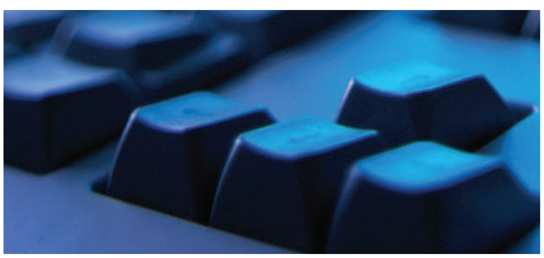
# ideas on intellectual property law



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# Can Internet pop-ups infringe trademark rights?

The software company WhenU.com distributes the "SaveNow" program. Computer users typically install it as part of a bundle of software applications they must accept (at no cost) to get a free screensaver. Approximately 100 million consumers have downloaded the SaveNow program. In addition to a free screensaver, the program also creates "pop-ups" for advertising competing products. This practice was challenged on trademark infringement grounds.

## TRIGGERING SAVENOW

When a computer user browses the Internet, the SaveNow software notes all Web-site addresses, search terms and Web-page content accessed by the user, and compares them with a proprietary directory. When a match occurs, this triggers the SaveNow software to deliver a competing advertisement.

The SaveNow software determines what category of products or services the address belongs to. It then retrieves the competing advertisement over the Internet and displays that ad in a new window that pops up on the user's computer screen.

## SEEING EYE-TO-EYE

1-800 CONTACTS (Contacts) markets contact lenses through its Web site, www.1800contacts.com. Vision Direct (Vision) is a competitor of Contacts, and markets contact lenses through its Web site, www.visiondirect.com. When a computer user types "1800contacts.com" into the browser address line, the SaveNow software recognizes that the user is interested in the eye-care category, and retrieves a competing pop-up advertisement for Vision.

On the upper right-hand corner of the SaveNow ad windows, next to the "X" symbol that closes Windows, is a "?" symbol that, when clicked, opens a new window including the following disclaimer: "The offers shown to you by SaveNow are not affiliated with the site you are visiting." Later, WhenU.com replaced this text with a new disclaimer stating: "This is a WhenU offer and is not sponsored or displayed by the websites you are visiting."

## CREATING LIKELIHOOD OF CONFUSION

Contacts sued both WhenU.com and Vision, arguing that the creation of an "impermissible affiliation" between Contacts and Vision harmed it because computer users usually think that pop-up advertisements operate in cooperation with — rather than in competition against — the underlying Web site. Thus the pop-up advertising created a likelihood of confusion that infringed Contacts' trademark "1-800 CONTACTS."

WhenU.com argued it wasn't using the 1-800 CONTACTS trademark commercially and so it wasn't infringing. But the court rejected this argument, saying that WhenU.com used the mark in two ways:

1. In causing pop-up advertisements to appear when computer users have specifically attempted to access Contacts' Web site — on which Contacts' trademark appeared — WhenU.com displayed Contacts' mark in the advertising of Vision's competing goods. This was commercial use of the trademarks that appear on Contacts' Web site.

2. WhenU.com used Contacts' mark by including a version of the 1-800 CONTACTS trademark in its directory to match up competitive products. Thus, WhenU.com used Contacts' mark commercially.

***Confusion need not occur at the "point of sale" to be actionable.***

The court then held that such uses created a likelihood of trade identity confusion. It noted that the confusion need not occur at the "point of sale" to be actionable. Confusion occurring before sale may in some circumstances be actionable.

WhenU.com argued that its disclaimers alleviated consumer confusion. But the court held that consumer confusion caused by the pop-up advertisements wasn't alleviated by WhenU.com's disclaimers because they were located in other Web pages, requiring viewers to scroll down or click on a link. Accordingly, the court preliminarily enjoined WhenU.com's pop-up ads in this case. (For a different view on pop-ups, see "Popping up in other places," above.)

## DETERMINING POP-UP STATUS

Whether WhenU.com's pop-up ads will be finally determined to infringe on others' trademarks is undetermined at this writing. Although Internet users may think pop-ups are a nuisance, getting rid of them may take more than a claim of trademark infringement. Stay tuned to see if this issue continues to pop up in other courts.

## Popping up in other places

**Courts have decided two other recent WhenU.com pop-up cases, and those cases both held in WhenU's favor. Wells Fargo and U-Haul both sued WhenU.com in an effort to stop pop-up ads similar to those in the *1-800 CONTACTS* case, discussed on page 2. These cases held that WhenU.com's pop-up ads were legitimate comparative advertising.**

**The courts found that the inclusion of Web addresses containing Wells Fargo's and U-Haul's trademarks in the WhenU.com matching directory wasn't a commercial use of those marks. This was fatal to U-Haul's claim of trademark dilution as well as its claim of trademark infringement. Also, Wells Fargo failed to demonstrate a likelihood of trade identity confusion. Finally, the *U-Haul* court found that WhenU.com's pop-up scheme didn't interfere with the use of U-Haul's Web site because the SaveNow program didn't interact with U-Haul's Internet servers, and because prospective U-Haul customers made conscious decisions to install SaveNow on their own computers.**

# When small is really large

*Two-tiered maintenance fees complicate patent infringement case*

Patentees must pay maintenance fees three times after the patent's issuance. If a patentee doesn't pay the fee, the patent will expire before the end of the maximum term allowed by the patent statute. To encourage individual inventors and small companies to obtain patents, Congress created a two-tier fee structure: lower fees for small entities and higher fees for large entities. A small entity can't have more than 500 employees.

