



ideas on intellectual property law

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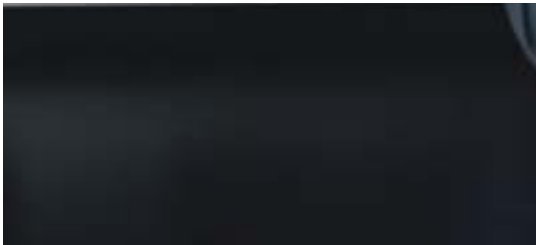
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CARR LLP
670 Founders Square
900 Jackson Street
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214.760.3000

Pretrial investigations

Do an adequate analysis before filing a patent infringement case

After a patent infringement suit is filed, the patentee is entitled to discover the information needed to prove the case. But how much investigation must you do *before* filing suit to determine whether a competitor's product infringes your patent? In one recent case, a lot of money turned on whether a patent holder had done a sufficient pre-filing analysis.

WHAT IS COQ10?

Q-Pharma Inc. owns a patent (the '373 patent) for a method that therapeutically treats damaged tissue by topically applying a composition containing Coenzyme Q10 (CoQ10). The sole independent claim of the '373 patent reads as follows:

A method of therapeutically treating impaired or damaged tissue in humans and animals which comprises topically administering to such tissue a composition comprising as the principal active ingredient a therapeutically effective amount of Coenzyme Q10 (2,3-dimethoxy-5-methyl-6-decaprenyl-benzoquinone) in admixture with a pharmaceutically acceptable carrier.

Two other claims recite methods in which the compositions applied contain 0.1-10% CoQ10 by weight and 0.0001-0.1% CoQ10 by weight respectively.

Andrew Jergens Co. markets and sells a product known as "Curél Age Defying Therapeutic Moisturizing Lotion with Coenzyme Q10" (the Curél CoQ10 lotion). In its advertising, Jergens states that its lotion, "which now contains the natural power of Q10, helps reveal visibly healthier skin." Jergens' advertising also claims that CoQ10 "defends against the signs of aging to keep skin looking younger, smoother and more vital"; "helps support our skin's natural ability to restore itself, reducing visible signs of aging"; and "helps to restore skin's natural elasticity."

WHEN DO YOU ABANDON A LAWSUIT?

Q-Pharma filed suit against Jergens, alleging that its sale of the Curél CoQ10 lotion infringed the '373 patent. Jergens counterclaimed for declaratory judgments of noninfringement, invalidity and unenforceability of the '373 patent.



During pretrial discovery, Q-Pharma repeatedly demanded that Jergens reveal information regarding the Curél CoQ10 lotion contents. Jergens refused to comply with the requests but — after Q-Pharma filed a motion to compel disclosure — Jergens revealed that the accused product contained no more than 0.00005% CoQ10 by weight.

On receiving that information, Q-Pharma decided to abandon its suit. It sought a voluntary dismissal with prejudice and agreed not to sue Jergens in the future for infringement because of the sale of the Curél CoQ10 lotion. The trial court dismissed with prejudice Q-Pharma's infringement claim and Jergens' noninfringement, invalidity, and unenforceability counterclaims.

WHAT IS AN ADEQUATE INVESTIGATION?

But then Jergens asked the trial court to impose sanctions against Q-Pharma on the ground that Q-Pharma hadn't done an adequate investigation before filing suit. In particular, Jergens noted that Q-Pharma hadn't conducted a chemical analysis of Jergens' Curél CoQ10 lotion.

Patent infringement and antitrust law

A patent owner who brings a suit for infringement — without more — is generally exempt from the antitrust laws for doing so. But the owner may be subject to antitrust liability for the suit's anticompetitive effects if the accused infringer proves:

1. That the asserted patent was obtained through knowing and willful fraud, or
2. The infringement suit was a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor.

Jergens made no claim that Q-Pharma obtained the '373 patent through fraud, so the appellate court considered only whether Q-Pharma's infringement suit fell within the "sham" exception to antitrust immunity.

The court agreed with Q-Pharma that its claim of infringement wasn't so baseless that no reasonable litigant could realistically expect to secure favorable relief. On the contrary, a reasonable litigant could — based on the '373 patent, its prosecution history and Jergens' advertising and labeling statements touting the therapeutic effects of the Curél CoQ10 lotion — expect to prevail on an infringement claim. After all, Jergens itself advertised its product as containing CoQ10 to restore the qualities of healthy skin. So the appellate court concluded that the trial court was correct in finding that Q-Pharma's infringement claim wasn't objectively baseless.

