AM **New Trends in Patent Prosecution**

Lexicographical Issues in Patent Prosecution ("Weight a Minute, That's Knot What Eye Mint!) Ms. Janda´ Carter, Frost Brown Todd LLC, Cincinnati, OH

15-minute break

11:00 AM **Managing Patent Litigation for Success**

Mr. Robert Abrahamsen, Associate, Wolf, Greenfield & Sacks, Boston, MA

Noon ***Lunch***

1:00 PM **Digital Rights Management & Fair Use**

Mr. Glen Secor, Adjunct Professor of Franklin Pierce Law Center

15-minute break

2:15 PM ***Eldred v. Ashcroft***

Mr. Eric Eldred, Editor & Publisher of Eldritch Press

Biography of Janda´ Carter

Ms. Janda' Carter is an Associate in the Cincinnati, Ohio office of Frost Brown Todd LLC and practices in the intellectual property area. She represents clients in a wide array of intellectual property matters with particular emphasis on patent prosecution. Prior to joining Frost Brown Todd, Janda' worked as a mechanical engineer for the General Motors Corporation and as food processing engineer for the Quaker Oats Company.

While in law school, Ms. Carter interned at The United States Patent and Trademark Office in Washington, D.C., completing their Patent Examiner Training Course and interned with General Electric Corporation in their Intellectual Property and Licensing Division. She also worked as a summer associate for Graydon Head & Ritchey LLP (Cincinnati, OH) and for Husch & Eppenberger, LLC (Peoria, IL).

Education:

Bachelor of Science from Purdue University

Graduate work in Food Processing Engineering at the University of Illinois, Champaign –Urbana

Juris Doctorate from University of Dayton School of Law

Student Writing Editor for University of Dayton Journal of Law & Technology (JOLT)

Professional affiliations:

* Ohio State Bar Association, Member
* Cincinnati Intellectual Property Division
*Young Lawyers Division
* American Bar Association, Member
* Black Lawyers Association of Cincinnati, Member
* American Society of Mechanical Engineers
* Interdisciplinary Engineering Alumni Association and she is a Registered E.I.T.

Publications and Presentations:

* "The Three B's of Success" - presented Fall 1998; Optimist International -Flint Chapter, Annual Scholarship Breakfast

Prior art vs. case histories

Technical in claim,
Non-Tech in specification.

Biography of Robert Abrahamsen

Bob Abrahamsen is a senior-level associate in the Litigation Practice Group at Wolf, Greenfield & Sacks, P.C., in Boston. He graduated from UCLA in 1992 with a degree in Electrical Engineering, and is a 1997 alumnus (JD/MIP) of Franklin Pierce Law Center. Bob has been employed by Wolf Greenfield since January of 1996, working part time during the latter half of his law school enrollment. During his first three years at Wolf Greenfield, Bob's practice concentrated on the preparation and prosecution of patent applications in the electronic, software and mechanical arts. Bob then shifted gears and focused his practice primarily on IP litigation. He now spends approximately 80% of his time doing litigation, with his remaining time being spent doing patent prosecution, opinion work and counseling.

Prior to joining Wolf Greenfield, Bob was employed for two years as a Digital Engineer for Dynamic Science, Inc., a military contractor at Vandenberg Air Force Base, California, where he designed and implemented communications equipment used to support missile launches. Bob is admitted to the Massachusetts Bar and is registered to practice before the U.S. Patent and Trademark Office. He is admitted before the U.S. District Court for the District of Massachusetts, the U.S. Court of Appeals for the First Circuit and the U.S. Court of Appeals for the Federal Circuit. He is a member of the Institute of Electrical and Electronics Engineers, the American Intellectual Property Law Association and the Boston Patent Law Association.

Managing Patent Litigation to Success; WORKING DRAFT presented to:
Student Intellectual Property Law Association, Franklin Pierce Law Center
Concord, New Hampshire Fall 2002

Managing Patent Litigation for Success

Matthew B. Lowrie

Chair, Litigation Practice Group

Wolf, Greenfield, & Sacks, P.C.

I. INTRODUCTION

Patent litigation is among the most challenging forms of litigation. Patent law is very complex and this complexity is compounded when the technology is complicated.

Like other forms of complex litigation , managing a case well can be as much art as science. Every case is different, depending not just on the facts and legal merits of the case, but also the business context in which the patent is being litigated.

There are, however, a number of key issues where careful planning or analysis can have an inordinate impact on the cost and outcome of the case.

To assure a well-managed case, in-house counsel and business people responsible for supervision of the case should stay involved, by participating in key decisions. Certain decisions, made early as well as late in the case, can impact the entire course (and cost) of a litigation.

One example is the issue of when and how to request a Markman hearing (where the Court decides what the patent covers). This decision is critical to what happens in the case and when. The timing of the Markman hearing can be set, however, very early in the case.

Perhaps due to the difficulty of patent law, the temptation is simply to defer to outside counsel on matters such as these. Indeed, quality representation includes thinking through each important issue and seeking input from the client where appropriate.

While this can work (with luck), sticking one's head in the sand is not a prudent choice.

As a preliminary matter, even subtle issues like the timing of a Markman hearing can be explained by well-prepared outside counsel even to a business person with no patent background at all. Similarly, well-prepared counsel can explain the relative strengths and weaknesses of the various approaches.

Staying involved in key decisions results in several important advantages. First, the business (and not the lawyers) remain in charge. Second, better decisions will necessarily be made. For example, outside counsel might make the right litigation strategy call, but with disastrous effect due to unanticipated business ramifications. Finally, continued involvement in the litigation can assure that no opportunity gets

missed and that the case is, in fact, well-managed.

This paper was written in the hope of providing business people responsible for supervising litigation, and in-house counsel, who have little or no patent experience with the information need to help manage a patent case. First, however, a few comments about the nature and importance of patent litigation are worthwhile.

II. PATENT LITIGATION: WHAT'S THE BIG DEAL?

A. The patent litigation explosion

Intellectual property is a driving force in the United States. The United States Constitution specifically authorizes Congress to pass laws granting intellectual property rights. One judge on the U.S. Court of Appeals for the Federal Circuit (the court which decides appeals of all patent matters) has referred to the patent system as the "backbone" of our country's economic system.

Patent litigation has seen explosive growth in recent years. Surprisingly, the "bet-thecompany" nature of the cases, and high stakes involved (e.g., several years ago, one company was awarded just under US$1,000,000,000 in damages) are not the reasons. The potential for a large recovery has always been present in patent litigation. The explanation is the changing nature of the litigation.

First, rising intellectual property litigation reflects the rise of businesses based on intellectual property. While patent protection is important to the old school steel and textile mill (for example to protect their manufacturing processes), intellectual property is the very lifeblood of the new economy. Many businesses are started with, and defined by, an idea such as a business model or a particularly novel technological product. As intellectual property becomes the defining aspect of a company, the importance and likelihood of copying grow, as does the impossibility of "turning the other cheek" when a competitor moves in.

A second factor is the increasing acceptance of patent litigation in the business community and increased perception of the likelihood of success. The U.S. Court of Appeals for the Federal Circuit was established in the early 1980s to (among other things) decide all patent appeals. Before then, it was rumored that one appeals court had never actually upheld a patent in over onehundred years. Experience with the Federal Circuit has been the opposite. Over the last twenty years, the Federal Circuit has demonstrated that patents have real teeth. As the reputation and attention given to intellectual property suits has grown, the corresponding willingness to bring suit has grown as well.

Related to the second factor, and of the greatest importance, is a growing appreciation of the value of an intellectual property lawsuit *as a business tool.*

Intellectual property is focused toward the ability to define business markets (e.g., exclusive rights to sell a certain kind of product or provide a certain service on the Internet). It is forwardlooking. Enforcement of intellectual property rights can be, therefore, an important component of defining, preserving and enforcing a company's business plan and goals.

An interesting by-product of this aspect of intellectual property litigation is that, unlike

other types of litigation, intellectual property litigation remains active as the economy soars and falls. Traditionally, litigation declines in times of economic prosperity and rises when the economy falters. When times are good, companies would rather spend their time and effort doing what they do best — business. In a strong economy, litigation is an unnecessary distraction to generating revenues. When times are bad, however, the ability to make money in other ways is less. More people default on deals and more companies are willing to litigate — to carve up the smaller pie then available to them.

