

Spring 2011

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Recommended Citation

Stephen McJohn, *Top Tens in 2010: Patent and Trademark Cases*, 9 Nw. J. TECH. & INTELL. PROP. 1 (2011).
<https://scholarlycommons.law.northwestern.edu/njtip/vol9/iss4/1>

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N O R T H W E S T E R N
JOURNAL OF TECHNOLOGY
AND
INTELLECTUAL PROPERTY

**Top Tens in 2010:
Patent and Trademark Cases**

Stephen McJohn



Top Tens in 2010: Patent and Trademark Cases

By Stephen McJohn*

¶1 The following are notable intellectual property decisions for patent and trademark in 2010 in the United States. Notable copyright and trade secret cases will be examined in a subsequent article. Viewed across doctrinal lines, some interesting threads emerge involving the scope of protection, the amount of secondary liability, and ownership of the intellectual property rights.

¶2 The scope of protection was at issue in both areas. *Bilski v. Kappos* marked a shift from using technical tests for patent subject matter to relying on the basic exclusions against patents on laws of nature, physical phenomena, or abstract ideas.¹ *Ass'n for Molecular Pathology v. USPTO* called into question the many thousands of issued patents on human genes.² In trademark, the issue of which uses may be potentially infringing remains unsettled.

¶3 The issue of secondary liability remains widely litigated, as rights holders seek both deep pocket defendants and a means to cut off individual infringers. The courts applied slightly different standards as to the state of mind required for secondary liability. eBay was not liable for sales of counterfeit trademarked goods, unless it had knowledge of particular infringing listings.³ But in patent (in a case involving importation of goods), deliberate indifference to the risk of patent infringement was held sufficient by the Federal Circuit—a ruling that the Supreme Court has taken on review.⁴

¶4 Many of the cases involved disputes between hiring and hired parties over the ownership of intellectual property rights. The Supreme Court took a case on whether professors or universities may assign rights to federally funded inventions.⁵

¶5 A number of cases concerned the relationship between intangible rights and physical works. *Pequignot v. Solo Cup* addressed the extent of liability for inaccurately marking a product as patented.⁶ *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.* analyzed how an applicant must show possession of an invention in order to be entitled to a patent.⁷ *Intervet v. Merial Ltd.* analyzed whether the scope of a biotech patent is limited to a sample that the inventor submitted to show possession of the invention.⁸ *Au-*

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¹ 561 U.S. ___, 130 S. Ct. 3218 (2010).

² 702 F. Supp. 2d 181 (S.D.N.Y. 2010).

³ *Tiffany v. eBay*, 600 F.3d 93 (2d Cir. 2010).

⁴ *SEB (T-Fal) v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010), cert. granted, 178 L. Ed. 2d 286 (2010).

⁵ *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc.*, 583 F.3d 832 (Fed. Cir. 2009), cert. granted, 178 L. Ed. 2d 368 (2010).

⁶ 608 F.3d 1356 (Fed. Cir. 2010).

⁷ 598 F.3d 1336 (Fed. Cir. 2010) (en banc).

⁸ 617 F.3d 1282 (Fed. Cir. 2010).

Tomotive Gold Inc. v. Volkswagen of America decided whether the owner of genuine Volkswagen badges could affix them to other cars sold.⁹ *Jay Franco & Sons, Inc. v. Franek* held that the shape of a round beach towel could not be protected as a trademark.¹⁰

I. PATENT

1. *Bilski v. Kappos*, 561 U.S. ___, 130 S. Ct. 3218, 177 L. Ed. 2d 792 (2010)

¶16 The Supreme Court, for the first time in decades, addressed the boundaries of patentable subject matter. The specific question was whether a general process for using commodity exchange transactions to hedge risks fell within patentable subject matter. The more general question was, what standard governs the patentability of processes. *Bilski* rejected a rigid test formulated by the Federal Circuit, under which a process was only patentable if it was tied to a particular machine or transformed an article.¹¹ That test, if narrowly applied, could have barred many patents on business methods, software, and biotech processes (such as diagnostic methods). *Bilski* rejected the machine-or-transformation test, along with earlier tests that courts have formulated, such as the *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* useful-concrete-tangible test,¹² the rule against patenting “mental steps,”¹³ or the applied-algorithm test.¹⁴ *Bilski* did not, however, formulate a new test for patentable subject matter; rather it left in place the long-standing rule that bars patents for laws of nature, physical phenomena, or abstract ideas.

