



# ideas on intellectual property law

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# Patentee loses bid in eBay case

*Supreme Court denies automatic preliminary injunction*

For patent holders, monetary compensation often provides insufficient relief from infringers. To prevent the defendant from continuing to infringe, patentees typically seek permanent injunctive relief to stop the defendants' use of the patented product, as well. But a unanimous U.S. Supreme Court decision may make permanent injunctions harder to obtain for patentees. The ruling in *eBay Inc. v. MercExchange* has clarified when injunctive relief is available in patent infringement cases.

## BID HISTORY

MercExchange held a business method patent for its so-called "Buy It Now" technology. The invention allows bidders in online auctions to take the uncertainty out of the bidding. By clicking on the "Buy It Now" button, a buyer can immediately end an auction by agreeing to pay a specified price.



The company tried to license its patent to online auctioneers eBay and Half.com. After the parties failed to reach agreement, MercExchange brought a patent infringement suit. The jury found the patent was valid and the defendants had infringed it. MercExchange was awarded \$30 million, but the district court denied its motion for a permanent

injunction against the defendants, finding that there was no irreparable injury because the company was willing to license the patent and it wasn't otherwise engaged in commercial activity. Thus, in the district court's opinion, the monetary award provided sufficient relief and an injunction was unwarranted.

On appeal, the Federal Circuit reversed, citing "the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." It reasoned that the statutory right to exclude others from making, using, offering for sale, or selling a patented invention justifies a general rule favoring permanent injunctive relief.

## BID RETRACTION

The Supreme Court found that neither the district nor the appellate court correctly applied traditional equitable principles in determining MercExchange's request for injunctive relief. Noting that the Patent Act expressly provides that injunctions "may" issue "in accordance with the principles of equity," the Supreme Court held that the four factors that traditionally apply for permanent injunctions likewise apply in patent suits. Thus, the plaintiff must establish that:

1. It has suffered irreparable injury,
2. Monetary damages are inadequate to compensate for the injury,
3. Considering the balance of hardships between the parties, an equitable remedy is warranted, and
4. The public interest isn't disserved by a permanent injunction.

The Court declared that the district court was mistaken in denying MercExchange the injunction. It shouldn't have assumed that the company's willingness to license and lack of commercial activity were sufficient to establish the absence of irreparable injury.

***The Patent Act expressly provides that injunctions “may” issue “in accordance with the principles of equity.”***

The high court cited university researchers and self-made inventors as examples of patent holders who might prefer to license their patents rather than bring them to market themselves. Such patentees shouldn't be denied the opportunity to satisfy the four-factor test, and it was improper to adopt expansive principles that suggest injunctive relief is unavailable in a broad swath of cases.

The Court also criticized the appellate court for departing in the opposite direction from the four-factor test. That court was incorrect in asserting that the right to exclude alone justified its general rule granting injunctive relief. “The creation of a right is distinct from the provision of remedies for violations of that right.”

Finally, the Court observed that respecting the principles of equity in patent cases is consistent with the treatment of permanent injunctions under the Copyright Act. The Supreme Court has repeatedly declined to replace traditional equitable considerations with a rule that an injunction automatically follows a finding of copyright infringement.

**ALMOST “AS-IS”**

The case was so important to the justices that the decision included two concurring opinions in addition to the majority opinion by Justice Thomas. Justices Scalia and Ginsburg joined Chief Justice Roberts in adding a historical perspective to the ruling. They acknowledged that, since the early 19th century, courts have granted injunctive relief after a finding of infringement in the vast majority of patent cases.

Such results weren't surprising, given the difficulty of protecting the patent holder's right to exclude with money damages that don't enjoin an infringer from use of an invention without authorization. But historical practice doesn't entitle patentees to permanent injunctions or justify a general rule that injunctions should issue.

Justices Kennedy, Stevens, Souter and Breyer concurred in a separate opinion. While earlier cases established a pattern of granting injunctive relief “almost as a matter of course,” they illustrated the results of the four-factor test in the contexts then prevalent. Today, trial courts must recognize that, in many cases, the nature of the patents at issue and the economic function of the patent holder make cases quite different.