Like other forms of litigation, intellectual property litigation is busy when the economy falters. Unlike other forms of litigation, however, intellectual property litigation also grows during economic prosperity. Since intellectual property is a business tool, that tool is employed heavily, like other business tools, in the scramble to ride the peak of an economic high and consolidate one's hold on acquired properties.

B. Costs and rewards of patent litigation

The risks, costs and reward of patent litigation highlight the importance of assuring that patent litigation is managed well.

The pleasure of patent litigation (other than the intellectual stimulation) is having one's "eyes on the prize." All of the following may be available to an aggrieved patent-holder:

• Damages, including lost profits (or, for design patents, the infringer's profits). This can include not only lost sales but also price erosion for sales the plaintiff did make.

• Doubling or trebling of those damages.

• An award of attorneys' fees (see below for estimates of the magnitude of these fees). • An injunction barring future activity.

• A seizure order requiring the destruction of infringing goods.

Thus, not only are the damages potentially enormous, but the availability of an injunction can put entire markets at stake. In many cases, the economic value of an injunction exceeds even double or treble damages for past infringement. This upside for one party is, of course, a corresponding downside for the other.

Patent litigation is complex and this is reflected in the cost. The cost in attorneys' fees alone can be enormous, as listed in the following table of costs through trial for 2000.[1]

AVERAGE LITIGATION COSTS BY TYPE OF CASE

Location	Percent	Cost Through Trial
Boston	25th	850,000
	Mean	1,750,000
	75th	2,507,000
New York	25th	1,006,000
	Mean	1,505,00
	75th	2,505,000
Chicago	25th	1,203,000
	Mean	1,997,000
	75th	2,995,000
California	25th	1,502,000
	Mean	2,493,000
	75th	3,497,000

Notwithstanding those statistics, however, it should be noted that many, indeed most, disputes never make it to trial, but are

[1] Data taken from the American Intellectual Property Law Association's 2000 Economic Survey

resolved at an earlier stage of the litigation for a far lower cost.

The hidden costs of litigation, however, can be significant. The distraction from day-to-day business and the effect on business (through customer perception or the impact on financing) are difficult to know until one has lived through it.

In short, the significance and potential costs of patent litigation necessitate a well-managed case.

III. CRITICAL ISSUES FOR A WELL-MANAGED PATENT CASE

Like other forms of complex litigation managing a case well can be as much art as science. Every case is different, depending not just on the facts and legal merits of the case, but also the business context in which the patent is being litigated.

There are, however, a number of key issues where careful planning or analysis can have an inordinate impact on the cost and outcome of the case.

After a discussion of each issue in general, a few comments are made about how to use the information in managing a patent case.

A. Pre-litigation issues and investigation

Pre-litigation analysis can lead to better decisions about who to sue, how to sue them, and where to sue them. These decisions certainly impact the course of the entire case – both in terms of outcome and cost.

1. Choice of party

In most patent cases, there are a variety of potential defendants. A patent grants the right to prevent others from making, using, selling, offering for sale, importing (etc.) in the United States a product or process covered by the patent. Any one of these acts is infringement. Thus, a company infringes if it makes goods in the United States which are covered by a patent, even if the goods are only sold and used overseas (not an infringement). Similarly, a company that uses an infringing article in the United States is an infringer — even if the product was bought or leased from a third-party. The result is a variety of potential litigation targets.

Thus, for a patent on a chair, a number of people or companies could be sued: the chair manufacturer, any distributor, chair retailers, companies that purchase and use the chairs — even the individuals who sit in the chair (i.e., those who "use" the patented item). Generally, a patent holder is free to mix-and-match the defendants.

A variety of concerns impact the selection of defendants. Some are strategic/legal concerns, such as the effect the choice has on where the suit may be brought, the likelihood of keeping it there (i.e., opposing transfer), or on the types of damages available. Where there are multiple infringers, a smaller company is sometimes chosen in the hope of a quick or easy initial victory, to build a war chest and establish a pattern of success. Other business concerns also impact choice of defendants, e.g., many companies feel it unwise to sue potential customers (even though the potential customer had the poor judgment to purchase goods from a competitor).

Comment. Selection of the best defendant requires a mix of legal and business considerations; the careful litigation manager will be sure that each possibility is considered and that the reasons for selecting a defendant are sound – including consideration of the facts gathered in a pre-filing investigation as discussed below.

2. Pre-filing investigation

As a part of the decision of who to sue, and whether to sue, a certain amount of pre-filing investigation is necessary. Indeed, patent-holders do far better when a litigation strategy is based on sound up-front analysis; a careful analysis can result in avoidance of an ill-advised, expensive law suit.

The first step is to review the patent, its prosecution history and the relevant prior art to understand the strength of any infringement claims and any potential weaknesses.

After this step, the case against potential infringers may be assessed. The strength of the infringement case may be analyzed and an estimate of potential damages may be made, based on estimates of the magnitude of infringing sales, and possible measures of damages (e.g., lost profits or reasonable royalty). This estimate should include, however, the competitive value of an injunction barring future sales and may include the competitive value of filing a law suit, e.g., the value of sending a message to others who may be considering entering the market by infringing the patent.

These steps of the analysis constitute the traditional assessment of a patent litigation. The assessment cannot end there, however.

A complete litigation analysis must include intelligence about the potential defendant(s). This intelligence should include:

- An assessment of the defendant's resources available for defending the litigation.
- Past litigation behavior and settlement practices.
- Possible counterclaims and, particularly, patent counterclaims.
- Equitable considerations in a litigation with this defendant.

For the first three points, a remarkable amount of information is now available electronically. Examination of the last point is often underemphasized. Judges and juries often find for the party that they want to find for -- i.e., based on the equities.

Since there are frequently a variety of potential defendants, as noted above, this type of analysis can lead to a more intelligent selection of defendants.

Comment. The careful litigation manager should assure that all of the above information is gathered and synthesized. Much of this information can, in fact, result in a more informed litigation budget.

3. Selecting the tribunal

By statute, all patent cases are heard in Federal Court. As one may expect, the differences between district courts and district court judges can be large. In addition, however, alternatives are available for a patent case.

Patent Office. One possibility is the U.S. Patent Office. Two types of proceedings often occur in conjunction with litigation. The first is a reexamination proceeding, where a

party can request the Patent Office to reexamine a patent in light of prior art that was not before the Patent Office when the patent issued. Past reexamination proceedings were *ex parte*, i.e., after a request was filed, the Patent Office would only correspond with the patent-holder. As a result, potential infringers used this tool only sparingly – preferring to challenge the patent in Court. Patent-holders would sometimes file for a reexam after learning of a defendant's prior art, however, to strengthen their litigation position.

Inter partes reexaminations are now available, for more recently issued patents; it remains to be seen whether alleged infringers seek to pursue this path as a part of their litigation strategy.

The second type of patent office proceeding, in appropriate cases, is an interference. In an interference, the patent office resolves competing claims for being the first to invent. Although not available in most cases, the possibility of an interference can have a substantial impact on litigation strategy.

International Trade Commission. Where the potential defendant exports to the United States, a proceeding in front of the International Trade Commission is possible (if the plaintiff can also show a "domestic industry" that is being hurt by the infringement). Although no damages can be awarded, these proceedings can result in an order excluding all infringing goods from being shipped into the United States. By statute, the proceedings will also reach their conclusion very quickly – within one year. In addition, there is no right to a jury trial – an Administrative Law Judge acts as the trier of fact.

The combination of a guaranteed quick resolution and the ability to avoid a jury make ITC proceedings an attractive choice for some plaintiffs. An ITC proceeding is not a bar to a parallel or subsequent district court action for damages.

Selecting the district court. Where a district court proceeding is chosen, there is still a great deal of work to be done; there is a great degree of difference among the district courts.

One factor is the time to trial. Some courts are known for fast resolution, e.g., the "rocketdocket" in Virginia or the Western District of Wisconsin, which imposes similar schedules. Other courts also offer generally quick (although not quite so fast) resolution; in many cases, statistics are available on-line.

Another factor is the perceived sophistication of the judges. Certain districts (San Francisco, Delaware and Massachusetts) have an unusually large number of patent cases per judge.

A third factor is an assessment of the behavior of the judges within a district. There are the usual concerns, such as how expeditiously and fairly the judge's address discovery disputes (combined with an assessment of the likelihood of having such disputes, based on intelligence about the opponent).

