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Intellectual Property Law

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INTELLECTUAL PROPERTY LAW

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I. INTRODUCTION

THIS article summarizes major developments in intellectual property (IP) law during the past year.¹ While we focus on case law that is precedential in the Fifth Circuit, we also review IP law developments that are likely to be influential in the evolution of Texas IP jurisprudence. Thus, the cases cited focus on the decisions of the U.S. Supreme Court and the U.S. Courts of Appeals for the Fifth and Federal Circuits. For developments in copyright and trademark law, the Fifth Circuit’s authority is binding, but other circuits, such as the Second and the Ninth, are considered highly persuasive. Because all cases concerning a substantive issue of patent law are appealed to the U.S. Court of Appeals for the Federal Circuit,² decisions from that court during the Survey period are included in this article.

The U.S. Supreme Court was more active in the intellectual property field during the Survey period than in recent years, which is to say that the Court heard multiple cases that dealt with IP issues.³ While the Court did not issue the industry shaking opinions that some anticipated, its decisions do carry important implications. In patents, the Court considered whether business methods should be patentable subject matter.⁴ In copyright, the Court decided whether it is necessary for a plaintiff to register a work prior to filing an infringement action⁵ and whether to apply copyright law’s first sale doctrine to imported, foreign made goods.⁶ Finally, the Supreme Court granted certiorari in two key cases that involve IP.⁷

1. The views expressed in this article are the views of the individual authors and are not necessarily those of Haynes and Boone, LLP, its attorneys, or any of its clients.

2. See 28 U.S.C. § 1295(a) (2006).

3. See *Bilski v. Kappos*, 130 S. Ct. 3218, 3223 (2010); *Reed Elsevier, Inc. v. Muchnick*, 130 S. Ct. 1237, 1241 (2010); *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565, 565 (2010) (mem).

4. *Bilski*, 130 S. Ct. at 3223.

5. *Reed Elsevier*, 130 S. Ct. at 1241.

6. *Costco*, 131 S. Ct. at 565 (granting certiorari on appeal from *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 982 (9th Cir. 2008)).

7. See *Global-Tech Appliances, Inc. v. SEB, S.A.*, 131 S. Ct. 458, 458 (2010) (mem.) (granting certiorari on appeal from *SEB, S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360,

The Federal Circuit continued to be busy in the patent field. This Survey period saw the rise of false marking claims⁸ as well as a new and expanded definition of who owes a duty of candor to the U.S. Patent and Trademark Office (PTO).⁹ The court also ruled on whether the Patent Act contains a written description requirement separate from its enablement requirement.¹⁰ The Fifth and Ninth Circuits issued important copyright decisions, including a decision that will significantly limit how previously owned software may be sold.¹¹ Finally, the U.S. District Court for the Southern District of New York made headlines more than once during the Survey period ruling on whether human genes could be patented¹² and whether YouTube could be liable for the more than occasional infringement of its users.¹³ The Survey period therefore encompasses a body of case law that merits review.

II. PATENT UPDATE

A. THE SUPREME COURT ON PATENTS

1. *A Method to the Madness?—Bilski v. Kappos*

The sole question before the Court in *Bilski v. Kappos* was whether the Federal Circuit's "machine-or-transformation" test should be the exclusive measure of whether a "process" is patentable under 35 U.S.C. § 101.¹⁴ The reason *Bilski* became closely watched, however, was the possibility that the Court would use the case to do away with business method patents altogether.¹⁵ The practice of granting a patent on a method of doing business has been controversial since the Federal Circuit cleared the way for such patents in *State St. Bank & Trust Co. v. Signature Financial Group, Inc.*¹⁶ That decision led to a flurry of patent applications for business methods, which members of the Court have criticized for their vagueness.¹⁷ Many scholars and legal practitioners believed that *Bilski* would spell the end of the business method patent.¹⁸ In the end,

1360 (Fed. Cir. 2010)); *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 647, 647 (2010) (mem.) (granting certiorari on appeal from *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 850 (Fed. Cir. 2010)).

8. Brian Bowling, "False Marking" Suits Haunt Manufacturers, PITTSBURGH TRIBUNE REVIEW, Dec. 19, 2010.

9. *Avid Identification Sys., Inc. v. Crystal Imp. Corp.*, 603 F.3d 967, 973–74 (Fed. Cir. 2010).

10. *Ariad Pharm., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1349 (Fed. Cir. 2010).

11. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010).

12. *Ass'n for Molecular Pathology v. U.S. Patent & Trademark Office*, 702 F. Supp. 2d 181, 184 (S.D.N.Y. 2010).

13. *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 526 (S.D.N.Y. 2010).

14. *Bilski v. Kappos*, 130 S. Ct. 3218, 3226–27 (2010).

15. Scott M. Alter, *Bilski v. Kappos: The Most Recent Event in an Ongoing Saga*, INTELLECTUAL PROPERTY TODAY, Aug. 2010, at 10.

16. *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1375 (Fed. Cir. 1998).

17. See, e.g., *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring) (noting "[t]he potential vagueness and suspect validity of some . . . [business-method] patents").

18. Brad Stone, *A Patent Ruling May Be Revisited*, N.Y. TIMES, Mar. 10, 2008, at C5.

the Court's decision in *Bilski* was as narrow as the question on appeal.¹⁹ The Court found that the machine-or-transformation test is a "useful and important clue" for analyzing patentability, but it "is not the sole test for whether an invention is a patent-eligible 'process.'"²⁰ The Court declined to categorically reject business methods as patentable subject matter.²¹

Bernard Bilski had sought to patent a method for hedging against risk in energy trading.²² "The patent examiner rejected [Bilski's] application on the ground that it . . . 'is not implemented on a specific apparatus and that it merely manipulates [an] abstract idea . . .'" The Board of Patent Appeals and Interferences (BPAI) affirmed.²³ The Federal Circuit affirmed the BPAI's ruling, holding that the machine-or-transformation test was the "sole test" for determining patent eligibility of a process under § 101.²⁴ Under that test, an invention is a patentable process only if it "(1) is tied to a particular machine or apparatus, or (2) transforms a particular article into a different state or thing."²⁵ Applying this test, the court held that Bilski's method was not patent eligible.²⁶

On appeal, Bilski argued that the machine-or-transformation test was not the exclusive test for patentability of a method and that the Federal Circuit should have considered other factors and other tests.²⁷ The government countered that Bilski's method comprised nothing more than an abstract idea that could not be patented.²⁸ The government also attacked business method patents generally, arguing that the term "process" in § 101 is "limited to technological and industrial methods" and therefore excludes business method patents as a category.²⁹

The Supreme Court agreed with Bilski that the machine-or-transformation test was not the sole means of assessing patentability of methods.³⁰ The Court found that valid method claims may very well exist but not satisfy the rigid requirements of that test. For example, Justice Kennedy (joined by Justices Roberts, Alito, and Thomas) noted that "the machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital

19. D. C. Denison, *Relief as Patent Process Left Intact: High Court Ruling Could Have Altered Software Firms' Rights*, BOSTON GLOBE, June 29, 2010, at Business 5.

20. *Bilski*, 130 S. Ct. at 3227.

21. *Id.* at 3228.

22. *Id.* at 3223.

23. *Id.* at 3233 (Stevens, J., concurring).

24. *In re Bilski*, 545 F.3d 943, 959–60 (Fed. Cir. 2008). The court rejected its prior test for determining whether a claimed invention was a patentable "process" under § 101—whether it produces a "useful, concrete, and tangible result"—as articulated in *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1373 (1998) and *AT&T Corp. v. Excel Comm'ns, Inc.*, 172 F.3d 1352, 1357 (1999). *In re Bilski*, 545 F.3d at 959–60 n.19.

25. *Id.* at 954.

26. *Id.* at 963–66.

27. *Bilski*, 130 S. Ct. at 3226–27.

28. *Id.* at 3223.

29. *Id.* at 3237.

