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Intellectual Property Law

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INTELLECTUAL PROPERTY LAW

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I. INTRODUCTION

THIS Article surveys significant developments in intellectual property (IP) law in the past year. We focus on case law that is precedential in the Fifth Circuit or 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 Appeal for the Fifth and Federal Circuits. For developments in trademark and copyright law, the Fifth Circuit's authority is binding, but other circuits, such as the Second and Ninth Circuit, 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, decisions from the Federal Circuit during the Survey period are also included in this Article.

While the Supreme Court considered fewer IP issues in 2008 than it did in the previous two years, the federal judiciary overall remained very active in IP. Patent jurisprudence continued to evolve: the Supreme Court continued to narrow the scope of patent protection, this time using the doctrine of patent exhaustion, and the Federal Circuit further narrowed the scope of what qualifies for patent protection. Trademark and Copyright jurisprudence also continued to adapt to the realities of the digital age, in which electronic commerce and content sharing have created a new IP paradigm. Because of technological and commercial pressures, the importance of IP to our society is ever increasing. Parties continue to vigorously litigate valuable IP rights, and courts continue to scrutinize and shape our IP jurisprudence.

II. PATENT UPDATE

A. THE SUPREME COURT ON PATENTS

In its only patent decision of the Survey period, *Quanta Computer, Inc. v. LG Electronics, Inc.*,¹ the Supreme Court clarified the patent exhaustion doctrine. The case centered around two contracts between two technology giants, LG Electronics (LGE) and Intel Corporation. Under the license contract, Intel had the right to incorporate patented LGE technology into Intel's microprocessor and chipset products but did not have the right to grant its customers a license to combine the technology with other than LGE or Intel products. Under a separate contract, Intel was required to notify its customers of the limits of the license, but failure to do so would not affect or be grounds for revoking the license. Intel and LGE explicitly agreed that the license did not limit patent exhaustion. Various Intel customers, including Quanta Computers, purchased Intel products and combined them with non-Intel products in ways that utilized LGE's patented technology. LGE sued Intel's customers for patent infringement.² Although both the district court and the Federal Circuit determined that Quanta was liable to LGE, the Supreme Court reversed on the grounds that the patent was exhausted by Intel's licensed/authorized sale of the product.³

Under the "patent exhaustion" doctrine, an unrestricted, authorized sale of a patented item exhausts the patentee's exclusionary rights in the item.⁴ This doctrine also covers the sale of items that do not entirely embody the patented technology if the "only and intended use" of the item practices the patent.⁵

The Supreme Court held that the doctrine applied to LGE's method claims because Intel's sales were authorized and unrestricted, Intel's products substantially embodied the patents, and the doctrine applied to method patents.⁶ Although the Intel license explicitly denied a license to Intel's customers, the license did not restrict Intel's right to sell the products.⁷ Further, the Court held that the products substantially embodied the patents regardless of whether the products practiced more than the asserted patents or required the addition of other technology, such as bus-connected memory chips, to practice the patents.⁸ Because the steps necessary to enable the products to practice the patents were common and non-inventive, the products substantially embodied the patents.⁹

In holding that Intel's customers were protected by the patent exhaustion doctrine, the Court discarded doctrinal limits imposed by the Federal

1. 128 S. Ct. 2109 (2008).

2. *Id.* at 2114.

3. *Id.* at 2114-15, 2122.

4. *Id.* at 2115.

5. *Id.* at 2117.

6. *Id.* at 2117-18, 2120-22.

7. *Id.* at 2121.

8. *Id.* at 2120.

9. *Id.* at 2120-21.

Circuit. Under Federal Circuit precedent, “the sale of a device does not exhaust a patentee’s rights in its method claims.”¹⁰ Here, the Court noted that “[t]o the contrary, this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method.”¹¹ In the unanimous decision, Justice Thomas opined that excluding method patents from the ambit of the patent exhaustion doctrine would “seriously undermine” the doctrine—patentees could easily avoid the doctrine by simply drafting method claims to cover an apparatus.¹²

While LGE was unable to recover under the patent laws in this instance, the Court left open the possibility of a remedy under contract law and the ability to avoid patent exhaustion by using more restrictive licenses.¹³ To hold Quanta free from infringement liability, the Court construed the Intel license only to the extent that it determined Intel’s unrestricted right to sell the microprocessors and chipsets.¹⁴ Whether LGE had a breach-of-contract claim was independent of patent laws, and since LGE did not assert such a claim, the Court did not address the issue.¹⁵ Importantly, in finding that Intel’s sales were authorized by the license, the Court implicitly recognized that a more restrictive license might avoid patent exhaustion.

B. THE FEDERAL CIRCUIT ON PATENTS

1. *Transforming the Scope of Patentability—In re Bilski*

In what may have been the most anticipated patent decision of the Survey period, the Federal Circuit’s *In re Bilski* centered on defining what constitutes patentable subject matter.¹⁶ The case revolved around Bernard Bilski’s attempt to patent a process for hedging in commodity trading. The patent examiner rejected all the claims of Bilski’s application as unpatentable subject matter, and the Board of Patent Appeals and Interferences affirmed. In Bilski’s appeal to the Federal Circuit, the en banc court restricted its test for patentable subject matter and affirmed that the hedging method was not eligible for a patent.¹⁷

Under 35 U.S.C. § 101, an invention is eligible for a patent only if it is a “new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”¹⁸ The Supreme Court has further defined patentable subject matter to exclude natural phenom-

10. LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1370 (Fed. Cir. 2006) (citing *Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337, 1341 n.1 (Fed. Cir. 1999)), *rev’d*, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008).

11. *Quanta*, 128 S. Ct. at 2117.

12. *Id.* at 2117-18.

13. *Id.* at 2122 n.7.

14. *Id.* at 2121-22.

15. *Id.* at 2122 n.7.

16. *In re Bilski*, 545 F.3d 943, 999 (Fed. Cir. 2008) (en banc). For more information on Bilski and the issue of patentable subject matter, see David L. McCombs, et al., *Intellectual Property Law*, 61 SMU L. REV. 907, 919-22 (2008).

17. *Bilski*, 545 F.3d at 949-50.

18. 35 U.S.C. § 101 (2006).

ena, mental processes, and abstract intellectual concepts—i.e., fundamental principles.¹⁹ To distinguish a patentable process that is a particular application of a fundamental principle from an unpatentable process that fully encompasses the principle, the Supreme Court formulated the machine-or-transformation test: a process is patentable if it (1) “is tied to a particular machine or apparatus” or (2) “transforms a particular article into a different state or thing.”²⁰ This use of a machine or transformation of an article “must impose meaningful limits on the claim’s scope” and must be more than mere “insignificant extra-solution activity.”²¹

In affirming the Board decision, the Federal Circuit retreated from its well-established refinement of the machine-or-transformation test—that a patentable process is one that produces a “useful, concrete, and tangible result.”²² The *Bilski* majority noted that while the *State Street* test may “provide useful indications” of whether a process is patentable, it is not a sufficient test in itself.²³ The proper test is the machine-or-transformation test.²⁴

Bilski’s invention, admittedly not tied to a particular machine or apparatus, failed the transformation branch of the machine-or-transformation test.²⁵ To satisfy the test, the “transformation must be central to the purpose of the claimed process.”²⁶ What “articles” may be transformed include physical objects or substances and data representing such objects or substances, but not arbitrary data in the abstract.²⁷ Whether the hedging process produces useful, concrete, and tangible results or requires physical acts is irrelevant to the patentability analysis.²⁸ *Bilski*’s hedging process failed the test because it transformed business and legal abstractions, not physical objects or substances or data representing such objects or substances.²⁹

The Federal Circuit was explicit in defining the limits of its analysis and holding. Patent protection is not uniquely available to the “technological

19. *Bilski*, 545 F.3d. at 952 & n.5 (citing *Diamond v. Diehr*, 450 U.S. 175, 185 (1981); *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972); *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948)) (other citations omitted).

20. *Id.* at 954 (citing *Benson*, 409 U.S. at 70; *Diehr*, 450 U.S. at 192).

