

# IDEAS ON INTELLECTUAL PROPERTY LAW



## **Taking a swing at the first sale doctrine**

Resellers raise challenge in trademark infringement case

## **Rough waters: Inventor's standing at issue in patent case**

### **Fair or foul?**

What qualifies as transformative use, not copyright infringement

## **Federal Circuit clarifies double patenting test**

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# Taking a swing at the first sale doctrine

*Resellers raise challenge in trademark infringement case*

Resellers of genuine trademarked goods generally are protected from trademark infringement claims. But, in the recent case of *Beltronics USA, Inc. v. Midwest Inventory Distribution LLC*, the Tenth U.S. Circuit Court of Appeals looked into whether differences in warranties, upgrades, service, rebates and similar components between trademarked goods could provide an opening for trademark holders to bring infringement claims.

## Reselling under the radar

Beltronics sold its trademarked electronics equipment to authorized distributors who agreed to sell the products for a specified minimum price. Two distributors sold Beltronics radar detectors to Midwest, which resold them as “new” on eBay.

To prevent Beltronics from discovering they were supplying Midwest’s inventory, the distributors either replaced each detector’s original serial number label with a phony label or removed the original label before shipping. If a radar detector arrived with the original label affixed, Midwest removed the label before resale.

Under Beltronics policy, only customers who buy detectors with an original serial number label are eligible for certain products and services, including warranties and software upgrades. Beltronics learned its detectors were being sold without the original serial labels when Midwest’s customers contacted Beltronics with warranty requests. These customers stated that they did not receive what they

believed they had purchased and that Beltronics had deceived them.

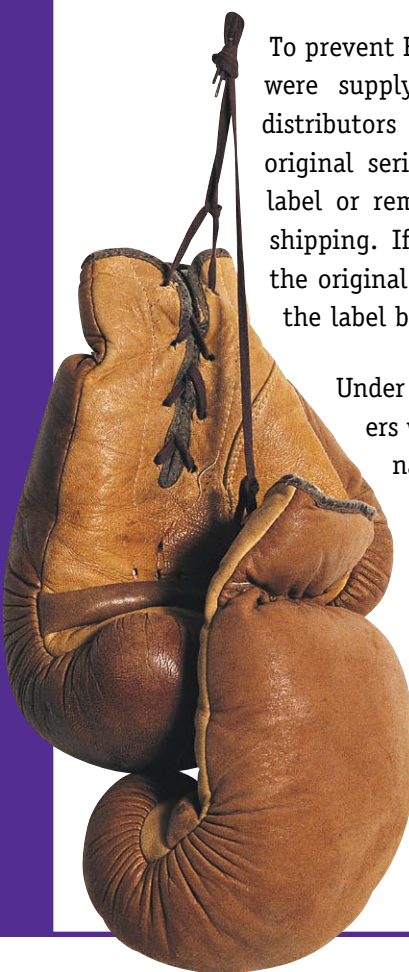
Beltronics sued Midwest for counterfeiting and for trademark infringement, among other claims, and requested a preliminary injunction. The district court granted a preliminary injunction preventing Midwest from selling or offering for sale any Beltronics products without an original serial number label. On appeal, Midwest claimed that its sale of radar detectors with the Beltronics trademark was protected by the “first sale” doctrine.

## Limiting trademark rights

The Tenth Circuit explained that, under the first sale doctrine, “the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product.” According to the court, “A purchaser who does no more than stock, display and resell a producer’s product under the producer’s trademark violates no right conferred upon the producer by the Lanham Act [the federal trademark statute].”

The first sale doctrine does not apply when trademarked goods are sold that are “materially different” from those sold by the trademark owner. A materially different product is not genuine and may create consumer confusion about the source and quality of the trademarked product. In *Beltronics*, the Tenth Circuit joined other federal appellate courts in holding that the unauthorized resale of a materially different trademarked product can constitute trademark infringement.

The court explained that “a guiding principle” is whether the product differences confuse consumers and impinge on the trademark holder’s goodwill. If consumers would consider the differences relevant to their purchasing decision regarding a product, the differences are material.



## Disclosure: Another way out?

In *Beltronics USA, Inc. v. Midwest Inventory Distribution LLC* (see main article), Midwest alternatively argued that it had shielded itself from liability by including a disclosure in its eBay listings. The disclosure states that Midwest provides a one-year warranty and the manufacturer will not honor its warranty on products purchased through eBay.

The district court found — and the Tenth Circuit agreed — that Midwest’s warranty policies were not disclosed in a manner sufficient to minimize any confusion. They cited evidence that Midwest’s customers had contacted Beltronics for warranty coverage.

