NYSBA

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# Bright Ideas

A publication of the Intellectual Property Law Section
of the New York State Bar Association

## Message from the Chair

**Kelly M. Slavitt**

Twenty Years, Man. Twenty Years. For John Cusack and Gross Pointe Blank fans, you will know exactly what I mean. It seems unbelievable that the IP Law Section is celebrating its 20th anniversary this year. To celebrate this accomplishment, we threw ourselves a party.

For those of you who attended the 20th Anniversary Gala celebration, you know it was a wonderful tribute to all the Section has accomplished. Held at Gotham Hall, the Gala was a sit-down dinner with a jazz band led by an IP attorney, complete with photos from the past 20 years, the current New York State Bar Association President Seymour James and past President Bernice Leber, and a parade of previous speakers, law student writing competition winners, Committee Co-Chairs, and Section Chairs. Our founder, Rory Radding, gave a wonderful speech, during which he read parts of his speech at the very first Section meeting and was presented with a gift from the Section. From start to finish, the event was a complete success.

Because the Gala was being held in Manhattan, we moved the Fall Meeting downstate for the first time. The theme of the meeting, co-chaired by Rory Radding and Chair-Elect Charles Weigell, was "Intellectual Property Law and Policy—At the Fringe and Into the Future." Topics included timely issues such as the state of the IP world, predictive coding in e-discovery / forensics, the recent USPTO request for comments on how to address trademark bullying, ethical issues being played out in litigation, cross-border IP enforcement, design patents, and unlocking the value of IP. It was a fine tribute to the Section's programming and speakers that on the second day of the conference, on a Saturday in Manhattan, the room was full.

## Inside



Special Section: Celebrating 20 Years of the Intellectual Property Law Section

NYSBA

Also celebrating the 20th anniversary is the Section's newsletter / journal *Bright Ideas*, which features peer-written, substantive articles about current issues in intellectual property law, recent cases, and updates on Section programs. Over the years, I'm sure you'll agree that the quality of the content has been consistently excellent—due to its outstanding editor, Jonathan Bloom.

With the Fall Meeting behind us, we're planning our full day of programming at the Annual Meeting on January 22, 2013. The theme of the meeting will be "Judicial and Legal Activism and Their Impact on the Practice of IP Law," and many of the topics will address how protecting and enforcing intellectual property has changed in light of judicial decisions and legislation.

Chief Judge Randall R. Rader of the Court of Appeals for the Federal Circuit will deliver the keynote address. Our sessions will cover a variety of timely issues, including: branding and rebranding; fashion design litigation and legislation; joinder, venue, consolidated trials, and multi-district litigation; ethics of business development in the digital age; advertising; and judicial activism in damages. Our stellar roster of speakers includes Southern District Judge Katherine Forrest, former Eastern District of Texas Judge David Folsom, Margaret Walker from Xerox, Fordham Law School professor Susan Scafidi, and private attorneys who litigated some of the high-profile cases that will be discussed. Book now at www.nysba.org. As always, we will host a Young Lawyers reception at the end of the CLE program to continue our recruitment and mentoring.

Another tradition is the Section's involvement in the Diversity Reception, where we host a table to promote our diversity efforts. Our outreach is substantial, and our elected leadership reflects this: three of our four current elected officers are women; yours truly, Treasurer Sheila Francis Jeyathurai, and Secretary Erica Klein.

By keeping pace with what's important to our members, we recently were able to increase our membership to over 2,000 members. The Section has been steadily growing for many years, and I am promoting two new initiatives during my term as Chair to continue this trend.

First, I am promoting the importance of our fifteen committees: Copyright Law, Diversity Initiative, Ethics, Greentech, In-House Initiative, International Intellectual Property Law, Internet and Technology Law, Legislative / Amicus, Litigation, Patent Law, Pro Bono and Public Interest, Trade Secrets, Trademark Law, Transactional Law, and Young Lawyers. The expertise each Committee brings is what keeps our Section strong and is a good way for members to get to know each other in a small setting. Each Committee is taking turns hosting our monthly Executive Committee and updating us on the law in their area as well as on the events they are planning. The Chair of the Diversity Initiative hosted our first meeting, and the Greentech Committee hosted our second.

Our first Committee event was the Greentech Committee event on October 15. Nicholas Querques, Assistant Vice President for Clean Energy Programs for the College of Nanoscale Science & Engineering, University at Albany, gave an update on the New York State clean energy boom.

On October 23 we held a pro bono clinic at the New York Foundation for the Arts. Since the Committee was formed five years ago by special amendment to the By-Laws, we have hosted several events with the Entertainment, Arts and Sports Law Section to serve the Pro Bono and Public Interest Committee by assisting with IP and entertainment advice for artists and small businesses. We are also working on other events to take advantage of New York becoming a tech epicenter.

A calendar of our many events, including Committee events, will be posted on our website shortly, and new events will be added regularly. Please check the website for updates—www.nysba.org / IPL. A project by the Section's Fellowship winners, Itai Maytal and Lee Pham, is under way to update the Section's website and social media presence, and they will be sending a survey soon to ask for your input on what would best serve your needs.

My second initiative is the In-House Initiative. As someone who went in-house after five years at large law firms in the U.S. and abroad, I recognize firsthand the importance of relationships between in-house counsel and outside law firms. As a woman and former non-profit employee, I also recognize firsthand the importance of diversity in the membership of the New York State Bar Association—which includes a mix of lawyers from law firms, in-house, government, academia, and non-profits. So I created this initiative with the goal of promoting new relationships, membership, and diversity. Our Committees generally have two Co-Chairs, and our goal is to have one law firm practitioner and one in-house attorney. Most of our CLE panels have a diverse member and / or in-house attorney, and our goal is for all panels to have this. Watch for an announcement of the kickoff event directed at in-house attorneys, and please be a part of this important Initiative.

I hope I've been able to make my case why now is the time to get involved or to get more involved. Send me an email at kelly.slavitt@rb.com letting me know your area of interest. We'll happily find a way to get you involved.

**Kelly M. Slavitt**

# Message from the Editor

The Intellectual Property Law Section marked its 20th anniversary in 2012 with, among other things, an elegant gala dinner celebration at Gotham Hall in New York City, timed to coincide with the Section's Fall Meeting. The remarks delivered at the dinner by Founding Chair Rory Radding evoked the stunning developments in technology since the Section's founding—notably the emergence of the Internet—and the commensurate developments in the practice of IP law as courts and legislatures have grappled with these as well as other less technology-driven developments. Among the distinguishing characteristics of IP law is the extent to which it is intertwined with the most profound changes in the world around us.

In 2002, *Bright Ideas* recognized the Section's 10th anniversary with a special section devoted to the most significant developments over the first decade of the Section's existence in the substantive IP law fields covered by the Section: copyright, trademark, patent, trade secrets, and Internet law. For this 20th anniversary issue, I asked each committee to once again reflect on the past ten years and to report briefly on the most significant developments affecting their respective areas of IP law since 2002. I hope you find it interesting to be reminded of these milestones and to ponder their impact on the law. I want to thank those who took part in this effort; they are identified at the end of their respective contributions.

I also want to thank Kelly Slavitt for her leadership of the Section and for her leading role in organizing the Gala. Below, I have reprinted in lightly edited form her welcoming remarks at the gala, which well capture the value of this Section and the pride of those of us who have had the privilege of being a part of it. Thanks as well to all the past chairs over the last decade—Marc Lieberstein, Richard Ravin, Debra Resnick, Joyce Creidy, and Paul Fakler—each of whom has expanded the range of the Section's activities and helped maintain the spirit of collegiality and intellectual engagement that makes the Section special.

Finally, I want to acknowledge the superb staff in Albany, Lyn Curtis and Wendy Harbour, who have for many years done such a great job putting *Bright Ideas* together, along with Pat Stockli. It has been a pleasure for me to work with them and now with Stephanie Bugos, who recently took over Pat's role as Albany's staff liaison to the Section.

As we enter the Section's third decade, I invite all *Bright Ideas* readers to submit articles or suggest topics you would like to see covered in *Bright Ideas*. You will find my contact information on the back cover of this and every issue of *Bright Ideas*.

**Jonathan Bloom**
**Editor-in-Chief**

# Request for Articles

If you have written an article you would like considered for publication, or have an idea for one, please contact the *Bright Ideas* Editor-in-Chief:

**Jonathan Bloom, Esq.**
**Weil, Gotshal & Manges LLP**
**767 5th Avenue**
**New York, NY 10153-0119**
**jonathan.bloom@weil.com**

*Articles should be submitted in electronic document format (pdfs are NOT acceptable), along with biographical information.*

**www.nysba.org/BrightIdeas**

# Remarks of Section Chair Kelly Slavitt at the Section's 20th Anniversary Gala Celebration, September 14, 2012, Gotham Hall, New York City[1]

Hi everyone. I'm Kelly Slavitt, the new Chair of the IP Law Section. I am thrilled to be standing here before you tonight as Chair of the IP Law Section for the next two years. I joined the Section as a law student and never left.

This Section was started twenty years ago when Rory Radding saw the growth in significance of intellectual property as a field of law and petitioned the NYSBA's Executive Committee to create an Intellectual Property Law Section by combining two NYSBA special IP committees. Rory drafted the Section's bylaws along with Michael Chakansky. The Section's first Chair was Rory, Vice Chair was Tricia Semmelhack, Treasurer was Bob Hallenbeck, and Secretary was Michael. Each of them went on to become Chair of the Section.

The Section's mission is education:

- to students,
- to the public through our pro bono efforts,
- to other lawyers (including those whose practice is not primarily IP),
- and to the cause of diversity.

The Section's educational events include numerous CLE events throughout the year and our signature annual events:

- a full day of programming at the NYSBA Annual Meeting,
- The Copyright Society Comes to NYC (run by immediate past Chair Paul Fakler),
- Women in IP (run by former Chair Joyce Creidy),
- and the multi-day Fall Meeting going on right now downstate for the first time ever to coincide with this Gala.

The Section also produces *Bright Ideas*, a thrice-annual publication featuring substantive articles on current IP issues, wonderfully edited by Jonathan Bloom for many years.

Our pro bono efforts include a Section Committee that former Section Chair Debra Resnick chairs and a joint public outreach program with another NYSBA Section each year. From our numerous CLE programs we are able to make substantial donations to the NYSBA Foundation to foster intellectual property programs. We were also able last year to start a fellowship named after our dear friend and mentor Mimi Netter after she passed away.

Our diversity efforts include a Diversity Initiative run by Joyce Creidy, and a substantial presence at the Annual Meeting's Diversity Reception. The Section recently was named a NYSBA "Section Diversity Challenge Leader," which included an award from former NYSBA President Vincent Doyle.

Our education of students teaches them about the law, mentors them, and fosters the growth of new leaders through our Young Lawyer Fellowship Program and our annual writing competition. In fact, I am one of the leaders who was fostered through the Section. As a law student writing competition winner, I was approached by Marc Lieberstein to co-chair the Young Lawyers Committee and have stayed involved and moved through the ranks of the Section ever since. I have also been involved in running overall NYSBA activities, such as the Privacy Report during President Bernice Leber's tenure.

As a result of my involvement with the IP Law Section, I have met alumni from my law schools, made colleagues and friends, found jobs, found outside counsel, developed excellent working relationships with adversaries, found mentors, and become a mentor. I've watched colleagues—now friends—

get married,

have children,

adopt children,

get divorced,

battle illnesses,

say goodbye to parents,

say goodbye to spouses,

move firms,

move in-house,

get promoted,

get laid off,

start their own businesses,

move,

come back,

retire,

gain weight,

lose weight,

and all the other things we all face in our lives outside of the pro bono service to this organization and to this Section that we do in our "spare" time.

So for all these reasons I enjoy being a member of NYSBA—and of the IP Law Section in particular. And apparently you do too because you are members, and you have joined us here tonight to celebrate.

It is all of you who have helped the Section's membership grow to over 2,000 members and 14 committees and resulted in the Section being invited to partner with international organizations like the State Intellectual Property Office / U.S. Bar Liaison of China in 2012. It is also why our in-house membership has grown so much that I've just created an In-House Initiative to further meet the needs of this increasing demographic. Thank you to Cheherazade Chemcham who gave up her role as Co-Chair of the International Intellectual Property Committee to chair this important initiative.

This Section has a legacy of people staying involved long after their "official" tenure ends. Since we're lawyers, and we need "evidence" I thought I'd show you who is in the room tonight—

- Paul Fakler (immediate past Chair of the Section, now Co-Chair of the Copyright Law Committee and Chair of the Copyright Society Comes to NY Annual Event);
- Joyce Creidy (past Chair, now Chair of the Diversity Initiative and Chair of the Annual Women in IP Event);
- Rick Ravin (past Chair, now Co-Chair of the Internet Committee and Member-at-Large);
- Mike Chakansky (past Chair);
- Marc Lieberstein (past Chair, now Co-Chair of the Litigation Committee and Gala Committee Member);
- Vicki Cundiff (former Chair, and former Chair of the Trade Secrets Committee for many years);
- Ray Mantle (former Chair of the Internet Committee);
- Bernice Leber (former Section Liaison to the New York State Bar Association, and past New York State Bar Association President), and
- Founder of the Section Rory Radding (former Chair, now Co-Chair of the newest Committee—Greentech—as well as Co-Chair of the Ethics Committee and Co-Chair of this Fall Conference and a Gala Committee Member).

The Section also caught the attention of the Mayor of NYC, Mayor Bloomberg, who even sent a congratulatory letter to the Section on our 20th Anniversary.

I look forward to the next two years with my Vice-Chair Charles Weigell, Treasurer Sheila Francis Jeyathurai, and Secretary Erica Klein, and to the legacy we can continue in this Section.

Thank you to the Gala Committee members who have been working on this event for the past two years with me:

Rory Radding

Marc Lieberstein

Charles Weigell

Robin Silverman

Phil Furgang

Tami Carmichael

Matt Asbell

Nyasha Foy

Teige Sheehan

and Dan-Feng Mei.

Thank you to the sponsors of tonight's Gala:

- Platinum Sponsor Thomson Reuters, and
- Silver Sponsors
  - Davis & Gilbert
  - Kilpatrick Townsend, and
  - Hiscock and Barclay.

Thank you to the band, Exit 12: Mark Kaufman (an IP attorney and member of the Section), Glenn Babakian, David Hamburger, Sean Harkness, and Bill Reeve.

A very very special thank you to our wonderful newest NYSBA staff member Stephanie Bugos, without whose help I have no doubt this event would not have taken place!

And now I have a lot of thank yous for people who have helped the Section over the past 20 years, so bear with me please:

Thank you to the NYSBA staff members who have helped our Committee over the past 20 years: Linda Castilla, Pat Stockli, Naomi Pitts, Cathy Teeter, and Stephanie Bugos. They are all here with us tonight to celebrate.

Thank you to our sponsors over the past 20 years, there have been too many to list them all—though I do want to give a shout-out to Thomson Reuters, which has always been there for us.

Thank you to the Executive Committee members over the past 20 years.

Thank you to the Committee Co-Chairs over the past 20 years.

Thank you to the Members-At-Large over the past 20 years.

Thank you to the Delegates over the past 20 years.

Thank you to the Law Student Writing Competition Winners and Fellowship Winners over the past 20 years (or as many years as we've been doing those!).

Thank you to the speakers over the past 20 years.

And finally, thank you to all of you for making the time to be with us tonight to celebrate the Section's accomplishments. There were other places you could have been on a Friday night in Manhattan, and you've chosen to be with us, and for that I am truly grateful.

And nothing says grateful like a good time followed by a gift you can take with you. So in keeping with the Section's tradition of presenting framed USPTO plant patents to speakers at our events, the gifts you will pick up on your way out tonight include a patented technology whereby hot liquids poured into the mugs allow a plant patent to appear. So you can think of us over your morning coffee or tea!

Thanks again for joining us!

### Endnote

1. These remarks have been edited for publication.

# *Thank You*

**The Intellectual Property Law Section extends its gratitude to the following for their significant sponsorship over the past year:**

- Amster Rothstein & Ebenstein LLP
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## Scenes from the

## Intellectual Property Law Section

# 20th Anniversary Gala Celebration and Fall Program

## September 14, 2012

**Gotham Hall**

**New York City**

*All photos © Happening Photos*


THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

April 4, 2012

Dear Friends:

It is a great pleasure to welcome everyone as the Intellectual Property Section of the New York State Bar Association celebrates its 20th Anniversary.

