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Strategic Considerations in Litigating Design-Arounds

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Design-arounds are a well-recognized pathway for the public to benefit from the patent system. “One of the benefits of a patent system is its so-called ‘negative incentive’ to ‘design around’ a competitor’s products, even when they are patented, thus bringing a steady flow of innovations to the marketplace.”¹ Design-arounds are therefore an example of how patents can spur innovation, and thereby promote progress in the useful arts.²

Design-arounds, also known as “redesigns,” have become an increasingly important and common element in patent litigation both in district court and before the US International Trade Commission (ITC). Potential design-arounds create strategic challenges for both plaintiffs and defendants relating to timing, discovery, claim construction, and procedures. For example, in district court litigation, plaintiffs must choose between broadly seeking discovery related to potential design-arounds and risking a finding of noninfringement by those design-arounds, or sitting back and attempting to preclude evidence regarding potential design-arounds. By contrast, defendants must choose between introducing potential design-arounds early in discovery and risking an adverse adjudication, or waiting until later on in litigation and risking preclusion or other unwanted consequences.³

Similarly, in ITC proceedings, where the relief is limited to a form of injunctive relief (*i.e.*, an exclusion order) enforced primarily by US Customs and Border Protection (CBP), parties must consider whether (1) to attempt to force the ITC to adjudicate potential design-arounds during the investigation or (2) to wait until after any exclusion order issues from the ITC, fight over the scope of any exclusion order at the CBP and/or return to the ITC to seek an advisory opinion or enforcement order.

This article explores strategic considerations in litigating potential design-arounds, such as how to meet the Federal Circuit’s “more than colorable differences” test, the benefits and risks of seeking and introducing design-around evidence during the proceedings, and the benefits and risks of waiting until after a verdict or decision issues. It discusses these considerations in the context of district court litigation and in ITC and CBP proceedings, to highlight a few differences in strategy between the different forums.

Federal Circuit Guidance on Design-Arounds

A common scenario for defendants is to attempt a design-around after a finding of infringement and the issuance of a permanent injunction by a district court. This strategy, however, carries the risk of sanctions—the plaintiff can move the district court to find the defendant in contempt of the court’s permanent injunction and award significant monetary penalties. In recent years, the Federal Circuit has reaffirmed the “no more than colorably different” standard.

Outside of the contempt proceeding context, attempted design-arounds also carry risks with respect to willful infringement. Parties should be careful and consider the impact of evidence relating to attempted design-around efforts that could be used to support willful infringement allegations.

The “More Than Colorable Differences” Test

Prior to 2011, the district court would conduct a two-step inquiry in contempt proceedings relating to possible violation of a permanent injunction by an alleged design-around. First, the court would determine whether a contempt hearing was an appropriate setting for adjudicating infringement by the alleged design-around, by considering whether there was “more than a colorable difference” between the alleged design-around and the infringing product based on the existence of “substantial open issues with respect to infringement.”⁴ Then, after determining that contempt proceedings were

appropriate, the district court would determine whether the redesigned products continued to infringe, thereby violating the injunction.⁵

In *Tivo Inc. v. Echostar Corporation*, the Federal Circuit rejected “the infringement-based understanding of the colorably different test” and held that “the contempt analysis must focus initially on the differences between the features relied upon to establish infringement and the modified features” of the alleged design-around.⁶ In particular, the analysis should focus on those elements of products that the patentee previously contended and proved satisfied specific limitations of the asserted claims.⁷ In considering the differences between the two products, courts must look to the relevant prior art, to determine if the modifications in the design-around merely employs or combines elements already known in the prior art in an obvious manner.⁸ A nonobvious modification may lead the district court to find that the design-around is more than colorably different.⁹

If the differences between the old and new elements are significant, the alleged design-around is more than colorably different from the previous infringing product, and contempt proceedings are inappropriate, regardless of whether the alleged design-around infringes.¹⁰ On the other hand, if the design-around is only colorably different, the patent owner then must prove by clear and convincing evidence that the design-around continues to infringe the asserted claims, on a limitation-by-limitation basis, using any prior claim construction performed in the case.¹¹

On appeal, the Federal Circuit reviews the district court’s findings on colorable differences and on infringement for clear error. The Federal Circuit reviews the sanctions award, if any, for abuse of discretion.¹²

Applying the “More Than Colorably Different” Test

The Federal Circuit has further clarified the “more than colorably different” test in recent cases, which provide guidance on how district courts should apply the test.

In *Ncube Corp. v. SeaChange International Inc.*, the Federal Circuit explained that “the colorable-differences standard focuses on how the patentee in fact proved infringement, not what the claims require.”¹³ The defendant had modified its system so that an infringing feature was now performed elsewhere in the redesigned system.¹⁴ The district court found that modification was significant and that the patent owner failed to prove that there were only colorable differences.¹⁵ On appeal, the Federal Circuit affirmed the district court, rejecting the patent owner’s argument that any difference was insignificant because both the design-around and the previous infringing product were updated with the same 6-byte MAC

address information.¹⁶ The Federal Circuit found that the patent owner never relied on the MAC address at trial to prove infringement and therefore could not rely on that feature in contempt proceedings.¹⁷

More recently, in *Proveris Scientific Corporation v. Innovasystems, Inc.*,¹⁸ the Federal Circuit explained that removing an infringing feature is not sufficient to show that a design-around is more than colorably different from the previous infringing product. The defendant’s design-around removed a software feature that allowed users to identify what range of images they wanted to analyze. In the previous product, that feature met the “at a predetermined instant in time” element in the preamble of an asserted claim, and defendant argued that removal of this feature meant that the two products were more than colorably different.¹⁹

The Federal Circuit rejected defendant’s argument. Even if the removed features were a basis for the prior finding of infringement, the district court was still required to determine whether the modification was significant.²⁰ The Federal Circuit compared the redesigned product’s user manual to the previous infringing product’s manual and found that the two products were functionally identical, thus agreeing with the district court that the two products were not more than colorably different.²¹

By applying the “more than colorably different test” in these recent cases, the Federal Circuit has highlighted several considerations for defendants considering a potential design-around. As the “more than colorably different” test focuses on infringing features that the patent owner relied on at trial, the design-around should be directed to modifying those features. It may not be enough, however, to remove an infringing feature, if the product manuals or other evidence show that the modifications left the products “functionally identical.”

Risks to Design-Arounds

Design-arounds carry the risk of a finding of contempt and award of sanctions by the district court, even in the absence of intent to violate the injunction. In *Tivo*, for example, the Federal Circuit again made clear that “lack of intent to violate an injunction alone cannot save an infringer from a finding of contempt.”²²

Another risk to design-arounds relates to willful infringement, which the patent owner may allege if it decides to litigate the design-around in a new action. The patent owner may more easily obtain a judgment of willful infringement and enhanced damages based on evidence about defendant’s need for a design-around.

In *Applied Medical Resources Corporation v. U.S. Surgical Corporation*, for example, the Federal Circuit affirmed a judgment of willful infringement and an

award of enhanced damages.²³ In the first litigation between the parties, the jury found that the defendant willfully infringed the asserted patent with its Versaport I product.²⁴ The defendant redesigned its product to create the Versaport II, and, when the patent owner sued a second time on the same patent, the district court granted summary judgment of infringement, and the Federal Circuit affirmed.²⁵

The district court held a jury trial on damages, and the defendant moved to exclude all evidence relating to the prior litigation, including the finding of willful infringement. The Federal Circuit agreed with the district court on the admissibility of evidence from the first litigation. The prior litigation was relevant to the defendant's state of mind, particularly an in-house patent lawyer's admission that defendant initiated and redoubled its design around efforts as a result of the first lawsuit.²⁶

Likewise, the Federal Circuit affirmed the judgment of willful infringement because plaintiff provided evidence that the defendant desperately needed the redesigned product to remain competitive in the market, that defendant's management did not properly oversee or adequately participate in the development of the potential design-around, and that defendant placed intense time pressure on its engineers to create the potential design-around.²⁷ In particular, the Federal Circuit noted that defendant's former general counsel testified that defendant wanted "no gap" in the supply of its products, from which the jury could infer that defendant was not concerned about infringement and would have proceeded with the design-around despite receiving outside legal opinions.²⁸

Design-Around Considerations in Original Actions in District Court

Design-arounds often are litigated in new litigation between the parties. In some cases, however, defendants seek to introduce the design-around in the pending district court litigation. Plaintiffs, on the other hand, may have an interest in obtaining discovery or excluding late-produced evidence relating to design-arounds.

Admissibility or Preclusion of Design-Around Evidence

The timing and admissibility of design-arounds can play critical roles in patent litigation. The admissibility of evidence regarding design-arounds may influence the scope of liability for infringement, as well as damages.

Plaintiffs frequently seek and obtain evidence of the defendant's design-around activities.²⁹ Such activities

are relevant not only to liability but also to the amount of damages. For instance, courts have concluded that evidence that a defendant failed to pursue design-arounds or pursue any other remedial actions with respect to patents that were found infringed by a jury was a factor supporting enhanced damages.³⁰ Other courts have held that a defendant's failure to take any remedial action in the form of modifying an infringing product until after a patent infringement case was filed weighs somewhat in favor of an award of enhanced damages.³¹

Defendants sometimes seem to have more leeway with introducing evidence of design-arounds that did not exist during discovery itself. In *Airborne Athletics, Inc. v. Shoot-A-Way, Inc.*, the district court granted a four-month period of additional discovery, for a design-around product developed after the close of discovery.³² Plaintiff's technical expert had opined in deposition that two design changes would lead to a noninfringing product, and defendant immediately redesigned its accused product and put the new product on the market.³³ Though plaintiff sought to exclude evidence of the potential redesign from trial, the district court found that the redesign was relevant to the lost profits analysis and that defendant disclosed the redesign within days of its development and release.³⁴ Defendants can look to *Airborne Athletics* as a success case for introducing a new design-around after the close of discovery.

However, defendants cannot count on the admissibility of a late-produced, potential design-around. For example, in *Hypertherm v. American Torch Tip*, the court excluded evidence of defendant's design-around when it was produced near the deadline for final pretrial filings and when new expert testimony would have been required.³⁵

Markman Implications

Both plaintiffs and defendants may have to consider potential design-arounds, and how to accuse them, while being uncertain about the claim construction that would apply to the products. In particular, jurisdictions without local patent rules may create more uncertainty, because they do not always hold early *Markman* hearings. Uncertainty regarding claim construction obviously increases the risks of being wrong about the merits of an attempted design-around.

At the same time, the introduction of a design-around can affect the district court's claim construction. In *K-TEC, Inc. v. Vita-Mix Corporation*, the defendant introduced a redesign in which the accused "fifth wall" of a blending jar was no longer flat, but curved.³⁶ The district court was not persuaded by this design-around

and granted summary judgment of infringement by the redesigned product.³⁷ Before trial, the district court also construed the recited “fifth truncated wall” to cover curved walls.³⁸ The Federal Circuit affirmed the district court’s grant of summary judgment and claim construction, finding that the district court properly clarified its claim construction after rejecting defendant’s claim construction arguments.³⁹ Accordingly, the introduction of an unsuccessful design-around can lock in a bad claim construction for the rest of the case.

Design-Around Considerations in the ITC and before the CBP

The ITC enforces Section 337 of the Tariff Act of 1930, which prohibits the importation, sale for importation, or sale within the United States after importation of products that infringe intellectual property rights such as patents. Unlike district courts, which must consider the four-factor *eBay* test to issue a permanent injunction, remedies for violation of Section 337 include a general or limited exclusion order, excluding defendant’s infringing products from entry into the United States, and cease and desist orders enforced within the domestic United States to bar the sale of previously imported, infringing products.⁴⁰

Furthermore, the ITC operates under a statutory mandate directing speedy resolution of Section 337 investigations.⁴¹ Once an investigation is instituted by the CBP, the assigned Administrative Law Judge (ALJ) typically sets a target date of 15-16 months for the completion of the investigation. This schedule usually requires a hearing before the ALJ within seven to nine months of the institution of an investigation and an Initial Determination on the merits of the case around 12 months after the institution.

In light of the nature of the injunctive-like-remedy and the accelerated schedule in ITC Section 337 cases, potential design-arounds can become an important consideration early in the case. The respondent must decide whether to begin to design around the asserted patents earlier in the process, to import the redesign, and/or to subject the design-around to the ITC’s broad discovery and to adjudication before the ALJ. Alternatively, the respondent can wait for a possible infringement determination by the ITC and introduce the design-around in proceedings before the CBP or, alternatively, return to the ITC after an exclusion order issues for an advisory opinion. The strategy of delaying adjudication of an attempted design-around, however, risks enforcement of the ITC’s exclusion orders through separate enforcement proceedings before the ITC initiated by the patent holder.

Introduction to a Pending Investigation

Respondents may seek to introduce design-arounds in a pending ITC investigation, to obtain adjudication by the ALJ and the ITC. A threshold question will be whether the ITC has jurisdiction over the redesigned product, based on either an actual importation or an imminent importation into the United States during the discovery period.

In *Certain Probe Card Assemblies*, for example, respondent Phicom wanted its new design to receive a ruling as to infringement, but complainant argued that the ITC did not have jurisdiction over the new design, because there was no imminent importation.⁴² The Office of Unfair Import Investigations (OUII) agreed with respondent and argued that the ITC had jurisdiction despite an absence of evidence of actual importation, “because Phicom stands **ready and willing to sell** its new probe cards to customers in the United States upon receipt of an order.”⁴³ The ALJ and the ITC agreed that the ITC possessed jurisdiction over the new design and determined that the new design did not infringe.⁴⁴

Even if a respondent were not willing or ready to introduce a design-around into the investigation, a complainant often seeks discovery of design-around efforts in Section 337 investigations. Section 337 investigations allow a broad scope of discovery, “generally somewhat broader than the scope of the investigation itself.”⁴⁵ The burden is on the party resisting discovery to prove that the requested information is clearly irrelevant. Unlike district courts, the ALJ also may order broader discovery with respect to parties in foreign jurisdictions. Moreover, discovery is not limited to specific products identified in the complaint, but instead is governed by the broad terms of the ITC’s Notice of Investigation.

Informal Approval from Customs

Another option for a respondent is to wait for a finding of infringement and issuance of a general or limited exclusion order by the ITC, and then seek informal approval from the CBP for its redesigned products. The CBP enforces and oversees the administration of the exclusion order. Although a respondent can continue to import infringing products under bond during the 60-day Presidential review period, the CBP normally begins to enforce an exclusion order against respondents’ products shortly following issuance of an exclusion order.

In the past several years, the CBP has established a number of Centers for Excellence and Expertise (CEEs)

that focus on CBP enforcement with respect to specific industries. These CEEs are part of CBP's mechanism for enforcing the ITC's exclusion orders such as by performing inspection and testing of potentially infringing products and reviewing disclosures by importers. For example, enforcement of exclusion orders relating to consumer electronics such as smartphones and televisions is assigned to the CEE located at the port of Long Beach, CA.

