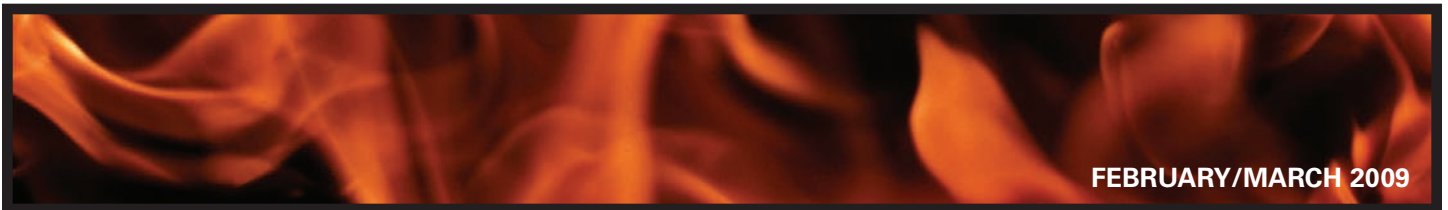




IDEAS ON INTELLECTUAL PROPERTY LAW



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Don't get burned

Patent's inequitable conduct defense requires intent *and* materiality

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Don't get burned

Patent's inequitable conduct defense requires intent and materiality

For acts by patent applicants or attorneys to rise to the level of inequitable conduct, those actions must amount to more than minor missteps or minimal culpability. According to the Federal Circuit Court of Appeals, to defend a case based on an applicant's inequitable conduct, it's not enough for the defendant to establish the patentee's intent to deceive or the materiality of the conduct. The defendant must show both — and even that may not ensure a finding of inequitable conduct.

Firing it up

Star Scientific, Inc. v. R.J. Reynolds Tobacco Co. involved patents for curing fresh tobacco in a way that reduces the amount of carcinogens known as tobacco specific nitrosamines (TSNAs). Several curing methods have been used in the United States, including radiant heat indirect-fired curing and direct-fired curing. Most tobacco companies were using the direct-fired method by the 1970s. In the 1980s, researchers discovered links between TSNAs and direct-fired curing.

In August 1998, Jonnie Williams of Star Scientific hired the Sughrue law firm to draft and prosecute a patent application on a curing process he'd invented. While preparing the application, the Sughrue attorney received a letter from Dr. Burton, a Star consultant and scientist.



Burton wrote that he had recently observed that Chinese tobacco products contain very low TSNA levels. He theorized that the probable cause was the use in China of the radiant heat curing techniques. After speaking with Burton and analyzing the letter, the attorney concluded that neither the letter nor its contents were material to the application.

The attorney proceeded to file a provisional patent application with the U.S. Patent and Trademark Office (PTO) on Sept. 15, 1998. The application included a disclosure that some nations, including China, still used radiant heat curing, but that the radiant heat process had been determined to yield tobacco products with high TSNA levels when applied to U.S.-grown tobacco.

The district court will balance the equities to determine if the applicant's conduct was egregious enough to warrant holding the entire patent unenforceable.

Shortly after the provisional application was filed, Williams received two samples from Virginia farms that used radiant heat curing. He forwarded the samples to Burton for measurement of the TSNA levels. Williams informed the Sughrue attorney of the results on only one sample, and together they determined that the results from the one sample were not significant because Williams' method produced a greater reduction in TSNAs than was seen in the sample.

Keeping the heat on

On Sept. 15, 1999, the attorney filed a nonprovisional patent application on Williams' behalf. The statement that radiant heat curing of U.S.-grown tobacco produced high TSNA levels was deleted. Williams and Star subsequently terminated the Sughrue firm, replacing it with the Banner firm. When the Banner attorney assigned to the patent prosecution received the files from Sughrue, he searched for prior art in the file but didn't see the Burton letter.

U.S. Patent '649 eventually issued on March 20, 2001. On May 23, 2001, Star sued R.J. Reynolds (RJR), alleging it infringed the patent.

In June 2002, the Banner attorney was prosecuting a continuation application of the '649 patent. He learned about the Burton letter and the Virginia farm data from litigation counsel in the infringement case. The attorney decided the information wasn't material, though, and didn't disclose it to the PTO. The continuation application issued in July 2002 as U.S. Patent '401. Star immediately amended its complaint to add allegations of infringement of the '401 patent.

