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Predictable Variations of Simple Mechanical Technology May Be Obvious, Even in the Face of Structural and Operational Differences
Gregory D. Yoder

The U.S. Court of Appeals for the Federal Circuit affirmed a finding of patent invalidity of obviousness based on the state of the prior art and the simplicity and availability of the claimed components. *Tokai Corp. v. Easton Enterprises, Inc.*, Case Nos. 10-1057, -1116 (Fed. Cir., Jan. 31, 2011) (Lourie, J.) (Newman, J., dissenting).

Tokai is the owner of a patent on an improved utility lighter (used for lighting barbeques and fireplaces) with a child safety mechanism that is easy for adults to operate, but prevents children from using the lighter. Prior utility lighters did not have a safety device that automatically relocked after the lighter lit, but rather had a manual relocking safety feature or no safety feature. However, prior art cigarette lighters did have an automatic relocking safety feature but, due to space requirements, the locking mechanisms were different from Tokai's in claimed structure. The prior art also differed in operation due to the sequential use of the thumb and finger to ignite the prior art lighter (while the Tokai device requires the thumb to be pressed before the finger and also allows for concurrent thumb and finger operation). Tokai sold over 100 million of its utility lighters. In addition, Tokai's claimed safety feature was widely copied in the industry.

On cross-motions for summary judgment on the issue of obviousness, the district court found that the patents in suit were invalid for obviousness. Tokai appealed.

The Federal Circuit affirmed, noting (in its *de novo* review) that summary judgment for obviousness is appropriate if the requisite factual inquires present no genuine issue of material fact, allowing the court to rule on obviousness as a matter of law.

Four prior art lighters were considered: a utility lighter with no safety feature, a utility lighter with a manual relocking safety feature, a cigarette lighter with an auto-relocking safety feature and a cigarette lighter having a side mounted auto-relocking safety feature.

The Federal Circuit concluded that the claims of two of the patents were rendered obvious by combining the prior art lighters, which disclosed all of the claimed components. As for the other two patents, the Court found that except for the intended position of the thumb and finger for operating the lighter, essential components of the claims were also found in the prior art. However the Court concluded that the finger and thumb positioning "is nothing more than a predictable variation on the prior art."

The majority concluded by noting that where the "content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in material dispute, and the obviousness of the claim is apparent in light of these factors" *KSR* allows for summary judgment. As to the particular invention, the Court continued that because there was a recognized need for the auto-relocking feature in the art, one of skill in the art would be motivated to combine the analogous auto-relocking cigarette lighters with a utility lighter, particularly because this is a simple mechanical technology. The Court discounted Tokai's argument that the solution to the problem was not predictable and required radical modifications, noting that the "nature of the mechanical arts is such that identified, predictable solutions to known problems may be within the technical grasp of skilled artisans" and insisted that it would have been obvious to a skilled artisan to combine the auto-relocking safety mechanism of prior art cigarette lighters with prior utility lighters "even if it required some variation in the selection or arrangement of particular components."

In dissent, Judge Newman argued that the Tokai lighter invention was not obvious, or at least that genuine issues of material fact should have prevented a grant of summary judgment. In Judge Newman's view, Tokai's home-grown commercial success and the wide copying in the industry was due to the claimed child safety feature. Additionally, Judge Newman argued that Tokai did not simply take the child safety features from the cigarette lighters and place them in a utility lighter, but created a new structure having operational differences from the prior art. Because the utility lighter field is crowded, Judge Newman concluded that incremental steps should be rewarded because they serve the public interest.

Patent / Claim Construction

Judges Squabble Over the Interpretation of Claims in Light of the Specification
W. Sutton Ansley

The U.S. Court of Appeals for the Federal Circuit vacated and remanded a claim construction determination, finding that the district court improperly imported limitations from the specifications into the claims of two similar patents. Judge Lourie concurred in part and dissented in part, finding that the district court improperly imported a limitation from the specification into the claims of only one of the two patents at issue. *Arlington Indus., Inc. v. Bridgeport Fittings, Inc.*, Case No. 10-1025 (Fed. Cir., Jan. 20, 2011) (Rader, C. J.) (Lourie, J., concurring in part and dissenting in part).

The appeal arose out of a lawsuit between Arlington Industries and Bridgeport Fittings in which the district court construed the terms “spring metal adaptor” in one of Arlington’s patent and “spring steel adaptor” in another of Arlington’s patent as both requiring a longitude “split” in the claimed electrical cable calorie, *i.e.*, allowing the collar to expand and contract. Both patents are directed to a metal collar, or “adaptor,” that surrounds the end of an electrical cable and permits the cable to be snapped into an electrical junction box. The district court held that a split in the metal collar was necessary to allow the diameter of the collar to easily expand or contract as required by the “spring” language.

Writing for the majority, Chief Judge Rader disagreed with the district court’s result and the “failure” of the district court to adapt its construction from one of Arlington’s patent for terms used in others. The majority opinion held that the term “spring” in the term “spring metal adaptor”) was not a functional limitation to the extent it required the metal adaptor to spring—*i.e.*, expand or contract. Rather, the term “spring” referred to the *type* of “metal” or “steel” to be used. Upon further review of the intrinsic claim construction evidence specifically for the specific patents in which the claim terms in issue were found, the Court construed the terms “spring metal adaptor” and “spring steel adaptor” as not requiring a collar that has a “split.”

