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Patents / Joint Infringement

Joint (Direct) Infringement Still Requires Control ... But Stay Tuned

by Christopher L. May

A sharply divided panel of the U.S. Court of Appeals for the Federal Circuit, addressing the requirements for direct infringement if more than one party performs the steps of the patented method, ruled that the doctor-patient relationship was insufficient to show that the patient was acting under the direction or control of the doctor. *McKesson Techs. Inc. v. Epic Sys. Corp.*, Case No. 10-1291 (Fed. Cir. Apr. 12, 2011) (Linn, J.) (Bryson, J. concurring) (Newman, J., dissenting).

McKesson's patent is directed to a method of electronic communication between healthcare providers and patients involving personalized web pages for doctors and their patients. Epic's MyChart software allows healthcare providers to associate medical records with a personalized web page. Epic did not directly use the software, but licensed MyChart to doctors who provided the software as an option for their patients' use. McKesson sued Epic for inducement of infringement. Both McKesson and Epic agreed that the first step of McKesson's method claim ("initiating a communication") was performed by the patient, while the remaining steps were performed by doctors. McKesson alleged that this was sufficient to attribute the "initiating a communication" step to the doctors. The district court disagreed and granted summary judgment in favor of Epic. McKesson appealed.

The panel affirmed the district court's ruling, stating that under *BMC Resources v. Paymentech* (see *IP Update*, Vol. 10, No. 10), *Muniauction v. Thomson* (see *IP Update*, Vol. 11, No. 7) and *Akamai Techs. v. Limelight Networks* (see *IP Update* Vol. 14, No. 1), which was vacated by an *en banc* order (see *IP Update*, this edition), there can only be joint infringement if there is an agency relationship between the parties who perform the method steps or when there is a contractual obligation on the part of one party to the other to perform the steps. The patients were not agents of the doctors, nor did the doctors require their patients to use the software; therefore, the panel rejected McKesson's argument that the doctor-patient relationship gave the doctor effective control over the "initiating a communication" step.

Judge Newman, in dissent, attacked the entire line of precedent beginning with *BMC Resources*, arguing that the limitations on the finding of joint infringement announced in that case contradicted both prior Federal Circuit and Supreme Court precedent and holding that previous cases had taken the position that direct infringement could be performed by two parties acting in concert, regardless of whether there was any sort of agency or other relationship between the parties. Seemingly inviting a request for rehearing *en banc*, the dissent noted that these prior cases "never had an *en banc* reversal" and therefore should be considered the law of the circuit until an *en banc* panel found otherwise.

Judge Bryson's concurrence also seemed to invite a request for rehearing *en banc*, noting that "the decision in this case is correct in light of this court's decision in *BMC Resources*, *Muniauction* and *Akamai Technologies*. Whether those decisions are correct is another question, one that is close enough and important enough that it may warrant review by the *en banc* court in an appropriate case."

Practice Note: As of the time of press, McKesson's expedited consideration of a request for a rehearing *en banc* was granted and the Federal Circuit issued an *en banc* order identifying the following questions to be addressed:

1. If separate entities each perform separate steps of a method claim, under what circumstances, if any, would either entity or any third party be liable for inducing infringement or for contributory infringement? See *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565 (Fed. Cir. 1983).
2. Does the nature of the relationship between the relevant actors—e.g., service provider/user; doc-tor/patient—affect the question of direct or indirect infringement liability?

On April 20, 2011, the Federal Circuit granted *en banc* review of its decision in *Akamai* (see *IP Update*, this edition) on essentially the same issue.

Patents / Joint Infringement

Federal Circuit Grants En Banc Rehearing in Akamai Joint Patent Infringement Decision

by Yar R. Chaikovsky and Cary Chien

On April 20, 2011, the U.S. Court of Appeals for the Federal Circuit vacated its December 2010 decision in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, Case No. 09-1372 (Fed. Cir., Dec. 20, 2010) (Linn, J.) and granted Akamai's petition for rehearing *en banc*. The Court invited briefing on the general theme of when there can be infringement by multiple entities practicing various steps of a claimed invention.

The issue presented in the Federal Circuit's panel decision was whether accused infringer Limelight exercised control and direction over an entire patented process. The decision, now vacated, determined that joint patent infringement only occurs when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps. (See *IP Update*, Vol. 14, No. 1.)

The Court added that “[b]riefs of amici curiae will be entertained, and may be filed without consent and leave of court.”

Patents / Obviousness

Common Sense Variation Is Unpatentable

by Isaac Crum

Affirming the district court's grant of summary judgment of invalidity, the U.S. Court of Appeals for the Federal Circuit held that a common-sense variation of known technology is unpatentable. *Odom v. Microsoft Corp.*, Case Nos. 11-1160 (Fed. Cir., May 4, 2011) (Lourie, J.).

In August 2008 James Odom brought suit against Microsoft, alleging infringement of its patent directed to both a method for manipulating groups of "tools" in "toolbars" commonly found in computer software applications, as well as to the ability to use the divider to hide or display selected tools, by Microsoft's Office 2007, a suite of office productivity software. During the litigation, Odom's counsel withdrew from the case and, failing to retain new counsel, Odom moved to dismiss his claims without prejudice. The district court granted Odom's request to dismiss but declined to dismiss Microsoft's declaratory judgment counterclaims. Microsoft subsequently moved for summary judgment of non-infringement and invalidity.

The district court granted Microsoft's motions for summary judgment, holding that the asserted claims of the patent were invalid for obviousness and not infringed by Office 2007. In so finding, the court stated that the asserted claims presented "one of the clearest" cases of obviousness that had come before it because Odom had simply "cobbled together various pieces of what was already out there in a manner ... that would have been obvious to anyone skilled in the art at the time of the invention." Odom appealed.

On appeal, Odom argues that the district court erred in its obviousness analysis by looking at separate pieces of the claimed invention rather than the invention as a whole, by impermissibly applying hindsight in determining obviousness, and argued that the manipulatable sections of the composite toolbar disclosed in the prior art are very different from the claimed tool groups. The Federal Circuit disagreed. The Court found that user-manipulatable toolbars (which can be customizing according to user preferences and which include groups of command buttons' or

toolbars) were known in prior art at the time the patent in suit was filed. The Court found that the only difference between the prior art and the patent in suit was that the groups of tools claimed in the patent are on a single toolbar. Citing *KSR*, the Court held that this difference “is an insignificant advance.”

Since it would have been a trivial change for a person of skill in the art designing such alterable tool groups to add an indicator that could indicate any altered condition of the tool group, the Federal Circuit concluded that the district court did not err in determining that the manner in which patent divides up toolbars into groups, and the claimed manipulation of tool groups, would have been a common sense variation for a person of skill in the art.

The Federal Circuit also rejected Odom’s arguments of secondary considerations and reiterated that weak secondary considerations generally do not overcome a strong *prima facie* case of obviousness.

Patents / Claim Construction

Can “Within” Include “Without”?

by Lauren Nelson

Addressing for the first time the issue of whether a claim limitation requiring a temperature “within” a recited range includes minor fluctuations outside that range, the U.S. Court of Appeals for the Federal Circuit upheld the district court’s construction and grant of summary judgment of literal infringement. *Lexion Medical, LLC. v. Northgate Technologies, Inc.*, Case Nos. 09-1494, 04-5705 (Fed. Cir., Apr. 22, 2011) (Rader, J.).

