

RECENT DEVELOPMENTS IN INTELLECTUAL
PROPERTY LAW

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I. PATENTS

In *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*,¹ the U.S. Supreme Court considered whether a process using a newly recognized law of nature (i.e., newly established correlations between drug dosage and measured metabolites in the patient’s body) to determine the optimal drug dosage to be administered to a specific patient is patent eligible subject matter under 35 U.S.C. § 101. The Court held unanimously that claims to a process employing a law of nature, to be patent eligible, must have “additional features that provide practical assurance that the process is more than a drafting effort designed to monopolize the law of nature itself.”² Although the claims of the patentee in this case were not directed to the law of nature per se, the additional process steps were considered to be “conventional or obvious” “[pre]-solution activity,” and therefore added nothing of a practical, limiting nature to the claimed

1. 132 S. Ct. 1289, 1294 (2012).
2. *Id.* at 1297.

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process that would be sufficient to avoid ineligibility under § 101.³ Moreover, the ordered combination of the additional process steps added nothing to the laws of nature not already present when the steps were considered separately.⁴ This conclusion was based upon the Court's understanding that anyone who wants to make use of the identified laws of nature would necessarily have to first administer the drug specified to a human subject and measure the resulting metabolite concentrations. As such, the process of administering and measuring added nothing of significance to the stated law of nature other than an instruction to apply it when treating a patient.⁵ The Court further explained⁶ how its conclusions in this case are consistent with the holdings in each of its previous decisions in *Diamond v. Diehr*,⁷ *Parker v. Flook*,⁸ *Bilski v. Kappos*,⁹ and *Gottschalk v. Benson*.¹⁰

Following its decision in *Mayo v. Prometheus*, the Supreme Court also vacated the recent Federal Circuit judgment in *Association for Molecular Pathology v. United States Patent & Trademark Office*¹¹ (also referred to as *Myriad*), and remanded the case for reconsideration in view of the Supreme Court's recent decision in *Mayo v. Prometheus*.¹² In *Myriad*, prior to the remand, the Federal Circuit originally held that claims directed to "isolated" DNA molecules were patent eligible under § 101, as the claimed subject matter was not merely a product of nature.¹³ Other method claims directed to screening potential cancer therapeutics via changes in cell growth rates were found eligible for patenting because they were not a mere scientific principle,¹⁴ while still other method claims directed to "comparing" and "analyzing" DNA sequences were held ineligible for patenting under § 101, as directed merely to an abstract, mental step with no transformative step.¹⁵ On remand from the Supreme Court, the Federal

3. *Id.* at 1298.

4. *Id.*

5. *Id.*

6. *Id.* at 1298–1302.

7. 450 U.S. 175 (1981) (method for molding raw, uncured rubber into cured, molded products using algorithm to determine when to open the press, held patentable).

8. 437 U.S. 584 (1978) (method of updating "alarm limits" in catalytic conversion of hydrocarbons using a novel algorithm, held unpatentable).

9. 130 S. Ct. 3218 (2010) (method for hedging risks of price changes as claimed and reducible to an algorithm, was unpatentable abstract idea).

10. 409 U.S. 63 (1972) (mathematical process carried out on a digital computer for converting binary-coded decimal numerals into pure binary numbers on a digital computer, held unpatentable claims to algorithm per se since algorithm had no practical application other than on a digital computer).

11. 653 F.3d 1329 (Fed. Cir. 2011).

12. *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 132 S. Ct. 1794, 1794 (2012).

13. *Myriad*, 653 F.3d at 1354.

14. *Id.* at 1357.

15. *Id.* at 1355.

Circuit reconsidered its prior ruling in light of *Mayo v. Prometheus*, reversing in part and affirming in part the district court and continuing to hold that at least some of the *Myriad* claims were directed to patent eligible subject matter under 35 U.S.C. § 101.¹⁶ Specifically, claims found patent eligible were those directed to isolated DNA sequences associated with predisposition to human breast and ovarian cancers, complementary DNA (cDNA) sequences which lacked certain introns found in natural cDNA, and methods for screening potential cancer therapeutics via changes in cell growth rates.¹⁷ The Federal Circuit reasoned that the Supreme Court's decision in *Mayo v. Prometheus* pertained to claimed processes, as opposed to composition of matter claims such as *Myriad's*.¹⁸ Moreover, in the court's view, the *Myriad* claims are directed to compositions admittedly derived from natural substances, as all substances ultimately are, but which are "markedly different" from the relevant products of nature, and are in fact products made only in a laboratory through the application of human ingenuity.¹⁹ As such, and in view of other Supreme Court precedent regarding nature-derived compositions of matter in *Diamond v. Chakrabarty*,²⁰ the court held that the composition of matter claims remained patent eligible under § 101, even in view of *Mayo v. Prometheus*.²¹ The Supreme Court has granted certiorari in part, on the question of whether isolated forms of human DNA can be patent eligible subject matter under 35 U.S.C. § 101.²²

The case of *Caraco Pharmaceutical Laboratories, Ltd. v. Novo Nordisk A/S*²³ presented the Supreme Court with a question of interpreting § 505 of the Federal Food, Drug and Cosmetic Act. In particular, the question presented was whether Congress authorized a generic company to challenge a drug use code's accuracy through a counterclaim against the brand manufacturer in a patent infringement suit, despite certain restrictive language in the statute.²⁴ The statute provides a generic manufacturer "may assert a counterclaim seeking an order requiring the [brand manufacturer] to correct or delete the patent information [it] submitted . . . under [two statutory subsections] on the ground that the patent

16. *Ass'n for Molecular Pathology v. U.S. Patent & Trademark Office*, 689 F.3d 1303, 1308–09 (Fed. Cir. 2012).

