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Letter from the Editor

Two important opinions, *Rescuecom* and *Kubin*, were announced after this issue was in production. Even though we would like to offer full case notes for these decisions, our scheduling constraints prevent us from offering more than a few comments on each decision in this letter.

We at OIPN are always looking for ways to improve our product. Recognizing that our production schedule sometimes prevents us from publishing the content we would like to offer, we welcome your input on what you would like from OIPN. Typically, we publish two types of articles: short student-prepared case notes and feature-length articles focused on specific intellectual property issues written by practitioners.

One approach to address this issue is online publication of case notes. Many IP blogs offer this already, though the disappearance and reappearance of The Patry Copyright Blog reminds us that online sources have no guarantee of permanence. Another approach is to focus the newsletter on in-depth opinions and features that respond to recent developments rather than report on them. As an example of this, we are pleased to offer perspectives on the Google Books settlement and on the recent *Tafas* ruling in this issue.

And those cases? In *Rescuecom Corp. v. Google, Inc.*, 2009 WL 875447 (2d Cir., April 3, 2009), Google's Adwords and Keyword Suggestion Tool were held to be uses in commerce of the plaintiff's mark within the scope of § 45 of the Lanham Act. Writing for the court, Judge Leval distinguished Google's practices from non-uses as outlined in *1-800 Contacts, Inc.* and clarified the holding of the earlier case. Specifically, Google used and displayed the plaintiff's mark to potential advertising customers in the sale of Google's services. Those acts, as the bases of commercial transactions, were sufficient for Google to have used the marks in commerce under the Act. The court further provided a lengthy appendix discussing the meaning of "use in commerce" within the meaning of the statute.

Turning to *In re Kubin*, 2009 WL 877646 (Fed. Cir., April 3, 2009), the Federal Circuit provided guidance for obviousness considerations in light of *KSR*. Judge Rader explained that "where a defendant merely throws metaphorical darts at a board filled with combinatorial prior art possibilities, courts should not succumb to hindsight claims of obviousness." In other words, where the universe of potential combinations is large and the outcomes less predictable, obviousness under § 103 is less likely to arise.

How will *Rescuecom* and *Kubin* affect your practice? OIPN makes no pretense of being a law review; our content has always been directed squarely at the practitioner's

Continued next page

immediate needs. Please let us know how we can improve our newsletter, and feel free to share your opinions, perspectives, and experience with other practitioners by providing content. We look forward to hearing from you.

Enjoy the issue!

Adrian

Observations on the Google Books Settlement

By Brian D. Flagler¹
Flagler Law Group LLC

Late last year, Google and representatives for U.S. authors and book publishers agreed to settle a dispute regarding Google's "Library Project," a massive effort to scan millions of library books into an enormous content database (over seven million books as of late 2008, and rapidly growing).^{2,3} Some have labeled this proposed class action settlement the largest structured arrangement of copyright interests in history.⁴ This article reflects a publishing lawyer's thoughts as to what this settlement may mean for the U.S. book publishing industry.

The basic terms of the settlement are as follows: Google will continue to scan in-copyright books into its database.⁵ Google will make payments totaling \$125 million: \$34.5 million to be used to establish a Book Rights Registry to track rights information regarding books covered by U.S. copyright, \$45 million to compensate publishers and authors for works digitized without permission, and the rest to the plaintiffs' lawyers. Google also agrees to pay rights holders 63% of revenue generated from Google's display of the digital content. It should be noted that the settlement is, at this point, merely proposed by the parties. The U.S. District Court for the Southern District of New York will hold a fairness hearing on October 7 of this year to consider whether the settlement is fair and reasonable. This article will discuss the results of the settlement if approved in its current form.

As should be expected of an arrangement of this magnitude, response to the settlement has been varied and, from some camps, heated. Many in the content user community view Google's "caving" to rights holders as unfortunate; these groups expected Google to pursue the litigation all the way to a final determination, in which they hoped for a formal expansion of the fair use doctrine to encompass digitization

of content for the benefit of the public.⁶ Others would have preferred a legislative solution that incorporated input from all interested parties.⁷ These onlookers are concerned that the future of copyright as applied to digital content has been defined through negotiations between three commercial organizations without the input of the public.⁸ Members of the library community, most notably Harvard University, have rejected the settlement on the grounds that it allows Google to charge an undefined fee for too little access to what they view as a public resource.⁹ Even the publishing community has its concerns with the precedent set by turning the world of digital book permissions from "opt in" to "opt out." Regardless of personal perspective, most agree that this settlement will bring significant change to the book publishing industry if it is approved.

The core of this dispute turns on application of the fair use doctrine to the digitization and online distribution of content. According to the authors and publishers, the issue is simple: copyright law requires Google to secure a license from the copyright holder prior to creating a digital copy of a book and storing it in a searchable database. Once Google has such a license, it may very well be able to justify posting short snippets of text from the book in response to search queries. But, in their view, taking the print product into the digital realm necessitates license negotiations on a book by book basis, and the rights holder may decline the license or may charge a negotiated fee for the use of content in this way.

Google contends that this limited interpretation of fair use incorrectly impairs the public's access to book content. Indexing snippets of book content, in Google's view, is no different than the well-established practice of indexing thumbnail images of copyrighted photographs.¹⁰ One can search for bound books in the library and flip through them.

Google is merely creating an infinitely more efficient way to find book content.

The settlement agreement specifically avoids answering the fair use question.¹¹ Google continues to maintain that its operation of the Library Project falls within fair use, and the authors and publishers continue to contend that it does not. However, in this author's opinion, Google's decision to cut a \$125 million check (including a \$65 fee for each book digitized without permission) and pay 63% of revenue to rights holders serves as a de facto acknowledgment that the current state of the fair use doctrine does not allow Google to digitize copyrighted works without some form of permission.

If approved, what would change in the world of book publishing?

- Millions of in-copyright but out-of-print books would become available for search and review online. This is the most significant practical effect of the settlement for consumers.
- A non-profit Books Rights Registry would be formed to track rights to millions of works. The Registry will be governed by a board comprised of publisher and author representatives; Google will not own or control the Registry. The resulting database of rights holders and works would significantly ease the administrative challenge of securing permission to use text from these books.
- Google will develop new commercial uses of book content. Google has been mum so far regarding the possibilities.
- Revenue from online display of book content will flow to authors and publishers. Many publishers have already licensed in-print books to Google under "Partner Agreements." Therefore, the most significant revenue flowing from the settlement itself will likely come from out-of-print books.
- Commentators have noted the value to Google of securing access to an enormous quantity of content for Google's search engine to scour.¹² Google's data-hungry search engine needs more data to improve its search algorithms, and book content was imagined as a part of the search engine from the very beginning. According to Google chief legal officer, David Drummond, Google co-founders Sergey Brin and Larry Page imagined the concept of the book search program even before founding the company.¹³

Although the scope of the settlement is massive, it is expressly limited to a defined category of works. What does the settlement exclude?

- Works not published and registered with the Copyright Office by January 5, 2009 are expressly excluded from the settlement. As a result, the agreement does not cover any books being released from this point forward. Mr. Drummond stated in March that Google would like to seamlessly incorporate new books into the program, but it is not yet clear whether Google intends to negotiate inclusion of these works through Partner Agreements with publishers or some other mechanism.
- Works that are not subject to a U.S. copyright. Note, however, that books published in foreign countries that are members of the Berne Convention may be subject to U.S. copyright and therefore included in the settlement.
- Public domain works are not subject to the settlement, but will be digitized and made accessible by Google free of charge.
- Periodicals (newspapers, magazines, journals, etc.), sheet music, and works of visual art (photographs, maps, illustrations, etc.) are not included in the settlement, except where the book's author holds copyright to these visual works. However, illustrations in children's books are specifically included in the settlement.

The settlement's scope and coverage reveal that the settlement is really about digitizing out-of-print books, and the terms of the agreement reflect a well-reasoned balance between increased access for these older works that are of limited economic value to publishers and authors and maintaining the publishers' and authors' control over in-print works.

Google estimates that approximately sixty percent of all published books are out-of-print but still under copyright.¹⁴ The settlement would free Google to display out-of-print books unless the author removes the book from the program. Given that these books are in most cases generating zero income to authors in print form, most authors are expected to allow Google to make these works available. As such, the settlement will potentially free Google to display many millions of out-of-print titles that are currently very difficult to find. This development has obvious implications for on-line research.