The asserted claims were directed to a method of heating gas before it enters a patient during a laparoscopic procedure. The claim at issue contains the following limitation: “having a temperature within 2°C of the predetermined temperature.” The district court found that this limitation did “not require that the temperature range always be within 2°C of the predetermined temperature” because the specification of the asserted patent “discloses that temperatures ‘will, at times, fluctuate outside the four-degree range.’” Because in the accused method the

temperature was “almost always” within the claimed 2°C of the predetermined range, the district court granted Lexion Medical summary judgment of literal infringement. Northgate appealed.

The Federal Circuit upheld the district court’s construction and grant of summary judgment of literal infringement. The Federal Circuit explained that other limitations within the claim support the district court’s finding that the claimed invention includes minor fluctuations in temperature outside of the claimed range. The other claim limitations include “sensing the temperature” of the gas, and “actuating the heat means” if the gas temperature is outside of the claimed range. Because these limitations imply that the gas temperature will fluctuate at times, the claimed 2°C range must include some tolerance for this fluctuation. Also, the specification discloses that when the gas passes into the patient, it has a temperature “at least within about 2°C of the predetermined temperature.” As such, the Federal Circuit explained that the specification “discloses that the temperature will at times fluctuate outside of the range.” The Federal Circuit then stated that the term “within,” read in light of the specification and claim language, would tolerate minor fluctuations outside of the recited range. The Federal Circuit held that the phrase “within 2°C of the predetermined temperature” means “within 2°C of the predetermined temperature, subject to minor fluctuations.”

The Federal Circuit next upheld the district court’s finding that there was “no material disputes” of the fact that the accused method “heats and maintains gas as a ‘predetermined temperature’ within the claimed range, allowing for minor fluctuations.” Thus, the Federal Circuit upheld the court’s grant of summary judgment of literal infringement.

Patents / Invalidity

Genetic Diagnosis Method Patents: Sufficient Written Description Versus the Risk of Anticipation

by Mandy Kim

Affirming a district court’s summary judgment of invalidity for lack of written description, the U.S. Court of Appeals for the Federal Circuit held that written description requires a description of the DNA sequence itself and not just a reference to a potential method for isolating it. The Federal

Circuit also affirmed the district court's summary judgment of invalidity as to anticipation, ruling that a reference is no less anticipatory just because it discounts the utility of the invention after disclosing the invention. *Billups-Rothenberg, Inc. v. Associated Regional and University Pathologists, Inc. et al.*, Case No. 10-1401 (Fed. Cir., Apr. 29, 2011) (Gajarsa, J.).

Billups-Rothenberg (Billups) brought suit against Associated Regional and University Pathologists, Inc. (ARUP) and Bio-Rad Laboratories, Inc. (Bio-Rad) alleging infringement of two patents that describe genetic tests for Type I hereditary hemochromatosis that involve the detection of specific mutations, C282Y and S65C, in a gene involved in regulating iron absorption.

After completion of discovery, a *Markman* hearing and claim construction by the court, the parties filed cross-motions for summary judgment. The district court granted summary judgment of invalidity for lack of written description finding it undisputed that the DNA sequence of the hemochromatosis gene and/or sequence of the C282Y mutation were not expressly specified in one of the patents-in-suit. The district court also granted summary judgment of invalidity of the other patent holding that a prior art reference, filed nearly three years earlier, disclosed the same genetic test for S65C as disclosed in the second of the patents-in-suit. Billups appealed.

First, the Federal Circuit affirmed the district court's ruling on written description, noting that the first Billups patent claimed a test for mutations, but failed to disclose the hemochromatosis gene sequence or any specific mutations within that gene. The Court noted that the patent further failed to disclose the exact location or sequence of the mutation. The Federal Circuit held that Billups could not satisfy the written description requirement merely through references to later-acquired knowledge "given the lack of knowledge of sequences for the hemochromatosis gene and its mutations in the field, the limited extent and content of the prior art, and the immaturity and unpredictability of the science when the [...] patent was filed."

Turning to the second Billups patent and the issue of anticipation, the Federal Circuit agreed with the district court's findings that the prior art patent anticipated the asserted claims of the Billups patent. The Federal Circuit determined that the prior art disclosed a method of diagnosing an iron disorder by detecting mutations, including the S65C mutation disclosed in

the Billups patent, despite uncertainty voiced by the prior art inventor regarding the utility of the S65C mutation because of their small sample size. Applying precedent, the Federal Circuit held that “[a]lthough the [prior art] patent discounts the utility of the S65C mutation in diagnosing hemochromatosis, we have held that a ‘reference is no less anticipatory if, after disclosing the invention, the reference then disparages it.’”

Practice Note: To satisfy the written description requirement for genetic diagnosis methods, patentees should be aware of the importance of isolating or sequencing the key genes and/or mutations before seeking patent protection.

Patents / Personal Jurisdiction / Declaratory Judgment

Specific Jurisdiction Rule in Patent D.J. Cases

by Clifford R. Lamar II (Dale)

The U.S. Court of Appeals for the Federal Circuit recently reiterated its rule that only activities directed to patent enforcement can give rise to specific (personal) jurisdiction in a declaratory judgment action. *Radio Sys. Corp. v. Accession, Inc.*, Case No. 10-1390 (Fed. Cir., Apr. 25, 2011) (Bryson, J.).

Between November 2006 and February 2009, Accession (a New Jersey company) contacted Radio Systems (a Tennessee company) about a possible relationship for marketing a pet door invention (the Wedgit). During this time, the U.S. Patent and Trademark Office (USPTO) granted Accession a patent. Accession’s representative traveled to Tennessee in April 2009 to demonstrate the Wedgit and signed a nondisclosure agreement (NDA) with Radio Systems. The NDA included a forum selection clause, specifying U.S. District Court for the Eastern District of Tennessee for any dispute that might arise from the subject matter of the NDA.

Through its New Jersey counsel, in August 2009, Accession first contacted Radio Systems about enforcing its patent. Accession’s counsel also contacted the USPTO about Radio Systems’ application covering its pet door (the SmartDoor). In November 2009, Radio Systems filed a complaint in the Eastern District of Tennessee seeking declaratory judgment of non-infringement and invalidity of the Accession patent. Accession moved for dismissal for lack of

personal jurisdiction. The lower court granted Accession's motion, and Accession then filed its own complaint alleging patent infringement in the District of New Jersey. Radio Systems appealed the dismissal of its earlier failed DJ case, and the NJ court stayed its case pending the appeal.

