VOL.6 NO.1 2006

Intellectually speaking

PATENT LAW

A patent provides the means to exclude others from misappropriating proprietary innovation

A Patent provides notice to the world of a patentee's right to exclude others from infringing activities.

A United States patent secures, for a period of not more than twenty years from the effective filing date of a patent application, the right of an inventor or other patent owner to exclude others from making, using, offering for sale or selling the invention throughout the U.S., or importing the invention into the U.S. If the invention is a process, the patent owner has the right to exclude others from using, offering for sale or selling throughout the U.S., or importing into the U.S., products made by the process. Therefore, the first category of infringer includes those who, without authority from the patentee, make, use, offer for sale, sell or import a patented invention in the U.S., or alternatively, those who use, offer for sale, sell or import products made by a patented process in the U.S.

Moreover, the Patent Act provides a second category of infringer. A vicarious infringer is one who actively induces infringement. Finally, the Patent Act provides for a third category of infringer. A contributory infringer is one who offers to sell, sells, or imports into the United States a component of a patented machine, manufacture, combination, composition, or a material or apparatus for use in practicing a patented process, with knowledge that it is especially made or adapted for infringing use and that it is not suitable for substantial non-infringing use.

A patent provides the right to prohibit competitors from misappropriating the patentee's innovation, enables a court to enjoin infringement, and enables a court to award damages.

A court makes the initial determination of infringement. The initial determination is subject to review and subsequent affirmation, or reversal, on appeal. Once the court makes an ultimate finding of infringement, the infringer can be enjoined from continuing its infringing activities and can be held accountable for damages suffered by the patent owner. Specifically, the court is enabled to award damages adequate to compensate for infringement, but not less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs. Although subject to limitations, the court also has the discretion to increase the damages up to three times the amount found or assessed. Finally, the court is enabled to enjoin the infringer from continuing all infringing activities.

Infringement can significantly impact not only the patentee but also society in general. An illustrative example is that of the case between NTP and Research in Motion, Ltd. NTP owns six patents to wireless electronic mail services. RIM, NTP's competitor, makes the BlackBerry device and provides the accompanying wireless e-mail service. NTP sued RIM alleging that the elements of the Blackberry device system infringe several claims of its patents. Should infringement stand in this case, RIM would have benefited tremendously by misappropriating NTP's proprietary innovations, to the detriment of NTP, because RIM has commercially outperformed NTP within the United States using NTP's inventions. Additionally, relying on RIM's services has put society at a disadvantage because NTP would now have a right to exclude RIM's infringing activities from the public. This would surely place pressure on organizations and

See Patent page 4

COVER ■ *A patent provides the means to exclude others from misappropriating proprietary innovation*
INSIDE ■ Digital music age yields new copyright complexities
INSIDE ■ Federal program provides research grant

M&H McCormick, Paulding & Huber LLP
Intellectual Property Law

Digital music age yields new copyright complexities

The simultaneous rise of the Internet and portable digital music players has introduced unique and novel issues to intellectual property law. The accessibility of downloadable files and "peer-to-peer" file-sharing programs has created countless obstacles for copyright owners, record companies and musicians alike. Since 2001, music sales have dropped roughly 30%. Experts believe that the overwhelming availability of unauthorized downloads from software such as the original Napster MusicShare is responsible for this drop. Over the last five years, many copyright owners have been using the legal system to fight back and try to deter illegal music downloading.

The Napster case

The escalating problem of illegal downloading was brought to the forefront of public awareness during the first high profile music downloading case, A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001). At the time, Napster provided free peer-to-peer "MusicShare" software that enabled users to (1) share files, including copyrighted digital audio files, with other users, (2) search shared files stored on other users' computers, and (3) transfer shared files between users' computers, over a network connection. As the court reasoned, Napster essentially allowed users to "get for free something they would ordinarily have to buy." Because Napster was found to have violated copyright owner, A&M Records' rights of reproduction and distribution of its works, and the downloaders' use of such works was not a fair use, Napster was liable for facilitating infringement. The court then issued an injunction prohibiting Napster from continuing its business.

The Gonzalez case

Statistics have shown that the publicity of the Napster case did little to deter unauthorized music downloading. Perhaps that is the reason that the music industry has also turned to filing suit against individual downloaders. BMG Music v. Gonzalez, 430 F.3d 888 (7th Cir. 2005), is the most recent example of such action and highlights the severe penalties imposed on individual infringers. The defendant downloader in Gonzalez was liable for infringing 30 of the plaintiff's copyrighted songs, although she had illegally downloaded over 1300 songs over the peer-to-peer network KaZaA.

