RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

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In this year's review, we examine the evolution of the law in the areas of patent, trademark, intellectual property insurance, and copyright. The courts continued to be very active in the area of intellectual property. These cases highlight the novel issues presented to courts in the last year as well as emerging trends in these areas.

I. PATENT CASES

A. *U.S. Supreme Court*

This was another active year for patent law jurisprudence by the U.S. Supreme Court. However, in a change from the recent past, the Court largely affirmed Federal Circuit rulings on the merits.

In *Global-Tech Appliances, Inc. v. SEB S.A.*,[1] the Court addressed the question of the level of proof of intent or knowledge required to support a finding of inducement of patent infringement under 35 U.S.C. § 271(b).[2] The involved patent infringement action was preceded by an earlier infringement action for enforcement of a food fryer patent owned by SEB against Sunbeam.[3] After settling with Sunbeam, the patent owner sued Sunbeam's foreign supplier for direct infringement and inducement of infringement under § 271(b).[4] The district court jury found in favor of plaintiff, and the trial judge denied defendant's motion for judgment as a matter of law. Defendant asserted that there was insufficient evidence to support the verdict because the supplier did not actually know of the patent until it received notice of the earlier Sunbeam lawsuit in 1998.[5] On appeal of that denial, the Federal Circuit affirmed, stating that induced infringement under 35 U.S.C. § 271(b) requires a showing that the alleged infringer knew or

1. 131 S. Ct. 2060 (2011).
2. *Id*. at 2065.
3. *Id*. at 2064.
4. *Id*.
5. *Id*.
6. *Id*. at 2064–65.

should have known that his actions would induce actual infringements and declared that this showing includes proof that the alleged infringer knew of the patent.[6] The Federal Circuit further held that, although there was no direct evidence that defendant knew of plaintiff's patent before it received notice of the prior suit against defendant's customer, there was adequate proof that defendant deliberately disregarded a known risk that plaintiff had a blocking patent. The court added that such disregard is not different from, but a form of, actual knowledge.[7]

Upon review, the Supreme Court affirmed, holding that the Court's own precedent in *Aro II*[8] regarding the level of intent and knowledge required for contributory infringement under § 271(c) also applied to § 271(b), and that inducement of infringement requires a finding that the alleged inducer knew that the induced acts constituted patent infringement.[9] The Court further held that a finding of "willful blindness" may support a finding of knowledge that the alleged acts constituted patent infringement, and that the evidence in this case supported a finding of willful blindness.[10] The Court noted that a finding of willful blindness would have "two basic requirements: (1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact."[11] The Court went on to find that, despite the Federal Circuit's application of the incorrect standard of "deliberate indifference," the jury could have easily found from the evidence that the supplier willfully blinded itself to the infringing nature of the sales it encouraged Sunbeam to make and therefore knew the induced acts constituted patent infringement.[12]

Microsoft Corp. v. i4i Limited Partnership[13] presented the Court with the question of how much deference should be given to the validity of a granted patent in the face of new evidence never before considered by the U.S. Patent and Trademark Office (USPTO) prior to the grant of the asserted patent. In this case, Microsoft was found liable for infringing a patent, the validity of which was challenged at trial in view of plaintiff's prior sale of a software product not previously described or considered by the USPTO examiner on the underlying patent application. At the district court, the jury found Microsoft willfully infringed and failed to prove

7. *Id.* at 2065.
8. Aro Mfg. Co. v. Convertible Top Replacement Co. (*Aro II*), 377 U.S. 476 (1964).
9. *Global-Tech*, 131 S. Ct. at 2068.
10. *Id.*
11. *Id.* at 2070.
12. *Id.* at 2071–72.
13. 131 S. Ct. 2238 (2011).
14. *Id.* at 2244.
15. *Id.*

invalidity by clear and convincing evidence.[14] On appeal to the Federal Circuit, the district court's denial of Microsoft's post-trial motions was affirmed.[15] On review, the Supreme Court held that an invalidity defense to a patent infringement claim must be proven by clear and convincing evidence, pursuant to 35 U.S.C. § 282, even when at least a portion of the evidence of invalidity was never considered by the USPTO in granting the asserted patent rights. The Court noted that when Congress prescribes the governing standard of proof, its choice controls absent "countervailing constitutional constraints."[16] Finding that Congress had made such a choice, and in the absence of countervailing constitutional constraints, the Court affirmed.[17]

Those interested in technology transfer, including universities and other research institutions, paid particularly close attention to *Board of Trustees of the Leland Stanford Junior University v. Roche Molecular Systems, Inc*.[18] There, the Court was confronted with the question of whether the Bayh-Dole Act automatically confers title to federally funded inventions in federal contractors or authorizes contractors to unilaterally take title to such inventions. Initially, Stanford sued Roche claiming that certain HIV test kits infringed Stanford's patents arising out of federally funded research.[19] Roche countered that it (through its predecessor in interest) co-owned the asserted patent rights, and that Stanford thus lacked standing to sue Roche for infringement.[20] The key inventor had signed assignments of rights with both Stanford and Roche's predecessor in interest, but the later assignment, made in exchange for access to the predecessor in interest's facilities, was phrased as a present assignment, while the earlier assignment to Stanford stated that the inventor "agree[d] to assign" his inventions resulting from his employment.[21]

On the question of whether the Bayh-Dole Act automatically confers title to federally funded inventions in federal contractors or authorizes contractors to unilaterally take title to such inventions, the Federal Circuit ruled that it does not.[22] On appeal, the Supreme Court affirmed, holding that the Bayh-Dole Act did not automatically confer title to federally funded inventions in federal contractors, or authorize those contractors to unilaterally take title to such inventions.[23] The Court stated that the Bayh-Dole Act "does not displace an inventor's antecedent title to his invention.

16. *Id*. (quoting Steadman v. SEC, 450 U.S. 91, 95 (1981)).
17. *Id*. at 2252–53.
18. 131 S. Ct. 2188 (2011).
19. *Id*. at 2193.
20. *Id*.
21. *Id*. at 2192.
22. *Id*. at 2194.
23. *Id*. at 2199.
24. *Id*. at 2197.

Only when an invention belongs to the contractor does the Bayh-Dole Act come into play."[24] Because the lower court found that the assignment of rights in the invention to Roche was a present assignment, and the earlier assignment by the same inventor to Stanford was only an agreement to agree in the future, Roche's claim of co-ownership took precedence, the Bayh-Dole Act did not automatically transfer ownership interests to Stanford even though the research was federally funded, and therefore Stanford did not have standing to bring suit. In view of this ruling, many universities and research institutions have by now reviewed, and where necessary revised, their standard inventor assignment templates to ensure such agreements explicitly provide for a present assignment of rights.

