

IDEAS ON INTELLECTUAL PROPERTY LAW



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Book it

Supreme Court has final word on first-sale doctrine

Two years ago, the U.S. Court of Appeals for the Second Circuit caught the attention of copyright holders everywhere. It held that buyers of copyrighted foreign-made works were *not* free to resell the works without restriction. In a surprising decision that could have restricted the resale of a wide range of products produced abroad, the court ruled that the first-sale doctrine didn't apply to such works. Now, in the latest iteration of *Kirtsaeng v. John Wiley & Sons*, the U.S. Supreme Court has the final word.

Prologue

John Wiley & Sons publishes academic, scientific and educational journals and books for sale in domestic and foreign markets. It often assigns its wholly owned subsidiary rights to publish, print and sell foreign editions of Wiley's English-language textbooks abroad.

The foreign versions state that they're not to be taken or imported without permission into the United States. Friends and family members of Supap Kirtsaeng bought copies of foreign editions of Wiley books in bookshops in Thailand, where they're sold at low prices, and shipped them to him in the United States. He then sold them for profit on websites such as eBay.

Wiley sued Kirtsaeng in 1998, alleging copyright infringement. The company based its claim on Section 602(a)(1) of the Copyright Act, which makes it illegal to import into the United States any copies of a work acquired outside of the country without authorization from the copyright owner.

Plot twists

The trial court ruled in Wiley's favor and assessed damages against Kirtsaeng. On appeal, Kirtsaeng

argued that the first-sale doctrine shielded him from liability. The doctrine, found in Section 109(a) of the Copyright Act, permits the owner of a lawfully purchased copyrighted work to resell it without limitations imposed by the copyright holder.

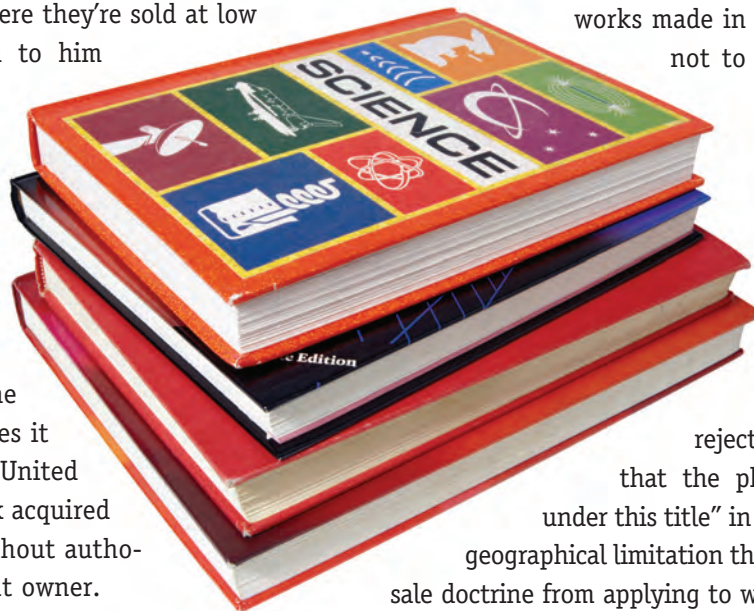
Section 602(a)(1) of the Copyright Act makes it illegal to import into the United States any copies of a work acquired outside of the country without authorization from the copyright owner.

A three-judge panel of the Second Circuit affirmed the trial court's decision, holding that foreign-made works cannot be so freely resold. It concluded that the first-sale doctrine applies only to works made in the United States — not to foreign-made works. The case was then appealed to the Supreme Court.

Conclusion

The lower courts' rulings didn't find favor with the Supreme Court. It rejected Wiley's argument that the phrase "lawfully made under this title" in Sec. 109(a) imposed a geographical limitation that prevented the first-sale doctrine from applying to works made abroad.

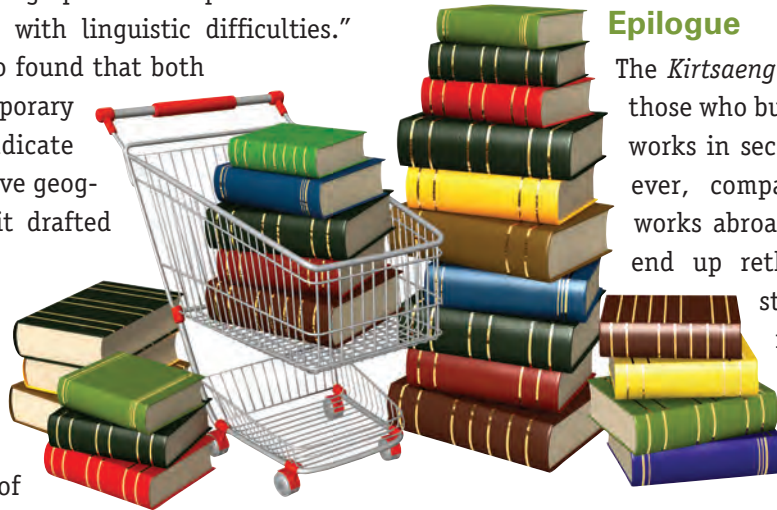
The Supreme Court noted that Sec. 109(a) says nothing about geography. Rather, the term "lawfully made"



suggests an effort to distinguish copies that were made lawfully from those that weren't, while "under this title" sets forth the standard of "lawfulness" (that is, the Copyright Act). The Court found that this reading makes linguistic sense and promotes the traditional copyright objective of combating piracy.