Google estimates that less than twenty percent of all published books are currently in-print.¹⁵ Google agrees not to make any display uses of an in-print, in-copyright book without approval of both the publisher and the author. This arrangement is more restrictive than the approach used by Google before the settlement; Google will no longer post snippets of in-print books without this approval. As a result, the settlement itself does not expand the in-print works that

will be made available unless publisher and author grant approval. However, the Registry should make the approval process more efficient and the 63% revenue sharing arrangement is a persuasive reason for rights holders to approve these uses.

Google commits to make the book content it gains through the settlement available in a variety of ways. The full text of public domain works will be available free of charge on the Google Books site. Up to 20% of each out-of-print work will be available for free, as will bibliographic information for all books in the database. Full-text institutional subscriptions will be available to educational, government and corporate organizations and consumers may purchase full-text access to content, in each case limited to the display rights chosen for each work by publishers and authors. Google will install “public access terminals” in libraries which will allow free access to view the content and allow printing for a per-page charge. The agreement also allows the Registry to approve other commercial uses of the book content.

As a class action settlement, all class members (authors and publishers) have the opportunity to opt out of the settlement. Judge Chin recently extended the deadline for opting out to September 4, 2009.¹⁶ Those that intend to stay in the settlement but would like to object to its terms may do so by the opt-out deadline and may, if they choose, appear at a hearing October 7 in New York. Those that stay in the settlement may remove individual books from the program by filing a request with Google by April 5, 2011.

For those interested in tracking the progress of the settlement, the full terms of the settlement and other information are available at <http://books.google.com/booksrightsholders>.

Endnotes

- 1 Brian D. Flagler advises publishers and other media organizations in a variety of legal matters, including intellectual property protection and enforcement, the purchase and sale of publishing assets, and complex intellectual property disputes. This article is not intended to serve as legal advice. The author may be reached at brian@flaglerlawgroup.com or (541) 549-8401.
- 2 See *Authors Guild v. Google*, No. 05 CV 8136 (S.D.N.Y. filed Sept. 20, 2005); *McGraw-Hill v. Google*, No. 05 CV 8881 (S.D.N.Y. filed Oct. 19, 2005).
- 3 Miguel Helft & Makoto Rich, *Google Settles Suit Over Book-Scanning*, 158 N.Y. Times B1 ¶ 6 (Oct. 29, 2008) (available at http://www.nytimes.com/2008/10/29/technology/internet/29google.html?_r=1)
- 4 I am indebted to Jule Sigall, Senior Policy Counsel at Microsoft and previously with the Copyright Office, for providing excellent historical context for the settlement during a presentation we gave to the Northwest Chapter of the Copyright Society in January of this year.
- 5 *Settlement Agreement between the Authors Guild, Inc., and Google, Inc.* p. 1 (available at <http://www.googlebooksettlement.com/intl/en/Settlement-Agreement.pdf>).
- 6 See Mike Masnick, TechDirt.com, *Short Term Profits Over Long Term Principles; Google's Caving on Book Scanning is Bad News*, <http://www.techdirt.com/articles/20081028/1218012674.shtml>, (Oct. 28, 2008).
- 7 See Open Content Alliance, *It's All About the Orphans*, <http://www.opencontentalliance.org/2009/02/23/its-all-about-the-orphans/> (Feb. 23, 2009).
- 8 See Lynn Chu, *Wall Street Journal Opinion Journal, Google's Book Settlement Is a Ripoff for Authors*, <http://online.wsj.com/article/SB123819841868261921.html> (March 28, 2009).
- 9 See Jennifer Howard, The Chronicle of Higher Education News Blog, *Harvard Says No Thanks to Google Deal for Scanning In-Copyright Works*, <http://chronicle.com/news/article/5417/harvard-says-no-thanks-to-google-deal-for-scanning-in-copyright-works> (Oct. 30, 2008).
- 10 See, e.g., *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003); *Perfect 10, Inc. v. Google, Inc.*, 508 F.3d 1146 (9th Cir. 2007).
- 11 *Settlement Agreement*, supra n. 5 at 1.
- 12 See Frank Pasquale, Balkinization, *Beyond Competition: Preparing for a Google Book Search Monopoly*, <http://balkin.blogspot.com/2009/02/beyond-competition-preparing-for-google.html> (Feb. 4, 2009); Juan Carlos Perez, *PC World Business Center News, In Google Book Settlement, Business Trumps Ideals*, http://www.pcworld.com/businesscenter/article/153085/in_google_book_settlement_business_trumps_ideals.html (Oct. 30, 2008).
- 13 Lane R. Ellis, *Search Engine World, Google Turns Another Page In Book Scanning Program With \$125 Million Settlement* ¶ 12, <http://www.searchengineworld.com/google-search/3458755.htm> (Oct. 28, 2008).
- 14 Eric Schmidt, *Wall Street Journal Opinion Journal, Books of Revelation* ¶ 5, http://online.wsj.com/article/SB112958982689471238.html?mod=opinion_main_comments (Oct. 18, 2005).
- 15 *Id.*
- 16 Google Book Settlement FAQs, *Question 1: Have the dates for the Opt-Out/Objection Deadline and Fairness Hearing changed?* (available at <http://www.googlebooksettlement.com/help/bin/answer.py?answer=118704&hl=en>)

Patent Office Power: *Tafas v. Doll*, and Next Steps

By Joseph Scott Miller
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On August 21, 2007, twenty months after initiating notice-and-comment rulemaking, the Patent Office issued final rules that, if implemented, would limit the availability of continuation applications and requests for continued examination (Final Rules 78 and 114), and – for applications containing either more than five independent claims or more than twenty-five total claims – require an applicant to submit a new “examination support document,” or ESD (Final Rules 75 and 265).¹ But the Patent Office hasn’t implemented these rules. In a case styled *Tafas v. Dudas*, the U.S. District Court for the Eastern District of Virginia first preliminarily enjoined the rules (on October 31, 2007),² then granted summary judgment invalidating the rules (on April 1, 2008).³ Although the plaintiffs in the case – Mr. Tafas, and Smithkline Beecham Corp. – raised numerous attacks on the rules, the district court adjudicated only one: “the Court finds that the Final Rules are substantive in nature and exceed the scope of the USPTO’s rulemaking authority under 35 U.S.C. § 2(b)(2).”⁴ Section 2(b)(2)(A) empowers the Patent Office to “establish regulations, not inconsistent with law, which ... shall govern the conduct of proceedings in the Office.”

The Federal Circuit, in a split decision, has largely reversed the district court’s decision in *Tafas*.⁵ One aspect of the trial court’s ruling – the invalidation of Final Rule 78 – is intact, but the Federal Circuit’s narrower rationale (the rule *is* procedural, but doesn’t yet square precisely with the text of 35 U.S.C. § 120) leaves the door open to a valid revised rule on the topic.⁶ Moreover, Judge Bryson, in a concurrence, provides a roadmap for writing a new Rule 78 that would almost certainly survive scrutiny under the “procedure or substance?” inquiry the court has established.⁷ The Federal Circuit has thus rejected the district court’s approach to drawing the line between procedural rules, which the Patent Office has the power to promulgate (under 35 U.S.C. § 2(b)(2)), and substantive rules, which the Patent Office has no power to promulgate (unlike many other federal agencies). (Judge Rader, dissenting in *Tafas*, would have affirmed the district court’s ruling, and on the same rationale.⁸)

Much remains, as a formal matter, in the *Tafas* case. The district court has yet to rule on the remainder of the plaintiffs’ challenges to the rules (improper retroactivity, fatal vagueness, etc.), as the Federal Circuit made clear in remanding the case for further proceedings.⁹ Those issues could lead to further

important rulings in the case. All the same, the framework for sorting the procedural-rule wheat from the substantive-rule chaff has dominated many discussions of the case, just as it has dominated debates about the rules since the Patent Office proposed them in January 2006. We now have quite a bit more information about that framework in this Federal Circuit opinion, and it is the framework I focus on here.