On June 27, 2011, the Supreme Court granted certiorari in the case of *Hyatt v. Kappos*,[25] which presents the issue 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 USPTO Board of Patent Appeals and Interferences decision regarding patentability of a claimed invention. The evidence at issue in this 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 USPTO director during the § 145 action. On review of the district court's grant of summary judgment for the director, the en banc Federal Circuit vacated the district court's ruling and remanded.[26] The court further held that § 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.[27] 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.[28] Judge Newman dissented in part, and Judge Dyk filed a dissenting opinion in which Judge Gajarsa joined. The Supreme Court decision is expected in 2012.

B. *Federal Circuit*

In *WiAV Solutions LLC v. Motorola, Inc.*,[29] the limits on the standing of patent licensees to sue for patent infringement were analyzed by the Federal Circuit. Under the facts of the case, six other entities had authority to grant licenses under the involved patents in plaintiff licensee's alleged exclusive

25. 625 F.3d 1320 (Fed. Cir. 2010), *cert. granted*, 131 S. Ct. 3064 (2011).
26. *Id*. at 1323.
27. *Id*.
28. *Id*. at 1331.
29. 631 F.3d 1257 (Fed. Cir. 2010).

field of use, and defendant moved to dismiss the action for lack of standing, alleging that plaintiff was not an exclusive licensee.[30] That motion was granted.[31] In a reversal of the district court, the Federal Circuit held that the federal district court retained Article III jurisdiction over a patent suit brought by a patent licensee, even though there were some limited rights retained by others to sublicense the patent rights within the allegedly exclusive field of use. The Federal Circuit noted that an exclusive license sufficient to confer Article III standing is one that confers in the licensee any of the exclusionary rights under the licensed patent.[32] Thus, the court held standing depends on "whether a party can establish that it has an exclusionary right in a patent that, if violated by another, would cause the party holding the exclusionary right to suffer legal injury."[33] The court found that a party can be considered an exclusive licensee for purposes of Article III standing if that party exclusively holds any of a patent's exclusionary rights.[34] The court further noted that such standing, when present, will be coterminous with the exclusionary rights held by that party, the exclusivity to be analyzed with reference to the rights possessed by the defendant.[35]

In another standing case, *Abraxis Bioscience, Inc. v. Navinta LLC*,[36] the court considered whether a nunc pro tunc assignment could be relied upon to establish standing after suit had already been filed. The district court held that it could.[37] On appeal, the Federal Circuit held that the historical documents involved in a prior transaction indicated the transfer was to take place in the future and did not provide an automatic transfer.[38] The curative nunc pro tunc assignment executed after suit was filed was of no effect because title did not reside with plaintiff on the day the suit was filed. The critical fact was that plaintiff lacked standing when it brought the suit.[39]

In the area of joint infringement, the Federal Circuit initially issued a panel opinion in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*,[40] but decided to rehear the case en banc on April 20, 2011. The question presented for briefing asks what circumstances give rise to direct infringement, and to what extent is the liability when separate entities each perform separate steps of a method claim.[41] In another case raising similar issues, *McKesson Technolo-*

30. *Id.* at 1262–63.
31. *Id.* at 1262.
32. *Id.* at 1266.
33. *Id.* at 1265.
34. *Id.* at 1267.
35. *Id.* at 1266.
36. 625 F.3d 1359 (Fed. Cir. 2010).
37. *Id.* at 1364.
38. *Id.* at 1366.
39. *Id.* at 1367.
40. 629 F.3d 1311 (Fed. Cir. 2010), *reh'g en banc granted*, 419 F. App'x 989 (Fed. Cir. 2011).
41. Akamai Techs., Inc. v. MIT, 419 F. App'x 989, 989 (Fed. Cir. 2011).

gies Inc. v. Epic Systems Corp.,[42] the Federal Circuit issued a panel opinion on April 12, 2011, but then granted rehearing en banc on May 26, 2011.

In *Akamai*, the defendant and the customer did not individually practice all method steps, and they did not have any agency relationship that could establish direct infringement by defendant.[43] In *McKesson*, the original Federal Circuit panel found no "control" existed in one party over all parties undertaking collectively all of the method steps. In the absence of direct infringement, no indirect (inducement) infringement could be found, and the summary judgment of noninfringement was affirmed.[44]

In the area of patent subject matter eligibility under 35 U.S.C. § 101 for patent claims relating to substances found in nature, the Federal Circuit in *Association for Molecular Pathology v. U.S. Patent & Trademark Office*,[45] held that claims directed to "isolated" DNA molecules were patent eligible under § 101, as the claimed subject matter was not considered merely a product of nature.[46] 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,[47] 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.[48]

The standard to be used in ascertaining inequitable conduct by an applicant or its counsel during patent prosecution continued to occupy the Federal Circuit in *Therasense, Inc. v. Becton, Dickinson & Co*.[49] The original trial court judgment addressed whether a U.S. patent in suit was invalid for inequitable conduct, arising out of failure to disclose statements made to the European Patent Office (EPO) during a revocation proceeding of the European counterpart to the patent in suit.[50] The district court found that statements made by the patent owner's predecessor in interest to the EPO were material under the USPTO Rule 56 standards, rather than on a "but-for materiality" standard. Upon rehearing en banc, the Federal Circuit affirmed in part, vacated in part, and remanded, holding that a misrepresentation or omission amounting to gross negligence or negli-

42. 2011 WL 1365548 (Fed. Cir. Apr. 12, 2011), *reh'g en banc granted*, 2011 WL 2173401 (Fed. Cir. May 26, 2011).
43. *Akamai*, 629 F.3d at 1320–22.
44. *McKesson*, No. 2010-1291 (Fed. Cir. Apr. 12, 2011), *vacated*, 2011 WL 2173401 (Fed. Cir. May 26, 2011), *available at* http://www.cafc.uscourts.gov/images/stories/opinions-orders/10-1291.pdf.
45. 653 F.3d 1329 (Fed. Cir. 2011).
46. *Id*. at 1354.
47. *Id*. at 1357.
48. *Id*. at 1355.
49. 649 F.3d 1276 (Fed. Cir. 2011).
50. *Id*. at 1285.

gence under a "should have known" standard does not satisfy the intent requirement necessary to prevail on a claim of inequitable conduct. The party seeking to show patent invalidity on account of inequitable conduct must prove by clear and convincing evidence that the applicant knew of the reference, knew that it was material, and deliberately withheld it.[51] Use of a sliding scale, where a weak showing of intent could be sufficient based on a strong showing of materiality, was rejected, abrogating the precedent of *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*[52] Moreover, the materiality of the information that was not disclosed must be proven to be such that a claim in the patent would not have been granted, but for the failure to disclose.[53]

