



IDEAS ON INTELLECTUAL PROPERTY LAW



APRIL/MAY 2014

Egregious misconduct
Examining the behavior behind an unenforceable patent

Does patent exhaustion require a sale?

Hard to swallow: Starbucks' trademark dilution claim

Requirements for criminal copyright violations clarified

ROUTE TO

STURM
& FIX LLP

Similar issue, different result

Just two weeks before the U.S. Court of Appeals for the Federal Circuit issued its ruling in *Intellect Wireless, Inc. v. HTC Corp.* (see main article), the court found that the conduct of a different patentee didn't constitute inequitable conduct.

In *Network Signatures, Inc. v. State Farm Mutual Automobile Insurance*, the patentee (State Farm) allowed its patent to lapse for nonpayment of a maintenance fee owed to the U.S. Patent and Trademark Office (PTO). Shortly thereafter, the insurer successfully petitioned the PTO to accept a late payment.

Patent licensee Network Signatures later sued State Farm for infringement. The insurer asserted that the patent was unenforceable because the patentee's attorney had engaged in inequitable conduct by falsely representing to the PTO that the nonpayment was unintentional.

The Federal Circuit found no inequitable conduct because State Farm's attorney had petitioned the PTO using its standard form. This document included the statement "The delay in payment ... was unintentional," without requesting further detail. Thus, the court found that the plaintiff had failed to provide clear and convincing evidence of withholding of material information with the intent to deceive.

Ultimately, according to the Federal Circuit, neither the PTO nor the public was apprised of the falsehoods in the original declaration and provided the facts. The district court, therefore, didn't clearly err in holding that HTC proved materiality by establishing that the inventor had engaged in affirmative egregious misconduct when he filed a false declaration.

The inventor, the court said, engaged in a pattern of deceit, making the inference of intent even stronger.

Deceit dings device

The Federal Circuit also looked at the district court's finding that, with specific intent to deceive the PTO, the inventor had made false statements about actual reduction to practice during prosecution of related patents. He did so in an attempt to overcome prior art (existing inventions or information

that would defeat the patentability of a newly claimed invention).

For example, during prosecution of a related patent, the inventor submitted a declaration stating that he'd constructed a handheld device that displayed message information transmitted via the wireless network. But no such transmission took place — the device contained preloaded images for demonstration purposes.

The Federal Circuit again found no error on the district court's part. It explained that the submission of an affidavit containing fabricated examples of actual reduction to practice to overcome a prior art reference raises a strong inference of intent to deceive. And the inventor, the court said, engaged in a pattern of deceit — making the inference even stronger.

Declarations did a dance

Indeed, the Federal Circuit determined that the lower court's finding of intent could be affirmed based solely on the content of the inventor's two declarations. The completely false statements in the first declaration were followed by a revised declaration that, rather than expressly admitting the earlier falsity, danced around the truth. The second

declaration continued to refer to a “prototype” (that was never built), a “product brochure” (even though there was no product) and “commercialization” (that never occurred).

The Federal Circuit concluded that the inventor’s pattern of deceit outweighed his explanations for the repeated submission of false affidavits. Therefore it affirmed the district court’s judgment that

Intellect’s patents were unenforceable because of inequitable conduct.

Patent hopefuls should dial in

Those seeking to enforce a patent should dial in to the details of this case. *Intellect Wireless* provides a definitive example of actions that a court may find deceptive and, thereby, indicative of inequitable conduct. ○

Does patent exhaustion require a sale?

It’s well-settled law that the authorized sale of a patented item will exhaust the patentee’s rights in that particular item. Until recently, however, it’s been unclear whether the patent exhaustion doctrine applies to items distributed for free. In *LifeScan Scotland, Ltd. v. Shasta Technologies, LLC*, a divided U.S. Court of Appeals for the Federal Circuit tackled the issue head on.

Substantially embodied

LifeScan Scotland holds a patent related to a method for monitoring blood glucose levels. Its OneTouch Ultra system uses the patented method. The company sells 40% of its meters at below-cost prices and distributes the rest through health care providers, who in turn give the meters to diabetic individuals for free. LifeScan expects that customers would use these meters with its OneTouch Ultra test strips, from which it makes a profit.