There are also substantive issues directly related to patent cases. As just one example, the Local Rules in the Northern District of California specify a number of important procedures for patent cases, including the timing of preliminary infringement contentions, invalidity contentions, proposed claim constructions, and the Markman hearing, the

timing of which is discussed below as one of the critical issues in managing a patent case.

A fourth factor is the inclinations of the jury pool – both in terms of past behavior and in terms of their likely feelings about the particular plaintiff and defendant in the case being evaluated.

Comment. In most cases, the issue will boil down to selection of an appropriate district court and the choice will seem obvious. The careful litigation manager, however, will still make sure that the choice is made after having thought through the options – occasionally, the best strategy is not the one that seems obvious at first.

4. Preserving or securing venue

A favorable forum for a litigation can have a substantial impact on the course and outcome of the case. An early evaluation is necessary to identify the best forum; care must then be taken not to do something that puts the ability to secure or retain that forum for any litigation that follows.

If a patent-holder creates a reasonable apprehension of suit in another (such as by accusing them of infringement), the accused infringer may be able to file and maintain a declaratory judgment action – typically in the venue of their choice. Of course, a patent-holder can file their own suit after a declaratory judgment action has been filed, triggering cross-motions to transfer each case to the venue of the other.

Since Courts show a strong preference for the venue of the first-filed suit, there can be a race to the court house once litigation appears likely. Indeed, some patent-holders will file suit before initiating licensing discussions simply to avoid the risk of ending up in an unfavorable forum. On the other hand, filing of a suit can impact the tenor of negotiations.

Careful packaging of contacts with possible infringers can reduce the risk of a declaratory judgment action in two ways. First, the correspondence can be packaged to reduce the chance that a Court would believe that there is a reasonable apprehension of suit – increasing the odds of having any declaratory judgment action dismissed in favor of a later-filed direct action.

Second, if licensing discussions are on-going at the time the declaratory judgment action is filed, many district courts will dismiss the declaratory judgment action in the Court's discretion – as premature. Careful handling of correspondence can impact the likelihood of preserving or obtaining a desired forum on the part of both the defendant and plaintiff.

Comment. Early discussions present an early opportunity for a mistake (or an opportunity to take advantage of a mistake made by the other side, or even to create one). The careful litigation manager often handles these discussions, but involvement of outside counsel can be a plus.

B. Judge vs. jury

Conventional wisdom indicates that patentholders should ask for a jury. This rule should be discounted, however, where the patent-holder's case is very strong on the technology or in medical cases where an

injunction could be perceived as affecting the public's health.

With these exceptions, the statistics bear out the conventional wisdom, as indicated in the table below.

The ability to influence whether the matter is tried before a judge or jury is, of course, limited. Often, both sides ask for a jury simply out of fear of waiving the right to one. In any event, if the plaintiff does not ask for a jury, the defendant may for no other reason than an assumption that if the Plaintiff does not want one, the defendant must.

The one opportunity to eliminate the right to a jury is by selection of forums, e.g., proceeding before the International Trade Commission will necessarily involve a nonjury trial.

C. Special Masters and judicial experts

The parties can certainly request appointment of a Special Master, with a scientific or patent background (or both) to assist in managing the case. Occasionally, a Special Master will be appointed at the Judge's insistence. Naturally, appointment of a Special Master can impact the course of a case.

There has been an increasing trend, however, for Court's to appoint a special "judicial" expert. Certain judges in Massachusetts and Delaware, for example, have a standard order to govern the use of these experts.

In most cases, the "judicial" expert is appointed by the judge but paid for by the parties. In addition, the judge only consults with the expert outside the presence of the parties; the parties do not have an opportunity to learn what input the expert had to any decision.

A judicial expert can be helpful where the case involves a very complex technology or a high degree of technical obfuscation by one or both parties. The inability to address or correct what an outside expert may say to a judge in chambers, however, creates a significant risk. The appointment of such an expert can, however, materially impact the outcome of a case – generally toward a more technically sophisticated resolution.

The careful litigation manager should consider encouraging the Court to seek independent expert help where the case is felt to be strong on the technology.

D. Outcome assessment; selection of defenses

Surprisingly, statistical analysis seldom makes its way into case assessment or case development. Indeed, one commentator has published a piece to the effect that statistics are meaningless in evaluation of patent cases.

Certainly, the facts of every case are different and the manner of presentation as well as the particular judge or jury involved can make an enormous difference in the outcome, even when the facts are similar.

Nevertheless, some sort of statistical sense about how judges and juries decide cases is inevitably applied in case assessment – usually based on nothing more than an experienced attorney's "gut" sense of how cases generally come out. It is quite common, for example, to say that multiple damage and/or attorneys fee awards are rare. In fact, they are not.

At least two thorough articles have been written that include statistical analyses of the outcome of patent cases in various circumstances and the likelihood of success for particular arguments. Some of the most applicable data is outlined below.

1. Outcome assessment

According to a survey published in 2000,[2] patentees win about 58% of the time, with alleged infringers prevailing 42% of the time.

The breakdown, by issue, was reported as follows:

Issue:	Total	Judge	Jury
Valid	67%	64%	71%
Invalid	33%	36%	29%
Enforceable	73%	75%	72%
Unenforceable	27%	25%	28%
Infringed	65 %	59%	71%
Not Infringed	35%	41%	29%
Willful	64%	53%	71%
Not Willful	36%	47%	29%

One interesting aspect is the willfulness findings. According to the statistics, where a judge finds willfulness, the judge awards multiple damages 95% of the time; thus, willfulness is found and enhanced damages awarded in about 50% of the cases where the judge decides willfulness. Although juries find willfulness 71% of the time, the judge only awards enhanced damages 63% of the time – so enhanced damages are awarded 45% of the time if the jury decides willfulness. Either way, however, enhanced damages are anything but rare.

A similar analysis applies for attorneys fee awards. Where a judge finds willfulness, attorneys fees were awarded 41% of the time – for a total chance for an award of fees of 22%. If the jury found willfulness, the chance for an award of fees was 37% -- for a total chance when the jury is deciding willfulness of 26%. Once again, a one-in-four chance of an award of fees is not a rarity.

2. *Which defenses work?*

According to statistics gathered in a survey published in 1998,[3] patents are adjudicated to be valid 54% of the time, and held invalid 46% of the time, where validity is litigated. Although some attorneys stress the difficulty in invalidating a patent, it is not rare.

The most common asserted grounds for invalidation are obviousness and anticipation based on the prior art:

Ground	Novel.	Obv.	Best Mode	Enabl./ Written Description
Cases including ground	**27 %**	**42%**	**12%**	**9%**

The percentage of times that a particular ground for invalidity is successful, when asserted, are as follows:

[2] K. A. Moore, Judges, Juries and Patent Cases – An Empirical Peek Inside the Black Box, 99 Mich. Law Rev. 365 (November 2000).

[3] J. R. Allison et al., Empirical Evidence on the Validity of Litigated Patents, 26 A.I.P.L.A.Q.J. 185 (Summer 1998).

Asserted Ground	Novel.	Obv.	Best Mode	Enabl./ Written Description
Percent Success	41%	36%	36%	36%

According to a survey published in 2000, patents are held unenforceable in 27% of the cases in which the defense is decided.

Comment. The careful litigation manager should be able to weigh the chances of success against real data. While statistics are no substitute for case analysis, they can assist in a better assessment of the case. These statistics can also be useful in settlement discussions, particularly when one party is (mis)characterizing the way that judges or juries decide cases.

E. Bifurcation of damages

A key strategic decision for the accused infringer to make is whether to ask to bifurcate the issue of willfulness of infringement (and, with it, damages) for discovery and trial.

According to a Federal Circuit decision, a district court *should* bifurcate willfulness where the accused infringer has an opinion of counsel that it may wish to use in its defense. (Many district courts nevertheless refuse to follow this admonition, however.)

The advantages of bifurcation are delay in damages discovery and reducing the ability of the patentee to try to paint the accused infringer as a bad actor.

The corresponding disadvantages are the inability to use the opinion as a justification of the accused infringer's behavior and the unappetizing prospect of going through a damages trial having already lost on infringement. Indeed, few would enjoy the prospect of defending a noninfringement or invalidity opinion that a Court or jury has already held to be wrong.