Finally, in *TiVo Inc. v. EchoStar Corp.*,[54] on rehearing en banc, the Federal Circuit reconsidered the rules applicable to contempt proceedings in actions to enforce permanent injunctions arising out of previously filed patent infringement cases and a defendant's subsequent attempt to modify the product that gave rise to the initial infringement action. EchoStar had been found liable for infringement and permanently enjoined from making or selling the infringing products and "all other products that are only colorably different therefrom."[55] After post-judgment modification of the product by EchoStar, TiVo filed a contempt action against EchoStar to enforce the permanent injunction.[56] The Federal Circuit vacated the district court's ruling of contempt and remanded for further factual determinations, while also overruling its precedent regarding such contempt proceedings from *KSM Fastening Systems, Inc. v. H.A. Jones Co.*[57] The court held that the analysis of post-judgment product modifications should focus on the aspects of the accused product that were previously the basis for the prior finding of infringement, as well as the modified features of the newly accused product, and not on differences between randomly chosen features of the previously infringing product and the new product.[58] Rather, the focus must be on those elements of the previous product found to satisfy specific limitations of the previously asserted claims and found to be infringing.[59] Where one or more such features have been modified, the significance of that modification must be assessed.[60] If significant, the new

51. *Id.* at 1290.
52. *Id.* (abrogating *Am. Hoist*, 725 F.2d 1350 (Fed. Cir. 1984)).
53. *Id.* at 1292.
54. 646 F.3d 869 (Fed. Cir. 2011).
55. *Id.* at 877.
56. *Id.* at 878.
57. 776 F.2d 1522, 1530–32 (Fed. Cir. 1985).
58. *TiVo*, 646 F.3d at 882.
59. *Id.*
60. *Id.*

product as a whole will be more than colorably different from the previous product and will not form the basis for a finding of contempt.[61]

II. TRADEMARK CASES

The year 2011 has seen a variety of interesting cases addressing jurisdictional issues and standing. In particular, with the increasing expansion of online business and evolving changes in the online environment, we are seeing an increase in court cases straining to apply existing adaptations of conventional personal jurisdiction principles. The following is a summary of select cases in these areas.

A. *Jurisdiction*

1. Foreign Subject Matter

In *Levi Strauss & Co. v. AmericanJeans.com, Inc.*,[62] the U.S. District Court for the Northern District of California dismissed a claim arising under the trademark laws of the European Union brought by Levi Strauss & Co. and Levi Strauss & Co. Europe Comm. VA/SCA against AmericanJeans.com, Inc. and Steven Leigh. The court held that it lacked subject matter jurisdiction to hear the claim.

Levi Strauss brought suit to enforce trademarks it has registered in the United States and the European Union against AmericanJeans.com, which was engaged in the online sale of clothing products using, as alleged by Levi Strauss, "imitations" of Levi Strauss's trademarks that infringed and diluted Levi Strauss's trademarks. Levi Strauss further asserted that AmericanJeans.com resold Levi Strauss's goods in the European Union through "unauthorized channels of distribution."

The court stated that it would not be proper to define the "the legal boundaries of a property right granted by another sovereign" and then to determine whether that right had been trespassed.[63] The court said that the doctrine of comity dictated that the claim should be adjudicated by the sovereign whose law was at issue.[64] The court also said that it would not promote judicial economy to have the claim adjudicated by a U.S. court that lacked institutional competence.[65]

61. *Id.*
62. No. 5:10-CV-05340, 2011 WL 1361574 (N.D. Cal. Apr. 11, 2011).
63. *Id.* at *2.
64. *Id.* at *3.
65. *Id.*

2. Foreign Nonparty Entity

In *Gucci America, Inc. v. Weixing Li*,[66] Gucci America, Inc. and some of its affiliates sued a number of defendants, including a Chinese online retailer of imitation handbags, in the Southern District of New York for the online selling of counterfeit Gucci products. Gucci obtained a preliminary injunction against defendants. The preliminary injunction order not only enjoined the manufacture and sale of counterfeit products, but also required that a nonparty, the Bank of China, produce defendants' account information and freeze all of defendants' monies held at the bank, including monies held in China.

Gucci served the Bank of China's New York branch with a subpoena seeking defendants' financial information. However, the bank objected claiming that its New York branch did not have possession, custody, or control of information located in other offices. The bank also argued that the court lacked "authority to issue a pre-judgment extraterritorial restraint directed at assets held by a third party."[67] The court, however, rejected this argument.

The court held that it had authority under the Lanham Act to "freeze [a defendant's] assets insofar as they could be used to satisfy an award of . . . profits."[68] The court addressed the arguments regarding extraterritorial restraint by pointing out U.S. Supreme Court precedent for the proposition that "[o]nce personal jurisdiction of a party is obtained, the District Court has authority to order it to 'freeze' property under [the party's] control, whether the property be within or without the United States."[69] The court also noted that it is well established that U.S. courts have authority to apply the Lanham Act to infringing conduct occurring outside the United States to prevent harm to U.S. commerce.

66. No. 10 Civ. 4974, 2011 WL 6156936 (S.D.N.Y. Aug. 23, 2011).

67. *Id.* at *3.

68. *Id.* (alteration in original).

69. *Id.* at *4 (alterations in original). The court also did an analysis under Second Circuit case law for determining whether to order a party to produce documents in breach of a foreign country's laws. The factors weighed by the court included:

> (i) "the importance to the investigation or litigation of the documents or other information requested"; (ii) "the degree of specificity of the request"; (iii) "whether the information originated in the United States"; (iv) "the availability of alternative means of securing the information"; and (v) "the extent to which noncompliance with the request would undermine important interests of the United States, or compliance with the request would undermine important interests of the state where the information is located"[; and (vi)] "the hardship of compliance on the party or witness from whom discovery is sought [and] the good faith of the party resisting discovery."

Id. at *5 (second alteration in original) (quoting Restatement (Third) of Foreign Relations Law § 442(1)(c); Minpeco S.A. v. Conticommodity Servs., Inc., 116 F.R.D. 517, 523 (S.D.N.Y. 1987)).