New York has long been proud to be a city of opportunity for all people. Our legal community, especially, continues to attract the professionals who are helping our businesses drive the global economy and remain at the forefront of the media, entertainment, and technology industries. That is why we applaud the NYSBA's Intellectual Property Section on this milestone anniversary, and together, we look forward to even more of your members giving back and mentoring the law students looking to join you in your efforts in the years ahead.

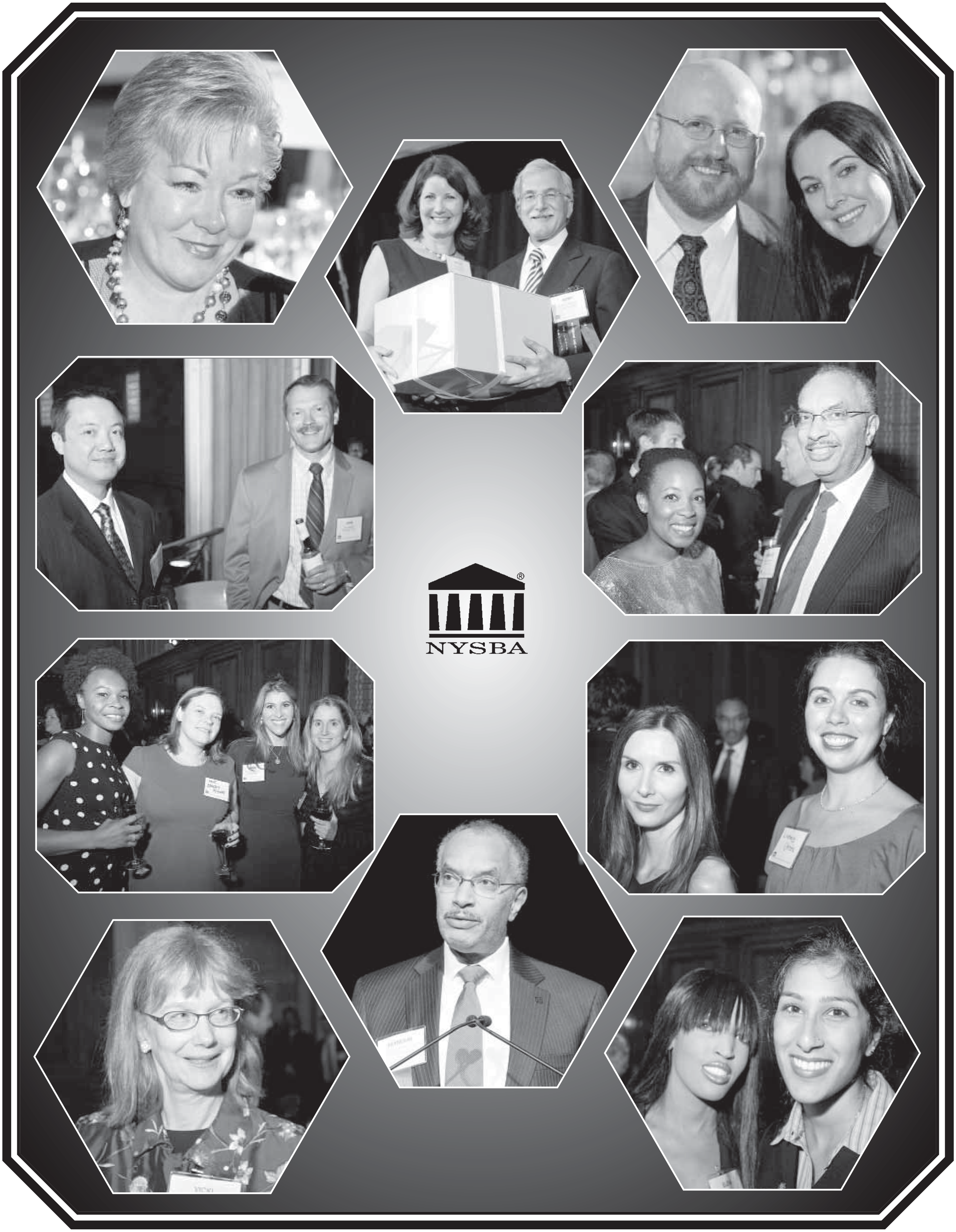
On behalf of all New Yorkers, best wishes for a terrific evening and continued success.

Sincerely,

Michael R. Bloomberg

Michael R. Bloomberg
Mayor


DONNA
JOSEPH
NYSBA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# Copyright Law

In the past ten years, the courts have issued a number of important decisions in the continuing endeavor to strike a fair balance between the rights of copyright owners and the public's ever-increasing demand for access to copyright-protected content. Below we review five of the most significant of these cases, both in terms of their present impact and their potential to influence the development of copyright law in the decades to come.

## *Salinger v. Colting*: Abolished Presumption of Irreparable Harm

The last decade saw a major revision of the standard for obtaining preliminary injunctions in copyright infringement cases within the Second Circuit when the court, in *Salinger v. Colting,*[1] overruled its longstanding rule that irreparable harm could be presumed where likelihood of success had been established.

In *Salinger*, the district court issued a preliminary injunction against Mr. Colting, a Swedish author who had written a novel incorporating characters from the author J.D. Salinger's famous novel *A Catcher In the Rye*. In issuing the injunction, the court concluded that Salinger was likely to succeed on the merits and relied on the Second Circuit's traditional presumption of irreparable harm in holding, without discussion, that there would be irreparable harm from the infringement absent an injunction.

Colting challenged the propriety of the district court's decision, arguing that while the court had correctly relied on Second Circuit precedent in applying the presumption of irreparable harm, that precedent conflicted with the Supreme Court's 2006 decision in *eBay, Inc. v. MercExchange, L.L.C.* [2] In *eBay*, the Supreme Court had considered the propriety of a permanent injunction that had been issued in a patent infringement action in which both the district court and the Federal Circuit had assumed that the existence of irreparable harm could be presumed at some level once patent infringement had been established. The Supreme Court disagreed, holding that the application of any such presumption was inconsistent with equitable principles and that a separate inquiry into the existence of irreparable harm was always required.

In *Salinger*, the Second Circuit agreed with Colting. It explicitly adopted the *eBay* standard,[3] holding that it applied to preliminary injunctions as well as to permanent ones and to copyright as well as to patent cases. The court stated that after *eBay* "courts must not simply presume irreparable harm…rather, plaintiffs must show that, on the facts of their case, the failure to issue an injunction would actually cause irreparable harm."[4] The court also noted that it saw "no reason that *eBay* would not apply with equal force to an injunction in *any* type of case."[5]

Whether after *Salinger* it has become measurably more difficult for a copyright holder to obtain a preliminary injunction is difficult to say. It is apparent, however, that at least in cases involving infringement of works for which royalty rates are well-established and detailed records of use are kept, the ability to compute monetary damages makes it considerably more challenging to obtain a preliminary injunction in the absence of a presumption of irreparable harm.

## *Golan v. Holder*: Upheld Restoration of Copyright Protection to Works Formerly in the Public Domain

Another important development occurred with the Supreme Court's decision last term in *Golan v. Holder*,[6] in which the Court upheld the constitutionality of the Uruguay Round Agreement's grant of copyright protection for the first time to millions of works by foreign authors and composers that previously had been in the public domain. The works implicated include films like the *The Third Man*, books by H.G. Wells, and musical compositions like Prokofiev's "Peter and the Wolf" and the works of Igor Stravinsky.

The propriety of granting copyright protection to works that had not been protected previously in this country was challenged by a group of universities, composers, authors, producers, archivists and publishers—all of whom had been making use of these formerly unprotected foreign works for years. They argued that Congress did not have the authority to take these foreign works out of the public domain and that in doing so the government was violating the plaintiffs' First Amendment rights.

The Supreme Court, in a 6 to 2 majority opinion written by Justice Ginsburg, vigorously disagreed. The Court held that there was no support "in the Copyright Clause, historical practice, or our precedents" for the plaintiffs' argument that the Copyright Clause of the U.S. Constitution created "an impenetrable barrier to the extension of copyright protection to authors whose writings, for whatever reason, are in the public domain."[7] It relied explicitly on *Eldred v. Ashcroft*,[8] another recent important copyright decision (discussed below) in holding that the Copyright Clause contains "no command that a time prescription, once set, becomes forever 'fixed' or 'inalterable'" and declined to infer such a command in this case.[9]

The Court also explicitly rejected the plaintiffs' "slippery slope" argument that upholding the legislation in question would result in Congress legislating perpetual copyright terms by instituting successive limited terms as prior ones end. According to the Court, this "hypothetical misbehavior is far afield from this case," as all the government was doing was attempting to align the United States with other nations bound by the international copyright system set forth in the Berne Convention.

In rejecting the plaintiffs' First Amendment argument, the Court again relied on *Eldred* in holding that the extension of copyright protection did not raise free speech concerns where, as here, the idea/expression distinction and the fair use privilege remain undisturbed. In the Court's view, the government was simply making sure that foreign works would be treated in the same manner that protected domestic works are treated.

The *Golan* decision presents obvious disadvantages to content users in the form of increased royalties. In addition, however, *Golan's* aftermath will inevitably increase the risk of liability for copyright infringement of orphan works. It remains to be seen whether *Golan* will lead to greater judicial use of the fair use defense and to the development of some sort of defense to infringement of works whose owners cannot be identified, as such defenses would help to balance the heightened risk of infringement liability that *Golan* will inevitably cause.

### *MGM Studios v. Grokster*: Expanded the Scope of Secondary Liability

Can a distributor of a product having both infringing and non-infringing uses be held liable for copyright infringement by third parties who are using the product? This was the question as framed by the Supreme Court in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,[10] and the Court unanimously decided that yes, it could be, provided that the distributor promotes the infringing use through clear words or affirmative acts taken to foster infringement—that is, induces infringement.

The parties had framed their appeal in terms of asking the Court to clarify the "staple article of commerce" doctrine as first applied by the Court to copyright secondary liability claims in *Sony Corporation of America v. Universal City Studios, Inc.*[11] The Court essentially sidestepped the parties' framing of the appeal, however, and instead created a new (to copyright law) inducement theory of secondary liability. The Court found that there was substantial evidence in the record of inducement of infringement by Grokster, a maker and distributor of peer-to-peer file-sharing software that was used by third-party users to distribute unlicensed music and movies on the Internet. According to the Court, discovery revealed that billions of files were shared across peer-to-peer networks each month and that Grokster was well aware of this fact. The Court also noted that Grokster distributed its peer-to-peer software for free; promoted itself as an alternative to the notorious Napster service; received income from selling advertising space and thus had an incentive to increase the number of users on its network; and made no effort to filter copyrighted materials or otherwise impede the sharing of copyrighted files. Based on these facts and others that tended to show that Grokster was actively promoting copyright infringement through use of its software, the Court remanded the case for the district court to consider whether Grokster was liable for inducing infringement.

While the Court was unanimous in deciding that distributors like Grokster may be held liable for indirect infringement, it was split about how to apply the staple article of commerce safe harbor that it first articulated in *Sony*. In *Sony*, the Court decided that Sony, the maker of the Betamax, could not be held liable for indirect copyright infringement for selling VCRs because the product was capable of substantial non-infringing uses. The justices, in concurring opinions, alternatively suggested that the *Sony* rule did not apply because (i) there was insufficient evidence that Grokster's software had non-infringing uses (Justice Ginsburg); or (ii) the situation in *Grokster* involved a different technology design that was used almost exclusively to infringe copyrights (Justice Breyer). A third concurring opinion affirmed the continued utility of the *Sony* rule but did not say one way or another whether it applied in *Grokster*. In the end, the *Sony* safe-harbor rule was not reexamined by the Court other than in *dicta*, and it remains in place to protect developers of technology from secondary liability for copyright infringement, at least where no inducement is proven.

*Grokster* appears to have struck a workable balance between protecting the rights of content owners and maintaining a safe harbor for developers to avoid a chilling effect on the creation of technology with non-infringing uses. And while the use of peer-to-peer technology to share unlicensed content on the Internet remains alive and well in the wake of *Grokster*, developers and distributors of such technology are now much more cautious about how they market and monitor use of those networks.

### *Eldred v. Ashcroft*: Affirmed Congress' Authority to Extend Copyright Term Limits

In *Eldred v. Ashcroft*[12] the Supreme Court upheld the constitutionality of the Copyright Term Extension Act (CTEA), which extended the term of existing and future copyrights by an additional twenty years. The CTEA had the effect of preventing numerous works from entering the public domain. The CTEA was challenged in *Eldred* by a group of plaintiffs consisting of individuals and businesses who claimed that Congress lacked the Constitutional authority to extend the duration of copyrights and that the CTEA violated their free speech rights under the First Amendment.

The Court rejected the plaintiffs' argument that Congress lacked authority under the Copyright Clause to extend the term limits. The Court held that because Congress has the authority to set a "limited time" for the duration of copyrights, as long as the limit set by Congress is not indefinite or perpetual in duration, Congress has the discretion to set whatever term it sees fit.

The Court also rejected the plaintiffs' First Amendment argument. First, the Court noted that the very fact that the Copyright Clause and First Amendment are both in the Constitution and were adopted close in time indicates that the limited monopolies imposed by copyright are compatible with free speech principles. Second, the Court found that the existence of the fair use defense, which the CTEA itself embodies and supplements with additional protections, sufficiently protects free speech rights in copyrighted works.

*Eldred* established for the first time that Congress has the power to extend the duration of existing or future copyrights by essentially whatever "limited" term it sees fit. Later, in *Golan v. Holder* (discussed above), the Court affirmed its reasoning in *Eldred* and used it to uphold the constitutionality of applying copyright protection to works that had previously been in the public domain. It remains to be seen to what extent the doctrine of fair use will be adapted as a counterweight to the ever-expanding duration of the monopoly of content owners.

### *Cartoon Network v. CSC Holdings*: Temporary Buffer Data Is Not a "Copy" for Purposes of Copyright

In *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*,[13] the Second Circuit held that momentary data streams stored in buffer memory do not constitute "copies" under copyright law. The case arose out of a dispute between Cablevision, a cable television provider, and various owners of television programs and movies over Cablevision's plans to offer a new type of digital video recorder (DVR) service that subscribers could use to record broadcast programming and store the recordings remotely on servers at Cablevision locations.

The owners of the copyrighted movies and television shows broadcast by Cablevision alleged that this remote DVR service would necessarily buffer their streamed content in memory located on Cablevision's servers and that this buffering process constituted unlicensed copying of their copyrighted works. The plaintiff content owners also argued that the storage of complete copies of their works on Cablevision's hard drives in response to a user's request to record, and the transmission of those complete copies to users in response to a user's request to play the recording, constituted unlicensed reproduction and unauthorized public performance, respectively, of their works.

The Second Circuit rejected all of these arguments. In addressing plaintiffs' argument that Cablevision's storage of complete copies in response to a user's request to record constituted copyright infringement, the court pointed out that the plaintiffs had accused Cablevision of direct, not indirect, infringement. And because it was the user and not Cablevision that initiated the recording, the court concluded that there was insufficient volitional action on the part Cablevision to support a finding of direct infringement.

The court also rejected the plaintiffs' public performance argument. The transmission was not being made to the public but to the user who initiated the recording. Thus, reasoned the court, there was no public performance and no grounds to support a finding of direct infringement on that basis.

Most significant, however, was the court's ruling that buffered data did not constitute a copy that implicated copyright law. Quoting from the Copyright Act, the court pointed out that "copies," for purposes of the Act, must be "fixed" in a tangible medium of expression, and that a copy is only so fixed when "its embodiment…is sufficiently permanent or stable to permit it to be…reproduced… for a period of more than a transitory duration."[14] Thus, the court reasoned, a work is not copied unless it meets both the "embodiment requirement" and the "duration requirement." And while the streamed data at issue in this case was certainly "embodied" in the buffer memory, the evidence showed that any particular block of data resided in the buffer for no more than 1.2 seconds at a time before being overwritten. This, the court held, is a transitory period that fails to satisfy the duration requirement.

In *Cartoon Network*, the court's inquiry with respect to the transitory nature of a buffered stream was necessarily fact-specific. It left open the question of how long data has to remain in buffer memory before it is no longer considered transitory. But the court expressed no opinion with respect to whether any copies produced by buffering data would be *de minimis* and therefore not infringing. Resolution of these issues will become more important as streaming technology continues to develop, and the use of remote storage by consumers, including in the "cloud," becomes increasing more common.