To begin, a word about the district court decision. – The trial judge, looking to the Administrative Procedure Act (“APA”) for guidance, analyzed the substance/procedure distinction this way: “While the APA does not define a ‘substantive rule,’ any rule that ‘affect[s] individual rights and obligations’ is substantive.”¹⁰ In short, “substantive” = “affects substance.” Nearly every rule, under such a test, would be substantive. (If taken seriously, this sorting test would destroy most of Title 37 of the C.F.R.) The district court, not surprisingly, found “that the Final Rules are neither procedural rules nor rules relating to application processing that have substantive collateral consequences, but substantive rules that change existing law and alter the rights of applicants such as GSK and *Tafas* under the Patent Act.”¹¹

The district court’s principal support, a Supreme Court decision about the propriety of an agency’s release of business information in fulfilling a FOIA request (*Chrysler Corp. v. Brown*¹²), applied the procedure/substance line that the APA’s basic notice-and-comment rulemaking framework creates. Under the APA’s default structure, an agency must use notice-and-comment rulemaking to promulgate a substantive rule, but need not use such rulemaking as “to interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice.”¹³ If an agency wants to defend its abbreviated process for generating a challenged rule on the ground that the rule is merely procedural, the reviewing court’s task is – understandably – to beware an agency attempt to cut this rulemaking corner and thereby cut the public out of its commenting role. As the D.C. Circuit has put it, “[t]he issue ... ‘is one of degree,’ and our task is to identify which substantive effects are ‘sufficiently grave so that notice and comment are needed to safeguard the policies underlying the APA.’”¹⁴

But is the procedure/substance distinction that the APA creates for agencies with substantive rulemaking power well suited to policing the procedure/substance line the Patent Act inscribes? I don’t think it is. For one thing, § 2(b)(2) of the Patent Act already requires, by its own terms, that the Patent

Office's *procedural* rules – the *only* kind it can make – “shall be made in accordance with section 553 of title 5.” As a result, calling a rule “procedural” doesn't help the Patent Office cut an APA corner (as it generally would for other agencies). The many cases guarding this corner simply don't seem germane. For another, the Patent Act's procedure/substance line appears designed with a very different goal in mind. Specifically, § 2(b)(2) seems to say, in effect, “Patent Office, you determine whether a patent is proper under substantive patent law doctrines. We in Congress will tell you, in the remainder of the Act, what those substantive doctrines are.” Congress is here protecting its own patent policy-making role, not the public's right to comment on an agency's formulation of substantive rules the agency plainly has the power to make (so long as it follows a public-regarding process of open comment). The Patent Office should thus have a free hand to establish fair and efficient mechanisms for the resolution of an applicant's entitlement to a patent, consistent with the policy mandates in the Patent Act. Indeed, the fair and efficient resolution of disputes is the heart of procedure.¹⁵

Procedure and *substance* are protean stuff, to be sure. They “carry no monolithic meaning at once appropriate to all the contexts in which courts have seen fit to employ them.”¹⁶ We sort the two from one another in different ways, depending on our reason for sorting them on a given occasion. In the APA context, as described above, our goal is to prevent an agency from short-circuiting public involvement in establishing the substantive rules the agency is otherwise empowered to make. In the conflict of laws and *Erie* doctrine contexts, our basic goal is to guard against forum shopping's worst deprivations.¹⁷ In the Rules Enabling Act context, where we test the validity of federal rules of procedure, our main goal – much as it is in the Patent Act context – is to give the federal judiciary a relatively free hand in setting procedure while also guarding Congress's central role as the body that establishes federal policy.¹⁸ The district court in *Tafas* explored none of this territory. Instead, with a soundbite from an APA case, it applied something like the anti-forum-shopping rule of *Erie*. (Given that there is no alternative forum for obtaining one's U.S. Patent, the *Erie* approach is probably the least defensible of the three.)

The Federal Circuit majority in *Tafas*, for its part, does better. It begins by rejecting the district court's overbroad reading of *Chrysler Corp.*: “Substantive rules certainly ‘affect individual rights and obligations,’ but that inquiry does not necessarily distinguish most procedural requirements, which will also ‘affect individual rights and obligations.’”¹⁹ It also approaches the D.C. Circuit cases about the default framework in APA § 553 with caution, “recogniz[ing] that the definitions of ‘substance’ and ‘procedure’ in the notice and

comment rulemaking context may embody policy considerations that are not coextensive with the considerations at issue in this case.”²⁰ Adapting one of the APA cases from the D.C. Circuit,²¹ the Federal Circuit states its sorting standard in *Tafas* this way: “[T]he Final Rules challenged in this case are procedural. In essence, they govern the timing of and materials that must be submitted with patent applications. The Final Rules may alter the manner in which the parties present their viewpoints to the USPTO, but they do not, on their face, foreclose effective opportunity to present patent applications for examination.”²² This approach gives the Patent Office a wide berth to establish fair and efficient examination proceedings, while also allowing the court – in a separate step – to ensure that any rule stays within the patent policy mandates Congress sets out in the Patent Act.²³ It is at the second, “consistency” step that Final Rule 78 fails, and the other Final Rules pass muster.²⁴

As Judge Bryson noted in his concurrence, the Federal Circuit “ha[s] taken a fairly expansive view of the scope of the section 2(b)(2)(A).” Indeed, since 2004, the court has upheld varied Patent Office rules, as properly procedural, in a wide range of settings.²⁵ *Tafas* is simply the latest illustration of the Federal Circuit's “fairly expansive view” of the Patent Office's procedural power. And, unlike recent Federal Circuit decisions that appeared out of step with general legal principles and thus prompted Supreme Court review (such as *eBay* and *MedImmune*), *Tafas v. Doll* seems quite unexceptional as a matter of general administrative law. Members of the patent bar may thus wish to shift their focus from denying that the Patent Office has broad power over procedure to informing the Office, in detail, about what procedures make the most sense for particular technology and business domains.

Endnotes

- 1 72 Fed. Reg. 46,716 (Aug. 21, 2007).
- 2 511 F.Supp.2d 652 (E.D. Va. 2007).
- 3 541 F.Supp.2d 805. (E.D. Va. 2008).
- 4 *Id.* at 811.
- 5 *Tafas v. Doll*, ___ F.3d ___, 2009 WL 723353 (Fed. Cir. March 20, 2009) (No. 2008-1352).
- 6 *Id.* at *10-*12.
- 7 *Id.* at *17-*19 (Bryson, J., concurring).
- 8 *Id.* at *19-*26 (Rader, J., dissenting).
- 9 *Id.* at *15 (“This opinion does not decide any of the following issues: whether any of the Final Rules, either on their face or as applied in any specific circumstances, are arbitrary and capricious; whether any of the Final Rules conflict with the Patent Act in ways not specifically addressed in this opinion; whether all USPTO rulemaking is subject to notice and comment rulemaking under 5 U.S.C. § 553; whether any of the Final Rules are impermissibly vague; and whether the Final Rules are impermissibly retroactive.”).

- 10 541 F.Supp.2d at 814 (quoting *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979)).
- 11 *Id.* Judge Rader's analysis, in dissent on appeal, is essentially the same: "Because the Final Rules drastically change the existing law and alter an inventor's rights and obligations under the Patent Act, they are substantive and the PTO exceeded its statutory rule-making authority under 35 U.S.C. § 2(b)(2)." 2009 WL 723353, at *26.
- 12 441 U.S. 281 (1979).
- 13 5 U.S.C. § 553(b), ¶ 2(A).
- 14 JEM Broadcasting Co. v. FCC, 22 F.3d 320, 327 (D.C. Cir. 1994) (quoting *Lamoille Valley R.R. Co. v. ICC*, 711 F.2d 295, 328 (D.C. Cir. 1983)).
- 15 *See, e.g.*, *Sims v. Great Am. Life Ins. Co.*, 469 F.3d 870, 883 (10th Cir. 2006) ("[A]lthough the distinction between substance and procedure is not always clear, we can distinguish a substantive rule from a procedural rule by examining the language and the policy of the rule in question. If these inquiries point to achieving fair, accurate, and efficient resolutions of disputes, the rule is procedural. If, however, the primary objective is directed to influencing conduct through legal incentives, the rule is substantive."); Michael Wells, *The Impact of Substantive Interests on the Law of Federal Courts*, 30 WM. & MARY L. REV. 499, 504 (1989) ("Jurisdictional and procedural rules are addressed to lawyers and judges in their professional roles and govern the means by which disputes regarding the content or application of substantive rules should be resolved. The purpose of these rules is to achieve accuracy, efficiency, and fair play in litigation, without regard to the substantive interests of the parties.");
- 16 John Hart Ely, *The Irrepressible Myth of Erie*, 87 HARV. L. REV. 693, 724 (1974).
- 17 *Id.* at n.168.
- 18 *See Burlington Northern R.R. Co. v. Woods*, 480 U.S. 1, 5 (1987); Martin H. Redish & Dennis Murashko, *The Rules Enabling Act and the Procedural-Substantive Tension: A Lesson in Statutory Interpretation*, 93 MINN. L. REV. 26 (2008).
- 19 2009 WL 723353, at *5.
- 20 *Id.* at *6 n.4.
- 21 *See JEM Broadcasting, supra* note 14.
- 22 2009 WL 723353, at *7 (internal quotations and alterations omitted).
- 23 *Id.* at *10 ("[W]e find it necessary to separate the question of whether the Final Rules are procedural from the question of their consistency with the Patent Act.");
- 24 *Id.* at *10-15.
- 25 *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330 (Fed. Cir. 2008); *Lacavera v. Dudas*, 441 F.3d 1380 (Fed. Cir. 2006); *Star Fruits S.N.C. v. United States*, 393 F.3d 1277 (Fed. Cir. 2005); *Stevens v. Tamai*, 366 F.3d 1325 (Fed. Cir. 2004); *In re Sullivan*, 362 F.3d 1324 (Fed. Cir. 2004).

