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### *Patents / Reexamination*

#### **Stepping Over the Line: Can an Administrative Agency Overturn a Court's Ruling?**

by Nathaniel McQueen

Addressing the patentability of an issued patent following a reexamination, the U.S. Court of Appeals for the Federal Circuit upheld a finding of invalidity following an appeal of a reexamination from the U.S. Patent and Trademark Office (USPTO) Board of Patent Appeals and Interferences (the Board), 11 years after the Federal Circuit, in an

appeal from a district court, held the same patent valid! *In Re Construction Equipment Company*, Case No. 10-1507 (Reexamination Control No. 90/008,447) (Fed. Cir. Dec. 15, 2011) (Prost, J.) (Newman, J. dissenting).

Construction Equipment Company (CEC) appealed a decision by the U.S. Patent and Trademark Office holding that CEC's patent directed to a vehicle for screening rocks and plant matter was invalid due to obviousness over the prior art. The Board affirmed the obviousness rejections by the examiner and denied a rehearing.

On appeal, the Federal Circuit found no error in the Board's analysis regarding the validity of the claims. Judge Prost, writing for the majority, noted that because neither party argued that the reexamination was unlawful during the appeal, the Court had no need to further consider the matter of whether the reexamination was lawful.

However, in a strongly worded dissent, Judge Newman found that the reexamination appeal raised serious questions as to the constitutionality and ramifications of allowing an administrative agency to question and overturn the findings of a court of law. The patent in suit had previously been upheld as valid by the Federal Circuit in 2000, and CEC obtained an injunction against further infringement by defendant in that suit, Powerscreen International Distribution. In 2007 Powerscreen filed an *ex parte* reexamination, alleging that the claims were unpatentable.

In Judge Newman's view, the fact that neither party raised the issue of whether the reexamination was lawful is of scant import: "waiver is inapplicable to significant questions of general impact or of great public concern." Judge Newman noted that the constitutional impact of the procedure that gives rise to the appeal cannot be deemed waived, because of the effect on the "integrity of judgments and the separation of powers." The dissent argued that because the Constitution places the judicial power in the courts, it would be improper to allow an administrative agency to undermine the finality of the judicial power of the Court. Thus, in Judge Newman's view, the issue involves the separation of powers as well.

The dissent also argued that under the doctrine of *res judicata*, *i.e.*, because the issue of the validity of the patent had already been adjudicated, Powerscreen could not have relitigated the question of obviousness in any court. As such, the dissent argued that reexamination on this issue should not be available.

Judge Newman also found fault with the analysis on the merits of the decision by the USPTO and subsequent affirmation by the Court. The patent claimed a machine that, while using a combination of elements known in the art, achieved commercial success. According to Judge Newman, it is only by judicial hindsight reasoning that the Court was able to construct a machine that was not previously known. As is well known, it is impermissible to use the claimed invention as a “template” to piece together the teachings of the prior art so that the claimed invention is rendered obvious. Moreover, Judge Newman could find no articulation of rational underpinning for combining the references that was used in the analysis of obviousness.

### ***Patents / Induced Infringement***

#### **ITC Issues General Exclusion Order Based on Respondents’ “Willful Blindness” and Potential to Evade Order**

by Christopher L. May

The International Trade Commission reversed an administrative law judge’s finding of no induced infringement and issued a general exclusion order, in Inv. No. 337-TA-723, *Certain Inkjet Ink Cartridges with Printheads and Components Thereof*.

The investigation, which was brought by Hewlett-Packard, alleged that seven companies (Asia Pacific Microsystems (APM), Mipo Technology Limited, Mipo Science & Technology, Mipo America, Ltd., MicroJet Technology Co., PTC Holdings Ltd. and SinoTime Technologies, Inc.), infringed five separate patents. Only APM offered evidence at the hearing. PTC did not appear and offered no evidence at the hearing, Mipo settled with Hewlett-Packard, and MicroJet was found in default. The administrative law judge’s Final Initial Determination found, *inter alia*, that PTC and MicroJet directly infringed each of the five patents, and that APM did not directly infringe or induce infringement of each of the five patents, but that APM was liable for contributory infringement of one patent. The ALJ recommended that a general exclusion order be issued if a violation was found.