Judge Bryson penned the Court's unanimous decision rejecting all of Radio Systems' arguments. First, the Court emphasized patent law policy of providing a patentee with wide latitude to inform others of its patent rights without subjecting itself to jurisdiction in a foreign forum. This wide latitude includes the ability to send enforcement letters that include warnings, threaten infringement suits, or offers to license the patent. Based on this policy, the Court, citing its 2008 decision in *Avocent Huntsville v. Allen Ins't* (see [IP Update, Vol. 12, No. 1](#)) reiterated that only those activities of the patentee that relate to the enforcement or defense of the patent can give rise to specific (personal) jurisdiction in a declaratory judgment action. Accession's contacts prior to August 2009, including the April 2009 meeting, were not related to the enforcement of the patent and were inapposite to the issue of personal jurisdiction, especially as Radio System pled specific jurisdiction (based on related event) rather than general jurisdiction. Only those contacts after August 2009 fell squarely in the bounds of patent law DJ policy.

Second, Judge Bryson held that extra-judicial enforcement efforts (*i.e.*, Accession's counsel contacting the USPTO to alert the examiner of a pending Radio Systems patent application about Accession's issued prior art patent) must stand on their own to be sufficient for specific jurisdiction. Here, those efforts were directed to the USPTO in Virginia. Third, the Court rejected Radio Systems' assertion that the forum selection clause of the NDA was dispositive. Judge Bryson held that the subject matter of the NDA was "confidential information." Since Accession's patent had issued and the SmartDoor was necessarily already in the possession of Radio Systems as of April 2009, the later enforcement activities of Accession were not captured by the forum selection clause.

Practice Note: Only enforcement or defense activities by a patentee directed to the forum state can give rise to specific (personal) jurisdiction in a declaratory judgment action. Without more, mere communications providing information about the patent—even if warnings, threats of

litigation or offers for licensing are included—are insufficient to give rise to personal jurisdiction over a patentee in a foreign forum.

Patents / Best Mode

Best Mode Lacking Where Disclosure “Leads Away” From Commercial Embodiment

by Charles J. Hawkins

The U.S. Court of Appeals for the Federal Circuit affirmed a lower court’s ruling of summary judgment of invalidity for failure to disclose the best mode of a patent based on the subjective belief by at least one inventor that the commercial offering was the best mode. *Wellman, Inc. v. Eastman Chemical Co.*, Case No. 10-1249 (Fed. Cir., Apr. 29, 2011) (Rader, J.).

The district court case was initiated by Wellman, which asserted that Eastman Chemical infringed two Wellman patents that disclose polyethylene terephthalate (PET) resins for use in plastic beverage containers. The patents, which claim priority to the same applications and share similar specifications, state that prior art PET resins produced bottles that shrank or grew hazy from crystallization when filled with hot liquids. To overcome these problems, the Wellman patents disclose “slow-crystallizing” PET resins that purportedly retain exceptional clarity by delaying the onset of crystallization.

When Wellman filed the application that lead to the patents, it had a commercial product that had a slow-crystallizing PET resin that solved the above problem. During discovery, one of the inventors testified regarding the formulation of the commercial product. However, the Wellman patents did not disclose the recipe for that product, or any specific recipe for any product, real or hypothetical.

The district court found that at least that one inventor viewed the commercial product as the best mode of practicing the invention at the time of filing and noted that the patent failed to disclose either the formula or trade name of the commercial product. The district court granted Eastman’s motion for summary judgment for failure to disclose the best mode as required by 35 U.S.C. §112, ¶1. Wellman appealed.

Reviewing the lower court's summary judgment ruling without deference, the Federal Circuit affirmed. The Federal Circuit noted that there was no dispute regarding the first part of the best mode requirement—that is, the parties did not dispute that at least one of the inventors believed that Wellman's commercial product was the best mode of the claimed invention. Noting the subjective nature of the first element, the court stated that the first part of the test was satisfied regardless of other evidence that might have shown that other embodiments were the best mode. The court determined that it was the subjective belief of the inventor that prevailed in that situation.

In considering the second element of the best mode requirement, whether there is evidence that the applicant concealed the best mode, the Federal Circuit found that disclosure of ingredients that would lead away from the commercial product showed concealment. The Federal Circuit stated that concealment was shown by not only not disclosing the recipe of the commercial product, but also by identifying a preferred concentration range for certain ingredients that would have excluded the ingredients necessary to make the commercial product.

Practice Note: Under pending reform legislation, the best-mode requirement would be eliminated from U.S. patent law. (See [IP Update, Vol. 14, No. 3](#)).

Patents / Exhaustion

Assignments Are Always Subject to Prior Licenses

by W. Sutton Ansley

The U.S. Court of Appeals for the Federal Circuit upheld the lower court's decision of patent exhaustion in a case involving a labyrinth of assignments and prior licenses. The Federal Circuit also agreed that a hybrid (method/apparatus) was involved was invalid under 35 U.S.C. § 112, ¶ 2. *Rembrandt Data Techs., LP v. AOL, LLC et al.*, Case No. 10-1002 (Fed. Cir., Apr. 18, 2011) (Gajarsa, J.).

The two patents-in-suit relate to computer modems and methods of identifying modems. The patents were originally acquired by subsidiaries of AT&T in 1993 and 1994, respectively. In 1996, when AT&T underwent a "trivestiture," the patents were transferred to Lucent

Technologies. Through a series of subsequent corporate spin-offs and acquisitions, in 2008, these patents eventually were assigned to the plaintiff, Rembrandt.

The defendant-appellees, Hewlett-Packard Co. (HP) and the Canon corporate entities, defended against Rembrandt's assertions of patent infringement by claiming that they could trace their rights to use the patented technology to a prior license. In 1988, AT&T licensed the patents-in-suit to Rockwell International Corporation. In 1995, a "Side Letter Agreement" between AT&T and Rockwell amended the 1988 license agreement to grant Rockwell additional sub-licensing rights. Rockwell eventually spun-off its modem business to Conexant Systems, Inc., the allegedly infringing modem chip supplier for HP and Canon.

The district court found that that the 1995 Side Letter Agreement had effectively given Rockwell the ability to sub-license the patents-in-suit, noting that although the law generally does not recognize the right of a licensee to sublicense patent rights without the licensor's written consent, a contract may provide otherwise. Rembrandt appealed.

The Federal Circuit affirmed, noting that the language "the licenses and rights granted in the Agreement may be sublicensed to any future divested present business of Rockwell" expressly permitted Rockwell to sublicense the patents-in-suit without AT&T's written consent.

Finding that Conexant was a proper sub-licensee of the patents, the Federal Circuit affirmed the district court's holding that Rembrandt's rights to enforce the patents-in-suit against HP and Canon had been exhausted by Conexant's sale of the modem chips.

The Federal Circuit also upheld the district court's finding of patent invalidity as to several claims of one of the patents in suit. The district court had found the claims invalid for indefiniteness under §112, ¶ 2, because it recited "both and apparatus and a method of using that apparatus." Specifically, the claims recite five elements. The first four are apparatus elements (a buffer means, a fractional encoding means, a second buffer means and a trellis encoding means), but the fifth element ("transmitting the trellis encoded frames") is a method step.

Although Rembrandt asserted that the fifth element was a mere typographical error, the Federal Circuit citing its 2004 decision in *Chef Am. v. Lamb-Weston* (see [IP Update, Vol. 7, No. 3](#))

emphasized the Court’s inability to redraft claims, “whether to make them operable or to sustain their validity.” Moreover, the Federal Circuit, citing its 2003 decision in *Novo Industries v. Micro Molds* (see *IP Update*, Vol. 6, No. 12) a court can correct a patent “only if (1) the correction is not subject to reasonable debate based on consideration of the claim language and the specification and (2) the prosecution history does not suggest a different interpretation of the claims.” Neither was the case here.

