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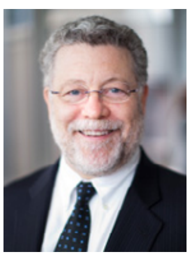
Summer 2014 Vol. 12, Issue 3

A review of developments in Intellectual Property Law

Supreme Court Issues Decision in *Alice Corp. v. CLS Bank*

By Michael S. Borella, Ph.D. and Kevin E. Noonan, Ph.D.



There's an old saying that "bad facts make bad law," acknowledging that a court's decisions regarding extreme cases can result in law poorly adapted to less extreme cases. The Supreme Court's recent trio of 35 U.S.C. § 101 decisions regarding method claims (*Bilski v. Kappos*,[1] *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*,[2] and this term's *Alice Corp. v. CLS Bank Int'l*[3]) followed a common pattern for patent cases reviewed by the Court: the claims at issue were poorly drafted, claiming more than the patentee was likely to have been entitled.

But unlike the Court's treatment of other such claims (like the claims in *KSR v. Teleflex Int'l*,[4] for example), in these recent cases the Court has not addressed the substantive patent law under §§ 102, 103, or 112. Rather, the core of the disputes and the questions before the Court involved the patent *eligibility* of the claims under § 101. In part due to how the questions were framed, and in equal part how the Court seems to think about patent law, the lines between §§ 101, 102, and 103 have become blurred, removing some of the doctrinal certainty that the Federal Circuit has labored for a generation to impart to patent law.

More disturbingly, the Supreme Court has not clarified what makes a claim fall into the patent-ineligible category of abstract ideas, laws of nature, or natural phenomena. As a consequence, the state of the law regarding patent eligibility is in flux and thus it is difficult to predict with any confidence how courts or the Patent Office will assess patent eligibility in instances where the claims are more circumscribed within the confines of what the patentee has disclosed.

The *CLS Bank* case is the most recent of the Court's patent eligibility decisions, and the Court unanimously affirmed the Federal Circuit's *per curiam* opinion (itself an effort to apply the Court's patent eligibility jurisprudence regarding computer-based methods) that all of Alice's claims were too abstract to meet the requirements of § 101.[5] The claims at issue included method claims (directed, according to the Court, to methods for implementing an intermediated settlement that are well-known in the art), system claims involving implementation of the method using a general purpose computer, and computer readable-media claims for directing a general purpose computer to implement the method.[6] None of the distinctions thought heretofore to matter between claims to methods, systems, and computer-readable media made any difference to the Court.

In providing a rationale for its decision, the Court considered the *Mayo* opinion to have provided a two-prong framework for performing the patent-eligibility analysis:

> First, we determine whether the claims at issue are directed to [an abstract idea, law of nature, or natural phenomenon]. If so, we then ask, [w]hat else is there in

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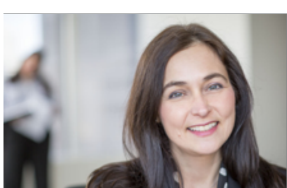

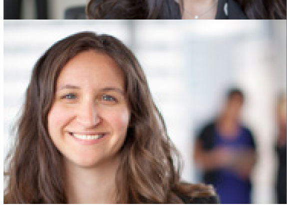

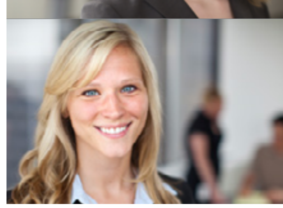

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> the claims before us? To answer that question, we…search for an inventive concept—*i.e.*, an element or combination of elements that is sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself.[7]

The Court did not rely solely on *Mayo*, however, and asserted that its jurisprudence from *Gottschalk v. Benson*,[8] through *Parker v. Flook*,[9] *Bilski*, and finally the *Mayo* opinion is consistent in both the underlying principles and how the patent-eligibility analysis should be performed. The opinion distinguished the Court's seemingly contrary decision in *Diamond v. Diehr* in a way that may be useful in determining what is patent-eligible subject matter and how it should be claimed: "In other words, the claims in *Diehr* were patent eligible because they *improved an existing technological process*, not because they were implemented on a computer."[10] And, in a footnote, the Court declared that its *Mayo* analysis is consistent with the patent law principle that the claims should be considered as a whole because the *Mayo* decision instructs a court to consider the elements of the claim at issue both individually *and* in their entirety.[11]

Nevertheless, the Court expressly declined to clearly define the term "abstract idea," stating that "we need not labor to delimit the precise contours of the 'abstract ideas' category in this case."[12] Instead, the Justices relied on the conceptual similarity between patentee Alice's claims and those found patent-ineligible in *Bilski*. In the Court's view, both were attempts to preempt a preexisting human activity (hedging in *Bilski*, intermediated settlement here). The Court stated that "[i]t is enough to recognize that there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement at issue here. Both are squarely within the realm of 'abstract ideas' as we have used that term."[13]

Taken in this light, the Court's views are consistent with other instances where the Court denied patentability for claims that attempted to encompass subject matter in the prior art.[14] But those cases were based on the equivalent of § 102, a standard (novelty) more readily assessed objectively (the claimed subject matter is either in the prior art or it is not) rather than categorically and subjectively under § 101 (wherein the Court seems to think it can "know [a patent eligible claim] when [it] see[s] it"[15]).

The Court's reliance on § 101 is apparently at odds with its earlier decision in *Diehr*, which stands for the principle that patent-eligibility under § 101 is independent from novelty under § 102 and non-obviousness under § 103.[16] The Court's characterization of Alice's and Bilski's claims as "preexisting human activity" conflate these analyses and raise the question as to whether the Court intended to partially overrule *Diehr*. Regardless of its intentions,

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the Court's decision to abjure the questions of novelty and non-obviousness in favor of subject matter eligibility decreases the extent to which prior precedent, including the Court's, can be relied upon in deciding questions of claim scope.

After a brief discussion of the Court's understanding of how a conventional general purpose computer works, the Court opined that the manner by which a computer implements the claimed (and ineligible) method is not "enough" to render the system claims patent-eligible because said implementation is entirely conventional.[17] In words arising from the *Mayo* decision, Alice's claims did not include "significantly more" than an abstract idea and thus were considered to be no more than the abstract idea itself.