30. *Id.* at 3227.

signals.”³¹ The Court nevertheless found *Bilski*’s method to be ineligible for patent protection on the grounds that it constituted an abstract idea.³² Importantly, the Court explicitly declined to reject business patents as a category, finding that certain provisions of the Patent Act would be rendered meaningless if business methods were unpatentable under any circumstances.³³

Four justices concurred in the judgment but disagreed with the majority’s decision not to end the practice of granting patents on business methods.³⁴ Justice Stevens wrote for this group that the Court should have held that “a claim that merely describes a method of doing business does not qualify as a ‘process’ under § 101.”³⁵ After chronicling the evolution of patent protection from its English roots, Justice Stevens concluded that “[a]lthough it may be difficult to define with precision what is a patentable ‘process’ under § 101, the historical clues converge on one conclusion: A business method is not a ‘process.’”³⁶

Justice Breyer wrote separately to emphasize the points upon which the justices agreed: (1) that “although the text of § 101 is broad, it is not without limit,” (2) that the machine-or-transformation test continues to be helpful in determining what is a patentable process, (3) that that test has never been the sole test for making this determination, and (4) that “although the machine-or-transformation test is not the only test for patentability, this by no means indicates that anything which produces a ‘useful, concrete, and tangible result’ is patentable.”³⁷

After *Bilski*, it is clear that reports of the death of business patents were greatly exaggerated.³⁸ Yet the unanimous verdict should not be taken as evidence that the issue is entirely settled. Although the Court’s opinion issued without dissent, the Court was narrowly divided on the fundamental issue of whether business methods should be patentable, and the legal community is similarly divided. Patent reform, or even a future decision from the Court, could yet send business method patents to their grave. In the near term, Justice Breyer’s points of consensus may guide how courts apply the machine-or-transformation test.³⁹

2. *Certiorari Granted*—*SEB, SA. v. Montgomery Ward & Co. and i4i Ltd. Partnership v. Microsoft Corp.*

Under 35 U.S.C. § 271(b), whoever “actively induces infringement of a patent shall be liable as an infringer.”⁴⁰ In *SEB, S.A. v. Montgomery*

31. *Id.*

32. *Id.* at 3229–30.

33. *Id.* at 3228–29.

34. *Id.* at 3232.

35. *Id.*

36. *Id.* at 3249–50.

37. *Id.* at 3258–59 (quoting *State Str. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1373 (Fed Cir. 1998)).

38. *Id.* at 3228.

39. *Id.* at 3258–59.

40. 35 U.S.C. § 271(b) (2006).

Ward & Co., the Federal Circuit considered the level of knowledge that the alleged inducer must have to be liable under this statute.⁴¹ Federal Circuit precedent suggested that a plaintiff must prove that the defendant had actual knowledge of the existence of the patent at issue in order to succeed in an inducement claim.⁴² In *SEB*, the Federal Circuit clarified that a defendant's deliberate disregard of the risk that a patent exists can satisfy the actual knowledge requirement of an inducement claim.⁴³ Under *SEB*, a plaintiff must prove only that the defendant acted with "deliberate indifference" to potential patent rights.⁴⁴ In October 2010, the Supreme Court granted certiorari.⁴⁵ The Court will consider whether the legal standard for the state of mind element of induced infringement under § 271(b) is "deliberate indifference of a known risk" that infringement may occur or "purposeful, culpable expression and conduct" to encourage an infringement.⁴⁶ The outcome will determine the level of care companies must use in bringing their products to market.

In *i4i Ltd. Partnership v. Microsoft Corp.*, an Eastern District of Texas jury found that Microsoft willfully infringed i4i's software patent by incorporating i4i's patented technology into versions of Microsoft Word.⁴⁷ On appeal to the Federal Circuit, Microsoft argued that i4i's patent was anticipated by prior art that the PTO had not considered.⁴⁸ Because the PTO granted the patent with incomplete knowledge of the prior art, Microsoft argued that it should be required to prove invalidity merely by "a preponderance of the evidence" rather than by the more stringent "clear and convincing" standard.⁴⁹ The Federal Circuit rejected Microsoft's argument for the less stringent standard and affirmed the trial court's \$240 million judgment against Microsoft.⁵⁰

In November 2010, the Supreme Court granted certiorari to take up the question of whether a patent must be proved invalid by clear and convincing evidence, regardless of whether the allegedly invalidating prior art was considered by the PTO in granting the patent.⁵¹

If the Court adopts Microsoft's argument, it will hold that invalidity can be proved by a preponderance of the evidence if the prior art that is offered to prove invalidity was not considered by the PTO in granting the

41. *SEB, S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377 (Fed. Cir. 2010).

42. *See DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc) ("The requirement that the alleged infringer knew or should have known his actions would induce actual infringement necessarily includes the requirement that he or she knew of the patent.").

43. *SEB*, 594 F.3d at 1376–77.

44. *Id.*

45. *Global-Tech Appliances, Inc. v. SEB, S.A.*, 131 S. Ct. 458, 458 (2010) (mem.).

46. *Compare SEB, S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1376–77 (Fed. Cir. 2010), with *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005).

47. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 839 (Fed. Cir. 2010).

48. *Id.* at 844, 848.

49. *Id.* at 848.

50. *Id.* at 839, 848, 864.

51. *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 647, 647 (2010) (mem.).

patent.⁵² Such a ruling would raise a number of issues that may impact patent prosecution practice. For example, would a patentee trigger the clear and convincing standard by submitting a prior art reference to the PTO during prosecution of the patent, regardless of whether the PTO expressly considered the reference? Similarly, would the clear and convincing standard apply to a reference submitted with a request for reexamination if the PTO determines that it does not raise a substantial new question of patentability and denies the request? Undoubtedly, if the Court adopts the preponderance standard proposed by Microsoft, the effects will extend beyond patent litigation.

B. THE FEDERAL CIRCUIT ON PATENTS

1. *Pandora's (Falsely Marked) Box—Forest Group, Inc., Brooks Brothers, Inc., and Solo Cup Co.*

When the Survey period began, only a couple of dozen false marking suits were pending in federal court.⁵³ At the end of the Survey period, the number was higher than 600 and rising quickly.⁵⁴ What happened in between is a lesson in statutory interpretation and plaintiff opportunism. The federal ban on false patent marking appears in § 292 of the Patent Act, a *qui tam* statute, that states: “Whoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word ‘patent’ or any word or number importing that the same is patented for the purpose of deceiving the public . . . [s]hall be fined not more than \$500 for every such offense.”⁵⁵

The statute adds that “any person” may sue under this statute, and it provides that all penalties paid shall be shared equally between the person suing (the “relator”) and the United States government.⁵⁶

Prior to *Forest Group, Inc. v. Bon Tool Co.*, most courts applied § 292 on a per-episode basis—that is, the courts imposed a single fine for the false marking of multiple articles.⁵⁷ Recognizing that a maximum fine of \$500 per episode was a weak deterrent, other courts departed from the language of the statute and took a time-based approach, issuing fines for each day or week that an article was falsely marked.⁵⁸ In *Forest Group*, the Federal Circuit found that neither of these approaches was consistent

52. See *i4i*, 598 F.3d at 848.

53. Bowling, *supra* note 8.

54. *Id.*

55. 35 U.S.C. § 292(a) (2006). *Qui tam* is a Latin term that means “Who sues on behalf of the King as well as for himself.” *Qui tam* statutes give standing to members of the general public to sue for enforcement of the statutes, even absent evidence of harm to them individually. The *qui tam* plaintiff, also known as a “relator,” is permitted to recover a portion of any fines imposed upon the defendant, in accordance with the statute. Federal law includes only a few *qui tam* statutes—the false marking patent statute, 35 U.S.C. § 292; the False Claims Act, 31 U.S.C. §§ 3729–3733; and the Indian protection provisions of 25 U.S.C. § 201.

56. 35 U.S.C. § 292(a).

57. *Forest Grp., Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1302 (Fed. Cir. 2009).

58. *Id.*

with the plain language of § 292.⁵⁹ The court concluded, “Section 292 clearly requires a per-article fine.”⁶⁰ The court did add that \$500 was an upper limit and that courts should reduce the amount to correspond to the value of the falsely marked article.⁶¹

Even with this limitation, the *Forest Group* decision sparked an explosion in the number of false marking suits nationwide.⁶² It was a false marking gold rush, with patent attorneys as well as laypeople scrutinizing goods of all kinds, searching for expired or incorrect patent markings.⁶³ The per-article calculation could lead to fines of staggering size, and the statute stated that any person can bring a false marking claim and recover half of the fine imposed.⁶⁴ The Federal Circuit added fuel to the false marking fire with its decision in *Stauffer v. Brooks Brothers, Inc.*⁶⁵ In that case, the court held that private citizens and entities do indeed have standing to bring false marking claims under § 292.⁶⁶ The decision removed a potential procedural obstacle to the hundreds of false marking suits already pending in federal court and cleared the way for additional future suits.⁶⁷

The Federal Circuit did place an important limitation on false marking suits during the Survey term with its decision in *Pequignot v. Solo Cup Co.*⁶⁸ In that case, the court articulated the standard a plaintiff must meet in order to prove that a defendant acted “for the purpose of deceiving the public” under § 292.⁶⁹ The suit concerned Solo’s marking of approximately 21.8 billion plastic cup lids.⁷⁰ Solo stamped the lids with the numbers of patents that had been valid when the manufacturing molds were created but that had since expired.⁷¹ Solo knew that the patents were expired, and the company had adopted a policy to phase out the incorrectly marked manufacturing molds as they wore out.⁷² However, Solo continued to make lids stamped with the expired patent numbers in the meantime.⁷³ The plaintiff sought \$500 for each falsely marked article—a total fine of about \$10.8 trillion.⁷⁴ The court held that products whose patents had expired were indeed “unpatented articles” under

59. *Id.*

60. *Id.*

61. *Id.* at 1304.