¶17 *Bilski* also specifically declined to adopt a categorical exclusion for patents on business methods. Had *Bilski* held that business methods were not patentable, that would have required courts to define just what a “business method” is—something neither courts nor commentators have achieved, despite much discussion of whether business methods should be patentable.¹⁵

¶18 After *Bilski*, patent law takes an approach similar to copyright law, with respect to subject matter. Ideas are not copyrightable. That deceptively simple rule really states a broad policy, which cases have applied differently in different areas, ranging from literature to computer software. Copyright has managed to adapt to several generations of new technology by holding that ideas are not copyrightable, but the expression of an idea is. *Bilski* indicates a similar approach in patent law. *Bilski* would seem to move away from attempt to define patent subject matter with various technical tests. *Bilski* instead leaves a broad rule against patents that claim laws of nature, physical phenomena,

⁹ 603 F.3d 1133 (9th Cir. 2010).

¹⁰ 615 F.3d 855 (7th Cir. 2010).

¹¹ See *In re Bilski*, 545 F.3d 943, 956 (Fed. Cir. 2008).

¹² See 149 F.3d 1368, 1373 (1998).

¹³ See *In re Comiskey*, 499 F.3d 1365, 1377 (Fed. Cir. 2009) (finding pure mental process not patentable).

¹⁴ See *In re Freeman*, 573 F.2d 1237, 1245 (C.C.P.A. 1978) (formulating test known as the Freeman-Walter-Abele test used primarily in software). For Professor Dratler’s thorough critique of the tests, see generally 1 JAY DRATLER, JR. AND STEPHEN M. MCJOHN, *INTELLECTUAL PROPERTY LAW: COMMERCIAL CREATIVE AND INDUSTRIAL PROPERTY* § 2.03 (1991 & Supp. 2004–2010).

¹⁵ See, e.g., John R. Allison & Starling D. Hunter, *On the Feasibility of Improving Patent Quality One Technology at a Time: The Case of Business Methods*, 21 *BERKELEY TECH. L.J.* 729, 766–68 (2006).

or abstract ideas, but leaving open patent protection on applications of laws of nature, physical phenomena, or abstract ideas.

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

¶9 *Molecular Pathology* reopens the question of the patentability of genes. As noted in *Bilski*, courts have long denied patent protection for natural phenomena. That would seem to bar patents on genes that exist in nature. But the Federal Circuit has repeatedly upheld the validity of gene patents.¹⁶ The USPTO has issued many thousands of patents on genes, on the theory that by isolating the gene, the inventor has identified something that is different from the gene as it exists in nature.

¶10 *Molecular Pathology*, however, rejected this reasoning, holding that isolated DNA is not “markedly different” from the gene, encoded in DNA as it appears in nature. The court invalidated patents held by Myriad Genetics on two genes related to breast and ovarian cancer, along with Myriad’s patents on methods to detect cancer by analyzing and comparing a person’s DNA. *Molecular Pathology* presents a conflict between two deep policies: the policy of providing an incentive for socially valuable innovations (such as discovering genes linked to disease) and the policies of leaving nature phenomena open to scientific research and preventing ownership of natural phenomena—especially acute where the ownership is of human genes. In that vein, *Molecular Pathology* presents a difficult distinction between discovering natural phenomena and inventions that apply that knowledge.

¶11 The appeal is pending before the Federal Circuit. The importance of the case may be difficult to assess. Patents on single genes may be less important than had been believed only a few years ago. Even though the human genome has been sequenced, few diseases or conditions have been linked to single genes. Rather, many genes are usually involved, which may diminish the importance of any single gene patent.¹⁷

3. Bid for Position, LLC v. AOL, LLC, 601 F.3d 1311 (Fed. Cir. 2010)

¶12 As *Bilski* shows, one hazard of patents (especially software and business method patents), is that they may be too abstract, giving patents on idea as opposed to an application of an idea. A similar problem is that even where an application is claimed, the abstract words to claim processes may be hard to interpret and could be read more broadly than the actual invention.¹⁸ *Bid for Position* illustrates that much may turn on interpretation of particular patent claims. The court held that Google’s AdWords system

¹⁶ See, e.g., *In re Deuel*, 51 F.3d 1552 (Fed. Cir. 1995). Notably, the Federal Circuit has repeatedly upheld gene patents in cases like *Deuel* without directly addressing the threshold issue of subject matter.

