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Intellectual Property Law

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INTELLECTUAL PROPERTY LAW

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I. INTRODUCTION

THIS article surveys the most significant changes in intellectual property law in the past year.¹ The article considers only those decisions that are precedential in Texas, or likely to influence the practice of law in the state. 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 trademark and copyright law, the Fifth Circuit’s authority is binding, but other Circuits, such as the Second and 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, decisions from the Federal Circuit during the Survey period are also included in this article.²

2007 was another active year in intellectual property law. Together, the courts addressed many areas of patent litigation considered ripe for reform, even as Congress continues to show interest in reforming the patent statutes. The United States Supreme Court continued its trend of lowering the bar for challenging patents and restricting the scope of patent rights. The Federal Circuit responded to certain Supreme Court decisions, raised the bar for enhanced damages, and reconsidered the patentable scope of business methods. Elsewhere, the Internet spurred developments in trademark and copyright law. In particular, Internet search engines have been the foremost battleground with disputes con-

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. Messrs. McCombs, Philbin, and Hodges wish to thank Don Tiller for his invaluable assistance with this paper.

2. 28 U.S.C. § 1291 (2000); see also *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1348-49 (Fed. Cir. 2002).

cerning search keywords and meta tags used to direct traffic to video sharing websites. Also, trademark applicants experienced an increased cost for incorrectly identifying the underlying goods or services for which a mark is sought. Technology and intellectual property continue to be increasingly important in our economy, and the Supreme Court and Congress are responding accordingly.

II. PATENT UPDATE

A. THE SUPREME COURT ON PATENTS

1. *Standing for Declaratory Judgments*

Under certain circumstances, an accused patent infringer may bring suit against a patentee by seeking a declaratory judgment. The Declaratory Judgment Act allows a party to an “actual controversy” to seek a declaration of his “rights and other legal relations” in a federal court.³ The declaration of rights is a court judgment that does not provide for or order enforcement of those rights.⁴

a. Lessened Immunity to Suit—*MedImmune, Inc. v. Genentech, Inc.*

The Supreme Court decided *MedImmune* against the background of Federal Circuit jurisprudence barring a licensee from seeking a declaratory judgment while still complying with its licensing agreement.⁵ Prior to *MedImmune*, the Federal Circuit, in *Gen-Probe Inc. v. Vysis, Inc.*,⁶ held that a suit is nonjusticiable when a compliant licensee seeks a declaratory judgment of invalidity, unenforceability, or scope of a licensed patent.⁷ As a result, the *MedImmune* district court invoked *Gen-Probe* and dismissed *MedImmune*’s declaratory judgment action⁸ and likewise the Federal Circuit invoked *Gen-Probe* in affirming the district court’s decision.⁹ In upholding *MedImmune*’s declaratory judgment action and reversing the Federal Circuit,¹⁰ the Supreme Court overruled *Gen-Probe*’s bar on declaratory judgment for compliant licensee.¹¹ The Court also rejected the Federal Circuit’s reasonable-apprehension-of-suit test that served as a basis for the bar.¹²

The *Gen-Probe* rule was an extension of the Federal Circuit’s two-part “pragmatic inquiry” in analyzing the totality of the circumstances for an Article III controversy, which stated:¹³

3. *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 770-71 (2006) (citing 28 U.S.C. § 2201(a) (2000)).

4. BLACK’S LAW DICTIONARY 859 (8th Ed. 2004).

5. *MedImmune*, 127 S. Ct. at 768.

6. 359 F.3d 1376, 1381 (Fed. Cir. 2004).

7. *Id.* at 1381.

8. *MedImmune*, 127 S. Ct. at 768.

9. *Id.*

10. *Id.* at 777.

11. *Id.* at 774.

12. *Id.* at 774 n.11.

13. *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1379-80 (Fed. Cir. 2004).

There must be both (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory judgment plaintiff that it will face an infringement suit, and (2) present activity [by the declaratory judgment plaintiff] which could constitute infringement or concrete steps taken [by the declaratory judgment plaintiff] with the intent to conduct such activity.¹⁴

It was in the first prong of the inquiry, the reasonable-apprehension-of-suit test, where a compliant licensee necessarily failed to establish a controversy.¹⁵

In its analysis, the Court reiterated that an Article III controversy exists where the totality of the circumstances establishes “that there is substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality”¹⁶ To find a suit justiciable, the Court required:

that the dispute be “definite and concrete, touching the legal relations of parties having adverse legal interests”; and that it be “real and substantial” and “admi[t] of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.”¹⁷

Writing for an eight-Justice majority, Justice Scalia noted that the purpose of the Declaratory Judgment Act was to ameliorate the dilemma inherent in the choice between: (1) abandoning rights; and (2) exercising those rights at the risk of liability.¹⁸ Absent an imminent threat of harm, a declaratory judgment action may be justiciable if the plaintiff was effectively coerced, by the risk of liability, to abandon its rights so as to remove the threat of harm.¹⁹ Scalia further noted that, contrary to the Federal Circuit’s *Gen-Probe* analysis, an action may be justiciable regardless of whether the coercive risk of liability lies with the government or a private party—in either case, the risk of damages arising from infringement may be sufficiently coercive.²⁰ Stating in a footnote that the reasonable-apprehension-of-suit test conflicts with Supreme Court precedent,²¹ the Court stated that a party need not breach a license agreement at the risk of treble damages and a business-crippling injunction before seeking a declaration of its rights.²²

14. *Id.* at 1380 (quoting *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993)).

15. *Id.* at 1381.

16. *MedImmune*, 127 S. Ct. at 771 (citing *Md. Cas. Co. v. Pac. Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

17. *Id.* (quoting *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-41 (1937)).

18. *Id.* at 772-73 (citing *Abbott Labs. v. Gardner*, 387 U.S. 136, 152 (1967)).

19. *Id.* at 773.

20. *Id.* at 774 (citing *Altvater v. Freeman*, 319 U.S. 359, 365 (1943)).

21. *Id.* at 774 n.11.

22. *See id.* at 775, 777.

b. Federal Circuit Response

Since the *MedImmune* opinion was issued, the Federal Circuit has upheld the vast majority of declaratory judgment actions seeking a finding of patent noninfringement or invalidity as justiciable.²³

i. *Giving Standing a Leg Up*—SanDisk Corp. v. STMicroelectronics, Inc.²⁴

While negotiating a cross-licensing agreement, STMicroelectronics (“ST”) alleged that various SanDisk activities and products infringed ST’s patents on flash memory technology.²⁵ ST supported the allegation with detailed written and oral analyses of the patent claims and SanDisk’s products.²⁶ After six months of negotiation failed to yield an agreement, SanDisk sued ST seeking a declaratory judgment of noninfringement and invalidity of ST’s patents.²⁷ The district court determined that SanDisk did not have a reasonable apprehension of suit and dismissed the declaratory judgment action as nonjusticiable.²⁸

The Federal Circuit held that SanDisk’s declaratory judgment action was justiciable even though ST never threatened an infringement suit, expressed a lack of intent to sue, and expressed a willingness to continue the licensing negotiations.²⁹ Applying *MedImmune*, the Federal Circuit reasoned that a declaratory judgment action may be justiciable when the plaintiff is confronted with the dilemma of choosing between “pursuing arguably illegal behavior” and “abandoning that which he claims a right to do.”³⁰ Specifically, the court held that an Article III controversy arises when “a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license”³¹ ST’s declaratory judgment action was justiciable because ST claimed a right to a royalty based on its detailed infringement analysis of SanDisk’s “specific, identified activity.”³²

23. See, e.g., *Caraco Pharm. Labs., Ltd. v. Forest Labs., Inc.*, 527 F.3d 1278, 1291 (Fed. Cir. 2008); *Micron Tech. v. Mosaid Techs.*, 518 F.3d 897, 901-03 (Fed. Cir. 2008); *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1382 (Fed. Cir. 2007); *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, 482 F.3d 1330, 1346 (Fed. Cir. 2007); *Sony Elecs., Inc. v. Guardian Media Techs., Ltd.*, 497 F.3d 1271, 1285-87 (Fed. Cir. 2007); but see *Benitec Austl., Ltd. v. Nucleonics, Inc.*, 495 F.3d 1340, 1349 (Fed. Cir. 2007) (not justiciable).

24. 480 F.3d 1372 (Fed. Cir. 2007).

25. *Id.* at 1374-75.

26. *Id.* at 1375.

27. *Id.* at 1376.

28. *Id.*

29. *Id.* at 1381-83.

30. *Id.* at 1381.

31. *Id.*

32. *Id.* at 1382.

ii. *New Drug Test Now FDA Approved—Teva Pharmaceuticals USA, Inc. v. Novartis Pharmaceuticals Corp.*³³

Novartis listed five patents with the U.S. Food and Drug Administration (“FDA”) as part of a new drug application (“NDA”) based on a particular compound.³⁴ Four of those patents were directed to the drug’s therapeutic use and one was directed at its composition.³⁵ Teva filed an abbreviated new drug application (“ANDA”) with the FDA for a generic version of a drug based on the same compound, certifying that its drug did not infringe any of the Novartis patents or that the patents were invalid.³⁶ Novartis sued Teva for infringement³⁷ of its composition patent and Teva sought a declaratory judgment of invalidity or noninfringement of the four therapeutic-use patents.³⁸ The district court found that Teva failed to meet the reasonable-apprehension-of-imminent-suit³⁹ test and dismissed the declaratory judgment action for want of jurisdiction.⁴⁰

The Federal Circuit looked to the totality of the circumstances, as required by *MedImmune*, and held that the declaratory judgment action was justiciable.⁴¹ The court noted five circumstances that together supported justiciability:

- (1) Novartis listed its patents with the FDA, indicating that Novartis could reasonably assert an infringement claim for use of the generic drug;⁴²
- (2) Teva infringed the Novartis patents when it filed the ANDA;⁴³
- (3) Congress intended early resolution of patent disputes involving generic drugs;⁴⁴

33. *Teva Pharms. USA, Inc. v. Novartis Pharms. Corp.*, 482 F.3d 1330 (Fed. Cir. 2007).