Shasta Technologies sells GenStrip test strips that work with LifeScan’s meters. LifeScan sued Shasta, claiming that Shasta’s sales and distribution of GenStrips indirectly infringed the patent. LifeScan claimed that GenStrip users would be direct infringers of its patent and, therefore, sought a preliminary

injunction barring Shasta from contributing to or inducing infringement through sale of the product.

Shasta argued that the sale and distribution of LifeScan’s meters exhausted the company’s patent rights because the meters substantially embodied the



invention. The district court granted the injunction, and Shasta appealed.

Split decision

Under the patent exhaustion doctrine, the sale of a patented device exhausts the patentee's right to exclude — meaning the patentee can't sue for infringement related to the subsequent sale or use of the device. Method patents are exhausted by the sale of an item that embodies the method.

On appeal, Shasta contended that LifeScan's transfer of its meters to health care providers and users exhausts its patent rights. LifeScan countered that, even if its meters substantially embodied the patented method (which it disputed), patent exhaustion didn't apply to the 60% of its meters that were distributed for free, rather than sold.

In a 2-1 split decision, a panel of Federal Circuit judges concluded that patent exhaustion principles apply equally to all authorized transfers of title in property, regardless of whether the particular transfer was a gift or a sale. A patentee, it explained, has

a choice about how to secure its reward. The patentee can either:

- Demand a particular price for an item that embodies the invention, or
- Opt to give away the item for free in the hope of obtaining a future benefit (as LifeScan did).

The court found that a patentee can't, however, evade patent exhaustion principles by choosing to give the item away. When a patentee unconditionally parts with ownership of an article, it can't later complain that its chosen approach results in an inadequate reward.

May not be the last word

The Federal Circuit's ruling came from a divided court. The dissenting judge found that a patent system "premised on granting the patentee a 'hope of receiving a future benefit' is one" with no secure benefit and that fails to promote progress. This ruling, therefore, may not be the last word on the issue. ○

Hard to swallow: Starbucks' trademark dilution claim

A trademark case that has been grinding through the courts for more than a decade seems to have come to a bitter end for Starbucks. This past November, in *Starbucks Corp. v. Wolfe's Borough Coffee Inc. d/b/a Black Bear Micro Roastery*, the U.S. Court of Appeals for the Second Circuit ruled that the ubiquitous coffee giant wasn't entitled to a preliminary injunction prohibiting the use of a competitor's product names.

Pressing on and on

Wolfe's Borough Coffee, operating as Black Bear Micro Roastery, manufactures and sells roasted coffee

beans and related goods via mail and online orders, and at a limited number of New England supermarkets. In April 1997, the family-owned business began selling a coffee called "Charbucks Blend" and later "Mister Charbucks." Starbucks sued, alleging trademark dilution by blurring. After a trial, the district court dismissed Starbucks' complaint.

While Starbucks' appeal was pending, Congress passed the Trademark Dilution Revision Act of 2006 (TDRA), which clarified that the owner of a famous mark seeking an injunction must demonstrate only that

the defendant's mark is likely to cause dilution of the famous mark, as opposed to actual dilution. The TDRA also redefined "dilution by blurring" as an association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.

The Second Circuit remanded the case to the district court for reconsideration in light of the statute. But the district court again found for Black Bear — largely because the marks weren't substantially similar.



When Starbucks again appealed, the Second Circuit agreed with the lower court that the marks were only "minimally similar" but didn't agree that the dissimilarity alone was sufficient to defeat Starbucks' blurring claim. It vacated the judgment and sent the case back for reconsideration.

On its third go-round, the district court sided with Black Bear once more. Once more, Starbucks appealed.

Filtering the factors

The TDRA directs courts to consider six factors relevant to blurring claims:

1. The degree of similarity between the mark or trade name and the famous mark,
2. The degree of inherent or acquired distinctiveness of the famous mark,
3. The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark,
4. The degree of recognition of the famous mark,
5. Whether the user of the mark or trade name intended to create an association with the famous mark, and
6. Any actual association between the mark or trade name and the famous mark.

On the most recent appeal, the Second Circuit focused on the similarity between the Starbucks and Charbucks marks and the association between the marks. Regarding similarity, the court noted that it had previously affirmed the district court's finding that the marks were only minimally similar and saw no reason to revisit the issue.