¹⁷ See Katherine Harmon, *Genome Sequencing for the Rest of Us*, SCIENTIFIC AMERICAN, June 28, 2010 (“[o]ther diseases, such as Alzheimer’s, have no uniform genetic signature—or clear way of avoiding them—leaving many to wonder about the science and utility behind the results many genome scans offer.”).

¹⁸ See generally, JAMES BESSEN & MICHAEL MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK 199, 256 (2008) (discussing hazards of “abstract patent claims” in software and business method patents, which may “cover unknown territory, claiming technologies that are unknown at the time the patent is filed and that might change over time, especially in the fast-moving fields of technology”).

did not infringe patent claims on a method for continuous online auctioning of “priority position” for advertisers. Read broadly, the claim could have given patent protection over online auctions of advertising. The court construed it to apply only to auctions similar to those described in the written description portion of the patent application. *Bilski* addressed a momentous question—what is the extent of patentable subject matter. But in practical terms, cases like *Bid for Position* may play a more important role. Few patents fall at the borders of patentable subject matter—but because every patent claim is unique, interpretation of claims plays the workhorse role in determining what is actually patented.¹⁹

4. *In re* ‘318 Patent Infringement Litigation (Janssen Pharmaceutica v. Teva), 583 F.3d 1317 (Fed. Cir. 2009)

¶13 The utility requirement is another front on the battle against patenting ideas. *Bilski* dealt with the issue of a broad patent claim on an abstract idea. The utility requirement—the requirement that the applicant show the invention has a specific, existing usefulness—prevents ideas from being patented before application to an invention. *Janssen Pharmaceutica* shows that the utility requirement still has bite, especially in the area of pharmaceuticals. The court held invalid a patent on a method of treatment (by administering a drug) for Alzheimer’s disease. The patent failed to meet the utility requirement because, at the time of filing the patent application, the applicant did not show efficacy of the drug, through either neither in vitro test results nor animal test results. The court also rejected the argument that utility could be shown by “analytic reasoning.”

¶14 *Janssen* could be coupled with *ALZA Corp. v. Andrx Pharmaceuticals LLC*.²⁰ In *Alza Corp.*, the court invalidated a broad patent claim on a method for using a drug to treat attention deficit and hyperactivity disorder. The patent application did not meet the enablement requirement, which requires the applicant to disclose how to make and use the full scope of the claimed invention.²¹ The application did not properly disclose the method of ascertaining dosage in the manner necessary to support the broad claim. In short, the enablement requirement guards against parties claiming more broadly than the invention they have disclosed. It likewise guards against patenting ideas, because it requires a broad claim to be supported by description of how to fully make and use the invention.

¶15 *Janssen* and *ALZA*, taken together, show what may really be at stake in cases like *Bilski* and *Molecular Pathology*. If genes are patentable, such patents must still meet the utility and enablement requirements. Thousands of patents on isolated genes exist, but some applicants may not have shown a specific practical utility at the time of the application. If they did, the claims would still be limited to the scope of the useful invention disclosed. On the other hand, if patent claims on isolated genes are held invalid, the patentees in many cases will have other claims to fall back on. Useful

¹⁹ *Intervet Inc. v. Merial Ltd.*, 617 F.3d 1282 (Fed. Cir. 2010), addressed the relationship between disclosure of the invention and the interpretation of biotech claims. The court held that the claims to a porcine circovirus should not be limited to the specific type of virus deposited as a sample. *Id.* at 1287.

²⁰ *ALZA Corp. v. Andrx Pharm., LLC*, 603 F.3d 935 (Fed. Cir. 2010).

²¹ *Id.*

inventions based on those genes would still be patentable. So, in many cases, the controversies about the scope of patent subject matter do not determine the scope of what specific inventions may be patented.

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

¶16 *Princo* is an important case with respect to the ability a patent holder has to impose restrictions on its licensing practices that may impact competition. Antitrust law provides remedies where a patent holder misuses market power or attempts to monopolize a market in prohibited ways. But most patents do not provide monopoly power, rather at best give exclusive rights to one product or service that competes against others. A long-standing issue has been, when does anti-competitive behavior become patent misuse? In *Princo*, the en banc Federal Circuit made it difficult to show patent misuse. The court held misuse inapplicable to a patent pool license program for an industry standard for compact disk technology. In general terms, the court held that when a patentee offers to license a patent, the patentee does not misuse that patent by inducing a third party not to license its separate, competitive technology. *Princo* gives latitude to patent holders to leverage their exclusive rights into other markets—somewhat in tension with the first sale cases discussed below.

