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IP Update

A look at current cases shaping intellectual property.

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PATENTS / §145 APPEALS

Applicants Can Submit New Evidence in §145 Actions

The U.S. Court of Appeals for the Federal Circuit, in a 6-2-1 *en banc* ruling, held that 35 U.S.C. §145 imposes no special limitation on a patent applicant's right to introduce new evidence in a civil action against the U.S. Patent and Trademark Office (USPTO). *Hyatt v. Kappos*, Case No. 07-1066 (Fed. Cir., Nov. 8, 2010) (Moore, J.) (Dyk, J.; Gajarsa, J., dissenting) (Newman, J., concurring-in-part, dissenting-in-part).

In reversing a prior panel decision, the *en banc* Federal Circuit held that the only limitations on the admissibility of new evidence in a §145 proceeding are those imposed by the Federal Rules of Evidence and Federal Rules of Civil Procedure. However, the Court confirmed that new issues (and related evidence) not raised during USPTO proceedings may not be raised in a §145 proceeding and that, in cases in which the applicant fails to adduce additional evidence, the district court should apply the APA standard of review.

The case stems from an application filed by Gilbert P. Hyatt. During prosecution, Hyatt filed a response to a non-final office action wherein he amended and added claims. The examiner determined that he failed to identify support in the specification for the new and amended claims. In response, Hyatt listed specification support for the claims, but the examiner was not persuaded and issued a final office action rejecting all pending claims.

Hyatt appealed to the U.S. Board of Patent Appeals and Interferences (the Board). Although the Board reversed most of the examiner's written description rejections, it upheld some and Hyatt filed a request for rehearing on the still-rejected claims. The Board dismissed the request on the basis that it raised new issues that could have been raised earlier to either the examiner or the Board. Hyatt responded by filing a civil action under §145.

In response to the USPTO's summary judgment motion, Hyatt submitted a declaration identifying specification support for his new and amended claims. The USPTO objected to the declaration, arguing that it constituted improper new evidence that Hyatt should have introduced earlier, either before the Board or the examiner. The district court ruled that Hyatt's failure to present the evidence earlier constituted a negligent act and granted the USPTO's summary judgment motion. Hyatt appealed.

In its earlier ruling (see *IP Update*, Vol. 12, No. 8), the Federal Circuit panel affirmed the lower court's ruling. The panel majority concluded that new evidence should not be permitted if it could and should have been introduced at the USPTO but was not. The Federal Circuit later agreed to hear the appeal *en banc*. (See *IP Update*, Vol. 13, No. 3.)

Now, in its *en banc* ruling, the Court reversed the original panel decision, focusing on the language of the statute and noting that the statute itself provided no indication that a civil action under §145 is different from any other civil action. The Court also noted that §145 distinguishes between the civil action as an alternative to a direct appeal to the Federal Circuit under §141 (where the appellate record is fixed, *i.e.*, to the record before the Board).

The Court also considered the legislative history of §145, noting that when Congress drafted the Patent Act of 1870, it permitted applicants seeking review of an adverse finding of patentability at the USPTO to introduce new evidence and concluded that nothing has changed since that would have altered the Patent Act.

The Federal Circuit rejected the USPTO's argument that Congress intended that only evidence that could not have reasonably been presented to the Patent Office should be admissible in §145 proceedings. Citing a line of Supreme Court cases, the Court concluded §145 permits the introduction of new evidence.

Judge Newman, in her concurring opinion, agreed with the majority's holding that new evidence may be introduced in a §145 action, but dissented from the holding that when no new evidence is submitted, the APA standard of review applies as contrary to "the statutory plan."

Judge Dyk, joined by Judge Gajarsa, dissented, arguing that the majority made an error in finding that §145 imposes *no limitation* on an applicant's right to submit new evidence to the district court.

Practice Note

The burden on applicants to submit essentially all possible evidence in support of patentability to the Board is now somewhat alleviated. However, in view of the APA standard of review applicable in case where no new evidence is adduced, a disappointed applicant has no reason to seek review of Board decisions under §145 unless it intends to introduce additional evidence in that proceeding. Otherwise, the traditional direct appeal to the Federal Circuit (under §141) is the most appropriate and efficient way to proceed.

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PATENTS / STANDING

"Promise to Assign" Language in an Assignment Agreement Does Not Give the Assignee Legal Title to the Patents

In reversing a district court's decision that granted a patent owner's standing to sue an Abbreviated New Drug Application (ANDA) filer, the U.S. Court of Appeals for the Federal Circuit held that the patent owner must demonstrate that it held enforceable title to the patent "at the inception of the lawsuit" to assert standing. *Abraxis Bioscience, Inc. v. Navinta LLC.*, Case No. 09-1539 (Fed. Cir., Nov. 9, 2010) (Gajarsa, J.).

In November 2006, Navinta filed an ANDA for a generic version of Naropin®, which is marketed by Abraxis. Abraxis sued Navinta for infringement of U.S. Patent Nos. 4,870,086 (the '086 patent), 5,670,524 (the '524 patent) and 5,834,489 (the '489 patent).

The '086 patent was assigned to Astra Lakemedel Aktiebolag (Astra L) in 1986. The '524 and '489 patents were assigned to AstraZeneca AB (AZ-AB) in 2000. In April 2006, Abraxis entered into an asset purchase agreement (APA) with AstraZeneca (AZ-UK). The APA provided that AZ-UK "shall or shall cause one or more of its Affiliates to, Transfer to [Abraxis], all of the right, title and interests" in the asserted patents. On June 28, 2006, AZ-UK and Abraxis executed an intellectual property assignment agreement assigning the three patents to Abraxis.

On the same day that Abraxis filed its complaint against Navinta, Astra L and AZ-AB each executed an assignment of their respective patents to AZ-UK. The assignments referred the APA and stated that the assignments were executed to allow AZ-UK to "further convey" the patents to Abraxis. Eight months later, AZ-UK and Abraxis executed another agreement stating that, pursuant to the 2006 APA, AZ-UK confirmed that Abraxis acquired the ownership of the asserted patents no later than June 28, 2006.

Navinta argued that Abraxis lacked standing because Abraxis did not own the asserted patents at the time it filed the complaint. The district court, however, found that although there was a break in the chain of title, the "intent" of the various assigning entities was sufficient to imply a *nunc pro tunc* assignment based on the relationship between the corporate entities. Navinta appealed.

The Federal Circuit reversed, explaining that the contractual language of the APA indicated that the actual transfer of the asserted patents was to occur in the future (that AZ-UK "shall, or shall cause one or more of its Affiliates" to assign). Therefore, under the Federal Circuit's "promise to assign" precedent, a subsequent written agreement was necessary to consummate the assignment. Further, even assuming the March 2007 agreements were retroactive, title to the asserted patents did not automatically vest in Abraxis upon the March 2007 transfer to AZ-UK, because the June 2006 Assignment did not result in an immediate transfer of "expectant interests" to Abraxis. For title to vest in Abraxis, a further assignment by AZ-UK was required. Finally, Abraxis argued that "equitable title" to the asserted patents through the APA was sufficient to confer standing, citing *Arachnid*. The Federal Circuit distinguished *Arachnid*, noting it concerned a present agreement to assign rights to future inventions. In contrast, the June 2006 assignment attempted to assign rights to existing patents, but was ineffective because AZ-UK did not own the patents at the time. Without ownership, AZ-UK had no authority to convey the equitable or legal titles to Abraxis.

