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Recent ruling offers encouragement to patent holders

Ever since the U.S. Supreme Court's 2014 ruling in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, the road for would-be patent holders of software and business methods has been a rough one, littered with uncertainty and unfavorable rulings. Some observers have even suggested that *Alice*, and its progeny issued by the U.S. Court of Appeals for the Federal Circuit (which hears all patent case appeals), represent the death knell for software patents.

Late last year, however, came a ruling from the Federal Circuit, *DDR Holdings LLC v. Hotels.com*. It's the first such decision since *Alice* and actually offers some encouragement to software and business method patent holders.

Traffic trouble

DDR Holdings holds a patent on an invention designed to solve a problem experienced by many e-commerce websites: the loss of visitor traffic when visitors click on a third-party ad and are taken to that party's site. The patented invention creates a new webpage that permits a visitor to essentially be in two places at the same time.

When the visitor clicks on an ad, the system generates and sends the visitor to a hybrid webpage that displays product information for the third party but retains the host website's "look and feel." The host can display a third party's products but keep its visitor traffic by displaying the information from within a webpage that gives visitors the impression that they're viewing pages served by the host.

DDR sued several defendants for patent infringement. After a jury found infringement, one of the defendants asked the trial court to grant a "judgment as a matter of law" because the patent covered a patent-ineligible invention and was therefore invalid. The trial court denied the request, and the defendant appealed to the Federal Circuit.



A concrete solution

The U.S. Supreme Court has long held that laws of nature, natural phenomena and abstract ideas aren't patentable under Section 101 of the Patent Act. Yet the Court hasn't precisely defined the contours of the "abstract ideas" category. According to the Federal Circuit, many of the software and business method patent claims previously found invalid covered nothing more than the performance of an abstract business practice on the Internet or using a conventional computer — and such claims aren't patent-eligible.

The appeals court acknowledged that DDR's patent claims were similar to previously rejected claims in that they involved both a computer and the Internet. But, the court said, DDR's patent claims addressed a business challenge (retaining visitors) particular to the Internet. Rather than just reciting the performance of

some business practice known from the pre-Internet world along with the requirement that it be performed online, the claimed invention is “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”

The court cautioned that not every claim purporting to address Internet-centric challenges is patent-eligible. DDR’s claims specified how interactions with the Internet are manipulated to yield a desired result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink. The visitor is directed to a hybrid webpage, not a third-party webpage. The claims, therefore, described an invention that’s more than the routine or conventional use of the Internet.

Additional features

The appeals court also found that the claims didn’t unlawfully attempt to preempt every application of the idea of increasing sales by making two webpages look alike. The court said they described a specific way to automate the creation of a hybrid webpage by an “outsource provider” that incorporates elements from multiple sources to solve a problem faced by websites.

Thus, the claims included “additional features” that ensure the claims are, as required by the Supreme Court in *Alice*, “more than a drafting effort designed to monopolize” the abstract idea. In short, the appeals court found the invention amounted to an inventive concept for resolving a particular Internet-centric problem — making the claims patent-eligible.

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Roadmap for success

The *DDR Holdings* ruling sends a clear message that, even in a post-*Alice* world, software and business method claims can be patent-eligible. To wit, patentee-hopefuls should ensure that their claims are either: 1) rooted in technology designed to overcome a problem specific to computer networks, or 2) written to describe interactions with the Internet or computers that are manipulated to yield a result different from a routine or conventional result. ○

More than a “store within a store”



The ruling in *DDR Holdings LLC v. Hotels.com* wasn’t unanimous. The dissenting judge disagreed with the majority’s finding that the claims didn’t merely recite the performance of some business practice known from the pre-Internet world along with the requirement that it be done online.

According to the judge in question, DDR’s claims simply took a well-known, widely applied business practice — the idea of having a “store within a store” — and applied it with a generic computer and

the Internet. For example, he said, one of the defendants previously sold vacation packages through point-of-purchase displays in its brick-and-mortar stores.