3. Internet

In *Chloé v. Queen Bee of Beverly Hills, LLC*,[70] the Second Circuit reversed the New York district court's dismissal of a case for lack of personal jurisdiction over a California defendant. The issue was whether a single Internet sale and delivery of a handbag bearing plaintiff's mark was sufficient to support jurisdiction. The allegedly infringing handbag had been ordered by an employee of counsel for Chloé. The district court ruled that a single Internet purchase was insufficient to invoke jurisdiction. The Second Circuit, however, reversed on the basis that New York has a "single act statute" and that evidence of a single infringing act was sufficient to obtain jurisdiction over Queen Bee.[71] The Second Circuit also said that the requirements of due process were fulfilled because Queen Bee sold numerous other items to New York residents through its interactive websites, operated trunk shows in New York, and facilitated the shipment of goods into the state.[72]

In *Sharpshooter Spectrum Venture, LLC v. Consentino*,[73] the court sua sponte dismissed a trademark infringement suit for lack of personal jurisdiction where defendant failed to answer the summons and complaint, and plaintiff had filed a motion for default judgment. In *Sharpshooter*, a Colorado plaintiff brought claims for trademark infringement against a New York defendant in the District of Colorado. Defendant was a proprietor of a business located in New York. Plaintiff owned trademark registrations for the mark SHARPSHOOTER for portrait photography services. Defendant maintained the website www.sharpshootersphoto.com to advertise his photography services, which he apparently offered in New York, New Jersey, and Connecticut.

Defendant's website could be used to purchase and deliver prints to residents of Colorado by Internet users in that state. However, plaintiff was unable to demonstrate that defendant had ever been to Colorado, or that defendant had ever had a customer from Colorado. The district court determined that there was no general jurisdiction or specific jurisdiction over defendant.

According to the court, general jurisdiction could not be invoked under the sliding scale test of Internet activity set forth in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*[74] because, although Internet users could buy prints

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70. 616 F.3d 158 (2d Cir. 2010).
71. *Id.* at 170.
72. *Id.* at 166.
73. No. 09-cv-0150, 2011 WL 3159094 (D. Colo. July 26, 2011).
74. 952 F. Supp. 1119 (W.D. Pa. 1997). At the time this case was decided, the Tenth Circuit had not adopted the "sliding scale" test of Internet activity.

from defendant's website and have them delivered to a Colorado address, defendant had not deliberately engaged in commercial transactions with a substantial number of Colorado residents through the website on a sustained basis.[75] The court also determined that there was no specific jurisdiction under the Tenth Circuit's test[76] for specific jurisdiction because plaintiff had not demonstrated that defendant had "deliberately targeted or exploited" the Colorado market.

Although the record in this case did not appear to provide a reasonable basis for invoking personal jurisdiction, *Sharpshooter* also represents the challenge of invoking jurisdiction over foreign defendants that default because of the challenge of obtaining discovery on jurisdictional issues.

4. Single Trip to Forum State

In *Pangaea, Inc. v. Flying Burrito LLC*,[77] the court held there was no personal jurisdiction over defendant in the forum state (Arkansas) despite the fact that defendant had traveled to and met with plaintiff in the forum state for the express purpose of seeking plaintiff's consent to use the service mark at issue. Plaintiff had a U.S. registration for the service mark THE FLYING BURRITO COMPANY. Defendant was operating a restaurant in Iowa under the name "The Flying Burrito," which plaintiff claimed infringed its registered service mark. The court held that the infringement claims did not arise from or relate to the meeting the parties had in Arkansas.[78] The court reasoned that the alleged infringement occurred prior to the meeting and that the claimed injuries arose in Iowa, where defendant's alleged infringing activity took place.[79] Of note is the fact that defendant's customer base did not appear to overlap with plaintiff's customer base, presumably because of the location of defendant's restaurant.

Pangaea emphasizes direct connection between infringing conduct and a forum state to invoke specific personal jurisdiction. Thus, under *Pangaea*, contacts with the forum state relating to the claims may not be sufficient to invoke personal jurisdiction unless the claims actually arise from those contacts.

75. *Sharpshooter*, 2011 WL 3159094, at *4.

76. The Tenth Circuit considers at least three factors to determine whether Internet activity is sufficient to invoke specific jurisdiction, including whether a defendant "(1) directs electronic activity into the state, (2) with the manifested intent of engaging in business or other interactions within the state, and (3) that activity creates, in a person within the state, a potential cause of action cognizable in the state's courts." *See id.* at *5 (quoting Shrader v. Biddinger, 633 F.3d 1235, 1240 (10th Cir. 2011)).

77. 647 F.3d 741 (8th Cir. 2011).

78. *Id.* at 747.

79. *Id.*

5. Ordering USPTO to Refuse Registration of Mark

In *Wind Turbine Industries Corp. v. Jacobs Wind Electric Co.*,[80] plaintiff, Wind Turbine, sought to cancel defendant's U.S. trademark registration for the mark JACOBS WIND ENERGY SYSTEMS & DESIGN for wind energy products and requested that the court order the USPTO to refuse registration of defendant's application for the mark JACOBS for wind energy products. On cross-motions for summary judgment, the court found that Wind Turbine had provided adequate evidence to establish that Jacobs had abandoned its mark without any intent to continue its use.[81]

Under the express language of 15 U.S.C. § 1119,[82] a U.S. district court may order the cancellation of a trademark registration. Accordingly, the court ordered cancellation of the JACOBS WIND ENERGY SYSTEMS & DESIGN registration.[83] Furthermore, while acknowledging that the Eighth Circuit had not yet addressed whether § 1119 authorizes a court to order the USPTO to refuse registrations of a mark, the court noted that other courts had read § 1119 to grant U.S. district courts such authority.[84] The *Wind Turbine* court then held that § 1119 should be read broadly to authorize U.S. district courts to order the USPTO to refuse registration "when the registerability of the mark involved in the application is intertwined with existing registrations."[85] Accordingly, the court granted Wind Turbine's request for an order that the USPTO refuse registration of the mark JACOBS because of the direct connection between the trademark registration being cancelled and the JACOBS trademark registration application.[86]

In *Wind Turbine*, the close connection between the existing registration being cancelled and the application being refused registration was fairly apparent. Under different circumstances, however, where the nexus between existing registrations and pending applications is more tenuous, there may be room to argue that a court does not have authority to order the USPTO to refuse registration.

6. Settlement Agreement

In *Vraiment Hospitality, LLC v. Binkowski*,[87] plaintiff moved to have the case reopened to enforce a settlement agreement. Plaintiff wanted to have

80. No. 09-36, 2010 WL 4723385 (D. Minn. Nov. 16, 2010).
81. *Id.* at *15.
82. 15 U.S.C. § 1119 states in relevant part: "In any action involving a registered mark the court may determine the right to registration, order the cancelation of registrations, in whole or in part, restore canceled registrations, and otherwise rectify the register with respect to the registrations of any party to the action."
83. *Wind Turbine*, 2010 WL 4723385, at *10.
84. *Id.* at *11.
85. *Id.*
86. *Id.*
87. No. 8:11-cv-1240, 2011 U.S. Dist. LEXIS 108920 (M.D. Fla. Sept. 23, 2011).

an evidentiary hearing regarding defendant's failure to comply with the settlement agreement. The parties had previously notified the court of the settlement and the court had dismissed the case without prejudice. However, the order of dismissal had provided that the case could be reopened within sixty days for cause shown. Even though plaintiff filed the motion to enforce settlement within the sixty-day period, the court found that it had not retained jurisdiction over the settlement agreement and that if plaintiff wanted to enforce the settlement agreement it would have to seek relief in the state courts.[88] One of the factors mentioned by the court was that the terms of the settlement agreement had not been incorporated into the court's previous order.[89]

This case serves as a reminder to practitioners that if you want the court to retain jurisdiction over a settlement agreement, include the retained jurisdiction in a stipulated dismissal order that incorporates, at least by reference, the terms of the settlement agreement.

