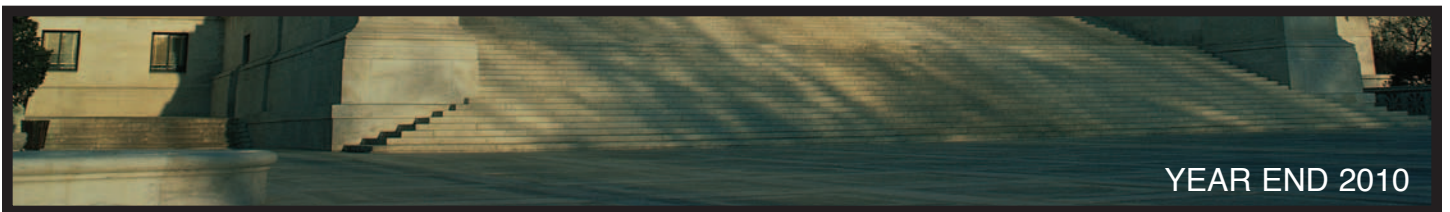




IDEAS ON INTELLECTUAL PROPERTY LAW



YEAR END 2010

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Supreme Court rules on process patentability tests

The question of the appropriate test for determining whether a business method or similar process is patentable finally made its way to the U.S. Supreme Court this year. But anyone hoping for a bright-line rule is in for a letdown.

On hearing the case of *Bilski v. Kappos*, the Court refused to hold the machine-or-transformation test put forth by the U.S. Court of Appeals for the Federal Circuit in 2008 as the sole test for patentability of a business method claim, but failed to adopt a firm rule regarding process patents.

The test case

The plaintiffs filed a patent application for a method of hedging the risk of price changes in the field of commodities trading. The relevant claims describe a series of steps instructing how to hedge risk, placing the concept into a simple mathematical formula.

Justice Kennedy cautioned that the language of the statute doesn't suggest broad patentability of business methods.

The Federal Circuit had held that the machine-or-transformation test is the sole test for determining whether such a claimed process is patentable under Section 101 of the Patent Act. Under the test, an invention is a "process" if it's tied to a particular machine or apparatus, or if it transforms a particular article into a different state or thing.

The Federal Circuit's decision in *Bilski* rejected its earlier *State Street* test, which required a patentable invention to produce only a "useful, concrete and tangible result."

The failed test

The Supreme Court unanimously affirmed the Federal Circuit's holding that *Bilski's* invention wasn't



patentable. But it also unanimously decided the machine-or-transformation test is not the sole test for patentability for a process.

The consensus ended there, though, as evidenced by three separate opinions in the case that the Court produced. In the majority opinion, written by Justice Kennedy, the Court noted that the Patent Act specifies four categories of patentable inventions:

1. Processes,
2. Machines,
3. Manufactures, and
4. Compositions of matter.

Over the years, the Supreme Court has ruled that laws of nature, physical phenomena and abstract ideas aren't patentable.

Justice Kennedy went on to hold that, while the machine-or-transformation test may be a useful and important clue as to the patentability of a process, it isn't the sole test. He explained that, because there is no common meaning of "process," the test would have to be inextricably tied to any machine or the transformation of any article, and previous Supreme

Court cases make clear that the test was never intended to be quite so exhaustive or exclusive.

Kennedy's opinion stopped short, however, of endorsing the Federal Circuit's prior tests, including *State Street*. In fact, in the two concurring opinions, five justices argued strongly against *State Street*.

Methods pass, sometimes

Kennedy's opinion also held that the Patent Act doesn't categorically exclude business methods from patentability. He cautioned that the language of the statute doesn't suggest broad patentability of business methods. Rather, he found that the statute leaves open the possibility that at least some processes that can be fairly described as business methods are patentable.

In an accompanying opinion submitted by three other justices, however, now-retired Justice Stevens

disagreed. He asserted that a business method isn't a patentable process.

In the end, the proper test for patentable processes proved irrelevant to the invention at issue. The full Court agreed that the invention was an unpatentable abstract idea.