21. *Id.* at 961-62 (citing *Benson*, 409 U.S. at 71-72; *Parker v. Flook*, 437 U.S. 584, 590 (1978)).

22. *Id.* at 959-60. This test is commonly associated with *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

23. *Bilski*, 545 F.3d at 959-60.

24. *Id.*

25. *Id.* at 962-63.

26. *Id.*

27. *See id.* (for example, a process to transform data into a graphical display is not patentable when the data is arbitrary and abstract but is patentable when the data represents a physical object). The court also noted that an otherwise unpatentable process is not made patentable by merely adding an insignificant data-gathering step. *Id.*

28. *Id.* at 964.

29. *Id.* at 963-64.

arts.”³⁰ Business method inventions are not categorically excluded from patent protection.³¹ The machine-or-transformation test is not written in stone: “future developments in technology and the sciences may present difficult challenges” to the test, and “this court may in the future refine or augment the test or how it is applied.”³² Notably, the court did not consider the machine arm of the test and refused to opine on whether a “recitation of a computer suffices to tie a process claim to a particular machine.”³³

2. *No Ordinary Claim Construction—O2 Micro International, Ltd. v. Beyond Innovation Technology Co.*

In an appeal from the Eastern District of Texas, the Federal Circuit defined the extent of a trial court’s obligation to construe patent claims.³⁴ O2 sued Beyond Innovation (BiTEK), alleging that several of BiTEK’s products infringed O2’s patents covering specific DC-to-AC inverter controllers. The parties disputed the construction of a claim limitation common to the asserted claims: “‘a feedback control loop circuit . . . adapted to generate a second signal pulse for controlling . . . [the] switches *only if* said feedback signal is above a predetermined threshold.’”³⁵ Specifically, the parties disputed whether “only if” meant that the feedback circuit released control over the inverter output whenever the feedback signal fell below the threshold or only when the signal fell below the threshold during the steady-state operation of the inverter.³⁶ The district court refused to construe “only if” in its claim-construction order, noting that it had a “well-understood definition” that the jury could apply.³⁷ In vacating the verdict, the Federal Circuit held that the court, not the jury, should have construed the term.³⁸

The Federal Circuit held that the court, not the jury, must construe all claim limitations in dispute, regardless of whether the words of the limitation have a well-understood meaning.³⁹ In so holding, the court distin-

30. *Id.* at 960 & n.21 (refusing to adopt the “technological arts test” under which patent protection is available only for inventions that “‘involve[] the application of science or mathematics’” (quoting Appellee’s Br. at 24-28)).

31. *Id.* at 960.

32. *Id.* at 956.

33. *Id.* at 962. Although the court did not consider patentability of software, it did rely on *Benson* for the machine-or-transformation test. *Id.* at 955. In *Benson*, a computer implementation of an algorithm was deemed unpatentable because tying the algorithm to the computer did not limit the claim—the algorithm had no utility except operating on a computer and therefore was not patentable. *Id.* at 955 & n.9 (citing *Benson*, 409 U.S. at 71-72).

34. *O2 Micro Int’l, Ltd. v. Beyond Innovation Tech. Co.*, 521 F.3d 1351 (Fed. Cir. 2008).

35. *Id.* at 1356 (quoting U.S. Patent No. 6,259,615 col. 10 line 67—col. 11 line 5) (emphasis added).

36. *Id.* at 1356-57.

37. *O2 Micro Int’l*, 521 F.3d at 1361 (quoting *O2 Micro Int’l Ltd. v. Beyond Innovation Tech. Co.*, No. 2:04-CV-32, slip op. at 2 (E.D. Tex. Aug. 26, 2005)).

38. *Id.* at 1361-63.

39. *Id.* at 1361.

guished between the meaning of the words and the scope of the claim.⁴⁰ Ruling that a claim term has its “ordinary meaning” or that it “needs no construction” may not satisfy the court’s obligation under *Markman v. Westview Instruments, Inc.*⁴¹ A claim term may have more than one “ordinary meaning,” and even if the parties agree that the term has an ordinary meaning, they may still dispute the scope of the claim.⁴² In short, “[w]hen the parties present a fundamental dispute regarding the scope of a claim term, it is the court’s duty to resolve it.”⁴³

As a procedural sidebar to the main holding of the case, the Federal Circuit determined that BiTEK did not waive its right to appeal when it failed to object that the jury instruction lacked a construction of the “only if” limitation.⁴⁴ Construction of the claims was fully litigated at the *Markman* hearing—BiTEK’s position was clearly presented to the court, and the court “did not clearly indicate that it was open to changing its claim construction,” thus, BiTEK did not need to reassert its position by objecting to the jury instructions.⁴⁵

3. *Designing a New Test for Infringement—Egyptian Goddess, Inc. v. Swisa, Inc.*

In another appeal from a federal court in Texas, an en banc Federal Circuit redefined the test for infringement of a design patent.⁴⁶ Egyptian Goddess asserted its design patent in an infringement action against Swisa.⁴⁷ Applying the Federal Circuit’s “points of novelty” test, the district court granted Swisa a summary judgment of noninfringement.⁴⁸ The Federal Circuit twice affirmed the district court: first, a panel affirmed the “points of novelty” holding; then, the en banc court recanted its “points of novelty” test but affirmed the noninfringement holding after refining and applying the Supreme Court’s “ordinary observer” test.⁴⁹

The long-standing test for infringement of a design patent stems back to the nineteenth-century Supreme Court decision, *Gorham Co. v. White*.⁵⁰ Under this test, later dubbed the “ordinary observer” test, a design patent is infringed if the designs are so similar that an ordinary observer would purchase the accused design believing it to be the patented design.⁵¹ Federal Circuit jurisprudence evolved to include a necessary

40. *Id.*

41. *Id.* at 1360-61 (citing *Markman v. Westview Instruments, Inc.* 52 F.3d 967 (Fed. Cir. 1995) (en banc), *aff’d* 617 U.S. 370 (1996)).

42. *Id.* at 1361.

43. *Id.* at 1362.

44. *Id.* at 1359.

45. *Id.*

46. *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008) (en banc). For further discussion of the Federal Circuit’s redesign of the test for infringement of a design patent, see McCombs, *supra* note 16, at 922-24.

47. *Egyptian Goddess, Inc.*, 543 F.3d at 668.

48. *Id.* at 668.

49. *Id.* at 669, 678, 682.

50. 81 U.S. § 5111 (1871).

51. *Egyptian Goddess*, 543 F.3d at 670 (citing *Gorham*, 81 U.S. at 528).

second test for design patent infringement—the “point of novelty” test. Under the “point of novelty” test an accused design does not infringe unless it “appropriate[s] the point of novelty of the claimed design.”⁵² Thus, to infringe, an accused design had to satisfy both the “ordinary observer” and “point of novelty” tests.⁵³

The en banc Federal Circuit rejected its “point of novelty” test and refined the “ordinary observer” test.⁵⁴ Contrary to Swisa’s argument, the Federal Circuit explained that the Supreme Court did not adopt the “point of novelty” test in *Smith v. Whitman Saddle Co.*⁵⁵ Rather, *Whitman* and its progeny stand for the principle that *Gorham’s* ordinary observer views the accused and patented designs in light of the prior art.⁵⁶ Designs that are not obviously dissimilar to the ordinary observer may become so after the accused and patented designs are compared to the prior art.⁵⁷

Under this refined “ordinary observer” test the observer can compare the accused and patented design with the prior art as well as with each other; however, the test is still one of infringement. The “ordinary observer” test is not a test of validity—the burden of production of the relevant prior art falls to the accused infringer.⁵⁸ Proof of infringement remains the patentee’s burden, regardless of whether the accused infringer raises particular prior art.⁵⁹ Pointedly, the court “[left] it to future cases to further develop the application of this standard.”⁶⁰

4. *Immune to MedImmune—Cat Tech LLC v. Tubemaster, Inc.*

In yet another appeal from a district court in Texas, the Federal Circuit reevaluated its test for justiciability of a declaratory judgment action in a patent dispute.⁶¹ TubeMaster had designed four configurations of a device used for loading catalyst into multi-tube chemical reactors—one configuration had been constructed and used while the other three existed only as mechanical drawings. Cat Tech sued TubeMaster, alleging that TubeMaster’s devices infringed Cat Tech’s patent covering a method for loading catalyst into a chemical reactor. TubeMaster counterclaimed, seeking a declaratory judgment that its devices did not infringe the asserted patent. The district court granted the declaratory judgment of non-infringement for the three drawing-only devices.⁶² On appeal, the Federal

52. *Id.* at 670-71 (citing *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444 (Fed. Cir. 1984)).