Finally, the Federal Circuit reversed the district court’s summary judgment finding certain claims that recited a “fractional rate encoding means” and “trellis encoding means” invalid for indefiniteness. It held that the district court improperly interpreted those claim terms as means-plus-function elements under §112, ¶ 6. Although use of the word “means” raises the presumption of a means-plus-function claim, that presumption can be rebutted if the claim limitation itself recites sufficient structure to perform the claimed function in its entirety. Because there was still a genuine dispute of material fact as to whether the patent sufficiently disclosed an algorithm able to perform the recited functions in the claims, the Federal Circuit reversed and remanded that issue to the district court.

Patents / Reissue

Adding Only Dependent Claims Is Error Correctible By Reissue

by Babak Akhlaghi

The U.S. Court of Appeals for the Federal Circuit held that patent applicants can file a reissue application that retains all original claims and adds only dependent claims. *In re Yasuhito Tanaka* (Fed. Cir., Apr. 15, 2011) (Linn, J.) (Dyk, J., dissenting).

Yasuhito Tanaka (Tanaka) appealed from the precedential decision of the Board of Patent Appeals and Interferences (the Board), holding that a reissue application that adds only dependent claims does not present the type of error correctible by reissue under 35 U.S.C. §251. Tanaka filed a reissue application seeking to broaden claim 1 of his patent and did so within two years of the patent issuance. Over the course of prosecuting the reissue application, Tanaka gave up on broadening claim 1 and presented original claims with a new dependent

claim. The examiner rejected the claims, asserting that no error has been specified that broadens or narrows the scope of the claims. The rejection was made final. Tanaka appealed to the Board.

The Board held that §251 “disallow[s] reissue applications that simply add narrow claims to the reissue patent when no assertion of inoperativeness or invalidity for the reasons set forth in § 251 can be made by the patentee.” Therefore, the Board affirmed the examiner’s decision, whereupon Tanaka appealed to the Federal Circuit.

On appeal, Tanaka argued that the Board’s holding is inconsistent with long standing Court of Customs and Patent Appeals (CCPA) precedent such as *In re Handel* and *In re Muller*, as well as with Federal Circuit precedent such as *Hewlett-Packard v. Bausch & Lomb*. The Federal Circuit agreed, noting that § 251 provides “[w]henver any patent is ... deemed wholly or partly inoperative or invalid ... by reason of the patentee claiming more or less than he had a right to claim in the patent, the Director shall...reissue the patent.” Referring to its precedent, the Federal Circuit noted that the term less means claiming fewer claims than patentee could have properly claimed rather than referring to the scope of protection. In *In re Handel*, it was stated that adding dependent claims as a hedge against possible invalidity of original claims is a proper reason for asking for a reissue to be granted.

Accordingly, the Federal Circuit concluded that patent applicants can file a reissue application for purposes of adding only additional dependent claims.

Judge Dyk, in dissent, cited an 1883 Supreme Court case, *Gage v. Herring*, that in his view prohibited a reissue applicant from returning his original claims without amendment.

Patents / Reissue

Recapture Is Not Avoided by Merely Narrowing Aspects Unrelated to Surrendered Subject Matter

by Aamer S. Ahmed

Affirming a decision by the Board of Patent Appeals and Interferences (the Board), the U.S. Court of Appeals for the Federal Circuit concluded that the rejection of an applicants' reissue application for semiconductor packaging based on improper recapture of previously surrendered subject matter was correct. *In re Shahram Mostafazadeh and Joseph O. Smith*, Case No. 10-1260 (Fed. Cir., May 3, 2010) (Dyk, J.).

The applicants were issued a patent with a claim directed to “[a]n integrated circuit package comprising: (a) a lead frame comprising . . . a plurality of elongated leads . . . including a *circular portion formed as an attachment pad*.” The claim term “circular portion formed as an attachment pad” limitation was added during prosecution. The applicants argued to the examiner that “neither the circular pads . . . nor their attendant benefits [were] disclosed or suggested by [the prior art].” Within the statutory two-year period, the applicants filed an application to reissue the patent with 12 new claims, alleging that the original claims were partially inoperative because the circular-attachment-pad limitation was unduly limiting. The reissue claims retained the requirement of “an attachment pad” and added limitations defining a bus bar. However, the circular shape limitation was omitted. After the Board affirmed the examiner’s rejection based on recapture, application appealed.

The Federal Circuit, citing to *In re Clement*, applied the three-part recapture test, noting that there was no dispute regarding the first and second parts of the test, *i.e.*, that “the reissue claims are broader than the patented claims” and “the broader aspects relate to the surrendered subject matter (*i.e.*, the circular-attachment-pad limitation).” The Court thus focused on the third part of the recapture analysis: determining “whether the surrendered subject matter has crept into the reissue claim.”

The Court noted that a limitation added during prosecution to overcome prior art cannot be entirely eliminated on reissue. However, an added limitation may be modified, so long as the limitation continues to materially narrow the claim scope relative to the surrendered subject matter such that the surrendered subject matter is not entirely or substantially recaptured. The Court found the Board's analysis (expressed in terms of broadening or narrowing of the *limitation*) to be "perplexing," explaining that it was clearer to speak in terms of broadening or narrowing of the *claims*.

Nevertheless, the Court affirmed the U.S. Patent and Trademark Office's rejection, finding that although the reissue claim retained the attachment pad limitation, that limitation was related to the surrendered subject matter and, as posed in the reissue claims, the limitation was not materially narrowing because the use of an attachment pad per se was well known in the prior art. The Court further concluded that the other narrowing limitations in the reissue claims were unrelated to the surrendered subject matter and thus insufficient to avoid the rule against recapture.

Patents / False Marking

The Hacker Who Avoided a False Marking Claim

by Eric Garcia

The U.S. Court of Appeals for the Federal Circuit affirmed a lower court's dismissal, with prejudice, of a false marking complaint, finding that the complaint failed to properly allege an "unpatented article" under 35 U.S.C. § 292. *Juniper Networks, Inc. v. Shipley*, Case No. 10-1327 (Fed. Cir., Apr. 29, 2011) (Rader, J.).

Defendant Peter M. Shipley is an alleged computer hacker who maintained a website for the hacker community. In 1995 and 1996, Shipley developed software known as Dynamic Firewall, a self-modifying active firewall filter designed to defend against network monitors and tools. In 1997, Shipley provided information on a "Current Projects" portion of his website regarding the Dynamic Firewall. The website stated that the Dynamic Firewall was patented.

Plaintiff Juniper filed its false marking complaint against Shipley after the current owner of the Dynamic Firewall patents accused Juniper of infringing those patents in a separate lawsuit.

Relying on information obtained during the discovery phase of that suit, Juniper alleged that an embodiment of the Dynamic Firewall was used as a component of the website. The Dynamic Firewall, however, was destroyed in 1999 due to a hard drive crash in a computer in Shipley's home. Thereafter, no other prototype or product embodying the Dynamic Firewall was created.

