

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Applying Statutes to Foreign Conduct; Willful Patent Infringement

As American companies expand their operations abroad, copyright and trademark issues increasingly have international ramifications. While both the U.S. copyright statute and the Lanham Act are focused on conduct in the United States, courts have applied both statutes to a narrow range of foreign conduct, giving copyright and trademark owners limited rights to seek redress for foreign infringements in U.S. courts. The U.S. Court of Appeals for the Fourth Circuit's recent decision in *Tire Engineering and Distribution v. Shandong Linglong Rubber*, 2012 WL 2036971 (4th Cir. June 6, 2012), which sustained liability under the copyright law but rejected a trademark claim, illustrates the different principles governing the application of these two statutes to activity outside of the United States.

In *Tire Engineering*, Alpha Tyre Systems, a U.S. producer of mining tires, accused defendants of producing and selling infringing tires in China. Alpha alleged that, in 2005, an Alpha employee stole blueprints for the tires from Alpha and worked with defendants from his Virginia home to modify the designs to make the copying less obvious. One defendant referred to the employee's Virginia home as that defendant's

By
**Lewis R.
Clayton**



"satellite office." Alpha also alleged that defendants used Alpha trademarks on the Chinese products. Alpha discovered the infringement in 2006 and sued in 2009. The district court upheld the jury's finding of copyright infringement, conversion and conspiracy but dismissed most of Alpha's trademark claims. The Fourth Circuit sustained the jury's liability verdict on copyright infringement, but overturned the finding of liability under the Lanham Act.

While the court recognized that, "[a]s a general matter, the Copyright Act is considered to have no extraterritorial reach," the Fourth Circuit for the first time recognized an exception to this rule allowing a plaintiff to collect damages based on foreign conduct where there is a "predicate act" of infringement in the United States and "the type of infringement permits further reproduction abroad." This exception dates to *Sheldon v. Metro-Goldwyn Pictures*, 106 F.2d 45 (2d Cir. 1939), where defendants infringed plaintiff's copyright in the United States by converting a motion picture and then shipped the negatives abroad where the film was exhibited. The court held that "[t]he

negatives were 'records' from which the work could be 'reproduced,'" and that "plaintiffs acquired an equitable interest in them as soon as they were made, which attached to any profits from their exploitation." However, the "predicate act" exception is a narrow one, requiring an act of infringement in the United States and a showing of damages "flowing from...foreign exploitation of that infringing act." As the court held in *Subafilms v. MGM-Pathe Commc'ns*, 24 F.3d 1088 (9th Cir. 1994), mere authorization in the United States of foreign infringement is not enough to invoke the exception.

The *Tire Engineering* court found that plaintiff had established domestic infringement because Alpha's blueprints had been converted and reproduced in the United States without authorization. And use of the blueprints to produce and sell tires nearly identical to Alpha's product demonstrated damage flowing from the domestic infringement. Defendants argued that the conversion and reproduction of the blueprints could not constitute a predicate act because those violations fell outside of the statute of limitations for copyright infringement. The court found, however, that a plaintiff may invoke the predicate act doctrine even where recovery for the domestic infringement is time-barred. Otherwise, a plaintiff could potentially escape liability by copying another's work in the United States and waiting several years before exploiting that work abroad.

LEWIS R. CLAYTON is a litigation partner at Paul, Weiss, Rifkind, Wharton & Garrison LLP and co-chair of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com. RACHALE C. MILLER, an associate with the firm, assisted in the preparation of this article.

Extraterritorial application of the Lanham Act, however, requires a different and arguably more demanding test. Because the primary goal of the act is to avoid confusion among U.S. consumers, it applies extraterritorially only to “foreign acts having a significant effect on U.S. commerce.” Some circuits have found a “significant effect on U.S. commerce” where trademark infringement abroad by a U.S.-based defendant diverts sales from an American competitor.