6. *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010)

¶17 *Solo Cup* greatly reduced the potential liability for false patent marking. Sellers like to include patent numbers on products and packaging. “U.S. Patent Number 4,404,078” on the package of, say, a shoe horn, may suggest to potential buyers that it is a true invention. An inventor is entitled to patent any new and nonobvious invention. It need not be superior to existing products, particularly effective, or even safe. But the patent marking on a package nevertheless may suggest to consumer that the item is better than competing products and somehow sanctioned by the U.S. government. It also discourages competitors from copying the product. Manufacturers, however, sometimes include inaccurate patent marking. The patent may have expired (often, no one has the job of reviewing old packaging for whether the patents are still in effect), the seven-digit number may be wrong, or the patent may not actually apply to the product, perhaps because of miscommunication between the seller’s legal and marketing people.

¶18 The Federal Circuit had scared sellers in 2009 by interpreting the false marking provision in the patent statute to reckon statutory damages per item sold, as opposed to per violation.²² Like the report of a gold strike, the case sparked a cottage industry of false marking suits. A major target was the Solo Plastic Cup company. Solo makes and sells billions of plastic cups. In that low-margin business, Solo decided not to spend the money to change its manufacturing molds when its patents expired. As it knowingly sold falsely marked cups, it risked having to pay out a gigantic award. A few cents per cup adds up, if multiplied by millions. The Federal Circuit, however, held that the false marking statute applies liability only when the defendant acts with intent to deceive the public. Solo acted to save manufacturing costs, not to deceive the public, and so escaped liability. Manufacturers breathed a sigh of relief.

²² See *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1303–04 (Fed. Cir. 2009).

7. *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010), cert. granted, 178 L. Ed. 2d 286 (2010)

¶19 *SEB* addressed a question that the Supreme Court will review next year—what state of mind is necessary for secondary liability. Specifically, when may a party be liable for the infringement of others? Federal Circuit case law had suggested that a party could be liable for inducing infringement only where “he or she knew of the patent.”²³ In *SEB*, the defendant did not specifically know of the patent in question. Rather, it copied the features of a deep fryer. Knowing that there were numerous patents on products in that market, the defendant deliberately avoided analyzing whether that particular product was patented. The Federal Circuit held that such “deliberate indifference of a known risk” was sufficient. The *SEB* case will provide the Supreme Court an opportunity to expand on the standards for secondary infringement that it explored in copyright in its earlier opinion in *Grokster*.²⁴

¶20 *SEB* also addressed a key issue on the intersection between commercial law and patent law. Patent law is territorial. If a product is patented in the US, its sale abroad does not infringe the US patent. If a seller ships goods from China, does that infringe? The seller in *SEB* argued that there was no infringement by shipping goods from China, because the goods were shipped “FOB China”—meaning that the seller’s obligations under the sales law were fulfilled once the goods were shipped. But the court looked past the formalities of the Uniform Commercial Code to the practical reality, which was that the seller had shipped goods to a buyer in the US.

8. *Ariad Pharms., Inc. v. Eli Lilly and Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (en banc)²⁵

¶21 *Ariad* addressed the question, how does an inventor show that she has sufficient possession of the invention to be entitled to a patent? The concept of possession lies deep in property law. Possession governed claims of ownership of a wild fox in *Pierson v. Post*, the first case in many property courses. To get a patent, an inventor must submit an application describing the invention and enabling others to use it. The Federal Circuit has held this to be two requirements: enablement, which requires the inventor to disclose to others how to make and use the invention, and written description, which requires the inventor to show that she had “possession” of the invention when she filed her application. Some have argued that this reads two requirements where the statute has one, and smuggles in a property law concept that the statute does not require. The Federal Circuit, sitting en banc in *Ariad*, affirmed that the written description requirement is separate from the enablement requirement. This has considerable practical impact in areas like biotech and chemistry, where an inventor may be able to make a useful invention before she has determined just how to describe what it is. Under *Ariad*, she must wait to file until she can provide conceptual proof of “possession.” Delay can cost money, and even cost patent rights, such as if publications or other products in the area make the invention nonpatentable.