Despite these deficiencies, the Court's opinion did provide some guidance on how it will determine what is "enough" that must be added to an abstract idea, law of nature, or natural phenomenon to render a claim encompassing these categories to be patent-eligible, based on the rubric that there must be *something* in the claimed invention that improves existing technology:

> The method claims do not, for example, purport to improve the functioning of the computer itself. There is no specific or limiting recitation of…improved computer technology…. Nor do they effect an improvement in any other technology or technical field. Instead, the claims at issue amount to "nothing significantly more" than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer. Under our precedents, that is not "enough" to transform an abstract idea into a patent-eligible invention.[18]

Thus, generic computer hardware is not something "significantly more" and Alice's system and computer-readable medium claims fell with the method claims:

> Put another way, the system claims are no different from the method claims in substance. The method claims recite the abstract idea implemented on a generic computer; the system claims recite a handful of generic computer components configured to implement the same idea. This Court has long "warn[ed]… against" interpreting § 101 "in ways that make patent eligibility 'depend simply on the draftsman's art.'"[19]

This decision answers two questions about how to apply the *Mayo* analysis that were not apparent from that opinion. First, the two-prong *Mayo* test should be applied for claims encompassing *any* judicial exclusion to § 101, not just those that incorporate a law of nature as in *Mayo*. Second, the *Mayo* analysis is not limited to method claims – it can be applied to claims of other statutory classes as well. It is also evident that this decision is an incremental one, insofar as it does not strike down all software patents and is crafted as an application of the Court's earlier precedents, particularly *Bilski* and *Mayo*.[20] From the opinion, it is clear that the Court is still striving for balance between tying up fundamental building blocks that would inhibit innovation, while not swallowing patent law whole (because everything ultimately is based on an abstract idea, law of nature, or natural phenomenon). The Court's decision is also entirely consistent with its disinclination to enunciate broad proscriptions against patenting particular areas of technology, as evidenced by its decisions in *Bilski* (which did not rule all business method claims to be patent-ineligible), *Association for Molecular Pathologists v. Myriad Genetics*[21] (which was limited to rendering genomic DNA patent-ineligible but did not disturb patent-eligibility for cDNA), and even *Bowman v. Monsanto*[22] (which cautioned against interpreting the Court's decision in that case to apply to all "self-replicating technologies").

It is a fair question to ask: how can one avoid a § 101 rejection in view of the *CLS Bank* decision? The *Mayo* test as applied here provides something of a recipe (albeit an incomplete one) for doing so:

- Initially, an applicant should attempt to avoid claiming an invention in a way that makes it look like an abstract idea. Accordingly, an applicant should avoid disembodied method steps, for example by tying each step to a specific hardware component that is not simply a processor or memory of a general purpose computer.
- If possible, an applicant should attempt to tie at least some steps of the claim to special purpose hardware. For instance, if the invention improves the operation of a digital camera, an applicant can include in the claims steps directed to image capture and display. If the invention permits one device to control another by a wireless link, an applicant can include the steps of transmitting and/or receiving information wirelessly in her claims. If the invention improves the usability and user experience of a smartphone application, the applicant should claim with specificity what information is displayed in what manner.
- In some cases, it may not be possible or practicable to draft claims that can easily avoid being classified as an abstract idea. In these situations, an applicant should be prepared to argue that her claims pass the second prong of the *Mayo* test by reciting "significantly more" than just an abstract idea. Exemplary arguments include that the inventions improve an industrial process or the operation of a computer itself, thus tying the claims more closely to the Court's *Diehr* decision than any of its later decisions including *CLS Bank*. However, these distinctions should be clearly set forth in the language and the structure of the claims.
- To be sure, some inventions may be much harder to claim post *CLS Bank*. Others may require a more focused claim drafting approach, and a few may be prohibitively difficult to see though to issuance. On the other hand, *CLS Bank* may have no appreciable impact on many inventions that include software as a component.

Ultimately, *CLS Bank* continues the trend of two other patent cases decided this term, *Limelight Networks, Inc. v. Akamai Technologies, Inc*. and *Nautilus, Inc. v. Biosig Instruments, Inc.*, in which the Court has placed further limits on the scope of patent protection.

There may be another beneficial strategy to use during the next year or two as the Patent Office and the courts hash out the contours of the *CLS Bank* decision. This strategy is to start by drafting software and business method claims as narrowly as possible (e.g., include specific hardware in the claims) but that still cover at least one commercially-valuable embodiment of the invention. Should these claims be allowed, a continuing application can be filed having claims that do not recite some of this hardware. This approach (starting narrow, then going broad) has the added advantage that it often leads to faster allowances, and also lets the applicant carefully probe the boundaries of § 101.

Alice's claims could have, and probably should have, been attacked as being anticipated or obvious. After all, this decision relies on the existence of prior art that could have been used for such a purpose. Instead, the Court has fully opened the Pandora's Box that it peeked into with *Mayo*, apparently sanctioning the use of prior art to render a claimed invention well-known, conventional and thus abstract under § 101.

Ultimately, *CLS Bank* continues the trend of two other patent cases decided this term, *Limelight Networks, Inc. v. Akamai Technologies, Inc*.[23] and *Nautilus, Inc. v. Biosig Instruments, Inc.*,[24] in which the Court has placed further limits on the scope of patent protection. In doing so, the Court has introduced new avenues for challenging the validity of patents.

