

INTELLECTUAL PROPERTY NEWS

U.S. SUPREME COURT HEARS ARGUMENTS
WHETHER SOFTWARE AND BUSINESS METHOD ARE PATENTABLE

by Geoffrey K. White and Shawn K. Leppo

The Federal Circuit's October 2008 decision, *In re Bilski*, has created much concern whether software and business methods are still patentable. That concern may turn out to be unwarranted, as the U.S. Supreme Court recently heard oral argument in the case.

In *Bilski* – a case that arose out of the U.S. Patent Office's rejection of a patent application directed to a method of hedging risks in commodities trading – the Federal Circuit examined "what test or set of criteria governs the determination as to whether a claim to a process is patentable under [35 U.S.C.] § 101 or, conversely, is drawn to unpatentable subject matter because it claims only a fundamental principle." The Federal Circuit analyzed several prior cases and attempted to clarify what constitutes patentable subject matter by establishing a single, specific test.

The Federal Circuit explained that an invention may only be patentable if it is tied to a particular machine or apparatus, or it transforms a particular article into a different state or thing. This is sometimes now referred to as the "machine-transformation" test.

In introducing this test, the Federal Circuit used the new "machine-transformation" analysis to distinguish between several patentable and unpatentable concepts. For example, the court

explained that a computerized rubber curing machine for turning raw rubber into molded, cured rubber products may be patentable while a particular mathematical formula to calculate an "alarm limit" is not patentable. Other examples of unpatentable concepts that do not meet the "machine-transformation" test include a particular algorithm operating on a digital computer that shows no other utility beyond operating on that digital computer, nor is a mathematical optimization algorithm patentable.

... an invention may only be patentable if it is tied to a particular machine or apparatus, or it transforms a particular article into a different state or thing.

In *Bilski*, the Federal Circuit further explained that the numerous other tests which had been routinely applied for determining whether an invention is directed to patentable subject matter should no longer be used. The Federal Circuit specifically held that its "useful, concrete, and tangible result" test was no longer appropriate. That test was most closely associated with the court's 1998 *State Street* decision, one which has generally been considered as the first to specifically acknowledge the patentability of business methods.

In view of the "machine-transformation" test adopted in *Bilski* and the rejection of the "useful,

(continued on back)

Appellate and Post-Trial

Asset Planning and Federal Taxation

Automotive Dealership Law

Business Counseling

Construction and Procurement Law

Education Law

Emerging Companies

Employee Benefits

Energy, Communications and Utility Law

Environmental Law and Toxic Tort

Family Law

Financial Services

Food Industry

Government Relations

Health Care

Injunction

Insurance Litigation and Counseling

Intellectual Property

International Law

Labor and Employment

Litigation

Patent

Real Estate

State and Local Tax

Transportation, Distribution and Logistics

BOSE MAKES WAVES IN TRADEMARK FRAUD

by Brian P. Gregg

Alleging fraudulent procurement of a trademark has become a formidable offensive weapon, and defensive tactic, in many trademark disputes since the Trademark Trial and Appeal Board's controversial decision in *Medinol v. Neuro Vasx Inc.* In *Medinol*, the Board stated "[f]raud occurs when an applicant or registrant makes a false material representation that the applicant or registrant knew or should have known was false." *Medinol Ltd. v. Neuro Vasx Inc.* In assessing claims of fraud, the Board went on to say that it would not look to the subjective intent of the applicant but the objective manifestations of that intent. Since adoption of the near strict liability standard announced in *Medinol*, the TTAB has seen a sharp increase in allegations that a party's trademark was fraudulently obtained. Post-*Medinol*, the Board had found fraud in nearly every case in which it was alleged, until Bose Corporation recently appealed such a decision and the Federal Circuit torpedoed the *Medinol* standard.