### Endnotes

1. 607 F.3d 68 (2d. Cir. 2010).
2. 547 U.S. 388, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006).
3. More particularly, *Salinger* held that to determine whether a preliminary injunction should issue in a copyright case, the court must explicitly find that (i) there exists a likelihood of success on the merits or sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the [plaintiff]'s favor; (ii) the plaintiff has demonstrated that it is likely to suffer irreparable injury in the absence of an injunction; (iii) the balance of hardships between the plaintiff and defendant should the injunction issue tips in the plaintiff's favor; and (iv) the public interest would not be disserved by the issuance of a preliminary injunction. *Salinger*, 607 F.3d at 79-80.
4. *Id.* at 82.
5. *Id.* at n.7 (emphasis in original).
6. 132 S. Ct. 873 (2012).
7. *Id.* at 884.
8. 537 U.S. 186 (2003).
9. 132 S. Ct. at 884.
10. 545 U.S. 913 (2005).
11. 464 U.S. 417 (1984).
12. 537 U.S. 186 (2003).
13. 536 F.3d 121 (2d Cir. 2008).
14. *Id.* at 127.

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# Internet and Technology Law

## Global Top-Level Domains

The Internet has become a much bigger and more complex place for trademark owners, and ICANN's new global Top-Level Domains (gTLD) program is something new for trademark counsel to consider as part of worldwide protection of their clients' brands and marks. In 2012, ICANN began reviewing nearly 2,000 new gTLD applications for extensions such as .music, .Nike, and .Africa, and delegation of successful extensions is expected to begin sometime in 2013. The new gTLD program may increase branding opportunities, and the Internet will become increasingly multi-lingual because it expands the use of non-Roman characters in the gTLDs , e.g., .时尚 (Chinese for "fashion"). Trademark owners, whether or not applying for their own .brand gTLD, will be impacted by this development and should ensure that the new gTLDs do not infringe their legal rights or be used in a way that will harm their brand or business activities. New gTLDs could cause consumer confusion, increase online fraud and cybersquatting, and affect enforcement budgets.

The newly established Trademark Clearinghouse will issue Trademark Claims alerts of new gTLD applications that are identical to deposited trademarks at an anticipated cost of US$150 per mark (with considerably lower annual renewal fees). Also, the proposed Uniform Rapid Suspension System (URS) is intended to offer complainants a relatively inexpensive and quick remedy at $300-$500 where the offending domain may be redirected to a generic landing page for the remainder of its registration period.

To prepare for the new gTLD program, trademark counsel should strongly encourage their clients to review their existing domain name and trademark portfolios as well as registration and enforcement policies.

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## Consumer Privacy/Data Security

Over the past decade we have witnessed a sea change in the U.S. approach to consumer privacy / data security. The United States traditionally has regulated certain industry sectors (e.g., health care, finance, cable) and focused on online privacy rather than offline data practices. More recently, with the rapid advancement and adoption of new technology (e.g., mobile applications, location-based services, behaviorally targeted advertising, cloud computing, text messaging, email marketing) there has come a convergence in the legislative, regulatory, and judicial arenas in focusing on consumer privacy / data security across all industries and across the online / offline divide. There also has been a tremendous push by industry to enact self-regulatory guidelines in an attempt to forestall further laws and regulations, and we have seen an acceleration of the globalization of consumer privacy / data security issues, but both of these topics are beyond the scope of this brief summary.

In the legislative arena, industry was largely used to a hands-off approach by the federal and state governments. On the federal level, there have been just a few laws outside of the following sector-specific statutes: Gramm-Leach-Bliley (financial industry), the Cable Privacy Act (cable industry), and The Health Insurance Portability and Accountability Act or "HIPAA" (health care industry). These other laws are narrowly tailored to specific situations, including the CAN-SPAM Act of 2003 (which regulates e-mail marketing), the Children's Online Privacy Protection Act or "COPPA" (which regulates the online collection of personally identifiable information (PII) from children under the age of 13), and the Restore Online Shopper's Confidence Act or "ROSCA" (which regulates the exchange of customer billing information, known as "data pass"). Otherwise, there have been many efforts (such as the high-profile "Boucher Bill" and "Rush Bill" in 2010) to pass, but little success in passing, omnibus privacy rules that cut across sectors and regulate industry's offline and online practices. State legislatures, often citing a lack of federal action, have become more aggressive in passing consumer privacy / data security laws. Forty-six states, starting with California in 2003, have enacted "data breach notification statutes" which require businesses that experience a breach of PII to notify the affected customers. More recently, some states—led by Massachusetts in 2008—are expanding their security notification laws to include a requirement for baseline security protections of PII. The latest trend among states is laws that bar employers from demanding social media logon information from job candidates in order to review social media accounts.

In the regulatory arena, we have seen increased efforts by the FTC over the past decade to become the most active agency in the realm of consumer privacy / data security. The Commerce Department, the White House, and the FTC all have released high-profile reports calling for more robust industry self-regulation. The Commerce Department's report, "Commercial Data Privacy and Innovation in the Internet Economy: A Dynamic Policy Framework," recommended, among other things, developing enforceable privacy codes of conduct in specific sectors and creating a "Privacy Policy Office" in the Commerce Department. The White House report, "Consumer Data Privacy in a Networked World, A Framework for Protecting Privacy and Promoting Innovation in the Global Digital Economy," advocated working with industry to create a "Consumer Privacy Bill of Rights."

The FTC's final report, "Protecting Consumer Privacy in an Era of Rapid Change: A Proposed Framework for Businesses and Policymakers," called for a browser-based "Do-Not-Track" system for behaviorally targeted advertising, greater transparency, and simplified choice to give consumers the ability to make decisions about their privacy in the relevant time and context and a requirement for companies to include and consider privacy and data security issues at every stage of product development and during implementation and ongoing use (i.e., "Privacy By Design").

The FTC also has been bringing more numerous and more prominent enforcement actions under its Section 5 "unfair competition" authority. High-profile consent decrees have been entered into by Google (related to launch of its "Google Buzz" social media network), Facebook (related to how the social network adjusted privacy settings without sufficient user consent), and Twitter (related to alleged security lapses that resulted in unauthorized access to user accounts). Most recently, the FTC has proposed changes to COPPA to address technological innovations since its enactment over ten years ago.

In the judicial arena, we have seen a dramatic shift since 2002, when this Committee reported in this publication that privacy had not given rise to widespread civil ligation. In the decade since, we have seen cases based on consumer privacy / data security increase exponentially. When a breach of customer data is reported under one of the state "data breach notification statutes," it often takes mere days before a class action lawsuit is filed on behalf of the affected customers. A whole body of cases has emerged from unsolicited commercial e-mail, text messages, and faxes. Another line of cases has emerged to challenge the relatively new technologies of behavioral advertising, flash cookies, and tracking. And patent infringement cases have increased, especially in the areas of mobile applications, text messaging, and ad-serving technologies. Other high-profile class action lawsuits have been brought against the publishing and technology industries under California's "Shine the Light" statute and Michigan's "Video Rental Privacy Act."

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## Social Networking

Social networking (e.g., Facebook) has not raised any new legal issues per se, but it has put a different spin on the application of IP law to posted content, privacy concerns, use of data collected from users of the social network, infringement of third-party copyrights, trademarks, and other rights, and user rights versus the social network provider. The extensiveness and rapidity of content dissemination makes recall of content a technical (and thus legal) impossibility and constrains remedial action. When the *Guinness World Records* estimates that 294 **billion** emails are sent daily, one can hardly imagine the volume of social network postings occurring daily.

Ownership of content posted on a social network and the right to republish or use the content under copyright law is addressed in the terms of use specified by the social network provider and accepted by users as a condition of use. In general, social network providers claim ownership of all content posted by a user under the terms of use. Section 204 of the Copyright Act requires a signed writing to transfer copyright other than by operation of law (e.g., a work for hire); will the terms of use satisfy this requirement and support the social network provider's ownership? Assuming the terms of use are adequate to transfer ownership of original content posted by a user, what if the poster has used third-party content without permission? Who is liable for the infringing use and, if the content is taken down pursuant to a third-party demand, is the social network provider eligible for protection upon compliance with the DMCA provisions applicable to ISPs? If posted content is defamatory or libelous of a third party, how should the social network provider respond to a cease-and-desist demand? Under some state laws (Florida) it is a tort to publish private information (such as medical records) even though the information is truthful. Is a social network provider liable as a publisher of such private information or for other invasion of privacy (note that the DMCA does not cover privacy rights or trademarks)? What are the rights of a user (and what is the liability of a social network provider) who is being stalked or harassed through the social network? And once a social network provider is put on notice of stalking or harassment, what are its obligations to prevent its future occurrence?

Databases are extremely valuable properties, and what data may be collected from social network users and how it may be used has many legal ramifications. Since the nature of social network postings often is personal and may be limited to an approved list of friends, may the social network provider collect the personal data from such postings and use it (even if scrubbed of any personal identification)? Again, the terms of use may address collection and use of data, but is this a contract of adhesion that at some point may be set aside on the ground that the user did not understand the full scope of the terms of use that have become oppressive or are shocking to the court? Given the worldwide scope of social networks, what laws may be applicable is itself an open point. The EU has much different (and in general stricter) privacy laws regarding personal data than the United States; what may be permissible here may be a violation in Europe or elsewhere.

Employers and criminal investigators regularly troll social network sites to see if what has been posted may be relevant to a current or prospective employee or the subject of a criminal investigation. Users have been shocked to learn that posted photos of indiscrete acts, intoxication, illegal use of drugs, etc. may be viewed by employers who then decline to hire or fire the user. And because there is no way to insure all copies of the posted content have been taken down, the user may suffer from his or her negative image for years. As stupid as it may sound, police have obtained evidence of criminal activity posted by a user as a boast and arrested the user based on the posted content. Fourth Amendment rights do not arise if there is no expectation of privacy, so the question is where is the line of such an expectation in social network postings? So far it is not required that a Miranda warning appear as part of the terms of use, but might that not be a good idea if one may be jeopardizing future career opportunities or even the loss of freedom?

Companies today monitor social networks for adverse publicity, trademark infringement, and disclosure of trade secrets, among other things. The liability of the user who has posted such content may be conventional under IP law, but the responsibility of the social network provider for publication of such content is more difficult to assess, especially once the social network provider has been given notice of the claimed infringement or violation. Since the DMCA does not apply to these types of matters, the take-down notice and procedure provided in it does not afford a safe harbor. And the terms of use have no application to third parties, since they have not "accepted" them. So even if a social network provider "takes down" such content upon receipt of a demand, there is no protection against liability claims based on the social network provider publishing the content.

Social networking has even raised ethical issues for lawyers and judges. Thus we have an opinion that a judge hearing a case should not "friend" a lawyer in the case and vice versa. A similar issue may arise if a "friend" is represented by other counsel in a proceeding. And use of a social network to solicit clients is prohibited, no less than other forms of advertising or solicitation.

The rapid growth of Facebook users to a total of over 500 million in a matter of months illustrates that social networking is part of modern / technical society today. Thus, the law must adapt to fit social network parameters and practices while maintaining the basic principles and rights of IP law for users, social network providers, third parties, and society in general. It will be a challenging but interesting pathway into the next ten years of IP law.

**Ray Mantle**

## Anonymous Online Speech

Over the past decade, there has been an increasing frequency of defamation lawsuits against anonymous speakers on the Internet. The First Amendment guarantees the right to not only speak freely, but to speak anonymously. The protections of the First Amendment apply, of course, to speech on the Internet. In fact, the Internet is a democratic institution in the fullest sense. As a result of the high premium our laws place on the open and robust exchange of ideas online, the New Jersey Appellate Division set forth certain safeguards regarding the disclosure of the identities of anonymous authors using the Internet. In the seminal case *Dendrite Int'l, Inc. v. John Doe, No. 3*,[1] decided in 2001, the court adopted a framework that trial courts are to use when considering whether an Internet service provider (ISP) should be compelled to disclose the identities of anonymous online authors.

The court recognized that suits easily could be brought for the primary purpose of discovering the identities of individuals who were critical of the plaintiffs, not for the meritorious purpose of seeking redress for defamation. Once plaintiffs learned the identities of the anonymous authors, the authors would be subject to embarrassment, harassment, and ridicule. The Appellate Division was compelled to adopt safeguards to prevent the chilling effect that unmeritorious suits would have on freedom of speech.

Under *Dendrite*, before the plaintiff can compel the ISP to disclose information concerning the identification of the anonymous posters, the plaintiff first has to establish, among other things, that the statements were actionable; that the plaintiff has made out a prima facie case; and that the strength of plaintiff's case is sufficient to overcome the constitutional rights of individuals to speak anonymously. *Dendrite* has been followed by courts in many other states as well as by many federal courts.[2]

### Endnotes

1. 342 N.J. Super. 134 (App. Div. 2001).
2. *See, e.g.*, *Independent Newspapers v. Brodie*, 407 Md. 415 (2009); *Krinsky v. Doe* 6, 159 Cal. App.4th 1154 (Cal. App. 6th Dist. 2008); *In re Does 1-10*, 242 S.W.3d 805 (Tex. App. 2007); *Mobilisa v. Doe*, 170 P.3d 712 (Ariz. App. Div. 1 2007); *Doe v. Cahill*, 884 A.2d 451 (Del. 2005); *Sinclair v. TubeSockTedD*, 596 F. Supp. 2d 128 (D.D.C. 2009); *London-Sire Records v. Doe* 1, 542 F. Supp.2d 153, 164 (D. Mass. 2008); *Highfields Capital Mgmt. v. Doe*, 385 F. Supp. 2d 969 (N.D. Cal. 2005); *Pilchesky v. Gatelli*, 12 A.3d 430, 444 (Pa. Super. 2008).

**Richard L. Ravin, Hartman & Winnicki, PC**

## Cloud Computing

Cloud computing has flourished in the past few years, offering tremendous potential and economies for businesses of all kinds. Cloud computing makes use of servers located outside the user's network, "somewhere out there" in the Internet. Hence the expression "running in the cloud" or "residing in the cloud." Cloud computing takes three major forms: Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Software as a Service (SaaS). IaaS allows the user to store data and software on hardware owned and operated by others in the cloud. PaaS provides tools and services for the quick and efficient design of software code and deployment of applications running in the cloud. Finally, SaaS allows individuals and business to pay user fees for the right to use software running on servers in the cloud instead of purchasing software licenses and equipment that run on the user's own computers. When these services are combined, such as storing data in the cloud (IaaS) and using software in the cloud to run applications using the data (SaaS), the results can be powerful. Cloud computing is an inexpensive alternative to traditional own / lease / license of software and hardware; it provides users with tremendous capacity and scalability. Moreover, whereas in the traditional model companies make capital expenditures to purchase hardware and software, by using the cloud, and instead paying monthly service fees, such expenditures are treated as current expenses.

Although the cloud offers tremendous advantages at low prices, it does come at a cost: lack of control over remotely stored data, raising issues of data security (including confidentiality), data accessibility, and data integrity. Before a company allows its most sensitive data, including trade secrets, and, in the case of law firms, confidential and privileged information and materials, to be stored off-site, it should be determined whether the data would be secure. That inquiry should include determination of (i) the location of the provider and its servers (i.e., what jurisdictions); (ii) the contractual obligations of the provider to maintain data security, integrity, and accessibility (which would include backups and connectivity redundancy); (iii) the laws and judicial system in the jurisdiction to ensure enforcement of the provider's obligations; and (iv) the practical ability to obtain relief in the jurisdiction. If the provider and the servers are located in the United States, then many of the obstacles have been cleared. However, if the servers are located outside the United States, then the use of the cloud for sensitive data, or data that always must be accessible, must be carefully scrutinized. Moreover, unless a company has substantial negotiating power (i.e., is a potential large cloud customer) it is very difficult for a cloud user even to know where the servers on which its data will reside are located.

Companies, and especially attorneys, must be able to enforce whatever data security, accessibility, and integrity obligations the cloud provider may have. If the jurisdictions of the servers are not known, or if they are located in a foreign country that does not have the laws or judicial system that would allow enforcement of those obligations, then data security in the cloud may be nothing more than pie in the sky. The widescale acceptance of the cloud over the coming decade will depend largely on the ability of the cloud provider industry to offer practical and enforceable assurances as to data security, accessibility, and integrity.

**Richard L. Ravin**

# Patent Law

The last decade has seen the blossoming of technology, the Internet, and the cyber-world. It is hard to imagine a world without cell phones, search engines, and handheld devices, but twenty years ago, when this Section was founded, many of these devices, or at least the versions that are commonplace today, were as foreign as a rotary phone is to today's teenagers. The pace of change has accelerated over the past ten years, and patents, patent law, and patent infringement litigation have changed along with it. Once the bailiwick of registered patent attorneys, patent infringement litigation has become the battleground of modern technology and the country's most heralded trial attorneys. And patents and intellectual property have become the most valued assets of many companies, large and small. While there are far too many patent law developments that affect the way IP practitioners practice and companies do business to include in this article, the following are some of the most notable.