17. *Id.*

18. *Id.* at 1325.

19. *Id.*

20. 447 U.S. 303, 309 (1980).

21. 689 F.3d at 1328–29.

22. *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 2012 WL 4508118 (U.S. Nov. 30, 2012).

23. 132 S. Ct. 1670 (2012).

24. *Id.* at 1675.

does not claim . . . an approved method of using the drug.”²⁵ The Federal Circuit had earlier ruled that the phrases “patent information [it] submitted” and “an approved method” restricted the availability of this statutory remedy where the patent use code the generic manufacturer sought to correct was not itself the specific information the brand manufacturer had submitted to the U.S. Food and Drug Administration (FDA), and where the patent at issue did claim at least one method of using the drug in question, albeit not the method the generic sought to have removed from the use code.²⁶ While noting the statute’s ambiguities, after taking the statutory text together with its context into account, the Supreme Court reversed the Federal Circuit and held that the generic manufacturer could nevertheless bring the counterclaim under these circumstances to force the brand manufacturer to correct the use code.²⁷

In *Kappos v. Hyatt*,²⁸ the Supreme Court addressed the question of what limitations exist on a patent applicant’s right to introduce new evidence in a civil action under 35 U.S.C. § 145. Federal court civil actions under § 145 are one mechanism available for review of a U.S. Patent Office Board of Patent Appeals and Interferences decision regarding patentability of a claimed invention. The evidence at issue in this § 145 action was a new declaration the inventor/applicant/plaintiff submitted for the first time in defending against a motion for summary judgment filed by the director of the U.S. Patent and Trademark Office (USPTO) during the § 145 action. On en banc review, the Federal Circuit vacated the district court’s grant of summary judgment for the director and remanded.²⁹ The court held that 35 U.S.C. § 145 imposes no limitation on an applicant’s right to introduce new evidence before the district court, apart from the evidentiary limitations applicable to all civil actions contained in the Federal Rules of Evidence and Federal Rules of Civil Procedure.³⁰ In doing so, the court rejected the USPTO director’s proposal that only new evidence that could not reasonably have been provided to the agency in the first instance be admissible in a § 145 action.³¹ The Supreme Court affirmed the decision, holding that unlike 35 U.S.C. § 141, § 145 permits a patent applicant to present new evidence to the district court that was not presented to the USPTO, subject to the Federal Rules of Evidence and the Federal Rules of Civil Procedure.

25. 21 U.S.C. § 355(j)(5)(C)(ii)(I) (emphasis added).

26. *Novo Nordisk A/S v. Caraco Pharm. Labs., Ltd.*, 601 F.3d 1359 (Fed. Cir. 2010).

27. *Caraco*, 132 S. Ct. at 1688.

28. 132 S. Ct. 1690 (2012).

29. *Hyatt v. Kappos*, 625 F.3d 1320, 1323 (Fed. Cir. 2010).

30. *Id.*

31. *Id.* at 1331.

The Federal Circuit also addressed numerous issues of patent law during the past year. In the continuing saga surrounding the law of joint patent infringement, the Federal Circuit issued en banc decisions in the related cases of *Akamai Technologies, Inc. v. Limelight Networks, Inc.*³² and *McKesson Technologies Inc. v. Epic Systems Corp.*³³ Initially, the Federal Circuit had issued a panel opinion in *Akamai* but then decided to rehear the case en banc. The question presented in *Akamai* asked what circumstances give rise to direct infringement, and to what extent is there liability when separate entities each perform separate steps of a patented method claim.³⁴ In another case raising similar issues, *McKesson*, the Federal Circuit issued a panel opinion but then granted rehearing en banc. In *Akamai*, the defendant and the non-party customer did not individually practice all patented method steps, and they did not have any agency relationship which could establish direct infringement by the defendant.³⁵ In *McKesson*, the original Federal Circuit panel found no “control” existed in one party over all parties undertaking collectively all of the patented method steps. In the absence of direct infringement, no indirect (by inducement) infringement could be found, and the summary judgment of noninfringement was affirmed.³⁶

On rehearing of *Akamai* and *McKesson*, en banc, the Federal Circuit has now further clarified the law of joint infringement by holding a defendant may be held liable for induced infringement of a patented method as provided under 35 U.S.C. § 271(b), if the defendant has performed some of the steps of a multistep method and has induced others to perform the remaining steps, or if the defendant has induced other parties to collectively perform all the method steps, but no single party alone has performed all of the steps.³⁷ In so doing, the Federal Circuit overruled *BMC Resources, Inc. v. Paymentech, L.P.*,³⁸ which had held that, to support a finding of induced infringement under § 271(b), not only must the inducement give rise to direct infringement, but the induced direct infringement must be committed by a single actor. The Federal Circuit, in overruling this aspect of *BMC*, noted:

If a party has knowingly induced others to commit the acts necessary to infringe the plaintiff's patent and those others commit those acts, there is

32. 629 F.3d 1311 (Fed. Cir. 2010), *vacated and reh'g en banc granted*, 419 F. App'x 989 (Fed. Cir. 2011).

33. 2011 WL 1365548 (Fed. Cir. Apr. 12, 2011), *vacated and reh'g en banc granted*, 2011 WL 2173401 (Fed. Cir. May 26, 2011).

