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Intellectual Property Litigation

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Cross-Border Disputes: 'Microsoft,' 'Voda,' Others

Intellectual property is a creature of national law. Rights in trademarks, copyrights and patents typically stop at national boundaries, sometimes changing shape or duration—or disappearing altogether—on different sides of the border.

Each nation (or group of nations) grants rights within its borders, and has its own enforcement scheme.

Intellectual property disputes, however, transcend borders, moving internationally with goods and services.

The U.S. Supreme Court will soon decide a case concerning the application of American law to action that takes place abroad, determining whether Microsoft can be liable under §271(f) of the Patent Act for exporting software code from the United States to be copied and loaded into computers abroad. (The code can infringe the patent only when copied and used in a computer.) *Microsoft Corp. v. AT&T Corp.*, No. 05-1056.

In *Voda v. Cordis Corp.*, 2007 WL 269431 (Feb. 1, 2007), a divided U.S. Court of Appeals for the Federal Circuit panel considered a different transnational question— whether an American court can hear infringement claims under foreign patent law. While not definitively closing the door, the panel majority held that it was an abuse of discretion for a district court to consider claims arising under a foreign patent.

In *Voda*, plaintiff Voda sued Cordis, a Florida corporation, alleging infringement of Voda's U.S. patent covering guiding catheters used in "interventional cardiology." Voda moved to amend the complaint to include claims that the same Cordis catheters that allegedly infringed the U.S. patent also infringed counterpart European, British, Canadian, French and German patents Voda had obtained. Finding that it had supplemental jurisdiction over these claims, the trial court allowed the amendment but certified its decision for appeal under 28 USC §1292(b).

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Section 1367(a) grants district courts supplemental jurisdiction over claims that are "so related to claims [already within the court's original jurisdiction] that they form part of the same case or controversy within Article III of the United States Constitution." That power is counterbalanced by §1367(c), which gives courts discretion to decline supplemental jurisdiction where, among other considerations, "in exceptional circumstances," there are "compelling reasons for declining jurisdiction." Agreeing with the United States, which filed an amicus brief urging reversal, the panel majority in the Federal Circuit found that "considerations of comity, judicial economy, convenience, fairness, and other exceptional circumstances constitute[d] compelling reasons to decline jurisdiction under §1367(c)…."

The panel majority found it significant that none of the major treaties concerning patents signed by the United States—the Paris Convention signed in 1970 and 1973, the Patent Cooperation Treaty signed in 1978, and the TRIPS agreement of 1995—"contemplates or allows one jurisdiction to adjudicate patents of another." The court also feared that taking jurisdiction over foreign patent claims "could undermine 'the spirit of cooperation' underlying the comity doctrine," which counsels respect for the laws and interests of foreign states. And the court feared the confusion and delay that might result if American courts and juries were required to consider the legal and factual issues raised by claims under different patent regimes.

The majority was careful not to address whether jurisdiction over foreign patent claims should be taken where courts have diversity jurisdiction. However, many, if not all, of the discretionary factors on which it relied would seem to be applicable in diversity cases, under the doctrines of comity and forum non conveniens.

Dissenting, Judge Pauline Newman found the majority's decision to allow "ousting of United States parties from access to United States courts" contrary to "principle, practice and judicial obligation." The dissent noted that American courts often consider foreign law issues (under §102 of the Patent Act, a claimed invention may be anticipated if it is patented in a foreign country, requiring a U.S. court to determine the scope of foreign patents). And the dissent minimized the difficulty of hearing foreign patent claims, arguing that "most inventions receive consistent protection under the patent laws of the major industrial nations."

It is possible to imagine a case where a foreign patent claim is so inextricably intertwined with an American infringement claim that jurisdiction might well be appropriate under the *Voda* approach. And there certainly will be cases where it will be most efficient to consider all infringement claims arising based on a U.S. patent and its foreign counterparts in one action. Unless *Voda* is overturned or modified, however, jurisdiction will be exercised, if at all, only in the most exceptional cases.

Patents

Dippin' Dots, Inc. v. Mosey, 2007 WL 430195 (Fed. Cir. Feb. 9, 2007), highlights the differences between the type of misconduct necessary to establish invalidity of a patent for inequitable conduct, and that required to sustain a *Walker Process* antitrust claim. Plaintiff obtained a patent on a "cryogenically prepared novelty ice cream product" that will be familiar to anyone who has visited a sports stadium. The Court of Appeals affirmed the trial court's finding that the patent was invalid because of inequitable conduct, based on plaintiff's failure to inform the Patent Office about plaintiff's sale of a similar product more than one year before the application date. Inequitable conduct requires a showing that the applicant intentionally failed to disclose material information. Information about the prior sales was, the Court of Appeals found, highly material and plaintiff's failure to disclose it, along with the fact that plaintiff had "enthusiastically touted" later sales, justified a finding of intent sufficient for inequitable conduct. A jury verdict for defendants on a *Walker Process* monopolization claim, however, was reversed. Under *Walker Process*, a party who obtains a patent through fraud may be liable for monopolization under §2 of the Sherman Act. A *Walker Process* claim, however, requires "higher threshold showings of both materiality and intent than are required to show inequitable conduct." The Court of Appeals found insufficient evidence of intent "separable from the simple fact of the omission" to support an antitrust claim, making this a "close case" of inequitable conduct "but not of fraud" before the Patent Office.