The Bose Fraud Rule

Bose initiated an opposition against Hexawave Inc.'s application for the mark HEXAWAVE alleging likelihood of confusion with its WAVE mark. Hexawave counterclaimed, alleging Bose committed fraud when it filed its Section 8 affidavit of continued use and Section 9 renewal application which claimed, among other things, that the WAVE mark was in use on audio tape recorders and players. In fact, Bose had stopped manufacturing tape players but continued to repair those devices. The Board held such repair services were not a "use in commerce," that Bose's claim of use was material, and that it constituted fraud. Consequently, the Board ordered cancellation of Bose's entire WAVE registration. Bose appealed.

On appeal, the Court of Appeals for the Federal Circuit stated that by equating "should have known" with subjective intent, the Board in *Medinol* "erroneously lowered the fraud standard to a simple negligence standard." After citing a mountain of authority which characterized the standard for "fraud" as one higher than even gross negligence, the court held that "a trademark is obtained fraudulently under the Lanham Act only if the applicant or registrant knowingly makes a false, material representation with the intent to deceive the PTO." Rejecting the Board's position in *Medinol*, the *Bose* court noted that despite the difficulty in proving subjective intent, it is an indispensable element of the fraud analysis. However, the *Bose* court focused only on intent in its decision and neither addressed the "materiality" element of fraud nor did it consider whether an applicant's reckless

disregard of the truth would satisfy the intent element. The court found Bose's explanation for its claim to the WAVE mark on tape players – that it still repaired those goods – sufficient to avoid fraud because it determined Bose did not *intend to deceive* the PTO. As a result, the court found no fraud but did order the tape players be deleted from the goods claimed on the WAVE registration.

From Black and White to Gray

Say what you will about the strict standard and harsh result of the *Medinol* fraud rule, at least it was predictable. The bottom line during the *Medinol* era of fraud jurisprudence was that if an applicant signed an application or statement of use and thereby claimed use of the mark on a particular good, he or she committed fraud if the mark was not in use on that good. The *Medinol* rule was scuttled by a case whose unusual facts made its application particularly harsh. In *Bose*, there was no issue with whether WAVE was in use; it was. The question in *Bose* was whether use of the mark for repair services was a use in commerce; it was not. Now it seems the Board will have to deal with whether an applicant had the subjective intent to deceive the Trademark Office, whether he or she made a false representation, and whether that representation was material. The relatively black and white rule of *Medinol* has been replaced with one which will require a multi-step analysis and which will likely turn on individual facts, making it unpredictable. For example, the Board has yet to identify how subjective intent to deceive the Trademark Office can be shown. In addition, it is not clear what level of materiality will be required to rise to the level of fraud. For example, if an applicant claims tape measures, rulers and yardsticks but the applicant fails to use the mark on rulers, how material is that oversight to the applicant's rights which flow from the resulting registration? These unanswered questions leave open the possibility that fraud may remain a popular way to challenge a trademark registration and defend against a challenge.

Management Practices to Avoid Fraud

In light of the growing use by trademark owners of fraud claims as both an offensive and defensive tactic, trademark owners should carefully evaluate their current registrations to ensure the marks are used on all of the goods/services associated with the registration. Attorneys preparing trademark applications should explain the concept of fraud to clients who have a "claim it all and sort it out later" approach to their goods descriptions. Applications which claim a broad range of goods on which the mark is not used may satisfy the *Bose* fraud standard. Though specimens of use are only required for a single good in each International Class of goods claimed, it is a good

(continued on next page)

BOSE MAKES WAVES (CONTINUED)

practice for attorneys to request specimens for every good claimed on an application to ensure the mark is being used and that such use is actually a use in commerce. For intent to use applications, clients should be counseled to produce and retain documentary evidence of their intent to use a mark on all of the goods claimed on an application. In light of the fact specific analysis inherent in the *Bose* fraud standard, the more facts an applicant can produce to show it did not intend to deceive the Trademark Office, the better its prospects of avoiding problems with fraud. ■

Brian P. Gregg practices in the Intellectual Property Group.
717.237.5456 / bgregg@mwn.com



TRADEMARKS AND THE FRENCH LANGUAGE ISSUE IN QUEBEC

by Michael A. Doctrow

Businesses distributing or marketing products or services in Quebec must be mindful of the impact of the province's recent change of policy concerning the regulation of French language requirements in labeling and advertising. The revised guidelines of the **Office Québécois de la langue française** (the "Office") signal a change to a stricter interpretation of the regulation under the Charter of the French Language (the "Charter").