62. Bowling, *supra* note 8.

63. Dionne Searcey, *New Breed of Patent Claim Bedevils Product Makers*, WALL ST. J., Sept. 1, 2010, at A1.

64. *Id.*; 35 U.S.C. § 292(b) (2006).

65. *Stauffer v. Brooks Bros., Inc.*, 619 F.3d 1321, 1327 (Fed. Cir. 2010).

66. *Id.*

67. Searcey, *supra* note 63, at A1.

68. *Pequignot v. Solo Cup Co.*, 608 F.3d 1356, 1362–64 (2010).

69. *Id.* at 1362–65.

70. *Id.* at 1359.

71. *Id.* at 1358–59.

72. *Id.*

73. *Id.* at 1359.

74. *Id.* The court dryly observed in a footnote that the government’s portion of the fine “would be sufficient to pay back 42 percent of the country’s total national debt.” *Id.* at 1359 n.1.

§ 292.⁷⁵ However, the court also held that Solo's knowledge of the expired patent created only a rebuttable presumption that it acted with a purpose of deceiving the public under the statute.⁷⁶ Solo could rebut that presumption if it could show by a preponderance of the evidence that it did not act with a purpose to deceive.⁷⁷ The court found that because Solo acted on the advice of counsel, adopted a plan to phase out the falsely marked molds, and had begun to implement that plan, the company successfully rebutted the presumption of purpose to deceive.⁷⁸ The Federal Circuit affirmed summary judgment in Solo's favor.⁷⁹

We expect to see significant developments in false marking law in 2011 and 2012. The Federal Circuit suggested in *Brooks Brothers*, that § 292 could be vulnerable to constitutional challenge.⁸⁰ An amicus brief filed in that case argued that § 292's *qui tam* provision, which allows "any person" to sue to enforce the statute, gives the government insufficient control over the law's enforcement and thus violates the "take care" clause of Article II, Section 3 of the Constitution.⁸¹ The court described these arguments as "relevant points" but declined to rule on them because the constitutionality of § 292 was not raised on appeal.⁸² The Federal Circuit also appears poised to decide whether a false marking claim is an allegation of fraud that must meet the heightened pleading requirements of Federal Rule of Civil Procedure 9(b).⁸³ In *Simonian v. BP Lubricants USA, Inc.*, the Federal Circuit is considering a petition for a writ of mandamus in which BP argues for the application of that heightened pleading standard.⁸⁴ Interestingly, the United States has filed an amicus brief in that case supporting of BP and the heightened standard.⁸⁵ The current state of law suggests that some form of judicial or legislative limitation is likely in the coming months.

75. *Id.* at 1361.

76. *Id.* at 1362–63.

77. *Id.* at 1364.

78. *Id.*

79. *Id.* at 1365.

80. *See Brooks Bros.*, 619 F.3d at 1327.

81. *Id.* (summarizing amicus brief's argument that with 35 U.S.C. § 292, "Congress has stripped the executive branch of its duty to 'take Care that the Laws be faithfully executed' by giving such power to the public," and contrasting § 292 with the False Claims Act's imposition of numerous controls on *qui tam* relators).

82. *Id.*

83. *See* Notice of Pet. for Writ of Mandamus, *Simonian v. BP Lubricants USA Inc.*, No. 1-10-CV-01258 (N.D. Ill. Oct. 13, 2010), available at <http://www.falsemarking.net/cases/1-10-cv-0125865/Order%20Granting%20Motion%20to%20Stay%20Pending%20Outcome%20of%20Mandamus%20Petition.pdf> (last visited Mar. 11, 2011).

84. *See id.*

85. *See* Response of the United States as Amicus Curiae in Support of the Petitioner, *In re BP Lubricants USA, Inc.*, Misc. Docket No. 2010-960 (Fed. Cir. Oct. 20, 2010), at 2, available at <http://www.falsemarking.net/cases/fedbp/Response%20of%20U%20U%20A%20Amicus%20Curia%20in%20Support%20of%20Petitioner.pdf> (last visited Mar. 11, 2011).

2. *A Not-So-Extraordinary Writ—Mandamus in the Eastern District of Texas*

As we have discussed previously in last year's Survey, the writ of mandamus is no longer the extraordinary writ that it once was in the Eastern District of Texas.⁸⁶ This transformation became even more evident throughout the Survey period. Six times between December 2009 and January 2011, the Federal Circuit issued a writ of mandamus in cases arising in the Eastern District of Texas.⁸⁷ In each case the Federal Circuit ordered the district court to transfer venue pursuant to 28 U.S.C. § 1404(a). Despite noting in *In re Nintendo* that such writs are used only in "extraordinary situations to correct a clear abuse of discretion or usurpation of judicial power,"⁸⁸ the Federal Circuit repeatedly issued the writs in the months that followed. The Federal Circuit continues to seem inclined to mandate transfer of venue under § 1404(a) absent a concrete connection between the Eastern District of Texas and a party, a witness, or the evidence, regardless of whether the district is geographically centrally located.⁸⁹

Mandamus has become so commonplace in the Eastern District of Texas that it is now simpler to discuss venue in terms of what will *not* trigger mandamus relief there. In two notable cases, the Federal Circuit declined mandamus relief to defendants seeking transfer out of the Eastern District of Texas.⁹⁰ In *In re Wyeth*, the Federal Circuit denied mandamus where the defendant had waited seventeen months before filing a motion to transfer venue.⁹¹ The court held that Wyeth had not moved to transfer venue with the "reasonable promptness" that the Fifth Circuit requires, and that Wyeth had provided an insufficient excuse for the delay.⁹² Another notable exception was *In re Apple*.⁹³ In that case, the district court had denied the defendants' motion to transfer venue on the grounds that the defendants had not met their burden of demonstrating that their proposed forum was "clearly more convenient" than the Eastern District of Texas for trial.⁹⁴ The Federal Circuit, in an unpublished opinion, acknowledged that the parties' ties to Texas were "recent and ephemeral."⁹⁵ But the court also found that the defendants had not

86. See David L. McCombs, et al., *Intellectual Property Law*, 63 SMU L. REV. 653, 658 (2010).

87. *In re Microsoft Corp.*, 630 F.3d 1361, 1365 (Fed. Cir. 2011); *In re Acer America Corp.*, 626 F.3d 1252, 1256 (Fed. Cir. 2010); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378, 1382 (Fed. Cir. 2010); *In re Nintendo*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Hoffman-La Roche*, 587 F.3d 1333, 1338 (Fed. Cir. 2009); *In re Genentech*, 566 F.3d 1338, 1348 (Fed. Cir. 2009).

88. *In re Nintendo Co.*, 589 F.3d at 1197.

89. *Id.* at 1199–1200.

90. See *In re Wyeth*, 406 F. App'x 475, 476 (Fed. Cir. 2010); *In re Apple, Inc.*, 374 F. App'x 997, 999 (Fed. Cir. 2010) (not designated for publication).

91. *In re Wyeth*, 406 F. App'x at 475.

92. *Id.* (citing *Peteet v. Dow Chem. Co.*, 868 F.2d 1428, 1436 (5th Cir. 1989)).

93. *In re Apple*, 374 F. App'x at 999.

94. *Id.* at 998.

