

INTELLECTUAL PROPERTY LAW UPDATE 2008

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PATENT LAW UPDATE

I. Introduction

Patent law grants the patent holder, during the term of the patent, the right to exclude others from making, using, selling, and offering to sell a patented invention within or importing it into the United States.¹ “A patent can be infringed in three ways: direct infringement, inducement of infringement, and contributory infringement.”² A patent owner bears the burden of proving infringement by a preponderance of the evidence and “this burden extends to infringement under the doctrine of equivalents as well as literal infringement.”³

II. Basics of Patent Infringement

A. Direct Infringement

The claims of an unexpired U.S. patent define the scope of the property rights of the patent owner. If subject matter is disclosed in a patent, but does not appear in the claims or in a continuing application, the disclosed, unclaimed subject matter is deemed dedicated to the public.⁴ An infringement analysis requires the Court to first determine

¹ 35 U.S.C. § 271; and *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 477-78 (1974).

² *Fuji Mach. Mfg. Co. v. Hover-Davis, Inc.*, 936 F. Supp. 93, 94 (D.N.Y. 1996); and 35 USC § 271 (a)-(c).

³ *Lemelson v. U.S.*, 752 F.2d 1538, 1547 (Fed. Cir. 1985).

⁴ Patent Law – A Practitioner’s Guide § 9:2.

the meaning and scope of the claims asserted as infringed and then to compare the construed claims to the accused device.⁵

Direct infringement requires a transgression of 35 U.S.C. §271(a). To prove direct infringement, a patentee must either point to specific instances of direct infringement or show that the accused device necessarily infringes the patent in suit.⁶ Additionally, hypothetical instances of direct infringement are insufficient to establish vicarious liability or indirect infringement.⁷ Direct infringement can be a literal violation of the claims of the patent or by equivalents.⁸

One may infringe by making without selling or using, using without making or selling, and selling without making or using. Under some circumstances one may make and use a product or process without authority for experimental or other nonprofit purposes. Use of a patented product on a vessel, aircraft or vehicle temporarily present in the United States does not constitute infringement. One who purchases a patented product from one with authority to sell it for use in the United States may use and resell that product free of the control of the patent owner. Such a purchaser may make repairs on the product necessary for continued use but may not reconstruct a completely spent product.⁹ An accused device may be also found to infringe a product claim “if it is

⁵ *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995).

⁶ *ACCO Brands, Inc. v. ABA Locks Mfr. Co., Ltd.*, 501 F.3d 1307, 1313 (Fed. Cir. 2007).

⁷ *Id.*

⁸ *Lemelson* at 1547

⁹ Chisum on Patents § 16.01.

reasonably capable of satisfying the claim limitations, even though it may also be capable of non-infringing modes of operation.”¹⁰

There are three rules to be considered with direct or literal infringement. According to the Rule of Exactness an infringer will literally infringe a claim in an unexpired U.S. patent if the infringer, in the United States, copies the invention "exactly" as it is recited in the claim.¹¹ According to the Rule of Addition, the infringer will literally infringe a claim in an unexpired U.S. patent if the infringer makes, uses, or sells in the United States an apparatus, composition, or process having all the elements, compounds, or steps, respectively, specified in a patent claim exclusive of added elements beyond the scope of the claim.¹² According to the Rule of Omission, an alleged infringer will not literally infringe the plaintiff's claim in an unexpired U.S. patent if they omit at least one element, compound, or step recited in a patent claim.¹³

Two doctrines assist the court in determining literal infringement (1) the doctrine of equivalents and (2) file wrapper estoppel. The test for the Doctrine of Equivalents, promulgated in *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, is whether the defendant's substitution "performs substantially the same function in substantially the same way to obtain [substantially] the same result."¹⁴ Under file wrapper or prosecution history estoppel, a patent owner may not recapture, through the doctrine of equivalents, subject matter deliberately surrendered during the prosecution of the patent.¹⁵

¹⁰ *Hilgraeve Corp. v. Symantec Corp.*, 265 F.3d 1336, 1343 (Fed. Cir. 2001)

¹¹ Patent Law – A Practitioner's Guide § 10:2.1.

¹² *Id* at § 10:2.2.

¹³ *Id* at § 10:2.3.

¹⁴ *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605 (1950).

¹⁵ Chisum on Patents § 18.01.

B. Indirect Infringement – Induced and Contributory

Induced infringement is described at 35 USC § 271(b). It covers the range of actions by which one may cause, urge, encourage, or aid another to infringe a patent. The inducer must specifically intend to induce direct infringement. In requiring knowledge (35 USC § 271(c)) and intent (35 USC § 271(b)), the indirect infringement provisions differ from the direct infringement provision (35 USC § 271(a)), which is interpreted as not requiring knowledge or intent on the part of an accused infringer.¹⁶

The sale of a component of a patented machine, manufacture, combination, or composition or of a material or apparatus for use in practicing a patented process is contributory infringement. The seller is liable as a contributory infringer if he knows that the component is "especially made or especially adapted for use in an infringement of such patent" and if the component is "not a staple article or commodity of commerce suitable for substantial noninfringing use."¹⁷

III. Cases You Can't Afford To Miss

This past year and a half was an exceptionally busy year for both the Federal Circuit and the Supreme Court. Numerous cases were decided which set precedent in patent law. The Supreme Court appears to have taken a more proactive stance in patent law and has begun to reassert itself in this arena, much to the chagrin of the Federal Circuit. In this section we will survey the major patent decisions of late 2006 through 2007 and take a look at the docket for 2008.

¹⁶ Chisum on Patents § 17.01.

¹⁷ Chisum on Patents § 17.01.

eBay v. MercExchange (Supreme Court 2006)

In *eBay*, Supreme Court strongly reiterated that there is no right to an automatic grant of injunctive relief in a patent action. In a dispute arising under the Patent Act, a court must apply the traditional four-factor test that was applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff.¹⁸ In order to obtain an injunction against an infringer, the patentee or assignee must show that (a) the plaintiff has suffered an irreparable injury; (b) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (c) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (d) the public interest would not be disserved by a permanent injunction. The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, thus is reviewable on appeal for an abuse of discretion.

MIT v Abacus Software (Fed. Cir. 2006)

In the MIT case, the Federal Circuit took up the issue of what language invokes 35 USC §112(6). The phrase at issue was "colorant selection mechanism" for receiving and selecting certain signals. The presumption at the time was that when the word "means" is not used, the claim phrase is presumed not to be a means-plus-function claim. However, the Federal Circuit held in MIT that "mechanism" was simply being substituted for means and that the absence of the word "means" in a claim did not imply

¹⁸ *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006)

that the presumption wasn't rebutted because the phrase is functional and does not provide sufficient structure.¹⁹

MedImmune, Inc. v. Genentech, Inc. (Supreme Court 2007)

The Supreme Court began the year by overturning the Federal Circuit with a decision in *MedImmune, Inc. v. Genentech, Inc.*²⁰ *MedImmune* overturned a contrary rule adopted by Federal Circuit²¹ on the specific question of whether a licensee had standing to seek a declaratory judgment of patent invalidity when it continued to honor the license by paying the agreed-upon royalties. The Court held that “[p]romising to pay royalties on patents that have not been held invalid does not amount to a promise *not to seek* a holding of their invalidity.”²²

Microsoft v. AT&T (Supreme Court 2007)

The Supreme Court set aside a finding of infringement against Microsoft under 35 USC 271(f) in an appeal from the CAFC.²³ AT&T had argued that software in the abstract, not just a particular copy of software, qualified as a component under 35 USC § 271(f) because it is was copyable machine readable code and therefore modular in nature, unlike a blueprint. However, the Supreme Court held that 271(f) did not cover abstract software code in that it was an idea without physical embodiment and as such did not fit within § 271(f)'s categorization of components amenable to combination. Therefore

¹⁹ *Massachusetts Institute of Technology v. Abacus Software*, 462 F.3d 1344 (Fed. Cir. 2006)

²⁰ *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (U.S. 2007)

²¹ *Gen-Probe Inc. v. Vysis, Inc.* 359 F.3d 1376 (Fed. Cir. 2004).

