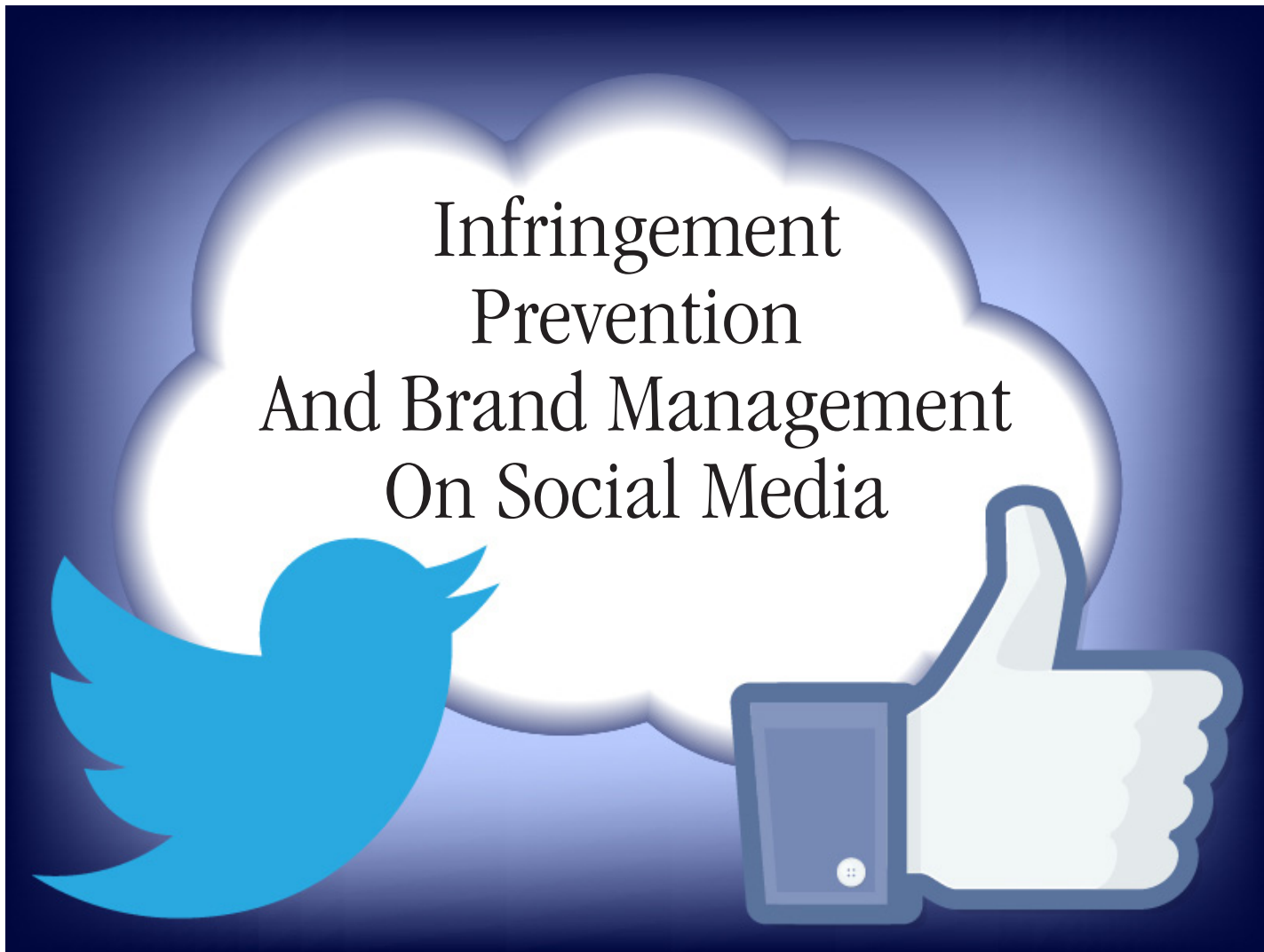


# Intellectual Property



BY PETER VOGL  
AND DIANA SZEGO

The explosion of social media in recent years has dramatically impacted the manner in which individuals and businesses interact with one another. Social media gives businesses endless opportunity to increase brand awareness and expand audience reach. However, social media also presents a myriad of legal issues, particularly with respect to brand management.

Given the number of social media sites and drastic numbers of social media users (Twitter reports 284 million monthly active users and 500 million Tweets sent per day by its users), it is inevitable that a company's trademark or brand will be mentioned on social media by an unrelated third party. This article sets out the specific steps and analysis trademark owners can undertake when confronted with potential trademark infringement or misuse on social media and provides practical guidance to protect your brand and mark in the vast world of social media.

**Step 1: Secure Evidence of the Third-Party Trademark Use.** What should your company do when it discovers the potentially infringing use of its mark or brand on a social media site? Always capture evidence (e.g., screenshots and print copies; download and save any videos) of the incident and preserve it for possible legal action. Once evidence of the wrongdoing is preserved, begin working to gather as much information as you can about the circumstances surrounding the misuse in order to evaluate and identify a course of action for responding.

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## Infringement Prevention And Brand Management On Social Media

**Step 2: Evaluate the Third-Party Trademark Use.** Before swiftly reacting—or overreacting—when your company discovers that a social media user has seemingly misused a company trademark or been improperly critical of a company brand, it is important to examine the act from a thorough perspective. Consider the following factors.

1. *How was the use discovered?* If you are learning about the incident through other social media or news sites, you may have a more serious problem on your hands than if one of your

user name squatting (i.e., when a social media user registers your company's name or mark as its user name) and trademark counterfeiting present clear instances with the potential to cause harm to your brand, thus warranting a more aggressive response. On the other hand, if a use is easily identifiable as a parody or is clearly an attempt at humor, defensive action likely is not warranted. Similarly, if the use amounts to information sharing or consists of truthful statements for comparison purposes among social media users (e.g., "my child enjoys Brand X food more than Brand Y"), then the use is more likely to be considered fair, regardless of your views of the opinion.

3. *What is the intent of the user?* Keep in mind that the majority of interaction on social media is well-intended, even if misguided at times. Most often users are looking to connect with one another. Consequently, while your company may not be thrilled with statements on social media that are critical of your brand or products, not all unsolicited use is infringing or actionable. Legitimate fair use—even if seemingly harsh—is at the very heart and purpose of social media and must be allowed to continue.

4. *When was the use posted?* Look at the length of time the potential misuse has existed on the Internet. If the misuse has been around for a long time but you are only now becoming aware of it, then it may not be worth the time or expense to address the misuse. If legal action were once warranted, the delay in reacting may also present a laches problem. Conversely, if the potential misuse is new, consider the realistic lifes-

pan and degree of harm to your company brand. For example, if the incident has the potential to go viral, then it is best to take quick action before the misuse of your mark expands exponentially.

5. *Where was the potential misuse found?* Widespread misuse or infringement calls for a different response than an inappropriate but relatively innocuous comment. Also, what is the degree of importance of the site where the misuse or infringement is occurring? If it is one that reaches your company's key customers or a site that is seen as authoritative, then you may want to take quick but thoughtful action.

6. *Who is the potential infringer?* If the user has a strong and active social media presence, then it may be worth treading particularly lightly in order to avoid proliferation of the incident via multiple sites. Importantly, evaluate whether the potential infringer is a friend to your company, or a foe such as a competitor, imposter, or the like. Once this critical determination is made, tailor your response accordingly so as not to face a public relations nightmare. Customers who enjoy your products and/or services are often enthusiastic users of social media. That enthusiasm can particularly create issues when customers confiscate your brand with his or her political or religious views that you may not share. Instead of potentially offending your customer base, look for opportunities to embrace a fan site to the company's benefit and turn the fan into an even bigger brand promoter. Several years ago now, a famous delivery services company issued a cease and desist letter to a fan whose blog featured furniture that

Legitimate fair use is at the very heart and purpose of social media and must be allowed to continue.

employees stumbles upon a misuse or errant comment. Either way, have a protocol in place ahead of time for policing third-party use of your mark, and for employees to easily report any potential misuse to the appropriate employee(s) in your company, since time is of the essence when dealing in social media.