34. *Id.* at 1334.

35. *Id.*

36. *Id.* An ANDA is used to speed FDA approval of a generic drug by relying on the previous approval of bioequivalent drug. See Federal Food, Drug, and Cosmetic Act § 505(j), 21 U.S.C. § 355(j) (2000). As part of the application, the applicant must certify that any patents claiming the approved bioequivalent drug: have not been filed; have expired; will expire on a specified date; or are invalid or will not be infringed by the generic. *Id.*

37. See *Teva*, 482 F.3d at 1340. Filing an ANDA is a technical infringement of the Novartis patents under 35 U.S.C. § 271(e)(2)(A) (2000).

38. *Teva*, 482 F.3d at 1334-35.

39. The reasonable-apprehension-of-imminent-suit test is an evolved form of the reasonable-apprehension-of-suit test and was similarly rejected in *MedImmune*. See *MedImmune, Inc. v. Genentech, Inc.* 127 S. Ct. 764, 774 n.11 (2006).

40. *Teva*, 482 F.3d at 1335.

41. *Id.* at 1337, 1340, 1345-46.

42. *Id.* at 1341-42.

43. *Id.* at 1342. “It shall be an act of infringement to submit—(A) an application under section 505(j) of the Federal Food, Drug, and Cosmetic Act” 35 U.S.C. 271(e)(2) (2000).

44. *Teva*, 482 F.3d at 1342-44. Specifically, the court noted the guidelines in 21 U.S.C. § 355(j)(5)(C) (2000), outlining how and when an ANDA applicant can bring a declaratory judgment action to obtain patent certainty; 35 U.S.C. 271(e)(5), granting jurisdiction to such declaratory judgment actions; and discussing the congressional goal of allowing quick introduction of cheap generic drugs to the market. *Id.* at 1343-44.

- (4) Novartis sued Teva for patent infringement of one of the FDA-listed patents;⁴⁵ and
(5) the FDA-listed patents not asserted in Novartis's suit against Teva could be asserted against Teva in future litigation.⁴⁶

The court held that, under the circumstances, "Teva has experienced real and actual injury" that is "traceable to Novartis' conduct" and that the injury "can be redressed by a favorable judicial decision."⁴⁷ Accordingly, the Federal Circuit held the declaratory judgment action to be justiciable.⁴⁸

In addition, the court commented on the individual strength of each circumstance, hinting that several would create a justiciable controversy independent of the others. Because "Novartis would have an immediate justiciable controversy against Teva as soon as Teva submitted the ANDA," the Federal Circuit reasoned that submitting the ANDA "should create a justiciable declaratory judgment controversy" for Teva against Novartis.⁴⁹ Similarly, the court explained that challenging a FDA-listed patent via the ANDA certification, as did Teva, should make a declaratory judgment action on the patent justiciable.⁵⁰ Finally, the court found that Novartis's prior infringement suit on one of the five FDA-listed patents challenged by Teva's ANDA certification "is dispositive in establishing an actual declaratory judgment controversy as to all" the challenged patents.⁵¹

2. *Patently Obvious*—KSR International Co. v. Teleflex Inc.⁵²

The Supreme Court decided *KSR* against the background of Federal Circuit jurisprudence requiring a teaching, suggestion, or motivation to combine elements of prior art references for the combination to be unpatentable for obviousness—the so-called TSM test.⁵³ Applying the TSM test, the district court held that Teleflex's claimed invention was obvious because the nature of the problem addressed by the invention would motivate one having ordinary skill in the art to combine elements of the prior art references in the fashion claimed.⁵⁴ However, the Federal Circuit held that the district court incorrectly applied the TSM test⁵⁵ finding

45. *Id.* at 1344-45.

46. *Id.* at 1345.

47. *Id.* at 1346.

48. *Id.*

49. *Id.* at 1342.

50. *Id.* at 1343 (stating that, in the context of an ANDA certification challenge of a patent, "the only circumstance in which a case or controversy might not exist would arise in the rare circumstance in which the patent owner and brand drug company have given the generic applicant a covenant not to sue, or otherwise formally acknowledge that the generic applicant's drug does not infringe").

51. *Id.* at 1344.

52. *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007).

53. *See Teleflex, Inc. v. KSR Int'l Co.*, 119 F. App'x 282, 285 (Fed. Cir. 2005) (unpublished).

54. *Teleflex Inc. v. KSR Int'l Co.*, 298 F. Supp. 2d 581, 593-94, 596 (E.D. Mich. 2003).

55. *Teleflex*, 119 F. App'x at 288.

that for the nature of the problem to suggest or motivate a combination, the prior art references must address the precise problem addressed by the patentee.⁵⁶ In reinstating the summary judgment of obviousness, the Supreme Court rejected the Federal Circuit's rigid application of the TSM test.⁵⁷

In opinions issued after the Supreme Court granted certiorari in *KSR*, the Federal Circuit seemed to re-explain the TSM test as requiring a more flexible approach.⁵⁸ Particularly, in *DyStar Textilfarben GmbH & Co. v. C.H. Patrick Co.*, the Federal Circuit articulated the test as requiring a motivation to combine in: (1) the prior art references; (2) the common knowledge; (3) the prior art as a whole; or (4) the nature of the problem.⁵⁹

In *KSR*, the Supreme Court described the obviousness inquiry as "an expansive and flexible approach" and noted that the controlling framework from *Graham v. John Deere Co.* "set forth a broad inquiry and invited courts, where appropriate, to look at any secondary considerations that would prove instructive."⁶⁰ Additionally, the Court stated that "[t]he combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results."⁶¹

Interestingly, the unanimous court did not explicitly reject the TSM test; rather, it rejected the Federal Circuit's rigid application of the test in *KSR*.⁶² While acknowledging that identifying a reason for one of ordinary skill in the art to combine familiar elements can be important to the obviousness inquiry, Justice Kennedy noted that the dispositive factor is the "objective reach of the claim."⁶³ He explained that the Federal Circuit's rigid application of the TSM test failed in four notable ways.⁶⁴

First, in focusing on the patentee's motivation, the Supreme Court pointed out that the Federal Circuit had failed to analyze obviousness from the perspective of one having ordinary skill in the art.⁶⁵ Notably, the Supreme Court distinguished the problem motivating the patentee from the problems addressed by the invention.⁶⁶ Whereas the Federal Circuit's rigid application of the TSM test focused on the "precise prob-

56. *Id.*

57. *KSR*, 127 S. Ct. at 1739.

58. See David L. McCombs et al., *Intellectual Property Law*, 60 SMU L. REV. 1141, 1152-54 (2007) (discussing the Federal Circuit's defense of the TSM test in *In re Kahn*, 441 F.3d 977 (Fed. Cir. 2006); *Alza Corp. v. Mylan Labs., Inc.*, 464 F.3d 1286 (Fed. Cir. 2006); and *DyStar Textilfarben GmbH & Co. v. C.H. Patrick Co.*, 464 F.3d 1356, 1361 (Fed. Cir. 2006)).

59. *DyStar Textilfarben GmbH & Co. v. C.H. Patrick Co.*, 464 F.3d 1356, 1361 (Fed. Cir. 2006).

60. *KSR*, 127 S. Ct. at 1739 (citing *Graham v. John Deere Co.*, 383 U.S. 1 (1966)).

61. *Id.*

62. *Id.* at 1742-1743.

63. *Id.* at 1741-42.

64. *Id.* at 1742.

65. *Id.*

66. *Id.*

lem that the patentee was trying to solve,”⁶⁷ the Supreme Court finds that the proper inquiry focuses on problems known in the art and addressed by the invention.⁶⁸

Second, in restricting prior art references to those designed to solve the problems addressed by the invention, the Supreme Court found that the Federal Circuit failed to account for the ordinary creativity of one having skill in the art.⁶⁹ The Court explained that “[c]ommon sense teaches . . . that familiar items may have obvious uses beyond their primary purposes. . . .”⁷⁰ Whereas the rigidly applied TSM test would not find nature-of-the-problem motivation to combine elements of prior art references unless those references were directed to the same problem, the Supreme Court holds that the proper inquiry considers a broader category of prior art.⁷¹

Third, the Supreme Court found that the Federal Circuit erred in failing to consider that a combination was obvious to try as evidence of obviousness.⁷² The Court noted that one of ordinary skill in the art may be motivated by “design need or market pressure” to try those “finite number of identified, predictable solutions . . . within his or her technical grasp.”⁷³ Whereas the rigidly applied TSM test teaches that a combination of elements of prior art references is not obvious merely because it is obvious to try the combination, the Supreme Court found that “obvious try” maybe the basis for finding obviousness in certain circumstances.⁷⁴

Finally, the Supreme Court explained that the Federal Circuit’s rigid application of the TSM test as a check on hindsight bias failed to allow the factfinder to exercise common sense in determining obviousness.⁷⁵ Such a rigid test is neither required nor allowed by Court precedent.⁷⁶

3. *Holdings on the Intangible*—Microsoft Corp. v. AT&T Corp.⁷⁷

Unlike *MedImmune* and *KSR*, which were decided in the context of then-prevailing Federal Circuit jurisprudence, the Microsoft-AT&T dispute involved a question of first impression.⁷⁸ The issue involved Microsoft’s operating system software and AT&T’s patented speech-

67. *Teleflex, Inc. v. KSR Int’l Co.*, 119 F. App’x 282, 288 (Fed. Cir. 2005).

68. *KSR*, 127 S. Ct. at 1742.

69. *Id.*

70. *Id.*

71. *Id.*

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.* at 1742-43.

76. *Id.*

77. *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007).