Judge Lourie, in dissent, criticized the majority’s construction of “spring metal adaptor” in light of the specification of the first Arlington patent (claiming the “spring metal adaptor”). He argued that the specification is “the heart of the patent” and discloses what the inventors actually contemplated as their invention at the time of filing their patent. Rather than “follow our muddy, conflicting and over formulistic rules,” Judge Lourie would simply use the specification to determine “what the inventors intended when they used the language they did.” Furthermore, Judge Lourie suggested that the majority’s under-appreciation of the specification permits the patent to be “used as a business weapon” in an “attempt to fit

… into the claim language what the inventors never contemplated as part of their invention." Therefore, the "claims should not mean more than what the specification indicates."

Applying this rationale, Judge Lourie's concluded that the "spring metal adaptor" required a "split" in the collar.

Patents / §2719a) "Use"

Who Is the "User" of a Claim System
Brett Bachtell

The U.S. Court of Appeals for the Federal Circuit vacated-in-part, reversed-in-part and remanded a district court's summary judgment determination of non-infringement, finding factual issues as to whether the defendant "used" a claim invention, even where some steps were allegedly performed by its customers over whom the defendant did not exert control. *Centillion Data Systems, LLC v. Qwest Communications International, Inc.* (Fed. Cir., Jan. 20, 2011) (Moore, J.).

Centillion Data Systems sued Qwest Communications for infringement of a patent, relating to a system for collecting, processing and delivering information from a service provider to a customer. Centillion conceded that three claim elements were directed to a "back-end" system maintained by the service provider, but argued that the fourth element (involving a personal computer) was directed to a "front-end" system maintained by an end user. The district court concluded that under *BMC Resources* (see *IP Update*, Vol. 10, No. 10) Qwest could not be liable for infringement because it did not "use" every element of the claim, nor did it direct or control every element of the claim. The district court also concluded that Qwest's customers similarly did not "use" the system or direct or control every element of the claim. Centillion appealed.

The Federal Circuit, focusing on the meaning of the word "use" in §271(a) as it relates to system claims, concluded based on the definition of the term "use" in §271(a) in accordance with its decision in *NTP v. RIM,* (see IP Update, Vol. 8, No. 8), that Qwest's customers do in fact "use" the system. In *NTP*, the Federal Circuit had held that "to 'use' a system for purposes of infringement, a party must put the invention into service, *i.e.,* control the system as a whole and obtain benefit from it." While the district court had correctly identified this definition, the Federal Circuit concluded that it was applied incorrectly. Specifically, "by holding that in order to 'use' a system under § 271(a), a party must exercise physical or direct control over each individual element of the system. The 'control' contemplated in *NTP* is the ability to place the system as a whole into service."

In re-applying the definition to the present facts, the Federal Circuit determined that although Qwest itself does not “use” the system, the end-users of the systems do in fact “use” it. The Court reasoned that when a customer initiates a demand, the system is put into operation which causes the back-end system to generate the requested reports: “This is ‘use’ because, but for the customer’s actions, the entire system would never have been put into service.” Applying the same reasoning, the Federal Circuit also determined that Qwest cannot “use” the system because it never “puts into service the personal computer data processing means.” The Court explained that “[s]upplying the software for the customer to use is not the same as using the system.” Rather because Qwest’s customers make the decision to install and operate the personal computer portion of the claim, Qwest is free from any vicarious liability that would result from the customers’ use of its system.

Practice Note: This decision reinforces the importance of careful claim drafting to ensure that the proper target “uses” and practices the claim limitations.

Patents / Post-Judgment Royalty

Collateral Estoppel Bars Metabolite from “Eating Its Cake”

Lauren Nelson

Addressing the issue of whether collateral estoppel will bar a patentee from collecting post-judgment royalties under a license agreement where the license was found to be terminated in a prior case, the U.S. Court of Appeals for the Tenth Circuit affirmed the district court’s holding that LabCorp was not liable to Metabolite for post-judgment royalties. *Laboratory Corp. of America Holdings, d/b/a LabCorp, v. Metabolite Laboratories Inc.*, Case No. 10-1194 (10th Cir. Feb. 2, 2011) (Lucero, J.).

Metabolite and LabCorp are parties to a licensing agreement allowing LabCorp to sublicense patents directed to assays for detecting vitamin deficiencies. When LabCorp stopped paying royalties on its use of a particular assay (the homocysteine assay), Metabolite sued for patent infringement. Metabolite argued that LabCorp’s actions resulted in termination of the licensing agreement such that Metabolite was entitled to breach of contract damages as well as patent infringement damages. LabCorp argued in response that the license agreement was merely breached, not terminated. At trial, the jury was presented with a special verdict form and found that the license agreement was terminated as to the homocysteine assay. The jury awarded damages to Metabolite for breach of contract and patent infringement, and the judge doubled the patent infringement damages pursuant to 35 U.S.C. § 284. On appeal, the Federal Circuit affirmed the jury’s finding that the license agreement was terminated as to the homocysteine assay. The Supreme Court initially granted certiorari, but later dismissed the writ as improvidently granted. (See *IP Update,* Vol. 13, No. 4)

The district court had issued a preliminary injunction barring LabCorp from using the homocysteine assay, but LabCorp continued to conduct the assay pursuant to a stipulated stay order. After the Federal Circuit affirmed the jury's finding of termination, LabCorp filed a declaratory judgment action alleging that it did not owe Metabolite post-judgment royalties because the license agreement had been terminated with respect to the homocysteine assay. In this action, LabCorp argued that based on the prior jury finding, the license agreement was terminated. In contrast, Metabolite now switched its position and argued that the license agreement was merely breached. The district court, finding that the jury's verdict in the first trial established that the license agreement had been terminated as to the homocysteine assay, granted summary judgment in favor of LabCorp., concluding that termination of the license agreement relieved LabCorp of any obligation to pay post-judgment royalties on the use of the assay. Metabolite appealed.