## *Phillips v. AWH Corp*: Claim Construction

> [H]eavy reliance on the dictionary divorced from the intrinsic evidence risks transforming the meaning of the claim term to the artisan into the meaning of the term in the abstract, out of its particular context, which is the specification.[1]

In *Phillips*, the Federal Circuit explained that the patent specification itself provides the primary basis for construing patent claim language, beginning with the plain meaning of the patent claims themselves, as interpreted by a person having ordinary skill in the art. The patent prosecution history and other documents in the patent's file history also can be used to provide clarity for the intended meaning of patent claim language. Such intrinsic sources of claim construction are more reliable than secondary, extrinsic sources such as dictionaries, treatises, encyclopedias, scholarly journals, and expert testimony, although courts can consider and rely upon them for help when an interpretation is not apparent from the "four corners" of the instrument. The *en banc* panel recognized that in construing claims one should not import limitations from the specification into the claim language and that if a patent describes only a single embodiment, the claims of the patent must not be construed as being limited to that embodiment.

## *KSR International Co. v. Teleflex Inc.*: Standard for Obviousness

> For over half a century, the Court has held that a "a patent for a combination which only unites old elements with no change in their respective functions … obviously withdraws what is already known into the field of its monopoly and diminishes the resources available to skillful men."[2]

*KSR* overruled the Federal Circuit's common analytic framework for determining whether subject matter claimed in a patent is non-obvious, *i.e.*, a rigid application of, and dependence on, teaching, suggestion, or motivation (the "TSM test") in the prior art. A fundamental requirement for patent protection, the non-obviousness of an invention, has long been a battleground in both prosecution and in litigating invalidity. Although the Court recognized the TSM test could be a factor in deciding invalidity based on obviousness, it held that courts could determine that patent claims are obvious without being limited to the rigid TSM test when considering the prior art. The Court also held that judges, not juries, have the responsibility for making obviousness determinations. Hence, the role of juries in patent validity determinations appears to have been diminished. In the patent prosecution context, patent examiners now can more easily reject patent claims using a combination of prior art references because *KSR* held that a "motivation to combine" prior art references may be sufficient.

## *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*: Prosecution History Estoppel

Before *Festo*, the Federal Circuit followed the rule that any amendment to a patent application that narrowed the scope of a patent claim during prosecution created an absolute bar to a claim for infringement under the doctrine of equivalents for the particular claim element that was narrowed. The Supreme Court held that such amendments do not create an absolute bar and are instead to be analyzed according to the reason for the amendment. Courts now must determine how much of the patent claim scope was surrendered by the amendment. The central point of *Festo* is the presumption that "the territory between the original claim and the amended claim" is surrendered by the patentee for all equivalents for that particular amended claim element so long as the equivalent is foreseeable at the time of the application and bears more than a tangential relation to the equivalent in question.[3]

## *Quanta Computer, Inc. v. LG Electronics, Inc.*: Patent Exhaustion

In this case a license agreement between LG and Intel required Intel to give its customers notice that the customers were not licensed to combine an authorized Intel microprocessor with any other product, such as a computer. Such a combination would likely be authorized by LG if the Intel customers also paid a royalty to LG. The Federal Circuit held that the post-sale restraint notice in the patent license was sufficient to exclude application of the patent exhaustion doctrine. The Federal Circuit also stated the doctrine did not apply to method patents. On appeal, the Supreme Court held the patent exhaustion doctrine applies to an authorized sale of a product when the only reasonable and intended use of the product is to practice a method or product claim of the patent in question.[4] LG argued that noninfringing uses included selling the processors overseas, as repair parts, or disabling the patented portions of the processors before combining them. The Court rejected these arguments on the ground that the disabled portions must have a non-infringing use and further held that the legal test is whether the product incorporates the patented method or product. The Court found in this case that the inventive features of the patent were embodied in the processors rather than in the combination products.

### *In Re Seagate, LLC*: Willful Patent Infringement

Prior to *Seagate*,[5] it was common for parties accused of willful patent infringement to obtain a competent non-infringement and / or invalidity opinion from counsel in order to avoid treble or enhanced damages. In *Seagate* the Federal Circuit explicitly eliminated the need to obtain such an opinion from counsel. Although such an opinion can be helpful, courts no longer will presume an adverse inference in the absence of one. Instead, the court defined a two-part test for establishing willful infringement: (1) the patentee must show by clear and convincing evidence that the defendant acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and (2) if the first prong is satisfied, the patentee also must demonstrate this likelihood was either known or should have been known to the defendant. Objective recklessness is now required to assert a *prima facie* case of willfulness. While an opinion of counsel (post-litigation activity) is no longer necessary, it still may be useful in other situations, such as when a potential infringer becomes aware of a patent before a lawsuit is filed or in situations where intent is a factor, such as in inducing patent infringement under 35 U.S.C. § 271(b).

### *Therasense, Inc. v. Becton, Dickinson & Co.*: Inequitable Conduct

Inequitable conduct has long been described as a "plague on patent litigation" because it has become a near certain affirmative defense (unenforceability) or counterclaim in most patent infringement cases. The Federal Circuit in *Therasense* raised the evidentiary bar for proving inequitable conduct:

> To prevail on the defense of inequitable conduct, the accused infringer must prove that the applicant misrepresented or omitted material information with the specific intent to deceive the PTO. The accused infringer must prove both elements—intent and materiality—by clear and convincing evidence. If the accused infringer meets its burden, then the district court must weigh the equities to determine whether the applicant's conduct before the PTO warrants rendering the entire patent unenforceable.[6]

Prior to *Therasense*, a claim of inequitable conduct could easily survive a motion for summary judgment by simply presenting evidence that the alleged conduct was *material to patentability*, even if the evidence in support of the *intent to deceive* prong was weak. This so-called sliding scale of proof made it too easy to make out a case for the ultimate penalty—unenforceability of the patent. As a result of *Therasense*, an accused infringer now must prove by clear and convincing evidence that the applicant *both* misrepresented or omitted material information *and* did so with the *specific intent to deceive* the Patent Office. Even if the infringer meets this burden, the patent still may be found enforceable, as the court then balances the equities in reaching a final decision. The intent prong, in particular, has been raised and now requires a showing that the applicant made the decision to deceive knowingly and deliberately. Regarding materiality, evidence must be shown that but for the alleged deception, the Patent Office would not have allowed the claim after giving it its broadest reasonable construction.

### *Uniloc USA, Inc. v. Microsoft Corp.*: Patent Damages

Prior to *Uniloc*, it was commonplace for a patent infringement damage expert to refer to or rely upon the so-called "rule of thumb" or "25% Rule" in calculating reasonable royalty patent infringement damages, the threshold for such damages. Such blind adherence is no longer possible thanks to the Federal Circuit's decision in *Uniloc*, where the court stated that it

> now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under Daubert and the Federal

> Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue.[7]

The 25 percent "rule of thumb" represented a somewhat simplistic method of estimating a baseline royalty rate wherein a licensee would be expected to pay a rate equivalent to 25 percent of its anticipated profits for products that incorporate the patented invention. The Federal Circuit reasoned that such a rule of thumb did not satisfy the evidentiary threshold for proving a reasonable royalty because it was not sufficiently tied to the particular facts of a given case. The *Uniloc* court recognized that the starting point for reasonable royalty calculations is dependent upon the particular facts and circumstances of each case and that a 25 percent starting point is not appropriate for every hypothetical negotiation. In addition, the court rejected the manner in which the "entire market value rule" was previously applied. Again, noting that damages are peculiar to the specific facts and proof presented, the court noted that market demand for the entire product does not necessarily correlate to a market demand for the patented portion or component of that product. A plaintiff now must present proof that the consumer demand was driven by the patented component.

### *Microsoft Corp. v. i4i Limited Partnership*: Burden of Proof of Invalidity

> We consider whether § 282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.[8]

The Federal Circuit has always required clear and convincing evidence to invalidate a patent because of the recognized presumption of validity accorded to a patent issued by the Patent Office. In *Microsoft*, the Supreme Court was asked to determine whether that burden was applicable to a prior art reference that was not considered by the Patent Office during prosecution of the patent. The Court unanimously affirmed the clear and convincing standard, citing its unanimous 1934 decision in *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, in which Justice Cardozo wrote for the unanimous Court that "there is a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence."[9] The Court did note in *dicta* that a jury "may be instructed to evaluate whether the evidence before it is materially new, and if so, to consider that fact when determining whether an invalidity defense has been proved by clear and convincing evidence."[10]

### The America Invents Act of 2011

Noted primarily for its departure from the "first to invent" basis for patent protection in the United States in favor of a "first to file" requirement that is common in other countries, the AIA has a number of other provisions that are far too complex (and in flux) to address here. Suffice it to say, some of these provisions already have become effective, and it is a certainty the AIA will change the landscape of patent law for years to come.

### Endnotes

1. 415 F.3d 1303, 1321 (Fed. Cir. 2005).
2. 550 U.S. 398, 415-16 (2007).
3. 535 U.S. 722, 740 (2002).
4. 553 U.S. 617 (2008).
5. 497 F.3d 1360, (Fed. Cir. 2007) (en banc).
6. 649 F.3d 1276, 1287 (Fed. Cir. 2011).
7. 632 F.3d 1292, 1315 (Fed. Cir. 2011).
8. 131 S. Ct. 2238, 2242 (2011).
9. 293 U. S. 1, 2 (1933).
10. 131 S. Ct. 2238, 2251 (2011).

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# Trademark Law

## Public Domain and Origin of Goods

*Dastar Corp. v. Twentieth Century Fox Film Corp.*[1] was a groundbreaking Supreme Court ruling that strengthened the rights of those who make use of works in the public domain. By narrowly defining the term "origin of goods," *Dastar* shed light on the limitations of Lanham Act section 43(a) when applied to works that already have passed into the public domain.[2]

General Dwight Eisenhower had authored the book *Crusade in Europe*, published by Doubleday, which in turn granted production company Twentieth Century Fox exclusive television rights to the story. The copyright rights in the book subsequently were renewed, but Twentieth Century Fox's rights in the television show were not. Therefore, in 1977, the show entered the public domain. In 1988 Fox reacquired the television rights to *Crusade in Europe* and licensed the right to distribute a new series on video.

In 1995 Dastar Corporation released a video set entitled "World War II Campaigns in Europe," which was a copy of the Fox's original show but with minor additions, changes, and the removal of all references to and images of General Eisenhower's book. Fox sued Dastar, alleging that its sale of the video set constituted "reverse passing off" in violation of Lanham Act section 43(a), which prohibits use in commerce of "a false designation of origin or any false description or representation" in connection with "any goods or services."[3] The claim was contingent upon Twentieth Century Fox's belief that "origin of goods" refers to the creator of the underlying work. However, the Court, in a unanimous by Justice Antonin Scalia (with Justice Breyer not participating), held that the "origin of goods" refers solely to the producer of the tangible goods being offered for sale.[4] Thus, any author of an idea or concept that is embodied in the tangible good is not considered the "origin." The holding was based on a strict interpretation of the public domain and the idea that there is a "federal right to copy and to use" a work without attribution once the associated copyright has expired, and the work has entered the public domain.[5] Specifically, Lanham section 43(a) does not prevent unaccredited copying of a work in the public domain.

**Elana T. Jacobs**

## Dilution

One of the most prominent questions in trademark law since the adoption of the Federal Trademark Dilution Act (FTDA)[6] was whether the Act required trademark owners to prove a "likelihood of dilution" or an "actual injury to the economic value of a famous mark."[7] After years of differing decisions, the Supreme Court addressed this question in *Moseley v. V Secret Catalogue, Inc.* and concluded—to the chagrin of many trademark owners—that "actual dilution" was statutorily required.[8]

In *Moseley*, V Secret Catalogue, Inc. ("Victoria's Secret"), the owners of the famous VICTORIA'S SECRET trademark, sought to enjoin Mr. and Mrs. Victor Moseley from owning and operating an adult novelty and gift store under the name "Victor's Little Secret."[9] Victoria's Secret claimed that the Moseleys' conduct violated the FTDA because it was "likely to blur and erode the distinctiveness" and "tarnish the reputation" of the VICTORIA'S SECRET mark, which they used to market upscale lingerie.[10] However, Victoria's Secret did not produce any evidence to show the impact of the Moseleys' use of the name "Victor's Little Secret" on the value of the VICTORIA'S SECRET mark to support its claim.[11]

On cross-motions for summary judgment, the district court found that the Moseleys' conduct had a "tarnishing effect" upon the VICTORIA'S SECRET mark and entered judgment for its owners on the FTDA claim.[12] The Sixth Circuit affirmed, concluding that the Moseleys' use of the name "Victor's Little Secret" both "tarnished" and "blurred" the VICTORIA'S SECRET mark.[13] The court rejected the argument that the FTDA required trademark owners to prove that the challenged use caused "actual economic harm to the famous mark's economic value."[14]

The Supreme Court, in a unanimous decision written by Justice John Paul Stevens, reversed.[15] The Court held that the FTDA "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."[16] To make this showing, the Court stated that proof of "actual loss of sales or profits" was not necessary but that mere "mental association" was not sufficient.[17] It further suggested that trademark owners present consumer surveys and other "direct evidence of dilution" to support their FTDA claim unless "actual dilution c[ould] reliably be proved through circumstantial evidence."[18] The Court provided no other guidance.

The *Moseley* decision was roundly criticized for making only "actual dilution" actionable without clearly stating how to establish it.[19] To remedy this problem, Congress passed the Trademark Dilution Revision Act of 2006 (TDRA) and in one fell swoop legislatively overruled *Moseley*.[20] The TDRA drastically changed the dynamic enunciated in *Moseley* by requiring trademark owners to prove only a "likelihood of dilution" to obtain relief under the FTDA, and that remains the law today.[21]

**Megan Bright, Fordham Law 2012**

The development of federal dilution law in the past decade can be illustrated by a chain of court decisions in a decade-long dispute between Starbucks and Wolfe's Borough Coffee, a small coffee manufacturer in New Hampshire. Starbucks brought lawsuit against Wolfe's claiming that Wolfe's use of the mark CHARBUCKS diluted the famous STARBUCKS brand. In 2005, the district court dismissed Starbucks' complaint.[22] However, while the case was pending on appeal, Congress passed the Trademark Dilution Revision Act (TDRA) amending the FTDA.[23] In light of the amendment, the district court decision was vacated by the Second Circuit.[24] Nevertheless, having reconsidered the dilution claim in light of the TDRA, the district court still ruled against Starbucks, finding that the marks STARBUCKS and CHARBUCKS were not "substantially similar."[25] On appeal, the Second Circuit held that the district court erred to the extent it required "substantial similarity" between the marks and placed undue significance on the similarity factor in determining the likelihood of dilution.[26] The case was remanded to the district court for reconsideration of the dilution by blurring claim.

On remand, the only disputed factors in the dilution by blurring claim were similarity of the marks and evidence of actual association (the parties did not dispute that the remaining four of the six non-exclusive factors listed in the statute—the distinctiveness, exclusivity of use, and a high degree of recognition of the STARBUCKS mark, as well as defendant's intent to associate its mark CHARBUCKS with the Starbucks' mark—favored Starbucks). The district court found that the marks CHARBUCKS and STARBUCKS were "only minimally similar" when compared in the context in which the marks were used because the mark CHARBUCKS always appeared together with other terms. With respect to the "actual association" factor, the court found that this factor weighed "no more than minimally" in Starbucks' favor because the percentage of survey participants who indicated a mental association between the marks was "relatively small" (30.5%), and Starbucks' telephonic survey did not measure how consumers would react to the CHARBUCKS mark as it was actually presented in commerce. Although essentially five out of six factors were in Starbucks' favor, the court rejected Starbucks' claim of dilution by blurring.[27] However, the final outcome still remains to be seen, as Starbucks is appealing for the third time.

As this Starbucks saga demonstrates, the federal trademark dilution law is still not free of uncertainty and unpredictable results, and courts continue to struggle with it. The need for the dilution law has even been called into question by some members of the trademark community. Owners of famous marks should pay close attention to the debate as well as to future developments in dilution jurisprudence.

