



IDEAS ON INTELLECTUAL PROPERTY LAW

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Source: Ant-Like Persistence blog

Defend Trade Secrets Act

Do trade secret damages include foreign sales?

A federal appellate court has weighed in for the first time on the question of whether the Defend Trade Secrets Act (DTSA) extends to conduct outside of the United States — thereby opening the door to damages for foreign sales. In *Motorola Solutions, Inc. v. Hytera Communication Corp. Ltd.*, the U.S. Court of Appeals for the Seventh Circuit ruled that the plaintiff may recover all of the defendant's profits from global sales of products incorporating the plaintiff's trade secrets.

TUNING IN

As the court put it, the case concerned a “large and blatant theft of trade secrets.” Motorola and Hytera compete globally in the market for two-way radio systems. Motorola spent years and tens of millions of dollars developing trade secrets that are embodied in its digital mobile radio (DMR) products.

For a brief period in the early 2000s, Hytera tried to develop its own competing products but ran into technical challenges. So, it came up with a new plan — “leapfrogging” Motorola by stealing its trade secrets. It poached three engineers from Motorola in Malaysia, offering them high-paying jobs in exchange for

Motorola's proprietary information. Before leaving the company for Hytera, the three downloaded thousands of documents and computer files with trade secrets and copyrighted source code.

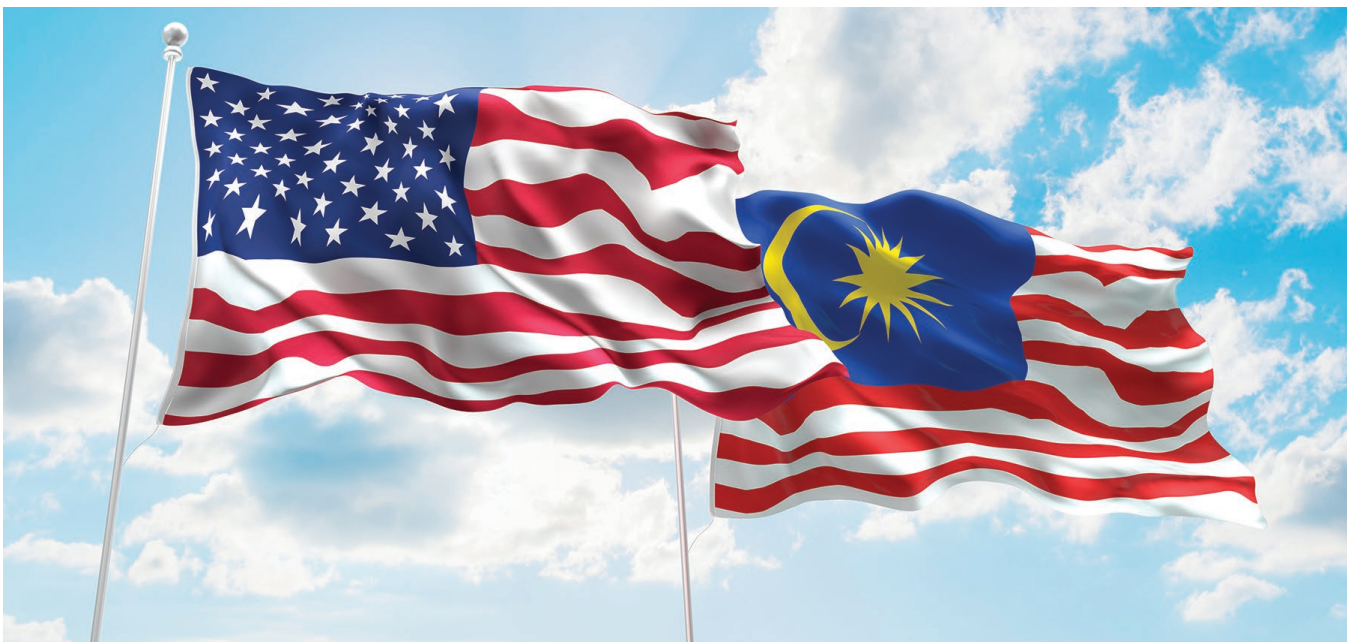
Hytera used the information to launch a line of DMR radios that were functionally indistinguishable from Motorola's. It sold its radios for years in the United States and abroad.