The 10th Circuit affirmed, citing the doctrine of collateral estoppel and concluding that Metabolite was estopped from arguing that the license was not terminated. The court explained that estoppel was "particularly appropriate" in this case given the "striking similarity of the arguments advanced by Metabolite in this case and those advance by LabCorp in the prior action." Because "Metabolite convinced the jury and the Federal Circuit that the License Agreement was terminated with respect to the [homocysteine] assay the first time around … [Metabolite] cannot be heard to argue the opposite proposition." The court further stated that "Metabolite cannot have its cake and eat it too."

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Patents / Litigation / Federal Jurisdiction

Federal Court Enjoy Broad Removal Jurisdiction Based on Arbitration Provision
Alexis Garcha

Addressing the novel issue of whether, under 9 U.S.C. § 205, a district court has removal jurisdiction over a case in which the defendant raises an affirmative defense related to an arbitral award falling under the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 9 U.S.C. § 201 et seq. (the Convention), the U.S. Court of Appeals for the Ninth Circuit concluded that a federal district court had removal jurisdiction and that dismissal of the plaintiff's suit was proper because an arbitration award under the Convention. *Infuturia Global Ltd. v. Sequus Pharmaceuticals, et. al.,* Case Nos. 09-16378 (9th. Cir., Feb. 7, 2011) (Smith, J.)

Infuturia brought suit against Sequus and others in California state court alleging tortious interference of its license with Yissum Research and Development Company (Yissum). In March of 1990, Infuturia and Yissum entered into an exclusive license agreement (Infuturia License), giving Infuturia an exclusive worldwide license to certain Yissum patents related to technology for using liposomes as a delivery system for pharmaceuticals to human patients. In January of 1995, Yissum entered into a different license agreement with Sequus, granting rights to certain liposome technology owned by Yissum. In late 1998, Infuturia sued Sequus for tortious interference with its license from Yissum, claiming Sequus had interfered with Infuturia's license by encouraging Yissum to enter into the Sequus license. Yissum, which was not a party to that lawsuit, successfully petitioned the court to stay the proceedings pending mandatory arbitration under the license with Infuturia. Yissum and Infuturia arbitrated the license before an Israeli arbitrator who found that Infuturia's license was valid, that Yissum had not breached the license and that Infuturia did not have rights to any of the patents or products covered by the Sequus license.

Following the arbitration decision, the state court lifted the stay. The defendants then filed a Notice of Removal under § 205, and the case was removed to district court. Infuturia motioned for a remand, arguing that because the defendant's were not a party to the foreign arbitration agreement, removal under the statute was improper. The district court denied the remand finding that removal was proper because the litigation "*relates to***"** the arbitration provision under the convention. Sequus then filed a motion to dismiss, which the court granted. Infuturia appealed, arguing that the district court did not have removal jurisdiction.

The 9th Circuit disagreed and concluded that § 205 provides that federal courts have removal jurisdiction when the subject matter of a state court action *relates to* an arbitration award or agreement falling under the convention. In reaching its decision, the court found that the phrase "relates to" is broad and construed the phrase to mean that whenever an arbitration agreement falling under the Convention could conceivably affect the outcome of the plaintiff's case, the agreement "relates to" the plaintiff's suit.

Based on that interpretation, the court explained that Sequus affirmative defense of collateral estoppel based on an arbitration award under the Convention could conceivably affect the outcome of the case. Thus, the court had removal jurisdiction and its dismissal of Infuturia's suit was proper.

Patents / Damages

Court Slices Up Damage Claim with Laser-Like Precision

Daniel R. Foster

The U.S. District Court for the Eastern District of Louisiana handed down two summary judgment decisions, denying summary judgment for defendants and allowing plaintiff to seek provisional rights damages, and granting summary judgment for defendants that plaintiff was not entitled to lost profits damages. *Innovention Toys, LLC v. MGA Entertainment, Inc.*, Case No. 07-6510 (ED. La., Feb. 3, 2011) (Feldman, J.).

Innovention has a patent that generally covers a board game which makes use of laser beams. In an earlier summary judgment decision, the district court held that Innovention's patent was valid and was infringed by MGA's Laser Battle Game (defendants Wal-Mart and Toys "R" Us sell MGA's products and are collectively referred to herein as MGA). The court then granted a permanent injunction; all of these decisions were appealed to the U.S. Court of Appeals for the Federal Circuit. Although an appeal is still pending, the district court invited motions on the pending damages issues.

Provisional rights damages are available where the issued patent claims are "substantially identical" to those claimed in a published patent application. MGA argued that because of Innovention's narrowing of claims during prosecution, the issued claims were not substantially similar to the broader claims in the published application. Innovention argued, and the district court agreed, that the changes during prosecution were made simply for clarity and to recite explicitly what was already implicitly claimed. The district court reasoned that no substantive change occurs if the claims are amended to simply make them more definite. Because the scope of the claims of the issued patent were substantially identical to the scope of the claims of the published application, MGA's motion as to provisional rights was denied.

The minimum amount of damages provided by law for patent infringement is a royalty payment for infringing sales. Lost-profits damages may be recovered if the patent holder can show a reasonable probability that, but for the infringement, it would have made the infringer's sales. The burden then shifts to the infringer to show that the patent holder's "but for" causation showing is unreasonable as to some or all of the lost sales. Innovention argued that this was only a two-supplier market and that Innovention had the manufacturing and marketing capability to make the sales diverted to MGA; it provided documentation to support this argument. MGA objected that the only evidence Innovention offered to support this claim was inadmissible hearsay, not subject to any exceptions, and thus could not be relied on by the court for purposes of summary judgment. The district court agreed and granted MGA's motion that Innovention could not seek lost-profits damages.