78. *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1369 (Fed. Cir. 2005). The Federal Circuit framed the issue as two questions: (1) whether software qualifies as a “component” under 35 U.S.C. § 271 (f) and; (2) whether foreign-made copies of the software qualify as supplied from the United States under § 271(f). *Id.* Under Federal Circuit precedent, software qualified as a “component.” *Id.* (citing *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005)). The second question was one of first impression. *Id.*

processor invention.⁷⁹ Microsoft stipulated that its licensing of the software for use on computers sold in the United States contributorily infringed AT&T's patent.⁸⁰ As a result, the only remaining question was whether Microsoft infringed the patent under § 271(f) by exporting a master copy of the software to enable later copying and installation other computers outside the United States.⁸¹ Both the district court and the Federal Circuit found Microsoft liable for infringement under § 271(f).⁸² In reversing, the Supreme Court held that the software did not qualify as a component until it became a computer-readable copy,⁸³ and that foreign-made copies of the software were not "supplied" from the United States as § 271(f) requires.⁸⁴

Writing for the majority, Justice Ginsberg focused on the nature of software in determining that the software could not be a component combinable with a computer unless it became a "computer-readable 'copy.'"⁸⁵ The Court described two ways in which software can be conceptualized: as abstract instructions "detached from any medium" or alternately as tangible copies of "the instructions encoded on a medium."⁸⁶ Reasoning that a tangible and an intangible thing cannot be combined, the Court held that software in the abstract, "an idea without physical embodiment," could not be combined with a computer, a tangible thing.⁸⁷ The Court also found that the ease with which tangible copies can be made from abstract instructions does not warrant a different result.⁸⁸ As a result, only tangible copies of software qualify as "components" that can be combined with a tangible computer.⁸⁹

The Court next determined that "supplying" a component under § 271(f) from the United States does not include exporting a master copy of the component from which further copies can be made.⁹⁰ Ginsberg reasoned that regardless of the ease with which such copies can be produced from the master copy, copying is "an activity separate and distinct" from supplying.⁹¹ Only supplying the actual components—the tangible copies of the software—from the United States will create liability for infringement under § 271(f).⁹²

79. *Microsoft Corp.*, 127 S. Ct. at 1750.

80. *Id.* at 1753.

81. *Id.* at 1750-51. Under 35 U.S.C. § 271(f), it is infringement to supply a party outside the United States with certain uncombined components from the United States knowing that the components will be combined by the foreign party in an infringing manner. See 35 U.S.C. § 271(f) (2000).

82. *Id.* at 1753.

83. *Id.* at 1755.

84. *Id.* at 1757.

85. *Id.* at 1754-56.

86. *Id.* at 1754.

87. *Id.* at 1755, 1756 n.13.

88. *Id.* at 1756.

89. *Id.*

90. *Id.* at 1756-57.

91. *Id.* (citing *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1372-73 (Fed. Cir. 2005). (Rader, J., dissenting)).

92. *Id.* at 1757.

In finding no liability for Microsoft under § 271(f), the Court pointedly refused to address two related issues: (1) whether an intangible component of an intangible invention can qualify as a section 271(f) component—or even if an intangible invention qualifies for a patent;⁹³ and (2) whether § 271(f) liability exists if the tangible copy of the software is removed from the computer once the software is installed.⁹⁴

4. *To the Point of Conditional Exhaustion*—Quanta Computer, Inc. v. LG Electronics, Inc.

Just before the 2007 term began, the Supreme Court accepted and scheduled for argument its next patent case, *Quanta Computer, Inc. v. LG Electronics, Inc.*, concerning the doctrine of patent exhaustion.⁹⁵ The Court held oral argument on January 16, 2008, and a ruling is expected in late spring or early summer of 2008.⁹⁶ At issue is the extent to which it is permissible for a patentee to hold downstream users of a patented article liable for infringement, where those users obtained the article from an entity who lawfully obtained the article from the patentee.

Generally, the doctrine of patent exhaustion holds that “an *unconditional* sale of a patented device exhausts the patentee’s right to control the purchaser’s use of the device thereafter.”⁹⁷ The facts of the case seem to complicate the issue, however. LG Electronics, Inc. (“LGE”) licensed its entire patent portfolio to Intel Corporation (“Intel”), which then manufactured microprocessors for use in personal computers. However, in the license agreement, LGE specified that Intel’s customers were not permitted to combine the microprocessors with other, non-Intel parts in a way that would violate LGE’s patents. LGE required Intel to notify its customers of this license provision, and Intel did so. Despite this warning, Intel’s customers continued to use Intel microprocessors with components from other manufacturers, and LGE brought suit alleging infringement.⁹⁸

The Northern District of California found that, while there was no implied license, Intel’s sale of the microprocessors with a license from LGE exhausted LGE’s patent rights against Intel’s customers.⁹⁹ Although the Federal Circuit agreed that there could be no implied license because of the notice provided by Intel, it disagreed with the district court’s applica-

93. *Id.* at 1756 n.13.

94. *Id.* at 1757 n.14. Justice Alito, in his three-justice concurrence, would have held that liability ceases once the tangible copy is removed. *Id.* at 1762.

95. *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 28 (2007) (granting petition for writ of certiorari).

96. The Supreme Court ruled on June 9, 2008, after this year’s Survey period. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008).

97. *LG Elecs., Inc., v. Bizcom Elecs., Inc.*, 453 F.3d 1364, 1370 (Fed. Cir. 2006) (citing *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873)).

98. See *id.* at 1368; see also Am. Intellectual Prop. Law Ass’n, *Supreme Court Will Review Federal Circuit Law on Patent Exhaustion*, AIPLA REPORTS, October 1, 2007.

99. See *Bizcom Elecs.*, 453 F.3d at 1370.

tion of patent exhaustion to Intel's sale.¹⁰⁰ Instead, the Circuit found that Intel's sale was conditional, and thus the exhaustion doctrine did not apply.¹⁰¹

What constitutes a "conditional sale" lies at the heart of the dispute. The Federal Circuit relied on Supreme Court precedent in *Mitchell v. Hawley*, from 1873, for its "axiomatic" statement of the exhaustion doctrine as tied to an unconditional sale.¹⁰² However, the Solicitor General pointed out that the term "unconditional sale" as used in *Mitchell*, more narrowly referred to a sale without a condition precedent.¹⁰³ Also, the district court based its decision on the Supreme Court's 1942 decision in *United States v. Univis Lens Co.*, in which a patentee first licensed eye-glass lens blanks to a manufacturer and then sued the downstream wholesaler, finishers, and retailers.¹⁰⁴ The Federal Circuit did not address the *Univis* decision, but instead relied on its own precedent in *Mallinckrodt, Inc. v. Medipart, Inc.*, which found no exhaustion where there was an expressly conditional sale or license.¹⁰⁵ The Supreme Court granted certiorari precisely to review this line of cases.

Also of interest is the applicability of the exhaustion doctrine to method claims.¹⁰⁶ Both the district court and the Federal Circuit held that patent exhaustion did not apply to method claims;¹⁰⁷ however, the Solicitor General cited several Supreme Court patent exhaustion decisions regarding method patents and this may still be an open issue.¹⁰⁸

B. THE FEDERAL CIRCUIT ON PATENTS

I. *A Sea Change in Willfulness*—In re Seagate Technology, LLC¹⁰⁹

In ruling on a mandamus action seeking protection of work product and attorney-client privilege, the Federal Circuit changed its twenty-five-year-old standard for awarding enhanced damages under 35 U.S.C. § 284.¹¹⁰ In an infringement action, Seagate countered allegations of willful infringement with an advice-of-counsel defense.¹¹¹ In doing so, Sea-

100. *Id.* at 1369-70.

101. *Id.* at 1370.

102. *Id.* at 1369 (citing *Mitchell v. Hawley*, 83 U.S. 544, 547 (1873)).

103. Brief for the United States as Amicus Curiae at 20-21, *Quanta Computer, Inc., v. LG Elecs., Inc.*, No. 06-937 (2007).

104. See *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2D 1589, 1593-98 (N.D. Cal. 2002) (analyzing *United States v. Univis Lens Co.*, 316 U.S. 241, 246-51 (1942)).

105. See *Bizcom Elecs.*, 453 F.3d at 1369-70 (citing *Mallinckrodt, Inc. v. Medipart, Inc.* 976 F.2d 700, 708 (Fed. Cir. 1992)).

106. See Mark R. Paterson, *Reestablishing the Doctrine of Patent Exhaustion*, 2007 Patently-O Patent L.J. 38, 41, <http://www.patentlyo.com/lawjournal>.

107. *LG Elecs.*, 453 F.3d at 1370.

108. Brief for the United States as Amicus Curiae at 25-26, *Quanta Computer, Inc., v. LG Elecs., Inc.*, No. 06-937 (2007); see also Eric W. Hagen, *Another Term, Another High-Stakes Patent Case*, IPLaw360, PORTFOLIO MEDIA, Oct. 24, 2007.

109. *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

110. *Id.* at 1365; see 35 U.S.C. 284 (2000).

111. *Seagate*, 497 F.3d at 1366. The court defines the advice-of-counsel defense as the accused infringer attempting to "establish that due to reasonable reliance on advice from counsel, its continued accused activities were done in good faith." *Id.* at 1369.

gate waived attorney-client privilege and protection of work product relating to the subject matter of opinion counsel's advice.¹¹² The district court held that the waiver extended to all counsel and ordered production of related documents and testimony of trial counsel.¹¹³ Seagate argued that the waiver did not extend to trial counsel and after being denied an interlocutory appeal, petitioned the Federal Circuit for a writ of mandamus.¹¹⁴ In holding that waiver did not extend to trial counsel, the en banc court overruled its long standing affirmative-duty-of-care standard for willful infringement in favor of an objective recklessness standard.¹¹⁵

In *Seagate*, the court announced that the patentee now bears the burden and must show that the infringer willfully infringed in order to receive enhanced damages for willful infringement.¹¹⁶ Generally, if a district court finds willful infringement, it may award up to three times the amount of actual infringement damages.¹¹⁷ Reasoning that "willfulness" in the context of patent infringement should have the same meaning as in analogous violations of law, the court overruled its affirmative-duty-of-care standard¹¹⁸ and held that to prove willfulness a patentee must establish by clear and convincing evidence that: (1) the infringer's actions had an "objectively high likelihood" of infringing a valid patent; and (2) the infringer knew, or should have known, of this high risk of infringement.¹¹⁹

In addition to revising the willfulness standard, the Federal Circuit made two further rulings of interest. First, the court concluded that, while a party waives attorney-client privilege when it raises the advice-of-counsel defense, the scope of the waiver does not normally extend to communications with trial counsel or trial counsel's work product.¹²⁰ Second, the court observed that the proper legal deterrent for reckless, post-filing, willful infringement is generally a preliminary injunction, not enhanced damages.¹²¹

2. *Rub a Dub Dub, Three Men in a . . . Machine, Manufacture, or Composition of Matter*—In re Bilski, In re Comiskey, & In re Nuijten

In 2006, the Supreme Court first granted certiorari to consider whether a method of using a scientific principle was patentable subject matter in

112. *Id.* at 1370.