Courts recognizing this diversion-of-sales theory have typically required that defendants be “U.S. corporations that conducted operations—including at least some of the infringing activity—within the United States.” Although the *Tire Engineering* court found the reasons behind the doctrine “compelling,” it declined to apply it to Alpha’s claims because defendants were not U.S. companies, and they lacked “a pervasive system of domestic operations.” It therefore dismissed the trademark claims.

As global markets become more integrated, federal courts are likely to pay increasing attention to extraterritorial application of American intellectual property law.

Trademark

The University of Alabama v. New Life Art, 2012 WL 2076691 (11th Cir. June 11, 2012), considered whether use of the Alabama football team’s uniforms in defendant Daniel Moore’s paintings of historical football games constituted trademark infringement. The U.S. Court of Appeals for the Eleventh Circuit held that the paintings were “expressive” rather than “commercial” speech and therefore were entitled to First Amendment protection.

The court applied the balancing test of *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), which considers whether the use of the mark is 1) “artistically relevant” to the work and 2) not “explicitly misleading” as to the work’s source or content. The uniforms’ colors and designs were “artistically relevant” as they were

necessary for a realistic portrayal of the historical games and there was no evidence Moore marketed his unlicensed work as endorsed or sponsored by the university.

Louis Vuitton Mallatier v. Warner Brothers Entertainment, 2012 WL 2248593 (S.D.N.Y. June 15, 2012), also sympathetically considered First Amendment protection for artistic use of a trademark. Louis Vuitton sued for infringement when Warner Brothers used a Diophy bag bearing a monogram confusingly similar to a Vuitton trademark in the movie *The Hangover: Part II*. In one scene, when the bag is moved, a character states, “Careful that is...that is a Louis Vuitton.”

Louis Vuitton alleged that audiences would likely confuse the Diophy bag with a Vuitton bag or believe that Vuitton had sponsored or approved the use and misrepresentation of the Diophy bag as a genuine Louis Vuitton product. Applying the *Rogers* test, the court dismissed Vuitton’s claims. The court found that the threshold for “artistic relevance” under *Rogers* is “purposely low and will be satisfied unless the use has no artistic relevance to the underlying work whatsoever.” The second prong of the *Rogers* test—whether the use misleads as to the source of the work—was also resolved in favor of Warner. This prong considers confusion regarding the source of defendant’s artistic work. Vuitton, however, did not allege that the bag was used to mislead consumers as to the source, approval, or sponsorship of the film itself but rather as to the Diophy bag. Considering the context of the film, the court also found no likelihood that viewers would be confused as to whether a Diophy bag was an authentic Vuitton product or that Louis Vuitton approved of the use of the bag.

Copyright

Swatch v. Bloomberg, 2012 WL 1759944 (S.D.N.Y. May 17, 2012), rejected Swatch’s attempt to assert a copyright infringement claim based on a recording of an earnings conference call with

securities analysts. Swatch limited the call to “invited securities analysts” and told participants that the call was being recorded by Swatch but that others should not record the call for publication or broadcast. Bloomberg obtained a transcript from a third party and made it available to its paid subscribers. The court found on summary judgment that Bloomberg’s publication was fair use under the four-factor test in Section 107 of the Copyright Act. Bloomberg’s “work as a prominent gatherer and publisher of business and financial information serves an important public interest, for the public is served by the full, timely and accurate dissemination of business and financial news.”

While both the U.S. copyright statute and the Lanham Act are focused on conduct in the United States, courts have applied both statutes to a narrow range of foreign conduct.

Swatch held only a thin copyright due to the “manifestly factual character” of the call and the fact that Swatch cannot claim copyright protection in the comments and questions of analysts. Although the entire work was copied, which ordinarily weighs against a finding of fair use, the court held that the public interest was better served by dissemination of the work in its entirety. Finally, the court found no harm to the market value of the copyrightable portions of the infringed work, which consisted of the “original expression of [Swatch’s] senior officers.” Bloomberg’s use of the work was not “at odds” with Swatch’s goal of creating a positive “perception of its financials and business performance.”