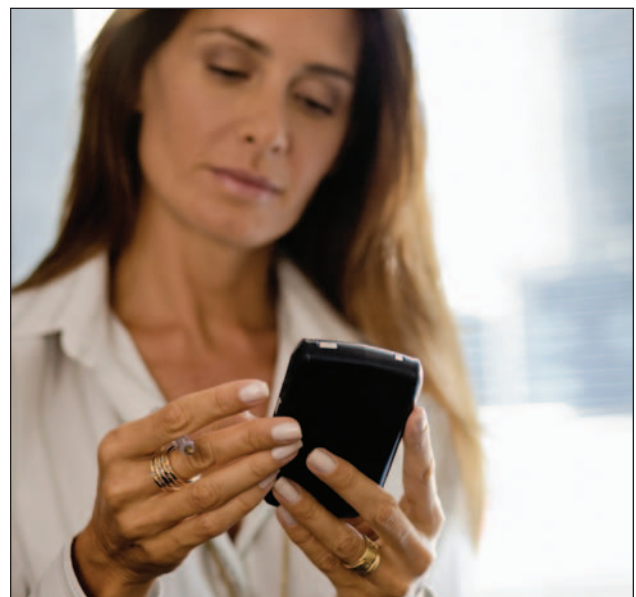
Over the threshold

Despite the Supreme Court's disapproval of the machine-or-transformation test, it may nonetheless be wise to draft patent claims with this test in mind, at least until other acceptable tests are devised. In the wake of the Court's decision, the U.S. Patent and Trademark Office has instructed its examiners that a claim is unpatentable in the absence of clear indication that the claim isn't an abstract idea. Thus, satisfying the test may at least get a claim over the threshold and into patentable territory. ○

6 updated exemptions for permissible copyright circumvention

The Librarian of Congress recently released an updated list of exemptions to the Digital Millennium Copyright Act (DMCA). The DMCA generally prohibits the circumvention of access-control technologies used by copyright owners to protect their works. But the exemptions allow users of certain types of works to circumvent such controls to make noninfringing uses of such works. Here are the six exemptions from this year's updated list:

1. Motion picture DVDs. College professors and film/media studies students, documentary filmmakers, and those making noncommercial videos may incorporate short clips of motion pictures into new works for the purpose of criticism or comment if they have reasonable grounds for believing it's necessary



for the criticism or comment. Previously, this exemption was limited to professors making compilations of film clips for classroom instruction.

2. Wireless telecommunications network software. The exemption allowing cell phone users to unlock firmware or software that limits their phones to a particular wireless telecommunications network has been extended.

Cell phone users should be aware that their licensing agreements may restrict their ability to jailbreak their phones.

3. Cell phone applications. Cell phone users may now “jailbreak” through the copy protection technology on their phones to execute software for the sole purpose of allowing the applications to work on their phones, as long as the applications have been obtained lawfully. Users, however, should be aware that other provisions in their licensing agreements may restrict their ability to successfully jailbreak their phones.

4. Video games. Under this new exemption, the copyright protection on video games on personal

computers can now be circumvented — but only for security testing. The information derived from the testing must be used primarily to promote the security of the computer’s owner or operator, the computer system, or the computer network. And the information must be used or maintained in a way that doesn’t facilitate infringement or a violation of applicable law.

5. Obsolete “dongles.” The exemption has been extended that allows circumvention for computer programs protected by “dongles” — or small computer attachments — that prevent access because of malfunction or damage and that are obsolete. A dongle is considered obsolete if it’s no longer manufactured or if a replacement or repair is no longer reasonably available in the commercial marketplace.

6. E-books. The exemption also has been extended for literary works distributed in electronic book (e-book) format when all existing e-book editions of the work (including digital text editions made available by authorized entities) contain access controls that prevent the enabling either of the book’s read-aloud function or of screen readers that convert the text into a specialized format. If, however, a publisher offers an audio version of a book, a user can’t legally circumvent the access controls. ○

Fair enough?