The majority, however, pointed out that customers approaching a store display can’t suddenly be transported to a third party’s separate physical venue where they could buy a package without any indication they’d been browsing the second venue’s aisles or need to return to the original store after purchase. It’s the challenge of retaining control over the customer’s attention in the context of the Internet, the majority said, that the patent claims addressed.

Something more: Trademark confusion standard clarified

Trademark applicants can run into trouble if their goods or services are considered similar to those of a third party's registration, where the marks are also similar. A recent court ruling, however, clarified the standard that trademark examiners should use to evaluate the similarity of two parties' respective goods and services.

Registration denied

Under the mark TAKETEN, St. Helena Hospital conducts a 10-day residential health improvement program at its in-patient facility in St. Helena, California. The hospital applied to register the mark for its health care services.

The examiner from the U.S. Patent and Trademark Office (USPTO) refused to register the mark. The examiner cited a likelihood of confusion with the mark TAKE10! registered for "printed manuals, posters, stickers, activity cards and educational worksheets dealing with physical activity and physical fitness." The Trademark Trial and Appeal Board (TTAB) upheld the examiner's refusal, and the hospital appealed to the U.S. Court of Appeals for the Federal Circuit.

Court seeks relatedness

The appeals court largely rejected the TTAB's findings regarding the factors analyzed to evaluate the likelihood of confusion. In particular, it found that the board had applied the incorrect standard when evaluating the "similarity or dissimilarity and nature of the goods and services" factor.

The TTAB concluded that consumers were likely to believe that health care services and similarly marked printed materials come from the same source or are somehow connected with or sponsored by a common company. The TTAB recognized that, in the context of food products associated with restaurants, the Federal Circuit requires "something more" than the fact that similar or identical marks are used. It asserted, though, that the something-more standard didn't apply in this case.

The mere fact that goods and services are "used together" doesn't establish relatedness without further evidence.



As the appeals court explained, to rely on the similarity of the goods and services as a basis for refusing registration, the USPTO must show relatedness between the goods and services at issue. And the mere fact that goods and services are "used together" doesn't establish relatedness without further evidence. In cases like this one, where the relatedness is obscure or less evident, the USPTO must show "something more."

The appeals court acknowledged that it has previously applied the something-more standard in the context of restaurant services but added that

the rule isn't limited to that context. The rule also applies whenever the relatedness of the goods and services isn't evident, well known or generally recognized.

In this case, the court concluded, the USPTO hadn't shown that St. Helena's services and the printed materials covered by the TAKE10! registration are generally seen as being related. The USPTO also failed to show "something more" to establish relatedness.

To be continued

Ultimately, the appeals court reversed the TTAB's refusal to register and sent the case back for further proceedings consistent with its opinion. As of this writing, it remains to be seen whether the USPTO will eventually find "something more." The good news for applicants in the meantime is that the ruling in this case could make it harder for examiners to deny registration on the basis of similar goods and services. ○

On second thought

Ninth Circuit reverses course on the first sale doctrine

If you've ever shopped at Costco, you may have enjoyed a significant discount on a product subject to copyright protection. That's good for you — but maybe not so good for the copyright holder.

Unfortunately for those copyright holders, a recent ruling by the U.S. Court of Appeals for the Ninth Circuit leaves them vulnerable to the "gray market" that makes some of these discounts possible. The court's decision marked a change from its previously held position, following a recent U.S. Supreme Court ruling.

Winding up in court

Omega manufactures watches in Switzerland and sells them globally through authorized distributors and retailers. The watches themselves are neither copyrighted nor copyrightable, but the undersides of the watches are engraved with an "Omega Globe Design." This design is copyrighted in the United States.

Costco obtained some Omega watches with the copyrighted design from the gray market. Omega first sold the watches to authorized distributors overseas. Unidentified third parties eventually bought the watches and sold them to a U.S. company, which then sold them to Costco. The watches were eventually sold by Costco to consumers in California. Thus, while the



initial foreign sale was authorized, the importation and Costco's sales were not.

