



INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

Restricting Intangible IP Exports: Congress Left as Judge

Intellectual property headlines for the past several weeks have been dominated by a pair of April 30 opinions in which the U.S. Supreme Court overruled the U.S. Court of Appeals for the Federal Circuit interpretations of patent law, continuing a trend in which the High Court has made it more difficult to obtain and enforce patents.

This trend—like ongoing legislative efforts to enact significant reforms of the Patent Act—appears to reflect an underlying view that the patent system stifles innovation and competition by issuing and enforcing too many weak patents.

'KSR Int'l Co. v. Teleflex'

The more significant of the two April 30 decisions is *KSR Int'l Co. v. Teleflex Inc.*, 127 SCt 1727 (2007), where the Court rejected the Federal Circuit's application of its "teaching, suggestion, or motivation" (TSM) test used to determine when an invention consisting of a unique combination of elements taken from prior art is invalid as "obvious." A large number of—if not most—patents fall in this category, claiming combinations of prior art features.

Under §103 of the Patent Act, an invention cannot be patented if "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." Under this subjective and ambiguous standard, even a groundbreaking combination may seem obvious in hindsight. The TSM test—a key element of Federal Circuit jurisprudence for over 20 years—was created to guard against unfair hindsight evaluations.

The test requires that, to show obviousness, the challenger of a patent must establish some explicit or implicit teaching, suggestion or motivation that would have led a proverbial person of ordinary skill in the art to make the claimed combination. The test



demands objective evidence—preferably issued patents or other published materials—pointing to the combination. Applying the test, the Federal Circuit in *KSR* reversed a district court holding finding obvious a patent covering brake, gas and clutch pedals in cars that are adjustable to suit drivers of different heights. The patent in *KSR* claimed a combination of two well-known elements: an adjustable pedal assembly and an electronic sensor to detect pedal position. Defendant argued that the invention merely updated adjustable pedal assemblies, following an industry trend to convert from mechanical to electronic sensors. But the Court of Appeals found insufficient proof of specific prior art references recommending the claimed combination.

Faulting the Federal Circuit's "rigid approach" and "fundamental misunderstandings," a unanimous Supreme Court reinstated the district court's judgment invalidating the patent. The Court redirected the obviousness inquiry: acknowledging that identifying a "reason" that would have prompted use of a particular combination "can be important," the court instructed that an "obviousness analysis cannot be confined by a formulaic conception of the words teaching, suggestion and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents."

The Court emphasized that "[a] person of ordinary skill is also a person of ordinary creativity, not an automaton." An obviousness analysis, therefore, "need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and

creative steps that a person of ordinary skill in the art would employ."

The *KSR* Court also overruled settled Federal Circuit precedent holding that a patent cannot be proved obvious simply by showing that the claimed combination was "obvious to try." At least where there are a limited number of "identified, predictable" solutions, a combination that is obvious to try will not support a patent.

Practitioners and commentators are debating how much of the TSM test survives *KSR*. The test hasn't been abolished, but more likely reduced to a useful tool of analysis. A Patent Office memo advises examiners that *KSR* rejects a "rigid application" of the test, but not the test itself. As one court put it, in an opinion finding a patent obvious, "*KSR* casts doubt on the continuing validity of Federal Circuit precedent on the issue of obviousness. The Supreme Court did suggest, however, that some Federal Circuit case law may have appropriately applied the broad conception of the [TSM] test that the Supreme Court has endorsed." *McNeil-PPC, Inc. v. Perrigo Co.*, 2007 WL 1624764 (SDNY June 5, 2007). Perhaps as important as the Court's discussion of the test is the underlying approach of the opinion, which encourages district courts to strike down questionable patents.

'Microsoft Corp. v. AT&T'

The Court's second April 30 opinion, *Microsoft Corp. v. AT&T Corp.*, 127 SCt 1746 (2007), narrowly construed §271(f) of the Patent Act, which provides that a U.S. patent is infringed when a person "supplies...from the United States," for "combination" abroad, a patented invention's "components." Section 271(f) was itself enacted in response to the Court's narrow reading of patent law in *Deepsouth Packing Co. v. Laitram Corp.*, 406 US 518 (1972). *Deepsouth* held that existing law did not prevent a manufacturer from making the parts of a patented invention here and selling them to foreign buyers for assembly abroad. Like *Deepsouth*, *Microsoft* evidences the Court's presumption "that United States law governs domestically but does not rule the world"—a presumption that "applies with particular force in patent law."

In *Microsoft*, AT&T's patent covered a computer used to encode and compress recorded speech. When installed on a computer—but only when installed—

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Microsoft's Windows operating system infringes the patent. Microsoft provides foreign manufacturers a master version of Windows. The master is copied, and those copies are installed on computers for sale abroad. Concerned about "subverting the remedial nature" of §271(f), the Federal Circuit construed the statute flexibly to find infringement.

Reversing, the Supreme Court held that "[a]bstract software code"—an "idea without physical embodiment"—cannot qualify as a "component" under the statute. Based on that understanding, the Court found that Microsoft had not "supplied" from the U.S. components of the foreign computers. The copies of Windows actually installed had been generated abroad. The Court's four-member plurality opinion left for another day the question of whether Microsoft would have infringed had it shipped disks used to install Windows code directly. Three concurring justices would have found even this beyond reach of the statute.

After *Microsoft*, if the patent law is to restrict broadly the export of intangible intellectual property, that judgment will have to be made by Congress.