²³ *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (en banc).

²⁴ *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 935 (2005).

²⁵ This was a partial en banc opinion. The court only reviewed en banc Part III.B., which dealt specifically with the requisite intent for infringement.

9. *Sky Technologies LLC v. SAP AG*, 576 F.3d 1374 (Fed. Cir. 2010)

¶22 Patent law is federal law. Commercial law is generally state law, governed by various states' adoption of the Uniform Commercial Code. Where the two bodies of law overlap, there can be uncertainty as to which governs. *Sky Technologies* addressed a key issue in the intersection between intellectual property and commercial law. Possession had played a comical role in *In re Coldwave Systems*.²⁶ A lender had not filed to perfect its security interest in a patent given as collateral for a loan. The creditor creatively, if vainly, argued that it need not file, because it had possession of the patent certificate, just as a pawnshop perfects by possession of the jewelry in its safe.²⁷ *Coldwave* reflects a great uncertainty in the intersection between commercial law and intellectual property. Courts have struggled to rule whether a creditor should file in the federal office (the USPTO or the Copyright Office) or in the relevant state Uniform Commercial Code filing system.²⁸

¶23 *Sky Technologies* addressed a related uncertainty: whether federal law or state law governs the procedure for sale of the collateral, if the lender forecloses and sells the patent. The Federal Circuit held that state law governs. That meant that state foreclosure law could apply, and the patent sold subject to the same procedures and protections that govern other types of collateral. Intellectual property is the subject of many finance transactions, from loans to joint ventures to securitization and beyond. The simple and clear approach taken by *Sky Technologies* (treating intellectual property like any collateral) will facilitate those transactions.

10. *Crocs, Inc. v. Int'l Trade Comm'n*, 598 F.3d 1294 (Fed. Cir. 2010)

¶24 *Crocs* provides considerable guidance on the question of how much inventive spark is required to get a patent in this high-tech age. Nonobviousness is the central requirement for patent protection. An applicant is not entitled to a patent if the claimed invention would have been obvious to one working in the relevant field, in light of all work in the field. In *KSR*, the Supreme Court set a new, more flexible standard.²⁹ Previously, courts had held that an invention would be nonobvious unless there was a specific item with "teaching, suggestion or motivation" for making the invention. *KSR* rejected that rigid test, giving the USPTO and courts more latitude in deciding if an invention was obvious. *KSR* allowed courts to look not just to specific work in the field, but also to market conditions, the path of technological development, and even common sense, in assessing if an innovation was predictable.

¶25 There were a good number of obviousness cases in 2010, as courts adjust to the change in approach. *Crocs* is included simply as an example of the practical approach courts are taking. Even a very low-tech invention may still be held nonobvious, and so patentable. The use of foam straps was held to be a patentable invention, largely because previous work in the field "taught away" from foam straps. Straps had been used on

²⁶ *In re Coldwave Sys., LLC*, 368 B.R. 91, 98 (Bankr. D. Mass. 2007).

²⁷ *Id.*

²⁸ See *In re Cybernetic Serv., Inc.*, 252 F.3d 1039, 1045 (9th Cir. 2001) (holding security interest in patents perfected by state law filing); *In re Peregrine Entm't, Ltd.*, 116 B.R. 194, 199–200 (C.D. Cal., 1990) (holding federal filing required for copyrights).

²⁹ *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 417 (2007).

shoes, and foam had been used in shoes, but the inelastic nature of foam made it seem unsuitable as a strap material. So although *KSR* has given courts and the USPTO more flexibility to deny patents, simple but genuine innovations may still qualify for protection.

II. PATENT PENDING

¶26 Three patent cases are currently pending before the Supreme Court. *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems Inc.*, involves whether university inventors may assign rights to federally funded inventions.³⁰ *SEB S.A. v. Montgomery Ward & Co.*, analyzes whether “deliberate indifference” to existence of patent sufficient for secondary liability.³¹ *i4i LP v. Microsoft Corp.*, discusses whether presumption of patent validity applies where the patent office did not consider the relevant prior art.³²

¶27 The Federal Circuit has en banc decisions pending in two cases with broad applicability.