Patent Act / Reform Legislation

Patent Reform Act of 2011

Leigh J. Martinson and Hasan Rashid

On February 3, the Senate Judiciary Committee approved and reported the Patent Reform Act of 2011, recommending modifications that would impact the first-to-invent system, courts' damages procedures and third party participation in U.S. Patent and Trademark Office (USPTO) proceedings. PATENT REFORM ACT OF 2011, S. 23, 112th Congress (2011).

First to File

The proposal shifts the U.S. patent system closer to a first-to-file system. The bill eliminates statutory references to "date of invention" from the Act. It defines an "effective filing date" of an application to be its actual filing date or its earliest priority date. Availability of prior art is relative to this effective filing date. An exception is made for disclosures made by an inventor; applicants would still enjoy a one-year grace period for their own disclosures or those that are derived from a prior inventor disclosure. However, swearing behind a reference would no longer be permissible, and interferences proceedings would be eliminated. However, the bill does provide for a new derivation proceeding, which permits an inventor to prove that an invention claimed in another application with an earlier effective filing date was derived from his activities.

Damages/Enhance Damages

The bill proposes new procedures for establishing damages. Courts would be required to choose and implement methodologies and factors to be used for calculating damages. Courts would also have to consider motions attacking the evidentiary sufficiency and basis for damages contentions. The bill also would require bifurcation of infringement and invalidity from damages and willfulness upon request (both proceedings would still be before the same jury). Bifurcation would not be permitted to affect other matters, including the timing of discovery.

Third-Party Challenges

The reform proposal would create three avenues for third parties' attacking patentability at the PTO: preissuance submissions, post-grant review and *inter partes* review. Before issuance, a third party would be allowed to submit references together with a statement of relevance. Up to nine months after issuance, a third party would be permitted to request review of any issued claim on any ground. After nine months, however, a third party would be limited to *inter partes* review of anticipation and obviousness based on prior art patents and printed publications only. The post-issuance avenues of review are available only if requested within six months after the requestor is served a complaint asserting the patent.

False Marking

The bill could limit false marking claims to cases filed by the government or a competitor that can prove injury.

Practice Note: Patent reform legislation has been proposed several times in the last decade to no avail. Although it is too early to tell whether this bill will be any different, it must still be monitored, and Congress should be lobbied to the extent that client's interests are at stake. The bill has been proposed for an up/down vote on the Senate floor in March.

Patents

USPTO Hands Down Guidelines to Boost Patent Quality

Hosang Lee

On February 9, 2011, the U.S. Patent and Trademark Office (USPTO) issued guidelines, effective immediately, to assist examiners when examining patent applications for compliance with 35 U.S.C. §112, ¶2, and when examining patent applications containing functional language (under 35 U.S.C. §112, ¶6) and for claims relating to "computer implemented inventions." 76 Fed. Reg. 7162.

35 U.S.C §112, ¶2, requires that patent claims particularly point out and distinctly claim the subject matter that the applicant regards as his or her invention. The guidelines recognize that broad does not mean indefinite where the metes and bounds of a claim are clear. However, examiners must give claimed subject matter its broadest reasonable interpretation consistent with the specification. Based on the

broadest reasonable interpretation, the examiner must determine whether read in light of the specification those skilled in the art would understand what is claimed.

The guidelines set forth several types of terms in which questions of claim definiteness commonly arise, such as functional claim language, terms of degree, subjective terms and Markush groups.

A determination of "definiteness" in the context of *functional claim language* is highly dependent on context. Examiners are instructed to consider several factors: whether there is a clear-cut indication of the scope of the subject matter covered by the claim, whether the language sets forth well-defined boundaries of the invention or only states a problem solved or a result obtained and whether one of ordinary skill in the art would know from the claim terms what structure or steps are encompassed by the claim.

Using various Federal Circuit and CCPA (Court of Customs and Appeals) decisions as guideposts, the guidelines offer examples. In one case, the term "fragile" was found to be indefinite because the specification in that case was ambiguous as to the requisite degree of the fragileness of the claimed item. Referring to another case, the guidelines explain that the term "essentially free of alkali metal" was definite, because in the case example provided, the specification provided a general guideline and examples sufficient to enable a person of ordinary skill in the art to determine whether the claimed process was 'essentially free of alkali metal.'

Regarding definiteness of *terms of degree*, examiners are instructed to determine whether the specification provides some standard for measuring the degree. A claim is not indefinite if the specification provides examples or teachings that can be used to measure a degree even without a precise numerical measurement.

Subjective terms, *i.e.*, terms that requires the exercise of subjective judgment, in a manner similar to terms of degree, are not indefinite if the specification supplies some standard for measuring their scope. In the U.S. Court of Appeals for the Federal Circuit case used as an example, the Court decided the term "a computer interface screen with an *aesthetically pleasing look and feel*" was indefinite, because nothing in the specification provided any guidance as to what design choices would result in *an aesthetically pleasing look and feel*.

The guidelines explain that a Markush group type claim is indefinite if the species of the Markush group do not share a "single structural similarity," or the species do not share a common use.

The guidelines also provide standards for determining when a §112, ¶6 (means-plus-function) claim element passes master under §112, ¶2. When examining a means-plus-function claim element, a rejection under §112, ¶2 is appropriate when it is unclear whether a claim limitation invokes §112, ¶6; when §112, ¶6 is invoked and there is no disclosure or there is insufficient disclosure of structure, material or acts for performing the claimed function; and/or when §112, ¶6 is invoked and the supporting disclosure fails to clearly link or associate the disclosed structure, material or acts to the claimed function.