95. *Id.* at 999.

made a compelling showing that Massachusetts was a more convenient forum.⁹⁶ The court denied the petition and declined to issue the writ.⁹⁷ The decision demonstrates that in a motion to transfer venue, it is not enough for a defendant to show that the original forum is inconvenient.⁹⁸ The defendant must also provide a credible alternative.⁹⁹

3. *Descriptive or Doomed—Ariad Pharmaceuticals, Inc. v. Eli Lilly and Co.*

In *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Co.*, the Federal Circuit, en banc, considered whether the first paragraph of 35 U.S.C. § 112 contains a written description requirement separate from its enablement requirement.¹⁰⁰ Section 112 states that the patent specification “shall contain a written description of the invention, and of the manner and process of making and using it. . . .”¹⁰¹ Ariad argued that the statute requires only a single description—one that both describes the invention and enables one of skill in the art to make and use it.¹⁰² The Federal Circuit rejected this interpretation and reaffirmed its previous holdings that two distinct descriptions are required—one that describes the invention such that one of ordinary skill in the relevant art would understand that “the inventor had possession of the claimed subject matter as of the filing date,” and another that enables one of ordinary skill in the art to make and use it without undue experimentation.¹⁰³

Ariad’s patents were based on the discovery of transcription factor NF-κB and the recognition that reducing NF-κB activity could reduce the negative effects of certain diseases.¹⁰⁴ The patents were of the kind that universities and other research institutions often seek in order to lay claim to the initial results of their basic research.¹⁰⁵ Twenty-five amicus briefs were filed in the case, and many of them argued that to require a separate detailed written description of an invention would severely limit patent protection for the fruits of basic scientific research and undermine these institutions’ incentive to innovate.¹⁰⁶ The court found Ariad’s patents contained generic claims that defined the boundaries of a genus of chemical compounds that can achieve a desired result, but they failed to adequately describe a variety of species within the genus that accom-

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.*

100. *Ariad Pharm., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336, 1340 (Fed. Cir. 2010) (en banc).

101. 35 U.S.C. § 112 (2006).

102. *Ariad*, 598 F.3d at 1342.

103. *Id.* at 1351.

104. *Id.* at 1340. In molecular biology, a transcription factor is a protein that binds to specific DNA sequences and thereby controls the movement (or transcription) of genetic information from DNA to mRNA.

105. *Id.* at 1353.

106. *Id.* at 1338–39.

plishes the result.¹⁰⁷ The court brushed aside concerns about stifling basic scientific research, stating that the patent law has always been directed to the *useful arts* and that “[r]equiring a written description of the invention limits patent protection to those who actually perform the difficult work of ‘invention’—that is, conceive of the complete and final invention with all its claimed limitations—and disclose the fruits of that effort to the public.”¹⁰⁸

4. *An Industry Standard Shortcut—Fujitsu Ltd. v. Netgear, Inc.*

In *Fujitsu Ltd. v. Netgear, Inc.*, the Federal Circuit considered whether it was proper for the district court to use evidence of compliance with an industry standard as a proxy for actual evidence of infringement.¹⁰⁹ The court held that a “district court may rely on an industry standard in analyzing infringement” only if the “court construes the [patent] claims and finds that the reach of the claims includes any device that practices [the] standard.”¹¹⁰ An accused infringer then “is free to either prove that the claims do not cover all implementations of the standard or to prove that it does not practice the standard.”¹¹¹

The patent at issue claimed a method of sending wireless messages by fragmenting the data in a particular way.¹¹² Philips Corporation (one of the plaintiffs) argued that any product that complied with certain sections of the IEEE 802.11 interoperability standard necessarily infringed the asserted claims.¹¹³ Philips argued that Netgear indirectly infringed its patents by selling products that were compliant with the standard because end users inevitably would use the products in a way that infringed.¹¹⁴ Netgear responded that Philips’s patent claimed a process that relied on technology that was optional under the IEEE 802.1 standard, and therefore, general compliance with the standard did not necessarily amount to infringement.¹¹⁵ On appeal, the Federal Circuit held that even though compliance with an industry standard will indicate infringement in some instances, if “the relevant section of the standard is optional, [then] standards compliance alone would not establish [infringement].”¹¹⁶ “In these cases, the patent owner must compare the claims to the accused products or, if appropriate, prove that the accused products implement any relevant optional sections of the standard.”¹¹⁷

107. *Id.* at 1350.

108. *Id.* at 1353.

109. *Fujitsu Ltd. v. Netgear, Inc.*, 620 F.3d 1321, 1327 (Fed. Cir. 2010).

110. *Id.* at 1327–28.

111. *Id.*

112. *Id.* at 1326.

113. *Id.* at 1331.

114. *Id.* at 1328, 1330–31.

115. *Id.* at 1328–29, 1331.

116. *Id.* at 1327–28.

117. *Id.* at 1328.

5. *Anticompetitive Perhaps, but Not Misuse—Princo Corp. v. International Trade Commission (ITC)*

In *Princo Corp. v. ITC*, an en banc Federal Circuit considered the scope of patent misuse, which can be asserted as a defense to claims of patent infringement.¹¹⁸ The court considered the question: “When a patentee offers to license a patent, does the patentee misuse that patent by inducing a third party not to license its separate, competitive technology?”¹¹⁹ The court construed the doctrine of patent misuse narrowly and found no misuse in the circumstances before it.¹²⁰

Sony and Philips had collaborated to develop a standard for the manufacture of writable compact discs.¹²¹ Initially, the companies proposed different methods for how to encode position information in the disc so that a consumer’s CD reader/writer could maintain proper positioning while writing data to the disc.¹²² Ultimately, engineers for both companies agreed that Philips’s proposed method was most effective and the companies agreed to use that method.¹²³ Philips assembled a pool of patents that would be necessary to make CDs under the new standard.¹²⁴ Philips licensed the patents in the pool to companies that were interested in producing rewritable CDs.¹²⁵ Princo initially licensed the pooled patents but failed to pay royalties under the license.¹²⁶ After Philips brought suit against Princo for infringement, Princo argued that Philips could not enforce its patent because, by conspiring with Sony to suppress Sony’s competing technology, Philips had engaged in patent misuse.¹²⁷ The Federal Circuit affirmed the ITC’s findings that Princo failed to demonstrate that Philips committed patent misuse.¹²⁸ The court explained that “[w]hat patent misuse is about, in short, is ‘patent leverage,’ i.e., the use of the patent power to impose overbroad conditions on the use of the patent in suit that are ‘not within the reach of the monopoly granted by the Government.’”¹²⁹ The court further explained that this “leverage” test requires a connection between the patent in suit and the allegedly misused patent.¹³⁰ The court found that Philips’s and Sony’s agreement did not impermissibly leverage the patent.¹³¹ The court also noted that the patent that Princo accused Philips of misusing was not one of the patents it stood accused of infringing, and thus a connection between the

118. *Princo Corp. v. Int’l Trade Comm’n*, 616 F.3d 1318, 1321 (Fed. Cir. 2010) (en banc).

119. *Id.* at 1331.

120. *Id.* at 1332, 1334

121. *Id.* at 1322.

122. *Id.*

123. *Id.*

124. *Id.*

125. *Id.*

126. *Id.* at 1323.

127. *Id.*

128. *Id.* at 1332.

129. *Id.* at 1331.

130. *Id.*

131. *Id.* at 1333.

patent in suit and the allegedly misused patent was lacking.¹³²

6. *Candor at the PTO—Avid Identification System, Inc. v. Crystal Import Corp.*

In *Avid Identification System, Inc. v. Crystal Import Corp.*, the Federal Circuit defined who owes a duty of candor to the PTO during the prosecution of a patent application.¹³³ PTO Rule 56 imposes a duty of candor and good faith in dealing with the PTO upon “each individual associated with the filing and prosecution of a patent application.”¹³⁴ The rule defines individuals associated with the filing and prosecution of a patent application as (1) each named inventor, (2) each attorney or agent that prepares or prosecutes the application, and (3) every other person who is “substantively involved” in the preparation or prosecution of the application and who is associated with the inventor or assignee.¹³⁵

Prior to this case, the Federal Circuit had not defined the scope of the third category – those who are “substantively involved” in preparing or prosecuting the application.¹³⁶ In *Avid*, the court held this to mean that “the involvement relates to the content of the application or decisions related thereto, and that the involvement is not wholly administrative or secretarial in nature.”¹³⁷ The court found that Avid’s president, Dr. Hannis Stoddard—though not an attorney, agent, or inventor—was sufficiently involved in the prosecution of the patent at issue so that he owed a duty of candor to the PTO.¹³⁸

Avid owned a patent on a radio frequency chip and reader system that would help reunite owners with their lost pets by storing identifying information on an implantable chip that could be read by animal shelters and hospitals.¹³⁹ More than one year before the patent application was filed, Dr. Stoddard demonstrated the technology at a livestock trade show.¹⁴⁰ Dr. Stoddard did not disclose this public demonstration to the PTO.¹⁴¹ Several years after the patent issued, Avid sued Crystal and other competitors for infringement of the patent and obtained a jury verdict for infringement and unfair competition.¹⁴² Crystal asked the district court to set aside the verdict, arguing that Avid’s patent was unenforceable due to Dr. Stoddard’s inequitable conduct in failing to report the public demonstration.¹⁴³ The district court agreed, finding that Avid acted with in-

132. *Id.*

133. *Avid Identification Sys., Inc. v. Crystal Imp. Corp.*, 603 F.3d 967, 973 (Fed. Cir. 2010).