Igniting the defense

RJR raised a defense of inequitable conduct to Star's infringement claims. As the Federal Circuit noted, the accused infringer must present evidence that the patent applicant:

1. Made an affirmative misrepresentation of material fact, failed to disclose material information or submitted false material information, and
2. Intended to deceive the PTO.

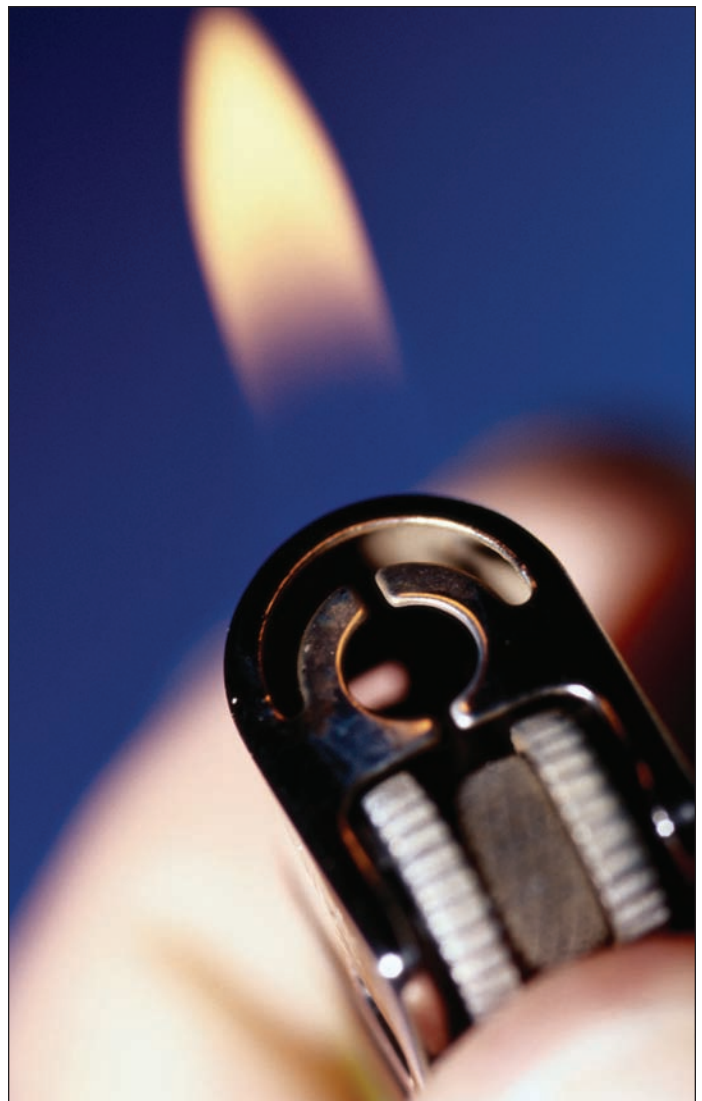
The court can infer intent from clear and convincing indirect and circumstantial evidence. As to materiality, the court observed that information isn't material if it's cumulative of other disclosed information. But the more material the omission or misrepresentation, the lower the level of intent required, and vice versa.

The defendant must prove both elements by clear and convincing evidence. Even then, the Federal Circuit pointed out, the district court will balance the equities to determine if the applicant's conduct was egregious enough to warrant holding the entire patent unenforceable.

The court emphasized that the severity of holding an entire patent unenforceable for inequitable conduct mandates strict application of the burden of proof and the elevated evidentiary burden of clear and convincing evidence. While the doctrine doesn't require a showing of fraud by the applicant, courts must be vigilant in not permitting the defense to be applied too lightly. It would be inequitable to strike down an entire patent where the patentee only committed minor mistakes, or acted with minimal culpability or in good faith.

Burning the defendant

RJR asserted that Williams and Star had conspired to prevent the Sughrue firm from disclosing Dr. Burton's letter to the PTO by replacing it with the Banner firm and keeping that firm ignorant of the letter. But the court determined that RJR didn't present sufficient evidence of deceptive intent regarding the '649 patent. RJR failed to submit



any evidence indicating that Star knew about the Burton letter before replacing the Sughrue firm or that the letter was the reason for the change. Further, Sughrue did transfer the letter to Banner.