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What's In A Name, Revisited

The Interplay Between Trademark and Business Registries¹

By Christy O. King and Leonard D. DuBoff, © 2009

The importance of a name to a business cannot be over-emphasized. Sales, goodwill, and perhaps even the survival of a business depend, to some extent, upon the business name. However, few attorneys go beyond checking the state business registries when determining the availability of a desired name.

Business Name Registries

When assessing whether a proposed business name is available, an attorney customarily checks name availability with the corporation division of the Secretary of State's office.² The laws in every state require the Secretary of State to refuse registration of certain business names. The wording varies from state to state, but such laws generally prohibit registration of any name that is "the same or deceptively similar" to or "indistinguishable on the record" from any other name in the Secretary of State's registry.³ Such registries include registered and reserved names of business and nonprofit corporations, limited liability companies, other business entities, and, in some states, trade names.⁴ In a handful of states, the statute requires the state trademark registry to be searched as well.⁵

Because each Secretary of State searches only that state's registry, an attorney representing a company contemplating doing substantial business in other states should, of course, also check the registries of those states to determine name availability.

Trade names not required to be registered on the corporate name registry may be registered on a state or county trade name registry. Most of these registries provide no substantive rights but are merely records of persons and associations doing business under registered names in that county or state,⁶ though some state trade name registries will refuse to register a trade name if it is "deceptively similar" to or not "distinguishable on the record" from any registered name.

State Trademark Registries

Every state provides some form of intrastate protection of trademarks (for goods) and of service marks (for services) and maintains a registry of those marks.⁷ In nearly all states, the Secretary of State searches its trademark registry to determine registrability.⁸ In a minority of states, the corporate and/or trade name registries will be searched as well.⁹

In most states, a registration will be refused if the mark

is confusingly similar to a "mark registered in [that] state or a mark or trade name previously used in [that] state by another and not abandoned." A few states provide that a mark will not be registered if it is confusingly similar to the name of a business entity registered to do business in that state.¹⁰ A handful of state laws also provide that the state trademark must not be confusingly similar to a mark registered in the U.S. Patent and Trademark Office.¹¹ As least one state specifies that registration of a business name on the business registry confers no trademark rights in that name.¹²

Federal Trademark Registries

Trademarks for goods and service marks for services are also protected under the federal law known as the Lanham Act.¹³ The statutory standard for trademark infringement is the likelihood of confusion,¹⁴ based on the idea that one business may not divert trade from another or pass its goods off as those of another by using the other's mark. A mark identical or similar to another mark is not necessarily confusingly similar in and of itself; however, factors such as the nature of goods or services sold, the channels through which the goods or services are sold, and the degree of care likely to be exercised by purchasers should be considered in order to evaluate whether there is an infringement.

Rights in a mark arise from appropriate use of the mark and are enforceable even without registration, though the prudent owner of a mark should register it since there are advantages to doing so, including the right to use the statutory registration notice "®" in connection with federally registered marks,¹⁵ as well as the statutory presumption of validity.¹⁶

In general, corporate and trade names are protected against appropriation by the same principles as trademarks.¹⁷ The prior user of a trade name, therefore, may be entitled to injunctive relief against a subsequent user under the likelihood of confusion test of the Lanham Act.

Unlike trademarks and service marks, however, a trade name itself is generally not eligible for registration on the federal register, unless the trade name is used in a trademark sense. For example, "Chevron," which is the trademark for gasoline, is also the name of the company that sells that gasoline.

The Commissioner of Patents and Trademarks is required

to reject the registration of an otherwise registrable mark that is confusingly similar to a mark or trade name previously used and not abandoned, whether or not registered.

Antidilution Laws

The legal theory of antidilution may give rise to protection even where the name or mark does not meet the likelihood-of-confusion standard. This theory grants protection to strong marks where the defendant's use diminishes or dilutes the strong identification value of the plaintiff's mark, even if customers are not likely to be confused. The federal antidilution statute protects only "famous marks,"¹⁸ whereas the laws of many states tend to be broader, protecting any strong mark without regard to its "fame," though those laws are generally limited to injunctive relief.¹⁹ Federal registration of a mark is a complete defense to a state dilution claim with respect to the mark registered, but there is still uncertainty as to whether other state claims are preempted by the federal law.

Conclusion

Because a business name is likely to be used as a trademark, an attorney should check both state and federal trademark registries, as well as the applicable state business registries, when incorporating a business.

This is underscored by the fact that only a handful of states are statutorily required to search the trademark databases, and it is likely that the other states do not. It is, therefore, possible for the state to approve a business name even though it is a registered trademark of another business. The infringing party cannot cite the state's registration of the corporate name as a defense against a trademark or trade name infringement claim, as it has been held that a state official cannot license a corporation to engage in unfair competition.²⁰ Some states provide notice of this fact to business entities registering with the state.²¹

Since a name is so important to a business, attorneys are well advised to conduct a thorough search to check on the availability of a name before time and money are expended in marketing a corporate name and image. Reliance on the staff of the Secretary of State's office to clear a proposed corporate name for use may be misplaced, since its investigation is generally extremely narrow. A more prudent course, therefore, would be to perform a thorough trademark search. Because of the potential of an infringement or antidilution suit, failure to check the relevant trademark registries for the availability of a name before incorporating a business would certainly be imprudent and may even expose an attorney to liability for malpractice if a problem should arise.