The ITC determined to review the Final Initial Determination to decide if “the record evidence demonstrate[s] that APM’s conduct meets the ‘specific intent’ requirement for inducement in light of the ALJ’s finding that ‘APM certainly had knowledge of the asserted patents and the infringement at issue once it was served with HP’s

Complaint.” On review, the ITC reversed the ALJ based on its determination that APM had acted with willful blindness, finding that APM was aware of an earlier ITC investigation, Inv. No. 337-TA-711, in which MicroJet was accused of infringing the same patents, and that APM took no action to determine whether its conduct was non-infringing. The ITC also found that the accused products did not have substantial non-infringing uses, and therefore the continued manufacturing of the products imputed intent to infringe the patents to APM.

The ITC agreed with the ALJ that a general exclusion order should be issued. The ITC found that evidence demonstrated that the source of infringing products was difficult to identify, that manufacturers packaged their products in generic packaging that made it difficult to identify the products’ origin and that many manufacturers maintained multiple corporate identities so that products could be sold without revealing their true identities. As such, the ITC determined that despite the heightened threshold for a general exclusion order, such an order was necessary to prevent the respondents from circumventing the ITC’s order.

### ***Patents / Standing***

#### **Equitable Claim to Patent Title Insufficient for Standing**

by Theresa M. Dawson

In a patent infringement case brought by the widow of one of two named co-inventors, the U.S. Court of Appeals for the Federal Circuit affirmed the district court’s dismissal for lack of standing after concluding that an unsigned agreement created no more than an equitable claim to title in the patent. *Gellman v. Telular Corp., et al.*, Case No. 11-1196 (Fed. Cir., Nov. 30, 2011) (Clevenger, J.).

Ms. Tobi Gellman, a trustee of the Mayer Michael Lebowitz Trust (the trust), and widow of one of the co-inventors of the patent in question, M. M. Lebowitz, claimed that the trust was the sole legal owner of the patent. She offered an unsigned “Agreement for Consulting Services” along with other circumstantial evidence in an attempt to demonstrate that James Seivert, the second named co-inventor of the patent, was a consultant of a company Mayer Lebowitz operated called Cellular Alarm Systems.

The relevant portion of the unsigned agreement between Seivert and Cellular Alarm stated as follows:

[A]ny and all ideas, discoveries, inventions, [etc.] . . . developed, prepared, conceived, made, discovered or suggested by [Mr. Seivert] when performing services pursuant to this Agreement . . . *shall be and remain* the exclusive property of Cellular Alarm. [Seivert] agrees to execute any and all assignments or other transfer documents which are necessary, in the sole opinion of Cellular Alarm, to vest in Cellular Alarm all right, title, and interest in such Work Products. (emphasis added).

According to Ms. Gellman, the terms of the unsigned agreement effectuated a full transfer of Seivert's rights to any inventions, including any legal claims to the patent in suit. After the district court rejected Gellman's arguments as lacking evidentiary support and misapplying the law Gellman appealed.

At the Federal Circuit, Gellman argued that in order for the invention to "remain" the property of Cellular Alarm, it necessarily had to have been previously conveyed. The Federal Circuit disagreed, however, stating that read in context the word "remain" "indicates that Mr. Seivert's contributions to inventions 'remained' in equitable status until such a time as Mr. Seivert 'executed[d] any and all assignments or other transfer documents which are necessary . . . to vest in Cellular Alarm all right, title and interest' in such inventions." Reading the clause any other way would render meaningless the language "execute any and all assignments."

The Federal Circuit thus concluded that "[t]he most the Unsigned Agreement could do is create an obligation for Mr. Seivert to assign to Cellular Alarm." The Court rejected Gellman's argument based on the "hired to invent" doctrine on the same basis. According to the Court, to the extent the unsigned agreement created an equitable claim in the patent, it could be converted to legal title either when Seivert actually assigned ownership or by legal action.

Because not all legal owners of the patent were properly joined in the lawsuit, the Federal Circuit affirmed the district court's dismissal for lack of standing. In so doing, the Court rejected the appellees' contention that the dismissal should have been "with

prejudice” and denied appellees’ motion for damages and costs. The Court declined to reach the issue of whether the Unsigned Agreement amounted to an enforceable contract that was subject to 35 U.S.C. § 261, which requires assignments of patent interests to be in writing.