The Tenth Circuit acknowledged that a plaintiff must demonstrate more than isolated instances of actual confusion when:

- The trademarked product and defendant’s product are not physically similar or used for similar purposes, or
- The defendant has submitted substantial evidence showing no significant actual confusion.

However, here the products were nearly identical in all physical respects and used in the same manner, and Midwest offered no evidence against confusion.

## Detecting infringement

Midwest argued that material differences are limited to differences in physical quality or in control procedures designed to ensure a trademarked product’s physical quality at resale. It claimed that, because Beltronics’ warranties and other services were “collateral” to the radar detectors’ physical quality, no material differences distinguished Beltronics’ detectors from those sold by Midwest.

In assessing this argument, the court returned to the essence of the first sale doctrine. It observed that something more than stocking, displaying and reselling radar detectors was at issue here. And, while this court had never reviewed whether differences in warranties or service commitments could constitute material differences, at least two other federal appeals courts had found they may. In fact, no federal appeals courts had held otherwise. Thus, the Tenth Circuit concluded that the district court hadn’t erred in finding that material differences may include warranties and services.

The court added that the fact that the resale of a materially different trademarked product *can* constitute a

trademark infringement does not mean it *always* does. The Lanham Act does not prohibit material differences per se — it prohibits sales and offers for sales that are “likely to cause confusion, or to cause mistake, or to deceive.”

If resellers of materially different products take the necessary steps to adequately alleviate the confusion and prevent injury to the trademark holder’s goodwill, the differences are unlikely to trigger liability for trademark infringement. Such steps might include the use of a disclosure. (See “Disclosure: Another way out?” above.)

## Jamming unauthorized sales

The Tenth Circuit’s decision in *Beltronics* shows that trademark infringement claims represent an effective way to control the resale of goods that are materially different from genuine trademarked goods. The court indicated that its reasoning also applies to “gray market” goods (those authorized for exclusive production and sale in a foreign country but that are imported and sold in the United States without the trademark owner’s consent). ○

# Rough waters: Inventor's standing at issue in patent case

You might think the most appropriate party to bring an action to correct patent inventorship would be one of the named inventors. The U.S. Court of Appeals for the Federal Circuit, however, challenged this notion in *Larson v. Correct Craft*.

## Patent overboard!

Correct Craft Inc. employed Borden Larson as a designer of boat components from 1986 to 2001. During that time, Larson designed a new “wakeboard tower” for sports boats. In 1997, he was informed that Correct Craft was planning to seek patent protection for the wakeboard tower.

**A plaintiff’s “concrete financial interest” in a patent is generally sufficient to satisfy the requirements for standing (that is, injury, causation and redressability).**

Larson assisted in the patenting process and, between 1998 and 2001, executed patent assignments, transferring his interest in the invention to Correct Craft. In declarations filed with the U.S. Patent and Trademark Office, Larson attested that he was a co-inventor, along with two of the defendants.

In 2003, after he was terminated, Larson sued Correct Craft and his co-inventors in Florida state court, alleging various state law fraud claims and seeking rescission of several patent assignments and declaratory judgments concerning the parties’ respective rights to the patents.



Correct Craft removed the case to federal court because the declaratory judgment requests essentially were claims to correct inventorship under the federal Patent Act. The district court granted summary judgment for the defendants on all of the claims.

## A sea leg to stand on

On appeal, the Federal Circuit weighed whether Larson had standing to pursue his action for correction of ownership. It began by examining an earlier case where the court had addressed the relationship between a suit to correct inventorship, known as a Section 256 action, and the elements of constitutional standing.

In *Chou v. University of Chicago*, the court declined to hold that a plaintiff in a Sec. 256 action must have an ownership interest at stake in the suit to have standing. Rather, the plaintiff’s “concrete financial interest” in the patents was sufficient to satisfy the requirements for standing (that is, injury, causation and redressability).

But the Federal Circuit distinguished Larson’s position from Chou’s. If Chou were identified as an inventor, university policy would entitle her to royalties,

licensing revenue and equity in startups. Larson, on the other hand, had affirmatively transferred title to the patents to Correct Craft and stood to reap no benefit from a pre-existing licensing or royalties arrangement. His only path to financial reward would require him to first succeed on his state-law fraud claims and obtain rescission of the patent assignments.

Without first voiding the assignments, Larson had no ownership interest in the patents. Therefore, he had no noncontingent interest in the patents that would support his standing.

