



# IDEAS ON INTELLECTUAL PROPERTY LAW

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*No recovery for infringer's purely foreign sales*

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*Source: Ant-Like Persistence blog*

# Closing trademark's borders

## *No recovery for infringer's purely foreign sales*

One year after the U.S. Supreme Court limited the reach of the federal trademark law beyond American borders, the trademark owner in the underlying case has learned how the ruling will affect its claims. It probably isn't too happy with the result.

### LONG LITIGATION ROAD

Hetronic International is a U.S.-based manufacturer of radio remote controls that operate heavy-duty construction equipment. It owns U.S. trademarks for the distinctive features of the remote controls.

The foreign defendants distributed Hetronic's products, mostly in Europe. Eventually, they decided that an earlier research-and-development agreement gave them ownership of Hetronic's trademarks.

So, they began manufacturing products that were identical to Hetronic's and selling them under the Hetronic brand, again mostly in Europe. Some of these products reached the United States through "downstream sales" by original equipment manufacturers who purchased the remotes, installed

them in their own machinery and then sold that machinery to end users in other countries.

Hetronic sued the defendants for, among other things, trademark infringement under the Lanham Act. A jury awarded Hetronic \$96 million in damages as disgorgement of profits attributable to the trademark violations.

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The Supreme Court ruled that the relevant provisions of the Lanham Act apply only to domestic uses of trademarks that are likely to cause consumer confusion.

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On appeal, the defendants argued that, while the Lanham Act can sometimes extend outside of the United States, it didn't apply to their conduct because the conduct generally involved foreign defendants making sales to foreign consumers. The U.S. Court of Appeals for the Tenth Circuit affirmed the trial court's ruling, finding the conduct had a substantial effect on U.S. commerce by diverting sales from Hetronic.

### DETERMINING THE DISGORGEMENT DAMAGES

The U.S. Court of Appeals for the Tenth Circuit in *Hetronic Int'l, Inc. v. Hetronic Germany GmbH* (see main article) held that any portion of the jury's \$96 million disgorgement award based on the defendants' foreign sales was improper if those sales were unconnected to any domestic infringing use of Hetronic trademarks in commerce. To disgorge foreign-sale profits, Hetronic must show a connection between the defendants' domestic infringing conduct and their foreign sales.

As the court explained, a plaintiff seeking disgorgement must identify the "total sales" that resulted from the infringing activity with reasonable certainty. Although a showing of just the defendant's gross revenues isn't enough to satisfy the reasonable certainty requirement, an estimate of infringed profits based on gross revenues suffices.

The plaintiff also must show a connection between the defendant's sales and the infringement. Hetronic, therefore, must show a "causal nexus" between the damages sought and domestic conduct that used its trademarks in commerce.



The Supreme Court, however, ruled that the relevant provisions of the Lanham Act don't apply outside of the United States. Rather, they apply only to domestic uses of trademarks that are likely to cause consumer confusion. The court then sent the case back to the Tenth Circuit to re-assess the case in light of its ruling.

#### THE LATEST TURN

The appeals court found that the relevant Lanham Act provisions — which generally prohibit the use in commerce of protected trademarks in a way likely to cause confusion about the true origin of a product — are intended to punish unauthorized commercial uses of U.S.-registered trademarks that harm U.S. businesses and consumers. Penalties therefore don't apply unless a defendant has committed an infringing use domestically.

That meant that all of the defendants' direct U.S. sales were actionable under the Lanham Act. These sales clearly used Hetronic trademarks in domestic commerce in a way that threatened confusion among U.S. consumers. The defendants' "purely foreign" sales to foreign customers, however, didn't trigger liability under U.S. trademark law.

The appeals court noted, though, that the direct U.S. sales were "only one slice of the domestic-conduct pie." It also had to consider any marketing, advertising and distributing activities that the defendants undertook in the United States — these constituted uses in

commerce, too. It found that such activities used the trademarks without authorization and caused a likelihood of confusion, so they fell squarely within the Lanham Act.