The guidelines include specific discussion of computer-implemented means-plus-function limitations. For a computer-implemented invention having a means-plus-function claim element, in order to be supported by adequate disclosure of corresponding structure, the specification must sufficiently disclose an algorithm to transform a general-purpose microprocessor to a special-purpose computer so that a person of ordinary skill in the art can implement the disclosed algorithm to achieve the claimed function. A rejection under §112, ¶2 is appropriate if the specification fails to disclose any corresponding algorithm associated with a computer or microprocessor. Merely referencing a specialized computer (*e.g.,* a bank computer), some undefined component of a computer system (*e.g.*, an access control manager), logic, code or elements that are essentially a black box designed to perform the recited function, is not sufficient absent some explanation of how the computer or the computer component performs the claimed function.

Practice Note: Practitioners should try to avoid use of subjective terms or terms of degree. When such terms are used, practitioners should provide examples or teachings in the specification to give clear scope, standard or meaning of the terms. When claiming computer-implemented inventors, the specification should sufficiently disclose hardware and algorithm to perform the computer-implemented inventions such that one of ordinary skill in the art would know how to program a disclosed computer to perform claimed functions.

Trademarks / Dilution

Ninth Circuit Clarifies Trademark Dilution Standard, Expands Dilution Claims

Paul Devinsky

Aligning itself with the Second Circuit, the U.S. Court of Appeals for the Ninth Circuit held that a trademark owner need not establish that an infringer's mark is "identical or nearly identical" to its famous mark in order to prevail on a claim of trademark dilution by blurring under the federal Trademark Dilution Revision Act (TDRA). *Levi Strauss v. Abercrombie & Fitch*, Case No. 09-16322 (9th Cir., Feb. 8, 2011) (Ripple, J.)

Levi Strauss sells blue jeans that incorporate a stitching pattern on the back pocket, consisting of two connecting arches. Levi Strauss obtained U.S. trademark registrations for this "arcuate" stitching pattern. Abercrombie began using a stitching design on the back pocket of its jeans featuring two arches connected by a loop in 2006. In 2007, Levi Strauss brought an action against Abercrombie for trademark infringement, unfair competition and trademark dilution under both federal and California law. Levi Strauss alleged that Abercrombie's "Ruehl" mark was likely to cause dilution of Levi's Arcuate mark by blurring—by causing an association between the two marks that impairs the distinctiveness of Levi's mark.

Ultimately, the district court held that Abercrombie's Ruehl design did not dilute Levi's arcuate design because Levi Strauss did not show that Abercrombie's Ruehl mark was "identical or nearly identical" to Levi's arcuate mark. To meet that standard, a significant segment of the target audience must see the two marks as "essentially the same." The district court noted that the test of similarity in the context of a dilution claim is "more stringent than in the infringement context."

Levi's federal trademark dilution claim is governed by the TDRA, which was enacted in 2006. Congress enacted the TDRA in response to the 2003 Supreme Court decision in *Mosely* holding that a trademark owner must show *actual* dilution to prevail on a federal trademark dilution claim. The TDRA permits an owner of a famous mark to obtain injunctive relief against one who commences use of a mark that is *likely* to cause dilution by blurring or dilution by tarnishment of the famous mark. Courts assess blurring claims under a list of factors in the TDRA. Under the previous version of the federal trademark dilution statute, a trademark owner was required to show that a defendant's mark was "identical or nearly identical" to prevail.

Levi Strauss appealed, arguing that the district court incorrectly applied the "identical or nearly identical" standard because the standard no longer applies under the TDRA. The 9th Circuit agreed. The court pointed to several aspects of the TDRA to explain why the "identical or nearly identical" standard no longer applies to federal dilution claims. First, the statute makes no reference to an identity requirement, *i.e*. "identical," "nearly identical" or "substantially similar." Second, the TDRA provides relief against use of "a" junior mark likely to cause dilution—not "the" mark—thus the statue contemplates that any number of unspecified (non-identical), junior marks may be likely to dilute the senior mark. Third, the court noted that the TDRA lists degree of similarity between the marks among the factors to consider when assessing a blurring claim, indicating that Congress did not intend for similarity between the parties' marks to be the controlling factor. In its holding, the court noted that the U.S. Court of Appeals for the Second Circuit has also determined that the standard did not survive the enactment of the TDRA.

The court did not determine whether the degree of similarity between the parties' marks was sufficient to establish a likelihood of dilution. Rather, the Court remanded Levi's federal dilution claim to the district court with instructions to evaluate likelihood of dilution by an analysis of all of the statutory factors, *e.g.*, the degree of inherent or acquired distinctiveness of plaintiff's mark, plaintiff's exclusivity of use, the degree of recognition of plaintiff's mark, defendant's intent and proof of any actual association between the plaintiff's and defendant's mark.

Practice Note: This decision and a similar 2009 2nd Circuit decision, *Starbucks v. Charbucks*, (see *IP Update*, Vol. 12, No. 12) provide owners of famous trademarks greater confidence in bringing enforcement actions to protect their marks because the decisions confirm that the TDRA provides relief not only against use of marks that are identical or nearly identical to a famous mark, but against all junior marks likely to impair the distinctiveness of the famous mark.

Trademarks / Unfair Competition / False Advertising

California Supreme Court Expands Ability to Sue over Deceptive Product Labels

Elisabeth (Bess) Malis

The Supreme Court of California recently addressed a fundamental issue of standing in connection with California's unfair competition and false advertising laws, namely the requirement that a plaintiff must have "lost money or property" in order to sue. The court held that a plaintiff that relies on a product label containing misrepresentations has standing to sue for unfair competition or false advertising by alleging that he or she would not have bought the product but for the misrepresentations. *Kwikset Corporation v. Superior Court,* Case No. S171845 (Cal. Supr. Ct., Jan. 27, 2011) (Werdegar, J.) (Chin, J. dissenting).