But the trial court denied that motion, finding that Q-Pharma had made a sufficient inquiry to determine whether the accused product infringed. Q-Pharma's attorneys performed a patent claim construction analysis and then relied on Jergens' advertising statements that suggested that the Curél CoQ10 lotion contained a "therapeutically effective amount" of CoQ10. Jergens appealed the trial court's decision denying its motion for sanctions against Q-Pharma.

WAS Q-PHARMA'S CLAIM INTERPRETATION BASELESS?

The appellate court ruled that Q-Pharma's claim interpretation — while broad — followed the standard canons of claim construction and was reasonably supported by the patent prosecution record.

Q-Pharma interpreted the "principal active ingredient" limitation of its patent claim to read "on any effective therapeutic use of CoQ10 in a skin lotion — even where that lotion might contain other ingredients that would moisturize skin." It interpreted the term "therapeutically effective amount" to mean "an amount sufficient to have therapeutic benefit." Q-Pharma also had read its claim to require no specified minimum

amount of CoQ10 because, unlike its other two claims, this claim included no such limitation.

The appellate court held that those interpretations comport with the claim language's plain meaning, and weren't inconsistent with the patent's written description and prosecution history in the Patent Office. Even though the patent's written description disclosed specific percentage ranges of CoQ10 in its preferred embodiments, nothing in that written description mandated a limited interpretation of the disputed claim language.

Thus, in light of the patent's claims, written description and prosecution history, the appellate court couldn't say that Q-Pharma's pre-filing claim interpretation was baseless or was made without a reasonable and competent inquiry.

CAN YOU BELIEVE THE DEFENDANT?

Jergens' next contention was that Q-Pharma's pre-filing infringement analysis shouldn't have relied solely on Jergens' advertising statements, and should have included a chemical analysis of the accused product. The appellate court conceded that Q-Pharma could have conducted a more thorough investigation before filing suit, but concluded that its pre-filing infringement analysis

had a sufficient evidentiary basis. Q-Pharma had acquired a sample of the Curél CoQ10 lotion and reviewed its advertising and labeling, which listed the product's ingredients and repeatedly touted the therapeutic effects of CoQ10. Based on that information, Q-Pharma had concluded that chemical analyses identifying the actual percentage of CoQ10 in the accused product wouldn't have likely changed its infringement analysis.

WHEN IT'S REASONABLE TO BELIEVE

Given Q-Pharma's nonfrivolous interpretation of the patent claim as requiring no specified

minimum amount of CoQ10, and Jergens' forthright assertions regarding the therapeutic effects of CoQ10 in the accused



product, the appellate court believed it was reasonable for Q-Pharma to believe that the accused product contained a "therapeutically effective amount" of CoQ10 as the "principal active ingredient." So it affirmed the trial court's decision denying the award of sanctions. 🧠

Enforcing injunctions in patent suits

When a nonparty may violate an injunction

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Can an injunction apply to acts of patent infringement which occur outside the United States? And what if the company subject to the injunction contracts with another business to complete the prohibited act? In a recent case, an enjoined party was charged with using these techniques to avoid the injunction's terms.

THE INJUNCTION

International Rectifier (IR) sued Samsung Electronics Co. (Samsung) for infringement of its patents on semiconductor transistor devices, including high-power metal-oxide-semiconductor field effect transistors (MOSFETs). The parties eventually agreed to settle their dispute, with the trial court adopting the settlement agreement. The resulting consent judgment included a permanent injunction.

In stipulating to the consent judgment and injunction, the parties resolved all infringement issues concerning Samsung's products, except for one. The parties specifically reserved the issue of infringement as to products made by Samsung for

IXYS (a separate company which was not a party to the infringement litigation). Following the entry of the consent judgment, Samsung ceased making, offering for sale, selling or importing into the United States any MOSFET devices.

An injunction can apply to all those who are "in active concert or participation" with the defendant.