Endnotes

1 561 U.S. 593 (2010).
2 132 S. Ct. 1289 (2012).
3 134 S. Ct. 2347 (2014).
4 550 U.S. 398 (2007).
5 *CLS Bank*, 134 S. Ct. at 2360.
6 Claim 33 of U.S. Patent No. 5,970,479 is the representative method claim and recites:
"A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:
(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;
(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;
(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and
(d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions."
U.S. Patent No. 5,970,479 (filed May 28, 1993).
7 *CLS Bank*, 134 S. Ct. at 2355 (quoting *Mayo*, 132 S. Ct. at 1294, 1297) (internal citations omitted).
8 409 U.S. 63 (1972).
9 437 U.S. 584 (1978).
10 *CLS Bank*, 134 S. Ct. at 2358 (emphasis added).
11 *Id.* at 2355 n.3.
12 *Id.* at 2357.
13 *Id.*
14 *See Am. Wood-Paper Co. v. Fibre Disintegrating Co.* (The Wood Paper Pulp Cases), 90 U.S. 566 (1874); *Cochrane v. Badische Anilin & Soda Fabrik*, 111 U.S. 293 (1884).
15 *See* Jacobellis v. Ohio, 378 U.S. 184, 197 (1964) (Stewart, J., concurring).
16 *Diamond v. Diehr* noted that "[t]he question therefore of whether a particular invention is novel is 'wholly apart from whether the invention falls into a category of statutory subject matter.'" 450 U.S. 175, 190 (1981) (quoting *In re Bergy*, 596 F.2d 952, 961 (C.C.P.A. 1979)). After *CLS Bank*, and consistent with the Court's decision in *Mayo*, it appears as if novelty (or lack thereof) can play a major role in determining whether claims are statutory under § 101. In finding Alice's claims drawn to the abstract idea of "intermediated settlement," the Court cited several references (some of which may or may not qualify as prior art under §§ 102 or 103) to establish that such undertakings were "fundamental economic practice long prevalent in our system of commerce." *CLS Bank*, 134 S. Ct. at 2356. Similarly, when considering the impact of the recited (or stipulated) computer implementation, the Court stated that "all of these computer functions are well-understood, routine, conventional activities previously known to the industry." *Id.* at 2359.
17 In *Bilski*, the Court held that "while the machine-or-transformation test has always been a 'useful and important clue,' it has never been the 'sole test' for determining patentability." *Bilski*, 561 U.S. at 593. In this case, Alice's computer-readable media and system claims were struck down under § 101, despite some being tied to general-purpose computer hardware. Thus, it appears that to pass the machine-or-transformation test, claims must be tied to a particular machine and not just a generic computer.
18 *CLS Bank*, 134 S. Ct. at 2356 (citations omitted).
19 *Id.* at 2360 (quoting *Mayo*, 132 S. Ct. at 1294).

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The Analysis for Design Patent Infringement Post-*Egyptian Goddess*

By Anthoula Pomrening, Jori R. Fuller, and George T. Lyons III

In the seminal decision of *Egyptian Goddess, Inc. v. Swisa, Inc.*,[1] the Federal Circuit struck down one of the two tests commonly used for determining design patent infringement, the "point of novelty" test.[2] Despite rejecting this test, the court incorporated the consideration of prior art into a slightly revised version of the "ordinary observer" test, the hypothetical "ordinary observer" now having familiarity with the prior art. This article will examine the application of this revised version of the "ordinary observer" test, and specifically the consideration of the "plainly dissimilar" analysis set forth by *Egyptian Goddess*.

Egyptian Goddess, Inc. v. Swisa, Inc.

Prior to *Egyptian Goddess*, courts routinely applied two tests for establishing design patent infringement, the "ordinary observer" test and the "point of novelty" test. First, courts would consider the patented design and the accused product "in the eye[s] of an ordinary observer, giving such attention as a purchaser usually gives" and then determine whether or not, through those eyes, the "two designs [were] substantially the same."[3] Second, courts then typically employed the "point of novelty" test in which consideration was given as to whether or not the accused design actually "appropriate[d] the novelty in the patented device which distinguishe[d] [the patented device] from the prior art."[4]

The court in *Egyptian Goddess* noted that a court tasked with applying both of these tests independently might focus on "whether the accused design ha[d] appropriated a single specified feature of the claimed design," rather than looking to "whether the accused design ha[d] appropriated the claimed design as a whole" (the appropriate infringement inquiry).[5] The Federal Circuit then rejected the application of the "point of novelty" test, and made clear that the appropriate analysis would be an "ordinary observer test *through the eyes of an observer familiar with the prior art*."[6] The court clarified, however, that consideration of the prior art was not required in every case, only those in which the patented design and the accused design are "substantially the same."[7] The Federal Circuit further explained that in cases where the two designs are not "plainly dissimilar," the infringement analysis "will benefit from a comparison of the claimed and accused designs with the prior art."[8] Some courts subsequent to the *Egyptian Goddess* decision have interpreted this language as establishing "two levels to the infringement analysis: a level-one or 'threshold' analysis to determine if comparison to the prior art is even necessary, and a second level analysis that accounts for prior art in less obvious cases."[9] Such examples include *Wing Shing Prods. (BVI) Co. v. Sunbeam Prods.*,[10] *Minka Lighting, Inc., v. Maxim Lighting International, Inc.*, and *Keurig, Inc. v. JBR, Inc.*[11]

Wing Shing Prods (BVI) Co. v. Sunbeam Prods.

Wing Shing v. Sunbeam is illustrative as to the determination of whether a patented design and an accused product are "plainly dissimilar," as discussed by *Egyptian Goddess*. The district court in *Wing Shing* performed an in-depth analysis to decide whether Sunbeam's coffee maker was "plainly dissimilar" to Wing Shing's patented coffee maker design. The patented design and accused product are depicted below:

'585 Patent

AR 10/12 (Accused)

The court first focused on two major differences in the designs – differently shaped bases and "dramatically different tops."[12] Considering whether these differences would be enough to render the designs "plainly dissimilar," the court concluded that in the "cluttered world of the drip-coffeemakers, it seems senseless to attempt to determine whether the ordinary observer would confuse two designs without looking to the prior art for a point of reference."[13] Although the court recognized "manifest differences in the overall appearance" of the patented design and the accused design, it looked "to the prior art for context."[14] Further, the court determined that it was "unlikely" that an ordinary observer would be deceived by similarities of the devices, but admitted that "resolution of the inquiry would benefit from a concrete guidepost."[15] After reviewing and comparing a number of prior art references to both the accused design and the patented design, the Court found "on the whole the claimed design when compared to the prior art bespeaks 'a field . . . crowded with many references relating to the design of the same type of appliance.'"[16] The court concluded that an ordinary observer familiar with the prior art "would not believe the AR 10/12 [the accused design] to be the 'same as' the '585 patent" and thus found no infringement.[17]

> **Although the point of novelty test was nominally eliminated by the Federal Circuit, there are certain instances in which courts may consider prior art during the infringement determination under the revised "ordinary observer" test and the "plainly dissimilar" analysis set forth in *Egyptian Goddess*.**

Minka Lighting Inc., v. Maxim Lighting International, Inc.[18]

Another example of a post-*Egyptian Goddess* infringement analysis, which included a consideration of whether patented and accused lighting designs were "plainly dissimilar," is *Minka v. Maxim* from the Northern District of Texas. In this case, the court reviewed three different asserted design patents directed to light fixtures and compared them to the respective accused products, two of which are shown below:[19]