In its original complaint, Juniper alleged that Shipley falsely marked the website and any firewall or services operating thereon from 1999 (the date the Dynamic Firewall was destroyed) to the present. The lower court dismissed Juniper's original complaint and, later, Juniper's amended complaint, finding that Juniper failed to plead facts showing that Shipley had marked an "unpatented article." The lower court reasoned that the markings displayed on the website referred only to the Dynamic Firewall, and not to software *operating on the website*, as alleged by Juniper. Juniper appealed.

The Federal Circuit affirmed, emphasizing that Juniper only alleged that the falsely marked "unpatented article" was the Website itself. As a side note, the Court noted that had Juniper alleged that the Dynamic Firewall was itself falsely marked, such a claim would be barred because the sole embodiment of the Dynamic Firewall was destroyed in 1999 and §292 requires that the mismarked article actually exist.

However, the Court did note that a website may qualify as an "unpatented article" under §292 because websites may both embody intellectual property and contain identifying markings.

Turning to Shipley's website and markings appearing therein, the Court focused on whether the markings related to the website itself. The Court reasoned that the markings appeared on the "Current Projects" page, which was intended to provide the viewer with "a list of current projects and research underway." The page also stated that "[m]ost or all of these projects will be released to the public upon completion." Accordingly, the Court found that the website categorized the Dynamic Firewall as a "current project" that was "underway." Additionally, nowhere did the website indicate that the Dynamic Firewall was operating on the website. Therefore, the Court found that "when considered in context, the allegedly affixed marks relate

to [the] Dynamic Firewall as opposed to the Website, software operating on the Web-site, or pages generated by the Website.”

Trademarks / Jurisdiction / Internet

Personal Jurisdiction Lacking Despite Twenty Internet Users from Forum State Signing Up for Defendant’s Website

by Rita Weeks

Considering whether a New Jersey website operator was subject to personal jurisdiction in Illinois, the U.S. Court of Appeals for the Seventh Circuit held that for personal jurisdiction to arise, a defendant must in some way target the forum state’s market in addition to operating an interactive website that is accessible from the forum state. *be2 LLC v. Ivanov*, Case No.10-2980 (7th Cir., Apr. 27, 2011) (Hamilton, J.)

The plaintiffs operated an international internet dating website at the domain name be2.com. The plaintiff’s U.S. affiliate was located in Delaware. Defendant Nikolay Ivanov, an individual alleged to be the co-founder of a competing internet dating website, was located in New Jersey. The plaintiffs brought a federal trademark infringement action against Ivanov in Illinois, based upon his operating of an internet dating website at the domain name be2.net. The district court entered default judgment against Ivanov after the defendant failed to answer the complaint and attend a scheduled status hearing. Ivanov appeared for the first time through counsel after the entry of default judgment against him, filing a motion to vacate the judgment as void for want of personal jurisdiction. Ivanov argued that he was not subject to personal jurisdiction in Illinois because, among other things, he was not the co-founder or CEO of the competing internet dating company and he had never set foot in Illinois. Ivanov’s sworn declaration, however, contained several unbelievable representations. For example, the defendant claimed that the website reference to him as “CEO” actually meant to communicate that he was the website’s “Centralized Expert Operator,” who merely translated content on the website from Bulgarian to English. The district court denied Ivanov’s motion, and he appealed.

Although the Seventh Circuit recognized that Ivanov’s declaration contained “preposterous” claims, the court nonetheless reversed the district court and remanded the case with instructions to vacate the judgment and dismiss the plaintiffs’ complaint for lack of personal jurisdiction. The court performed a “minimum contacts” analysis to determine whether personal jurisdiction was proper. Toward the “purposeful availment” factor, the court considered whether Ivanov had “purposely exploited the Illinois market” to determine if his contacts with the state were sufficient to confer personal jurisdiction. The plaintiffs had submitted evidence showing that 20 persons who listed Illinois addresses had at some point created free dating profiles on Ivanov’s website. Even assuming that those 20 individuals were active users of Ivanov’s website and were actually located in Illinois, the court determined that such contacts, without more, were attenuated contacts that did not subject the defendant to personal jurisdiction in Illinois. In so holding, the court noted that there was no evidence of any interactions between Ivanov and the 20 individuals. Further, the court reasoned that the evidence submitted showed that the 20 individuals may have created their dating profiles unilaterally by simply stumbling upon Ivanov’s website and clicking a button that automatically published their dating preferences online. Without additional evidence showing that the defendant targeted or exploited the Illinois market, the court could not find that Ivanov availed himself of the privilege of doing business in the state.

Trademarks / Domain Name Disputes

Domain Name Registrant Found to Lack Bad Faith in UDRP Proceeding Later Loses Against ACPA Claim

by Whitney D. Brown and Rita Weeks

Considering whether a domain name registrant who prevailed in a Uniform Domain Name Dispute Resolution Policy (UDRP) proceeding possessed legitimate rights in the domain name in a subsequent court action for federal cybersquatting, the U.S. Court of Appeals for the Fourth Circuit affirmed a grant of summary judgment to plaintiff, finding that the defendant domain name registrant ceased to possess rights in the underlying domain name when it changed the content of its website to content concerning a geographical location referenced by the mark to content targeting the same type of products sold by a trademark owner under the mark.

Newport News Holdings Corp. v. Virtual City Vision, Inc., Case No. 09-1947 (4th Cir., Apr. 18, 2011) (Duncan, J.)

Plaintiff Newport News Holding Corporation sells women's clothing and accessories under the mark NEWPORT NEWS and has been in existence for more than 20 years. The plaintiff sells its products through catalogs and the internet at the domain name Newport-news.com, which it purchased in November 1997. The plaintiff attempted to purchase the domain name Newportnews.com at that time, but it had already been acquired by defendant Virtual City Vision. Virtual City Vision owns at least 31 domain names incorporating the names of geographic locations, including the domain name newportnews.com.

The plaintiff brought a UDRP complaint against the defendant in 2000, seeking the transfer of the domain name newportnews.com, but did not prevail. Acknowledging that while the domain name and trademark were identical, the UDRP panel determined that no likelihood of confusion existed because the defendant's website explicitly provided information about Newport News, Virginia, and had no connection whatsoever to women's fashions. The panel further held that defendant's website provided "bona fide service offerings" consisting of disseminating city information towards tourism, finding there was a "total absence" of competition between the parties.

Approximately four years after obtaining the UDRP decision in its favor, the defendant began running occasional advertisements for women's clothing on its Newportnews.com website.

Between 2004 and 2008, the defendant's website shifted its focus from offering information about Newport News, Virginia, to one emphasizing women's fashions. The website also ran advertisements for women's apparel. In 2007, the plaintiff made an offer to purchase the defendant's domain name. The defendant rejected the offer, demanding more \$1 million or an arrangement whereby the defendant would sell the plaintiff's goods on its website for a commission.

In 2008, the plaintiff filed an action against the defendant for trademark infringement, false advertising, unfair competition, cybersquatting and related claims. The plaintiff later filed a motion for summary judgment on its cybersquatting claim under the Anti-Cybersquatting

Consumer Protection Act (ACPA). The district court granted summary judgment to the plaintiff on its ACPA claim pertaining to the domain name newportnews.com, finding that the defendant possessed bad-faith intent to profit and awarding statutory damages and attorneys' fees. The defendant appealed, arguing that the district court erred in finding that it acted in bad faith.

