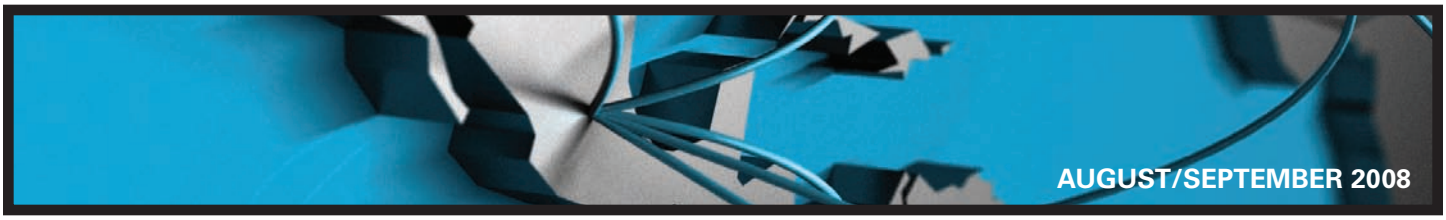
IDEAS ON INTELLECTUAL PROPERTY LAW



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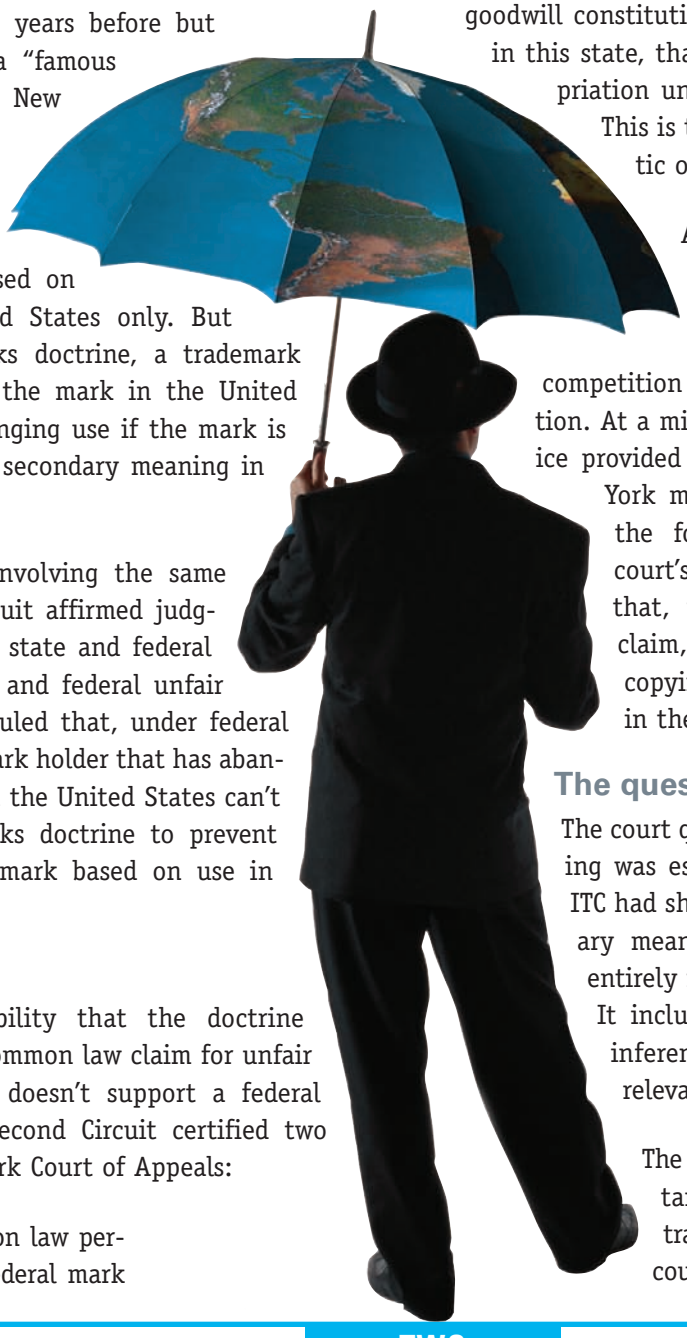
Foreign relations

Are famous overseas trademarks protected in the U.S.?