113. *Id.* at 1366-67.

114. *Id.*

115. *Id.* at 1371.

116. *Id.*

117. *Id.* at 1368 n.3 (citing 35 U.S.C. § 284 (2000)); *id.* at 1368 (citing *Beatrice Foods Co. v. New England Printing & Lithographing Co.*, 923 F.2d 1576, 1579 (Fed. Cir. 1991)).

118. Early in its history, the Federal Circuit established that a party having "actual notice of another's patent rights . . . has an affirmative duty" of care in determining whether it is infringing the patent. *Id.* (quoting *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983)).

119. *Id.* at 1370-71.

120. *Id.* at 1374.

121. *Id.* at 1374, 1376.

the case of *Laboratory Corp. of America Holdings v. Metabolite, Inc.*, but dismissed it as improvidently granted.¹²² Writing for a three-justice dissent, Justice Breyer favored hearing the case and finding that the claimed invention was unpatentable subject matter.¹²³ Breyer noted that the law excludes “laws of nature, natural phenomenon, and abstract ideas” from patent protection because “sometimes *too much* patent protection can impede rather than ‘promote the Progress of Science and the useful Arts.’”¹²⁴ According to Breyer, a decision from the Court “would help diminish legal uncertainty in the area” and “could contribute to the important ongoing debate, among both specialists and generalists, as to whether the patent system, as currently administered and enforced, adequately reflects the ‘careful balance’ that ‘the federal patent laws . . . embod[y].’”¹²⁵

Perhaps corresponding to the Supreme Court’s interest, the Federal Circuit has also shown an interest in better defining, and potentially contracting, the scope of patentable subject matter under 35 U.S.C. § 101. In a single day, the Circuit ruled, in *In re Nuijten*, that a physical but transitory signal did not qualify as one of the four statutory categories of patentable matter¹²⁶ and, in *In re Comiskey*, that a mental process is not patentable unless it has a practical application, and the process involves “another class of statutory matter.”¹²⁷ Two weeks later, in *In re Bilski*, a panel of the court heard oral argument in an appeal of another rejected method claim, and within five months, the court granted an en banc hearing sua sponte¹²⁸ to consider what constitutes a patentable “process.”¹²⁹

In *Nuitjen*, the court determined that *Nuitjen*’s invention directed to “a signal with embedded supplemental data” was not patentable subject matter.¹³⁰ The court reasoned that although the claimed signal was necessarily physical, it was not a “process, machine, manufacture, or composition of matter” and therefore not patentable.¹³¹ The court first explained that its decision in *State Bank & Trust Co. v. Signature Financial Group, Inc.* did not stand for the proposition that certain subject matter may be patentable without falling into one of the statutory categories, but only that the actual category it falls into is irrelevant.¹³² Next, the

122. *Lab. Corp. of Am. Holdings v. Metabolite Labs, Inc.*, 548 U.S. 124, 125 (2006) (per curiam). The patent at issue claimed a method of correlating high levels of a specific amino acid in the blood with a vitamin deficiency. *Id.* at 129.

123. *Id.* at 126, 138.

124. *Id.* at 126 (internal citations omitted).

125. *Id.* at 138 (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989)).

126. *In re Nuijten*, 500 F.3d 1346, 1357 (Fed. Cir. 2007).

127. *In re Comiskey*, 499 F.3d 1365, 1367 (Fed. Cir. 2007).

128. *In re Bilski*, 264 F. App’x 896, 897 (Fed. Cir. 2008); *Ex Parte Bilski*, Appeal 2002-2257, 2006 WL 4080055, at *1 (B.P.A.I. Sept. 26, 2006).

129. *See Bilski*, 264 F. App’x at 897.

130. *Nuitjen*, 500 F.3d at 1351.

131. *Id.* at 1351-53, 1357 (citing 35 U.S.C. § 101 (2000)).

132. *Id.* at 1354 (citing *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998)).

court reasoned that the claimed signal in *Nuijten* was not an “act or a series of acts” and thus, it was not a “process.”¹³³ The court also explained that the signal did not “possess concrete structure” consisting of mechanical devices or parts and, therefore, it was not a “machine.”¹³⁴ In addition, the court found that the claimed signal was not a “manufacture” because the signal is not a “tangible article[] or commodit[y].”¹³⁵ Finally, as the signal is not “a chemical union, nor a gas, fluid, powder, or solid,” the court found that it did not qualify as a “composition of matter.”¹³⁶

In *Comiskey*, Comiskey’s invention directed to “a ‘method for mandatory arbitration resolution regarding one or more . . . documents’” was held unpatentable because it operates on “human intelligence alone.”¹³⁷ The court first determined that an abstract idea or algorithm must have a practical application to qualify as patentable subject matter.¹³⁸ Next, the court explained that an abstract idea or algorithm embodied in a process is patentable only if the process “operates on, transforms, or otherwise involves . . . a machine, manufacture, or composition of matter.”¹³⁹ Thus, the court established that having a practical application alone is insufficient to render a mental process—an abstract idea—as patentable subject matter.¹⁴⁰

Further, the Circuit addressed the potential obviousness of creating a machine to embody a mental process. It held that “[t]he routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness.”¹⁴¹ Thus, a court may consider secondary evidence of nonobviousness stemming solely from the mental process as irrelevant.¹⁴² The court remanded the case to the Patent and Trademark Office (“PTO”) to determine “whether the addition of modern computers and communications devices would have been obvious.”¹⁴³

In *Bilski*, the Board of Patent Appeals and Interferences determined that Bilski’s invention directed to a commodities hedging method did not qualify as a patentable process under 35 U.S.C. § 101.¹⁴⁴ The Board first rejected the method as a § 101 process because it did not “transform any physical subject matter.”¹⁴⁵ In addition, the Board rejected the method

133. *Id.* at 1355.

134. *Id.* at 1355-56.

135. *Id.* at 1356-57.

136. *Id.* at 1357.

137. *In re Comiskey*, 499 F.3d 1365, 1368-69, 1378 (Fed. Cir. 2007).

138. *Id.* at 1376.

139. *Id.*

140. *Id.* at 1377.

141. *Id.* at 1380.

142. *Id.* (stating that a “long-felt need for the unpatentable mental process itself” is not pertinent evidence).

143. *Id.* at 1381.

144. *Ex Parte Bilski Appeal* 2002-2257, 2006 WL 4080055, at *2 (B.P.A.I. Sept. 26, 2006).

145. *Id.* at *18 (defining “physical subject matter” as “matter or some form of energy”).

because it was an abstract idea.¹⁴⁶ Finally, although the Board interpreted the “useful, concrete and tangible result” test of *State Street* and *AT&T Corp. v. Excel Communications, Inc.* to be limited to processes that transform data by a machine, the Board nevertheless invoked that test “to the extent that *State Street* applies to non-machine-implemented process claims” to reject the hedging method.¹⁴⁷ On appeal to the Federal Circuit, the PTO welcomed increased clarity on the patentability of business concepts that do not involve a transformation of data.¹⁴⁸ The court, sua sponte, granted an en banc hearing to address the issues:

- (1) Whether claim 1 of the 08/833,892 patent application claims patent-eligible subject matter under 35 U.S.C. § 101?
- (2) What standard should govern in determining whether a process is patent-eligible subject matter under [§] 101?
- (3) Whether the claimed subject matter is not patent-eligible because it constitutes an abstract idea or mental process; when does a claim that contains both mental and physical steps create patent-eligible subject matter?
- (4) Whether a method or process must result in a physical transformation of an article or be tied to a machine to be patent-eligible subject matter under [§] 101?
- (5) Whether it is appropriate to reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), and *AT&T Corp. v. Excel Communications, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999), in this case and, if so, whether those cases should be overruled in any respect?¹⁴⁹

Oral arguments in *Bilski* occurred on May 8, 2008. However no decision has been rendered to date.¹⁵⁰

3. *Designs of Bottled Saints and Buffered Goddesses*—Arminak & Associates, Inc. v. Saint-Gobain Calmar, Inc. and Egyptian Goddess, Inc. v. Swisa, Inc.

Under Federal Circuit jurisprudence, determination of infringement of a design patent under 35 U.S.C. § 289 involves first construing the patent claim and then comparing the construed claim to the accused design.¹⁵¹ Infringement exists if: (1) the designs are so similar that an ordinary observer would be deceived into purchasing the accused design believing it to be the patented design (the ordinary-observer test); and (2) “the ac-

146. *Id.* at *20-21.

147. *Id.* at *2, *21-22 (citing *AT&T Corp. v. Excel Commc'ns, Inc.*, 172 F.3d 1352 (Fed. Cir. 1999) and *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998))

148. Brief for Appellee Director of the U.S.P.T.O at 4, *In re Bilski*, No. 2007-1130 (Fed. Cir. Feb. 15, 2008).

149. *In re Bilski*, 264 F. App'x 896, 897 (Fed. Cir. 2008).