2. *What is the nature of the use?* Action is more likely to be necessary when dealing with an infringing use or an impersonation given that those types of misuse are likely to lead to consumer confusion. Similarly,

## 'Transformation' of Fair Use Back to Its Section 107 Roots

BY BARRY WERBIN

The U.S. Court of Appeals for the Seventh Circuit recently put the brakes on more than two decades of widespread judicial application of the "transformative use" test in assessing a fair use defense to infringement under §107 of the Copyright Act.<sup>1</sup>

In *Kienitz v. Scottie Nation*,<sup>2</sup> the court expressly rejected the concept of transformative use and, in particular, the Second Circuit Court of Appeal's heavy reliance on that doctrine in *Cariou v. Prince*.<sup>3</sup> This clash was perhaps inevitable, seeing that "transformative use" theory has been described as "a often highly contentious topic."<sup>4</sup> But

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some history is needed to understand the tension between the Seventh and Second Circuits, as well as various other circuit courts that have embraced transformative use doctrine.

### Origins

The concept of "transformative use" dates back to a seminal 1990 Harvard Law Review commentary entitled "Toward a Fair Use Standard"<sup>5</sup> by current Second Circuit Judge Pierre N. Leval, who laid out a proposed analytical approach to assessing fair use. Frustrated by the

absence of specific guidance from Congress when it enacted §107, and a lack of consistency and agreement among judges in their respective approaches to fair use, Leval postured that while

no simple definition of fair use can be fashioned ... recognition of the function of fair use as integral to copyright's objectives leads to a coherent and useful set of principles. Briefly stated, the use must be of a character that serves the copyright objective of stimulating productive thought and public instruction without excessively diminishing the incentives for creativity. One must assess each of the issues

that arise in considering a fair use defense in the light of the governing purpose of copyright law.

Leval emphasized that the focus of the first §107 factor—"the purpose and character of the use"—must be on "the question of justification," that is, whether the use fulfills copyright law's objective "to stimulate creativity for public illumination."<sup>6</sup> A court must, however, also examine "how powerful, or persuasive, is the justification" and weigh the strength of the justification "against factors favoring the copyright owner."<sup>7</sup> Leval proposed that the type of "justification" supporting fair use "turns primarily on whether, and to what extent, the challenged use is transformative."



## Managing Fallout From 'Bilski', 'Mayo' And 'Alice'

BY RICHARD J. STARK

Are software patents dead? The U.S. Supreme Court's decision last June in *Alice v. CLS Bank*, 134 S. Ct. 2347 (2014), left us with that question (among others). Since the court handed down its unanimous decision, software patents have been falling like snow in Buffalo. As a weapon for mowing down frivolous troll patents, the case is a godsend.

Yet, many serious companies have invested (and continue to invest) serious resources in innovative software. Think Google (search), Netflix (streaming video) and Amazon (data mining). Or think digital photography: image processing, photo and video editing, facial recognition. None of these businesses or technologies would exist without significant software innovations. And no patent practitioner or computer scientist would contend that all these developments yielded no important inventions (though they may have political/philosophical disagreements as to whether these—or any—inventions should be protected by patents). Right now, executives and lawyers are weighing the boon of an Alice-triggered wave of troll-patent invalidations against the bane of uncertainty over the validity of their own software-related patents. While much remains to be seen, it appears that many weak software patents will perish, but the strong may yet survive.

### 'Alice'

*Alice* was, in many respects, unremarkable. The purported invention was a method of exchanging financial obligations through an intermediary, so as to mitigate the risk of one party's not performing. Id. at 2352. The intermediary starts the day with "shadow" credit and debit records reflecting each party's initial balance. Id. During the day, the intermediary records transactions between the parties, adjusting the shadow credit and debit records and allowing only those transactions that won't put

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a party into the red. Id. At the end of the day, the intermediary finalizes the permitted transactions. Id.

The Supreme Court affirmed the lower courts' conclusion that the claims recited patent-ineligible subject matter under an exception to 35 U.S.C. §101. The court first found that the claims were "drawn to the abstract idea of intermediated settlement." Id. at 2355. Then the court examined the claims to determine whether there was any "inventive concept" in them, beyond the abstract idea, that could "transform the nature of the claim into a patent-eligible application." Id.<sup>1</sup> Finding that the claims merely stated the abstract idea and, in effect, a directive to "apply it with a computer," the court ruled all the claims invalid. Id. at 2358.

This result was unsurprising, given that the Supreme Court had previously found a similar claim patent-ineligible in *Bilski v. Kappos*, 561 U.S. 593, 612-13 (2010). The alleged invention there was a method of hedging risk, "a fundamental economic practice long prevalent in our system of commerce." Id. at 611. Despite divergent majority and concurring opinions, all members of the court agreed that the patent application at issue claimed a patent-ineligible abstract idea. Id. at 609. "Allowing petitioners to patent risk hedging would preempt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea." Id. at 611-12. There is an obvious parallel between the claim in *Bilski* and the claims in *Alice*, as the court in *Alice* noted. See, e.g., *Alice*, 134 S. Ct. at 2356.

Two years after *Bilski* and before *Alice*, the Supreme Court had decided another case turning on patent-eligibility, *Mayo Collaborative Services*

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# Initial Case Strategy Should Account For Jurisdictional Variances in Damages



BY FRANCISCO A. VILLEGAS  
AND JOYCE E. KUNG

Damages theories are often far from litigants' minds when determining initial case strategy. This would be a mistake. The growing jurisprudence on patent damages indicates that both patentees and accused infringers should consider a venue's perspective on this important aspect of a case. Three issues with significant implications on the amount of damages at issue include apportionment, the discovery of negotiation documents, and bifurcation.

## Background

Patent damages are generally awarded in the form of lost profits, reasonable royalties, or a combination thereof. Recovering lost profits requires a showing that the patentee would have made the sale that the infringer did but for the infringement. Patentees may also be required to demonstrate the demand for the patented product, the absence of non-infringing substitutes, its own manufacturing and marketing capability to exploit the demand, and the profit it would have made but for the infringement. See *Panduit v. Stahl Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978). In the alternative, a court may award a reasonable royalty. A reasonable royalty is commonly based on a "hypothetical negotiation" between a willing licensor and willing licensee prior to the first infringing act. Typically, courts require an analysis of 15 factors from *Georgia-Pacific v. U.S. Plywood*, 318 F. Supp. 1116, (S.D.N.Y. 1970), mod. and aff'd, 446 F.2d 295 (2d Cir. 1971), cert. denied, 404 U.S. 870 (1971). Among these factors are licensing royalties received for the patent, rates paid by the licensee for other comparable patents, patent duration and license term, commercial success, and patentee's exploitation of the patent.

## Lost Profits; Apportionment

Generally, there have been two approaches to establish a base for patent damages pertaining to complex multi-component products and services. The entire market value rule (EMVR) allowed patentees to assess damages based on the entire product, and not just the patented component, if the infringing component was the basis for customer demand of the entire product. *Uniloc USA v. Microsoft*, 632 F.3d 1292,

1318 (Fed. Cir. 2011). In instances where the infringing component did not drive customer demand for the product, the alternate theory was the smallest saleable patent-practicing unit (SSU). *LaserDynamics v. Quanta Computer*, 694 F.3d 51, 67 (Fed. Cir. 2012). The contours of what constitutes the SSU has until recently been unclear. Some courts had indicated that mere identification of the smallest saleable unit was acceptable as the base for a reasonable royalty calculation, while others required further apportionment. See, e.g., *Access Int'l v. Savi Tech.*, No. 3:10-cv-1033-F, D.E. 272 (N.D. Tex. Jan. 25, 2013) (even though the SSU contained features or functionalities beyond the claimed technology, it was "nevertheless, the appropriate unit for calculating the royalty."); but see, e.g., *Rembrandt Social Media v. Facebook*, 1:13-cv-158, D.E. 350 (E.D. Va. Dec. 3, 2013) (requiring apportionment of SSU to ensure that damages are for infringing features only). The Federal Circuit resolved this split when it upheld a \$368 million jury verdict in the recent case *VirnetX v. Cisco Systems and Apple*. In so doing, the court explained: "[W]e have previously permitted patentees to base royalties on the 'smallest saleable patent-practicing unit.'" 767 F.3d 1308, 1327 (Fed. Cir. 2014) (quoting *LaserDynamics*, 694 F.3d at 67). The Federal Circuit continued:

However, the [jury] instruction mistakenly suggests that when the smallest saleable unit is used as the royalty base, there is necessarily no further constraint on the selection of the base. That is wrong. For one thing, the fundamental concern about skewing the damages horizon—of using a base that misleadingly suggests an inappropriate range—does not disappear simply because the smallest saleable unit is used.

