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Patents / § 101

Internet Advertising Method Found to Be Patent-Eligible

by Gregory D. Yoder

The U.S. Court of Appeals for the Federal Circuit held that a method for distributing online media to consumers by having the consumer first watch a paid advertisement constitutes patent-eligible subject matter under 35 U.S.C. § 101. *Ultramercial, LLC v. Hulu, LLC*, Case No. 10-1544 (Fed. Cir., Sept. 15, 2011) (Rader, C.J.).

Ultramercial obtained a patent claiming a method of distributing copyrighted products (e.g., songs, movies and books) over the internet. Under the patented method, the consumer receives a copyrighted product for free in exchange for viewing an advertisement, and the advertiser pays for the copyrighted content. After Ultramercial sued Hulu, YouTube and WildTangent for infringement of its patent, the district court, citing *Bilski* (see [IP Update, Vol. 11, No. 11](#)) granted WildTangent’s motion to dismiss on the basis that the patent did not claim patent-eligible subject matter but only an abstract idea. Ultramercial appealed.

The Federal Circuit reversed, explaining that § 101 is a threshold check on patent eligibility and should be given wide scope to liberally encourage ingenuity. As the Court explained the Supreme Court has over time created categories of ineligible subject matter, including abstract ideas and laws of nature. However, the Federal Circuit has cautioned that to be patent ineligible, an abstract idea should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and that even the application of an abstract idea may well be deserving of patent protection.

As to the specific case in issue, the Court found that although the mere idea that advertising can be used as a form of currency is not necessarily patentable subject matter, the patent discloses a practical application of this idea. More specifically the patent overcomes the problem that viewers of copyrighted material could ignore banner ads or skip over advertising before accessing the copyrighted material, and the claimed method not only invokes computers and applications of computer technology but moreover claims a particular method for monetizing copyrighted products. The Court noted that the application of the idea requires complex programming and that the claimed steps are applied to the internet and in a cyber-market environment involving an extensive computer interface. Taking all of these factors into account, the Court concluded that the claims were patent-eligible.

Chief Judge Rader explained that improvements in computer technology through interchangeable software or hardware enhancements deserve patent protection because they drive innovation in every area of scientific and technical endeavor. Finding that the claims were directed to a particular method for collecting revenue from the distribution of media products over the internet using controlled interaction with a consumer via an internet website, the Court concluded the invention, which required controlled interaction with a consumer via a website, was not directed to purely mental steps and at least passed the coarse filter of § 101.

Practice Note: The decision does not explain the level of programming complexity needed to render a computer-implemented invention patent-eligible, nor does the decision stand for the proposition that a method requiring an interface with a website is per se patent eligible.

Patents / Reexamination

Intervening Rights Can Apply to an Original Claim Based on Arguments Made During Reexamination

by Cynthia Chen, Ph.D.

In reversing and vacating a district court's decision to grant injunction and reasonable royalty damages for patent infringement, the U.S. Court of Appeals for the Federal Circuit held that intervening rights can apply to an original claim based on arguments made by the patentee during reexamination. *Marine Polymer Technologies, Inc. v.*

HemCon, Inc., Case No. 10-1548 (Fed. Cir., Sept. 26, 2011) (Dyk, J.) (Lourie, J., dissenting). Intervening rights typically occur where the scope of coverage of a patent changes during reexamination.

Marine Polymer sued HemCon for infringing its patent claiming a biocompatible polymer. In the ensuing litigation, the district court construed the term “biocompatible” as meaning polymers “with no detectable biological reactivity as determined by biocompatibility tests.” Meanwhile, in the parallel reexamination proceeding, the examiner construed the term “biocompatible” as meaning polymers with “little or no detectable reactivity” reasoning that certain dependent claims recited a biocompatibility test score that is greater than zero. Marine Polymer urged the examiner to adopt the district court’s claim construction and canceled all dependent claims reciting a biocompatibility test score greater than zero. In view of the cancellation of those dependent claims, the examiner adopted the district court’s claim construction, and the remaining claims were issued.

In this appeal from the district court (where HemCon was subjected to a \$29 million dollar damages award against it), HemCon argued that it was entitled to intervening rights because Marine Polymer changed the scope of the claims of the asserted patent during reexamination. Marine Polymer, contended that intervening rights cannot apply because the actual language of the asserted claims was not amended during reexamination.

The Federal Circuit agreed with HemCon and held that Marine Polymer indeed narrowed the scope of the claims by “argument rather than changing the language of the claims to preserve otherwise invalid claims.” Noting that intervening rights are available if the original claims have been “substantively changed,” the Court emphasized that “in determining whether substantive changes have been made, we must discern whether the scope of the claims [has changed], not merely whether different words are used.” In particular, those dependent claims that were canceled during reexamination indicated that “the term ‘biocompatible’ must include slight or mild biological reactivity.” As such, the district court’s claim construction, which required that the polymer show “no detectable biological reactivity,” imposed a new claim limitation that narrowed the scope of the claims. Therefore, intervening rights did apply in this case, as “argument to PTO on reexamination constituted disavowal of claim scope even though ‘no amendments were made.’”

Judge Lourie dissented and argued that the majority went beyond the statutory rules for intervening rights under 35 U.S.C. §§ 307(b) and 316(b). Judge Lourie believes that, according to the language of the statute, intervening rights should only apply to “amended or new claims.”

Practice Note: Post-grant proceedings could be a pitfall for patentees seeking to enforce their patents. A patentee should consider whether it would be better off filing a continuing application before grant of the original patent to leave a vehicle to present new or amended claims.

Patents / Claim Construction / Inequitable Conduct

Stent Wars: Return of the Dictionary and No Inequitable Conduct

by Derek Johnson

Addressing a host of issues, the U.S. Court of Appeals for the Federal Circuit found a district court's claim construction was proper as was its consequent finding of no infringement. The Court also found that under its remand mandate, the district court properly revisited inequitable conduct and correctly found no inequitable conduct because specific intent to deceive was not established. *Cordis Corp. v. Boston Scientific Corp.*, Case Nos. 10-1311, -1316 (Fed. Cir., Sept. 28, 2011) (Gajarsa, J.).

This is yet another opinion coming from a series of litigations known as the "Stent Wars," which the Court describes as an "epically expensive litigation saga." In this installment, Cordis appealed a judgment as a matter of law (JMOL) of non-infringement, and Boston Scientific cross-appealed the district court's finding that the patents are not unenforceable due to inequitable conduct.

The Court began by considering the district court's claim construction. Specifically, the parties disputed the meaning of the term "waves" included in the construction of the term "undulating." Because Boston Scientific did not object to the district court's jury instruction, the construction was not reviewed *de novo*, but rather under the "ordinary meaning of the language of the jury instruction." Interestingly, in resolving the dispute, the Court first looked to a 1968 (*i.e.*, invention contemporaneous) Webster's Dictionary and then to the intrinsic evidence. Based on its approval of the district court's instruction on the term "undulating" the Court affirmed the finding of no infringement.

As to unenforceability, the Court began by addressing Boston Scientific's argument that the appeal was improperly before the Court for two reasons. First, Boston Scientific argued appeal was improper because a parent patent (in connection with which the allegations of inequitable conduct primarily arose) was not before the Court. The Court relied on its "inextricably linked" precedents to determine that the validity of both patents was properly before the Court. Second, Boston Scientific argued that on remand the district court impermissibly violated the Court's mandate by reconsidering its findings of intent to deceive. The Court rejected this argument as well, noting that it would be illogical for the Court to remand for additional findings on unresolved outcome determinative issues while simultaneously foreclosing reconsideration of the outcome after the district court considered those issues for the first time.

Reaching the merits of the inequitable claim, the Federal Circuit, citing to its *Therasense* decision (see [IP Update, Vol. 14, No. 6](#)), affirmed the district court finding that the evidence adduced at trial was insufficient to establish that the inventor had the requisite specific intent to deceive the U.S. Patent and Trademark Office (USPTO). However,

the Court found that the evidence was such that Boston Scientific proved the threshold level of intent to deceive, but that proof was rebutted by inventor's good-faith explanation. In this regard, the Court noted its deference to the district court on witness credibility issues.

