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ideas on intellectual property law

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Limiting licensees' rights

Court cautions on sublicensing trademark, publicity rights

The sublicensing rule denies patent and copyright licensees the ability to sublicense their rights to third parties without the original licensors' express consent. But until recently, it wasn't clear in the Ninth Circuit whether this rule applied to trademarks and publicity rights. In *Miller v. Glenn Miller Productions, Inc.*, the Ninth Circuit Court of Appeals has found that it does apply to trademarks and, in some cases, to publicity rights.

AND THE BAND PLAYED ON

After Glenn Miller's death, his attorney incorporated Glenn Miller Productions (GMP). The official purpose of GMP was, among other things, organizing and operating orchestras, and acquiring licenses or other rights in musical compositions. Miller's widow, who had acquired her late husband's publicity rights, trademarks and other intellectual property rights, served as a vice president and technical advisor. Very soon after GMP was formed, she licensed to GMP the right to use Miller's music and his name and likeness. GMP then began operating an orchestra called the Glenn Miller Orchestra and subsequently registered "Glenn Miller Orchestra" as a trademark in 1965 and renewed registration in 1985.

Beginning in 1988, GMP sublicensed to third parties the right to operate other orchestras called the "Glenn Miller Orchestra" in the United States, Canada and Europe. In the 1980s and 1990s, Mrs. Miller's adopted children (who acquired her rights after her death) sent at least eight cease-and-desist letters to various unlicensed third parties over unauthorized use of the Glenn Miller name and likeness but never sent such a letter to GMP.

The children sued GMP in 2003, based in part on GMP's sublicensing of the right to operate orchestras. They sought a ruling that GMP couldn't sublicense intellectual property rights conveyed under the 1956 licensing agreement without express permission.

The district court found that the patent and copyright sublicensing rule did apply to the case, but dismissed the Miller children's claim because they had waited too long to sue GMP. The Ninth Circuit affirmed the lower court's opinion and adopted much of the district court judge's opinion.

ORCHESTRATING TRADEMARK RIGHTS

The district court found that policy rationales cited by the Ninth Circuit in copyright cases applied with equal force to the sublicensing of trademarks. Allowing a licensee to transfer its license without permission jeopardizes the copyright holder's ability to monitor use.

Trademark law imposes an affirmative duty on trademark holders to supervise and control licensees' use of their mark. Failure to comply could cost a trademark holder its right to enforce licenses, which the district court found supports extending the sublicensing rule. If a trademark licensee could unilaterally sublicense a mark without notifying or obtaining consent from the licensor, the licensor would lose its ability

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to police the mark, thereby losing its rights to enforce its ownership rights through the licensee.

The court also found that extending the rule would reduce the likelihood of litigation. If a licensor cannot control a licensee's ability to sublicense its trademark, disputes over the suitability of a potential sublicensee or about whether a sublicensee is acting within the original license's scope could trigger litigation.

The district court acknowledged fundamental differences between patent and copyright law, on the one hand, and trademark law, on the other. The basic policies underlying copyright and patent protection are designed to encourage creative authorship and invention. Trademark protection is intended to protect the public's expectations that products sold under a trademark derive from a common source and share like quality.

Despite the differences, copyright and trademark licensors share a common retained interest in their intellectual property's ownership. This interest would be diminished if a licensee could sublicense without the licensor's express permission.

PUBLICITY RIGHTS: BLOWING YOUR OWN HORN

The district court recognized common features between trademarks and publicity rights but also found dissimilarities. Trademarks, for instance, protect their owners by fortifying the public's expectations regarding the source and quality of goods and services. The right of publicity, however, protects an individual's "persona" from commercial exploitation by others.

Most significantly, the licensor of publicity rights — unlike trademark licensors — lacks an affirmative duty to police its license and ensure licensees maintain sufficient quality controls. Although the policy concern of minimizing litigation applies to publicity rights, along with other intellectual property, the distinction in duty undermines one of the policy rationales used to extend the sublicensing rule to trademarks.