150. A recording of the oral arguments may be found on the Federal Circuit Court of Appeals website. Oral Argument, <http://www.oralarguments.cafc.uscourts.gov/search-script.asp> (enter Case No. 2007-1130, hit search, and select recordings from May 8, 2008).

151. See *Arminak & Assocs., Inc. v. Saint-Gobain Calmar, Inc.*, 501 F.3d 1314, 1319-20 (Fed. Cir. 2007) (interpreting 35 U.S.C. § 289 (2000)).

cused design appropriated the novelty which distinguishes the patented design from the prior art” (the point-of-novelty test).¹⁵²

The Federal Circuit has also expressed an interest in clarifying what constitutes infringement of a design patent under 35 U.S.C. § 289. First, in detailing its ordinary-observer test for assessing infringement of a design patent, the court held that the “ordinary observer” with respect to a component of an end product is the purchaser of the component, rather than the purchaser of the end product.¹⁵³ Later, the court granted an en banc rehearing of a noninfringement holding to consider its point-of-novelty test.¹⁵⁴

In *Arminak & Associates, Inc. v. Saint-Gobain Calmar, Inc.*, the Federal Circuit found that patents that claimed ornamental designs for a trigger sprayer were not infringed because the ordinary observer—the purchaser of the trigger sprayer—would not be deceived by the design.¹⁵⁵ Calmar and Arminak both sell trigger sprayers to manufacturers of liquid household products, who in turn incorporate the sprayer in the final retail product.¹⁵⁶ The district court held that since the industrial purchaser who purchased the sprayers for the household products manufacturer would not be deceived by the similarity of Arminak’s design to Calmar’s patented design, Arminak did not infringe Calmar’s patent.¹⁵⁷ In affirming the district court, the Federal Circuit agreed that the proper “ordinary observer” in such an infringement analysis is the industrial purchaser of the component, rather than the retail purchaser of the finished product.¹⁵⁸

In *Egyptian Goddess, Inc. v. Swisa, Inc.*, a Federal Circuit panel first held that the patented shape of a fingernail buffer was not infringed because the claimed point of novelty—a combination of prior-art elements—was not a nontrivial advance over the prior art.¹⁵⁹ The panel stated that the point-of-novelty test can be satisfied by a combination of individually known prior-art elements only if the combination is a “nontrivial advance over the prior art.”¹⁶⁰ The panel then noted that the infringement and validity analyses for design patents are often conflated and determined that, in the context of a combination of prior art elements in the point-of-novelty test, an obviousness-style nontriviality test is more appropriate than an anticipation test.¹⁶¹

Egyptian Goddess, the patentee, successfully petitioned for an en banc

152. *Id.* at 1320.

153. *Id.* at 1323.

154. *Egyptian Goddess, Inc. v. Swisa, Inc.*, 256 F. App’x 357, 357 (Fed. Cir. 2007).

155. *Arminak & Assocs.*, 501 F.3d at 1318.

156. *See id.*

157. *Id.*

158. *Id.* at 1323.

159. *Egyptian Goddess, Inc. v. Swisa, Inc.*, 498 F.3d 1354, 1355-56, 1358 (Fed. Cir. 2007), *vacated*, 256 F. App’x 357 (Fed. Cir. 2007) (per curiam).

160. *Id.* at 1357.

161. *Id.* at 1358 n.3.

rehearing.¹⁶² In granting the rehearing, the Federal Circuit vacated its earlier decision and stated the issues to be addressed as:

1) Should “point of novelty” be a test for infringement [sic] of design patent?

2) If so, (a) should the court adopt the nontrivial advance test adopted by the panel majority in this case; (b) should the point of novelty test be part of the patentee’s burden on infringement or should it be an available defense; (c) should a design patentee, in defining a point of novelty, be permitted to divide closely related or ornamentally integrated features of the patented design to match features contained in an accused design; (d) should it be permissible to find more than one “point of novelty” in a patented design; and (e) should the overall appearance of a design be permitted to be a point of novelty? *See Lawman Armor Corp. v. Winner Int’l, LLC*, 449 F.3d 1190 (Fed. Cir. 2006).

3) Should claim construction apply to design patents, and, if so, what role should that construction play in the infringement analysis? *See Elmer v. ICC Fabricating, Inc.*, 67 F.3d 1571, 1577 (Fed. Cir. 1995).¹⁶³

4. *Keeping Paice with the Courts*—Paice LLC v. Toyota Motor Corp.

The Supreme Court’s ruling in *eBay Inc. v. MercExchange, L.L.C.* left district courts to fashion new relief, other than an injunction, in patent cases involving continuing infringement after an injunction has been denied.¹⁶⁴ In *Paice LLC v. Toyota Motor Corp.*, the Federal Circuit determined that a district court may award an ongoing royalty and the judge may determine the royalty rate.¹⁶⁵

Within months of the *eBay* decision, the Eastern District of Texas decided a case involving a non-practicing patentee, Paice, asserting its patent rights against Toyota.¹⁶⁶ The trial court held that Toyota infringed Paice’s patents but that a permanent injunction was not appropriate under *eBay*.¹⁶⁷ The court did, however, award damages for future acts of infringement in the form of an ongoing royalty at a rate determined by the court and to be in effect for the life of the patent.¹⁶⁸ Toyota appealed the infringement holding and Paice appealed the imposition of the ongoing royalty.¹⁶⁹

After affirming on infringement, the Federal Circuit determined that the district court had the authority, under 35 U.S.C. § 283, to declare Toyota’s continuing infringement permissible in exchange for a court-im-

162. *Egyptian Goddess*, 256 F. App’x at 357.

163. *Id.* at 357-58.

164. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006) (requiring a patentee to satisfy the generally applicable four-factor test to qualify for a permanent injunction from continued patent infringement).

165. *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007).

166. *Id.* at 1302-03.

167. *Id.* at 1303.

168. *Id.*

169. *Id.* at 1296.

posed ongoing royalty.¹⁷⁰ In finding the statutory authority, the appellate court noted that it has upheld such damages without “dispute as to the district court’s authority to craft such a remedy”¹⁷¹ and that, in the context of antitrust violations, the Supreme Court has approved such remedies.¹⁷²

Although the court has the authority to award ongoing royalties, they are not to be awarded as a matter of course when an injunction is denied.¹⁷³ The district court “may wish to allow the parties to negotiate a license . . . before imposing an ongoing royalty.”¹⁷⁴ Further, in remanding on the issue of the ongoing royalty rate, the Federal Circuit noted that the district court did not provide sufficient reasons for the royalty to permit a meaningful review for abuse of discretion.¹⁷⁵

The Federal Circuit then held that the patentee did not have a Seventh Amendment right to have a jury determine the ongoing royalty rate.¹⁷⁶ While conceding that there may be a Constitutional right to a jury trial to determine damages, the Court reasoned that “not all monetary relief is properly characterized as ‘damages’” and that “the fact that monetary relief is at issue . . . does not, standing alone, warrant a jury trial.”¹⁷⁷ Paice’s assertions that the royalty constituted damages to be determined by a jury were insufficient to demonstrate that it had a Seventh Amendment right to a jury trial on the amount of the ongoing royalty.¹⁷⁸

C. NO GO FOR THE PTO—*TAFAS V. DUDAS*

In January 2006, the PTO proposed rule changes regarding continuing-application, continued-examination, and claim-examination practice because PTO claimed it was overburdened with the number and complexity of applications.¹⁷⁹ Under the proposed rules, applicants would be limited to two continuation or continuation-in-part (CIP) applications and one request for continued examination (RCE) per initial application.¹⁸⁰ With the proper showing of cause (or without, if justice requires) an applicant may be granted a third continuation or CIP, or a second RCE.¹⁸¹ Further, where the application contains in excess of five independent claims or twenty-five total claims, the proposed rules also require submission of

170. *Id.* at 1314-15 (citing 35 U.S.C. § 283 (2000)).

171. *Id.* at 1314 (citing *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (Fed. Cir. 1985)).

172. *Id.* (citing *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 59 (1973)).

173. *Id.* at 1314-15.

174. *Id.* Judge Rader argued that a district court must first allow the parties to negotiate a license or obtain their permission prior to setting the rate. *Id.* at 1316 (Rader, J., concurring).

175. *Id.* at 1316.

176. *Id.*

177. *Id.*

178. *Id.*

179. *Tafas v. Dudas*, 541 F. Supp. 2d 805, 808 (E.D. Va. 2008).

180. *Id.* at 809. Current rules do not limit the number of continuation or CIP applications or RCEs. *Id.*

181. *Id.*

information on each claim to assist the examiner in determining patentability.¹⁸² Other proposed changes eliminate voluntary divisional applications and CIPs stemming from divisional applications.¹⁸³

In separate actions, Triantafyllos Tafas and GlaxoSmithKline sued under the Administrative Procedure Act seeking to permanently enjoin the PTO from enacting the proposed rules.¹⁸⁴ The plaintiffs claimed that the proposed rules constitute unlawful agency action.¹⁸⁵ The Eastern District of Virginia consolidated the cases and found for the plaintiffs.¹⁸⁶

The court held that the PTO did not have the authority to promulgate the proposed rules and granted the plaintiff's motion for summary judgment seeking a permanent injunction against the PTO's enactment of the proposed rules.¹⁸⁷ The court first interpreted 35 U.S.C. § 2(b)(2) and determined that Congress had not granted the PTO the authority to issue substantive rules or to make substantive interpretations of the Patent Act.¹⁸⁸ Under prevailing law, applicants had a right to file an unlimited number of continuations.¹⁸⁹ Noting that the proposed rules represent a "drastic departure" from the current understanding of the Patent Act, the court held that the proposed rules affect existing individual rights and, thus, the rules are substantive.¹⁹⁰ Also the court explained that under prevailing law, the PTO bears the burden of examination, and the proposed rule would place this burden on the applicant by requiring the applicant to search prior art and provide reasons for patentability.¹⁹¹

D. HOW DID WE END UP HERE?—*IN RE VOLKSWAGEN OF AMERICA, INC.*

While *In re Volkswagen of America, Inc.*¹⁹² does not involve a patent or even an intellectual property right, the Fifth Circuit's decision in has the potential to significantly impact patent litigation. The Fifth Circuit overturned the venue decision by the Eastern District of Texas, a forum which has become a leading venue for patent litigation in the United States.¹⁹³ The *Volkswagen* case involves a product liability claim resulting from the rear-end collision of a Volkswagen Golf causing a girl's death.¹⁹⁴ The Marshall Division of the Eastern District of Texas denied Volkswagen's

182. *Id.* at 810. Current rules do not require such a submission. *Id.* at 816.

