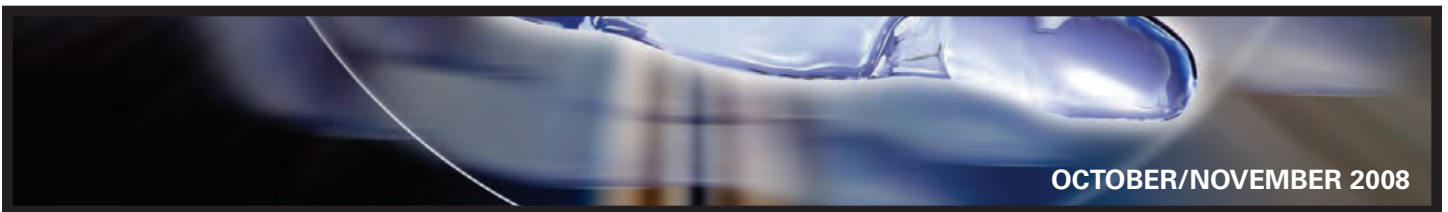




IDEAS ON INTELLECTUAL PROPERTY LAW



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Can meta tags form basis for trademark infringement?

The emergence of the Internet as a valuable marketing tool has inevitably led to the creative use of competitors' trademarks. In *North American Medical Corp. v. Axiom Worldwide, Inc.*, the Eleventh Circuit looked at whether trademark holders can bring an infringement claim based on the surreptitious use of a trademark to drive consumers to a competitor's Web site, even where the trademark is never actually displayed to consumers.

Looking for traction

North American Medical (NAM) and Axiom compete in the market for physiotherapeutic spinal devices, commonly known as traction devices. Both companies have Web sites. It's common for Web sites to use "meta tags" that can identify keywords associated with a business and provide a brief description of its Web site's content, which allows Internet search engines to list the site on the search engine's index.

Axiom embedded two of NAM's registered trademarks on its own Web site within meta tags so that Axiom's site would appear in the results when consumers searched the Internet

for NAM's marks. Axiom's site never displayed NAM's marks or referred to NAM or its products.

A company's use of its competitor's trademarks in meta tags may result in a likelihood of confusion.

NAM sued Axiom for trademark infringement and sought a preliminary injunction barring Axiom from using its marks within its meta tags. To prevail on the preliminary injunction, NAM had to show a likelihood of success on the merits of its claim. The court found that Axiom's use of the marks created a likelihood of confusion so that NAM showed a likelihood of success on its infringement claim. The district court issued a preliminary injunction prohibiting Axiom from using NAM's trademarks within its meta tags. Axiom appealed.

The court backs down

Despite conceding that "our prior cases...extend a presumption of irreparable harm once a plaintiff establishes a likelihood of success on the merits of a trademark infringement claim," the Eleventh Circuit in *North American Medical Corp. v. Axiom Worldwide, Inc.*, vacated the preliminary injunction barring Axiom from using NAM's marks as meta tags. It cited the U.S. Supreme Court decision, *eBay Inc. v. MercExchange, L.L.C.*

In *eBay*, the district court denied the plaintiff's motion for permanent injunctive relief even though a jury found patent infringement by the defendant. The Federal Circuit reversed, articulating a categorical rule that permanent injunctions must issue if infringement is established.

The Supreme Court reversed the appellate court and admonished both courts for applying categorical rules to the grant or denial of injunctive relief. Rather, the Supreme Court said, the decision rests within district courts' discretion, which must be exercised consistent with traditional principles of equity, "in patent disputes no less than in other cases by such standards."

Following the Supreme Court's reasoning, the Eleventh Circuit in *NAM* concluded that "a strong case can be made that *eBay's* holding necessarily extends to the grant of preliminary injunctions under the Lanham Act." It therefore vacated the preliminary injunction and remanded to the district court for further proceedings.

The defendant shows some backbone

On appeal, Axiom argued that NAM failed to establish a substantial likelihood of success on the merits of its trademark infringement claims. Specifically, it asserted that its use of the trademarks didn't represent a "use in commerce" and didn't create a likelihood of confusion.