Comment. As bifurcation is a critical issue in cost, timing and outcome of a patent case, the careful litigation manager will assure that a wellreasoned decision has been made as to whether to move to bifurcate.

F. Critical issues in Markman hearings

One of the most important events in the life of a patent case is the Markman hearing. In a Markman hearing, the Court decides what the scope of the patent will be.

1. When?

The first important issue regarding a Markman hearing is "when" in the case the hearing is held. The issue is important because it impacts both timing of other important events (including, potentially, judgment) and the outcome; in many cases, a Markman ruling is dispositive of the case. Since the interpretation of the claims is necessary for both infringement and validity analysis, the interpretation of the claims can have a substantial impact on the theories developed and presented for trial and, therefore, the course and nature of discovery.

Courts have tried virtually every possibility for when to hold the Markman hearing, including: • Before discovery begins.
• During discovery.
• After the close of discovery.
• Just before trial.

• After trial, just before charging the jury.

Here, the parties once again have the ability to impact the course of the case, by positioning the case for a Markman hearing to be held at a time best meeting the legal and business needs of the case.

Presently, some courts (e.g., the Northern District of California) have local rules that require holding a Markman hearing according to a schedule that is keyed off of the initial case management conference.

For most courts, however, it is left to the practice of the individual judge. That practice is often *ad hoc* and, in large degree, depends on the positions of the parties. In some cases, however, a Markman hearing can be secured by filing dispositive motions that require resolution of Markman issues (then again, the judge may also dismiss the motion as premature).

2. How?

In many cases, the parties simply argue Markman issues by brief. Courts will also, however, hold evidentiary hearings where appropriate.

The decision of whether to ask for an evidentiary hearing must be made with care. Although an evidentiary hearing is much more costly, the significance of its resolution can justify positioning the case for an evidentiary hearing.

3. What?

The strategy issues related to what claim construction to ask for also fundamentally impact a patent litigation. The trade-off typically involves whether to ask for a broad construction (infringement is easier, but validity more difficult) or a narrow construction (same, but in reverse). Once again, all the issues must be though out in advance to select the most effective strategy.

*4. **Comment***

Markman hearings are a critical part of a patent case. The careful litigation manager should assure that the strategy for when to seek a Markman hearing, and how to conduct it, has been thought out in advance, with attention given to both cost and likely outcome.

G. Expert selection

Another critical aspect of a patent case is selection of the experts that will present the case to the judge or jury. Frequently, however, the best qualified experts are known only to scientists at the company, who are not asked for input to the selection process. The careful litigation manager will observe the types of experts selected and offer suggestions if preeminent people in the technology may be available.

H. Technology in managing the case

One last consideration for the careful litigation manager is the technology used to support the case. Virtually every serious case uses an array of technology in the Courtroom, including imaged documents, randomly accessible portions of videotaped depositions for impeachment and carefully crafted demonstrative exhibits and recreations. Less attention is often paid to technology used to support the case, such as document imaging.

In the past, document imaging had been reserved for extremely large cases with very high stakes. This was due to the high cost of imaging. Costs have fallen dramatically in the last five years. The result is that document imaging can be a cost-effective way of managing the documents in a case.

In fact, some analyses indicate that imaging can reduce total cost. The cost of imaging is a one-time expense. The potential savings include:

- Reduced numbers of copies.
- Reduced time spent looking for misplaced documents.
- 100% availability of all documents anywhere (particularly at depositions).
- Easier communication with co-counsel and clients.

Although there is a great deal to learn from experience, particularly with respect to indexing of documents, the advantages of using technology frequently outweigh the costs.

Comment. The careful litigation manager will be aware of how a case is being run by outside counsel. An inquiry into technology used to support the case can be appropriate.

IV. CONCLUSION

Patent litigation carries tremendous risk and reward. It is not for the cheap or the faint of heart.

To assure the best outcome for a business, inhouse counsel and the business people responsible for the case should stay involved. By participating in key decisions, the business can stay in charge and help assure that the interests of Managing Patent Litigation to Success; the business are pursued in the most effective way possible.

Managing Patent Litigation For Success

1

Presented to
Student Intellectual Property Law Association
Franklin Pierce Law Center

Presented by
Robert M. Abrahamsen, Esq.

November 2, 2002

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PATENT LITIGATION...

2



...when you can't work things out nicely

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OVERVIEW

3

- Goal of talk
  - Provide details and information that aid in forming strategy
  - Focus on the big issues that formulate strategy and have the most impact on a case, and how recent changes in handling patent cases affect these issues
  - Get some feel for patent litigation
- Attached paper

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PATENT LITIGATION...

4

- Why is it so fashionable?
  - The stakes?
  - The Federal Circuit?
  - The economy?
  - It's really cool?
  - All of the above?

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FRANKLIN PIERCE
LAW CENTER LIBRARY
CONCORD NH

THE PATENT LITIGATION EXPLOSION

5

- Blame it on the economy



"I am a member of the legal profession, but I'm not a lawyer in the pejorative sense."

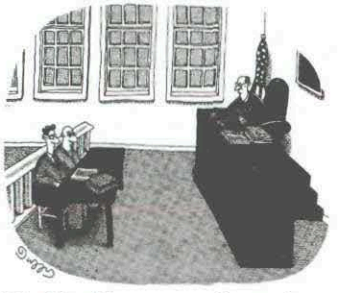
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WHAT'S THE BIG DEAL?

6

- Eyes on the prize
  - Damages
  - Trebling
  - Attorneys fees
  - Injunctions
  - Seizure orders



"No, it's either community service or jail time, counselor. Attending Riverdance is not a sentencing option."

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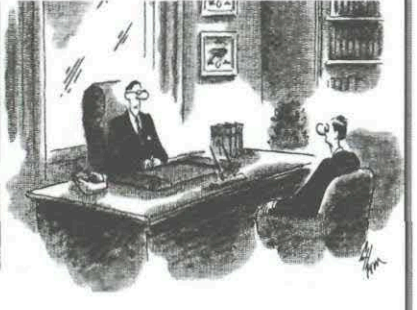
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AND, OF COURSE, THE COST

7



"You have a pretty good case, Mr. Pitkin. How much justice can you afford?"



"A lawyer unpaid is justice denied."

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BRACE YOURSELF

8

- Boston: $850,000; $1,750,000; $2,500,000
- NY: $1,000,000; $1,500,000; $2,500,000
- Cal: $1,500,000; $2,500,000; $3,500,000

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PRE-FILING INVESTIGATION

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- Overview of my favorites
  - An assessment of the defendant's resources available for defending the litigation
  - Past litigation behavior and settlement practices
  - Possible counterclaims and, particularly, patent counterclaims
  - Venue

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PRE-FILING INVESTIGATION *(continued)*

10



  - Equitable considerations in a litigation with this defendant
- Tools available

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VENUE

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- Different tribunals
  - Federal Courts
  - ITC
    - Time to trial
    - Selecting your judge
  - PTO
    - Interference
    - Reexam

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VENUE *(continued)*

12

- Picking a Court
  - Patent savvy judges (Boston, Delaware, San Francisco)
  - Education level (and bias) of juries
  - Time to trial
  - Local particulars (by rule and otherwise)
- Trends in venue battles
  - First-filed
  - Discretionary dismissals

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MARKMAN HEARING

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- Markman decided in 1995, 1996
- Effect of Markman

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INFRINGEMENT ANALYSIS

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- Claim analysis—fun and games with words

U.S. Patent 0,000,002



1. A sitting device (a), comprising:

a substantially planar surface to support a person's hind quarters (b); and at least three legs, each coupled to the surface, to support the sitting surface (c).

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INFRINGEMENT ANALYSIS *(continued)*

15

- Claim analysis -- easy cases

1. A sitting device (a), comprising:

a substantially planar surface to support a person's hind quarters (b); and at least three legs, each coupled to the surface, to support the sitting surface (c).







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INFRINGEMENT ANALYSIS *(continued)*

16

- Claim analysis—more interesting

1. A sitting device (a), comprising:

a substantially planar surface to support a person's hind quarters (b); and at least three legs, each coupled to the surface, to support the sitting surface (c).