The court also weighed whether downstream sales represented domestic uses in commerce. It concluded that products bound for the United States but sold abroad can't support a Lanham Act claim without some domestic conduct that connects the sales to an infringing use of the mark in domestic commerce. Allegedly infringing uses in the United States by U.S. end-users didn't cut it.

Nor did the defendants' obtaining Federal Communications Commission licenses and hiring a U.S.-based distributor create liability. Neither action used the trademarks in commerce. On the other hand, any activities the defendants engaged in through the distributor to sell, market, advertise or distribute infringing goods to U.S. consumers (for example, advertising at U.S. tradeshows or marketing the infringing products online to U.S. customers) did violate the Lanham Act.

#### RESTRICTED REMEDY

With purely foreign sales eliminated from the equation, Hetronic's damages are likely to be trimmed significantly. The result highlights how the Supreme Court's ruling limits a trademark owner's U.S. remedies for foreign infringement. ▣

## Are AI systems patent-eligible?

**A** ruling from the U.S. Court of Appeals for the Federal Circuit, which hears all patent-related appeals, raises questions about the eligibility of artificial intelligence (AI) systems for patent protection. The system in the case ran into trouble with the so-called *Alice* test (named for the case where it originated) for patent eligibility.

### INVALIDATING VISUALIZATION PATENT

The case involves four patents held by AI Visualize that generally related to the visualization of medical scans using a dedicated, low-bandwidth web portal. The patents were part of the same patent family. They generally covered systems and methods for users to review three-dimensional virtual views of a volume visualization dataset (VVD) on an internet-connected computer without needing to transmit or locally store the entire VVD.

The patentee sued Nuance Communications for infringement, and Nuance moved to dismiss the case. It argued that the patents' claims weren't eligible for protection and therefore were invalid. After the trial court granted the motion based on *Alice*, AI Visualize appealed.

### TRANSFORMING REQUIRED

*Alice* is a two-part test. In step one, the court determines whether a claim is directed to a patent-ineligible concept, such as an abstract idea. If not, the inquiry ends. If so, the court then reviews whether the claim includes elements that transform the concept into a patent-eligible application of the concept.

The appeals court agreed with the trial court that the patents' claims covered an abstract idea. It has previously explained that the steps of obtaining, manipulating and displaying data — particularly at a high level of generality — are abstract concepts. The claims here covered such “functionally oriented” steps as storing data, accepting user requests to view the data and checking the location of the necessary data. In other words, the court said, the claims were

for converting data and using computers to collect, manipulate and display the data.

The court rejected AI Visualize's argument that the claims weren't abstract because they required the creation of “on the fly” virtual views at a client computer. This creation, it found, was achieved by manipulating part of the existing VVD, so the “creation” was just abstract data manipulation.

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The steps of obtaining, manipulating and displaying data — particularly at a high level of generality — are abstract concepts.