Copyright

Atlantic Recording Corp. v. XM Satellite Radio, Inc., 2007 WL 136186 (SDNY Jan. 19, 2007), declined to dismiss copyright infringement claims asserted by several major record companies against XM Satellite Radio based on XM's sale of subscriptions for its XM + MP3 players. Those players permit subscribers to record and store for future use songs broadcast on XM radio. When the user terminates his subscription, however, he loses all music stored on the device—the songs are "effectively leased" from XM. XM moved to dismiss, asserting statutory immunity under the Audio Home Recording Act of 1992, which bars copyright actions based on the distribution of audio recording devices. Although holding that XM + MP3 players qualify as digital audio recording devices under the statute, the court concluded that XM is not entitled to immunity because XM was distributing content to the devices. That distribution exceeded the scope of XM's statutory license under §114(d)(2) of the Copyright Act, which is limited to broadcast of music on satellite radio. XM's distribution of the devices themselves did not give rise to the copyright claims, but by permitting users to download and save music so long as they maintain a subscription, XM was exceeding its role as a broadcaster and infringing copyrights held by the record companies (and unfairly competing with their efforts to provide similar digital music downloading services).

In *Brilliance Audio, Inc. v. Haights Cross Communications, Inc.*, 474 F3d 365 (6th Cir. 2007), the U.S. Court of Appeals for the Sixth Circuit ruled, as a matter of first impression, that the record rental exception to the first sale doctrine does not apply to sound recordings of written works—i.e., audiobooks. Brilliance, a producer of retail and library editions of audiobooks, alleged that Haights infringed its copyrights by purchasing the retail editions and repackaging them for lease to libraries and other commercial users. Haights moved to dismiss, contending that its rental of Brilliance's audiobooks is protected by the first sale doctrine, which permits owners of copies of copyrighted works to dispose of them in any manner they desire. The Sixth Circuit affirmed dismissal of the copyright claims, finding that the Record Rental Amendment—which, notwithstanding the first sale doctrine, prohibits the lease of "phonorecords" without the authorization of the copyright holder—does not cover audiobooks. The court concluded that by passing the amendment, which references "musical works," Congress intended to address the "rampant piracy of popular musical recordings." Here, Haights had made legitimate purchases of copies of the works. The court was unwilling to upset further "the traditional bargain between the rights of copyright owners and the personal property rights of an individual who owns a particular copy," absent an express statement from Congress.

Therapeutic Research Faculty v. NBTY, Inc., 2007 WL 214595 (E.D. Cal. Jan. 25, 2007), held that use of a subscription to an online publication by individuals not authorized by a license may violate (in addition to the copyright laws) two statutes designed to protect confidential information stored on a computer. Those statues are the Electronic Communication Privacy Act (ECPA)—which prohibits intentional, unauthorized access to communications stored on an electronic communication service—and the Computer Fraud and Abuse Act (CFAA), which prohibits unauthorized access to "protected" computers. NBTY purchased a single user subscription to Therapeutic's online database of pharmaceutical monographs. Therapeutic also offers a license that allows use by all employees of one company. Therapeutic alleged that several employees shared NBTY's password, and therefore violated Therapeutic's copyrights by exceeding the limitations of the single use license. Therapeutic alleged that the unauthorized access to its service also violated the ECPA and the CFAA. The district court denied NBTY's motion to dismiss the ECPA claim, rejecting Therapeutic's argument that, because NBTY was an authorized user of the database, and therefore did not access information it was not entitled to see, NBTY was covered by the authorized user exception to the statute. The CFAA claim was sustained when the court found that Therapeutic had sufficiently alleged damages, including by the fees it would have obtained had NBTY purchased an enterprise license.

Trademarks

CreAgri, Inc. v. USANA Health Sciences, Inc., 474 F3d 626 (9th Cir. 2007) held that in order to support priority, trademark use must be lawful. In 2001, CreAgri began selling the dietary supplement Olivenol, with a label claiming the product contained 25mg of its active ingredient; in fact, CreAgri lacked the ability accurately to measure the ingredients and the product only contained 3 mg.

One year later, USANA began selling Olivol. CreAgri sued, contending that Olivol is confusingly similar to Olivenol. Affirming dismissal, the U.S. Court of Appeals for the Ninth Circuit found that because its label violated federal drug-labeling requirements, CreAgri had not acquired trademark rights in 2001. The Court joined the U.S. Court of Appeals for the Tenth Circuit in holding that trademark use must be lawful to give rise to priority. Otherwise, "the government [would be] in the 'anomalous position' of extending [] trademark protection to a seller based upon actions …in violation of that government's laws." A contrary ruling would "reward the hasty at the expense of the diligent," by giving priority to "a seller who rushes to market" without pausing to comply with governing rules.

In *Custom Vehicles, Inc. v. Forest River, Inc.*, 2007 WL 401571 (7th Cir. Feb. 7, 2007), the court held that de minimus sales of a product bearing a descriptive mark cannot give rise to enforceable trademark rights against a junior user whose sales swamp those of the senior user.

In 1999, Custom developed a van that could be converted from a mobile office to a camper called "Work-N-Play"; Custom sold only six vans bearing this mark. A year later, Forest developed a "Work and Play" van that permitted users to transport and repair motorcycles without taking them to a shop, and sold over $10 million worth. The court affirmed summary judgment for Forest on Custom's trademark infringement claims, holding that Custom's mark was descriptive and had failed to acquire secondary meaning. The doctrine of reverse confusion was unavailable to Custom: "Forest River's swamping of Custom Vehicles' marketing efforts infringes only if 'Work-N-Play' is a legally protected trademark; and it is difficult, maybe impossible, for a small seller of an unpopular brand—a seller who has negligible sales—to acquire secondary meaning for its brand name."

The ruling is a cautionary tale for new sellers in obscure markets: "a descriptive mark will facilitate introducing a new product to the public, and so it is a natural choice for a start-up, but if he adopts such a mark he may find himself drowned out…."

The court advises that such sellers are "better off adopting a fanciful or arbitrary mark," enforceable without proof of secondary meaning.