134. 37 C.F.R. § 1.56(a) (2010).

135. *Avid*, 603 F.3d at 973 (citing 37 C.F.R. § 1.56(c) (2010)).

136. *Id.* at 974.

137. *Id.*

138. *Id.* at 976–77.

139. *Id.* at 969–70.

140. *Id.* at 970.

141. *Id.*

142. *Id.*

143. *Id.*

tent to deceive and that Dr. Stoddard was “substantively involved” in the prosecution of the patent application.¹⁴⁴ The Federal Circuit affirmed the district court’s dismissal.¹⁴⁵ The court noted that the functionality of the patented system was Dr. Stoddard’s idea and that the inventors he hired were specifically instructed to reduce his idea to practice.¹⁴⁶ The court remarked that “to accept Avid’s argument that a person such as Dr. Stoddard owes no duty of candor would allow intentional deception by the types of people most likely to have knowledge of § 102(b) prior art, i.e., those on the commercial side of patented product development.”¹⁴⁷

7. *These Genes Are Not for Sale—Association for Molecular Pathology v. USPTO*

Perhaps no patent case garnered more headlines during the Survey period than *Association for Molecular Pathology v. U.S. Patent and Trademark Office United States Patent and Trademark Office (USPTO)*.¹⁴⁸ The issue before the U.S. District Court for the Southern District of New York was whether isolated human genes and the comparison of their sequences are patentable.¹⁴⁹ The seven patents at issue claimed human genes associated with breast and ovarian cancer and methods for detecting mutations in those genes.¹⁵⁰ Judge Robert W. Sweet ruled that the human genes and the methods of detecting mutations in those genes are unpatentable subject matter under 35 U.S.C. § 101.¹⁵¹ Myriad Genetics, which owned the patents, appealed to the Federal Circuit. The appeal squarely presents the question of whether human genes—whether in synthetic form or isolated and purified—are patentable subject matter. The United States has filed an amicus brief in support of neither party.¹⁵² The government agrees with Myriad that the district court erred in holding that synthetic versions of naturally occurring DNA molecules were unpatentable,¹⁵³ but the government also agrees with Judge Sweet that isolated and purified DNA molecules are unpatentable.¹⁵⁴ However the case is decided, the Federal Circuit’s decision will have far-reaching effects on the biotechnology industry.¹⁵⁵ An estimated twenty percent of the

144. *Id.* at 974.

145. *Id.* at 977.

146. *Id.* at 976.

147. *Id.*

148. *Ass’n for Molecular Pathology v. U.S. Patent & Trademark Office*, 702 F. Supp. 2d 181 (S.D.N.Y. 2010).

149. *Id.* at 185

150. *Id.*

151. *Id.*

152. Brief for the United States as Amicus Curiae Supporting Neither Party at 1, *Ass’n for Molecular Pathology v. USPTO*, 2010 WL 3275970 (Fed. Cir. Aug. 2010) (No. 2010-1406), 2010 WL 5311466.

153. *Id.* at 14–16.

154. *Id.* at 32–36.

155. John Schwartz & Andrew Pollack, *Judge Invalidates Human Gene Patent*, N.Y. TIMES, Mar. 29, 2010, at B1, available at <http://www.nytimes.com/2010/03/30/business/30gene.html>.

human genome is patented with billions of dollars invested in the patented technology.¹⁵⁶

8. *Queuing Up for Attorneys' Fees—Media Queue, LLC v. Netflix, Inc.*

In *Media Queue, LLC v. Netflix, Inc.*, a case now on appeal, the Federal Circuit will decide what a defendant must prove in order to recover attorneys' fees after prevailing in a patent infringement suit.¹⁵⁷ Under 35 U.S.C. § 285, a "court in exceptional cases may award reasonable attorney fees to the prevailing party."¹⁵⁸ The statute does not define the "exceptional" case, but numerous Federal Circuit decisions have attempted to do so.¹⁵⁹ In *Media Queue v. Netflix*, Netflix was the defendant and prevailed in the district.¹⁶⁰ Netflix sought attorneys' fees, but the district court denied them.¹⁶¹ On appeal, Netflix argues that a prevailing defendant should more easily be able to prove exceptionality under § 285 and recover attorneys' fees from the plaintiff.¹⁶²

Federal Circuit precedent defines what constitutes an exceptional case.¹⁶³ A plaintiff may recover attorneys' fees if it can prove, for example, that the defendant willfully infringed and willful infringement is an objective standard to which the infringer's subjective "state of mind" is irrelevant.¹⁶⁴ Meanwhile, to recover attorneys' fees, a defendant must prove by clear and convincing evidence that the plaintiff's claims were objectively baseless *and* were brought in subjective bad faith.¹⁶⁵ On appeal, Netflix argues that the Federal Circuit's standard for defendants is more stringent than for plaintiffs, that Federal Circuit precedent conflicts with the more egalitarian approach the Supreme Court has adopted in the copyright context, and that the standard for defendants in patent infringement suits should not be so exacting.¹⁶⁶ As an alternative standard, Netflix argues that accused infringers should be able to recover attorneys' fees if they can show that the patentee was "objectively reckless" in filing or pursuing a lawsuit or that the accused infringer "vindicated an impor-

156. *Id.*

157. *Media Queue, LLC v. Netflix, Inc.*, 2010 U.S. Dist. LEXIS 44485, at *3–4 (N.D. Cal. Mar. 31, 2010).

158. 35 U.S.C. § 285 (2010).

159. *See, e.g., Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989); *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578 (Fed. Cir. 1985).

160. *Media Queue*, 2010 U.S. Dist. LEXIS 44485, at *3–4.

161. *Id.* at *9.

162. Appellate Petition, *Media Queue, LLC v. Netflix, Inc.*, (Nos. 2010-1199, 2010-1344), 2010 WL 2865955, at*2–6 (Fed. Cir. July 1, 2010).

163. *See, e.g., Beckman Instruments*, 892 F.2d at 1551.

164. *Revolution Eyewear, Inc. v. Aspex Eyewear, Inc.*, 563 F.3d 1358, 1372 (Fed. Cir. 2009) (acknowledging willfulness as grounds for an exceptional case determination); *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc) (stating what constitutes willfulness).

165. *See Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1305 (Fed. Cir. 2009).

166. Appellate Petition, *Media Queue*, 2010 WL 2865955, at *2–6.

tant public interest” by successfully invalidating patents that should not have been granted in the first place.¹⁶⁷ The Federal Circuit declined to hear the case directly en banc, but a panel will consider the case in the near future.¹⁶⁸

III. COPYRIGHT UPDATE

A. THE U.S. SUPREME COURT ON COPYRIGHT

1. *Failure to Register—Reed Elsevier, Inc. v. Muchnick*

In *Reed Elsevier, Inc. v. Muchnick*, the Supreme Court considered whether the requirement that plaintiffs register their works prior to bringing a claim for copyright infringement was a jurisdictional requirement that, if unmet, deprived a federal court of subject-matter jurisdiction.¹⁶⁹ The Court overruled the Second Circuit and held that the registration requirement in 17 U.S.C. § 411(a) is not jurisdictional—a court may have subject-matter jurisdiction over a copyright infringement action even if the works at issue were unregistered at the time the suit was filed.¹⁷⁰

“The *Muchnick* case involved a class action by freelance authors and trade groups asserting claims of copyright infringement related to the electronic reproduction of works in which the authors retained copyright ownership.”¹⁷¹ The named plaintiffs and many members of the class had registered their works, but some class members had not done so.¹⁷² The Second Circuit had found that § 411(a)’s registration requirement was jurisdictional and that the court therefore lacked jurisdiction over the class action.¹⁷³ The Supreme Court reversed, interpreting § 411(a) to be merely a procedural prerequisite to suit, but not one that deprived the court of jurisdiction.¹⁷⁴ Notably, the Court did not explain what effect the failure to register a copyrighted work should have on a case, leaving that task to other courts in future cases.¹⁷⁵

2. *First Sale Doctrine—Costco Wholesale Corp. v. Omega, S.A.*

In *Costco Wholesale Corp. v. Omega, S.A.*, the Supreme Court granted certiorari to consider whether the first sale doctrine should apply to copy-

167. *Id.* at *12–13.