Star conceded that it had learned of the letter before the '401 patent issued and didn't disclose it to the PTO, which could be construed as circumstantial evidence of intent. But the court found that the information in the letter wasn't material. Star had disclosed other references during prosecution that made the information cumulative, including an RJR interrogatory response. The response contained the critical information that prior art had achieved low to insignificant levels of TSNA.

Federal Circuit on fire

In the end, the court reversed the district court's judgment of unenforceability of the patents due to inequitable conduct. The decision illustrates that the burden of proof for inequitable conduct must be clear and convincing as to both prongs of the test. ○

Proving secondary meaning for trademarks

Sales and marketing data often help show that a mark has acquired secondary meaning in trademark cases. Secondary meaning occurs when a descriptive mark acquires distinctiveness, that is, proof that it has become distinctive as applied to the mark owner's goods or services in commerce. But when the evidence shows use of the mark as a component of a larger mark, is it still helpful? According to the Third Circuit Court of Appeals in *E.T. Browne Drug Co. v. Cococare Products, Inc.*, not so much.

Dueling cocoa butters

Browne markets personal care and beauty products with cocoa butter under the brand name "Palmer's." The packaging for those products says "Palmer's" and "Cocoa Butter Formula." "Palmer's Cocoa Butter Formula" is registered on the Principal Register of the U.S. Patent and Trademark Office (PTO). Marks registered on the Principal Register are presumptively valid. However, the mark "Cocoa Butter Formula" is on the Supplemental Register (a secondary

register for marks that don't meet the Principal Register registration requirements).

Cococare also sells personal care and beauty products with cocoa butter, including products labeled "Cococare Cocoa Butter Formula." Browne filed a trademark infringement action. Cococare moved for summary judgment, arguing that "Cocoa Butter Formula" is a generic mark not entitled to trademark protection.

The district court agreed that the term was generic and granted summary judgment for Cococare. Browne appealed.

Formula for success

Marks are generally categorized in four ways:

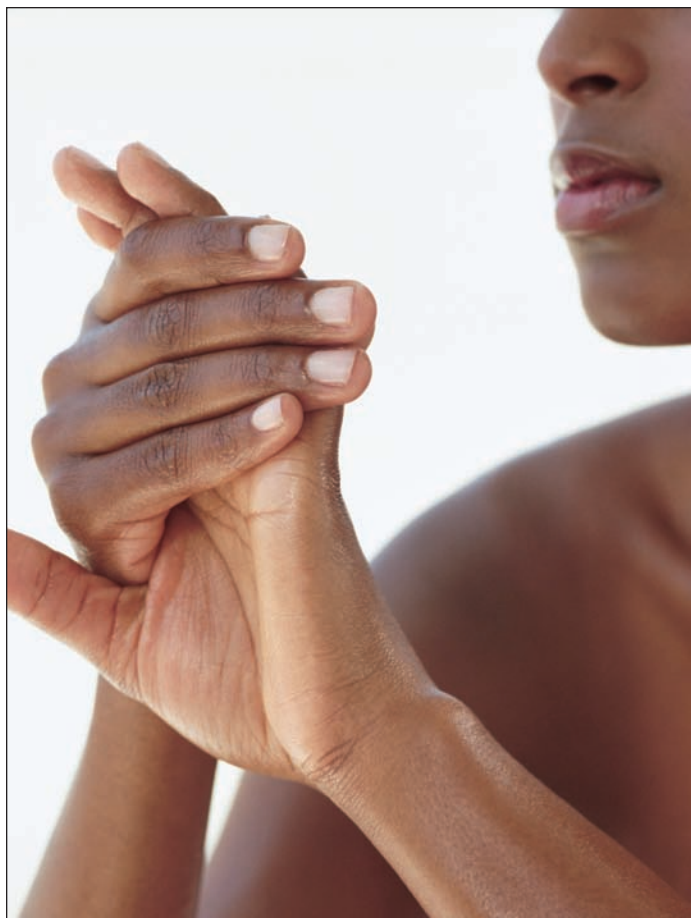
1. Arbitrary or fanciful, which bear no logical or suggestive relationship to the actual characteristics of the associated goods,
2. Suggestive, which suggest rather than describe the characteristics of the goods,
3. Descriptive, which describe a characteristic or ingredient of the goods, and
4. Generic, which function as the common descriptive name of a product class.