**Marina Bongiorno, Trademark Consultant Attorney, General Electric Company**

## Fair Use

*KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*,[28] clarified which party has the burden of proving likelihood of confusion when a fair use defense is presented. Lasting Impression, a cosmetics company, trademarked the term "MICRO COLORS" that it uses in marketing and selling its permanent makeup, which is "a mixture of pigment and liquid for injection under the skin to camouflage injuries and modify nature's dispensations."[29] When another cosmetics company that also sells permanent makeup, KP Permanent Make-Up, began using the trademarked term, Lasting Impression sued. KP Permanent Make-Up presented a "classic" fair use affirmative defense, namely that it used the mark to describe its own product, not to describe the Lasting Impression product.[30] The district court granted summary judgment to KP Permanent without addressing the likelihood of confusion. The Ninth Circuit, which, at the time, required the proponent of a classic fair use defense to prove there was no likelihood of confusion, reversed.[31]

In an opinion written by Justice David Souter, the Supreme Court held that "a party raising the statutory affirmative defense of fair use to a claim of trademark infringement does not have a burden to negate any likelihood that the practice complained of will confuse consumers about the origin of the goods or services affected."[32] The Court interpreted 15 U.S.C. § 1115(b)(4) as placing the burden of showing likelihood of confusion on the party alleging infringement, rather than on the party utilizing the fair use defense. The Court explained that Congress "said nothing about likelihood of confusion in setting out the elements of the fair use defense" and added in a footnote that the absence was intentional, citing the refusal of the Congressional House Trademarks Subcommittee to forward a proposal expressly making likelihood to deceive the public an element of the fair use defense.[33]

This important case confirms the notion that a defendant does not have to disprove the likelihood of confusion to prevail on an affirmative fair use defense.

Rather, the burden is on the plaintiff to prove consumer confusion.

**Elana T. Jacobs**

### gTLDs and Internet Development

Over the past decade, we have witnessed exponential growth of the Internet. Until now, Internet Corporation for Assigned Names and Numbers (ICANN) approved only 22 generic top-level domains (gTLDs) including .com, .net, .biz, .info. After years of debate, ICANN is opening up the domain name space to allow any qualified entity to apply for a gTLD—whether it be a generic term, a geographic term, a brand, etc. ICANN received applications for over 1,900 gTLDs—nearly 1,000 times the number of existing gTLDs—in the first round of this process. Once these gTLD applications pass through the evaluation and objection phases, the new gTLDs will be delegated to the root and go live. For better or worse, this is going to change the Internet as we know it. Brand owners should pay close attention to developments in this area.

**Lisa Rosaya, Baker & McKenzie LLP**

### Aesthetic Functionality

The last ten years have seen trademark practitioners and courts continue to wrestle with the doctrine of aesthetic functionality. In 2006 the Ninth Circuit summed the struggle up well in *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.* when it observed that aesthetic functionality has a checkered past where purely aesthetic source-identifying product features can be protected trademarks and are not functional.[34] Then again, if an aesthetic feature serves a "significant non-trademark function," the doctrine may preclude protection when doing so would stifle legitimate competition. Courts continue to struggle with what a "significant non-trademark function" is, and there arguably has been sparse guidance from the Supreme Court's related decisions, namely *Qualitex Co. v. Jacobson Products Co.* (considering registrability of color as a trademark) and *Wal-Mart v. Samara Bros.* (functionality of product design may involve considerations of aesthetic appeal).[35] While courts need to maintain legitimate competition, some argue there would be no trademarks at all if a feature were deemed functional simply because it contributes to consumer appeal and salability of the product.

Aesthetic functionality has met with varying degrees of acceptance: in 2010 the Seventh Circuit held in *Jay Franco & Sons, Inc. v. Franek* that if a design enables a product to operate or to be improved in some way, it cannot be trademarked.[36] Still, any pleasure a customer derives from the design's identification of the product's source—the joy of buying a marked good over an identical generic version because the consumer prefers the status conferred by the mark—does not count as functional.

Many consumers arguably purchase Christian Louboutin shoes because they prefer the status conferred by the red soles mark—not the aesthetics of those soles—and yet in 2011 a New York federal court held in *Christian Louboutin S.A. v. Yves St. Laurent Am., Inc.* that a design is functional if its "aesthetic value" confers a significant benefit that cannot practically be duplicated by the use of alternative designs and that Louboutin's red soles did not qualify on the ground that a single color can never be protected by trademark in the fashion industry.[37] The Second Circuit reversed in part, holding that the district court's complete rejection of Louboutin's rights in the red soles as a mark was inconsistent with *Qualitex*, where the Supreme Court "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."[38]

Instead, the Second Circuit concluded that Louboutin's red soles have acquired limited secondary meaning where the red outsole contrasts with the remainder of the shoe.[39] The court reasoned that aesthetic function and branding success can be difficult to distinguish, calling for fact-specific analysis whereby courts must consider the rights of the markholder in its effort to distinguish its product as well as the public's right to a competitive market that could be hindered by granting overly broad trademark rights.[40] The court concluded that Louboutin's rights do not extend to monochrome shoes, but they do cover contrasting red lacquered outsoles. Practitioners now have further insight on aesthetic functionality but likely will continue to struggle to analyze functionality versus source identification.

**Bill Samuels, W.R. Samuels Law PLLC**

### Keywords and Internet Searches

Many Internet search engines, including Google, Yahoo!, and Bing, generate revenue by selling "keywords" that trigger the display of sponsored advertising on their web pages when they are used as search terms. These keyword advertising programs often allow competitors to purchase each others' trademarks as keywords. Over the last several years, several courts have dealt with the issue of whether such use of a trademark is infringement under the Lanham Act, with varying results.

In the earlier keyword advertising decisions, the focus was on whether the use of a mark as a keyword constituted a "use in commerce" triggering Lanham

Act protection. Initially, there appeared to be a split in the circuits, with some courts finding that such use did constitute a use in commerce and others finding that it did not.[41] However, there now appears to be uniformity among the circuits that such use does constitute "use in commerce," and the inquiry instead focuses on whether the use is likely to cause consumer confusion, the standard for infringement under the Lanham Act.[42] Although no case has yet to proceed to the point of finding a keyword advertising program infringing, in *Network Automation*, the Ninth Circuit did set the bar high for plaintiffs, holding that in addition to the traditional factors, plaintiffs also must address the appearance and context of the ad to establish likelihood of confusion.

**Marc J. Rachman, Davis & Gilbert LLP**

## Social Media

In 2002 there was no Facebook, no MySpace, and no Twitter. But the last decade has seen social networking services—online media services, platforms, or sites that facilitate social relations among people—develop to become central to the social and commercial fabric of the United States and the rest of the world. Because every social network requires each user, whether individuals or companies, to register a user name (at least), the idea of securing trademarks on social media networks has been a priority since day one. Trademark and brand owners have seen the need to secure their marks as user names, page names, media network properties, and communication channels on myriad platforms. Policing the Internet and social media networks is as critical to trademark owners as has been employing a team of marketing experts to engage with the social network communities to develop, build on, and maintain goodwill in a respective trademark.

Since the rise in 2003 of social networks as we know them, trademark owners have developed policies on acceptable trademark use on social networks; they have availed themselves social networks' trademark infringement policies and procedures; and they have engaged with consumers—via the embodiment of their marks—more directly than since the days of the traveling sales representative and on a global scale never achieved before this past decade.

**Bill Samuels**

## Cybersquatting and the ACPA

Enacted in 1999, the Anticybersquatting Consumer Protection Act (ACPA), 15 U.S.C. § 1125(d), protects trademark owners against parties registering their marks as domain names. The ACPA established a cause of action to address the registering, trafficking in, or use of a domain name that is confusingly similar to, or dilutive of, a trademark or personal name. Included as an amendment to section 43 of the Lanham Act, trademark owners may pursue a domain name registrant who (1) has a bad faith intent to profit from the mark and (2) registers, traffics in, or uses a domain name that is (a) identical or confusingly similar to a distinctive mark, (b) identical or confusingly similar to or dilutive of a famous mark, or (c) is a trademark protected by 18 U.S.C. § 706 (marks involving the Red Cross) or 36 U.S.C. § 220506 (marks relating to the Olympics).

Trademark owners have found that the ACPA does not protect against all trademark-based domain name registrations by third parties in that traditional trademark rules apply, including fair use, commentary, and other permitted third-party trademark use, such as use of a mark for informational purposes. Over the last decade, for businesses involved online, domain names and the services offered through that domain name often are responsible for a large portion of the business value. Addressing trademark issues on the Internet, and especially domain names, has become a central concern and an area of law that has raised consistently novel questions of real importance.

**Bill Samuels**

## Trademarks and Free Speech

The interplay between trademark law principles and the constitutional guarantee of free speech under the First Amendment has always created challenging issues for trademark practitioners and courts. Use of a third-party trademark in an artistic work is a thorny issue that courts have continued to examine in the past decade, trying to balance trademark values against free speech values.

For example, in the recent case *Louis Vuitton v. Warner Brothers*, a New York federal court considered the issue of whether use of a knock-off Louis Vuitton bag in a movie violated Louis Vuitton's trademark rights.[43] The lawsuit involved Warner Brothers' film "The Hangover: Part II" which features a scene in which one of the characters carries a knock-off Louis Vuitton bag that the character describes as a "Lewis Vuitton" bag. Louis Vuitton argued that the use of a knock-off Louis Vuitton bag would confuse the public as to whether the knock-off bag in the movie was an authentic Louis Vuitton product and also as to whether Louis Vuitton approved Warner Brothers' use of a knock-off as a genuine Louis Vuitton product. The court rejected Louis Vuitton's arguments and dismissed the case, finding that the likelihood of confusion was "at best minimal" and not significant enough to outweigh the defendant's right to free speech.[44]

The case is noteworthy because it clarifies potential applications of the *Rogers* test, which provides a framework for analyzing trademark use in an artistic work. Under the *Rogers* test, use of another's trademark in an artistic work is considered protected speech as long as the mark is both (1) "artistically relevant" to the work and (2) not "explicitly misleading" as to the source or content of the work.[45] In this case, the court refused to extend the "explicitly misleading" prong of the *Rogers* test to confusion about the source or sponsorship of a *third party's* product. Louis Vuitton did not allege that consumers would be confused into believing that Louis Vuitton sponsored or was affiliated with the defendant's movie. Rather, it contended that Warner Brothers impermissibly used a third party's bag that allegedly infringed on Louis Vuitton's trademark rights. The case serves as a reminder that when First Amendment concerns are involved, courts usually will narrowly construe the Lanham Act in weighing the public interest in free expression against the public interest in avoiding consumer confusion.

**Marina Bongiorno**

## Endnotes

1. 539 U.S. 23, 123 S. Ct. 2041 (2003).
2. *Id.* at 27.
3. *Dastar*, 539 U.S. at 30; 15 U.S.C. § 1125(a) (2005).
4. *Dastar*, 539 U.S. at 37.
5. Dastar, 539 U.S. at 34 (*citing Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 165 (1989)).
6. 15 U.S.C. § 1125 (1995).
7. 537 U.S. 418 (2003).
8. *Id.* at 433.
9. *Id.* at 422-23.
10. *Id.* at 424. The owners also brought federal and common law claims for trademark infringement and unfair competition. *Id.* at 423-24.
11. *Id.* at 424-25.
12. *Id.* at 425.
13. *Id.* at 427.
14. *Id.* at 428; *see also Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Development*, 170 F.3d 449, 461 (10th Cir. 1999).
15. *Moseley*, 537 U.S. at 434. Justice Kennedy filed a concurring opinion. *See id.* at 435.
16. *Id.* at 433.
17. *Id.* at 433-34.
18. *Id.*
19. *See* Justin J. Gunnell, 17 Tex. Intell. Prop. L.J. 101, 105 (2008).
20. Pub. L. No. 109-312 § 2, 120 Stat. 1730 (codified as 15 U.S.C. § 1125 (2006)).
21. *Id.*
22. *Starbucks Corp. v. Wolfe's Borough Coffee. Inc.*, 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005).
23. Pub. L. No. 109-312 § 2, 120 Stat. 1730 (codified as 15 U.S.C. § 1125 (2006)).
24. *Starbucks Corp. v. Wolfe's Borough Coffee. Inc.*, 477 F.3d 765 (2d Cir. 2007).
25. *Starbucks Corp. v. Wolfe's Borough Coffee. Inc.*, 559 F.Supp.2d 472 (S.D.N.Y. 2008).
26. *Starbucks Corp. v. Wolfe's Borough Coffee. Inc.*, 588 F.3d 97 (2d Cir. 2009).
27. *Starbucks Corp. v. Wolfe's Borough Coffee. Inc.*, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011).
28. 543 U.S. 111 (2004).
29. *Id.* at 114.
30. *See KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 328 F.3d 1061, 1071-72 (9th Cir. 2003). The Ninth Circuit outlined two types of fair use: classic fair use and nominative fair use. Classic fair use is when an alleged infringer uses a mark only to describe its own product, and not mark holder's product. Nominative fair use occurs when the alleged infringer uses the mark to describe the mark owner's product, even if the ultimate goal is to describe its own product. It's also nominative fair use where the only way to refer to something is to use the trademarked term.
31. *See id.* at 1072.
32. *KP Permanent Make-Up*, 543 U.S. at 114.
33. *Id.* at 124 (*citing* The Lanham Act: Hearings on H. R. 102 *et al.* Before the Subcommittee on Trade-Marks of the House Committee on Patents, 77th Cong., 1st Sess., 167-168 (1941) (testimony of Prof. Milton Handler)).
34. *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*, 457 F.3d 1062, 1064 (9th Cir. 2006).
35. *See Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Wal-Mart Stores v. Samara Bros.*, 529 U.S. 205 (2000).
36. 615 F.3d 855, 857 (7th Cir. 2010).
37. *Christian Louboutin S.A. v. Yves St. Laurent Am., Inc.*, 778 F. Supp. 2d 445, 450 (S.D.N.Y. 2011).
38. *Louboutin v. Yves Saint. Laurent Am. Holding, Inc.*, 2012 U.S. App. LEXIS 18663, *38 (2d Cir. Sept. 5, 2012); *Qualitex*, 514 U.S. at 164.
39. 2012 U.S. App. LEXIS 18663 at *51-55.
40. *Id.* at *37.
41. *Compare Google v. American Blind*, No. C 03-5340 JF (RS), 2007 WL 1159950 (N.D.Cal. April 18, 2007), *with 1-800 Contacts v. When U.com, Inc.*, 414 F.3d 400 (2d Cir. 2005).
42. *See Rosetta Stone, Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); *Network Automation, Inc. v. Advanced Systems Concepts, Inc.*, 638 F.3d 1137 (9th Cir. 2011); *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 127 (2d Cir. 2009).
43. *See Louis Vuitton Malletier v. Warner Bros. Entm't, Inc.*, No. 11 Civ. 9436, 2012 U.S. Dist. LEXIS 83646 (S.D.N.Y. June 15, 2012).
44. *Id. at* *27-28.
45. *See Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

# Trade Secret Law

Trade secrets, unlike other forms of intellectual property, continue to be protected by state statute or common law, and in most instances federal courts deciding trade secret cases must apply the state's trade secret law. The Uniform Trade Secrets Act (UTSA) has been implemented, with modifications in some instances, by forty-six states with New Jersey's adoption of it in 2012. New York remains one of four states that has not adopted the UTSA.

## Public Interest in Protecting Trade Secrets

There is a general public interest in upholding the inviolability of trade secrets and the enforceability of confidentiality agreements.[1] Although the public interest usually favors competition in the marketplace, this principle yields when the competition in question embodies the misappropriation of trade secrets. For this reason, a likelihood of success on the merits of a trade secrets claim virtually guarantees that a remedial injunction will serve the public interest.[2] Stated another way, the "right of a business person to be protected against unfair competition stemming from the usurpation of his or her trade secrets must be balanced against the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he or she is best suited."[3]

## Identifying the Trade Secret

While it is obvious that protection of a trade secret requires the existence of a trade secret, identifying exactly what constitutes the allegedly protectable information is not always easy. According to Restatement of Torts §757, a trade secret consists of a formula, process, device, or compilation that one uses in one's business and that gives one an opportunity to obtain an advantage over competitors who do not know or use it.