183. *Id.* Current rules allow for voluntary divisional applications and for CIPs from divisional applications.

184. *Id.* at 808.

185. *Id.*

186. *Id.* at 807.

187. *Id.* at 817.

188. *Id.* at 811 (interpreting 35 U.S.C. § 2(b)(2) (2000)).

189. *Id.* at 814 (including CIPs and RCEs).

190. *Id.*

191. *Id.* at 816.

192. 506 F.3d 376 (5th Cir. 2007).

193. Dave Moore, *IP Cases Head East*, DALLAS BUSINESS JOURNAL, Feb. 22, 2008, <http://dallas.bizjournals.com/dallas/stories/2008/02/25/focus1.html>.

194. *In re Volkswagen of Am., Inc.*, 506 F.3d 376, 378 (5th Cir. 2007).

motion to transfer to the Dallas Division of the Northern District of Texas despite the following facts:

(1) the Volkswagen Golf was purchased in Dallas County, Texas; (2) the accident occurred on a freeway in Dallas, Texas; (3) Dallas residents witnessed the accident; (4) Dallas police and paramedics responded and took action; (5) a Dallas doctor performed the autopsy; (6) the third-party defendant lives in Dallas County, Texas; (7) none of the plaintiffs live in the Marshall Division; (8) no known party or significant non-party witness lives in the Marshall Division; and (9) none of the facts giving rise to this suit occurred in the Marshall Division.¹⁹⁵

The Fifth Circuit first found that the district court incorrectly applied the standard for forum non conveniens to Volkswagen's motion to transfer venue.¹⁹⁶ However, the Fifth Circuit recognized the reason for this error finding that its "precedents have not been the model of clarity," especially since the panel itself struggled to find a precedential case on point.¹⁹⁷ The Fifth Circuit eventually concluded that the "moving party must demonstrate that a transfer is '[f]or the convenience of parties and witnesses, in the interest of justice.'"¹⁹⁸ Significantly, the Fifth Circuit reasoned that the deference for the plaintiff's choice of forum establishes this burden on the moving party thereby implying that the plaintiff's choice is not the only consideration.¹⁹⁹

The Fifth Circuit next addressed the district court's evaluation of the public and private interest.²⁰⁰ First, in an early footnote, the Fifth Circuit acknowledged a general issue with venue determinations, stating, "failure to follow with some precision the test we have set out necessarily produces inconsistent results in [the Fifth] Circuit. Absent exceptional circumstances, the district courts of the Fifth Circuit must consider motions to transfer under the rubric we have provided."²⁰¹

The Fifth Circuit reversed the district court on its evaluation of three of the four private interest factors and the only contested public interest factor.²⁰² Two of these factors are of particular interest here. First, for the private interest factor that evaluated the cost of attendance for willing witnesses, the Fifth Circuit disputed the district court's determination that "Volkswagen did not submit sufficient information for the court to determine which of its witnesses were 'key.'"²⁰³ Instead, the Fifth Circuit discussed several witnesses and concluded, "these witnesses [appeared to

195. *Id.* at 378-79.

196. *Id.* at 380.

197. *Id.* at 384.

198. *Id.* (internal quotations omitted).

199. *Id.* Note that Fifth Circuit did not address the plaintiff's choice of forum in its evaluation of the venue determination apart from its discussion where the burden of proof lies.

200. *See id.* at 384-87.

201. *Id.* at 380 n.1.

202. *Id.* at 384-87.

203. *Id.* at 385.

be] important to Volkswagen's case."²⁰⁴ It then ruled that the district court should not have ignored Fifth Circuit precedent establishing a 100-mile threshold rule for evaluating inconvenience, especially after the district court specifically recognized that Marshall is 155 miles from Dallas.²⁰⁵

Second, the Fifth Circuit criticized the district court's evaluation of the public interest factor recognizing "the local interest in having localized interests decided at home."²⁰⁶ The Fifth Circuit observed that the district court's findings that the factor weighed against transfer "[stood] in stark contrast to [its] analysis in" prior caselaw, where "under virtually undistinguishable facts, [the court] held that this factor weighed heavily in favor of transfer."²⁰⁷ The district court reasoned that, "although the accident occurred in the Dallas Division, the citizens of Marshall would be interested to know whether there are defective products offered for sale in . . . the Marshall Division and whether they are being exposed to these products."²⁰⁸ Observing that "there is no relevant factual connection to the Marshall Division," the Fifth Circuit then explained the error in the district court's analysis:

The district court's provided rationales . . . stretch logic in a manner that eviscerates the public interest that this factor attempts to capture. The district court's provided rationales could apply to virtually any judicial district and division in the United States; they leave no room for consideration of those actually affected-directly and indirectly-by the controversies and events giving rise to a case. Thus, the district court committed a clear abuse of discretion.²⁰⁹

Interestingly, the Fifth Circuit's treatment of these issues has not been finalized since the Court has decided to have an en banc rehearing.²¹⁰ In addition, the question of whether this abuse of discretion analysis will apply to patent cases before the Federal Circuit still remains.

III. TRADEMARK UPDATE

A. FAILURE TO READ "THE SIGN" MAY CAUSE *HURLEY*— *HURLEY INTERNATIONAL LLC v. VOLTA*

The Trademark Trial and Appeal Board (the "TTAB") further expanded the scope of its line of cases following *Medinol Ltd. v. Neuro Vasx, Inc.*²¹¹ when it voided the applicants' pending use-based trademark application in *Hurley International LLC v. Volta*.²¹² In 2003 its decision in *Medinol Ltd. v. Neuro Vasx, Inc.*, the TTAB cancelled a registration

204. *Id.* at 386.

205. *Id.* at 385-86.

206. *Id.*

207. *Id.* at 387 (referencing *In re Volkswagen AG*, 371 F.3d 201 (5th Cir. 2004)).

208. *Id.* at 386.

209. *Id.* at 387.

210. *In re Volkswagen of Am., Inc.*, 517 F.3d 785 (5th Cir. 2008).

211. 67 U.S.P.Q.2d 1205, 2003 TTAB LEXIS 227 (T.T.A.B. 2003).

212. 82 U.S.P.Q.2d 1339, 2007 TTAB LEXIS 10 (T.T.A.B. 2007).

due to the owner's fraud in filing an Amendment to Allege Use which claimed that the mark was in use in connection with all goods listed in the application, when in fact it was not.²¹³

Here, Paul and Jane Volta (collectively, the "Voltas"), Australian musicians, sought to register the mark THE SIGN along with an accompanying design.²¹⁴ Roughly a year after filing the application under section 1(a) of the Lanham Act, it was published for opposition.²¹⁵ Hurley International, LLC opposed the mark in part because of fraud, and eventually moved for summary judgment based on the Voltas' alleged admission that (1) with regard to some services listed in their application, they had not used the mark in commerce within the United States, and (2) with regard to a further subset of services, they had not used the mark anywhere in the world.²¹⁶

The TTAB agreed and found fraud, voiding the Voltas' entire application.²¹⁷ The Board reiterated that "[f]raud in procuring a trademark registration occurs when an applicant for registration knowingly makes false, material representations of fact in connection with an application to register."²¹⁸ Here, not only did the Voltas falsely claim to be using the mark in connection with certain services, but also they twice submitted substitute specimens accompanied by signed declarations that again falsely claimed that the mark was used in commerce in connection with all listed services.²¹⁹

The applicants pleaded "ignorance and misunderstanding of the process of the Trademark Office," noting that they represented themselves and that they had believed "use in commerce" encompassed use in Australia and on their website.²²⁰ They also noted that Paul Volta suffered "a major coronary infarct" while the application was pending.²²¹

The TTAB found the applicants' misunderstanding irrelevant. The TTAB looked to objective indications of intent, rather than the applicants' subjective intent, citing *Medinol*.²²² It also found their alleged confusion regarding the meaning of "use in commerce" to be unreasonable.²²³ Finally, and most significantly, TTAB found that it made no difference that the registration of the mark had not yet issued.²²⁴

Significantly, after this decision, pending applications, like issued registrations, can be successfully opposed due to fraud for misstatements con-

213. *Medinol, Ltd.*, 2003 TTAB LEXIS 227, at *18.

214. *Hurley Int'l*, 2007 TTAB LEXIS 10, at *1.

215. *Id.*; Lanham Act § 1(a), 15 U.S.C. § 1051(a) (2006).

216. *Hurley Int'l*, 2007 TTAB LEXIS 10, at *19.

217. *Id.* at *25.

218. *Id.* at *15.

219. *Id.* at *2.

220. *Id.* at *10-12.

221. *Id.* at *12.

222. *Id.* at *21-22 (internal citations omitted).

223. *Id.* at *22.