53. *Id.* at 671.

54. *Id.* at 678.

55. *Id.* at 672-74 (citing *Whitman*, 148 U.S. 674 (1893)).

56. *Id.* 674-76.

57. *Id.* at 678.

58. *Id.*

59. *Id.* at 679.

60. *Id.* (citation omitted).

61. *Cat Tech LLC v. TubeMaster, Inc.*, 528 F.3d 871 (Fed. Cir. 2008). For more background on the justiciability of declaratory judgment actions in patent disputes, see McCombs, *supra* note 16, at 909-13.

62. *Cat Tech*, 528 F.3d at 875-78.

Circuit affirmed that the declaratory judgment claim was justiciable, applying the second prong of its pre-*MedImmune* test.⁶³

To be justiciable, a dispute must satisfy the case-or-controversy requirement of Article III of the Constitution.⁶⁴ Prior to *MedImmune Inc.*,⁶⁵ the Federal Circuit required that two criteria be met before an action seeking a declaratory judgment of noninfringement satisfied the case-or-controversy requirement.⁶⁶ First, the patentee must have acted in such a way as to cause the declaratory judgment plaintiff to have a reasonable apprehension of an infringement suit.⁶⁷ Second, the plaintiff must have meaningfully prepared to conduct potentially infringing activity.⁶⁸ In *MedImmune*, the Supreme Court rejected the first prong of the test and stated that whether a declaratory judgment action is justiciable is based on all the circumstances.⁶⁹

Although *MedImmune* defined a more lenient standard than the Federal Circuit's test, the "meaningful preparation" prong of the test survived.⁷⁰ The prong "remains an important element in the totality of circumstances"—absent the plaintiff's "significant, concrete steps to conduct infringing activity," the dispute is neither immediate nor real, and the action is therefore not justiciable.⁷¹

Under *Cat Tech*, a declaratory judgment action is justiciable when a potentially infringing product that exists only as a design is ready for production in the normal course of business and without any significant design changes. TubeMaster's dispute was justiciable because it had meaningfully prepared to potentially infringe the Cat Tech patent.⁷² It could produce loading devices based on any of the three drawing-only designs upon order and within a normal delivery schedule; thus, the dispute was immediate.⁷³ Further, the loading devices could be produced without any significant design changes; thus, the dispute was real.⁷⁴ That TubeMaster had not advertised, or even prepared to advertise, was relevant in the totality of the circumstances, but such preparation was "not an indispensable prerequisite" to justiciability.⁷⁵

63. *Id.* at 879-80 & n.2, 883.

64. *Id.* at 879.

65. *MedImmune Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

66. *Id.*

67. *Id.* (citing *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995)); *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1380 (Fed. Cir. 2004), *abrogated by MedImmune*, 549 U.S. 118).

68. *Cat Tech*, 528 F.3d at 879 (citing *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988)).

69. *Id.* (citing *MedImmune*, 549 U.S. at 125-37).

70. *Id.* at 880-84.

71. *Id.* (citing *Lang v. Pac. Marine & Supply Co.*, 895 F.2d 761, 764 (Fed. Cir. 1990)).

72. *Id.* at 881-83.

73. *Id.* at 882.

74. *Id.* at 882-83.

75. *Id.* at 883.

5. *Injunction: Go or Whoa?—Abbott Labs. v. Sandoz, Inc.*

The Federal Circuit reiterated that patent disputes are not special with respect to injunctive relief, this time with respect to grant of a preliminary injunction.⁷⁶ In an infringement action involving patents for an extended-release oral antibiotic, Sandoz claimed it did not infringe and challenged the validity and enforceability of the asserted patents.⁷⁷ Applying the traditional four-factor test for a preliminary injunction, the district court granted Abbott Labs a preliminary injunction on its infringement claim against Sandoz.⁷⁸

Pre-*Sandoz* Federal Circuit authority suggested that a preliminary injunction is not appropriate if the defendant raised a substantial question of infringement, enforceability, or validity.⁷⁹ The traditional test for a preliminary injunction is based on four factors: “(1) likelihood of success on the merits of the underlying litigation, (2) whether irreparable harm is likely if the injunction is not granted, (3) the balance of hardships as between the litigants, and (4) factors of the public interest.”⁸⁰ Under significant Federal Circuit authority, the patentee fails to establish the requisite likelihood of success on the merits if the defendant raises a substantial question of infringement, enforceability, or validity.⁸¹ A substantial question is one “that the patentee cannot prove ‘lacks substantial merit.’”⁸² With respect to an invalidity defense, a substantial question is established with less than the clear and convincing evidence necessary to establish invalidity.⁸³

In affirming the district court, the Federal Circuit panel majority cited *eBay Inc. v. MercExchange, L.L.C.*,⁸⁴ and disavowed any suggestion that patent cases warrant unique treatment with respect to preliminary injunctions.⁸⁵ “The correct standard is not whether a substantial question has been raised, but whether the patentee is likely to succeed on the merits, upon application of the standards of proof that will prevail at trial.”⁸⁶ To hold that a defendant may defeat a preliminary injunction by raising a “‘substantial question’ that may render the patent ‘vulnerable’” would conflict with Supreme Court precedent and with the precedent of every

76. *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341 (Fed. Cir. 2008).

77. *Id.* at 1343-44.

78. *Id.* at 1344.

79. *Id.* at 1371-72 (Gajarsa, J., dissenting) (citing *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350-51 (Fed. Cir. 2001); *Genentech, Inc. v. Novo Nordisk A/S*, 108 F.3d 1361, 1364 (Fed. Cir. 1997)).

80. *Id.* at 1344 (citations omitted).

81. *Id.* at 1372 (Gajarsa, J., dissenting) (quoting *E.I. du Pont de Nemours & Co. v. MacDermid Printing Solutions, L.L.C.*, 525 F.3d 1353, 1358 (Fed. Cir. 2008)).

82. *Id.* at 1371-72 (Gajarsa, J., dissenting) (citing *Amazon.com, Inc.*, 239 F.3d at 1350-51 (Fed. Cir. 2001); *Genentech, Inc.*, 108 F.3d at 1364).

83. *Id.* at 1372 (Gajarsa, J., dissenting) (quoting *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1335 (Fed. Cir. 2006)).

84. 547 U.S. 388 (2006).

85. *Abbott Labs.*, 544 F.3d at 1365.

86. *Id.* at 1364.

regional circuit.⁸⁷

6. *Two Bites at the Invalidity Apple—In re Swanson*

In an appeal from the Board of Patent Appeals and Interferences (BPAI), the Federal Circuit clarified what constitutes a substantial new question of patentability for the purposes of a patent reexamination.⁸⁸ The issue in *Swanson* centered on the validity of several claims in U.S. Patent No. 5,073,484 in light of a prior art patent, U.S. Patent No. 4,094,647 to Deutsch (Deutsch).⁸⁹ Deutsch was overcome in the initial examination, in an invalidity challenge in a district court, and in the appeal from the invalidity challenge.⁹⁰ In a subsequent ex parte reexamination, however, the PTO examiner rejected the claims as anticipated by or obvious in light of Deutsch.⁹¹ The Federal Circuit held that the previous considerations of Deutsch did not bar it being the basis of a substantial new question of patentability and affirmed the PTO's rejection.⁹²

Under the Patent Act, the PTO may not grant a reexamination request unless the request raises a "substantial new question of patentability."⁹³ The Federal Circuit had interpreted this prerequisite to mean that a reexamination could not be based on "prior art previously considered by the PTO in relation to the same or broader claims."⁹⁴ In 2002, Congress amended the Act to overturn the Federal Circuit's overly restrictive interpretation—prior consideration by the PTO does not exclude prior art from forming the basis of a reexamination.⁹⁵

Previously considered prior art may raise a substantial new question of patentability except if it was previously considered by the PTO for a substantially similar purpose; that it was previously considered in a court proceeding is irrelevant.⁹⁶ The 2002 amendment to the Patent Act clarified that the proper inquiry in a reexamination is whether the question, not the prior art, has previously been considered.⁹⁷ The court noted that "PTO [re]examination procedures have distinctly different standards, parties, purposes, and outcomes compared to civil litigation."⁹⁸ In a validity challenge in civil litigation, the challenger must "overcome the presumption of validity with clear and convincing evidence," and a failure to prove invalidity is not a binding holding of validity.⁹⁹ On reexamination, the examiner is "conducting a subjective examination," not challenging

87. *Id.* at 1368-69.