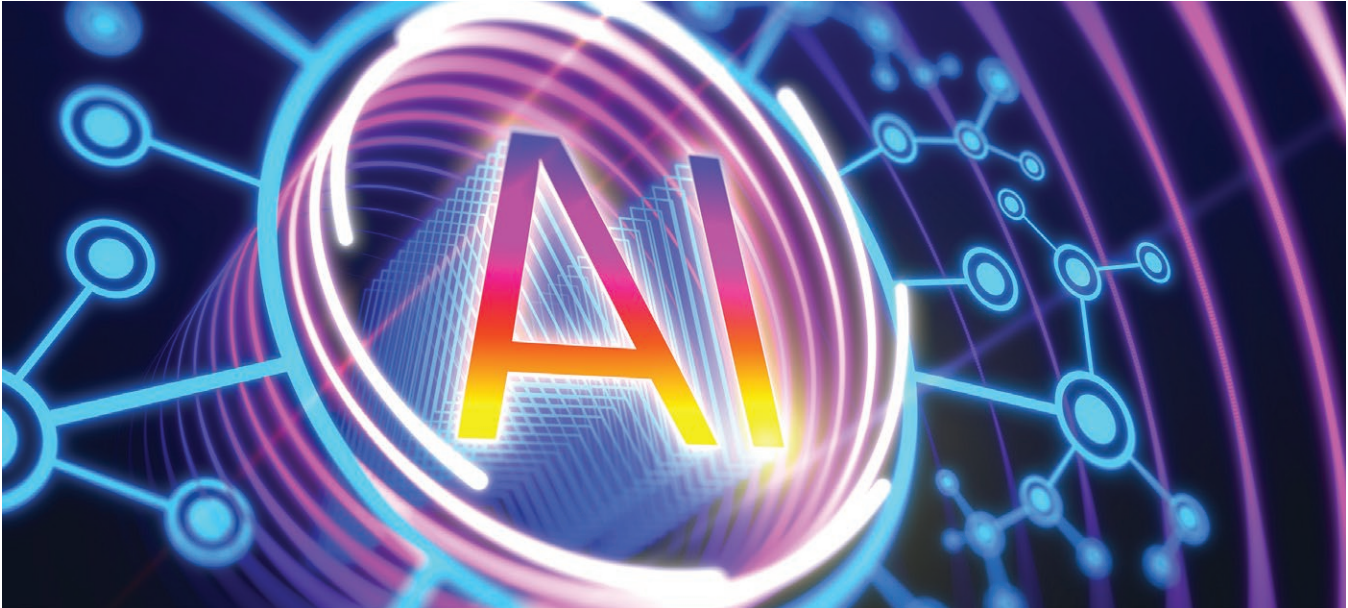
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It was irrelevant that the specification contained language about how virtual views provided a technical solution to a technical problem. The claims themselves didn't explain *how* to create frames or virtual views, let alone in a way that would meaningfully support a technical solution to an existing technical problem.

The appeals court also affirmed the trial court's finding that the claims didn't cover something “significantly more” than the abstract idea. It noted that routine, conventional or well-known claim elements don't sufficiently transform the claim.

AI Visualize contended that the creation of virtual views adequately transformed the claims to a patent-eligible concept. The court reiterated, however, that creating a virtual view is itself an abstract idea. Moreover, technology already existed to present richer views.

The appeals court also wasn't convinced that creation of virtual views “on demand” transformed the claims into something more. It found that the patentee didn't make sufficient factual allegations to show that the claims involved unconventional technology or a concrete application of the abstract idea of virtual view creation. Merely reciting an



abstract idea performed on a set of generic computer components, the court concluded, doesn't produce an inventive concept.

#### LEARNING LESSONS

The ruling in this case demonstrates some of the challenges that AI systems may face when attempting

to obtain patent protection — and the vital role of patent drafting. Patentees must include details that clarify how their invention provides a technical solution to a technical problem or involves a transformative application of what otherwise would be an abstract idea or ideas. □

## Copyright's fair use defense faces higher bar after *Warhol*

**T**he impact of the U.S. Supreme Court's 2023 intellectual property rulings continue to roll out in the lower courts. (See "Closing trademark's borders: No recovery for infringer's purely foreign sales" on page 2.) The high court's guidance regarding the application of the fair use defense to copyright infringement recently played a key role in a case involving Netflix's popular "Tiger King" docuseries.

#### WHAT HAPPENED?

The seven-part series included short clips from several videos filmed by Timothy Sepi. Most were filmed while he worked for the zoological park that was featured in the series, but one was shot after his employment terminated. That video was a 24-minute

recording of the funeral of the husband of the eponymous Tiger King who owned the zoo, also known as Joe Exotic.

After the series was released, Sepi registered the videos for copyright protection under either his name or the name of Whyte Monkee Productions. He and the production company then sued Netflix and the series producer for copyright infringement, claiming they used clips of the videos without permission.

The trial court dismissed the case before trial. Among other things, it found that the defendants' use of the funeral video was fair use that didn't infringe copyright. The plaintiffs appealed to the



U.S. Court of Appeals for the Tenth Circuit, challenging the fair use finding.