Fair use defense

Both defendants in the aforementioned cases raised the defense that the downloaded music was a fair use under 17 U.S.C. § 107. For a fair use defense, courts consider the following factors: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the "amount and substantiality of the portion used" in relation to the work as a whole; and (4) the effect of the use upon the potential market for the work or value of the work. The defendants argued that downloaders simply use available technology to "sample" songs prior to purchasing music that they liked. Both courts' analysis strongly favored the plaintiffs. While rejecting the above-mentioned argument, the Gonzalez Court compared the argument to "a thief's contention that he shoplifted 'only 30' compact discs, planning to listen to them at home and pay later for any he liked." In their analysis, both courts stressed data illustrating sharply and steadily declining music sales and attributed it to recent increases in downloading. Lastly, the Gonzalez Court cited the Napster opinion to emphasize its strict view that unauthorized downloads are not fair use even if the downloader already owns one purchased copy.

Severe penalties

Potential downloaders should learn from the example set by the court in Gonzalez. After affirming the district court's ruling of infringement, the Seventh Circuit affirmed its award of $22,500 in damages for the 30 illegally downloaded songs. Because the statutory minimum penalty is $750 per song, it can be presumed that such an award is not uncommon or excessive in these cases.

Other sampling methods

As the Gonzalez Court discussed, there are several authorized methods of sampling music online prior to purchasing. Such methods include downloading snippets (for example, on Amazon.com), music rental programs (such as the revived Napster, Yahoo! Music Unlimited, and Real Rhapsody), streaming music (many radio stations stream their programming), and/or purchasing from licensed sellers (such as iTunes Music Store and Wal-Mart Music Download service). Unlike unauthorized peer-to-peer sharing software, all of these services either compensate authors for the right to offer their music or pay them royalties. Prior to downloading their next song, music fans should all understand that doing so from unauthorized sources constitutes copyright infringement. They should also recognize the severity of potential penalties imposed on infringers. All iPod owners would agree that paying a few dollars for a few songs now is better than paying $22,500 for them later.

Federal program provides research grant opportunities for local businesses

New market opportunities are important for increasing market share, increasing revenue, and ongoing business growth. Even with the help of market research, however, businesses oftentimes have to rely on an "if we build it maybe they will come" strategy. But what if your company was approached by a potential customer who not only wanted to buy a new product from you, but also was willing to pay you to develop the new product? The Small Business Innovation Research (SBIR) program, supported by the Connecticut SBIR Office, provides just such an opportunity.

In overview, the SBIR program is a federally run program that issues grants to small businesses for use in developing new products that satisfy the unmet needs of various U.S. government agencies. The agencies post solicitations, and interested businesses respond by submitting grant proposals outlining how they could meet the agencies' needs. If a proposal is successful, the business is awarded a grant of up to $100,000 for "Phase I" initial research. If the Phase I research establishes project feasibility, the business may be granted up to an additional $750,000 for "Phase II" R&D and prototype development. If this proves successful, the business enters "Phase III" and is free to commercialize the product, including possible sales to the government agency. Even if the research and development is unsuccessful, however, the grant money does not have to be repaid. These three stages of research, development and commercialization will be explained in greater detail below.

Created in 1982, the SBIR program was implemented in recognition that although small, "high tech" businesses play an important role in the U.S. economy - especially in terms of entrepreneurship and innovation - opportunities for substantial R&D funding for such businesses are rare. Accordingly, as mandated by Congress, each year about 2.5% of the federal R&D budget is routed to the SBIR program from eleven of the largest federal agencies. These agencies include NASA, the Department of Defense, Health and Human Services, and the Department of Energy. For 2006, the grant money available under the SBIR program will likely be over $2 billion.

As was already briefly mentioned, the SBIR grant process is divided into three phases. Initially, federal agencies post solicitations on their respective websites, which can be accessed from a common index at http://www.sbirworld.com. Typically, each solicitation lists an objective, a description of the problem, what the agency would expect from a business under the SBIR process, and what is required for applying for a grant under the solicitation. For example, in February 2006, the Department of Homeland Security issued a solicitation for a "human detector for cargo shipping containers," with the objective being to "design, develop and demonstrate a low cost, low power, chemical sensor that reliably detects human(s) hiding in cargo shipping containers."

To qualify for the SBIR program, a business must be organized for profit, it must be located in the U.S. with at least 51% U.S. ownership, and it must be independently operated with no more than 500 employees. This includes corporations and limited liability companies as well as sole proprietorships, partnerships, joint ventures, and cooperatives. Additionally, the business must employ a "primary investigator" having expertise in an area of technology relevant to the solicitation in question. (In other words, the business designates an employee having relevant expertise as the "primary investigator" for an SBIR proposal.)

If a business qualifies for a particular solicitation, it can submit an SBIR grant proposal under the agency's guidelines and within a designated 30-day window for submitting proposals. The grant proposal must demonstrate the business' ability to research and investigate the problem or product outlined in the solicitation. For example, a typical grant proposal might include the business' understanding of the problem, how the business would go about solving the problem (possibly including a work or research plan or the like), and why the business is the "best choice" for the grant. Generally, a decision is made within 2-3 months of the proposal window closing.