¶28 *Therasense, Inc. v. Becton, Dickinson & Co.* reviews when inequitable conduct in obtaining a patent may make the patent unenforceable.³³ *TiVo v. EchoStar* analyzes when civil contempt proceedings or infringement proceedings should apply, where a modified product is used after an injunction against infringement.³⁴

III. TRADEMARK

1. *American Needle, Inc. v. National Football League*, ___ U.S. ___, 130 S. Ct. 2201, 2212, 176 L. Ed. 2d 947 (2010)

¶29 *American Needle* addressed the issue, to what extent competitors may band together in using trademarks to exclude other potential competitors. As *Princo* shows in the patent context, intellectual property policy often requires weighing exclusive rights against market forces.³⁵ *Princo* involved the limits on agreements a patent holder could make with others that might restrict competition. *American Needle* analyzed the question of when a rights holder is, for antitrust purposes, negotiating with others or with itself. The question was whether the teams of the National Football League were a single entity, or competitors, potentially liable under antitrust laws for concerted action in trademark licensing. The Court held that even if the teams have to cooperate to produce football games, “the teams compete with one another, not only on the playing field, but to attract fans, for gate receipts and for contracts with managerial and playing personnel.”³⁶ For competitors to band together the control the market for licensing their trademarks therefore was a potential antitrust violation. The ruling has considerable impact beyond sports licensing. In many industries, competitors have to cooperate, such as forming

³⁰ 583 F.3d 832 (Fed. Cir. 2009), cert. granted, 178 L. Ed. 2d 368 (2010).

³¹ 594 F.3d 1360 (Fed. Cir. 2010), cert. granted, 178 L. Ed. 2d 286 (2010).

³² 598 F.3d 831 (Fed. Cir. 2010), cert. granted, no. 10-290 (2010).

³³ 374 Fed. Appx. 35 (Fed. Cir. 2010) (en banc).

³⁴ 376 Fed. Appx. 21 (Fed. Cir. 2010) (en banc).

³⁵ *Princo Corp. v. Int’l Trade Com’n*, 616 F.3d 1318 (Fed. Cir. 2010) (en banc).

³⁶ *American Needle*, 130 S.Ct. at 2212.

committees to set industry technology standards. *American Needle* may play a role in separating permissible cooperation from exclusionary practices.

2. *Sensient Techs. Corp. v. SensoryEffects Flavor Co.*, 613 F.3d 754 (8th Cir. 2010)

¶30 *Sensient* continues the efforts of courts to define which categories of uses of a trademark may potentially infringe. Trademarks are part of the basic vocabulary of a commercial society. There is no trademark infringement without use, in commerce, of the mark or a similar symbol. But courts have differed on what constitutes “use” of a mark. Use of the mark only infringes if there is a likelihood of confusion. But the likelihood of confusion is a multi-factor determination, which makes it hard to predict whether particular uses infringe. So the initial question may be, what constitutes a use of the mark, for the purposes of trademark law. Is a mark “used” every time it is mentioned, quoted, referred to, listed, or otherwise employed? Or does “use” have a narrower meaning in trademark law, referring to only use of the mark as a trademark?

¶31 *Rescuecom Corp. v. Google, Inc.*, had held that sale of trademarks in keyword advertising was use of the mark, for the purposes of trademark law.³⁷ The appellate court remanded the case, for determination of whether the use was likely to cause confusion, and therefore infringed. By contrast, *Sensient Technologies* held that use of a competitor’s mark in news releases and (non-sales) presentations was not a use in commerce. So the question of whether there was likelihood of confusion was not reached. The boundaries of trademark protection remain unsettled. The question remains, how courts will draw the boundaries: by defining categories that fall inside or outside “use” of the mark, or by relying on the old standby, whether there is a likelihood of confusion.

3. *Tiffany v. eBay*, 600 F.3d 93 (2d Cir. 2010)

¶32 Secondary liability is of primary importance in applying intellectual property to internet issues. Infringers may be numerous and hard to track down. But thousands of infringers may use a single online service provider, such as YouTube or eBay. So online service providers make a juicy target for rights holders. The Second Circuit, however, held that eBay was not liable for users’ sales of knockoff Tiffany products. It held that for “contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”³⁸ This echoes the approach taken in copyright, in *Viacom International Inc. v. YouTube, Inc.*³⁹ *Tiffany* marks a convergence in the standards governing internet service providers, whether their customers upload videos or auction knock-offs.

³⁷ 562 F.3d 123 (2d Cir. 2009).