224. *Id.* at *17-18.

cerning use. The Board reasoned that, regardless of timing of misrepresentations, “the result is the same—an application results in a registration improperly accorded legal presumptions in connection with goods and/or services on which the mark is not used.”²²⁵

However, the Board noted that the *publication* of the application was still significant.²²⁶ In footnote five the TTAB remarked in dicta that “a misstatement . . . does not rise to the level of fraud where an applicant amends the application prior to publication.”²²⁷

B. CASE OF COUTURE FOR THE DOGS—*LOUIS VUITTON MALLETIER S.A. v. HAUTE DIGGITY DOG, LLC*

In 2006, Congress passed the Trademark Dilution Revision Act (“TDRA”).²²⁸ Trademark dilution is distinct from traditional trademark infringement, because it focuses on protecting a mark’s significance or meaning, whereas the latter focuses on preventing consumer confusion.²²⁹ The TDRA had two distinct effects. First, it established the standard for infringement as likelihood of confusion, rather than actual confusion, overruling the Supreme Court’s decision in *Moseley v. V Secret Catalogue, Inc.*²³⁰ Second, the TDRA outlined two distinct dilution causes of action: dilution by blurring and dilution by tarnishment.²³¹

The Fourth Circuit’s opinion in *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC* is one of the first appellate decisions addressing trademark dilution under the TDRA.²³² Louis Vuitton Malletier S.A. (“LVM”) is a French corporation that designs and manufactures luxury luggage and handbags.²³³ Haute Diggity Dog makes plush chew toys for dogs which resemble luxury products and play on the products’ names, such as Furcedes (Mercedes), Dog Perignonn (Dom Perignon), and Chewie Vuiton (Louis Vuitton), the last of which resulted in LVM’s suit for trademark infringement.²³⁴ Specifically, Haute Diggity Dog made a plush chew toy shaped like a handbag that resembled a LVM handbag and retailed for \$1,190.²³⁵

The Fourth Circuit affirmed the district court’s grant of summary judgment dismissing all claims, first addressing traditional trademark infringement claims and then claims of dilution under the TDRA.²³⁶ As part of

225. *Id.* at *18.

226. *Id.* at *18 n.5.

227. *Id.* at *18 n.5 (citing *Universal Overall Co. v. Stonecutter Mills Corp.*, 154 U.S.P.Q. 104 (C.C.P.A. 1967)).

228. See David L. McCombs, et al., *Intellectual Property Law*, 60 SMU L. REV. 1141, 1162-63 (2007).

229. *Id.* at 1162.

230. *Id.*; see also *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003).

231. McCombs, *supra* note 227, at 1161.

232. See *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007).

233. *Id.* at 256.

234. *Id.* at 258.

235. *Id.* at 257.

236. *Id.* at 256, 258, 263-64.

its infringement analysis, the Fourth Circuit found that the Haute Diggity Dog plush chew toy was a parody of the LVM handbag.²³⁷ The chew toy used a similar sounding name, a repetitious design that imitates the design on the handbag, and a “CV” mark similar to LVM’s “LV” mark; however, the court found that the product would not be confused with the actual LVM handbag.²³⁸

For its dilution analysis, the Fourth Circuit performed a more rigorous analysis than the district court, but reached the same result. Regarding blurring, the court first made clear that a parody would not be an automatic, complete defense, and found that the Haute Diggity Dog parody did not fall under the explicit fair use exception in the TDRA.²³⁹ That exception was limited to “any fair use . . . other than as a designation of source for the person’s own good or services, including use in connection with . . . parodying.”²⁴⁰ However, even outside this exception, the defendant’s use of parody was relevant to the evaluation of the six statutory factors.²⁴¹ The court evaluated each of these factors, finding repeatedly that the use of the parody tended to both enhance the asserted famous mark’s distinctiveness by stressing the differences between the parody and the famous mark.²⁴² The court did make the important distinction that this would not be the case if the parody could be confused for the famous mark itself, citing the examples of “DUPONT shoes, BUICK aspirin, and KODAK pianos” used by the Supreme Court in *Moseley*.²⁴³

The Fourth Circuit’s discussion regarding tarnishment was less elaborate.²⁴⁴ LVM had only asserted one possible theory by which tarnishment would occur, and the court found there was no record to support the theory.²⁴⁵ All remaining infringement theories followed the analyses the Fourth Circuit had already discussed, and the court affirmed the district court’s dismissal of all of LVM’s claims.²⁴⁶

C. TAG, YOU’RE IT! . . . IN A META SORTA WAY: *J.G. WENTWORTH, S.S.C. LTD. v. SETTLEMENT FUNDING LLC*

Whether the use of trademarks as keywords in pay-for-placement internet searches or as meta tags in website hypertext markup language (“HTML”) code can constitute trademark infringement under the Lanham Act has become an issue of some debate.²⁴⁷ Search engine opera-

237. *Id.* at 260.

238. *Id.* at 260-61.

239. *Id.* at 266.

240. *Id.* at 266 (emphasis added in court’s opinion) (citing 15 U.S.C.A. § 1125 (a)(ii) (West 2006)).

241. *Id.* at 267.

242. *Id.* at 267-68.

243. *Id.* at 268 (citing *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 431 (2003)).

244. *Id.*

245. *Id.* at 268-69.

246. *Id.* at 256-57, 270.

247. *See, e.g., Rescucom Corp. v. Google, Inc.*, 456 F. Supp. 2d 393, 397-400 (N.D.N.Y. 2006).

tors, such as Google, Inc., who sell trademarks as keywords have been a target in these cases.²⁴⁸ Similarly, advertisers who pay a search engine operator to return links to the advertiser's website as a result of searches for a competitor's trademark have also been targeted.²⁴⁹ Courts are split as to whether such use of a trademark is "use in commerce" as required by the Lanham Act.²⁵⁰ Some courts hold that because the trademark is never communicated to the public, it is analogous to an "individual's private thoughts" and thereby is not a use in commerce.²⁵¹

In *J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding LLC*, an infringement action against an advertiser, the Eastern District of Pennsylvania recently introduced a novel twist to this debate.²⁵² In granting the defendant's motion to dismiss the infringement action, the *J.G. Wentworth* court held that while the advertiser's use of the trademarks as keywords in the pay-for-placement search engine or meta tags in the website's source code was "use in commerce," such use does not create a likelihood of confusion.²⁵³

The defendant, Settlement Funding LLC ("SF"), used the plaintiff's trademarks, "J.G. Wentworth" and "JG Wentworth," as keywords in Google's AdWords program and as keyword meta tags in the HTML code for SF's website.²⁵⁴ As AdWord keywords, the marks, when entered as search terms in Google's search engine, trigger Google's program to display a link to SF's website in Google's "Sponsored Link" section of the search results page.²⁵⁵ As keyword meta tags, the marks, when entered as search terms in various Internet search engines, may trigger the engine to create a link to SF's website along with other standard results.²⁵⁶

Although SF's use of the trademarks left the marks invisible to potential consumers, its use was still "use" under the Lanham Act.²⁵⁷ In reaching this conclusion, the court reasoned that the sponsored ads and search results established "an opportunity to reach consumers" and is thus unlike "an individual's private thoughts."²⁵⁸ Such use had "crossed the line from internal use to use in commerce under the Lanham Act."²⁵⁹

The court nevertheless held that, as a matter of law, SF had not in-

248. *Id.*

249. *Id.* at 397.

250. *Id.* at 399-400.

251. *See, e.g., Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 415 (S.D.N.Y. (2006)) (quoting *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 409 (2d Cir. 2005)).

252. *J.G. Wentworth, S.S.C. Ltd. P'ship v. Settlement Funding, LLC*, 85 U.S. P.Q.2d 1780 (E.D. Pa. 2007).

253. *Id.* at 1785-86.

254. *Id.* at 1782.

255. *Id.*

256. *Id.*

257. *Id.* at 1785.

258. *Id.*

259. *Id.*

fringed J.G. Wentworth's trademarks.²⁶⁰ Because the search engine and AdWord links to SF's website do not display the trademarks, there is no likelihood of confusion.²⁶¹ Noting that search engines do not take a potential customer to the linked website but rather to a search results page, the court refused to extend initial confusion protection to include Internet keywords.²⁶² Because the search engine and AdWord links to SF's website are "independent and distinct" of the other search-returned links, "potential consumers have no opportunity to confuse defendant's services, goods, advertisements, links or websites for those of [the] plaintiff" and so, "no reasonable factfinder could find a likelihood of confusion" created by SF's use of the trademarks.²⁶³

IV. COPYRIGHT UPDATE

A. TWO ATTEMPTS AT PERFECT'S RESULT—*PERFECT 10, INC.* *V. AMAZON.COM, INC.*²⁶⁴

Internet search engines have become the table of contents for the mass of information and media available on the Internet. The manner in which this "table of contents" is created, organized, and displayed has led to a variety of disputes as parties and courts attempt to apply long-established intellectual property principles to novel uses of protected material. In 2006, the Central District of California entered a preliminary injunction against Google, Inc. ("Google"), after finding that plaintiff Perfect 10, Inc. ("Perfect 10") demonstrated a likelihood of success in its claim of copyright infringement.²⁶⁵

Google operates an Internet search engine, which automatically accesses and indexes numerous Internet websites.²⁶⁶ In response to a query entered at Google's own website, a user may obtain an index of relevant websites tailored to his query.²⁶⁷ A user utilizing Google's website may search for both text and images.²⁶⁸ In response to a query for images, Google's site may return not only links to relevant websites, but also miniaturized images, so that the user may browse the images before determining which sites to visit.²⁶⁹ This is where Google's difficulties with Perfect 10 begin.

260. *Id.* at 1786.

261. *Id.*

262. *Id.* (disagreeing with the Ninth Circuit's understanding of the function of a search engine in *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036 (9th Cir. 1999)).

263. *Id.*

264. 508 F.3d 1146 (9th Cir. 2007). While Amazon.com, Inc. is the first named defendant, Google and its search engine were the primary focus of both the district court's injunction and the Ninth Circuit opinion.

265. *Id.* at 1154.

266. *Id.* at 1155.

267. *Id.*

268. *Id.*

269. *Id.* at 1155-56.

