

# DECISIONS & DEVELOPMENTS

By Joseph S. Iandiorio, Patent Attorney • 260 Bear Hill Road, Waltham, MA 02451 • Rte 128 near Mass. Pike • (781) 890-5678

Patents • Trademarks • Copyrights • Trade Secrets • Antitrust • Government Contracts • Licensing • Litigation

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## HAULED INTO COURT IN MONTANA BECAUSE OF A WEBSITE IN MASSACHUSETTS?

There is now a fair size body of law surrounding whether jurisdiction over a company in a distant courthouse is proper on account of the company's website. Many courts now use a sliding scale analysis depending on the level of interactivity through the website. One end of the sliding scale is the situation where a company's website is highly commercial and product sales are made via the website. Jurisdiction in any court over a company operating such a website is normally proper. At the other end of the scale are passive websites which are primarily a source of information only. In such a case, jurisdiction over a non-resident company would not normally meet due process requirements. The middle ground is occupied by somewhat interactive websites where a user can exchange information with the website owner. This middle ground was at issue in the case of Bible & Gospel Trust v. Wyman, 354 F. Supp. 2d 1025 (D. Minn.) where the defendant's website did not allow business to be conducted but did allow users to post and respond to messages, to sign a guest book, and to communicate with other visitors via the website. In such a case, some courts next apply an "effects test", i.e., was the focal point of the website directed at forum state residents? If not, and such was the situation in the Bible & Gospel Trust case, jurisdiction would not be proper.

## GRIPE SITE OK

On the domain name front, WIPO let stand Lamar Sneed's domain name "fidelityinvestmentsfraud.com" over the objections of Fidelity Investments (FMR, Corp., Boston, MA). Sneed alleged he lost millions of dollars due to Fidelity's mishandling of his retirement account. On his website, Sneed posted his story, discussed a NASD arbi-

tration involving his case, and also an SEC investigation into Fidelity. Fidelity sought to have Sneed's domain name transferred to it but WIPO held "gripe sites" like Sneed's are allowed under the Uniform Domain Name Dispute Resolution Policy and the First Amendment. FMR Corp. v. Native American Warrior Society, 2005 WL 774974 (WIPO).

## STEP-MOM IS NOT THE OTHER WOMAN

Nancy Silvers wrote the script of the made-for-television movie "The Other Woman" and sued Sony Pictures alleging its movie "Stepmom" was substantially similar to "The Other Woman". Sony contended that Silvers did not have sufficient rights in the copyright of "The Other Woman" to sue. The copyright in "The Other Woman" was held by Frank & Bob Films as a work for hire. Frank & Bob Films granted Silver an "assignment of claims and causes of action". The lower court held that that assignment gave Silvers standing in the Sony action as did a panel of the 9<sup>th</sup> Circuit. En Banc, however, and over a vigorous dissent, the 9<sup>th</sup> Circuit held that Silvers lacked standing since Silvers held no real copyright rights. Silvers v. Sony Pictures Entertainment, Inc., 402 F. 3d 881 (CA 9).

## TRADEMARKS: FIRST IN TIME, FIRST IN RIGHT

Trademarks are first in time, first in right even if the party who uses the trademark second in time secures a federal registration. Watec Japan advertised its "Watec" security cameras in the United States before June of 1990. The US distributor of the Watec brand cameras, Watec America, later sold Watec Japan's cameras and secured a federal registration for "Watec" in its own name and subsequently sold non-Watec Japan products under the Watec brand. Because of the first in time, first in right principle,

however, Watec America's conduct was trademark infringement. Watec Co., Ltd. v. Liu, 403 F. 3d 645 (CA 9).

## TAX AVOIDANCE PROBLEM

Why do some litigants mess around in discovery? In one case where millions of dollars was at stake, Schreiber Foods, Inc. owned a patent useful in the food processing industry and sued Kustner Industries and others for patent infringement. Then Schreiber assigned the patent to its subsidiary as part of a tax avoidance scheme. The subsidiary licensed the patent back to Schreiber. At that point in time, Schreiber, as a mere patent licensee, did not have constitutional standing to sue for patent infringement. Meanwhile, Kustner asked Schreiber in discovery for "[a]ll documents concerning any negotiations for assignments, licenses, or security interests in" ... the patent in suit. Schreiber objected on the grounds of attorney-client privilege and then responded, "Schreiber is not aware of any such documents". Schreiber Foods, Inc. v. Beatrice Cheese, Inc., 402 F. 3d 1198, 1200 (Fed. Cir.).