Practice Note: With regard to claim construction, this case demonstrates that despite the negative treatment of dictionaries in *Phillips*, the Court will still consider extrinsic dictionary evidence when construing claim terms. More importantly, this case highlights the importance of timely objections to jury instructions on claim construction. Had Boston Scientific objected to the claim construction charge, the Court would have likely reviewed the claim construction under its *de novo* standard.

Patents / Claim Construction

Unclaimed Feature Not Limiting, Even When Required to Practice Claims

by Hasan Rashid

Again remanding a case based on claim construction, the U.S. Court of Appeals for the Federal Circuit vacated a district court's narrow claim construction finding that it impermissibly narrowed the claim by importation of limitations from the specification. *Markem-Imaje Corp. v. Zipher Ltd.*, Case No. 10-1305 (Fed. Cir., Sept. 9, 2011) (*per curiam*) (Newman, J. dissenting).

The patent-in-suit relates to transfer printing. Transfer printing uses a print head to impress an ink ribbon onto a substrate, such as plastic, using heat. The ribbon is wound onto two spools, with the print head in between the spools. One spool supplies the ribbon to the print head and the other takes up the ribbon downstream of the print head. Traditionally, the take-up spool has a motor, and the supply spool has a "slipping clutch" in order to maintain the ribbon in tension. The patent specification disclosed a push-pull system in which the angular positions of both spools are controlled by motors that receive commands from a microcontroller. The specification discloses measuring ribbon tension to determine when to activate the motors.

The relevant claim recites a "controller [that] energizes both [...] motors to drive the spools in a tape transport direction" and a controller that "controls [the] motors to drive the spools." The claim is silent as to tension measurement.

Markem-Imaje brought suit against Zipher seeking a declaratory judgment that the patent-in-suit is not infringed. At Markem-Imaje's behest, the district court construed the term "drive" to narrowly mean "rotate." The district court also construed the claim to require tension measurement, because one would necessarily have to measure tension to

practice the claim. Based on these constructions, the district court granted summary judgment of non-infringement. Markem-Imaje appealed.

The Federal Circuit vacated the district court's construction, limiting the claims to include a tension measurement. By analogy, the Federal Circuit stated that a claim to an engine should not be construed to include an exhaust pipe limitation, even though an engine needs an exhaust pipe. Similarly, although the tension must be measured to practice the claims, such a limitation should not be read into the claims.

The Federal Circuit also vacated the district court's claim construction as to "drive," adopting Zipher's proposed construction that "drive" means "the application of torque to the spools, whether the torque causes rotation or resists it." The Federal Circuit disagreed with the district court's reasoning that "control" and "drive" must have different meanings, *i.e.*, that since each term appears in the claim they should not be construed to mean the same thing. The Court explained that there is no reason why the two terms may not have "similar" meanings. The Federal Circuit further found that nothing in the specification that would limit "drive" to require rotation. Rather, the Court noted that the specification disclosed applying a holding torque to a spool.

Judge Newman dissented with respect to the Court's engine-exhaust pipe analogy. Judge Newman would have read a tension measurement limitation into the claim, because to do otherwise would be to ignore the "paramount importance of the specification in claim construction."

Practice Note: This case is another example of district courts' struggle with the blurry line between importing limitations from the specification and construing claim terms in light of the specification.

Patents / Claim Construction / Written Description / Interference

Claim Term "a" Does Not Necessarily Include Singular or Plural

by K. Nicole Clouse, Ph.D., and Robert H. Underwood

In reviewing an interference decision of the Board of Patent Appeals and Interferences (Board), the U.S. Court of Appeals for the Federal Circuit held that the claim term "a" does not necessarily mean "one or more than one." The court held that construction of the term "a" should be informed by the context of its use in the claims and the specification to determine whether the applicant intended to refer to the singular or plural. *Eliyahou Harari et al. v. Roger Le, et al*, Case No. 10-1075 (Fed. Cir., Sept. 1, 2011) (Moore, J.).

Plaintiff Harari provoked an interference against Lee in order to determine priority of invention between Harari's patent application and Lee's patents. The patents are directed to programming erasable memory arrays for use in

computers, in which “bit lines” are accessed in order to activate “memory cells.” After the Board held that Harari’s claims were not supported by adequate written description, Harari appealed.

The Federal Circuit noted that the issue of whether Harari’s claims were supported by adequate written description “turned almost entirely on claim construction.” In construing the claims, the Court noted that since Harari provoked an interference against Lee’s patent by substantially copying Lee’s claim, Harari’s claims are to be given their broadest reasonable interpretation *in light of Lee’s disclosure*. To meet the written description requirement, however, Harari’s claims as properly construed in light of Lee’s disclosure still must be adequately described in the *Harari* specification.

The Court found that Lee disclosed a one-to-one correspondence between the number of bit lines accessed and memory cells activated. Thus, in Lee, the number of bit lines to be accessed *equals* the number of memory cells to be activated. As the Court explained, this construction of “a” must be imposed on Harari’s claims.

The relevant claim in Harari specified that *a* bit line activates a *number* of memory cells. Harari urged that in this claim, the term “a” must necessarily mean “more than one” in order to achieve the one-to-one correspondence between the number of bit lines accessed and memory cells activated as disclosed in the Lee patents. Harari argued that the term “a” in an open-ended claim automatically invokes such a construction.

The Court disagreed, noting that there is not “a hard and fast rule that ‘a’ always means one or more than one,” but that the limitation must be read “in light of the claim and specification to discern its meaning.” The Court further explained that “[w]hen the claim language and specification indicate that ‘a’ means one and only one, it is appropriate to construe it as such *even in the context of an open-ended ‘comprising’ claim*” (emphasis added).

The relevant claim in Harari recited a *number* of control gates, a *number* of memory cells, and *a* bit line. The rest of the claim explicitly referred to “said bit line” (*i.e.*, in the singular), but to the “number” of control gates and memory cells in the plural. The Court rejected Harari’s argument that the term “a” necessarily meant “more than one,” concluding that the “plain language of the claim clearly indicates that only a single bit line is used when accessing a number of cells” and that the specification was similarly limited.

The Court thus affirmed the Board’s holding that the properly construed Harari claims did not have adequate written description in Harari’s application, and therefore are not patentable to Harari.

Practice Note: When drafting open-ended claims, applicants should be careful when using the term “a” and consider whether a strict construction of either “one” or “more than one” is likely to be read into the term based on the context of the language of the claim and support in the specification.

Patent / ITC

Litigation Activities Generally Cannot Be Used to Establish a Domestic Industry for Purposes of § 337

by Christopher G. Paulraj

Addressing for the first time whether patent litigation expenses can be used to establish the domestic industry requirement in § 337 investigations, the U.S. Court of Appeals affirmed a determination by the U.S. International Trade Commission (ITC) that the complainant failed to satisfy the requirement based on its litigation activities. *John Mezzalingua Associates (d/b/a PPC, Inc.) v. Int'l Trade Comm'n*, Case No. 10-1536 (Fed. Cir., Oct. 4, 2011) (Bryson, J.) (Reyna, J., dissenting-in-part).

This case involved an appeal from an ITC determination that litigation activities (including patent infringement lawsuits) only satisfy the domestic industry requirement if a complainant can prove that those activities are related to licensing and pertain to the patent at issue. The majority explained that “the Commission reasonably concluded that expenses associated with ordinary patent litigation should not automatically be considered a ‘substantial investment in ... licensing,’ even if the lawsuit happens to culminate in a license.”

Viewing the appeal as only raising factual issues relating to the link between various litigation expenditures and licensing,” the majority concluded there was no evidence that PPC had ever engaged in settlement or licensing negotiations either before or during the prior lawsuits in which it had asserted the patent. The majority noted that because PPC allowed a permanent injunction it received in a prior district court action to remain in place for two years before it entered into a license agreement with the defendant Arris, “that delay suggests that PPC’s purpose in litigating was not to obtain a license, but, rather was to stop Arris from manufacturing infringing connectors.” The majority also noted that “[t]he fact that litigation adversaries eventually enter into a license agreement does not, as PPC suggests, mean that all of the prior litigation expenses must be attributed to the licensing effort.”