One goal for the CEEs is to offer centralized processing and advisory services for importers and to improve uniformity of enforcement across the over 300 US ports of entry. The CEEs offer a potential opportunity for respondents to approach them and seek informal guidance regarding whether their products are covered by an ITC exclusion order. Respondents may be able to demonstrate to the CEEs that their design-arounds do not fall within the scope of an exclusion order. This process is *ex parte*, informal and typically faster and cheaper than a formal ruling approach. However, depending on the complexity of the design-around, the patents involved, and the CBP's administration, a respondent may be required to seek a formal ruling request from the CBP's Intellectual Property Branch (IPR) within the Office of Rulings and Regulations at Customs headquarters in Washington, DC.

Formal Ruling from Customs

A respondent may seek a formal ruling that its design-around products are outside the scope of a limited or general exclusion order by filing a ruling request under 19 C.F.R. § 177. Pursuant to Customs' current regulations, the ruling request involves an *ex parte* process in which the patent holder is not notified of the respondent's or importer's ruling request or the substances of the redesign. The patent holder normally only will become aware of the potential redesign after Customs publishes its final ruling as to whether the redesign is infringing or noninfringing, and thus subject to the exclusion order or beyond its reach.

Recently, there have been efforts within the Executive Branch to improve the enforcement of ITC exclusion orders. In June 2013, the Intellectual Property Enforcement Coordinator (IPEC) within the White House identified improving CBP enforcement of ITC exclusion orders as part of IPEC's overall strategic plan.⁴⁶ The CBP also has been internally developing potential new regulations for handling ruling requests involving attempted redesigns. According to Customs sources, these new potential rules would involve an *inter partes* procedure involving submissions by both the respondent and the patent holder, followed by a

potential oral hearing of some type, before a decision is issued.

In the current Part 177 ruling process the CBP generally attempts to complete its rulings within 90-120 days after requests are filed; however, sometimes depending on the complexity of the patents and products it may take six months or longer. Thus, respondents that wish to continue importing and selling redesign products despite an ITC exclusion order are incentivized to file a ruling request (when necessary) as soon as possible after the ITC issues its remedy orders.

A potential downside of the formal ruling approach is that CBP rulings are not binding on the ITC, and the complainant patent holder may request that the ITC institute enforcement proceedings for violation of the exclusion order. In *Certain Lens-Fitted Cameras*, for example, the CBP interpreted the exclusion order to allow entry of certain camera products.⁴⁷ The complainant, however, successfully sought the imposition of monetary penalties for violation of the exclusion order from the ITC, notwithstanding CBP's interpretation.⁴⁸

Though CBP rulings on redesigns are not binding on the ITC, they may still be an attractive alternative because they typically are less expensive and faster than the ITC advisory opinion process.

ITC Advisory Opinions

Under 19 C.F.R. § 210.79, a respondent may file a request with the ITC for an advisory opinion proceeding. To determine whether to issue an advisory opinion, the ITC considers whether the issuance of such an advisory opinion would facilitate the enforcement of Section 337, would be in the public interest, would benefit consumers and competitive conditions in the United States, and whether the requester has a compelling business need for the advice and has framed its request as fully and accurately as possible.⁴⁹

The typical schedule for an ITC advisory opinion process often is lengthier than the Customs process. In Investigation No. 337-TA-650, for example, a non-respondent filed a request on September 12, 2011. The ITC directed the complainant and the OUII or the Staff to submit their respective views on whether the request should be granted and whether the matter should be referred to an ALJ. Both the complainant and the Staff filed a response stating that referral to an ALJ was not necessary. On February 9, 2012, around five months after the original request, the ITC issued an advisory opinion.

Alternatively, the ITC may delegate a request for advisory opinion to an ALJ, who can then conduct any proceedings deemed necessary. Thus, the advisory opinion proceeding may expand to include the ALJ issuing

a protective order, ordering discovery, holding hearings and taking evidence. The ALJ can set a procedural schedule that closely resembles the procedural schedule in an original Section 337 investigation. In Investigation No. 337-TA-565, for example, two respondents jointly requested an advisory opinion on December 13, 2010, and the complainants filed a petition to modify the general exclusion order and the cease and desist order on February 3, 2011. The ITC instituted consolidated proceedings on March 18, 2011 and directed the designation of an ALJ to issue an initial advisory opinion 11 months after institution. The ALJ's initial advisory opinion becomes the ITC's final determination 60 days after its issuance, unless the ITC determines to review it.

Recently, the ITC assigned certain advisory opinion proceedings to the OUII, in a process that required briefing but not a hearing.⁵⁰ In *Certain Kinesiotherapy Devices*, the OUII investigated the design-around devices and prepared a report, finding that the new devices were not covered by the general exclusion order and cease and desist order against the petitioning respondent. Upon the issuance of the OUII's report, the complainant and respondent filed comments and replies to comments. After reviewing the OUII's report and the parties' submissions, the ITC decided to adopt the report of the OUII as its advisory opinion.⁵¹

A major disadvantage of the ITC's advisory opinion process is that such opinions are not appealable to the Federal Circuit, as they are not considered as final determinations of the ITC.⁵² At the same time, the advisory opinions cannot be reviewed by any other federal court under the Administrative Procedure Act.⁵³

Advisory opinions have the benefit of being the ITC's official interpretation of its exclusion orders. The respondent or nonparty seeking the advisory opinion, however, bears the burden of proving noninfringement in an advisory opinion proceeding.⁵⁴ Moreover, if the ITC finds that the proposed design-around violates an existing exclusion order, the ITC may modify the existing order to reflect its advisory opinion.⁵⁵

The modified exclusion order could potentially remove any ambiguity about the attempted design-around product, and a complainant can request an enforcement proceeding if the respondent attempts to import the redesigned product. By statute, the enforcement proceeding can impose civil penalties of up to the greater of twice the entered value of the products imported or sold in violation of the consent order, or \$100,000 per violation each day an import occurs.⁵⁶ Civil penalties are reviewed for abuse of discretion.⁵⁷ The Federal Circuit, however, has affirmed civil penalties as high as \$11.11 million, rejecting arguments that such an amount was a punitive penalty.⁵⁸

Key Considerations in Introducing Potential Design-Arounds

Design-arounds present important strategic choices for both plaintiffs and defendants in patent litigation in district court and the ITC.

For plaintiffs, there can be benefits in seeking early discovery regarding potential design-arounds and accusing those products of infringement. In this scenario, it is important that the plaintiff obtain a claim construction that is broad enough to cover the attempted design-around and yet not weaken its validity position. If the plaintiff can obtain coverage of the attempted design-around, it could increase potential damages and strengthen its settlement leverage.

However, plaintiffs also face significant risks when accusing design-arounds in an existing case. If the plaintiff has to argue for an excessively broad claim construction to cover the potential design-around, it could provide an opportunity for a defendant to mount a stronger invalidity challenge. Also, if the district court reaches an adverse decision on the attempted design-around's infringement, then it likely will result in lesser damages and lower settlement value. Further, if there is a no infringement determination on the design-around, it could result in a toothless injunction or ITC exclusion order that leaves the design-around in the market.

For defendants, there also can be benefits in the right circumstances from disclosing its potential design-around during discovery and obtaining a favorable adjudication. If a defendant is able to obtain a judgment of noninfringement with respect to an attempted design-around, it may be able to limit the risk of a market foreclosure through a district court injunction or ITC exclusion order. Also, if a defendant can demonstrate that a potential design-around was relatively quick and easy to design and implement, it may limit damages for infringement that it may owe on older products that are found to infringe.

But there are numerous risks for defendants considering potential design-arounds related to ongoing litigation. Often, clients are highly sensitive to discovery of products still under development, even when protective orders are in place. Also, there is the danger that the inclusion of potential design-arounds in a pending case might be premature if claim construction has not yet issued, making it difficult to analyze whether an attempted design-around might continue to infringe. By contrast, waiting to introduce potential design-arounds carries risks that the new products may not be found "colorably different" from products found to infringe, and thus subject

to contempt proceedings in district court with potential monetary sanctions. In the ITC, there also is the risk that potential design-around products may be found to be

within the scope of an exclusion order and thus subject to an enforcement action and potential substantial monetary penalties.

1. *State Indus. Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1236 (Fed.Cir.1985).
2. *See Slimfold Mfg. Co., Inc. v. Kinkead Industries, Inc.*, 932 F.2d 1453, 1457 (Fed. Cir. 1991) (“Intentional ‘designing around’ the claims of a patent is not by itself a wrong that must be compensated by invocation of the doctrine of equivalents. Designing around patents is, in fact, one of the ways in which the patent system works to the advantage of the public in promoting progress in the useful arts, its constitutional purpose.”)
3. *See, e.g., TiVo Inc. v. EchoStar Corp.*, 646 F.3d 869 (Fed. Cir. 2011) (*en banc*) (affirming finding of contempt and civil penalties).
4. *Id.* at 880-881.
5. *Id.* at 882.
6. *Id.*
7. *Id.*
8. *Id.* at 882.
9. *Id.* at 882-883.
10. *Id.*
11. *Id.* at 883.
12. *Id.*
13. *Neube Corp. v. SeaChange Int’l Inc.*, 732 F.3d 1346, 1351 (Fed. Cir. 2013).
14. *Id.* at 1349.
15. *Id.* at 1350.
16. *Id.* at 1351.
17. *Id.*
18. *Proveris Scientific Corp. v. Innovasystems, Inc.*, 739 F.3d 1367, 1371 (Fed. Cir. 2014).
19. *Id.* at 1370-1371.
20. *Id.* at 1371.
21. *Id.* at 1371.
22. *Tivo*, 646 F.3d at 880.
23. *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 435 F.3d 1356, 1364-1365 (Fed. Cir. 2006).
24. *Id.* at 1358.
25. *Id.* at 1359.
26. *Id.* at 1366.
27. *Id.* at 1365.
28. *Id.*
29. *See Hypertherm, Inc. v. American Torch Tip Co.*, 2009 WL 703271 (D. N.H. March 16, 2009); *Visteon Global Technologies Inc. v. Garmin Int’l Inc.*, 903 F. Supp. 2d 521 (E.D. MI 2012) (compelling deposition of defendant’s in-house regarding design-around).
30. *Funai Elec. Co. v. Daewoo Electronics Corp.*, 593 F. Supp. 2d 1088, 1116 (N.D. Cal. 2009).
31. *I-Flow Corp. v. Apex Med Techs, Inc.*, 2010 US DIST LEXIS 1021 at *9 (S.D. Cal. Jan. 6, 2010).
32. *Airborne Athletics, Inc. v. Shoot-A-Way, Inc.*, No. 10-3785, 2012 WL 3612035, *1-2, 6 (D. Minn. Aug. 21, 2012).
33. *Id.* at *1-2.
34. *Id.* at *6.
35. *Hypertherm Inc.*, 2009 WL 703271 at 1-2.
36. *K-TEC, Inc. v. Vita-Mix Corp.*, 696 F.3d 1364, 1370 (Fed. Cir. 2012).
37. *Id.* at 1371.
38. *Id.*
39. *Id.* at 1376.
40. *Spansion v. USITC*, 401 F.3d 1323, 1339 (Fed. Cir. 2010).
41. Pursuant to 19 U.S.C. § 1337(b)(1), the ITC is directed to complete Section 337 investigations “at the earliest practicable time...”
42. *Certain Probe Card Assemblies, Components Thereof, and Certain Tested DRAM and NAND Flash Memory Devices, and Products Containing Same*, Inv. No. 337-TA-621, 2009 WL 2196921, Initial Determination, at *52 (2009).
43. *Id.* at *9 (emphasis added).
44. *Id.* at *9, *52-54; *Comm’n Op.*, 2009 WL 4757332, at *6.
45. *Certain Electronic Digital Media Devices and Components Thereof*, Inv. No. 337-TA-796, Order No. 14, at 5 (Feb. 14, 2012).
46. Office of the U.S. Intellectual Property Enforcement Coordinator, “2013 Joint Strategic Plan on Intellectual Property Enforcement,” at 17 (June 2013).
47. *See Lens-Fitted Film Packages*, HQ 471165 (CBP May 15, 2002).
48. *See Lens-Fitted Film Packages*, Inv. No. 337-TA-406, *Comm’n Op. (Enforcement)*, at 19-21 (June 24, 2003).
49. 19 C.F.R. § 210.79.
50. *See Certain Kinesiotherapy Devices and Components Thereof*, Inv. No. 337-TA-823, *Comm’n Decision To Adopt A Report Issued By The Office of Unfair Import Investigations as An Advisory Op.*, 79 Fed. Reg. 38330 (July 7, 2014); *Certain Cases for Portable Electronic Devices*, 79 Fed. Reg. 64214-15 (Oct. 28, 2014) (instituting advisory opinion proceeding and referring to OUII for investigation and issuance of report within 90 days).
51. *Id.*
52. *Certain Hardware Logic Emulation Systems and Components*, Inv. No. 337-TA-383, *Initial Adv. Op.* at 11-24 (Aug. 7, 2000), *Not. Of Comm’n Non-Review* (Sept. 22, 2000).
53. *Id.*
54. *Certain Sleep-Disordered Breathing Treatment Systems and Components Thereof*, Inv. No. 337-TA-879, *Advisory Op.*, at 11 (Aug. 11, 2014).
55. *See Certain Ink Cartridges and Components*, Inv. No. 337-TA-565, *Comm’n Order* at 2 (Mar. 18, 2011) (consolidating an advisory opinion proceeding and a modification proceeding).
56. *See* 19 U.S.C. §1337(f)(2).
57. *See Genentech, Inc. v. U.S. Int’l Trade Comm’n*, 122 F.3d 1409, 1414 (Fed. Cir. 1997).
58. *See Ninestar Tech. Co. v. Int’l Trade Comm’n*, No. 09-1549, *Slip. Op.* at 15 (Fed. Cir. 2012).

Court Finds That Adverse Markman Ruling Does Not Automatically Establish Good Cause to Amend Contentions

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A key objective of many local patent rules is to encourage parties to solidify their legal theories regarding infringement and invalidity at the outset of litigation. These rules save litigant and court resources by preventing the “shifting sands” approach to claim construction, that is, it discourages parties from subsequently amending their claim charts throughout the lawsuit, thereby making the opposition respond to a moving target of contentions. To this end, under their local patent rules, some courts will only allow for amendment of contentions when these amendments are made for good cause and when the moving party acts diligently in amending based on newly discovered information.

Some districts already have held that good cause is lacking when a party moves to amend contentions based on a *Markman* ruling in its favor.¹ The local patent rules were “designed to require parties to crystallize their theories of the case early in the litigation and to adhere to those theories once they have been disclosed.”²

The Silver State Case

In the case of *Silver State Intellectual Technologies, Inc. v. Garmin International, Inc.*,³ Judge Pro took a similarly

narrow view of what constitutes good cause in deciding that a *Markman* ruling adopting the opposing party's claim construction does not necessarily give rise to good cause to amend. Following the court's *Markman* ruling adopting plaintiff's claim construction, the accused infringer amended its contentions to include new invalidity arguments based on newly identified prior art in light of the court's construction. The defendant argued that the good cause requirement was met due to the court's adoption of claim construction other than defendant's.

