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By Tony Zeuli

In a case of first impression, the Court of Appeals for the Federal Circuit held that, in determining a reasonable-royalty rate for patent damages, the rate to apply is the one that would have been in effect during the period of damages. The holding is a surprise because the law, which did not change, requires consideration of a hypothetical negotiation by the parties of the royalty rate on the date of first infringement – regardless of whether the damages period reaches back that far. For example, in this case, the parties agreed that the first date of infringement was January 1, 1992. The damages period began on August 17, 1998, however, due to notice requirements in the patent statute. There was evidence that a hypothetical negotiation on January 1, 1992, would have resulted in a royalty rate of 1.75%. However, there was also evidence that the parties would have reduced the royalty rate to 0.5% in 1997. Because no damages accrued before 1998, despite infringement beginning in 1992, the Court of Appeals applied only the lower royalty rate. The Court reasoned that because its case law did not preclude reliance on events occurring after the hypothetical negotiation on the first date of infringement, the “highest royalty rate that the evidence supports for the 1998 – 2000 damages period is 0.5%.” *Harris Corp. v. Ericsson Inc.*, No. 03-1625, -1626 (Fed. Cir. Aug. 5, 2005).

The recent *en banc* decision in *Phillips v. AWH Corp.* has generated a lot of discussion about many aspects of patent claim construction. One recent case provides some insight into the post-*Phillips* role of expert witnesses in claim construction. TAP Pharmaceuticals sued Owl Pharmaceuticals for infringement of a number of drug patents; claim construction and dispositive motions all occurred before the decision in *Phillips*. However, the appellate decision, written after *Phillips*, affirmed a claim construction that relied, in part, on the testimony of Owl’s expert witness – Dr. Pitt. The claim term was “containing.” TAP complained that the district court improperly relied on extrinsic evidence – Dr. Pitt’s testimony – in construing such a non-technical term. Reiterating the main point of *Phillips*, that claim construction must be from the perspective of the skilled artisan, the Court said: “While the term ‘containing’ is not a technical term, the term is essential in helping to describe the patented technology. As a result, the term cannot be defined by some ordinary meaning isolated from the proper context, and it was appropriate for the district court not only to consider the intrinsic evidence, but also to consider Dr. Pitt’s interpretation of that evidence, both in the context and from the perspective of a person of ordinary skill in the art.” *TAP Pharma. Prods., Inc., et al. v. Owl Pharmas., L.L.C., et al.*, No. 03-1634, -1635 (Fed. Cir. Aug. 18, 2005).

The Eighth Circuit Court of Appeals does not clown around when it comes to the functionality defense to trademark infringement. Frosty Treats appealed a trial court’s holding that its Safety Clown graphic (Bozo-style clown with disjointed hand and extended finger) was functional, and therefore not eligible for trademark protection, because it served the purpose of directing children to the rear of a treat vehicle bearing the graphic. The functionality defense only prevents trademark protection for a feature that is essential to use or purpose of the article – usually the subject of patent protection. Treating Frosty to a reversal, the court of appeals reasoned that the error occurred because the trial court applied “the colloquial meaning of ‘functional’ rather than the specialized meaning that it has in trademark law.” *Frost Treats, Inc. et al. v. Sony Computer Entertainment America, Inc.*, No. 04-2502 (8th Cir. July 25, 2005).