- Doctrine of equivalents

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VALIDITY—Similar Issues

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- Prior art, undefined
- Anticipation

1. A sitting device (a), comprising:

a substantially planar surface to support a person's hind quarters (b); and at least three legs, each coupled to the surface, to support the sitting surface (c).



- Obviousness



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CRITICAL MARKMAN ISSUES—How

18

- Substance



EVERYDAY HISTRIONICS
Weighing all the pros and cons.

- Procedure

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CRITICAL MARKMAN ISSUES—Timing

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- Timing of the Markman hearing
  - Before, during or after discovery
  - Just before trial
  - Just before jury deliberations
- What Courts are doing
  - Local rule
  - Ad hoc
  - Dispositive motions

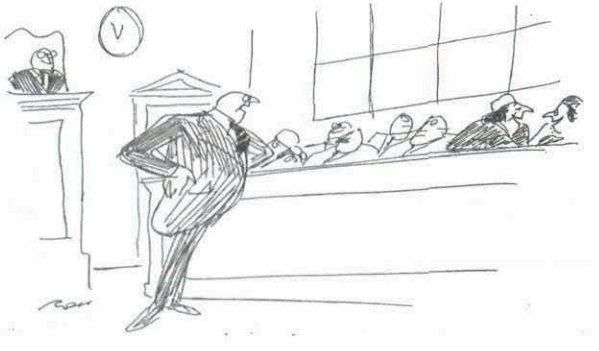
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THE DECISION-MAKER

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- Judges, juries, special masters



"Hey, you two, pay attention please! I happen to be trying to sway you!"

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JUDICIAL EXPERTS

21

- Judicial experts—a recent development
  - Not accessible to the parties
- When and how to request one

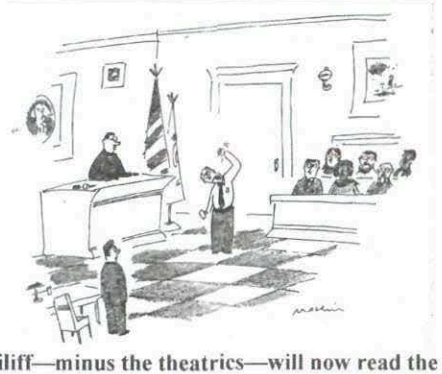
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ASSESSING THE CASE

22

- Many an attorney's "gut" is very wrong



"The bailiff—minus the theatrics—will now read the verdict."

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SURVEY SAYS...

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	Total	Jury	Judge
Valid	67%	71%	64%
Invalid	33%	29%	36%
Enforceable	73%	75%	72%
Unenforceable	27%	25%	28%
Infringed	65%	71%	59%
Not Infringed	35%	29%	41%
Willful	64%	71%	53%
Not Willful	36%	29%	47%

- Data also available on appeal rates, etc.

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AGGRESSIVE USE OF STATS—A Study

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- Most attorneys believe awards of attorney fees are extraordinarily rare
- The statistics
  - Jury: 71% find willful; judge enhances 63% of time; average enhancement—1.33; attorney fees awarded 41% of time
  - Judge: 53% find willful; enhance 95% of time—average enhancement 2.33; attorney fees awarded 41% of time
- Strategic use
- Offensive use

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OTHER STATISTICS

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- Other statistics are available for average sizes of damage awards, etc.

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SELECTING DEFENSES: Which work?

26

- Surprisingly few people seem to know
- Odds of assertion

Ground	Novelty	Obv.	Best Mode	Enab./ Written Description
Cases including ground	27%	42%	12%	9%

- Outcome

Asserted ground	Novelty	Obv.	Best Mode	Enab./ Written Description
Percent success	41%	36%	36%	36%

- Further statistics available, e.g., by trier of fact (judge or jury), technology involved

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BIFURCATION

27

- The trade-off
- The law
- The trends

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ELECTRONIC TOOLS

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- Videotaped depositions
- Document scanning and management tools
- Within the last few years, use of scanning has become cheaper than keeping documents on paper
- Enhanced ability to communicate with distant clients

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CONCLUSION

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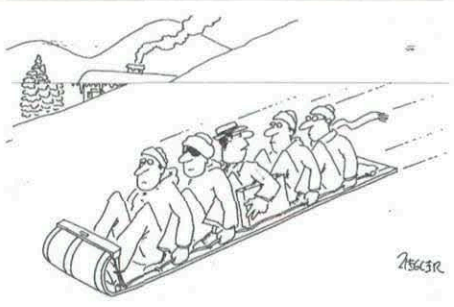
- Patent litigation began changing in the early 1980's, with formation of the CAFC
- Pace of change has accelerated
- This is wonderful—like technological changes, changes in patent law and practice create opportunities for thoughtful, well-prepared counsel to excel

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PATENT LITIGATORS—Not So Bad (?)

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"Look, I'm not saying it's going to be today.
But someday—someday—you guys
will be happy that you've taken along a lawyer."

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Biography of Glen Secor

Mr. Glen Secor is a practicing attorney in Concord, NH and has been an Adjunct Professor at Pierce Law since 1985. Prior to opening his law practice, Glen spent nearly twenty years managing the financial and legal affairs of his family's bookselling business. Glen's research and teaching interests have been focused on the areas of electronic publishing and digital copyright management. He holds a J.D. from Suffolk University Law School and an L.L.M. from Harvard Law School.

Digital Rights Management and Fair Use

Glen M. Secor, Esq.
SIPLA Symposium
November 2, 2002

Or…Access Rights in Information

- Do they exist?
- If so, who owns them?
  - Copyright owners?
  - Copyright users?

Access to Information

- Technology
  - Copyright Protection Technologies *plus*
  - E-commerce systems *equals*
  - Digital Rights Management System
- Law
  - Copyright law
  - Digital Millennium Copyright Act

Copyright Law – Exclusive Rights

- 17 U.S.C. 106
  - Reproduction
  - Derivative works (adaptation)
  - Distribution
  - Public performance
  - Public display
  - Digital audio transmission rights (in sound recordings)

Copyright Law – Fair Use

- 17 U.S.C 107
- To promote education, research, criticism, reporting, et al.
- Four-factor test
  - the purpose and character of the use
  - the nature of the copyrighted work
  - the amount and importance of the portion of the copyrighted work used
  - the effect of the use on the potential market for the copyrighted work.

Copyright and Digital Works

- WIPO Copyright Treaty (1996)
- Article 11
  - Contracting Parties shall provide *adequate legal protection* and *effective legal remedies* against the circumvention of *effective technological measures* that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or *permitted by law*. (emphasis added)

Digital Millennium Copyright Act

- U.S. implementation of WIPO Copyright Treaty
- Signed into law October 1998
- 17 U.S.C. 1201 *et seq.*

Anti-circumvention Rules

- § 1201(a): access controls
- § 1201(b): usage controls
- "Anti-circumvention": make it illegal to defeat access and usage controls applied to copyrighted digital works
- §§ 1201 (d)-(j): exceptions to anti-circumvention rules

DMCA (cont.)

- Prohibits the *act of circumvention* to gain access
- Prohibits *technologies* that can be used to defeat access and usage protection measures

Exceptions

- § 1201(d): Nonprofit library, archive and educational institution access for the sole purpose of evaluating the work in order to decide whether to acquire the work;
- § 1201(f): Access for the purpose of reverse engineering as allowed by copyright law.
- § 1201(g): Access for qualified encryption research.
- § 1201(h): Circumvention in order to further limit access by minors to inappropriate material.
- § 1201(i): Circumvention to protect personal privacy by defeating technology that collects or disseminates personal information about online users.
- § 1201(j): Circumvention for the purpose of testing computer security.

Additional Exceptions

- Copyright Office charged with evaluating effect of DMCA on fair use and creating additional exceptions for classes of works if necessary
- To be evaluated every 3 years (first set of rules released 10/00, effective until 10/03)
- Allows circumvention for two classes of works
  - compilations consisting of lists of Web sites blocked by filtering software applications
  - literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence

What is Digital Rights Management (DRM)?

- "[T]he chain of hardware and software services and technologies governing the authorized use of digital content and managing any consequences of that use throughout the entire life cycle of the content." (Duhl and Kevorkian)

Defining DRM (cont.)

- Rights management: Business processes that for legal and commercial purposes track rights, rightsholders, licenses, sales, agents, royalties, and associated terms and conditions. Digital rights management: Rights management that uses digital technology and applies to intellectual property in digital form. (Rosenblatt, et al.)