Noting that at least one of the prior litigations did not even involve the asserted patent, the majority found that, “[b]ecause those cases had multiple objectives and were not all based on the [asserted] patent, the administrative law judge reasonably concluded that it would be inappropriate to treat most of the incurred legal fees as an investment in licensing of the [asserted] patent.” Additionally noting that PPC had only obtained one license to the asserted patent, the majority concluded that the ITC was “entitled to view the absence of other licenses issued or negotiated for the [asserted] patent as one factor supporting his conclusion that PPC’s expenditures relating to licensing were not substantial.” Finally, the majority found that PPC failed to meet its burden of proving that any of its research and development investments related to designs protected by the asserted patent.

In dissent, Judge Reyna argued for a per se rule that “patent infringement litigation is an investment in the exploitation of a patent” within the meaning of § 337. The dissent argued the exclusion of litigation expenses not tied to licensing was “manifestly contrary to the statute” (and thus not entitled to deference under Chevron) and that it “impermissibly and arbitrarily limited the reach of § 337 for patent owners.”

Practice Note: Going forward, a complainant will be well advised to establish that it made efforts to engage in licensing negotiations either before the litigation commenced or in the context of settlement discussions during the course of the litigation if it intends to reply upon litigation expenses to support its domestic industry. Additionally, permitting a permanent injunction to remain in effect for a significant period of time before negotiating a license will likely be taken as evidence tending to establish that the underlying purpose of that litigation was not to obtain a license, but rather to exclude a competitor.

Patents / Anticipation

Practicing the Prior Art Is Not a Defense

by David M. DesRosier

The U.S. Court of Appeals for the Federal Circuit again confirmed its precedent holding that an accused infringer cannot succeed merely by comparing the allegedly infringing activity to the prior art in an attempt to prove that the activity is either non-infringing or that the patent is invalid as anticipated, a strategy known as the “practicing the prior art” defense. *Cordance Corp. v. Amazon.com, Inc.*, Case No. 10-1502 (Fed. Cir., Sept. 23, 2011) (Linn, J.).

The district court overturned, via judgment as a matter of law (JMOL), a jury verdict of invalidity as to certain Cordance patent claims, holding that Amazon.com (Amazon) had failed to present sufficient evidence to support the jury’s verdict of anticipation. On appeal, Amazon argued that substantial evidence, including expert testimony, supported the jury verdict that the claims are anticipated by Amazon’s 1995 online shopping cart system, which Amazon noted was very similar to Amazon’s currently accused system. Cordance responded in part that Amazon’s anticipation argument was simply a “practicing the prior art” defense, a tactic the Federal Circuit has disfavored.

The Federal Circuit again confirmed that “practicing the prior art” is not a defense to patent infringement. The Court noted that in *Tate Access Floors*, the Court explained that accused infringers “are not free to flout the requirement of proving invalidity by clear and convincing evidence by asserting a ‘practicing the prior art’ defense to literal infringement under the less stringent preponderance of the evidence standard.” However, the Federal Circuit nevertheless found that Amazon had presented sufficient evidence showing that each limitation of the claims is present in the prior art system, such that the jury verdict of invalidity should not have been overturned.

Patents / New Ground of Rejection

BPAI—What Constitutes a New Ground of Rejection

by John D. Magluyan

Vacating decisions of the Board of Patent Appeals and Interferences (BPAI), the U.S. Court of Appeals for the Federal Circuit issued decisions in two cases, ruling that the BPAI had improperly relied on a new ground of rejection without giving applicants a rehearing opportunity. *In re Leithem*, Case No. 11-1030 (Fed. Cir., Sept. 19, 2011) (Linn, J.); and *In re Stepan*, Case No. 10-1261 (Fed. Cir., Oct. 5, 2011) (Prost, J.)

In *Leithem*, applicants appealed a BPAI decision and rehearing decision, both rejecting claims in a disposable diaper patent application as obvious. Applicants argued that the claimed diaper could retain absorption using wood pulp extracted with a caustic substance and fluffed to produce fluff pulp. Traditional diapers also use fluff pulp, but require undesirable chemical agents during manufacture.

During patent prosecution, the examiner rejected the application as obvious over patent references to Pociluyko and Novak. Pociluyko discloses a traditional diaper, while Novak discloses caustic extraction of wood pulp. The examiner alleged that Novak also disclosed the fluffing of pulp. The applicants disagreed, arguing that Novak applied its caustic extraction to wet-laid paper and did not describe fluffing.

The BPAI agreed that Novak only used wet-laid paper, but affirmed the rejection by concluding that the pulp of Novak “may be fluffed.” In the subsequent rehearing, applicants argued that the BPAI used different reasoning than the examiner. In response, the BPAI simply stated that by referring to “pulp” in the examiner’s final rejection, during the BPAI appeal and in the BPAI’s initial decision, the “thrust” of the examiner’s rejection had not changed.

The Federal Circuit disagreed and concluded that the BPAI’s finding that Novak’s pulp *may be fluffed* is different from the examiner’s position that Novak’s pulp *was fluffed*. The Federal Circuit found that the BPAI used new grounds of rejection, thus violating applicants’ rights to respond to the new rejection when it is based on new factual findings.

In *Stepan*, applicants appealed a BPAI decision affirming an examiner’s ruling on reexamination that a patent was invalid as obvious. The patented technology generally concerns resin blends used to make foam. However, the reasons for rejecting the patent related to a Rule 131 affidavit submitted by applicants during prosecution.

More particularly, applicants argued that the applied patent reference to Singh was only a § 102(a) reference and provided the affidavit swearing behind Singh. The application in issue was a continuation-in-part of an earlier

application which, based on the priority claim, would have made Singh § 102(a) art. The examiner maintained that Singh was a § 102(b) reference and ignored the declaration.

The BPAI ruled that applicants could claim priority to the earlier application, and that therefore Singh was only § 102(a) art. However, the BPAI affirmed the examiner's rejection, alleging that the content of the affidavit was insufficient to swear behind Singh.

The Federal Circuit again vacated the BPAI decision, concluding that the factual finding on the sufficiency of the affidavit was new and was not a basis of the examiner's rejection. The Federal Circuit also rejected the BPAI's argument that applicants were required to seek rehearing before appealing the issue to the Federal Circuit. In this regard, the Federal Circuit held that the BPAI must indicate and identify a new ground of rejection so that applicants are given proper notice to seek a BPAI rehearing.

Patents / Patent Exhaustion

Ye Shall Reap What Ye Shall Sow

by Kristin Connarn

The U.S. Court of Appeals for the Federal Circuit upheld a district court judgment against a farmer (Vernon Hugh Bowman), finding that he infringed Monsanto's patents for Roundup Ready herbicide-resistant soybean seeds. *Monsanto Co. v. Bowman*, Case No. 10-1068 (Fed. Cir., Dec. 21, 2010) (Linn, J).

Bowman purchased commodity seed containing Roundup Ready seeds from one of Monsanto's licensed seed producers, used it for planting and then saved and replanted the seeds he harvested. All sales to growers, whether from Monsanto or one of its licensed producers, are subject to a standard form limited use license. Under the license agreement, growers who buy the seeds can only use them for one crop season and cannot replant the progeny of the licensed seeds.

Monsanto sued Bowman for infringing two of its patents directed to Roundup Ready seeds. Representative claims from the patents at issue cover a chimeric gene, a plant cell, a recombinant double-stranded DNA molecule, a seed of the plant, a plant and a method for selectively controlling weeds in a field. Bowman did not dispute that he saved the seed harvested from his second-crop for replanting additional second-crops in later years and had candidly explained his practices in various correspondence with Monsanto's representatives before the lawsuit.