34. 419 F. App'x at 989.

35. *Akamai*, 692 F.3d at 1320-22.

36. See *Akamai*, 419 F. App'x at 989.

37. *Akamai Techs., Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301, 1309 (Fed. Cir. 2012).

38. 498 F.3d 1373 (Fed. Cir. 2007).

no reason to immunize the inducer from liability for indirect infringement simply because the parties have structured their conduct so that no single defendant has committed all the acts necessary to give rise to liability for direct infringement.³⁹

The court reasoned that inducement of infringement is not a strict liability tort, as contrasted with direct infringement, because inducement requires that the accused inducer act with knowledge that the induced act constitutes patent infringement and that the inducement give rise to actual infringement (whether carried out by a single actor or multiple actors). In dissent, Judge Linn, joined by Judges Dyk, Prost, and O'Malley, argued that the majority's interpretation of the statute amounted to impermissible policymaking and appeared contrary to the Supreme Court's precedent in *Aro Manufacturing Co. v. Convertible Top Replacement Co.*⁴⁰ requiring that direct infringement be a prerequisite to any finding of contributory infringement.⁴¹ But the majority noted that "nothing in the text of either subsection suggests that the act of 'infringement' required for inducement under section 271(b) must qualify as an act that would make a person liable as an infringer under section 271(a)."⁴²

In the area of permanent injunctive relief in the patent infringement context, the Federal Circuit in *Robert Bosch LLC v. Pylon Manufacturing Corp.*⁴³ addressed whether the existence of a valid and infringed patent right can support a finding of irreparable harm, notwithstanding the relatively recent Supreme Court decision in *eBay Inc. v. MercExchange, L.L.C.*⁴⁴ In *eBay*, the Supreme Court overruled prior Federal Circuit precedent that a presumption of irreparable harm could attach and a permanent injunction would issue, once infringement and validity were adjudged, absent a sound reason to deny such relief.⁴⁵ In reversing the district court's refusal to grant Robert Bosch a permanent injunction, the Federal Circuit found that there was no basis upon which the district court rationally could have concluded that Bosch failed to show irreparable harm.⁴⁶ The court noted that, in conducting the equitable analysis involved in considering a post-trial motion for permanent injunction and notwithstanding the holding in *eBay*, the patentee's right to exclude and the harm to it that continued infringement may cause should not be ignored

39. *Akamai*, 692 F.3d at 1308–09.

40. 365 U.S. 336, 341 (1961).

41. *Akamai*, 692 F.3d at 1337 (Linn, J., dissenting).

42. *Id.* at 1313.

43. 659 F.3d 1142 (Fed. Cir. 2011).

44. 547 U.S. 388, 393–94 (2006).

45. *Robert Bosch*, 659 F.3d at 1148 (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989)).

46. *Id.* at 1155.

by a court considering a motion for permanent injunction.⁴⁷ The court found that taking into account the exclusionary rights uniquely inherent in patent rights is particularly appropriate in traditional cases such as *Bosch*, where the parties both practice the patented technology.⁴⁸

II. TRADEMARKS

While the courts in 2012 were still trying to define the boundaries of liability for contributory trademark infringement by online service providers, the more notable cases over the past year may be those dealing with the functionality doctrines as they are applied to the use of color as a trademark. Additionally, the Supreme Court has decided to weigh in on an issue in a trademark case which may have ramifications that extend to other areas of intellectual property.

In *Acacia, Inc. v. NeoMed, Inc.*,⁴⁹ a district court in the Central District of California granted a motion for partial summary judgment seeking, among other things, the cancellation of a trademark for the use of the color orange in connection with oral syringes. Acacia and NeoMed both produce medical devices, including neonatal feeding systems.⁵⁰ NeoMed's predecessor registered a trademark on the Supplemental Register consisting of "trade dress for oral syringes consisting of the color orange for gradation [sic] markings and text or text box on a clear barrel."⁵¹ NeoMed subsequently sent a cease-and-desist letter to Acacia regarding Acacia's use of orange on a line of its syringes that have the color "orange applied to graduation markings and to the text," prompting Acacia to sue for declaratory relief and cancellation of NeoMed's trademark registration.⁵²

The district court found that the color orange was functional as it was used on syringes in the medical industry.⁵³ At the outset, the court noted that "for trade dress not registered on the Principal Register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional."⁵⁴ Then, applying the test for utilitarian functionality established by the Supreme Court—i.e., "a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article"—the court found that

47. *Id.* at 1150 (citing *Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1328 (Fed. Cir. 2008)).

48. *Id.*

49. 2012 U.S. Dist. LEXIS 103274, *3 (C.D. Cal. July 23, 2012).

50. *Id.* at *1.

51. *Id.* at *2-3.

52. *Id.* at *3.

53. *Id.* at *13.