88. *In re Swanson*, 540 F.3d 1368 (Fed. Cir. 2008).

89. *Id.* at 1370.

90. *Id.* at 1372-73 (internal citations omitted).

91. *Id.* at 1373.

92. *Id.* at 1373-74.

93. *Id.* at 1375 (quoting 35 U.S.C. § 303(a) (2006)).

94. *Id.* (quoting *In re Portola Packaging Inc.*, 110 F.3d 786, 791 (Fed. Cir. 1997)).

95. *Id.* at 1375-76 (citing H.R. REP. NO. 107-120, at 2 (2002); 35 U.S.C. § 303(a)).

96. *Id.* at 1379-80.

97. *Id.* at 1380.

98. *Id.* at 1377 (citing *In re Etter*, 756 F.2d 852, 856 (Fed. Cir. 1985)).

99. *Id.* (citing 35 U.S.C. § 282; *Stevenson v. Sears Roebuck & Co.*, 713 F.2d 705, 701 (Fed. Cir. 1983)) (other citations omitted).

the patent; there is no presumption of validity, and claims are found invalid by a preponderance of the evidence.¹⁰⁰ Thus, reexamination subsequent to an unsuccessful validity challenge in court is not a review of the court's decision—there is no violation of the Constitution's separation of powers.¹⁰¹

7. *Shaping Permanent Injunctions Post-eBay—Broadcom Corp. v. Qualcomm Inc.*

The Federal Circuit continued its development of post-*eBay* injunction jurisprudence in a dispute involving a patentee who did not practice the asserted patents.¹⁰² Broadcom asserted three of its cell-phone chipset patents in an infringement action against a competitor, Qualcomm.¹⁰³ Qualcomm's accused chipsets were found to infringe, and—although Broadcom did not itself practice the patents—the district court granted a permanent injunction.¹⁰⁴ On appeal, the Federal Circuit affirmed the injunction as to the infringed patents, rejecting Qualcomm's argument that the injunction violates the *eBay* criteria.¹⁰⁵

To warrant a permanent injunction, the plaintiff must establish:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.¹⁰⁶

In affirming the injunction, the court refused to opine on whether, after *eBay*, there is a rebuttable presumption of irreparable injury but held that a patent owner is not barred injunctive relief for a failure to practice or a willingness to license the patents.¹⁰⁷ Further, an infringer is not protected from an injunction merely because he has successfully exploited the infringing technology and an injunction would harm his business.¹⁰⁸ Finally, an injunction can be custom-tailored to minimize the harm to the parties and the public.¹⁰⁹

The injunction was appropriate because of the nature of the cell-phone chipset market, the nature of Broadcom's license to a third-party user,

100. *Id.* (citing *In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985); *Etter*, 756 F.2d at 856-58).

101. *Id.* at 1378-79.

102. *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2008). For further discussion of the *eBay*-effect, see McCombs, *supra* note 16, at 924-25 and David L. McCombs, et al., *Intellectual Property Law*, 60 SMU L. REV. 1141, 1145-47 (2007).

103. *Broadcom Corp.*, 543 F.3d at 686-87.

104. *Id.* at 686.

105. *Id.* at 701, 704-05.

106. *Id.* at 702 (quoting *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)).

107. *Id.* at 702-03.

108. *Id.* at 704 (citing *Broadcom Corp. v. Qualcomm Inc.*, No. 05-CV-467, slip op. at 5-6 (C.D. Cal. Dec. 31, 2007); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986)).

109. *See id.*

and the injunction's sunset provision which allowed for twenty months of continued infringement in exchange for a court-mandated royalty.¹¹⁰ That Broadcom competed with Qualcomm by producing a substitute chipset design indicated irreparable injury and lack of adequate remedy at law even though Broadcom did not directly compete with chipsets that practiced the patents.¹¹¹ Broadcom's license to Verizon, a downstream user, was distinguishable from a license to Qualcomm, a direct competitor, and thus did not detract from the irreparable harm or lack of adequate remedy at law.¹¹² Finally, the sunset provision allowed Qualcomm time to design around Broadcom's patents, thus reducing the harm to Qualcomm and the inconvenience to the public that would result from an immediate permanent injunction.¹¹³

8. *How Many Defendants Can You Fit in a Volkswagen—In re TS Tech USA Corp.*

In a case that could have substantial impact on patent litigation in the Fifth Circuit, the Federal Circuit granted a writ of mandamus to transfer an infringement action from the Eastern District of Texas to the Southern District of Ohio.¹¹⁴ Lear sued TS Tech in the Eastern District of Texas, alleging that TS Tech infringed Lear's patent covering automobile headrest assemblies.¹¹⁵ Lear is a Delaware corporation with its principal place of business in Michigan, and TS Tech is incorporated in Ohio and Canada with principal places of business in Ohio and Ontario.¹¹⁶ Roughly six weeks after Lear filed the lawsuit, TS Tech moved to transfer venue under 28 U.S.C. § 1404(a).¹¹⁷ After the district court denied the transfer, TS Tech petitioned the Federal Circuit for a writ of mandamus.¹¹⁸ In granting the writ, the Federal Circuit applied *Volkswagen*¹¹⁹ from the Fifth Circuit.¹²⁰

In the Fifth Circuit, a § 1404(a) motion to transfer venue should be granted if, considering the private and public forum non conveniens factors, the transferee venue is clearly more convenient.¹²¹ The private interest factors are: "(1) the relative ease of access to sources of proof; (2) the

110. *Id.* at 702-04.

111. *Id.* at 702-03.

112. *Id.*

113. *Id.* at 704. In an interesting twist on the case, the Federal Circuit held one of the three patents invalid; thus, royalties paid pursuant to the sunset provision became another source of contention between the parties. *See* *Broadcom, Corp. v. Qualcomm, Inc.*, 585 F. Supp. 2d 1187, 1188 (C.D. Cal. 2008). Broadcom was ordered to refund roughly \$11 million in sunset royalties paid during the pendency of the appeal. *Id.* at 1188, 1192.

114. *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

115. *Id.* at 1318.

116. *Id.*

117. *Id.*

118. *Id.* at 1317.

119. *In re Volkswagen of Am., Inc.*, 545 F.3d 304 (5th Cir. 2008) (en banc).

120. *TS Tech*, 551 F.3d at 1319. In *Volkswagen*, the en banc Fifth Circuit granted a writ of mandamus for transfer from the Eastern to the Northern District of Texas. 545 F.3d at 307. For further discussion of the *Volkswagen* case see McCombs, *supra* note 16, at 926-28.

