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Complete Preemption Under The Copyright Act - One Step Closer In The Eleventh Circuit

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The Copyright Act states that it preempts state law that is “equivalent” to rights protected by copyright. See 17 U.S.C. § 301. The United States Supreme Court has not addressed the scope of the preemptive effect of the Copyright Act, and the several Circuit Courts of Appeals to address the topic have varied in their assessment of the issue. For example, in *United States ex. rel. Berge v. Board of Trustees of the Univ. of Alabama*, 104 F.3d 1453, 1463 (4th Cir. 1997), the Fourth Circuit found that claims relating to misappropriation of uncopyrightable ideas contained in a tangible medium of expression are preempted by the Copyright Act, because “the shadow actually cast by the Act’s preemption is notably broader than the wing of its protection.” In *Dunlap v. G&L Holding Group, Inc.*, 381 F.3d 1285 (11th Cir. 2004), the Eleventh Circuit recently articulated a more narrow reading of copyright preemption than that of the Fourth Circuit, holding

that a claim for misappropriation of an idea – subject matter expressly excluded from copyright protection – is not preempted. But perhaps the more important issue is not the scope of copyright preemption in a defensive sense, which the Eleventh Circuit previously has addressed in several opinions, but whether copyright law is one of those few areas of federal law to fall within the doctrine of complete preemption for purposes of federal removal jurisdiction. In *Dunlap*, the Eleventh Circuit appeared poised to answer the complete preemption question definitively, but unfortunately did not reach the issue. However, as explained below, the

(Continued on page 2)

Inside this Issue:

*KNORR-BREMSE: Willful Infringement,
The Affirmative Duty Of Due Care,
And The Adverse Inference* 4

*The Importance Of Verifying
Trademark Use*..... 6

(Continued from page 1)

Court at least left the door open and, in this author's view, suggested that federal removal jurisdiction will lie based upon complete preemption by the Copyright Act.

First, what is complete preemption? The Eleventh Circuit's summary of the doctrine in *Dunlap* explains it well:

Complete preemption occurs when federal law so occupies a given field that a state-law claim is transformed into a claim arising under federal law. In other words, if a federal cause of action completely preempts a state cause of action any complaint that comes within the scope of the federal cause of action necessarily arises under federal law.

Dunlap, 381 F.3d at 1290 (internal quotations and citations omitted).

This is not to say that all claims preempted by federal law provide a basis for removal. The preemptive force of most federal claims is defensive only. The Eleventh Circuit distinguished defensive and complete preemption as follows:

Preemption is the power of federal law to displace state law substantively. The federal preemptive power may be complete, providing a basis for jurisdiction in the federal courts, or it may be what has been called "ordinary preemption," providing a substantive defense to a state law action on the basis of federal law.

More specifically, ordinary preemption may be invoked in both state and federal court as an affirmative defense to the allegations in a plaintiff's complaint. Such a defense asserts that

the state claims have been substantively displaced by federal law....

Complete preemption, on the other hand, is a doctrine distinct from ordinary preemption. Rather than constituting a defense, it is a narrowly drawn jurisdictional rule for assessing federal removal jurisdiction when a complaint purports to raise only state law claims. It looks beyond the complaint to determine if the suit is, in reality, purely a creature of federal law, even if state law would provide a cause of action in the absence of the federal law, ... thus creating the federal question jurisdiction requisite to removal to federal courts.

Id. at 1290 n.8 (internal quotations and citations omitted). In other words, complete preemption operates as an exception to the well-pleaded complaint rule and prevents a plaintiff from pleading a state-law claim in an area that is completely preempted by federal law. In that case, complete preemption provides a basis for federal removal jurisdiction.

The Eleventh Circuit and the Supreme Court have previously recognized complete preemption in only three areas: (1) § 301 of the Labor Management Relations Act, 29 U.S.C. § 185 et seq.; (2) § 1132 of the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1001 et seq.; and (3) §§ 85 and 86 of the National Bank Act, 12 U.S.C. § 21 et seq.