³⁸ *Tiffany v. eBay*, 600 F.3d 93, 107 (2d Cir. 2010).

³⁹ 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

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

¶33 *Gucci* provides a nice contrast to *Tiffany*. Credit card processors, as financial institutions, are also attractive defendants. To get paid, infringers need to use a payment system. The issue was of liability for processing credit card transactions for online merchants that sold knockoffs of Gucci products. Simply processing credit card transactions would not give rise to liability. But a credit card processor would be liable if it knowingly served high risk clients and helped them to infringe. For example, a credit card processor could be liable by suggesting that purchasers must check a box recognizing that they were buying replicas, in order to reduce the number of returns.

5. *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171 (9th Cir. 2010) and *DSPT Int'l, Inc. v. Nahum*, 624 F.3d 1213 (9th Cir. 2010)

¶34 *Toyota Motor Sales* and *DSPT International* provide guidance on the issue, when use of a domain name is in bad faith. The Internet has opened up many vistas for uses of trademarks, whether by mark owners to market their wares, or for others to communicate (in ways good and bad) with others interested in the relevant product or services. The Anti-Cybersquatting Act specifically regulates one category of use, by prohibiting bad faith use of another's mark in a domain name. The statute takes its name from an early practice of simply registering a mark as a domain name (say, Microsoft.com) before the mark owner became web savvy enough to register the domain name, then "squatting" on the domain until the mark owner ransomed it. Practices have become more complex, requiring courts to sift out bad faith from bona fide uses. *Toyota Motor Sales* held that an automobile broker's use of "Lexus" in its domain name was not bad faith. The relevant domains were buy-a-lexus.com and buyorleaselexus.com. The broker was not a Toyota dealer, but dealt in Toyotas along with other automobiles. Although the broker used Toyota's mark, it used it in a legitimate manner to describe its goods.

¶35 Good faith use of a domain name can become bad faith. In *DSPT*, an employee of a clothing merchant registered a domain name, www.eq-Italy.com, for the company. The company used the site with increasing success over the years. The employee and the company then parted ways. Not long after, any visitor to www.eq-Italy.com saw only a notice referring "all fashion related questions" to the employee's email address. The employee demanded a considerable sum to hand over the domain. The Ninth Circuit held that the employee used the domain in bad faith. He had registered it in good faith and had never used it to deceive potential customers. But bad faith goes beyond such classic cybersquatting, to encompass other abusive practices. *Toyota* and *DSPT* together provide considerable guidance on how courts will unpack the broad standard of "bad faith."

6. *Au-Tomotive Gold Inc. v. Volkswagen of America, Inc.*, 603 F.3d 1133 (9th Cir. 2010)

¶36 Under first sale (also known as exhaustion), the buyer of an authorized product may use it. But first sale has definite limits. In *Au-Tomotive Gold*, defendants bought genuine Volkswagen badges, and put them on cars not produced by Volkswagen. First sale does not authorize such a use and there was the requisite likelihood of confusion for

infringement. Consumers could be confused, thinking that the cars were produced by or endorsed by Volkswagen. *Au-Tomotive Gold* shows that ownership of an object does not mean that the object is free of the ownership of others.

7. *Georgia-Pacific Consumer Prod. LP v. Myers Supply Inc.*, 621 F.3d 771 (8th Cir. 2010)

¶37 *Georgia-Pacific* provided another angle on whether trademarked products may be mixed with other goods. Georgia Pacific sold a touch-less paper-towel dispenser, trademarked “enMotion.” Georgia Pacific also sold paper towels to fit the dispenser. The defendant sold replacement paper towels that fit the dispenser. Unlike in *Au-Tomotive Gold*, there was no showing of likelihood of confusion. Evidence of industry practices showed that it was common practice to use substitute paper towels. There was no showing that bathroom consumers were likely to be confused about the source of the towels.

¶38 *Georgia-Pacific* is different from *Au-Tomotive Gold* in a more fundamental way. Finding infringement in *Au-Tomotive Gold* prevented the use of a mark on goods from a different source. Volkswagen’s mark could not be used on other cars. But finding infringement in *Georgia-Pacific* would have prevented the use of a mark on a separate market for goods. By selling paper towel dispensers, Georgia Pacific would have the exclusive market for towels for the dispenser. *Georgia-Pacific* shows that the trademark owner has limited control over authorized products that have left her hands. As long as they are not used in a manner that is likely to confuse the relevant consumer, the trademark owner does not have the right to prevent uses that may hurt in the marketplace.