54. *Id.* (quoting 15 U.S.C. § 1125(a)(3)).

there was substantial evidence the color orange was used to signal “enteral safety.”⁵⁵ In particular, the court found that the color orange helped reduced the erroneous misconnecting of tubes and catheters, which can lead to adverse health outcomes in patients including patient death and permanent loss of function.⁵⁶

The court also noted that “a design feature does not have to achieve perfect functionality to be functional as a matter of law.”⁵⁷ NeoMed argued that it tried to put together a coalition of manufacturers to promote the use of orange as the official color to signal enteral use, but that its effort was rejected.⁵⁸ The court did not find this argument persuasive, stating: “The mere fact that orange is not functioning *well* as an indicator of enteral use does not transform it into a nonfunctional feature.”⁵⁹

In *Christian Louboutin S.A. v. Yves Saint Laurent America Holdings, Inc.*,⁶⁰ the Second Circuit reversed the district court’s adoption of a *per se* rule that “a single color can never serve as a trademark in the fashion industry” noting that the district court’s conclusion was based on an incorrect understanding of the doctrine of aesthetic functionality.⁶¹ Luxury shoe designer Christian Louboutin sought a preliminary injunction against rival designer Yves Saint Laurent to prevent it from marketing any shoes “bearing outsoles in a shade of red identical to Louboutin’s Red Sole Mark, or in any shade which so resembles the Red Sole Mark as to cause confusion among consumers.”⁶² The particular shoe alleged to infringe Louboutin’s Red Sole Mark was a monochrome red shoe with a red sole.⁶³ The district court held that, in the fashion industry, single-color marks are inherently “functional” and that any such registered trademark would likely be held invalid, and denied Louboutin’s motion for preliminary injunction.⁶⁴

The Second Circuit disagreed, stating the Supreme Court’s ruling in *Qualitex Co. v. Jacobson Products Co.*⁶⁵ “specifically forbade the implementation of a *per se* rule that would deny protection for the use of a single color as a trademark in a particular industrial context.”⁶⁶ The court stated that the rule is that “a mark is aesthetically functional, and therefore inel-

55. *Id.* at *6-9 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982)).

56. *Id.* at *2.

57. *Id.* at *13.

58. *Id.* at *12.

59. *Id.*

60. 696 F.3d 206, 212 (2d Cir. 2012).

61. *Id.* at 228.

62. *Id.* at 213.

63. *Id.*

64. *Id.* at 214.

65. 514 U.S. 159 (1995).

66. *Id.* at 223 (citing *Qualitex*, 514 U.S. at 161).

igible for protection under the Lanham Act, where protection of the mark significantly undermines competitors' ability to compete in the relevant market."⁶⁷ Thus, whether a mark is aesthetically functional under this rule "requires an individualized, fact-based inquiry into the nature of the trademark"⁶⁸ to determine "whether recognizing the trademark 'would put competitors at a significant non-reputation-related disadvantage.'"⁶⁹ Furthermore, the court stated that determining whether a mark is aesthetically functional should only be undertaken after finding that the mark is not functional under the "traditional" or "utilitarian" functionality test set forth in *Inwood Labs*.⁷⁰

Prior to analyzing whether Louboutin's Red Sole Mark is aesthetically functional, the court first had to determine whether the mark warranted trademark protection. "In the case of a single-color mark . . . distinctiveness must generally be proved by demonstrating that the mark has acquired secondary meaning."⁷¹ The court found Louboutin's use of the color red on shoe soles had indeed acquired secondary meaning "that causes it to be 'uniquely' associated with the Louboutin brand."⁷² However, the Second Circuit limited its holding by ruling that Louboutin's lacquered red outsole qualifies for trademark protection only when it contrasts with the remainder of the shoe.⁷³ "The contrast between the sole and the upper is what causes the sole to 'pop,' and to distinguish its creator."⁷⁴ Therefore, the Second Circuit instructed the Patent and Trademark Office to limit Louboutin's registration for the Red Sole Mark accordingly, and, remanded the case to the district court to determine whether the Red Sole Mark, as modified, was functional.⁷⁵

In a footnote, the court discussed the disparate treatment of the aesthetic functionality doctrine in other circuits.⁷⁶ For example, the Fifth Circuit, asserting that the Supreme Court has only recognized the aesthetic functionality doctrine in dicta, has rejected the doctrine entirely.⁷⁷

67. *Id.* at 222.

68. *Id.*

69. *Id.* (quoting *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 32-33 (2001)). *Inwood Labs* sets forth the traditional understanding of functionality as it relates to trademarks, namely, that a product feature is considered to be "functional" in a utilitarian sense if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.

70. *Id.* at 219 (citing *TrafFix*, 532 U.S. at 33).

71. *Id.* at 225-26.

72. *Id.* at 226.

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 221 n.17.

77. *Id.* (citing *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 487-88 (5th Cir. 2008)).

The Seventh Circuit has drawn the line “between designs that are fashionable enough to be functional and those that are merely pleasing” which is more in line with the Second Circuit’s decision in the present case.⁷⁸ Other circuits, such as the Ninth Circuit, have applied the doctrine inconsistently.⁷⁹ Given that there is some controversy amongst the circuits on how or even whether to apply the aesthetic functionality test, practitioners will want to consider the appropriate forum in which to bring their case if this issue is likely to be raised.

In *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*,⁸⁰ the Ninth Circuit upheld a \$10.5 million jury verdict finding a web hosting service liable for contributory trademark infringement.⁸¹ The plaintiff, Louis Vuitton, discovered a number of websites that were selling goods that it believed infringed its trademarks.⁸² The websites were being operated by individuals based in China but using IP addresses assigned to defendants Akanoc Solutions, Inc. and Managed Solutions Group, Inc. (MSG).⁸³ Louis Vuitton sent at least eighteen separate notices of infringement to the defendant web hosting services documenting various trademarks, and demanding the defendants either remove the infringing content from their servers or require their customers to do so.⁸⁴ Louis Vuitton received no response and the websites continued to operate using servers and IP addresses owned by the defendants.⁸⁵ Louis Vuitton brought claims for contributory trademark infringement, contending that the defendants had actual knowledge of their customers’ website activities, knowingly avoided learning the full extent of those infringing activities, deliberately disregarded Louis Vuitton’s notifications, and knowingly enabled the infringing conduct by hosting the websites and willfully permitting the websites to display the products.⁸⁶

After the jury returned verdicts in favor of Louis Vuitton, the defendants moved for judgment as a matter of law.⁸⁷ The district court granted the post-trial motion as to MSG because it had only leased servers, bandwidth, and some IP addresses to Akanoc. The Ninth Circuit affirmed stating that “Louis Vuitton presented no evidence that MSG had reasonable

78. *Id.* (citing *Jay Franco & Sons, Inc. v. Franek*, 615 F.3d 855, 860 (7th Cir. 2010)).