In an unusual move intended to prevent the Federal Circuit from vacating the judgment in their favor (as

required if Larson had no standing to be heard in the district court), the *defendants* argued that Larson had standing based on his reputational interest in being correctly named as the sole inventor. The court declined to say that a reputational interest is sufficient to confer constitutional standing, noting that the issue wasn't presented by the facts because Larson had emphasized that his injuries were financial, not reputational.

### Back to the dock

Larson will need to obtain equitable relief that restores his ownership rights before he can bring a claim to correct inventorship. Until that time, the proper venue for his claims is the Florida state court. ○

# Fair or foul?

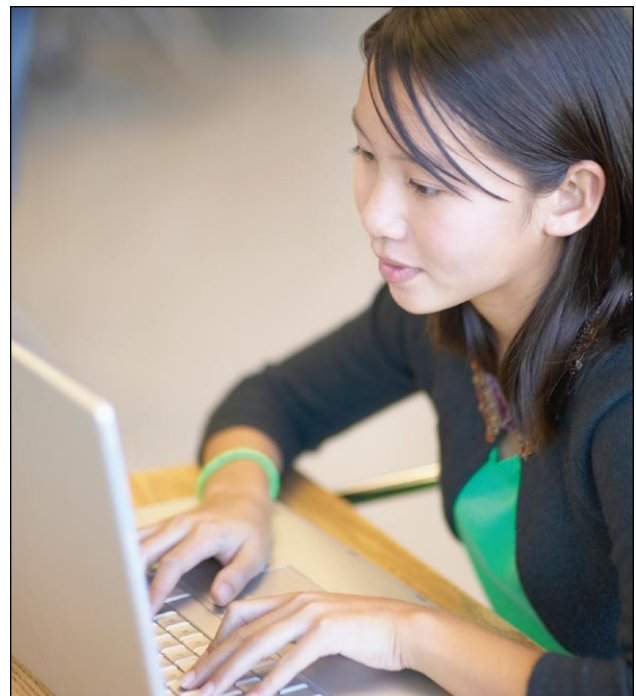
## *What qualifies as transformative use, not copyright infringement*

Under the fair use doctrine, transformative use of a copyrighted work may preempt any infringement liability. But can a commercial use that merely archives a work without adding anything to the work qualify as “transformative”? This was precisely the issue faced by the Fourth U.S. Circuit Court of Appeals in *A.V. v. iParadigms, LLC*.

### The case syllabus

iParadigms owns an online plagiarism detection system called Turnitin. Participating schools can “archive” student works so the works become part of the database used to evaluate the originality of future submitted works.

Claiming that their copyright interests were infringed when their works were archived without their permission, four high school students sued iParadigms. The plaintiffs appealed the district court’s determination that iParadigms’ use of the plaintiffs’ written works qualified as fair use under the Copyright Act and, therefore, didn’t constitute infringement. In particular,



the court found that iParadigms’ use of the works to prevent plagiarism was transformative and favored a finding of fair use.

#### 4 nonexclusive factors

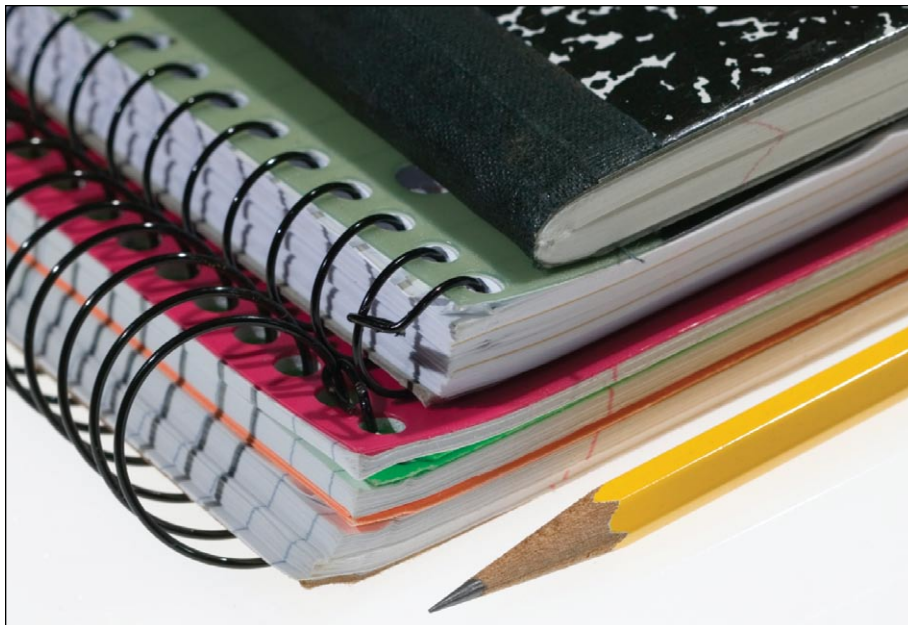
The fair use doctrine limits a copyright owner's "monopoly" in their work by allowing third parties to use the work in certain circumstances without the owner's consent. The Copyright Act specifically allows fair use of a copyrighted work for the purposes of criticism, comment, news reporting, teaching, scholarship or research. The act lists four nonexclusive factors that courts should consider in determining whether a use is fair:

1. The purpose and character of the use, including whether it's of a commercial nature or for non-profit educational purposes,
2. The nature of the copyrighted work,
3. The amount and substantiality of the portion used in relation to the work as a whole, and
4. The effect of the use on the potential market for or the value of the work.

The determination requires a case-by-case analysis.

#### The court's homework

On appeal, the Fourth Circuit noted that, under the first factor, courts must examine "whether and to what extent the new work is transformative ... the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use."



The court defined a transformative use as one that employs the copyrighted material in a different manner or for a different purpose than the original.

## The Copyright Act specifically allows fair use of a copyrighted work for the purposes of criticism, comment, news reporting, teaching, scholarship or research.

Although a commercial use finding generally weighs against a finding of fair use, the court explained that the fact that iParadigms' use of the students' works was commercial wasn't determinative in and of itself. It agreed with the district court's conclusion that the commercial aspect wasn't significant in light of the transformative nature of iParadigms' use.

The students argued that iParadigms' use couldn't qualify as transformative because the archiving didn't add anything to their work. The court deemed this argument was "clearly misguided" because the use of a copyrighted work need not alter or augment the work to be transformative; a use can be transformative in function or purpose. iParadigms' use of the students' works had an entirely different function and purpose than the original works had.

#### Final grade

The Fourth Circuit ultimately agreed with the district court that the remaining factors either favored neither party or favored a finding of fair use. iParadigms was, therefore, entitled to summary judgment on the copyright infringement claims. ○

# Federal Circuit clarifies double patenting test

The doctrine of double patenting is intended to prevent the unjustified extension of patent exclusivity beyond the term of a patent. The two-way test for double patenting can prove more favorable to a patent applicant than the one-way test. But, in the recent case of *In re Fallaux*, the U.S. Court of Appeals for the Federal Circuit ruled that the two-way test is appropriate only in limited circumstances.

## All in the family

The case involved a family of patents, including the “Fallaux application.” The first application in the family was filed March 25, 1997, and issued as a patent on Nov. 30, 1999. After four continuing applications resulted in three patents, the Fallaux application was filed July 11, 2003.

The Fallaux application shared a common inventor with two existing patents (the Vogels patents) that issued before the filing of the Fallaux application, thereby triggering the double patenting doctrine. The patent examiner rejected the claims in the application due to obviousness-type double patenting in view of the claims in the Vogels patents.

## One-way road

Applying the one-way test, the Fallaux claims were rejected for obviousness-type double patenting. Under the one-way test the examiner asks whether the application claims are obvious in light of the claims in the existing patent(s). Under the two-way test, the examiner would also have been required to show that the Vogels claims were obvious in light of the Fallaux claims — and the Fallaux claims would not have been rejected.

The Federal Circuit found that a patent applicant is entitled to the two-way test only when the U.S. Patent and Trademark Office (PTO) is responsible for the delay that causes an improvement patent to issue



before the related basic patent (for example, where the applicant files the first application and then a second, but the second application is examined first, resulting in the first application being rejected where it otherwise wouldn't have been).

Here there was no evidence that the PTO shared any responsibility for the delay. The specification in the first application in the patent family would have supported the Fallaux application's claims. The inventor, however, chose to prosecute other applications and delay filing the Fallaux application until six years after the first application was filed.

## The court doubles down

The Federal Circuit emphasized that the two-way test is a narrow exception. Although the inventor contended that he did not manipulate the prosecution of the patent for an improper purpose, the court declared that “the rule is not ... that an applicant is entitled to the two-way test absent proof of nefarious intent to manipulate prosecution.” The test is available only in cases of delay attributable to the PTO. ○

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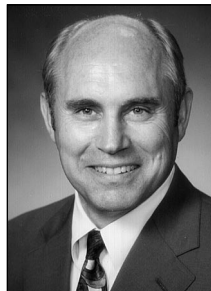
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