Id. While the apportionment issue in the SSU reasonable

royalty context appears clearly resolved, apportionment in the context of lost profits remains murky. In *Brocade Communications Systems v. A10 Networks*, Case No. C 10-3428 PSG (N.D. Cal. May 15, 2013) (D.I. 998), the Northern District of California court discussed in a footnote that the Federal Circuit had opined in the recent *Versata Software v. SAP America* (Fed. Cir. 2013) that the "but-for" *Panduit* factors "place no qualitative requirement on the level of demand necessary to show lost profits." *Versata Software v. SAP Am.*, 717 F.3d 1255, 1265 (Fed. Cir. 2013) cert. denied, 134 S. Ct. 1013 (2014). The court in *Brocade* then went on to explain that "apportionment ... is unnecessary under *Panduit*." *Brocade*, Slip Op. at 4, n.12. Other jurisdictions have, nonetheless, reinterpreted apportionment in the context of lost profits to mean customer demand within the *Panduit* "but for" test. For example, in *Universal Elecs. v. Universal Remote Control*, Case No. SACV 12-00329 AG (JPRx), 2014 WL 3605937, \*23-25 (C.D. Cal. March 24, 2014), the court reinforced that "defendant may attack plaintiff's but-for causation proof by demonstrating that factors other than the asserted patents were the but-for cause of the lost sales." A similarly conservative view was expressed in *Electro-Mech. v. Power Distribution Products*, where the court stated that in a lost profits scenario, the patentee would still need to prove "that the customer's decision to buy the larger product in the first place is motivated by the presence of the patented component." *Electro-Mech.*, 970 F. Supp. 2d 485 at 492.

## Discovery

Rates paid for the use of patents comparable to the patent in suit are often helpful in determining the royalty rate in a hypothetical negotiation analysis. *Georgia-Pacific*, 318 F. Supp. at 1120. One class of such documents are settlement materials. While settlement documents containing royalty rates are usually discoverable, *ResQNet.com v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010), case law concerning the underlying negotiation materials is unclear. A good starting point is the Federal Circuit and its 2012 decision that the Northern District of Illinois did not abuse its

discretion by ordering production of negotiation documents underlying discoverable settlement agreements. *In re MSTG*, 675 F.3d 1337 (Fed. Cir.), reh'g denied, 468 F. App'x 994 (Fed. Cir. 2012). *MSTG* held that "settlement negotiations related to reasonable royalties and damage calculations are not protected by a settlement negotiation privilege." Id. at 1348. That holding, while potentially a narrow one, has exposed varying district court perspectives on this topic.

In one judicial camp, certain jurisdictions have taken a narrow view of the *MSTG* case. For example, the Eastern District of Missouri in *ABT Systems v. Emerson Electric* explained that, in *MSTG*, the expert's reliance on the negotiations created a need for the opposing party to discover whether the expert's conclusions were erroneous. "[a]nd it was on this narrow basis that the Federal Circuit held on mandamus review that the district court did not clearly abuse its discretion." No. 4:11CV00374 AGF, 2012 WL 6594996, at \*2 (E.D. Mo. Dec. 18, 2012). For that rea-

Rates paid for the use of patents comparable to the patent in suit are often helpful in determining the royalty rate in a hypothetical negotiation analysis.

son, the court denied a motion to compel settlement-related correspondence between the plaintiff and other defendants in the case without a showing of the "particularized relevance" to the information it sought. Id. at \*3. Taking a similarly narrow view of *MSTG*, the Northern District of California in *Implicit Networks v. Juniper Networks* limited the discovery of negotiation materials to instances where an expert's reliance on negotiations had placed the documents in question in dispute. Case3:10-cv-04234-SI (N.D. Cal. June 5, 2012) (D.I. 89), Slip Op. at 2-3.

On the other side, certain district courts have taken a more liberal view to such requested discovery. In the Southern District of New York, a court denied a motion to compel negotiation communications, but only on grounds of vagueness, overbreadth, and relevance. *Wu v. Pearson Educ.*,

No. 09 CIV. 6557 KBF/JCF, 2012 WL 1232958, at \*1 (S.D.N.Y. April 12, 2012). The court was careful to emphasize:

This is not to say that such documents are immune from discovery: there is no settlement negotiation privilege. ... [T]o the extent that the plaintiff has otherwise identified specific categories of discoverable documents, those documents shall be produced even if they were created in the context of settlement negotiations.

Id. at \*2 (citing *MSTG*). Similarly, in *Sciele Pharma v. Lupin*, Civil No. 09-37 (RBK/JS) (D. Del. Jan. 31, 2013) (D.I. 611), the District of Delaware granted a motion requiring the production of license agreements and underlying negotiation documents. There, the court acknowledged that, generally, "license negotiations are less probative and more prejudicial than the licenses themselves," but ultimately determined that certain negotiation communications were indeed discoverable. Slip Op. at 9-10.

## Bifurcation

Another issue that litigants should consider is whether a court or specific judge tends to bifurcate patent litigation by first assessing liability issues, then damages. Rule 42(b) of the Federal Rules of Civil Procedure states that a court may order a separate trial of any claim or issue "[f]or convenience, to avoid prejudice, or to expedite and economize." The benefits of bifurcation are unclear. Sometimes the evidence involved in reasonably royalty calculations, for example, can be voluminous and complicated, with little bearing on the underlying infringement issues. However, bifurcation can also result in duplicative discovery and trial presentations.

In the Northern District of Georgia, the Patent Local Rules establish a rebuttable presumption against bifurcation of damages in patent cases for purposes of discovery or trial. Patent L.R. 5.1 (N.D. Ga.), available at <http://www.gand.uscourts.gov/pdf/NDGARulesPatent.pdf>. Other courts have stated their preferences in case law. Similarly, in *DSM Desotech v. 3D Sys.*, the Northern District of Illinois stated that "bifurcation in patent cases,

as in others, is the exception, not the rule" and that "separate trials should not be ordered unless such a disposition is clearly necessary." No. 08 CV 1531, 2008 WL 4812440, at \*3 (N.D. Ill. Oct. 28, 2008) (internal quotation marks and citations omitted). Similar "presumptions" have been cited in other jurisdictions, including the Northern District of California (see, e.g., *Lam Research v. Schunk Semiconductor*, No. C-03-1335 EMC, 2014 WL 4180935, at \*1 (N.D. Cal. Aug. 22, 2014)) and the District of New Jersey (see, e.g., *ZoomEssence v. Int'l Flavors & Fragrances*, No. CIV. A. 12-1471 TJB, 2013 WL 2285863, at \*5 (D.N.J. May 23, 2013) ("Patent cases ... are the one type of case in which courts generally are more willing to bifurcate trials and even in patent cases bifurcation remains the exception rather than the rule[.]" (internal quotation marks and citations omitted)).