168. *Media Queue, LLC v. Netflix, Inc.*, 2010 U.S. App. LEXIS 21190, at *1 (Fed. Cir. Sept. 15, 2010) (denying rehearing en banc).

169. *Reed Elsevier, Inc. v. Muchnick*, 130 S. Ct. 1237, 1242 (2010).

170. *Id.* at 1241.

171. Jason Bloom, *Skip the Copyright Office and Proceed Directly to Suit?*, HAYNES AND BOONE, 1 (Sept. 8, 2010), <http://www.techlaw.org/wp-content/uploads/2010/07/HayBoo-Skip-the-Copyright-Office-and-Proceed-Directly-to-Suit.pdf>.

172. *Muchnick*, 130 S. Ct. at 1242.

173. *In re Literary Works in Electronic databases Copyright Litigation*, 509 F.3d 116, 122 (2d Cir. 2007), *rev’d*, 130 S. Ct. 1237 (2010).

174. *Muchnick*, 130 S. Ct. at 1247, 1249.

175. *See id.* at 1249 (“We also decline to address whether § 411(a)’s registration requirement is a mandatory precondition to suit . . .”).

righted articles purchased abroad and later imported into the United States.¹⁷⁶ Under the first sale doctrine, a purchaser of a copyrighted work (such as a book or a poster) may later sell that work without the permission of the copyright owner.¹⁷⁷ The Ninth Circuit had held that the first sale doctrine did not apply to goods manufactured and sold abroad, and the Court granted certiorari to decide the issue.¹⁷⁸ In a 4-4 split without an opinion, the Court affirmed the Ninth Circuit's approach.¹⁷⁹ Of course, because the Court was evenly divided, the case will not be considered precedential.

The case concerned a shipment of watches that had been manufactured by Omega in Switzerland, purchased by a Costco buyer in Latin America, imported into the United States, and offered for sale.¹⁸⁰ On the back of the watches appeared a small copyrighted design and Omega claimed that the unauthorized importation and distribution of the watches was copyright infringement.¹⁸¹ If the watches had been made and sold in the United States, Omega's rights in the work would have been exhausted under the first sale doctrine, and Costco would be free to sell them. However, the Ninth Circuit held that the foreign manufacture and sale of the watches did not exhaust Omega's copyright.¹⁸² The court held that to extend the first sale doctrine to such goods would "impermissibly apply the Copyright Act extraterritorially."¹⁸³ Following the Supreme Court's non-decision, the law in the Ninth Circuit continues to be that the first sale doctrine does not apply to goods manufactured and sold abroad.¹⁸⁴

B. THE CIRCUIT COURTS ON COPYRIGHT

1. *Helpful to Hackers?*—*MGE UPS System, Inc. v. GE Consumer & Industry Inc.*

In *MGE UPS System Inc. v. GE*, the Fifth Circuit limited the scope of the anti-circumvention provisions of the Digital Millennium Copyright Act (DMCA).¹⁸⁵ Under the DMCA, "No person shall circumvent a technological measure that effectively controls access to a work protected under this title."¹⁸⁶ In this case, MGE argued that GE should be liable under the DMCA because GE allegedly used MGE's copyrighted work

176. *Costco Wholesale Corp. v. Omega, S.A.*, 130 S. Ct. 2089 (2010) (order granting cert.); see also *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988 (9th Cir. 2008).

177. See 17 U.S.C. § 109(a) (2006).

178. *Costco Wholesale Corp.*, 130 S. Ct. at 2089; *Omega*, 541 F.3d at 988.

179. *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565, 565 (2010).

180. *Omega*, 541 F.3d at 983-84.

181. *Id.*

182. *Id.* at 990.

183. *Id.* at 988.

184. See *id.* at 986 (stating the first sale doctrine "grants first sale protection only to copies legally made and sold in the United States").

185. *MGE UPS Sys., Inc. v. GE Consumer & Indus. Inc.*, 622 F.3d. 361, 366 (5th Cir. 2010).

186. 17 U.S.C. § 1201(a)(1)(A) (2006).

that at one time had been protected by anti-circumvention measures.¹⁸⁷ The Fifth Circuit disagreed, holding that a party could not be liable for circumvention under the DMCA without evidence of actual circumvention.¹⁸⁸

MGE manufactured backup power supplies that provide uninterrupted power in the event of an outage.¹⁸⁹ MGE also developed software to service its power supplies. The software could be fully activated only with a security dongle that had to be attached to the serial port of a technician's laptop computer. A GE subsidiary called PMI was a competitor to MGE, and at some point PMI acquired a computer with MGE's proprietary software.¹⁹⁰ The computer had been "hacked" so that no security dongle was required. MGE argued that PMI should be liable under the anti-circumvention provision of the DMCA.¹⁹¹ It argued that even if it could not prove that PMI had circumvented the dongle, PMI nevertheless should be liable under the DMCA for having used copyrighted software after the dongle had been circumvented.¹⁹² The Fifth Circuit rejected such a broad application of the DMCA, explaining that "[s]o broad a construction would extend the DMCA beyond its intended purposes to reach extensive conduct already well-regulated by existing copyright laws."¹⁹³ The court agreed with GE that absent a showing of circumvention, GE was, at most, liable for copyright infringement for its use of the software.¹⁹⁴ The decision narrows the scope of the DMCA's anti-circumvention provisions considerably, suggesting that hackers must be caught in the act of circumvention if they are to be found liable under the anti-circumvention measures of the DMCA.

2. *One Less Thing You Can Buy on eBay—Vernor v. Autodesk*

If MGE was a boon for hackers, *Vernor v. Autodesk* may come to be seen as a windfall for software developers.¹⁹⁵ In *Vernor*, the Ninth Circuit considered whether a software owner could style the software's end user license agreement (EULA) so that it prohibited future sales of the software.¹⁹⁶ The issue, in effect, was whether software copyright owners could avoid the first sale doctrine by licensing a copy of the software rather than selling it. The Ninth Circuit held that the terms of the EULA were permissible, that Autodesk's customers were licensees rather than owners of the software, and that the first sale doctrine therefore did not apply.¹⁹⁷

187. *MGE*, 622 F.3d at 364.

188. *Id.* at 366.

189. *Id.* at 364.

190. *Id.*

191. *Id.* at 365.

192. *Id.*

193. *Id.* at 366.

194. *Id.*

195. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1102 (9th Cir. 2010).

196. *Id.* at 1107.

197. *Id.* at 1103–04.

Autodesk makes computer-aided design software used by architects, engineers, and manufacturers.¹⁹⁸ Autodesk released the software under an EULA that the customer must accept before installing the software. The EULA in this case specified, among other things, that (1) Autodesk retains title to all copies; (2) the customer has a nonexclusive, nontransferable license; and (3) the customer is prohibited from renting, leasing, or transferring the copy without Autodesk's permission.¹⁹⁹ Timothy Vernor acquired several used copies of Autodesk's Release 14 and sold some of them on eBay.²⁰⁰ Autodesk advised Vernor of the terms of the EULA and asked Vernor not to sell additional copies of the software. Vernor brought a declaratory judgment action, and the district court held that under the first sale doctrine that Vernor was free to resell the software.²⁰¹ On appeal, Autodesk argued that the EULA was a valid contract, and that under its terms, Autodesk customers were licensees who were bound to abide by the terms of the license.²⁰² The Ninth Circuit agreed and held that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions.²⁰³ The court found that "[b]ecause Vernor did not purchase the Release 14 copies from an owner, he may not invoke the first sale doctrine."²⁰⁴

Perhaps the most immediate effect of this case will be that eBay merchants will be more wary about the software they buy and resell. Another effect will be that software developers will begin to craft EULAs that meet the Ninth Circuit's three criteria. Yet for many software developers, the EULAs they already use may suffice. The lower court's decision in *Autodesk* is an example of how software EULAs can be much more restrictive on paper than courts ultimately interpret them to be.²⁰⁵ After the Ninth Circuit's decision in *Autodesk*, software companies will have greater confidence that courts will honor the terms of a restrictive EULA.²⁰⁶

3. *Google vs. The Establishment*

Google, Inc. notched one substantial victory during the Survey period, and it took a step closer to another milestone. In *Viacom International*

198. *Id.* at 1104.

199. *Id.*

200. *Id.* at 1105–06.

201. *Id.* at 1106.

202. *Id.* at 1107.

203. *Id.* at 1110–11.

204. *Id.* at 1104.

205. *Id.* at 1106.