In contrast, Wiley's geographical interpretation of the language "bristles with linguistic difficulties." The Supreme Court also found that both historical and contemporary statutory context indicate that Congress didn't have geography in mind when it drafted Sec. 109(a).

The Court further noted that reliance on the first-sale doctrine is deeply embedded in the practices of



booksellers, libraries, museums and retailers, which have long relied on its protection. Wiley's geographical interpretation would likely require libraries, for example, to obtain permission before circulating the many books in their collections that were printed overseas. The Supreme Court, therefore, reversed the Second Circuit's ruling.

Epilogue

The *Kirtsaeng* ruling should benefit those who buy and sell copyrighted works in secondary markets. However, companies that sell such works abroad at lower prices may end up rethinking their pricing strategies because they may not be able to prevent the works' importation into the United States. ○

Can silence stifle an infringement claim?

They say silence is golden. In *Radio Systems Corp. v. Lator*, a patentee's silence after sending a demand letter had a marked impact on the resulting decision handed down by the U.S. Court of Appeals for the Federal Circuit.

Patentee barks, doesn't bite

Bumper Boy, Inc., holds two patents on improvements to electronic animal collars. In February 2005, it sent Innotek, Inc. a demand letter stating that Innotek's "UltraSmart" collar infringed one of the patents and that Innotek must take a license or cease all manufacturing, as well as destroy all sales inventory. The letter didn't mention the second patent, which was

issued in September 2007 as a continuation-in-part patent of the first one.

Innotek responded to the demand letter, contending that Bumper Boy's first patent was invalid. Bumper Boy took no further action for several years, and Innotek continued making and selling its collar.

Radio Systems Corporation acquired Innotek in September 2006. Bumper



Boy sent Radio Systems a similar demand letter in November 2009. Six months later, Radio Systems sought declaratory judgments of noninfringement and patent invalidity. Bumper Boy counterclaimed for infringement of both patents.

Court collars claims

Equitable estoppel (whereby a person is precluded from denying anything to the contrary of a fact established by his or her own deed; acts; or representations, expressed or implied) will prevent a patentee's suit if:

1. The patentee, through misleading conduct or silence, leads the alleged infringer to reasonably infer that the patentee doesn't intend to enforce its patent,
2. The alleged infringer relies on that conduct, and
3. The alleged infringer will be materially harmed if the patentee is allowed to proceed with the claim.

The district court concluded that equitable estoppel barred Bumper Boy's infringement claims. Its silence for four-plus years misled Innotek, which relied on the silence while expanding its product line and being acquired by Radio Systems. Innotek's investment in those new products constituted economic harm.



One claim unleashed

Bumper Boy argued on appeal that equitable estoppel didn't apply because Radio Systems didn't know about the 2005 demand letter to Innotek or rely on Bumper Boy's silence. The Federal Circuit, however, found that equitable estoppel applies to successors-in-interest such as Radio Systems. Because all three elements of equitable estoppel were present, it affirmed the lower court's judgment on the first patent.

Bumper Boy took no further action for several years, and Innotek continued making and selling its collar.

The Federal Circuit reversed the district court, though, regarding the second patent. Radio Systems' first notice of infringement of that patent came in the 2009 demand letter. Even if the first patent's claims supported that patent, the court found, the patents contain claims of different scope.

Thus, according to the Federal Circuit, the second patent's claims couldn't have been asserted against Innotek or Radio Systems until the patent was issued. And the elements of equitable estoppel weren't present for the second patent.

Dogged determination

Bumper Boy presumably drew some solace from the fact that its claim related to the second patent survived. But the company and other patent holders should heed the lesson of this case. Patentees that discover infringement must do more than simply send a demand letter. If they fail to take further action, they could end up forfeiting their claims down the road. ○

Federal Circuit marks the spot

Multistep patents prove hard to defend

Winning a patent infringement claim can be tricky — especially when the patent in question covers a multistep method or process. The U.S. Court of Appeals for the Federal Circuit recently made this abundantly clear in *Move, Inc. v. Real Estate Alliance Ltd.*

Areas of dispute

Real Estate Alliance Ltd. (REAL) owns patents on methods for locating available properties using a zoom-enabled map on a computer. The methods described in the patents include steps for “selecting a first area having boundaries within the [desired] geographic area.” After zooming in on an area, users may select “a second area having boundaries within the first zoomed area.”