To prevail on a trademark infringement claim, a plaintiff must establish:

1. It possesses a valid mark,
2. The defendant used the mark,
3. The defendant's use of the mark occurred "in commerce,"
4. The defendant used the mark in connection with the sale or advertising of goods, and
5. The defendant used the mark in a manner likely to confuse consumers.

According to the court, although Axiom purported to challenge whether its placing of NAM's trademarks in its meta tags is a "use in commerce," its arguments actually focused only on the second, fourth and fifth factors.

The court sends shivers up the infringing spine

The court first considered whether, under the second and fourth required factors, there was use "in connection with the sale or advertising of any goods." Axiom argued that placing a competitor's trademarks within meta tags never viewed by consumers doesn't constitute "use." The court disagreed, finding it absolutely clear that Axiom used NAM's trademarks as meta tags in its effort to promote and advertise products on the Internet.

According to the court, whether the trademark was displayed is relevant to the likelihood of confusion question, but not to the decision of whether a use in connection with the sale or advertising of goods occurred. The court quickly concluded that NAM satisfied the first four elements.

Brace yourselves

In contesting the district court's finding on the likelihood of confusion, Axiom compared its use of the meta tags to a store placing its own generic brand next to a brand name product on the shelf. Thus, it argued, the district court had incorrectly relied on an earlier case — *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*

In *Brookfield*, the Ninth Circuit held that the Lanham Act bars a defendant from including a competitor's trademark or confusingly similar terms in its meta tags. It conceded that a consumer who enters a trademark in a search engine will see the trademark holder's Web site, as well as the competitor's, and can select the correct site.

But the Ninth Circuit concluded that using the trademark in meta tags will result in "initial interest confusion." By using the trademark to divert consumers looking for the trademark holder's site, the competitor improperly benefits from the goodwill the holder has developed in its mark.



The Eleventh Circuit agreed with *Brookfield*, rather than with Axiom's argument. The court held that a company's use of its competitor's trademarks in meta tags may indeed result in a likelihood of confusion. But in the end, even this holding wasn't enough for NAM. The Eleventh Circuit, citing a Supreme Court case that cast doubt on the propriety of the district court's granting of the preliminary injunction, vacated the preliminary injunction. (See "The court backs down" on page 2.)

A spinal block

The Eleventh Circuit noted that its holding is narrow. It emphasized that NAM had demonstrated a likelihood of actual *source* confusion. As such, the court left undecided whether initial interest confusion alone may provide a viable method of establishing a likelihood of confusion and, in turn, a successful trademark infringement claim. ○

Can't get more than one satisfaction

Court applies one-satisfaction rule in copyright case

Just how many times should a successful copyright infringement plaintiff get satisfaction? The one-satisfaction rule states that judgment against a defendant must be reduced by the amount of its co-defendants' settlements. In *BUC Int'l Corp. v. Int'l Yacht Council Ltd.*, the Eleventh Circuit held that the one-satisfaction rule applies to infringement claims under the federal Copyright Act.

The one-satisfaction rule is intended to prevent double recovery or the overcompensation of a plaintiff for a single injury.

You can't always get what you want

BUC filed suit against six defendants, alleging primarily that they had directly, vicariously and/or contributorily infringed its copyright. Before trial, BUC entered into settlement agreements with three defendants. Under the agreements, the defendants or their insurance carriers agreed to pay \$790,000 in exchange for dismissal.

At trial, the jury found two of the remaining defendants liable for actual damages of about \$1.6 million. The district court dismissed the settling defendants the following month.

The two defendants found liable eventually filed motions for relief in the amount of the settlements. The applicable rule allows a court to relieve a defendant from a final judgment if "the judgment has been satisfied, released, or discharged." The Eleventh Circuit noted that other courts have found the rule to be an appropriate vehicle for a defendant to seek credit against all or part of a judgment for the amount paid by a settling co-defendant.

The two liable defendants based their request for relief on the one-satisfaction rule. The rule generally provides that plaintiffs are entitled to only one satisfaction for a single injury. This means that the amounts received in settlement

are credited against judgments for the same injury against nonsettling defendants.