Motorola sued Hytera for trade secret misappropriation. A jury found that Hytera had violated the DTSA, and Motorola was awarded \$408 million in trade secret damages. Hytera appealed.

TURNING UP THE VOLUME (OF SALES)

On appeal, Hytera conceded liability, but it challenged the damages award under the DTSA. The company argued, among other things, that DTSA damages shouldn't have been awarded for its sales outside the United States.

The Seventh Circuit acknowledged that the DTSA is subject to the presumption against extraterritorial application. When assessing whether the



COPYRIGHT DAMAGES DIDN'T EXTEND BEYOND U.S. BORDERS

In *Motorola Solutions, Inc. v. Hytera Communication Corp. Ltd.*, the U.S. Court of Appeals for the Seventh Circuit held that the Defend Trade Secrets Act extended extraterritorially. (See main article.) However, it declined to similarly extend the Copyright Act. A copyright owner can recover damages for foreign infringement only if 1) an initial, or “predicate,” act of infringement occurred in the United States, and 2) the domestic infringement enabled or was otherwise directly linked to the foreign infringement.

Motorola argued that the predicate infringement was the unauthorized downloading of its copyrighted source code from a server in Illinois. But the court pointed out that the code was “mirrored” on servers outside the country. Motorola’s own expert testified that there was no evidence the stolen code had been downloaded from the Illinois server.

Because the defendant’s employees who indisputably stole the code were in Malaysia, the Seventh Circuit said, it was more likely that the code was downloaded from Motorola’s server there. Without a predicate domestic infringement, Motorola couldn’t recover copyright damages for any of the foreign sales of infringing products.

presumption has been rebutted, a court must first determine whether the statute clearly indicates that it applies outside of the United States.

The DTSA, the court noted, amends a chapter of the federal law that protects trade secrets. The DTSA itself doesn’t expressly refer to extraterritorial conduct, but other parts of the chapter do. For example, one provision states that the chapter “applies to conduct occurring outside the United States if ... an act in furtherance of the offense was committed in the United States.”

Under the DTSA, misappropriation
can occur through acquisition,
disclosure or use of a trade secret.

The Seventh Circuit affirmed the trial court’s finding that this language expressly rebutted the presumption. It also agreed with the trial court that, when enacting the DTSA, Congress was concerned with actions taking place outside the United States related to the misappropriation of U.S. trade secrets. And, like the lower court, it rejected Hytera’s argument that the statute’s use of the word

“offense” limited its extraterritorial reach to criminal cases. The term, it found, can include both criminal and civil violations.

Next the appellate court turned to the question of whether an act in furtherance of the offense was committed in the United States — here the offense being the misappropriation of a trade secret. Under the DTSA, misappropriation can occur through acquisition, disclosure or use of a trade secret.

The court found that Hytera’s marketing of products embodying Motorola’s stolen trade secrets at numerous U.S. trade shows constituted domestic “use” of the trade secrets, amounting to completed acts of domestic misappropriation. It therefore upheld the damages based on Hytera’s worldwide sales of products furthered by the misappropriation, regardless of where the remainder of its illegal conduct occurred.

COPY THAT

The court’s ruling expands the potential relief available to trade secret owners. They can now sue under the DTSA to recover misappropriation damages for foreign sales as long “an act in furtherance” occurred in the United States — even if most of the conduct was abroad. ▣

When a “skinny label” results in induced patent infringement

“Skinny labels” for generic drugs are intended to help the manufacturers avoid patent infringement liability by describing only nonpatented uses. But a generic manufacturer learned the hard way that a skinny label doesn’t ensure immunity when it comes to liability for induced infringement.

THE HEART OF THE MATTER

Amarin Pharma sells icosapent ethyl, a drug known as Vascepa. The drug was FDA-approved for the treatment of high levels of triglycerides in 2012 and to reduce cardiovascular risks in 2019. The patents on the original indication were found invalid, though.