The Kennedy concurrence refers particularly to firms that use patents primarily to obtain licensing fees, rather than to produce and sell goods. Where a patented invention forms only a small component of the overall product, and the threat of an injunction is used as leverage in licensing negotiations, Kennedy concluded that legal damages may well provide sufficient compensation. And an injunction might not serve the public interest.

Further, according to Kennedy, injunctive relief could carry different consequences for business method patents. The potential vagueness and questionable validity of some of these patents could affect the analysis under the traditional four-factor test. District courts, therefore, must determine whether past judicial practices actually fit the circumstances of current cases.

**NO GUARANTEES**

The *eBay* decision makes clear that district courts should perform a case-by-case factual analysis when weighing whether to grant injunctive relief in patent cases. But it doesn't offer much additional guidance. In *eBay*, the Court held only that district courts have equitable discretion to grant or deny relief, consistent with the traditional principles of equity. The Supreme Court remanded the case back to the district court, but took no position on whether permanent injunctive relief should issue. 💡

# Mixing it up

## Court shares recipes for trademark success

Poor grammar usually makes you stand out in a bad way. But in trademark law, it can create a distinctive — and protectable — mark. In *Borinquen Biscuit Corp. v. M.V. Trading Corp.*, the court explained the parties' burdens on the issue of distinctiveness in several trademark scenarios, ultimately finding a mark to be distinct in part because it would be grammatically incorrect if it were only descriptive.

### TOO MANY CHEFS

Borinquen manufactures and distributes “galletas,” a Spanish term that includes crackers, cookies and biscuits. Since 1976, it has sold a “round, yellowish, semi-sweet galleta” in Puerto Rico under the U.S.-registered trademark “RICA.” The company bought the recipe and rights to the trademark from Sunland Biscuit Company, which had sold the galleta under the trademark since 1962. Sunland had registered the trademark in 1969, indicating that “rica” translates to “rich.”

Borinquen uses a logo with the phrase “Galletas RICA Sunland.” It registered the mark “RICA” and the logo in Puerto Rico in 2000. Other firms have registered “rica” trademarks for different products, but Borinquen’s product is the only cookie, cracker or biscuit registered under the term in the United States.

In 2003, M.V. began selling a “round, yellowish, salty galleta,” resembling a cracker, under the name “Nestlé Ricas.” After M.V. refused to cease and desist its use of “rica,” Borinquen brought suit for damages and injunctive relief. The district court preliminarily stopped M.V. from advertising, distributing or selling cookies or crackers in Puerto Rico under the name “Ricas.” M.V. appealed, arguing the court should have required the plaintiff to establish that its “RICA” trademark had acquired “secondary meaning” and that the district court had mistakenly

concluded that M.V.’s product was likely to cause consumer confusion.

### KEY INGREDIENTS

To prevail in a trademark infringement action, a trademark holder must show, among other elements, that its mark merits protection. But for a preliminary injunction, it need show only a likelihood of success on the elements.

To receive trademark protection, a mark must qualify as distinctive. The *Borinquen* court reviewed the five categories of marks considered in the distinctiveness analysis: generic, descriptive, suggestive, arbitrary and fanciful. A generic mark by definition isn’t distinctive, while suggestive, arbitrary and fanciful marks are deemed inherently distinctive. The issue isn’t so clear-cut for descriptive marks.

Descriptive marks are tentatively considered nondistinctive, but they can be distinctive if the holder can show “secondary meaning.” If the trademark’s primary significance to the public is in identifying the product’s source, rather than the product itself, it has acquired secondary meaning and become distinctive and protectable.

### ADDING FLAVOR

The distinctiveness analysis varies depending on whether the trademark is registered. For an unregistered trademark, the holder must affirmatively demonstrate its distinctiveness, either inherently or through acquired secondary meaning.

The burden for protecting a registered trademark is lighter, as registration serves as “prima facie”



## Staying out of the kitchen

As the *Borinquen* court hinted, the plaintiff could have saved itself a lot of trouble if it had complied with “applicable statutory formalities” related to incontestability.