But the district court rejected the defendants' request. The court likened the attempt to claim credit for the settlements to a contribution claim, which would exist under the Copyright Act only if either Congress created such a right, or the courts created such a right as a matter of federal common law. The lower court determined that no right to contribution exists under the Copyright Act. The defendants appealed.

Sympathy for the devil

But the appellate court found that the defendants weren't seeking contribution. It explained that a right of contribution allows a defendant to demand that a party jointly responsible for a third party's injury supply part of the required compensation for the third party. Contribution reflects the notion that, when multiple parties share responsibility for a wrong, it would be inequitable to require one to pay the entire cost of reparation.

The one-satisfaction rule, on the other hand, is intended to prevent double recovery or the overcompensation of a plaintiff for a single injury. It "operates against plaintiffs and requires nothing of joint tortfeasors, whereas the right to contribution requires actual, and not just potential, joint tortfeasors to share liability." The one-satisfaction rule doesn't protect defendants but rather limits plaintiffs.



The court adopted the Second Circuit's position that the rule applies to infringement actions under the Copyright Act. The Second Circuit has held that "the Copyright Act allows only a single recovery for a single sale; where multiple defendants are involved with sales ... their liability is joint and several and recovering from one reduces the liability of the others."

The Eleventh Circuit agreed, reasoning that to hold otherwise would permit a plaintiff to recover multiple times for a single injury. So the court reversed the district court's holding and sent the case back for further proceedings.

Shattered

The Eleventh Circuit acknowledged that some courts apply a dollar-for-dollar reduction of liability under the one-satisfaction rule, while others consider reductions by the proportionate share of the settling defendants' liability. The court directed the district court in this case to reduce the judgment dollar-for-dollar because the defendants requested that approach and BUC didn't argue for the alternative approach. ○



PTO patent rules rejected

Bogged down in a growing mountain of patent applications, in 2006 the U.S. Patent and Trademark Office (PTO) issued proposed rules to change the patent system by modifying several established patent examination rules. But in a case that made national headlines earlier this year, the PTO will have to find another way to relieve its workload. In *Tafas v. Dudas*, a district court granted a preliminary injunction barring the rules from taking effect. (They were to become law Nov. 1, 2007.) The court found that the PTO had overstepped its authority in issuing the rules. As a result, the proposed rules were declared void.

New rules

In early 2006, the PTO issued notices of proposed rule-making in the Federal Register. The changes limited the number of continuing applications, requests for continued examination (RCEs), and claims that a patent applicant could make as a matter of right. Under the existing system, no limit is imposed. During the public comment period, the PTO received many written comments that expressed disapproval of the proposed rules.

The PTO published the Final Rules on Aug. 21, 2007:

Final Rules 78 and 114. These rules (known together as the "2+1 Rule") allowed an applicant as a matter of right to file two continuation or continuation-in-part applications, plus a single RCE, after an initial application. To pursue additional patent prosecution, an applicant had to file a third continuation or continuation-in-part application or a second RCE with a "petition and showing" that explains why the amendment, argument or evidence couldn't have been previously presented. In extraordinary situations, the applicant could petition for waiver of the rule.

Final Rule 75. Also known as the "5/25 Rule," this rule allowed an applicant to present a total of five independent claims or 25 total claims for examination without providing any additional information. To exceed either limit, an applicant had to provide an "examination support document" (ESD) with information about the claims to assist the examiner in determining the claimed invention's patentability.

Final Rule 78. This required applicants to identify related patent applications. It also established a rebuttable

presumption that applications satisfying certain conditions contain patentably related claims, thereby preventing applicants from evading the 2+1 Rule and the 5/25 Rule by attempting to simultaneously prosecute related applications.

The rules defined the terms “divisional,” “continuation” and “continuing application” to eliminate any confusion over how the 2+1 Rule applies. They also defined how claims referring to different statutory classes of invention will be treated and how multiple dependent claims will be counted for purposes of the 5/25 Rule.

Rules are made to be broken

The plaintiffs, Triantafyllos Tafas and GlaxoSmithKline, brought suit under the Administrative Procedure Act (APA) to permanently enjoin the PTO from enacting the final rules. They claimed that the rules constituted an unlawful agency action under the APA and should therefore be declared null and void.