Endnotes

- 1 The concept embodied in this article was first discussed by us in *What's In A Name: The Interplay Between the Federal and Trademark Registries and State Business Registries* in 6 DePaul Business Law Journal 15 (1993); reprinted in 27 Intellectual Property L. Rev. 245 (1995).
- 2 This article uses the term "Secretary of State," although, in some states, business entities are registered with other agencies.
- 3 Ala. Code § 10-2B-4.03(a); Alaska Stat. § 10.06.105(d); Ariz. Rev. Stat. § 10-401(B); Ark. Code Ann. § 4-27-401(b); Cal. Corp. Code Ann. § 201(b); Colo. Rev. Stat. Ann. § 7-90-601(2); Conn. Gen. Stat. Ann. § 33-655(b); Del. Code Ann. tit. 8, § 102(a)(1); Fla. Stat. § 607.0401(4); Ga. Code Ann. § 14-2-401(b); Haw. Rev. Stat. Ann. § 414-51(b); Idaho Code Ann. § 30-1-401(2); 805 Ill. Comp. Stat. Ann. 5/4.05(a)(3); Ind. Code Ann. § 23-1-23-1(c); Iowa Code Ann. § 490.401(2); Kan. Stat. Ann. § 17-6002(a)(1); Ky. Rev. Stat. Ann. § 271B.4-010(2); La. Rev. Stat. Ann. § 12:23(B); 13-C Me. Rev. Stat. Ann. § 401(2); Md. Corps. & Ass'ns Code Ann., § 1-504; Mass. Gen. Laws Ann. ch. 155, § 9; Mich. Comp. Laws Ann. § 450.1212(1); Minn. Stat. Ann. § 302A.115(d); Miss. Code Ann. § 79-4-4.01(b); Mo. Rev. Stat. Ann. § 351.110(3); Mont. Code Ann. § 35-1-308(2); Neb. Rev. Stat. Ann. § 21-2028(2); Nev. Rev. Stat. Ann. § 78.039(1); N.H. Rev. Stat. Ann. § 293-A:4.01(b); N.J. Stat. Ann. § 14A:2-2(1)(b); N.M. Stat. Ann. § 53-11-7(A)(3); N.Y. Bus. Corp. Law § 301(a)(2); N.C. Gen. Stat. § 55D-21(b); N.D. Cent. Code § 10-19.1-13(1)(e); Ohio Rev. Code Ann. § 1701.05(A)(2); Okla. Stat. tit. 18, § 1141; Or. Rev. Stat. § 60.094(4); 15 Pa. Consol. Stat. Ann. § 1303(b); R.I. Gen. Laws § 7-1.2-401(a)(2); S.C. Code Ann. § 33-4-101(b); S.D. Codified Laws § 47-1A-401.2; Tenn. Code Ann. § 48-14-101(b); Tex. Bus. Corp. Act Ann. art. 2.05(A)(3); Utah Code Ann. § 16-10a-401(2); Vt. Stat. Ann. tit. 11A, § 4.01(b); Va. Code Ann. § 13.1-630(C); Wash. Rev. Code § 23B.04.010(1)(d); W. Va. Code § 31D-4-401(b); Wis. Stat. § 180.0401(2)(a); Wyo. Stat. Ann. § 17-16-401(b).
- 4 A trade name (also known as an "assumed business name" or "fictitious name") is a business name that is different from the legal name of the owner(s) of the business.
- 5 See Haw. Rev. Stat. § 414.51(b)(4), Me. Rev. Stat. Ann. tit. 13-C, § 401(2)(c), Mont. Code Ann. § 35-1-308(2)(f), Utah Code Ann. § 16-10a-401(2)(f).
- 6 See e.g. Fla. Stat. § 865.09(8).
- 7 Ala. Code § 8-12-1 *et seq.*; Alaska Stat. § 45.50.010 *et seq.*; Ariz. Rev. Stat. § 44-1441 *et seq.*; Ark. Code Ann. § 4-71-201, *et seq.*; Cal. Bus. & Prof. Code Ann. § 14000, *et seq.*; Colo. Rev. Stat. Ann. § 7-70-101, *et seq.*; Conn. Gen. Stat. Ann. § 35-11a, *et seq.*; Del. Code Ann. tit. 6, § 3301, *et seq.*; Fla. Stat. § 495.011, *et seq.*; Ga. Code Ann. § 10-1-440 *et seq.*; Haw. Rev. Stat. Ann. § 482-21 *et seq.*; Idaho Code Ann. § 48-501 *et seq.*; 765 Ill. Comp. Stat. Ann. 1036/1 *et seq.*; Ind. Code Ann. § 24-2-1 *et seq.*; Iowa Code Ann. § 548.101 *et seq.*; Kan. Stat. Ann. § 81-201 *et seq.*; Ky. Rev. Stat. Ann. § 365.561 *et seq.*; La. Rev. Stat. Ann. § 51:211 *et seq.*; Me. Rev. Stat. Ann. § 301-A 1521 *et seq.*; Md. Bus. Reg. Code Ann. § 1-401 *et seq.*; Mass. Gen. Laws Ann. ch. 110B, § 1 *et seq.*; Mich. Comp. Laws Ann. § 429.31 *et seq.*; Minn. Stat. Ann. § 333.18 *et seq.*; Miss. Code Ann. § 75-25-1 *et seq.*; Mo. Rev. Stat. Ann. § 417.005 *et seq.*; Mont. Code Ann. § 30-13-303 *et seq.*; Neb. Rev. Stat. Ann. § 87-126 *et seq.*; Nev. Rev. Stat. Ann. § 600.240 *et seq.*; N.H. Rev. Stat. Ann. § 350-A:1 *et seq.*; N.J. Stat. Ann. § 56:3-13.1a *et seq.*; N.M. Stat. Ann. § 57-3B-1 *et seq.*; N.Y. Gen. Bus. Law § 360 *et seq.*; N.C. Gen. Stat. § 80-1 *et seq.*; N.D. Cent. Code § 47-22-01 *et seq.*; Ohio Rev. Code Ann. § 1329.54 *et seq.*; Okla. Stat. tit. 18, § 7821 *et seq.*; Or. Rev. Stat. § 647.005 *et seq.*; 54 Pa. Consol.

- Stat. Ann. § 1101 *et seq.*; R.I. Gen. Laws § 6-2-1 *et seq.*; S.C. Code Ann. § 39-15-1105 *et seq.*; S.D. Codified Laws § 37-6-1 *et seq.*; Tenn. Code Ann. § 47-25-501 *et seq.*; Tex. Bus. & Com. Code Ann. § 16.01 *et seq.*; Utah Code Ann. § 70-3a-101 *et seq.*; Vt. Stat. Ann. tit. 9, § 2521 *et seq.*; Va. Code Ann. § 59.1-92.1 *et seq.*; Wash. Rev. Code § 19.77.010 *et seq.*; W. Va. Code § 47-2-1 *et seq.*; Wis. Stat. § 132.001 *et seq.*; Wyo. Stat. Ann. § 40-1-101 *et seq.*
- 8 *But see* Colo. Rev. Stat. Ann. §§ 7-70-102 to 7-70-103 (provides that trademark owners file a "statement of trademark registration," intended merely to provide notice to the public and conferring no substantive rights to the trademark owner).
- 9 In 1992, we conducted a survey of state trademark registries, asking them whether they search corporate and trade name registrations in addition to the trademark registry. A majority of states did not. While we have not updated that survey, in our experience, it is still uncommon for a state do so.
- 10 Alaska Stat. § 45.50.010(a)(7); Fla. Stat. § 495.012(1)(f); Haw. Rev. Stat. § 482-21; Me. Rev. Stat. Ann. tit. 10 § 1522; Minn. Stat. § 333.19; N.D. Cent. Code § 47-22-02; Wyo. Stat. Ann. § 40-1-102.
- 11 Alaska Stat. § 45.50.010(a)(6); Conn. Gen. Stat. § 35-11(b)(7); Ga. Code Ann. § 10-1-441; Ohio Rev. Code Ann. § 1329.55.
- 12 *See* Ala. Code § 8-12-7(b).
- 13 15 U.S.C. §§ 1051-1127.
- 14 15 U.S.C. §§ 1114, 1125.
- 15 15 U.S.C. § 1111.
- 16 15 U.S.C. § 1115.
- 17 *American Steel Foundries v. Robertson*, 269 U.S. 372, 381 (1926).
- 18 15 U.S.C. §§ 1125(c), 1127.
- 19 Thomas J. McCarthy, *McCarthy on Trademarks and Unfair Competition* §§ 24:67-134 (4th ed., West 2009); States recognizing antidilution are: Alabama, Ala. Code § 8-12-17; Arizona, Ariz. Rev. Stat. § 44-1448.01; Arkansas, Ark. Code Ann. § 4-71-213; California, Cal. Bus. & Prof. Code Ann. § 14247; Connecticut, Conn. Gen. Stat. Ann. § 35-11i(c); Delaware, Del. Code Ann. tit. 6, § 3313; Florida, Fla. Stat. § 495.151; Georgia, Ga. Code Ann. § 10-1-451(b); Hawaii, Haw. Rev. Stat. § 482-32; Idaho, Idaho Code Ann. § 48-513; Illinois, 765 Ill. Comp. Stat. Ann. 1036/65; Indiana, Ind. Code Ann. § 24-2-1-13.5; Iowa, Iowa Code Ann. § 548.113; Kansas, Kan. Stat. Ann. § 81-214; Louisiana, La. Rev. Stat. Ann. § 51:223.1; Maine, 10 Me. Rev. Stat. Ann. § 1530; Massachusetts, Mass. Gen. Laws Ann. ch. 110H, § 13; Minnesota, Minn. Stat. Ann. § 333.285; Missouri, Mo. Rev. Stat. Ann. § 417.061; Montana, Mont. Code Ann. § 30-13-334; Nebraska, Neb. Rev. Stat. Ann. § 87-140; New Hampshire, N.H. Rev. Stat. Ann. § 350-A:12; New Mexico, N.M. Stat. Ann. § 57-3B-15; New York, N.Y. Gen. Bus. Law § 360-l; Pennsylvania, 54 Pa. Consol. Stat. Ann. § 1124; Rhode Island, R.I. Gen. Laws § 6-2-12 (1992); South Carolina, S.C. Code Ann. § 39-15-1165; Tennessee, Tenn. Code Ann. § 47-25-513; Texas, Tex. Bus. & Com. Code Ann. § 16.29; Utah, Utah Code Ann. § 70-3a-403; Washington, Wash. Rev. Code § 19.77.160; West Virginia, W. Va. Code § 47-2-13; and Wyoming, Wyo. Stat. Ann. § 40-1-115.
- 20 *See* McCarthy § 9.8.
- 21 *See e.g.* Cal. Bus. & Prof. Code § 14417 and Ark. Code Ann. § 4-27-406 (requires that the Secretary of State to deliver notices to newly organized businesses stating that corporate filings do not authorize the use of such corporate name in violation of the trademark rights of others).