²² *MedImmune* at 776.

²³ *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007)

object code on exported master discs was not a component for purposes of § 271(f) liability.

KSR International Co. v. Teleflex Inc. (Supreme Court 2007)

In *KSR*, the Court criticized rigid applications of the Federal Circuit's "TSM" (teaching, suggestion, motivation) test for evaluating such inventions, but it did not reject the test entirely. It reemphasized the *Graham* factors as the standard and marginalized the usefulness of TSM.²⁴ The Court held that (1) courts and patent examiners are not restricted to look only to the problem the patentee was trying to solve, (2) the underlying court erred in assuming that a person of ordinary skill in the art attempting to solve a problem will be led only to those prior art elements designed to solve the same problem, and (3) the court erred in concluding that a patent claim cannot be proved obvious merely by showing that the combination of elements was obvious to try.²⁵

Dippin' Dots v. Mosey et al. (Fed. Cir. 2007)

In the *Dippin Dots* case, the Federal Circuit explored the use of "comprising" in claims describing steps. The court held that the presumption raised by the term "comprising" did not reach into each of the six tips of the patent claim to render every word and phrase therein open-ended.²⁶ The patent holders narrowly defined the claim term "beads" as requiring a smooth, spherical appearance. The court limited the claims scope to exclude processes that produced some irregularly shaped particles, and therefore

²⁴ *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966)

²⁵ *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007)

²⁶ *Dippin' Dots, Inc. v. Mosey et al.*, 476 F.3d 1337 (Fed. Cir. 2007).

the defendants process (as well as Dippin' Dots) did not fall under the claims of the patent. Claim 1 appears below.

1. A method of preparing and storing a free-flowing, frozen alimentary dairy product, **comprising** the steps of:

preparing an alimentary composition for freezing;

dripping said alimentary composition into a freezing chamber;

freezing said dripping alimentary composition into **beads**;

storing said **beads** at a temperature at least as low as -20° F. so as to maintain said **beads** free-flowing for an extended period of time;

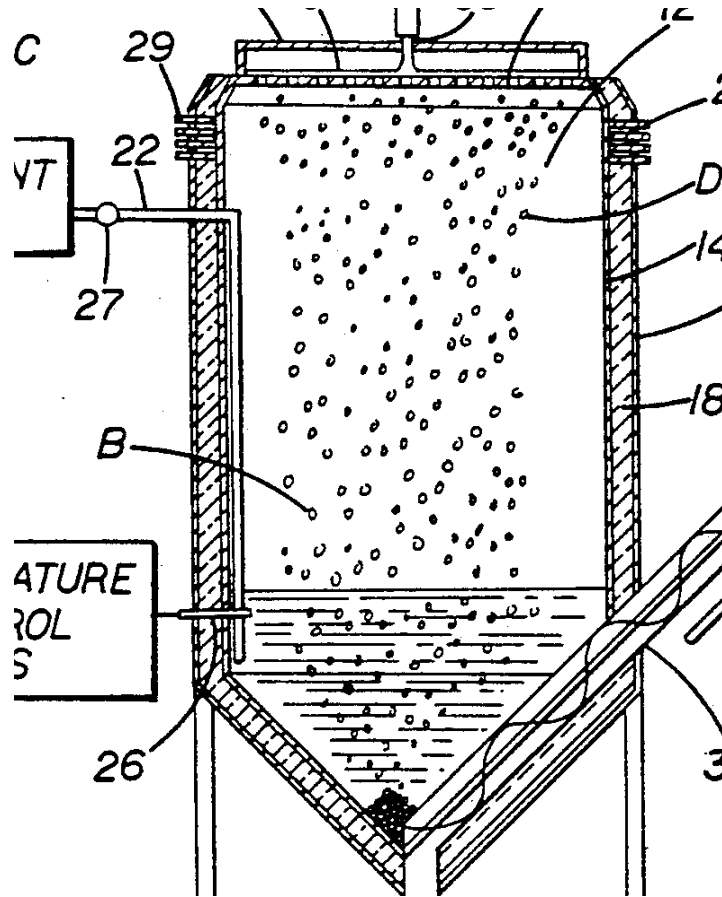
bringing said **beads** to a temperature between substantially -10° F. and -20° F. prior to serving; and

serving said **beads** for consumption at a temperature between substantially -10° F. and -20° F. so that said **beads** are free flowing when served.

The term “beads” was held to be defined in US 5,126,156 at column 5, lines 22-23 and is depicted in its accompanying Fig. 1; see below.

the bottom of the chamber. As a result of the temperature within the range of -260° to -320° F. (for liquid N₂), rapid freezing of the droplets of composition occurs. The small beads B that are produced contain only relatively small ice crystals. The beads B have a smooth, spherical appearance.

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AdvanceME v. RapidPay (E.D. Tex. 2007)

Joint infringement has resurfaced again in the patent-friendly Eastern District of Texas. The Court held that, despite not having committed an act of infringement itself, a defendant can still be held liable for direct infringement when it uses a third party to complete the act of infringement.²⁷ There must be a sufficient connection to, or control of, the third party completing the act of infringement. The Court further held that it was not necessary to establish that the third parties were acting in concert or to show agency, it is enough to demonstrate a contractual relationship.

²⁷ *AdvanceME Inc. v. RapidPay, LLC*, 509 F. Supp. 2d 593 (E.D.TX 2007).

In re Seagate (Fed. Cir 2007)

The Federal Circuit reversed course and abandoned the affirmative duties articulated in *Underwater Devices*²⁸, which are an affirmative duty of due care including the affirmative obligation to obtain an opinion of patent counsel to avoid a charge of willfulness in an allegation of patent infringement.²⁹ The Federal Circuit also held that an accused infringer's acts of asserting an advice of counsel defense did not waive the attorney-client privilege or work product protection between the accused infringer and trial counsel.

Arminak v. Saint-Gobain Calmer (Fed. Cir. 2007)

In *Arminak*, the Federal Circuit held that the focus in the ordinary observer test for design patent infringement is on the actual product that is presented for purchase and the ordinary purchaser of the product.³⁰ The ordinary observer test requires the comparing of the accused and designs from all views included in the design patent, not simply those views a retail customer seeking to buy will likely see when viewing a product at the point-of-sale.