Indeed, the District of Nevada's Local Patent Rules identifies a court's claim construction different from that proposed by a party as an example of a circumstance that may support a finding of good cause for that party to amend its contentions.⁴ However, Judge Pro noted that such a finding is not automatic, “particularly where the Court adopts the construction proposed by the other party, as such a construction would not come as a surprise to the party seeking to amend.”⁵ Judge Pro granted plaintiff's motion to strike for lack of good cause those portions of defendant's amended contentions that were added based on the court's claim construction. This order was based in part on the fact that the defendant had sufficient notice that the court might construe the claims as it did, because that construction was proposed by the plaintiff in its initial claim construction brief filed nearly a year before the court's construction order. Thus, according to the court, the defendant was aware of the risk of such a construction being adopted and should have prepared accordingly, and that its subsequent adoption did not constitute good cause for the amended contentions.

The court's order also was based in part on the defendant's lack of diligence in amending its contentions following the *Markman* ruling. The defendant filed its amendments on the final day of fact discovery, nearly two months after the construction order. Therefore, the court held, the plaintiff would be unfairly prejudiced by having to extend discovery and expend resources to respond to the new contentions.

Conclusion

Litigants should not assume that they will have automatic leave to amend their contentions following an adverse

claim construction. They should anticipate the possibility that the court will adopt the opposing party's proposed claim construction and should act diligently to conduct discovery and amend their contentions as necessary.

1. *See, e.g.,* *Thermapure v. Just Right Cleaning*, No. CV-11-0431-RHW, 2013 WL 3340494 (E.D. Was. Nov. 7, 2012), where Judge Whaley ruled that in contrast to the more liberal policy for amending pleadings, "the philosophy behind amending claim charts is decidedly conservative, and designed to prevent the 'shifting sands' approach to claim construction." *LG Elecs. Inc. v. Q-Lity Computer Inc.*, 211 F.R.D. 360, 367 (N.D.Cal. 2002).
2. *O2 Micro Int'l Ltd. v. Monolithic Power Sys., Inc.*, 467 F.3d 1355, 1366 n. 12 (Fed. Cir. 2006).
3. *Silver State Intellectual Technologies, Inc. v. Garmen Int'l, Inc.*, No. 2:11-CV-01578-PMP, 2014 WL 3687245 (D.Nev. July 24, 2014).
4. D. Nev. R. 16.1-12.
5. *Silver State*, 2014 WL 3687245, at *4.

A Look at IP Rights under the New Comprehensive Economic and Trade Agreement

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After several years of drawn-out negotiations, Canada and the European Union finally signed the Canadian-EU Comprehensive Economic and Trade Agreement (CETA) on September 26, 2014, following an “agreement in principle” on October 18, 2013. The Canadian government has described CETA as a landmark trade agreement that is broader in scope and deeper in ambition than NAFTA (North American Free Trade Agreement), boasting a predicted 20 percent boost in bilateral trade and a \$12 billion increase in Canada’s gross domestic product (GDP). The text of CETA covers a comprehensive range of trade and innovation-related issues and seeks to effect several changes across the IP landscape in Canada. In particular, Chapter 22 covers Intellectual Property Rights (IPRs), and focuses on setting standards for IPRs and enforcement measures. This section of CETA is meant to achieve two objectives: (1) to facilitate the production and commercialization of innovative and creative products, and the provision of services, between the Canada and the European Union; and (2) to achieve an adequate and effective level of protection and enforcement of intellectual property rights.

The following is a summary of the provisions in the IPR Chapter.

Copyright and Related Rights

As a result of the recent update to Canada’s copyright system via the Copyright Modernization Act, which

came into force on November 7, 2012, the CETA provisions relating to copyright are reflected in Canada’s current copyright regime, including compliance with international treaties, term of protection, broadcasting, protection of technological measures, protection of rights management information, and liability of intermediary service providers.

Compliance with International Treaties

CETA will require the parties to comply with various international IP treaties affecting copyright, including the Berne Convention (1886, amended 1979), the WIPO Copyright Treaty (1996), the WIPO Performances and Phonograms Treaty (1996), and the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961). Canada is now in compliance with all of these treaties as a result of the Copyright Modernization Act.

Copyright Term Extension

Despite earlier reports of the European Union demanding Canada extend the term of copyright protection, the CETA text does not require Canada to extend copyright protection beyond the current term of life of the creator plus 50 years.

Broadcasting and Communication to the Public

CETA will require the parties to provide performers with the right to authorize or prohibit the broadcast of their works by wireless means and to ensure that appropriate remuneration is paid, all of which is reflected in Canada’s current laws. Despite earlier reports of the European Union demanding enhanced copyright protections for broadcasters, which would have required new restrictions on copying broadcast programs for personal use or other fair dealing purposes, the CETA text is silent on such enhanced copyright protections for broadcasters.

Protection of Technological Measures and Rights Management Information

CETA will require the parties to provide “adequate legal protection” and “effective legal remedies” against the circumvention of technological protection measures (TPMs) and removal or alteration of rights management information (RMI). Canada’s new provisions in the Copyright Act governing TPMs and RMIs (*see* Section 41) are consistent with CETA’s requirements.

Liability of Intermediary Service Providers

CETA will require the parties to provide certain exceptions or limitations to the liability of intermediary service providers for copyright infringement taking place via the communication network services that they provide. Canada’s new provisions in the *Copyright Act* governing exceptions to copyright infringement for Internet or other digital network service providers (*see* Section 31.1) are consistent with CETA’s requirements.

Trademarks

CETA will require the parties to “make all reasonable efforts” to comply with the Singapore Treaty on the Law of Trademarks (2006) and to accede to the Madrid Protocol. Through the omnibus Bill C-31 Budget Implementation Act, which received royal assent on June 19, 2014, Canada will be amending its Trade-marks Act to bring Canadian trademark law in compliance with the Madrid Protocol, the Singapore Treaty and the Nice Agreement.

CETA will also require the parties to provide a system for trademark registration that includes: (1) a system that allows applicants to contest and appeal refusals to register, (2) a process for filing oppositions against trademark applications or trademark registrations, and (3) a publicly available electronic database of trademark applications and trademark registrations. The parties also must allow for the fair use of descriptive terms, including terms descriptive of geographical origin, as a limited exception to the rights conferred by a trademark. These requirements already are reflected in Canada’s current trademark system.

Geographical Indications

CETA will require the parties to establish protections for a broad range of geographical indications (GIs), that is, an indication which identifies an agricultural product or foodstuff as originating in the territory of Canada or

the European Union, or a region or locality in that territory, where a given quality, reputation or other characteristic of the product essentially is attributable to its geographical origin. Such protections include the legal means for an interested person to prevent the use of the GI in certain circumstances, for example, in a manner that is false or misleading or otherwise constitutes unfair competition.

Attached to the CETA text as Annex I, Part A is a list of protected GIs for 173 European agricultural products or foodstuffs. While Canadian law currently offers protection for certain GIs related to wine and spirits, the CETA Part A list greatly expands the number and types of products protected by GIs. For example, Canadian producers of Roquefort cheese would now need to re-label the product with a different name, as the term Roquefort is a listed GI for cheese produced in France.

However, the CETA text does provide several exceptions or limitations to protection afforded to certain listed GIs. For example, an exception is made for certain GIs relating to the use of specified English and French-language terms that commonly are employed in Canada, for example, Canadian producers can use “Black Forest Ham” or “Jambon Forêt Noire,” but not the German equivalent “Schwarzwälder Schinken.” The CETA text also provides for exceptions for certain GIs that are commonly used in Canada (*e.g.*, Asiago, Feta, Fontina, Gorgonzola, Munster) when the use of such terms is accompanied by qualifiers such as “kind,” “type,” “style,” “imitation,” etc.

GIs for Canadian products and foodstuffs would be listed in Annex I, Part B. However, Part B in the CETA text is currently empty, suggesting that no Canadian products currently are protected. However, Article 7.7 provides that Annex I can be amended to add or remove GIs by recommendation of the CETA Committee on Geographical Indications.

Industrial Designs

CETA will require the parties to make “all reasonable efforts” to accede to the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Design (1999).

Canada is not yet a party to the Geneva Act of the Hague Agreement and Canada’s Industrial Design Act has remained substantively unchanged since the 1985 amendments. The Canadian Intellectual Property Office (CIPO) has published a paper dated July 2013 entitled “Legal and Technical Implications of Canadian Adherence to the Geneva Act of the Hague Agreement” that suggests a number of substantive changes will have to be made to Canada’s Industrial Design Act in order to adhere to the Hague Agreement. For example, adherence to the Hague Agreement will require amendments:

- To designate Canada's Industrial Design Office (CIDO) as the office for accepting international applications and to require CIDO to receive and send communications to the International Bureau of WIPO (the IB) regarding acceptance or refusals of international registrations within strict time limits;
- To increase the total term of protection of industrial designs to at least 15 years from the filing date of the international registration;
- To limit the period in which publication of an international registration can be deferred to 30 months or less (currently, Canada's Industrial Design Act or its Regulations do not contain any limits on how long publication of a registration can be deferred);
- To provide an international registration designating Canada with the same effect as an application for registration filed pursuant to Section 4 of the current Industrial Design Act;
- To provide that an international registration designating Canada be treated as having met, on the date of the international registration, the Canadian requirements for filing an application, that is, the technical requirements for filing and thereby establishing the filing date will have to be relaxed to accept the particulars provided in the international registration; and
- To allow for the division of an international registration (which can include up to 100 different designs belonging to the same class) into individual Canadian registrations (which are limited to a single design per application/registration).

Patents, Pharmaceutical Products and Data Protection

Sui Generis Protection for Pharmaceuticals (Patent Term Restoration/ Extension)

CETA will require the parties to provide a period of “*sui generis*” protection to pharmaceutical patents to cover the period between the filing date of the patent application and the date on which the pharmaceutical product was granted authorization to enter the market, reduced by a period of five years. The *sui generis* period may not exceed a period of two to five years, to be established by each party. According to a previous summary document released by the Canadian government, the period of protection offered by Canada will not exceed two years, while the cap on protection in the European Union will be five years.

This *sui generis* protection, which confers the same rights as conferred by the patent and is subject to the same limitations and obligations, is essentially a patent term extension or restoration for some of the time lost between the filing date of the patent application and the date when the pharmaceutical product was granted market authorization.

There are certain limitations or exceptions to the *sui generis* protection, for example:

1. Only one *sui generis* term of protection is available per pharmaceutical product, even if the product is covered by multiple patents;
2. The *sui generis* protection extends only to the pharmaceutical product that is covered by the marketing authorization and the use of any such products approved before the expiry of the *sui generis* protection; and
3. The *sui generis* protection can be revoked if the applicable patent has been invalidated or no longer covers the product approved for market, or where such market approval has been revoked.

Patent Linkage Mechanisms and Right of Appeal

CETA will require the parties to provide “equivalent and effective rights of appeal” for all litigants in proceedings that rely on “patent linkage” mechanisms, whereby the granting of marketing authorizations for generic pharmaceutical products is linked to the existence of patent protection.

The current system in place in Canada for marketing approval of generic pharmaceutical products relies on a patent linkage mechanism. The Patented Medicines (Notice of Compliance) Regulations (PM (NOC) Regulations) provide for a summary proceeding in which generic pharmaceutical companies address patent(s) owned by a brand-name manufacturer linked to a brand-name drug by alleging invalidity or noninfringement of the linked patent(s). Only if the generic's allegations prove successful can market approval (or a “Notice of Compliance”) be issued.

The current system does not provide brand-name manufacturers with a right of appeal under the PM(NOC) Regulations. Brand-name manufacturers only can sue the generic manufacturers for patent infringement separately in the regular court system, essentially creating a practice of “dual litigation.” While generic manufacturers do have a right of appeal under the PM(NOC) Regulations, a generic's success under the PM(NOC) proceeding is no guarantee of similar success in a case of a patent infringement litigation, as decisions under the PM(NOC) proceeding regarding patent infringement or

validity are not necessarily binding on subsequent patent litigation decisions.

The CETA text is silent on how exactly the equivalent and effective rights of appeal must be implemented by the parties. However, according to a previous document released by the Canadian government, it suggests that Canada will end the practice of “dual litigation.”

Data Protection

CETA will require the parties to provide for protection of undisclosed data relating to new, innovative pharmaceutical products submitted by brand-name manufacturers for purposes of market approval by: (1) prohibiting generic drug manufacturers from relying on such data in its own market approval application for a period of six years and (2) prohibiting the parties from issuing market approval within eight years of granting data protection.

In Canada, the *Food and Drug Regulations* provide market exclusivity to innovative drug manufacturers for innovative new drugs via eight years of data protection. Canada also imposes a six-year “no filing” data protection period where generic companies cannot make use of the innovative drug manufacturer’s data in their applications for market approval for a minimum of six years (it generally takes another two years to obtain market approval). The CETA text locks in Canada’s current allowance for a six/eight-year term of data protection.

Data Protection on Plant Protection Products

CETA will require the parties to provide protection, for a period of at least 10 years, of data supporting the marketing authorization of a new active ingredient that is a plant protection product and data supporting concurrent registration of the end-use product containing the active ingredient. The CETA text also provides for other provisions to provide certainty for data protection for plant protection products.

Canada’s laws appear to be consistent with the requirements of the CETA text. For example, the Pest Control Products Regulations provide registrants of new active ingredients that are pest control products, with the exclusive use of test data filed in support of their registration, for a period of 10 years following the date of registration (*see* Section 17.5).

Plant Varieties

CETA will require the parties to cooperate to promote and reinforce the protection of plant varieties based on the International Convention for the Protection of New Varieties of Plants (UPOV).

Canada and countries in the European Union already are members of UPOV, but Canada is only party to the 1978 Act of UPOV and has not yet signed onto the 1991 Act. In Canada, Bill C-18, entitled the Agricultural Growth Act, is an omnibus bill currently before Parliament that proposes amendments to the Plant Breeders’ Rights Act that will bring Canada into compliance with the 1991 Act of UPOV.

The amendments would include, for example:

- A one-year grace period for the sale of a plant variety in Canada prior to the filing date, which would otherwise be a bar to the registration of plant breeders’ rights;
- An increase of the term of protection from 18 years to 25 years in the case of a tree or vine and 20 years in any other case;
- An expanded scope of plant breeder’s rights respecting a variety, including the types of materials to which that the expanded scope of rights applies; and
- Exceptions for private and noncommercial purposes, experimental purposes, for the purpose of breeding other plant varieties, and for “farmers’ privilege,” that is, allows for farmers to save and replant seeds of a protected variety on their own land for the purposes of propagating that variety.

Enforcement of Intellectual Property Rights

CETA requires the parties to generally provide procedures for the enforcement of IPRs that are fair and equitable, not unnecessarily complicated or costly, and do not entail unreasonable time-limits or unwarranted delays. In particular, the CETA text requires a list of provisions applicable to civil enforcement, which includes the requirement that judicial authorities be given the authority to order, in the context of civil proceedings relating to IPR infringement, the following:

1. The production of relevant evidence and information;
2. The preservation of relevant evidence and information;
3. Appropriate precautionary or preventive measures, for example, injunctions, seizures of infringing goods/property, etc.;
4. Other remedies such as the removal or destruction of infringing goods;
5. Monetary awards to IPR holders in the form of damages, accounting of profits, or remuneration (*e.g.*, royalties) to compensate for any infringement of IPRs; and
6. Compensation to the prevailing party by the losing party of legal costs and other expenses.