On appeal, the 4th Circuit upheld the district court's finding of bad faith. While the defendant argued that it offered a legitimate service under the domain name by providing information about the city of Newport News, the court pointed to clear evidence that the defendant had shifted its focus away from providing information about Newport News and became a website devoted primarily to women's fashion. It would undermine the purpose of the ACPA, the court explained, if a domain name registrant was permitted to profit from another company's trademark simply by providing some minimal amount of information about a legitimate subject as the defendant did here. Further, the 4th Circuit pointed to the UDRP decision as additional proof of the defendant's bad faith. The UDRP panel found the defendant's use proper precisely because its business of providing city information was unrelated to the plaintiff's clothing business. However, "in the face of the cautionary language [from the UDRP decision]," the court noted, "Defendant purposefully transformed its website into one that competed with Plaintiff by advertising women's apparel."

Further, the 4th Circuit further found no abuse of discretion in the district court's award of attorneys' fees to the plaintiff, agreeing with the district court's finding that the defendant's conduct was exceptional in light of the timing of the transformation of the site—the defendant had changed its website content clearly after it had been made aware by the UDRP panel that only lack of competition between the parties made the defendant's use of the domain name legitimate. Similarly, the court affirmed the district court's statutory damages award of \$80,000, finding the amount appropriate given the particularly egregious nature of the defendant's conduct.

Trademarks / Distinctiveness

Fictitious “Conch Republic” May Receive Trademark Protection Upon Showing of Secondary Meaning

by Jeremy T. Elman

Addressing whether a name referencing a fictitious geographical location was generic, Florida’s Third District Court of Appeals held that the term “Conch Republic” was not generic in referring to a satirical name for the Florida Keys and may be protectable as a descriptive trademark if secondary meaning is established. *Anderson v. Upper Keys Business Group, Inc., et al.*, No. 3D10-356 (Fla. 3d DCA, April 20, 2011) (Rothenberg, J.) (Schwartz, J., dissenting)

In 1982, the city of Key West, Florida sought an injunction to stop a United States Border Patrol blockade on the highway to Key West. After the injunction was denied, the mayor of Key West staged a mock secession from the United States, which had no official effect. The moniker “Conch Republic,” has been used locally in Key West as a tourism booster since that time, featuring items such as flag, motto (“we seceded where others failed”) and assorted souvenir items. Local municipalities and community organizations also hold events celebrating the “secession.” Plaintiff-appellee Upper Keys Business Group, Inc. (UKB) planned such a festival, titled “Conch Republic Days: Northernmost Territories.” Since 1990, defendant-appellant Peter Anderson has marketed and coordinated a separate festival, called “Conch Republic Independence Celebration.” UKBG brought suit against Anderson to prevent Anderson from interfering with UKBG’s planned festival. Anderson counterclaimed for unfair competition and dilution of his festival’s name “Conch Republic Independence Celebration.”

The trial court granted summary judgment in favor of UKBG. First, the court held that the terms “Conch Republic” and “Independent Celebration” were generic and thus unprotectable as a trademark. The court opined that the right to celebrate the satirical celebration “belongs to no one man.” Second, the court determined that the festivals presented no likelihood of confusion. The court found that the festival’s names were distinctly different and referred to separate events in separate trade markets located 70 to 80 miles apart at different ends of the Florida Keys.

On appeal, the appellate court reversed the trial court's order granting summary judgment to UKBG, finding that Anderson's mark was descriptive and not generic. In finding Anderson's mark descriptive, the court noted that the mark identifies its purpose—to celebrate the satirical 1982 secession of the Florida Keys—and also designates the geographic location, the Conch Republic, *i.e.*, the Florida Keys. As Anderson's mark is descriptive, however, Anderson must establish secondary meaning in the mark in order to receive trademark protection, which was not addressed by the lower court. Accordingly, the court remanded the case to the trial court to evaluate Anderson's evidence submitted towards secondary meaning. Further, the court instructed the trial court to consider whether Anderson had established seniority. Finally, the court instructed that the trial court should only assess likelihood of confusion if both secondary meaning and seniority were found, as well as whether it was incorrect for the trial court to address likelihood of confusion after finding Anderson's mark incapable of protection.

In dissent, Judge Schwartz stated that he would affirm the trial court's grant of summary judgment to UKBG, because Anderson's alleged mark is generic and thus unprotectable and also due to the "unlikelihood of confusion" between the parties' marks.

Trademarks / Naked Licensing

Bridal Shop Loses Trademark Rights for Naked Licensing

by Rita Weeks

Considering whether a family-operated bridal clothing business exercised sufficient quality control over services rendered under their trademarks to survive an abandonment challenge, the U.S. Court of Appeals for the Seventh Circuit held that the plaintiff did not, despite the fact that the plaintiff had no reason to doubt the standards employed by its licensee. *Eva's Bridal Ltd. v. Halanick Enter., Inc.*, Case No. 10-2863 (7th Cir., May 10, 2011) (Easterbrook, C.J.)

In 1996 Eva Sweis established a bridal clothing shop in Chicago named "Eva's Bridal." The successful business expanded as Eva allowed her children to open their own shops under the same name. Ultimately, the business passed to Eva's relatives Said and Nancy Ghusein, who continued the practice of licensing the associated trademarks to relatives.

After opening an “Eva’s Bridal” shop in a Chicago suburb, the plaintiff sold the shop to relative Nayef Ghusein. The agreement between the parties required Mr. Guisein to pay Eva’s Bridal \$75,000 per year for the right to use the name “Eva’s Bridal” and the associated trademarks. After the license agreement expired in 2002, Ghusein continued to use the name and marks without paying any royalty. In 2007, the plaintiff sued defendant Guisein for trademark infringement based upon his unauthorized use of the “Eva’s Bridal” marks.

The district court dismissed the suit on the ground that the plaintiff abandoned the “Eva’s Bridal” marks by engaging in naked licensing. A trademark may be found to have been abandoned if a mark owner allows others to use it without exercising reasonable control over the nature and quality of the goods or services rendered under the mark. Because the license agreement between the two parties did not contain any quality control requirements and did not give the plaintiff any authority over how the defendant’s business was conducted, the district court determined that it had been abandoned and the defendant could use it. The plaintiff appealed.

On appeal, the Seventh Circuit upheld the finding of abandonment. The plaintiff argued that there was never any doubt about the high standards of the defendant and his company, so there was no reason to interfere in the defendant’s operation of his business. The court rejected this position, explaining that no legal rule requires trademark owners to ensure “high quality” goods or that “high quality” permits unsupervised licensing. Rather, the court explained, “[t]he sort of supervision required for a trademark license is the sort that produces consistent quality.” Trademark owners must exercise quality control to ensure that consumers receive a “repeatable experience.” The court did not dispute that the defendant provided high-quality services, but instead held that the plaintiff had abandoned the company’s marks because the firm had retained no control whatsoever over the defendant’s use of the marks—neither via the license agreement nor through course of performance.