In New York, a trade secret is "any formula, pattern, device or compilation of information which is used in one's business, and which gives the owner an opportunity to obtain an advantage over competitors who do not know or use it."[4] Trade secrets include confidential proprietary data relating to pricing, costs, systems, and methods,[5] as well as long-term strategies, operating costs, and customer negotiations.[6] On the other hand, price lists, product samples, and marketing plans are not protected as trade secrets.[7]

Whether information constitutes a trade secret in New York is determined by examining:

(1) the extent to which the information is known outside of the business;

(2) the extent to which the information is known by employees and others involved in the business;

(3) the extent of measures taken by the business to guard the secrecy of the information;

(4) the value of the information to the business and its competitors;

(5) the amount of effort or money expended by the business in developing the information; and

(6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[8]

It is not acceptable for a plaintiff to claim that information is "considered" a trade secret or that the defendant "understood" that such information was a trade secret. The conclusory nature of such allegations, without sufficient supporting factual allegations, precludes a finding that a trade secret exists.[9]

A person has misappropriated a trade secret when he acquires knowledge of another's trade secret in circumstances giving rise to a duty to maintain its confidentiality and then discloses or uses that trade secret without the other's consent.[10] To succeed on a claim for the misappropriation of trade secrets, a plaintiff must demonstrate (1) that it possessed a trade secret and (2) that the defendant used that trade secret in breach of an agreement or confidential relationship or duty or as a result of discovery by improper means.[11] While it is important to identify trade secrets with particularity in the complaint, specifying the precise trade secrets that have allegedly been misappropriated is not required at the pleading stage.[12]

## Protecting or Not Protecting a Trade Secret

Failure to adequately protect a trade secret can be fatal regardless of the confidentiality of the information. Cases in recent years have established when a trade secret is actually entitled to protection as a trade secret. In general, facts must be pleaded that will allow a court to draw an inference that the alleged trade secret was in fact treated as a trade secret or that there was a duty of trust or confidentiality between the plaintiff and the defendant.[13]

It is not the medium in which the trade secret resides that matters but whether the information itself was adequately protected. Where the same information is readily available from another source, it does not qualify as a trade secret.[14] In a case dismissing a trade secret claim, the plaintiff's end-user product was held not to be a trade secret because reasonable steps to maintain its secrecy were not taken, i.e., the plaintiff's contract with a credit union did not contain any confidentiality provisions preventing third parties from viewing the interface, and the contract contemplated that the credit union would use a third-party personal computer support firm to assist with support and to provide the terminal emulation software. These factors, combined with the plaintiff's inability to identify any affirmative steps it took to maintain the secrecy of its user interface, "amply" supported the determination that the plaintiff's user interface was not a trade secret.[15]

Ultimately, the question is whether there is sufficient evidence to enable a reasonable fact finder to conclude that the plaintiff took reasonable steps to safeguard the secrecy of the information such that the alleged unauthorized use of the information could be deemed a breach of good faith in the parties' confidential relationship.[16]

Where the defendant was granted an implied, unlimited license to use the plaintiff's software, there was no misappropriation of any trade secrets in the source code. As a result, a non-competition agreement with an employee of the licensee was not valid because the employer had no trade secret to protect.[17] Inadequate protection of a trade secret also can include the failure to secure non-disclosure agreements,[18] submission of software source code in a copyright application (constituting a public disclosure),[19] disclosure in a patent application (such information, even in a foreign patent, is generally known to the public),[20] misdirected e-mail,[21] and display on a web site.[22]

### Statute of Limitations

The statute of limitations in New York is still three years,[23] and the date on which the cause of action accrues will depend on the nature of the misappropriation and on what was done with the information. Generally, a defendant becomes liable upon disclosure of the trade secret. If, however, the defendant keeps the trade secret confidential yet makes use of it for his own commercial advantage, each successive use constitutes a new, actionable tort for the purpose of the running of the statute of limitations.[24]

### Obtaining a Preliminary Injunction: Showing Irreparable Harm

The threshold requirement is, of course, that the plaintiff establish that it owns a trade secret.[25] Standing requires evidence that (1) the plaintiff owns the alleged trade secrets at issue; (2) the defendant's use or further dissemination of the trade secrets constitutes a concrete injury to the plaintiff; and (3) any such injury can be redressed by the relief sought.[26]

Threatened dissemination of trade secrets generally creates a presumption of irreparable harm.[27] A plaintiff, however, still must demonstrate that absent a preliminary injunction it will suffer an injury that is neither remote nor speculative but actual and imminent, and one that cannot be remedied if the court waits until the end of trial to remedy the harm.[28] On the other hand, where there is an adequate remedy at law, such as an award of money damages an injunction may be available only in extraordinary circumstances.[29] For example, where a misappropriator only seeks to use the trade secret—without further dissemination or irreparable impairment of value—in pursuit of its own profit, the presumption of irreparable harm is not warranted because an award of damages often will provide a complete remedy for such an injury.[30] Punitive damages will be available only where the defendant's conduct is "gross and wanton."[31]

Seeking an injunction that simply prohibits the disclosure of trade secrets or confidential information, with no additional description of what secrets or confidential information are to be protected, is insufficient to satisfy the specificity requirement of Federal Rule of Civil Procedure 65(d).[32] The plaintiff must provide enough information about the alleged trade secret to enable the defendant to distinguish it from matters generally known to persons skilled in the field.[33] The degree of specificity in identifying the trade secret can vary depending on its nature, and a plaintiff does not have to provide an explanation in every case as to how the alleged trade secret differs from matters known to skilled persons in the field.[34]

### Limitations on Disclosure of Trade Secrets

The Freedom of Information Act allows a federal agency to refuse disclosure of "trade secrets and commercial or financial information obtained from a person and privileged or confidential."[35] This exemption applies if a three-part test is satisfied: (1) the information for which exemption is sought must be a trade secret or commercial or financial in character; (2) it must be obtained from a person; and (3) it must be privileged or confidential.[36]

When litigation requires disclosure of trade secrets, the court may disclose certain materials only to the attorneys involved.[37] The court also may, for good cause, issue an order to protect a party or person from "annoyance, embarrassment, oppression, or undue burden or expense, including…requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way…"[38]

### Inevitable Disclosure Doctrine

The "inevitable disclosure doctrine" continues to evolve, and there appears to be a trend against applying it too quickly. The doctrine states that a person may be enjoined from engaging in employment or certain aspects of his employment where that employment is likely to result in the disclosure of information, held secret by a former employer, of which the employee gained knowledge as a result of his former employment situation.[39] Determining whether to grant an injunction to prevent the threatened disclosure of trade secrets will turn on whether there is a sufficient likelihood, or a substantial threat, of disclosing trade secrets.[40] The UTSA provides that both actual or "threatened" misappropriation may be enjoined. For example, a non-compete agreement was enforced because the departing employee who had knowledge of IBM's trade secrets would be taking a position at Apple overseeing the development of a product similar to one he had worked on at IBM.[41]

On the other hand, the inevitable disclosure doctrine was characterized as treading "an exceedingly narrow path through judicially disfavored territory."[42] California has rejected the doctrine entirely, requiring instead a showing of "threatened misappropriation."[43] In New York, the trade secret owner must offer evidence that specific information is at imminent risk.[44] Where the plaintiff had not identified the specific information that would give the new employer a competitive advantage, its trade secret claim was dismissed.[45]

### The Computer Fraud and Abuse Act in the Employment Context

The Computer Fraud and Abuse Act (CFAA)[46] originally was enacted as an anti-hacking criminal statute. Over the years, the scope of the CFAA has broadened, and it now provides for civil actions in federal courts to combat the theft of information stored on any computer used in interstate commerce. Employers are increasingly taking advantage of the CFAA's civil remedies to sue former employees and their new companies who attempt to gain a competitive edge through wrongful use of information from the former employer's computer system.[47]

The CFAA eliminated a major deterrent to bringing a trade secret claim. In a trade secret action, the plaintiff must show that a trade secret exists, and this risks at least partial disclosure of the trade secret. As discussed above, however, limiting information about the trade secret risks failing to satisfy the plaintiff's burden of proof. Because the CFAA prohibits unauthorized access to or destruction of any information, a company does not have to show that the information accessed or destroyed by an employee or former employee rises to the level of a trade secret.

Particularly useful are the CFAA's provisions that prohibit employees from deleting information stored on a company's computers, copying information stored on a company's computers without the employer's authorization and, following termination, continuing to access a company's computers. The CFAA was enforced successfully against a former employee who deleted data from his company-issued laptop. The court held that the former employee's use of a secure-erasure program (to remove data that would have revealed misconduct by the former employee) constituted an illegal transmission of a program, information, code, or command within the meaning of the CFAA.[48]

While there is a general consensus among the courts that the CFAA makes it unlawful for a former employee to continue to access a company's computers after the termination of his or her employment, the determination of whether a current employee's particular use is unauthorized will depend on the circumstances. For example, authorization to use a computer does not necessarily cease when an employee uses the computer contrary to the employer's interest.[49] Instead, it is the employer's decision to allow or to terminate an employee's authorization to access a computer that determines whether the employee is with or "without authorization."[50]

### Pending Legislation and Future Trends

On July 17, 2012, Senators Herb Kohl (WI), Chris Coons (DE), and Sheldon Whitehouse (RI) introduced the Protecting American Trade Secrets and Innovation Act of 2012 (PATSIA), which provides federal jurisdiction for the theft of trade secrets. In one commentator's view, however, PATSIA will require a comparatively higher pleading standard than the Uniform Trade Secrets Act, which is the source for most state laws, or the Restatement, which is the source for New York's common law. This includes describing with specificity the reasonable measures taken to protect the secrecy of the alleged trade secrets and a sworn representation by the party asserting the claim that the dispute involves either substantial need for nationwide service of process or misappropriation of trade secrets from the United States to another country."[51]

According to Senator's Kohl's press release, PATSIA "will help American companies protect their valuable trade secrets by giving them the additional option of seeking redress in Federal courts when they are victims of economic espionage or trade secret theft. Stolen trade secrets cost American companies billions of dollars each year and threaten their ability to innovate and compete globally. This bill ensures that companies have the most effective and efficient ways to combat trade secret theft and recoup their losses, helping them to maintain their global competitive edge."[52]

Predicting future trends in trade secrets law is difficult. One possible development could be the increased use of trade secret protection in anticipation of invoking the prior use defense for patent infringement. The 2011 America Invents Act[53] expanded this defense to cover the prior commercial use of "subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process"[54] that occurs at least one year before the earlier of the effective filing date of the claimed invention or the date on which the claimed invention was disclosed to the public.[55] Rather than risk disclosing confidential information in a patent application, a company may choose to forgo the application, keep the information secret, and then rely on its prior use of the method or invention to defend itself against an infringement claim.

## Endnotes

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3. *Bimbo Bakerie*, 613 F.3d at 119.
4. *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 117 (2d Cir. 2009).
5. *Jasco Tools, Inc. v. Dana Corp. (In re Dana Corp.)*, 574 F.3d 129, 152 (2d Cir. 2009).
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20. *Ultimax Cement Manufacturing Corp. v. CTS Cement Manufacturing Corp.*, 587 F.3d 1339, 1355-56 (Fed. Cir. 2009) (applying California law); *see also On-Line Techs., Inc. v. Bodenseewerk Perkin-Elmer GmbH*, 386 F.3d 1133, 1143 (Fed. Cir. 2004).
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26. *Id.*
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# *Rosetta Stone v. Google*: Fourth Circuit Misses Opportunity to Clarify Distinction Between Direct and Contributory Trademark Infringement

By Jonathan Bloom

## I. Introduction

Last spring, in its eagerly awaited decision in *Rosetta Stone Ltd. v. Google Inc.*,[1] the Fourth Circuit reversed the district court's grant of summary judgment for Google on claims arising out of the use of Rosetta Stone trademarks by counterfeiters in sponsored ads on Google's website. The case presented an opportunity for the court to clarify a number of issues pertaining to potential search-engine liability for keyword-triggered sponsored ads, but the court failed to make the most of the opportunity.

The district court saw Rosetta's attack on Google's sale of its trademarks as keywords as overreaching and found a way to reject every claim. Although the court botched the law in some respects, its overall take on the case was fundamentally correct: absent evidence of a failure to address specific, known infringing conduct, Google—a seller of advertising space—should not be liable for conduct by AdWords customers who violate Google's policies. That reasonable view of Google's legal obligations was undercut, however, by the district court's willingness to entertain a direct infringement claim, including the requisite detailed likelihood-of-confusion analysis, before ultimately throwing it out.

The court of appeals corrected some of the district court's legal errors, but its approach to Rosetta's direct and contributory infringement claims—in particular, its failure to explain the distinction between them or to identify contributory infringement as the appropriate framework for evaluating Google's conduct—left a muddle where clear guidance was needed. The ruling thereby virtually ensured additional meritless keyword ad-related claims would be asserted against Google and other search-engine operators.

The law is clear in other contexts (file-sharing services, swap meets / flea markets, online marketplaces such as eBay and Amazon) that the provider of a service or of facilities that can be used for infringing purposes is liable, if at all, only as a contributory or vicarious infringer. These entities are properly viewed as facilitators, not as direct infringers. The same understanding has not yet coalesced, however, with respect to keyword sellers, but it should, and the Fourth Circuit missed the chance to say so.

Much of the considerable interest in *Rosetta Stone* was generated by the district court's likelihood-of-confusion analysis (in which it discussed only three of the nine factors in the Fourth Circuit's test) and its bizarre ruling that the functionality doctrine dictated summary judgment for Google on Rosetta's direct infringement claim. Not enough attention has been paid, however, to the question of how Google can potentially be liable as a direct infringer—even assuming a likelihood of confusion—in the absence of any evidence that it itself used the Rosetta Stone marks as trademarks or helped create any of the allegedly infringing ads. The Fourth Circuit cited Google's purported failure to dispute trademark use as an excuse for skipping the issue and proceeding (as the district court had) to the likelihood of confusion. But Google *did* raise the issue (albeit perhaps not as clearly or strenuously as it could have), and it was incumbent on the Fourth Circuit to address it.

The court of appeals' failure to scrutinize the Trademark Use issue reflected its failure to see the case for what it was: one of a series of cases aimed at invalidating the practice of selling trademarks to third parties as keywords, without regard to whether the resulting ads make lawful referential use of the marks or even use the marks in ads at all. The assertion of a direct infringement claim against Google reflected an effort to shift onto Google the trademark-policing burden that properly rests with the trademark owner. Rosetta's goal in this regard was overt: it acknowledged that it brought the case not to force Google to respond with greater alacrity to infringement notices but rather to "stop Google's auction and sale of Rosetta Stone Marks to third parties for use as keywords and in the content of their sponsored links."[2]

Rosetta's objective—total control over its mark in connection with Google's AdWords program—was akin to that of Tiffany in its unsuccessful suit against eBay. In that case the trial court found (and the Second Circuit noted) "some basis in the record for [the] assertion that one of Tiffany's goals in pursuing [the] litigation [was] to shut down the legitimate secondary market in authentic Tiffany goods."[3] The Second Circuit observed that eBay could not "guarantee the genuineness of all of the purported Tiffany products offered on its website" and that imposing liability on that basis "would unduly inhibit the lawful resale of genuine Tiffany goods."[4] Rosetta, likewise, sought to bar legitimate resellers of its software from bidding on its marks, and it sought to achieve this goal by holding Google directly liable for infringing ads *as if it were a counterfeiter*.

If that were the rule, then Google would be faced with an impracticable burden of due diligence that would threaten its ability to continue to make keyword sales of third-party marks—exactly what Rosetta sought. The district court had it right: there is, it observed, "little Google can do beyond expressly prohibiting advertisements for counterfeit goods, taking down those advertisements when it learns of their existence, and creating a team dedicated to fighting advertisements for counterfeit goods."[5] The outcome sought by Rosetta—a total ban on third-party use of its mark as a keyword—would be an effective prophylactic, but it would eliminate a range of noninfringing uses that comply with Google's policies, and it would cripple a practice that is vital financially to the operation of free search engines.

This broader perspective should have prompted the Fourth Circuit to consign Rosetta's direct infringement claim to oblivion. Instead, even though fact findings cited by the court should have precluded a finding of direct infringement by Google, the Fourth Circuit sent the case back to the district court for another look at the likelihood-of-confusion evidence (among other things). That evidence should have been deemed relevant only to whether Google *advertisers* were direct infringers, not to whether Google was.

The Fourth Circuit also fumbled the likelihood-of-confusion analysis, including by reaching the dubious conclusion that evidence relating to Google's internal studies of the impact of proposed keyword policy changes raised a triable fact issue concerning Google's intent to infringe. This finding will discourage responsible assessments of proposed policies and practices and provide a hook for baseless direct infringement claims. In general, the court's review of the record evinced greater concern with policing the summary judgment standard than with clarifying the substantive legal standards for direct and contributory infringement. This "missing the forest for the trees" approach will hinder the development of the law in this area.