Bowman argued that Monsanto's patent rights on Roundup Ready seeds were exhausted with respect to all seeds that are present in grain elevators as undifferentiated commodity. Monsanto countered, and the Federal Circuit

agreed that the patent rights were not exhausted because the license agreement for the seeds specifically states that the progeny of licensed seeds can never be sold for planting. The Court found that even if Monsanto's patent rights in the commodity seeds were exhausted, it is of no consequence once a grower, such as Bowman, plants the commodity seeds containing Roundup Ready technology and the next generation of seed develops, because the grower has created a newly infringing product.

The Court concluded that the right to use patented technology upon purchase does "not include the right to construct an essentially new article on the template of the original, for the right to make the article remains with the patentee," citing *Jazz Photo Corp.* The Court applied the "substantial embodiment" test with regard to separate generations of seed, stating that present seed does not "substantially embody" "all later generation seeds," because with regard to the commodity seeds "nothing in the record indicates that the 'only reasonable and intended use' of commodity seeds is for replanting them to create new seeds," and noting that other uses for commodity seed existed. The Federal Circuit explained that while farmers may have the right to use commodity seeds as feed, or for any other conceivable use, they cannot replicate patented technology by planting it in the ground to create newly infringing genetic material, seeds and plants.

Conflicts of Interest / Disqualification

No Disqualification Where Disclosure of Confidential Information Controlled by Joint Defense Agreement

by Brock Wilson

Determining whether a law firm should be disqualified from representing plaintiff because one of its partners received a defendant's confidential information under a joint defense agreement in a previous lawsuit and in a previous employment, the U.S. Court of Appeals for the Federal Circuit overturned a district court decision disqualifying the firm and upheld the waiver provision of the joint defense agreement, which waived future conflicts of interest. *In re Shared Memory Graphics LLC*, Misc. Dkt. No. 978 (Fed. Cir., Sept. 22, 2011) (Dyk, J.) (Newman, J., dissenting).

Shared Memory Graphics (SMG), represented by the law firm of Floyd & Buss (F&B), sued Nintendo for patent infringement. In turn, Nintendo brought a motion to disqualify F&B because one of F&B's attorneys, Kent Cooper, received Nintendo confidential information during a previous employment with Advanced Micro Devices (AMD). Cooper received the information under a joint defense agreement when AMD and Nintendo were co-defendants in a prior litigation concerning the same microchip being accused of infringement by SMG in this litigation. Although the joint defense agreement contained a waiver provision stating "compliance with the terms of this Agreement by either party, [shall not] be used as a basis to seek to disqualify the respective counsel of such party in any future litigation," the district court nevertheless granted Nintendo's motion and disqualified the entire F&B firm from representing SMG against Nintendo. In response, F&B petitioned the Federal Circuit for a writ of mandamus.

The Court noted that California state law applies to disqualification motions brought in the U.S. District Court for the Northern District of California and found that under California law an advance waiver of future conflicts is generally enforceable if a non-attorney-client relationship exists in a matter involving sophisticated parties. The Court then considered the language of the joint defense agreement and Nintendo's argument that the agreement does not apply to Cooper because he is no longer with AMD. Considering the joint defense agreement as a whole and its use of the term "respective counsel" throughout, the Court rejected Nintendo's argument, reasoning that Nintendo should have had the expectation that Cooper was a "respective counsel" who would be bound by the agreement's confidentiality provisions. By analogy, the Court ruled that Cooper was also a "respective counsel" for purposes of the agreement's waiver provision. Having so ruled, the Court granted the petition for writ and vacated the district court's decision disqualifying F&B.

In dissent, Judge Newman argued that, "professional responsibility in the legal system does not distinguish between a written agreement to protect information received as an attorney, and the ethical obligation to protect information received as an attorney. The possible adverse use of such information, flowing from a change in the layer's employment, is prohibited under any theory." Newman further explained that, "the issue is the integrity of the system of legal representation in today's world of mobile lawyers and large law firms with interacting clients. [...] [I]t appears that Cooper in his new employment is associated with issues involving his former employer, and that his former employment was at the highest level in interaction with Nintendo's legal and strategic interests. If there is doubt, it must be resolved in favor of the entity whose information is in jeopardy."

Patents / Inter Partes Reexamination

USPTO Revises Rules Governing *Inter Partes* Reexamination Requests

by Amol Parikh

The U.S. Patent and Trademark Office recently began implementing changes to U.S. patent law in accordance with the Leahy-Smith America Invents Act (AIA). In one of its first acts, the Patent Office issued a [Notice in the Federal Register](#) that revised the rules of practice governing *inter partes* reexamination. In the Notice, the USPTO indicated that it was implementing a transition provision of the Leahy-Smith America Invents Act that changes the standard for granting a request for *inter partes* reexamination between September 16, 2011 and September 15, 2012 and revising the rules governing *inter partes* reexamination to reflect the termination of *inter partes* reexamination effective September 16, 2012.

Prior to the enactment of the AIA, the standard for granting an *inter partes* reexamination request was whether "a substantial new question of patentability affecting any claim of the patent concerned is raised by the request." The USPTO referred to this standard as the SNQ standard. The AIA deleted any reference to the SNQ standard. In

place of each deletion, the AIA added language requiring the information presented in a request for *inter partes* reexamination show that there is a reasonable likelihood that the requester will prevail with respect to at least one of the claims challenged in the request. The Notice recognized that in enacting this new “reasonable likelihood” standard, the House of Representatives Report on the AIA intended to elevate the standard for granting an *inter partes* reexamination request:

“The threshold for initiating an *inter partes* review is elevated from ‘significant new question of patentability’—a standard that currently allows 95% of all requests to be granted—to a standard requiring petitioners to present information showing that their challenge has a reasonable likelihood of success.”

In terms of timing, the Notice states the “reasonable likelihood” transition standard applies to any request for any *inter partes* reexamination filed after September 16, 2011 and prior to September 15, 2012 and applies throughout the entire reexamination proceeding, even after September 16, 2012. However, that old SNQ standard will still apply to any request for *inter partes* reexamination filed prior to September 16, 2011. If reexamination is ordered based on the SNQ standard, then the SNQ standard will apply throughout the entire reexamination proceeding, even after September 16, 2011.

In addition to adopting the transition provision, the AIA replaces the *inter partes* reexamination with a new *inter partes* review process effective September 16, 2012. Recognizing enactment of this provision, the Notice indicates that no request for reexamination will be granted for any request submitted on after September 16, 2012. Accordingly, the USPTO will no longer entertain original request for *inter partes* reexamination on or after September 16, 2012, but instead will accept petitions to conduct *inter partes* review. The Patent Office notes that it will implement the new *inter partes* review proceedings in a separate rule making.

Practice Note: At this time, it is nearly impossible to predict how the Patent Office will apply the new “reasonable likelihood” standard. However, based on the comments in the Congressional Record that the threshold for initiating an *inter partes* reexamination has been “elevated,” it is likely that at least a slightly lower percentage of *inter partes* reexamination requests will be granted under the “reasonable likelihood” standard as compared to the SNQ standard.

Trademarks / Assignment

Seller of George Forman Trademarks Down for the Count on Breach of Contract Claims

by Katie Bukrinsky

In a breach of contract dispute over the sale of “George Foreman” trademarks, the U.S. Court of Appeals for the Third Circuit, in a non-precedential decision, ruled against the plaintiff, concluding that no breach of contract took place and

that all remaining claims were waived. *Perlmutter v. Russell Hobbs, Inc.*, Case No. 10-4121 (3rd Cir., Sept. 13, 2011) (Barry, J.).

Sam Perlmutter, a Los Angeles attorney, introduced former heavyweight boxing champion George Foreman to the opportunity to endorse a kitchen appliance that later was branded as the “George Foreman Lean Mean Fat-Reducing Grilling Machine.” Commonly known as the “George Foreman Grill,” more than 100 million of the indoor grills have been sold worldwide. Perlmutter entered into a contract with defendant Salton, Inc. to sell the defendant certain George Foreman trademarks and associated goodwill. Salton agreed to pay Perlmutter \$5.5 million in four installments of \$1,375,000. Salton made the first three payments but defaulted on the fourth. The parties then amended their agreement to permit Salton to make the fourth payment in shares of stock. Section 3(a) of the amendment specified that the shares would not originally be registered under the Securities Act of 1933 and could not be sold until registration took place. Section 3(d) of the amendment further provided that if Perlmutter was unable to sell the shares for the full amount due him, Salton would make another payment in cash or stock to equal the difference.