Neither Court has been squarely confronted with the issue of complete preemption in the copyright context, although other circuits and at least one district court in the Eleventh Circuit have found complete preemption. See

Rosciszewski v. Arete Assocs., Inc., 1 F.3d 225, 232-33 (4th Cir. 1993) (in context of state-law claim based on copying of computer software, applying Supreme Court’s complete preemption doctrine and holding that “the preemptive force of the § 301 of the Copyright Act transforms a state-law complaint asserting claims that are preempted by § 301 into a complaint stating a federal claim for purposes of the well-pleaded complaint rule”); *DeCarlo v. Archie Comic Publications, Inc.*, 2001 U.S. App. LEXIS 11671 at **9 (2d Cir. 2001) (“When a complaint alleges a claim or seeks a remedy provided by the Copyright Act, federal jurisdiction is properly invoked;” affirming denial of motion to remand under artful pleading exception to well-pleaded complaint rule in copyright context where plaintiff’s state-law complaint sought a remedy that implicated copyright rights); *Audio Systems of Florida, Inc. v. Simplexgrinnell LP*, 68 U.S.P.Q.2d 1681, 2003 WL 22830002 (M.D. Fla. 2003) (finding that state-law claim is preempted by the Copyright Act under Eleventh Circuit law and concluding that “removal based on complete preemption of [the state-law claim] was appropriate and remand is not”).

Given that “the ‘touchstone’ of federal question jurisdiction based on complete preemption is congressional intent,” *Dunlap*, 381 F.3d at 1291 (citing *Blab T.V. of Mobile, Inc. v. Comcast Cable Communications, Inc.*, 182 F.3d 851, 857 (11th Cir.1999) (quoting *Met. Life Ins. Co. v. Taylor*, 481 U.S. 58, 66, 107 S.Ct. 1542, 1548, 95 L.Ed.2d 55 (1987))), copyright law appears to fit the doctrine well. First, Section 301 of the Copyright Act provides for express preemption of “all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright.” 17 U.S.C. § 301. Further, Congress has provided for exclusive jurisdiction of

copyright claims in the federal courts. 28 U.S.C. § 1338. Finally, the Congressional Record dispels any doubt as to the intended preemptive effect of copyright law:

The declaration of this principle [preemption] in section 301 is intended to be stated in the clearest and most unequivocal way possible, so as to foreclose any possible misinterpretation of its unqualified intention that Congress should act preemptively, and to avoid the development of any vague borderline area as between State and Federal protection.

H.R.Rep. No. 94-1476, 94th Cong., 2d Sess. 130 (1976).

Against this backdrop, the Eleventh Circuit in *Dunlap* considered a question of first impression, which it characterized as follows: “whether a state-law claim for conversion of an idea, the expression of which merges with the idea, is completely preempted by the Copyright Act, thereby vesting the trial court with federal removal jurisdiction.” *Dunlap*, 381 F.3d at 1293. The Court then turned to its existing test for copyright preemption, which requires a two-prong analysis of whether the rights at issue are within the subject matter of copyright, and whether the rights at issue are equivalent to the exclusive rights of the copyright owner under Section 106 of the Act. *Id.* at 1294 (citing *Crow v. Wainwright*, 720 F.2d 1224, 1225-26 (11th Cir.1983)).

With respect to the first prong of the test, the Court noted that Congress had expressly excluded ideas from the ambit of potentially copyrightable subject matter in the Copyright Act. *Id.* (citing 17 U.S.C. 102(b)). Importantly, the subject matter at issue in *Dunlap* was a basic idea only (forming a bank to serve the lesbian and gay community) and not any further expression of this

(Continued on page 8)

KNORR-BREMSE: Willful Infringement, The Affirmative Duty Of Due Care, And The Adverse Inference