121. *TS Tech*, 551 F.3d at 1319 (citing *Volkswagen*, 545 F.3d at 314-15, 314 & n.9).

availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive.”¹²² The public interest factors are:

“(1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of laws [or in] the application of foreign law.”¹²³

The plaintiff’s choice of venue is accorded deference, but it is not a distinct factor in the § 1404(a) analysis; the deference is manifest in the moving party’s burden.¹²⁴

Holding that the district court’s denial of the transfer motion was “a clear abuse of discretion” and “patently erroneous,” the Federal Circuit noted “several key errors” in the district court’s analysis.¹²⁵ First, too much weight was accorded the plaintiff’s choice of venue when it was considered a “factor against transfer.”¹²⁶ Next, the district court did not accord sufficient weight to the fact that the key witnesses and the vast majority of the physical and documentary evidence in the case was all in Ohio, Michigan, and Canada—900 miles closer to the Southern District of Ohio than to the Eastern District of Texas.¹²⁷ Finally, too much weight was accorded the local interest in having the localized interests decided at home.¹²⁸ The only thing tying the case to the Eastern District was vehicles sold there that were also sold nationwide—“the citizens of the Eastern District of Texas have no more or less of a meaningful connection to this case than any other venue.”¹²⁹

9. *Waive that Patent Goodbye—Qualcomm Inc. v. Broadcom Corp.*

One of the important patent disputes of the Survey period focused on patentee misconduct both before and during litigation.¹³⁰ Qualcomm asserted video-compression patents against Broadcom based on Broadcom’s H.264-compliant products. H.264 is a video compression standard established by the Joint Video Team (JVT), an industry standards setting organization (SSO). Qualcomm participated in the JVT during development of the H.264 standard without disclosing the patents. Notably, Qualcomm denied participating in the JVT until email evidence, the existence of which Qualcomm denied during discovery, came to light

122. *Id.* (citing *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 n.6 (1981)).

123. *Id.* (quoting *Volkswagen*, 545 F.3d at 315).

124. *Id.* at 1320 (citing *In re Horseshoe Entm’t*, 337 F.3d 429, 434-35 (5th Cir. 2003); *Volkswagen*, 545 F.3d at 314 n.10).

125. *Id.* at 1320-22.

126. *Id.* at 1321.

127. *Id.*

128. *Id.* at 1320-21.

129. *Id.* at 1321 (citing *Volkswagen*, 545 F.3d at 318).

130. *Qualcomm Inc. v. Broadcom Corp.*, 548 F.3d 1004 (Fed. Cir. 2008).

at trial in the cross-examination of a Qualcomm witness. Broadcom claimed that Qualcomm's failure to disclose the patents to the JVT constituted waiver of the right to assert the patents.¹³¹ The district court found waiver, held the patents unenforceable against the world, awarded Broadcom its attorney fees, and referred the case to the magistrate to determine appropriate sanctions for Qualcomm's litigation misconduct.¹³²

An IP holder may waive its IP rights by failing a duty to disclose its IP to an SSO.¹³³ Waiver is appropriate if the failure to disclose is "so inconsistent with an intent to enforce [the IP] rights as to induce a reasonable belief that such right[s] have been relinquished."¹³⁴ A participant in an SSO has a duty to disclose its related IP if: (1) the policies of the SSO unambiguously require such; or (2) the members of the SSO treated the policies as requiring such.¹³⁵ The remedy for waiver through nondisclosure to an SSO is fashioned by the court to "give a fair, just, and equitable response reflective of the offending conduct."¹³⁶

The Federal Circuit affirmed that Qualcomm had failed its duty to disclose the patents to the JVT and that such failure constituted Qualcomm's waiver of its IP rights.¹³⁷ In holding the patents unenforceable against the world, however, the district court went beyond the "broadest permissible unenforceability remedy."¹³⁸ The Federal Circuit held that the proper remedy was to hold the patents unenforceable against all H.264-compliant products.¹³⁹

In addition to the unenforceability judgment and an exceptional case award, Qualcomm and its outside counsel were also sanctioned for litigation misconduct.¹⁴⁰ Because Qualcomm intentionally withheld twenty-one known emails that directly indicated its participation in the JVT, refused to search for more relevant documents once the emails were discovered, and, in sum, failed to produce over 46,000 relevant documents, the magistrate judge ordered sanctions against Qualcomm and its outside attorneys.¹⁴¹ Qualcomm was ordered to pay nearly \$10 million of Broadcom's legal fees, offset by those paid pursuant to the exceptional case award.¹⁴² Qualcomm's outside attorneys, deemed to have remained intentionally ignorant of the relevant evidence, were named and de-

131. *Id.* at 1008-09.

132. *Id.* at 1009-10.

133. *Id.* at 1021.

134. *Id.* at 1020 (quoting *Qualcomm Inc. v. Broadcom Corp.*, No. 05-CV-1958, 2007 U.S. Dist. LEXIS 28211, at *32-33 (S.D. Cal. Mar. 21, 2007)).

135. *Id.* at 1011-12 (citing *Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1096, 1098 (Fed. Cir. 2003)).

136. *Id.* at 1026.

137. *Id.* at 1022.

138. *Id.* at 1026.

139. *Id.*

140. *Id.* at 1010.

141. *Qualcomm Inc. v. Broadcom Corp.*, No. 05-CV-01958, 2008 WL 66932, at *4-6, *9 (S.D. Cal. Jan. 7, 2008).

142. *Id.* at *17.

scribed in the sanctions order, and six were referred to the California State Bar for investigation of ethical violations.¹⁴³ Qualcomm's in-house counsel and the sanctioned outside attorneys were ordered to participate in the CREDO program to determine why the discovery violations occurred and to create a detailed plan to prevent such violations in the future.¹⁴⁴ The district court subsequently vacated the sanctions ordered against the outside counsel, freeing them from the attorney-client privilege so that they could defend themselves against the allegations.¹⁴⁵

III. COPYRIGHT

A. GONE IN 1.2 SECONDS—*CARTOON NETWORK V. CSC HOLDINGS*

The influential Second Circuit determined that a cable company did not infringe by copying content to a remote storage digital video recorder (RS-DVR) at the request of its subscribers.¹⁴⁶ The RS-DVR is basically a DVR that is owned, housed, and maintained by the cable company, CSC. Programs transmitted to CSC are sent to the RS-DVR data buffer which stores roughly 1.2 seconds worth of the program. Programs are written from the data buffer to the RS-DVR hard drive, and played back from the hard drive, at the cable subscriber's remote-control command. A variety of program providers sued CSC, alleging that its use of the RS-DVR directly infringed copyrights covering the programs. The district court held that CSC directly infringed by: (1) storing the program in the RS-DVR data buffer; (2) copying the program to a hard drive; and (3) transmitting the recorded program to the subscriber at the subscriber's request.¹⁴⁷ The Second Circuit reversed on all three counts of infringement.¹⁴⁸

The Second Circuit first determined that the program did not reside in the data buffer for sufficient time to qualify as a copy, and thus, CSC did not infringe by storing the program in the buffer.¹⁴⁹ For the portion of the program in the data buffer to qualify as a copy, the program must be embodied in the buffer such that it can "be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."¹⁵⁰ In holding that this statutory language imposes two distinct requirements¹⁵¹—that the work be embodied and that it be embodied for a sufficient duration—the court distinguished *MAI Systems Corp. v. Peak Computer Inc.*¹⁵² The *MAI* court held that loading software into RAM

143. *Id.* at *13, *16.

144. *Id.* at *18-19.

145. *Qualcomm Inc. v. Broadcom Corp.*, No. 05-CV-01958, 2008 WL 638108, at *1-2 (S.D. Cal. Mar. 5, 2008).

146. *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008).

147. *Id.* at 124-25.

148. *Id.* at 140.

149. *Id.* at 130.

150. 17 U.S.C. § 101 (2006); *Cartoon Network*, 536 F.3d at 127.

151. *Cartoon Network*, 536 F.3d at 127-29.