79. *Id.* (citing 1 MCCARTHY ON TRADEMARKS, § 7:80 (4th ed.)).

80. 658 F.3d 936 (9th Cir. 2011).

81. *Id.* at 947 (also upholding an award of \$300,000 in statutory damages for willful copyright infringement).

82. *Id.* at 940.

83. *Id.*

84. *Id.*

85. *Id.* at 941.

86. *Id.*

87. *Id.*

means to withdraw services to the direct infringers.”⁸⁸ However, the motion was denied as to Akanoc.⁸⁹

On appeal, Akanoc argued that the district court had not properly instructed the jury regarding the proper scope of the “means of infringement.”⁹⁰ In particular, defendant Akanoc argued that the servers and Internet services it provided and operated were not the means of infringement, rather, “the websites selling the infringing goods were the sole means of infringement.”⁹¹ This argument was rejected by the district court, and the Ninth Circuit affirmed, reasoning that “websites are not ethereal; while they exist, virtually, in cyberspace, they would not exist at all without physical roots in servers and internet services.”⁹² The Ninth Circuit compared Akanoc’s web hosting services to the “Internet equivalent of leasing real estate,” found that Akanoc “had direct control over the ‘master switch’ that kept the websites online and available,” and held that Akanoc therefore could be found contributorily liable for the infringing conduct of its customers.⁹³

*Nike, Inc. v. Already, LLC*⁹⁴ involves the tactical use of covenants not to sue in trademark litigation to divest the court of subject matter jurisdiction over defendant’s counterclaims. Nike designed a shoe that has had considerable success in the marketplace called the Air Force 1, which Nike claims has a distinctive appearance and for which it has obtained several federal trademark registrations.⁹⁵ In particular, Nike is the owner of U.S. Trademark Registration Number 3,451,905 (’905 Registration) for “the design of the stitching on the exterior of the shoe, the design of the material panels that form the exterior body of the shoe, the design of the wavy panel on the top of the shoe that encompasses the eyelets for the shoe laces, the design of the vertical ridge pattern on the sides of the sole of the shoe, and the relative position of these elements to each other.”⁹⁶ Nike alleged that Already, LLC, doing business as Yums, was selling “footwear bearing a confusingly similar imitation” of the Air Force 1 shoe.⁹⁷ In response, Yums filed a counterclaim for cancellation of the ’905 Registration pursuant to the cancellation provisions of the Lanham Act.⁹⁸

88. *Id.* at 940–42.

89. *Id.* at 941.

90. *Id.* at 942.

91. *Id.*

92. *Id.*

93. *Id.* at 942–43.

94. 663 F.3d 89, 91 (2d Cir. 2011).

95. *Id.* at 92.

96. *Id.*

97. *Id.*

98. *Id.* (citing 15 U.S.C. § 1119).

Subsequently, Nike delivered a covenant not to sue to Yums and moved to dismiss its claims with prejudice.⁹⁹ Nike also moved to dismiss Yums' counterclaim seeking cancellation of the '905 Registration because, Nike argued, the covenant not to sue divested the district court of subject matter jurisdiction as a case or controversy no longer exists.¹⁰⁰ Yums argued that a case or controversy persisted because the litigation and the continued existence of the '905 Registration "constituted a 'continuing libel' against Yums by making it appear that Yums had infringed and continued to infringe Nike's trademark."¹⁰¹ The district court agreed with Nike and dismissed both parties' claims.¹⁰²

On appeal, the Second Circuit held that when considering whether a covenant not to sue eliminates an Article III case or controversy in a trademark case, especially relevant factors are: "(1) the language of the covenant, (2) whether the covenant covers future, as well as past, activity and products, and (3) evidence of intention or lack of intention, on the part of the party seeking jurisdiction, to engage in a new activity or to develop new potentially infringing products that arguably are not covered by the covenant."¹⁰³ Relying on the broad language in the covenant not to sue prohibiting Nike from bringing an action for past or future activities involving Yums' existing products or colorable imitations, the court affirmed that no controversy existed.¹⁰⁴ The court also held that § 1119 of the Lanham Act, granting federal courts the ability to cancel registrations, only serves as a remedy for infringement and is insufficient to support jurisdiction where a covenant not to sue has resolved the underlying issue.¹⁰⁵

Yums then successfully petitioned the Supreme Court for a writ of certiorari.¹⁰⁶ The question before the Court is: "Whether a federal district court is divested of Article III jurisdiction over a party's challenge to the validity of a federally registered trademark if the registrant promises not to assert its mark against the party's then-existing commercial activities."¹⁰⁷ The Supreme Court's decision in this matter has the potential to have an impact in areas of intellectual property outside of trademark law as the tactical use of covenants not to sue is more frequently seen in patent litigation. It is possible that the practice of terminating defendant's challenge to plaintiff's trademark or patent rights by issuing a unilateral covenant not to sue may be substantially curtailed. Therefore,

99. *Id.*

100. *Id.* at 93.