In 2016, Hikma Pharmaceuticals USA submitted an abbreviated new drug application (ANDA) to market a generic version of Vascepa. The ANDA was pending in 2019 when Vascepa was approved for the cardiovascular indication. Hikma then sought FDA approval only for uses not covered by the cardiovascular indication patents, what’s called a “skinny label.” The skinny label would include only the original indication. The FDA approved Hikma’s ANDA, with the proposed skinny label, in 2020.

Throughout that year, Hikma issued press releases that referred to its product as the “generic version of” or “generic equivalent to” Vascepa. Some included sales data for Vascepa, but the figures reflected sales of Vascepa for all uses, not just the original indication. Hikma also marketed its product on its website, where it indicated that the drug was “AB” rated. The rating reflects the FDA’s determination that a generic drug is therapeutically equivalent to a branded drug when used as labeled.

In November 2020, Amarin sued Hikma, alleging it had induced infringement of its valid Vascepa patents. The trial court dismissed the case before any discovery or expert testimony, finding that Amarin failed to properly plead inducement. Amarin appealed.

A BITTER PILL FOR THE DEFENDANT

The U.S. Court of Appeals for the Federal Circuit initially noted that it was considering the case at a very early stage — on a motion to dismiss. As such, it was reviewing a plaintiff’s allegations, as opposed to a lower court’s findings, and it was reviewing them for plausibility, not probability.



The court then explained that a generic manufacturer can be liable for inducing infringement of a patented method — even if it has attempted to carve out the patented indications from its label — if other evidence is found regarding inducement. The question, therefore, was whether Amarin’s complaint plausibly pleaded that Hikma “actively” induced health care providers’ direct infringement. In other words, did Hikma encourage, recommend or promote infringement of the cardiovascular patents?

Clarity and consistency in manufacturers’ communications about a skinny label drug may be essential to avoid liability for induced infringement.

The Federal Circuit held that it did, despite finding that Hikma’s label didn’t encourage, recommend or promote infringement. That’s because Amarin’s inducement allegations weren’t based solely on the label; they were based on the label in combination with Hikma’s public statements and marketing materials.

Amarin alleged that Hikma’s press releases made clear that Vascepa had multiple indications and then identified its own product as a generic version of

Vascepa. It also alleged that Hikma touted sales figures Hikma knew were largely attributable to the cardiovascular indication that was off-label for Hikma’s product.

According to the court, these allegations, taken together with those relating to the skinny label, at least “plausibly” stated a claim for induced infringement, which is all that is required under the motion to dismiss standard. Many of the allegations, it said, depended on what the label and public statements would communicate to physicians and the marketplace and whether they encouraged off-label use. The court said this is a question of fact, not law, and questions of fact shouldn’t be resolved through a motion to dismiss.

Notably, the court declined to hold that the single notation of the AB rating on the website — and nowhere else — insulated Hikma for induced infringement claims. After all, it said, it had previously upheld jury verdicts based in part on marketing materials with similar language.

THE COURT’S PRESCRIPTION

The ruling should serve as a warning to generic manufacturers. As the court cautioned, clarity and consistency in manufacturers’ communications about a skinny label drug may be essential to avoid liability for induced infringement. □

Back to the drawing board

Federal Circuit establishes new design patent test

The U.S. Court of Appeals for the Federal Circuit, which hears all patent-related appeals, has overruled the long-standing test for whether a design patent is obvious. In its place, the court adopted a more flexible test that could make it more difficult to obtain design patent protection.

THE CASE BLUEPRINT

LKQ Corporation filed a petition for inter partes review (IPR) of a patent for the design of a vehicle fender, claiming it was unpatentable based on “prior art” that made the design obvious. The prior art

references were an earlier patent and a promotional brochure showing the front fender design of a 2010 Hyundai Tucson.

The Patent Trial and Appeal Board (PTAB) applied the Rosen-Durling test in its review. Under the test, the primary reference (here, the earlier patent) must be “basically the same” as the challenged design claim. In addition, any secondary references (the brochure) must be “so related” to the primary reference that features in one would suggest application of those features to the other.



