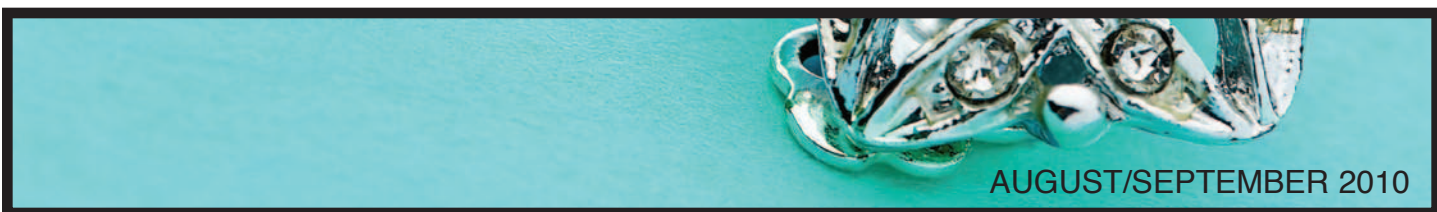




IDEAS ON INTELLECTUAL PROPERTY LAW



AUGUST/SEPTEMBER 2010

Going once, going twice ... sold!

Court addresses eBay's liability for contributory infringement

Looks are everything when it comes to design patents

Innocence lost

Fifth Circuit hears defense in music downloading case

Federal Circuit confirms: Patents need written descriptions

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Going once, going twice ... sold!

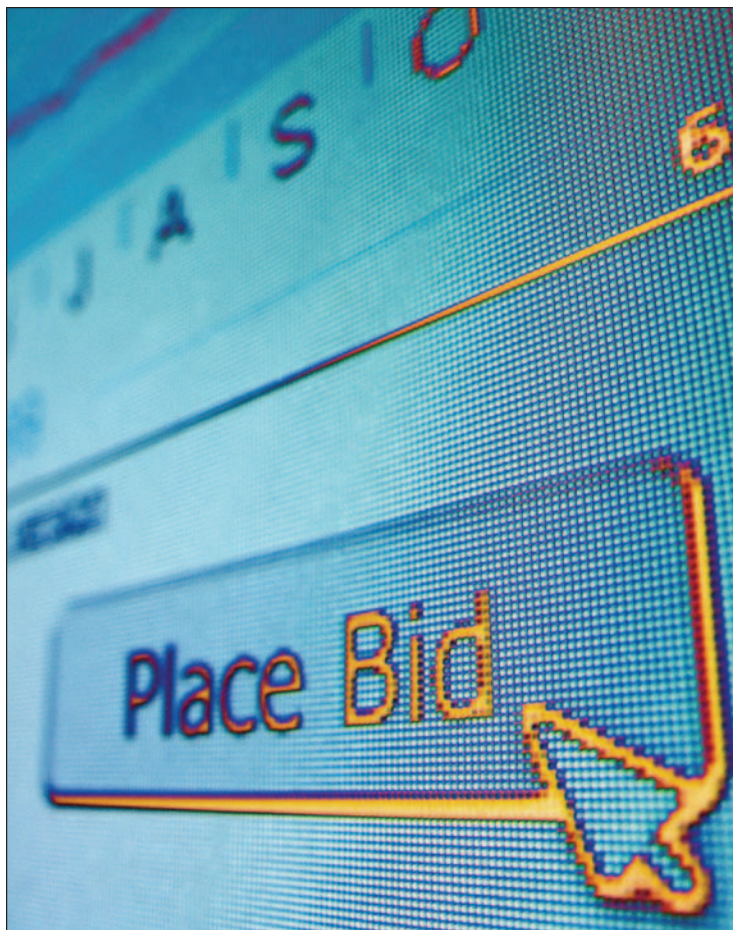
Court addresses eBay's liability for contributory infringement

The popularity of Internet auction services such as eBay has proven to be a boon for sellers of counterfeit goods. In frustration, some trademark owners have fought back by going after not only the sellers for direct infringement, but also the service providers for contributory infringement.

In one recent case, *Tiffany Inc. v. eBay, Inc.*, the U.S. Second Circuit Court of Appeals looked at eBay's "generalized knowledge" of counterfeiting on its site and considered whether it should impose liability for contributory infringement.