Defining DRM (cont.)

- hardware and software services and technologies (business processes)
- governing authorized use (track rights, rightsholders, agents, associated terms and conditions)
- managing any consequences of that use (track licenses, sales, royalties)

DRM Access Controls

- "rendering software tied to a file that contains a protected work, and can be complemented with encryption, digital signatures, watermarking, or hardware programming." (Einhorn)
- Trusted Systems: When access controls include authentication of both content and parties

Technical Elements of a DRM System (per AAP Report)

- encryption
- public/private key decryption
- digital certificates
- watermarks
- access control
- authentication
- secure communication protocols
- secure content storage
- a trust infrastructure
- **a rights specification language (RSL)**

Rights Specification Language

- Machine-readable language "for expressing rights and conditions associated with digital content, resources, and services." (ContentGuard)
- Relies upon Rights Data Dictionary (RDD)
- ContentGuard's Extensible Rights Mark-up Language (XrML) and IPR Systems' Open Digital Rights Language (ODRL) are leading candidates for AAP (e-book) and MPEG-21 (digital audio and video) RSL.

Association of American Publishers (AAP) Report – RSL Benefits

- Protection of digital content: encryption, which provides the first level of security and trust as publishers launch digital content.
- Secure e-book distribution: controlled access through the management of decryption keys.
- Content authenticity: encryption makes it difficult to access a file in order to alter it and other features of the secured container can be used to indicate whether a file has been altered.
- Transaction non-repudiation: use of a private key to decrypt a file indicates that the private keyholder participated in the initial download transaction.
- Market participant identification: through the use of digital certificates, the identities of participants in an e-book transaction can be verified.

RSL Requirements – Basic Business Models

- Simple binary choices: printing is allowed or not allowed, copying is allowed or not allowed, etc.
- Conditional (if/then) choices: authorization or non-authorization depending upon contextual variables, such as user identity or affiliation, quantity to be used, time limitations on use, etc.
- More complex choices: including multi-dimensional, multi-tiered pricing.

RSL Requirements – Pricing Scenarios

- Free: Protected content, but no charge for all or certain uses. Free content, for example, could be an excerpt provided for marketing purposes, or the entire work.
- Pay-per-view
- Pay-per-use
- Subscription
- Time-based
- Metered
- Unlimited usage
- Limited usage
- Site licensing
- Differential pricing based on specific uses, types of users, etc.

RSL Requirements – Distribution Scenarios

- Personal lending: allowing a consumer to transfer a file and access to that file for a period of time. During this time, the lender would not have access to the book, similar to the situation when a printed book is loaned. Preserves the first sale doctrine for consumers, even though book is more likely to have been licensed than purchased.
- Institutional lending: same principles as personal lending above and similar to interlibrary loan of books today.
- Giving: full and permanent transfer of the e-book file and access to it.

RSL Requirements – Distribution Scenarios (cont.)

- Superdistribution: also referred to as "viral distribution," in which a consumer passes the book along to one or more of his friends with all the protections intact. The recipients, who cannot access the file as sent, thus become potential licensees/customers of the publisher or distributor.
- Distributor copies: this is a big one, as most books today are sold not directly by the publisher to the consumer or purchasing institution, but rather through some intermediary or reseller. It would be rather silly for the distributor to have to store multiple copies of an e-book the way that multiple copies of printed books must be maintained in inventory. Rather, the distributor should be able to make copies from a master copy, with appropriate accounting back to the publisher for copies made and sold. The RSL should support this.

RSL Requirements – Usage Scenarios

- Personal copies: the right to make copies for personal use.
- Composite works: the right to combine the books with other content.
- Derivative works
- Printing: all or part of a book.

RSL and Fair Use?

- Remember: § 107 contains a 4-factor test and a balancing of those factors
- How to encode/automate this test? How to come up with an algorithm?
- Even if user and user's institutional identification can be authenticated and we assume educational use, that does not automatically mean fair use

This DRM stuff is great, but how do they get around copyright time-limits (assumption being that it will run out).

"Preserving" fair use of digital works

- Critics of DMCA contend that it gives copyright owner too much control over access to digital works
- Argue that circumvention of access controls must be allowed if the use of the work once accessed would qualify as fair use

DMCA Enforcement (Abuse?)

- to jail a Russian programmer who had developed a tool to circumvent certain copyright protection features of Adobe's electronic book formatting technology (Skylarov)
- to intimidate a researcher who was planning to present a paper on how he and his team cracked the watermarking technology of the Secure Digital Music Initiative (SDMI), even though SDMI had sponsored a contest encouraging people to come up with ways to defeat their technology;

DMCA Enforcement/Abuse (cont.)

- to prevent an online hacker magazine from publishing the code to defeat DVD protection technology, even though the code was available on a plethora of websites (to which the hacker magazine was prohibited to link to by the court in the case) (2600 Enterprises case)
- DMCA commentary
  - "a huge mistake
  - "both an egregious law and a brazen power grab by Hollywood,"
  - "execrable"

H.R. 5522: The Digital Choice and Freedom Act of 2002 (DCFA)

- Filed 10/02/02 by Rep. Zoe Lofgren (D-CA)
- Contends that DMCA has been interpreted contrary to Congressional intent
- Primary thrust is that circumvention of access and usage technical protections should be allowed when use will be fair use

DCFA (cont.)

- Add new § 123 to Copyright Act: "Limitations on exclusive rights; Permissible uses of digital works."
- Broad, fair use-like privilege for the reproduction, storage, adaptation, and access of lawfully obtained digital works for archival and private performance and display purposes.

DCFA §123 (cont.)

- For digital works distributed to the public, any "nonnegotiable license terms" that "restrict or limit any of the limitations on exclusive rights under this title" shall be unenforceable
- "This title" = 17 U.S.C. (the Copyright Act)
- Covers "shrink-wrap", "click-through", "mass market" licenses

Limitations on Exclusive Rights

- Fair use (§ 107)
- Library reproduction (§ 108)
- the First Sale Doctrine (§ 109)
- the classroom performance and display exceptions (§ 110)
- DCFA includes separate provision adding language to § 109 of the Copyright Act specifically applying the doctrine to digital works.

Limitations on Exclusive Rights

- Is there any need to add language to §§ 107 and 109 to make fair use and the First Sale Doctrine applicable to digital works?
- Is there any reason to believe that they do not already apply?

Go check at JD Salinger case.

DCFA and Anti-Circumvention

- Permits "a person who lawfully obtains a copy or phonorecord of a work, or who lawfully receives a transmission of a work" to circumvent technological access controls if the use of the work, once accessed, does not infringe copyright, and if the copyright owner "fails to make publicly available the necessary means to make such non-infringing use without additional cost or burden" to the user.

DCFA and Anti-Circumvention

- Also allows development of technologies to circumvent access controls for non-infringing purposes

Issues

- Who would determine what uses qualify as fair use or are otherwise non-infringing?
- How are those determinations made? Case-by-case? Fixed rules?
- Would copyright owners "encode" fair use into their DRMS applications?

Issues

- What assumptions do we make about copies that have been circumvented for non-infringing use?
- Will they be shared with others?
- Will they hit large-scale or smaller-scale peer-to-peer (P2P) networks?
- Can licensing and circumvention issues be effectively addressed apart from the P2P issue?

Tom Bell → Fare Use vs. Fair Use. / Edelman v. N2H2

Conclusions

- The DMCA is not perfect and it has been enforced in some politically stupid ways, but its opponents have overstated its negative impacts (engaged in "fear mongering" in the words of one publishing industry lobbyist)
- The 3-year cycle of Copyright Office review of the impact of the DMCA on fair use should be given a chance to work.

Conclusions

- Some of the business models (pricing, usage & distribution scenarios) set out in the AAP Report could prove more efficient and effective than the traditional copyright model.
- The DCFA is a "feel good" bill. It attempts to address some very sophisticated issues with a "blunt instrument" approach.

Biography of Eric Eldred

Mr. Eric Eldred worked for 19 years at Massachusetts General Hospital. Then, he entered the computer field, working at Apollo Computer, Hewlett-Packard, Cahners magazines, and Portsmouth Naval Shipyard until becoming disabled by repetitive strain injury. Mr. Eldred is the editor and publisher of the free online books website http://www.eldritchpress.org. The site includes the campaign biography of Franklin Pierce. Mr. Eldred is married, has triplet daughters and lives in Derry, NH.

