



ideas on **intellectual property law**

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IP

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Whose case is it anyway?

Patent manager denied standing for infringement suit

With more patent owners turning to firms that operate as IP managers, questions can arise about such managers' ability to bring patent infringement claims, since they don't own the patent themselves. In *Propat Int'l Corp. v. RPost, Inc.*, the U.S. Court of Appeals for the Federal Circuit discussed just this issue.

STANDING UP FOR ITSELF

Propat and Authentix entered an agreement giving Propat responsibility to license Authentix's patent to third parties, to enforce the licensing agreements and to sue infringers. In return, Propat received a defined percentage share of proceeds from licensing royalties and any judgments or settlements resulting from litigation.

The agreement required Propat to consult with and obtain prior approval from Authentix when selecting potential targets for licensing or litigation. The agreement also prohibited Propat from assigning its rights and obligations under the agreement without Authentix's consent, which Authentix could freely withhold.

Propat brought a suit for patent infringement against a third party. The district court held that Propat wasn't the patent owner but only a "bare licensee" (a party with only a covenant from the patentee that it won't be sued for infringing the patent rights) and thus lacked standing to sue. It also ruled standing wouldn't exist even if Propat joined Authentix as a party-plaintiff, because Propat wasn't the patent's "exclusive" licensee.

THE STANDING ROOM

The Patent Act provides that a "patentee" is entitled to bring civil action for infringement. It defines patentee to include "not only the patentee to whom the patent was issued but also the successors in title to the patentee." Courts have interpreted these provisions as

requiring infringement suits to be brought by a party holding legal title to the patent. A patentee can transfer the ability to bring a lawsuit to an IP manager by conveying "all substantial rights" in the patent to the transferee.

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Alternatively, an exclusive licensee of a patent that is neither the legal patent owner nor a transferee of all substantial rights can attain standing to bring an infringement action as long as it joins the patent's legal owner as a co-plaintiff. A party can sue for infringement if it has a legally protected interest in the patent, such that it suffers legal injury from infringement. Exclusive licensees are considered to hold a sufficient economic interest but can't ordinarily sue in their names alone. An exclusive licensee must join the patent owner in an action against an accused infringer.

On appeal, Propat argued it had standing because it held substantial rights in the patent. It also argued that the district court should have granted its request to add Authentix as a party and permitted the action to continue.

STANDING ALONE

Initially, Propat asserted that its agreement with Authentix granted it sufficient interest in the patent to entitle it to sue in its own name.

After reviewing the parties' agreement, the appellate court agreed with the district court that Authentix didn't assign Propat enough substantial rights in its patent to allow Propat to bring suit unilaterally. It noted that the agreement expressly provided that Authentix was and continued to be the owner and was responsible for maintaining the patent for its full term. This indicated that Authentix had retained an ownership interest.

Further, Authentix retained an economic interest in the patent and substantial control over decisions related to the patent. Finally, Authentix enjoyed:

- ① An equity interest in licensing and litigation proceeds,
- ① The right to notice of licensing and litigation decisions,
- ① The right to reasonably veto such decisions, and
- ① Unrestricted power to bar Propat from transferring its rights under the agreement.

In no previous case, the court said, had it held that a patentee that retained such broad powers had transferred all substantial rights in the patent.

The court acknowledged that an owner's retention of the right to part of the proceeds of commercial exploitation of a patent doesn't necessarily defeat what would otherwise be a transfer of all substantial rights in the patent. Retention of the right, however, was consistent with Authentix retaining the ownership rights.

STAND BY ME

Propat next argued that the district court should have granted its request to add Authentix as a party, just as exclusive licensees are allowed to do. The Federal Circuit explained that an exclusive licensee has a sufficient interest in the patent to obtain standing to sue, in contrast with a "bare licensee." Bare licensees may not sue even by joining the patentee as a co-plaintiff.