Bid history

eBay is an online marketplace that allows users to buy and sell goods under an auction format. It generates revenue by charging fees to use its listing services and through its arrangement with PayPal, which facilitates the processing of users' purchases in exchange for a fee. Tiffany sells its "world famous" jewelry exclusively through its retail stores, catalogs and Web site. It does not sell its goods at discounted prices.



The Second Circuit noted that the law of contributory trademark infringement is ill defined — particularly in the context of the online marketplace.

Sometime before 2004, Tiffany became aware that counterfeit Tiffany merchandise was being sold on eBay, though a substantial amount of legitimate Tiffany products was also available on the site.

Between April 2000 and June 2004, eBay earned \$4.1 million in revenue from transactions with "Tiffany" in the listing title in its "Jewelry & Watches" category.

The district court found that eBay spent as much as \$20 million annually on tools to promote trust and safety on its site, including establishing a "Trust and Safety" department of about 4,000 employees. More than 200 of those employees focus exclusively on combating infringement.

eBay also uses a "fraud engine" to search out counterfeit listings and operates a "notice-and-takedown" system. The system allows owners of intellectual property rights, including Tiffany, to "report to eBay any listing offering potentially infringing items, so that eBay could remove such reported listings."

Tiffany sued eBay in 2004, alleging, among other things, contributory infringement. After a bench trial, the district court ruled in favor of eBay on all claims.

Tiffany bids again

On appeal, Tiffany argued that eBay should be held liable as a contributor to the infringing conduct of its counterfeiting vendors. The Second Circuit noted that the law of contributory trademark infringement is ill defined — particularly in the context of the online marketplace. Nonetheless, it assumed (without deciding) that a 1982 decision by the U.S. Supreme Court, *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, applied to the circumstances here.

According to the appellate court, under *Inwood*, a service provider can be held liable for contributory infringement in relation to another party's infringement if the service provider:

1. Intentionally induces another to infringe, or
2. Continues to supply its service to one who it knows or has reason to know is engaging in infringement.

Only the second prong was at issue here. The court held that a service provider can be held liable for contributory infringement under that prong only if it has “more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”

The court pointed out that Tiffany didn't identify particular sellers as counterfeiters for eBay. When eBay did have reason to know specific sellers were selling counterfeits, through buyer complaints or as part of the notice-and-takedown system, it removed those sellers' listings and suspended repeat offenders. “Thus, Tiffany failed to demonstrate that eBay was supplying its service to individuals who it knew or had reason to know were selling counterfeit Tiffany goods.”

Willfully blind auctions

Critically, the Second Circuit also acknowledged that a service provider isn't entitled to “willful blindness.” According to the court, “when it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.”

The court concluded, however, that eBay wasn't willfully blind to the counterfeiting of Tiffany's products because it didn't ignore the information it received about counterfeit goods.

Trademark owners on notice

The Second Circuit's decision in this case puts trademark owners on notice. To protect their rights, trademark owners must remain vigilant about policing online outlets for potential counterfeits and give the service providers notification of specific offenders whenever possible. ○

All is not lost for Tiffany

In *Tiffany Inc. v. eBay, Inc.*, the U.S. Second Circuit Court of Appeals affirmed the district court's ruling in favor of eBay on the infringement claims. (See main article.) But all was not lost for Tiffany, as the court remanded the jewelry company's false advertising claim for further consideration. The Second Circuit found that the district court hadn't adequately considered whether eBay's ads for Tiffany's products were likely to mislead consumers in light of the fact that some of the products labeled as Tiffany's were counterfeit.

eBay advertised the sale of Tiffany's goods in various ways. It purchased ad space on search engines and had links on its site to “Tiffany,” “Tiffany rings” and similar phrases. The court found that the ads weren't literally false because a user could find genuine Tiffany goods on eBay. It noted, though, that “the law prohibits an advertisement that implies that all of the goods offered on a defendant's Web site are genuine when in fact, as here, a sizeable proportion of them are not.”

Interestingly, the court advised that online advertisers don't need to cease their ads for a kind of goods solely because they know some of those goods are counterfeit. In such circumstances, it said, “a disclaimer might suffice.”