The Jury then found Kustner liable for patent infringement and assessed damages at \$26M. Thereafter, the Schreiber's subsidiary reassigned the patent back to Schreiber. Following some post trial motions and an appeal, Schreiber ultimately won over \$15M in damages. Then, however, Kustner learned of the patent assignment and moved to dismiss the judgment. The district court granted that motion but on appeal the Federal Circuit let Schreiber have a new trial.

## MRI PATENT DISPUTE

Ever had an MRI? Here's what happens:

In the MRI process, a portion of the patient's body is placed in an extremely strong magnetic field. The magnetic field causes the nuclei within the atoms of the body to partially align with the magnetic field in equilibrium. The partial alignment of the nuclei creates a net magnetization within the body in the direction of the magnetic field. A second, time varying, magnetic field is then created in an orthogonal direction by applying electrical current in pulses to RF coils that surround the body. The second magnetic field drags the net magnetization of the body away from the direction of the main magnetic field. According to the laws of quantum mechanics, the affected nuclei, and thus the net magnetization, will precess around the direction of the main magnetic field at a rate known as the Larmor frequency, before dephasing and eventually realigning with the main magnetic field... The precession induces a current in the RF coils, which can be measured. That signal can then be used to reconstruct an image of the internal tissues of the portion of the patient's body that was under

study. Medrad, Inc. v. MRI Devices Corp., 401 F. 3d 1313, 1315 (Fed. Cir.).

Medrad held a patent for an MRI machine and patent claims regarding the application of a "substantially uniform" magnetic field. Medrad sued MRI Devices Corp. for patent infringement. At issue was what was meant by "substantially uniform": the *same* throughout or just substantially the same. MRI Devices argued that "substantially uniform" means the same throughout because the Federal Circuit previously held that way in an earlier different patent case involving a detergent. The Federal Circuit, however, was not persuaded: "the use of a term in a patent on a detergent is of little relevance to the use of a similar term in a patent on MRI RF coils". Id. at 1319.

## EVACUATE MEANS WHAT?

As you can probably ascertain from the above decision, patent claim construction is a large part of patent infringement trials. ASM America, Inc. has a patent for an atomic layer deposition method wherein reactants, after they are applied to a semiconductor device, must be removed. There are two ways to remove the reactants: they can be sucked out using a vacuum pump or pushed out using inert gases. The accused patent infringer, Genus, Inc. used the second method. ASM's patent claims utilized the term "evacuate" with respect to the removal of the reactants but, since ASM's patent only referred to the first method, ASM's claimed "evacuation" step covered only the sucking out and not the pushing out method. ASM America, Inc. v. Genus, Inc., 401 F. 3d 1340 (Fed. Cir.).

## FORM OVER SUBSTANCE?

Under certain government contracts, a business can retain patent rights for inventions funded by the government – provided the company complies with certain government reporting requirements. Campbell Plastics received an Army contract in 1992 to develop certain components of an aircrew gas mask. Ultimately, Campbell Plastics obtained a patent on its mask but it never filled out the correct form (DD form 882) notifying the Army that Campbell intended to retain patent ownership. Campbell did, however, send its patent application to the Army. Still, since Campbell failed to fill out the correct form, the Government was able to take title to Campbell's patent. In a battle over form versus substance when dealing with government contracts, be careful: form can win. Campbell Plastics Engineering & Mfg. Inc. v. Brownlee, 389 F.3d 1243 (CA)

## eBAY STILL ON THE HOOK

A district court awarded over \$30M to MercExchange, LLC when eBay and its subsidiaries “fixed price purchasing feature” was found to infringe Merc’s intellectual property. The Federal Circuit has now reviewed that decision and, in brief, held eBay infringed one Merc patent, found another of Merc’s patent invalid, and remanded the case regarding an injunction concerning a third Merc patent. MercExchange, LLC v. eBay, Inc., 401 F 3d 1323 (Fed. Cir.).

## NO REGISTRATION FOR GENERIC TRADE-MARK

Can you guess what a “candy bouquet” is? If so, “candy bouquet” is probably not protectable as a trademark because it is generic. Finding numerous prior instances where “candy bouquet” referred to a gift package of candy, the USPTO denied an attempt at federal registration for the generic mark “candy bouquet”. In re Candy Bouquet International, Inc., 2004 WL 2202265 (TTAB).

## PROPOSAL NOT A BAR TO PATENT

If you sell or offer for sale or otherwise make public an invention more than one year before a patent application is filed, any resulting patent is invalid under the so-called “one year bar”. 35 U.S.C. §102. Hence the patent maxim: file early, file often. Sparton Corp. proposed a new sonobuoy (use to detect and locate enemy submarines) to the Navy on March 17, 1971 but did not file a patent application until March 29, 1973. When U.S. government used Sparton’s patented sonobuoy without a license, Sparton sued for patent infringement. The Government countered with an invalidity defense based on Sparton’s March 17, 1971 proposal more than one year before Sparton filed its patent application. Because, however, Sparton’s proposal to the Navy did not discuss the patented invention, the Government’s invalidity defense failed. Sparton Corp. v. United States, 399 F. 3d 1321 (Fed. Cir.).