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PATENTS / DAMAGES

Failure to Object to Improper Use of the Entire Market Value Rule Will Constitute Waiver

The U.S. Court of Appeals for the Federal Circuit reversed an infringement verdict for the method claims in a "locked code" products case, but upheld both the infringement verdict on the apparatus claims and the manner in which the *Georgia-Pacific* reasonable royalty factors were applied to damages. *Finjan, Inc. v. Secure Computing Corp.*, Case Nos. 09-1576, -1594 (Fed. Cir., Nov, 4, 2010) (Linn, J.).

Finjan sued Secure Computing for infringing its patents on "proactive scanning," which involve detecting and disarming unknown internet-based threats to computers, such as viruses. Finjan obtained an infringement verdict on both its method and apparatus claims, despite the fact that the infringing software was "locked" (*i.e.*, it required the owner to purchase a license to use it) in the systems that were sold with the software already installed. On appeal, the Federal Circuit reversed the infringement verdict as regards to the method claims for lack of evidence that the software was actually used. However, Court affirmed the infringement verdict regarding the apparatus claims because the claims recited software components having capability (*e.g.*, "a logical engine *for preventing* execution"), rather than actual operation.

Secure Computing also appealed the jury's basis for the reasonable royalty. Secure Computing claimed that the jury misapplied the "entire market value" rule by using the full market value without proof that the patent-related feature was the basis for customer demand. However, the Court concluded that Secure Computing waived this argument by not raising it during trial.

Secure Computing also argued that the rate used by the jury lacked support under the *Georgia-Pacific* factors. Secure Computing attacked the royalty factor used, wherein a large profit margin would tend to support a higher reasonable royalty rate. Finjan's expert used company-wide profits (not just profits for the accused products) to calculate his proposed rate and discounted certain expenses, including one-time costs and R&D for unrelated products. However, the Federal Circuit concluded that the jury could rely on this calculation because there was substantial evidence that the company-wide profit margin was similar to the profit margin for the hardware products.

Because there was no evidence of actual use, Secure Computing also argued that the factor requiring consideration of the extent to which the infringer used the invention mitigated against a higher reasonable royalty rate. The Court dismissed this argument, explaining that for sales-based infringement, the seller *is* the infringer, and the seller "uses" the product by selling it. As for the remaining *en banc* factors in issue, the Court concluded that there was sufficient evidence to satisfy the factors relating to the importance of the invention in the infringing products and the portion of realizable profits that should be credited to it. Regarding the factor relating to existing licenses, the Federal Circuit concluded that Finjan's lump-sum worldwide license to Microsoft was relevant, so long as the economic circumstances of Finjan and Microsoft were taken into account, along with the fact that the Finjan product did not directly compete with Microsoft and received intangible benefits from Microsoft's endorsement.

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PATENTS / INVENTORSHIP AND §102(G)

Original Independent Conception Is Required to Qualify as an "Inventor" Under §102(g)

The U.S. Court of Appeals for the Federal Circuit held that to qualify as "another inventor" under 35 U.S.C. §102(g)(2), one must *independently* and *originally* conceive of the invention within the United States. *Solvay S.A. v. Honeywell International, Inc.*, Case No. 09-1161 (Fed. Cir., Oct. 13, 2010) (Schall, J.).

Under §102(g)(2), a person is not entitled to a patent if "the invention was made in [the United States] by another inventor" before the patentee's invention. Solvay sued Honeywell for infringement of a patent directed to methods for making the compound 1,1,1,3,3-pentafluoropropane (HFC-245fa). Honeywell had contracted with an agency in Russia to produce HFC-245fa. It was undisputed that the Russian agency, in Russia, conceived of and reduced to practice the invention claimed in the patent prior to Solvay's priority date. It was further undisputed that the Russian agency thereafter sent instructions for producing HFC-245fa to Honeywell in the United States and that prior to Solvay's priority date Honeywell used those instructions to independently reduce the claimed invention to practice.

In the district court, Honeywell moved for summary judgment of invalidity of certain claims on the ground that those claims were the work of a prior inventor under 35 U.S.C. §102(g)(2). Because Honeywell was the first to reduce the invention to practice in the United States, Honeywell insisted that §102(g)(2) necessitated a finding of invalidity. Solvay cross-moved for summary judgment of no invalidity on the ground that Honeywell did not qualify as "another inventor" under §102(g)(2)—Solvay argued that under §102(g)(2) an "inventor" must be involved in the conception of the invention inside the United States, and Honeywell was not.

The district court granted summary judgment to Honeywell, concluding that "Honeywell conceived the invention at issue in the United States upon receipt of [the Russian agency's] instructions, because it was at [that] point that Honeywell possessed a definite and permanent idea of the complete and operative invention." The district court declined to read the "originality" requirement of §102(f) into §102(g), reasoning that §102(g) "contemplates multiple conceptions, as long as each inventor 'appreciates' his invention." Solvay appealed.

The Federal Circuit reversed, confirming its practice of applying conception and reduction to practice principles in the context of prior inventorship questions under §102(g)(2). The Court explained that while §102(g)(2) does not contain the explicit "originality" provision of §102(f), "originality is, nevertheless, inherent to the notion of conception." As such, the Court concluded that Honeywell could not be "another inventor" under §102(g)(2) because the Russian agency—not Honeywell—conceived of the invention at issue and did so outside the United States. Honeywell simply "reproduced the invention originally conceived and reduced to practice by [the Russian agency] in Russia." Such reproduction cannot qualify as conception, the Court reasoned, because then anyone who used a first inventor's instructions to reproduce the invention would necessarily become an inventor themselves.

Practice Note

Under *Solvay*, if one entity conceives of an invention outside the United States and sends instructions to make that invention to an entity inside the Unites States, the second entity does not qualify as an "inventor" under §102(g)(2) simply by using the instructions to reproduce the invention.

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PATENTS / PROSECUTION LACHES AND INEQUITABLE CONDUCT

A Party Invoking Prosecution *Laches* Must Show Evidence of Intervening Rights

The U.S. Court of Appeals for the Federal Circuit reversed a district court's ruling of patent unenforceability for prosecution *laches*, holding that evidence of intervening rights is required to establish "an unreasonable and unexplained delay in prosecution." The Federal Circuit also reversed the district court's ruling of patent unenforceability for inequitable conduct, finding that materiality and intent are separate requirements, as well as that intent to deceive cannot be found based on materiality alone. *Cancer Research Tech. et al. v. Barr Laboratories et al.*, Case No. 10-1204 (Fed. Cir., Nov. 9, 2010) (Lourie, J.) (Prost, J., dissenting).