Upon selling the issued shares, Perlmutter was left with a shortfall of \$1,012,563.71. Salton then issued additional shares that equaled in value the shortfall amount. These shares, however, were also unregistered, and thus could not immediately be sold. Perlmutter asked Salton to register the shares, and Defendant agreed to do so, but failed to follow through on this promise; as a result, upon selling these shares, Plaintiff was again left with a shortfall.

Perlmutter subsequently brought claims against Salton for breach of contract, breach of the implied covenant of good faith and fair dealing, and negligent misrepresentation. Perlmutter contended that Salton had breached their agreements by paying the shortfall amount in restricted shares and failing to end the stock restrictions as promised. Perlmutter also sought to amend his complaint to cure a number of unspecified defaults. Ultimately, the district court dismissed Perlmutter’s breach of contract claims because it found that the payment of the shortfall amount in restricted shares was not a breach, because it was expressly authorized by Section 3(a) of the amendment. Further, the district court denied Perlmutter’s request to amend his complaint.

The 3rd Circuit affirmed the district court’s holding that the payment of the shortfall amount in restricted shares was not a breach, as it was expressly authorized by the parties’ amendment. The court refused to consider Salton’s argument that Section 3(d) of the agreement, which required Salton to compensate Perlmutter for any devaluation of the shares as a result of the restriction, also applied to the shortfall shares, finding that Perlmutter had waived the argument by failing to raise it in district court. The court also disposed of Perlmutter’s claim concerning Salton’s failure to timely register the shortfall shares, finding that it was a “gratuitous promise without consideration” and that any promissory estoppel claim would similarly fail for lack of evidence of reliance on the promise.

Refusing to consider Perlmutter's other claims because he failed to develop them in his opening appellate brief, the court nevertheless went on to state that the breach of covenant claim would have been unsuccessful because the allegedly breaching conduct of using restricted stock was expressly authorized by Section 3(a).

The court also upheld the denial of Perlmutter's requests to amend his complaint to cure various defaults because he did not articulate to the trial court any reason why he should be given "another bite at the apple."

Trademarks and Copyrights / Contributory Liability

\$32 Million Damages Award Against Web Hosts Reduced by One-Third—Contributory Infringement Limited to Single Award of Statutory Damages

by Gene Folgo

In an appeal in an action for contributory copyright and trademark infringement, the U.S. Court of Appeals for the Ninth Circuit held that there may only be a single award of statutory damages for willful contributory copyright and willful contributory trademark infringement. *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. 10-15909 (9th Cir. Sept. 9, 2011) (Gould, J.).

In 2006, plaintiff Louis Vuitton discovered several websites selling goods that it believed infringed its copyrights and trademarks. The plaintiff later learned that these websites were using IP addresses assigned to web hosting companies MSG and Akanoc. MSG leased servers, bandwidth and some IP addresses to Akanoc, which in turn leased packages of server space, bandwidth and IP addresses to Akanoc's customers. The plaintiff claimed that Akanoc's customers directly infringed the plaintiff's copyrights and trademarks. The defendants did not respond to any of the 18 Notices of Infringement that the plaintiff sent pursuant to the Digital Millennium Copyright Act. The plaintiff then sued the web hosting companies MSG and Akanoc, along with Steven Chen, who managed both companies. The plaintiff claimed that the defendants used their hosting websites to list the e-mail addresses of Chinese companies that sold goods that infringed the plaintiff's copyrights and trademarks.

The jury found each of the three defendants liable for willful contributory copyright and trademark infringement and awarded the plaintiff \$31,500,000 on its trademark claim and \$900,000 on its copyright claim. The jury's damages verdict was divided equally among the three defendants, requiring each of them to pay \$10,500,000 for the trademark infringement claim and \$300,000 for the copyright infringement claim. After the verdict the district court granted judgment in favor of defendant MSG, finding that the plaintiff had presented no evidence that MSG did anything other than lease its servers to the other defendants Akanoc and Chen. This judgment reduced the plaintiff's damage award to \$21,000,000 on its trademark claim and \$600,000 on its copyright claim.

On appeal, the 9th Circuit affirmed as to the liability issues, but reversed and vacated the damages award, finding that it was error to award the plaintiff separate damages awards against each of the defendants, instead of a single award. The 9th Circuit found sufficient evidence to support the verdicts against defendants Akanoc and Chen. Further, the 9th Circuit found no error with the trial court's jury instruction concerning contributory trademark infringement. The court held that defendants Akanoc and Chen had control over the master switch that kept the websites online and available, satisfying the requirement for contributory liability that the defendants had direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's marks. Concerning the jury instruction regarding copyright infringement, the court held that to establish material contribution, the plaintiff merely needed to prove that defendants Akanoc and Chen substantially assisted direct infringement, of which the court found ample evidence.

The court overturned the damages verdict, however, because there may only be a single award of statutory damages for willful copyright and trademark infringement, and in this case the verdict form invited the jury to specify a separate statutory damage award against each defendant. Accordingly, the 9th Circuit reduced Plaintiff's statutory damages award to \$10,500,000 for contributory trademark infringement and \$300,000 for contributory copyright infringement.

Practice Note: It is risky for any web host to ignore or improperly respond to a Notice of Infringement concerning either copyright or trademark. Given the substantial size of the damages award in this case, it is likely that more actions for contributory copyright and trademark infringement will be brought against web hosts located in the United States where the direct infringers are based overseas, making direct enforcement impracticable.

Trademarks / Anti-Cybersquatting Consumer Protection Act (ACPA)

Re-Registration of Domain Name Containing Another's Trademark Is Not Cybersquatting

by Rita Weeks

The U.S. Court of Appeals for the Ninth Circuit reversed a California district court's holding that re-registration of a domain name containing another's trademark violated the Anti-Cybersquatting Consumer Protection Act. *GoPets Ltd. v. Hise*, No. 08-56110 (9th Cir., Sept. 22, 2011) (Fletcher, J.).

Edward Hise registered the domain name gopets.com in 1999 and claimed to have developed a business plan for the associated website, which did not materialize. In 2004, GoPets was founded in Korea. The plaintiff created a game called GoPets that allowed virtual pets to move between the computers of registered users. The plaintiff applied to register "GoPets" with the U.S. Patent and Trademark Office in 2004, claiming a first use of the mark in U.S. commerce in August 2004; the mark was registered in 2006. Between 2004 and 2005, the plaintiff contacted the defendant in several unsuccessful attempts to buy the domain name. In 2006, the plaintiff filed an arbitration

complaint against the defendant under the Uniform Domain Name Dispute Resolution Policy, seeking transfer of the domain name. The UDRP provides for the transfer of a domain name to a party filing a UDRP complaint who shows that the domain name registrant has registered a domain name containing a trademark that is identical or confusingly similar to one in which the complainant has rights, has no rights or legitimate interests in the domain name and has registered and is used the domain name in bad faith. Ultimately, the arbitration panel found in favor of Hise. Noting that the domain name was confusingly similar to the plaintiff's GoPets mark, the panel nevertheless rejected transfer of the domain name because Hise had not registered it in bad faith, having registered it five years before the plaintiff was founded. Soon after the arbitration panel found in Hise's favor, he began to register several domain names incorporating "gopets" or similar terms. The parties continued to negotiate for the plaintiff's purchase of the domain name. Shortly after demanding a price of \$5 million, Wise transferred the domain name to his company, Defendant Digital Overture.

In 2007, the plaintiff filed a complaint against Wise alleging cybersquatting, service mark infringement, service mark dilution, false advertising and unfair competition under the Lanham Act based upon defendants' registration and use of gopets.com. The complaint was amended to add claims based upon defendants' registration of many other gopets-formative domain names that plaintiff learned of during discovery. The district court granted summary judgment for plaintiff on its cybersquatting and Lanham Act claims.