How the nominative fair use doctrine can apply to domain names

Since practically the dawn of the Internet, trademark holders have had to contend with third parties using their marks in domain names to draw traffic to non-affiliated Web sites. Unfortunately for the mark holders, some of these third parties can wield the “nominative fair use” doctrine as a defense to infringement liability. The U.S. Court of Appeals for the Ninth Circuit recently reiterated how the doctrine can apply to domain names in *Toyota Motor Sales v. Tabari*.

Looking for Lexus lovers

The Tabaris are auto brokers who match customers wanting to buy Lexus vehicles with dealers. They offered their service online at buy-a-lexus.com and buyorleaselexus.com.

Toyota, the exclusive distributor of Lexus vehicles in the United States, sued the Tabaris for trademark infringement. After the district court ruled in



Toyota's favor, it ordered the Tabaris to cease using the domain names and granted an injunction barring them from using the Lexus mark in any other domain name. The Tabaris appealed.

Taking a spin

The district court applied the eight-factor *Sleekcraft* test for likelihood of confusion to find that the domain names infringed the Lexus mark. The Ninth Circuit, however, held that the *Sleekcraft* analysis isn't appropriate when a defendant uses the mark to refer to the trademarked good itself — and the Tabaris used the mark to refer to actual Lexus vehicles. Such use of a trademark is called nominative fair use.

The court explained that three factors must be considered when a nominative fair use defense is raised:

1. Whether the product was readily identifiable without use of the mark,
2. Whether the defendant used more of the mark than necessary, and
3. Whether the defendant falsely suggested that it was sponsored or endorsed by the trademark holder.

If the use satisfies all three factors, it doesn't infringe the mark.

Here, the court found the first factor was satisfied because the Tabaris needed to communicate that they specialized in Lexus vehicles, and it was almost impossible to do so without mentioning Lexus.

As to the other factors, Toyota argued that the use of the stylized Lexus mark and logo on the Tabaris' Web site was *more* use than necessary and suggested sponsorship or endorsement by Toyota. The court agreed that the

Tabaris could adequately communicate their message without using Lexus' visual trappings.

The Tabaris, however, had removed the mark and logo from their Web site by the trial. They also added a disclaimer stating that they're not affiliated in any way with Lexus. The court concluded that the disclaimer precluded the risk of confusion as to sponsorship or endorsement.

Could the Tabaris adequately communicate their message without using Lexus' visual trappings?

Backing it up

The Ninth Circuit vacated the injunction and remanded the case to the district court with the admonishment that, "at the very least, the injunction must be modified to allow some use of the Lexus mark in domain names by the Tabaris." But it also held that, before an injunction could be granted, Toyota must establish that the Tabaris' use of the mark wasn't permissible nominative fair use. ○

Absolutely crust fallen

Court blocks trade secret defendant from new job

As long as a departing employee isn't bound by a noncompete agreement, he or she is free to work wherever he or she chooses, right? Not according to the U.S. Court of Appeals for the Third Circuit in *Bimbo Bakeries USA, Inc. v. Botticella*.

Baker's secrets

Bimbo Bakeries is one of the four largest baking companies in the United States. Chris Botticella worked for Bimbo as its vice president of operations for California from 2001 through Jan. 13, 2010. He oversaw a variety of areas, including product quality and cost, labor issues, and new product development. While employed by Bimbo, Botticella signed a "Confidentiality, Non-Solicitation and Invention Assignment Agreement" but didn't sign a noncompete agreement.

In the course of his employment, Botticella had acquired a broad range of confidential information about the company. For example, he was one of only seven people who possessed all of the information necessary to replicate the company's popular line of Thomas' English Muffins, right down to the secret behind the muffins' famous "nooks and crannies" texture. In March 2009, Botticella signed a confidentiality agreement with Bimbo.

Minutes after his conversation with the vice president of human relations, Botticella accessed 12 files within 13 seconds.