The application for the patent in suit was filed in the United States, claiming a genus of tetrazine derivative compounds and methods for treating cancer by administering those compounds.

One claimed compound, temozolomide, is the active ingredient in the drug Temodar®, approved by the U.S. Food and Drug Administration (FDA) for the treatment of two types of brain cancer. In the first substantive office action dated issued in 1983, the examiner rejected am original claim directed to a method of treating leukemia by administering a tetrazine compound for lack of utility. The applicants did not respond to the office action but instead filed a continuation application and abandoned the pending application. This pattern repeated itself nine more times, with the examiner ultimately rejecting all the pending claims for lack of utility. More than nine years later, when ownership of the application changed hands in 1991, the attorney prosecuting the application argued against the examiner's rejection on lack of utility for the first time, relying on animal tests for the claimed cancer treatment. A patent issued in 1993.

In 2007 Barr Laboratories filed an Abbreviated New Drug Application (ANDA) challenging the validity of the patent and seeking FDA approval for generic Temodar®. Cancer Research sued Barr for patent infringement. The parties stipulated to infringement, leaving only Barr Laboratories' counterclaims that the patent was unenforceable for prosecution *laches* and for inequitable conduct.

After a bench trial, the district court held the patent unenforceable for prosecution *laches*. The district court decided that prosecution *laches* did not require a showing of intervening rights, but rather turned on whether under the totality of the circumstances and whether Cancer Research's delay in prosecution in light of the U.S. Patent and Trademark Office's (USPTO's) utility rejections was unreasonable and unexplained. The district court held that the delay caused by the 11 continuation applications, 10 abandonments and no substantive prosecution for nearly a decade was unreasonable and a sufficiently egregious misuse of the patent system to bar enforcement of the patent for prosecution *laches*. Cancer Research appealed.

The Federal Circuit reversed, explaining that prosecution *laches*' requirement of an unreasonable and unexplained delay does include a predicate finding of prejudice. To establish prejudice, an accused infringer must show evidence of intervening rights, *i.e.*, that either the accused infringer or others invested in, worked on or used the claimed technology during the period of delay.

The Federal Circuit also reversed the district court's holding that the patent was unenforceable for inequitable conduct, finding that the district court clearly erred in ruling that one of the inventors intended to deceive the USPTO, noting that the finding of intent relied solely on the district court's finding of materiality that was used to infer intent. The Federal Circuit noted that materiality and intent are separate requirements, and intent to deceive cannot be found based on materiality alone.

In dissent, Judge Prost argued that the majority propounded a new and unsupportable legal standard for prosecution *laches* in requiring that either the accused infringer or others invested in, worked on or used the claimed technology during the period of delay to show prejudice. Judge Prost argues that shifting the inquiry regarding prosecution *laches* from the applicant's own conduct to the conduct of the party invoking the defense ignores that prosecution *laches* is an equitable defense. With regard to inequitable conduct, Judge Prost states that the majority not only creates a new evidentiary standard, but it also ignores virtually unassailable credibility findings made by the district court after a four-day bench trial.

Practice Note

As a result of the present patent term 20 years from the filing date the prosecution "strategy" used in this case would no longer be advantageous.

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PATENTS / HATCH-WAXMAN

Subsequent ANDA Filers Have Legally Cognizable Interest in When First-Filer's Exclusivity Period Begins

The U.S. Court of Appeals for the Federal Circuit reversed and remanded a district court's ruling that generic pharmaceutical company had not sufficiently plead an Article III controversy, thus allowing a declaratory judgment action over four Orange Book listed patents to proceed. *Teva Pharms. USA, Inc. v. Eisai Co., Ltd.*, Case No. 09-1593 (Fed. Cir., Oct. 6, 2010) (Prost, J.).

Innovator pharmaceutical company Eisai has five patents listed in the Orange Book that cover the Alzheimer's drug donepezil, marketed as Aricept®. Ranbaxy Laboratories was the first ANDA filer with Paragraph IV certifications for four of the listed patents, which entitles Ranbaxy to a market exclusivity period. Teva subsequently filed two ANDAs for generic donepezil. Both were amended to include Paragraph IV certifications for all five listed patents. In litigation separate from this action before the Federal Circuit, Eisai filed an infringement action against Teva asserting only the patent not covered by Ranbaxy's Paragraph IV certifications (the '841 patent). Teva has stipulated that its generic

donepezil would infringe the '841 patent unless it was found invalid or unenforceable. During this separate litigation, Eisai filed statutory disclaimers with the U.S. Patent and Trademark Office (USPTO) for two of the other listed patents. Nonetheless, Eisai did not de-list any of the five patents.

Because Ranbaxy's exclusivity period had not been triggered, Teva's second ANDA was indefinitely delayed. Under Hatch-Waxman, the exclusivity period can only be triggered if the first-filer begins marketing its drug or if a court enters a final judgment of invalidity or non-infringement for the listed patents. Thus, Teva could not begin marketing generic donepezil until Ranbaxy's exclusivity period had run out. Seeking relief from the delay, Teva filed an action seeking declaratory judgment of non-infringement or, in the alternative, that the remaining listed patents were invalid. During the litigation, Eisai and Teva negotiated a covenant-not-to-sue over the two remaining listed patents that were not disclaimed. After the district court dismissed the action for lack of jurisdiction, Teva appealed.

On appeal, Eisai argued that the district court lacked jurisdiction for the declaratory action or, in the alternative, that the disclaimers and covenant-not-to-sue rendered the action moot. Writing for the unanimous panel, Judge Prost disagreed, explaining that an actual controversy existed if an innovator company takes action that delays FDA approval of subsequent ANDAs. Here, Eisai's action to list or failure to de-list the patents was the "but for" cause of Teva's injury (*i.e.*, delay in market access). The Court also noted that, even though Eisai's disclaimer and covenant would prevent Eisai from having standing to sue under Hatch-Waxman, the Act still provided Teva with a remedy in the form of declaratory relief. These actions were "fairly traceable" to Eisai, not Teva or the inherent framework of Hatch-Waxman.

Finally, the Court held that the district court also abused its discretion in declining to hear Teva's declaratory judgment action and its erroneous finding that Teva's actions were "improper gamesmanship." Instead, the Court held that Teva's actions were consistent with the rules of Hatch-Waxman, as well as specific requests by the FDA.

Practice Note

Along with the court's prior decision in *Caraco v. Forest Labs.*, (see *IP Update*, Vol. 11, No. 4) this decision provides incentive for subsequent ANDA filers to seek declaratory judgments under Hatch-Waxman for patents that innovator companies have not asserted in infringement actions but nonetheless remain listed in the Orange Book.