Eldritch Press
http://www.eldritchpress.org /fplɛz/

Eldred v. Ashcroft
http://eldred.cc

Creative Commons
http://www.creativecommons.org

Statute of Anne → form of Copyright

Did not require renewal. Therefore probl.

Case Summary of *Eldred v. Ashcroft*

Facts: Led by Eric Eldred of Eldritch Press, a collective of entities, whose businesses use works in the public domain that were created prior to 1923, filed a complaint against the Attorney General of the United States of America. The civil action challenged the constitutionality of the Copyright Term Extension Act of 1998 (CTEA) based upon the Commerce Clause and the limited copyright term. Additionally, the Plaintiffs allege that they would be able to legally copy, distribute, and perform works that would have entered the public domain id the CTEA had not been adopted by Congress.

District Court for the District of Columbia Decision (74 F. Supp. 2d 1 (1999))**:** On cross-motions for Declaratory Judgment, the District Court held that:

(1) statute did not violate First Amendment;
(2) retroactive portion of statute did not violate copyright clause; and
(3) statute did not violate public trust doctrine.

The court denied the Plaintiffs' motion and granted the Defendant's motion.

Court of Appeals for the District of Columbia (239 F.3d 372 (2001) (Ginsburg, J.)**:**

Affirmed decision of the District Court. Dissent in Part filed by Justice Sentelle.

Issues before the Supreme Court:

(1) Congress's Copyright Clause power; and

(2) Violation of the First Amendment of the Constitution.

UNITED STATES PUBLIC LAWS
105th Congress -- 2nd Session

PUBLIC LAW 105-298
OCT. 27, 1998
[SONNY BONO COPYRIGHT TERM EXTENSION ACT; FAIRNESS IN MUSICAL LICENSING ACT OF 1998]

An Act
To amend the provisions of title 17, United States Code, with respect to the duration of copyright, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I--COPYRIGHT TERM EXTENSION

§ 101. <17 USC §101 note> --SHORT TITLE.
This title may be referred to as the "Sonny Bono Copyright Term Extension Act".

§ 102. DURATION OF COPYRIGHT PROVISIONS.
(a) Preemption With Respect to Other Laws.--Section 301(c) of title 17, United States Code, is amended by striking "February 15, 2047" each place it appears and inserting "February 15, 2067".

(b) Duration of Copyright: Works Created on or After January 1, 1978.--Section 302 of title 17, United States Code, is amended--

(1) in subsection (a) by striking "fifty" and inserting "70";
(2) in subsection (b) by striking "fifty" and inserting "70";
(3) in subsection (c) in the first sentence--
(A) by striking "seventy-five" and inserting "95"; and
(B) by striking "one hundred" and inserting "120"; and
(4) in subsection (e) in the first sentence--
(A) by striking "seventy-five" and inserting "95";
(B) by striking "one hundred" and inserting "120"; and
(C) by striking "fifty" each place it appears and inserting "70".

(c) Duration of Copyright: Works Created but Not Published or Copyrighted Before January 1, 1978.--Section 303 of title 17, United States Code, is amended in the second sentence by striking "December 31, 2027" and inserting "December 31, 2047".

(d) Duration of Copyright: Subsisting Copyrights.--
(1) In general.-- Section 304 of title 17, United States Code, is amended--
(A) in subsection (a)--
(i) in paragraph (1)--
(I) in subparagraph (B) by striking "47" and inserting "67"; and
(II) in subparagraph (C) by striking "47" and inserting "67";
(ii) in paragraph (2)--
(I) in subparagraph (A) by striking "47" and inserting "67"; and
(II) in subparagraph (B) by striking "47" and inserting "67"; and
(iii) in paragraph (3)--
(I) in subparagraph (A)(i) by striking "47" and inserting "67"; and
(II) in subparagraph (B) by striking "47" and inserting "67";
(B) by amending subsection (b) to read as follows:

"(b) Copyrights in Their Renewal Term at the Time of the Effective Date of the Sonny

Bono Copyright Term Extension Act.--Any copyright still in its renewal term at the time that the Sonny Bono Copyright Term Extension Act becomes effective shall have a copyright term of 95 years from the date copyright was originally secured.";

(C) in subsection (c)(4)(A) in the first sentence by inserting "or, in the case of a termination under subsection (d), within the five-year period specified by subsection (d)(2)," after "specified by clause (3) of this subsection,"; and

(D) by adding at the end the following new subsection:

"(d) Termination Rights Provided in Subsection (c) Which Have Expired on or Before the Effective Date of the Sonny Bono Copyright Term Extension Act.--In the case of any copyright other than a work made for hire, subsisting in its renewal term on the effective date of the Sonny Bono Copyright Term Extension Act for which the termination right provided in subsection (c) has expired by such date, where the author or owner of the termination right has not previously exercised such termination right, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, executed before January 1, 1978, by any of the persons designated in subsection (a)(1)(C) of this section, other than by will, is subject to termination under the following conditions:

"(1) The conditions specified in subsections (c) (1), (2), (4), (5), and (6) of this section apply to terminations of the last 20 years of copyright term as provided by the amendments made by the Sonny Bono Copyright Term Extension Act.

"(2) Termination of the grant may be effected at any time during a period of 5 years beginning at the end of 75 years from the date copyright was originally secured.".

(2) Copyright amendments act of 1992.-- Section 102 of the Copyright Amendments Act of 1992 (Public Law 102-307; 106 Stat. 266; 17 U.S.C. 304 note) is amended--

(A) in subsection (c)--

(i) by striking "47" and inserting "67";

(ii) by striking "(as amended by subsection (a) of this section)"; and

(iii) by striking "effective date of this section" each place it appears and inserting "effective date of the Sonny Bono Copyright Term Extension Act"; and

(B) in subsection (g)(2) <17 USC 101 note> in the second sentence by inserting before the period the following: ", except each reference to forty-seven years in such provisions shall be deemed to be 67 years".

§ 103. TERMINATION OF TRANSFERS AND LICENSES COVERING EXTENDED RENEWAL TERM.

Sections 203(a)(2) and 304(c)(2) of title 17, United States Code, are each amended--

(1) by striking "by his widow or her widower and his or her children or grandchildren"; and

(2) by inserting after subparagraph (C) the following:

"(D) In the event that the author's widow or widower, children, and grandchildren are not living, the author's executor, administrator, personal representative, or trustee shall own the author's entire termination interest.".

§ 104. REPRODUCTION BY LIBRARIES AND ARCHIVES.

Section 108 of title 17, United States Code, is amended--

(1) by redesignating subsection (h) as subsection (i); and

(2) by inserting after subsection (g) the following:

"(h)(1) For purposes of this section, during the last 20 years of any term of copyright of a published work, a library or archives, including a nonprofit educational institution that functions as such, may reproduce, distribute, display, or perform in facsimile or digital form a copy or phonorecord of such work, or portions thereof, for purposes of preservation,

scholarship, or research, if such library or archives has first determined, on the basis of a reasonable investigation, that none of the conditions set forth in subparagraphs (A), (B), and (C) of paragraph (2) apply.

"(2) No reproduction, distribution, display, or performance is authorized under this subsection if--

"(A) the work is subject to normal commercial exploitation;

"(B) a copy or phonorecord of the work can be obtained at a reasonable price; or

"(C) the copyright owner or its agent provides notice pursuant to regulations promulgated by the Register of Copyrights that either of the conditions set forth in subparagraphs (A) and (B) applies.

"(3) The exemption provided in this subsection does not apply to any subsequent uses by users other than such library or archives.".

§ 105. VOLUNTARY NEGOTIATION REGARDING DIVISION OF ROYALTIES.

It is the sense of the Congress that copyright owners of audiovisual works for which the term of copyright protection is extended by the amendments made by this title, and the screenwriters, directors, and performers of those audiovisual works, should negotiate in good faith in an effort to reach a voluntary agreement or voluntary agreements with respect to the establishment of a fund or other mechanism for the amount of remuneration to be divided among the parties for the exploitation of those audiovisual works.

§ 106. <17 USC §108 note> EFFECTIVE DATE.

This title and the amendments made by this title shall take effect on the date of the enactment of this Act.