101. *Id.* at 92.

102. *Id.* at 93.

103. *Id.* at 96.

104. *Id.* at 97.

105. *Id.*

106. *Already, LLC v. Nike, Inc.*, 183 L. Ed. 2d 674 (2012).

107. *Id.*

practitioners should take care before counting on this tactic as a part of their litigation strategy.

III. COPYRIGHTS

Both the U.S. Supreme Court and several circuits considered a number of significant issues during 2012. The U.S. Supreme Court considered whether Congress's attempt to implement international copyright law within the United States was constitutional. The First Circuit considered whether the statutory damages provided under the Copyright Act were constitutional, and the latest portion of the *Omega vs. Costco*¹⁰⁸ saga was played out in the Central District of California.

In *Golan v. Holder*,¹⁰⁹ the U.S. Supreme Court took on issues that arose out of § 514 of the Uruguay Round Agreements Act (URAA).¹¹⁰ The enactment of the URAA followed the United States joining the Berne Convention for the Protection of Literary and Artistic Works (Berne) in 1989.¹¹¹ The approach of Berne was different from that which had prevailed previously in the United States.¹¹² The United States had been much more restrictive in granting foreign authors copyright protection within the United States throughout the nineteenth and twentieth centuries.¹¹³ Even after Berne was adopted by the United States, the United States pursued a "minimalist approach."¹¹⁴ Many other countries questioned the United States' lack of adherence to Berne, but Berne did not provide a "potent enforcement mechanism."¹¹⁵

In 1994, the Uruguay Round of multilateral trade negotiations resulted in the World Trade Organization and the Agreement on Trade Related Aspects of Intellectual Property Rights.¹¹⁶ The United States joined these organizations and the World Trade Organization's enforcement mechanisms were much stronger than Berne.¹¹⁷ Congress was finally forced to react and responded to the URAA.¹¹⁸ Pursuant to the URAA, foreign authors were granted copyright protection in the United States subject to certain protections.¹¹⁹

108. *Omega S.A. v. Costco Wholesale Corp.*, No CV 04-05443 TJH, 2011 WL 8492716 (C.D. Cal. Nov. 9, 2011).

109. 132 S. Ct. 873 (2012).

110. 17 U.S.C.A. § 104A (West 2005).

111. *Golan*, 132 S. Ct. at 879.

112. *Id.*

113. *Id.*

114. *Id.* at 880.

115. *Id.*

116. *Id.* at 881.

117. *Id.*

118. *Id.*

119. See 17 U.S.C.A. § 104A, 109(a) (West 2005).

Orchestra conductors, musicians, publishers, and others sued, challenging this grant of copyright protection to preexisting works of Berne member country authors that were protected in their country of origin, but previously not protected in the United States.¹²⁰ As a result of the United States' prior refusal to protect such foreign copyrights, such works were generally considered to be in the public domain.¹²¹ Therefore, petitioners had free access to such works.¹²² The change in the law would restrict access and allow in many instances the foreign copyright holders to require payment for the use of the copyrighted works going forward.¹²³ Congress attempted to reduce the impact of this change in the law by providing "accommodations" for persons and entities that had previously made use of the works that were in the public domain.¹²⁴

Petitioners put forward two broad lines of attack upon Congress's action. First, petitioners maintained that the statute exceeded Congress's authority under the Copyright Clause.¹²⁵ Second, petitioners argued that the statute violated First Amendment protections.¹²⁶

The district court granted the United States' motion for summary judgment on all claims. Petitioners appealed to the Tenth Circuit, which affirmed the district court's decision except that it remanded for further consideration of petitioners' First Amendment claims¹²⁷ in light of the Supreme Court's decision in *Eldred v. Ashcroft*.¹²⁸ The trial court then granted petitioners summary judgment on the First Amendment claims and the Tenth Circuit reversed.

When considering petitioners' arguments, the Court held that § 514 does not exceed Congress's authority under the Copyright Clause.¹²⁹ The Court relied on *Eldred* in disposing of petitioners' claim. The Court stated that petitioners' argument that the clause's confinement of a copyright's lifespan to a "limited time" prevented the removal of works from the public domain was not well founded.¹³⁰ The Court previously had found that the Copyright Term Extension Act of 1998, which extended copyrights by twenty years, was constitutional, and therefore no particular time limit becomes absolutely fixed and thereby "inal-

120. *Golan*, 132 S. Ct. at 883.

121. *Id.* at 885.

122. *Id.*

123. *Id.*

124. *Id.*

125. *Id.* at 884.

126. *Id.* at 889.

127. *Id.* at 875.

128. 537 U.S. 186 (2003)).

129. *Golan*, 132 S. Ct. at 884-90 (citing U.S. CONST. art. I, § 8, cl. 7).