B. *Standing*

Pandora Jewelers 1995, Inc. v. Pandora Jewelry, LLC[90] involves application of the Eleventh Circuit's broad standard for standing under the Lanham Act to affirmative defenses. Under Eleventh Circuit case law, a false designation of origin claim may be brought under the Lanham Act by "any person who believes that he or she is or is likely to be damaged," including a nonexclusive licensee of a trademark.[91] Thus, nonexclusive licensees of a trademark are able to bring a § 43(a) Lanham Act claim asserting the rights of the licensor.

In *Pandora*, however, the issue was not bringing a claim under the Lanham Act, but rather defending a claim. Plaintiff moved to strike certain of the defendants' affirmative defenses by challenging defendants' standing as nonexclusive licensees to assert the defenses of their licensor, Pandora, LLC. But the court denied plaintiff's motion, holding: "Just as these Defendants, as licensees, would be permitted to use a Section 43(a) claim as a sword, these Defendants may use the equitable defenses, applicable to Pandora LLC, as a shield in defending the Plaintiff's Section 43(a) claim."[92]

The Eleventh Circuit's standard as applied in *Pandora*[93] provides licensees, whether they are bringing or defending an action, with broad discretion in exercising the rights and defenses of their licensor in Lanham Act cases.

88. *Id.* at *3.
89. *Id.* at *2.
90. No. 09-61490, 2010 WL 5393265 (S.D. Fla. Dec. 21, 2010).
91. *Id.* at *3.
92. *Id.*
93. The Third and Fifth Circuits also follow the standard used by the Eleventh Circuit to determine prudential standing.

III. Intellectual Property Insurance—*Interstate Bakeries Corp. v. OneBeacon Insurance Co.*

In *Interstate Bakeries Corp. v. OneBeacon Insurance Co.*,[94] the Western District of Missouri gave detailed attention to several provisions addressing the affirmative scope and grant of coverage for claims sounding in trademark infringement under personal and advertising injury liability coverage. First, the court examined whether allegations of use of, preparations to use, or an intention to use infringing trademarked phrases in advertising and promotional materials is sufficient to create a potentially covered occurrence despite actual evidence that no advertising was directed to consumers. Second, the court explored the circumstances under which claims sounding in trademark infringement, which are excluded by the policy, might nevertheless create a duty to defend because those allegations also set out facts supporting a claim for covered infringement of slogans. Third, the court addressed whether the same claims sounding in trademark infringement might give rise to a duty to defend for infringement of title.[95]

A. *Background*

Flowers Bakeries Brands sells bread products under the registered mark "Nature's Own."[96] Flowers brought suit against Interstate Bakeries Corp. (IBC) alleging that IBC improperly used the phrases "Nature's Pride" and "Nature's Choice" to advertise and promote its bread products.[97] IBC acknowledged that it used these phrases in trade customer brochures prepared and distributed by IBC to representatives of Walmart, Kroger, Target, and Safeway.[98] IBC provided the brochures to gain support from these national retailers for replacing an existing brand of bread products to market the new products to consumers.[99] The trade customer brochures were marked "confidential" and were not distributed to retail customers.[100] During the policy period, IBC did not sell bread products with packaging using these phrases and did not use the phrases in magazine advertisements, print media, coupons, broadcast media, outdoor media, or any other advertising directed at consumers.[101] IBC did create advertising storyboards using

94. 773 F. Supp. 2d 799 (W.D. Mo. 2011).

95. The decision also addresses several policy exclusions. *Id*. at 819–20. The court's analysis of the policy exclusions is not material to its treatment of occurrence, slogan, or title and so is not addressed in this discussion.

96. *Id*. at 802.

97. *Id*.

98. *Id*. at 805. IBC also prepared similar brochures for regional retailers, although it could not establish that those brochures were distributed to the smaller, regional retail outlets.

99. *Id*.

100. *Id*.

101. *Id*. at 805–06.

these phrases, but during the policy period the storyboards never left the confines of the advertising agency that was working to create them.[102]

Flowers learned of IBC's use of the accused phrases "Nature's Pride" and "Nature's Choice" and brought suit against IBC. Flowers alleged violations of state and federal trademark law, alleged that IBC's use of these phrases constituted unfair competition under the Lanham Act, and alleged unfair and deceptive advertising.[103] IBC sought a defense and indemnity from OneBeacon under an "advertiser's advantage" policy. The insurer denied the request. In its denial letter, OneBeacon stated that there were no allegations of infringement of "advertising" or of "scheduled advertising." The insurer stated that even if the pleadings did allege "advertising," exclusions for trademark infringement and deceptive trade practices precluded a defense or indemnity for those claims. IBC filed a coverage suit against OneBeacon. U.S. Magistrate Judge Sarah W. Hays ultimately denied IBC's motion for summary judgment that sought to establish OneBeacon's duty to defend.[104]

B. *Relevant Policy Language*

The insurer's policy provided coverage for an occurrence committed by IBC in "scheduled advertising" and "arising from 'infringement of title,' 'infringement of slogan' or related unfair competition or Lanham Act claims."[105] The policy defined an "occurrence" as "(1) the acquisition, creation and compilation of matter for advertising; and (2) the exhibition, dissemination or display of advertising through any medium."[106] The policy defined "advertising" in relevant part as "advertising, publicity, press releases or promotion of the insured's services or products,"[107] but did not define the word "slogan." The policy defined "title" as "the caption or name of matter" and further defined "matter" to mean, in summary, any communication, including advertising.

1. Allegations That IBC Used, Prepared to Use, and Intended to Use the Accused Phrases Were Sufficient to Establish the Possibility of an Occurrence

The insurer argued that IBC never advertised or made public use of the accused phrases and, therefore, there was no occurrence under the policy. The insurer pointed out that the trade brochures were not provided to consumers, but instead only to prospective retailers. The insurer argued

102. *Id*. at 806.
103. *Id*. at 804.
104. *Id*. at 822.
105. *Id*. at 807.
106. *Id*. at 808.
107. *Id*.

that an occurrence requires publicly focused activity, as shown by the words "exhibition," "dissemination," and "display" found in the policy's definition of occurrence.[108] It also argued that occurrence requires advertising and that advertising, as defined, also requires publicly focused activity, i.e., publicity, press release, or promotion. Highlighting the confidential markings on the trade brochures, the insurer argued that the brochures did not fit within the meaning of any of these terms and were neither public information nor available to the public at large. The insurer sought to characterize the brochures and the meetings with national retailers as a precursor to advertising or promotional efforts.[109] The insurer also argued that advertising, as defined, must be advertising of the insured's services or products. IBC admitted that during the policy period there was no product—only a prospective replacement product.