Asset Marketing Systems, Inc. v. Gagnon, 542 F.3d 748 (9th Cir. 2008)

By Uyen Nguyen

Kevin Gagnon (Gagnon), an at-will, independent contractor, provided information technology support to Asset Marketing Systems (AMS), a field marketing organization supporting insurance marketing entities. Gagnon also created custom software applications at AMS's request. The Ninth Circuit held that Gagnon granted AMS an implied license to retain, use, and modify the computer software. Furthermore, because AMS paid for the software, the license was irrevocable.¹

Over the course of their four-year relationship, AMS paid Gagnon \$2 million for his services, \$250,000 of which was for the custom software and computer instruction requested by AMS. AMS and Gagnon entered into a Technical Services Agreement (TSA), which described Gagnon's fees and services but did not discuss licensing. The

TSA expired and was not renewed, though the relationship continued for two more years. AMS rejected Gagnon's proposed Outside Vendor Agreement (OVA), which included a Proprietary Rights clause granting him and his company, Mister Computer, all intellectual property rights to the computer programs developed by Gagnon for AMS. AMS proposed its own version, granting it rights to the software produced by Gagnon, and subsequently notified Gagnon that it would terminate his services. A series of letters exchanged between AMS and Gagnon showed that the parties disagreed about the ownership of the rights in the programs.²

AMS filed a complaint in California Superior Court alleging, among other claims, misappropriation of trade secrets and conversion. Gagnon removed the case to federal court, alleging copyright infringement, unfair competition under California law, and misappropriation of trade secrets. The district court granted AMS's motion for summary

judgment on Gagnon's counterclaims and remanded AMS's claims back to the state court.

On appeal, the Ninth Circuit held that AMS had an implied unlimited license for the programs. Pursuant to 17 U.S.C. § 204, exclusive licenses must be in writing. However, the court found that "nonexclusive licenses need not be in writing, and may be granted orally or by implication."³ The court cited *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, a case involving special effects for movie footage. The court in *Nelson-Salabes* held that an implied license is granted when "(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work."⁴

The court concluded that AMS met all three prongs of the test. Under the first prong, the court found that Gagnon did not create the programs on his own initiative, but created them in response to AMS's request. Second, Gagnon delivered the programs when he stored the source code at AMS. Lastly, the court determined that the third prong was not limited to copying and distribution and instead concluded that Gagnon intended that AMS use, retain and modify the programs.⁵ The court said that the relevant intent is the "licensor's objective at the time of the creation and delivery of the software as manifested by the parties' conduct."⁶ The court applied three factors from the First and Fourth Circuits to determine intent:

(1) whether the parties were engaged in a short-term discrete transaction as opposed to an ongoing relationship; (2) whether the creator utilized written contracts ... providing that copyrighted materials could only be used with the creator's future involvement or express permission; and (3) whether the creator's conduct during the creation or delivery of the copyrighted material indicated that use of the material without the creator's involvement

or consent was permissible.⁷

The court found the TSA and the OVA to be relevant and that they reflected the parties' objective intent. The TSA did not indicate Gagnon's "understanding or intent" that continued use of the programs after the TSA expired would be prohibited.⁸ Also, the OVA submitted by Gagnon and rejected by AMS "was not evidence of any intent by Gagnon to limit AMS's use of the programs." The court determined Gagnon should have expressed intent to retain control over the programs and limit AMS's license, but failed to do so until after his departure.⁹

Finally, the court found that "because AMS paid consideration, [the] license is irrevocable" because a "nonexclusive license supported by consideration is a contract."¹⁰ Accordingly, the court held that AMS could not have misappropriated Gagnon's trade secret because it concluded that Gagnon granted AMS an implied, unlimited license to the programs. The Ninth Circuit affirmed the district court's grant of summary judgment on the copyright infringement claim and the trade secret misappropriation claim.¹¹

Endnotes

- 1 *Id.* at 750-51.
- 2 *Id.*
- 3 *Id.* at 754.
- 4 *Id.* at 754-755 (quoting *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996)).
- 5 *Id.*, 542 F.3d at 755-57.
- 6 *Id.* at 756.
- 7 *Id.* (quoting *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 516 (4th Cir. 2002); *John G. Danielson, Inc. v. Winchester-Conant Props., Inc.*, 322 F.3d 26, 42 (1st Cir. 2003)).
- 8 *Id.* at 757.
- 9 *Id.*
- 10 *Id.* (quoting *Lurima LTD., Inc. v. Access Broad. Servs., Inc.*, 128 F.3d 872, 882 (5th Cir. 1997)).
- 11 *Id.* at 758.

*Philip Morris USA, Inc. v. King Mountain Tobacco Company, Inc.*¹

By Brooklyn Baggett

The Ninth Circuit denied the Yakama Tribal Court jurisdiction over trademark and Lanham Act violations alleged by Philip Morris against King Mountain Tobacco, a tribal tobacco corporation. Philip Morris claimed that King

Mountain violated portions of the Lanham Act, including trademark infringement, trade dress infringement, trademark dilution, and unfair competition. Philip Morris sought, among other relief, injunctive relief against the continued sales of King Mountain tobacco products. King Mountain responded by filing an action for declaratory relief against Philip Morris

in Yakama Tribal Court, claiming the Yakama Tribal Court had jurisdiction over the case. The question before the Ninth Circuit was whether or not the Yakama Tribal Court had a “colorable claim of jurisdiction” that would allow a stay of the federal proceedings pending the Tribal Court decision.²

The test for whether there is a colorable claim to tribal court jurisdiction is derived from three Supreme Court cases: *Montana v. United States*,³ *Strate v. A-1 Contractors*,⁴ and *Nevada v. Hicks*.⁵ Based on these cases, tribal courts generally do not have jurisdiction over nonmembers and tribal courts are not courts of general jurisdiction.⁶ However, *Montana* provides two exceptions that allow jurisdiction based on inherent tribal sovereignty. First, when the acts complained of arise out of the non-consenting party’s contacts with the tribe and there is a nexus between this relationship and the events giving rise to the suit, the tribal court may have jurisdiction.⁷ Second, the tribal court may have jurisdiction over nonmember conduct that “threatens or has some direct effect on the political integrity, the economic security, or the health or welfare of the tribe.”⁸ Regarding nonmembers, *Strate* provides that a tribe’s adjudicative jurisdiction does not exceed its legislative jurisdiction, and that tribal adjudicatory jurisdiction goes no further than the exceptions laid out in *Montana*.^{9, 10} Finally, *Hicks* provides that tribes may obtain jurisdiction per treaty or congressional statute.¹¹

Applied to the facts of this case, the Ninth Circuit concluded that King Mountain failed to raise a colorable claim for tribal jurisdiction. The court held that *Montana* applied to cases involving tribal defendants because “the *Montana* analysis is controlling in tribal jurisdiction cases, regardless of the alignment of the member and nonmember parties.”¹² In applying *Montana*, neither exception applied to the case at hand. First, the court held that there was no consensual commercial relationship between Philip Morris and King Mountain. While there were commercial relationships between Philip Morris and various stores owned by tribe members, those relationships were unrelated to King Mountain’s alleged infringement. Accordingly, because the tribal stores were “strangers’ to the trademark infringement claim,” the first *Montana* exception did not apply.¹³

The court also held that the second *Montana* exception also did not apply because Lanham Act claims were not included in what “the Court had in mind when it carved out” the second exception. Specifically, this exception protects against instances of nonmember conduct that threaten or affect the political integrity, economic security, health or welfare of the tribe. In this case, the Yakama Tribe was not a party to the litigation. Moreover, because the court held that trademark actions are not the type of threats that endanger tribal sovereignty, the second *Montana* exception did not apply.