The 9th Circuit reversed. In the lower court proceedings, the plaintiff acknowledged that the domain name gopets.com was not "identical or confusingly similar" to a "protected" mark when defendant Hise registered it in 1999, as the plaintiff was not yet in existence. The plaintiff argued, however, and the district court agreed, that the term "registration" in the ACPA includes re-registrations as well as initial registrations. Thus, when Hise transferred gopets.com to Defendant Digital Overture in 2006, that "re-registration" of the domain name violated the ACPA because Plaintiff's GoPets mark was distinctive at that time.

The 9th Circuit rejected the plaintiff's reasoning, explaining that because Hise did not violate the ACPA when he registered the domain name in 1999, he could have retained his rights in the domain name indefinitely if he had maintained in the registration in his own name. And, there was no basis in the ACPA, the Court determined, that a right that belongs to an initial registrant of a currently registered domain name is lost when that name is transferred to another owner. Therefore, Defendant Digital Overture's "re-registration" of the gopets.com domain name did not violate the ACPA. Concerning the additional gopets-formative domain names that were registered in later years, however, the 9th Circuit affirmed the district court's finding that the defendant had violated the ACPA.

Trademark / Distinctiveness

“Universal Night Sight” Is a Descriptive Trademark

by Jeremy T. Elman

Addressing the issue of the descriptiveness of the trademark “Universal Night Sight,” the U.S. Court of Appeals for the Eleventh Circuit affirmed the district court’s holding that the trademark was descriptive and lacked secondary meaning, thus preventing any rights to sue for trademark infringement. *Knights Armament Co. v. Optical Systems Tech., Inc.*, Case No. 09-14480 (11th Cir., Sept. 2, 2011) (Hill, J.).

The parties dispute the ownership of two trademarks used in the manufacturing and marketing of clip-on night vision devices: Universal Night Sight and UNS. The parties were originally partners in developing, manufacturing and marketing of these night vision devices, but had a falling out. Knights Armament was the original manufacturer and contracted with Optical Systems Technology, Inc. (OSTI) to market and distribute the products. After the falling out, the parties sued each other for trademark infringement and trade secret misappropriation, among other counts. It was undisputed that the defendant was the senior user of the marks. The district court, after a bench trial, found that the plaintiff did not infringe the defendant’s trademarks because the court found that the marks were merely descriptive and had not achieved secondary meaning. The district court also granted summary judgment for the plaintiff against the defendant’s counterclaims of trade-secret misappropriation based on the running of the statute of limitations. Both parties appealed.

The 11th Circuit affirmed. Concerning the trademark issues on appeal, the 11th Circuit held that Universal Night Sight and UNS were used interchangeably and not independent marks. The court held that the relevant community (military and government purchasers of night vision products) can readily perceive the nature of the product, that is, having “night sight” or ability to see at night, without the consumers having to use his or her imagination. Thus, “Night Sight” was a descriptive term used to refer to goods that enable snipers to observe targets at night. The court found that the addition of the word “universal” did not distinguish the overall mark. The court then determined that the trademark had not acquired secondary meaning, because there was no indication that the trademark belonged to the defendant and not the plaintiff, so the consumers had no reason to associate the mark with either company. The defendant therefore could not prevail on its trademark infringement claims.

Concerning the defendant’s trade-secret misappropriation issues, the 11th Circuit held that the defendant did not bring its claims within the three year statute of limitations of the Florida Uniform Trade Secrets Act. The defendant argued that it had only heard rumors of the misappropriation, but that no concrete evidence had triggered the running of the statute. The court noted, but made no holding, that other circuits have typically found that suspicions and concerns regarding trade-secret misappropriation were insufficient to trigger the running of the statute. The court

determined, however, that the defendant had admitted during discovery that it was aware of the trade-secret misappropriation more than three years prior to filing the counterclaims, and thus held the claims barred.

Trademarks / Concurrent Use

This BUD's for Both of Us: Court of Justice of the European Union Considers Effect of Honest Concurrent Use in BUDWEISER Reference

by Désirée Fields

In a reference from the UK Court of Appeal in this long-running dispute between Anheuser-Busch and Budvar, the Court of Justice of the European Union has ruled that both parties can continue to use the trademark BUDWEISER in the United Kingdom. In light of the fact that there had been a long period of honest concurrent use and that UK consumers were aware of the difference between the respective parties' beers, the CJEU found that Budvar's use of its registered mark did not have any adverse effect on Anheuser-Busch's registration, which was a prerequisite for granting a declaration of invalidity under Article 4(1)(a) of the Community Trademark Directive (89/104/EEC, now replaced by 2008/95/EC). *Budějovický Budvar, národní podnik v. Anheuser-Busch, Inc.*, Case C-482/09 (CJEU, Sept. 22, 2011).

Budvar and Anheuser-Busch have used the marks BUDWEISER and formatives thereof in the United Kingdom since 1973 and 1974, respectively. In December 1979, Anheuser-Busch applied to register BUDWEISER as a UK trademark. Budvar opposed the application before submitting its own application in June 1989, which Anheuser-Busch opposed. The Court of Appeal dismissed the oppositions in February 2000, holding that both parties could register and use the BUDWEISER trademark under the "honest concurrent use" principle. Both Budvar and Anheuser-Busch obtained registrations for the mark BUDWEISER on May 19, 2000.

On May 18, 2005, *i.e.*, one day before the expiry of the five-year period of acquiescence prescribed in Article 9(1) of the Community Trademark Directive, Anheuser-Busch brought an invalidity action against Budvar's mark, claiming that Anheuser-Busch's mark was an earlier trademark. The UK Registry declared Budvar's mark invalid. Budvar's appeal to the High Court was unsuccessful.

Budvar appealed to the Court of Appeal, which referred questions to the CJEU for a preliminary ruling concerning the meaning of "acquiescence" and, in particular, whether a trademark proprietor was required to have his trademark registered before being able to "acquiesce" in the use by another of an identical or similar mark. The court also sought guidance on exactly when the period of "five successive years" to which Article 9 refers commenced and whether Article 4(1)(a) applied so as to enable the proprietor of an earlier mark to prevail even where there had been a long period of honest concurrent use of two identical trademarks for identical goods.

Considering the ordinary meaning of the word “acquiescence,” the CJEU held that “acquiescence” does not have the same meaning as the word “consent.” Accordingly, the proprietor of an earlier trademark could not be held to have acquiesced in the long and well-established honest use, of which he has long been aware, by a proprietor of a later identical trademark if he was not in any position to oppose that use. The CJEU held that both parties had “acquiesced” in the use by the other of the BUDWEISER mark in the United Kingdom for more than 30 years.

The CJEU further held that registration of the earlier mark was not a prerequisite for the five-year limitation period in consequence of acquiescence to commence. For the period to begin running, the later mark had to be registered in good faith and had to be used and the owner of the earlier mark had to be aware of its registration and use.

Concerning the application of Article 4(1)(a), the court noted that each party had been marketing their beers in the United Kingdom under the BUDWEISER mark for almost 30 years before the marks were registered, both parties were authorized to register jointly and concurrently their marks following the Court of Appeals’ judgment and both had used their marks in good faith. Although the names were identical, given the differences in taste, price and get-up, consumers were well aware of the difference between the beers and respective parties. Therefore, the CJEU said, Article 4(1)(a) had to be interpreted as meaning that, in circumstances such as these (which the CJEU remarked were “exceptional”), a long period of honest concurrent use of two identical trademarks designating identical products neither had, nor was liable to have, an adverse effect on the essential function of the trademark, which was to guarantee to consumers the origin of the goods or services. If there was any dishonesty associated with the use of the BUDWEISER marks in the future, the CJEU held that such a situation could, if necessary, be examined in light of the rules relating to unfair competition.

Practice Note: The CJEU’s ruling is perhaps of little surprise given the “exceptional” period of honest concurrent use. It remains to be seen whether this decision will find wider application in future cases.