Canada's current legal system appears to meet all of the requirements under the CETA text regarding the enforcement of IPRs.

Border Measures

CETA requires the parties to maintain or adopt procedures with respect to import and export shipments that allow for the suspension or detention of goods under suspicion of infringement of IPRs, either at the request of IPR holders or by competent authorities to act on their own initiative. In particular, the CETA text calls for:

1. Appropriate procedures in place to allow IPR holders to allow for applications, supported by adequate evidence and relevant information, for suspension or detention of goods suspected of infringing IPRs;
2. Adoption of procedures by which competent authorities may determine, within a reasonable period after the suspension/detainment procedure has commenced, whether the suspected goods infringe IPRs; and
3. Remedies, including the ordering of administrative penalties and the destruction of goods, or otherwise the removal of materials, found to be infringing IPRs.

It is important to note that the IPRs covered under this article concern pirated copyright goods, counterfeit trademark goods, and counterfeit GI goods. Canada's laws do not currently provide for such procedures. However, Bill C-8, the Combatting Counterfeit Products Act (CCPA), is currently pending in Parliament (recently passed by the House of Commons, currently making its way through the Senate) and will amend Canada's

Copyright Act and Trade-marks Act to add new civil and criminal remedies and new border measures in both Acts. Among other things, the proposed CCPA will enact new border enforcement measures enabling customs officers to detain goods that they suspect infringe copyright or trademark rights. It allows rights owners to file a request for assistance from customs officers and allows for information to be shared between customs officers and rights holders, which will allow rights holders an opportunity to pursue remedies in court.

The passage of the CCPA would update Canada's border and counterfeiting laws to bring Canada mostly in compliance with the requirements under CETA. However, the proposed amendments under the CCPA do not address any counterfeit GI goods, which is expressly required under the CETA text. As such, further amendments to Canada's laws will be required.

Conclusion

According to a disclaimer in the released CETA text, the complete text will be subject to legal review and formatting before being finalized and will become binding on the completion of the ratification process by both Canada and the European Union.

There is enough flexibility in the CETA text that the precise implementation of all of Canada's commitments under CETA's IPR Chapter will be up for debate. However, it is apparent that the Canadian government has been busy effecting changes in the IP landscape while it was negotiating CETA. Several of these changes already have been formalized or will be formalized shortly, but there will still be several new changes to Canada's IP laws to take form over the next few years.

Copyright and Performance Rights in an Online Video World

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In a world of ubiquitous videos, will performance rights become the next intellectual property frontier? People have been performing for one another for centuries. But suddenly courts are grappling with performance copyright claims, including two quite unusual cases that led to decisions by two of the country's most prominent judges.

Performances, at least live performances, generally fall outside of copyright protection. A copyrighted work must be fixed in a tangible medium of expression, and live performances are dynamic and ephemeral, not fixed. But there's an Internet twist—everyone has video cameras these days, and the resulting videos frequently end up online. In this way, performances often are fixed (usually by someone else's video), and those videos often are made widely available.

Under these circumstances, it is not surprising that two quite different cases recently reached federal appellate courts, alleging violations of performance rights. In both cases, it was the act of posting a video on the Internet that concerned the plaintiffs.

Garcia v. Google

The case that has received the most attention, and clearly the more serious of the two, concerned an amateur actress, Cindy Lee Garcia. She agreed to perform a minor role in an historical adventure film. But the producer apparently misled her, for her scene was used in an anti-Islamic film titled "Innocence of Muslims," and her brief performance was partly dubbed so that she appeared to be asking: "Is your Mohammed a child molester?" Not surprisingly, Islamic groups were offended by the film. An Egyptian cleric even issued a fatwa against everyone involved with the film. Garcia soon began receiving death threats.

The film had been posted on the Internet, and Garcia sought to have it taken down. But under the Digital

Millennium Copyright Act (DMCA), only copyright owners can demand takedown of a work. The film was the producer's copyrighted work, not hers. She claimed, however, that in the unique circumstances of this film, she owned an independent copyright in her performance, as it was fixed in tangible form in the film.

The trial judge rejected Garcia's claim, but on appeal, a three-judge panel of the US Court of Appeals for the Ninth Circuit reversed in a 2-1 decision written by Chief Judge Alex Kozinski, who has written many key decisions in Internet, intellectual property and entertainment law.¹ (Rehearing en banc is currently pending.)

Judge Kozinski acknowledged that the case was unusual. Actors do not own copyrights in their performances in Hollywood films. But that is at least partly due to the fact that film contracts, at least at major studios, clearly delineate the rights of each person and entity involved, and include comprehensive grants of right by actors in favor of the studio. In Garcia's case, there was no contract, and thus the unusual ("rarely litigated," in Judge Kozinski's words) issue arose as to whether she owned a copyright in her performance.

Before the 1976 Copyright Act, the copyright law specified just what kinds of works qualified for copyright. The original Copyright Act of 1790, for example, was limited to "books, charts, and maps." But Section 102 of the 1976 act employed a new, wide-open definition, meant to embrace works of many different kinds; all that is required is "an original work of authorship fixed in any tangible means of expression, now known or later developed." It is a broad definition, and it gave an opening for Garcia's performance rights claim.

Judge Kozinski held that there was a plausible case that Garcia acted creatively, and that her acting contributed to the film beyond the mere lines and directions in the script. He stated:

[A]n actor does far more than speak words on a page; he must "live his part inwardly, and then ... give to his experience an external embodiment." That embodiment includes body language, facial expression and reactions to other actors and elements of a scene. Otherwise, "every shmuck ... is an actor because everyone ... knows how to read."

An actor's performance, when fixed, is copyrightable if it evinces "some minimal degree of creativity... 'no matter how crude, humble or obvious' it might be." *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991) (quoting 1 Nimmer on Copyright § 1.08[C][1]). That is true whether the actor speaks, is dubbed over or, like Buster Keaton, performs without any words at all. Cf. 17 U.S.C. § 102(a)(4) (noting "pantomimes and choreographic works" are eligible for copyright protection). It's clear that Garcia's performance meets these minimum requirements. (Most citations omitted).

Additionally, because these independent creative actions were filmed, they were fixed in tangible form and hence protectable as copyright. The court acknowledged that it may be important *who* fixes the work in tangible form ("whether the author of a dramatic performance must personally fix his work in a tangible medium"), but it did not address that issue because the parties had not raised it.

The court's finding of a copyrightable performance is the crux, and most controversial aspect, of the decision. (It should be noted, however, that the court stressed the preliminary injunction setting, and expressly stated, "Nothing we say today precludes the district court from concluding that Garcia doesn't have a copyrightable interest, or that Google prevails on any of its defenses.") Critics point to the somewhat cursory analysis (the assumption that the actresses' acting contains creative content beyond the script she followed) and the lack precedential cases on copyrightability of acting performances.

Having found a copyright in the performance, the court went on to examine who owned the copyright and who had rights to use it. Ownership inquiry in copyright is relatively simple: the artist/creator owns it, unless it is a work for hire or is legally transferred. Here, the producer was not Garcia's employer and had no written agreement with her, so the work-for-hire doctrine did not apply, and thus Garcia, not the producer, owned the performance copyright, the court held. There was no suggestion that she had transferred the copyright, and under Section 204(a) of the Copyright Act, a transfer would require a written agreement, of which there was none.

In an earlier case, involving Spike Lee's movie *Malcolm X*, the Ninth Circuit had rejected an individual consultant's copyright claim, and engaged in a lengthy analysis of copyright ownership with respect to movies. But the analysis in that case, *Aalmuhammed v. Lee*,² focused on joint works, and Judge Kozinski noted that just because Garcia was not a joint author with the movie producer didn't mean that she didn't have a copyright

of her own. He did not directly address, however, the suggestion in *Aalmuhammed* that movies were unitary works, that is, that the final movie is the only copyrighted work, and all subsidiary contributions, such as the performances of actors, are subsumed within that final work.

The Issue of Consent

Didn't the producer at least have rights to use Garcia's filmed performance? Consent to use a copyrighted work often is implied from circumstances, and by participating in the filming, Garcia clearly consented to some use of her performance before the camera. But the unusual circumstances of the case came into play here, and the court found that while she clearly consented to the producer's use of her performance in the historical adventure film, that consent doesn't extend to the anti-Islamic diatribe, which "differs so radically" from what she originally understood to be her role.

Putting together all of its conclusions—and acknowledging that they were tentative due to the nature of the preliminary injunction hearing record—the court concluded that Garcia owned a copyright and could claim that its Internet distribution, distorted by being placed in "Innocence of Muslims," was unauthorized.

The ruling has sparked considerable criticism, and the court revised its opinion, though not its outcome, in response. Judge N.R. Smith dissented, relying on standard copyright dogma that mere performances by actors and actresses are not intended to be copyrightable. He essentially identified the script to which Garcia performed, and the resulting movie informed by creative decisions of the photographer and director, as the relevant creative works, particularly given the minimal aspect of her performance compared to the entire work.

Implications of *Garcia*

The *Garcia* decision, scheduled for rehearing by the Ninth Circuit *en banc* on December 15, 2014, is clearly controversial, and raises many concerns, including disruption to DMCA procedures if every participant in collective multimedia work has a right to demand it be taken down. The *Garcia* ruling cannot be separated from its unique facts, including the apparent deception in how Garcia's performance was obtained, and the fatwa and death threats that resulted from the posting of the video.

Perhaps most disappointing is the decision's lack of full discussion on the threshold issue of the copyrightability of performances. Generally plays and scripts are considered creative works, and acting performances merely representations of those works, not independently copyrightable works. Indeed, one of Judge Kozinski's notable

prior opinions stressed that at least in traditional films, when one purchases rights to a film, the images of the actors and the actions in the film go with it. Identifying severable independently copyrightable performance copyrights is a big step that deserves full discussion.

Conrad v. AM Community Credit Union

Far different circumstances were presented by Catherine Conrad, a/k/a the “Banana Lady,” who puts on private performances while wearing a costume in the shape of a giant banana.

One of her cases, *Conrad v. AM Community Credit Union*,³ reached the US Court of Appeals for the Seventh Circuit. Conrad had performed at a credit union trade association event, and despite her desire to forbid photos and videos, videos of her performances were posted to the Internet. She claimed that those videos infringed her performance.

The appeals court unanimously rejected her claim, in a decision written by Judge Richard Posner, another intellectual property thought leader. Judge Posner held that Conrad’s performance “was not copyrighted or even copyrightable,” since it was not fixed in a tangible medium.

In fact, however, it *was* fixed in the tangible and ubiquitous media of today—cell phone videos. Without directly addressing the issue, Judge Posner indicated that these videos did not matter. His thinking appears to be that the videos portrayed nothing copyrightable. We know this because he addressed the ancillary point of whether the videos infringed Conrad’s rights; he concluded they did not, because they merely portrayed noncopyrightable material.

In this regard, the Court could have advanced the performance rights issue, particularly in light of the questions raised by *Garcia*, by providing more analysis. Why didn’t the court find Conrad’s performance copyrightable? Too simple, too unscripted, too banana-silly? What about those emotions and creative expressions that Judge Kozinski found dispositive in *Garcia*? Did Conrad’s banana suit hide them, did Judge Posner (who has expertise in art; he authored a book on art and the law) find her expressions insufficiently creative, or did the court simply view performances as non-copyrightable?

Finally, could the spectator videos provide the necessary tangibility required for copyright? Or did the court implicitly assume an affirmative answer to one of the issues expressly left open in *Garcia*: Whether the

recording in tangible means must be done personally by the author? The definition of fixation in Section 101 of the Copyright Act requires that the fixation occur “by or under the authority of the author,” and whether that requirement is satisfied may depend on the facts.

Further performance rights cases may have to directly address when “fixation” may be viewed as under the authority of the author. When, for example, does a professor’s lecture become fixed? Presumably not when students record it secretly, but are student recordings sufficiently made under the author’s authority when they make the recordings with the professor’s implicit permission (by placing recorders on the podium)? Or should copyright protection arise only from fixations expressly authorized or conducted by the professor or his or her agent?

As in *Garcia*, contracts could have made a difference for Conrad. Conrad alleged that the event organizer was contractually obligated to prohibit posting of videos of her performance—but the record showed that the organizer did make that announcement, and therefore cannot be claimed to have induced any copyright violations.

Finally, as in *Garcia*, the factual circumstances colored Conrad’s case. Conrad had a record of making frivolous claims, so much so that the appeals court even suggested that trial courts should consider barring her from filing further cases until she pays the sanctions awarded to her adversaries in several previous cases. Also, no one was making death threats over silly “Banana Shake” performances.

Conclusion

Garcia and *Conrad* both suggest that in today’s world of ubiquitous video, we are likely to see more claims of performance rights, especially if cases such as *Garcia* keep the door open to them, and if third-party videotaping can be found implicitly authorized by the author, thereby satisfying the fixation requirement. In these circumstances, both performers and producers of performances should take special care to use contracts to clarify the ownership of performance rights.

That, at least, is the primary lesson for performance rights. But *Garcia* and *Conrad* raise the broader concern that the wide-open definition of copyright under Section 102 (any work of “authorship” that is fixed in a current or future tangible medium) inevitably leads to creative copyright claims. In a system where claims are made (and rejected) for copyright in transitory food creations,⁴ it is likely that even more creative (or outrageous, depending on your perspective) copyright theories will be forthcoming.

1. *Garcia v. Google, Inc.*, 2014 WL 3377343, 111 U.S.P.Q.2d 1748 (9th Cir. July 11, 2014).

2. *Aalmuhammed v. Lee*, 202 F.2d 1227 (9th Cir. 2000).

3. *Conrad v. AM Community Credit Union*, 750 F.3d 634 (7th Cir. 2014).

4. *Kim Seng Co. v. J&A Importers, Inc.*, No. CV10-742 CAS (C.D.Cal. Aug. 30, 2011).

Proposed Changes to FRCP Likely to Lead to Heightened Pleading Standard in Patent Suits

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In September 2014, the Judicial Conference of the United States approved several amendments to the Federal Rules of Civil Procedure (FRCP). These amendments seek to “improve early and active case management through amendments to Rules 4(m) and 16; enhance the means of keeping discovery proportional to the action through amendments to Rules 26, 30, 31, 33, 34, and 36; and encourage increased cooperation among the parties through an amendment to Rule 1.”¹ The Judicial Conference also approved amendments to Rule 37 regarding the loss of Electronically Stored Information (ESI) and Rule 55 about setting aside a default judgment. Additionally, in an amendment that will have a more significant impact on patent litigation than most other types of litigation, the Judicial Conference approved abrogating Rule 84 and the Appendix of Forms, including Form 18 that applies to patent litigation.