The Fourth Circuit's failure to appropriately circumscribe Google's potential direct infringement liability had predictable consequences: within months of the court's decision, Professor Eric Goldman noted that "we're seeing more litigation against Google now than we did in the year prior to the *Rosetta Stone* ruling."[6] Most of these suits will fail,[7] but shouldn't appellate courts do what they can to prevent meritless claims from being brought in the first place?

## II. Factual Background[8]

Rosetta Stone sells language learning products and services and holds various registered "ROSETTA STONE" trademarks. Rosetta conducts "a substantial amount of its business over the Internet," including through its own website, advertising on third-party websites, and authorizing sales of its products by resellers such as Amazon.com and Barnes & Noble.

Google's AdWords Program is an "auction-style advertising program that displays advertisements to users of Google's search engine in the form of Sponsored Links." Sponsored Links are displayed above or to the right of the organic search results. AdWords allows advertisers to bid on "keywords" that will trigger a Sponsored Link to the advertiser's website in response to a search query using the keyword. Advertisers can select keywords from a list of words or phrases generated by Google, including by a trademark-specific version of Google's Query Suggestion Tool. Google's Query Suggestion Tool is aimed at helping advertisers target consumers who are likely to be attracted by their advertisements.

Advertisers pay Google based on the number of times consumers click on an ad and are linked through to the advertiser's website. Google filters the list of suggested keywords to remove trademarked terms as to which Google has received a complaint. Since 2004, Google has otherwise allowed the purchase of trademarks as keywords by competitors of the trademark owner.

Google changed its trademark policy in 2009 to allow advertisers to include another's trademark in the text of an advertisement (in addition to purchasing the trademark as a keyword) provided the advertiser: (1) resells legitimate products bearing the trademark; (2) sells components, replacement parts, or compatible products; or (3) provides noncompetitive information about the goods or services corresponding to the trademarked term.

Google's enforcement procedures include use of a Trust and Safety Team to address complaints about violation of its AdWords policies, including fraud and counterfeiting. The Team removes ads confirmed to violate AdWords policy. Some advertisers using Sponsored Links nevertheless have misdirected Google users to sites that sell counterfeit Rosetta Stone products or falsely suggest a connection to Rosetta Stone.

Rosetta Stone participated in the AdWords program beginning in 2002. It made frequent requests to have ads removed that violate Google's policy, and Google complied with the requests and was even praised by Rosetta for doing so. Between July 2007 and March 2010, Rosetta Stone made more than $27 million from orders placed by customers who used Google and received 330,796 orders from paid search referrals.

## III. The Lawsuit

Rosetta Stone sued Google in the Eastern District of Virginia in July 2009, alleging that Google, through AdWords, had helped third parties mislead consumers and misappropriate Rosetta's marks by (1) using the marks as keywords and (2) using them in the text of Sponsored Link ads. Rosetta alleged that the former practice triggered ads "expressly designed to draw consumers *away* from Rosetta websites" and that the latter practice "misleadingly communicate[d] to consumers that such links [were] endorsed or sponsored by Rosetta Stone or its affiliates, or that such websites [were] official Rosetta Stone websites."[9]

The causes of action alleged were: (1) trademark infringement; (2) contributory trademark infringement; (3) vicarious trademark infringement; (4) trademark dilution; (5) trademark infringement (state); 6) unfair competition (state); and (7) unjust enrichment.

Rosetta alleged that it had "long been and remains a strong supporter of the Internet and the promise that it holds for consumers and society" and that it did "not question that Google's search engine provides consumers with a powerful and highly-useful means to search the Internet for information."[10] However, Rosetta alleged, Google's search engine was "helping third parties to mislead consumers and misappropriate the Rosetta Stone Marks by using them as 'keyword' triggers for paid advertisements and by using them within the text or title of paid advertisements."[11] The core allegation was that

> when some web users click on the link that Google's advertisers pay to place above or alongside purportedly objective "organic search results" in order to seek information about Rosetta's products or services, they are deceived into believing that they will be provided with official information about Rosetta Stone's products and other services directly from Rosetta Stone…. In fact, in some instances, these links lead to websites that offer the products and services of Rosetta's competitors, whether or not they also offer Rosetta's own products and services. In other instances, these links lead to websites that offer pirated Rosetta Stone products.[12]

Rosetta sought an injunction permanently:

- barring Google from, *inter alia*, "directly or indirectly selling or offering for sale the Rosetta Stone Marks or other items confusingly similar to the Rosetta Stone Marks for use in its search engine-based advertising programs to anyone other than Rosetta Stone or its authorized licensees" and
- "continuing to post advertisements for anyone other than Rosetta Stone and its authorized licensees because Internet users have run a search on Google's search engine using search terms that are identical or confusingly similar to the Rosetta Stone Marks."[13]

Google moved to dismiss the unjust enrichment claim and for summary judgment on all other claims. On August 3, 2010, the district court granted Google's motion for summary judgment in its entirety. This article will focus on the court's handling of the direct and contributory infringement claims.

## IV. The District Court's Summary Judgment Ruling

### A. Direct infringement

The court begin its discussion of direct infringement by stating that there was no dispute that by auctioning the marks as keyword triggers and allowing their use in Sponsored Link titles and advertising text, Google had used the Rosetta Stone marks in commerce; the only issue as to direct infringement was the likelihood of consumer confusion.[14] The court then identified the nine likelihood of confusion factors set forth in *George & Co. L.L.C. v. Imagination Entm't Ltd.*:[15] (1) strength or distinctiveness of the mark; (2) similarity of the marks; (3) similarity of the goods and services; (4) similarity between the facilities used by the markholders; (5) similarity of advertising used by the markholders; (6) defendant's intent; (7) actual confusion; (8) quality of the defendant's product; and (9) sophistication of the consuming public. The court stated, however, that only three of the factors—intent, actual confusion, and consumer sophistication—were disputed,[16] and it confined its discussion to those factors without addressing whether they were the only ones that were probative of consumer confusion.

#### 1. Intent

The court found no genuine issue of material fact as to whether Google intended to confuse potential purchasers of Rosetta Stone products or sought to pass off its goods or services as Rosetta's. Its key findings on this issue were: (1) Google provides ad space; it does not sell Google-made products; (2) Google internal studies indicated an intent to profit from the sale of trademarks as keywords, not an intent to confuse; (3) Google does not make money from ads for counterfeit goods, as counterfeiters tend to use stolen credit cards; and (4) it is not in Google's interest to confuse users by encouraging counterfeiting.[17]

#### 2. Actual Confusion

The court found that the evidence of actual confusion was de minimis. Specifically, it found that: (1) Rosetta Stone had identified only five individuals who claimed to be confused out of more than 100,000,000 ad impressions triggered by use of the "Rosetta Stone" keyword; (2) none of the ads complained about conformed to Google's policy; (3) all five individuals were confused as to the authenticity of the products, not as to the source, and thus (in the court's view) were not confused in a legally relevant way; (4) customer complaints concerning counterfeit Rosetta Stone software identified Craigslist and spam, not Google, as the means by which the products were located; and (5) Rosetta's survey expert measured whether respondents believed a link was "endorsed" by Rosetta Stone, not whether there was confusion as to the source of the products—only the latter (in the court's view) being relevant.[18]

### 3. Consumer Sophistication

The court found that consumers willing to spend hundreds of dollars on language-learning software were likely to spend time learning about Rosetta products and would be able to distinguish between Sponsored Links and organic search results.[19]

* * *

In sum, the court found no genuine issue of material fact as to likelihood of confusion and granted summary judgment to Google.

### B. Contributory Infringement

With respect to contributory infringement, Rosetta argued that (1) Google's Query Suggestion Tool encourages advertisers to bid on brand names, which induces advertisers to infringe the Rosetta Stone marks, and (2) Google supplies its service to those it knows or has reason to know are using it to infringe by allowing known counterfeiters to open AdWords accounts. The district court found, however, that no reasonable trier of fact could conclude that Google "intentionally induces or knowingly continues to permit third-party advertisers selling counterfeit Rosetta Stone products to use the Rosetta Stone Marks in their Sponsored Link titles and advertising text."[20] The court pointed out that the "mere existence of a tool that assists advertisers in optimizing their ads does not, in itself, indicate intent to induce infringement,"[21] and it noted that (1) Google informs advertisers they are responsible for not violating the law; (2) the desire for economic gain does not amount to contributory infringement; and (3) there was no evidence that Google had failed to act on specific, contemporaneous knowledge of infringing activity by advertisers.[22] As the court put it:

> There is little Google can do beyond expressly prohibiting advertisements for counterfeit goods, taking down those advertisements when it learns of their existence, and creating a team dedicated to fighting advertisements for counterfeit goods. Google has worked closely with law enforcement and brand owners to combat counterfeiting because it knows that those advertisements can create a bad experience for web users, who Google ultimately relies on for its business.[23]

Moreover, like eBay, the court stated, Google "has no mechanism for detecting which advertisers sold counterfeit Rosetta Stone products…. [I]t cannot determine if a Rosetta Stone product is a counterfeit without physically inspecting it."[24] The court noted that "even with eBay's knowledge of the high rate of Tiffany counterfeits," the Second Circuit in *Tiffany* did not impute to eBay the degree of specific knowledge necessary for liability.[25] Comparing the approximately 200 notices Google received of Sponsored Links advertising counterfeit Rosetta Stone products to the record in *Tiffany*, in which eBay received thousands of infringement claims, the court "necessarily" held that Rosetta had not met the burden of showing that summary judgment was warranted on its contributory infringement claim.[26]

## V. The Fourth Circuit's Ruling

Rosetta appealed, and the Fourth Circuit reversed and remanded the grant of summary judgment to Google on, *inter alia*, the direct and contributory infringement claims. In doing so, the court identified both substantive legal errors and errors in the trial court's application of the summary judgment standard.

### A. Direct Infringement

At the outset, the Fourth Circuit questioned the district court's assertion that Google had conceded its use of the marks in connection with the sale, offering for sale, distribution, or advertising of any goods or services, as contemplated by 15 U.S.C. § 1114(1)(a).[27] The court of appeals noted that Google had disputed the point in its summary judgment brief.[28] However, on the premise that the issue had not been raised on appeal, the court proceeded to review the district court's findings as to likelihood of confusion.

Next, addressing Rosetta's argument that the district court erred by not addressing each of the circuit's likelihood-of-confusion factors, the court observed that the factors are "only a guide—a catalog of various considerations that may be relevant"[29] and that there is "no hard and fast rule that obligates the district court to discuss each non-mandatory factor."[30] This is especially true, the court pointed out, "when the use of the plaintiff's trademark is referential or nominative in nature," in which case many of the factors "are either unworkable or not suited or helpful as indicators of confusion" because the defendant is not passing off its goods under the plaintiff's mark.[31] This is the case, the court pointed out, with respect to the similarity of the marks, the strength of the plaintiff's mark, the similarity of the parties' goods and services, the quality of the defendant's goods, the similarity of facilities, and the similarity of advertising—factors that were not probative in this case because Google did not distribute a product or service using Rosetta's marks.[32]

As for the remaining factors, the court of appeals took the trial court to task for making factual findings, as if it were conducting a bench trial, rather than identifying genuine issues of material fact.

### 1. Intent

With respect to intent, the Fourth Circuit cited the fact that internal studies performed by Google suggested that there was "significant source confusion among Internet searchers when trademarks were included in the title or body of the advertisements" and the fact that Google nevertheless changed its policy in 2009 to allow use of third-party trademarks in ad text and expected both a revenue boost and an uptick in litigation as a result.[33] The court concluded from this that "a reasonable trier of fact could find that Google intended to cause confusion in that it acted with the knowledge that confusion was very likely to result from its use of the marks."[34]

### 2. Actual Confusion

Reviewing the evidence of actual confusion, the court noted the testimony of five customers who purchased counterfeit Rosetta Stone software from a sponsored link they mistakenly believed was affiliated with Rosetta or authorized by Rosetta to resell or distribute genuine software. The district court erred in discounting this evidence, the court of appeals held, by failing to recognize that confusion as to affiliation, connection, or sponsorship, not just confusion as to source, is actionable under section 1125(a).[35] The court also noted evidence that Rosetta's customer care center received more than 250 complaints between April 2009 and March 2010 from individuals who purchased counterfeit software believing it to be genuine, although the record did not indicate whether the customer made a purchase via the sponsored link.[36] It nevertheless sufficed for purposes of summary judgment, in the court's view, to "infer that a great number of these individuals were confused by the apparent relationship between Rosetta Stone and the sponsored link given that Google began allowing trademarks to be displayed in ad text in 2009 and in light of the evidence showing a substantial 'proliferation of sponsored links to pirate / counterfeit sites.'"[37]

The court also found that Google internal studies, including one that formed the basis for Google's continued prohibition in 2004 on using trademarks purchased as keywords in ad text, were "probative as to actual confusion in connection with Google's use of trademarks."[38] The court also cited the testimony of two Google lawyers who could not determine without research which sponsored links were for authorized resellers of Rosetta products. The district court dismissed the testimony as irrelevant because it showed "mere uncertainty about the source of a product rather than actual confusion," but the court of appeals held that uncertainty is probative of actual confusion.[39]

As for Rosetta's expert survey, the court found that its showing of a net confusion rate of seventeen percent was "clear evidence of actual confusion for purposes of summary judgment." The district court believed that whether respondents thought Rosetta endorsed a sponsored link was a "non-issue," but the Fourth Circuit held that confusion as to sponsorship is actionable.[40]

### 3. Consumer Sophistication

Finally, with respect to consumer sophistication, the court disagreed with the district court's findings of fact on summary judgment and found "sufficient evidence in the record to create a question of fact as to consumer sophistication,"[41] including an internal Google study reflecting that "even well-educated, seasoned Internet consumers are confused by the nature of Google's sponsored links and are sometimes unaware that sponsored links are, in actuality, advertisements."[42]

The court therefore reversed and remanded the grant of summary judgment to Google on the direct infringement claim.

## B. Contributory Infringement

The Fourth Circuit began its contributory infringement analysis by stating that it is "not enough to have a general knowledge that some percentage of the purchasers of a product or service is using it to engage in infringing activities,"[43] thereby rejecting the position advocated by Rosetta Stone and several amici. Rather, the court held, the defendant must "supply its product or service to 'identified individuals' that it knows or has reason to know are engaging in trademark infringement."[44] However, the court reversed the grant of summary judgment, criticizing the trial court for improperly weighing the evidence, which, the court of appeals found, presented a triable issue as to whether Google "continued to supply its services to known infringers." The most significant evidence in this regard, the court explained, was the evidence that Google purportedly allowed known infringers and counterfeiters to bid on the Rosetta Stone marks as keywords.[45]

# VI. Analysis

## A. Can Google Be a Direct Infringer?

Although the district court stated there was no dispute that Google used Rosetta Stone marks as trademarks, it also stated (accurately) that Google did not sell Google-made products on its website; that Google and Rosetta Stone were not competitors; and that Google was "not engaged in the business of selling goods but in selling advertising space on a search page."[46] If these statements were true, how could Google be said to have used the marks as trademarks?

There is no question that Google used the marks "in commerce" when it sold them as keywords through its

AdWords program. It is settled law that keyword sales constitute "use in commerce" subject to the Lanham Act since the Second Circuit's decision in *Rescuecom Corp. v. Google Inc.*[47] eliminated the apparent circuit conflict on this issue. The *Rescuecom* court rejected Google's argument that its sale of Rescuecom's mark as a keyword was not a use in commerce subject to Lanham Act, and it held that Rescuecom stated an infringement claim by alleging that Google's "display of sponsored links of competing brands in response to a search for Rescuecom's brand name…creates a likelihood of consumer confusion as to trademarks."[48] In a footnote, the court indicated that practices such as allowing advertisers to pay to appear at the top of the "relevance" list based on a user entering a competitor's trademark or to have users diverted to the advertiser's website would be "highly likely" to cause consumer confusion.[49] But the court did not discuss the factual predicate for ascribing direct liability to Google for infringing ads created by third parties without Google's knowledge, perhaps simply assuming that Google's role in the keyword sale transaction was sufficiently connected causally to the infringement to warrant holding Google accountable for any resulting consumer confusion.