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PATENTS / INJUNCTION

Preliminary Injunction for Generic Version of an Anti-Inflammatory Suspension Enjoined

The U.S. Court of Appeal for the Federal Circuit affirmed the grant of a preliminary injunction against the launch of a generic version of PULMICORT RESPULES® inhalation suspension, an anti-inflammatory corticosteroid, concluding that AstraZeneca had shown a likelihood of success in its contention that the method claims, but not kit claims (which the district determined were invalid) infringe the patents-in-suit. *AstraZeneca LP v. Apotex, Inc.*, Case Nos. 09-1381, 1424 (Fed. Cir., Nov. 1, 2010) (Linn, J.) (Bryson, J.; concurring-in-part; dissenting-in-part).

AstraZeneca owns patents covering methods and kits directed to once-daily administration of budesonide formulations to treat respiratory diseases in children. Apotex submitted an Abbreviated New Drug Application (ANDA) for U.S. Food and Drug Administration (FDA) approval to market a generic version of budesonide for twice-daily use, which was not claimed in either of the AstraZeneca patents in suit. As part of its submission, Apotex provided a statement asserting that it did not seek approval for the once-daily method of use claimed in the AstraZeneca patents and that the proposed generic label would not explicitly mention once-daily administration. The FDA approved the generic drug. However, the generic label did include FDA-mandated downward-titration language that also appeared on AstraZeneca's label for its drug. One day after approval of the ANDA, AstraZeneca filed a declaratory judgment action for patent infringement and requested a preliminary injunction barring Apotex from distributing its generic drug. The district court had found that Apotex's downward titration label would lead users to directly infringe the asserted method claims of the patents-in-suit, that Apotex had the requisite intent to induce infringement because it proceeded with its plan to market its drug despite knowing that the downward titration label posed infringement problems and that AstraZeneca would suffer irreparable harm. Apotex appealed.

Likelihood of Success on the Merits

Apotex argued that AstraZeneca had failed to establish a likelihood of success that it could prove validity and infringement of the method claims, reiterating arguments that the asserted method claims were

anticipated a prior art patent and an AstraZeneca advertisement in the British medical journal *Thorax*. The Federal Circuit found its analysis on the claim terms "budesonide composition," which the district court had construed as "budesonide dispersed in a solvent in the form of a solution or suspension" but excluding liposomes (as described in the prior art). At the district court, AstraZeneca offered expert testimony that distinguished the AstraZeneca patent from the prior art, and the district court relied on that expert testimony to arrive at its narrow construction that avoided the prior art.

Apotex argued that in arriving at its claim construction, the district court improperly disregarded that the AstraZeneca patents discloses budesonide formulations that include liposomes and improperly relied on contradictory expert testimony. The Federal Circuit disagreed, noting that the specification supported the conclusion that a person of ordinary skill would have understood that the AstraZeneca patents teaches that budesonide either dissolved or floating in a solvent may be placed within a liposome, but not that the budesonide is separated from a solvent by a liposome as taught in the prior art. Additionally, the Federal Circuit pointed out that the district court's reliance on expert testimony was proper because the testimony was useful for understanding how the claimed invention works and for construing "budesonide composition" consistently with that understanding.

Regarding AstraZeneca's *Thorax* advertisement, Apotex argued that if the language of the advertisement (which recommends an initial twice-daily dose) suggests the possibility of administering the drug once daily, then it would have suggested that possibility when the advertisement was first published, regardless of when it was proven that the drug is effective when administered only once daily. AstraZeneca argued that because at the time of the advertisement the drug was approved for only twice-daily use and was not known to be safe and effective for once-daily administration, there is nothing to show that a person of ordinary skill in the art at the time the patent application was filed would have understood the advertisement to disclose once-daily dosing. The Federal Circuit agreed with the district court that from the advertisement, a skilled artisan would have concluded that the recommended dose is a maintenance dose that should be administered twice daily.

Inducement

Regarding inducement, the evidence showed that Apotex was aware and even concerned about the possibility that its label created a potential infringement problem, but nevertheless proceeded to market its generic drug. The district court specifically considered a letter from the FDA that explicitly stated that downward titration may involve once-daily dosing.

Apotex had approached the FDA about altering the label by adding "twice daily" to the downward-titration language, adding language that the drug is not approved for less than twice-daily use and removing the downward-titration language. However, the FDA would not permit any of these changes. On the basis of the evidence, the Federal Circuit affirmed on the issue of inducement, noting that Apotex had options to remedy the situation that it chose not to pursue. For example, Apotex could have formally appealed the FDA decision, filed a suitability petition or a paper New Drug Application (NDA) seeking approval to produce the generic drug at strength that did not teach an infringing use, submitted a Paragraph III certification and waited until the patents expired before marketing its generic drug, and filed a Paragraph IV certification and challenge the infringement and validity of the asserted claims. The Court discounted Apotex (and *amici*) argument that the labeling alone was not sufficient evidence of specific intent to induce infringement.

Irreparable Harm

The Federal Circuit found that AstraZeneca would suffer three types of harm if the preliminary injunction was not granted. First, while there existed a confidential settlement agreement between AstraZeneca and Teva regarding the sale of generic budesonide, it would not be possible to calculate the economic harm from a premature launch of Apotex's generic drug. Second, AstraZeneca would suffer unquantifiable damage to its reputation and goodwill with patients and doctors if Apotex were permitted to launch its drug and subsequently forced to remove it from the market. Third, the damage to AstraZeneca as a result of layoffs if Apotex launched its product would be significant and unquantifiable.

Dissent

Judge Bryson, in dissent, explained that both the prior art patent and AstraZeneca's *Thorax* advertisement cast sufficient doubt on the validity of the method claims to preclude preliminary injunctive relief.

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PATENTS JURISDICTION / FORUM NON CONVENIENS

Take It to France: Case Should Not Be in the United States

Applying the doctrine of *forum non conveniens*, the U.S. Court of Appeals for the Third Circuit upheld a district court's case dismissal in favor of litigating in France. *Eurofins Pharma US Holdings v. BioAlliance Pharma SA*, Case No. 09-3790 (3d Cir., Oct. 12, 2010) (Greenaway, J.).

There are four key parties in this case. Two are Eurofins Pharma US Holdings (Eurofins) and its wholly owned subsidiary Viralliance Inc. (VI), collectively, Eurofins. The other two are BioAlliance Pharma SA and its wholly owned subsidiary Viralliance SAS (VSAS), collectively, BioAlliance. Eurofins and VI are Delaware companies with principal places of business in Iowa. BioAlliance and VSAS are French entities.

The dispute arose from an intellectual property transfer agreement executed in 2005. The negotiations leading to the agreement occurred in France, as did the agreement's execution. The Transfer Agreement required BioAlliance Group to transfer its IP to VI. BioAlliance warranted that, *to the best of its knowledge*, the use of its intellectual property by its licensees neither infringed nor was unauthorized.