The California Resale Royalty Act (CRRRA), enacted in 1976, allows artists to benefit when their works appreciate in value, by providing a 5 percent resale royalty “[w]hen a work of fine art is sold and the seller resides in California or the sale takes

place in California.” Although Congress and other states have considered such measures, only California has passed a resale statute. The U.S. Copyright Office has stated that it was “not persuaded that sufficient economic and copyright policy justification exists to establish [such rights] in the United States.”

In *Estate of Graham v. Sotheby's*, 2012 WL 1765445 (C.D. Cal. May 17, 2012), the court struck down the CRAA as a violation of the dormant Commerce Clause of the U.S. Constitution. Plaintiffs, a group of artists and their heirs, alleged that Sotheby's, acting as agents of California sellers, sold fine art at auction but failed to pay the resale royalty. The court found that the CRAA applied whenever the seller is a California resident, even if the transaction occurs outside the state and the buyer has no connection to California. Therefore, the CRAA has the “‘practical effect’ of controlling commerce ‘occurring wholly outside of the boundaries’ of California even though it may have some ‘effects within the State’” and consequently violates the Commerce Clause. Because the statute violated the Commerce Clause, the court did not address defendants’ copyright preemption and Takings Clause arguments.

Patents

In *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007), the U.S. Court of Appeals for the Federal Circuit tightened the standard for finding willful patent infringement, a finding that allows for enhanced damages under the Patent Act. Under *Seagate*, the patentee must show by clear and convincing evidence first that the infringer “acted despite an objectively high likelihood that its actions constituted infringement of a valid patent”—the “objective” prong—and second that “this objectively-defined risk” was “either known or so obvious that it should have been known to the accused infringer.” In *Bard Peripheral Vascular v. W.L. Gore & Associates*, 2012 WL 2149495 (Fed. Cir. June 14, 2012), the Federal Circuit now

has tightened the procedural rules for willful infringement, holding that the objective prong of willfulness presents a question of law to be decided by the trial court and subject to de novo review on appeal.

The Federal Circuit reasoned that the court is in the best position to make the “objective assessment of potential defenses” required by this prong. While the court may allow the jury “in the first instance” to determine “underlying facts relevant” to an infringer’s defense, the judge “remains the final arbiter of whether the defense was reasonable.” *Bard* is likely to make it more difficult for patentees to establish willfulness in the trial court and sustain such a finding on appeal.

In ‘Bard,’ the Federal Circuit has tightened the procedural rules for willful infringement, holding that the objective prong of willfulness presents a question of law to be decided by the trial court and subject to de novo review on appeal.

Apple v. Samsung Electronics, 678 F.3d 1314 (Fed. Cir. 2012), illustrates the impact of *eBay v. MercExchange*, 547 U.S. 388 (2006), which held that injunctions may be issued in patent cases only when the patentee satisfies the traditional test for equitable relief, including an evidentiary showing of irreparable injury. Apple alleged that Samsung smartphones and Samsung’s Galaxy tablet infringed Apple design patents and a utility patent. The trial court denied Apple’s preliminary injunction motion, finding no patent for which Apple had shown both likelihood of success and a likelihood of irreparable harm.

The Federal Circuit held that the trial court “was correct to require a showing of some causal nexus between Samsung’s infringement and the alleged harm to Apple as part of the showing of irreparable harm.” And the Federal Circuit found no abuse of discretion in the trial court’s analysis of the possibility of irreparable harm in

the smartphone and tablet markets. In the smartphone market, the trial court found Apple had not shown that product design was the “driver” of consumer demand, and that, in view of the presence of other manufacturers, it was unclear that an injunction would significantly benefit Apple. In addition, Apple had unreasonably delayed seeking injunctive relief against Samsung’s phones.

Apple had, however, shown irreparable injury in the tablet market, where Apple and Samsung were the two dominant manufacturers and product design mattered significantly to consumers. On the merits, however, the Federal Circuit reversed the district court’s finding that Samsung had presented a substantial challenge to the validity of one of Apple’s tablet design patents and remanded the case for reconsideration of Apple’s motion for a preliminary injunction against infringement of that patent.