But a small entity must pay fees at the higher level on any patent or application that it licenses to a large entity. Once the license takes effect, all fees due thereafter must be calculated at the higher level. A recent case discussed whether the failure to pay the higher fee after licensing the patented product to a large entity constituted inequitable conduct, thus rendering the patent unenforceable.



## FROM LITTLE TO BIG

Lex Computer, a small technology company, obtained a patent and then became involved in a controversy over it with Ulead Systems. Lex — with fewer than 20 employees — was a small entity for maintenance fee purposes, so it paid the patent's first maintenance fee at the lower level. But before any more maintenance fees were due, it licensed the patent nonexclusively to a company with more than 500 employees. Later it licensed the patent to two more large entities. As the patent's second and third maintenance fees came due, however, Lex continued to pay them at the small entity level.

Ulead sued Lex to obtain a judicial declaration that Ulead didn't infringe the patent and that the patent was invalid. Lex was apparently unaware it had underpaid the maintenance fees until Ulead brought the oversight to its attention. It then proceeded under Patent and Trademark Office (PTO) rules to pay the deficiency retroactively —

ostensibly keeping the patent alive. But the trial court held that the patent was unenforceable and had expired because Lex underpaid the required maintenance fees.

## INEQUITABLE CONDUCT AFTER ISSUANCE

The trial court found that Lex's underpayment amounted to inequitable conduct, making the patent unenforceable. It appears that this was the first time a holding of inequitable conduct before the PTO was based on events that occurred *after* a patent's issuance. The trial court also held that the underpayment caused the patent to expire, and that Lex's attempt to pay the deficiency retroactively was ineffective because the underpayment was done in bad faith. Lex appealed.

The appellate court agreed that a holding of inequitable conduct before the PTO could be based on events occurring after the patent's issuance. It reasoned that it is equally important for the PTO to receive accurate information from applicants after a patent application's prosecution as it is during the prosecution.

### MATERIALITY AND INTENT

But the appellate court didn't agree with the trial court on much else. Inequitable conduct has two components: materiality and intent. Materiality refers to whether the patentee's conduct affected the patent's validity, while intent refers to whether the patentee deliberately deceived the PTO. To uphold the trial court's summary decision, the appellate court would have to agree that no substantial factual issue existed as to either of these issues:

**Materiality.** Here the appellate court agreed that no serious question existed. Lex argued that maintenance fees had nothing to do with the merits of the patented invention, and so it wasn't material to the issue of patent validity. But the appellate court held that Lex's small entity status was material to the PTO's acceptance of reduced maintenance fees and, thus, to the patent's survival.

**Intent.** But here the appellate court parted company with the trial court, leading to reversal of the trial court's ruling. The appellate court found a substantial factual issue existed as to Lex's intention to mislead the PTO about its small entity status.

Although Lex's president knew about the patent licenses it had granted to the large entities, he signed the declarations accompanying the small entity maintenance fee payments. He testified

*It appears that this was the first time a holding of inequitable conduct before the PTO was based on events that occurred after a patent's issuance.*

that he didn't understand that the licenses had any effect on the small entity status. The president was a lawyer, but primarily practiced in the real estate field, not patent law, and never focused on the obscure issue of licensing's effect on small entity status.

Lex's patent attorney, on the other hand, had prepared the small entity declarations, and *did* understand the consequences of licensing the patent to a large entity. But he wasn't informed of those licenses, because another attorney had handled them. So he had no reason to suspect that Lex had lost its small entity status when he prepared those declarations. As a result, the appellate court held that the issue of intent couldn't be disposed of summarily, and would have to be decided by a trial.

### EXPIRATION

As to the alternate ground of the trial court's ruling — that Lex's patent had expired because it failed to pay the correct fee — the appellate court again reversed the trial court.

It held that the PTO's retroactive acceptance of Lex's corrective payment couldn't be second-guessed unless Lex had acted in bad faith. And, according to the court, bad faith wasn't amenable to summary disposition in this case.

### LITTLE GUYS DON'T FINISH LAST

Being a small entity may mean paying less in fees, but only if you stay within the rules. And courts may now determine whether your conduct before the PTO was inequitable based on events occurring after your patent's issuance.

# Doctrine of equivalents

## *The hard and fast Festo rule bends a little*

Every U.S. patent has "claims" that define what the patent covers. But even if your competing product doesn't come within the claims' literal terms, it may still infringe if it is equivalent to what is literally covered. This "doctrine of equivalents" is a judge-made exception to the rule that claims govern infringement. In recent years the *Festo* rule has severely limited the doctrine of equivalents, but a recent decision may have eased those limits somewhat.