One of the BioAlliance Group's licensees was Specialty Laboratories, which was owed an indemnification obligation by BioAlliance provision. Eurofins Group assumed that indemnification obligation under the Transfer Agreement. In 2007, a company named ABL sued Specialty Laboratories for patent infringement, and VI defended that action pursuant to the indemnification. While VI negotiated settlement of that lawsuit, it learned that ABL contacted BioAlliance Group regarding infringement of the same patents. Gilles Avenard, a VI director, confirmed BioAlliance Group's knowledge of ABL's allegation of infringement. After Eurofins filed suit against BioAlliance alleging fraud and breach of contract, the district court dismissed the suit, finding that BioAlliance had a principle place of business in France, which provided an adequate forum. The district court further ruled that it lacked personal jurisdiction over the defendant. Eurofins appealed.

After considering personal jurisdiction issues, the 3d Circuit turned to the issue of *forum non conveniens* and upheld case dismissal. The 3d Circuit agreed with the district court that France was an adequate alternate forum, despite Eurofin's argument that French discovery devices are inadequate. The court explained that Eurofin's choice of forum was outweighed by the public and private interest factors of the case. The facts showed that the agreement's negotiations occurred in France and included a French entity; the agreement was executed in France, all the evidence, including witnesses, is in France; and ABL conducts business in France. For these reasons, the suit was dismissed in favor of litigating in France.

Practice Note

When selecting a forum in which to sue a non-U.S. entity, be mindful of where the crux of the events behind the allegations occurred.

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PATENTS / BAYH-DOLE ACT

CERT ALERT: *Stanford v. Roche* to Be Heard at the Supreme Court

The U. S. Supreme Court has granted a certiorari petition filed by Stanford University in a case involving the issue of whether, under the Bayh-Dole Act, individual inventors or contractors retain intellectual property rights to inventions arising out of federal grants to universities and non-profits. *Stanford University v. Roche Molecular Systems, Inc.*, Case No. 09-1159 (Supr. Ct., Nov. 1, 2010).

The Bayh-Dole Act includes provisions permitting institutions such as universities, nonprofits and small business contractors to retain the rights to inventions conceived or reduced to practice through federally funded research. The question presented to the Supreme Court is whether the law allows inventors employed by these institutions to unilaterally assign intellectual property rights to a third party.

In September 2009, the Federal Circuit found that Stanford lacked standing to sue Roche for patent infringement because it had never acquired a sufficient interest in three patents that cover HIV test kits using PCR to measure the amount of circulatory HIV infection from one of its researchers, Mark Holodniy, M.D. (See *IP Update*, Vol. 12, No. 10.) It seems that Holodniy conducted HIV-related research at Cetus Corp. Cetus was later taken over by Roche. Prior to undertaking the research that led to the patents in suit, Holodniy signed an agreement with Stanford, stating that he "agreed to assign" title in any invention to Stanford. Holodniy also signed a confidentiality agreement that gave Cetus rights to inventions arising from his use of the company's facilities, stating

that he "will assign and does here assign" rights in any inventions to Cetus. The Federal Circuit concluded that the Stanford agreement was simply a "promise" to assign, while the Cetus Agreement was an "immediate transfer of an expectant interest."

Stanford claimed the Federal Circuit's ruling would allow companies to obtain an interest in inventions by use of side agreements with inventors; agreements that "unilaterally terminate" the university's exclusive rights.

In response to Stanford's petition, Roche contended that Stanford's right to the patents-in-suit were not terminated, but were only shared with Roche. Further, the company argued, "the Bayh-Dole Act nowhere alters an inventor's basic freedom to assign his own rights in an invention to a third party."

The solicitor general filed a brief in support of Stanford's position, as did other research universities, including MIT. The solicitor general argued that individual inventors can only secure rights to federally funded inventions if a contractor elects not to retain title and the federal government affirmatively assigns the rights. In its reply, Roche argued that the Bayh-Dole Act did not alter an inventor's right to assign his or her invention and that the present case was so fact specific that it would be inappropriate for high court review.

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PATENTS / DOUBLE PATENTING

En Banc Review of Double Patenting Denied

The U.S. Court of Appeals for the Federal Circuit denied *per curiam* Eli Lilly's petition for rehearing *en banc* in *Sun Pharmaceutical Industries, Ltd. v. Eli Lilly & Company*. A panel of the Federal Circuit had held claims directed to a method of treating cancer with the compound gemcitabine invalid for double patenting because the anticancer utility was mentioned in the specification of a separate application filed on the same day. (See *IP Update*, Vol. 13, No. 8.) *Sun Pharmaceutical Industries Ltd. v. Eli Lilly & Co.*, Case No. 10-1105 (Fed. Cir., Nov. 1, 2010) (Prost, J.) (Newman, J., dissenting, joined by Rader, J; Lourie, J.; Linn, J.). Judges Newman, Rader, Lourie and Linn dissented from the *en banc* denial, stating the panel's holding was contrary to the existing law of double patenting.

The dissent—citing precedents from the Federal Circuit and the Court of Custom Patent Appeals (CCPA) establishing that "obviousness-type double patenting occurs when the claims of a later patent are an obvious variant of the claims of an earlier patent," that "[t]he specifications of the patents are irrelevant to the double patenting analysis other than to guide in construing the claims," and that "a double patent analysis occurs only when the earlier patent is not prior art against the later patent,"—insisted that the panel decision "distorts" what had been a clear body of law.

According to the dissenters, the panel "apparently was misdirected by an overly-broad statement in *Geneva Pharmaceuticals v. GlaxoSmithKline*, which stated that "a claim to a method of using a composition is not patentably distinct from an earlier claim to the identical composition disclosing the identical use," citing a 1931 CCPA decision in which the patentee was aware of the method of use when the composition was originally disclosed. The dissent argued that *Geneva* should be limited to situations in which there would be "*improper* timewise extension of the patent right" (emphasis in original) and should not be extended to later-discovered uses. Here, there was no dispute that the gemcitabine's anticancer effects were discovered after the filing of the original application disclosing gemcitabine. Thus, the dissent believed Lilly would have been entitled to a separate patent on the use of gemcitabine as an anticancer agent if it had not included the disclosure of anticancer use in the continuation-in-part.

In view of the "change in law" caused by applying *Geneva* to later-discovered uses and violation of "a vast body of precedent," the dissenting judges concluded that *en banc* review was appropriate and necessary.

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PATENTS / PATENT-ELIGIBLE SUBJECT MATTER

IPO and DOJ File Opposing *Amicus* Briefs in Myriad

The Intellectual Property Owners Association (IPO) and the U.S. Department of Justice (DOJ) are two of at least 15 parties that

have filed briefs as friends of the court in the *Association for Molecular Pathology v. U.S. Patent and Trademark Office and Myriad Genetics, Inc.*, Case No. 10-1406 (Fed. Cir.).