BMC v. Paymentech (Fed. Cir. 2007)

The Federal Circuit took up the issue of joint infringement in *BMC*. The Court noted that when a party only "participates in or encourages infringement" the usual

²⁸ *Underwater Devices Inc.v. Morrison-Knudson Co.*, 717 F.2d 1380 (Fed. Cir. 1983).

²⁹ *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007)

³⁰ *Arminak v. Saint-Gobain Calmer*, 501 F.3d 1314 (Fed. Cir. 2007)

recourse is under indirect infringement.³¹ A finding of indirect infringement requires that "some party amongst the accused actors has committed the entire act of direct infringement."³² In this case, no party had committed the entire act, and therefore an allegation of joint infringement is inappropriate.

Elbex v. Sensormatic (Fed. Cir. 2007)

On November 29, 2007, the Federal Circuit held that the lower court's decision that a claim term was limited by the prosecution history was erroneous. The Federal Circuit could not find a clear and unmistakable disclaimer and believed that the lower court failed to read the alleged disclaimer in light of the entire prosecution history and merely read the statement in isolation.³³

Egyptian Goddess v. Swisa, Inc. (Fed. Cir. en Banc, No. 2006-1562)

In a case decided on August 29, 2007, the Federal Circuit affirmed the Northern District of Texas' granting of summary judgment of non-infringement of Egyptian Goddess' design patent covering an ornamental fingernail buffer design. (U.S. Design Patent No. 467,389). The Federal Circuit held that a finding of design patent infringement required two separate infringement tests. Satisfaction of the *ordinary observer test* requires proof that an "ordinary observer" would think the accused design as a whole is substantially the same as the patented design — thus creating some customer confusion. Satisfaction of the *points of novelty test* requires proof that the

³¹ *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007).

³² See *BMC*, citing *Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1272 (Fed. Cir. 2004).

³³ *Elbex Video, Ltd. v. Sensormatic Elecs. Corp.*, 2007 U.S. App. LEXIS 27399 (Fed. Cir. 2007)

accused device incorporates the “points of novelty” that distinguish the patented design from the prior art.³⁴

The Federal Circuit agreed to an en banc rehearing on three specific questions presented.³⁵

1. Should "point of novelty" be a test for infringement of design patent?
2. If so, (a) should the court adopt the non-trivial advance test adopted by the panel majority in this case; (b) should the point of novelty test be part of the patentee's burden on infringement or should it be an available defense; (c) should a design patentee, in defining a point of novelty, be permitted to divide closely related or, ornamentally integrated features of the patented design to match features contained in an accused design; (d) should it be permissible to find more than one "point of novelty" in a patented design; and (e) should the overall appearance of a design be permitted to be a point of novelty? *See Lawman Armor Corp. v. Winner Int'l, LLC*, 449 F.3d 1190 (Fed. Cir. 2006).
3. Should claim construction apply to design patents, and, if so, what role should that construction play in the infringement analysis? *See Elmer v. ICC Fabricating, Inc.*, 67 F.3d 1571, 1577 (Fed. Cir. 1995).

In re Ferguson (Fed. Cir., No. 2007-1232)

In an appeal from the BPAI, the Federal Circuit will directly address the issue of whether business method patents meet 35 USC § 101 requirements. In this instance, the

³⁴ *Egyptian Goddess, Inc. v. Swisa, Inc.*, 498 F.3d 1354 (Fed. Cir. 2007).

³⁵ *Egyptian Goddess, Inc. v. Swisa, Inc.*, 2007 U.S. App. LEXIS 27456 (Fed. Cir. 2007)

subject patent application³⁶ claimed a new method for marketing software. The applicant argued that his claims were within the scope of subject matter approved by the Federal Circuit's *State Street* decision. The BPAI held that the claims were directed to unpatentable "abstract ideas." Oral arguments were heard on December 5, 2007. The Board found that 35 USC § 101 requires that a claim either have a "useful, concrete, and tangible result" or "transform" something into a new physical state. Obviously, the BPAI felt that the Ferguson invention did neither. The following claims are at the heart of the argument:³⁷

³⁶ U.S. Patent Application 09/387,823.

³⁷ *In re Ferguson*, Appellees' Brief, Fed. Cir. Case No. 2007-1232.

1. A method of marketing a product, comprising:

developing a shared marketing force, said shared marketing force including at least marketing channels, which enable marketing a number of related products;

using said shared marketing force to market a plurality of different products that are made by a plurality of different autonomous producing company, so that different autonomous companies, having different ownerships, respectively produce said related products;

obtaining a share of total profits from each of said plurality of different autonomous producing companies in return for said using; and

obtaining an exclusive right to market each of said plurality of products in return for said using.

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24. A paradigm for marketing software, comprising:

a marketing company that markets software from a plurality of different independent and autonomous software companies, and carries out and pays for operations associated with marketing of software for all of said different independent and autonomous software companies, in return for a contingent share of a total income stream from marketing of the software from all of said software companies, while allowing all of said software companies to retain their autonomy.

Quanta v. LG Electronics (2008 US Lexis 4702)

LG is argued that the restrictions it placed in a negotiated patent license with Intel should be interpreted as not invoking patent exhaustion. The license expressly excluded Intel's customers and did not cover any customer product made by combining an Intel product with a non-Intel product. Intel sold its chips under an unrestricted license, despite the narrow restrictions under which the patents were licensed to Intel. The Federal Circuit essentially held that it was reasonable to assume that the consideration LG received for the patent licenses were related to the restricted license. The Court

believed that Intel knew what rights it had negotiated to receive and clearly understood what rights had been reserved by LG. LG is relied heavily on *Mallinckrodt* which held that restrictions on the post-sale use and enjoyment of a patented item is enforceable if it does not “venture beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason.”³⁸

The U.S. Supreme Court reversed the Federal Circuit and reaffirmed the *Univis* case that held that the sale of incomplete embodiments of a patented invention triggered patent exhaustion when “their only reasonable and intended use was to practice the patent” and “they embodied essential features of the patented invention.”³⁹

IV. The Patent Reform Act of 2007

A. Overview

In April of 2007, members from both houses of Congress and both major political parties jointly announced that the Patent Reform Act of 2007 would be introduced in identical forms in both the Senate (S. 1145) and the House of Representatives (H.R. 1908). The Act, if ratified, will drastically alter the landscape of patent law in the United States as well as become the first major reform of the patent laws in more than 50 years. The Federal Trade Commission and key members of Congress, driven by concerns about patent quality and excessive litigation, have been stubbornly pursuing the latest round of significant changes to US patent law since at least 2001.

³⁸ *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992)

³⁹ *Quanta v. LG Electronics*, 2008 US Lexis 4702 at 24 (June 2008), citing *United States v. Univis Lens Co.*, 316 U.S. 241 (U.S. 1942).

The latest legislation gained significant momentum from a report issued by the Federal Trade Commission in 2003 which stressed the balance between competition and patents and warned of the dangers to the economy if patentee rights were not curtailed⁴⁰. Many, if not most, patentees, led by the brand pharmaceutical industry, see the Act as a setback for patentees accustomed to the Federal Circuit's persistent support of patentees since its inception in 1982. High tech, led by Microsoft, views the Act as a major step to derailing patent trolls and in protecting products that are generally formed of a composite of tens to sometimes hundreds of patents. Whether or not the Act ultimately passes, it provides valuable insight into the future of patent law in the United States and the perceived problems facing the system from the perspective of big pharma and high tech.