The '052 Patent

Defendants' Tuscan Estate Design

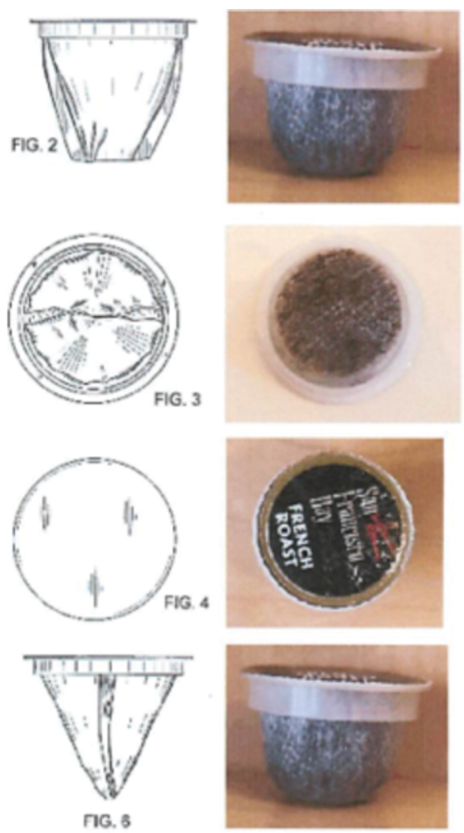
The '515 Patent

Defendants' Morrow Bay Design

In analyzing each of these designs, the court first looked to the overall visual impressions of the light fixtures, which it determined were distinctive, and then went on to analyze differences in a few specific features, such as differences between the silhouette, the finial, the ornamentation of the finials, and the design of the lower medallion of the '515 patent compared with the accused Morrow Bay design,[20] and the central body, silhouette, and contours of the '052 patent compared with the accused Tuscan Estate design.[21] The court concluded that, based on these differences, the patented design and the accused product in each instance were plainly dissimilar.[22] Although the court was satisfied that two of the asserted patents and accused designs were readily distinguishable to an ordinary observer, the court proceeded with a full analysis comparing the claimed and accused designs with the prior art.[23] In both instances, the court found that the "Defendants' product would appear [] different from the Plaintiff's [] patent to any ordinary observer aware of the great number of similar prior art designs."[24] Thus, summary judgment of non-infringement was entered on all three asserted patents.[25]

Keurig, Inc. v. JBR, Inc. [26]

The court's decision in *Keurig v. JBR* provides yet another example of a post-*Egyptian Goddess* infringement analysis, including a discussion of whether patented and accused coffee filter designs were "plainly dissimilar."[27] In attempting to discern the differences between two "disposable beverage filter cartridges," the District Court of Massachusetts provided an in-depth analysis of the similarity of the patented design to the accused product to determine whether a consideration of prior art was necessary for the infringement determination.[28] The court first compared the initial visual impressions of the two designs, as seen below:



'362 patent drawings (left) and JBR cartridge (right)

Although the two cartridges may seem fairly dissimilar to an ordinary observer, the court still took the time to discuss prior case law and instances when patented and accused designs have been found to be "plainly dissimilar"[29] and an instance when they have not.[30] The court then decided that a determination of whether or not the accused product and the claimed design were "plainly dissimilar" required "a more careful analysis of the side-by-side comparison and the similarities (and differences) exposed thereby," and went on to interpret and designate each and every similarity and difference of the two designs as being ornamental or functional.[31] After its lengthy analysis, the court decided that the two designs were "sufficiently distinct that it [was] clear without more that the patentee ha[d] not met its burden of proving the two designs would appear 'substantially the same' to the ordinary observer."[32] Here the court could have easily looked to the prior art, as did the courts in *Wing Shing* and *Minka*, but chose not to do so since it found that the two designs were "plainly dissimilar."[33] In the end, JBR's motion for summary judgment of non-infringement was granted.[34]

Observations

Although the point of novelty test was nominally eliminated by the Federal Circuit, there are certain instances in which courts may consider prior art during the infringement determination under the revised "ordinary observer" test and the "plainly dissimilar" analysis set forth in *Egyptian Goddess*. Generally speaking, whether or not prior art is considered in an infringement analysis appears to be a function of the level of similarity between the patented design and the accused product, the crowded or uncrowded nature of the pertinent art, and frankly the conscientious nature of a particular court. What remains to be seen is whether the redefined role of prior art in the infringement analysis leads to more thorough, consistent, and well-reasoned decisions.

Endnotes

1 543 F.3d 665 (Fed. Cir. 2008).
2 The point of novelty test required that the accused design contain "substantially the same points of novelty that distinguished the patented design from the prior art." *Id*. at 668.
3 *Gorham Co. v. White*, 81 U.S. 511, 528 (1871).
4 *Egyptian Goddess*, 543 F.3d at 670 (quoting *Litton Systems, Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444 (Fed. Cir. 1984).
5 *Id.* at 677.
6 *Id.* (emphasis added).
7 *Id.* at 678.
8 *Id.*
9 *See, e.g., Wing Shing Prods. (BVI) Co. v. Sunbeam Prods.*, 665 F. Supp. 2d 357, 362 (S.D.N.Y. 2009).
10 *Id.*
11 No. 3:06–CV–995–K., 2009 WL 691594 (N.D. Tex. Mar. 16, 2009).
12 *Wing Shing Prods.,* 665 F. Supp. 2d at 362.
13 *Id*. at 363 (citations omitted).
14 *Id*.
15 *Id*. (citation omitted).

(continued on page 8)

Capitol Records, LLC v. Pandora Media, Inc.: Future of Digital Music May Depend on State Copyright Protection of Pre-1972 Sound Recordings

By Nicole E. Grimm, Ann C. Palma, and Jae T. Pak

Pandora Media, Inc., ("Pandora"), with over 250 million registered users and over 70% of the market share of Internet radio, is known as a leader in the digital music industry.[1] In 2013 alone, Pandora streamed 16.7 billion hours of music, including stations that featured genres such as "Motown," "Oldies," "70s Folk," and "Classic Rock."[2] While Pandora streams iconic songs from these genres, Pandora ceased paying royalties on songs recorded before February 15, 1972 ("pre-1972 sound recordings"), which are only protected by state copyright laws.[3] In an effort to recoup unpaid royalties by Pandora, Capitol Records, LLC, among other record companies, sued Pandora under New York state law for copyright infringement, misappropriation, and unfair competition, leaving Pandora potentially liable for millions of dollars in damages. This article provides an overview of the *Pandora* case and summarizes some of the complexities of copyright protection of pre-1972 sound recordings.