Can a trademark owner enforce its trademark rights in the United States even if it only uses its trademark abroad? In *ITC Ltd. v. Punchgini, Inc.*, the Second Circuit Court of Appeals ruled against the owner, finding that the "famous marks" doctrine doesn't apply as an exception to trademark law's territoriality principle.

Marking the path

ITC sued the defendants for federal and state claims of trademark infringement and unfair competition. It had ceased using the mark BUKHARA in the United States more than three years before but claimed protection as a "famous mark" based on use in New Delhi, India.



Trademark's territoriality principle gives priority to U.S. marks based on their use in the United States only. But under the famous marks doctrine, a trademark owner that isn't using the mark in the United States can prevent infringing use if the mark is famous or has acquired secondary meaning in the United States.

In an earlier dispute involving the same parties, the Second Circuit affirmed judgment against ITC on its state and federal trademark infringement and federal unfair competition claims. It ruled that, under federal trademark law, a trademark holder that has abandoned use of its mark in the United States can't invoke the famous marks doctrine to prevent others from using the mark based on use in another country.

New York rules

Recognizing the possibility that the doctrine might support a state common law claim for unfair competition even if it doesn't support a federal trademark claim, the Second Circuit certified two questions to the New York Court of Appeals:

1. Does New York common law permit the owner of a federal mark or trade dress to assert property rights by virtue of the owner's prior use of the mark or dress in another country?

2. If so, how famous must a foreign mark be to permit a foreign mark owner to bring a claim for unfair competition?

The state court specifically stated that it didn't recognize the famous marks doctrine as an independent theory of liability under state law. A mark's use in a foreign country is significant only in connection with the principle that "when a business, through renown in New York, possesses goodwill constituting property or a commercial advantage in this state, that goodwill is protected from misappropriation under New York unfair competition law." This is the case whether the business is domestic or foreign.

As to the second question, the New York court explained that, if a foreign plaintiff has no goodwill in the state to appropriate, no viable claim for unfair competition exists under a theory of misappropriation. At a minimum, consumers of the good or service provided under a mark by a defendant in New York must primarily associate the mark with the foreign plaintiff. Based on the state court's opinion, the Second Circuit concluded that, to pursue a state unfair competition claim, ITC must establish both deliberate copying of the mark and secondary meaning in the minds of consumers.

The question of meaning

The court quickly determined that deliberate copying was established. It then focused on whether ITC had shown that its mark had acquired secondary meaning. ITC's evidence of goodwill came entirely from foreign media reports and sources. It included no evidence that would allow an inference that the reports or sources reach the relevant consumer market in New York.

The court found no evidence that ITC directly targeted advertising of its BUKHARA trademark in the United States. And, the court noted, ITC hadn't attempted to prove

goodwill in the relevant market through consumer study evidence linking the mark to ITC or demonstrating strong brand name recognition anywhere in the United States.

A trademark holder that has abandoned use of its mark in the United States can't invoke the famous marks doctrine to prevent others from using the mark.

Finally, ITC offered no evidence of actual overlap between customers of the defendants' restaurant and ITC's BUKHARA restaurant. In the end, the Second Circuit found insufficient evidence to support a New York state claim for unfair competition in a foreign mark.

No deal for New Delhi

So the court affirmed the district court's summary judgment on all of ITC's claims on its mark. It concluded that neither trademark law's territorial principles nor New York's unfair competition laws permit an action based on fame outside the United States. ❍

Next stop, the Supreme Court?

Some experts predict the Supreme Court will ultimately have to decide whether the famous marks doctrine is recognized under federal trademark law. The Second Circuit's finding in *ITC Ltd. v. Punchgini, Inc.* — that the doctrine isn't recognized as an exception to the territoriality principle under either federal law or state law — directly conflicts with the Ninth Circuit's decision in *Grupo Gigante S.A. de C.V. v. Dallo & Co.*

The Ninth Circuit in *Grupo Gigante* accepted the famous marks doctrine with respect to federal trademark rights. It found that, to determine whether the famous mark exception to the territoriality rule applies, the district court must determine whether the mark satisfies the secondary meaning test. Where the mark hasn't before been used in the American market, the court must be satisfied, by a preponderance of the evidence, that a *substantial* percentage of consumers in the relevant American market is familiar with the foreign mark.