B. Highlights of the Patent Reform Act of 2007

- **Apportionment.** Provides a statutory basis for calculation of patent damages in the context of a reasonable royalty.
- **First-to-File.** Brings the US patent system in line with the rest of the world by converting the United States system from “first-to-invent” to “first-to-file.”
- **Interlocutory Appeals.** The Federal Circuit is given jurisdiction over interlocutory appeals from district court claim construction rulings.
- **Prior Use Defense.** Expands the availability of the “prior use” defense.
- **Publication.** Requiring the publication of all patent applications 18 months after filing.

⁴⁰ See Federal Trade Comm'n, “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy,” <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (2003).

- **Post-Grant Review.** Providing for a post-grant review opportunity under which third parties could challenge the validity of a patent in a proceeding before the Patent and Trademark Office.
- **Tax Planning Patents** – These “business method” patents would be unpatentable under the revisions to 35 USC § 101.
- **Venue.** Patentees will be limited to bringing suit where either party resides or where the corporation has its principal place of business or was incorporated in an effort to eliminate “forum shopping” in plaintiff friendly jurisdictions.
- **Willfulness.** Limiting the circumstances under which an infringer could be held liable for willful infringement.

C. Substantive Discussion of The Patent Reform Act of 2007

The Act counters the pro-patentee stance of the Federal Circuit with a decidedly pro-defendant piece of legislation. The patentee-friendly Federal Circuit has decided many key patent cases that have given patentees key tools with which to protect and enforce their innovations. One of the first key cases decided was *Underwater Devices Inc. v. Morrison-Knudson Co.*, which held that the defendant had an affirmative duty to avoid infringement after receiving a notice of infringement from the patentee.⁴¹ Two key cases from 1989 were *State Indus., Inc. v. Mor-Flo Indus., Inc.* and *Richardson v. Suzuki Motor Co.* In *State Indus.*, the Federal Circuit held that the patentee could recover, as a reasonable royalty, an award that exceeded the infringer's profit on the infringing item.⁴² In *Richardson*, the Federal Circuit held that patentees who prevailed on infringement and validity enjoyed a presumption of irreparable harm entitling them to injunctive relief.⁴³ In 1990 the Federal Circuit held that patentees could sue infringers in any forum or personal jurisdiction was available.⁴⁴ Also in that year, the Federal Circuit decided the now infamous *State Street Bank & Trust Co.* case where it held that business methods were indeed patentable.⁴⁵

In 2006 and 2007 the Supreme Court regained an interest in patent law. Several major cases were decided which overturned the Federal Circuit. In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, the Supreme Court held that tying arrangements involving

⁴¹ *Underwater Devices Inc. v. Morrison-Knudson Co.*, 717 F.2d 1380 (Fed. Cir. 1980).

⁴² *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).

⁴³ *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989).

⁴⁴ *VE Holding Co., v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).

⁴⁵ *State Street Bank & Trust Co. v. Signature Financial Co.*, 149 F.3d 1368 (Fed. Cir. 1998).

patented products are not subject to a per se rule of illegality.⁴⁶ Next came *eBay*, where it was held that the grant of an injunction in patent cases is subject to traditional principles of equity.⁴⁷

In 2007 the Supreme Court gave no indication it was through overturning the Federal Circuit. In the *MedImmune* case it was held that a justiciable controversy existed or a patent licensee challenged the validity of the licensed patent even though continuing to make royalty payments, thus not in breach of the license agreement.⁴⁸ In *Microsoft* the Court held that a master disk used to make copies of software installed in infringing computers was not a component for the purposes of 35 USC § 271(f).⁴⁹ Last but not least, the Supreme Court waged a deliberate attack on the Federal Circuit's TSM test (teaching, suggestion or motivation) for obviousness. In *KSR* the Supreme Court held that TSM was not in the rule in establishing obviousness under 35 USC § 103, rather it was merely a cleverly crafted construct of the Federal Circuit to aid in determining obviousness but not a hard and fast rule to be applied to the exclusion of the traditional *Graham* factors.^{50, 51}

Specific Provisions of the Patent Reform Act

Apportionment of Damages in Patent Infringement Cases

⁴⁶ *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

⁴⁷ *eBay Inc. v. MercExchange, LLC.*, 126 S.Ct. 1837, 1841 (2006).

⁴⁸ *MedImmune Inc. v. Genentech, Inc.*, 127 S.Ct. 764, 777 (2007).

⁴⁹ *Microsoft Corp. v. AT&T Corp.*, 127 S.Ct. 1746, 1757 (2007).

⁵⁰ *KSR Intern. Co. v. Teleflex Inc.*, 127 S.Ct. 1727, 1739-41 (2007).

⁵¹ *Graham v. John Deere Co.*, 383 U.S. 1 (1966)

A proposed revision to 35 USC § 284, apportionment would reduce royalty damage awards to successful plaintiffs. At the discretion of the court, juries will be asked to calculate a reasonable royalty based upon either (a) the relationship of damages to contributions over the prior art (excluding from the analysis the economic value properly attributable to the prior art), (b) the entire market value of the products or processes involved, or (c) if neither of the preceding is appropriate, the jury may consider the terms of any nonexclusive marketplace licensing of the invention as well as any other relevant factors under applicable law. This provision gives the court wide latitude to limit damages in patent infringement cases where the patented product or process is but a minor improvement over the prior art.

Conversion of the US patent system to first-to-file from first-to-invent

The Act proposes drastic changes to 35 USC § 102(a) in order to harmonize the US first-to-invent patent system with the rest of the world's first-to-file system. Under the proposed revision a patent may not be obtained if the claimed invention was patented, described in a printed publication, in public use, or on sale one year or less before the effective filing date of the claimed invention by someone other than the inventor. This effectively makes the first patent or published application invalidating prior art for the inventor. Currently 35 USC § 102 requires the invalidating acts to occur “more than one year prior to the date of application for patent”⁵² or “before the invention thereof by the applicant for patent...”.⁵³

⁵² 35 USC § 102(b)

⁵³ 35 USC § 102(a)

The Act also revises 35 USC § 135 by replacing Interference Proceedings with Derivation Proceedings whereby an inventor can assert that the patentee derived its invention from the inventor and filed without authorization. The current system requires the Board of Patent Appeals and Interferences to determine questions of priority to an invention.⁵⁴

Interlocutory Appeals

In an apparent effort to reduce the cost of infringement actions by reducing the use of appeals related to challenges to claims construction rulings and to ensure consistency across the various Circuits, the Act proposes amending 28 USC § 1292(c) to grant exclusive jurisdiction to hear interlocutory appeals on matters of patent claim construction to the Federal Circuit.