The PTAB found that the primary reference wasn't basically the same as the challenged design and ended its inquiry there. A three-judge panel of the Federal Circuit affirmed the PTAB's finding. The Federal Circuit subsequently vacated that ruling and granted a rehearing before the full court.

TAKE TWO

The court concluded that the Rosen-Durling test requirements are "improperly rigid." Instead of applying that test, it adopted a new framework that requires consideration of three factors:

- 1. The scope and content of the prior art within the knowledge of an ordinary designer in the relevant field.** This focuses on prior art that's "analogous" to the claimed design, rather than "basically the same." Courts will address whether a prior art design is analogous on a case-by-case basis.
- 2. The differences between the prior art designs and the claimed design.** This compares the overall visual appearance of the claimed design with prior art designs from the perspective of an ordinary designer in the designed item's field.
- 3. The level of "ordinary skill."** For design cases, the court said, it will consider the knowledge of a "designer of ordinary skill who designs articles of the type involved."

After these factors are ascertained, the proper inquiry is whether an ordinary designer in the field to which the claimed design relates would have been motivated to modify the prior art design to create the same overall visual appearance as the claimed design. Where a primary prior art reference alone doesn't make the claimed design obvious, secondary references may be considered, without the previous "so related" requirement.

Finally, the court stated that the obviousness inquiry still requires assessment of secondary considerations that may indicate nonobviousness. These include commercial success, industry praise and copying.

The court returned the case to the PTAB. The board will now apply the test to determine whether the patented design at issue was obvious.

THE ROAD AHEAD

The new test is more analogous to the longstanding nonobviousness test applied to utility patents. Thus, the court noted that because this test has proven workable for utility patents, it should be similarly workable for design patents. The court conceded that there may be some difficulties and uncertainties in applying its "fact-based nonrigid test." But those qualms should, according to the court, be "amendable" on a case-by-case basis. ■

Political ad's meme isn't permissible fair use of copyrighted image

If you had any doubts about the power of online memes, they're now the target of litigation. A recent ruling sheds light on how copyright law intersects with the world of memes, which began largely as funny images circulated widely online with various jokes attached.

POLITICS INFECTS MEME

Laney Griner snapped a photo of her 11-month-old son making a fist on the beach. It became one of the first popular online memes, generally referred to as "Success Kid."

In 2012, Griner registered the Success Kid template with the U.S. Copyright Office. She then licensed it to several major companies — including Microsoft and Coca-Cola — for use in advertising.

The Steve King for Congress Committee posted a version of the meme on its website, Facebook page, Twitter account and other places in 2020. This version placed the kid in front of the U.S. Capitol and solicited funding for more memes. The committee never sought or received permission to use the template.

After the committee denied Griner's request to remove the meme, she sued for copyright infringement. A jury found the committee "innocently" infringed the copyright and awarded her damages.

Contending that it made fair use of the template, the committee appealed the damages award to the U.S. Court of Appeals for the Eighth Circuit.

FAIR USE FINDING STICKS

The court evaluated the four factors that define fair use:

1. The purpose and character of the use (including whether it's of a commercial nature),
2. The nature of the copyrighted work,

3. The amount and substantiality of the portion used compared to the work as a whole, and
4. The effect of the use on the potential market for or value of the work.

The committee conceded the second factor but argued the remaining factors favored a fair use finding.



In assessing the first factor, the Eighth Circuit weighed the commerciality of the use against its "transformativeness." The court found that the committee's use was purely commercial. And the committee's creation and dissemination of a meme didn't add a further purpose or different character to the template. Notably, the court disregarded the addition of the Capitol building, photo cropping and "fund our memes" heading.

The third factor also weighed against fair use because the committee used the "heart" of the template — the kid himself. The fourth factor was neutral, as it was difficult to assess the impact of the committee's use on the template's commerciality.

The court concluded that the fair use factors weighed heavily for Griner. It thus upheld the jury's finding that the meme wasn't fair use of the template.

MONEY MATTERS

The Eighth Circuit emphasized that memes used commercially are subject to stricter copyright standards than those used noncommercially. The latter, it said, are often fair use. □

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