The court found that Propat didn't fall neatly into either category. The court believed that Propat didn't have the right to practice the patent. The agreement also required Propat to use reasonable efforts consistent with prudent business practices when licensing and enforcing the patent, which the court deemed more consistent with agency than co-ownership. The court thus concluded that Propat was really an agent



of Authentix, not a patent owner. Accordingly, it upheld dismissal of Propat's action.

STAND AND DELIVER

The court's opinion in *Propat* demonstrates that the agreement between a patent owner and its manager will determine whether the manager has standing. The court especially stressed the importance of the provisions regarding an owner's right to prohibit a manager from transferring its rights under the agreement and the right to veto the manager's decisions on licensing and litigation. 🧠

Label fable

Trademark's "use in commerce" must be lawful

The Lanham Act requires applicants to use their trademark "in commerce" to acquire priority trademark rights. And the "use in commerce" must be lawful. That's what a would-be trademark holder learned the hard way in *CreAgri, Inc. v. USANA Health Sciences*.

LISTING LAPSE

In Spring 2001, CreAgri began selling Olivenol, a dietary supplement with an allegedly beneficial antioxidant found in olives called hydroxytyrosol. The label indicated each tablet held 25 mg of the substance.

The scientist who developed the product claimed that a standardized method to measure the content accurately wasn't yet available. But neither he nor CreAgri applied for an exemption from federal labeling requirements. The Food and Drug Administration (FDA) has discretion to grant exemptions when it believes compliance would be impracticable under the circumstances.

A year later, after new testing suggested each tablet had only 5 mg of the substance, the label was changed, but still no exemption was sought. By the time the trademark case reached the Ninth U.S.

Circuit Court of Appeals, CreAgri admitted each tablet contained at most 3 mg. The label had been changed to indicate each tablet had 5 mg of polyphenols, of which hydroxytyrosol is one variety, although it made no claim about the product's hydroxytyrosol content.

In the meantime, CreAgri had applied to the Patent and Trademark Office (PTO) to federally register "Olivenol" as a

trademark. Its application was denied because the term was "deceptively misdescriptive." It was, however, listed on the supplemental register. The supplemental register (the PTO's secondary trademark register) allows for registration of certain marks that aren't eligible for registration on the principal register, but are capable of distinguishing an applicant's goods or services.

In June 2002, USANA filed an intent-to-use application and began selling vitamins, minerals and nutritional supplements with an ingredient called Olivol. Like Olivenol, Olivol is an olive extract with apparently beneficial polyphenols. CreAgri brought a trademark infringement action, claiming it had acquired rights by using Olivenol in commerce before USANA filed its application. The district court found for USANA and ordered Olivenol canceled from the supplemental register. CreAgri appealed.

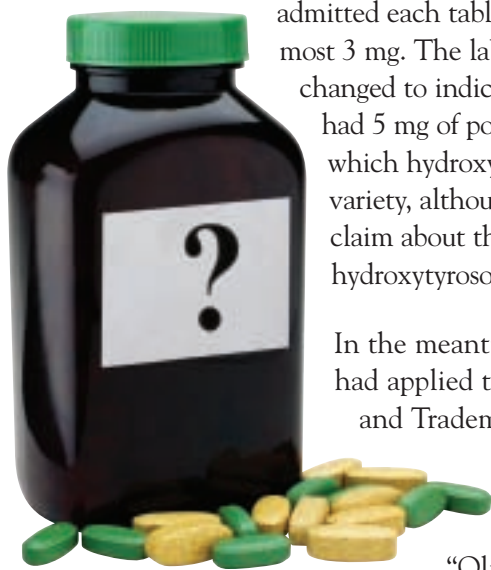
NOT JUST ANY USE WILL DO

The case pivoted on whether CreAgri had acquired trademark rights to "Olivenol" prior to June 18, 2002. "Use in commerce" required by the Lanham Act isn't the sole requirement for acquiring priority trademark rights. The Ninth Circuit held that the use only creates trademark rights when the use is lawful.