Perfect 10 owns rights to and sells images of models that were appearing on Google's website as part of the index resulting from user image queries.²⁷⁰ Perfect 10 alleged that Google's image indexes infringed its copyright in these images in several ways.²⁷¹ First, Google's search engine created smaller, lower resolution "thumbnail" copies of the images it indexed. Also, Google would display the full size image in the user's browser by embedding a reference to the indexed website's image within Google's page. This way, users of Google's website were able to view an image located on another website without leaving Google's website. Finally, many of the websites referenced by Google's image index were themselves in violation of Perfect 10's copyright.²⁷²

Although the Ninth Circuit commended the district court's treatment of the issues,²⁷³ while also choosing to amend its own opinion,²⁷⁴ the Ninth Circuit vacated the district court's injunction and remanded the case for further factual findings.²⁷⁵ Agreeing with the "server test" used by the district court, the Ninth Circuit found that the "thumbnail" images utilized by Google infringed Perfect 10's copyright, while the embedded references used to display the full-sized images did not.²⁷⁶ This was because the "thumbnail" was a copy of the copyrighted image stored on and displayed from Google's server, whereas Google made no copy of the full-sized images, but instead utilized the embedded reference to fetch the image from the server on which it resided.²⁷⁷

Having determined that the "thumbnail" images infringed Perfect 10's copyright, the Ninth Circuit next assessed Google's fair use defense and overturned the district court's assessment, relying heavily on its previous decision in *Kelly v. Arriba Soft Corp.*²⁷⁸ The Ninth Circuit found that the first fair use factor, the purpose and character of the use, heavily favored Google rather than Perfect 10.²⁷⁹ The court found that Google's use of thumbnail images to create an index of images was "highly transformative" and provided "public benefit," which outweighed the commercial nature of the use and the potential of the thumbnail image to supersede Perfect 10's proposed sale of the images for display on cell phones.²⁸⁰ Perfect 10 also stressed the sale of images to cell phones in arguments

270. *Id.* at 1157.

271. *See id.* at 1155-57.

272. *Id.*

273. *Id.* at 1155.

274. While the Ninth Circuit initially issued its opinion on May 16, 2007, it amended the opinion on December 3, 2007. The primary change was to alter its holding that Perfect 10 bore the burden of showing Google infringement was not fair use. *Cf.* Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 (9th Cir. 2007). Citing precedent that "the burdens at the preliminary injunction stage track the burdens at trial," the court concluded that once Perfect 10 showed a likelihood of success on the merits, Google was required to show a likelihood that its affirmative fair use defense would succeed. *Perfect 10*, 508 F.3d at 1158.

275. *Id.* at 1177.

276. *Id.* at 1159-60.

277. *Id.* at 1159-61.

278. *Id.* at 1163-68 (citing *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003)).

279. *Id.* at 1167.

280. *Id.* at 1164-67.

regarding the fourth fair use factor, effect of use on the market.²⁸¹ The court, however, twice noted that the record described no actual downloads and that the “potential harm . . . remains hypothetical,” thereby finding the factor to be neutral rather than in Perfect 10’s favor.²⁸² Accordingly, the Fourth Circuit concluded that Google’s fair use defense was likely to succeed and vacated the district court’s preliminary injunction.²⁸³

Google did not escape unscathed, however, since the Fourth Circuit considered Google’s potential contributory liability for the display of infringing images by third party websites. First, the court pointed to the Supreme Court’s decision in *MGM Studios, Inc. v. Grokster, Ltd.*, which divided contributory liability into two categories: actively encouraging infringement or distributing a product used to infringe copyrights without a substantial noninfringing use.²⁸⁴ Because “intent may be imputed,” Google had potential liability under the first category.²⁸⁵ Looking also to its own decision in *A&M Records, Inc. v. Napster, Inc.*, the Ninth Circuit held that “a computer system operator can be held contributorily liable if it ‘has *actual* knowledge that *specific* infringing material is available using its system,’ and can ‘take simple measures to prevent further damage’ to copyrighted works, yet continues to provide access to infringing works.”²⁸⁶ The district court had not applied this test and more facts were needed to make a determination, so the Ninth Circuit remanded the issue of Google’s contributory liability for further consideration.²⁸⁷

B. FIGHT AT THE END OF THE TUBE—*VIACOM INTERNATIONAL, INC. v. YOUTUBE, INC.*,

Another Google entity, YouTube, Inc. (“YouTube”), also raises old copyright issues through use of a new technology. YouTube hosts a website where users may upload video and also view video that has been uploaded by others.²⁸⁸ Once again, some of the content appearing on the site is copyrighted. This copyrighted content has once again made Google the target of suit for direct, contributory, and vicarious infringement, including a recent case by Viacom International, Inc. (“Viacom”) in the Southern District of New York, alleging over \$1 billion in damages.²⁸⁹ Viacom is a media conglomerate whose affiliates include MTV

281. *Id.* at 1168.

282. *Id.* at 1166, 1168.

283. *See id.* at 1168-75.

284. *Id.* at 1170 (citing *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005)).

285. *Id.* at 1171.

286. *Id.* at 1172 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)).

287. *Id.* at 1172-73.

288. John E. Ottaviani and Glenn Pudelka, *YouTube Suit Raises Novel Internet Copyright Issues*, IPLaw360, PORTFOLIO MEDIA, Mar. 26, 2007.

289. *See* Amanda Ernst, *YouTube, Google Face Class Action Infringement Suit*, IPLaw360, PORTFOLIO MEDIA, May 7, 2007 (also discussing other copyright suits against YouTube, Inc.).

Networks, Comedy Partners, Country Music Television, Inc., Paramount Pictures Corp., and Black Entertainment Television LLC.²⁹⁰

In addition to the heft of the entities and potential damages at stake, *Viacom v. YouTube* has generated interest due to its potential to interpret two, recent, landmark pieces of copyright law: (1) the Digital Millennium Copyright Act (“DMCA”), passed by Congress in 1998,²⁹¹ and (2) the Supreme Court’s 2005 decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*²⁹²

Google and YouTube have asserted that they are protected by the DMCA’s safe harbor provisions, appearing in 17 U.S.C. § 512.²⁹³ Within § 512, it is the third safe harbor, for “information residing on systems or networks at direction of users” that may apply to YouTube.²⁹⁴ However, YouTube must establish that it meets several conditions in order to be protected.²⁹⁵ First, the safe harbor applies to “service providers” and it is not clear that YouTube meets the term as intended by the drafters.²⁹⁶ Next, YouTube must show that (1) either YouTube has no actual knowledge of infringing material and that YouTube is not aware of facts or circumstances that would make infringing activity apparent (often referred to as “red flags”) or that upon obtaining knowledge, YouTube acts to remove access to the infringing material; (2) YouTube does not directly benefit financially from infringing activity that YouTube has the right and ability to control; and (3) upon notification of infringing activity, YouTube acts “expeditiously” to remove access to the infringing material.²⁹⁷

Additionally, YouTube has been accused of contributory and vicarious infringement, in addition to direct infringement.²⁹⁸ It has not been established whether the DMCA safe harbor applies to indirect infringement.²⁹⁹

In contrast, the Supreme Court opinion in *Grokster* dealt directly with indirect infringement.³⁰⁰ Although *Grokster* dealt with cases and copyright issues decided well after the passage of the DMCA, it did not address the DMCA or its safe harbors. Instead, it addressed the use of technology to copy and disseminate copyrighted works in violation of the owner’s copyright in the context of music, rather than video.³⁰¹ *Grokster* addressed prior Supreme Court precedent in *Sony Corp. of America v.*

290. See Ottaviani, *supra* note 287; *Our Brands: Strengthening the Bond With Our Audiences in Every Way*, Viacom Inc., <http://www.viacom.com/ourbrands/Pages/default.aspx>.

291. See 17 U.S.C. § 512 (2000).

292. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

293. Defs.’ Answer at 10, *Viacom Int’l, Inc. v. YouTube, Inc.*, No. 07-cv-02103 (S.D.N.Y. Apr. 30, 2007).

294. See 17 U.S.C. § 512(c).

295. *Id.*

296. *Id.*

297. See § 512(c)(1).

298. Pls.’ Compl. at 21-25, *Viacom Int’l, Inc. v. YouTube, Inc.*, No. 07-cv-02103 (S.D.N.Y. Mar. 13, 2007).

299. See Ottaviani, *supra* note 288.

300. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 545 U.S. 913, 929-30 (2005).

301. See *id.* at 919-21.

Universal City Studios, Inc. (involving a copying and sharing technology: VCRs) and the influential Ninth Circuit decision in *A&M Records v. Napster*.³⁰²

In the *Grokster* opinion by Justice Souter, the Court concluded that “one who distributes a device with the object of promoting its use to infringe a copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”³⁰³ Further, the Court held that this rule “premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.”³⁰⁴ Interestingly, the decision seemed to preserve the “substantial noninfringing use” defense created by *Sony*, at least in the absence of evidence of intent to cause infringement.³⁰⁵

While *Viacom v. YouTube* presents many of the same issues that are at the forefront of developing copyright law, these issues may not be addressed by the court for some time. Discovery is not scheduled to conclude until the end of 2008.³⁰⁶

V. CONCLUSION

Intellectual property continues to escalate in importance to the world, United States, Texas, and East Texas economies. With that rising importance comes increased scrutiny. 2008 will be another significant year in the ongoing development of our intellectual property laws. At the state level, Texas will continue to be instrumental in the development of intellectual property law—from the first applications of the new patent rules of the Northern and Southern District of Texas, to the Eastern District of Texas addressing some of the challenges incident to its popularity as a patent litigation venue. At the national level, the Supreme Court has made a concerted effort to harmonize patent law with the law in general and the lower courts are taking notice. Copyright laws will continue to be examined and interpreted in light of user-posted video sites like YouTube, and their implementation as news sources, such as with CNN’s iReport. Technology is pushing the economy in new directions with ever-increasing speed and the laws governing intellectual property are constantly evolving to keep up.

302. See *id.* at 924, 927 (discussing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) and *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)).

303. *Id.* at 936-37.

304. *Id.* at 937.

305. *Id.* at 939 n.12.

306. Scheduling Order at 4, *Viacom Int’l, Inc. v. YouTube, Inc.*, No. 07-cv-02103 (S.D.N.Y. Aug. 9, 2007).

