



IDEAS ON INTELLECTUAL PROPERTY LAW



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The keyword results are in
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IP in brief: *In re TS Tech USA*

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IP

Patent, Trademark, Copyright, Internet & Related Causes

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Second Circuit issues key decision re: search engines

Internet search engine companies rejoiced a few years ago when a federal district court dismissed a lawsuit against Google, *Rescuecom Corp. v. Google, Inc.*, which alleged the company had infringed a trademark by selling the mark as a search keyword. Now it seems their excitement may have been premature, as the Second U.S. Circuit Court of Appeals has vacated the dismissal.

The key facts

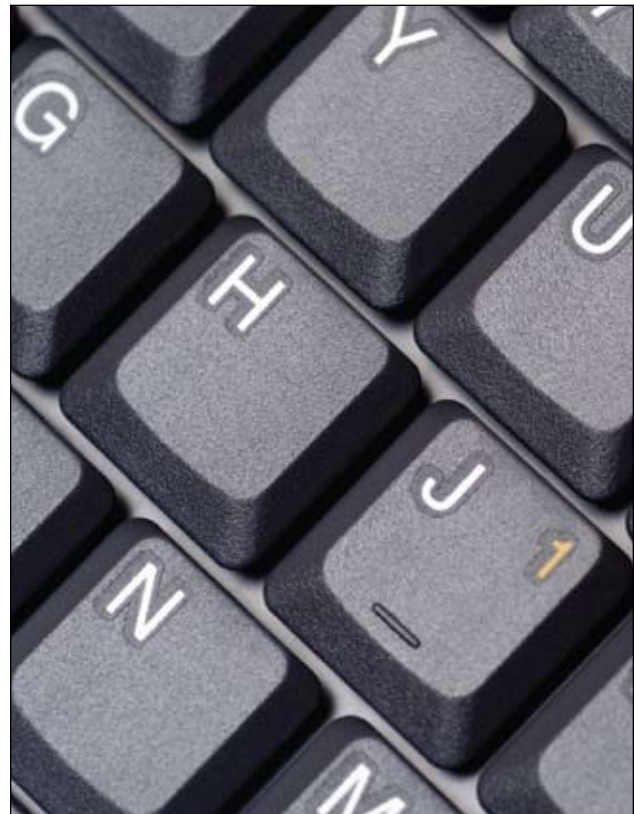
Google offers a program called “Ad Words” that lets advertisers purchase keywords that Google users might enter as search terms. When a user enters a purchased keyword, a “sponsored link” to the advertiser’s Web site will appear in the search results.

With its Keyword Suggestion Tool, Google recommends specific keywords to advertisers. It recommended the Rescuecom trademark to competitors, and as a result, some bought the mark as a keyword.

The Second Circuit found that to accept Google’s argument would free search engine operators to use trademarks in ways designed to deceive and cause consumer confusion.

A previous case

The district court based its dismissal on the Second Circuit’s decision in *1-800 Contacts v. WhenU.com*, a case involving software that provided contextually relevant advertising to users by generating pop-up ads based on a Web site’s address or a search term entered in a browser.



If a user entered the name of an eye care company, for example, the software would display a pop-up ad for a company engaged in eye care, with the defendant’s brand displayed in a window frame surrounding the ad. The Second Circuit held that this practice didn’t constitute a “use in commerce” of the plaintiff’s trademark “likely to cause confusion, or to cause mistake, or to deceive,” as required to establish infringement under the Lanham Act.

The Second Circuit distinguished *1-800* on two grounds. First, the defendant made no use whatsoever of the plaintiff’s trademark. It was the plaintiff’s Web site address that triggered the ads, not its trademark. In contrast, Google recommends and sells Rescuecom’s trademark to advertisers.

Further, the defendant in *1-800* didn’t “use or display,” much less sell, trademarks as search

terms to its advertisers. On the other hand, Google displays, offers and sells Rescuecom's trademark to its customers when selling its advertising services and encourages the purchase of the mark through its Keyword Suggestion Tool.

Google's retort

Google argued that *1-800* suggested that including a trademark in an internal computer directory cannot constitute trademark use. The Second Circuit rejected that notion, pointing out also that Google's recommendation and sale of the mark weren't internal uses. It emphasized that *1-800* "did not imply that use of a trademark in a software program's internal directory precludes a finding of trademark use."

Rather, in light of the fact that the defendant didn't use the trademark at all, the court had held that the particular use before it in *1-800* didn't constitute a use in commerce. To accept Google's argument would

free search engine operators to use trademarks in ways designed to deceive and cause consumer confusion.