TITLE II--MUSIC LICENSING EXEMPTION FOR FOOD SERVICE OR DRINKINGESTABLISHMENTS

§ 201. <17 USC § 101 note> --SHORT TITLE.

This title may be cited as the "Fairness In Music Licensing Act of 1998".

§ 202. EXEMPTIONS.

(a) Exemptions for Certain Establishments.--Section 110 of title 17, United States Code, is amended--

(1) in paragraph (5)--

(A) by striking "(5)" and inserting "(5)(A) except as provided in subparagraph (B),"; and

(B) by adding at the end the following:

"(B) communication by an establishment of a transmission or retransmission embodying a performance or display of a nondramatic musical work intended to be received by the general public, originated by a radio or television broadcast station licensed as such by the Federal Communications Commission, or, if an audiovisual transmission, by a cable system or satellite carrier, if--

"(i) in the case of an establishment other than a food service or drinking establishment, either the establishment in which the communication occurs has less than 2,000 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 2,000 or more gross square feet of space (excluding space used for customer parking and for no other purpose) and--

"(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

"(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than 1 audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

"(ii) in the case of a food service or drinking establishment, either the establishment in which the communication occurs has less than 3,750 gross square feet of space (excluding space used for customer parking and for no other purpose), or the establishment in which the communication occurs has 3,750 gross **[**2831]** square feet of space or more (excluding space used for customer parking and for no other purpose) and--

"(I) if the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

"(II) if the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than one audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space;

"(iii) no direct charge is made to see or hear the transmission or retransmission;

"(iv) the transmission or retransmission is not further transmitted beyond the establishment where it is received; and

"(v) the transmission or retransmission is licensed by the copyright owner of the work so publicly performed or displayed;"; and

(2) by adding after paragraph (10) the following:"The exemptions provided under paragraph (5) shall not be taken into account in any administrative, judicial, or other governmental proceeding to set or adjust the royalties payable to copyright owners for the public performance or display of their works. Royalties payable to copyright owners for any public performance or display of their works other than such performances or displays as are exempted under paragraph (5) shall not be diminished in any respect as a result of such exemption.".

(b) Exemption Relating to Promotion.--Section 110(7) of title 17, United States Code, is amended by inserting "or of the audiovisual or other devices utilized in such performance," after "phonorecords of the work,".

§ 203. LICENSING BY PERFORMING RIGHTS SOCIETIES.

(a) In General.--Chapter 5 of title 17, United States Code, is amended by adding at the end the following:

"$ 512. Determination of reasonable license fees for individual proprietors

"In the case of any performing rights society subject to a consent decree which provides for the determination of reasonable license rates or fees to be charged by the performing rights society, notwithstanding the provisions of that consent decree, an individual proprietor who owns or operates fewer than 7 non-publicly traded establishments in which nondramatic musical works are performed publicly and who claims that any license agreement offered

by that performing rights society is unreasonable in its license rate or fee as to that individual proprietor, shall be entitled to determination of a reasonable license rate or fee as follows:

"(1) The individual proprietor may commence such proceeding for determination of a reasonable license rate or fee by filing an application in the applicable district court under paragraph (2) that a rate disagreement exists and by serving a copy of the application on the performing rights society. Such proceeding shall commence in the applicable district court within 90 days after the service of such copy, except that such 90-day requirement shall be subject to the administrative requirements of the court.

"(2) The proceeding under paragraph (1) shall be held, at the individual proprietor's election, in the judicial district of the district court with jurisdiction over the applicable consent decree or in that place of holding court of a district court that is the seat of the Federal circuit (other than the Court of Appeals for the Federal Circuit) in which the proprietor's establishment is located.

"(3) Such proceeding shall be held before the judge of the court with jurisdiction over the consent decree governing the performing rights society. At the discretion of the court, the proceeding shall be held before a special master or magistrate judge appointed by such judge. Should that consent decree provide for the appointment of an advisor or advisors to the court for any purpose, any such advisor shall be the special master so named by the court.

"(4) In any such proceeding, the industry rate shall be presumed to have been reasonable at the time it was agreed to or determined by the court. Such presumption shall in no way affect a determination of whether the rate is being correctly applied to the individual proprietor.

"(5) Pending the completion of such proceeding, the individual proprietor shall have the right to perform publicly the copyrighted musical compositions in the repertoire of the performing rights society by paying an interim license rate or fee into an interest bearing escrow account with the clerk of the court, subject to retroactive adjustment when a final rate or fee has been determined, in an amount equal to the industry rate, or, in the absence of an industry rate, the amount of the most recent license rate or fee agreed to by the parties.

"(6) Any decision rendered in such proceeding by a special master or magistrate judge named under paragraph (3) shall be reviewed by the judge of the court with jurisdiction over the consent decree governing the performing rights society. Such proceeding, including such review, shall be concluded within 6 months after its commencement.

"(7) Any such final determination shall be binding only as to the individual proprietor commencing the proceeding, and shall not be applicable to any other proprietor or any other performing rights society, and the performing rights society shall be relieved of any obligation of nondiscrimination among similarly situated music users that may be imposed by the consent decree governing its operations.

"(8) An individual proprietor may not bring more than one proceeding provided for in this section for the determination of a reasonable license rate or fee under any license agreement with respect to any one performing rights society.

"(9) For purposes of this section, the term 'industry rate' means the license fee a performing rights society has agreed **[**2833]** to with, or which has been determined by the court for, a significant segment of the music user industry to which the individual proprietor belongs.".

(b) Technical and Conforming Amendment.--The table of sections for chapter 5 of

title 17, United States Code, is amended by adding after the item relating to section 511 the following:

"512. Determination of reasonable license fees for individual proprietors.".

§ 204. PENALTIES.

Section 504 of title 17, United States Code, is amended by adding at the end the following:

"(d) Additional Damages in Certain Cases.--In any case in which the court finds that a defendant proprietor of an establishment who claims as a defense that its activities were exempt under section 110(5) did not have reasonable grounds to believe that its use of a copyrighted work was exempt under such section, the plaintiff shall be entitled to, in addition to any award of damages under this section, an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff for such use during the preceding period of up to 3 years.".

§ 205. DEFINITIONS.

Section 101 of title 17, United States Code, is amended--

(1) by inserting after the definition of "display" the following:
"An 'establishment' is a store, shop, or any similar place of business open to the general public for the primary purpose of selling goods or services in which the majority of the gross square feet of space that is nonresidential is used for that purpose, and in which nondramatic musical works are performed publicly.

"A 'food service or drinking establishment' is a restaurant, inn, bar, tavern, or any other similar place of business in which the public or patrons assemble for the primary purpose of being served food or drink, in which the majority of the gross square feet of space that is nonresidential is used for that purpose, and in which nondramatic musical works are performed publicly.";

(2) by inserting after the definition of "fixed" the following:
"The 'gross square feet of space' of an establishment means the entire interior space of that establishment, and any adjoining outdoor space used to serve patrons, whether on a seasonal basis or otherwise.";

(3) by inserting after the definition of "perform" the following:
"A 'performing rights society' is an association, corporation, or other entity that licenses the public performance of nondramatic musical works on behalf of copyright owners of such works, such as the American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI), and SESAC, Inc."; and

(4) by inserting after the definition of "pictorial, graphic and sculptural works" the following:
"A 'proprietor' is an individual, corporation, partnership, or other entity, as the case may be, that owns an establishment or a food service or drinking establishment, except that no owner or operator of a radio or television station licensed by the Federal Communications Commission, cable system or satellite carrier, cable or satellite carrier service or programmer, provider of online services or network access or the operator of facilities therefor, telecommunications company, or any other such audio or audiovisual service or programmer now known or as may be developed in the future, commercial subscription music service, or owner or operator of any other transmission service, shall under any circumstances be deemed to be a proprietor.".

§ 206. <17 USC §101 note> CONSTRUCTION OF TITLE.

Except as otherwise provided in this title, nothing in this title shall be construed to relieve any performing rights society of any obligation under any State or local statute, ordinance, or law, or consent decree or other court order governing its operation, as such statute, ordinance, law, decree, or order is in effect on the date of the enactment of this Act, as it may be amended after such date, or as it may be issued or agreed to after such date.

§ 207. <17 USC §101 note> EFFECTIVE DATE.

This title and the amendments made by this title shall take effect 90 days after the date of the enactment of this Act.