The Appendix of Forms includes 36 forms for various litigation documents, such as summonses, complaints, and answers. Rule 84 provides that the forms “suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.” According to the Advisory Committee on Federal Rules of Civil Procedure, many of the forms are out of date and amending the forms is cumbersome.² It believes the forms are used rarely and many alternative sources of civil forms are available.³ The Advisory Committee also observed that it received very few public comments on the proposed amendments addressing the abrogation of Rule 84, which reinforced

the Advisory Committee’s view that the forms are seldom used.⁴ While an Advisory Committee memorandum provides substantial discussion of some of the amendments, it dedicates relatively little discussion to abrogating Rule 84 and the Appendix of Forms.⁵

For patent litigators, the biggest change will come from eliminating Form 18, which sets forth this sample complaint for patent infringement:

1. <Statement of Jurisdiction>
2. On <Date>, United States Letters Patent No. <_____> were issued to the plaintiff for an invention in an electric motor. The plaintiff owned the patent throughout the period of the defendant’s infringing acts and still owns the patent.
3. The defendant has infringed and is still infringing the Letters Patent by making, selling, and using electric motors that embody the patented invention, and the defendant will continue to do so unless enjoined by this court.
4. The plaintiff has complied with the statutory requirement of placing a notice of the Letters Patent on all electric motors it manufactures and sells and has given the defendant written notice of the infringement.

Therefore, the plaintiff demands:

- (a) a preliminary and final injunction against the continuing infringement;
- (b) an accounting for damages; and
- (c) interest and costs.

Form 18 sets a pleading standard that some argue falls below the standard set by the US Supreme Court in *Bell Atlantic Corp. v. Twombly*⁶ and *Ashcroft v. Iqbal*.⁷ In those cases, the Court found that “[t]o survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’”⁸ The Court clarified that “[a] claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.”⁹

Form 18, however, appears to suggest that little factual matter is needed to plead a case for patent infringement. For example, Form 18 does not require a plaintiff to identify any asserted patent claim, nor does it require the plaintiff to identify any accused product by name.

When confronted with the question of whether complying with Form 18 is sufficient to survive a motion to dismiss in light of *Twombly* and *Iqbal*, the Court of Appeals for the Federal Circuit answered yes. In *K-Tech Telecommunications, Inc. v. Time Warner Cable, Inc.*, the Federal Circuit found that “a proper use of a form contained in the Appendix of Forms effectively immunizes a claimant from attack regarding the sufficiency of the pleading.”¹⁰ The court further explained that “to the extent any conflict exists between *Twombly* (and its progeny) and the Forms regarding pleadings requirements, the Forms control.”¹¹

With the abrogation of Form 18, however, the reasoning of *K-Tech* no longer applies, and some have questioned whether a complaint that includes only the information in that form will suffice. Even under the current rules, not all judges agree that complying with Form 18 saves a complaint from dismissal. In *Macronix International Co. v. Spansion Inc.*, Judge Payne of the Eastern District of Virginia applied Fourth Circuit law to hold that *Twombly* and *Iqbal* impose a stricter pleading standard than embodied in Form 18.¹² He found that “before filing a complaint, counsel must ascertain exactly what claims should allege[] to be infringed and how they are infringed.”¹³ According to Judge Payne, “to file a Form 18 complaint and then, using claim charts, prior art charts, discovery, and motions, to pare claims that ought not to have been brought or that cannot withstand

careful scrutiny” has “proven to be an increasingly expensive proposition for the parties and one that takes a tremendous toll on already strained judicial resources.”¹⁴

According to the Advisory Committee, most of those who submitted comments against abrogating Rule 84 and the Appendix of Forms asserted that eliminating them “would be viewed as an indirect endorsement of the *Twombly* and *Iqbal* pleading standards.”¹⁵ The American Intellectual Property Law Association was in favor of the change, characterizing Form 18 as an anachronism that “conflicts with evolving legal precedent.”¹⁶ It believes that “elimination of the form would produce greater certainty and eliminate confusion.”¹⁷ The Intellectual Property Owners Association supports retaining Form 18, but suggests modifying the form to require “the identification of at least one patent claim that is infringed, a statement explaining such infringement, and a statement addressing indirect infringement, if alleged.”¹⁸ In light of the comments both in favor of and opposed to abrogating the forms, the Advisory Committee noted that it would continue “to review the effects of *Twombly* and *Iqbal*,” and, “if it decides action is needed in this area, the more direct approach will be to amend the rules, not the forms.”¹⁹

If approved by the Supreme Court, the proposed amendments will go into effect December 1, 2015, absent intervention by Congress. Although it is difficult to predict the precise impact that abrogating Form 18 would have on patent litigation, it appears likely that patent infringement plaintiffs will need to provide more factual detail supporting their infringement allegations than is currently required by that form and under the Federal Circuit’s *K-Tech* decision.

1. Judicial Conference of the United States, “Summary of the Report of the Judicial Conference Committee on Rules of Practice and Procedure 14,” (Sept. 2014), <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Reports/ST09-2014.pdf> [hereinafter Summary].
2. *Id.*, Appendix B at 19.
3. *Id.*
4. *Id.*, Appendix B at 20.
5. *Id.*, Appendix B.
6. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007).
7. *Ashcroft v. Iqbal*, 556 U.S. 662 (2009).
8. *Id.* at 678 (citing *Twombly*, 550 U.S. at 570).
9. *Id.* (citing *Twombly*, 550 U.S. at 556).
10. *K-Tech Telecommunications, Inc. v. Time Warner Cable, Inc.*, 714 F.3d 1277, 1283 (Fed. Cir. 2013).
11. *Id.*

12. *Macronix Int’l Co. v. Spansion Inc.*, No. 3:13-CV-00679, 2014 WL 934505, at *3-6 (E.D. Va. Mar. 10, 2014).
13. *Id.* at *6.
14. *Id.*
15. Summary, *supra* n.1, Appendix B at 20.
16. American Intellectual Property Law Association, “Comments of the American Intellectual Property Law Association on the Proposed Amendments to the Federal Rules of Civil Procedure at 9” (Feb. 18, 2014), <http://admin.aipla.org/advocacy/execute/Docs/Docs/AIPLA%20Comments%20on%20FRCP%20Proposed%20Amendments-2-18-14.pdf>.
17. *Id.*
18. Intellectual Property Owners Association, “Comments on Proposed Rules and Forms Amendments 3” (Feb. 14, 2014), <http://www.ipo.org/wp-content/uploads/2014/02/IPO-Letter-to-Judicial-Conference-.pdf>.
19. Summary, *supra* n.1, Appendix B at 20.

Third Circuit Rejects Presumption of Irreparable Harm in Lanham Act Cases

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In a precedential decision issued recently in the case of *Ferring Pharmaceuticals v. Watson Pharmaceuticals*,¹ the US Court of Appeals for the Third Circuit joined the Ninth Circuit in rejecting the presumption of irreparable harm for plaintiffs seeking a preliminary injunction in Lanham Act false advertising and trademark infringement cases. While most courts have discarded the presumption of irreparable harm in patent or copyright cases following the US Supreme Court's decisions in *eBay v. MercExchange*,² and *Winter v. Natural Resources Defense Council*,³ application of the presumption in the trademark context has been inconsistent—due in large part to differences between trademark and other intellectual property rights.

In October 2014, the Supreme Court of the United States denied a petition for certiorari regarding the Ninth Circuit's decision on this issue, which means the evidentiary burden for Lanham Act plaintiffs seeking preliminary injunctions will continue to vary by circuit. Accordingly, trademark litigants in the Third Circuit need to be mindful of *Ferring's* newly pronounced position when determining strategy in Lanham Act cases.

The Presumption

Before 2006, it was well established that a Lanham Act plaintiff seeking a preliminary injunction in a trademark

infringement case earned a presumption of irreparable harm upon a showing of likelihood of success on the merits. The rebuttable evidentiary presumption arises from the premise that harms caused by false advertising and trademark violations are noneconomic and intangible. A trademark owner's reputation, loss of control, or goodwill-based injury is distinct from a copyright or patent owner's economic injury. The Lanham Act prohibits a mere likelihood of confusion, and a trademark owner's injury cannot be readily measured by diverted sales or disgorgement of a defendant's ill-gotten gain and is inherently irreparable. By the time that actual injury to goodwill has occurred or the harm can be quantified, courts have found that it may be too late.

Trademark cases are different because courts have held that in addition to the protection afforded to the trademark owner, the presumption of irreparable harm benefits the consuming public. A preliminary injunction is seen by some as a way to correct misinformation in the market as quickly as possible, allowing the public to accurately identify brands and distinguish among products.

Background and Procedural History of *Ferring*

The dispute between *Ferring* and *Watson*, competing pharmaceutical companies, arose from alleged false statements made about *Ferring's* product during a presentation hosted by *Watson*. *Ferring* filed a complaint asserting false advertising claims under the Lanham Act and state law based on *Watson's* statements. *Ferring* also sought a preliminary injunction to prevent *Watson* from making further false statements about *Ferring's* competing product, *Endometrin*®.

Ferring presented evidence that the presenter had referenced a "Black Box" warning for *Endometrin*®, suggesting that *Endometrin*® carries a significant risk of serious or life-threatening effects even though the drug actually had no such warning. *Ferring* also alleged that the presenter mischaracterized studies showing the effectiveness of *Endometrin*® in women over the age of 35, stating that "the efficacy has not been demonstrated" when the

Endometrin® package insert actually stated that “[e]fficacy in women 35 years of age and older has not been clearly established.” Finally, Ferring showed that the presenter improperly presented patient survey data as if it were a comparison of the two products, even though the survey did not actually compare patient preferences. With respect to each statement, the presenter certified to the District Court that he would not repeat the statements in the future.

The District Court denied Ferring’s request for injunctive relief, finding that Ferring was not entitled to a presumption of irreparable harm and that without such presumption, Ferring had failed to put forth sufficient evidence to demonstrate a likelihood of irreparable harm. (Notably, the District Court avoided a decision regarding likelihood of success on the merits by instead finding that Ferring had failed to demonstrate irreparable harm. Because Watson had put forth evidence supporting its statements, the District Court commented that it was not clear that Watson’s allegedly false statements were “completely unsubstantiated” so as to be *per se* false under Third Circuit precedent and to support a finding of likelihood of success. The court stated that it “need not make a determination as to the likelihood of success of Ferring’s claims, because, as mentioned above, Ferring has failed to demonstrate irreparable harm.”)

On appeal, the US Court of Appeals for the Third Circuit found no clear error. The court acknowledged that it had permitted the presumption of irreparable harm for Lanham Act trademark actions prior to *eBay* and *Winter*, based on the fact that injuries in the trademark context such as loss of control, reputation, or goodwill were irreparable. However, there was no analogous Third Circuit precedent with respect to Lanham Act false advertising claimants. Nevertheless, the court went on to hold that, based on the reasoning of *eBay* and *Winter*, Lanham Act plaintiffs are no longer entitled to a presumption of irreparable harm when seeking preliminary injunctive relief. The Third Circuit reasoned that the Lanham Act’s injunctive relief provision, like the Patent Act’s provision, is premised on traditional principles of equity, and therefore the Lanham Act should be interpreted in the same manner as the Patent Act in *eBay*. Accordingly, because traditional principles of equity require a movant to demonstrate irreparable harm, allowing a presumption deviates from these principles.

The Third Circuit went on to analyze Ferring’s evidence of irreparable harm and held that it was insufficient to warrant injunctive relief. The Third Circuit found it significant that Watson’s Dr. Silverberg certified to the court that he would not make the statements in the future and that Watson had removed the statements from the webcast of the presentation. The Third Circuit noted

that there was no evidence that the allegedly false statements were still available to customers. Finally, the Third Circuit found “speculative” a declaration from a doctor that he and other doctors would be less likely to prescribe Ferring’s drug if it contained the Black Box warning that Watson had asserted in its presentation.

The Circuit Split

In *Herb Reed Enterprises v. Florida Entertainment Management*,⁴ the Ninth Circuit became the first circuit to affirmatively state that the presumption of irreparable harm was no longer valid in the trademark context. The court in *Herb Reed* did acknowledge that “[e]vidence of loss of control over business reputation and damage to goodwill could constitute irreparable harm.”⁵ The Third Circuit in *Ferring* agreed with the Ninth Circuit’s rejection of the presumption and its rationale on this issue. In contrast, the Fifth Circuit in *Abraham v. Alpha Chi Omega*,⁶ cited *eBay* and then determined that it was not erroneous for a lower court to grant a preliminary injunction in a trademark infringement case by presuming irreparable injury once the plaintiff had shown a likelihood of confusion.⁷

Other circuits have commented on the issue but have not yet made a determination one way or the other. For example, the Eleventh Circuit noted in dicta that “a strong case can be made” that *eBay*’s holding would extend to Lanham Act cases, but it “decline[d] to decide whether the district court was correct in its holding that the nature of the trademark infringement gives rise to a presumption of irreparable injury.”⁸

Going Forward

Given the Supreme Court’s recent denial of the petition for *certiorari* in *Herb Reed*, the state of the law regarding presumption of harm in trademark cases will continue to be a circuit-by-circuit analysis and could very well depend upon the type of Lanham Act claim brought. Trademark litigants need to be aware that the amount and type of evidence that will warrant injunctive relief may vary greatly by jurisdiction.

Lanham Act defendants will emphasize that evidence as to likelihood of confusion should not lead to a presumption of irreparable harm. Defendants in the Third Circuit might now also attempt to avoid a preliminary injunction by certifying that they will cease making the challenged statement.

Lanham Act plaintiffs will argue that failure to retain the presumption may present an insurmountable burden of proof because evidence of actual irreparable harm can be difficult to show at early stages in litigation. Courts denying the presumption offer little guidance as

to what evidence does support a finding of irreparable harm. A plaintiff accordingly may find it beneficial to bring Lanham Act claims in those jurisdictions that have not applied *eBay* in the trademark context. Nevertheless, a plaintiff will want to be prepared to present evidence to support a finding of irreparable harm. Such evidence

may include instances of actual confusion, a consumer survey demonstrating confusion, loss of control, evidence of inferior goods offered under the infringing mark, decline in market share, loss of customers, lost sales attributable to alleged false statements or infringing trademarks, or reputational harm.

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1. *Ferring Pharmaceuticals v. Watson Pharmaceuticals*, 765 F.3d 205 (3d Cir. 2014)
 2. *eBay v. MercExchange*, 547 U.S. 388 (2006).
 3. *Winter v. Natural Resources Defense Council*, 555 U.S. 7 (2008).
 4. *Herb Reed Enters. v. Florida Entertainment Mgmt.*, 736 F.3d 1239 (9th Cir. 2013).

5. *Id.* at 2011.
6. *Abraham v. Alpha Chi Omega*, 708 F.3d 614 (5th Cir. 2013).
7. *Id.* at 627.
8. *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1228 (11th Cir. 2008).

Praxis



Antitrust

Amanda Abeln

Is Routine Patent Litigation Giving Rise to Antitrust Liability?

On August 6, in *Tyco Healthcare Group LP v. Mutual Pharm. Co.* [Case No. 2013-1386], the Federal Circuit looked at whether antitrust liability can arise from routine patent litigation and suggested that a patent owner can face antitrust liability resulting from bringing patent infringement claims and administrative petitions.

In *Tyco*, the patent owner of a drug, Tyco Healthcare Group, filed a claim for patent infringement against a generic drug manufacturer, Mutual Pharmaceutical Co., after Mutual filed an application with the Food and Drug Administration (FDA) to manufacture and sell a generic version of Tyco's drug. In response, Mutual filed antitrust counterclaims against Tyco.