The Second Circuit ultimately concluded that Rescuecom's allegation — that Google's practice of recommending and selling Rescuecom's trademark to trigger display of competitors' sponsored links in response to a search for the trademark creates a likelihood of confusion — properly states a claim under the Lanham Act. But, the court added, "whether Google's actual practice is, in fact, benign or confusing is not for us to judge at this time."

The search continues

Although the Second Circuit's ruling is more in line with decisions in similar cases by other courts, search engine companies need not despair just yet. Rescuecom still must prove that Google's use of its trademark caused a likelihood of confusion or mistake. ○

Patent law

More madness over business methods

To patent or not to patent? That is the question ... at least when it comes to business methods. The recent case of *In re Ferguson* saw the U.S. Court of Appeals for the Federal Circuit reiterate that a patentable business method must pass muster under the "machine-or-transformation" test. But change may be on the way.

A mix of marketing

The patent application at issue covered a "marketing paradigm for bringing products to market." It comprised 56 method claims and 12 paradigm claims. The process claims were directed to a method of marketing a product by developing a shared

market force and using the market force to exclusively market several products made by different companies in exchange for a share of the total profits.

The paradigm claims were directed to a marketing company that markets software from different independent and autonomous companies using the method described above in return for a contingency share of a total income stream while allowing the software companies to retain their autonomy. The patent examiner rejected all of the patent claims as anticipated by the prior art, obvious and/or not enabled.

The Board of Patent Appeals and Interferences (BPAI) didn't sustain any of the examiner's grounds for rejection. Instead, it rejected the method claims as directed to a nonpatentable "abstract idea." And it rejected the paradigm claims under Section 101 of the U.S. Patent Act, which enumerates four categories of patentable subject matter: 1) process, 2) machine, 3) manufacture, and 4) composition of matter. The BPAI found nothing in the record that suggested "a marketing company" clearly fell within any of the categories.

Methodical analysis

On appeal, the Federal Circuit evaluated the method and paradigm claims separately. Finding that the method claims "at least nominally fall into the category of process claims," the Federal Circuit concluded that its recent decision in *In re Bilski* was dispositive on the patentability of method claims. In *Bilski*, the court deemed the machine-or-transformation test the "definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle rather than to pre-empt the principle itself."

Under the test, a process is eligible for a patent if it's tied to a particular machine or apparatus or it transforms a particular article into a different state

or thing. The court found that the applicants' method claims in *Ferguson* didn't satisfy either prong of the test.

Although the applicants argued that the claims were tied to the use of a shared marketing force, the court held that a marketing force isn't a machine or apparatus under the first prong. The court has defined a machine as "a concrete thing, consisting of parts, or of certain devices and combination of devices," including every mechanical device or combination of mechanical powers and devices to perform some function and produce a certain result. The method claims here weren't tied to any such concrete parts, devices or combination of devices.

As to the second prong of the test, the Federal Circuit held that, at best, the methods were directed to organizing business or legal relationships in the structuring of a sales or marketing force. But it cited *Bilski* for the principle that transformations of public or private legal obligations or relationships, business risks, or other such abstractions alone cannot satisfy the machine-or-transformation test. The purported transformations here didn't transform physical objects, or substances or items that are representative of physical objects or substances.

Supreme Court agrees to review *Bilski* ruling

The U.S. Supreme Court has agreed to review the U.S. Court of Appeals for the Federal Circuit's decision in *In re Bilski*. (See main article.) The high court hasn't ruled on the patentability of business methods since its decision in *Diamond v. Diehr*, where it held that a process isn't eligible for a patent if it claims laws of nature, natural phenomena or abstract ideas. (It should also be noted that, in the 2006 case of *Laboratory Corp. of America v. Metabolite Laboratories*, four justices went on record as being very skeptical of whether the business method patent in that case was patentable subject matter.)

In *Bilski*, the Federal Circuit set out to establish a definitive test for determining the patentability of methods. After reviewing tests previously articulated by the U.S. Supreme Court and the Federal Circuit itself, the court adopted the "machine-or-transformation" test.

In both *Bilski* and *Ferguson*, Judge Newman criticized the majority's application of the machine-or-transformation test. She supported a broad reading of patentability and expressed concern that the majority rulings would discourage innovation in today's "knowledge economy." Perhaps the Supreme Court will agree.