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BACKGROUND

Like most things in life, patent infringement comes in a variety of different shapes and sizes. Patent infringement can range from “unknowing, or accidental, to deliberate, or reckless, disregard of a patentee’s legal rights.” *Knorr-Bremse v. Dana Corp.*, 2004 WL 2049342, *3 (Fed. Cir. 2004), quoting *Rite-Hite Corp. v. Kelley Co.*, 819 F.2d 1120, 1125-26 (Fed. Cir. 1987). While captivating in and of itself, from a client’s perspective, this fact is relevant only for its ability to impact damages and its subsequent effect on the bottom line. The amount of damages at stake depends, in part, upon where the purported infringer falls along the patent infringement continuum, with the more reprehensible types of infringement donning the largest price tags. The reason for this lies in the enhanced damages that are available under 35 U.S.C. §§ 284-85. Section 284 authorizes an “increase in damages up to three times the amount found or assessed,” while section 285 authorizes an award of reasonable attorneys fees “in exceptional cases.”

Courts interpreting these two sections have drawn the proverbial line in the sand at the type of infringement termed “willful.” Consequently, those

infringers who are liable for “willful” infringement are subject to enhanced damages. To determine willfulness, courts examine the “totality of the circumstances,” including factors such as: (1) whether the infringer deliberately copied the ideas or design of another, (2) whether the infringer, after receiving notice of another’s patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, (3) the infringer’s behavior as a party to the litigation, (4) the size and financial condition of the infringer’s commercial operations, (5) the closeness of the case, (6) the duration of the infringer’s misconduct, (7) any remedial action taken by the infringer, (8) whether the infringer was driven by a motivation to harm the patentee, and (9) whether the infringer attempted to conceal its misconduct. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992).

The fundamental distinction between willful and innocent infringement, however, lies in an infringer’s affirmative duty of due care that arises upon the receipt of actual notice of another’s patent rights. And until the recent landmark decision by the Federal Circuit in *Knorr-Bremse v. Dana Corp.*, this affirmative duty of care arguably included the duty of the purported infringer to determine whether or not he is infringing by seeking and obtaining competent legal advice from counsel.

Before *Knorr-Bremse*, failure to obtain or produce an exculpatory opinion of counsel gave rise to an adverse inference with respect to willful infringement and an increased probability that damages arising from the infringement would be enhanced. Henceforth, however, although infringers still have the affirmative duty of due care, they need not feel obligated to obtain an infringement analysis, or, even if they choose to do so, need not divulge the results of the infringement analysis to the trier of fact.

THE CASE

Knorr-Bremse, a German company, is the owner of United States Patent No. 5,927,445 (the ‘445 patent), which claims air disc brakes used in heavy commercial vehicles. Dana Corporation (“Dana”), an American company, agreed to sell air disk brakes, designated the Mark II model, manufactured by Haldex, a Swedish Company. Shortly after the agreement between Dana and Haldex, Knorr-Bremse notified Dana of infringement litigation against Haldex that was currently pending in Europe involving the same Mark II design. Despite the warning, Dana continued to use and test the Mark II model in the United States.

Shortly thereafter, Knorr-Bremse filed suit in the United States against both Dana and Haldex and moved for summary judgment of literal infringement by the Mark II brake of the ‘445 patent. In response, Dana and Haldex presented to the district court a modified design, designated the Mark III model, and moved for a summary declaration of non-infringement by the Mark III. The district court granted Knorr-Bremse’s motion for summary judgment of literal infringement by the Mark II brake, and following a bench trial, found literal infringement by the Mark III brake.

On the issue of willful infringement, Haldex, citing attorney-client privilege, declined to produce the legal opinion it had obtained from both European and United States counsel concerning the ‘445 patent. Further, Dana stated that it had not consulted its own counsel and instead relied upon Haldex’s opinions. Based upon Haldex’s failure to produce these infringement opinions, the district court, applying Federal Circuit precedent, evoked the adverse inference, concluded that the opinions must have been unfavorable, and held Dana and Haldex liable for willful infringement. As a result, the court awarded attorney fees for the portion of the litigation related to the Mark II brake.