Consumer James Benson filed a lawsuit against defendant Kwikset Corporation for unfair competition and false advertising, alleging that Kwikset falsely marketed and sold locksets labeled "Made in the U.S.A.," despite using foreign parts and/or foreign manufacture. The trial court ruled in favor of Benson and enjoined Kwikset from distributing its products with such labeling. While the case was pending appeal, California approved Proposition 64, which substantially narrowed the ability of a private individual to sue by requiring that a plaintiff prove a "loss of money or property" caused by the unfair business practice or false advertising. Under this new standard, the Court of Appeals found Benson's—and his fellow consumer co-plaintiffs'—injuries to be insufficient to confer standing and directed the trial court to dismiss the action. The parties appealed.

The California Supreme Court reasoned that to satisfy standing requirements under Prop 64, plaintiffs must allege an economic injury arising from their reliance on Kwikset's misrepresentations that the products were made in the United States. Recognizing the importance of product labeling on consumer purchasing decisions, the court stated that each consumer who is deceived into making a purchase is economically harmed because he or she may not have paid for that product if accurately labeled—the "economic injury" is "the loss of real dollars from a consumer's pocket." The court rejected Kwikset's theory that the plaintiffs lacked injury because they received the locksets (and thus the benefit of the bargain) because the plaintiffs bargained for locksets made in the United States and the purchased products were not. The court also rejected the Court of Appeals' reasoning that the plaintiffs lacked standing because they were not entitled to restitution, noting that standards for establishing standing and eligibility for restitution are wholly distinct.

Accordingly, the California Supreme Court reversed and remanded the Court of Appeals decision, holding that if a consumer relies on a product label containing misrepresentations to make a purchase and would not have purchased such product but for the misrepresentations made on the label, that consumer has standing to sue for unfair competition and false advertising under California law.

The dissent disagreed, stating that a consumer allegation that the consumer would not have bought a product but for misrepresentation in advertising should be sufficient for standing. Prop 64, the dissent stated, clearly set forth two requirements for standing, that a consumer plaintiff "has suffered injury in fact *and* has lost money or property as a result of such unfair competition." The dissent argued that the majority "makes it easier for a plaintiff to achieve standing" than contemplated by the amendment, in "direct contradiction of the electorate's intent."

Copyright / Presumption of Validity

Defendant Bears Significant Burden to Rebut Presumption of Copyright Validity

Rita Weeks

Highlighting the significant burden imposed upon a defendant who seeks to invalidate a plaintiff's copyright, the U.S. Court of Appeals for the Ninth Circuit reversed a district court's *sua sponte* dismissal of a copyright infringement case, despite defendants offering multiple arguments towards the invalidity of the plaintiff's copyright. *United Fabrics Int'l, Inc. v. C&J Wear, Inc.*, Case No. 09-56499 (9th Cir., Jan. 26, 2011) (Wallace, J.)

The plaintiff owns a copyright registration for a collection of fabric designs. The plaintiff contended that it had purchased a fabric design from an Italian company, then modified it and registered it as part of the collection. The plaintiff sued the defendants for copyright infringement, alleging infringement of that design. At the summary judgment stage, the district court dismissed the case *sua sponte*, concluding that the plaintiff lacked standing by failing to establish ownership of a valid copyright. The district court determined that the evidence of transfer of the source artwork from the Italian company to the plaintiff was insufficient to establish ownership of the underlying design.

The 9th Circuit reversed, finding that the defendants did not sufficiently set forth facts in the record that rebut the presumption of validity to which the plaintiff's copyright was entitled. The defendants had alleged several reasons why the plaintiff's copyright registration was invalid. First, at oral argument, the defendants' counsel alleged that the copyright transfer was invalid and that formalities of the Copyright Act were not followed during registration. The defendants' counsel pointed to comments from deposition testimony of the plaintiff's employee that supported those arguments. In response, the court admonished that, "United did not have to produce any evidence. As the copyright claimant, United is presumed to own a valid copyright, 17 U.S.C. § 410(c), and the facts stated therein, including the chain of title in the source artwork, are entitled to the presumption of truth." The court similarly dismissed the defendants' arguments that the plaintiff's copyright was invalid because the plaintiff failed to deposit a copy of the work with the Copyright Office and because the plaintiff failed to disclose that the work was based upon a preexisting work.

The court acknowledged the defendants' multiple arguments towards the invalidity of the plaintiff's copyright, but ultimately determined that dismissal was improper because the defendants "skipped a step," in not sufficiently supporting their allegations by citations to evidence in the case. "Although such evidence [sufficient to rebut the presumption of validity of the plaintiff's copyright] may be present in the lengthy and extensive record," the court stated, "it is not our place to find it, or to provide an argument on behalf of [the defendants] as to how that evidence rebuts the presumption of validity."

Practice Note: A defendant in a copyright infringement action may successfully rebut the presumption of validity afforded by a copyright registration certificate, but must take care not to "skip a step"—defendants must support its invalidity allegations by citing (in its briefs) to facts supporting its arguments.

Copyright / Statute of Limitations

Second Circuit Finds Time-Barred Copyright Ownership Claim Prevents Dependent Copyright Infringement Claim

Whitney D. Brown

The United States Court of Appeals for the Second Circuit has ruled that a time-bar for copyright ownership under the statute of limitations also bars a related copyright infringement claim. According to the 2d Circuit, a claim for copyright infringement based on an underlying claim of copyright ownership will be prohibited if that underlying claim is time-barred. *Kwan v. Schlein*, Case No. 09-5202 (2d Cir., Jan. 25, 2011) (Pooler, J.).