Trademarks / Infringement

Court of Justice of the European Union Provides Further Guidance on Circumstances in which Keyword Advertising Constitutes Trademark Infringement

by Désirée Fields

The Court of Justice of the European Union has provided further guidance on circumstances in which use of a registered trademark as a keyword in internet advertising by a third party advertiser may constitute trademark infringement. [\(1\) *Interflora Inc. \(2\) *Interflora British Unit v. \(1\) Marks & Spencer plc \(2\) *Flowers Direct Online Ltd*, Case C-323/09 \(CJEU September 22, 2011\).**](#)

Marks & Spencer (M&S), a major UK retailer that provides a flower delivery service in competition with Interflora, selected as keywords the word “Interflora” and variants thereof. When internet users entered the word “Interflora” or one of those variants in the Google internet search engine, an M&S advertisement appeared in the form of a sponsored link. Interflora issued UK proceedings against M&S for trademark infringement. The UK court referred a number of questions to the CJEU for a preliminary ruling concerning the scope of Community Trademark Regulation No. 40/94/EEC (now replaced by 207/2009/EC) and the Community Trademark Directive No 89/104/EEC (now replaced by 2008/95/EC).

Referring to the CJEU’s previous decision in *Google France and Google* (Joined Cases C-236/08 to C-238/08 [2010], ECR I-2417), the CJEU found that a trademark owner was entitled to prevent a competitor from using a keyword identical to a trademark to advertise goods or services that are identical to those for which the trademark is registered without the trademark owner’s consent if such use is liable to have an adverse effect on one of the functions of the trademark. Such use would adversely affect the trademark’s function of indicating origin if the advertising triggered by the keyword did not enable reasonably well-informed and reasonably observant internet users to ascertain whether the goods or services advertised originate from the trademark owner or an undertaking economically linked to that owner or if internet users could determine as such only with great difficulty.

The CJEU further found that such use would not adversely affect the trademark’s advertising function in the context of an internet referencing service having the same characteristics as the service at issue in the proceedings and that such use adversely affected the trademark’s investment function if it substantially interfered with the trademark owner’s use of its trademark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty. However, the mere fact that keyword use would lead some consumers to switch to a competitor’s goods was not itself a basis for finding that the investment function of a trademark was adversely affected. It was for the national court to determine whether M&S’s use of a sign identical to the INTERFLORA trademark jeopardized the maintenance by Interflora of a reputation capable of attracting consumers and retaining their loyalty.

Concerning the question of extended protection, the CJEU confirmed that a trademark owner could prevent third-party use of a trademark as a keyword if the use complained of could be regarded as taking unfair advantage of the distinctive character or repute of the trademark (free-riding) or where the advertising was detrimental to that distinctive character (dilution) or repute (tarnishment). By way of example, the CJEU found that keyword advertising would be detrimental to the distinctive character of a trademark with a reputation where it contributed to turning the trademark into a generic term. It was for the national court to determine whether the selection of signs corresponding to the trademark INTERFLORA as keywords had such an impact on the market for flower-delivery services that the word “Interflora” had come to designate, in the consumer’s mind, any flower-delivery service.

Concerning taking unfair advantage, the CJEU found that a trademark owner could not prevent third parties from using trademarks in keyword advertising if they were merely putting forward alternative goods or services, were not offering a mere imitation of the trademark owner's goods and services and were not causing dilution or tarnishment, or adversely affecting the functions of the trademark, as this fell within the scope of free competition.

Practice Note: The judgment confirms previous principles expounded by the CJEU while adding an extra dimension by stating that keyword use may be prevented by a trademark owner if it substantially interferes with the owner's use of its trademark to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty. Ultimately, the outcome of the case will depend on the application of these principles to very specific facts when it is remitted to the UK court.

Copyright / Damages

Constitutional Challenge to (File Sharing) Damage Award Rebuffed

by Paul Devinsky

The U. S. Court of Appeals for the First Circuit was less sympathetic than the district court to a Boston College graduate student who was found to have used file sharing software to distribute copyrighted music, concluding that the district court erred in reducing the damage award based on due process concerns. *Sony BMG Music Entertainment v. Joel Tenenbaum*, Case Nos. 10-1833, -1947, -2052 (1st Cir. Sept. 16, 2011) (Lynch, J.).

Sony, along with several other record labels, sued a Boston University graduate student for sharing copyright songs using a peer to peer service such as Kazaa. After the judge found liability, a jury awarded the record companies damages of \$675,000 (in between the maximum statutory award of \$4.5 million and the minimum statutory award of \$22,500). The district court cut the award by 90 percent, down to \$67,500, noting that the student made no profit by his infringements and reasoning that Congress did not intend to impose the high statutory damages of the copyright law in such circumstances and that the high award was punitive, violated due process and was therefore unconstitutional. Both sides appealed.

Tenenbaum argued that that statutory award was arbitrary and unconstitutional. The United States interviewed and argued that the district court should have used common law remitter principles if it believed the award was too high—rather than impose a ruling based on constitutional principles.

The 1st Circuit, citing the principle of “constitutional avoidance” rejected Tenenbaum's argument and concluded that the district court erred by ruling on the constitutionality (under due process) of the jury award without first considering common law remitter principles. The 1st Circuit also wondered whether it was time for Congress to take a look at the

statutory damages provision of the Copyright Law, but ultimately vacated the reduction in damages, reinstated the jury award and remanded the case for consideration of the remitter issue.

Practice Note: The district court in this case was influenced by the actions of the record label in the earlier case in *Capital Records v. Thomas-Rasset* where, after remitter was granted to the defendant to reduce a \$1.5 million jury award, the record label opted for a new trial. Here, the district court opted to go straight to the constitutional issue.

Copyrights / Copyright Misuse

Apple's Software License Restrictions Not Misuse

by Elisabeth (Bess) Malis

The U.S. Court of Appeals for the Ninth Circuit affirmed a California district court's holding that Apple Inc.'s software license agreement limiting use of the Mac OS X operating system to Apple computers did not constitute copyright misuse. *Apple Inc. v. Psystar Corporation*, Case No. 10-15113 (9th Cir., Sept. 28, 2011) (Schroeder, J.).

Apple's Mac OS X operating system software is available to Mac users subject to a Software License Agreement that requires Mac OS X to be used exclusively on Apple-brand computers. Defendant Psystar Corporation began manufacturing personal computers in 2008 under the name "OpenMac" (which it later rebranded) and sold its computers with the Mac OS X system installed. Psystar also included an unopened copy of Mac OS X with each computer sold. Apple sued Psystar, asserting breach of the Mac OS X SLA and various infringement claims. Psystar argued that its use was permissible because it validly purchased copies of the software. Psystar also counterclaimed that Apple was engaging in copyright misuse by requiring that Mac OS X be used solely with Apple computers. The district court ruled in favor Psystar's copyright infringement and permanently enjoined Psystar from manufacturing or selling computers that contain Apple's Mac OS X software. The district court also held that the restrictions in Apple's Mac OS X license agreement did not constitute copyright misuse. Psystar appealed.

The 9th Circuit affirmed. Acknowledging the "well-established" distinction between software licenses versus sales, the 9th Circuit rejected Psystar's argument that its lawful purchase of Mac OS X justified its distribution of Mac OS X under the first sale doctrine. The court underscored that Psystar was a mere licensee of the software, not an owner, and that licensing agreements such as the Mac OS X license agreement may facilitate a copyright owner's ability to control the use of its copyrighted material so long as competition is not stifled in the process. While Apple's license agreement restricted the use of the MAC OS X to Apple hardware, it did not prevent Psystar or anyone else from developing competing computer hardware or software. Accordingly, the 9th Circuit rejected Psystar's copyright misuse claim, concluding software license did not impermissibly extend the reach of its copyright in Mac OS X, and upheld the district court's permanent injunction.

Copyrights / Jurisdiction

Federal Question Jurisdiction Exists If Copyright Authorship, Rather than Ownership, Is in Dispute

by Shirin Tefagh

Addressing for the first time whether determination of co-authorship of copyrighted works requires application of the Copyright Act and thus results in federal subject matter jurisdiction, the U.S. Court of Appeals for the Sixth Circuit answered in the affirmative, holding that a determination of copyright ownership based upon a disputed allegation of co-authorship presents a federal question that arises under, and must be determined according to, the Copyright Act. *Severe Records, LLC v. Rich*, Case No. 09-6175 (6th Cir., Sep. 23, 2011) (Kennedy, J).