In an en banc decision, the Federal Circuit reversed the district court’s ruling and held that “no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer’s failure to obtain or produce an exculpatory opinion of counsel.” *Knorr-Bremse* at *1. The Court explained that the “conceptual underpinnings” of the adverse inference had been significantly diminished, that both the adverse inference and the affirmative duty of care arose out of the same environment that created the Federal Circuit itself – at a time when “widespread disregard of patent rights was undermining the national innovation incentive.” *Id.* at *3. Now that balance had been restored, the Court found its “special justification” for departing from stare decisis in the attorney-client privilege.

Noting that the purpose of the attorney-client privilege is “to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the

(Continued on page 6)

(Continued from page 5)

observance of law and the administration of justice,” the Court held that there “should be no risk of liability in the disclosures to and from counsel in patent matters.” *Id.* at *4. The Court suggested that the inference that withheld opinions are adverse to the client’s actions could distort the attorney-client relationship because of the increased risk of liability in disclosures to and from counsel in patent matters. Furthermore, the Court held that failure to consult with counsel upon notice of another’s patent rights does not provide an inference or evidentiary presumption that the consultation would have been negative.

PRACTICAL EFFECT

The Federal Circuit’s holding in *Knorr-Bremse* removes the absolute need of purported infringers to seek exculpatory infringement opinions from their attorneys. However, infringement opinions will still remain invaluable for those trying to design around existing patent claims and will be helpful in determining settlement value and litigation strategy. Furthermore, purported infringers must keep in mind that the affirmative duty of due care still arises when they receive notice of another’s patent rights. Unfortunately, the Court in *Knorr-Bremse* failed to offer any guidance as to what actions could or should be taken to satisfy this duty. Therefore, obtaining an infringement opinion probably remains the most effective way of fulfilling this duty, and the practical effect of *Knorr-Bremse* is to allow these opinions to be kept secret and to prevent plaintiffs from asserting willful infringement solely because an opinion was neither obtained nor revealed. ◇

The Importance Of Verifying Trademark Use

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In May of 2003, the Trademark Trial and Appeal Board (TTAB) of the U.S. Patent and Trademark Office (PTO) issued a precedent-setting decision on the issue of fraud in *Medinol Ltd. v. Neuro Vasx, Inc.*, Cancellation No. 92040535. In granting summary judgment to Medinol on the issue of fraud, the board explained its test for fraud, making clear that it includes what a party or its attorney should have known about the facts stated in an application, not merely what the party did know or intended with regard to the facts.

At issue in the case was a Statement of Use filed by Neuro Vasx in support of a trademark application for the mark NEUROVASX for “medical devices, namely, neurological stents and catheter” wherein Neuro Vasx declared that the mark was being used in commerce in the United States on all the goods covered by the application. On the basis of the statements made in the Statement of Use, a registration issued.

Nearly two years later, Medinol Ltd. filed a Petition to Cancel the trademark registration for NEUROVASX, alleging that, at the time Neuro Vasx submitted the

Statement of Use, it had not used the mark for stents and had not done so since. Medinol claimed that, because of the fraud committed in obtaining registration, Neuro Vasx was not entitled to continue its registration for NEUROVASX.

In its answer, Neuro Vasx admitted that it had not used its mark on stents but stated that, at the time the Statement of Use was filed, the inclusion of stents in the application was “overlooked.” Neuro Vasx also asked for partial cancellation of its registration by deletion of the word “stents” from the list of goods and made a combined motion to amend its registration and for summary judgment dismissing the Petition to Cancel with prejudice on the ground that amending the registration to delete “stents” fully responded to the contentions made by Medinol in the cancellation action.

In granting Medinol’s motion for summary judgment entitling it to cancellation of the registration for NEUROVASX, the TTAB stated that “[a] trademark applicant commits fraud in procuring a registration when it makes material representations of fact ... which it knows or should know to be false and misleading.” Further, in determining whether fraud has been committed, “[t]he appropriate inquiry is ... not into the registrant’s subjective intent, but rather into the objective manifestations of that intent.” The TTAB noted that in filing a Statement of Use, an applicant signs a Declaration under penalty of fine or imprisonment or both that willful false statements may jeopardize the validity of the resulting registration. Consequently, the TTAB explained that “[s]tatements made with such degree of solemnity clearly are – or should be – investigated thoroughly prior to signature and submission to the USPTO. [Neuro Vasx] will not now be heard to deny that it did not read what it had

signed.” The TTAB also noted that neither Neuro Vasx’s list of goods for its application nor its Statement of Use was lengthy or highly technical and that the Neuro Vasx’s President/CEO was in a position to know or inquire.