Meanwhile, until recently, Judge Sue L. Robinson of the District of Delaware actively encouraged bifurcation and required in her patent scheduling order that "[t]he issues of willfulness and damages shall be bifurcated for purposes of discovery and trial, unless good cause is shown otherwise." Judge Sue Robinson, Standard Scheduling Order, ¶ 2(a) (revised 06-09), available at <http://depatentlaw.morrisjames.com/files/2014/03/Robinson-form-scheduling-order.pdf>. It should be noted that Robinson's current scheduling order for patent cases does not address bifurcation. Available at <http://www.ded.uscourts.gov/sites/default/files/Chambers/SLR/Forms/Sched-Order-Patent-03-24-14.pdf> (revised March 24, 2014).

While district courts will continue to have broad discretion on bifurcation, the Federal Circuit has at least clarified that bifurcation will not delay the ability to appeal on infringement, as it can hear an appeal on liability before the trial on damages has occurred. *Robert Bosch v. Pylon Mfg.*, 719 F.3d 1305, 1313 (Fed. Cir. 2013).

## Conclusion

While the Federal Circuit has recently resolved a number of jurisdictional splits among district courts, many damages issues continue to create inconsistencies. A court or judge's past treatment of relevant damages issues should be an early consideration for both plaintiffs and defendants.

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# Examining the Multi-Faceted Attack On Patent Assertion Entities

BY JANET M. MACLEOD AND J. ERIC SUMNER

Although perhaps not ugly green creatures lurking under bridges, “patent trolls” have nevertheless haunted companies and patent practitioners for two decades.

Using extortive practices and preying on the inability of small companies to afford patent litigation, patent trolls have perfected the art of early settlement, requiring companies to pay tens or hundreds of thousands of dollars to avoid more significant litigation expenses. Such a practice can be quite lucrative when it involves hundreds of potential defendants. It has certainly not gone unnoticed. Both President Barack Obama and Congressional leaders called for patent reform in 2014 to curtail these practices. A recent patent reform bill focused on addressing abusive patent litigation tactics passed in the House but died in the Senate after failed negotiations. But patent trolls have not escaped unscathed. Rather, they have recently suffered a multi-faceted attack including executive and administrative actions and judicial decisions, which may have collectively succeeded in accomplishing at least some of the goals of the failed legislative reform. The following provides an overview of such attacks.

A patent assertion entity (PAE), or non-practicing entity, is a company or individual that owns and asserts patent rights but does not manufacture the products or provide the services covered by the patents. These entities are not all bad actors, but rather include research institutions, universities, and individual inventors who license or otherwise enforce their patents. The term “patent trolls” refers to non-practicing entities that acquire and assert patents of questionable validity in order to extort licensing revenue, or otherwise engage in abusive litigation tactics. Because the cost and risk of defending a patent infringement lawsuit are high, a target of a troll may choose to settle for tens or even hundreds of thousands of dollars even if the suit is without merit.

The America Invents Act (AIA),<sup>1</sup> signed into law in 2011, made significant changes to U.S. patent law, some of which were intended to directly or indirectly affect patent troll strategies. In an attempt to curtail the PAE practice of filing multi-defendant patent infringement lawsuits with many unrelated defendants, the AIA changed the standard for joinder of defendants in patent infringement lawsuits. Joinder is governed by Rule 20(a) of the Federal Rules of Civil Procedure, which provides that multiple defendants can be joined in one action if the claims arise out of the same transaction or occurrence, and there are common questions of fact. Before the AIA, in cases in which multiple defendants were related only by allegations of infringement of the same patent, some district courts found that the Rule 20(a) requirement of the same transaction or occurrence was not satisfied. Other courts, most notably in the Eastern District of Texas, found that allegations of infringement of the same patent were sufficient for joinder. The Eastern District of Texas approach provided significant benefits to a PAE bringing a single suit against multiple defendants, including reduced litigation costs and the ability to file in a plaintiff-friendly venue with little risk of transfer.

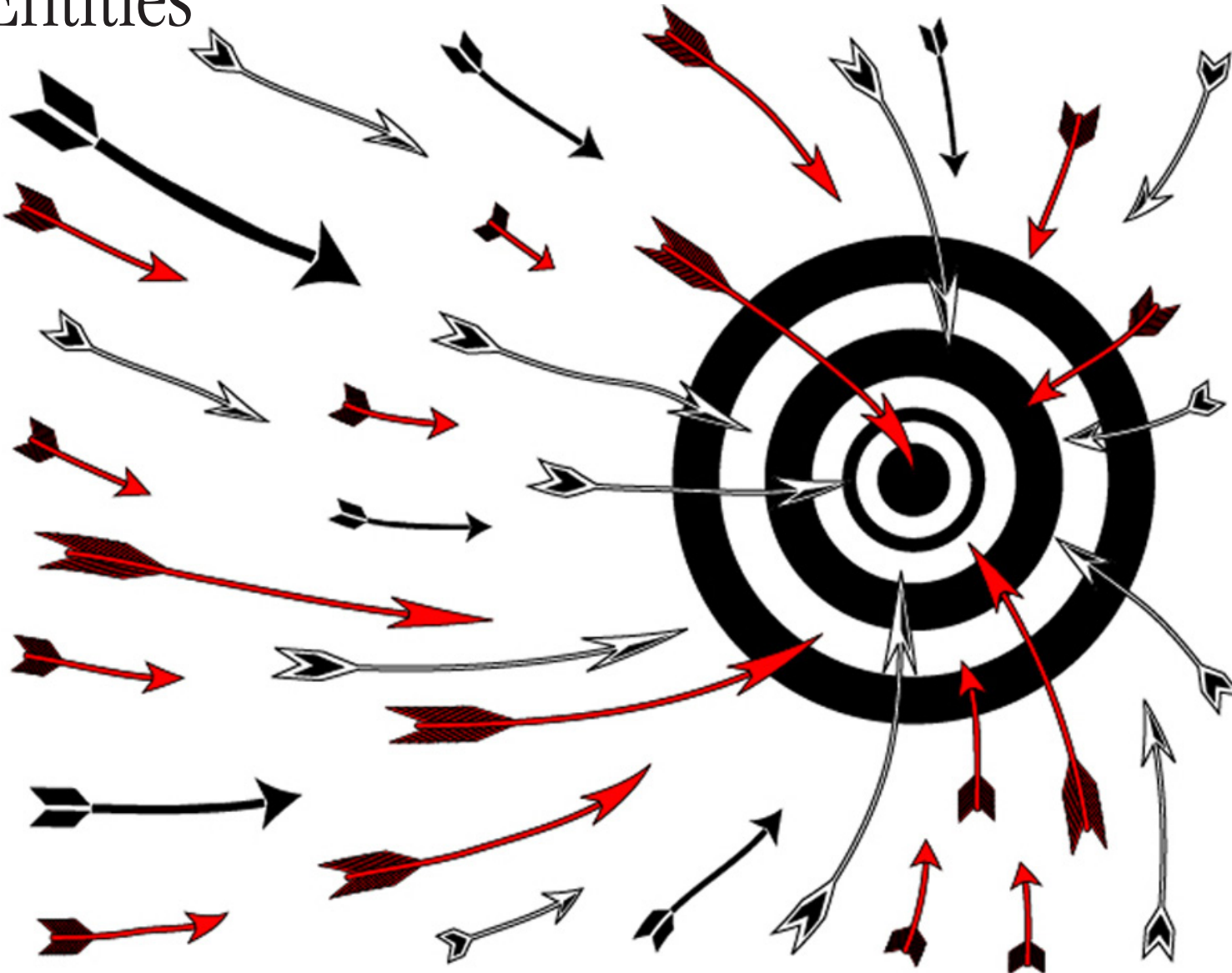
The AIA attempted to curtail this practice by providing that multiple accused infringers may not be joined in one action “based solely on allegations that they have each infringed the patent or patents in suit.”<sup>2</sup> Not surprisingly,

in the several days prior to the enactment of the AIA, there was a spike in multi-defendant patent infringement filings, particularly in the Eastern District of Texas. Subsequent to the passage of the AIA, however, it appears that PAEs have simply shifted strategies to avoid the new joinder provisions, and are now filing multiple parallel suits against single defendants. Because the joinder statute has been interpreted by district courts and the U.S. Judicial Panel on Multidistrict Litigation to permit consolidation for pretrial proceedings, the parallel suits filed post-AIA are often consolidated for pretrial issues under Rule 42(a) of the Federal Rules of Civil Procedure or 28 U.S.C. §1407. It thus appears that the AIA joinder statute will have a limited effect on PAEs, since the cost of suing multiple defendants has not substantially changed.