Upon being awarded a grant, a business enters Phase I. Phase I lasts for six months, with grants of up to $100,000. In most cases, the money is used for the "exploration of the technical merit or

feasibility of an idea or technology" as set forth in the solicitation. In other words, Phase I involves initial research and/or a feasibility study to answer the question of whether additional research and development would be worthwhile. Most of the Phase I activities must be carried out by the business itself, although up to 1/3 may be sub-contracted out including the use of consultants.

Based on the results of Phase I and the merits of a Phase II proposal, the business may be awarded a Phase II grant of up to $750,000. Phase II is the principal R&D period, and lasts for up to two years. During this time, the additional grant money is used for additional research and development, including evaluating the potential for product commercialization. If, for some reason, the efforts in Phase II prove unsuccessful, the grant money does not have to be repaid. This is also the case for Phase I.

Phase III of the SBIR program involves final product development and commercialization. With the Phase I and II grants having fulfilled the SBIR program's primary mission of funding R&D, businesses must either "self-fund" or seek alternative funding for Phase III. Options include joint ventures, R&D contracts or other technology partnerships, non-SBIR funded government contracts, or the like. In most cases, there are no restrictions on product sales, and any intellectual property rights are owned by the business outright.

See Federal page 4

Patent

From page 1

individuals that relied on RIM's infringing services. It has been documented, for example, that eighty-one percent of financial services companies surveyed estimate that the BlackBerry service was critical to their business. Many began working on backup plans should the court have enjoined RIM from continuing its activities.

There had been an ultimate finding of infringement in this case; the decisions span several rulings by the U.S. District Court for the Eastern District of Virginia and the U.S. Court of Appeals for the Federal Circuit. This finding paved the way for determination of damages and injunctive relief. The District Court required both parties to submit briefs by January 17, 2006 relating to damages and injunctive relief and held a hearing on the matter on February 24, 2006.

A patent enables settlement negotiations to compensate the patentee for prior misappropriation and future use In light of pending relief by the court.

Although U.S. District Court Judge James Spencer was in a position to formulate relief at the end of the hearing, according to the above-identified structure, in order to protect NTP from further damage and to compensate NTP for its losses as a result of the infringement, Judge Spencer decided not to issue a ruling which would have operated to shut down the BlackBerry service. Instead, Judge Spencer decided to continue consideration of the matter and arrive at a decision "as soon as reasonably possible." He added, however, that RIM has been found guilty of infringement and that an injunction would be possible if a settlement was not reached.

In a settlement made public on March 3, 2006, RIM agreed to pay NTP $613 million to settle all patent infringement claims made by NTP. RIM said in a statement "all terms of the agreement have been finalized and the litigation against RIM has been dismissed by a court order." RIM also stated "the agreement eliminates the need for any further court proceedings or decisions relating to damages or injunctive relief" because damages were paid to compensate NTP for the infringement and because the agreement provides RIM with a perpetual license for NTP's intellectual property at issue.

Federal

From page 3

Businesses interested in the SBIR program may want to start by reviewing the informational materials available at http://www.sbirworld.com, including becoming familiar with the types of federal agency solicitations typically posted on the website. Subsequently, the solicitation listings should be monitored on an ongoing basis for identifying items of interest. Because of the time involved in preparing a Phase I proposal, a company should only submit a proposal if it has the requisite technical expertise, if it has sufficient R&D capability, and if the solicitation fits into the company's business plan.

The U.S. Small Business Administration's website provides additional SBIR-related information. See http://www.sba.gov/sbir. State-specific resources are listed on the "State Resources" page at http://www.sbirworld.com. Connecticut businesses are also welcome to contact Deb Santy at the Connecticut SBIR Office at (860) 282-4209. The Connecticut SBIR Office helps Connecticut businesses with finding SBIR solicitations, reviewing SBIR proposals, and product commercialization including leads for technology alliances. These services are provided free of charge. See also http://www.ctsbir.com.

McCormick, Paulding & Huber LLP
Intellectual Property Law

Hartford, CT
City Place II
185 Asylum Street
Hartford, CT 06103
tel 860.549.5290
fax 860.527.0464

Springfield, MA
1350 Main Street
Springfield
MA 01103
tel 413.736.5401
fax 413.733.4543

This newsletter is for informational purposes only and is not intended to constitute legal advice. Readers should seek specific legal advice before acting with regard to any of the subjects mentioned herein. Inquiries pertaining to this newsletter can be addressed to Daniel G. Mackas, Esq. at 860.549.5290 or Mackas@Ip-Lawyers.com ©McCormick, Paulding & Huber 2006

McCormick, Paulding & Huber LLP
Intellectual Property Law
City Place II
185 Asylum Street
Hartford, CT 06103