**Practice Note:** A present assignment of future rights must expressly undertake the actual assigning act at the time of the agreement.

### ***Patents / Cost Awards***

## **Cost-Shifting for Use of an Electronic Document Database Trumped by Parties’ Agreement to Share Costs**

by Vanessa Lefort

Addressing cost-shifting awards under 28 U.S.C. § 1920, the U.S. Court of Appeals for the Federal Circuit held that costs for the use of an electronic document database would have been taxable absent the parties’ cost-sharing agreement. *In re Ricoh Co.*, Case No. 11-1199, (Fed. Cir., Nov. 23, 2011) (Dyk, J.). Though not further addressed in this update, the Court also vacated and remanded an award of copying costs because the supporting documentation lacked specificity and affirmed an award of deposition costs that included costs for both videotaping and preparing written transcripts.

The district court awarded the accused infringer Synopsys, the prevailing party in the underlying patent dispute, approximately \$1 million in costs, of which almost one-quarter was for use of the Stratify database. Rule 54(d)(1) of the Federal Rules of Civil Procedure provides that “costs ... should be allowed to the prevailing party.” The types of costs that can be awarded, however, are limited by 28 U.S.C. § 1920. On appeal, patent holder argued that the costs for use of the electronic document database were not authorized under § 1920 or, in the alternative, that the parties’ cost-sharing agreement precluded cost-shifting.

The database costs at issue resulted from the use of Stratify, a third-party electronic discovery company that provides document processing, review, production and hosting services. In the course of discovery, the plaintiff had suggested using Stratify for the production of e-mails from Synopsys’s customers to allow review in native format.

Synopsys later argued that because Stratify was used as the exclusive means for producing e-mails, the full cost of using Stratify should be taxable under § 1920(4), which authorizes “[f]ees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case.” The plaintiff argued that Stratify provided a document review database, as opposed to document production, and that costs associated with Stratify should therefore not be taxable.

The Federal Circuit determined that “costs of producing a document electronically can be recoverable under section 1920(4).” Reasoning that “Synopsys’s act of making available all of the requested e-mail to Ricoh through Stratify constituted electronic production of the e-mail,” the Court explained that “the basic Stratify costs would be recoverable under section 1920(a), absent an agreement to the contrary.” The parties, however, had agreed by contract to share the cost of using Stratify, and this agreement precluded cost-shifting. Applying U.S. Court of Appeals for the Ninth Circuit law, the Federal Circuit held that the cost-sharing agreement was controlling and reversed the award of costs.

**Practice Note:** The law of the regional circuit applies in determining if a cost-sharing agreement is controlling. In this case, citing one U.S. Court of Appeals for the Third Circuit case in accord with 9th Circuit law, the Federal Circuit noted that “[t]here is scant authority from other circuits as to whether a cost-sharing agreement ... is controlling as to the ultimate taxation of costs.” Be sure to check the law in your circuit on this point.

### ***Patents / Anticipation***

#### **Prior Conception and Reduction to Practice Defeats Invention**

by Heather Morehouse Ettinger, Ph.D.

Addressing whether limitations claimed in a patent need to have been appreciated by a prior developer of the invention in order to qualify as prior art under § 102(g)(2), the U.S. Court of Appeals for the Federal Circuit affirmed a decision on summary judgment, finding that the defendant’s earlier development of the infringing formulation invalidated the patent, even though the defendant had not appreciated that it had achieved the claimed invention. *Teva Pharmaceuticals Industries Ltd. v. AstraZeneca Pharmaceuticals LP*, Case No. 11-1091 (Fed. Cir., Dec. 1, 2011) (Linn, J.).

Teva asserted its patent covering statin formulations stabilized exclusively by an amido-group containing polymeric compound (AGCP) against AstraZeneca, alleging infringement by AstraZeneca's manufacture and sale of CRESTOR®. In the district court, it was undisputed that less than one year prior to the filing of Teva's patent, AstraZeneca made statin formulations with the same ingredients, in substantially the same amounts, as the allegedly infringing commercial product. AstraZeneca's formulations did contain, as required in Teva's claims, an AGCP stabilizer. However, at the time, AstraZeneca did not appreciate that this component was a stabilizer. In fact, AstraZeneca believed another component provided stabilizing activity.

