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IP LEGAL NEWS EDITORIAL BOARD

H. Jonathan Redway - Washington, D.C. Office
202.659.6946 • jredway@dickinsonwright.com

Christopher A. Mitchell - Ann Arbor Office
734.623.1906 • cmitchell@dickinsonwright.com

John S. Artz - Troy Office
248.433.7262 • jsartz@dickinsonwright.com

Paul E. Bain - Toronto Office
416-646-8364 • pbain@dickinsonwright.com

Steven A. Gibson - Las Vegas Office
702.541.8200 • sgibson@dickinsonwright.com

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FIGHTING COUNTERFEITS IN CHINA – LIGHT AT THE END OF THE TUNNEL?

by *Peter C. Pang*, Washington, D.C. Office

While many foreign companies believe that China represents an exceptional business opportunity, concerns over patent, trademark, and copyright protection have long been viewed as a barrier to moving forward. While knock-off and copy-cat products originate in many countries, China was for years -- and still is -- considered the most flagrant offender.

In a private conversation with the Technical Services Bureau (TSB) of the Administration of Industry and Commerce (AIC), it was estimated by a senior official that perhaps as much as 6% of the Chinese GNP has some link to “unauthorized production of products”. This is a staggering number in view of the fact that China is the world’s number 2 economy. Because it is an industrious and capable nation, churning out more college graduates per year (6 million plus) than the entire population of Norway (according to CBS Interactive, Inc.), with a knack for re-engineering products and a relatively cheap labor pool, it doesn’t take much for a factory to replicate genuine articles sourced abroad.

Stamping out counterfeits in China for many companies has been a frustrating and unrewarding game of cat and mouse. Just when you think it is wiped out another infringer surfaces to take its place. Is there a smart and cost effective way of dealing with counterfeits in China?

The answer is “yes”, and it starts with a carefully thought-out and smartly implemented strategic brand program that involves both defensive and offensive measures designed to protect, preserve and enhance the value of intellectual property. *One of the significant components of this strategy is for companies to determine exactly what their trademark status is in China, whether they are actively working or selling in China or not.* Hundreds of products with well-known brand names that have historically only been sold outside of China may already be registered inside China by other parties. It is therefore conceivable that an unsuspecting foreign manufacturer doesn’t even know that similar products, often of inferior quality, are already being sold under its brand in China. As China is a “first to register” country, having your key trademark rights properly registered early on - even before you enter the market - is an important component of a sound IP protection strategy.

When piracy cuts into a manufacturer’s bottom line, aggressive measures should be taken to protect the value of the brand. This

entails detailed investigation of suspected infringers with informants, working side by side with local authorities with raids and seizures of infringing products and their molds, and filing administrative litigation against the infringers for civil penalties when substantiated. When infringing or unauthorized products are sold to buyers outside of China, registering the brand with China Customs with instructions to seize suspected products right at the border could save the brand owner a lot of time and costs.

Whether or not you are planning to market or manufacture in China, you should be sure to check with an experienced professional to ensure your company's hard-earned reputation is safeguarded. Like so many other facets of doing business in China, there are some unique aspects of IP protection that companies need to be aware of. Notwithstanding the historical problems associated with IP infringement in China, IP legislation and enforcement is changing for the better. Companies should understand that their IP risk in China is manageable provided it is professionally and diligently administered. There is light at the end of the tunnel, and that light is brighter and the tunnel is shorter with a proper strategy.

FEDERAL CIRCUIT EXPANDS SCOPE OF INDUCED INFRINGEMENT FOR METHOD PATENTS

by Steven M. Parks, Lansing Office

It is well accepted that a method claim is directly infringed when one party either performs or directs the performance of all steps in the claim. In contrast, direct infringement does not extend to those situations in which multiple parties collectively – but **independently** – perform all steps.

When a party does not directly infringe a method claim, it may still be liable for indirect infringement if it actively induces infringement by others. Historically, indirect infringement required proof that at least one party directly infringes.

In a recent en banc Federal Circuit ruling – *Akamai Technologies v. Limelight Networks, Inc.* – the Federal Circuit took another look at the circumstance in which multiple, independent parties collectively practice a patented method without liability. For example, parties can arrange to share performance of all method steps between them. Without some direction or control by one party over the other(s), there is no direct infringement and (before *Akamai*) there is no indirect infringement.

Akamai narrows this avenue for avoiding liability and expands the scope for indirect infringement by eliminating the requirement of direct infringement by at least one party. Now, a party may be liable for indirect infringement if (i) it knows of the method patent, (ii) it induces the performance by others of method steps that it does not perform, and (iii) all of the method steps are actually performed. Exemplary situations include the indirect infringer performing some method steps itself and inducing others to perform the remainder of the steps, or the indirect infringer performing no method steps but inducing others to collectively perform all of the steps.

Akamai is practically important for patent holders and potential infringers alike.

For patent holders, *Akamai* opens up new licensing opportunities and enforcement possibilities. Patent holders should revisit their patent portfolios in light of *Akamai* and consider whether any pending or potential multi-party activity may give rise to previously unavailable infringement actions or licensing arrangements. Pending and new patent applications can present multi-actor method claims to enhance the chances for obtaining a patent and to broaden the range of targetable activity. Keep in mind, however, that indirect infringement requires proof of knowledge and intent on the part of the indirect infringer (i.e., in addition to proof that the method steps were actually performed by someone), which can limit the ability of a patent holder to recover damages for past infringing activity. While the best practice remains to secure claims that would be directly infringed, patent applicants should consider multi-actor indirect infringement claims. When the direct-infringement approach is difficult to implement because of commercial realities in a particular market, the expanded scope of indirect infringement provides a useful additional tool for patent protection.