The AIA also created post-grant administrative proceedings before the U.S. Patent and Trademark Office (USPTO) that allow third parties to challenge the validity of issued patents. The new proceedings—inter partes review, post-grant review, and covered business method patent review—are intended to weed out “bad patents” that were improperly issued by the USPTO and are favored by patent trolls. Relative to district court litigation, the proceedings are speedier and less expensive, and are challenger-friendly in that the standard by which a challenger must prove patent invalidity is lower than in district court. In the first two years of the proceedings, challengers prevailed in the majority of the final decisions on granted petitions. Since a district court is more likely than not to grant a stay of district court litigation pending the administrative review, these proceedings often provide an accelerated and less costly alternative to litigation for defendants sued by PAEs. Although less costly than district court litigation, the cost and fees for an inter partes review can run in the hundreds of thousands of dollars, making this a cost-prohibitive alternative for some defendants.

“Our efforts at patent reform only went about halfway to where we need to go,” stated President Obama in a Google+ Hangout hosted on YouTube on Feb. 14, 2013. Four months later, his administration announced five executive actions “designed to protect innovators from frivolous litigation and ensure the highest quality patents in our system.”<sup>3</sup> To address the issue of shell companies set up by PAEs to hide their identities, one action called for rulemaking by the USPTO to require patent applicants and owners to regularly update ownership information, and to designate the “ultimate parent entity” controlling the application or patent. Another action called for new training for USPTO Examiners to improve patent claim language in order to reduce a perceived problem of overly broad claims, particularly in software patents. Other actions directed the USPTO to publish education and outreach materials for entities facing demands from possible trolls, and to expand outreach efforts such as roundtables and workshops. Yet another order called for an interagency review to strengthen the enforcement process of exclusion orders by the International Trade Commission barring the importation of infringing goods.

In his State of the Union address in 2014, President Obama called on Congress to “pass a patent reform bill that allows our businesses to stay focused on innovation, not costly, needless litigation.” The following month,



the White House announced three additional executive actions.<sup>4</sup> In another effort to improve patent quality, the USPTO was directed to explore ways for the public to submit prior art to the agency, and to train patent examiners to use crowd-sourced prior art during patent application examination. Other actions include utilization of volunteer technologists and engineers to train patent examiners, and dedication of resources to pro se patent applicants. The USPTO has undertaken initiatives to implement the 2013 and 2014 executive actions.

The Federal Trade Commission (FTC) entered the fray in 2014 using its consumer protection authority to issue an administrative complaint against the non-practicing entity MPHJ Technology Investments, and its law firm, relating to assertion of patents that MPHJ purchased for one dollar. The complaint alleged that MPHJ purchased patents covering network computer “scan-to-email” technology from another PAE, and sent letters to over 16,000 small businesses stating that the recipient was likely infringing its patents. The letters included an offer to engage in licensing discussions, and a suggested payment to MPHJ of \$1,000 per employee. MPHJ sent the letters in the names of 81 different subsidiaries as its licensing agents. MPHJ allegedly sent a second wave of letters in the name of its law firm to over 10,000 of the small businesses, and finally a third wave of letters threatening a lawsuit for patent infringement to approximately 4,870 businesses. The FTC alleged that MPHJ was not prepared to initiate legal actions against the recipients of the letters, and thus the representations were false or misleading in violation of §5(a) of the Federal Trade Commission Act. MPHJ and its law firm agreed to settle the FTC charges under terms that would ban the company and its law firm from making false or deceptive representations when asserting patent rights.

MPHJ is also the subject of a consumer protection lawsuit brought by the Vermont attorney general. A similar suit in New York was settled under terms that bar MPHJ from using deceptive practices. In addition, 17 states have enacted legislation that prohibit a person from asserting a claim of patent infringement in bad faith, and/or establish a cause of action against a person or entity who has asserted a bad faith infringement claim.

A more substantial deterrent

to patent trolls may result from several cases decided by the U.S. Supreme Court in the past year. These cases, while not directly focused on PAEs, could tremendously impact the desire of PAEs to enter into litigation.

The first, and perhaps most influential, decision is *Alice v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). The issue in *Alice* was patent eligibility of a software-based method and system for mitigating settlement risk in a financial exchange. The claims at issue related to a computerized scheme for facilitating the exchange of financial

The term “patent trolls” refers to non-practicing entities that acquire and assert patents of questionable validity in order to extort licensing revenue, or otherwise engage in abusive litigation tactics.

obligations between two parties using a computer system as a third-party intermediary—i.e., an intermediated settlement. The claims covered a (1) method, (2) computer system, and (3) computer-readable medium for accomplishing these steps. Each of these claim types was held invalid by the U.S. Supreme Court.

In its decision, the court first held that the concept of an intermediated settlement was an abstract one with roots prevalent throughout modern commerce.<sup>5</sup> Thus, generally speaking, the idea itself was not patent eligible. The application of it through a software or computer-based medium was held to be insufficient to make it patent eligible. Specifically, functions performed by the computer (and recited in the claims) were held to be “purely conventional ... [e]ach step does no more than require a generic computer to perform generic computer functions.”<sup>6</sup> The claims were held to “amount to ‘nothing significantly more’ than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer.”<sup>7</sup> *Alice* is troublesome for PAEs because most of these companies litigate in the high-tech sector using software or computer-based patents. *Alice* provides a new and potentially powerful mechanism for defendants to invalidate the types of patents that PAEs typically assert. PAEs are thereby forced

to consider increased risks and costs associated with such challenges, as well as the likelihood that the defendant will prevail.

The decision in this case was predicted to chill PAE litigation filings, and in fact it did. Unified Patent reported that in the third quarter of 2014 (the first three months post-*Alice*) there was a 35 percent decrease in high-tech sector PAE litigation filings, as compared to second quarter filings. While this drop-off may not be entirely due to the decision in *Alice*, it appears from the timing that this decision had some significant influence. At a minimum, PAEs appear to be more carefully considering downside litigation risks.

In an unrelated series of second opinions, the U.S. Supreme Court indirectly impacted patent troll litigation strategy by making it easier for a troll’s opponents to be awarded attorney fees. These decisions include (1) *Octane Fitness v. Icon Health & Fitness*, 134 S. Ct. 1749 (2014) and (2) *Highmark v. Allcare Health Management System*, 134 S. Ct. 1744 (2014).

Under 35 U.S.C. §285, a court “in exceptional cases may award reasonable attorney fees to the prevailing party.” Prior to *Octane*, such fees were awarded (1) if there was some material inappropriate conduct related to the matter in litigation, or (2) when the litigation was brought in subjective bad faith and was objectively baseless.<sup>8</sup> This test was established by the Federal Circuit Court of Appeals in *Brooks Furniture Mfg., v. Dutailier Int'l*, 393 F.3d 1378 (2005).

In *Octane*, however, the U.S. Supreme Court held that this test was “unduly rigid, and it impermissibly encumbers the statutory grant of discretion to district courts.”<sup>9</sup> The court further held that “an ‘exceptional’ case [under the statute] is simply one that stands out from others with respect to the substantive strength of a party’s litigating position.”<sup>10</sup> It is determined on a case-by-case basis at the discretion of the district court and based on the totality of the circumstances.<sup>11</sup> The court went on to hold that the standard for patent litigants to establish entitlement to fees under 35 U.S.C. §285 is by preponderance of the evidence. This standard was lowered from the clear and convincing evidence standard of *Brooks*.