In *Rosetta Stone*, the keyword sale transaction itself was not claimed to cause consumer confusion; the alleged confusion was caused by counterfeiters or other unauthorized sellers using Rosetta's marks in sponsored ads. The district court found that Google sold advertising, not goods, and the Fourth Circuit (without implying disagreement) noted Google's summary judgment argument that it merely sold advertising space to others who were using the mark. To the same effect, Google argued in its appeal brief that it could not be held directly liable for the actions of counterfeiters whose conduct violated Google's policies because direct trademark infringement requires "some volitional conduct on the part of the alleged infringer," and the record was "devoid of evidence that Google was a 'moving force' in counterfeiters' decisions to counterfeit Rosetta Stone software or advertise it."[50] This argument was consistent with the court of appeals' finding in relation to Rosetta Stone's vicarious infringement claim that there was "absolutely no evidence that Google intentionally copied or adopted Rosetta Stone's mark in an effort to pass off its own goods or services under the ROSETTA STONE mark" and no evidence that Google acted jointly with any of the advertisers to control counterfeit ROSETTA STONE products.[51]

Thus, the issue of whether Google used the Rosetta marks in a manner that made it a potential direct infringer *was* raised, and the Fourth Circuit (like the district court) pointed to facts that would seem to establish the lack of any basis for a direct infringement finding. Yet the court declared that Google's use of the marks was not an issue on appeal and proceeded to assume such use had been established. This failure to grapple with the factual predicate, if any, for holding Google liable for direct infringement is a major conceptual weakness in the opinion and an unfortunate omission given the pressing need to clarify the legal framework applicable to search engines.

Had the Fourth Circuit been appropriately concerned with defining rational limits on potential claims against Google, it would have held that, on the record presented, Google could not be liable as a direct infringer *whether or not there were triable issues as to likelihood of confusion*. Instead, the court indulged Rosetta's effort to conflate Google with the direct infringers.

There was no more basis for holding Google directly liable than there was in *Tiffany* to hold eBay directly liable. In *Tiffany*, the Second Circuit held that eBay's knowledge that counterfeit Tiffany goods were offered on its site was "not a basis for a claim of direct trademark infringement," especially as there was no dispute that eBay removed all listings challenged as counterfeit.[52] eBay, the court noted, "cannot guarantee the genuineness of all of the purported Tiffany products offered on its website," as that would "unduly inhibit the lawful resale of genuine Tiffany goods."[53]

More recently, in *Tre Milano, LLC v. Amazon.com, Inc.*,[54] a California appellate court affirmed the denial of a preliminary injunction motion against Amazon based on the sale of counterfeits by third parties on Amazon's site. The court, quoting *GMA Accessories, Inc. v. BOP, LLC*,[55] stated that "parties [who] act as intermediaries for a transaction and do not buy and resell the commodities" are not treated as sellers under the Lanham Act "*and are not directly liable for infringement under the act.*"[56] Since "Amazon itself "was not selling counterfeit goods," the court held that it was not liable as a direct infringer. Amazon, like eBay, was "a service provider facilitating the sale of counterfeit products belonging to a third party,"[57] which implicates contributory, not direct, infringement.

As the Ninth Circuit held in *Lockheed Martin Corp. v. Network Solutions, Inc.*,[58] contributory infringement applies to a party that exercises "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." That is precisely the role played by Google with respect to keyword-triggered sponsored ads. Without setting out to do so, Google provides the "site and facilities for direct infringement"[59] and thus properly is liable, if at all, as a secondary infringer.

In short, direct infringement is the wrong legal theory for keyword ad claims against Google (or any search engine). Unfortunately, the Fourth Circuit declined to address this crucial point.

### B. What Facts Are Material to the Likelihood of Confusion?

After regrettably passing over the basis for potentially holding Google directly liable, the Fourth Circuit, to its credit, rejected Rosetta's argument that the district court was obliged to evaluate each of the likelihood-of-confusion factors. The court explained that several factors (including strength of the mark and similarity of the products) are not probative—and need not be considered—in cases involving referential uses, i.e., where the defendant has used the plaintiff's mark to identify the *plaintiff's* product. It would have been helpful had the court gone further and articulated a likelihood-of-confusion standard applicable to referential (or nominative) fair uses, which it expressly declined to do, but the court correctly embraced flexible pragmatism rather than rote formula.

Having laid to rest the misplaced criticism of the district court's truncated likelihood-of-confusion discussion, though, the rest of the court's likelihood-of-confusion analysis left something to be desired. Most notably, in evaluating the evidence of intent, the court held that a genuine issue of material fact was raised by internal Google studies predicting an uptick in litigation if it were to start allowing the use of third-party marks in ad text. In so ruling, the court ignored the countervailing evidence that Google: (i) adopted automated measures specifically to prevent what it recognized to be the increased opportunities for infringement; (ii) adopted a policy intended to permit only noninfringing referential uses; (iii) maintained a Trust & Safety team responsible team responsible for responding to complaints; and (iv) had what the district court found to be a business incentive to keep its site free of infringement.

The district court correctly found no credible evidence that Google intended to infringe; to the contrary, it found that it was "in Google's own business interest, as a search engine, not to confuse its users by preventing counterfeiters from taking advantage of its service."[60] The district court in *Tiffany* similarly found that eBay had "an interest in eliminating counterfeit Tiffany merchandise from eBay…to preserve the reputation of its website as a safe place to do business,"[61] and the Second Circuit in *Tiffany* noted that "private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites."[62]

By deeming a predictive internal study sufficiently probative of intent to infringe to warrant a remand, the Fourth Circuit ascribed materiality to evidence that did not even relate to the marks at issue. As a policy matter, moreover, holding that such studies are enough to defeat summary judgment will discourage analysis of the impact of contemplated business practices by Internet service providers. Search engines should not be chilled from studying the likely effects of new policies or practices by concern with the potential litigation consequences of doing so.

With respect to actual confusion, the court of appeals corrected the district court's erroneous holding that confusion as to authenticity is not material under the Lanham Act, but it gave too much weight to certain record evidence. For example, the court cited complaints received by Rosetta's customer care center from individuals who purchased what they thought was counterfeit Rosetta Stone software.[63] The trial court found that the complainants identified Craigslist, spam emails, and other sources other than Google as the means by which they located the allegedly infringing products,[64] and the Fourth Circuit failed to specifically address this finding. Moreover, the court's reliance on evidence that Google attorneys were unable to distinguish genuine from counterfeit Rosetta Stone ads raises the question of how evidence of Google's inability to reliably police infringement on its own supports a claim that seeks to require it to do just that.

### C. What Remedial Steps Are Required to Avoid Contributory Infringement Liability?

As for contributory infringement, the Fourth Circuit agreed with Google and its amici (including my clients) that to prevail on a claim of contributory infringement it is "not enough to have general knowledge that some percentage of purchasers of a product or service is using it to engage in infringing activities."[65] But the trial court erred, the Fourth Circuit held, by granting summary judgment to Google based on its conclusion that Rosetta Stone had failed to prove *it* was entitled to summary judgment. The court found that the "most significant" evidence relating to contributory infringement was evidence that even after Rosetta Stone notified Google of sponsored ads for counterfeit Rosetta Stone products, Google "continued to allow Sponsored Links for other websites by these same advertisers to use the Rosetta Stone Marks as keyword triggers and in the text of the Sponsored Link advertisements."[66] The court held that a reasonable trier of fact, drawing all reasonable inferences in a light most favorable to Rosetta Stone (the non-moving party), could find in its favor.

The Fourth Circuit's focus on *infringers* rather than on infringing *ads* differs from the Second Circuit's requirement of knowledge of specific infringing eBay *listings* as a predicate for contributory infringement liability in *Tiffany*. It is, however, nominally consistent with the Supreme Court's holding in *Inwood Labs., Inc. v. Ives Labs., Inc.* that contributory trademark liability can arise where a "manufacturer or distributor…continues to supply its product to *one* whom it knows or has reason to know is engaging in trademark infringement."[67] The Supreme Court reiterated this focus on known *infringers* two years later, when it stated that *Inwood* applies to supplying a product to "*identified individuals* known…to be engaging in continuing infringement."[68]

Given the summary judgment posture, it was not irrational for the Fourth Circuit to remand for a closer look at whether Google's treatment of known counterfeiters met the *Inwood* standard, but the court did not provide sufficient guidance as to what Rosetta must show to defeat summary judgment. The court did not explain, for example, whether the law requires Google to bar all one-time infringers or accused infringers from participation in AdWords—which would conflict with the holding in *Tiffany* that eBay did not run afoul of *Inwood* where *repeat* violators of eBay's anti-counterfeiting policy were suspended from the site[69]—or, on the other hand, whether Google must investigate additional ads from prior infringers which arguably would conflict with the holding in *Tiffany* that a service provider "is not contributorily liable under *Inwood* merely for failing to anticipate that others would use its service to infringe a protected mark."[70]

The implication that failure to immediately bar a known or accused infringer from continued use of one's service may be enough to demonstrate contributory infringement has been rejected by other courts, which have recognized the reasonableness of a more flexible approach. For instance, the Second Circuit noted in *Tiffany* that eBay "primarily employed a 'three strikes rule'—for suspensions," but would suspend a seller after the first violation if it was clear that the seller listed a number of infringing items or that the sale of counterfeit merchandise appeared to be the only thing the seller was on eBay to do.[71] The Second Circuit noted the district court's finding that it was "understandable that eBay did not have a 'hard-and-fast, one-strike rule' of suspending sellers because a [Notice of Claimed Infringement] 'did not constitute a definitive finding that the listed item was counterfeit' and because 'suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods.'"[72]

The district court in *Tiffany* found that upon reviewing a potentially infringing or problematic listing, eBay would (1) remove the listing; (2) send the seller a warning; (3) restrict the seller's account, including temporary or indefinite suspension; or (4) refer the matter to law enforcement. Factors taken into account included the language and sophistication of the listing, the seller's history and feedback rating from past buyers, the seller's business model, and the seller's eBay registration information.[73]

Similarly, in *Tre Milano* the court noted that when Amazon determines that a listing is for an infringing item, its actions "range from blocking the listing to blocking the seller."[74] Blocked sellers are prohibited from opening a new account, but if an infringing seller has a good relationship with Amazon and positive customer feedback, Amazon might block the listing and issue a warning.[75]

These decisions, in which automatic termination was not required to avoid liability, are in accord with the DMCA, which likewise does not require Internet service providers to immediately ban known infringers in order to qualify for one of the statutory safe harbors. Rather, safe-harbor eligibility requires that the service provider have "adopted and reasonably implemented… a policy that provides for the termination *in appropriate circumstances* of subscribers and account holders of the service provider's system or network who are *repeat infringers*[.]"[76]

One can argue that as a matter of policy it would behoove Google to presume across-the-board infringement in the case of known infringers, but it is a different question whether the failure to adopt and act on such a presumption—that is, to adopt a "one strike, you're out" policy—should give rise to liability.

## VII. Conclusion

The Fourth Circuit, presented with an opportunity to shape the law concerning keyword ad sales, failed adequately to articulate the distinction between direct and contributory liability. It was instead content to quibble with the district court's fact-finding on summary judgment while losing sight of materiality. By remanding, it postponed the day of reckoning and, in the meantime, waved a green flag to trademark owners eager to attack Google's sale of their marks as keywords. Word of a settlement as this article goes to press means the Fourth Circuit will, unfortunately, remain the last word in this case, as the district court will not have a chance to reiterate the governing principle that Google cannot be—and should not be expected to be—a guarantor of noninfringement by AdWords customers.

## Endnotes

1. 676 F.3d 144 (4th Cir. 2012).
2. Appellant's Reply Brief, *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007, Doc. 137 (E.D.Va. filed Dec. 13, 2010) at 1.
3. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 98 (2d Cir. 2010).
4. 600 F.3d at 103.
5. *Rosetta Stone Ltd. v. Google Inc.*, 730 F. Supp. 2d 531, 548 (E.D. Va. 2010).
6. Eric Goldman, "Google Sued Again for AdWords Trademark Infringement—Home Decor Center v. Google," July 9, 2012, http://blog.ericgoldman.org/archives/2012/07/google_sued_aga-2.htm.
7. *See, e.g., Jurin v. Google, Inc.*, No. 2:09-cv-03065-MCE-CKD, 2012 WL 5011007 (E.D. Cal. Oct. 17, 2012).
8. The following facts are taken from the district court's opinion. *See Rosetta Stone*, 730 F. Supp. 2d at 535-38.
9. Complaint, *Rosetta Stone Ltd. v. Google Inc.*, No. 1:09cv736 GBL/JFA (E.D. Va. filed July 10, 2009) (hereinafter "Compl.") at ¶¶ 49-50.
10. Compl. at ¶ 6.
11. *Id.*
12. *Id.* ¶ 5.
13. Compl. At 35.
14. *Rosetta Stone*, 730 F. Supp. 2d at 540.
15. 575 F.3d 383, 393 (4th Cir. 2009).
16. *Id.*

17. *Id.* at 540-41.
18. *Id.* at 542-44.
19. *Id.* at 544-45.
20. *Id.* at 546.
21. *Id.* at 547.
22. *Id.* at 548.
23. *Id.*
24. *Id.*
25. *Id.* at 548-49.
26. *Id.* at 549.
27. 676 F.3d at 152-53.
28. *Id.* at 152 n.4.
29. *Id.* at 154 (citation omitted).
30. *Id.*
31. *Id.*
32. *Id.* at 154-55.
33. *Id.* at 156.
34. *Id.*
35. *Id.* at 157.
36. *Id.* at 158.
37. *Id.*
38. *Id.*
39. *Id.* at 158-59.
40. *Id.* at 159.
41. *Id.* at 160.
42. *Id.*
43. *Id.* at 163.
44. *Id.*
45. *Id.*
46. 730 F. Supp. 2d at 549-50.
47. 562 F.3d 123 (2d Cir. 2009).
48. 562 F.3d at 131.
49. *Id.* at 130 n.4.
50. Brief of Appellee, *Rosetta Stone Ltd. v. Google Inc.*, No. 10-2007, Doc. 149 (4th Cir. filed Dec. 28, 2010), at 33-34.
51. 676 F.3d at 165.
52. 600 F.3d at 103.
53. *Id.*
54. No. B234753, 2012 WL 3594380 (Ct. App. 2d Dist. Aug. 22, 2012) (unpublished).
55. 765 F. Supp. 2d 457 (S.D.N.Y. 2011).
56. 2012 WL 3594380 at *12 (emphasis added).
57. *Id.*
58. 194 F.3d 980, 984 (9th Cir. 1999).
59. *A&M Records, Inc. v. Napster*, 239 F.3d 1004, 1022 (9th Cir. 2001).
60. 730 F. Supp. 2d at 542.
61. *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 469 (S.D.N.Y. 2008).
62. 600 F.3d at 109.
63. 676 F.3d at 158.
64. 730 F. Supp. 2d at 544.
65. 676 F.3d at 163.
66. *Id.*
67. 456 U.S. 844, 854 (1982) (emphasis added).
68. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984) (emphasis added).
69. *Tiffany*, 600 F.3d at 109.
70. *Id.* at 110 n.15.
71. 600 F.3d at 100 (citation omitted).
72. *Id.* (quoting *Tiffany*, 576 F. Supp. 2d at 489).
73. 576 F. Supp. 2d at 477.
74. 2012 WL 3594380 at *2.
75. *Id.*
76. 17 U.S.C. § 512(i) (emphasis added).

**Jonathan Bloom, editor-in-chief of *Bright Ideas*, is counsel to Weil, Gotshal & Manges LLP. Mr. Bloom wrote an amicus brief to the Fourth Circuit in *Rosetta Stone* on behalf of eBay Inc. and Yahoo! Inc., but the views expressed here are his own.**

# Trade Winds

***Trade Winds*** offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming books, articles, or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

Registered patent attorney Vincent G. LoTempio, a partner in the law firm of Kloss, Stenger & LoTempio in Buffalo, New York, has co-authored *Patent Fundamentals for Scientists and Engineers, Third Edition*. The book provides an analysis and description of the patent process. The third edition covers the new patent law, the America Invents Act, the first major change to the U.S. patent law in almost 60 years. This new patent book allows readers to navigate the complex patent system by providing concise information in a practical way in order to help inventors obtain exclusive rights to an invention.

Lanning Bryer, Scott Lebson and Matthew Asbell of Ladas & Parry LLP have edited *Intellectual Property Operations & Implementation in the 21st Century Corporation*, the second book in a two-part series published by John Wiley & Sons. The book and its companion volume, *Intellectual Property Strategies for the 21st Century Corporation*, include contributions from a roster of renowned industry experts addressing how the world has changed significantly in the past decade, resulting in new behaviors and practices related to the ownership and management of intellectual property. The volume provides case studies, practical examples, and advice from seasoned professionals who have adopted new and streamlined methods and practices, whether as in-house or outside counsel or service providers.

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Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Spring/Summer 2013 issue must be received by March 1, 2013.

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