Record Labels Launch Copyright Infringement Lawsuit against Pandora

Capitol Records along with four other record labels, including Sony Music Entertainment, UMB Recordings, Warner Music Group, and ABKC Music & Records (collectively, "Plaintiffs"), filed a copyright infringement lawsuit on April 17, 2014, in the New York Supreme Court in Manhattan against Pandora.[4] Plaintiffs assert that Pandora copied "thousands" of pre-1972 sound recordings and has been streaming them without holding a license or paying royalties, in violation of New York State copyright law.[5] Plaintiffs allege that Pandora exploits the artists of pre-1972 sound recordings by not paying royalties, and argue that "[t]hese artists and their families rely heavily on the income they receive from the commercial exploitation of their performances in Pre-1972 Recordings."[6]

The complaint also includes a non-exhaustive list of over 1400 pre-1972 sound recordings that are allegedly being infringed, including iconic hits, such as the Beatles' "Hey Jude," Aretha Franklin's "Respect," Bob Dylan's "Like a Rolling Stone," Elvis Presley's "Hound Dog," and Jackson 5's "ABC."[7] In addition to compensatory and punitive damages, Plaintiffs seek an injunction to prevent Pandora from reproducing and streaming pre-1972 sound recordings for "massive and continuing unauthorized commercial exploitation."[8]

> **While the outcome of the *Pandora* case remains to be seen, this case highlights the challenges for record labels, artists, and digital music providers alike in the licensing and use of pre-1972 sound recordings.**

In its answer, Pandora admitted to copying Plaintiffs' pre-1972 sound recordings to its servers, which are located outside the State of New York, and streaming them to Pandora users within the State of New York.[9] Internet streaming of music is considered a "public performance" under copyright law.[10] Pandora also noted that up until February 2012, it paid royalty fees for streaming the pre-1972 sound recordings owned by the Plaintiffs.[11] Pandora, however, asserts fifteen affirmative defenses, including that the complaint fails to state a claim upon which relief may be granted.[12]

Record Labels Open Pandora's Box for More Cash Money

Understanding the parties' motives behind this copyright infringement battle over royalties requires some perspective. There are generally two forms of royalties paid for music. While publishing companies and songwriters receive composition royalties, record labels and performing artists receive sound recording royalties.[13] Under the U.S. Copyright Act, publishing companies and songwriters enjoy the full bundle of exclusive rights, including reproduction and public performance rights.[14] On the other hand, record labels and performing artists only enjoy exclusive rights with respect to the reproduction, derivative works, and distribution of their sound recordings.[15] Therefore, when a song plays on the terrestrial radio, the publishing companies and songwriters get paid, but the record labels and performing artists do not.

However, record labels and performing artists were finally allowed to collect royalties whenever a song they produced or sang was streamed in *digital* format after the passage of the Digital Performance Right in Sound Recording Act ("DPRA") in 1995 and the Digital Millennium Copyright Act ("DMCA") in 1998, which further expanded the DPRA to include nonsubscription-based, non-interactive digital audio transmissions.[16] Digital music services, such as Pandora, Sirius XM, and Spotify are thus required to pay sound recording royalties through a statutory license provision.[17] In fact, Pandora paid out forty-eight percent of its total revenue last year to SoundExchange, a performance-rights administrator created by the DPRA to negotiate, collect, and distribute royalties to record labels and performing artists.[18] When Pandora pays SoundExchange, SoundExchange distributes fifty percent of the sound recording royalties to the record labels, forty-five percent to the performing artists, and the remaining five percent to the session musicians and backup singers on the recording.[19] But the record labels and performing artists are not getting paid by some of the digital music services, such as Pandora, for songs recorded before 1972 because the U.S. Copyright Act does not protect pre-1972 sound recordings. As such, record labels are now turning to state law for a larger piece of the pie.

The U.S. Copyright Act defines "sound recordings" as works that are fixed from "a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work."[20] Sound recordings made prior to February 15, 1972, are only protected by state law. This protection will last until the year 2067, at which time state protection will be preempted by federal law and pre-1972 sound recordings will enter the public domain.[21] Consequently, states are free to protect pre-1972 sound recordings via statute and common law, making the scope of protection for these sound recordings broad and inconsistent from state to state.[22] On February 15, 1972, however, sound recordings were brought within the scope of federal copyright protection.[23] Thus, sound recordings made after this time are protected by federal law.

New York Common Law Copyright Protection of Pre-1972 Sound Recordings

Here, Plaintiffs correctly assert that while federal law does not protect pre-1972 sound recordings, the State of New York recognizes exclusive ownership rights of pre-1972 sound recordings.[24] Although not at issue in this case, article 275 of the New York State Penal Code contains multiple provisions that apply exclusively to pre-1972 recordings.[25] The provisions are designed to protect anyone whose legitimate business interests are harmed by those who profit from pirated recordings.[26] Instead, Plaintiffs' claims rely solely on New York common law.

In 2005, the New York Court of Appeals in *Capitol Records, Inc. v. Naxos of America, Inc.* affirmed the existence of common law copyright protection for pre-1972 sound recordings until 2067, the effective date of federal preemption.[27] Under New York law, copyright infringement is established by showing: (1) the existence of a valid copyright; and (2) unauthorized reproduction of the work protected by the copyright.[28] In *Naxos*, Capital Records brought a common law copyright infringement action against Naxos for selling restorations of original recordings that were made in England in the 1930s and were exclusively owned by Capital Records.[29] The district court granted Naxos' motion for summary judgment and Capital Records appealed to the Second Circuit.[30] The Second Circuit asked the New York Court of Appeals to determine whether there is common law copyright protection for pre-1972 sound recordings.[31] In determining that common law copyright protection did exist for pre-1972 sound recordings, the New York Court of Appeals recognized that because the original recordings were pre-1972 sound recordings, it was New York's responsibility to determine the scope of copyright protection under its common law.[32] The New York Court of Appeals also acknowledged that common law copyright infringement and unfair competition are distinct causes of action under New York law.[33]