*Highmark* is a companion case co-issued with *Octane* that addresses a litigant’s ability to

obtain attorney fees under 35 U.S.C. §285. In its decision, the court took note of the opinion in *Octane* and ruled that the “district court ‘is better positioned’ to decide whether a case is exceptional [under this statute] because it lives with the case over a prolonged period of time.”<sup>12</sup> Accordingly, the court held that review of these decisions by appellate courts should be for abuse of discretion.<sup>13</sup>

Collectively, *Octane* and *Highmark* are important because they relax the requirements for recouping attorney fees by a party willing to challenge a PAE’s patent. *Octane*, in particular, lowers the burden of proof required to establish an “exceptional” case and widens the scope of attack supporting such arguments. Although establishing the “exceptional” case is still not easy, the lowering of this hurdle brings this possibility more into play than it would have otherwise been under *Brooks*. It further increases the incentive for a defendant to fight a PAE in litigation. It raises the risk for PAEs of not only losing the litigation, particularly in the shadow of *Alice*, but also incurring the defendant’s costs. The Supreme Court may not have been specifically addressing PAEs in each of *Alice*, *Octane*, and *Highmark*, but the chilling effect that these three cases can have on such entities is evident.

The recent judicial and administrative developments have not been far-reaching enough to end abusive patent litigation practices, according to Congressional leaders who vow to advance patent reform legislation in the 114th Congress. Some innovators, however, believe that court decisions and USPTO actions have obviated the need for legislative reform, while others urge that any legislation be narrowly and carefully crafted. The developments of the past year may have set the stage for a compromise that targets abuses while protecting the interests of innovators.

1. Leahy-Smith America Invents Act, Pub. L. No. 112-20, 125 Stat. 284 (2011).  
2. 35 U.S.C. §299(b).  
3. FACT SHEET: White House Task Force on High-Tech Patent Issues, June 4, 2013.  
4. FACT SHEET—Executive Actions: Answering the President’s Call to Strengthen Our Patent System and Foster Innovation.  
5. *Alice*, 134 S. Ct. at 2356.  
6. *Id.* at 2359.  
7. *Id.* at 2360.  
8. *Octane*, 134 S. Ct. at 1753.  
9. *Id.* at 1755.  
10. *Id.*  
11. *Id.* at 1756.  
12. *Highmark*, S. Ct. at 1748.  
13. *Id.*

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## Fallout

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*v. Prometheus Labs.*, 132 S. Ct. 1289 (2012). *Mayo* involved a discovery relating to the use of thiopurine drugs, specifically “the precise correlations between [thiopurine] metabolite levels and likely harm or ineffectiveness.” Id. at 1295. The claims at issue sought to capture these correlations in a method for optimizing treatment: administering a thiopurine drug, determining the level of a metabolite in the patient’s blood, and observing that a level below (or above) certain thresholds “indicates a need to increase [or decrease]” the dosage. Id. The court found that the claims merely recited relationships between metabolite concentrations and therapeutic outcomes. Id. at 1296-97. The court asked “whether the claims do significantly more than simply describe” laws of nature. Id. at 1297. Concluding that they did not, the court held them invalid. Id.

*Alice* applied a *Mayo*-style analysis to *Bilski*-like claims. And the court again concluded that an abstract recitation of a long-known business practice is patent-ineligible.

Three things make *Alice* significant. The first is repetition. With the third installment of the *Bilski-Mayo-Alice* trilogy, the Supreme Court sent an unmistakable message reinforcing the doctrine of patent-ineligibility as a means of invalidating patents.

Second, after *Bilski* and *Mayo*, uncertainty remained as to how the Supreme Court would deal with the issue of ineligibility in the area of computer-related inventions. *Bilski* was a reaction to the Federal Circuit’s establishment of the “machine or transformation” test as the exclusive determinant of eligibility. The Supreme Court rejected that approach, but did little to elucidate what it viewed as the proper analysis. It simply found that the claimed hedging method was a patent-ineligible abstract idea. *Mayo* provided some illumination but did not involve computers or software.

*Alice*’s journey through the court system illustrates the lingering uncertainty. *Alice*, 134 S. Ct. at 2353. The district court found all the claims patent-ineligible. Id. A Federal Circuit panel reversed, but upon reconsideration en banc, the circuit issued a fractured set of opinions affirming the judgment of ineligibility. Id.

The Supreme Court’s decision in *Alice* provided some clarity by distilling the analysis in *Mayo* to a two-part test. First, determine whether a claim is drawn to one

of the exceptions to patentability: “laws of nature, natural phenomena, and abstract ideas.” Id. at 2355. Second, “consider the elements of [the] claim both individually and as an ordered combination to determine whether the additional elements transform the nature of the claim into a patent-eligible application.” Id. at 2357. Setting this procedure out in one paragraph, the court provided some much-needed guidance on how to apply §101.

The third thing making *Alice* significant is its application of the two-step test to a computer-related invention. The patent holder argued that its method of intermediated settlement was to be performed in a computer, and its patent included not only method claims, but also “computer system” and “computer readable medium” claims. Id. at 2357-58. Notwithstanding that the claimed invention thus involved (use of) a machine, which falls within the explicit scope of §101, the Supreme Court held the claims patent-ineligible. Having found, under *Mayo* step 1, that the claims were directed to the abstract idea of intermediated settlement, the court then turned to *Mayo* step 2. Viewing the claim elements both separately and together, the court found them all “purely conventional.” Id. at 2359. The claims neither “purport[ed] to improve the functioning of the computer itself” nor “effect[ed] an improvement in any other technology or technical field.” Id. In short, they “amount[ed] to nothing significantly more than an instruction to apply the abstract idea of intermediated settlement using some unspecified generic computer.” Id. at 2360.

This analysis lays to rest some long-cherished notions of the patent bar. For example, it is now clear that merely reciting a computer system configured to carry out some high-level function is not sufficient to push a claim into the realm of patentable subject matter, nor is crafting a claim to a computer readable medium (e.g., a disk) containing a program. In sharp contrast to decades of Federal Circuit precedent, the Supreme Court has now instructed judges to look beyond the words of a claim when evaluating patent-eligibility and decide what they think is “really” being claimed. If the gist thus divined can be said to be an abstract idea expressed in a few words (e.g., “hedging to reduce risk” or “intermediated settlement”), and the court finds nothing else “significant” in the claim, then the claim is ineligible.

While *Alice* provides new guidance, it leaves much room for debate. On the one hand, the Supreme Court acknowledged

that “[a]t some level, all inventions embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas,” and cautioned against decisions that could “swallow all of patent law.” Id. at 2354. Indeed, the direct consequence of the court’s ruling was quite narrow, invalidating a set of *Bilski*-like business method claims, in keeping with precedent and widely held sentiment.

On the other hand, a regime in which judges ignore the actual limitations of claims and rely on their own impressions as to whether or not a claim covers an abstract idea portends a risk that virtually any claim could be deemed abstract. Future litigations involving the issue of eligibility may well turn on defense counsel’s ability to come up with a single, succinct, compelling summary of the invention

Right now, executives and lawyers are weighing the boon of an ‘Alice’-triggered wave of troll-patent invalidations against the bane of uncertainty over the validity of their own software-related patents.

and persuade the judge that the claimed invention is “merely [fill in abstract idea here].”

Moreover, some of the Supreme Court’s language, if applied too freely in favor of invalidating patents, could be problematic. The Supreme Court reasoned in *Alice* that an abstract idea does not become patent-eligible when it is implemented in a computer in a manner that is “purely conventional.” Examples of such “purely conventional” steps include “electronic recordkeeping,” “obtain[ing] data,” “adjust[ing] account balances” and “issu[ing] automated instructions”; “all of these computer functions are well-understood, routine, conventional activities previously known to the industry.” Id. at 2359. But everything that a computer does can be characterized by those terms, or similar terms such as “input and output of data,” “storing and transmission of data” and “addition and subtraction,” all of which are routine, conventional functions. Is the conclusion that because every program (at some level) is composed of conventional steps, software simply cannot be patented?<sup>2</sup>

Clearly this should not be the result. Indeed, the Supreme Court has stated that it does not intend to lay down a categorical rule excluding all computer-related inventions from the scope of patent-eligibility. See, e.g., *Alice*, 134 S. Ct. at 2354-55; *Gottschalk v. Benson*, 409 U.S. 63, 71 (1972). But the reasoning the

court has deployed so far leaves much to be desired.