Trademarks / EU Enforcement

European Court of Justice Extends Injunction Granted in One Jurisdiction to Entirety of European Union

by Désirée Fields

Following the Opinion of Advocate General Pedro Cruz Villalón of October 7, 2010, Court of Justice of the European Union (CJEU) has held that an injunction granted by a national court of one member state under proceedings under the Community Trademark Regulation (40/94/EEC, now replaced by 207/2009/EC) has effect, in principle, throughout the EU. *DHL Express France SAS v. Chronopost SA*, Case C-235/09 (CJEU, Apr. 12, 2011).

Chronopost owns a Community Trademark and French trademark for WEBSHIPPING covering services relating to logistics and data transmission. DHL Express used the word WEBSHIPPING to designate its online-accessible express mail management service.

Chronopost issued proceedings in France against DHL for infringement of both its French and Community Trademarks. At first instance, the Tribunal de Grande Instance de Paris (Regional Court, Paris), which heard the case as a Community Trademark Regulation (CTM) court, found that DHL had infringed Chronopost's trademarks and issued an injunction against DHL. It also imposed a financial penalty on DHL should DHL fail to comply with the injunction. The court declined, however, to grant Chronopost's request that the injunction be extended to the entire area of the EU. Instead, the court restricted the injunction to French territory. DHL appealed to the Cour d'appel de Paris (Paris Court of Appeal) and Chronopost appealed on the territorial scope of the injunction. The appeal court made a reference to the CJEU requesting clarification as to the territorial scope of the injunction and the financial penalty imposed by the French court.

The CJEU noted that a CTM has unitary character, providing the owner protection against infringement across the whole of the EU. Further, the objective of Article 98(1) of the 1994 CTM Regulation (which governs the sanctions a CTM court may impose on a finding of infringement or threatened infringement) is the uniform protection, throughout the entire EU, of the right conferred by the CTM against the risk of infringement. Thus, the court explained that in order to ensure that uniform protection, a prohibition against infringement must extend to the

entire area of the European Union. If the territorial scope of that prohibition were limited to the territory of a particular member state, an ongoing risk would exist that the defendant would begin to exploit the mark at issue afresh in another member state. This would force the trademark proprietor to bring separate judicial proceedings in each separate member states, which would lead to a risk of inconsistent decisions.

The CJEU acknowledged, however, that the territorial scope of a prohibition might in some circumstances be restricted. The exclusive right of a CTM owner is conferred in order to enable the proprietor to protect his specific interests in the trademark. Accordingly, the exercise of that right is reserved to cases in which a third party's use of the mark affects, or is liable to affect, the functions of the CTM. If a CTM court held that the acts of infringement or threatened infringement are limited to a single or certain member states, for example, if the defendant proves that use of his allegedly infringing mark will not affect the functions of the claimant's mark in other member states on linguistic grounds, then the court must limit the territorial scope of the injunction to exclude those member states.

The CJEU also held that any coercive measures ordered by a CTM court by application of its national law, such as a periodic penalty payment, must extend to the whole of the territory for which the injunction is granted. Where the national law of a member state does not contain a coercive measure similar to that ordered by the CTM court, it must achieve enforcement in accordance with its own national laws.

Practice Note: The decision is significant as a contrary ruling would have meant that CTM owners would have had to pursue infringers in multiple EU member states. However, there is still scope for difficulties concerning coercive measures, not least where a national court does not have the power to order a particular measure but needs to ensure that it is complied with in an equivalent manner.

Unfair Competition / False Advertising

False Advertising Injunction Upheld; It's All Good ... And Good for You

by Rose Whelan and Rita Weeks

In a case involving nutritional claims associated with baby formula, the U.S. Court of Appeals for the Fourth Circuit upheld a \$13.5 million jury verdict won by a generic baby formula producer and permanent injunction for false advertising against its longtime legal foe, brand name baby formula producer Mead Johnson. *PBM Products v. Mead Johnson & Co.*, Case No. 10-1421 (4th Cir., April 20, 2004) (Davis, J.).

Plaintiff PBM produces store-brand, “generic” baby formula. Defendant Mead Johnson produces various formulations of baby formula under the brand name “Enfamil.” Both parties’ formulas contain the same level of two key nutrients that are important to an infant’s brain and eye development. The defendant refers to these nutrients by their brand name “LIPIL” and the plaintiff uses the generic descriptor “lipids.”

In 2008, Mead Johnson distributed an advertising mailer to 1.6 million customers comparing its LIPL version of Enfamil-brand baby formula to store brands. The mailer contained a number of statements indicating that, among other things, only Enfamil LIPL would result in improved brain and eye development. Consequently, PBM sued Mead Johnson for false advertising in violation of the Lanham Act and commercial disparagement. Mead Johnson counterclaimed against PBM for, among other things, false advertising and defamation.

Ultimately, the jury returned a verdict in favor of PBM, finding the defendant had engaged in false advertising in violation of the Lanham Act and awarding PBM \$13.5 million in damages. The court also issued a permanent injunction enjoining all four advertising claims at issue. Mead Johnson appealed, arguing that the district court erred by admitting expert consumer surveys and evidence of prior false advertising litigation between the parties. The defendant also contested the issuance and scope of the injunction.

The 4th Circuit affirmed, concluding that the district court did not abuse its discretion by admitting consumer surveys conducted by the plaintiff’s experts that supported claims that the

defendant's advertising attempted to deceive or mislead a substantial portion of its intended audience. Recognizing that plaintiff's surveys may contain some deficiencies in methodology, the court explained that such flaws generally go to weight rather than admissibility. The 4th Circuit also held that the district court did not err in allowing evidence of prior false advertising litigation between the parties involving other baby formula advertisements. The court explained that such evidence was relevant because it speaks to Mead Johnson's intent in making its misleading claims. Further, any unfair prejudice was limited by the district court's exclusion of specific evidence regarding the settlements in the prior litigation.

After determining that the district court did not abuse its discretion in the contested evidentiary rulings, the 4th Circuit considered the propriety and scope of the permanent injunction granted by the district court. The 4th Circuit upheld the injunction, finding that PBM had satisfied the injunction standard announced by the Supreme Court in *eBay, Inc. v. MercExchange* (2006), (see *IP Update, Vol. 9, No. 5*). Notably, the court found that the plaintiff had established irreparable harm because the defendant's advertising had misled consumers. Further, PBM had also established that it had an inadequate remedy at law and that the balance of hardships favored it. Noting the litigation history between the parties, the court concluded that an injunction was warranted to prevent Mead Johnson from making similar claims in the future. Finally, the 4th Circuit held that public interest favors the prevention of false and misleading advertisements and that the scope of the injunction was proper.

Copyright / Preemption

Idea Submission Case Involving "Ghost Hunters" Television Series Not Preempted by Copyright Law

by Rita Weeks and Gene Folgo

In a 7-4 decision, the U.S. Court of Appeals for the Ninth Circuit held, *en banc*, that a writer sufficiently stated an implied contract claim, not preempted by copyright law, where a plaintiff alleged a bilateral expectation that the plaintiff would be compensated by defendant for use of plaintiff's idea. *Montz v. Pilgrim Films & Television, Inc.*, Case No. 08-56954, (9th Cir., May 4, 2011) (Schroeder, J.) (O'Scannlain, J. and Gould, J., dissenting).