In 2009, the district court entered a judgment of noninfringement and the following day, Tyco filed a Citizen Petition with the FDA urging the FDA to change the criteria for evaluating the bioequivalence of the proposed generic product to

ensure therapeutic equivalence of the generic drug to the brand name drug. Ultimately, the FDA approved Mutual's application to manufacture and sell the generic drug and denied Tyco's Citizen Petition.

Mutual moved for summary judgment on its antitrust counterclaims against Tyco, arguing Tyco was not immune from liability. The district court held Tyco was not liable for antitrust violations as alleged by Mutual, however, on appeal, the Federal Circuit vacated the district court's ruling in part and remanded it for further consideration as to whether Tyco's patent infringement claim and Citizen Petition were shams.

Ordinarily, a party is exempt from antitrust liability for bringing a lawsuit against a competitor under the *Noerr-Pennington* doctrine. This doctrine is not limited to just lawsuits, but also can apply to administrative petitions. There is an exception to immunity for sham litigation. In determining whether litigation is a "sham," a court will look at objective and subjective elements: (1) the litigation must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits; and (2) the litigation must

be motivated by a desire to interfere directly with the business relationships of a competitor.

In its decision, the Federal Circuit concluded that Tyco may not be immune from antitrust liability because there are issues of factual dispute as to whether Tyco's patent infringement claim was objectively baseless and whether the Citizen Petition was objectively baseless and intended to interfere with the FDA approving Mutual's application to manufacture and sell the drug.

So what does this mean for patent enforcement? There is concern that the Federal Circuit has inserted antitrust liability into patent litigation, which could result in antitrust penalties for routine patent enforcement. Further, the case could have a possible chilling effect on patentees' communications with administrative agencies, such as the filing of a Citizen Petition with the FDA. However, because the *Noerr-Pennington* doctrine continues to live, patentees are still protected unless the party alleging antitrust violations can present facts to show the litigation activity was a sham.

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Discovery

David Emery

Motion for Additional Discovery: Attacking Third Party Testimony

In a recent *Inter Partes* Review proceeding, patent owner Honeywell International Inc. failed in its attempt to obtain additional discovery under 37 C.F.R. § 42.51(b)(2). [*Mexichem Amanco Holdings S.A. de C.V. v. Honeywell International, Inc.*, IPR2013-00576, Paper No. 36, Sept. 5, 2014.] However, the real outcome of the Patent Trial and Appeal Board's (PTAB) decision denying the request for additional discovery proved to be in patent owner Honeywell's favor. While denying the request for additional discovery based on a third party declaration prepared for another proceeding, the PTAB asserted that the declaration would be afforded little or no weight in the case because the patent owner did not have a fair opportunity to challenge the declaration testimony. [Paper No. 36 at p. 3.]

The declaration at issue was prepared for an *inter partes* reexamination proceeding in a different patent owned by a third party not involved in the *Inter Partes* Review. As such, the declarant, Dr. Shibanuma, was a third party. The petitioner first relied on the expert declaration in the petitioner response. The declaration was used by the petitioner to rebut the

patent owner's assertions that using a particular refrigerant would not have been obvious. [Paper No. 27 at p. 14.] Because the declaration was not prepared for the *Inter Partes* Review proceeding at hand, the declaration was not considered new testimony prepared for this proceeding. Thus, cross-examination is not permitted as routine discovery under Section 42.51(b)(1)(ii).

Concerned that the declaration did not adequately address certain aspects of unsaturated refrigerants as compared to saturated refrigerants, the patent owner conferred with the PTAB and was permitted to file a motion for additional discovery. [Paper No. 31 at p. 3.] Noting the petitioner did not present Dr. Shibanuma's declaration until after the patent owner response, the patent owner argued that a deposition of Dr. Shibanuma is the "only means to determine the foundation, contexts and facts underlying the statements in the Declaration, as well as the conviction and credibility of Dr. Shibanuma." [Paper No. 32 at pp. 4-5.] Further, the patent owner opined that the policy of allowing a party to submit and rely on declarations in "unrelated proceedings without cross-examination provides improper incentives for parties to purposefully engage in such conduct, thereby circumventing the rules of *Inter Partes* Review proceedings."

Ultimately, the PTAB denied the patent owner's motion for additional discovery. While conceding that the

patent owner's position had merit, the fifth Garmin factor was largely relied on to deny the motion for additional discovery. [Paper No. 36 at p. 2, citing *Garmin Int'l Inc. et al. v. Speed Techs. LLC*, IPR2012-00001, Paper No. 26.] Because the witness was not under petitioner's control, lived in Japan and required a court subpoena, and/or invoked the Hague Convention, the patent owner request was deemed overly burdensome to answer.

While the PTAB did not compel the petitioner to produce Dr. Shibanuma, the PTAB noted that if petitioner did not produce Dr. Shibanuma of their own accord, the declaration would be given little or no weight because the patent owner had not been given a fair opportunity to challenge his testimony. [Paper No. 36 at p. 3.]

Consequently, while the efforts taken by the patent owner failed in obtaining a deposition of Dr. Shibanuma, all was not lost. To the contrary, using the motion for additional discovery, the patent owner successfully raised issues with the third party declaration for consideration by the PTAB and garnered positive comments regarding the weight ultimately given to this testimony. Although not getting the decision to compel in its favor, the patent owner effectively rebutted this third party testimony rendering it of little probative value.

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False Advertising

Kathleen A. O'Brien, Lisa B. Kim, and Julianna D. Milberg

Rising Number of Class Actions Targeting Outlet Stores Based on Claims of False and Deceptive Advertising

Plaintiffs' class attorneys have a new target in sight and it is outlet shopping. In the past several months, class action lawsuits have been filed in California and New York against seven major retailers (Levi Strauss, Michael Kors, Neiman Marcus, Nordstrom, Ralph Lauren, Saks, and The Gap) that operate outlet stores, in addition to traditional retail stores in the state of California. In each lawsuit, the named plaintiff purports to represent a class of California consumers who have been misled by allegedly false and deceptive advertising. More specifically, the lawsuits allege claims for false advertising, unfair competition, and violation of California's Consumer Legal Remedies Act based on the assertions that the plaintiffs were led to believe that the products they purchased at the outlet stores were steeply discounted from their "suggested" retail prices or "compared to" prices when, in reality, those products were never intended to be sold at the traditional retail stores, were created exclusively for the outlet stores, and were of inferior quality.

This litigation comes just a few months after a group of congressional Democrats wrote a letter to Federal Trade Commission (FTC) Chairwoman Edith Ramirez expressing their concerns that the

surging popularity of outlet malls may have fueled some deceptive marketing practices, and urging the FTC to use its authority under Section 5 of the FTC Act to "investigate deceptive and unfair marketing practices at outlet stores" and to "punish offenders." In March, the FTC published a blog piece offering tips on how shoppers can identify true bargains.

Are There Any Guidelines for Making Comparative Pricing Claims?

Although the FTC has not promulgated any new regulations or guidelines that specifically deal with outlet discount claims, the "FTC Guides Against Deceptive Pricing" (the Guides) offer general guidance on comparative pricing, which is helpful here. [16 C.F.R. §§ 233.1–233.5.] For example, the Guides address discount claims based on the advertiser's own former price for the same product. If the former price is the "actual, bona fide price at which the...[product] was offered to the public on a regular basis for a reasonably substantial period of time, it provides a legitimate basis for a price comparison." On the other hand, if "the former price being advertised is not bona fide but fictitious... the 'bargain' being offered is a false one." [16 C.F.R. § 233.1(a).] In addition, the Guides warn that the advertiser should avoid any implication that a former price is a "selling price," not an "asking price," unless "substantial sales" at that price were actually made. [16 C.F.R. § 233.1(b).]

The Guides also address price comparisons in which the advertiser represents that he is selling below the prices being charged by others in his geographic area for the same merchandise. When comparing his price with the prices charged by others for the same product, the advertiser should be "reasonably certain that the higher price he advertises does not appreciably exceed the price at which substantial sales of the...[product] are being made in the area." [16 C.F.R. § 233.2(a).]

Advertising trade groups also offer recommendations on comparative pricing. For example, in its Code of Advertising, the Council of Better Business Bureaus (CBBB) recommends that when advertisers offer a price reduction or savings by comparing their selling price with their own former selling price, the former price "should be the actual price at which the advertiser has been currently offering... the merchandise immediately preceding the sale, on a regular basis, and for a reasonably substantial period of time." Additionally, "[i]n the event few or no sales were made at the advertised comparative price, the advertiser should make sure that the higher price does not exceed the advertiser's usual and customary retail markup for similar merchandise... and is one at which the merchandise was openly and actively offered for sale, for a reasonably substantial period of time, in the recent, regular course of business, honestly and in good faith." Finally, the CBBB recommends that if a reduction is advertised with the word "originally" and the original price is not the last previous price, that fact should be disclosed by stating the last previous price. For example: "Originally, \$400, formerly \$300, now \$250" or "originally \$400, intermediate markdowns taken, now \$250." [See Code of Advertising, Council of Better Business Bureaus, available at

<http://www.bbb.org/councilfor-businesses/code-of-advertising/>, last visited Oct. 16, 2014.

Similarly, the Better Business Bureau advises that when an advertiser makes a claim similar to “priced elsewhere at \$____,” he must be “reasonably certain that the higher price ascribed is one at which substantial sales are made in the relevant geographic area,” and that phrases such as “valued elsewhere at \$____ or sold retail at \$____ require that the prices quoted should not be from isolated and unrepresentative sales while the bulk of sales are actually at lower prices.” [*Id.*] This is true whether the quoted price is that of a competitor, or a suggested price such as the Manufacturer’s Suggested Retail Price (MSRP) or a “List Price.”

The People v. Overstock Guidelines

A California case that came out earlier this year, *People v. Overstock.com* [2014 WL 657195 (Feb. 19, 2014)], also addresses when an MSRP or “List Price” might be considered a fictitious price. In 2010, a group of California district attorneys brought an action against Overstock.com alleging that its price comparisons based on “Advertised Reference Prices” or “ARPs,” were false or misleading. According to the complaint, Overstock.com instructed its employees to either choose the highest price they could find as an ARP or to construct ARPs using a formula that applied an arbitrary multiplier to Overstock.com’s wholesale cost when making price comparisons. The court held that Overstock.com’s practice was fraudulent and misleading, and ordered that Overstock pay civil penalties in the amount of \$6,828,000.

The court set forth the following guidelines in advertising price discounts:

- If Overstock.com uses an MSRP as the ARP, then it also needs to disclose that practice.
- If Overstock.com uses an unqualified term such as “Compare it,” then the ARP must reflect a good faith effort to determine the “prevailing market price” of the identical product. The following criteria satisfy this standard:
 - If ARP is represented as a range of prices; for example, it is common in the geographic area for an item to sell at \$40 or \$50, you could list the ARP as \$40-50.
 - If ARP is a price from one of the five largest Internet shopping sites as identified by any third party/industry source, and that method is identified by a hyperlink to the ARP; for example, if you are selling a tennis racket, and a third-party source has identified Amazon as one of the five largest shopping sites, you could list Amazon’s price for the same tennis racket as the ARP.
 - If ARP is a price from one of the three largest shopping sites for the category of product being sold as identified by any third party/industry source, and that method was identified by a hyperlink to the ARP; for example, if you are selling a tennis racket and a third-party source has identified the Sports Authority as one of the three largest shopping sites for tennis rackets, you could list the Sports Authority’s price as the ARP, along with a hyperlink that explains the methodology used by the third party to determine that Sports Authority is one of the three largest shopping sites for tennis rackets.

The FTC Guides, the CBBB Code of Advertising Recommendations, and the *Overstock* case all provide retailers with guidance on how to substantiate comparative pricing claims. What is clear from all of these sources is that retailers must be able to show that any advertised price “savings” is based on real price comparisons, and to explain how that “savings” was calculated. Guesswork or reliance on fictitious pricing is not sufficient.

In light of this request for FTC action and the new wave of class action litigation targeting comparative price advertising by outlet stores, it would be prudent for retailers to proactively review their comparative pricing claims, particularly with respect to outlet stores, and to consult with experienced counsel on how best to substantiate those claims to reduce legal risk.

Kate O'Brien is a partner in Reed Smith's Advertising and Media and Intellectual Property Groups. Her practice focuses on advertising, marketing, data collection and intellectual property issues. Kate defends companies in government investigations and litigation, with a particular emphasis on consumer class actions under various state false advertising and unfair competition statutes, the Telephone Consumer Protection Act, state telephone recording laws, and various other statutes. She also assists companies with a full range of advertising issues including ad clearance, claim substantiation, behavioral marketing, and compliance with various advertising and data privacy laws and agency guidelines including the FTC Guides on Deceptive Pricing and "Made in USA" Claims.

Lisa Kim is a senior associate in Reed Smith's Commercial Litigation Group whose practice focuses primarily on defending businesses in litigation

involving the Song-Beverly Credit Card Act, the Telephone Consumer Protection Act (TCPA), and other related statutes. Lisa also advises companies on compliance with various data privacy and advertising laws, including the TCPA, CAN-SPAM, the Video Privacy Protection Act (VPPA), California's Shine-the-

Light law, and California's Do Not Track Disclosures.

Julie Milberg is an associate in Reed Smith's Commercial Litigation and Advertising and Media Groups. A substantial part of her practice focuses on counseling clients on advertising, marketing and branding

campaigns, intellectual property (including trademark, trade secret, copyright and publicity issues), and disputes within the entertainment, advertising and gaming industries. Prior to joining Reed Smith, Ms. Milberg worked in the entertainment industry and produced four independent films.

Practice Areas



Copyright Litigation

Lesley Grossberg
and Robert Welsh

Another Step in the Long March from *Campbell v. Acuff-Rose* toward Fair Use Free-for-All?

The fair use doctrine was recently examined and applied in *Fox News Network, LLC v. TVEyes, Inc.* [2014 WL 4444043 (S.D.N.Y. Sept. 9, 2014).] TVEyes is a media-monitoring subscription service that “records the entire content of television and radio broadcasts and creates a searchable database of that content.” This service allows subscribers to search keywords or phrases to determine and review an aggregation of instances of the search term appearing in the media. Subscribers include businesses and governmental agencies such as the White House, United States Army, and local and state police departments; the service is not available to members of the general public. Clips are limited to 10 minutes in length, and a majority of the clips are two minutes or less; users are required to agree to use the clips for internal purposes only.

Fox News took issue with TVEyes’ commercialization of its copyrighted broadcasts, and sued for infringement. It contended that TVEyes’ service would have a detrimental effect on the existing market for rebroadcasts of its copyrighted content, which Fox News made available online and also licensed to third parties.

TVEyes raised a fair use defense, and both sides moved for summary judgment. The court began with the proposition that “[t]ransformation almost always occurs when the new work ‘does something more than repackage or republish the original copyrighted work.’” [*Id.*, Slip op. at 13, citing *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014).]