Additionally, the *Naxos* case is significant because it potentially broadened the scope of copyright protection for pre-1972 sound recordings by considering the sound recordings at issue to be "unpublished" despite their commercial availability to the public. Typically, common law protection of a work ceases when the work is made publically available because federal copyright protection takes over.[34] However, because pre-1972 sound recordings are ineligible for federal copyright protection, the *Naxos* court reasoned that "the public sale of a sound recording otherwise unprotected by statutory copyright does not constitute a publication sufficient to divest the owner of common-law copyright protection."[35]

Unlike other jurisdictions, common law precedent exists in New York involving pre-1972 sound recordings that may bear on the outcome of this case.[36] For example, in 2014, the New York Supreme Court in *Capitol Records, LLC v. Harrison Greenwich, LLC*, held a restaurant owner liable for common law copyright infringement for playing a pre-1972 sound recording on the restaurant website without a license.[37] The court found that it was undisputed that the defendant uploaded the pre-1972 sound recording to the website, and that it was "well settled" that this action constituted copyright infringement.[38] Additionally, the court reiterated that copyright infringement is akin to a strict liability offense because the plaintiff need not prove bad faith or ill intent on behalf of the defendant in order to succeed.[39] Likewise, in the *Pandora* case, the New York Supreme Court will need to decide whether Pandora's actions fall under the broad protections of its common law.

Implications and the Future of Pre-1972 Sound Recordings

A favorable outcome for the record labels in this case could have a major impact on Pandora's business. In a filing with the Federal Securities and Exchange Commission, Pandora addressed the potential negative impact of being required to license pre-1972 sound recordings by stating: "[i]f we are required to obtain licenses for pre-1972 sound recordings to avoid liability and are unable to secure such licenses, then we may have to remove pre-1972 sound recordings from our service, which could harm our ability to attract and retain users."[40] Pandora could also be forced to stop streaming these songs if the record labels are successful. On the other hand, a win for the record labels could mean increased revenues for the artists of the pre-1972 sound recordings.[41] However, Pandora is not alone in the royalty battle, as other satellite and Internet radio providers are facing similar lawsuits.[42]

While record companies pursue litigation to recover royalties, some lawmakers and recording artists are seeking to resolve royalty issues with digital radio by bringing pre-1972 sound recordings under the protection of the U.S. Copyright Act. In May 2014, a new Act titled "Respecting Senior Performers as Essential Cultural Treasures" or, "the RESPECT Act," was introduced into the House of Representatives and proposes an amendment to 17 U.S.C. § 114(f)(4) that would create a statutory license for pre-1972 sound recordings.[43] This amendment would not alter any remedy available under state law, which, for now, is the only avenue by which record labels may seek damages from unpaid royalties for pre-1972 sound recordings.[44]

While the outcome of the *Pandora* case remains to be seen, this case highlights the challenges for record labels, artists, and digital music providers alike in the licensing and use of pre-1972 sound recordings.

Endnotes

1 Defendant Pandora's Answer to the Complaint at ¶ 24, *Capitol Records, LLC v. Pandora Media, Inc.*, No. 651195/2014 (Sup. Ct. N.Y. 2014), [hereinafter Answer].

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20 Justice Sotomayor's concurring opinion is brief and to the effect that she believes business method patents to be patent ineligible *per se* because they do not fall within the ambit of a "process" under the Patent Act. *CLS Bank*, 134 S. Ct. at 2360 (Sotomayor, J., concurring). Justices Breyer and Ginsberg join her here, as they did in Justice Stevens' concurring opinion in *Bilski*. *Id.*; *see also Bilski*, 561 U.S. 593 (Stevens, J., concurring). The other Justices apparently are not yet ready to make all business method claims ineligible for patenting, provided that they satisfy the rule reiterated here that there must be something that improves existing technology or otherwise does not merely adapt methods for controlling human activity for implementation by a computer.
21 133 S. Ct. 2107 (2013).
22 133 S. Ct. 1761 (2013).
23 134 S.Ct. 2111 (2014).
24 134 S.Ct. 2120 (2014).

Michael S. Borella, Ph.D., an MBHB associate, has been involved in the prosecution of hundreds of patents and has experience in numerous phases of patent litigation involving networking, Internet telephony, wireless communication, cloud computing, TCP/IP, and mobile application technologies. **borella@mbhb.com**

Kevin E. Noonan, Ph.D., an MBHB partner, brings more than 20 years of extensive work as a molecular biologist studying high-technology problems in serving the unique needs of his clients. His practice involves all aspects of patent prosecution, interferences, and litigation. **noonan@mbhb.com**

(continued from page 5)

16 *Id*. at 364–65.
17 *Id*. at 368. *(continued on page 8)*
18 No. 3:06–CV–995–K., 2009 WL 691594 (N.D. Tex. Mar. 16, 2009).
19 The court determined that the third patent design ('591) and the accused design were plainly dissimilar and chose not to consider the prior art in that instance. *Id.* at *8.
20 *Id*. at *5.
21 *Id*. at *8.
22 *Id*. at *6, *8.
23 *Id*.
24 *Id*. at *7 and *9.
25 *Id*. at *9.
26 No. 11–11941–FDS, 2013 WL 2304171 (D. Mass. May 24, 2013).
27 Additional "plainly dissimilar" analyses can be found in the following cases: *HR U.S. LLC v. Mizco Int'l, Inc.*, No. CV-07-2394 (DGT)(JO), 2009 WL 890550 (E.D.N.Y. Mar. 31, 2009); *Competitive Edge, Inc. v. Staples, Inc.*, 763 F. Supp. 2d 997 (N.D. Ill. 2010); *Spencer v. Taco Bell Corp.*, No. 8:12–cv–387–T–23TGW, 2013 WL 5499609 (M.D. Fla. Oct. 2, 2013); *Poly-America, L.P. v. API Industries, Inc.*, No. 13–693–SLR, 2014 WL 1391063 (D. Del. Apr. 10, 2014); *Fanimation, Inc. v. Dan's Fan City, Inc.*, No. 1:08–cv–1071–TWP–WGH, 2010 WL 5285304 (S.D. Ind. Dec. 16, 2010).
28 *Keurig*, 2013 WL 2304171 at *5 (correctly applying the standards articulated in *Egyptian Goddess*).
29 *Id.* (citing *Competitive Edge, Inc. v. Staples, Inc.*, 763 F. Supp. 2d 997 (N.D. Ill. 2010); *Great Neck Saw Mfrs., Inc. v. Star Asia U.S.A., LLC*, 727 F. Supp. 2d 1038 (W.D. Wash. 2010)).
30 *Keurig*, 2013 WL 2304171 at *6 (citing *Crocs, Inc. v. ITC*, 598 F.3d 1294 (Fed. Cir. 2010)).
31 *Id.* at *6–8.
32 *Id.* at *9.
33 *See id.* at *9 (quoting *Egyptian Goddess*, 543 F.3d at 678).
34 *Id.* at *16.