Patentee strikes out

Elements matter under doctrine of equivalents

Under patent law's doctrine of equivalents, the sum of the parts is more important than the whole. As the Federal Circuit Court of Appeals recently held in *Miken Composites, L.L.C. v. Wilson Sporting Goods Co.*, it's not enough that the two products at issue are equivalent as a whole. Rather, courts must make an objective inquiry on an element-by-element basis. This means that every element of a patent claim must be found in the accused product, either literally or under the doctrine of equivalents.

Batter up

Wilson holds a patent for softball and baseball bats that relates to the use of structural members inside the bats to improve their impact response. The design is intended to establish a large amount of "elastic deflection," which produces superior power transfer and thus an improved slugging capacity.

The patent design includes a tubular insert suspended within the bat's impact portion, with a uniform gap between the insert and the bat frame's inner wall. It yields a "leaf-spring-like suspension" of the insert that allows the frame to elastically deflect across the gap to engage the insert, adding a snap to the rebound of the bat after it hits a ball.

Miken brought an action against Wilson seeking a declaration that several of its bats didn't infringe Wilson's patent. Wilson counterclaimed alleging infringement. The claims revolved around two limitations of the patent's claims: insert and gap.

Miken conceded that its noncarbon bat models contain inserts within the meaning of Wilson's claim language.

It argued, however, that its carbon models don't contain an insert because they're manufactured using a process that applies successive layers over an "internal component." The dispute over the carbon bats turned in part on whether the "internal component" constituted an insert.

Rules of the game

The doctrine of equivalents permits a finding of infringement when an accused product doesn't literally infringe on the patent claim's express terms. The infringement is premised on the equivalence between elements of the alleged infringer's product and the patented invention's claimed elements. The patentee can establish this by establishing either that:

1. The difference between the claimed invention and the accused product is insubstantial, or

2. The accused product performs the substantially same function in substantially the same way with substantially the same result (the "function, way, result" test).

The district court rejected the equivalency of Miken's carbon bats to Wilson's bats. Wilson had relied on its expert's "load deflection tests" to establish that the layers of the carbon bats were capable of independent movement. The court held that the tests couldn't serve as a basis to find equivalency of the insert. At most, they established the equivalency of the accused products as a whole.

Questioning the call

Wilson appealed, contending that any bat with multiple layers exhibiting independent movement in the nature of a spring — including Miken's carbon bats — must infringe its insert limitation. But the Federal Circuit Court of Appeals agreed with the district court's finding on the limits of the expert's load deflection tests. It pointed out that Wilson failed to provide any factual basis or expert testimony to support "an objective inquiry on an element-by-element basis" with respect to the patent's insert limitation.

The court also found that Wilson's patent didn't claim a bat with leaf-spring-like action or with separate layers capable of independent movement. The claims at issue required only an insert. And Wilson provided no testimony specifically addressing equivalents on a limitation-by-limitation basis, explaining the insubstantiality of the differences between the bats or discussing the "function, way, result" test.

The doctrine of equivalents permits a finding of infringement when an accused product doesn't literally infringe on the patent claim's express terms.

Touch all the bases

While it's possible to establish patent infringement liability in the absence of literal infringement under the doctrine of equivalents, a patentee must first satisfy the doctrine's requirements. As the *Miken* case shows, a patentee needs to look beyond the product equivalency as a whole and establish the equivalency of the various elements to prevail. ❍

All's fair (use) in copyright infringement

A copyright case that arose out of an eBay auction illustrates how the long arm of the law is reaching through computer screens to impose jurisdiction. The court in *Dudnikov v. Chalk & Vermilion Fine Arts, Inc.*, ruled that a copyright holder's attempts to enforce its rights against a party in Colorado subjected it to jurisdiction there. The court found no basis to prevent suit in Colorado.