But the court asserted that licensors of publicity rights probably have powerful incentive to supervise licensees' use of the rights. Referring to the facts of the case, the Ninth Circuit speculated that, without the rule, a sublicensee could use Glenn Miller's name, photo or likeness to promote a wide variety of ideas, some of which could be undesirable. Such use would adversely affect the Glenn Miller image that his heirs, as holders of the trademark, would want to preserve.

Further, the court noted, many licenses convey both trademark and publicity rights. Allowing the sublicensing of publicity rights could taint or dilute the "Glenn Miller" trademark. The court concluded that, at least in cases in which a license conveys both trademark and publicity rights, the sublicensing rule should be extended to cover publicity rights.

SINGING A DIFFERENT TUNE

GMP also argued that the district court had erred in finding that GMP had sublicensed the "Glenn Miller" trademark, contending that it had actually licensed its own "Glenn Miller Orchestra" mark. It asserted that, because it had registered the mark for "Glenn Miller Orchestra," it held rights to the mark independent of the "Glenn Miller" mark.

The appellate court found that GMP misunderstood a fundamental principle of trademark law: Registration doesn't create a trademark or confer ownership; only use in the marketplace can establish a trademark. GMP's registration of the "Glenn Miller Orchestra" trademark didn't affect the heirs' ownership of the "Glenn Miller" trademark or right to pursue breach or infringement claims of the "Glenn Miller" trademark.

A SOUR NOTE

Despite all this discussion of sublicensing rules, the Ninth Circuit found the plaintiffs' claims were barred under the doctrine of laches after it found an unreasonable delay in bringing suit that prejudiced GMP. Nonetheless, the decision gives trademark and publicity rights owners greater control of their rights and more power to curb undesired uses.

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Settled or not?

Patentee tries to unmake its bed post-settlement

You've probably heard of consumer remorse, but what about settlement remorse? In *Louisville Bedding Co. v. Pillowtex Corp.*, a mattress pad manufacturer came down with a bad case of remorse several years after settling a patent infringement case and sought to reopen the case.

AN EXTENDED PILLOW FIGHT

Louisville Bedding filed suit against Pillowtex in 1994, alleging infringement of Louisville Bedding's patent for a mattress pad. Pursuant to a settlement agreement between the parties, the district court found no patent infringement. Nevertheless, in exchange for the dismissal of other claims against it, Pillowtex agreed in a 1998 settlement to license the patent from Louisville Bedding. As part of the settlement agreement, the district court entered final judgment dismissing all claims that were or could have been asserted and finding that Pillowtex's pad didn't infringe the patent.

Louisville Bedding then sued Perfect Fit Industries in 1998 in the same court for infringement of the same patent. The court determined the finding of noninfringement from the earlier *Pillowtex* case controlled in this newer action and thus found that Perfect Fit hadn't infringed the patent. The parties settled similarly to the earlier case, with

More on Rule 60(b) relief

The Ninth Circuit also recently denied a Rule 60(b) motion to vacate a judgment entered pursuant to settlement in *Latshaw v. Trainer Wortham & Company*. Both *Latshaw* and *Louisville Bedding Co. v. Pillowtex Corp.* (see main article) demonstrate the difficulty in obtaining judicial relief from a judgment or order.

Under Rule 60(b), a court may grant relief based on one of the following:

1. **Mistake, inadvertence, surprise or excusable neglect,**
2. **Newly discovered evidence which by due diligence couldn't have been discovered in time to move for a new trial,**
3. **Fraud (whether intrinsic or extrinsic), misrepresentation, or other misconduct of an adverse party,**
4. **The judgment is void,**
5. **The judgment has been satisfied, released, or discharged, or a prior judgment on which it's based has been reversed or otherwise vacated, or it's no longer equitable that the judgment should have prospective application, or**
6. **Any other reason justifying relief from the judgment.**

As discussed by the court in *Latshaw*, judgments that are the result of settlements between parties are virtually impossible to set aside. Even if the settlement is entered into as a result of a misunderstanding of the law or facts, courts will not vacate the judgment ending the litigation if the parties acted voluntarily and deliberately.