In this closely followed case, Association for Molecular Pathology (AMP) is challenging patents covering diagnostic tests for mutations in genes as not being patent-eligible subject matter under 35 U.S.C. §101. The district court ruled in favor of AMP, holding that patents for detecting inherited breast cancer related to the human genes known as Breast Cancer Susceptibility Genes 1 and 2, or BRCA1 and BRCA2, were invalid. The district court ruled that isolated human DNA is patent-ineligible. Myriad appealed.

The amicus brief filed by the IPO presented two arguments: that the plaintiffs do not have standing sufficient to establish declaratory judgment jurisdiction in the suit against patent owner Myriad, whose patent rights are being challenged, and that isolated human DNA is patent-eligible. The IPO presented arguments that there is no substantial controversy in the present case of sufficient immediacy and reality to warrant declaratory judgment jurisdiction. IPO warned, echoing Myriad's position, that if the facts of this case are adequate to provide a foundation for declaratory judgment standing, that nearly anyone may try to challenge the validity of any patent.

The IPO also argued that claims directed to isolated DNA constitute patentable subject matter under 35 U.S.C. §101 as decided by the Supreme Court in *Diamond v. Chakrabarty*, and that the district court erred in ruling that isolated DNA molecules are merely "purification of a product of nature" and patentable only if they possessed "markedly different characteristics" from naturally occurring DNA. As to the latter issue, the IPO brief warns that this type of interpretation of the Patent Act could have a broader impact that would extend in principle to any patent claim encompassing a "natural product." For example, a ban on patenting isolated human DNA has the possibility of extending to isolated DNA from all known organisms, biologics based on "naturally occurring" human proteins and any other invention produced as the result of exploitation of naturally-occurring compounds or substances (*e.g.*, compounds isolated from petroleum, products of fermentation by microorganisms and even inorganic matter, such as ultrapure silicon used to produce computer microchips).

The very same week, the DOJ filed an unsolicited *amicus* brief, asking the Federal Circuit to affirm the lower court judgment that patent claims on isolated gene sequences, without material change to its naturally occurring chemical structure and function, are not patentable subject matter. The DOJ argued that human genes, in and of themselves, are not patentable, and suggested that the Patent Office policy is wrong. The DOJ stated that "the district court's judgment in this case … prompted the United States to reevaluate the relationship between such patents and the settled principle under Supreme Court precedent that the patent laws do not extend to products of nature."

The DOJ brief addressed only the question of patent eligibility of DNA, bypassing the jurisdictional and method claim issues. The brief also faults the district court for not distinguishing claims drawn to patent-eligible "man-made compositions" and suggests that man-made inventions based on DNA, such as vaccines and genetically modified crops, are eligible for patent protection. The DOJ brief further distinguishes patent eligible methods of identifying, isolating and using DNA molecules from genomic DNA itself.

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TRADEMARKS / DOMAIN NAMES

Once Legitimately Registered, Domain Name Held for Ransom Costs Kidnapper $150k

Illustrating the significant recovery available to trademark owners under the Lanham Act's Anti-Cybersquatting Consumer Protection Act (ACPA) versus the arbitration process pursuant to the Uniform Domain-Name Dispute-Resolution Policy (UDRP), the U.S. Court of Appeals for the Ninth Circuit upheld a jury's damages verdict of over $150,000 to a trademark owner whose domain name was held for ransom by a former employee. *DSPT Int'l, Inc. v. Nahum*, Case No. 08-55062 (9th Cir., Oct. 27, 2010) (Kleinfeld, J.)

Plaintiff DSPT is a designer, manufacturer and importer of men's clothing owned by Paolo Dorigo, an Italian living in the United States. In 1999, the plaintiff began a new clothing line named EQ. Mr. Dorigo enlisted his friend, defendant Lucky Nahum, to work in the business. At that time, Mr. Dorigo and defendant decided to create an Internet website at *eq-Italy.com* to advertise the plaintiff's clothing. Nahum registered the domain name to himself. By 2005, the website had become indispensable to the plaintiff, serving as its catalog to retailers and individual customers.

In August 2005, the plaintiff sought to renew the defendant's contract, but Nahum had accepted employment with a competitor and declined. Shortly thereafter, the plaintiff's website disappeared.

In place of plaintiff's clothing catalog, the website merely stated that "all fashion related questions" were to be directed to Nahum at a specific email address. Nahum then informed Dorigo that Nahum would transfer control of the website to Dorigo upon resolution of unpaid commissions the defendant claimed were owed to him. DSPT suffered significant harm, as without a website, it could not sell its goods to retailers with anywhere near its prior efficiency. DSPT expended substantial funds replacing its website and attempting to salvage its reputation with retailers.

The plaintiff then sued the defendant for trademark infringement and cybersquatting under the Lanham Act. Upon trial to a jury, the jury found that, among other things, EQ was a valid trademark owned by DSPT; that Nahum "registered, trafficked in, or used the eq-italy.com domain name"; that the domain name was identical or confusingly similar to the plaintiff's trademark; and that Nahum committed the acts "with a bad faith intent to profit from [Plaintiff's] mark." The jury awarded DSPT $152,000 in damages. On appeal, the defendant argued that the ACPA did not apply to this case because, among other reasons, "EQ-Italy" was not identical or confusingly similar to the plaintiff's marks, there was no evidence of bad faith intent to profit and insufficient evidence existed to justify the damages award.

Nahum argued that the ACPA did not apply to his conduct. He argued that he registered the domain name legitimately to develop the website for the plaintiff and that he only retained it to use as leverage to obtain from DSPT monies he was allegedly entitled to, not to sell anything under DSPT's mark or sell the domain name to the plaintiff. The court disagreed, recognizing that while the ACPA was designed to address situations where one registers a well-known trademark in order to sell the domain name back to the trademark owner (classic cybersquatting) or divert business from the trademark holder, the statute is written more broadly to cover other circumstances. Ultimately, the court determined that the statutory factors for "bad faith intent" establish that using a domain name to get leverage in a business dispute can establish a violation of the ACPA. In affirming the judgment against Nahum, the court noted that the defendant was not eligible for the safe harbor provisions of the ACPA, as he not have reasonably believed that he could lawfully use eq-Italy when he no longer worked for DSPT. Further, the court noted that the "intent to profit" element is met even if, as the defendant claimed, Nahum was owed money by the trademark holder, as "profit" does not require that Nahum receive more than what he was allegedly owed, but merely means "an attempt to procure an advantageous gain or return."

With respect to the plaintiff's damages, the court noted that the case was one of intentional infringement, in which a "crude" measure of damages may be used. The court noted that it was impossible to make a precise determination of the plaintiff's actual damages, because The defendant's wrong, in the nature of destroying DSPT's website, made it impossible to know with any precision what the plaintiff's clothing sales would have been had Nahum not committed the wrong. As such, the jury's estimation, based upon rough information such as receipts for costs to create a new website and financial statements showing a loss of DSPT's gross profits after the website was removed was sufficient to support the jury award.