Paradigm shift

Turning to the paradigm claims, the court considered whether the subject matter fit into any of the four categories in Sec. 101. It quickly concluded that the claims weren't directed to processes, manufacture or a composition of matter.

The applicants, however, argued that a company constitutes a "physical thing, and as such [is] analogous to a machine." The Federal Circuit disagreed, finding that the paradigm claims didn't recite "a concrete thing, consisting of parts, or of certain devices and combination of devices." Rather, the claims represented an abstract idea — in other words, a business model for an intangible marketing company.

Business (method) as usual

For the time being, the Federal Circuit's holding in *Bilski* will apply to all business method patent claims. But this may not last forever. (See "Supreme Court agrees to review *Bilski* ruling" on page 4.) If an inventor hopes to secure a patent for a business method, the method must satisfy one of the prongs of the machine-or-transformation test. ○

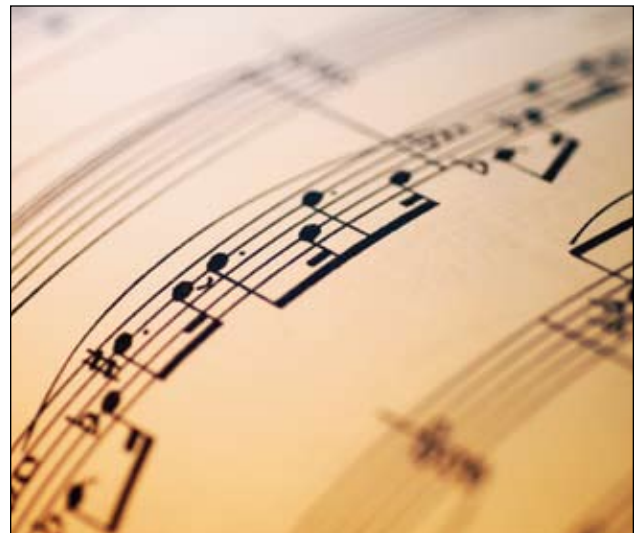
Can you prove copyright infringement without proof of copying?

You've probably heard of guilt by association. Some copyright owners make a similar argument when trying to establish infringement of their works. Such was the argument presented to the Sixth U.S. Circuit Court of Appeals in *Jones v. Blige*.

2 songs, 1 lawsuit

The plaintiffs claimed that singer Mary J. Blige's song "Family Affair" infringed their copyrighted song "Party Ain't Crunk."

The basis of their claim was the fact that one plaintiff had submitted a CD with the song to Andy McKaie, a record executive at Universal Music Enterprises.



(The CD was eventually returned.) After “Family Affair,” a collaboration between Blige and Andre Young (also known as Dr. Dre), was released, the plaintiffs brought a lawsuit for copyright infringement.

In the absence of direct evidence of copying, a plaintiff may establish an inference of copying by showing access to the allegedly infringed work by the defendant and a substantial similarity between the two works.

Assessing access

To establish copyright infringement, a plaintiff must establish that it owns the copyrighted work, and that the defendant copied it. As the Sixth Circuit explained, however, in the absence of direct evidence of copying, a plaintiff may establish an inference of copying by showing access to the allegedly infringed work by the defendant and a substantial similarity between the two works.

The Sixth Circuit has defined access as “essentially hearing or having a reasonable opportunity to hear the plaintiff’s work and thus having the opportunity to copy.” If the works are “strikingly” similar, strongly suggesting that copying had occurred, a

lesser showing of access will suffice — or even no showing at all.

The plaintiffs in *Jones* based their theory of access on the delivery of the CD to McKaie at Universal. But Blige’s only connection to McKaie is that she has a recording contract with Universal, and Young’s only connection is that his record label has a distribution joint venture with a Universal entity. They both denied knowing McKaie.

The court concluded that the plaintiffs’ assertion of a connection between McKaie and the defendants was “mere speculation” and unsupported by the evidence. The plaintiffs presented no evidence of the nature of Blige’s and Young’s relationships with Universal that would allow a jury to find that they might have received a copy of “Party Ain’t Crunk.”

Citing a doctrine

The plaintiffs argued that they had established access through the “corporate receipt” doctrine. Under the doctrine, possession of a work by one employee of a corporation implies possession by another employee who allegedly infringed the work.

The Sixth Circuit hadn’t previously taken a published stance on the doctrine but noted that other federal appellate courts have required more than “bare corporate receipt” as proof of access. Those courts require some evidence that it was reasonably possible that the paths of the infringer and the infringed work crossed.