8. *VISA Int’l Serv. Ass’n v. JSL Corp.*, 610 F.3d 1088 (9th Cir. 2010)

¶39 The use of the mark eVisa for an English language tutoring service would not infringe the famous mark Visa for credit card services. The marks are pretty similar, but the services are so different that there would not be the requisite likelihood of confusion. But famous marks have protection against not just infringement, but dilution. Dilution became almost impossible to show (in a case where there was not infringement as well), under the Supreme Court’s 2003 *Moseley v. Secret Catalogue, Inc.* decision, which interpreted the statute to require a showing that the defendant’s use actually decreased the distinctive power of the famous mark.⁴⁰ Congress subsequently amended the statute to require only a likelihood of dilution, and dilution has become resurgent. Charbucks diluted Starbucks (despite far different graphics);⁴¹ The Other Red Meat, for salmon, diluted The Other White Meat, used by the Pork Board;⁴² and SEE IT SAY IT used by a mom and pop therapeutic products company diluted Mattel’s popular SEE’N’SAY game.⁴³ Commentators have questioned the broadening of dilution. Marks like Charbucks and The Other Red Meat might actually reinforce the distinctiveness of their famous targets, by reinforcing the mark. But courts have interpreted dilution broadly.

⁴⁰ 537 U.S. 418, 123 S. Ct. 1115, 155 L. Ed.2d 1 (2003).

⁴¹ *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009).

⁴² *National Pork Board & National Pork Producers Council v. Supreme Lobster & Seafood Company*, 96 U.S.P.Q. 2D (BNA) 1479 (TTAB 2010).

⁴³ *Super Duper, Inc. v. Mattel, Inc.*, 382 Fed. Appx. 308 (4th Cir. 2010).

Given that the typical dilution defendant is generally a small business facing up to a famous adversary (by the definition of the cause of action), this trend of cases may cause considerable caution in treading anywhere near the commercial footprints of giants.

9. *Jay Franco & Sons, Inc. v. Franek*, 615 F.3d 855 (7th Cir. 2010)

¶40 *Jay Franco* emphasizes the boundaries between trademark and patent. The round design of a beach towel cannot be trademarked. The circular shape is functional, because a round towel will work differently than a towel of a different shape. A seller that wishes to have exclusive rights in functional elements must invent and patent them—and the round beach towel would hardly be a novel invention. Trademark cannot be used to get such quasi-patent protection. As the court put it, one cannot get “a trademark on the circle.”⁴⁴

10. *FreecycleSunnyvale v. Freecycle Network*, No. 08-16382, 2010 WL 4749044 (9th Cir. Nov. 24, 2010)

¶41 *FreecycleSunnyvale* is a rare case holding that a mark holder failed to sufficiently control use of the mark, and therefore lost trademark protection. Trademark protection, unlike copyright and patent, requires the holder to control the use of the mark. A trademark serves to distinguish one source of goods or services from other sources. If the mark holder allows others freely to use the mark, then the mark does not serve to identify a source, and so is not a valid mark. Courts, however, generally apply a relatively lax standard. As long as a mark holder retains some ability to control use of the mark, the mark remains valid, even if license widely to others.

¶42 In *FreecycleSunnyvale*, the mark holder did not even exercise that level of control. The court held that the licensor engaged in “naked licensing,” thereby abandoning the mark. The court held that the licensor did not retain express contractual control or actual control over its licensees’ quality control measures and was unreasonable in relying on the licensee’s quality control measures. By licensing the mark without retaining control over its use, the mark owner surrendered its right to exclude others from using the mark. *FreecycleSunnyvale* reminds mark owners not to take on the benefits of licensing the mark without retaining some control over their licensee’s use of the mark.

⁴⁴ *Jay Franco*, 615 F.3d at 860. See also *Specialized Seating, Inc. v. Greenwich Indus., L.P.*, 616 F.3d 722 (7th Cir. 2010) (decided the same day, holding that the design for an x-frame folding chair is functional and so not protectable as a mark). See also *Rosetta Stone Ltd. v. Google Inc.*, No. 1:09cv736, 2010 WL 3063152 (E.D. Va. Aug. 3, 2010) (holding that Google was not liable for using trademarks in key word advertising, because the marks serve “an essential indexing function”).