152. 991 F.2d 511 (9th Cir. 1993).

was copying the software but did not specifically address the “transitory duration” language of the Copyright Act.¹⁵³ Noting that “it seems fair to assume that in [the *MAI* case and its progeny] the [software] was embodied in the RAM for at least several minutes,” the Second Circuit construed *MAI* to mean that loading data into RAM may be, but is not necessarily, copying.¹⁵⁴ Although the program was embodied in the data buffer, with only a 1.2-second storage time, it was embodied for merely a transitory duration.¹⁵⁵

Next, the Second Circuit held that CSC did not *directly* infringe by recording the program to the RS-DVR hard drive because it was the subscriber, and not CSC, who made the copy.¹⁵⁶ The Second Circuit adopted the reasoning of *Religious Technology Center v. Netcom On-Line Communication Services*,¹⁵⁷ and held direct infringement requires an “element of volition” on the alleged infringer’s part.¹⁵⁸ Merely supplying a system that a third party may use to infringe does not constitute direct infringement.¹⁵⁹ It is the subscriber who supplies the necessary volition by pressing “the button to make the recording,” not the person who “manufactures, maintains, or . . . owns” the RS-DVR.¹⁶⁰

Finally, the Second Circuit determined that the transmission of the recorded program was “to a single subscriber using a single, unique copy produced by that subscriber” and therefore did not constitute an infringing public performance.¹⁶¹ Whether a transmission is to the public, such that it constitutes an infringing public performance, depends on who is capable of receiving that particular transmission—not on who is capable of receiving the underlying work that is being transmitted nor on who is capable of receiving the original transmission of the work.¹⁶² A court should consider every factor that may limit the potential audience of the transmission, including the fact that each transmission of a recorded work is of a unique copy on the subscriber’s RS-DVR.¹⁶³ Importantly, not every commercial transmission is a public performance.¹⁶⁴ The playback was a transmission of the particular copy recorded by the subscriber and

153. *Cartoon Network*, 536 F.3d at 127-28.

154. *Id.*

155. *Id.* at 130. The RS-DVR data buffer is also RAM. *Id.* at 128 n.1.

156. *Id.* at 133. The court noted that the issue was direct infringement, not contributory infringement. *See id.* at 124, 130.

157. 970 F. Supp. 1361 (N.D. Cal. 1995).

158. *Id.* at 130.

159. *Id.* at 130-31 (citing *Netcom*, 970 F. Supp. at 1370; *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004)).

160. *Id.* at 131, 133.

161. *Id.* at 139.

162. *Id.* at 134-36.

163. *Id.* at 137-38 (noting that the court in *Colum. Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984), a case cited by the plaintiffs and relied on by the district court, “explicitly relied on the fact that [the] defendants showed the same copy of a work serialatim to its clientele.”).

164. *Id.* at 138-39 (rejecting the reasoning of the court in *On Command Video Corp. v. Colum. Pictures Indus.*, 777 F. Supp. 787 (N.D. Cal. 1991)).

uniquely keyed to the subscriber; it was not a public performance.¹⁶⁵

B. DANCING UP A STORM—*LENZ v. UNIVERSAL MUSIC CORP.*

The court in *Lenz v. Universal Music Corp.* considered the obligation to investigate infringement prior to sending a takedown notice pursuant to the Digital Millennium Copyright Act (DMCA).¹⁶⁶ Universal sent YouTube a DMCA takedown notice after Ms. Lenz posted a video of her children dancing to Prince's "Let's Go Crazy" on the video-sharing site. Universal claimed that Lenz's video infringed Universal's copyright in the song and demanded that YouTube remove the video from the site. YouTube complied, notified Ms. Lenz, and warned her that her account might be deleted for any further copyright infringement.¹⁶⁷ Ms. Lenz sued Universal for misrepresentation, alleging that Universal did not consider that the video was non-infringing fair use and that, therefore, Universal's takedown demand was made in bad faith under the DMCA.¹⁶⁸ The court held that Ms. Lenz had made sufficient allegations to support a claim and denied Universal's motion to dismiss.¹⁶⁹

Under the DMCA, a copyright owner can demand that an internet service provider remove content, the use of which the owner, in good faith, believes is "not authorized by the copyright owner, its agent, or the law."¹⁷⁰ If the person making the demand "knowingly materially misrepresents" that the content infringes, he is liable for damages that result from the service provider removing the accused content in reliance on the misrepresentation.¹⁷¹

The court determined that in order for Universal to have a good faith belief that the video infringed, it first had to consider whether the video made fair use of the song.¹⁷² Fair use is use "authorized by law," and requiring a pre-notice inquiry furthers the purpose of the DMCA and copyright law in general.¹⁷³ "Requiring [the] owners to consider fair use will help 'ensure[] that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will expand without compromising the movies, music, software and literary works that are the fruit of American creative genius.'"¹⁷⁴ The court noted, however, it is unlikely that a copyright owner's consideration and rejection of fair use "will meet the requisite standard of subjective bad faith" of a misrepresentation action.¹⁷⁵

165. *Id.* at 135, 139.

166. 572 F. Supp. 2d 1150 (N.D. Cal. 2008).

167. *Id.* at 1151-53.

168. *Id.* at 1153, 1156.

169. *Id.* at 1156.

170. *Id.* at 1153 (quoting 17 U.S.C. § 512(c)(3)(A) (2006)).

171. 17 U.S.C. § 512(f).

172. *Lenz*, 572 F. Supp. 2d at 1154.

173. *Id.* at 1154-55.

174. *Id.* at 1156 (quoting S. Rep. No. 105-190, at 2 (1998)).

175. *Id.* at 1155.

C. ANY PORT IN A STORM—*IO GROUP, INC. v. VEOH NETWORKS, INC.*

In another dispute involving a post to a video-sharing website, the Northern District of California applied the DMCA safe harbor provisions to shield the website from infringement liability.¹⁷⁶ The copyright owner, Io, sued Veoh for copyright infringement after Veoh.com users posted Io's copyrighted material to the site without Io's authorization.¹⁷⁷ The court held that Veoh qualified under the DMCA safe harbor and was therefore not liable for monetary relief to Io for the infringing posts of Veoh's users.¹⁷⁸

Under the DMCA safe harbor, an internet service provider is not liable for monetary relief for infringement that results from user-directed storage of material on the provider's system.¹⁷⁹ To qualify for the safe harbor in the Ninth Circuit, the service provider must: (1) terminate the accounts of repeated or blatant infringers when appropriate;¹⁸⁰ (2) expeditiously remove material that it knows, or should know, infringes; and (3) either "not have the right and ability to control the infringing activity" or not financially benefit because of the infringement.¹⁸¹

The court determined that the DMCA's safe harbor provisions are not limited to "conduit only" service providers—Veoh's modifications to its users' videos did not disqualify it for the safe harbor.¹⁸² Veoh's system converted the user's file to the common Flash video format and extracted still images and associated them with the file prior to storing the file.¹⁸³ Noting that the conversion and extraction was an automatic process "initiated entirely at the volition of Veoh's users," the court held that this "means of facilitating user access to [the videos]" does not disqualify Veoh from the DMCA safe harbor.¹⁸⁴

The court also held that a service provider without the ability to "limit or filter copyrighted material" prior to its post does not have control over its users' infringing activity.¹⁸⁵ Veoh did not have the ability to control the infringing activity because: (1) its control over its system does not enable it to control the content selected and uploaded by the user; and (2) Veoh did not encourage users to infringe.¹⁸⁶ Importantly, Veoh does not have

176. See generally *Io Group, Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132 (N.D. Cal. 2008).

177. *Id.* at 1136-37.

178. *Id.* at 1155.

179. *Id.* at 1142 (citing 17 U.S.C. § 512(c) (2006)).

180. *Id.* at 1142-43 (citing 17 U.S.C. § 512(i)(1)(A); *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004)).

181. *Id.* at 1146 (citing 17 U.S.C. § 512(c)(1)(A)-(C)).

182. *Id.* at 1147.

183. *Id.* at 1146-48.

184. *Id.* at 1148 (citing *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121, 131 (2d Cir. 2008)).

185. *Id.* at 1151 (quoting *Tur v. YouTube, Inc.*, No. CV-64436, 2007 WL 1893635 at *3 (C.D. Cal. June 20, 2007)).