Plaintiff Chris Sevier collaborated with defendant Shanna Crooks on two songs, “Better” and “Watching Me Leave.” The extent of the collaboration was in dispute. Crooks used the recording of the songs on a compilation she shopped to defendants John Rich, his publishing companies and management company defendant Muzik Mafia LLC. After signing with these entities, Crooks assigned her copyright ownership in the two songs to defendant Rich and his publishing company. Plaintiff also sought to commercially benefit from the songs by releasing them through several online music retailers. Subsequently, the relationship between Sevier and defendant Crooks collapsed. The defendants began sending cease-and-desist letters to Sevier in which they accused Sevier of copyright infringement based on his alleged unauthorized distribution of the songs, including selling “bootleg” digital downloads. The plaintiff filed a complaint against the defendants for several claims of copyright infringement and seeking a declaratory judgment that the plaintiff had not infringed the copyrighted songs and that defendant Crook was not an author of the songs. The district court dismissed the plaintiff’s copyright infringement claims on the basis that there was no unauthorized distribution by defendant Crooks. The court dismissed plaintiff’s declaratory judgment claim concerning copyright ownership finding that it was governed by state law and thus does not require the application of the Copyright Act.

On appeal, the 6th Circuit upheld the district court’s finding of no infringement by the defendants. Although the court recognized that there was conflicting evidence concerning whether Sevier was the sole author of the copyrighted song at issue on appeal, even assuming that Sevier was the sole author, the plaintiff’s complaint did not allege any claim of improper copying by the defendants.

Concerning the declaratory judgment claim, the court reversed the lower court’s holding that the ownership dispute did not arise under the Copyright Act. Explaining that the issue required a court to “determine whether or not the cause of action anticipated by the declaratory judgment plaintiff arises under federal law,” the court found that the defendants’ cease and desist letters suggested that the dispute concerned authorship of the songs, rather than ownership, making the issue one of copyright infringement. Whereas copyright ownership disputes arising purely

from contractual rights arise under state law, lacking federal court jurisdiction, the court explained that ownership disputes arising from issues of statutory co-authorship arise directly from the Copyright Act. Therefore, where the question before the court is one of authorship, such dispute arises under federal law and is properly justiciable in federal court. Accordingly, the court found that the district court had abused its discretion in dismissing the declaratory judgment claim and remanded the case to the district court for further consideration of that claim.

Copyrights / First Sale Doctrine

First Sale Doctrine of U.S. Copyright Law Does Not Apply to Foreign-Made Works

by Rose Whelan

Considering once again the applicability of the first sale doctrine of the U.S. Copyright Act to goods manufactured abroad, the U.S. Court of Appeals for Second Circuit followed its recent holding in *John Wiley & Sons, Inc. v. Kirtsaeng* (see *IP Update*, Vol. 14, No. 9), concluding that the first sale defense does not apply to goods manufactured outside the United States. *Pearson Education, Inc. v. Yadav, et al.*, 10-2610-cv (2d. Cir., Sept. 19, 2011) (summary order).

Defendants Kumar and Dart Air, appealed from the district court's decision, which found that they infringed copyrighted works owned by plaintiff's Pearson Education, John Wiley & Sons, Cengage Learning and McGraw-Hill Companies. The district court also held the defendants liable for about \$285,000 in damages. The defendants argued on appeal that the district court erred in failing to recognize that the first sale doctrine shields the purchaser of a copyrighted work outside the United States from an infringement claim based on the importation and resale of the work in the United States.

The 2d Circuit recently rejected a similar argument in *Kirtsaeng*. The first sale doctrine in U.S. copyright law, codified at 17 U.S.C. §109(a), permits the owner of a work "lawfully made under this title" to resell it without limitations imposed by the copyright holder. In *Kirtsaeng*, the court addressed a conflict between the first sale defense and 17 U.S.C. §602 (a)(1), which provides that importation, without the owner's permission, of a copyrighted work acquired abroad is an act of infringement.

The 2d Circuit in *Kirtsaeng* acknowledged the ambiguity in the statutory language of the Copyright Act, remarking that §109(a)'s language specifying that it applied to works "lawfully made under this title" neither compelled or foreclosed an application of the first sale doctrine to works manufactured abroad. However, the court looked to §602 (a)(1) in conjunction with the Supreme Court's guidance in *Quality King Distributors* holding that the first sale defense does not apply to products manufactured abroad.

In *Pearson Education*, the panel, which consisted of Judges McLaughlin, Calabresi and Raggi, did not expound on the merits of *Kirtsaeng*. Rather it issued a summary order noting that judgment of the district court must be affirmed because the panel is bound by the court's decision in *Kirtsaeng*, unless it were to be reversed by the Supreme Court or the 2d Circuit *en banc*.

Practice Note: Further consideration of this issue appears likely, as the Supreme Court in *Wholesale Corp. v. Omega, S.A.* recently considered this issue in an appeal from the U.S. Court of Appeals for the Ninth Circuit. However, no opinion issued because the Supreme Court divided 4-4 after Justice Kagan recused herself.

Trade Secrets / ITC

Section 337 Violation May Be Based on Trade Secret Misappropriation Occurring Abroad

by Christopher G. Paulraj

By a 2-1 majority, the U.S. Court of Appeals for the Federal Circuit held that the U.S. International Trade Commission (ITC) properly found a violation of § 337 based on a trade secret misappropriation claim where the alleged improper disclosure occurred entirely within a foreign country. *TianRui Group Co. Ltd. v. Int'l Trade Comm'n*, Case No. 10-1395 (Fed. Cir., Oct. 11, 2011) (Bryson, J.) (Moore, J., dissenting).

In this appeal from an ITC determination that the respondents violated § 337 by virtue of misappropriating certain trade secrets relating to the manufacturing of cast-steel railway wheels (the ABC process), the alleged misappropriation involved a Chinese company poaching several employees from a Chinese competitor. The poached employees were knowledgeable about complainant's ABC process and were under an obligation not to disclose that secret process. The Federal Circuit first addressed what law should be used to determine whether there has been a § 337 violation in investigations involving an allegation of trade-secret misappropriation and concluded that "the issue is one of federal law, and should be decided under a uniform federal standard," rather than by reference to the trade-secret laws of one particular state.

The panel majority rejected the argument that § 337 was inapposite under these circumstances because the alleged confidential information was disclosed entirely within China. The majority found that the presumption against the extraterritorial application of U.S. law did not apply to § 337 because the statute is clearly intended to address an inherently international transaction, *i.e.*, importation. The majority also found that the ITC had not applied § 337 to sanction purely extraterritorial conduct because "the foreign 'unfair' activity at issue is relevant only to the extent that it results in the importation of goods into this country causing domestic injury."

The majority also rejected the respondents' alternative grounds for appeal, *i.e.*, that in trade-secrets cases the domestic industry must practice the misappropriated trade secret in order for the ITC to be authorized to grant relief. The majority held that unlike the domestic industry requirement for § 337 investigations based on statutory intellectual property rights (such as patents, copyrights and registered trademarks), the general provision in the statute relating to "unfair methods of competition and unfair acts in the importation of articles" only requires that the unfair practices threaten to "destroy or substantially injure" a domestic industry, but does not require that the domestic industry relate to the intellectual property involved in the investigation. Accordingly, even though the complainant no longer practiced the ABC process that respondents were found to have misappropriated, the majority concluded that the ITC did not err in defining the domestic industry in this case, because the evidence established that the imported wheels could directly compete with steel wheels domestically produced by the trade-secret owner.

In dissent, Judge Moore maintained that § 337 cannot apply if, as in this case, the alleged trade secret misappropriation took place entirely outside of the United States. Judge Moore contrasted the provision in the statute relating to "unfair acts" with a separate provision in the statute relating infringement of a process patent abroad. Unlike the process patent provision of § 337, the dissent found that the generic provision in the statute upon which a trade-secret misappropriation claim could be based was not a clear indication by Congress to authorize the extraterritorial application of U.S. law.

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