Finally, the court found no Congressional grant of tribal court jurisdiction within the Lanham Act. Finding no explicit grant of tribal jurisdiction within the Act and no other indication that Congress intended to expand tribal jurisdiction to its provisions, the Ninth Circuit declined to extend jurisdiction beyond the bounds of the *Montana* doctrine.¹⁴ Consequently, the Yakama Tribal Court had no colorable claim to jurisdiction over the current dispute between Philip Morris and King Mountain Tobacco.

Endnotes

- 1 *Philip Morris USA, Inc. v. King Mountain Tobacco Company, Inc.*, 552 F.3d 1098 (9th Cir. 2009).
- 2 *Philip Morris*, F.3d 1098, 1100 (9th Cir. 2009).
- 3 450 U.S. 544 (1981).
- 4 520 U.S. 438 (1997).
- 5 533 U.S. 353 (2001).
- 6 *Id.* at 1105.
- 7 *Montana*, 450 U.S. at 565, cited in *Philip Morris*, 552 F.3d at 1103.
- 8 *Id.* at 566.
- 9 *Strate*, 520 U.S. at 453.
- 10 “While leaving open whether tribes’ adjudicative jurisdiction over nonmembers is narrower than the legislative jurisdiction delineated in *Montana*, the Court made clear in *Strate* that it is, at least, no broader.” *Philip Morris*, 552 F.3d at 1104.
- 11 *Hicks*, 533 U.S. at 367. The Court in *Hicks* rejected the view that tribal courts are courts of general jurisdiction, indicating that a tribe’s adjudicative jurisdiction over nonmembers is “at most, only as broad as its legislative jurisdiction.”
- 12 *Philip Morris*, 552 F.3d at 1106. The court is careful to point out that party alignment of tribal members and nonmembers is still relevant to the *Montana* analysis within the *Montana* framework, “a factor to be weighed in determining the application of *Montana*’s rule and exceptions.” *Id.*
- 13 *Id.* at 1108.
- 14 *Id.* at 1110.

Qualcomm Inc. v. Broadcom Corp.¹

By Nicolo Davidson

Qualcomm sued Broadcom for infringement of two patents related to H.264, a video compression standard. Broadcom asserted that the patents were unenforceable because Qualcomm breached its disclosure duty to the Joint Video Team (JVT), a standards-setting organization (SSO). JVT was established by two parent SSOs to create a single industry standard for video compression. JVT released the H.264 standard in May 2003. Broadcom and Qualcomm were both members of JVT prior to the release of H.264. Qualcomm did not disclose its two patents to JVT prior to the release of the standard. The district court granted judgment in favor of Broadcom, ordered Qualcomm's two patents unenforceable against the world, and granted attorney fees to Broadcom.² On appeal, the Federal Circuit affirmed the judgment but remanded the case to the district court to limit the unenforceability of Qualcomm's two patents to products complaint with JVT's standard.

The Federal Circuit first analyzed whether Qualcomm owed a duty to disclose patents to the JVT participants. A disclosure duty may arise from "both the language of [a] written... policy and the [SSO] members' treatment of said language."³ As in *Rambus*, JVT's policy did not include an express disclosure duty. Instead, JVT's policy encouraged rapid disclosure on a best efforts basis.⁴ Other factors supporting members' inference of a disclosure duty included a disclosure requirement by one of JVT's parent SSOs and witness testimony indicating that "members treated [the policy] as imposing a disclosure duty."⁵ The court held that JVT's policy, parent SSO policy, and JVT member conduct established a duty to disclose.⁶

In assessing the scope of the disclosure duty, the court restricted the scope to claims in patents or applications that "reasonably might be necessary to practice the standard."⁷ This scope is determined objectively and does not require actual necessity of the patent to practice the standard. Instead, a patent that a reasonable competitor would expect to license in order to comply with a standard is within the duty of disclosure. Here, the disclosure duty was limited to patents reasonably necessary to practice H.264.⁸ In finding that Qualcomm breached the disclosure duty, the court considered factors including the original infringement claim, which rested on Broadcom's compliance with H.264, testimony from Qualcomm's H.264 expert, who explained that Qualcomm's patents "map onto H.264."⁹

Because Qualcomm's intentional nondisclosure and knowledge that the patents were necessary for H.264 compli-

ance constituted more than mere "negligence, oversight, or thoughtlessness," the court found an implied waiver of Qualcomm's patent rights.¹⁰ Furthermore, even if Qualcomm were unaware that nondisclosure would necessarily lead to unenforceability, the court held that an implied waiver may arise in a standards setting context where there is an intentional breach of a disclosure duty. Licensing patents not disclosed to an SSO is a burden on a licensee and is not a defense to implied waiver. Broadcom was allowed to raise an equitable estoppel defense on appeal because Qualcomm's misconduct had prevented it from doing so earlier. The same conduct may be used to prove both implied waiver and equitable estoppel.¹¹

Further, the court allowed an unenforceability judgment based on Qualcomm's inequitable conduct. Unenforceability can be analogized to inequitable conduct or to patent misuse. Patent unenforceability as a result of nondisclosure to a SSO when a duty existed must be "properly limited in relation to the underlying breach."¹² The court held that Qualcomm's patents should be unenforceable against all H.264-compliant products.¹³

Lastly, the court considered Qualcomm's misconduct in relation to JVT and the litigation to hold that this was an exceptional case. Qualcomm had repeatedly and falsely asserted that it had not participated in JVT during the development of H.264. In view of Qualcomm's actions, BroadCom received attorney fees. The court stated that although litigation misconduct may be sufficient, a district court might also consider misconduct in relation to the SSO that is an "important predicate to understanding and evaluating the litigation misconduct."¹⁴

Endnotes

- 1 548 F.3d 1004 (Fed. Cir. 2008)
- 2 *Id.*
- 3 *Id.* at 1011 (citing *Rambus Inc. v. Infineon Tech. AG*, 318 F.3d 1081, 1098 (Fed. Cir. 2003)).
- 4 *Qualcomm Inc. v. Broadcom Corp.*, 2007 U.S. Dist. LEXIS 28211, at *34 (S.D. Cal. 2007) ("*Waiver Order*") (quoting JVT Terms of Reference subsection 3.2).
- 5 *Qualcomm* at 1015-1016 (quoting *Rambus*, 318 F.3d at 1098).
- 6 *Id.* at 1012-17.
- 7 *Id.* at 1017.
- 8 *Id.* at 1017-18 (quoting *Rambus*, 318 F.3d at 1100-01, 1104).
- 9 *Id.* at 1018.
- 10 *Id.* at 1020.
- 11 *Id.* at 1020-22.
- 12 *Id.* at 1026.
- 13 *Id.* at 1025-26.
- 14 *Id.* at 1027.

United States v. Klimecek¹

By Casey Cox

On January 15, 2009, the Seventh Circuit affirmed the conviction and sentencing of Jiri Klimecek, who pleaded guilty below to willfully infringing criminal copyright laws (17 U.S.C. § 506(a)(2), 18 U.S.C. § 2319(c)(1), 17 U.S.C. § 506(a)(1), and 18 U.S.C. § 2319(b)(1)). Mr. Klimecek violated the law by reproducing or distributing copyrighted works for private financial gain.