130. *Id.* at 884.

terable.”¹³¹ The Court gave short shrift to petitioners’ arguments that the limited time for these works had already passed, noting that a period of exclusivity must begin before it can end.¹³² Similarly, the Court found unpersuasive the idea that Congress was moving towards a perpetual copyright regime.¹³³

The Court also noted that in the Copyright Act of 1790, Congress first protected works that had been freely available prior to the passage of that Act.¹³⁴ The similar exercise of power here was no less constitutional than that of the eighteenth century act.¹³⁵ Finally, petitioners argued that the Copyright Act requires that it “promote the Progress of Science” and that the passage of § 514 did not do so.¹³⁶ The Court demurred and said that the Copyright Clause “empowers Congress to determine the intellectual property regimes that, overall, in that body’s judgment, will serve the ends of the Clause.”¹³⁷ The Court went on to note that this does not mean that the Copyright Clause must exclusively provide “incentives for creation.”¹³⁸ So, the Court concluded the § 514 laws were “comfortably” within Congress’s Copyright Clause authority.¹³⁹

In considering petitioners’ First Amendment argument, the Court once again turned to the *Eldred* decision.¹⁴⁰ Because *Eldred* found that the Copyright Term Extension Act’s enlargement of copyright duration did not offend the First Amendment’s guarantee of free expression, the Court reasoned that some restriction on expression is inherent and intended in the grant of every copyright.¹⁴¹ Therefore, the statutory shift of certain works from the public domain to copyright protected does not offend the First Amendment.¹⁴² The Court also noted that copyright protection has been limited by the idea/expression dichotomy and the fair use defense.¹⁴³ The Court said that § 514 provided mechanisms to ease the transition to the new Berne regime.¹⁴⁴

Petitioners also claimed that they had vested rights in these public domain works that they were using.¹⁴⁵ The Court stated that it had

131. *Eldred*, 537 U.S. at 199.

132. *Golan*, 132 S. Ct. at 885.

133. *Id.*

134. *Id.* at 884–90.

135. *Id.*

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.*

140. *Id.* at 890–94.

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.*

145. *Id.*

already rejected the idea that the Constitution means that public domain works are inviolable.¹⁴⁶ The Court found no authority for the proposition that public domain works have some special meaning or status within the First Amendment and are deserving of special protection.¹⁴⁷ Rather, the Court found that Congress has many times amended the copyright laws to protect new categories of creative works and that these have not run afoul of constitutional protections.¹⁴⁸

As has often been noted, copyright law has been seriously challenged by technological innovations. Escalating the copyright/technology tension is the increasing propensity of Internet users to download and share copyrighted material without paying for such material. One of the mechanisms enabling this sort of copyright infringement is the peer-to-peer network.

Copyright owners for a number of years have engaged in broad-ranging legal actions to shut down peer-to-peer networks and sue individuals who download copyrighted material illegally. One of the most famous of these networks was the Napster Network, which began operating in 1999. The Napster Network was shut down in 2001 as a result of a lawsuit brought by A&M Records and others.

In *Sony BG Music Entertainment v. Tenenbaum*,¹⁴⁹ the First Circuit considered one of these suits against an individual downloader and user of a peer-to-peer network. Tenenbaum had used a number of peer-to-peer networks including Napster, Kazaa, Morpheus, and others.¹⁵⁰ Tenenbaum illegally downloaded and shared copyrighted material (primarily songs) from 1999 to 2000.¹⁵¹ In 2000 alone, Tenenbaum had 1,153 songs on his directory which could be accessed by other members of the networks.¹⁵² While at college, Tenenbaum received warnings from the college administration not to download materials.¹⁵³ Plaintiff sent him a letter in September 2005.¹⁵⁴ Yet, he continued to download materials for at least two years; stopping only after the instant lawsuit was filed against him.¹⁵⁵

During discovery, Tenenbaum lied and attempted to shift the blame to others for his actions.¹⁵⁶ For example, he denied any knowledge of

146. *Id.*

147. *Id.*

148. *Id.*

149. 660 F.3d 487, 490–91 (1st Cir. 2011).

150. *Id.* at 492–96.

151. *Id.*

152. *Id.*

153. *Id.*

154. *Id.*

155. *Id.*

156. *Id.*

whether a peer-to-peer network had been installed on his computer.¹⁵⁷ He also stated that others could have used his computer to illegally download the material.¹⁵⁸ He listed as potential violators a foster child living in his family's home, burglars, a family house guest, and his own sisters.¹⁵⁹ He was ultimately forced to admit that he himself had downloaded and shared the material.¹⁶⁰ Therefore, at the end of testimony, the court partially granted Sony's motion for judgment as a matter of law holding that Tenenbaum was liable.¹⁶¹ The court left it to the jury to determine whether or not his violations were intentional and the amount of statutory damages.¹⁶²

The jury found that Tenenbaum willfully infringed the copyrights of plaintiffs.¹⁶³ The jury also returned a verdict for damages of \$22,500 per infringement, which resulted in a total damage award against Tenenbaum of \$675,000.¹⁶⁴ This award was within the range of § 504(c) of \$7,500 to \$150,000 per infringement.¹⁶⁵

Tenenbaum sought a new trial and a reduction of the jury award upon remittitur.¹⁶⁶ He claimed that, not only was remittitur appropriate, but that the award was excessive and violated due process.¹⁶⁷ The trial court reasoned that plaintiff would not agree to remittitur and, therefore, a new trial would ensue.¹⁶⁸ The court also reasoned that, therefore, the constitutional issue of excessiveness would still exist and so went directly to that issue finding that the award was excessive, violated due process, used an impermissible standard, and reduced the award from \$22,500 per infringement to \$2,250 per infringement.¹⁶⁹ All parties appealed the decision.

In pre-trial and post-trial motions and on appeal, Tenenbaum argued three propositions. First, he claimed that the Copyright Act is unconstitutional under *Feltner v. Columbia Pictures Television Inc.*,¹⁷⁰ where the Supreme Court held that the Seventh Amendment entitles a defendant to have a jury determine the amount of statutory damages, even though

157. *Id.*

158. *Id.*

159. *Id.*

160. *Id.*

161. *Id.* at 490.