Looks are everything when it comes to design patents

In the world of design patents, looks trump all. That's because a design patent protects only an article's ornamental aspects — not its functional aspects. In *Richardson v. Stanley Works, Inc.*, the Federal Circuit offered a reminder that this limited scope of protection can undermine a patent owner's infringement claims against even extremely similar products.

Constructing a case

David Richardson owns a design patent for the "Stepclaw," a multifunctional carpentry tool that combines a hammer with a stud climbing device and a crowbar. Because it's a design patent, the patent covers only the tool's ornamental design. In 2005, Stanley introduced a line of tools under the name "FuBar" that it sold in five versions.

In 2008, Richardson sued Stanley, alleging that the FuBar tools infringed his patent. After a bench trial,

the district court entered a judgment of noninfringement in Stanley's favor. It found that an ordinary observer considering the ornamental aspects of the designs wouldn't think any of the FuBar tools were the same as the Stepclaw.

Retooling an argument

On appeal, Richardson argued that, rather than consider the design as a whole, the court wrongly separated the functional aspects of his design from the ornamental aspects. Richardson contended that the Federal Circuit's 2008 decision in *Egyptian Goddess v. Swisa, Inc.* required that the patented design be compared in its entirety with the accused design from the perspective of an ordinary observer.

In *Egyptian Goddess*, the court abandoned the point of novelty test for design patent infringement and held that the ordinary observer test was the sole test.



But, as it pointed out in *Richardson*, the court noted the distinction between the functional and ornamental aspects of a design.

The court reiterated that a design patent limits protection to the ornamental design of the covered article.

In *Richardson*, the court reiterated that a design patent limits protection to the ornamental design of the covered article, specifically, “If the patented design is primarily functional rather than ornamental, the patent is invalid.” Even when the design contains both functional and ornamental elements, the design patent is limited to the ornamental aspects.

Scoping out a claim

Turning to the tools at issue, the court found that the Stepclaw includes several elements that are purely

functional — including the handle, hammerhead, jaw and crowbar. It described Richardson’s argument as one for a claim scope that includes those elements and agreed with the district court that scope should be restricted to the ornamental aspects. The court added that nothing in *Egyptian Goddess* compelled a different outcome.

The Federal Circuit affirmed the district’s finding that, if one ignores the functional elements of the tools, the two designs are significantly different. Each of the FuBar tools has a streamlined visual theme running throughout the design. The court determined that, overall, the FuBar tools clearly have a more rounded appearance and fewer blunt edges than Richardson’s design.

Hammering it home

Ultimately, the Federal Circuit concurred with the district court that the only similarities between the tools are of unprotectable functional elements. Thus, this case illustrates that similarity to a patented article’s functional aspects alone won’t support a claim of design patent infringement. ○

Innocence lost

Fifth Circuit hears defense in music downloading case

You’ve probably heard the saying, “Ignorance is no defense.” But does that hold true when it comes to copyright notices — specifically those involving recorded music? It’s an increasingly important question in today’s age of digital file sharing via the Internet. The U.S. Fifth Circuit Court of Appeals provided one answer in the case of *Maverick Recording Co. v. Harper*.

Opening bars

A consortium comprising Maverick and other plaintiff recording companies investigated infringement of copyrights over the Internet. Through the investigation, they discovered that Whitney

Harper used a file-sharing program to share 544 digital audio files — including a number of the plaintiffs’ copyrighted recordings — with other users of a peer-to-peer network.

Subsequently, they found that Harper had downloaded all of the files from the Internet to her computer without paying for them. She hadn’t copied any of the songs from CDs she’d legally purchased. In response, the plaintiffs brought an infringement lawsuit against Harper. In August 2008, the district court granted the plaintiffs’ motion for summary judgment on their copyright claims for 37 audio files.



District court takes requests

The plaintiffs requested the minimum statutory damages of \$750 per infringed work, as established by Section 504(c)(1) of the Copyright Act. But Harper argued that her infringement was “innocent” under Sec. 504(c)(2) of the same act. Under that section, a court can reduce statutory damages to \$200 per work if the infringer “was not aware and had no reason to believe that his or her acts constituted an infringement of copyright.” Harper maintained that her acts were equivalent to listening to an Internet radio station.

The district court denied the plaintiffs’ damages request because it hadn’t determined whether Harper’s infringement was “innocent.” Instead, the court entered a judgment of \$200 per infringed work.