Klimecek admitted in his plea colloquy that his participation as a member of a “warez group” led him to buy and install hardware and software for setting up a computer server and then pay half of its monthly Internet connection charges, in exchange for obtaining access to Czech movies and music.² He admitted to knowing at the time that his acts violated copyright laws and that Internet users from around the world were accessing the server to upload and download copyrighted works. He also conceded that the retail value of these copyrighted materials exceeded \$2,500.³

Despite pleading guilty, Klimecek appealed his 30-month sentence, challenging the district court’s determination that he was not entitled to a reduction in his offense level.⁴ The issue presented in his appeal was whether Mr. Klimecek was a minor participant in this illegal copyright infringement scheme. A defendant is a “minor participant” if he “plays a part in committing the offense that makes him substantially less culpable than the *average* participant,” and “is less culpable than most other participants, but [his] role could not be described as minimal.”⁵ The burden was on Klimecek to show by a preponderance of the evidence that he was entitled to a minor participant reduction.

The court of appeals dismissed Klimecek’s assertion that he was a minor participant because his function was an essential component of the infringement scheme.⁶ In affirming the district court’s determination that Klimecek was “crucial” to the scheme, the court noted that the dissemination of the copyrighted material would not have occurred but for his actions.^{7,8} Even if Klimecek’s role was similar to many other participants’ roles and was merely “run-of-the-mill,” it was not “substantially less culpable than the average participant,” and as such he did not qualify for the offense level reduction under § 3B1.2.⁹

Finally, the court of appeals, reviewing the reasonableness of the defendant’s 30-month sentence under an abuse of discretion standard and in light of 18 U.S.C. § 3553(a), 11 concluded the sentence was reasonable. A presumption of reasonableness attaches to a sentence that falls within a

properly calculated guidelines range, but the defendant may rebut the presumption by showing that the sentence is unreasonable in light of factors provided by 18 U.S.C. § 3553(a).¹⁰ Because Klimecek failed to present persuasive evidence to the contrary, and because the sentence was at the low end of the advisory range, the district court did not abuse its discretion in determining the sentence.

Endnotes

- 1 2009 WL 102128 (7th Cir. 2009).
- 2 A “warez group” is an operation that overrides copyright protection measures embedded in movies, video games, and computer software, and uses computer servers to make these materials available for unauthorized download by Internet users. *Id.* at 1.
- 3 The value of the infringed items actually exceeded \$300,000.
- 4 Under U.S.S.G. § 3B1.2(b), a defendant is eligible for a two-level reduction in her offense level if she was a “minor participant” in the copyright infringement operation.
- 5 *Klimecek*, 2009 WL 102128 at 1 (quoting U.S.S.G. § 3B1.2 cmt. nn. 3(A) & 5).
- 6 *Id.* at 2.
- 7 The court of appeals reviewed the district court’s determination of Klimecek’s culpability under a “clear error” standard.
- 8 *Id.*
- 9 *Id.*
- 11 *Id.* (citing *United States v. Campos*, 541 F.3d 735, 750-51 (7th Cir. 2008)). See 18 U.S.C. § 3553 for list of factors. 18 U.S.C. § 3553 has been either held or recognized unconstitutional by a majority of the circuits.
- 10 *Id.* (citing *United States v. Panaigua-Verdugo*, 537 F.3d 722, 727 (7th Cir. 2008)).

Mattel, Inc. v. MGA Entertainment, Inc.¹

By Delfina Homen

Mattel, Inc. (Mattel) sued MGA Entertainment, Inc. (MGA) and Carter Bryant (a former Mattel employee) for breach of contract and copyright infringement based upon MGA's use of Bryant's designs in its Bratz fashion doll line. Bryant settled with Mattel pre-trial, and Mattel prevailed at trial on its copyright infringement claim against MGA. After considering party motions and responses, trial evidence, and the jury's verdict, the United States District Court for the Central District of California granted a permanent injunction, which was then stayed. In July 2008, a jury found that Bryant was working at Mattel under an exclusive contract when he conceptualized the original Bratz dolls.² The jury found that MGA, MGA Hong Kong, and Isaac Larian, MGA's chief executive and majority owner, were liable to Mattel for copyright infringement.³ The jury awarded a total of \$10 million in infringement damages to Mattel.⁴

In December 2008, Mattel filed a motion for a permanent injunction, arguing that because each and every Bratz doll used the "core Bratz fashion doll sculpt," each and every Bratz doll MGA sold infringed Mattel's copyrights.⁵ Mattel further argued that the core sculpt used a head and face sculpt and a body sculpt that were substantially similar to Mattel's copyrighted works. Because the current Bratz production dolls still used the core sculpt, Mattel asserted that "[s]ubstantial similarity is undeniable."⁶

Mattel also argued that MGA's own admissions at trial and in other lawsuits proved ongoing infringement of its works. Mattel further argued that MGA's reliance on Bryant's, and thus, Mattel's, drawings when asserting MGA's own copyrights, further indicated MGA's ongoing infringement of Mattel's copyrights. Finally, Mattel argued that because the current Bratz dolls were "far more similar" to Bryant's drawings than those that MGA brought suit against, MGA should be estopped from denying substantial similarity.⁷

Mattel asserted that a permanent injunction was justified by the four factors identified in *eBay, Inc. v. MercExchange, LLC*.⁸ Further, Mattel asserted that a presumption that copyright infringement causes irreparable harm still existed post-*eBay*, citing precedent holding that *eBay* only rejected a presumption that an injunction should issue.⁹ The District Court granted Mattel's request. The resulting permanent injunction barred all manufacture, advertising, marketing, and sales of the accused dolls.¹⁰ Judge Larson wrote that while "the hardship on MGA weighs very heavily upon the court,"

the court "in the final analysis, must afford this very little, if any, weight."¹¹

MGA's motion for a stay pending appeal was granted. The District Court's order specifically permitted retailers and distributors to purchase the Spring and Fall 2009 lines of Bratz and Bratz-related products from MGA and its licensees through December 31, 2009.¹²

Endnotes

- 1 2008 WL 5598275 (C.D. Cal. Dec. 3, 2008).
- 2 David Colker, *Mattel gets control of Bratz dolls; Court deals potentially fatal blow to MGA, which had lost the copyright case over Barbie's top rival*, L.A. Times C1 (Dec. 4, 2008). See also *Bryant v. Mattel, Inc.*, 2008 WL 5598282 at *1 (C.D. Cal. Dec. 3, 2008) (granting declaratory judgment of ownership to Mattel in "any and all copyright rights, in and to the Bratz-related works, ideas, and concepts that Carter Bryant conceived or created while employed by Mattel . . . including the idea for the name 'Bratz' and the idea for the 'Bratz' characters").
- 3 See Colker, *supra* n. 2.
- 4 See Phase B Verdict Form as Given at 4-5, *Mattel, Inc. v. MGA Entertainment, Inc.*, 2008 WL 5598275 (C.D. Cal. Dec. 3, 2008) (finding MGA's portion of the copyright infringement damages to be \$6 million, and Larian's portion to be \$3 million).
- 5 Memo. of Points and Auths. at 2-3, *Mattel, Inc. v. MGA Entertainment, Inc.*, 2008 WL 5598275 (C.D. Cal. Dec. 3, 2008) [hereinafter Mattel's Motion].
- 6 See *id.* at 4-7 (pointing to continued use of Mattel's copyrighted facial structure and shape, proportion and placement of facial features, and proportion and placement of body features).
- 7 *Id.* at 10-11. Mattel went on to argue that its copyrights in the original four dolls conceived by Bryant, or "characters," were infringed by later dolls in the Bratz line. It also argued that advertisements and marketing focused on protectable elements (facial features and proportions, etc.) were themselves infringing. *Id.* at 12-14. In so arguing, Mattel set the groundwork for a sweeping permanent injunction.
- 8 547 U.S. 388 (2006). The four *eBay* factors are: (1) whether the plaintiff has suffered irreparable injury, (2) whether remedies at law provide inadequate compensation for the injury, (3) whether the balance of hardships warrants an equitable remedy, and (4) whether the public interest would be disserved by a permanent injunction. *Id.* at 391.
- 9 Mattel's Motion, *supra* n. v, at 16 (quoting *Eisai Co., Ltd. v. Teva Pharms. USA, Inc.*, 2008 WL 1722098, at *10 (D.N.J. Mar. 28, 2008)).
- 10 Compare Mattel's Motion, *supra* n. v, at 1-4, with Mattel, *supra* n. i, at 2-11.
- 11 Colker, *supra* n. ii.
- 12 Or. Modifying Stay of Perm. Inj. at 1, *Mattel, Inc. v. MGA Entertainment, Inc.*, 2008 WL 5598275 (C.D. Cal. Dec. 3, 2008).

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