Canceled listing

The plaintiffs sell a variety of fabrics from their Colorado home through eBay auctions. In one auction, they offered a fabric parodying an artist's work. The copyright on the work is held by a British corporation that acts through an American agent located in Connecticut. The agent invoked eBay's "Verified Rights Owner" (VeRO) program to contest the auction, filing a notice of claimed infringement (NOCI) with eBay located in California. eBay canceled the auction and notified the plaintiffs.

The plaintiffs submitted a counter notice through eBay challenging the copyright's validity. The agent then notified the plaintiffs that, to preclude eBay from reinstating the auction under eBay's procedures, the agent would file an action in federal court within the next 10 days.

But the plaintiffs struck first. They filed a claim against the agent in the Colorado district court for a declaratory judgment of noninfringement. They also filed for an injunction preventing further interference with auctions. The district court dismissed the action for lack of jurisdiction over the copyright owner in Colorado, and the plaintiffs appealed.

Defendants' opening bid

The defendants claimed that their conduct in terminating the auction and vindicating their intellectual property rights didn't represent wrongful conduct on which jurisdiction could be premised. The Tenth Circuit Court of Appeals disagreed, citing evidence of the defendants' misconduct in the plaintiffs' complaint.

Specifically, the plaintiffs alleged that the defendants invoked the VeRO program to terminate the auction, thereby causing lost business and damaged reputation. They further alleged that the defendants took the action on the basis of an erroneous copyright claim, asserting that

the defendants knew the fabric was protected under the fair use doctrine. Based on these allegations, the court concluded that the plaintiffs' complaint alleged sufficient facts to permit an inference that the defendants interfered with their business.

Instead of simply sending cease-and-desist letters, the defendants took affirmative steps with third parties that suspended the plaintiffs' business operations.

Counter bid

The defendants also sought to prove the lack of jurisdiction in Colorado. They first argued that the action complained of was performed by notice to eBay in California, not Colorado, and that their action wasn't "purposefully directed" at Colorado. The defendants also argued that imposing jurisdiction would offend traditional notions of fair play and substantial justice. They cited the federal interest in allowing copyright holders to alert potential infringers of their rights and encouraging settlement. But the court

found the defendants went far beyond merely providing notice and seeking settlement.

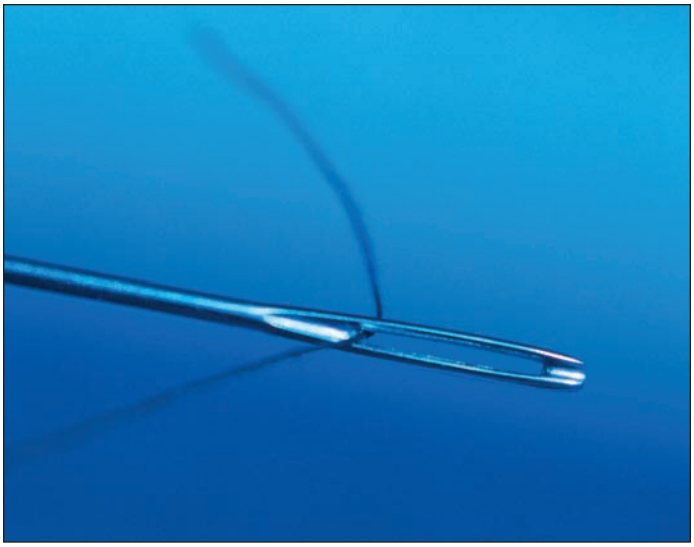
The defendants purposefully caused eBay to cancel the auction and allegedly threatened the plaintiffs' future access to eBay and the business's viability. Instead of simply sending cease-and-desist letters, the defendants took affirmative steps with third parties that suspended the plaintiffs' business operations.

A losing bid?

The appellate court reversed the lower court's decision and sent the case back for further proceedings. But it declined to decide that it would be unreasonable to find jurisdiction solely on a cease-and-desist letter sent to California. Intellectual property rights holders should keep this in mind when trying to enforce their rights with such letters. You could inadvertently establish jurisdiction.