### Cases Post-‘Alice’

The Federal Circuit has issued several post-*Alice* decisions on business-method patents. Each time, the claims have been found invalid. *Ultramercial v. Hulu*, 772 F.3d 709 (Fed. Cir. 2014), is particularly noteworthy. The case involved a method for distributing copyrighted material over the Internet, free of charge, in exchange for the user watching one of several advertisements. Id. at 712. The district court dismissed on the ground of patent-ineligibility. Id. at 711. The Federal Circuit reversed. Id. The Supreme Court granted certiorari, vacated the decision in view of *Mayo*, and remanded. Id. The Federal Circuit again reversed, and the Supreme Court again took the case, vacated in view of *Alice*

and remanded. Id. Finally, the Federal Circuit, applying the *Mayo/Alice* two-step analysis, affirmed the invalidation of the patent. Id. at 711-12. The court held that the patent claimed “only the abstract idea of showing an advertisement before delivering free content.” Id. at 715. The steps of the claims added nothing significant, as they “simply instruct[ed] the practitioner to implement the abstract idea with routine, conventional activity.” Id. Use of the Internet was “not sufficient to save the patent.” Id. at 716.

*Ultramercial*, with its repeated trips to the Supreme Court, culminating in a Federal Circuit course correction, illustrates the effect of *Alice*. Two additional cases underscore the point. In *Planet Bingo v. VKGS*, 576 Fed. App’x 1005, 1006 (Fed. Cir. 2014), the patent at issue claimed a method for the computer-aided management of bingo games by storing a player’s preferred set of bingo numbers, playing that set during games, and tracking a player’s performance. In *buySAFE v. Google*, 765 F.3d 1350, 1355 (2014), the patent claims described the “long-familiar” commercial arrangement of transaction performance guaranties. The Federal Circuit, in both cases, readily found the claims to be patent-ineligible under *Alice*. These cases and others demonstrate that, going forward, patents that merely claim computer implementations of long-established human activities (par-

ticularly business practices) will likely not survive.

More broadly, in *Digitech Image Technologies v. Electronics for Imaging*, 758 F.3d 1344 (Fed. Cir. 2014), the Federal Circuit invalidated a patent using reasoning that, if applied literally, could call into question the eligibility of many inventions. The case involved generating “device profiles” for image-processing devices, such as digital cameras and printers. Id. at 1347. A device profile is a set of data used to perform software corrections on colors and spatial information, producing improved images. Id. There was no dispute that the claimed method described a process and as such fell within the literal bounds of §101. Id. at 1350. The court, however, held that the method “claims an abstract idea because it describes a process of organizing information through mathematical correlations and is not tied to a specific structure or machine.” Id. The court further explained that the claim “recites an ineligible abstract process of gathering and combining data that does not require input from a physical device . . . . Without additional limitations, a process that employs mathematical algorithms to manipulate existing information to generate additional information is not patent eligible.” Id. at 1351. The premise of this holding appears to be that data processing operations are patent-ineligible unless tied to specific input/output devices or other “structures.”

But it is far from clear that the approach of *Digitech* will prevail. Standing in contradistinction is *DDR Holdings v. Hotels.com*, LP, \_\_\_ F.3d \_\_\_, 2014 WL 6845152, at \*12 (Fed. Cir. Dec. 5, 2014). The patents there claimed systems and methods for producing a composite webpage combining visual elements of a “host” website with content from another website. Id. at \*1. This enabled third-party information to be presented with the look and feel of the host site, allowing a website operator to keep customers on its site, rather than sending them to another website via a conventional hyperlink. Id. at \*1.

Under *Digitech*, such algorithms, which merely manipulate existing information and generate new information, should have been patent-ineligible. But the panel in *DDR Holdings* reached the opposite conclusion, based on three critical points.

First, the panel characterized the abstract ideas doctrine as focusing on two classes of claims, “mathematical algorithm[s]” and “fundamental economic or longstanding commercial practice[s].” It held that the claims at issue fell into neither category, apparently

distinguishing *mathematical* algorithms from other algorithms. Id. at \*10. This distinction may open a path to patent-eligibility for at least some software-based claims.

Second, the court found that, in this case, identifying an abstract idea in the claims was not straightforward. Id. Tellingly, the defendant’s presentation of multiple different formulations of the purported abstract idea highlighted the difficulty of extracting a simple characterization of the claims. Id.

Third, the court found that, regardless of the characterization, the claims satisfied *Mayo/Alice* step two. In brief, the claims “did not merely recite the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet,” but rather were “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.” Id.

Notably, an earlier district court decision similarly upheld a network monitoring patent, finding that the claims at issue had “meaningful limitations” that “sufficiently tie[d] the claimed method to a machine.” *Helios Software v. SpectorSoft*, 2014 WL 4796111, at \*17 (D. Del. Sept. 18, 2014). Decisions such as these suggest that software-related claims may be patent-eligible if sufficiently “technological” (for lack of a better word).

### Conclusion

Several observations can be made about the *Bilski-Mayo-Alice* trilogy and its aftermath (so far). Software-related patent claims are now frequently being held patent-ineligible. Most notably, claims that simply recast commonly practiced human activities as computer-based or Internet-based processes, without more, are vulnerable to invalidation, as are over-broadly drafted claims lacking technological details or ties to specific machines or input/output devices.

But the border between the patent-eligible and the abstract remains indistinct. To better understand where the courts are heading, we will need to see more cases upholding the patent-eligibility of computer-related inventions. *Digitech* and *DDR Holdings* mark two competing views to bear in mind as the case law develops.

1. Internal citations and quotations are omitted throughout this article.

2. The Supreme Court has also “held that simply implementing a mathematical principle on a physical machine, namely a computer, is not a patentable application of that principle.” *Alice*, 134 S. Ct. at 2357. But a general-purpose computer itself is nothing more than the implementation of mathematical principles on a physical machine, namely a collection of transistors. Are we to conclude that computers themselves are unpatentable?byline

## Social Media

«Continued from page 9  
 he had built out of the company’s shipping packages that showed its well-known mark. Instead of alienating the fan, a better response may have been to showcase the fan’s loyalty and love of the brand through advertising or on the company’s own website.

7. *What is the significance or importance of the infringed trademark?* If the wrongdoing involves a famous mark or mainstay brand of your company, then it more likely warrants action. On the other hand, if it involves a lesser known brand or a trademark that is merely descriptive, then the potential negative consequences of action may well outweigh any potential benefit.

8. *What are the risks of taking or not taking legal action?* If you were to bring suit for the alleged misuse, are there significant hurdles you would have to overcome to prove infringement? If there is a credible fair use or free speech defense, the cost of litigation may exceed any favorable outcome especially since most parody, criticism, or other expression cannot be stopped. In addition to showing likelihood of confusion, will you be able to show damages? If not, consider whether there is an easier, less costly way to stop the wrongdoing. Equally important, will your company face significant negative public relations by filing suit? If so, look for alternatives to litigation. Carefully weigh the infringement against the expense, time, and burden of a lawsuit.

### Step 3: Assess Options for Responding to the Third-Party Trademark Use.

Once the relevant facts are gathered, decide how to address the misuse in a way that fits the surrounding circumstances. In some cases, your company’s best option may very well be to let the matter go. While it is necessary to police your trademarks, uncovering and successfully countenancing every possible misuse on social media is a more than full time and expensive commitment; instead, only reasonable efforts must be undertaken. In addition, since most social media use falls into the category of protected free speech, if the use does not infringe and does not cause a true threat to your brand, then you should consider whether it is worth taking action particularly in light of any potential backlash associated with challenging the unauthorized use. Instead, you may be better served by developing a thick skin to criticism, cultivating a sense of humor, and looking for opportunities to use the situation to your advantage.

When you do need to respond to potential infringement or other misuse, consider the following options, each of which may be appropriate for some circumstances but not others.