In 1981, plaintiff Larry Montz, a parapsychologist, conceived of an idea for a television show that would follow a team of paranormal investigators throughout the United States, filming them as they were investigating paranormal activity. From 1996 through 2003, Montz pitched the idea to numerous television studios, including defendants NBC and the Sci-Fi Channel. To pitch the idea, Montz and Daena Smoller, a publicist and producer, showed the defendants television screenplay treatments, video and other production materials. After participating in several meetings with the plaintiffs, the defendants indicated that they were not interested in pursuing Montz's idea. A few years later, the defendants launched the Sci-Fi Channel television series *Ghost Hunters*. Subsequently, the plaintiffs filed a complaint against the defendants, alleging that the television series was based on the plaintiffs' materials. Specifically, the plaintiffs alleged copyright infringement, breach of implied contract, breach of confidence and related causes of action.

The defendants moved to dismiss the complaint. The district court found that the plaintiffs' complaint alleged facts sufficient to state a federal copyright claim, but that federal copyright law preempted the plaintiffs' state-law claims. The plaintiffs later stipulated to the dismissal of their copyright claim. With no remaining claims to adjudicate, the district court entered judgment in favor of the defendants. The plaintiffs then appealed the dismissal of their breach of implied contract and breach of confidence claims. A three-judge panel of the 9th Circuit affirmed the district court's dismissal of the plaintiffs' state law claims as preempted by federal copyright law. The 9th Circuit subsequently ordered a rehearing of the case *en banc*.

The federal Copyright Act expressly preempts state law claims if the plaintiff's work "comes within the subject matter of copyright" and the state law grants "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright." Accordingly, to survive preemption, a state cause of action must assert rights that are "qualitatively different" from those protected by copyright. In 1956, the California Supreme Court recognized that an implied contractual right to compensation exists when a writer submits material to a producer with the understanding that the writer will be paid if the producer uses the concept (*Desny v. Wilder*). In 2004, the 9th Circuit applied that California law to hold that a so-called "*Desny* claim" (implied contractual claim) is not preempted by federal copyright law (*Grosso v. Miramax Film Corp.*).

Reversing the district court and the initial three-judge 9th Circuit panel, the *en banc* 9th Circuit panel held that copyright law did not preempt the plaintiffs' claims for breach of implied contract and breach of confidence. First, the court determined that the plaintiffs' claims fell within the scope of the subject matter of the Copyright Act. Although the plaintiffs' ideas were not protected by copyright, the case fell within the scope of the Copyright Act because the plaintiffs' ideas had been fixed in a "tangible medium of expression" through the plaintiff's teleplays, videos and other pitch materials. Second, the 9th Circuit determined that the plaintiffs' claims for breach of implied contract and breach of confidence were not preempted, because each involved a necessary "extra element" to survive preemption. With respect to the plaintiffs' breach of implied contract claim, the "bilateral expectation" of compensation between the parties provided the necessary extra element. Contracts provide for personal rights between only the contracting parties, the court explained, while copyright confers a "right against the world." Thus, "the rights protected under federal copyright law are not the same as the rights asserted in a *Desney* claim." With respect to the plaintiffs' breach of confidence claim, the Court explained that "[t]he claim protects the duty of trust or confidential relationship between the parties," which is "an extra element that makes it qualitatively different from a copyright claim."

The dissenting opinion sought to distinguish between writers who seek payment for the idea submission and those who seek an ownership interest in the production and a contractual agreement governing "the terms of the defendant's use."

Trade Secrets / Computer Fraud and Abuse Act

Expanded Protection Against Employee Computer Data Theft Under Computer Fraud and Abuse Act

by Michael F. Martin

In a decision of first impression, the U.S. Court of Appeals for the Ninth Circuit held that an employee "exceeds authorized access" under the federal Computer Fraud and Abuse Act (CFAA) when the employee obtains information from an employer's computer system and uses that information for a purpose that violates the employer's restrictions on the use of that

information. *United States v. Nosal*, Case No. 10-10038 (9th Cir., Apr. 28, 2011) (Trott, J.) (Campbell, J. dissenting).

The CFAA imposes both civil and criminal liability for accessing a computer “without authorization” or “exceeding authorized access” and then taking certain forbidden actions, ranging from obtaining information to damaging a computer or computer data. Defendant David Nosal is a former employee of executive search agency Korn/Ferry International. In breach of several formal agreements with Korn/Ferry, after leaving the firm Nosal asked three employees to help him in starting a competing business. These employees obtained trade secrets—including source lists, names and contact information—from a proprietary database of executives and companies maintained under tight security by Korn/Ferry. Subsequently, the government filed a 21-count indictment against Nosal and one of his accomplices for, among other things, violation of the section of the CFAA prohibiting unauthorized access to a protected computer with intent to defraud. Nosal filed a motion to dismiss the indictment, arguing that the Korn/Ferry employees could not have acted “without authorization” nor could they have “exceeded authorized access” to violate the CFAA because they possessed permission to access the computer and its information under certain circumstances. The district court rejected Nosal’s argument and denied his motion to dismiss, finding that a person’s accessing a computer “knowingly and with intent to defraud ... renders the access unauthorized or in excess of authorization.”

After the district court denied Nosal’s motion to dismiss, the 9th Circuit decided *LVRC Holdings v. Brekka*, which considered the construction of the phrase “without authorization” contained in the CFAA. In *Brekka*, the 9th Circuit held that an employee cannot access “without authorization” under § 1030(a)(4) of the CFAA unless the employee has no authority to access the information under any circumstances. Nosal then filed a motion to reconsider. In light of *Brekka*, the district court partially granted Nosal’s motion as to the counts against defendants stemming from alleged access to the former employer’s computer system during their employment. Because Nosal’s conspirators possessed the authority to obtain information from Korn/Ferry’s database for legitimate business purposes, the district court determined that they did not exceed their authorized access by doing so, even if they acted with a fraudulent intent. The government appealed.

On appeal, the 9th Circuit considered whether the defendant conspirators could have exceeded their authorized access to the Korn/Ferry computer system—and thus violated the CFAA—by accessing information that they were entitled to access under limited circumstances. Section 1030(a)(4) prohibits both access “without authorization” and access “exceed[ing] authoriz[ation].” Agreeing with the government that interpreting the two phrases the same way would render superfluous the statutory language, the 9th Circuit held that the phrase “exceeds authorized access” includes access violating the employer’s access restrictions, which may include restrictions on the employee’s use of the computer or of the information contained in that computer. Accordingly, the 9th Circuit reversed the district court’s decision and remanded with instructions to reinstate the criminal counts in the superseding indictment.

The dissent expressed concern that the key phrase of the CFAA relied upon by the majority, “exceeds authorized access,” possesses a much broader meaning in other parts of the statute, notably, in those without an intent requirement. Thus, extension of the majority’s interpretation of the phrase to other sections of the statute may subject persons to criminal liability for obtaining information from an employer’s computer in violation of the employer’s computer use restrictions, despite a lack of intent.

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