The court swept aside the insurer's evidence on this issue. It noted that, in the context of a motion for summary judgment to avoid the duty to defend, allegations in Flowers' pleadings that IBC used, made preparations to use, and intended to use the accused phrases were sufficient to establish an occurrence, at least for purposes of determining whether the insurer has a duty to defend.[110] The court stated that this is so even if the facts alleged in the complaint are untrue.[111] The court did not shed light on whether, at some point, sufficient evidence would cause the court to look beyond the pleadings and conclude that IBC's activities did not constitute advertising.

2. Allegations of Infringement of a Trademarked Name Were Not Sufficient to Allege Infringement of Slogan

The court next considered whether the complaint could be read to allege infringement of a slogan. The policy excluded coverage for claims alleging trademark infringement, but insured claims arising from "infringement of title or slogan."[112] In the context of the duty to defend, the court cannot simply look at how allegations in the pleadings are styled. It must consider whether the facts that are alleged might also establish a duty to defend.[113] Where the policy afforded coverage for infringement of slogan, the court considered whether the phrases "Nature's Pride" and "Nature's Choice" could be read as slogans.[114]

108. *Id.*
109. *Id.* at 809.
110. *Id.* at 809–10.
111. *Id.*
112. *Id.* at 811 n.6.
113. *Id.* at 807 ("If the complaint alleges facts that give rise to a claim that is potentially within the policy's coverage, the insurer will have a duty to defend." (citing Columbia Mut. Ins. Co. v. Epstein, 239 S.W.3d 667, 670 (Mo. Ct. App. 2007))).
114. *Id.* at 810–11.

The court began by looking to other reported cases for help in determining when words or phrases accused as infringing a trademark might also be construed as a slogan. First, it found guidance in the Sixth Circuit's *Cincinnati Insurance* case, which described a slogan as a "distinctive cry, phrase, or motto [or] catchword or catch phrase."[115] Allegations that the insured used such a phrase in advertising, therefore, were arguably allegations of slogan infringement and gave rise to a duty to defend.[116]

Second, the court examined the *Ultra Coachbuilders* case,[117] which found that "slogan" means a phrase that promotes a service or product, even if the slogan was also a trademark.[118] The court ruled that Ultra Coachbuilders was entitled to a defense even though the complaint pleaded only claims sounding in trademark infringement.[119]

Third, the court examined a recent Ninth Circuit decision, *Hudson Insurance Co. v. Colony Insurance Co.*[120] The Colony policy excluded coverage for trademark infringement but covered infringement of a slogan in All Authentic's (the insured's) advertising.[121] NFL Properties sued All Authentic for trademark infringement by selling jerseys reading "Steel Curtain" in lettering similar to that found on authentic Pittsburgh Steelers jerseys. The NFL did not allege slogan infringement.[122] The court found the purpose of the phrase "Steel Curtain" was to "promote fan loyalty" and that it served as a "brief attention-getting phrase used in advertising or promotion."[123] Therefore, it was a slogan.

Fourth and finally, the court analyzed the Second Circuit's *Hugo Boss* decision.[124] In *Hugo Boss*, the dispute concerned use of the word "BOSS" itself. The insured, Hugo Boss, and another divided rights to use the mark, and the other entity asserted that Hugo Boss exceeded its permissible scope of use.[125] The policy at issue excluded infringement of trademark, but covered infringement of "title or slogan."[126] Although the policy did not define slogan, the court held that slogan means "words or phrases used to promote

115. *Id.* at 811 (citing Cincinnati Ins. Co. v. Zen Design Grp., Ltd., 329 F.3d 546, 556 (6th Cir. 2003)).
116. *Id.* at 812 (citing *Cincinnati Ins.*, 329 F.3d at 557).
117. Ultra Coachbuilders, Inc. v. Gen. Sec. Ins. Co., No. 02-CV-675 (LLS), 2002 WL 31528474 (S.D.N.Y. July 15, 2002).
118. *Interstate Bakeries*, 773 F. Supp. 2d at 812–13 (citing *Ultra Coachbuilders*, 2002 WL 31528474, at *2).
119. *Id.* at 812.
120. *Id.* at 813 (citing Hudson Ins. Co. v. Colony Ins. Co., 624 F.3d 1264 (9th Cir. 2010)).
121. *Id.*
122. *Id.*
123. *Id.* at 814 (quoting *Hudson*, 624 F.3d at 1268).
124. *Id.* (citing Hugo Boss Fashions, Inc. v. Fed. Ins. Co., 252 F.3d 608 (2d Cir. 2001)).
125. *Id.* at 814 n.14.
126. *Id.* at 814.

particular products or product lines."[127] It drew a distinction between the "house" or "product" mark itself, and a phrase or series of words used to draw attention to those marks.[128] From this, the *Hugo Boss* court concluded, as a matter of law, that the word "BOSS" was a trademarked house name, and could not constitute a slogan used to promote a house or a product.

Returning to the case before it, the court held that the allegations concerning IBC's "Nature's Pride" and "Nature's Choice" could not be read to allege infringement of a slogan. The court determined that these phrases were more like the product name, as in *Hugo Boss*, and held that IBC was accused only of infringing the trademarked name of a product.[129] In fact, the district court felt that, at least based upon the facts before it, to read the IBC's phrases as covered slogans and not as excluded trademarks would render meaningless the policy's clear trademark exclusion.[130]

3. Coverage for "Infringement of Title" Does Not Include Infringement of a Trademark Where a Policy Definition Links Title to Advertising Matter

IBC argued that the underlying Flowers lawsuit also alleged infringement of title. The policy at issue afforded coverage for an occurrence in or for scheduled advertising and for claims arising from infringement of title.[131] The policy defined title as "the caption or name of matter" and further defined "matter" as "any communication, regardless of its nature or form, including . . . advertising."[132]

This first inquiry focused on Flowers' use of its own mark, Nature's Own. IBC argued that allegations from the underlying suit that Flowers markets its breads must mean that Flowers' promotional materials are captioned "Nature's Own" and, therefore, the underlying complaint should be read to allege that the Nature's Own mark is the "caption" or name of a communication.[133] The court, however, focused more on IBC's related argument that cover for infringement of title necessarily includes cover for infringement of trademark, and that title must be broadly construed to include the name of a product, not merely the name of a communication.[134]

The district court found, however, that the insurer's policy by its terms linked "title" to "matter," with the latter term defined as communications.