The court noted that “there is a strong presumption in favor of fair use for the defendant” when the copied work is being used for one of the purposes listed in Section 107, such as criticism, comment, news reporting, teaching, scholarship, or research. It also observed that TVEyes’s service, by providing “the actual images and sounds depicted on television” as well as “the news information itself,” offered a “transformative” service “that no other content provider provides.” The court found the TVEyes service analogously “transformative” to the searchable database of scanned books at issue in *Authors Guild v. HathiTrust* and thumbnail images shown in search engine results as in *Perfect 10 v. Amazon.com*, but distinguished a rare recent case in which a court had found that the defendant, a news monitoring service for print news that aggregated content for subscribers based on keywords, had failed to prove its fair use defense. [*Associated Press v. Meltwater U.S. Holdings*, 931 F. Supp. 2d 537 (S.D.N.Y. 2013).]

Thus, the court decreed TVEyes’ use of Fox News broadcast content “transformative” in its discussion of the first fair use factor. It did then proceed to consider the other three factors, but it was clear that the transformativeness finding overshadowed the remaining factors. The second and third factors were found to be neutral, and summarily disposed of. The fourth factor, the effect of the copied work on the market for the original, received closer inspection, but was resolved in favor of TVEyes insofar as it: (1) deleted all of the copied content every 32 days; (2) experienced few instances of sequential playback by subscribers of Fox News content, such that “no reasonable juror could find that people are using TVEyes as a substitute for watching Fox News broadcasts on television”; and (3) benefitted the public by allowing subscribing entities to use the service for correction of misinformation, regulatory compliance, reporting on and criticizing news broadcasts, and ensuring national security, among other uses. The court already had rejected the notion that commerciality of the allegedly infringing work could carry “presumptive force against a finding of fairness” in its discussion of the first factor.

As others have noted, including Judge Easterbrook in the Seventh Circuit’s recent decision in *Kienitz v. Sconnie Nation*, it is difficult to reconcile the broad view of transformativeness exemplified in cases such as *TVEyes, Authors Guild v. Hathi Trust*, and *Cariou v. Prince* with the text of Section 106 of the Copyright Act, which grants the copyright holder the “exclusive right” to “prepare derivative works,” and Section 101, which defines “derivative work” as any “form in which a [preexisting] work may be recast, transformed, or adapted.” More broadly, decisions such as *TVEyes* suggest that courts are moving away from viewing fair use as a narrowly-drawn exception

to copyright holders' exclusive rights in their works, to the view that fair use promotes the creation of transformative works and thus serves one of the goals of copyright law itself. The TVEyes opinion, which essentially presumed transformativeness of the work at the outset of the fair use analysis, indicates that the trend toward this a broader view of the

role of fair use continues to gain traction in the federal courts.

Lesley Grossberg is with BakerHostetler in Philadelphia, PA. She focuses her IP practice on patent, trademark and copyright litigation, advising clients in the e-commerce, financial services, social media, software, and telecommunications

industries. Robert Welsh is Of Counsel with BakerHostetler in Los Angeles, CA and focuses his practice on intellectual property, entertainment and First Amendment issues. Mr. Welsh crafts innovative solutions to his clients' cases using his analytical background and depth of experience with a fresh, unique perspective.



Internet Litigation

Allan Poulter and William Smith

UK High Court Can Order ISPs to Block Web Sites That Infringe Trademarks

The High Court of England and Wales handed down its decision in *Cartier International and Others v. BSKyB and others* [[2014] EWHC 3354 (Ch) on October 17, 2014], holding that trademark holders may be granted site-blocking injunctions against Internet Service Providers (ISPs). Site-blocking injunctions pursuant to Section 97A of the Copyright, Designs and Patents Act 1988 (CDPA) are now well established in relation to online content that infringes copyright; however this judgment could pave the way for a similar regime with respect to online trademark infringement, notwithstanding the absence of an equivalent statutory provision.

Background of the Case

The claimants in this case are all companies within the Richemont Group and the owners of many

well-known luxury brands, including Cartier, Montblanc, and Richemont, among others as part of a broad portfolio of trademarks. The defendants were five ISPs—Sky, BT, EE, TalkTalk and Virgin—who together had a market share of approximately 95 percent of UK broadband users. The claimants applied for injunctions against the defendants requiring them to block or impede access to a number of Web sites that advertised and sold counterfeit goods under the claimants' trademarks.

Judgment

Did the Court have jurisdiction to make such an order? Absent an express statutory provision along the lines of Section 97A, Justice Arnold reviewed the Court's general power to grant injunctions as recognized by Section 37(1) of the Supreme Courts Act 1981 and held that, on a purely domestic interpretation of this section, the Court would have jurisdiction to make the order sought.

In the alternative, Justice Arnold also considered the correct interpretation of Section 37(1) in light of Article 11 of the IP Enforcement Directive which requires that:

Member States shall also ensure that rightsholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of the [InfoSoc Directive].

Article 8(3) of the InfoSoc Directive was implemented as Section 97A CDPA, however the United Kingdom took no steps to implement the provision of Article 11 quoted above. Justice Arnold held that Article 11 was intended to apply to all IP rights, rather than just copyright and therefore the Court had the power to grant the injunction sought pursuant to Section 37(1), as interpreted in accordance with the IP Enforcement Directive.

What conditions must be satisfied for the Court to make such an order? Justice Arnold held that the conditions to be satisfied were effectively the same as those for blocking injunctions under Section 97A CDPA, namely: (1) the ISPs must be intermediaries; (2) the users and/or operators of the website must be infringing the claimant's trademarks; (3) the users and/or operators must use the ISPs' services to do that; and (4) the ISPs must have actual knowledge of this.

Were the conditions met in this case and, if so, what principles should be applied when deciding whether to

make an order? Justice Arnold held that the threshold conditions were met, however in order for the Court to make the order sought the relief must:

1. be necessary,
2. be effective,
3. be dissuasive,
4. be not unnecessarily complicated or costly,
5. avoid barriers to legitimate trade,
6. be fair and equitable and strike a “fair balance” between the applicable fundamental rights, and
7. be proportionate.

Justice Arnold considered each of these factors in turn and concluded that blocking orders should be made.

In particular, the Judge noted that the claimants had a legitimate interest in curtailing trademark infringement and that there also was a public interest in preventing trademark infringement, especially where counterfeit goods were involved. Justice Arnold considered expert evidence on the efficacy of blocking measures implemented pursuant to Section 97A orders and held that they have been reasonably effective in reducing use of the web sites concerned.

Consideration was given to other measures available to the Claimants, including takedown notices to hosts of the Web sites, however Justice Arnold concluded that there were no alternative measures that would be equally effective but less burdensome.

The main effect on the ISPs would be additional operating costs, but the

Judge considered that ISPs now have the requisite technology and technical capacity to implement the orders; far more so than when such orders were first made under Section 97A.

On balance, Justice Arnold held that the costs to the ISPs were justified by the likely efficacy of the blocking measures and the benefit to the Claimants having regard to the other measures available to them. The Court therefore granted orders substantially in the form sought but with two modifications: (1) a requirement that the notice on the blocked page should identify the party who applied for it to be blocked; and (2) the orders should contain a “sunset clause” such that they cease to apply at the expiry of a defined period.

Conclusion

This decision provides a new option for trademark holders seeking to limit the online sale of counterfeit goods. In particular, the Judge’s comments about the effectiveness of alternative measures and the proportionality of imposing the obligation on ISPs may well encourage rights holders to seek site-blocking injunctions.

It remains to be seen whether the ISPs will elect to challenge this decision or if they will continue to oppose future applications (decisions under Section 97A generally are dealt with on paper), given the additional costs burden they could now face.

It will be interesting to see whether this principle can be extended to

other cases of trademark infringement, rather than counterfeiting, as the public interest in preventing the sale of counterfeit goods was a significant factor in the Court’s determination when considering whether to make the order in this case.

Allan Poulter has over 25 years’ experience in all aspects of international brand protection. He has been a barrister in Hong Kong and a solicitor, trademark attorney and in-house at Interbrand within the United Kingdom. He has advised some of the world’s leading brands including Google, Fox, Best Buy, TGI Friday’s, and Café Nero and has managed numerous international portfolios. This experience has given Mr. Poulter a deep understanding of the challenges companies face in protecting brands, and of the best ways to support them in addressing these challenges.

William Smith is an associate in Bird & Bird’s Intellectual Property Group based in London. He has worked on a broad range of contentious intellectual property matters, concerning patents, copyright, and trademarks. He has worked closely with Bird & Bird’s employment team advising on the protection of business trade secrets and breach of confidence actions involving former employees. Mr. Smith also has experience working for media sector clients advising on privacy and defamation issues.



Patent Litigation

Greg Cordrey

Stay of Litigation Granted Due to Patent Owner's Failure to Timely Respond

In *Normal IP Holdings v. TP-Link Technologies, Co., et al.* [6:13-cv-00384, Doc. No. 220 (E.D. Tex. Oct. 8, 2014) (J. Love)], a patent case pending in the Eastern District of Texas, the defendants moved to stay the litigation pending completion of an *inter partes* review (IPR) involving some of the patents-in-suit. Notably, the plaintiff in this case did not file an opposition to the defendants' stay motion. Thereafter, the court granted the motion and stayed the litigation pending completion of the IPR involving the only claim of the asserted claims that had not been finally or preliminary rejected by the US Patent and Trademark Office (PTO).

The plaintiff's complaint alleged that defendant ADTRAN, the only remaining defendant at the time the court decided the stay motion, infringed US Patent Nos. 5,502,689 (the '689 Patent), 5,530,597 (the '597 Patent), and 5,592,555 (the '555

Patent). The plaintiff asserted claims 5 and 6 of the '689 Patent, claims 1-6, 10, and 11 of the '597 Patent, and claims 10, 12, and 51 of the '555 Patent. The court noted that there had been 10 petitions for postgrant review of the three patents asserted by the plaintiff. In four of those proceedings, a total of 33 separate claims from the asserted patents had been canceled. The remaining six proceedings were pending at the time of the filing.

In concurrent litigation, the plaintiff alleged that Nissan North America, Inc. (Nissan) infringed the same asserted claims of the '689 and '597 patents. Nissan filed a petition for IPR as to claim 6 of the '597 patent and claims 5 and 6 of the '689 patent. On September 23, 2014, the Patent Trial and Appeal Board (PTAB) granted Nissan's petition for IPR as to the asserted claims in the '689 and '597 patents. The court summarized the various reexamination and IPR proceedings as shown in Exhibit 1.

During the October 7, 2014, hearing on the motion to stay litigation, ADTRAN agreed that, if the court granted a stay of the present litigation, "[it would be estopped as to invalidity contentions raised

and adjudicated in the [Nissan] IPR proceedings.]"

The court examined the three relevant factors in determining whether a stay is appropriate. In addressing the first factor, that is, whether a stay would cause any undue prejudice to the plaintiff, the court held that the plaintiff's failure to respond to the stay motion in a timely manner belies its contention that a delay in the litigation would be prejudicial:

Plaintiff did not respond to Defendant's motion prior to the October 7, 2014 hearing. During the hearing Norman argued that it would be unduly prejudiced by a stay because the administrative proceedings could cause a multiyear delay. Norman argued that during the stay evidence may be lost, witnesses may become unavailable, memories may fade, and Norman's experts may become unavailable. However, Norman's failure to respond to this motion in a timely manner belies its contention that a delay in the litigation would be prejudicial. Furthermore, Defendant's argument that staying the proceeding would benefit both parties is convincing. At the time the motion was filed, litigation was in the early stages of pleading and discovery. Additionally, the PTO has already issued final rejections as to a number of the asserted claims, several defendants have

Exhibit 1

	Asserted Claims	Status of Claims Subject to Reexamination	Claims Subject to Pending IPR Petition
'597 Patent	1-6, 10, 11	Canceled: 1-5, 10, 11 Confirmed: 6	6 (granted in IPR petition filed by Nissan)
'689 Patent	5, 6	Final Rejection	5, 6 (granted in petition filed by Nissan)
'555 Patent	10, 12, 51	Non-Final Rejection: 10, 12 Final Rejection: 51	

been dismissed since the filing of this motion, and all the asserted claims are currently undergoing reexamination, IPR or are the subject of petitions for IPR. Allowing reexamination and IPR to proceed will conserve the time and resources of both parties. Limiting the stay to the culmination of the IPR proceedings will ensure that the stay is finite and not unduly prejudicial.

Turning to consideration of whether a stay would simplify the issues for trial, the court held that “a stay at is appropriate because reexamination and IPR of the three patents-in-suit will likely simplify the resolution of the case by narrowing or eliminating issues for trial. Furthermore, ADTRAN notes that the PTO has already rejected several

of the asserted claims which will determine whether some or all of the claims subject to reexamination or IPR are invalid.”

Finally, regarding the status of the case, the court noted that when the motion was filed, the parties had not engaged in any substantive discovery, the parties’ claim construction positions had not been submitted, and a *Markman* hearing was several months away. Although a trial date has been set for April 15, 2016, it was over 21 months away at the time of filing.

Based on its analysis of these factors, the court determined that a stay was warranted “until the PTO has issued its final decisions on the *inter partes* review of claim 6 of the ’597 Patent,” which was the only asserted claim that had not been rejected by the PTO at the time the motion was filed.

The court’s decision illustrates the continuing uphill battle patent owner’s face opposing a stay pending an IPR, particularly when the motion is filed in the early stages of a case. To make matters worse, in this case the patent owner did not timely oppose the stay, which the court relied on in further support of its decision to stay the case.

Greg Cordrey is a partner in the Patent Litigation Group at Jeffer Mangels Butler & Mitchell LLP, where his practice focuses on patent litigation as well as litigation involving complex technology. Mr. Cordrey practices before the Federal Circuit and the United States Patent and Trademark Office as a registered patent attorney. In addition to speaking on the subject, Mr. Cordrey blogs on patent litigation and PTO proceedings on JMBM’s Patent Lawyer Blog.



Technology Litigation

Stan Gibson

Motion to Strike Expert Testimony in Complex Case Denied

In a recent patent infringement action, *IPLearn, LLC v. Blackboard Inc.* [Case No. 11-876 (RGA) (D. Del. Sept. 6, 2014)], the defendant moved to exclude portions of the plaintiff’s expert testimony under *Daubert v. Merrell Dow Pharmaceuticals (Daubert)* [509 U.S. 579 (1993)]. Defendant argued that the plaintiff’s expert, Dr. Bambos, lacked familiarity with the infringing products, relied too heavily on someone else to provide him with relevant segments

of source code to review, and used the district court’s claim construction to determine how the products at issue worked.

In analyzing the motion, the district court noted that “Dr. Bambos never used the allegedly infringing products, but his expert opinion was based on ‘thousands of pages of technical manuals, source code, and depositions transcripts.’” The district court reasoned that Rule 702 requires that expert testimony be based on “sufficient facts or data” but the expert did not need to use the product if he had familiarized himself with it in other ways and reviewing source code and other materials can be sufficient. As a result, the

district court rejected the argument that the expert had to personally use the product. “Whether Dr. Bambos should have based his expert opinion on personal use with the product, rather than source code and other materials, is fodder for cross-examination, not a *Daubert* issue for this Court.”

The district court also rejected defendant’s argument that the expert should be excluded because he relied too heavily on his expert report during his deposition. “Defendant contends that, because Dr. Bambos relied too heavily on his written report during the deposition, he is unfamiliar with the products and too unreliable to appear before a jury.” The defendant pointed out that Dr. Bambos had spent over 25 minutes reading the report to find the answer to a particular question about the infringing products, even continuing to read into his lunch break. The district court

found that the deposition record was more complicated. “The deposition record, however, reveals a more complicated exchange, where the witness was repeatedly told by both lawyers that he could take his time, even though he spent considerable time reviewing the report while answering questions.”