The court gave a twofold rationale. First, holding otherwise would place the government in a position of giving trademark protection to a seller based on actions it took in violation of the law. And granting priority to a seller who rushes to market without taking steps to carefully comply with relevant regulations would "reward the hasty at the expense of the diligent."

THREE DEFENSE ARGUMENTS

The court then turned to CreAgri's actions. CreAgri didn't dispute that its labels weren't in compliance with applicable labeling requirements during the pertinent period. But the company



made three arguments to avoid the consequences of noncompliance:

1. The name nexus. Under Trademark Trial and Appeal Board (TTAB) decisions, unlawfulness of a sale won't result in trademark invalidity unless a nexus exists between the trademark's use and the alleged violation. CreAgri asserted that its labeling violation was collateral to its use of the trademark.

But the court found that the “nexus between a misbranded product and that product's name, particularly one designed for human consumption,” is sufficiently close to withhold trademark protection for that name until the misbranding is cured. In this case, the labeling defect was sufficiently related to the Olivenol mark to satisfy the nexus requirement.

2. Exemption exempted. The court also rejected CreAgri's argument that it was exempt from labeling requirements because no accepted method for determining the hydroxytyrosol content was available. The court acknowledged that it was unclear as to whether the appropriate testing was unfeasible at the time, but the court held this irrelevant because the exemption wasn't automatic — the statute expressly requires sellers to apply for and receive the FDA exemption. CreAgri didn't

present any evidence that it had applied for the exemption. Thus, the sale of Olivenol was unlawful and not excused by hypothetical eligibility for an exemption.

3. Material mislabeling. Finally, CreAgri argued that the labeling defect was so harmless that it should be excused as immaterial. It cited an earlier case that held a labeling defect is material only if it's “of such gravity and significance that the usage must be considered unlawful.”

The court distinguished the case before it as “categorically different.” The plaintiff in the previous case corrected its labeling error before its competitor's priority date and sold only 18 mislabeled items. CreAgri, however, didn't correct its error before USANA's priority date, and thus there wasn't a single instance of “lawful use in commerce” prior to June 18, 2002. By any definition, the court said, the label defect was material.

LAWFUL OR AWFUL

The Ninth Circuit observed that CreAgri would have had an easier path if “use in commerce” were the only prerequisite for acquiring trademark rights. Not surprisingly, though, unlawful use reaps no trademark protection in that circuit. 💡

Different standard of use to oppose registration

In *First Niagara Insurance Brokers, Inc. v. First Niagara Financial Grp., Inc.*, the U.S. Court of Appeals for the Federal Circuit held that a party can oppose a trademark without first showing “use in commerce.” First Niagara Insurance operates entirely out of Canada, with no physical presence in the United States. It uses several unregistered trademarks in advertising that spills over into the United States and on correspondence. First Niagara Financial is an American insurance broker that uses several trademarks similar to the Canadian company's.

When First Niagara Financial filed intent-to-use applications for the trademarks, First Niagara Insurance filed oppositions. The Trademark Trial and Appeal Board found in favor of First Niagara Financial, based on the assumption that an “opposer's claim of prior use can succeed only if it has proved use of its marks in connection with services rendered in commerce lawfully regulated by Congress,” as required under the Lanham Act.

The Federal Circuit found this assumption unwarranted. It focused instead on a section of the Lanham Act that denies registration to marks previously “used in the United States by another.” The court ruled that the statute requires only “mere use” in the United States, not use in commerce, to oppose a trademark.

Appellate court explains the game

Patent law's doctrine of equivalents requires a patentee to establish that the difference between the claimed invention and the accused product was insubstantial, or that the accused product performs the substantially same function in substantially the same way with substantially the same result. In *AquaTex Indus., Inc. v. Techniche Solutions*, the U.S. Court of Appeals for the Federal Circuit considered the district court's finding that the doctrine was barred. It also examined the propriety of extrinsic evidence, as well as the plaintiff's burden of proof.