AstraZeneca stipulated to infringement for the limited purpose of advancing a motion for summary judgment of invalidity based on § 102(g)(2) prior art. Since it was undisputed that AstraZeneca had made the infringing formulations before Teva conceived and reduced to practice its patented invention, the only issue in dispute was the legal issue of whether AstraZeneca had to appreciate that its AGCP compound was acting as a stabilizer in order for its formulations to qualify as prior art under § 102(g)(2). The district court held that such an appreciation was not required and granted AstraZeneca's motion for summary judgment. Teva appealed.

The Federal Circuit affirmed, finding that AstraZeneca did not need to appreciate what component in its formulation was responsible for stabilization in order for its formulation to be prior art under § 102(g)(2). Rather, the Court held that AstraZeneca simply needed to appreciate that the compound it asserted as its invention was stable and what the components of its formulation were. Citing interference case law (which falls under a related provision, § 102(g)(1)), the Court explained that the invention is not just the literal language of the claims but, rather, the subject matter thereby defined. The Court also indicated that it did not need to consider how the doctrine of inherency applied to § 102(g) because there was no dispute about whether or not the asserted prior art included, either expressly or inherently, particular claim limitations.

**Practice Note:** Under the America Invents Act (AIA), the United States will move from a "first to invent" to a "first to file" system in March 2013. Under the new system, §102(g)(2) would not have been available to AstraZeneca to invalidate Teva's patent. Additionally, as the AIA's prior commercial use defense to infringement requires that the



use must have been more than one year prior to the effective filing date, this defense would not have been available to AstraZeneca either.

## ***Patents / Venue***

### **Defendants' State of Incorporation Is Entitled to Little Weight in Transfer-of-Venue Analysis**

by Rose Whelan

Addressing a defendant's petition for writ of *mandamus*, the U.S. Court of Appeals for the Federal Circuit held that district judge erred in her order denying the defendant's motion to transfer venue from the U.S. District Court for the District of Delaware to the U.S. District Court for the Northern District of California. *In Re Link\_A\_Media Devices Corp.*, Miscellaneous Docket No. 990 (Fed. Cir., Dec. 2, 2011) (*per curiam*).

Link\_A\_Media Devices Corp. (LAMD) sued in Delaware by Marvell, alleging patent infringement. Marvell International Ltd. is a Bermuda-based holding company, and the entity related to Marvell, which employs the inventors of the patents-in-suit, is headquartered in the Northern District of California. Although LAMD is incorporated in Delaware, its principle place of business is also located in the Northern District of California. LAMD sought removal to the Northern District of California, but the district court declined, primarily citing plaintiff's choice of forum the state of incorporation of LAMD and the international character of the plaintiff as the reasons.

LAMD petitioned the Federal Circuit for *mandamus* for review of the denial. Applying U.S. Court of Appeals for the Third Circuit law, the Federal Circuit found four faults in the district court's venue analysis. First, and most notably, the Federal Circuit held that district court's heavy reliance on the fact that LAMD was incorporated in Delaware was inappropriate. The Federal Circuit noted that *Jumara v. State Farm Ins. Co.*, the leading 3d Circuit case on transfer of venue, does not list a party's state of incorporation as a factor for a venue inquiry.

Second, the Federal Circuit noted that the lower court placed too much weight on plaintiff's choice of forum. The Federal Circuit made clear that when a plaintiff chooses a forum that is not its own, its choice is entitled to less deference.

Third, the Federal Circuit held that the district court erred by refusing to consider two private interest factors in a 3d Circuit venue inquiry: the convenience of the witnesses and the location of the books and records. In her opinion, District Judge Robinson had noted that these factors are “outdated, irrelevant and should be given little weight, if any, except for those rare exceptions where truly regional defendants are litigating.” The Federal Circuit rejected this analysis, noting that “[w]hile advances in technology may alter the weight given to these factors, it is improper to ignore them entirely.”

Finally, the Federal Circuit held that the district court erred with respect to the public interest factors and rejected Marvell’s argument that the District of Delaware’s general experience with patent infringement litigation should weigh against transfer of venue.