A mark that is arbitrary, fanciful or suggestive may be registered on the Principal Register. A mark that is descriptive may be registered on the Principal Register if it has acquired a secondary meaning so that consumers associate that mark with the source of the product, rather than the product itself. Generic terms aren't protected under trademark law.

The Third Circuit found that Browne raised sufficient evidence to survive summary judgment on the question of whether "Cocoa Butter Formula" was generic or not. The court then considered whether the mark had acquired a secondary meaning.

In the eye of the beholder

Secondary meaning occurs when a new and additional meaning attaches to a word or symbol that isn't inherently



distinctive. It exists when consumers interpret the trademark as not only identifying the product, but also representing the product's origin.

In determining whether a term has acquired secondary meaning, courts consider the following nonexclusive factors:

- The extent of sales and advertising leading to buyer association,
- Length and exclusivity of use,
- The fact of copying,
- Customer testimony and surveys,
- The mark's use in trade journals,
- The company's size,
- The number of customers and sales, and
- Actual consumer confusion.

In attempting to prove its mark had acquired secondary meaning, Browne offered evidence related to its 20-year use of the term; the amounts of money spent promoting the term; the nature and quality of the advertising in support of the term; Cococare's alleged intent to copy the term; and the increased sales of products bearing the term. The court acknowledged that the evidence seemed to support Browne's claim, but found serious flaws in the evidence.

The court can't believe it's just butter

According to the court, the evidence failed to show that Browne had successfully created secondary meaning in consumers' minds. One way a plaintiff can create a reasonable inference that the mark has acquired secondary meaning is to show that the mark was used in a prevalent ad campaign for a long period of time. Evidence of simultaneous revenue growth would strengthen that inference.

Browne, however, presented no evidence that it had ever used "Cocoa Butter Formula" as a standalone marketing or packaging term — it had always been used in connection with "Palmer's." The sales and marketing evidence could support an inference that the mark "Palmer's Cocoa Butter Formula" in its entirety had acquired secondary meaning, but not that the component "Cocoa Butter Formula" had.

Using surveys to disprove genericness

Generic terms aren't protected under trademark law. The district court in *E.T. Browne Drug Co. v. Cococare Products, Inc.*, found that the term "Cocoa Butter Formula" was generic and thus not protected. On appeal, the Third Circuit applied the "primary significance test" to determine whether the primary significance of a "Cocoa Butter Formula" in the minds of the consuming public was to denote a product class (making the term generic and not protected) or the source (making it descriptive and protectable with secondary meaning).

Plaintiffs seeking to establish descriptiveness often rely on one of two types of survey evidence:

1. **Teflon survey.** This survey runs a participant through a number of terms, such as "washing machine" and "Maytag," to illustrate the distinction between common names and brands. The survey then asks the participant to categorize a number of terms, including the term in question.
2. **Thermos survey.** In this survey, respondents are asked how they would request the product at issue. If the respondents predominantly say the brand name ("Thermos") rather than the product category ("vacuum bottle"), the survey indicates the brand name has become a generic term.

Under the primary significance test, a term is generic because consumers would use it to refer to the product category, not a producer who makes products within that category. In *E.T. Browne Drug Co.*, the court found that the plaintiff had raised sufficient evidence to rebut the defendant's claim that "Cocoa Butter Formula" was generic. But as discussed in the main article, the plaintiff still got burned when the court found the term was descriptive without the requisite secondary meaning.

So based on the specific circumstances presented, Browne's marketing and sales evidence didn't create a reasonable inference that "Cocoa Butter Formula" had acquired secondary meaning.

A slippery slope

In the end, Browne lost its trademark infringement claim against Cococare. The court also requested that the district court order an appropriate disclaimer of "Cocoa Butter Formula" to Browne's registration to prevent future businesses from mistakenly believing that they couldn't use the descriptive component to describe their own goods. ○

How the first sale doctrine affects foreign-made infringing copies

As Costco recently learned the hard way, birthplace matters when it comes to copyright infringement claims in the United States. In *Omega S.A. v. Costco Wholesale*, the Ninth Circuit Court of Appeals held that the first sale doctrine offers no protection from infringement claims to copies made outside of the country.



The wind-up

Omega manufactures watches in Switzerland and sells them globally through authorized distributors and retailers. The undersides of the watches are engraved with the U.S.-copyrighted “Omega Globe Design.”