Shortly after the permanent injunction became effective, Samsung sold its power MOSFET business, except for the fabrication of IXYS-designed devices at Samsung's foundry in South Korea. Although IXYS sought to have Samsung import these devices into the United States under the exception to the injunction, Samsung steadfastly refused. Instead, Samsung agreed to sell, to an IXYS subsidiary in Germany, uncut, unpackaged wafers that were precursors of the IXYS-designed MOSFET devices. Samsung made these sales in

Korea, and the devices were delivered to IXYS in Germany. IXYS, or one of its vendors, subsequently diced the wafers into individual chips and packaged the wafers into commercial products. However, at least some of IXYS' completed devices were sold by IXYS to its customers in the United States.

CONTEMPT PROCEEDINGS

IR initiated contempt proceedings in the trial court against both Samsung and IXYS for violating the injunction, based on sales of the IXYS-designed and Samsung-manufactured devices in the United States. The trial court ordered Samsung and IXYS to show cause why they shouldn't be found in contempt.

After a hearing, Samsung and IXYS were both held in contempt of the injunction by the trial court, and they both appealed. The appellate court then overturned the contempt order.

SAMSUNG'S CONDUCT

The appellate court noted that the permanent injunction "prohibit[ed Samsung] from making, using, offering for sale or selling in or importing into the United States the components, devices or products infringing any claim of [the '699 patent]." It didn't apply to any conduct taking place outside the United States — nor could it, because American patent laws don't have any effect outside its borders. All of Samsung's relevant actions since the injunction's issuance took place outside the United States.

The trial court had imputed IXYS' conduct to Samsung, concluding that Samsung and IXYS had an agreement to import MOSFET wafers into the United States. The trial court then concluded that Samsung couldn't accomplish indirectly through IXYS what it was prohibited from doing directly.

But the appellate court saw the Samsung-IXYS relationship differently. It noted that, though a fabrication agreement between Samsung and IXYS existed, that agreement pertained only to the manufacture and delivery of IXYS-designed devices outside the United States. Importing the



devices into the United States wasn't part of the agreement with Samsung.

And there was no evidence that Samsung exercised any control over IXYS or participated in any IXYS activities after delivery of the MOSFET device elements to IXYS in Germany. Samsung and IXYS are separate, unaffiliated companies, and IXYS acted independently of Samsung. Thus, said the appellate court, even if IXYS had violated U.S. patent laws, there was no basis for attributing that act to Samsung.

The appellate court acknowledged that Samsung was aware that IXYS imported devices to the United States, but that knowledge of IXYS' actions alone wasn't enough to support an allegation of collusion. On the contrary, the facts showed that Samsung stopped making, selling, offering for sale and importing into the United States all power MOSFETs after the entry of the permanent injunction. Samsung even refused to ship IXYS-designed devices to the United States, despite IXYS' insistence. So the appellate court reversed the trial court's finding of an agreement between IXYS and Samsung to violate the injunction.

IXYS' CONDUCT

IXYS wasn't a party to the Samsung litigation. But an injunction can apply to all those who are "in active concert or participation" with the defendant, so IXYS' nonparty status didn't necessarily immunize it from complying with the injunction.

But the appellate court observed that the only agreement between Samsung and IXYS was the fabrication agreement for the manufacture and delivery of devices outside of the United States. There was no evidence that Samsung exercised any control over IXYS, nor was IXYS legally identified or related in any way with Samsung. Thus, regardless of the legality of Samsung's activities — which the court concluded didn't invoke liability — IXYS couldn't be bound by the permanent injunction.

THE LAST WORD

The contempt order in the Samsung litigation was therefore reversed as to both Samsung and IXYS. But that wasn't the last word — IR had brought a separate patent infringement suit against IXYS, and was successful in the trial court. Then, on appeal that decision was partly affirmed, partly reversed, and sent back to the trial court for further proceedings. So the fight between IR and IXYS continues. 🧠

Can search engines use trademarks to key searches?

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Internet search-engine providers sometimes use search terms as keywords to cross-reference pre-identified terms and then match them to Web sites of the search-engine-provider's sponsors. A trademark infringement suit has challenged this advertising practice — otherwise known as “keying.”

TARGETING CONSUMERS

Keying is a powerful advertising tool because it allows companies to target those consumers who are searching for competitors' products or services. For instance, if a consumer thinking of buying Nike running shoes accesses an Internet search engine and enters the trademark “Nike,” ads for other running-shoe makers such as Adidas would appear if they had paid to have their ads keyed to the search-result page for the Nike search term.