Practice Note

Trademark owners should require that their domain names are registered in their name only and prohibit any domain name from being held in the name of an advertising company, graphic designer, website host or licensee. Further, employees responsible for creation and maintenance of an employer's website should be on notice that they will be found liable under the ACPA if they hold a domain name for ransom post-employment. The ownership and goodwill conferred by a domain name and associated website flows only to the trademark owner.

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TRADEMARKS / INCONTESTABILITY

Second Circuit Allows Ownership Challenge Against Incontestable Mark

Reversing a district court's dismissal of a plaintiff's trademark claims, the U.S. Court of Appeals for the Second Circuit has held that a Russian government-owned company can challenge a distributor's ownership of the prized STOLICHNAYA trademark in spite of the mark's incontestable status under the Lanham Act. *Federal Treasury Enterprise v. Spirits International NV et al.*, Case No. 06-3532 (2d Cir., Oct. 8, 2010) (Parker, J.).

Prior to the collapse of the Soviet Union, the Soviet government used the name Stolichnaya, Russian for "from the capital," to market its vodka both domestically and abroad. A Soviet government entity, registered the STOLICHNAYA trademark with the United States Patent and Trademark Office (USPTO) in February 1969. The mark became incontestable in 1974 upon the appropriate filing with the USPTO. In 1991, the Soviet

entity owning the trademark assigned to PepsiCo its rights to the American marks and the authorization to import vodka under those marks into the United States. The contract that provided that all rights in the STOLICHNAYA marks would revert back to the Soviet entity in 2001. Following the dissolution of the Soviet Union in December 1991, however, the General-Director of the Soviet entity and others designed a scheme and engaged in a series of transactions transferring assets from the entity to themselves. The General-Director and his allies did so in a manner that convinced PepsiCo that their private entity was in fact the successor of the state-owned entity. Accordingly, the rights in the U.S. STOLICHNAYA marks were assigned to the private entity upon expiration of the PepsiCo agreement.

Eventually, the private entity sold its purported rights to the STOLICHNAYA marks to defendant Spirits International N.V. (SPI), a Dutch company, and related entities (collectively, SPI). In November 2000, SPI entered into an agreement with defendant Allied Domecq Spirits & Wines USA, Inc. (Allied Domecq) and related entities, in which SPI agreed to assign the STOLICHNAYA marks to Allied Domecq from 2001 until 2011, at which point the marks would revert back to SPI. The purported assignment was filed with the USPTO. Upon the execution of this agreement, Allied Domecq began marketing and selling STOLICHNAYA-brand vodka in the United States.

Meanwhile, the Russian government created plaintiff Federal Treasury Enterprise Sojuzplodoimport (FTE) and charged it with representing its interests relating to the recovery and registration of Russian alcohol trademarks abroad. In 2005, FTE sued the SPI entities and Allied Domecq, asserting 15 claims, including fraud, misappropriation and various types of direct and contributory trademark infringement and unfair competition under the Lanham Act. The plaintiff also sought a declaratory judgment and rectification of the trademark register. The defendants moved to dismiss plaintiffs' claims.

In 2006, the district court dismissed most of the plaintiff's claims for failure to state claims upon which relief could be granted. The court held that the plaintiff's trademark claims failed because FTE sought to challenge ownership of a trademark that had become incontestable under the Lanham Act without alleging the existence of any of the Act's statutory exceptions to incontestability. Because the STOLICHNAYA marks had become incontestable under the Lanham Act and the USPTO records identified defendant Allied Domecq as the record owner of the marks as a result of the assignment from PepsiCo, the court determined that the plaintiff could not challenge the validity of the assignment to defendant Allied Domecq. After the district court dismissed the bulk of FTE's claims, the plaintiff voluntarily dismissed its remaining claim for unfair competition and the district court entered a final judgment.

On appeal, the 2d Circuit vacated the district court's dismissal of FTE's Lanham Act claims and vacated the case for further proceedings, finding that the district court erred in "one very important respect," when it permitted defendant Allied Domecq to "step into the shoes" of PepsiCo, the previous registrant of the STOLICHNAYA marks, and rely upon the incontestable registration of the STOLICHNAYA trademarks as conclusive evidence of ownership. Pursuant to the Lanham Act, an "incontestable" trademark provides "conclusive" evidence of a registrant's ownership for the mark (subject to certain limited exceptions) and of registrant's "exclusive right to use the mark." Although this evidence also benefits a registrant's "assigns," an assignee may only succeed to the rights of the assignor after a valid assignment of a trademark. Thus, the district court erred in failing to inquire whether a valid assignment of the STOLICHNAYA marks to defendant Allied Domecq had taken place. With respect to the assignment recorded with the USPTO, it confers only *prima facie* evidence of execution" of an assignment, which the court instructed is "not the same as conclusive evidence of the validity of an assignment." To accept the district court's finding that the mere fact that the defendants recorded the purported assignment with the USPTO barred plaintiff's claims would "transform recording—a ministerial act—into a mechanism for conclusively defeating allegations … challenging the legality of the assignment." Further, the appeals court held that federal jurisdiction existed over invalid assignment claim, in spite of the fact that the validity of the assignment would likely be governed state or foreign law, due to the fact that FTE pled claims that arise under the federal Lanham Act in the same suit.

Practice Note

This holding suggests that incontestability is not the equivalent of invincibility—in addition to the Lanham Act's enumerated challenges available to incontestable marks, a trademark may still be challenged on ownership grounds, *i.e.*, that an assignment is invalid, decades after reaching incontestable status.

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TRADEMARKS / FALSE ADVERTISING

"Satisfied Customer" Misrepresentation Sufficient to Support Lanham Act Claims

Vacating the district court's dismissal of plaintiff's trademark infringement, false endorsement and unfair competition claims under the Lanham Act and state law, the U.S. Court of Appeals for the Second Circuit held that to plead trademark infringement or false endorsement under the Lanham Act a plaintiff need not allege likelihood of confusion as to the source of a product. *Famous Horse, Inc. v. 5th Avenue Photo, Inc.*, Case No. 08-4523 (2d Cir., Oct. 21, 2010) (Lynch, J.) (Livingston, J., dissenting-in-part).

Plaintiff Famous Horse operates V.I.M., a chain of discount clothing stores in the New York area. The defendants are wholesalers who offered to supply ROCAWEAR brand jeans to several clothing stores, including those owned by Famous Horse. After the plaintiff purchased purported ROCAWEAR brand jeans from defendants, it discovered that the jeans were counterfeit and stopped doing business with the defendants. The defendants continued selling the counterfeit jeans to other retailers and allegedly told potential customers that V.I.M was a satisfied customer. Famous Horse filed a complaint against the defendants alleging trademark infringement under §32 of the Lanham Act, false endorsement and unfair competition under §43(a) of the Lanham Act, along with related state law claims. The district court dismissed the plaintiff's false endorsement claims under §32 and §43(a) for failure to state a claim upon which relief may be granted, finding that the plaintiff did not allege facts establishing consumer confusion as to the source of its products. The district court also denied the plaintiff's motion to amend its complaint to include a Section 43(a) unfair competition claim. Famous Horse appealed.