Copyright

A different issue of extraterritoriality was presented in *Sarl Louis Feraud Int'l v. Viewfinder, Inc.*, 2007 WL 1598057 (2d Cir. June 5, 2007), where the U.S. Court of Appeals for the Second Circuit reversed a district court's refusal to enforce a French copyright judgment. Defendant Viewfinder operates what it calls an "Internet fashion magazine," featuring photos of fashion shows. When Viewfinder posted photos of the upcoming collections of plaintiffs, two French high-fashion designers, plaintiffs sued Viewfinder in Paris. After Viewfinder defaulted, the French court found that Viewfinder had posted the photos "without authorization," and engaged in "parasitism" by "taking advantage of" plaintiffs' "reputation and commercial efforts" and thereby creating "confusion."

The Second Circuit found the judgment to be based in part on French copyright law, which, unlike U.S. law, recognizes a copyright in "articles of fashion." The district court refused enforcement under New York's Uniform Foreign Money Judgment Recognition Act, finding under NY CPLR §5304(b)(4) that the "cause of action on which the judgment is based is repugnant to the public policy" of New York.

The district court reasoned that the judgment violated Viewfinder's First Amendment rights to publish photographs from a public fashion show; to the extent that plaintiffs' designs were protected by French copyright, the district court found that Viewfinder's publication amounted to fair use under U.S. law.

Reversing and remanding, the Court of Appeals directed the trial court to analyze more closely whether Viewfinder's activities amounted to fair use, noting that, "absent extraordinary circumstances," fair use "encompasses all claims of first amendment [protection] in the copyright field." The Court of Appeals emphasized that the fact that plaintiffs' designs are "newsworthy" does not necessarily establish fair use. The appellate court also held that the French judgment could not be considered "repugnant" simply because U.S. law does not recognize copyright in dress designs.

In-Line Linking

Perfect 10, Inc. v. Amazon.com, Inc., 2007 WL 1428632 (9th Cir. May 16, 2007), held that Google could be liable for contributory copyright infringement if it has actual knowledge that specific infringing material is available using its system, and fails to take "simple measures to prevent further damage to copyrighted works."

Perfect 10 distributes copyrighted images of nude models. Some of those images are republished without authorization by Web site publishers. Google's Image Search feature indexes some of those infringing sites, providing search results in the form of low-resolution thumbnail images. Users who click on a thumbnail are automatically linked to the infringing site, and that infringing site generates a full-size image, displayed on the user's screen through a process called "in-line linking."

The Supreme Court said abstract software code cannot qualify as a component under the statute.

The Court said Microsoft had not supplied from the United States components of the foreign computers—that those installed copies of Windows had been generated abroad.

The Court of Appeals found that Google's thumbnail images were likely to be a fair use, because they allow Google to create an "electronic reference tool," and because Perfect 10 produced no evidence of market harm. "In-line linking" did not amount to direct infringement because Google merely linked to the images, and did not copy or distribute them. Google could, however, be liable for contributory infringement of the full-size images if it knew of specific infringing works and failed to take "simple" measures to prevent further infringement. The Court of Appeals did not rule on Google's argument that it was immune from liability under the safe harbor provisions of the Digital Millennium Copyright Act.

Trademark

Colt Defense LLC v. Bushmaster Firearms, Inc., 2007 WL 1453927 (1st Cir. May 18, 2007), rejected Colt's attempt to claim trademark rights in the military-derived code name for its "M4" carbine rifle.

In the 1980s, at the military's request, Colt designed a compact carbine, a weapon the military designated the M4. Colt is the military's sole supplier of the M4. Colt registered the mark M4 and sued competitors who sold their own carbines using the M4 name.

Dismissing the claim on summary judgment, the district court found M4 to be a generic term, given that trade publications refer to M4 as a type of carbine, that several of Colt's competitors use the

term for their own goods, and that consumers have used M4 to describe a type of product. Affirming, the First Circuit noted that, although Colt developed the M4 technology, "there is no dispute that the term M4 was coined by the military as part of its weapons designation nomenclature"—not by Colt to name a product. Colt had failed to identify any word other than M4 that "capture[s] the several characteristics that comprise an M4." While Colt's registration created a presumption that M4 is a valid mark, the presumption was overcome by evidence of generic use of the term.

Courts continue to struggle over cases in which a marketer buys the right to have a link to its Web site displayed when a consumer uses the trademark of a competitor to perform an Internet search. In *Hamzik v. Zale Corp.*, 2007 WL 1174863 (NDNY April 19, 2007), Zale's purchased the right to display a link to its Web site when a consumer performs a Google or Yahoo search using the keyphrase "Dating Rings." The court found this was a sufficient "use in commerce" to support a trademark infringement claim by the owner of the "Dating Ring" trademark. The Court distinguished authorities such as *1-800 Contacts*, 414 F3d 400 (2d Cir. 2005), which rejected a trademark claim where the trademark at issue did not appear on the search results page. In *Hamzik*, however, plaintiff's Dating Rings mark was displayed in the search results, which showed a link entitled "Dating Rings—Zales," even though the Zales Web site itself does not use the term "Dating Rings" to describe its products.

One who intentionally uses a counterfeit of a registered mark—meaning a "spurious mark which is identical with, or substantially indistinguishable from, a registered mark"—is subject to enhanced civil liability and possible criminal penalties.

In *Colgate-Palmolive Company v. J.M.D. All-Star Import and Export*, 2007 WL 1344745 (SDNY May 7, 2007), the court dismissed counterfeiting claims on summary judgment. It held that the packaging of defendant's "Colddate" toothpaste is "quite similar" to, but not "substantially indistinguishable" from, the packaging for Colgate, the country's leading brand. While the court made no finding of intent, it is easy to infer that the makers of Colddate, which is imported from China, chose the name to associate their product with Colgate. Nevertheless, the court found that distinctions between the packaging of the products—including a difference of two letters in the product name, differences in the graphical elements displayed on the package, and variations in package text—were sufficient to preclude a counterfeiting claim.