Thus, Adidas could specifically target potential Nike consumers and offer them alternative products.

At issue in a recent case is a search-engine-provider's list



for adult-oriented entertainment that contains more than 400 pre-identified terms, including Playboy Enterprises Inc.'s trademarks “Playboy” and “Playmate.” When a search-engine user conducts a search based on the search terms “playboy,” “playmate” or any of the other terms on the search engine's adult entertainment list, the search engine's adult-entertainment advertisers' ads appear on the search-results page. Playboy alleges that keying its trademarks “Playboy” and “Playmate” to competitive Web sites in that manner infringes and dilutes those trademarks.

LINKING LEADS TO CONFUSION

At the core of a trademark infringement suit is the likelihood of confusion. Playboy claims that keying infringes its trademarks by confusing the search-engine users and thus misappropriating Playboy's goodwill. Specifically, using Playboy's trademarks is alleged to create confusion about whether Playboy is the source of — or affiliated with — the competitive ads appearing on the search-results page. According to Playboy, these ads not only direct the searcher's attention to Playboy's competitors' products, but also falsely imply that they're visiting a Playboy-related Web site. Playboy also alleged that even if users ultimately realize they have reached a Web site

unrelated to Playboy, the searcher's initial interest is damaging in itself because the searcher is already considering doing business with the competitor.

Does such keying really confuse search-engine users? An expert witness for Playboy testified that it does. The witness cited a study showing that 51% of people shown the results for the search-term "playboy" believed that Playboy Enterprises Inc. "sponsored or was otherwise associated with the resulting adult-content" ad. Playboy's expert also concluded that for 29% of the study's participants viewing "playboy" searches, and 22% of those viewing "playmate" searches, the confusion stemmed from the competitive ads. The defendants, however, contested the study's accuracy.

The trial court dismissed Playboy's suit without a trial. On appeal, however, the Ninth Circuit

reinstated the suit, finding that Playboy was entitled to a chance to prove its case. That court noted that a search-engine user may be "perfectly happy to remain on the competitor's site," thus agreeing with Playboy's contention as to the damaging effect of initial interest in the competitor's Web site.

LOOKING TOWARD RESOLUTION

If Playboy prevails at trial, what remedy could the court employ? It could limit the practice of "keying" to nontrademark terms, or require special labeling to clarify that the ads aren't connected with Playboy — or both. But if Playboy is unsuccessful, at least in the Ninth Circuit, search-engine providers may be allowed to continue to use trademarks to match their users' interests with their sponsors' Web sites. 💡

And now, a message from our sponsor

MasterCard airs television advertisements which present a series of names and images of goods available for sale, including the items' prices. Each ad ends with the name of something that cannot be bought, accompanied by the tag line: "Priceless. There are some things money can't buy; for everything else there's MasterCard."

Ralph Nader broadcast a television ad promoting his 2000 presidential candidacy that included a sequential display of items along with the price of each: "Grilled tenderloin for fund-raiser — \$1,000 a plate"; "Campaign ads filled with half-truths — \$10 million"; "Promises to special interest groups — over \$100 billion." The advertisement ended with: "Finding out the truth: priceless. There are some things that money can't buy." MasterCard filed a complaint against Ralph Nader and his presidential committee, charging them with, among other things, trademark infringement and dilution, false designation of origin, unfair competition, deceptive trade practices and copyright infringement.

On the trademark infringement and unfair competition counts, the court held that no likelihood of confusion existed between MasterCard's "priceless" ads and Nader's political ad. As to trademark dilution, the court held that Nader's use of the plaintiff's trademarks wasn't commercial, but instead political in nature, and thus exempted from coverage by the federal Trademark Dilution Act. And even if Nader's use of MasterCard's trademarks was found commercial in nature, the court held that such use didn't actually dilute MasterCard's marks, nor was it likely to do so. There was no evidence that Nader's limited use of the "Priceless" trademarks lessened their value or their capacity to identify and distinguish MasterCard's goods or services.

Further, MasterCard didn't alter or lessen its use of the marks to identify its products or services because of Nader's actions. As to copyright infringement, the court held that the Nader ads escaped liability under the fair use doctrine as a political parody.