Under Section 15 of the Lanham Act, a trademark becomes incontestable when the owner files an affidavit with the Patent and Trademark Office (PTO). The affidavit must attest to the satisfaction of several requirements:

1. There has been no final decision adverse to its ownership or enforcement rights for the preceding five-year period.
2. There is no pending case or proceeding regarding the owner's rights in the trademark.
3. The owner has used the mark for five consecutive years and is still using the trademark.

On filing the affidavit, the registration is conclusive evidence of the trademark's validity. Had *Borinquen* filed a Sec. 15 affidavit, M.V. would have had a more difficult time contesting the validity of the registration.

evidence of the trademark's distinctiveness. If the Patent and Trademark Office (PTO) registers a trademark without requiring the applicant to prove secondary meaning, the holder is entitled to a presumption that the mark is inherently distinctive. The repercussions of the presumption hinge on whether the trademark has attained incontestable status.

If a trademark holder complies with all applicable statutory formalities, the trademark is considered incontestable, and the presumption is treated as conclusive. But if the holder fails to comply with statutory formalities, the trademark is contestable and the alleged infringer can defend itself on the ground that the trademark doesn't warrant

protection because it isn't inherently distinctive, but only descriptive of the product.

## TURNING UP THE HEAT

Under the Lanham Act, registration of a contestable mark shifts the burden of proof from the plaintiff to the defendant. The defendant must produce sufficient evidence to rebut the presumption of the plaintiff's right to the trademark's exclusive use.

A defendant can do this by proving the trademark is descriptive by a preponderance of the evidence. This requires more than establishing that the trademark describes a feature of the product; the defendant must show that consumers regard the trademark as “merely descriptive” of the product.

If the defendant cannot make the necessary showing, the presumption holds, distinctiveness is presumed, and a court can assess the remaining elements of the infringement claim, even without proof of secondary meaning. If the defendant succeeds, the burden of proof shifts back to the plaintiff, which then must prove whether its mark has acquired secondary meaning.

## JUST DESSERTS

The court found that *Borinquen*'s trademark was registered but contestable. (See “Staying out of the kitchen,” at left.) Yet M.V. failed to show the trademark is descriptive. In fact, the court remarked that M.V. presented only minimal evidence and argument in support of its descriptiveness defense.

Further, the court noted that, to be grammatically correct in Spanish, the trademark would need to use the plural “RICAS” if it were only a descriptor of “galletas.” It reasoned that a Spanish-speaking consumer would be unlikely to view the grammatically incorrect mark of “RICA” as a mere descriptor. Presumably, the bad-grammar argument also would apply to marks in English.

## THE WAY THE COOKIE CRUMBLES

*Borinquen* warns defendants to arm themselves with sufficient evidence and argument when asserting a descriptiveness defense. Conversely, plaintiffs should prepare themselves to establish secondary meaning if the burden does shift. 💡

# Copy that!

## Determining copyright compilation damages

Remember when kids made scratchy mix tapes by recording songs off the radio? The emergence of CD-music compilations has changed the landscape and triggered copyright concerns. Recently, in *WB Music Corp. v. RTV Communication Group*, a federal appellate court handed down a decision on the calculation of statutory damages for copyright violations involving compilations, clarifying how costly violations can be.



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### ONE IS THE LONELIEST NUMBER

A compilation is a collection and assembling of pre-existing materials that are selected, coordinated or arranged so that the resulting work as a whole constitutes an original work of authorship. In *WB Music*, the defendant's seven CD compilations used, without authorization, 13 separate copyrighted works owned by the plaintiffs, prompting the plaintiffs to sue.

The plaintiffs elected to seek statutory damages, as provided by the Copyright Act. The statute allows "an award of statutory damages for all infringements involved in the action, with respect to any one work ... For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work."

The district court interpreted the statutory language as providing one damage award for each compilation CD, thus seven damage awards. They found the number of infringing works per CD to be irrelevant.