The 2d Circuit found that the district court erred in dismissing the plaintiff's false endorsement claims under Section 32 and 43(a) because it improperly read the Lanham Act to solely prohibit confusion as to the origin of goods or services. Concerning §43(a), the circuit court explained that it prohibits false or misleading representation that result in many different types of consumer confusion, including confusion as to affiliation, association or sponsorship as infringing activity. Second Circuit precedent has specifically recognized Lanham Act claims in situations in which one company had falsely portrayed another as a satisfied customer. Thus, the plaintiff's allegations that the defendants falsely identified Famous Horse as a satisfied customer were sufficient to state a claim under §43(a). Concerning §32, the circuit court noted that this section prohibits the use of a registered mark "likely to cause confusion, to cause mistake, or to deceive" but does not enumerate the types of confusion that might be caused. The plaintiff expressly alleged that the defendants used the plaintiff's marks in connection with the false misrepresentation that Famous Horse was a satisfied customer. The circuit court determined that this use was "plainly likely to deceive" and "create confusion and mistake" concerning the relationship between the defendants' goods and services and the plaintiff. Thus, the circuit court concluded that the plaintiff's false endorsement allegations were also sufficient to state a claim under §32. Accordingly, the Second Circuit vacated the dismissal of plaintiff's false endorsement claims under §32 and §43(a).

Famous Horse also alleged an unfair competition claim under § 43(a) of the Lanham Act, alleging that The defendants completed unfairly by selling counterfeit ROCAWEAR jeans. The defendants argued that Famous Horse could not support an unfair competition claim based upon the ROCAWEAR mark, which the plaintiff does not own. The 2d Circuit determined that the district court erred in its denial of plaintiff's second motion to amend its complaint to include a §43(a) unfair competition claim. The 2d Circuit acknowledged that the plaintiff's §43(a) claim "may well be difficult to prove at trial," but nonetheless found that it had alleged sufficiently plausible claims to overcome a motion to dismiss, despite the fact that Famous Horse did not own the mark at issue.

Applying its "reasonable interest approach," the 2d Circuit held that the plaintiff had standing to bring an unfair competition claim. Alleged lost sales to defendants' lower-priced counterfeit jeans and the "unique harm" that customers may mistakenly believe that the plaintiff is selling ROCAWEAR brand jeans at inflated prices was sufficient harm that the plaintiff possessed a "reasonable interest" to be protected against the defendants' acts. Further, the court found that plaintiff would also have standing under standards of other circuits because the plaintiff and defendants "are in essence competitors."

Judge Livingston concurred with the majority on everything except for the unfair competition claim. Judge Livingston would have applied the test for trademark standing employed by the Third Circuit in *Conte Brothers Automotive, Inc. v. Quaker State-Slick 50, Inc.*, and, upon application of this test, found that the plaintiff lacked a "reasonable interest" sufficient to confer standing for a Lanham Act unfair competition claim based upon the defendants' asserted sale of counterfeit jeans bearing the ROCAWEAR mark. While under *Conte Brothers*, Judge Livingston found that the plaintiff had alleged sufficient injury to confer standing, the balance of the factors weighed against standing, such as the fact that another party was clearly more proximately affected than the plaintiff

by the defendants' counterfeiting, namely, the owner of the ROCAWEAR mark.

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TRADEMARKS / CONTRIBUTORY LIABILITY

Paris Appeals Court Confirms eBay's Liability for Selling Counterfeit and Unauthorized LVMH Perfumes on Auction Website

In sharp contrast to the outcome of a similar lawsuit has resolved in the United States, the Paris Court of Appeal has upheld a 2008 verdict holding that online auctioneer eBay is liable for the sale of counterfeit goods or goods that are selected for special distribution via its online auction website. eBay Inc. and eBay AG v. Louis Vuitton Malletier; eBay Inc. and eBay AG v. Parfums Christian Dior; eBay Inc. and eBay AG v. Christian Dior Couture (CA Paris, March 9, 2010).

LVMH is the parent company of around 60 luxury brands, including popular perfume brands such as Christian Dior, Guerlain, Kenzo and Givenchy. The company sells these perfumes through a selective distribution system. This allows perfume manufacturers to sell their products only to distributors selected on the basis of specific criteria. Several companies of the LVMH group sued eBay for failing to take effective measures to prevent the selling of counterfeit goods and for violation of Article L. 442-6,1,6° of the Commercial Code, for failing to ensure that its business activity did not cause any breach of the plaintiffs' selective distribution networks. In June 2008, the Paris Commercial Court determined that eBay was liable.

On appeal, eBay claimed that it was only providing hosting services because its activities are restricted to allowing users of its websites to place advertisements, without any intervention from eBay on the drafting and the content of these ads. eBay argued it should not be held liable for the content of these ads on the basis of Article 14 of Directive 2000/31/EC of June 8, 2000 on e-commerce (the Directive) (transposed into French law in the Law of June 21, 2004 on the trust in e-economy). In short, eBay claimed that it should benefit from the limited liability scheme granted to hosting service providers.

In rejecting eBay's appeal for limited liability, the court noted that eBay has developed an online auction sale system that allows any seller or buyer to negotiate on eBay websites. eBay also provides assistance to sellers in defining and describing the products and by suggesting ways to improve their visibility. As a result, eBay's role consists of promoting products actively and optimizing the likelihood of a transaction (on which eBay will receive a commission). The hosting of ads is only part of a technical process that is necessary to eBay's online business.

The Paris Court of Appeal relied on the European Court of Justice's March 23, 2010, decision in the Google Adwords case. (See IP Update, Vol. 13, No. 4) There, the ECJ found that Article 14 of the Directive must be interpreted as meaning that it applies to limit liability to an internet referencing service provider only if that service provider has not played an active role that would give it knowledge of, or control over, the data stored. Appling the ECJ decision, the Paris Court of Appeal determined that because eBay provides assistance, monitoring and promotional services to its users, it was acting as a broker, not a passive hosting service provider.

Having determined that eBay acted in the capacity of a broker, the court determined that eBay should have investigated and confirmed that the plaintiffs' LVMH perfumes to be sold online were not subject to a selective distribution regime. Because eBay did not do so, the court confirmed that eBay was liable under Article L. 442-6, 1, 6° of the French Commercial Code.

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McDERMOTT HIGHLIGHTS

McDermott's IP Practice Ranked Among the Top 10 Busiest Patent Litigation Firms by *Corporate Counsel*

McDermott Will & Emery's intellectual property litigation practice was recently ranked among the Top 10 Busiest Firms in *Corporate Counsel*'s Patent Litigation Survey 2010: The Busiest Firms For Plaintiffs, Defendants, and Overall (October 2010). The Firm was ranked seventh overall in 2010 with 47 total district court cases. Additionally, the intellectual property practice was ranked fourth busiest for the defense with 40 defense cases in 2010.

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