### IS IT FAIR?

In support of its argument, the plaintiffs cited the Supreme Court’s ruling in *Andy Warhol Foundation for the Visual Arts, Inc. v. Goldsmith*. The *Warhol* ruling focused on the first of the four fair use factors — “the purpose and character of the use, including whether such use is of a commercial nature or is for educational nonprofit purposes.” The factor also weighs whether, and to what extent, the new work is transformative.

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When a defendant’s work doesn’t provide critical commentary on the original work, the fairness in borrowing from that work may diminish accordingly.

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The plaintiffs here claimed that the trial court misconstrued the meaning of “transformative” when it found that the defendants’ use of the funeral clip was a transformative use. Specifically, they asserted that the defendants’ streaming use was commercial and not transformative because it made no commentary on the work itself.

The appeals court sided with the plaintiffs on the first factor. It cited *Warhol* for the notion that, when a defendant’s work doesn’t provide critical commentary on the original work, the fairness in borrowing from that work may diminish accordingly — and may even vanish. Factors such as the extent of its commerciality also “loom larger.”

The defendants’ use of the funeral video didn’t comment on or target Sepi’s work at all. Rather, they used it to comment on Joe Exotic’s purported megalomania even in the face of tragedy. They provided a historical reference point in his life and commented on his showmanship, but they didn’t comment on Sepi’s video’s creative decisions or intended meaning. The focus wasn’t on the original composition but a target in the composition.

As for the commerciality aspect, the court pointed out that the defendants profited from the series, which was viewed by millions, and didn’t pay Sepi a licensing fee. Thus, both the commercial nature of their use and the lack of “transformativeness” weighed against a finding of fair use.

### WHAT’S NEXT?

In the wake of the high court’s *Warhol* ruling, defendants are finding it more difficult to establish that their use of copyrighted works was transformative. If their works don’t target the original work itself, their fair use defense may fail. ▣

# How unclean hands doomed patent infringement claims

**S**mall children can get their hands dirty in many ways. A patent case involving a dining mat for kids illustrates how the legal doctrine of unclean hands can similarly sully legitimate infringement claims.

## THE NITTY GRITTY

Eazy-PZ (EZPZ) owned a utility patent and a design patent on dining mats for toddlers. Its competitor Luv N' Care (LNC) filed a lawsuit seeking a declaratory judgment that both patents were invalid, unenforceable and not infringed. EZPZ filed counterclaims for patent infringement.

Following discovery, the trial court found the utility patent was invalid because existing mat designs made EZPZ's patent claims obvious. Before the court issued its ruling, though, the U.S. Patent and Trademark Office issued a re-examination certificate confirming the claims' patentability.

However, after a trial, the court found that the unclean hands doctrine barred EZPZ from obtaining relief on its counterclaims for infringement. EZPZ appealed this determination to the U.S. Court of Appeals for the Federal Circuit.

## MESSY BUSINESS

The unclean hands doctrine applies when a party's misconduct has an "immediate and necessary" connection to relief sought in court. An appellate court will review the totality of the misconduct and can affirm on any grounds adequately supported by the evidence. In addition, the appeals court isn't limited to the bases the trial court relied on in finding unclean hands.

The trial court in this case found that EZPZ failed to disclose patent applications related to one of the patents to LNC until well after the close of discovery

and the period for motions to dismiss. In some instances, EZPZ revealed the information only when required by court order. The court found no good faith justification for the delay.

EZPZ also tried to block LNC's efforts to discover EZPZ's prior art searches. And its witnesses repeatedly gave purposefully evasive testimony during depositions and at trial, including repeatedly providing false testimony directly contradicted by other contemporaneous evidence. All of this, the appeals court said, supported the trial court's finding.



According to the appeals court, the misconduct bore the requisite connection to EZPZ's infringement claims. For example, the failure to disclose the prior art searches undermined LNC's ability to press its invalidity and unenforceability arguments.

## DOWN IN THE DIRT

In the end, the appeals court concluded that EZPZ's misconduct rose to the level of unconscionable acts, enhancing its litigation positions and undermining those of LNC. The trial court, therefore, didn't err in blocking EZPZ from seeking relief for alleged patent infringement. ▣

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