### WE CAN WORK IT OUT

The Second Circuit disagreed, pointing to the general principle that the total number of statutory damage awards a plaintiff can recover in a case depends on the number of infringed works and the number of individually liable infringers, regardless of the number of infringements of those works. The statute disassociates the award of statutory damages from the number of infringements.

The appellate court theorized that the district court must have believed that, if two or more of the plaintiffs' copyrighted works were included on a single CD, that CD formed a compilation that constituted only one work for purposes of statutory damages. The Second Circuit acknowledged that the statute is ambiguous as to whether a compilation that infringes multiple separate copyrights, created without authorization, constitutes "one work."

But the court found it had already answered that question in the negative in *Twin Peaks Productions v. Publications Int'l*. There, the court had held that an unauthorized compilation of multiple separate copyrights didn't implicate the ambiguous sentence in the statute. As in *Twin Peaks*, the defendants failed to submit any evidence that any of the separately copyrighted works were included in a compilation authorized by the plaintiff, making the *Twin Peaks* ruling "squarely controlling." The court found that each of the plaintiff's 13 separate copyrighted works constituted one work, warranting 13 awards.

Thus the Second Circuit vacated the district court decision awarding damages for the seven compilations. It remanded the case for the calculation of 13 awards of statutory damages.

### CAN'T TOUCH THIS

The defendants in *WB Music* may have made a costly waiver mistake by failing to raise the

issue of overlapping copyrights. In a footnote, the Second Circuit noted that it had in *Twin Peaks* left open the question of whether the “overlapping copyrights doctrine” had survived the enactment of the Copyright Act of 1976.

The doctrine arose from a 1976 case that recognized that three songs performed in the musical *Jesus Christ Superstar* would support separate statutory awards, but that three overlapping copyrights on substantial parts of the entire work would support only a single award. That is, overlapping copyrights in related components of a single musical production would merit only one award.

In *WB Music*, the Second Circuit explained that it hadn’t addressed the doctrine’s survival in *Twin Peaks* because the infringed copyrights there were plainly separate. It also didn’t decide the doctrine’s vitality in *WB Music* because the defendants failed to raise the argument and thereby waived it.

### BLUE MONEY

*WB Music* demonstrates that unauthorized compilations can come with a high price tag. Under certain fact patterns, a defendant may still find some relief under the overlapping copyrights doctrine, but that remains undecided. 💡

## Form over function: Evaluating patent design infringement

Ornamentation might grab a consumer’s attention, but the Federal Circuit says it’s the wrong focus for courts when determining a motion for summary judgment in a design patent infringement case. In *Amini Innovation Corp. v. Anthony California, Inc.*, the court explained how to apply design infringement’s two-part test.

Amini has a patent for a bed frame design. It sued Anthony for infringement, and the district court granted Anthony’s motion for summary judgment of noninfringement.

Design patents protect the nonfunctional aspects of an ornamental design seen as a whole and as shown in the patent drawings. A design aspect is considered “functional” if it’s essential to the item’s use or purpose or it affects its cost or quality. The Federal Circuit noted that the patent’s drawings — not a single feature of the claimed design — define the patented design.

The court set out the two-part test for design patent infringement:

- 1. Ordinary observer.** In the “ordinary observer” test, infringement is found if, in the eyes of an ordinary observer, two designs are substantially the same, and the resemblance is such as to deceive the observer, inducing him or her to purchase one product thinking it to be the other.
- 2. Points of novelty.** Under this component, the accused design also must appropriate the novel ornamental features of the patented design that distinguish it from the earlier patented art.

The appellate court found that Amini’s patent drawings show the complete bed frame, with many features. It affirmed that the overall frame is patented, not just the ornamental details. The district court had erred in applying the ordinary observer test by analyzing each design element separately, rather than the design as a whole. As to the points of novelty test, the Federal Circuit said Amini hadn’t yet introduced sufficient evidence.

On remand to the district court, Amini must at least introduce the patent’s prosecution history and relevant prior art references. The appellate court also suggested that expert testimony might help the court understand a party’s contentions about points of novelty.

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