186. *Id.* at 1153 (distinguishing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)).

the obligation to modify its operation to gain control over the infringing activity; rather, its obligation is to stop known infringing activity.¹⁸⁷

D. WANNA BUY A WATCH? THE FIRST SALE DOCTRINE—
OMEGA S.A. v. COSTCO WHOLESALE CORP.

In a dispute over copyrighted watches, the Ninth Circuit limited the extraterritorial application of the first-sale doctrine.¹⁸⁸ The watches in question were manufactured by Omega in Switzerland, first sold outside the U.S., then acquired by an intermediary who in turn sold them to Costco for resale in the U.S. Omega never authorized the importation or subsequent U.S. sales of the watches and sued Costco for copyright infringement.¹⁸⁹ In reversing the district court's summary judgment in favor of Costco, the Ninth Circuit held that the statutory first-sale doctrine is not triggered by a foreign sale of a copy made outside the U.S.¹⁹⁰

Under the first-sale doctrine, as codified at 17 U.S.C. § 109(a), an owner of a copy "lawfully made under [the Copyright Act]" may import and sell that copy "without the authority of the copyright owner."¹⁹¹ A line of Ninth Circuit cases, beginning with *BMG Music v. Perez*,¹⁹² interpreted § 109(a) such that it was not triggered by foreign sales of foreign-made copies. The court provided two alternate justifications for its construction of § 109(a): first, the foreign-made copies are not "lawfully made under [the Copyright Act]," and second, allowing a foreign sale to trigger § 109(a) would render the Copyright Act's prohibition of unauthorized importation of a work "virtually meaningless."¹⁹³ In *L'anza Research*¹⁹⁴ the Ninth Circuit applied the *BMG Music*'s second justification to further limit § 109(a)—the court held that § 109(a) was not triggered by a foreign sale of a U.S.-made copy. The Supreme Court reversed *L'anza Research* and rejected the Ninth Circuit's construction of § 109(a).¹⁹⁵

In holding that the foreign sales of the Omega watches did not trigger § 109(a), the Ninth Circuit determined that the "lawfully made" argument of its § 109(a) jurisprudence survived *Quality King*. The court first noted that *Quality King* did not resolve whether § 109(a) was triggered by a foreign sale of a foreign-made copy.¹⁹⁶ Next, the court noted that the

187. *Id.* at 1154.

188. *See generally* *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008).

189. *Id.* at 983-84.

190. *Id.* at 990.

191. *Id.* at 984-85 (quoting 17 U.S.C. § 109(a) (2006)) (citing *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 144-45 (1998)).

192. 952 F.2d 318 (9th Cir. 1991).

193. *Id.* at 985. *BMG Music* in turn relied upon *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984). *Omega S.A.*, 541 F.3d at 986.

194. *L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1114 (9th Cir. 1996).

195. *Quality King*, 523 U.S. at 148, 154.

196. *Omega*, 541 F.3d at 987 (citing *Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring)).

basis of the “lawfully made” argument—the presumption against the extraterritorial application of U.S. law—is not “clearly irreconcilable” with *Quality King’s* “brief discussion on extraterritoriality.”¹⁹⁷ The Ninth Circuit reiterated that the Copyright Act “presumptively does not apply to conduct that occurs abroad,” held that its pre-*Quality King* “lawfully made” jurisprudence survived *Quality King*, and further held that Costco could not use § 109(a) to overcome Omega’s infringement claim.¹⁹⁸

E. A GNU INFRINGEMENT—*JACOBSEN V. KATZER*

In a dispute involving copyright claims to open-source software, the Federal Circuit determined that a violation of the open-source software license was copyright infringement.¹⁹⁹ Jacobsen claimed that Katzer violated Jacobsen’s copyright by using his code without adhering to the Artistic License, an open-source license, under which Jacobsen shared the code.²⁰⁰ Denying Jacobsen’s motion for a preliminary injunction, the district court determined that because of the unlimited scope of the Artistic License, violating the license was not copyright infringement.²⁰¹ The Federal Circuit held that Jacobsen had a copyright claim and vacated the district court’s denial of preliminary injunction.²⁰²

The Federal Circuit determined that the Artistic License was limited in scope, and that violation of its terms constitutes copyright infringement.²⁰³ Violation of a nonexclusive license constitutes copyright infringement only if the license is of limited scope.²⁰⁴ Although the Artistic License does not restrict the extents to which a user can “copy, modify, and distribute the software” it only grants this right provided that the user prominently documents the changes and meets one of several use conditions.²⁰⁵ Noting that these conditions “were both clear and necessary to accomplish the objectives of the open source licensing collaboration,” the court held that the license was of limited scope and thus, violating the license was infringement.²⁰⁶

The court also noted the importance of injunctive relief for infringing use of code shared pursuant to an open-source license.²⁰⁷ Although the

197. *Id.*

198. *Id.* at 988-90.

199. *Jacobsen v. Katzer*, 535 F.3d 1373 (Fed. Cir. 2008). Originally, the dispute was over the validity of Katzer’s patents relating to the code but evolved to include the copyright claim. *See id.* at 1377; *Jacobsen v. Katzer*, No. 06-CV-01905 JSW, Complaint (N.D. Cal. Mar. 13, 2006).

200. *Jacobsen*, 535 F.3d at 1376-77.

201. *Id.* at 1375-76 (citing *Jacobsen v. Katzer*, No. 06-CV-01905 JSW, 2007 WL 2358628, at *7 (N.D. Cal. Aug. 17, 2007)).

202. *Id.* at 1382-83.

203. *Id.* at 1381-83.

204. *Id.* at 1380 (citing *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121 (9th Cir. 1999); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989)) (other citations omitted).

205. *Id.* at 1380.

206. *Id.* at 1381-82.

207. *Id.*

code was shared for something other than monetary consideration, it was entitled to the same legal recognition as any copyrighted material.²⁰⁸ Without the ability to enforce the license through injunctive relief, the open source license conditions may be rendered meaningless.²⁰⁹ Although it recognized the importance of injunctive relief, the court also noted that whether there is a presumption of irreparable harm stemming from copyright infringement may need to be “reevaluated in light of *eBay Inc.*”²¹⁰

IV. TRADEMARK

A. IF YOU CAN'T SEE IT, AM I USING IT? METATAGS—*NORTH AMERICAN MEDICAL CORP. v. AXIOM WORLDWIDE, INC.*

The Eleventh Circuit joined the debate over whether use of a trademark as a metatag in a website constitutes “use in commerce” under the Lanham Act.²¹¹ Axiom used two of North American Medical’s (NAM) trademarks as metatags in Axiom’s website code. These tags were included to influence internet search engines to return Axiom’s site in response to searches on its competitor’s trademarks. While Axiom’s website never displayed the trademarks, the search result description of Axiom’s site included the marks and highlighted them. Although the appellate court vacated the district court’s decision enjoining Axiom from using the marks as metatags, it affirmed the district court findings that the metatags constituted use in commerce.²¹²

In analyzing likelihood of success on a trademark infringement claim, the Eleventh Circuit held that the use of metatags to influence a search engine in a marketing effort is “use in commerce in connection with the advertising of any goods” under the Lanham Act’s trademark infringement provisions.²¹³ Explicitly rejecting the Second Circuit’s reasoning as espoused in *1-800 Contacts, Inc. v. WhenU.com, Inc.*,²¹⁴ the court held that whether the mark was displayed to the consumer is irrelevant to whether the mark was used in commerce.²¹⁵

Although it held that NAM was likely to succeed in an infringement action, the court vacated the injunction, holding that the Supreme Court’s

208. *Id.* at 1382.

209. *Id.*

210. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *Jacobsen*, 535 F.3d at 1378 (quoting *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1212 (C.D. Cal. 2007)). For a similar pronouncement on the effect of *eBay* on copyright, see *Warner Brothers Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513, 552 (S.D.N.Y. 2008).

211. See generally *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008). For more discussion on the issue of metatag use in commerce, see McCombs, *supra* note 16, at 931-33.

212. *Id.* at 1216-17, 1229.

213. *Id.* at 1218-19.

214. 414 F.3d 400, 408-10 (2d Cir. 2005) (not a “use in commerce” when not displayed to the consumer).