## EXPERIMENTAL USE NOT A BAR TO PATENT

A related case involves an exception to the one year bar – experimental use. Lisle Corp delivered a prototype tool to mechanics at four different automobile repair shops on December 12, 1989 and then, 30 months later, filed a patent application for the tool. After the patent issued and Lisle Corp. sued A.J. Manufacturing Co. for patent

infringement, A.J. countered with the one year bar invalidity defense. Because the prototype tools used by the mechanics could be deemed an experimental use, A.J.’s defense failed. Lisle Corp. v. A.J. Mfg. Co., 398 F. 3d 1306 (Fed. Cir.)

## GENERIC DRUG DEAL NOT ANTICOMPETITIVE

Can you pay someone not to enter the market with a particular product without violating the antitrust laws? Perhaps, but you have to be careful. Schering-Plough has a patent for its high blood pressure medicine “K-Dur 20” – a potassium supplement. A generic drug manufacturer then sought to enter the market with a generic version of the supplement before Schering’s patent expired in 2006. Schering sued the generic and the parties ultimately settled by an agreement whereby the generic would delay entry of its competing drug and Schering would pay to license other patents of the generic drug manufacturer covering a different drug. The FTC found Schering’s settlement agreement with the generic was anticompetitive. The 11<sup>th</sup> Circuit in March set that finding aside and agreed to review the FTC decision stating “[s]imply because a brand-name pharmaceutical company holding a patent paid its generic competitor money cannot be the sole basis for a violation of antitrust law...we fear and reject a rule of law that would automatically invalidate any agreement where a patent-holding pharmaceutical manufacturer settles an infringement case by negotiating the generic’s entry date, and, in an ancillary transaction, pays for other products licensed by the generic. Such a result does not represent the confluence of patent and antitrust law.” Schering-Plough Corp. v. Federal Trade Commission, 402 F. 3d 1056, 1076 (11<sup>th</sup> Cir. 2005). Stay tuned.

## PROPOSED PATENT LAW CHANGES

Almost every year, someone attempts to change the patent laws and this year is no different. Congressman Lamar Smith (R-TX) has introduced a bill called the “Patent Reform Act of 2005” which, if enacted, would significantly change the patent landscape.

- Perhaps most significantly, the Act would change the United States’ “first to invent” system to a “first to file” system. Presently, if company 1 files a patent application before company 2 but company 2 can prove it invented the subject matter before company 1, company 2 gets the patent; not company 1. This is not the case in any other country – the first to file gets the patent in all foreign countries irrespective of the date of invention. The reason for our present first to invent system is small businesses, because of budget constraints, cannot always rush to the Patent Office in the way larger companies can. Still, the

current procedure by which the first inventor is determined is arcane, complex, and often expensive. So a “first to file” system can be easier to administrate but may also adversely affect smaller businesses and independent inventors.

- It is not currently permitted to hold back, in a patent, any pertinent information concerning the best way to make and use the invention. This “best mode” requirement ensures the public is provided with all the details it needs to exploit the patented invention once the patent expires. Under the proposed law, there would be no “best mode” requirement in patents.

- Patentees have to be honest with the Patent Office when they seek patents. If the patent is later involved in a lawsuit, the accused infringer can raise a defense that the patent owner misled the Patent Office or otherwise withheld relevant information. But, critics have charged that such a “fraud on the Patent Office” defense increases the cost of patent litigation and is too regularly used by defendants who themselves stretch the facts in an attempt to put the patent in jeopardy. Under a proposed change to the law, the court would refer any “fraud on the Patent Office” defense to the Patent Office itself, fines can be levied in cases of misconduct, it will generally be more difficult to prove fraud, and, if you fail, you can be fined. The new Act also proposes pre- and post-patent grant opposition mechanisms for contesting the validity of a patent similar to the procedures allowed in many foreign countries.

- The holy grails in a patent infringement action, from the perspective of the patent owner, are an injunction prohibiting the competitor from selling the infringing product pending a full trial on the merits and a trebling of the damages in a case where the infringement was found to be willful. Under the proposed new law, willful infringement is severely limited to the most egregious types of cases and injunctive relief would rarely be granted. That’s good news for companies who face patent holding companies in court. But, a small company with a patent protecting a key product will now have less leverage against a large company which decides to knock-off the small company’s product.



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landiorio & Teska  
260 Bear Hill Road  
Waltham, MA 02451