### WHAT IS THE DOCTRINE?

The doctrine of equivalents is designed to do substantial justice in situations where the defendant uses the patentee's basic technological contribution, but the claims weren't drafted broadly enough to stop the infringer. After all, when drafting patent claims, you can't foresee all possible future attempts at evasion.

But many people in the patent field thought the doctrine of equivalents was overused, resulting in greater uncertainty over the scope of patent protection in many cases. It's hard enough to say precisely what a patent claim's words mean — but harder still to say what some court in the future might think is merely equivalent.

### HOW DOES ESTOPPEL WORK?

One traditional antidote to the doctrine of equivalents is prosecution history estoppel. Competitors and courts look for clues to a patent claim's meaning by studying the history of the patent application's prosecution as it makes its way through the Patent and Trademark Office (PTO) and eventually issues as a patent. Often, in arguing for a patent's issuance, the patentee must take a position that later estops the patentee from trying to extend the permissible range of equivalents beyond specific limits. Courts once took a flexible approach to determining when this doctrine of prosecution history estoppel would curb the doctrine of equivalents' use.

### WHAT IS THE *FESTO* RULE?

In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, the U.S. Supreme Court approved a more rigid application of prosecution history estoppel. That case held that, if a patentee amends any clause (or "limitation") in a patent claim during prosecution to make the claim allowable, then a presumption of prosecution history estoppel applies to that limitation.

The burden of rebutting the presumption falls on the patentee. So if the evidence is inconclusive, the defendant automatically gets the benefit of estoppel, and avoids infringement under the doctrine of equivalents. Theoretically, the otherwise slippery issue of equivalent infringement becomes clear-cut — which, it's hoped, will bring a measure of predictability to patent infringement questions. But real life may turn out differently.

### WHERE DID THE *FESTO* RULE BEND?

In a recent patent infringement case, *Ericsson, Inc. v. Harris Corp.*, the invention was a telephone circuit designed to save power when the telephone receiver was hung up. The key claim language said, "The speech signal amplifiers … only supply power to the telephone set when the receiver is off its cradle and a call can be made."

The jury found the defendant's telephone didn't literally infringe the patent because it supplied some power to the telephone circuitry even when the receiver was hung up. But the jury found infringement under the doctrine of equivalents because the amount of power supplied was insubstantial, and mostly for the purpose of enabling some functions that operate even when the telephone isn't in use — such as caller-ID — and then only for a few seconds at a time. But the trial judge threw out the jury's finding of equivalent infringement and dismissed the case.

## WHAT IF ESTOPPEL DOESN'T EXIST?

The patentee appealed, and the trial judge's ruling was overturned and the jury verdict reinstated. The appellate court ruled that the defendant's telephone circuitry components which didn't completely shut down when the telephone was hung up weren't part of the speech signal amplifiers, but rather were part of the control circuitry, to which the "no power" limitation didn't apply. So infringement could exist — if not literally then at least under the doctrine of equivalents — because the appellate court found the defendant's telephone circuit was "insubstantially different from the claimed invention."

But one appellate judge dissented from this decision on the ground that *Festo* applied, unavoidably raising a presumption against the doctrine of equivalents. She pointed out that during the patent's prosecution, the claim language covering the power shut-off feature was amended. The amendment was innocuous enough: "effectively disconnects" was changed to "disables," and "actively connects" was changed to "enables." But that was enough, she said, to invoke the *Festo* presumption of estoppel, requiring a rebuttal by the patentee to justify the doctrine of equivalents' application.

But the two majority judges said that *Festo* wasn't an issue here, because there was never any estoppel. According to the majority, the amendment that occurred during patent prosecution didn't concern when the speech signal amplifiers supply power, but only whether they are "enabled" or "disabled" as opposed to "actively connected" or "effectively disconnected." So estoppel was irrelevant to the particular infringement issue presented.

## CAN *FESTO* BE FLEXIBLE?

Will this ruling produce a loophole in the once-rigid *Festo* rule? Only time will tell.



## RIAA tries another tactic to curb P2P file sharing

**The Recording Industry Association of America (RIAA) is determined to stop file sharing of copyrighted music recordings over the Internet using "peer-to-peer" (P2P) file-sharing programs like Napster and Kazaa. In view of its limited success in suing P2P software distributors, the RIAA is now pursuing the software's end users individually.**

**The RIAA can obtain an individual user's screen name and, using the Internet Protocol (IP) address associated with that screen name, trace the user to his or her ISP. But only the ISP can link the IP address to the individual's name and address, so that the individual can then be sued.**

**To that end, the RIAA sent a single subpoena to Verizon in its capacity as an ISP whose facilities are employed for some of those file transfers. The subpoena ordered Verizon to identify a large number of Internet users who the RIAA believes are infringing its members' copyrights. Verizon refused to provide the information. The RIAA then attempted to enforce the subpoena in court, and the court ruled in Verizon's favor.**

**Consequently, the RIAA is now filing lawsuits against the file-sharing individuals on a "John Doe" basis. After that, it will be able to use a large number of individual subpoenas to force the ISPs to divulge the names of each individual targeted Internet user.**