Sewing up patent law's on-sale bar

Under the on-sale bar doctrine, the Patent and Trademark Office will deny a patent when the inventor applies for it more than one year after putting the invention on sale. In *Atlanta Attachment Co. v. Leggett & Platt, Inc.*, the Court of Appeals for the Federal Circuit invalidated the manufacturer's patent based on the sale of a prototype sewing machine, even though the manufacturer later improved the prototype.



Threading the needle

Atlanta Attachment worked with Sealy, Inc., to create a sewing machine. If successful, the parties agreed that Sealy would patent the machine and Atlanta would sell the product only to Sealy. Atlanta developed four prototypes, each with improvements over its predecessor. It presented each prototype for sale to Sealy, with offers to sell production models, and Sealy paid for each machine.

In the end, Sealy chose not to move to the production stage with any of the prototypes. As a result, Atlanta applied for and received a patent on the machine. When the manufacturing company Leggett & Platt offered a line of sewing machines that Atlanta considered infringement, the latter sued. The district court rejected Leggett's defense that the patent was invalid under the on-sale bar.

Sewn up

On appeal, the Court of Appeals for the Federal Circuit explained that the on-sale bar applies when an invention is both:

1. The subject of a commercial offer for sale before the critical date, and

2. Ready for patenting at the time of the offer.

Atlanta had filed a provisional patent application on March 5, 2002, making the critical date at issue March 5, 2001.

The court focused on the third prototype, for which Atlanta had invoiced Sealy in September 2000. Although the third prototype was never delivered to Sealy, it was deemed sold because Atlanta sent Sealy an invoice for the machine. The invoice constituted an offer, and Sealy accepted by paying it. The court noted that profit, revenue or even an actual sale isn't a prerequisite for the on-sale bar. Only an offer on which a contract can be made through acceptance is required.

Atlanta argued that its sales to Sealy qualified for the experimental use exception to the on-sale bar. But

the court clarified that experimentation conducted to determine whether an invention suits a customer's purposes doesn't fall within the exception. The court also observed that it mattered who performed the experimentation. The experimental use exception covers only the inventors' and their agents' actions. Here, the court found that Atlanta wasn't actually experimenting because Sealy performed the testing.

As to the second prong of the on-sale bar, the court found the third sewing machine prototype was ready for patenting because it demonstrated the invention's workability and utility. The court concluded that it was improper for the district court to find that an invention isn't reduced to practice merely because the inventor is conducting further testing. So the appellate court reversed the district court's ruling and sent the case back for further proceedings.

The experimental use exception covers only the inventors' and their agents' actions.

A stitch not in time

The court noted that Atlanta could easily have filed several provisional patent applications as improvements were made. By doing so, it would have secured a year to determine whether to invest in a utility patent. ❍

Court remands trade secrets case

Justice Potter Stewart famously once wrote, "I know it when I see it." The same, however, can't be said for trade secrets and confidential information, as demonstrated in *Patriot Homes, Inc. v. Forest River Housing, Inc.*

Blueprint for contention

Patriot Homes and Forest River compete in the modular housing manufacturing industry. Patriot sued Forest River's subsidiary, Sterling Homes, and four former Patriot employees working for Sterling, for copying home designs.

The district court issued a preliminary injunction forbidding Sterling from, among other things, "using, copying, disclosing, converting, appropriating, retaining, selling, transferring, or otherwise exploiting Patriot's" copyrights, confidential information and trade secrets. The defendants appealed, claiming the injunction was so vague that it amounted to a general prohibition not to break the law, leaving it without guidance as to when its actions might violate the injunction.

Patriot argued that its trade secret consisted of its blueprints, engineering calculations, quality control manuals and other documents. But the appellate court agreed with Sterling, noting that the injunction failed to specify the substance of the trade secret. And much of the information claimed by Patriot was available from public records, as Sterling discovered after submitting Freedom of Information Act requests to several states where Patriot sells homes.

Responsibilities remain unclear

The court concluded that it wasn't possible to discern whether using the information obtained through those requests would violate the injunction. As the injunction stood, it required Sterling to guess whether it was engaging in activities that violated the injunction.

So the Seventh Circuit remanded the case back to the district court. It is now up to that court to determine which information represents a trade secret to clearly delineate Sterling's responsibilities under the injunction.

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