127. *Id*. at 815.
128. *Id*. at 814–15.
129. *Id*. at 816.
130. *Id*. at 815–16.
131. *Id*. at 807.
132. *Id*. at 816.
133. *Id*.
134. *Id*.

In light of this policy definition, the court agreed that a duty to defend based on infringement of title required allegations that "Nature's Own" is the title or caption of a communication, such as advertising, and not merely allegations that "Nature's Own" is a trademark.[135]

Absent this policy definition, however, the court may have reached a different result. The judge surveyed several cases construing policies that did not limit the term "title" to a communication. Those cases, by applying ordinary definitions to the undefined policy term, concluded that coverage may extend to a distinguishing name or a descriptive appellation, i.e., definitions similar to that of a trademark.[136]

IV. COPYRIGHT

The facts and circumstances of recent copyright cases have stretched the creativity of lawyers and the courts in fashioning appropriate remedies that work in a world with technology that changes on an almost daily basis. As the cases reported below demonstrate, courts work very hard to adapt prior law to new fact patterns and arguments.

A. *Google's Plan to Digitize Copyrighted Material*

In *Authors Guild v. Google, Inc.*, the Southern District of New York denied plaintiffs' motion for final approval of the amended settlement agreement (ASA) in a widely publicized case that clearly demonstrates the impact of technology on the rights of copyright holders.[137] With a great deal of fanfare, Google announced its plans to start digitizing the contents of the world's libraries in 2004. A group of authors and publishers filed a class action suit in 2005, alleging that the "company's plan to digitize millions of books in numerous libraries, and make them or 'snippets' of them available for on-line searching, violated the Copyright Act."[138]

After discovery, the parties began negotiations, which culminated in a proposed settlement agreement that received preliminary approval in November 2008. However, numerous objections were filed and the parties continued their negotiations, resulting in the modified settlement at issue in this case. The court rendered its opinion that the ASA was not "fair, adequate, and reasonable,"[139] despite the fact that "[t]he benefits of Google's

135. *Id.* at 817.
136. *Id.* at 816–17 (citing Acuity v. Bagadia, 750 N.W.2d 817, 826 (Wis. 2008) (finding duty to defend allegations of trademark infringement where policy neither defines "title" nor excludes coverage for trademark infringement); CGS Indus., Inc. v. Charter Oak Fire Ins. Co., 751 F. Supp. 2d 444 (E.D.N.Y. 2010) (finding duty to defend allegations of trade dress and trademark infringement under policy that covered advertising injury arising out of infringement of title, and did not define title; coverage also found for infringement of slogan)).
137. 770 F. Supp. 2d 666 (S.D.N.Y. 2011).
138. *Id.*
139. *Id.* at 686.

book project are many," including increased accessibility to "[l]ibraries, schools, researchers, and disadvantaged populations" and the preservation of older books, "many of which are falling apart buried in library stacks."[140] Nevertheless, the court found a number of major obstacles, including the complexity of the proposed settlement, copyright, and antitrust issues.

The ASA is 166 pages long, not including attachments, and contains 162 definitions, a fact drily noted by the court—"[t]he ASA is a complex document."[141] In brief, it would authorize Google to "(1) continue to digitize books and inserts, (2) sell subscriptions to an electronic books database, (3) sell online access to individual books, (4) sell advertising on pages from books, and (5) make certain other prescribed uses."[142] The ASA would also split revenues between Google and copyright holders. Google would allocate 70 percent of revenues to a registry that would distribute funds to copyright holders. If a copyright holder could not be located after five years, the funds would be used to cover the cost of locating copyright holders.[143] The ASA also provided for $45 million to be paid into a fund to compensate copyright holders for Google's actions prior to May 5, 2009.[144]

Copyright holders did retain several rights under the ASA, including the options available to (1) exclude their books from the uses under the ASA, (2) exclude their books from being digitized in the first place, (3) request removal of their books from the collection, and (4) retain the right to authorize others to use their books.[145] The ASA also would have treated in-print and out-of-print books differently. The copyright holder would have to explicitly authorize the display of in-print books. Out-of-print books have no such protection.

However, the ASA's treatment of copyright issues remained the core issue of the case: "Millions of the books scanned by Google, however, were still under copyright, and Google did not obtain copyright permission to scan the books."[146] The opinion notes that counsel for Google conceded that it had no defense to claims of copyright infringement for impermissibly copying and selling these books.[147] Most of the 200 objectors to the ASA contended that the plan would "violate existing copyright law" and "infringe on Congress's constitutional authority over copyright law."[148] The court agreed, noting that:

140. *Id*. at 670.
141. *Id*. at 671.
142. *Id*.
143. *Id*. at 672.
144. *Id*.
145. *Id*. at 671–72.
146. *Id*. at 670.
147. *Id*. at 679 n.11.
148. *Id*. at 673.

> Google did not scan the books to make them available for purchase, and, indeed, Google would have no colorable defense to a claim of infringement based on the unauthorized copying and selling or other exploitation of entire copyrighted books. Yet, the ASA would grant Google the right to sell full access to copyrighted works . . . even though Google engaged in wholesale, blatant copying . . . in calculated disregard of authors' rights. Its business plan was: "So, sue me."[149]

The court noted that the ASA granted relief that went far beyond the pleadings and would possibly contribute to a virtual monopoly by Google in certain types of search. The court also recognized the divergent interests of some class members, notably academics and commercial publishers.[150] Finally, the nature of the ASA concerned the court because, in direct opposition to "[a] copyright owner's right to exclude others from using his property," it required authors to opt out of its provisions.[151] The court further noted that Google would have a de facto monopoly over unclaimed works and rights to copyrighted material that no one else possesses.[152] For all of these reasons, the court denied the motion for final approval of the ASA.

B. Righthaven LLC v. Wolf

Companies overreaching by using copyrights for their advantage was also the theme of *Righthaven LLC v. Wolf*.[153] Righthaven LLC was a copyright holding company established in 2010 for the sole purpose of trolling the Internet looking for potential copyright violations by news aggregators and others who post excerpts (known as "snippets"), generally with links to the original source material. Copyright holders for the most part do not object to this practice because it drives interested users to their own websites. However, Righthaven was able to solicit business from some copyright owners by convincing them that it would be more effective in winning cases involving snippet posting. To effectuate the plan, the copyright holder assigned its right to sue to Righthaven for the sole purpose of making demands upon and suing alleged violators. Righthaven took no other rights and then reassigned its rights to the original holder to the extent that the original assignment in any way diminished the original holder's rights to fully exploit the copyrighted works.