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Perfect Fit taking a license to Louisville Bedding's patent. The settlement also included a provision requiring resolution of future disputes over potential infringement of the patent through alternative dispute resolution.

Pillowtex went out of business in 2003. Xymid LLC had an exclusive supply agreement for material used in Pillowtex's mattress pad (which had been found in the earlier litigation not to infringe the Louisville Bedding patent). Pillowtex's demise liberated Xymid from the exclusivity restriction. It then began selling the material to other mattress pad manufacturers, including Perfect Fit.

Perfect Fit initiated arbitration with Louisville Bedding in 2003 to determine whether Xymid's material would infringe the patent if used in Perfect Fit's mattress pads. The arbitrator held that it wasn't bound by the earlier cases and concluded that Perfect Fit's use of the material would constitute infringement. In February 2005, the district court entered judgment on the arbitrator's award, precluding Perfect Fit from manufacturing mattress pads using Xymid's material.

SWEET DREAMS

In May 2005, Louisville Bedding filed a Rule 60(b) motion to reopen the Pillowtex case and have the district court partially vacate the judgment of noninfringement reached by the parties in the settlement agreement. It based its argument on the change of circumstances in the mattress pad industry after Pillowtex closed and the possibly conflicting district court judgments. The court denied the motion, and Louisville Bedding appealed.

On appeal, Louisville Bedding argued that Pillowtex's closing had triggered unforeseen events in the mattress marketplace since settlement in 1998. Because of Pillowtex and Xymid's exclusive agreement for the material and Pillowtex's apparent commercial and financial stability, Louisville Bedding had assumed when it agreed to the entering of final judgment of noninfringement that no competitor would have access to Xymid's material. It asserted that the judgment and related settlement left it in a defenseless position, preventing it from pursuing license revenue from competitors using Xymid's material.

RUDE AWAKENING

The Federal Circuit Court of Appeals began by noting that a district court typically can grant relief from judgments under Rule 60(b)(6) only for "exceptional or extraordinary circumstances." It didn't find such circumstances in this case.

The court pointed out that businesses fail every day. Although Pillowtex appeared highly successful at the time of settlement, its subsequent closure wasn't exceptional and extraordinary. The court observed that Louisville Bedding had taken a calculated risk that hadn't turned out the way it had expected.

The court also dismissed the notion that equities in the case favored Louisville Bedding and its business decision. In the original case, Louisville Bedding faced summary judgment and an unfavorable construction of its patent claim. Its position looked bleak, with no certainty that the results would change in district court or on appeal. In the court's opinion, Louisville Bedding greatly benefited from settling under the given terms.

PUTTING THE CASE TO BED

The Federal Circuit also weighed in on the societal need for finality in judgments. It cited Supreme Court precedent recognizing that "public policy dictates that there be an end of litigation; that those who have contested an issue shall be bound by the result of the contest, and that matters once tried shall be considered forever settled as between the parties."

The court declared that the policy concern became even stronger in cases ended by the parties' deliberate choice. Settling parties should take care with the settlement agreement language, giving due consideration to potential future developments in the market and industry.

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Iowa beats California in Patent Bowl

Court rules on time restrictions and interference action

The University of California and the University of Iowa went head-to-head recently, not on a field but in the courtroom. The schools were involved in a patent interference action before the Board of Patent Appeals and Interferences (BPAI). The Federal Circuit Court of Appeals found for Iowa, demonstrating the importance of satisfying statutory time restrictions when filing claims.

MAKING THE INTERFERENCE CALL

Section 135(b)(1) of the Patent Act states that a patent claim that is the same or substantially the same subject matter as a claim of an issued patent may not be made in an application unless it's made prior to one year of the date on which the patent was granted.

When pending patent applications claim substantially the same invention, the act directs the Patent and Trademark Office (PTO) to declare an "interference." Sec. 135(b)(1) recognizes that, if the PTO fails to do so, the public interest is better served by a belated interference (up to one year after the first patent issues) rather than issuance of a second patent.