Move, Inc. operates and maintains multiple interactive websites that allow users to search for available properties. Move filed a lawsuit seeking a declaratory judgment that REAL’s patents were invalid and Move’s websites didn’t infringe upon them. REAL counterclaimed, alleging that Move’s “Search by Map” and “Search by Zip Code” functions on its sites infringed REAL’s search methodologies.

The case reached the Federal Circuit for the first time in 2011, after REAL appealed the district court’s interpretation of the patent claims. At that time, the appellate court vacated the district court’s ruling and determined that the term “selecting an area” as used in the steps above means that “the user or the computer chooses an area having boundaries, not when the computer updates certain display variables to reflect the selected area.”

The Federal Circuit sent the case back to the district court to apply that interpretation. The district court dismissed the case before trial, granting Move a summary judgment of noninfringement. REAL appealed again.



Points of interest

REAL argued that Move’s systems directly performed all of the steps in the patented method, apart from the actions of any human user.

Specifically, it asserted that, after a map of a desired geographic area (for example, a county) is displayed on one of Move’s websites, the user clicks on a more defined area (for example, a neighborhood). The Move computer responds by “selecting the world coordinates equal to the boundaries” within that area.

The Move website, REAL alleged, automatically generates a display of this zoomed first area because the coordinates are stored in the Move computer system and not known to the user. In other words, the company argued, the user doesn’t know the precise locations of the boundaries — the computer essentially selects them.

Move countered that the user freely selects an area and then notifies Move’s computer of that choice by clicking on the selected area on the map or in a drop-down menu. The computer, it contended, doesn’t choose which coordinates to retrieve — the coordinates are preassociated with a particular map so,



when a user clicks on an area, the computer merely retrieves the associated map.

Lack of directions

The Federal Circuit began its analysis by explaining that, to establish liability for direct infringement of a method or process, the patentee must prove that each and every step of the method was performed. In cases in which more than one entity performs the steps, a party is liable for direct infringement only if that party exercises “control or direction” over the performance of each step — including those the party doesn’t perform itself. Relevant factors include whether the accused direct infringer provides instructions or directions to another entity for performing steps of the patented method or contracts out steps of the method to another entity.

The court concluded that the district court properly found that Move couldn’t be held directly liable for infringing REAL’s patent. It observed that the Move computer doesn’t do the selecting — the user does, and the computer simply updates display variables to reflect that choice. Under the Federal Circuit’s earlier interpretation of “selecting an area,” this action doesn’t constitute selection.

Although certain steps of REAL’s method may be performed by users using Move’s system, the court noted, that doesn’t amount to either direct infringement or joint direct infringement. The reason: Move doesn’t exercise direction or control over its websites’ users. Move’s computer just loads a map after a user provides specific instructions as to the area of interest.

One-way street

As *Move, Inc.* demonstrates, the only way to establish direct liability for infringement is to show that the performance of every step in the method is attributable to the accused, whether through direct performance itself or by controlling or directing the performance by others. Of course, that doesn’t mean the accused couldn’t be liable for indirect infringement. (See “That’s not all, folks” below.) ○

That’s not all, folks

The U.S. Court of Appeals for the Federal Circuit didn’t end its analysis in *Move, Inc. v. Real Estate Alliance Ltd.* with its finding of no direct infringement. (See main article.) It went on to note that the district court’s dismissal of REAL’s case implicitly rested on its incorrect determination that Move also couldn’t be liable for indirect infringement.

The Federal Circuit cited its recent clarification of the law on inducement in *Akamai Technologies Inc. v. Limelight Networks, Inc.* In that case, the court explained that all of the steps in a patented method must be performed before induced infringement can be found — but the steps needn’t have been performed by a single entity. But the district court in *Move, Inc.* “summarily concluded” that, because Move (as a single party) wasn’t liable for direct infringement, it couldn’t be liable for induced infringement.

The appellate court found that the lower court should have conducted an indirect infringement analysis, including whether Move had knowledge of REAL’s patent and induced users to perform the method’s steps that Move didn’t itself perform. It therefore sent the case back to the district court.

In the bag: “Willful blindness” defense denied

You’ve probably heard the expression “ignorance is no excuse.” It’s a favorite among traffic cops, school teachers and ... oh, yes ... courts of law. For example, the U.S. Court of Appeals for the Second Circuit found itself expounding on the phrase in *Fendi Adele, S.R.L. v. Ashley Reed Trading*, a trademark infringement case decided earlier this year.

Assessing damages

Fendi Adele owns the federally registered “Fendi” trademark. The company is the exclusive designer of handbags, shoulder bags, purses, wallets and key holders bearing the trademark.