The defendant also pointed out several other examples where the expert had to rely on the report to answer questions about the product, but the district court did not believe that this raised a *Daubert* issue. “In other words, Defendant says Dr. Bambos will be a poor witness, at least unless he is better prepared for trial than he was for deposition. Whether Dr. Bambos relied too heavily on his report in his deposition does not, in my opinion, raise a *Daubert* issue.”

Finally, the district court declined to exclude the expert because he had only reviewed part of the

source code. “Defendant argues that because Dr. Bambos reviewed selected pieces of source code provided by someone else, rather than the complete source code of the products by himself, his testimony should be excluded. Even if Dr. Bambos did not know the qualifications of the individual who selected the pieces of source code, or whether there might be other relevant segments of the source code, he was able to determine whether the sections of code related to the elements relevant to infringement.”

Accordingly, the district court found that the expert’s opinion was sufficiently reliable and that the credibility issues raised could be addressed on cross-examination. “Therefore, his expert opinion is based on sufficient facts and reliable methods. Whether Dr. Bambos should have consulted the complete source code, and might have missed something that would change

his opinion, is an issue for cross-examination and, possibly, contradictory expert testimony by Defendant’s expert. Ultimately, the jury will decide Dr. Bambos’ credibility.”

Stan Gibson is an experienced trial lawyer, who has focused on high-stakes cases involving complicated technology and bet-the-company cases in the entertainment industry. He is the Chairman of JMBM’s Patent Litigation Group and the publisher of the Patent Lawyer Blog. The media frequently calls upon Stan to explain the significance of court decisions, and he has been quoted by the Wall Street Journal, Financial Times, Forbes, Bloomberg BusinessWeek, New York Times, Los Angeles Times, Thompson Reuters, American Lawyer, National Law Journal, ABA Journal, Los Angeles Daily Journal and other publications.



Trade Dress Litigation

David M. Longo

On September 8, 2014, Judge Otis D. Wright, II, U.S. Dist. Ct., C.D. Calif., issued an Order keeping alive a claim for design patent infringement while booting other asserted claims in a Motion to Dismiss under Federal Rules of Civil Procedure 12(b)(6). [See *Deckers Outdoor Corp. v. J.C. Penney Co., Inc.*, C.D. Cal., Case No. 2:14-cv-02565-ODW(MANx) (“Order Granting in Part Motion to Dismiss with Partial Leave to Amend,” Doc. 30, Sept. 8, 2014).]

Deckers Outdoor Corporation (Deckers) is known for its famous UGG® sheepskin and suede boots, among other products, sold online and at retail stores throughout the

United States. According to Deckers, its UGG® line of boots began a metaphorical ascent into the stratosphere after being featured on Oprah Winfrey’s television show in 2000, when Oprah supposedly “emphatically declared...how much she ‘LOOOOOVES her UGG boots.” [See First Amended Complaint, Doc. 18, ¶ 12.] This ascent continued as many well-heeled celebrities embraced the boots and were photographed wearing the boots. With such a stamp of fashion approval, one can easily understand that Deckers would do whatever it could to protect its valuable image, brand, and products from harm by imitators

seeking to capitalize on Deckers’ success.

So, when Deckers noticed that large retailer J.C. Penney Company, Inc. (JC Penney) was selling a line of boots—some of which it believed were very similar to its patented Bailey Button boots—it did not want to be caught flat-footed. Deckers therefore laced up a five pronged Complaint against JC Penney—complete with a jury trial demand—and filed suit in the Central District of California on April 4, 2014. Specifically, Deckers’ Complaint (and First Amended Complaint of July 2, 2014) asserted claims for relief based on: (1) trade dress infringement; (2) false designations of origin and false description; (3) federal unfair competition; (4) patent infringement (including willful infringement); and (5) unfair competition under California common law. (Deckers similarly sued Wal-Mart Stores, Inc., Sears Holdings

Corp., and Dreams Footwear, Inc.—cases that have been consolidated by Judge Wright.)

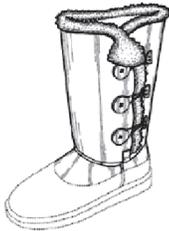
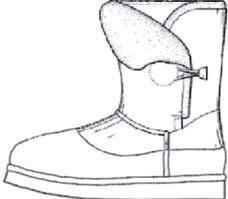
Presumably due to the presence of a claim for patent infringement, the lawsuit was transferred to the Central District of California Patent Pilot Program on April 9, 2014, and was assigned to Judge Wright in the Western Division. Notably, four of the six judges in the Patent Pilot Program are in the Western Division.

In its allegations common to all claims for relief, Deckers asserted that JC Penney “has manufactured, designed, advertised, marketed, distributed, offered for sale, and/or sold various styles of knock-off UGG boots, including those that infringe upon Plaintiff’s Bailey Button Boot Trade Dress and Bailey Button Design Patents,” namely U.S. Des. Pat. Nos. 599,999 and 616,189. [First Amended Complaint, Doc. 18, ¶ 19, *see also* ¶ 16. For reference, a comparison of Deckers’ design patents and the accused JC Penney products appears below, reproduced from Judge Wright’s Order. *See* Order, Doc. 30 at 8.]

As to its trade dress, Deckers was careful to note that “key elements thereof are non-functional.” [First Amended Complaint, Doc. 18, ¶ 10.] As to its design patents, Deckers also carefully noted that its “UGG® footwear products, including products embodying the Bailey Button Design Patents, bear a label on the products themselves that gives notice to the public of its patent registration.” [*Id.*, ¶ 64.] Deckers asserted that JC Penney “copied Deckers’ Bailey Button Boot Style in an effort to exploit Decker’s reputation in the market.” [*Id.*, ¶ 66.]

With its feet to the fire, JC Penney countered with a Memorandum in support of its Motion to Dismiss under Federal Rules of Civil Procedure 12(b)(6). JC Penney asserted that Deckers’ Complaint had no traction, because it simply wished “to prohibit the sale of footwear that Deckers claims looks similar to its self-described Bailey Button boot.

Figure 1

Deckers’s Design Patents	Accused Products
 <p>D616,189</p>	 <p>Arizona Carmen Girls Boot</p>
 <p>D599,999</p>	 <p>Arizona Crescent Casual Suede Boot</p>

In other words, Deckers seeks to **chill competition** and **monopolize the marketplace** for any boot that shares the **same basic, functional design** as Deckers’ product.” [Memorandum, Doc. 25-1 at 1 (emphases added).]

JC Penney, however, omitted any argument regarding Deckers’ U.S. Des. Pat. No. 599,999, other than to allege that “Deckers simply lumps the D599,999 and ’189 patents together and summarily alleges that” JC Penney infringes. [Memorandum, Doc. 25-1 at 9; *see also* Reply Memorandum, Doc. 29, in which there is no mention of U.S. Des. Pat. No. 599,999.] In doing so, JC Penney essentially limited its arguments to attempting to distinguish its accused boot designs only over the tall, three-button, design of U.S. Des. Pat. No. 616,189.

Judge Wright’s Order trampled on JC Penney’s Motion to Dismiss as to the design patent infringement claim for relief. Specifically, Judge Wright stated:

The Court finds that Deckers properly pleaded JC Penney’s alleged infringement of the ’189 Patent. The Federal Circuit has held that “[i]nfringement of a design patent is a question of

fact.” *Catalina Lighting, Inc. v. Lamps Plus, Inc.*, 295 F.3d 1277, 1287 (Fed. Cir. 2002). It is therefore improper in a situation like this one to contend that a plaintiff has failed to allege design-patent infringement based on a comparison of the subject designs, since the Court must accept all factual allegations as true in deciding a Rule 12(b)(6) motion. **Moreover, as depicted in Figure 1 [reproduced above], a comparison of the protected designs with the accused products demonstrates a sufficient visual similarity to at least render infringement of the ’189 Patent plausible. Deckers had to do no more.** [Order, Doc. 30 at 7 (emphasis added).]

Judge Wright’s Order, however, noted that “JC Penney does not attack Deckers’[] pleading with respect to the ’999 Patent, so that portion of the patent-infringement claim is not subject to the Motion to Dismiss.” [*Id.* at 6, FN4.]

Regarding the willful infringement component of the (4) patent infringement claim, Judge Wright granted JC Penney’s motion, with leave for Deckers to further amend

its Complaint. In particular, Judge Wright took issue with Deckers' citations to case law, noting that "all but one of these citations actually establish the opposite of what Deckers asserts." [*Id.* at 9.] Judge Wright also disagreed with Deckers' "contention that the Bailey Button Boots' popularity and patent notice on the products themselves suffices to establish presuit knowledge." [*Id.*] On this point, Judge Wright stated:

Deckers has not alleged that JC Penney was actually aware of either of the patents-in-suit prior to producing and selling the accused products. **Even if the Bailey Button Boots have garnered widespread popularity and are stamped with patent notice, those allegations, standing alone, do not establish that JC Penney actually knew about the '189 and '999 Patents. Actual knowledge—not constructive**

knowledge—is the criterion. *i4i Ltd. P'ship v. Microsoft Corp.*, 598 F.3d 831, 860 (Fed. Cir. 2010) ("Infringement is willful when the infringer was aware of the asserted patent...."); *Seoul Laser Dieboard Sys.*, 957 F. Supp. 2d at 1196–97 (same). [*Id.* (emphasis added).]

Curiously, JC Penney asserted in a footnote that "Deckers does not plead that it complied with the marking requirements of 35 U.S.C. § 287." [Reply Memorandum, Doc. 29 at 7.] However, as mentioned above, Deckers had stated that its products "bear a label on the products themselves that gives notice to the public of its patent registration." [First Amended Complaint, Doc. 18, ¶ 64. For further reference, see Patent Marking and Design Patents, by Andrew M. Ollis, July 9, 2014.)]

On the remaining claims for relief, Judge Wright denied JC Penney's

motion on the (1) trade dress infringement and the (3) federal unfair competition claims because "JC Penney fails to address" these claims. [*Id.*, p. 4, FN2.] Judge Wright granted JC Penney's motion—without leave for Deckers to further amend its Complaint—on the (2) false designations of origin and false description and the (5) unfair competition under California common law claims.

David M. Longo, PhD, is a patent attorney in Oblon Spivak's Electrical Patent Prosecution practice group. His legal experience covers all aspects of client counseling, patent portfolio development and management, prosecution, reissue applications, reexamination proceedings, appeals, opinions of counsel, due diligence, pre-litigation counseling, and license negotiations. He works actively with international clients to develop and grow their utility and design patent portfolios.



Trademark Litigation

Nikki Siesel

Courts and TTAB Trends in Likelihood of Confusion Claims in the Beverage Industry

A recent court case in the Eastern District of California, *E. & J. Gallo Winery v. Grenade Beverage LLC* [No. 1:13-cv-00770 (E.D. Cal. Aug. 15, 2014)], seems to underscore a trend of court decisions and Trademark Trial and Appeal Board (TTAB) findings where alcoholic and non-alcoholic

beverages are considered related for purposes of a likelihood of confusion analysis. In this recent case, the court held that GALLO (for wines) and EL GALLO (for energy drinks) were similar trademarks and that the products were related. There was not much evidence produced by the parties that showed use of the products in the marketplace. Therefore, the Court relied on the similar spellings of the terms "Gallo" and "El Gallo" and inferred that based on the spellings of the terms, purchasers likely would pronounce the marks in the same way.

Regarding the analysis of the relatedness of the goods, the questions

usually focus on the following: (1) are the products complementary; (2) are the products sold to the same class of consumers; and (3) are the products similar in use and function. A close proximity of the goods is not necessarily required. In this case, both products are in the beverage industry. Thus, they have similar use and function. Given that both products are beverages, there is a reasonable inference that they utilize similar marketing channels. Through deposition testimony, Gallo Wines contended that it would market its wine in convenience stores, supermarkets, liquor stores, restaurants, and bars. One of the plaintiff's witnesses attested to the fact that energy drinks and wines are sold in the same aisle of the grocery store. Therefore, the court concluded that the marketing channels of the two products overlapped to a certain degree.

The degree of care factor favored the plaintiff in this situation. The rationale is that the plaintiff's wines cost between \$5.99 and \$9.99 a bottle. It has been held that consumers are likely to exercise less care when the goods are relatively inexpensive and that confusion is more likely when less care is employed. Several other factors also favored the plaintiff. After reviewing all the evidence, the Court granted plaintiff's motion for summary judgment on all of its claims. It issued a permanent injunction against the use of EL GALLO for energy drinks.

This case is in line with other recent TTAB findings. For instance, in *Joel Gott Wines, LLC v. Rehoboth Von Gott, Inc.* Opposition No. 91197659 (June 26, 2013) [citable as precedent], the TTAB sustained an opposition and refused to register the mark GOTT LIGHT for water finding it would cause a likelihood of confusion with the registrations GOTT and JOEL GOTT for wine. In this case, the TTAB held that the applicant's registration of the mark GOTT LIGHT for various water beverages is likely to cause confusion with opposer's previously used and registered marks for wine, under the brands GOTT and JOEL GOTT. It held that the dominant term in both marks was "Gott" and that the marks were similar in sound, spelling and overall commercial impression. Regarding the goods, the TTAB held

that "they have been shown to be related, to move through the same channels of trade, and to be available to the same classes of consumers." In this case, the opposer relied on third party registrations that showed that water and wine products emanated from a single source.

In another case, the TTAB again found a likelihood of confusion with an alcoholic beverage and a non-alcoholic beverage. [See *In re Pigs Eye Brewing Company LLC*, Serial No. 78711050 (February 14, 2008).] Here, the applicant was seeking to register the mark PIT BULL (standard characters) for malt liquor. The Examining Attorney refused the application under 2(d) of the Trademark Act, 15 U.S.C. §1052(d), because he concluded that the applicant's mark would cause a likelihood of confusion with the registered mark PIT BULL ENERGY DRINK (for nonalcoholic energy drinks). The TTAB affirmed the refusal. Some of the evidence relied on in this case included Internet articles showing an overlap in the channels of trade between energy drinks and alcoholic drinks. For example, Anheuser-Bush, which is known for distributing alcoholic drinks, also distributes energy drinks produced by their company and other companies such as Hansen Natural Corporation (seller of MONSTER ENERGY drinks). It was shown that other companies (such as Seagram's)

also distribute both alcoholic beverages and nonalcoholic drinks. In addition, evidence was produced to demonstrate that the products themselves are marketed as a combined drink.

Further evidence was introduced to demonstrate that the packaging and labels of the two products often resemble each other. Lastly, it was shown that there is a growing trend in retail outlets, placing the products (energy drinks and alcoholic beverages) near each other in the same sections of the store or in the same aisle. Of course, if there is any doubt regarding a likelihood of confusion, it is resolved in favor of the registrant.

In light of these recent findings, trademark counsel with clients in the beverage industry, should carefully examine clearance reports. Trademarks of both alcoholic and nonalcoholic products need to be evaluated for purposes of a likelihood of confusion analysis.

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