THE X'S AND O'S

The Iowa-California case involved molecules that minimize allergic reactions. The PTO granted Iowa a patent on the molecules on March 27, 2001, while California's application was pending.

California added three claims, Claims 202–204, to its application seven months after the Iowa patent was issued. The claims were similar to Iowa's, and California requested a declaration of interference with Iowa's patent. The PTO rejected the claims, but California continued to prosecute its application. On May 9, 2002, it added Claim 205 to its application and eventually canceled Claims 202–204. The PTO then declared an interference.

The BPAI subsequently ruled that Claim 205 had been filed more than a year after Iowa's patent had been issued. California's claim was therefore barred unless it could link Claim 205 to Claims 202–204, which had been filed within a year of the issuance. The BPAI found material differences between 202–204 and 205, preventing the latter from benefiting from the timely filing of the former claims.

PLAYING DEFENSE

On appeal from the BPAI's decision, California didn't contest the BPAI's finding of material differences but asserted that the appropriate inquiry under Sec. 135(b)(1) was whether Claims 202–204 were to the same invention as Claim 205, not whether material differences existed. It argued that "having already filed claims that satisfied section 135(b)(1), that section no longer bars any subsequent claim filed in" its patent application.

The Federal Circuit stated that Sec. 135(b)(1) includes no language suggesting that a request for an interference within the one-year time period

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was pertinent. California, the court said, couldn't satisfy the section by supplying notice of an interference within a year.

The court also dispensed with California's supporting cases because both included claims made after the one-year time period that were the same as the patented claims. Neither opinion was therefore relevant.

The Federal Circuit found that California's proposed construction would render Sec. 135(b)(1) a statute of limitations that could be tolled by a single claim within the one-year period, a result inconsistent with the statute's language. Rather, the court described the provision as a statute of repose, limiting a patentee's exposure to an interference proceeding.

THE SAME PAGE OF THE PLAYBOOK

As the court noted, Sec. 135(b)(1) bans any claim having a degree of identity with a claim in an issued patent unless the claim is filed before the critical date. California might have prevailed if Claim 205 hadn't materially differed from Claims 202–204.

No trademark abandonment in liquidation sale

The Ninth Circuit Court of Appeals recently analyzed whether a trademark holder whose business was failing had abandoned his mark. The court in *Electro Source, LLC v. Brandess-Kalt-Aetna Group, Inc.*, held that a trademark owner's inventory sell-off qualified as legitimate commercial sales that precluded a finding of abandonment.

Ronald Mallett owned a trademark for a backpack/luggage line that consisted of the word "pelican" below an outline of a flying pelican in a circle. He met with limited business success over the years. As his business dwindled, he made "on-the-spot" sales for cash and sold backpacks at a steep discount. He eventually assigned the mark to Electro Source.

The defendants in the case manufacture, market and sell a variety of goods under the trademarks "Pelican Products," "Pelican" and "Peli Products." Electro Source sued the defendants, alleging infringement of the pelican trademark. The defendants countered that Mallett had abandoned the trademark before assigning it to Electro Source and thus had no rights to assign.

Under the Lanham Act, a trademark holder abandons a mark when it discontinues use of the trademark and does not intend to resume such use. The court explained that, unless the trademark use is actually terminated, the intent-not-to-resume prong doesn't come into play. Nominal or limited sales of trademarked goods made in good faith could prove sufficient to negate the intent inquiry if the circumstances legitimately explain the paucity of sales. A single instance of use — if made in good faith — is sufficient against a claim of abandonment.

In this case, the court found the existence of core trademark activities precluded summary judgment on the abandonment claim. In the course of his ordinary, struggling business, Mallett transported and publicly displayed his goods with the pelican trademark over a number of years in an effort to sell the goods, and he made actual sales.

It's worth noting that the court distinguished good faith sales found in this case from "trademark maintenance programs." Maintenance programs usually involve filing requirements with the Patent and Trademark Office to ensure that no trademark registrations are canceled for failure to file necessary and time-sensitive documents. Such a program alone would not preclude a finding of abandonment.

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