206. The Autodesk decision follows a trend toward stronger judicial enforcement of EULA terms in software. See, e.g., *Jacobsen v. Katzer*, 535 F.3d 1373, 1380 (Fed. Cir. 2008) (holding that the terms of the EULA for open-source software were enforceable and that the defendant could be held liable for using the software in a way that exceeded the scope of the terms); see also David L. McCombs, et al., *Intellectual Property Law*, 62 SMU L. REV. 1291, 1311–12 (2010) (discussing *Jacobsen*).

Inc. v. YouTube, Inc., Google successfully argued that its YouTube website was protected by the “safe harbor” provision of the DMCA.²⁰⁷ Also during the Survey period, in what has come to be known as the “Google Book Settlement,” the company received preliminary judicial approval for a groundbreaking settlement that clears the way for Google to digitize and publish the contents of millions of books.²⁰⁸

Viacom pitted Google against several older media conglomerates.²⁰⁹ Viacom argued that YouTube, which Google acquired in 2008 in a deal worth \$25 billion, must be liable for direct and secondary infringement because YouTube continued to operate its video-sharing website despite widespread copyright infringement by its users.²¹⁰ YouTube responded to the allegations by claiming that it was protected by the DMCA’s safe harbor provision.²¹¹ Under the DMCA, an internet service provider (ISP) may be shielded from liability for the infringing activity of its users.²¹² The ISP can lose its safe harbor status, however, if it does not respond “expeditiously” to takedown notices from copyright holders.²¹³ The ISP can also lose the protection by operating despite actual knowledge of infringement or in the absence of such knowledge, “by awareness of facts or circumstances from which infringing activity is apparent.”²¹⁴ Viacom argued that YouTube could not have been ignorant of its users’ widespread infringing use of the site and so could not enjoy protection under the DMCA.²¹⁵ The Southern District of New York disagreed, holding that “[m]ere knowledge of [the] prevalence of such [infringing] activity in general is not enough.”²¹⁶ A plaintiff must demonstrate that the defendant ISP had “knowledge of specific and identifiable infringements of particular individual items” and failed to correct it.²¹⁷ The court granted YouTube’s motion for summary judgment. The case is currently on appeal to the Second Circuit.²¹⁸

The Google Book Settlement resulted from a class action suit, brought by the Authors’ Guild and the Association of American Publishers, that alleged that Google committed massive copyright infringement when it scanned and digitized thousands of copyrighted books as part of its

207. *Viacom Int’l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 514 (S.D.N.Y. 2010).

208. See Supplemental Notice To Authors, Publishers and Other Book Rightsholders about the Google Book Settlement, Attachment to Amended Settlement Agreement at 1–4, *Authors Guild, Inc. v. Google, Inc.*, No. 1:05-CV-08136-DC (S.D.N.Y. Nov.13, 2009), ECF No. 770 Ex. 1, available at http://static.googleusercontent.com/external_content/untrusted_dlcp/www.googlebooksettlement.com/en/us/intl/en/Supplemental-Notice.pdf.

209. See *Viacom*, 718 F. Supp. 2d at 514.

210. *Id.* at 518–19.

211. *Id.* at 516.

212. See 17 U.S.C. § 512(c), (m)–(n) (2006).

213. *Id.* § 512(c)(1)(A)(iii).

214. *Viacom*, 718 F. Supp. 2d at 520 (discussing 17 U.S.C. § 512(c)(1)(A)(ii)).

215. *Id.* at 517.

216. *Id.* at 523.

217. *Id.*

218. Notice of Appeal, *Viacom Int’l, Inc. v. YouTube, Inc.*, No. 1:07-CV-02103-LLS (S.D.N.Y. Aug. 11, 2010), ECF No. 402.

“Google Books” initiative.²¹⁹ Settlement negotiations began in 2006²²⁰ and in 2008 the agreement received initial approval from the Southern District of New York.²²¹ That initial agreement required Google to pay out \$125 million to authors and publishers and set up a “Book Rights Registry” to pay authors and publishers for the digital use and sale of works.²²² Consumers would be able to buy digital books outright or pay per page, and Google would take thirty-seven percent of the revenue with sixty-three percent going to copyright holders.²²³ Publishers and authors could opt out of the program.²²⁴

On November 19, 2009, the court approved an amended settlement that added several new material terms.²²⁵ These included (1) the creation of a fiduciary to hold payments due to “orphan works”—copyrighted works for which the owner is unknown or cannot be contacted—until the owner can be contacted; (2) a new revenue model, which gives Google a greater ability to discount but also allows copyright holders to negotiate their share of the revenue; and (3) a provision that limits the scope of the agreement to foreign works that are registered with the U.S. Copyright Office or are published in Australia, Canada, or the United Kingdom.²²⁶ The U.S. Department of Justice (DOJ), which along with several competitors had objected to the 2008 settlement agreement over antitrust concerns, also has objected to the most recent version as not doing enough to resolve potential antitrust violations.²²⁷ The DOJ has urged the court to send the parties back to the negotiating table to address these concerns.²²⁸ At the end of the Survey period, the court had not yet given final approval of settlement agreement.

Critics have said that in *Viacom* and in the pending Book Settlement,

219. Settlement Agreement, Authors Guild, Inc. et al. v. Google Inc., No. 06-CV-8136 (S.D.N.Y. Oct. 28, 2008). The proceeding combines the unresolved claims of authors and book publishers as initially filed in two underlying actions: Authors Guild v. Google, Inc., No. 05 Civ. 8136 (S.D.N.Y. Sept. 20, 2005) (a class action filed by representative authors and the Guild) and McGraw-Hill Cos., Inc. v. Google Inc., No. 05 Civ. 8881 (S.D.N.Y. Oct. 19, 2005) (an action filed on behalf of five publishing companies).

220. Letter from Roy Blount Jr., President, Authors Guild, to Authors Guild Members (Oct. 28, 2008), available at <http://www.authorsguild.org/advocacy/articles/member-alert.google.html>.

221. Times Wire Services, Google copyright settlement OKd, L.A. TIMES, Nov. 18, 2008, available at <http://articles.latimes.com/print/2008/nov/18/business/Fi-briefs18.S4>.

222. Digital books: A New Chapter, 950 THE ECONOMIST, Oct. 30, 2008, available at <http://www.economist.com/node/12523914>.

223. *Id.*

224. *Id.*

225. Order Granting Preliminary Approval of Amended Settlement Agreement, The Authors Guild, Inc. et al. v. Google Inc., No. 1:05-CV-08136-DC (S.D.N.Y. Nov. 19, 2009); see also “Google Books Settlement Agreement,” available at <http://books.google.com/googlebooks/agreement/>.

226. Amended Settlement Agreement, The Authors Guild, Inc. et al. v. Google Inc., No. 06-CV-8136 (S.D.N.Y. Nov. 13, 2009).

227. Statement of Interest of the United States of America Regarding Proposed Amended Settlement Agreement, Authors Guild, Inc. v. Google Inc., 1:05-CV-08136-DC (S.D.N.Y. Feb. 4, 2010), ECF No. 922.

228. *Id.* at 25.

Google has undermined traditional copyright.²²⁹ Yet Google consistently emerges from these landmark skirmishes as a company that perhaps is ahead of its time, but not so far ahead that the law could not accommodate its innovations. As a partial validation of Google's ambitious but controversial Google Books project, numerous countries, including Norway, are now undertaking initiatives to preserve their nations' books in an immense digital library and make them accessible over the internet.²³⁰ If not for Google's controversial effort to do the same, the United States would be years behind in this "digital library race."²³¹

IV. TRADEMARK UPDATE

A. NO FAITH IN THE TRINITY—THE COLLEGE NETWORK, INC. v. MOORE EDUCATION PUBLISHERS, INC.

In *The College Network, Inc. v. Moore Education Publishers, Inc.*, the Fifth Circuit addressed the appropriate test for determining trademark infringement liability in cases involving internet keyword search terms.²³² Keyword cases often center on whether the sale or purchase of a trademark as a keyword is "use in commerce" under the Lanham Act,²³³ but here, the case turned on whether a purchased keyword created a likelihood of confusion under that Act.²³⁴ The Fifth Circuit affirmed the jury's verdict that the use of "The College Network" as a search engine keyword did not amount to trademark infringement.²³⁵

The College Network (TCN) and Moore Educational Publishers (MEP) published competing study guides for nursing students.²³⁶ TCN sued MEP for trademark infringement after MEP purchased "The College Network" as a search engine keyword that would trigger advertisements for MEP products.²³⁷ To succeed in its claim, TCN needed to establish (1) that it owned a valid trademark in "The College Network," (2) that MEP used the mark "in commerce," (3) that use was likely to cause confusion, and (4) that TCN suffered damages as a result of the use.²³⁸ Although the question of whether the sale of a keyword constitutes "use in commerce" often is a hotly contested issue, the district court's jury instructions assumed that element was satisfied.²³⁹ The jury

229. See, e.g., Robert McCrum, *Google's Publishing Free for All Undermines Our Literary Tradition*, THE OBSERVER, Sept. 19, 2010, available at <http://www.guardian.co.uk/books/2010/sep/19/literature-google-publishing-threat-mccrum>.