A battered agreement

On Oct. 15, 2009, Botticella accepted an employment offer from Hostess Brands, one of Bimbo's primary competitors, and signed an "Acknowledgement and Representation Form." The form stated Hostess wasn't interested in and Botticella wouldn't disclose trade secrets from Bimbo. He agreed to start in



January 2010 and continued to have full access to Bimbo's confidential and proprietary information in the meantime. Botticella didn't inform Bimbo of his plans to leave until Jan. 4, 2010, and even then he didn't disclose his plans to join Hostess.

Bimbo learned of that plan when Hostess made an announcement on Jan. 12, 2010. The next day, Bimbo's vice president for human relations discussed the situation with Botticella, directing him to vacate the company's offices that day.

After his departure, Bimbo hired a computer forensics expert to investigate Botticella's use of his company laptop during December 2009 and January 2010. The expert found evidence that indicated Botticella had accessed a number of confidential files during that time. Minutes after his conversation with the vice president of human relations, for example, Botticella accessed 12 files within 13 seconds.

The expert discovered several similar patterns of access in the weeks leading up to Botticella's last day, which he characterized as "inconsistent with ordinary usage." His testing also revealed that three external storage devices had at some time been connected to the laptop.

Into the mix

Bimbo sued Botticella for misappropriation of trade secrets. The district court granted a preliminary injunction preventing him from starting work with Hostess and from divulging any confidential or proprietary information.

Botticella appealed the order granting the injunction. He argued that a court can enjoin a defendant from starting a new job to protect only a former employer's *technical* trade secrets, and that an injunction is appropriate only when it would be “virtually impossible” for the defendant to perform the new job without disclosing trade secrets.

The Third Circuit held that the law in Pennsylvania (where the case was filed) is clear that even nontechnical trade secrets are protected. The court acknowledged that Pennsylvania courts might enjoin new employment more readily if technical trade secrets are involved but declined to adopt an inflexible rule restricting injunctive relief to such cases.

The court also surveyed previous Pennsylvania cases on the appropriate standard for enjoining employment. It found that the state's appellate-level court has ruled that the proper inquiry is whether there's

a sufficient likelihood — or substantial threat — of the defendant disclosing trade secrets. The “virtual impossibility” standard didn't apply. (See “Court sidesteps earlier ruling” below.)

Proof in the pudding

Turning to the facts at hand, the Third Circuit held that the district court's injunction was appropriate because Bimbo had demonstrated a likelihood of success on its misappropriation claim. In particular, the court found that the conclusion that Botticella intended to use the trade secrets rested on solid evidence.

This evidence included his failure to disclose his acceptance of a job offer from a competitor, his decision to remain in a position that received confidential information and actually receiving such information after committing to the new job, and his apparent efforts to copy Bimbo's trade secret information from his laptop onto external storage devices.

Stuck in limbo

Although the court indicated that “it was unclear exactly when [the external storage] devices had been used,” it still found enough of a likelihood of success on the merits to support an injunction. Thus, until trial, Botticella is stuck in limbo. ○

Court sidesteps earlier ruling

In *Bimbo Bakeries USA, Inc. v. Botticella* (see main article), the U.S. Court of Appeals for the Third Circuit conceded that one could find support for a “virtual impossibility” standard in a 2007 decision involving claims for violations of a noncompete covenant and misappropriation of trade secrets.

In that case, a three-judge panel of the Third Circuit stated that an injunction against employment was available only when it's “virtually impossible” for the employee to perform his or her new duties without bringing his or her former job's confidential information to the new position. But in *Bimbo Bakeries*, a different three-judge panel explained that the “virtually impossible” language cited in the 2007 case came from an Ohio case and didn't, in fact, state Pennsylvania's standard for granting injunctions in trade secret cases.

Traditionally, a panel's holding in a precedential opinion is binding on subsequent panels — unless the holding is overruled by a full panel of the circuit's appellate judges. But subsequent panels aren't bound by mere “dictum” that wasn't necessary to the court's holding. And this panel concluded that the discussion in the earlier case of a “virtually impossible” standard was just such nonbinding dictum.