Starbucks' argument regarding association rested primarily on a telephone survey of 600 participants. It asserted that the district court improperly discounted the survey evidence. The appellate court disagreed, pointing out that the survey measured only how the participants reacted to the isolated word of "Charbucks," rather than to the Charbucks mark in context (including the addition of "Mister" or "Blend" and Black Bear's packaging).

Moreover, the number of participants who indicated an association between the marks was "relatively small." Only 3.1% of respondents answered "Starbucks" when asked "Can you name any company or store that you think might offer a product called 'Charbucks'?"

Getting beaned

Ultimately, the Second Circuit affirmed the district court's decision. Starbucks, it held, failed to show a likelihood of dilution because the survey was fundamentally flawed and there was minimal similarity between the marks. ○

Requirements for criminal copyright violations clarified

Not surprisingly, the level of guilt necessary to prove a criminal copyright violation is higher than that needed to establish civil liability for copyright infringement. But to precisely what lengths must the government go to secure a conviction? Some clarification was provided last fall in the case of *U.S. v. Liu*, which was heard by the U.S. Court of Appeals for the Ninth Circuit.

Fast-forward to convictions

The plaintiff was founder and CEO of a company called Super DVD, which commercially replicated CDs and DVDs for various clients. In July 2003, the government executed a search warrant on the company's warehouse and found thousands of CDs and DVDs. The plaintiff didn't have authorization from the copyright holders to replicate any of these works.

The government charged him with criminal copyright infringement and trafficking in counterfeit labels. After he was convicted and sentenced to four years in prison and three years of supervised release, the plaintiff appealed. He argued that the district court had improperly instructed the jury on the meaning of the terms "willfulness" and "knowledge" under the relevant statutes.

Replay jury instructions

The Ninth Circuit began by noting that, though criminal copyright violations must be *willful*, the term as used in the 1976 Copyright Act is ambiguous. The law could require the defendant to intentionally commit the act that constitutes infringement,

or it could require an intentional violation of a known legal duty. (In other words, the defendant must act with a "bad purpose" or "evil motive.")

After reviewing the statute's legislative history and earlier court cases, the court held that "willfully" means a "voluntary, intentional violation of a legal known duty." The mere intent to copy, which is necessary in an intentional act, isn't sufficient to impose criminal liability. The district court, however, had defined "willfully infringed" without any requirement that the plaintiff knew he was committing copyright infringement.

Trafficking in counterfeit labels requires proof that the defendant acted "knowingly," a term the Ninth Circuit also found susceptible to more than one interpretation. It could, the court said, mean that the defendant knew he was trafficking or that he knew the labels were counterfeit. The court opted for the latter meaning, so that the government must prove that the plaintiff was aware that the labels were counterfeit. The district court had instructed that the government wasn't required to prove that he knew his act was unlawful.

Rewind convictions

The appellate court concluded that the improper jury instructions weren't harmless errors. Therefore, it vacated the plaintiff's convictions and sent the case back to the lower court for further proceedings. ○



Expertise you can rely on

When you need legal services relating to patents, trademarks, copyrights or other intellectual property, call the experienced professionals at Sturm & Fix LLP. Since our firm's founding in 1962, we have focused exclusively on helping clients protect and defend their intellectual property rights. We serve a wide spectrum of U.S. and international clients in the areas of patent, trademark, copyright, trade secret and unfair competition law. Our services include application preparation, prosecution, licensing, litigation and counsel on intellectual property matters.

Our skilled attorneys have a broad range of experience and expertise that enables them to effectively communicate with and serve clients in all areas of science and technology, including:

- | | | |
|----------------------------|------------------------|--------------------------|
| ■ Agricultural Engineering | ■ Chemical Engineering | ■ Mechanical Engineering |
| ■ Animal Science | ■ Civil Engineering | ■ Pharmaceuticals |
| ■ Biomedical Engineering | ■ Food Technology | ■ Physics |

***We welcome the opportunity to discuss your needs and to put our expertise to work for you.
Please call us today and let us know how we can be of service.***

Sturm & Fix LLP
Suite 1213 • 206 Sixth Avenue • Des Moines, IOWA 50309-4076
Telephone (515) 288-9589 • Telefax (515) 288-4860

Partners



Michael O. Sturm



Richard L. Fix

STURM
& FIX LLP

www.hsllp.com