230. Natasha Singer, *Playing Catch-Up in a Digital Library Race*, N.Y. TIMES, Jan. 9, 2011, at BU3, available at <http://www.nytimes.com/2011/01/09/business/09stream.html?src=busln>.

231. *Id.*

232. *The College Network, Inc. v. Moore Educ. Publ'rs, Inc.*, 378 F. App'x 403, 414 (5th Cir. May 12, 2010) (not designated for publication).

233. 15 U.S.C. § 1127 (2006).

234. *College Network*, 378 F. App'x at 414.

235. *Id.*

236. *Id.* at 405.

237. *Id.* at 413.

238. *Id.*

239. *Id.*

was asked to decide only two issues—whether “The College Network” was TCN’s valid trademark and whether MEP had infringed it.²⁴⁰ The jury found that TCN did indeed own the valid mark, but on the question of infringement, the jury answered in the negative.²⁴¹ The jury even awarded \$637,412 in damages to MEP, which had counter-sued TCN alleging tortious interference with contract and defamation.²⁴²

On appeal, TCN argued that the district court improperly assumed use in commerce when the issue should have been submitted to the jury.²⁴³ TCN also argued that the great weight of the evidence pointed to a likelihood of confusion, and thus the jury verdict should be set aside.²⁴⁴ In its unpublished opinion, the Fifth Circuit vacated the tortious interference award but otherwise upheld the jury verdict.²⁴⁵ The court found no need to revisit the issue of use in commerce because the jury found no infringement even with instructions that assumed use in commerce.²⁴⁶ As to likelihood of confusion, the court adhered to the Fifth Circuit’s usual eight factor test to make the determination.²⁴⁷ Notably, the court declined to adopt the Ninth Circuit’s so-called “Internet Trinity” test, which in e-commerce trademark disputes emphasizes the factors of (1) “the similarity of the marks,” (2) the “relatedness of the goods and services,” and (3) “the parties’ simultaneous use of the internet as a marketing channel.”²⁴⁸ In the Ninth Circuit, if the Internet Trinity factors point to a likelihood of confusion, the other five factors must “weigh strongly against a likelihood of confusion in order to avoid infringement.”²⁴⁹ The court explained that the Fifth Circuit had not adopted the Ninth Circuit test in the past and would not do so in this case.²⁵⁰ Besides, the court explained, the parties had waived the likelihood of confusion issue by failing to object to the jury instructions at trial.²⁵¹ *The College Network* underscores the importance of objecting to improper jury instructions and the difficulty in succeeding in a trademark infringement action against the purchaser of a keyword.

240. *Id.*

241. *Id.*

242. *Id.* at 410.

243. *Id.* at 413.

244. *Id.* at 413–14.

245. *Id.* at 414.

246. *Id.*

247. *Id.* The Fifth Circuit has set forth a “nonexhaustive” list of factors to consider when determining likelihood of confusion. See *Xtreme Lashes, LLC v. Xtended Beauty, Inc.*, 576 F.3d 221, 227 (5th Cir. 2009). These factors are: “(1) the type of trademark; (2) mark similarity; (3) product similarity; (4) outlet and purchaser identity; (5) advertising media identity; (6) defendant’s intent; (7) actual confusion; and (8) care exercised by potential purchasers.” *Id.*

248. *Id.*; see also *Perfumebay.com Inc. v. eBay, Inc.*, 506 F.3d 1165, 1173 (9th Cir. 2007) (articulating the so-called “Internet Trinity” test).

249. *Id.* (citing *Perfumebay.com Inc.*, 506 F.3d at 1173).

250. *Id.*

251. *Id.*

B. REAL PROBLEMS FOR SELLERS OF FAKES—GUCCI AMERICA, INC.
v. FRONTLINE PROCESSING CORP.

In *Gucci America, Inc. v. Frontline Processing Corp.*, the high-end handbag company brought an action against three credit card processing companies.²⁵² Gucci alleged that these companies infringed its marks by providing credit card processing services to websites that openly sold counterfeit Gucci products.²⁵³ The issue before the court was whether a provider of services could be held liable for contributory trademark infringement in the same way that a provider of goods can be.²⁵⁴ The district court held that service providers can indeed be held liable and denied the defendants' motion to dismiss for failure to state a claim.²⁵⁵

This case followed on the heels of another in which Gucci prevailed in a trademark infringement action against the operators of *TheBagAddiction.com*, a website that sold replica Gucci products at a fraction of the cost of the originals.²⁵⁶ In this case, Gucci pursued an action against the three credit card processing companies that provided or facilitated merchant services for *TheBagAddiction.com*.²⁵⁷ The district court for the Southern District of New York rejected Gucci's claims of direct and vicarious liability, finding that the defendants did not use the mark in commerce and that the defendants lacked the partnership or agency relationship required for vicarious infringement.²⁵⁸ Gucci's only possible claim was for contributory infringement.²⁵⁹

The district court applied the *Inwood* test for contributory infringement, as adapted by the Seventh Circuit for cases in which the alleged contributing infringer is a service provider instead of a manufacturer.²⁶⁰ That test requires that the defendant (1) intentionally induced another to engage in trademark infringement or (2) supplied services with knowledge of infringement or by willfully shutting its eyes to the infringing conduct while it had sufficient control over the instrumentality used to infringe.²⁶¹ The court found that Gucci had pleaded sufficient facts against each of the defendants to survive the motion to dismiss. For one of the defendants, a company that acted as liaison between *TheBagAddiction.com* and the other two defendants, the court found that Gucci

252. *Gucci Amer., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228, 236 (S.D.N.Y. 2010).

253. *Id.* at 237.

254. *Id.* at 240.

255. *Id.* at 253.

256. *Id.* at 236–37.

257. *Id.* at 236.

258. *Id.* at 246–47.

259. *Id.* at 247 (“Gucci’s only plausible theory of liability here is contributory trademark infringement.”).

260. *Id.* at 247–48; see also *Inwood Labs., Inc. v. Ives Labs., Inc.*, 46 U.S. 844, 844 (1982); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148–49 (7th Cir. 1992) (adapting *Inwood* for case where alleged infringer provided services). The Seventh Circuit’s test added the “control” requirement to the second prong of the *Inwood* test. See *Hard Rock*, 955 F.2d at 1149–50.

261. *Gucci*, 721 F. Supp. 2d at 248.

pled sufficient facts to establish that the defendant intentionally induced others to engage in trademark infringement.²⁶² For the other two defendants, the court found that Gucci had made extensive factual allegations about these defendants' knowledge of the infringing products.²⁶³ Critically, the court also found that because the website could not operate without credit card servicing, the defendants essentially "controlled" the corporation for the purposes of the modified *Inwood* test.²⁶⁴

V. CONCLUSION

The Supreme Court was active, though not activist, during the Survey period. Its decision in *Bilski* and its stalemate in *Omega* were not as disruptive to the business industry as many anticipated they would be, yet the Court's actions provide some guidance for the future. In *Muchnick*, the Court clarified the copyright registration requirement, though the decision also leaves much for future courts to resolve. The Federal Circuit's decisions in *Forest Group* and *Brooks Brothers* shook up traditional assumptions about patent marking, and the courts or the legislature will be dealing with the resulting tsunami of false marking claims in the near term. The Federal Circuit also continued to be quite active in patent law issues. The U.S. District Court for the Southern District of New York decided at least two significant IP cases—*Molecular Pathology* and *Viacom*—that will be closely followed on appeal, as well as *Gucci*, a decision that will be of great concern to those who facilitate the business transactions of direct trademark infringers. The Fifth Circuit's decision in *MGE* may be welcomed by anti-circumvention hackers, while the Ninth Circuit's decision in *Vernor* will be mourned by those who peddle used software. In summary, the Survey period was varied, interesting, and complex, settling some longstanding IP law issues but raising a number of others.

262. *Id.* at 248–49.

263. *Id.* at 249–50.

264. *Id.* at 251–52.