The Charter provides that every marking on a product or on a document or object supplied with it, along with catalogues, brochures and similar publications, must be drafted in the French language. While the inscription may be accompanied by a translation, no inscription in another language may be given greater prominence than the French version. Public signs, posters and commercial advertising may be both in French and in another language, provided that French is markedly predominant.

The Regulation respecting the language of commerce in business (the "Regulation") creates exceptions to the above with respect to the language of trademarks. A "recognized trademark" may be exclusively in a language other than French unless the French version has been registered. Until recently, the Office had adopted the accepted legal view that "recognized trademarks" under the Trademarks Act included both registered and unregistered trademarks.

According to the most recent Office guidelines however, a "recognized trademark" pursuant to the Regulation is a registered trademark. The Office is now taking the view that the trademark exception provided by the Regulation is not applicable unless the mark is registered under the Trademarks Act. Previously, the accepted interpretation of the Regulation was that the exception applied to unregistered trademarks and trademarks that were the subject of pending applications before the Canadian Intellectual Property Office.

It is important to note that neither the legislation nor its regulations have been amended. In the past, the courts have interpreted the Regulation as allowing the use of unregistered trademarks where the courts were satisfied on the evidence that the marks constituted "recognized trademarks" within the meaning of the Trademarks Act. In practice, the Office is now taking the view that it is not in a position to assess whether a trademark is exempt from French language requirements unless it is registered.

The adoption of the revised guidelines suggests that the Office will become more proactive in its enforcement of the Charter requirements. Businesses should be aware that trademarks that are composed of elements that are descriptive of the wares or services are most likely to be challenged.

Given the Office's change of policy, businesses who wish to avail themselves of the trademark exception are well advised to seek registration of trademarks particularly where the mark contains descriptive terms. When selecting a trademark, the choice of coined terms which do not consist of dictionary words in any language are less likely to be problematic.

The Office also invites trademark owners to adopt French versions of their trademarks for use in the Province of Quebec. However, bear in mind that the recognized trademark exception only applies where no registered French version of the trademark exists. ■

This article is based significantly upon one from our friends at Gowlings in Canada.

Michael A. Doctrow is the Chair of the Firm's Intellectual Property Practice Group.
mdoctr@mw.com / 717.237.5311