Costco obtained some Omega watches with the copyrighted design from the “gray market.” Omega had first sold the watches to authorized distributors overseas. Unidentified third parties eventually bought the watches and sold them to a U.S. company, which then sold them to Costco. The retailer ultimately sold the watches to consumers in California. Thus, the initial foreign sale was authorized by Omega, but the importation and Costco’s sales were not.

Omega filed an action claiming that Costco’s acquisition and sale of the watches constituted copyright infringement. Costco claimed that, under the first sale doctrine, Omega’s initial foreign sale of the watches precluded its claims in connection with the subsequent, unauthorized sales. The district court found in favor of Costco; Omega appealed.

First sale doctrine

The Copyright Act provides that the unauthorized importation into the United States of copies of a work that have been acquired outside of the United States infringes the copyright holder’s distribution rights. But the first sale doctrine limits the copyright holder’s rights under the act.

Under the doctrine, once a copyright holder authorizes the sale of particular copies of its work, it loses the exclusive right to sell or distribute those particular copies and can’t interfere with later sales or distributions by the new owner. The owner of a “lawfully made” copy can import and sell that copy without the copyright holder’s authorization without violating the copyright holder’s distribution rights.

On second thought

Omega argued that the first sale doctrine didn’t apply because the watches were manufactured and first sold overseas and therefore didn’t qualify as “lawfully made” under the Copyright Act. The Ninth Circuit has previously held that the first sale doctrine grants first sale protection only to copies legally made and sold in the United States.

Under the first sale doctrine, once a copyright holder authorizes the sale of particular copies of its work, it loses the exclusive right to sell or distribute those particular copies.

The Ninth Circuit has recognized an exception to its ruling, allowing the first sale doctrine to apply to copies not made in the United States if an authorized first sale occurs in the United States. But Omega didn’t authorize Costco’s sales of the copies in California.

Costco argued that the Supreme Court had effectively overruled the Ninth Circuit cases and thereby generally limited application of the first sale doctrine to copies made and sold in the United States. The court disagreed, finding that the Supreme Court didn't directly overrule its precedent because the facts in that decision involved only domestically manufactured copies. The Supreme Court case therefore didn't address the effect of the first sale doctrine on claims involving unauthorized importation of copies made abroad. The Ninth Circuit also found that significant parts of the Supreme Court's analysis were consistent with limiting the doctrine to domestically made copies.

Watch out

The Ninth Circuit reiterated that the first sale doctrine provides no protection against an infringement claim involving foreign-made, nonpirated copies of a U.S.-copyrighted work unless the copies have already been sold in the United States with the copyright holder's authorization. So the Ninth Circuit reversed the district court's decision in favor of Costco and sent the case back for further proceedings. The lesson: Know where and when the first sale of a copyrighted work occurred to avoid any infringement. ○

Notice of patent infringement trips up defendant

A patent infringer may eventually attempt to get on the right side of the law, but, as the Federal Circuit Court recently ruled, even the most repentant infringers can't escape their liability.



DSW owns patents for a system and method of storing and displaying a large stock of footwear for customer self-service and for an ornamental product display design. After DSW notified Shoe Pavilion that its shoe

display design in five of its stores infringed the patents, Shoe Pavilion agreed to modify its design to avoid infringement. It removed and replaced all of the allegedly infringing displays within seven months of receiving the notice of infringement.

But DSW sued Shoe Pavilion, alleging that the replacement displays infringed its patents and that Shoe Pavilion owed it damages for the original displays' infringement. The district court found

that DSW wasn't entitled to any damages on the original displays because, immediately on receipt of DSW's notice of infringement, Shoe Pavilion took reasonable steps and in a timely manner removed all of them.

But on appeal the Federal Circuit disagreed. Prior law states that a patentee may recover damages for infringement that continues after actual notice is provided. The Federal Circuit refused to grant an exception to liability for the time necessary to terminate the infringing activities, "no matter how expeditious and reasonable" the infringer's efforts are.

According to the Federal Circuit, the district court erred in concluding that Shoe Pavilion's reasonable steps and good faith efforts to end its infringing activity in a timely manner represented an immediate cessation of the infringement. If the patents were valid, DSW was entitled to damages for the period of continued infringement while Shoe Pavilion phased out its use of the displays.

The lesson of *DSW* is clear — run, don't walk, when bringing infringing activity to an end.

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