215. *N. Am. Med.*, 522 F.3d at 1219-20.

eBay decision applied to injunctive relief in trademark infringement.²¹⁶ Because the parties and the district court had not addressed the issue, the court refused to decide whether the Eleventh Circuit's rule that irreparable harm is presumed from the likelihood of success on an infringement claim survived *eBay*.²¹⁷

B. NO OBLIGATION TO "BACK THE BLUE"—*TIFFANY INC.*
v. *EBAY, INC.*

In a potentially seminal decision, the Southern District of New York defined the extent of an online marketplace's liability for the infringing acts of its users.²¹⁸ Tiffany sought to hold eBay liable for the sale of counterfeit Tiffany jewelry by eBay users on eBay's website. Among other claims, Tiffany claimed that eBay was liable for direct infringement for use of TIFFANY in eBay advertising and for contributory infringement for allowing the users' sales. The court held that eBay's use of TIFFANY was nominative fair use and that it did not have an obligation to preemptively remove listings of Tiffany jewelry—eBay was not liable for either direct or contributory infringement.²¹⁹

The court determined that eBay "exercises sufficient control and monitoring over its website" such that it could be liable for its users' infringement.²²⁰ Under Supreme Court precedent, a manufacturer or distributor is liable for contributory trademark infringement if it "continues to supply its product to one whom it knows or has reason to know" is infringing.²²¹ The court held that this *Inwood* test is not limited to product suppliers and extends to service providers that have sufficient control over the infringer's "means of infringement."²²² While eBay does not have the ability to control or inspect the items sold by its users, it "actively facilitates" sales by providing the software and hardware of the electronic marketplace.²²³ It also promoted sales by independently advertising the Tiffany jewelry and by "actively working" with sellers to improve sales.²²⁴ Further, eBay profits from the sales, excludes certain items from the market, and suspends users.²²⁵ eBay is subject to *Inwood*.²²⁶

eBay's generalized knowledge of infringement was insufficient for liability under *Inwood*. The court determined that *Inwood* requires more than generalized knowledge because extending liability where there is some uncertainty would unacceptably expand trademark rights and po-

216. *Id.* at 1228-29.

217. *Id.*

218. *See generally* Tiffany Inc. v. eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

219. *Id.* at 469-70.

220. *Id.* at 506.

221. *Id.* at 502 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982)).

222. *Id.* at 504-06 (quoting *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999)).

223. *Id.* at 506.

224. *Id.*

225. *Id.* at 506-07.

226. *Id.* at 507.

tentially stifle legitimate sales.²²⁷ Although Tiffany asserted in demand letters that “counterfeiting was rampant” on eBay, that Tiffany did not authorize third-party sales, and that any seller offering five or more Tiffany items should be presumed to be infringing, it did not identify any specific instances of infringement—“eBay was under no obligation to credit the potentially self-serving assertions of a trademark owner.”²²⁸ Further, that Tiffany purchased some counterfeit “Tiffany” items on eBay was enough to determine that there was some infringement, however, it “was insufficient to require eBay to ban” all Tiffany sales, and eBay removed the specific listings so identified by Tiffany as counterfeit.²²⁹ eBay had no obligation to “ferret out potential infringer[s]” based on general knowledge of infringement or mere allegations.²³⁰ Nor did eBay have an obligation to immediately suspend an identified infringer; removing the listing was sufficient.²³¹ Finally, even if it was easier for eBay to find and filter infringers, it was Tiffany’s obligation to police its mark, not eBay’s.²³²

C. THE GOODS AND NOTHING BUT THE GOODS—*HERBACEUTICALS, INC. v. XEL HERBACEUTICALS, INC.*

In a cancellation proceeding, the Trademark Trial and Appeal Board (TTAB) determined that the remedy for fraudulent misstatements of use in the procurement of a trademark registration is complete cancellation of the mark.²³³ Xel Herbaceuticals (Xel) filed sworn statements of use connected with its applications to register several marks.²³⁴ In these statements, Xel identified a number of goods that were not associated with the mark.²³⁵ Because these misstatements of trademark use rose to the level of fraud, the TTAB canceled the marks, not just with respect to the fraudulently claimed uses, but in their entirety.²³⁶

The TTAB rejected Xel’s arguments for partial cancellation.²³⁷ Such a cancellation “would merely place Xel in the same position” as if it had complied with the law in its initial filings.²³⁸ The nature of the claimed

227. *Id.* at 510.

228. *Id.* at 511-12. The court noted that even with Tiffany’s tightly controlled distribution of its products, a legitimate secondary market for Tiffany jewelry may exist. *Id.* at 472-74, 474 n.9.

229. *Id.* at 485-86, 512-13.

230. *Id.* at 513-15.

231. *Id.* at 517.

232. *Id.* at 518.

233. See generally *Herbaceuticals, Inc. v. Xel Herbaceuticals, Inc.*, 86 USPQ2d 1572 (TTAB 2008).

234. *Id.* at 1574, 1577.

235. *Id.* at 1577.

236. *Id.* at 1578. In another case involving an allegation of fraudulent identification of goods associated with the mark, the TTAB held that a pre-registration amendment to correct the identification creates a rebuttable presumption that the applicant “lacked the willful intent to deceive the [Patent and Trademark] Office.” *Univ. Games Corp. v. 20Q.net Inc.*, 87 USPQ2d 1465, 1468 (TTAB 2008).

237. *Herbaceuticals, Inc.*, 86 USPQ2d at 1577.

238. *Id.*

goods was neither complicated nor highly technical—"the mark was either in use on all [the] goods, or it was not."²³⁹ The statement of use could not be divided into sworn and unsworn portions; the "declaration relates to all statements in the document of which the declaration is a part."²⁴⁰ Finally, the fact that Xel's attorney signed the statement without actual knowledge of the use did not protect Xel; the attorney was obliged to inquire as to the actual use.²⁴¹

D. ORDINARILY MULTILINGUAL—*IN RE SPIRITS*
INTERNATIONAL N.V.

In denying registration of an English transliteration of a Russian word as a trademark for vodka, the TTAB reiterated that the ordinary American purchaser is multilingual.²⁴² Spirits International applied to register MOSKOVSKAYA for vodka.²⁴³ "Moskovskaya" is the English transliteration of the Russian adjectival form of "Moscow," meaning "of or from Moscow."²⁴⁴ The TTAB affirmed the PTO's refusal to register the mark because MOSKOVSKAYA was primarily geographically deceptively misdescriptive under the doctrine of foreign equivalents.²⁴⁵

Under the doctrine of foreign equivalents, a foreign term from a modern common language is translated into English to determine whether it is descriptive if the "ordinary American purchaser" would translate the term.²⁴⁶ In affirming the PTO examiner's refusal, the TTAB held that the "ordinary American purchaser" is one who is "knowledgeable in the[] foreign language," the Federal Circuit's *Palm Bay Imports* notwithstanding.²⁴⁷ The TTAB held that *Palm Bay Imports* did not state that the ordinary American purchaser lacks of knowledge of a foreign language, but rather that the purchaser in that case was unlikely to translate the term.²⁴⁸ Here, the TTAB held that the ordinary American purchaser was knowledgeable in Russian, would translate MOSKOVSKAYA into English, and that therefore the mark was primarily geographically deceptively misdescriptive for vodka that was not from Moscow.²⁴⁹

V. CONCLUSION

As technology and commerce continue to evolve and probe the limits of our jurisprudence, both the substance and procedure of intellectual

239. *Id.*

240. *Id.* at 1577-78 (citing *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 USPQ2d 1205, 1209 (TTAB 2005)).

241. *Id.*

242. *See generally In re Spirits Int'l N.V.*, 86 USPQ2d 1078 (TTAB 2008).

243. *Id.* at 1079.

244. *Id.* at 1081 (quoting *THE OXFORD RUSSIAN-ENGLISH DICTIONARY* (1972)).

245. *Id.* at 1080, 1090.

246. *Id.* at 1081-82 (citing *Palm Bay Imports, Inc. v. Veuve Clicquot Ponsardin Maison Fondee En 1772*, 396 F.3d 1369 (Fed. Cir. 2005)).

247. *Id.* at 1082.

248. *Id.* at 1083.

249. *Id.* at 1080, 1090.

property law are subject to increased scrutiny and tension. Look for patent reform to continue in 2009, with a likely focus on patent damages. As in the past few years, the push for reform will be apparent both in our nation's judiciary and legislature. With the Eastern District of Texas's role as the patent "rocket docket" in question, other districts are likely to encounter an increased number of patent disputes. Nationwide, courts will be confronted with issues as diverse as constructing the proper remedy for patent infringement, determining when the use of an automated file-sharing system exposes the system provider to liability, and defining to what extent a provider of a virtual market must police activity within the market. Intellectual property jurisprudence will continue to evolve and adapt as courts face new issues that arise in our constantly changing society.