**Practice Note:** This decision may provide new authority for defendants incorporated in Delaware, but headquartered elsewhere, to move litigation from Delaware to their home forum. In a late breaking development, the parties to this dispute settled and sought to have the Federal Circuit’s transfer order vacated based on a withdrawal of the petition by LAMD. In a *per curiam* order (issued on December 16, 2011) the Court refused: “We determine the granting a motion to vacate our order is neither required nor a proper use of the judicial system.”

In another (non-precedential) decision, *In re Biosearch Technologies, Inc. et al.*, Misc. Docket No. 995 (Fed. Cir., December 22, 2011) (Linn, J.), the Federal Circuit ordered a case transferred from the U.S. District Court for the Eastern District of Texas (and now retired Judge Ward) to the U.S. District Court for the Northern District of California. The court accorded little weight to the fact that one of the named defendants (Bio-Synthesis) and its evidence were located in Texas; instead focusing on the fact that both of the plaintiffs and one of the defendants were located in the Northern District of California, as were most of the witnesses and the attorneys that prosecuted the patents in suit (while no witnesses were in Texas). The court also noted that the Texas defendant, Bio-Synthesis, had only “limited involvement” in the case. Citing its *Nintendo* decision on venue, the Court observed “in a case featuring most witnesses and evidence closer to the transfer venue with few or no convenience factors favoring the venue chosen by the plaintiff, the trial court should grant a motion to transfer.”

***Patents / Statutory Subject Matter (Canada)***

**Amazon's 'One-Click' Patent Still Alive in Canada**

by Matthew McCloskey

The Canadian Federal Court of Appeal, addressing whether Amazon's famous "one-click" business method was properly considered statutory subject matter under the Canadian Patent Act, allowed Amazon's appeal from the Patent Appeal Board but directed the Commissioner of Patents to reexamine the patent on an expedited basis, not with the lower court's direction that the claims at issue constituted patentable subject matter, but instead directing that the Commissioner identify the actual invention after a purposive construction of the claims. *Canada (Attorney General) v. Amazon.com Inc.*, 2011 FCA 328 (Federal Court of Appeals, Canada, Nov. 24, 2011) (Sharlow, J.). In its decision, the court noted that nothing in Canadian jurisprudence prohibits business methods as patentable subject matter.

Amazon's 1998 Canadian application for an invention entitled "Method and System for Placing a Purchase Order Via a Communication Network" claimed priority to two U.S. applications. The claims of the Canadian application were directed to systems and methods covering Amazon's "one-click" internet shopping business method. The patent examiner rejected all claims in the application on grounds of obviousness and lack of patentable subject matter. Amazon challenged the rejections before the administrative Patent Appeal Board of the Canadian Intellectual Property Office, which recommended the commissioner reverse the examiner's obviousness rejection but uphold the rejection for lack of patentable subject matter. The commissioner issued a ruling following the board's recommendations, refusing to grant the patent. The commissioner adopted a two-part analytical framework in which Amazon's claims were first analyzed to determine the literal meaning of the claims, or the "actual invention," and then to determine whether the actual invention fell within the enumerated categories in the statutory definition of invention. Amazon appealed the commissioner's ruling to the Federal Court, which allowed the appeal, quashed the commissioner's decision and ordered an expedited reexamination with the direction that the claims constituted patentable subject matter. The commissioner then appealed to the Federal Court of Appeal.

In its analysis, the Court noted that Section 2 of the Canadian Patent Act provides that “invention” means any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter.” Recognizing that precedent of the Supreme Court of Canada required that the commissioner’s identification of the actual invention must be “grounded in a purposive construction of the patents claims,” the court found that the commissioner’s two-step analysis for patentable subject matter was incorrect in law. The court further instructed that identification of the actual invention cannot be determined solely on a basis of literal reading of the patent claims. Despite finding that the commissioner had used an incorrect analysis, the court viewed it as an open question whether Amazon’s claimed patentable subject matter.

Examining the question of whether business methods constitute patentable subject matter, the Court’s noted that patent-eligible subject matter “must not be a disembodied idea but have a method of practical application.” The court further noted that Canadian Supreme Court precedent provides that patentability cannot rest on use of a computer programmed according to a novel mathematical formula.