For potential infringers, the *Akamai* decision represents a substantial change to U.S. patent law, and it can significantly expand the scope of infringement liability in certain technology areas. Businesses in these areas should re-examine their commercial activities and patent review procedures to identify the potential for new exposure to indirect infringement liability. Existing opinions relying on non-infringement as a clearance basis for a competitor's method claims should be revisited. Specifically, a party that does not directly infringe a method claim due to non-performance of a particular step must further consider whether its actions nonetheless induce others to complete the claimed method.

In separate petitions to the U.S. Supreme Court, both Limelight Networks, Inc. and Epic Systems Corp. (the defendant in another, similar case decided by the Federal Circuit in the *Akamai* opinion) recently asked that the en banc decision be overturned as conflicting with long-standing precedent that no defendant can be liable for indirect infringement in the absence of direct infringement.

JURISDICTIONS SPLIT ON WHEN COPYRIGHT REGISTRATION OCCURS: IMPACTS ARE HUGE ON BOTH CLAIMABLE DAMAGES AND COPYRIGHT PORTFOLIO PROTECTION COSTS

by Steven A. Gibson, Las Vegas Office

Copyright registration is vital to enjoying the fullest benefit of copyright ownership. Critically, registration is a prerequisite to filing a copyright infringement claim. In addition, registration may be a prerequisite to recovering statutory damages, i.e., being entitled to a potentially substantial award of damages without having to establish your own damages or the infringer's profits. Therefore, the date on which a court recognizes a copyright registration as effective impacts both whether a copyright owner has standing to sue and whether he or she may enjoy statutory damages.

While copyrights exist at the moment of authorship, a copyright is not registered unless the owner takes further action. A prerequisite to registration is the filing of a copyright application. Expedited applications for registration cost approximately \$760. Non-expedited applications cost approximately \$35-65. As such, if one needs to file an expedited application for registration in order to receive word on registration quickly (and if a number of applications in one's portfolio require registration), the cost differential is considerable and, for large portfolios, enormous. But just when is the registration effective: When filed or when actually registered? If application filing is the only thing required to effect standing to sue, then the impact is commensurately enormous if all that is required is the filing of a non-expedited application: merely filing the non-expedited application gets one the ticket to sue potentially and may also cost-effectively yield (depending upon certain circumstances) the coveted early filing date for statutory damages purposes.

The U.S. Court of Appeals for the Ninth Circuit has held that, at least within the Ninth Circuit, mere application for registration is sufficient. In *Cosmetic Ideas, Inc. v. IAC/Interactivecorp*, 606 F.3d 612 (9th Cir. 2010), the Ninth Circuit determined that "the application approach better fulfills Congress's purpose of providing broad copyright protection while maintaining a robust federal register." 606 F.3d at 619. In describing the application approach, however, the Ninth Circuit also discussed different approaches in the various circuits, some of which require actual approval and registration of a copyright application as a precondition of suit, and asked, "Is a copyright registered at the time the copyright holder's application is received by the Copyright Office (the "application approach"), or at the time that the Office acts on the application and issues a certificate of registration (the "registration approach")? Our sister circuits have split in answering this question. For instance, the Fifth and Seventh Circuits (which include the states of TX, LA, MI and WI, IL, IN, respectively) have adopted the application approach . . . The Tenth and Eleventh Circuits (which include the states of UT, WY, CO, NM, KS, OK and AL, GA, FL, respectively) have adopted the registration approach." *Id.* at 615.

For large copyright portfolios, this jurisdictional split is crucial. Given the significant cost difference between expedited and non-expedited copyright applications, there is meaningful strategic thinking required about where to bring suit against accused infringers.

Dickinson Wright Offices

Detroit

500 Woodward Avenue
Suite 4000
Detroit, MI 48226
Phone: 313.223.3500

Phoenix

2901 N. Central Avenue
Suite 200
Phoenix, AZ 85012
Phone: 602-285-5000

Lansing

215 S. Washington Square
Suite 200
Lansing, MI 48933
Phone: 517.371.1730

Las Vegas

7201 West Lake Mead Boulevard
Suite 503
Las Vegas, NV 89128
Phone: 702.541.7888

Ann Arbor

350 S. Main Street
Suite 300
Ann Arbor, MI 48104
Phone: 734-623-7075

Troy

2600 W. Big Beaver Road
Suite 300
Troy, MI 48084
Phone: 248.433.7200

Grand Rapids

200 Ottawa Avenue, NW
Suite 1000
Grand Rapids, MI 49503
Phone: 616.458.1300

Saginaw

4800 Fashion Square Boulevard
Suite 300
Saginaw, MI 48604
Phone: 989-791-4646

Columbus

150 E. Gay Street
Suite 2400
Columbus, OH 43215
Phone: 614.744.2570

Washington, D.C.

1875 Eye Street, NW
Suite 1200
Washington, DC 20006
Phone: 202.457.0160

Toronto

222 Bay Street, 18th Floor
PO Box 124
Toronto, ON, Canada M5K 1H1
Phone: 416.777.0101

Nashville

424 Church Street
Suite 1401
Nashville, TN 37219
Phone: 615.244.6538