Fendi sued Ashley Reed Trading Inc., alleging that it knowingly imported counterfeit Fendi bags even after they were on notice that the bags were counterfeit. A district court found Ashley Reed liable for willful infringement and awarded Fendi more than \$12 million in damages.

Proving willfulness

On appeal, Ashley Reed challenged the district court’s finding of willful infringement. In response, the Second Circuit opened by noting that, once liability is established, Fendi’s entitlement to Ashley Reed’s profits depends on whether the infringement was indeed willful. To prove willfulness, a plaintiff must show that either:

1. The defendant was actually aware of the infringing activity, or
2. The defendant’s actions were the result of reckless disregard or willful blindness.

In the context of a trademark infringement case, willful blindness means that the defendant knew it might be selling infringing goods but nevertheless “intentionally shielded itself from discovering” the truth.



Failing repeatedly

Here, Ashley Reed was clearly on notice that the bags were counterfeit after Fendi sent the company a cease-and-desist letter in 2001. Additionally, the defendant failed to adequately inquire about the authenticity and original sources of the goods it purchased. Suppliers provided Ashley Reed with “sanitized” invoices that didn’t disclose the original sources and, in some cases, refused to provide *any* paperwork.

Ashley Reed also failed to maintain records of its transactions with suppliers and didn’t retain any documentation of purported side-by-side comparisons of its goods with genuine Fendi merchandise. Perhaps most telling, the court noted, the defendant returned its remaining Fendi merchandise to suppliers after Fendi filed suit. This meant the merchandise was unavailable for inspection, and Ashley Reed didn’t keep any records concerning these goods or their return.

Making it clear

Not surprisingly, the Second Circuit found sufficient evidence of willful infringement on Ashley Reed’s part. More to the point, the company’s willful blindness defense crumbled under the mountain of evidence presented by the plaintiff. The court’s ruling makes clear that simply ignoring indications that goods aren’t authentic won’t likely inhibit a finding of trademark infringement. ○

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IP Insurance – A New Reality for Innovative Companies

By Stuart Olstad

You've just invested several tens of thousands of dollars in a patent clearance opinion. How can you be sure you've identified all of the patents that are relevant to your product?

Increasingly, the answer is: "You can't." The complexity of many modern day products, coupled with a steady increase in the number of issued patents in force over the last two decades, has made a true "freedom to operate" more of an ideal than a reality. For many products, an exhaustive search of active patents for every component and sub-assembly of a product simply is not economically feasible.

There is a natural tendency for entities to focus on the main features of their product—the franchise features—during a clearance review. Accordingly, the attendant prior art search focuses on patents closely related to the franchise features and is based in appropriately tailored queries in the field of the franchise features. The search may also focus on patents held by known entities (particularly competitors) in these various fields.

However, because of the complexity of the system, there often will be other components or imbedded methods utilized within the product that are peripheral to the franchise features, but may still be the subject of current patents. For example, a controller in a given product might be utilizing a parallel processor that is seemingly "old" technology, but is still the subject of a current patent, and the supplier that you procured the processor from may not be under license with the patentee. Or the control routine that the software engineer developed to perform some seemingly mundane task may be close enough to the claims of a certain patent to draw the attention of its holder, who happens to be a non-practicing entity.

The concerns posed by the above scenarios can be allayed to a large extent by a relatively new risk management tool: IP infringement defense insurance. The basic concept is that, for an annual premium, the policy holder is reimbursed for legal expenses, and optionally damages awarded against the policy holder, to defend against charges of IP infringement. The cost of the annual premiums typically runs between 1% and 2% of the coverage limit. Thus, a \$2 million defense policy will typically run between \$20,000 and \$40,000 per year. As with other insurance, the policy is subject to a self-insured retention, which is similar to a deductible.

The policy application process involves a search performed by the underwriter, paid for by the applicant of the insurance policy. In some instances, the underwriter will waive the search requirement if the applicant provides a clearance search completed within the previous six months. The underwriters may identify certain patents that they will not insure against because the risk of assertion is too high. These "high risk" patents would be dealt with pursuant to the normal clearance opinion process, wherein patent counsel would evaluate and offer an opinion as to the infringement risk, and/or the validity and enforceability of the high risk patents. Again, the purpose of IP infringement defense insurance is not to eliminate the need for a clearance opinion, but rather to insure against unforeseen patents that may not be considered during the clearance opinion process.

Also, IP "abatement" insurance is available to assist policy holders in enforcement of their IP rights against alleged infringers. Abatement insurance provides the policy holder the financial resources to more effectively negotiate, protect and enforce their IP rights.

IP insurance is not limited to patents. It is also available for trademark, trade dress and copyright protection.

For more information, contact Stuart Olstad at (612) 252-1551 or olstad@ptslaw.com

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