Prior Use Defense

The proposed revision to 35 USC § 273 would have expanded the prior use rights available under the statute to all patents where it currently applies only to business method patents. The House and Senate versions have stricken this revision. Intended to provide some relief from “submarine” patents, recent proposed rule changes at the USPTO to limit continuations have helped to alleviate Congressional concern. The Federal Circuit has also done its part to minimize the dangers from submarine patents by adopting the prosecution laches doctrine whereby unreasonable and unexplained delays in the prosecution of a patent can potentially render it unenforceable.⁵⁵

⁵⁴ 35 USC § 135(a)

⁵⁵ *Symbol Tech., Inc. v. Lemelson Med., Educ. & Research*, 422 F.3d 1378, 1384-85 (Fed. Cir. 2005)

Publication after 18 Months

The revision to 35 USC § 122(b) eliminates the opt-out provision whereby applicants can choose to not have their applications published if they agree to not file corresponding foreign applications. The tapering concern over submarine patents may have lessened the resolve of Congress to keep this revision. One of the major objections to this revision is its impact on trade secrets. Currently the inventor can choose not to publish and have the invention remain a trade secret should a patent not be granted. Under the proposed revision the inventor would have to abandon the application prior to 18 months after filing to avoid publication. An amendment to the House version would require publication at a later of three months after a second office action rejecting a claim or 18 months after filing.

Post-Grant Review Process

Perhaps one of the more striking changes proposed is the creation of a process by which a person who is not the patent owner can file a petition for cancellation of any or all claims of an issued patent on any ground of patent invalidity amend could be raised under paragraphs 2 or 3 of 35 USC § 282(b). A post-grant cancellation petition would have to be filed no later than 12 months after issuance of the patent or the patent owner consents to the proceeding in writing. A petitioner will not be able to institute a second proceeding against the same patent. Also, a petition for cancellation may not be based on the best mode requirement of 35 USC § 112.

The presumption of patent validity would not apply in a post-grant review proceeding. The patent owner would be allowed to file one motion to amend the patent to either cancel any challenged claim, as a substitute claim, or amend the drawings or specification. Additional motions to amend would be granted only for good cause. No amendment would be permitted that either enlarged the scope of the claims or introduced new matter. Final decisions favorable to the patentability of any original or new claim would prevent the petitioner from raising additional challenges on those same grounds in a re-examination, a derivation proceeding, or in a civil action.

Venue

In an effort to reduce forum shopping in patent infringement cases, Congress has proposed provisions to 28 USC § 1400. Plaintiffs would be limited to judicial districts where the defendant has its principal place of business or is incorporated, where the defendant has committed a substantial portion of the acts of infringement and has a regular and established physical facility that the defendant controls and they constitute a substantial portion of the defendant's operations, or where the plaintiff resides if the plaintiff is an institution of higher education, if the plaintiff is a nonprofit organization, or if the plaintiff is named as inventor or co-inventor of an unassigned and unlicensed patent and has no obligation to assign or license. Additionally, the plaintiff can bring suit where it or a subsidiary (a) has a place of business that is engaged in substantial R&D, (b) manufacturing activities, or (c) management and R&D or manufacturing activities, related to the patent or patents in dispute.

Willfulness

One of the key provisions of the Act makes it more difficult to establish willful infringement. The Act revises 35 USC § 284 and proposes stricter guidelines for finding willful infringement. After receiving written notice from the patentee alleging acts of infringement and identifying with particularity each claim infringed, each product or process that infringes, and the relationship of the product or process to the claim. After being placed on notice, and only after a reasonable opportunity to investigate, the infringer must then perform an infringing act. The infringer must have intentionally copied the patented invention with knowledge of the patent.

The Act contains a statutory defense which allows an infringer to avoid a finding of willful infringement for any period of time during which the infringer has a good faith belief that the patent was invalid or unenforceable, or that its conduct did not constitute an infringing act. The House version eliminated the provision that the issue of willfulness would be decided without a jury.

D. Conclusion

Should the Act become law, willfulness will be much harder to demonstrate and damages will be limited based upon the subjective determination of the contribution of the patent over the prior art rather than the economic loss suffered by the patentee. The proposed venue restrictions will force plaintiffs to choose more appropriate jurisdictions in which to file their actions and the new post-grant cancellation proceedings will ultimately reduce the number of defensive declaratory judgment actions but may open the door for far more challenges to issued patents than Congress anticipates. Last but not

least, the forced publication of patents could finally upset the delicate balance between patent law and trade secret law.

Like it or not, patent reform is not going away. Republicans and Democrats alike have lined up to back this latest attempt at reform. The Act, combined with a more conservative judiciary, is tilting things from the currently patentee-friendly system to a much more defendant friendly arrangement.

TRADEMARK LAW UPDATE

I. Introduction

Marks are a unique form of intangible property. Like other forms of intellectual property, they can be bought and sold just like real estate. The boundary of registered marks is delineated by the description of goods and services as well as the international classification to which they are assigned. As with all property, it is possible to trespass. Marking goods or services in such a manner as to cause confusion in the market place is a form of unfair competition called trademark infringement. Infringement is the theft of goodwill and is the equivalent of writing checks on someone else's bank account.

II. Trademark Law Basics

Marks generally serve to (1) identify and distinguish goods and services among competitors, (2) signify the source of goods or services, (3) to signify the quality of goods or services and as a marketing instrument. More specifically, marks are used to differentiate goods, services, certifications, and organizations. Marks for goods are called trademarks. Marks for services are called service marks. Organizations and clubs utilize collective marks. Certification marks are used to "certify" some characteristic of a good or service. Examples of each are demonstrated below.

Trademark

Service Mark

Certification Mark

Collective Mark

LEXMARK



Marks can be words, logos, colors, shapes, sounds, or even fragrances. The US Supreme Court has stated that “[i]t is the source-distinguishing ability of a mark -- not its ontological status as color, shape, fragrance, word, or sign -- that permits it to serve these basic purposes.” *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (U.S. 1995). Essentially, the mark must create some form of commercial impression.

In order for a mark to create a commercial impression is must not be generic in nature or merely descriptive, but should be distinctive. The degree of distinctiveness, or descriptiveness of a designation can be determined only by considering it in relation to the specific goods or services. *Remington Products, Inc. v. North American Philips Corp.*, 892 F.2d 1576, 13 USPQ2d 1444, 1448 (Fed. Cir. 1990) (the mark must be considered in context, i.e., in connection with the goods). At one extreme are arbitrary or fanciful marks which do not suggest or describe any ingredient, quality or characteristic of the goods or services. *Nautilus Group, Inc. v. Icon Health & Fitness, Inc.*, 372 F.3d 1330, 1340, 71 USPQ2d 1173, 1180 (Fed. Cir. 2004) (defining an arbitrary mark as “a known word used in an unexpected or uncommon way”). TMEP §1209.01(a).

Suggestive marks are less distinctive than arbitrary marks, but are still sufficiently distinctive to support registration on the Principal Register of the Trademark Office without proof of secondary meaning. The mark must require the use of “imagination, thought or perception to reach a conclusion as to the nature of those goods or services. *Id.* “A suggestive term suggests rather than describes an ingredient or characteristic of the goods and requires the observer or listener to use imagination and perception to determine the nature of the goods. Such a term can be protected without proof of a secondary meaning.” *Induct-O-Matic Corp. v. Inductotherm Corp.*, 747 F.2d 358, 363 (6th Cir. Mich. 1984).