**Practice Note:** This decision followed a line of reasoning similar to that of the “transformation” prong of the “machine-or-transformation” test of U.S. patent jurisprudence, with increased emphasis on the transformation prong of the test. An interesting comparison may be drawn with recent decisions of the U.S. Patent and Trademark Office’s Board of Patent Appeals and Interferences (BPAI, or the Board) heightening the threshold for patent-eligible subject matter under § 101 for method claims that include tangential use of machine elements but are otherwise found ineligible under § 101 for being susceptible to performance by human thought alone. For example, in *Ex Parte Vilalta*, 2011 WL 6012377 (BPAI, Nov. 29, 2011) the Board found that so called “Beauregard claims” unpatentable under §101 as interpreted by *CyberSource*. The Board has also held that claim scope must be determined before a § 101 analysis can be complete. See *Ex Parte Black*, 2011 WL 6012476 (BPAI, Nov. 28, 2011).

The Board has also concluded that a claim that covers a “purely software embodiment” is not patent eligible (*Ex Parte Cohen*, 2011 WL 6012432 (BPAI, Nov. 29, 2011)) but that a “web based system” is patent eligible because such a network based requires

“more than software per se, because a web, upon which a web-based system is based, is physical, in addition to software, in that it requires computers and routers and telecommunications equipment to operate.” *Ex Parte Vogel*, 2011 WL 6012447 (BPAI, Nov. 21, 2011).

## **Trademarks**

### **Apple Denied Rights to “iPad” Trademark in China**

by John Z.L. Huang, Kevin Y. Qian, Rita Weeks and Wendy Wu

In a decision that could result in Apple, Inc. having to change the name of its iPad tablet computer in China, a court in southern China has dismissed a trademark lawsuit brought by Apple against a Shenzhen company, Proview Shenzhen. The Shenzhen Intermediate People’s Court held that the Chinese company is the lawful owner of the iPad mark in China. *Apple (UK) IP Application Development Company Limited v. Proview Technology (Shenzhen) Co., Ltd.*, (Shenzhen Intermediate People’s Court, Dec. 6, 2011).

Proview Shenzhen is a subsidiary of Hong Kong-based Proview International Holdings Limited. In 2000 and 2001, long before Apple launched its iPad product, certain of Proview’s subsidiaries registered the marks “iPad” and “IPAD” in the EU, China, Mexico, South Korea, Singapore, Indonesia, Thailand and Vietnam. Proview introduced a tablet computer in 2001 under the I-PAD mark, which was not commercially successful.

In 2009, Proview’s Taiwan subsidiary entered into an agreement to sell the “global trademark” for the IPAD name to a UK company for approximately \$55,000 U.S. The deal transferred all of Proview’s iPad trademark registrations, including two Chinese trademark registrations for iPad registered in 2001 by Proview’s Chinese subsidiary, Proview Shenzhen. The purchaser was connected to Apple and subsequently assigned the rights to Apple. Apple launched its iPad tablet computer in China in 2010.

In 2010, prior to launching its iPad tablet computer in China, Apple applied to have ownership of the two Chinese trademark registrations transferred to it. The Chinese trademark office rejected Apple’s request because the Chinese trademark registrations were not owned by the Taiwan subsidiary that assigned the trademarks, but instead

were owned by Proview's Chinese subsidiary, Proview Shenzhen. Thereafter, Apple sued Proview in China, seeking a declaration that the trademark assignment included the two Chinese trademark registrations. The court rejected Apple's claim, holding that the trademark assignment was not binding on Proview's Chinese subsidiary. In its holding the court explained that Proview Shenzhen did not sign the trademark transfer agreement, was not involved in the negotiations between the UK purchaser and Proview Taiwan and had not authorized others to dispose of its trademarks. Further, the court ruled that as the purchaser of the trademark, Apple bore "a higher duty of care" to make sure that the "necessary procedures for the transfer of a trademark" were completed. Proview has now sued Apple resellers in various parts of China, seeking to halt sales of Apple's iPad tablets and seeking damages of approximately \$1.5 billion U.S. Apple may appeal the ruling.

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