Anthoula Pomrening, an MBHB partner, has experience in all aspects of intellectual property law, with a particular emphasis on litigating and counseling clients on patent and trademark issues. **pomrening@mbhb.com**

Jori R. Fuller, an MBHB partner, has prosecution experience that includes all phases of U.S. and foreign patent and trademark prosecution, client counseling, and due diligence, focused on innovations in the mechanical, computing, and electrical arts. **fuller@mbhb.com**

George T. Lyons III is a 2014 summer associate with MBHB.

(continued from page 7)

2 *Id.* at ¶¶ 5, 24.
3 *Id.* at ¶ 4 (admitting that it had not "paid royalty fees for its public performance of Plaintiffs' Pre-1972 Recordings since February 2012.").
4 Plaintiffs' Complaint for Common Law Infringement at ¶¶ 39-49, *Capitol Records, LLC v. Pandora Media, Inc.*, No. 651195/2014 (Sup. Ct. N.Y. 2014), [hereinafter Complaint]. Along with asserting a common law copyright infringement claim, Plaintiffs also brought a claim for unfair competition under New York state law. *Id.* at ¶¶ 50-66.
5 *Id.* at ¶ 1.
6 *Id.* at ¶ 2.
7 Schedule A of Plaintiffs' Complaint for Common Law Infringement, *Capitol Records, LLC v. Pandora Media, Inc.*, No. 651195/2014 (Sup. Ct. N.Y. 2014).
8 Complaint at ¶¶ 19-20; ¶ 1.
9 Answer at ¶ 17.
10 *See Capitol Records, LLC v. ReDigi Inc.*, 934 F.Supp.2d 640, 652 (S.D.N.Y. 2013) (noting that "audio streams are performances because a stream is an electronic transmission that renders the musical work audible as it is received by the client-computer's temporary memory. This transmission, like a television or radio broadcast, is a performance because there is a playing of the song that is perceived simultaneously with the transmission.") (citations omitted).
11 Answer at ¶ 4.
12 Pandora asserts that Plaintiffs' claims are barred, in whole or in part, by the doctrine of waiver, estoppel, acquiescence, unclean hands, implied license, and fair use. Answer at ¶¶ 13-14. Pandora further asserts the statute of limitations and lack of harm from the alleged conduct bars Plaintiffs' claims. *Id.* at ¶¶ 14-15.
13 John McDuling, *The Future of Digital Music May Hinge on Elvis,* Quartz (May 21, 2014), http://qz.com/210189/the-future-of-pandora-spotify-sirius-xm-may-hinge-on-elvis/. Publishing companies may provide value for songwriters by promoting the use of their songs in films, television, advertising, ringtones and video games in addition to sheet music and music books. Jon M. Garon, *Copyright Basics for Musicians* (March 2009), http://www.gcglaw.com/resources/entertainment/music-copyright.html. The publishing companies generally receive fifty percent of the composition revenue in exchange for these services. Id.
14 17 U.S.C. § 106.
15 17 U.S.C. § 114.
16 Digital Performance Right in Sound Recording Act of 1995, Pub. L. No. 104-39, 109 Stat. 335 (codified as amended in scattered sections of 17 U.S.C.). The owner of copyright under this title has the exclusive rights to do and to authorize…in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission. 17 U.S.C. § 106(6).
17 *See* 17 U.S.C. § 114(d)(2) ("The performance of a sound recording publicly by means of a subscription digital audio transmission not exempt under paragraph (1), an eligible nonsubscription transmission, or a transmission not exempt under paragraph (1) that is made by a preexisting satellite digital audio radio service shall be subject to statutory licensing.").
18 Angus McDonald, *Pandora Is Now Over 50% SoundExchange's Royalty Collections*, Rain News (Apr. 10, 2014), http://rainnews.com/pandora-is-now-over-50-soundexchanges-royalty-collections-implications-for-webcasting-iv/; Laws and Regulations, SoundExchange (2013), http://www.soundexchange.com/advocacy/federal-copyright-protection/regulations/.
19 *See Eliot Van Buskirk, SoundExchange Reveals What Pandora Pays Artists,Hyperbot.com (2012),* http://www.hypebot.com/hypebot/2012/10/soundexchange-reveals-what-pandora-pays-artists.html. According to a 2012 blog post by Pandora Founder, Tim Westergren, artists such as Drake and Lil Wayne are getting paid almost $3 million annually by Pandora through SoundExchange. Tim Westergren, *Pandora and Artist Payments,* Pandora Blog (Oct. 9, 2012), http://blog.pandora.com/2012/10/09/pandora-and-artist-payments/.
20 17 U.S.C. § 101.
21 *See* 17 U.S.C. § 301(c) ("With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2067.").
22 *See generally* Program on Information Justice and Intellectual Property, Protection for Pre-1972 Sound Recordings under State Law and Its Impact on Use by Nonprofit Institutions: A 10-State Analysis (Sept. 2009), *available at* http://www.loc.gov/rr/record/nrpb/pub146.pdf for a description of state statutory and common law copyright laws applicable to pre-1972 sound recordings.
23 *See Capitol Records, Inc. v. Naxos of America, Inc.*, 830 N.E.2d 250, 263 (N.Y. 2005); The U.S. Copyright Office, Federal Copyright Protection for Pre-1972 Recordings 5 (2011), *available at* http://www.copyright.gov/docs/sound/pre-72-report.pdf.
24 Complaint at ¶ 4.
25 N.Y. PEN. LAW §§ 275.00-.45 (Consol. 2006). The law was added in 1978 to stop the illegal traffic in unauthorized sound recordings. Program on Information Justice and Intellectual Property Wash. College of Law, American University, Protection for Pre-1972 Song Recordings under State Law and Its Impact on Use by Nonprofit Institutions 71 (2009), [hereinafter *State Report*]. The statute was amended in 1990, to include modern forms of recordings, such as videocassettes and to add a prohibition on the rental as well as the sale of unauthorized recordings. *Id.* New York uses a broader definition for "recordings" than the U.S. Copyright Act to include "an original phonograph record, disc, tape, audio, video cassette, wire, film, hard drive, flash drive, memory card or other data storage device or any other medium on which such sounds, images, or both sounds and images are or can be recorded or otherwise stored, or a copy or reproduction that duplicates in whole or in part the original." N.Y. PEN. LAW § 275.00.
26 *State Report* at 71.
27 830 N.E. at 264.
28 *Id.* at 266.
29 *Id.* at 252-253.
30 *Id.* at 253.
31 *Id.* at 252.
32 *Id.* at 253.
33 *Id.* at 266.
34 *Id.* at 264 (noting that "[w]ith regard to literary works, it has long been the rule that common-law protection ends when a writing is distributed to the public…because it is at that point that federal statutory copyright protection controls.") (internal citations omitted).
35 *Id.*
36 North Carolina, for example, abolished common law copyright by statute. *See* N.C. Gen. Stat. Ann. § 66-28 (West 2014) ("The sole intendment of this enactment is to abolish any common-law rights attaching to phonograph records and electrical transcriptions, whose sole value is in their use, and to forbid further restrictions of the collection of subsequent fees and royalties on phonograph records and electrical transcriptions by performers who were paid for the initial performance at the recording thereof.").
37 984 N.Y.S.2d 274, 276 (Sup. Ct. 2014).
38 *Id.*
39 *Id.* at 280 n.2.
40 Pandora Media, Inc., Quarterly Report Form 10-Q, at 36 (Apr. 29, 2014), *available at* http://archive.fast-edgar.com//20140429/A7A2MG2C8W22QZZ222292ZZZI6GHH2T2D262/; *see also* Answer, *supra* note 7, at ¶ 6.
41 *See* Complaint at ¶ 2.
42 *See, e.g., Capitol Records, LLC v. Sirius XM Radio Inc.,* No. BC520981, Complaint (Cal. Supp. Ct. Sept. 11, 2013).
43 Respecting Senior Performers as Essential Cultural Treasures Act of 2014, H.R. 4772, 113th Cong. § 114(f) (2014), *available at* http://pub.bna.com/ptcj/HR4772introMay29.pdf.
44 *Id.* at (D)(ii).