Marks that are “descriptive” may not be registered on the Principal Register without having acquired distinctiveness. TMEP §1209; 15 U.S.C. §1052; and *Ashland Oil v. Olymco, Inc.*, 905 F. Supp. 409, 412 (W.D. Ky. 1994). “In determining whether a term is used in a descriptive manner, courts look to the dictionary definition of the term. Courts then determine if such a term's meaning is known to and "readily grasped" by large numbers of the consuming public.” *Id.* An owner of a descriptive mark must establish the existence of secondary meaning in its mark prior to the use of such mark by the challenger. To establish secondary meaning a mark holder must show that "the primary significance of the term in the minds of the consuming public is not the product but the producer." *Id.* citing, *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 118, 83 L. Ed. 73, 78, 39 U.S.P.Q. 296, 299, 59 S. Ct. 109 (1938).

A generic term is the weakest type of mark; it is a term used to commonly describe the relevant type of goods or services, and "cannot become a trademark under any

circumstances." *Champions Golf Club v. Champions Golf Club*, 78 F.3d 1111, 1117 (6th Cir. Ky. 1996), citing *Induct-O-Matic* at 362. A two part test is used to determine the genericness of a mark: (1) identify the class of goods or services at issue and (2) ascertain whether the public understands the mark to apply to the class of goods or services at issue. TMEP §1209.01(c). Generic marks are never registerable on either the Principal or Supplemental Registers. "A generic or common descriptive term is one which is commonly used as the name or description of a kind of goods. It cannot become a trademark under any circumstances." *Induct-O-Matic Corp.* at 362.

The distinctiveness, i.e. strength, of the mark is a significant factor in determining how much protection the mark receives.

Whether a mark is regarded as 'strong' or 'weak,' 'original, arbitrary, fanciful' or 'generic, descriptive, geographic' is but one of the elements to be considered in determining whether confusion is likely to result. The stronger the mark, the more likely it is that encroachment on it will produce confusion... [a]ccordingly, the strong mark enjoys greater protection while the weak mark is afforded little support.

Champions Golf Club v. Champions Golf Club, 78 F.3d 1111, 1117 (6th Cir. Ky. 1996), citing *Little Caesar Enterprises, Inc. v. Pizza Caesar, Inc.*, 834 F.2d 568, 571 (6th Cir. 1987) and *Hindu Incense v. Meadows*, 692 F.2d 1048, 1050 (6th Cir. 1982).

A. Federal Marks

The Lanham Trademark Act of 1946, found at 15 U.S.C. §§1051 et seq., governs federal trademark rights. It has been, and continues to be amended to create comity with the trademark laws of the European Union and other important trading partners. The United States Patent and Trademark Office, pursuant to 35 U.S.C. §2 oversees the federal trademark system.

The Trademark Office has converted the trademark prosecution system into a largely electronic exchange of documents and materials between trademark attorneys and examining attorneys. Even the Trademark Trial and Appeals Board (the “TTAB”) conducts virtually all business electronically. The transition to an electronic system has reduced the typical waiting time for a trademark to register from about 1 ½ to 2 years to about 1 year.

As with patents, the prosecution of trademarks is best conducted by an attorney experienced in conducting such transactions and in making appropriate arguments to combat rejections on descriptiveness or likelihood of confusion grounds. Trademark attorneys, unlike patent attorneys, do not need to pass a separate bar exam and be admitted to practice before the USPTO in order to prosecute trademark applications. However, this is an area that requires a degree of familiarity with Trademark Office rules as well as an understanding of trademark law in general and is best left to a qualified intellectual property attorney. “Lay” attorneys should check with their malpractice carrier before engaging in trademark prosecution. Malpractice awards in this area can easily

exceed policy limits, not to mention the assets of the law firm. Intellectual property coverage riders to the attorney's malpractice insurance policy are often required, and tend to be costly.

TTAB Proceedings

Federal marks can be cancelled by the USPTO after registration or even attacked during the registration process. The opposition or cancellation proceeding is conducted by a specialized trial court called the TTAB. While this court has specialized rules and strict deadlines, the process is very similar to other forms of business litigation. In fact, the TTAB rules were amended in August 2007 to become more consistent with the Federal Rules of Civil Procedure.

Under the new rules, the plaintiff, i.e. opposer, must serve its complaint upon the defendant, i.e. applicant, before it is filed with the TTAB. Failure to do so will result in dismissal of the opposition. Under the old rules, the TTAB served the initial pleading on the defendant. A standard protective order is now automatically of record. An initial discovery conference is now required as are initial disclosures, expert disclosures, and pre-trial disclosures. The apparent goal is to speed up the opposition process by adopting "rocket docket" procedures and rules in addition to incorporating traditional civil procedure rules.

B. State Marks

The authority for Congress to regulate trademark rights, unlike patent and copyright which is found in Article 1, Section 8 of the US Constitution, emanates from the Commerce Clause. Therefore states have the authority to implement a state trademark system analogous to the federal trademark system.

Kentucky has largely adopted the Model State Trademark Bill put forth by INTA (the “International Trademark Association”). Kentucky’s trademark statutes can be found from KRS §§365.561 to 365.613. The Kentucky Secretary of State’s Office is charged with managing the commonwealth’s trademark system. The principal differences between the federal and state systems is that most states require that the mark be used in commerce before filing the trademark application. Most states also have no opposition proceedings and require cancellation to proceed through the state court system. Kentucky requires that cancellation proceedings be filed as a complaint in Franklin Circuit Court pursuant to KRS § 365.607. Seeking cancellation of a mark procured through fraud or otherwise is a monumental task in the Commonwealth.

Very few Kentucky cases have been reported which can serve to guide the court and KRS §365.561 indicates that federal law shall be used for interpreting and constructing Kentucky’s trademark statutes. Few if any cancellation proceedings are ever initiated in the Commonwealth and, at least one recent case was dismissed because the court deemed that standing could only be conferred if the plaintiff were harmed by the registration process itself, regardless of the registrant’s right to the mark or the use of fraud to procure

the registration. The Kentucky Secretary of State's Office can intervene if petitioned to do so but has shown no inclination to become involved the cancellation proceedings.

The benefit to state marks is that they typically issue in weeks rather than months or years. The rapid registration allows the registrant to recover attorney's fees and costs for willful infringement in a state action for trademark infringement as well as treble damages pursuant to KRS § 365.603. Even without a state registration, it is still possible to proceed on the theory of common law infringement.

II. Hot Topics in Trademark Law

TTAB Expands Types of Acceptable Website Specimens

The TTAB clarified the criteria required in a webpage for it to act as a trademark specimen and not merely as advertising. The *Dell* case has long been used by trademark examiners at the USPTO to reject trademark specimens demonstrating use in commerce when the webpage does not include a means for ordering the goods or services online within that webpage. *In re Dell, Inc.*, 71 USPQ2d 1725 (TTAB 2004). In the recent *Valenite* case, the TTAB held that simply having a customer service telephone number listed on the webpage is sufficient to provide a means for ordering in cases where customers would need to consider technical information and not just click on an image to add the product to a shopping cart. *Dell* at 1349.

Trade Dress Infringement by Store Brands

The increasing boldness of private label and store brands to copy the packaging of the dominant products in that market has led to increased concern among well known national brands. Trade dress is defined as "the total image of a product and may include features such as size, shape, color or color combinations, textures, graphics, or even particular sales techniques." *Pizza Magia Int'l, LLC v. Assur. Co. of Am.*, 447 F. Supp. 2d 766, 773 (W.D. Ky. 2006), citing *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983). "In short: any 'thing' that dresses a good can constitute trade dress." *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 630 (6th Cir. Ohio 2002).