McNees Intellectual Property Group

Michael A. Doctrow, Chair
717.237.5311 / mdoctrow@mwn.com

Peter Anthonopolos
717.237.5458 / panthonopolos@mwn.com

Alan R. Boynton, Jr.
717.237.5352 / aboynton@mwn.com

Louis A. Dejoie
717.237.5387 / ldejoie@mwn.com

Rebecca A. Finkenbinder
717.237.5328 / rfinkenbinder@mwn.com

Harvey Freedenberg
717.237.5267 / hfreedenberg@mwn.com

John W. Greenleaf, III
717.237.5453 / jgreenleaf@mwn.com

Brian P. Gregg
717.237.5456 / bgregg@mwn.com

Michael L. Hund
717.237.5483 / mhund@mwn.com

Daniel J. Jenkins
717.237.5213 / djenkins@mwn.com

Shawn K. Leppo
717.237.5218 / sleppo@mwn.com

Elizabeth M. Maag
614.719.5956 / emaaag@mwn.com

Susan V. Metcalfe
717.237.5412 / smetcalfe@mwn.com

Courtney J. Miller
614.719.2858 / cmiller@mwn.com

K. Scott O'Brian
717.237.5492 / sobrian@mwn.com

Andrew L. Oltmans
717.237.5281 / aoltmans@mwn.com

Carmen Santa Maria
717.237.5226 / csantamaria@mwn.com

Brian T. Sattizahn
717.237.5258 / bsattizahn@mwn.com

William P. Smith
717.237.5260 / wsmith@mwn.com

Saad Syed
717.237.5250 / ssyed@mwn.com

Geoffrey K. White
717.237.5336 / gwhite@mwn.com

Bruce J. Wolstoncroft
717.581.3714 / bwolstoncroft@mwn.com

Linda A. Harnish, Paralegal
717.581.3725 / lharnish@mwn.com

Susan F. Heberlig, Paralegal
717.237.5206 / sheberlig@mwn.com

Holly J. Lawrence, Paralegal
717.237.5395 / hlawrence@mwn.com

Kerri J. Smith, Paralegal
717.237.5455 / ksmith@mwn.com

Charity Xiong, Paralegal
614.719.2853 / cxiong@mwn.com

2009 McNees Wallace & Nurick LLC

INTELLECTUAL PROPERTY NEWS is presented with the understanding that the publisher does not render specific legal, accounting, or other professional service to the reader. Due to the rapidly changing nature of the law, information contained in this publication may become outdated. Anyone using this material must always research original sources of authority and update this information to ensure accuracy and applicability to specific legal matters. In no event will the authors, the reviewers, or the publisher be liable for any damage, whether direct, indirect, or consequential, claimed to result from the use of this material.

U.S. SUPREME COURT (CONTINUED)

concrete, tangible result" test applied in State Street, some have suggested that software and business methods are no longer patentable. In some cases, this may be true, as many of these types of inventive methods merely enhance one's decision-making ability and are not directly tied to a machine or a transformation of matter. However, in other cases, appropriate care in the drafting of claims or analysis of existing patents to more particularly identify the machine or transformation associated with the software or business method could avoid these potential pitfalls.

The U.S. Supreme Court may provide some clarity when it rules on *Bilski* next year. It is worth noting that in many of its recent opinions reviewing Federal Circuit decisions, the Supreme Court has rejected the Federal Circuit's tests as too rigid. Whether the *Bilski* "machine-transformation" test will come under the same scrutiny remains to be seen. If the Justices' questions at oral arguments were any indication, however, the outcome of the specific patent application in question does not seem to be in doubt; rather, the question now appears to be how sweeping the Supreme Court's decision will be and whether the Court will provide any bright line test regarding the eligibility of software and other types of business methods for patent protection. *Bilski* is also likely to be the

first patent case before the Supreme Court that includes newly appointed Justice Sonia Sotomayor. As a result, it may also provide insight into what impact, if any, the new make-up of the Court will have on patent cases for years to come. ■



Geoffrey K. White practices in the Intellectual Property Group and Patent Division.
412.600.9109 / gwhite@mwn.com



Shawn K. Leppo practices in the Intellectual Property Group and Patent Division.
717.237.5218 / sleppo@mwn.com

THE INTERNET HAS BEEN INTERNATIONALIZED

Last month, the Internet Corporation for Assigned Names and Numbers ("ICANN") approved the adoption of internationalized domain names (IDNs). IDNs are intended to replace the last portion of a domain name, such as dot-com or dot-org, with non-Latin scripts, such as Chinese or Arabic, among others. By introducing IDNs, ICANN hopes to make the Internet more accessible to millions of people around the world who, in part, struggle with the use of Latin characters. Thus, after years of testing, studying and discussion, ICANN will initially allow IDNs, beginning November 16, 2009, for country codes, such as dot-kr (for Korea) or dot-ru (for Russia), before expanding to all types of address names. This historic change will end a monopoly by Latin letters which has endured since the Web's inception. ■

SPEAKING ENGAGEMENTS

Geoff White, Andrew Oltmans, and Bruce Wolstoncroft have been invited to instruct at the Pittsburgh Conference for Analytical and Applied Spectroscopy (PITTCON) between February 28 and March 5, 2010 in Orlando. Geoff and Andrew teach a course focused on searching patent publications and a course focused on innovation protection in research and development focused organizations.