Righthaven quickly became notorious for sending cease and desist letters to companies all over the United States and reportedly filed fifty-seven lawsuits alleging copyright infringement.[154] Its business plan seems to have

149. *Id.* at 678–79 (footnotes omitted).
150. *Id.* at 679.
151. *Id.* at 681 (citing Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932)).
152. *Id.* at 682.
153. No.1:11-cv-00830-JLK, 2011 WL 4469956 (D. Colo. Sept. 27, 2011).
154. *Id.* at *1.

been driven by the thought that most targets would settle quickly rather than incur the costs of litigation. Unfortunately for Righthaven, some targets chose to fight, including Leland Wolf, who had uploaded a *Denver Post* photograph of an "enhanced" search by a Transportation Safety Administration employee.[155]

In *Righthaven*, Wolf brought a motion to dismiss, arguing that Righthaven lacked standing to bring copyright claims that were "assigned" to it. The District Court of Colorado converted the motion to dismiss into a motion for summary judgment and proceeded to rule on that basis. The court noted that Righthaven had ample notice that the motion would be taken up as a Rule 56 summary judgment and that the parties had supplied sufficient evidence to allow the court to rule.

Wolf's basic contention was that the copyright holder, Media News Group, Inc., "did not assign Righthaven any cognizable copyright interest in the work at issue."[156] Righthaven's claim for infringement was based upon 17 U.S.C. § 501, which states, "the legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it."[157]

The court then examined the purposes of copyright law and the evolution of the concept of beneficial ownership of a copyright. First, copyright law "necessarily balances the derivative goal of rewarding the creative labor of authors of original works with the primary goal of promoting further creativity."[158] Second, the law originally "prohibited the assignment of anything less than the entire copyright."[159] This doctrine of "indivisibility" was modified by the commercial reality that works were being used in many different media, and copyright was becoming a bundle of rights that could be split and sold separately. Given this evolution, courts carved out exceptions to the indivisibility doctrine, recognizing that owners that had assigned some of their rights were still entitled "to sue infringers should the assignee fail to do so."[160] The Copyright Act of 1976 expressly allowed for the assignment of differing rights and for all legal copyright owners to sue for infringement.

Against this backdrop, the court analyzed the arrangement between Righthaven and Media News Group, Inc. The agreement gave Righthaven only "the right to proceeds in association with a Recovery."[161] The

155. *Id.*
156. *Id.* at *3.
157. *Id.*
158. *Id.* at *4.
159. *Id.*
160. *Id.* at *5.
161. *Id.* at *7.

agreement also provided that to the extent the assignment to Righthaven to sue infringers is deemed to diminish Media News Group's right to exploit the copyright, Righthaven assigned back its rights to the greatest extent possible.[162]

After concluding that the assignment to Righthaven was "meaningless" and "ineffectual,"[163] the court found that Righthaven did not have standing to bring suit since it was neither a legal nor a beneficial owner.[164] The court also ordered Righthaven to pay all of Wolf's defense costs.[165] In November 2011, a federal judge for the District of Nevada ordered U.S. Marshalls to seize $64,000 in Righthaven assets to pay the legal fees in another case.[166]

C. Costco Wholesale Corp. v. Omega, S.A.

The U.S. Supreme Court rendered a per curiam decision in *Costco Wholesale Corp. v. Omega, S.A.* in December 2010.[167] Justice Kagan took no part in the decision, and the remaining justices split four to four. Although the Ninth Circuit decision stands, it will not change the law in the other circuits because of the split. Beyond this interesting appellate point, the underlying case dealt with an issue that is very relevant to manufacturers and retailers in an increasingly global marketplace.

At issue were genuine Omega watches that had been manufactured overseas and sold by Omega to authorized foreign distributors. Later, Costco obtained the watches through third parties and resold them in the United States without Omega's permission in a practice known as gray market selling. Many manufacturers have strict rules forbidding such gray market sales.

In response to Omega's suit, Costco raised the first sale defense. The district court considered the parties' cross motions for summary judgment and ruled in favor of Costco without providing its rationale. The Ninth Circuit reversed. In its decision, the Ninth Circuit examined the first sale doctrine under the facts of the case and determined whether the Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*[168] mandated that the court overrule Ninth Circuit precedents.

With the Copyright Act of 1976 as a departure point, the court set out the relevant portions of the statute as §§ 106(3), 109(a), and 602(a). The court focused on § 109 and noted that this section provides that the copyright

162. *Id.*
163. *Id.*
164. *Id.* at *7–8.
165. *Id.*
166. *Court Orders Law Firm's Assets Seized*, UPI.com Nov. 2, 2011 (/), http://www.upi.com/Business_News/2011/11/02/Court-orders-law-firms-assets-seized/UPI-78221320277815/.
167. 131 S. Ct. 565 (2010).
168. 523 U.S. 135 (1998).

holder lost his right to control distribution of his article once he sold it. The twist in *Costco* was that the copyright was registered in the United States but the watches were manufactured in Switzerland and thus were not lawfully made in the United States within the meaning of the Act. Costco admitted that prior Ninth Circuit precedent would eliminate its first sale defense, but the *Quality King* decision called for the opposite result and overruled precedent from the Ninth Circuit.

The Ninth Circuit stated, "It is clear that *Quality King* did not directly overrule [its precedent]. *Quality King* involved 'round trip' importation."[169] Round-trip importation occurs when the article is manufactured within the United States, shipped outside the country, and reimported without the copyright holder's permission. This distinction was crucial, according to the Ninth Circuit.

Turning to whether *Quality King*'s mode of decision would overrule its precedent, the Ninth Circuit came to the conclusion that to countenance the use of the first sale defense would be an impermissible application of the Act in an extraterritorial manner and cited an illustration from *Quality King* to make its point.[170] The Supreme Court had posited a fact pattern where a book was properly published in a U.S. edition, printed in the United States, and a British edition was printed in England. The publishers were fully authorized to distribute their editions in their respective nations. However, "only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)."[171] Thus, the Ninth Circuit said the example meant that the phrase "lawfully made" referred only to U.S. copies.[172] The court also noted that Justice Ginsburg in her concurrence quoted a treatise to the effect that the phrase "lawfully made" means made within the United States.[173]

The net result of the Ninth Circuit decision and the Supreme Court's split per curiam affirmance is that the first sale doctrine is not a valid defense in the Ninth Circuit where the item in question was manufactured outside the United States.

169. Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 987 (9th Cir. 2008).
170. *Id*. at 988.
171. *Id*. at 989 (quoting *Quality King*, 523 U.S. at 148).
172. *Id*.
173. *Id*.