Omega sued Costco for copyright infringement. Costco claimed that, under the first sale doctrine, Omega's initial foreign sale of the watches precluded its claims in connection with the later unauthorized sales.



Under the first sale doctrine, once a copyright holder authorizes the sale of particular copies of its work, it loses the exclusive right to sell or distribute those physical copies and cannot interfere with later sales or distributions by the new owner.

Running out of time

In 2008, the Ninth Circuit held in this case that the first sale doctrine provides no protection against an infringement claim involving foreign-made, non-pirated copies of a U.S. copyrighted work unless the copies have already been sold in the United States with the copyright holder's authorization. The Supreme Court, in a 4-4 decision, affirmed that ruling and returned the case to the trial court.

Once a copyright holder authorizes the sale of particular copies of its work, it loses the exclusive right to sell or distribute those physical copies.

The lower court dismissed the case on the basis of Costco's "copyright misuse" defense, and the case was again appealed to the Ninth Circuit. While the appeal was pending, the Supreme Court issued its ruling in *Kirtsaeng v. John Wiley & Sons, Inc.*, holding that the first sale doctrine applies to copyrighted works lawfully made abroad.

Because the Supreme Court's first ruling in this case was equally divided and therefore "nonprecedential," the *Kirtsaeng* holding was fully retroactive and applied to the appeal pending before the Ninth Circuit. As a result, Omega had no case against Costco, and the appeals court affirmed the trial court's decision in Costco's favor.

Turning to the defense

The majority opinion here didn't address the copyright misuse defense because the first sale doctrine clearly disposed of Omega's case. The defense forbids the use of the copyright to secure an exclusive right or limited monopoly not granted by the U.S. Copyright Office. Omega conceded that it wielded the copyrighted Globe Design to restrict the unauthorized sale of Omega watches in the United States.

The trial court held that Omega had misused its copyright to control the importation and sale of the watches that bore the design. In a concurring opinion by the appellate court, one of the judges agreed — finding that Omega had misused its copyright to obtain a copyright-like monopoly over the watches where Omega didn't possess any copyright protection.

Watching out

The *Omega* case demonstrates how copyright holders are now exposed to both the gray market and the copyright misuse defense. Although it may be impossible to fully reduce risks of the former, copyright holders should take care not to forfeit potential infringement claims by misusing their copyrights. ○

Abiding by the “original patent” rule when reissuing

Reissue patents allow a patentee to correct an existing patent by broadening or narrowing the originally issued claims. Unfortunately, it's not as simple as it may sound. Among other requirements, the reissue patent can claim only inventions that were described in the original patent specification as being intended to be a separate invention. A recent infringement case involving dueling pharmaceutical companies demonstrates how the so-called “original patent” rule can trip up a patentee.

Shot taken

Antares Pharma holds a reissue patent on jet injection devices for self-administering pharmaceuticals. Antares sued Medac Pharma for patent infringement. The trial court denied Antares' request for a preliminary injunction because the company failed to show the likelihood of success on its infringement claims. Antares appealed.

On review, the U.S. Court of Appeals for the Federal Circuit focused primarily on the original patent requirement for reissue patents. Under Section 251 of the Patent Act, the original patent specification must expressly describe the particular invention claimed on reissue. According to the Federal Circuit, U.S. Supreme Court cases have recognized this requirement for more than 150 years.



The original patent requirement is analogous to the written description requirement for patent specifications. But, for reissue purposes, the specification “must clearly and unequivocally disclose the newly claimed invention as a separate invention.” It's not enough that the original patent specification hinted at, suggested or indicated the new invention.

Features aren't specified

Applying this standard, the appeals court found the relevant reissue claims invalid because the original claims were significantly different in scope and coverage. For example, the originals were limited to “jet injection,” while the reissue claims were focused on particular safety features and didn't contain the jet injection limitation. The specification, the court said, discussed only one invention — a particular class of jet injectors.