Here the Sixth Circuit found that the plaintiffs had set forth no evidence tending to show a reasonable possibility that their work had made its way from McKaie to Blige and Young.

Providing evidence

The failure to prove access to the allegedly infringed work was not excusable in this case because the

court determined that the songs “Family Affair” and “Party Ain’t Crunk” aren’t so strikingly similar to preclude the possibility of independent creation.

And even if the songs *were* similar to that degree, the defendants had provided unrefuted evidence of independent creation. ○



IP in brief: *In re TS Tech USA*

Patent court issues critical venue ruling

At issue in this case was a patent for headrests used in Honda vehicles. The plaintiff was based in Michigan and the defendants in Ohio and Canada. Yet the plaintiff filed suit in the Eastern District of Texas, often regarded as a favorable forum for patent holders.

The defendants sought a transfer to Ohio because the evidence was mainly located in Ohio, and the key witnesses lived in Ohio, Michigan and Canada. The plaintiff claimed venue in Texas based on the sale of several Hondas with allegedly infringing headrests there. The district court denied the transfer. On appeal, the U.S. Court of Appeals for the Federal Circuit found the district court’s analysis contained several key errors related to the:

Plaintiff’s choice of venue. The district court improperly treated the plaintiff’s choice as a distinct factor in its venue analysis, but it’s not a separate factor under the applicable Fifth Circuit law.

Witnesses’ cost of attendance. The district court disregarded the Fifth Circuit’s “100-mile rule,” which requires that, “when the distance between an existing venue ... and a proposed venue ... is more than

100 miles, the factor of inconvenience to witnesses increases in direct relationship to the additional distance”

Relative ease of access to evidence. The district court found this factor neutral as to transfer, but all of the physical evidence was far more conveniently located near the Ohio venue.

Local interest in having localized interests decided at home. Hondas with the headrests were sold throughout the country, giving Texas citizens no more interest than others.

The Federal Circuit decision in this case may have long-lasting effects on where patent cases are heard. The decision is particularly encouraging for defendants in cases in the Eastern District of Texas. Motions for transfer should enjoy a greater likelihood of success — especially if the only connection to the district is sales of an accused product.



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Enforcing Your Core IP Rights to Further Your Business Goals

Not all intellectual property is created equal. Typically, only some of a company's IP actually relates to core products or promising future technologies. This fraction of a company's IP portfolio is where its priorities should lie from an enforcement standpoint, especially in tough economic times. The rights afforded by these core patents, trademarks and trade secrets protect the backbone of the company.

What if you suspect that a competitor is treading on these fundamental IP rights? First, look before you leap. Due diligence must be conducted to determine whether the competitor is actually infringing. Next, your company must weigh the benefits and cost of an enforcement action to determine if it makes business sense. The benefits could include protecting your market share, blocking the competition from a market segment, or sending a message that your company is bullish when it comes to enforcing IP. The costs to consider are legal counsel fees, the time you could potentially spend if a case goes to court, profits lost if you don't enforce your IP rights and profits lost if you lose. IP counsel should be engaged at this point so the discussion includes a dispassionate, objective viewpoint from someone who can also appreciate your business goals. This is a vital step, because once you leap and an infringement dispute begins, it can often take on a life of its own.

If you decide to proceed with enforcement, the next step is determining what action to take. This involves further business analysis. Questions to consider include:

- Is it important to maintain exclusivity in the market? If so, some level of action is often necessary. Sometimes, a letter demanding that a competitor stop infringing solves the problem. Other times, informal discussions about the violation can curb the issue. Sometimes court action is required to compel the infringer to stop.
- Is there a significant risk that if the first infringer is not stopped that more infringers will emerge? If so, seeking injunctive relief or a design change by the competitor may be a top priority in ultimately resolving the dispute.
- Is there a likelihood of recovering substantial damages from the infringer? How important is the infringing product to your competitor? These questions may dictate whether the infringer will put up a fight or look to quickly resolve the dispute.
- Are you willing to license or cross-license technology?

Use your analysis to search for weak spots in your thinking and challenge counsel to assist you in the process. The middle of a lawsuit is the wrong time to discuss for the first time if the lawsuit makes any business sense.

Enforcement of IP rights can generate additional revenue and protect the company's profit centers. But only thoughtful and goal-oriented management of your company's IP can be such a catalyst for success in this demanding economic climate.

If you have questions regarding enforcement of your IP rights, please contact Aaron Davis at (612) 349-5754 or davis@ptslaw.com