162. *Id.*

163. *Id.*

164. *Id.*

165. *Id.* at 491.

166. *Id.*

167. *Id.*

168. *Id.*

169. *Id.*

170. 523 U.S. 340 (1998).

the statute stated that judges would make such a determination.¹⁷¹ Tenenbaum, therefore, contended that until Congress amends the statute, it is unconstitutional.¹⁷² The court dismissed his argument as waived because it had not been made at the trial court level. The First Circuit went on to state that even if the argument was properly preserved for consideration, many circuits have ruled that *Feltner* did not render § 504(c) unconstitutional.¹⁷³ This is because where the Seventh Amendment is applied to hold that a statute cannot deprive defendants of a right of jury, the Supreme Court has deemed that offending portions of the statute are inoperative while leaving the rest of the statute alone.¹⁷⁴

Tenenbaum's second argument was that consumer copiers are somehow immune from the operation of the Copyright Act.¹⁷⁵ Once again, the court found that Tenenbaum waived this argument by not properly preserving it at the trial court level.¹⁷⁶ The court went on to analyze his argument and found that there is no language within the act to support an interpretation that consumers are somehow exempt from the requirements of the act.¹⁷⁷

Finally, Tenenbaum argued that statutory damages are not available under the Copyright Act unless there is a showing of actual harm to plaintiff.¹⁷⁸ The court noted that there is nothing within the act that conditions the award of statutory damages upon proof of actual harm to plaintiffs.¹⁷⁹ The court also noted that Congress has set out specific exceptions to the Copyright Act and that, as a result, the rules of statutory interpretation mandate that the court must find that Congress intended no other exceptions except those that specifically have been set out.¹⁸⁰

Tenenbaum complained that Congress could not have contemplated that suits such as the instant suit would have been brought because the technology had not been developed at that time, and that such lawsuits had been rare in that copyright owners have usually litigated against the providers of new technology rather than the users of such technology.¹⁸¹ The court brushed this argument aside and stated that the past plaintiffs' choice of defendants does not control the interpretation of the law.¹⁸²

171. *Tenenbaum*, 660 F.3d at 491.

172. *Id.*

173. *Id.*

174. *Id.* (citing *Toll v. U.S.*, 41 U.S. 412 (1987)).

175. *Tenenbaum*, 660 F.3d at 497.

176. *Id.*

177. *Id.*

178. *Id.* at 502.

179. *Id.*

180. *Id.*

181. *Id.* at 500.

182. *Id.* at 501.

In reviewing all of Tenenbaum's arguments, the court stated: "None of these arguments has merit."¹⁸³

The court remanded the case to the trial court for consideration of statutory damages in light of the First Circuit's ruling that the statutory damage award was not unconstitutional. The First Circuit reinstated the jury's award of damages and ordered the trial court to reconsider common law remittitur based on excessiveness.¹⁸⁴

In 2010, the Supreme Court considered a suit brought by Omega S.A. against Costco Wholesale Corporation.¹⁸⁵ This suit involved the consideration of the First Sale Doctrine.¹⁸⁶ Costco had imported Omega watches and sold them in their stores even though it was not authorized to do so.¹⁸⁷ The legal argument turned on intricacies related to the place of origin of the watches and how this interacted with the Copyright Act and the First Sale Doctrine. The Supreme Court split in its decision and, therefore, left standing the Ninth Circuit's decision.¹⁸⁸ The Ninth Circuit had remanded the case to the trial court for reconsideration.¹⁸⁹

Upon further consideration, the trial court examined the genesis of the trademark at issue in the case. After Omega's authorized dealers complained of Costco selling Omega watches at discounted prices, Omega's legal department advised the company to attach a copyrighted design on the backside of the watches at the place of manufacture in Switzerland.¹⁹⁰ The engraved copyright design was about one-eighth of an inch in size and Omega did not publicize this to anyone.¹⁹¹

Omega based its suit on the violation of this copyrighted design. It alleged that Costco's purchase through a third party of these watches from distributors outside of the United States for resale within the United States violated the Copyright Act and was part of a gray market in such watches.¹⁹² Omega conceded that its copyrighted design was initiated to prevent the importation of such gray market watches.¹⁹³ Costco alleged that Omega's use of this copyright was violative of public policy and, therefore, alleged a misuse defense.¹⁹⁴

183. *Id.* at 496.

184. *Id.* at 515.

185. *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565 (2010).

186. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 985 (9th Cir. 2008).

187. *Omega S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716, at *1 (C.D. Cal. Nov. 9, 2011).

188. *See supra* note 191.

189. *Omega*, 541 F.3d at 985.

190. *Omega*, 2011 WL 8492716, at *1.

191. *Id.*

192. *Id.*

193. *Id.*

194. *Id.*

The court found the copyright design was simply an attempt to prevent importation and sale of its watches in the United States by gray market sellers such as Costco and that this was a misuse of the copyright in an attempt to maintain its monopoly.¹⁹⁵

While noting that copyright misuse had previously been limited to situations involving antitrust tying arrangements and restrictive licensing agreements, the trial court found that there could be other examples of such misuse.¹⁹⁶ Therefore, the trial court denied Omega's motion for partial summary judgment and granted defendant's motion for summary judgment and entered judgment in favor of defendant.¹⁹⁷

195. *Id.*

196. *Id.* at *2.

197. *Id.*