Although the specification mentioned safety features, they were never described separately from the jet injector, nor were the particular combinations of safety features claimed on reissue ever described. The court found the specification contained no description, in an explicit and unequivocal manner, of the particular safety features claimed on reissue that were separate from the jet injection invention. Thus, the original patent requirement wasn't satisfied, the reissue patent claims were invalid and the preliminary injunction was rightly denied.

Be descriptive

If you decide to reissue a patent, bear in mind the stringent terms of the original patent requirement. Simply satisfying the written description requirement won't suffice — your original specification must describe the new invention as *separate* from the original. If you're unsure of whether you've been descriptive enough, ask your intellectual property attorney to review your reissue before submitting it. ○

Trademark Infringement in Reverse?

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Could a seemingly innocent practice be putting you at risk for accusations of trademark infringement? If you source components from other companies to manufacture your product, you should know about an unusual type of trademark infringement called reverse passing off. In conventional trademark infringement, also known as direct passing off, a first party sells its goods under a second party's trademark and infringes on the good will associated with the trademark. In contrast, reverse passing off (also known as reverse palming off) occurs when a first party sells its goods under a trademark to a second party and the second party resells the good after removing the first party's trademark.

What Scenarios Constitute Reverse Passing Off?

The 8th Circuit held that reverse passing off is actionable under the Lanham Act § 43(a), 35 U.S.C. § 1125(a) (2012) because, as with direct passing off, the consuming public is harmed by a lack of knowledge of the true source of a good caused by deception on the part of the defendant. See *Pioneer Hi-Bred Int'l v. Holden Found. Seeds*, 35 F.3d 1226, 1241-42 (8th Cir. 1994). In *Pioneer*, the defendant sold a breed of seed corn without acknowledging in its advertising that the defendant's seed corn was developed from the plaintiff's seed corn. The 9th Circuit held similarly that "reverse passing off occurs when the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells the product in an unbranded state." Thus, under the *Pioneer Hi-Bred* court's test, it is inadvisable to simply remove the markings from another's goods and sell them as your own.

What Scenarios Do Not Constitute Reverse Passing Off?

In some circumstances, including a trademarked component in a system does not constitute reverse passing off. For example, when a trademarked component is incorporated into a larger or more complex system, when the trademarked component is not visible within the device, or when the component does not aid the performance of the device, reverse passing off may not have occurred. See *Roho, Inc. v. Marquis*, 902 F.2d 356 (5th Cir. 1990). In *Roho*, the plaintiff produced cushions designed to prevent and treat bedsores, each of which was labeled with the plaintiff's trademark. The plaintiff also produced a mattress by assembling four of the cushions together. The defendant purchased ten of the cushions from the plaintiff, removed the labels, fastened the ten cushions together to form its mattress, and added its own labeling to its resulting mattress. Although the court found that "the [defendant's] mattress is virtually indistinguishable from [the plaintiff's] mattress," the fact that the defendant "modified [the] cushions in more than a superficial manner" to form its mattress was enough for the court to hold that it did not amount to reverse passing off. Accordingly, under the *Roho* court's analysis, companies that manufacture devices incorporating trademark-protected features can protect themselves by not removing markings unless the incorporated features are modified in a more than superficial manner.

Conclusion

Whether or not reverse passing off has occurred is dependent on the facts. In some technology areas, such as a computer, finished devices may contain hundreds of components from multiple suppliers, which potentially each have their own intellectual property protection. In other areas, however, where a component and its markings are in plain view, the component's markings might need to be removed in order to provide space for the device's markings. Sometimes it can be advantageous to make it known to the consumer that the components in a device came from a certain supplier by maintaining the component markings or other labeling. There is little jurisprudence on reverse passing off, and the relevant rules can vary between states and regions. Therefore, it is a good idea to check with an intellectual property attorney before removing or concealing someone else's trademark.