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IP Newsflash

06.27.14

DISTRICT COURT CASES

George Clinton to Pay His Lawyers in Song

In a 9th Circuit opinion, the panel upheld a district court opinion which assigned four of Clinton's sound recording copyrights to a receiver to satisfy judgments rendered against him by his former lawyers. George Clinton, the renowned musician, bandleader, and producer, hired Hendricks & Lewis (H&L) to represent him in various infringement disputes from March 2005 – August 2008. The work performed on Clinton's behalf constituted over $3 Million in fees; Clinton refused to pay over $1.72 Million. H&L pursued the enforcement of its past-due fees in arbitration and then later moved to compel the arbitration award in the District Court of Washington.

The underlying appeal surrounds the court's enforcement of the arbitration award and assignment of master recordings of Clinton's performances with the group Funkadelic to receivership ("Masters"). The Masters songs at issue are "Hardcore Jollies," "One Nation Under a Groove," "Uncle Jam Wants You," and "The Electric Spanking of War Babies"—all with registered copyrights. The copyrights were originally obtained by Warner Bros. and subsequently transferred to Clinton. Clinton alleges that the assignment of the Masters to receivership was improper and in violation of Copyright Act § 201 (e) which serves as protection to authors for involuntary transfer of their copyrights. The panel reasoned that Clinton was not an "author" of the Masters within the meaning of the act since all four Masters were created under agreements with Warner Bros. The Copyright Act provides that "[i]n the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of [the Copyright Act]…" § 201 (b)

Therefore, the district court reasonably concluded that Warner Bros. was the initial author and owner of the Masters, and § 201 (e) is not available to Clinton. Subsequently, the panel found that it was not an abuse of discretion to appoint a receiver to manage or sell ownership of the copyrights, to satisfy judgments. "Clinton's copyrights in the masters are subject to execution to satisfy judgments entered against him," the panel said.

Hendricks Lewis, PLLC v. George Clinton, No. 13-35010 (9th Cir., June 23, 2014).

- *Author*: Holly Dekan

Damages Expert Required to Include All Claimed Elements in the Royalty Base

On June 21, 2014, the Eastern District of Texas granted plaintiff's motion to exclude the testimony of defendant's damages expert because the expert used an improper royalty base. The asserted patents are directed to systems and methods for displaying and moving a cursor on a screen with a handheld device. During prosecution of the patents, all elements of the invention were found obvious except for three image-processing steps. Thus, defendant's damages expert deemed the three image-processing steps to be the "inventive aspect" of the patents. The accused product—the Nintendo Wii Remote pointing device—allegedly infringed the patents by practicing the three image-processing steps in combination with a Bluetooth controller. Since the Bluetooth controller existed in the prior art and was not an "inventive aspect," defendant's damages expert excluded the Bluetooth controller and determined the proper royalty base was the Wii Remote alone.

The court rejected defendant's arguments. While the court noted that the proper royalty base is often the smallest salable infringing unit to "remove the value of unclaimed elements," defendant "has not cited any precedent permitting the complete removal of the value of claimed elements." The court held that the royalty base must include the value of all claimed elements and excluded the testimony of defendant's damages expert for his failure to use the proper royalty base.

ThinkOptics, Inc. v. Nintendo of America, Inc., 6:11-cv-00455 (E.D. Tex. June 21, 2014) [Davis, J].

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PATENT TRIAL AND APPEAL BOARD

First AIA Review of Pharmaceutical Patents

In 2012, Merck & Cie (Merck), South Alabama Medical Science Foundation (SAMSF) and Pamlab filed suit against Gnosis and others in the Eastern District of Texas. The lawsuit accused Gnosis of manufacturing prescription vitamin supplements that infringed three SAMSF patents relating to dietary folate supplementation and a Merck patent relating to the use of tetrahydrofolates in pharmaceutical production. The litigation was stayed pending a decision on Gnosis' request for *inter partes* review of these patents under the America Invents Act. Based on obviousness findings and the cancellation of 32 claims by SAMSF and six claims by Merck, Gnosis prevailed on all of the 58 claims it challenged. Regarding the obviousness findings, the PTO was unpersuaded by

SAMSF's and Merck's attempts to use evidence of "commercial success" (net sales, growth in sale, licensing arrangements, copying by others and fulfillment of long-felt but unmet need) as objective indicia of nonobviousness. The PTO said that, "In relation to commercial success, the evidence must show 'both that there is commercial success ***and*** that the thing (product or method) that is commercially successful is the invention disclosed and claimed in the patent.'" (Emphasis supplied.) Here, given the existence and availability of "strong" prior art, SAMSF and Merck failed to meet the second prong of this analysis. Thus, the PTO gave the evidence of commercial success provided by SAMSF and Merck little to no weight in evaluating obviousness.

According to Ryan Davis's *Law360* article, "Merck Supplement Patents Nixed in 1st Pharma AIA Reviews," "only about 6 percent of the AIA petitions filed to date have challenged pharmaceutical patents," making this possibly the "first *inter partes* review involving pharmaceutical-related patents."

Gnosis S.P.A. v. South Alabama Medical Science Foundation, IPR2013-00116, IPR2013-00118 & IPR2013-00119 (PTAB June 20, 2014) [Kamholz (opinion); Bonilla; Snedden]; Gnosis, S.P.A. v. Merck & CIE, IPR2013-0017 (PTAB June 20, 2014) [Kamholz (opinion); Bonilla; Snedden].

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