In 1998, Business Resources Bureau (BRB) hired plaintiff Shirley Y. Kwan to serve as an editor for *Find It Online*, a book to be authored by Alan M. Schlein. BRB engaged Kwan as an editor for 100 hours of work, and had promised to give her credit as an editor on the title page. After Kwan had worked on the project for more than 100 hours, Schlein asked BRB to continue her employment and offered her a percentage of the royalties from *Find It Online* as compensation. Before publication, Kwan and Schlein had a disagreement over whether Kwan would receive credit as a "ghostwriter" for the book or as an editor. Kwan asserted that she had essentially written the book and suggested the author byline, "Alan Schein with Shirley Kwan Kisaichi." BRB published the book in 1999, citing Schlein as the author and Kwan as the editor. Schlein registered the work at the U.S. Copyright Office, naming himself and Kwan as authors. Kwan received royalty payments for her contribution to the 1999 edition, as well as a subsequent edition. In 2004 BRB informed Kwan that the book had been rewritten, and that she would receive no royalties beyond sales for the second edition.

Kwan initiated the lawsuit in 2005, alleging copyright infringement and seeking registration of her copyright interest as a co-author of *Find It Outline*. Schlein moved for summary judgment, arguing that Kwan's claims for registration and to be named sole author were barred by the statute of limitations. Schlein filed a counterclaim, seeking declaratory judgment that Kwan was not an author of *Find It Online*. The district court granted Schlein's motion for summary judgment, finding that Kwan first asserted authorship in the work in 1998 and that the statute of limitations began to run in September 1999, the date upon which Kwan collected her first royalty check. According to the district court, under 17 U.S.C. § 507(b), the three-year statute of limitations tolled in September 2002.

On appeal, the 2nd Circuit affirmed the district court's grant of summary judgment to Schlein, holding that a time-barred ownership claim prevents a claim for copyright infringement "where, as here, the infringement claim cannot be decided without adjudication of a genuine dispute as to the plaintiff's ownership of the copyright." Judge Pooler, writing for the panel, noted that the ownership issue formed the "backbone" of the dispute over *Find it Online*—the nature, extent or scope of the alleged copying were not at issue. The dispute involved only whether Kwan's contributions to the work were enough to qualify her as an author and by extension, as an owner of the copyright in *Find It Online*. The fact that one co-author cannot sue another for copyright infringement under the Copyright Act prevented Kwan from obtaining relief unless she was the sole author of the work. Consequently, the time-barred ownership claim precluded Kwan's infringement claim as a matter of law.

Practice Note: A copyright infringement claim dependent upon a copyright ownership claim can be barred under the Copyright Act's three-year statute of limitations, found in 17 U.S.C. § 507(b), if the ownership claim is itself barred by the statute of limitations.

Copyright / Standing

Copyright Licensee Must Own at Least One Exclusive Right for Standing

Ulrika E. Mattsson and Rita Weeks

Affirming dismissal of a copyright infringement suit brought by one licensee against another, the U.S. Court of Appeals for the Seventh Circuit held that a plaintiff must show that it is the exclusive license of at least one of the divisible rights recognized under the Copyright Act to possess sufficient standing to sue for infringement. *Hyperquest, Inc. v. N'Site Solutions, Inc.*, Case Nos. 08-2257, -3979, -4176 (7th Cir., Jan. 19, 2011) (Wood, J.)

eDoc is insurance software. In 2001, Quivox Systems granted N'Site a nonexclusive license to use and develop the eDoc software. The license agreement only permitted N'Site to use the software in-house. N'Site was not allowed to modify the software or to sell it. Quivox later sold its assets to Safelite Group, Inc. In 2004, Safelite entered into an "exclusive license" for the eDoc software with Hyperquest. The agreement included an acknowledgement of the N'Site license and stated that Safelite and N'Site would negotiate a revised license and that Hyperquest was to be included in the determination of the final terms. However, the negotiations were unsuccessful and Safelite and N'Site never entered into a new license agreement.

In 2008, Hyperquest sued N'Site claiming that it infringed upon Hyperquest's exclusive rights in the eDoc software. The district court dismissed the case, finding that Hyperquest held only a non-exclusive license and thus lacked standing.

Under the Copyright Act, persons eligible to bring a civil action for infringement are limited to the "legal or beneficial owner of an exclusive right." On appeal, the 7th Circuit focused on whether the language in the license agreement between Safelite and Hyperquest conveyed sufficient rights to Hyperquest such that is was an owner of one of the exclusive rights to the work. Hyperquest argued that it was the exclusive owner of the right to reproduce, distribute and prepare derivative works based upon the eDoc software.

Agreeing with the district court, the 7th Circuit found that none of the exclusive rights had been conveyed fully to Hyperquest. Despite the fact that the license agreement contained the term "exclusive," Hyperquest's rights could not be viewed as exclusive because Safelite had explicitly reserved a limited right to use the eDoc software and to distribute it to third parties for development. Recognizing that an exclusive right may be subdivided into narrower rights that still count as exclusive rights for purposes of standing, such as by geography or production form, the court noted that such subdivisions must be outlined clearly to qualify. The court did not find any clearly delineated exclusivity granted to Hyperquest in the license agreement. The fact that Hyperquest accepted the license knowing about N'Site's current license and Safelite's right to renegotiate the license also weighed toward finding that Hyperquest was not granted any exclusive rights.