Finally, the TTAB addressed Neuro Vasx’s argument that the appropriate remedy is not to cancel the entire registration, but to delete the erroneously asserted goods from the registration. The TTAB rejected this argument - holding that this is not a remedy for fraud upon the PTO. When fraud is shown in the procurement of a registration, the entire resulting registration is void.

As a result of the TTAB’s decision, trademark applicants should be very careful when submitting statements to the PTO to ensure that their marks are in use in commerce in connection with all the goods or services listed in the statements. While not discussed in the opinion, the same rationale applies to Section 8 declarations of continued use. Thus, registrants must carefully investigate what use is being made of its marks in U.S. commerce at the time of filing with the PTO, and only declare use (or continued use) for those goods and services actually in use. Moreover, any person signing on behalf of the applicant should inquire of the responsible business people, in order to satisfy himself that actual use has been made or continues for each good and service. If the mark is not, in fact, in use in commerce with respect to all the asserted goods or services, those unused goods or services should be deleted from the application or registration. ♦

(Continued from page 3)

idea in the form of a work of authorship, such as a business plan. Put differently, under the facts of this case and the doctrine of merger, the expression of this basic idea merged into the idea itself. To provide copyright protection under these circumstances would therefore protect the idea itself and run afoul of the exclusion of ideas from copyright protection in Section 102(b). *Id.* at 1297. Accordingly, the Court concluded that “the plaintiff’s claim for conversion of his ideas—even original ideas expressed in a tangible medium—is not preempted by the Copyright Act.” *Id.* Having concluded that the subject matter of the state-law claim was “substantively ineligible” from protection by the Copyright Act, the Court did not reach the second prong of the preemption test. *Id.* at 1294 n.14, 1297.

Although the *Dunlap* Court characterized the issue before it as one of complete preemption and one of first impression, the Court immediately turned to its existing two-prong preemption test for its analysis. The majority of the opinion discusses the scope of the subject matter of copyright under the first prong of this test, and the decision turned on this basis. Thus, after going to lengths to distinguish ordinary and complete preemption at the outset of its opinion, the Court appears to have conflated the two, or at least not distinguished them, in the remainder of its analysis. One could infer from the Court’s approach that in the Eleventh Circuit complete preemption applies in the copyright context, so long as the two-prong test for ordinary preemption is met. The Court certainly made no statement to the contrary.

Further, the Court stated in dicta that “[w]here a work of original authorship embraces more than simply the idea, preemption would be appropriate.” Did the Court mean complete preemption or ordinary

preemption? Another bit of dicta from an earlier copyright preemption opinion, one that addressed and defined the “extra element rule” under the second prong of the preemption test, hints that the Eleventh Circuit would find complete preemption if presented with the right facts.

In *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532 (11th Cir. 1996), the Court cautioned against “artful pleading and presentation of evidence [that] seemingly may create a pendent state law claim that in actuality is nothing more than a dressed up version of a copyright infringement claim.” *Id.* at 1550. Phrases such as “artful pleading” and “dressed up” copyright claims suggest the Court views the preemptive effect of copyright law as complete preemption, for it is that doctrine’s role to transform dressed-up federal claims that are artfully pled as state-law claims into federal causes of action for jurisdictional purposes.

In sum, *Dunlap* closes the door in the Eleventh Circuit on the removal under copyright law of a claim made in state court for misappropriation of a bare idea, as distinct from a claim for misappropriation of a work of authorship embodying an expression of that idea. In the latter situation, however, *Dunlap* and previous Eleventh Circuit authority do not preclude removal and in fact suggest that federal removal jurisdiction under complete preemption by the Copyright Act would be proper. ♦

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