PING PONG IN THE COURTS

AquaTex is the assignee of a patent for a method of cooling wearers of evaporative garments with a multilayered, liquid-retaining composite material. Techniche manufactures materials for such use.

The only patent limitation at issue was for "fiberfill batting material." The district court held that the claim language covered only synthetic batting material.

But Techniche's material, Vizorb, used both natural and synthetic materials. The court also found that AquaTex's amendments of its claims, from "method of cooling a person" to "method of cooling a person by evaporation," during patent prosecution barred the doctrine of equivalents. The district court entered summary judgment in favor of the defendant, finding no literal infringement and waiver of infringement under the doctrine of equivalents.

On appeal, the Federal Circuit held that the district court had erred in finding that prosecution history estoppel barred the doctrine of equivalents and in relying on unclaimed features. The Federal Circuit held that the district court was in error when it compared the two competing

products put into commerce. Rather, the proper analysis should have been to compare patent claims actually filed. Nonetheless, it ultimately affirmed summary judgment.

NO HARM, NO FOUL

The surrender of subject matter during prosecution creates a presumption that the patentee can't recapture that matter through the doctrine of equivalents. The patentee can rebut the presumption by showing the amendment was unrelated to patentability.

In the *AquaTex* appeal, the Federal Circuit ruled that the subject matter surrendered bore no relation to the fiberfill batting material's composition. AquaTex therefore surrendered no claim related to the fiberfill's characteristics and wasn't barred from asserting the doctrine of equivalents as to that limitation.

FIRST AMONG EQUALS?

When analyzing the doctrine of equivalents, the court uses the "function, way, result inquiry." This focuses on the claim and its explanation in the patent's written description.

The district court had concluded that Vizorb wasn't equivalent because AquaTex hadn't shown that Vizorb's filler layer promoted evaporation. But the Federal Circuit countered that the batting's function wasn't to promote evaporation. The specification said only that the batting cannot retard evaporation and the specific type of fiberfill wasn't critical.

The Federal Circuit chastised the district court for using information about AquaTex's product that it had obtained from the company's Web site. The court declared that infringement doesn't arise by comparing the accused product with a commercialized embodiment of the patent.

Rather, the “function, way, result” test rests solely on examination of the patent claim, the explanation in the written description, and, in some cases, the patent’s prosecution history. Here, the Federal Circuit found that the district court had erroneously relied on features not disclosed in the patent.

THE PLAINTIFF DROPS THE BALL

Even though the court chastised the district court’s findings, it wasn’t over. To prevail on reversing summary judgment, AquaTex needed to provide “particularized testimony and linking argument on a limitation-by-limitation basis.”

Both the U.S. Supreme Court and the Federal Circuit have made it clear that evidence of equivalents must come from the perspective of “someone

skilled in the art.” Usually this is a qualified expert who can establish that those skilled in the art would recognize the equivalents. AquaTex, however, failed to do so. It presented only “lawyer argument” and generalized deposition testimony of the defendant’s CEO about the accused product. Based on the failure of AquaTex to present the nature and type of proof required to prevail under the doctrine of equivalents, the Federal Circuit let the summary judgment against AquaTex stand.

WINNING ISN’T EVERYTHING

After the multiple rounds of litigation — and its victories on appeal — AquaTex still lost in the end. It had failed to produce the required evidentiary burden. The critical lesson: Present the requisite evidence. 💡

Copyright protections apply to orphan works

Can parties make out-of-print books available on the Internet? According to the Ninth Circuit Court of Appeals, they can’t unless they abide by copyright law.

Prior to 1978, the number of orphaned works — those that allegedly have little or no commercial value but remain under copyright — was limited. Copyright holders were required to renew their rights within a certain timeframe, or ownership passed into the public domain.