Copyright / Infringement

"Barefoot" Copyright Holder Did Not Put on His (Copyright Transfer) Shoes

Jeremy T. Elman

Addressing the issue of copyright transfers, the U.S. Court of Appeals for the Third Circuit affirmed the district court's summary judgment ruling that the plaintiff did not own the asserted copyrighted materials at the time of the alleged infringement. *Barefoot Architect, Inc. v. Bunge,* Case Nos. 09-4495; -4600 (3d Cir., Jan. 14, 2011) (Smith, J.)

Sarah Bunge and Thomas Friedberg (the owners) hired an architectural firm, Village Vernacular, Inc. (Village) to render necessary drawings and plans to build a new home in the Virgin Islands. Michael Milne (Milne), vice president of Village, worked on the drawings, but at some point left Village to form his own corporation, Barefoot Architect, Inc. (Barefoot). The parties continued working together, but eventually Milne stopped his work for non-payment of bills, which were disputed. The owners hired another architect to complete the drawings and plans.

Milne's new corporation, Barefoot, sued the owners for copyright infringement of the architectural drawings, among other claims. One of the owners' defenses was that Barefoot did not own the copyrights to the drawings. Barefoot argued that there was an oral transfer of the copyrights from Village to Barefoot that was memorialized in writing nine years later. The owners argued that a late transfer of the copyright was ineffective. The Third Circuit held that the transfer was effective. The court held that the text of 17 U.S.C § 204(a) clearly allows for a subsequent writing to effectuate an earlier oral transfer, and it does not specify a time period during which the writing must be consummated. The Third Circuit stated that "there is little reason to demand that a validating written instrument be drafted and signed contemporaneously with the transferring event." The Third Circuit adopted similar case law from the Second Circuit, Ninth Circuit and Eleventh Circuit.

However, in this case, the court found that there was no evidence of a valid transfer. The only evidence of an earlier oral transfer was a later memorandum attesting to the earlier transfer. The court held, "[w]e do not think that a 'note or memorandum of transfer' can simultaneously serve each of these purposes. If it could, a distantly post-hoc writing would be capable of rendering enforceable a (possibly fictional) 'transfer' that purportedly took place years or decades earlier but for which there is no independent evidence." The court refused to construe §204(a) in a way that would allow this outcome. The court dismissed Barefoot's other attempts to evidence a transfer, such as checks and business communications between Village and Barefoot unrelated to copyrights.

Practice Note: While subsequent agreements can effectively transfer copyright ownership under 17 U.S.C. § 204(a), oral transfers of copyrights cannot be validated only by a long-delayed subsequent agreements. Parties transferring copyright via an oral transfer must have a relatively contemporaneous evidence of the transfer.

Trade Secrets / Intellectual Property Litigation / Discovery

U.S. Company Compelled to Produce Discovery for Use in German Trade Secret Case
Ulrika E. Mattsson and Rita Weeks

Considering whether a foreign plaintiff could force a U.S. based-defendant to produce documents for use in a trade secret case, the U.S. Court of Appeals for the Seventh held that plaintiff could employ American law to require the production of documents, although the case was pending in Germany. *Applications of Heraeus Kulzer v. Biomet*, Case Nos. 09-2858, 10-2639 (7th Cir., Jan. 24, 2011) (Posner, J.)

Heraeus Kulzer GmbH, a manufacturer of bone cement for use in orthopedic surgery, sued Biomet Inc. in a German court for trade secret theft. In the 1970s Heraeus entered into a distribution agreement with Merck. In order for Merck to obtain the necessary regulatory approvals for its product, Heraeus provided Merck with confidential information. Subsequently, Merck entered into a joint venture with Biomet, another bone cement manufacturer. Heraeus alleged that Merck revealed its trade secrets to Biomet and that Biomet's new product incorporates Heraeus trade secrets.

The German legal system does not permit discovery to the same extent the U.S. system does. A U.S. litigant may request and obtain an entire category of documents from the opposing party. A litigant in Germany, however, may only obtain documents that he is able to identify specifically, *i.e.*, the contract between Merck and Biomet but not correspondence relating to that same contract. In efforts to obtain a broad range of documents from Biomet, Heraeus applied to the U.S. district court where Biomet is based pursuant to 28 U.S.C. § 1782. Under the statute, a U.S. district court may order a person who resides or who can be found in the district to give testimony or to produce documents for us in a proceeding in a foreign tribunal. Biomet argued that it would be abusive to let Heraeus obtain discovery under the U.S. rules.

The 7th Circuit rejected the court's decision that discovery would be abusive and found that Heraeus was entitled to discovery as long as it was not abusing the statute. The court did not see any abuses by Heraeus. First, Heraeus could not have obtained the discovery it needed in the German suit under that court's rules, and there was no indication that the German court would refuse to admit evidence that Heraeus obtained through U.S. discovery. Second, there was no indication that the German court was concerned about Heraeus submitting excessive discovery. Finally, no evidence suggested that the German court believed that Heraeus's discovery requests would impose an undue burden on Biomet. The court said that if any of the abuses would have been real threats, Biomet could have asked the German court to limit or bar Heraeus's efforts to take discovery in the United States or to condition Heraeus's right to take discovery on giving Biomet reciprocal rights. Biomet did not ask the German court for such relief. In addition, Biomet had refused to meet with Heraeus to discuss limiting the scope of its discovery requests, and the firm had presented no evidence of the burdens that granting Heraeus's request would impose. Therefore, the 7th Circuit determined that Biomet's objections to Heraeus's discovery demands were not genuine.

When remanding the case to the district court for consideration of Biomet's objections to the scope and burdensomeness of Heraeus's requests, the court explained that "Heraeus's discovery demands are broad, in part because they reach back fifteen years, to before the joint venture between Biomet and

Merck. For all we know, they are too broad. But if so, it doesn't follow that Heraeus is not entitled to any discovery."