The case of *McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC* addressed knock-off packaging for SLENDA brand sweeteners. In some cases the packaging was almost identical. The Third Circuit ruled that these store brands could have packaging that comes closer to national brand than a competing national brand. However, they could not slavishly copy the national brands packaging and must prominently display the well known store brand on the packaging. *McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC*, 511 F.3d 350 (3rd Cir. 2007). An interesting attribute of the *McNeil* case is that the "side-by-side" comparison frowned upon in traditional trademark infringement litigation was adopted by the court for store brand cases since the parties' packaging is normally sold "side-by-side". *McNeil* at 359. As with other circuits, the Third Circuit also continued to differentiate "intent to copy" from "intent to confuse" as a basis for permitting the continued exploitation of national brand trade dress.

The Unauthorized Use of Trademarks in Webpage Meta-Tags

Meta-tags continue to be a source of contention among competitors. After a string of cases that seemed to indicate that the use of trademark laced meta-tags would not lead to confusion in the marketplace, the Eleventh Circuit upheld a verdict of trademark infringement for the placement of a competitor's trademark in the hidden meta-tags of a website. "The facts of the instant case are absolutely clear that Axiom used NAM's two trademarks as meta tags as part of its effort to promote and advertise its products on the Internet. Under the plain meaning of the language of the statute, such use constitutes a use in commerce in connection with the advertising of any goods." *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1219 (11th Cir. Ga. 2008).

Ambush Marketing

Kentucky may become part of the eternal battleground between event sponsors and ambush marketers. The upcoming World Equestrian Games and Ryder Cup will have their customary entourage of exclusive sponsors that have paid hefty prices to be the official beer, airline, or credit card of the event. Marketers that could not or would not pay the price for sponsorship will still try to associate themselves through ingenious, and some not so ingenious marketing efforts. Litigation only becomes likely when a non-sponsor tries to imply a strong connection between themselves and the event. However, most attempts at ambush marketing are completely legal and do not cross the line of implying a commercial relationship between themselves and the event organizer.

Some countries, such as the United Kingdom, Italy, Hungary, France, Brazil, and New Zealand have either enacted laws to combat ambush marketers or have pending legislation. The United States enacted limited ambush marketing legislation for the sole purpose of protecting the Olympics in 1974.⁵⁶

Famous examples of ambush marketing include:

- During an Australian-New Zealand rugby match in 2002, two naked men streaked onto the playing field “wearing” a painted-on Vodafone logo⁵⁷. Vodafone was not a sponsor.
- During the 1992 Olympics, Nike placed large murals of USA basketball team members Michael Jordan and Charles Barkley on the sides of buildings in Barcelona⁵⁸. Nike was not an official sponsor of the Games.
- A group of hundreds of Dutch fans showed up wearing orange lederhosen displaying the name of the Dutch brewery Bavaria, in Stuttgart, to attend the 2006 World Cup match opposing the Netherlands to Ivory Coast. They were requested to take off their pants before entering the stadium⁵⁹.

Conflicts between sponsors of the athletes or teams and sponsors of the event sometimes become ambush marketing issues. Famous athletes, most notably Michael Jordan, tend

⁵⁶ Davis R. N., *Ambushing the Olympic Games*, ISLR/Pandektis, Vol. III Nr. ½, p. 19.

⁵⁷ Wei L, Kretschmer M., *Ambush Marketing: A study of strategies and legal responses*, ISLR Pandektis, Vol. 5:3, 2004.

⁵⁸ Davis R. N., *op. cit.*, p. 7, 10.

⁵⁹ The case was decided by the Court of Appeal Amsterdam 23 November 2006, IER 2007, 34 (Bavaria/KNVB): in the absence of specific clause in the tickets terms and conditions, the court decided that the organiser, KNVB, was not entitled to ban access to the stadium to ticketholders wearing Bavaria Beer lederhosen.

to hide jersey or uniform based logos of competitors to their principal sponsors when receiving medals or trophies. Often, they drape themselves with towels or flags during photo opportunities in order to conceal the offending logos.

Parody

Several involving the parody of famous marks have been making their way through the nation's dockets. "A 'parody' is defined as a simple form of entertainment conveyed by juxtaposing the irreverent representation of the trademark with the idealized image created by the mark's owner." *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 259 (4th Cir. Va. 2007), citing *People for the Ethical Treatment of Animals v. Doughney ("PETA")*, 263 F.3d 359, 366 (4th Cir. 2001). The *Louis Vuitton* case held that it was the strength of the famous mark that actually enabled the parody by minimizing any chance of confusion. *Id* at 261. If these had been competing products there may have been a different outcome, but any rational person would have to agree that it would be difficult to confuse the LOUIS VUITTON line of high-priced luxury items with dog toys called CHEWY VUITON. The court found no likelihood of dilution or confusion.

A similar case is winding its way through the Southern District of New York. The now infamous "Naked Cowboy" was parodied in an M&M's advertisement that had a New York theme. Richard Burck, a.k.a. the Naked Cowboy, alleges, among other things, that Mars (the manufacturer of M&M's) has violated the Lanham Act by means of implying a false endorsement of their product. *Richard Burck v. Mars, Inc. et al.* No. 08- 01330 (S.D. New York, filed Feb. 11, 2008) Mars contends that, while the facts of the case does

support the first three factors of a false endorsement claim (i.e. in commerce, a false or misleading representation of fact, in connection with goods or services), the facts of the case do not support the fourth element (i.e. that is likely to cause consumer confusion as to the origin, sponsorship or approval of goods or services). The court correctly indicated that this is a question of fact and that the court cannot decide whether or not this is merely a parody at this stage of the litigation.



COPYRIGHT LAW UPDATE

I. Federal Legislation

A. S2913- Shawn Bentley Orphan Works Bill.

“Orphan works” are copyrighted works for which the author cannot be found or in some cases even identified. The fear of large statutory damages makes these works unusable. This is a hindrance for museums, historians, filmmakers and online services. This bill would provide limitations on copyright infringement remedies for use of a copyrighted “orphan work” if the infringer can show that he or she 1) performed a diligent search to find the owner of the copyright; and 2) the infringing use provided attribution to the author (if known). The act would limit monetary awards to reasonable compensation for use of the work or, in the case of a non-profit that immediately ceases the infringement, no compensation.

Status: Passed Judiciary Committee and now before the full senate. HR 5889 is a similar bill in the house

B. S 2591 - Super Bowl Party Bill

Would provide an exemption to the display right for non-profits showing copyrighted sports professional football broadcasts if no admission is charged. Bill was a response to the NFL crackdown this year against church Super Bowl parties. The bill only applies to professional football broadcasts.

Status: In committee

C. HR 4789 – Performance Rights Act

This bill would provide for a performance royalty to artists when their works are played on the radio. Currently royalties are paid by internet, satellite and cable broadcasters but not by AM and FM radio stations.