The Copyright Renewal Act of 1992 (CRA) and Copyright Term Extension Act of 1998 (CTEA) eliminated the renewal requirements for works created between 1964 and 1977. The result was a dramatic increase in the average copyright term and a corresponding drop in the number of works currently entering the public domain.

In *Kahle v. Gonzales*, the plaintiffs all provided (or intended to provide) online access to orphaned works. As the Ninth Circuit observed, ownership of such works often is difficult to ascertain, if not impossible.

The plaintiffs sought review of the CRA and CTEA, alleging that the change from an opt-in to an opt-out copyright system mandated First Amendment review because it altered traditional copyrights. They drew their argument from the U.S. Supreme Court’s decision in *Eldred v. Ashcroft*.

But the Ninth Circuit pointed out that *Eldred* also upheld the CTEA — in effect answering the *Kahle* plaintiffs’ challenge. The CTEA “placed existing copyrights in parity with future copyrights,” and *Eldred* explicitly held such efforts are constitutionally valid.

The Ninth Circuit specifically noted that the plaintiffs articulated only policy reasons in support of their position. Future plaintiffs seeking to obtain a First Amendment review and ultimately make orphan works freely available to the public will need to posit a legal argument for why the court should ignore the clear holding of *Eldred*.

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Trademark Abuse by Cybersquatters & Cyberpirates

The global nature of the Internet and the unique quality of each domain name has caused domain names to become valuable commodities. Internet speculators are increasingly taking advantage of the largely unregulated domain name registration system to take a free ride off of trademark holders' valuable trademark rights.

In recent years, cybersquatters and abusers known as "cyberpirates," have developed innovative ways to profit from the inherent value of a company's name and trademarks. Rather than attempting to sell the registration to a trademark owner, domain name registrants are now registering domain names that incorporate trademarked terms with the intent to benefit commercially from Internet traffic that mistakenly arrives at the cyberpirate's website.

A further variation of online infringement is "typosquatting," wherein domain names are registered incorporating misspelled versions of registered trademarks. Another form of abuse occurs when competitors register domain names featuring trademarks of their rivals in order to block them from the valuable use of their own marks as featured addresses on the Internet.

Entire industries have developed around the popularity of Internet search engines. For example, third party payment arrangements that pay owners of websites each time visitors click various links have become common. One particular outgrowth of this monetization is called "Search Engine Optimization" ("SEO"). SEO practitioners register a large number of domain names in an attempt to redirect internet traffic to the cyberpirates website. The SEO site often presents visitors with sponsored links for products and services of competitors to the trademark holder.

The Uniform Domain Name Dispute Resolution Policy ("UDRP") was developed to address abuses affecting owners of trademarks. Whenever a domain name is registered, the registrant agrees to resolve any disputes between it and third parties under the UDRP arbitration process.

There are three elements that must be established before the domain name can be transferred or cancelled:

1. the domain name is identical or confusingly similar to a mark in which the complainant has rights;
2. the registrant has no rights to or legitimate interests in the disputed domain name; and
3. the domain name has been registered and used in bad faith.

The UDRP sets forth a non-exclusive list of different types of circumstances that can be used as evidence that the registrant's domain name was registered and used in bad faith. The benefits of filing under the UDRP include the speed and relative economy of arbitrated resolution of such disputes. However, the only remedies available are the cancellation or transfer of the disputed domain name.

The increasing popularity of the Internet underscores the importance of protecting trademarks on the Internet from cyberpiracy and cybersquatting. To deal with cyberpiracy, trademark owners need to develop policies and strategies to ensure their trademarks are affirmatively protected by their own domain name registrations, as well as by adequate policing and enforcement actions against abuses by cybersquatters and cyberpirates.

If you have additional questions regarding Trademarks, please contact Kyle T. Peterson at (612) 252-1554 or at peterson@ptslaw.com and he will be glad to assist you.