An agency action may be set aside if, on reviewing the administrative record, a court finds that the action was “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.” An action may also be set aside if it exceeded statutory jurisdiction, authority or limitations.

Rulemaking authority

In its analysis, the court explained that the Patent Act allows the PTO to “establish regulations, not inconsistent with law,” to govern PTO proceedings. The PTO may promulgate regulations that “facilitate and expedite the processing of patent applications” and “govern the ... conduct of agents, attorneys, or other persons representing applicants or other parties before the Office.”

Prior case law makes clear that the Patent Act doesn't give the PTO general substantive rulemaking power.

The Patent Act also requires the PTO to engage in notice and comment rulemaking under the APA, and the court acknowledged that the APA ordinarily requires notice and comment rulemaking only when an agency intends to promulgate a *substantive* rule. But the court held that the APA requirement didn't empower the PTO to promulgate substantive rules. Prior case law makes clear that the Patent Act doesn't give the PTO general substantive rulemaking power.

The court pointed out that notice and comment must occur also when required by statute. It found that the Patent Act requires such notice and comment when the PTO promulgates rules it's empowered to make — namely, procedural rules.

The PTO tried to dismiss the distinction between substantive and procedural rules. It argued that the only relevant question was whether the final rules fell within the Patent Act's rulemaking authority. In the PTO's view, the rules fell within the provision because they govern the conduct of PTO proceedings by “facilitating and expediting” the application process.

But the court recognized the distinction, and deemed it relevant to the case. It held that the law is clear that the

PTO doesn't have the authority to issue substantive rules or substantive declarations interpreting the Patent Act.

A matter of substance

The PTO also argued that the rules were "clearly procedural" because, rather than altering substantive requirements, the rules sought to curb repetitive filings and to assist the office in examining burdensome applications. The PTO argued that substantive rules implicate the Patent Act's core patentability requirements. The APA doesn't define "substantive rules," but the court found that any rule that affects individual rights and obligations is substantive.

Ultimately, the court concluded that the final rules were impermissible substantive rules. By limiting continuing applications, RCEs and claims, and imposing the ESD requirement, the rules represented a drastic departure from the Patent Act's terms as presently understood. The rules changed existing law and altered applicants' rights and obligations.

The rules fight continues

The court's decision could affect future PTO attempts to promulgate additional rules; however, the PTO has filed an appeal with the Federal Circuit. The injunction stands in the meantime. ○

Court broadly interprets "video" license



Coming soon to a mobile phone near you — videos! In *Intersport Inc. v. NCAA*, an Illinois court ruled that the term "videos" in a service mark license encompasses the dissemination of content to mobile wireless media devices.

Playing defense

Intersport produces "coaches' shows" related to the annual NCAA men's basketball tournament (also known as "March Madness"). Under a 1995 license agreement, Intersport obtained the exclusive, perpetual right to "use the March Madness Mark" in connection with those shows and to use the mark to "advertise, promote, and sell ... videos" of the shows.

In 2006, Intersport entered an agreement to disseminate segments of the shows to Sprint customers via Sprint's mobile wireless media network. The NCAA claimed that this violated the licensing agreement because the wireless transmission didn't constitute selling videos under the agreement.

Stop the madness?

The Illinois court referred to the Second Circuit's test for determining whether a license agreement permits a licensee to use the licensed intellectual property using technologies developed after the

parties entered into the agreement. The court found that, if the words used in the license agreement are broad enough to encompass the new use, and the new use wasn't completely unknown at the time of contracting, the burden of framing and negotiating an exclusion of that use falls on the party granting the license.

Using this test, the court relied on two dictionary definitions to find that the term "video" is broad enough to encompass the recorded visual presentations of the coaches' shows that would be disseminated to Sprint customers. It also concluded that wireless dissemination of video content was foreseeable in 1995.

Time out

Note that the court found it significant that the license was exclusive and perpetual: "The fact that there is no time limit on the license, and no clause specifically excluding later-developed technology, suggests that the terms of the license should be interpreted broadly." When it comes time for you to license your intellectual property, be sure to consider whether you want the license to encompass "foreseeable" and other technological developments — no matter how far into the future.

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