Status: In committee

D. HR 4279 – Prioritizing Resources and Organization for Intellectual Property Act

This bill would allow seizure of a computer with ‘dubious’ files and would set up an Intellectual Property Enforcement Division under the Deputy Attorney General.

Status: Passed House now in Senate.

E. HR 2060 – Internet Radio Equality Act

This legislation is in response to royalty rates set by the Copyright Protection Board which internet broadcasters felt were unreasonably high. This bill would bring those rates in line with those traditionally charged in other mediums.

Status: In Committee

F. HR 2033 – Design Piracy Prohibition Act

This bill would extend copyright protection to fashion designs for a period of three years. Currently fashion designers can only protect themselves from counterfeit goods, primarily through the use of provisions of trademark law. Bill was introduced in 2006, but hearings have been held as recently as February 2008. Opponents note that distinguishing between fashion elements would be problematic.

Status: In committee

II. Major Cases

A. *Perfect 10, Inc. v. Amazon.com, Inc.*, 509 F. 3rd 1146 (9th Cir 2007).

Action brought by Perfect 10, Inc., the owner of copyrights in photographs of nude models, against Google, Inc., the dominant internet search engine and Amazon.com. The suit alleged direct, vicarious and contributory copyright infringement.

Google's image search engine provides responses to queries entered by users. The response includes a thumbnail image, which is a reduced, lower resolution version of images stored on third-party computers. When a user clicks on a "thumbnail image" the user's browser creates a rectangular area that contains two separate blocks of information. The top section contains information from the Google Webpage. The bottom part of the display is a framed version of the third party site. Perfect 10's copyrighted images appear on unlicensed on third party websites. These sites are searchable using the Google engine. Beginning in 2001, Perfect 10 informed Google that it viewed both the thumbnail images and the framed linking to the full sized images as infringing its copyrights. In 2004 Perfect 10 filed suit against Google. Suit against Amazon.com was filed in 2005. Amazon.com had by contractual agreement, linked to Google's image search engine. The two cases were ultimately consolidated.

At the District Court level, Perfect 10 moved for preliminary injunctions against both defendants. The District Court granted a portion of the injunctive relief against Google and denied the injunctive relief against Amazon.com. Both Perfect 10 and Google

appealed the District Court's decision. The District Court stayed the effect of the injunction pending the appeal.

The United States Court of Appeals for the Ninth Circuit affirmed in part, reversed in part and remanded the action for further proceedings. The effect of the Ninth Circuit's opinion was to dissolve the District Court's injunction. The Ninth Circuit held that:

Perfect 10 had made shown a likelihood of success for its case of infringement against Google with respect to the thumbnail images, but not the framing.

Google had made a showing that it would likely prevail on its fair use defense.

The Appellate Court determined that Google and Amazon.com could be secondarily liable for third party infringement if they knew of the infringing activities and had not taken reasonable steps in response. The Court remanded that portion of the action for a factual determination of concerning secondary liability.

The Court declined to consider whether the Digital Millennium Copyright Act provided a "safe harbor" for the defendants since that had not been addressed at the trial court level.

B. *Viacom v. YouTube*, 540 F. Supp 461 (S.D. N.Y. 2008).

This action was brought by media giant Viacom against Google's subsidiary YouTube. Viacom claimed a billion dollars in damages. At issue are brief excerpts of Viacom properties which are posted on the YouTube site. The clips are posted by YouTube users. The suit was filed in March 2007. The parties are still wrangling over the form of the complaint so a decision is nowhere near. YouTube's defense is the safe harbor provisions of the Digital Millennium Copyright Act. YouTube styles itself a

service provider. The DMCA shifts the burden of monitoring infringement from service providers to content providers. The citation to the YouTube case deals only with a motion to amend the complaint to add a count for punitive damages. That motion was denied.

The threshold issue for application of the DMCA Safe Harbor is whether YouTube is in fact a service provider. This will turn on whether the conduct at issue is

- Transitory communications;
- System caching;
- Information storage; or
- Information location tools such as a search engine.

See 17 USC Sections 512(a)-(d). If this threshold is met, YouTube will have to show that it had no actual knowledge of the infringement, it moved expeditiously to disable access and that it received no financial benefit directly attributable to the infringing activity.

C. *Tur v. YouTube*, 2007 WL 1893635 (C.D. Cal. June 6, 2007).

In this case an individual copyright owner sued YouTube for allowing the posting on YouTube of his video of the Reginald Denny beating. The Court has so far declined to grant summary judgment on whether YouTube meets the DMCA safe harbor requirement.

D. *C. B. C. Distribution and Marketing v. Major League Baseball Advanced Media, LP*, 505 F. 3rd 818 (8th Cir. 2007).

The producer of a baseball fantasy league sought a declaration that it had the right to use names and statistics of major league players without a license. The United States District Court for the Eastern District of Missouri had granted summary judgment for the fantasy league producer. On appeal, the Eighth Circuit affirmed the judgment. The Court held that even though the fantasy league producer used the names of the players for a commercial purpose, its First Amendment rights took precedence over the players' rights of publicity. The District Court held the factual information was not copyrightable, an issue not addressed by the Court of Appeals. The United States Supreme Court did not grant *certiorari* in this case. Estimates are that fantasy leagues are now a \$500 million per year industry. Nearly 20 million people in the United States and Canada participate in sports fantasy leagues.

III. User Generated Content

The nature of the internet is shifting to sites containing content that has been generated by the users. Chief among these are:

- Wikis. Informational sites such as Wikipedia where the information is generated collaboratively by multiple users.
- Video/photography sharing sites such as YouTube.
- Blogs. Literally a "web log." These sites are free flowing discussion sites where the users engage in an information exchange.
- Social networking sites.

In each instance the provider will need to avail itself of a safe harbor provision of the DMCA or risk enormous potential for copyright infringement liability.

IV. File Sharing

A. *MGM v. Grokster*, 2007 WL 3227684. A case in the Central District of California. The United States Supreme Court held that one who distributes a device with the object of promoting copyright infringement is liable for the resulting acts of infringement. 125 S. Ct. 2764. On remand, the District Court issued a permanent injunction against the defendant.

B. *Virgin Records v. Thomas*, Case No. 06-1497 (closed Oct. 5, 2007, D. of Minn.). First case brought by the music industry against an individual related to file sharing. The jury ruled in favor of the plaintiffs and awarded \$9,250 per song in damages, a total of more than \$200,000. This case is currently on appeal. This is the first file sharing case of the more than 20,000 filed to actually go to trial and result in a verdict. It signals a zero tolerance approach by the recording industry. Ms. Thomas is a single mother of two.

At issue on the appeal will be a jury instruction whereby the Court instructed the jury the following:

The act of making copyrighted sound recordings available for electronic distribution on a peer-to-peer network, without license from the copyright owners, violates the copyright owners' exclusive right of distribution, regardless of whether actual distribution has been shown.

C. *Motown Record Co. v. DiPietro*, 2007 WL 576284. Suit based on file sharing against an individual that was initially identified as "Doe" in the proceedings. Still in pre-trial stage.

D. *Universal Music Group v. MySpace*, 2006 WL 3466446. Suit alleges both direct infringement, similar to the *YouTube* cases and inducing infringement as in the *Grokster* case.

The cases above show the clear intention of the recording industry to aggressively seek to stop P2P file sharers.

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