Time to pay the piper

On appeal, the Fifth Circuit noted that the innocent infringer defense is limited by Sec. 402 of the Copyright Act. According to the court, with one exception that wasn’t relevant here, Sec. 402 precludes the reduction of damages based on the innocent infringer defense if a proper copyright notice “appears on the published ... phonorecords” to which the defendant had access.

The plaintiffs had provided such notice on each of the published “phonorecords” from which the audio files at issue were taken. Harper argued, however, that she was “too young and naïve” to understand that copyrights on published music applied to downloaded music.

The court dismissed that argument. It held that an infringer’s knowledge or intent doesn’t affect application of the limitation. If a copyright infringement defendant’s subjective intent could override Sec. 402, the court wrote, publishers would have no incentive to go to the extra effort of providing copyright notice.

The Fifth Circuit held that the question of Harper’s intent didn’t require further litigation because the plaintiff’s notice foreclosed the availability of the innocent infringer defense. The court concluded that the plaintiffs were entitled to the requested statutory damages of \$750 per infringed work.

The defendant argued that she was “too young and naïve” to understand that copyrights on published music applied to downloaded music.

Duly noted

Sec. 402 of the Copyright Act does indeed provide copyright owners with incentive to provide proper notice. That simple step could make a significant difference in the amount of damages that can be recovered from infringers. ○

Federal Circuit confirms: Patents need written descriptions

Some inventors might think any old written description of their inventions is adequate for patent protection — but they'd be wrong. In fact, in recent case *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*, the Federal Circuit confirmed that a patent must satisfy a *specific* written description requirement to be valid. Simply describing the manner and process of making and using the invention (also known as enablement) won't suffice.

First drafts

Ariad sued Eli Lilly, alleging infringement of a patent related to the regulation of gene expression in the human body. A jury found that Lilly had infringed Ariad's patent.

On appeal, a three-judge panel of the Federal Circuit reversed the district court and held that Ariad's patent claims were invalid because of the lack of an adequate written description, as required by Section 112 of the Patent Act. The company then petitioned for a rehearing before the entire Federal Circuit court.

A consistent holding

Ariad argued that Sec. 112 is satisfied as long as the patent describes enablement. In fact, Sec. 112 states:

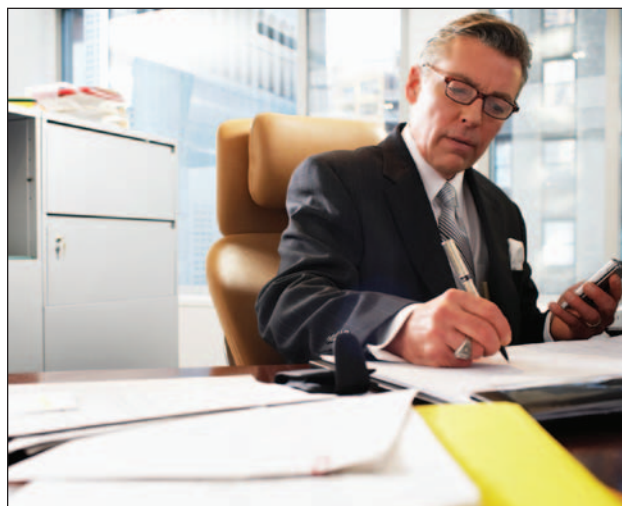
The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the [invention] ...

The Federal Circuit observed that it has consistently held that Sec. 112 contains a written description requirement separate from the enablement requirement. It reasoned that the statute would have been

written differently if Congress had intended enablement to be the sole description requirement.

The court also noted that it has articulated a "fairly uniform standard" for an adequate written description. The description must "clearly allow persons of ordinary skill in the art to recognize that [the inventor] invented what is claimed," according to the court. The level of detail required will vary depending on the nature and scope of the claims as well as the complexity and predictability of the relevant technology.

While the written description never requires examples or an actual embodiment of the invention, a description that only generally conveys the invention may not be enough.



The write stuff

The court acknowledged that the written description requirement puts universities at a disadvantage because basic research won't be patentable. But it also determined that's precisely the law's intent. The requirement, it held, provides incentives for actual inventions — not just academic theories. ○

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