Nicole E. Grimm, an MBHB associate, concentrates her practice on intellectual property matters, including patent preparation and prosecution in the biotechnology and pharmaceuticals areas, and supporting intellectual property litigation. **grimm@mbhb.com**

Ann C. Palma, an MBHB associate, prepares patent applications, conducts legal research, and provides technological advice in support of validity, infringement, and patentability analyses, patent application preparation, and litigation matters in the chemical field. **palma@mbhb.com**

Jae T. Pak is a 2014 summer associate with MBHB.

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- Marcus J. Thymian – Ranked in Illinois for Patent "Prosecution"
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McDonnell Boehnen Hulbert & Berghoff LLP
Intellectual Property Law

300 South Wacker Drive
Chicago, Illinois 60606-6709

312 913 0001 phone
312 913 0002 fax
www.mbhb.com
snippets@mbhb.com

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Partners
Lawrence H. Aaronson
Jeffrey P. Armstrong
Alison J. Baldwin
Paul H. Berghoff
Daniel A. Boehnen
Christina L. Brown
S. Richard Carden
Christopher M. Cavan
David L. Ciesielski
Michael D. Clifford
Grantland G. Drutchas
Sarah E. Fendrick, Ph.D.
David M. Frischkorn
Paula S. Fritsch, Ph.D.
Jori R. Fuller
Michael D. Gannon
Patrick G. Gattari
Michael S. Greenfield, Ph.D.
James C. Gumina
David S. Harper, Ph.D.
Joseph A. Herndon
Lisa M. W. Hillman, Ph.D.
A. Blair Hughes
Bradley J. Hulbert
Nicole Keenan
Sydney R. Kokjohn
Jennifer M. Kurcz
George I. Lee
Richard A. Machonkin
James M. McCarthy
Michelle L. McMullen-Tack, Ph.D.
Emily Miao, Ph.D.
Scott M. Miller
Eric R. Moran
Jeremy E. Noe
Kevin E. Noonan, Ph.D.
Sherri L. Oslick, Ph.D.
Anthoula Pomrening
Nicole E. Reifman
Joshua R. Rich
Kurt W. Rohde
Matthew J. Sampson
Steven J. Sarussi
Lisa M. Schoedel
Rory P. Shea
Leif R. Sigmond, Jr.
J. Dan Smith
James V. Suggs
Sean M. Sullivan
Kirsten L. Thomson
Marcus J. Thymian
Paul S. Tully, Ph.D.
Dmitriy A. Vinarov, Ph.D.
Thomas E. Wettermann
Andrew W. Williams, Ph.D.
Cato Yang
Donald L. Zuhn, Jr., Ph.D.

Of Counsel
Thomas A. Fairhall
Thomas J. Loos, Ph.D.

Associates
Michael D. Anderson
Michael S. Borella, Ph.D.
Michael P. Boyea
Nathaniel P. Chongsiriwatana, Ph.D.
Ryan C. Clark
Justin M. Cook
James V. DeGiulio, Ph.D.
Aaron V. Gin, Ph.D.
Nicole E. Grimm
Chad A. Kamler
Brandon J. Kennedy
James L. Lovsin
Gavin J. O'Keefe
Andrea K. Orth
Ann C. Palma
Daniel C. Pozdol
Jordan J. Pringle
Cole B. Richter
John M. Schafer
Benjamin M. Urban
Erin R. Woelker

Patent Agents
Isadora F. Bielsky, Ph.D.
Joshua D. Bosman, Ph.D.
Alexander D. Georges
David A. Grabelsky, Ph.D.
Gregory M. Huffman
James L. Korenchan
Michael Krasniansky
Nicholas M. Leonard, Ph.D.
Jelena Janjic Libby, Ph.D.
Sherif N. Mahmoud
John J. McKearin
Amir Shenouda, Ph.D.

Technical Advisors
Christine A. Falaschetti, Ph.D.
Jordan T. One
Benjamin A. Rellinger, Ph.D.