1. *Take to social media and respond in kind.* If a negative comment is made about your brand on a social media forum, respond to the user’s comment by addressing whatever complaint or criticism is lodged. Apologize for a bad experience with your company’s establishment or product, and consider whether it is possible to make it

up to the user, such as by offering a free replacement or a gift certificate.

Your response also should be tailored to the seriousness of the incident and the amount of publicity or attention you want it to garner. For example, when the Twitter account of a fast food company was hacked last year and its logo and profile changed to that of a competitor, the fast food company indirectly addressed the incident through short and simple tweet. The company had acted quickly to have its Twitter account suspended while it regained control of its profile and authentic postings. The company’s response was particularly appropriate given the nature of the incident and the short lifespan of the incident, which took place over the course of a few hours at most. Moreover, the company may have gained as many as 5,000 new followers as a result of the event. Similarly, after a prank video was released on YouTube by two errant Domino’s Pizza employees showing unhygienic handling of food at a North Carolina location, Domino’s Pizza posted on YouTube a video message from its president with a serious message making clear the company understood the gravity of the issue and reassuring customers that food safety and hiring practices are an utmost concern. Domino’s also created a Twitter account to address customer inquiries.

2. *Contact the alleged infringer directly.* Assuming you are able to identify the individual behind a post, consider simply making a telephone call or other direct communication to the social media user. This method may be an

especially sensible approach when dealing with an innocent infringer or relatively isolated use. Moving on from there, a cease and desist letter may be warranted; however, it is clear that the traditional cease and desist letter, particularly one that is heavy on legalese, is no longer the best approach in the social media world. Instead, write every letter with the assumption that the letter itself will end up on the Internet and a letter that is too heavy-handed can have the detrimental result of portraying your company as a bully.

In contrast, a simple—even nice—letter may be far more effective, both in terms of reaching a good result for your brand as well as expense. For example, when the owner of the Jack Daniel’s trademarks learned of a book cover that resembled the style of the Jack Daniel’s logo and label, the brand sent a friendly letter to the book author explaining the situation and simply requesting that the author change the cover design when the book was re-printed and offering to contribute toward the cost of doing so if the author agreed to change the cover sooner. The author did in fact agree to using a different cover at its publisher’s own expense. The non-aggressive and even-tempered approach of the Jack Daniel’s brand owner most certainly contributed to that successful outcome and had the added benefit of garnering the company and its lawyer media praise for its approach.

3. *Follow the social media site’s takedown procedures.* Every social media website should have a takedown procedure listed somewhere in order to be in compliance with

the requirements of the Digital Millennium Copyright Act. Although the precise procedures will vary depending on each particular site, working with the site operators may be your best, or in some cases only, option. Before providing formal notice to a site, investigate whether the site has pre-notice requirements such as requiring the trademark owner to first attempt direct contact with the user in the hopes of reaching a cost-effective and fast resolution. Prepare yourself too for the fact that once notice is given, the social media site may not address the situation as quickly as you would hope.

4. *Commence litigation.* As discussed, legal action is best saved for widespread or serious and clear infringement, such as that involving a strong mark, exact or near-exact use, confusingly similar, or competitive commercial misuse or other bad actor. Prioritize your litigation efforts on these more damaging infringing acts and attempt to address lesser infractions through one or more of the softer approaches referenced above instead.

5. *Step 4: Take Action in Attempt to Prevent Misuse.* Besides simply waiting for an incident to occur, there are some actions your company can also take to proactively attempt to prevent infringement and to mitigate damage before subsequent misuse happens.

1. Be sure to register your marks and brands as user names on key social media sites, regardless of whether your company intends to engage on the site itself. Doing so will ensure that your marks or brands are not wrongfully used by someone else.

2. Prioritize your enforcement efforts by monitoring and focusing on sites that are most relevant to your business and customers. Recognize that it is not possible to monitor each and every social media platform.

3. Consider assigning specific employee(s) to monitor third-party use, or engage a monitoring service company.

4. Create a written policy in advance that outlines reporting procedures and how the company will handle responding to various types of misuse or infringement.

5. Consider creating your own pages on social media sites. Maintaining your own company pages will give your company an opportunity to better control what is being communicated about it and keep on top of what others are saying or doing when it comes to your brand. Social media pages that you maintain also create a more controlled environment for your fans to express their loyalty, lessening the need for potentially problematic fan pages.

Social media can be a powerful tool for companies and indeed even third-party statements regarding your company’s name or brand can be to your advantage. However, it is imperative to harness the potential for trademark infringement or misuse by others, and to respond appropriately when such wrongful acts occur. When issues do arise, experienced trademark counsel can help you arrive at the best means for dealing with a given incident in a way that hopefully achieves a favorable outcome while minimizing negative impact, both to your company’s mark and brand, as well as its public image.

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# Fair Use

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The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original.<sup>78</sup> Merely superseding the object of the original protected work, such as repackaging or republishing it, however, “is unlikely to pass the test.”<sup>79</sup> But where a “secondary use adds value to the original—if the quoted matter is used as raw material, *transformed* in the creation of new information, new aesthetics, new insights and understandings,” Leval viewed this as “the very type of activity that the fair use doctrine intends to protect for the enrichment of society . . .”; nevertheless, he cautioned that transformative uses under the first §107 factor are “weakened to the extent that [the] takings exceed the asserted justification.”<sup>10</sup> In giving examples of lawful “transformative” uses, Leval cited criticism, “exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it,” as well as “parody, symbolism, aesthetic declarations, and innumerable other uses.”<sup>11</sup>

The potential to exceed an “asserted justification” manifests itself in the creation of derivative works, which is one of the exclusive rights reserved to a copyright owner under §106 of the Copyright Act. Leval emphasized that merely having a transformative objective does not guaranty success in claiming fair use because the transformative justification “must overcome factors favoring the copyright owner”—i.e., the other three statutory fair use factors. Thus, one who creates a derivative work “may claim absolute entitlement because of the transformation,” but “excessive takings may impinge on creative incentives,” and a secondary user’s claim under the first fair use factor is weakened “to the extent that her takings exceed the asserted justification.”<sup>12</sup>

Notably, the only place in the Copyright Act in which the word “transform” appears is in its definition of a derivative work as “a work based upon one or more preexisting works, such as . . . art reproduction, abridgment, condensation, or any other form in which a work may be recast, *transformed*, or adapted. A work consisting of editorial revisions, annotations, elaborations, or *other modifications*, which, as a whole, represent an original work of authorship, is a ‘derivative work.’”<sup>13</sup> While the exclusive right to create derivative works is reserved to the copyright owner and such works may “transform” the original, some unauthorized derivative works may also be protected by the fair use defense. Thus, while the right to authorize the creation of derivative works is exclusively reserved to the copyright owner, some derivative works that are created without such authority but are both transformative and

justified under all four of the fair use factors are lawful.

## Applying the Doctrine

The U.S. Supreme Court picked up on Leval’s postulate in *Campbell v. Acuff-Rose Music*, which involved a parodic rendition of the Roy Orbison song “Oh, Pretty Woman” by the rap group 2 Live Crew.<sup>14</sup> In upholding a fair use defense, Justice David Souter cited Leval’s transformative use test under the first §107 factor. The court emphasized that while transformative use “is not absolutely necessary for a finding of fair use . . . the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works . . . and the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”<sup>15</sup>

The court specifically held that a parody “has an obvious claim to transformative value . . . . Like less ostensibly humorous forms of criticism, it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one. We thus line up with the courts that have held that parody, like other comment or criticism, may claim fair use under §107.”<sup>16</sup> Yet “parody,” which by definition is “a literary or musical work in which the style of an author or work is closely imitated for comic effect or in ridicule,”<sup>17</sup> seems to readily fall into the category of works created for the statutory purpose of “criticism [and] comment” without the need to resort to “transformative use” analysis.<sup>18</sup> Indeed, the court in *Campbell* noted that both the district and appeals courts in the case had found or presumed that the challenged song was “commenting on and criticizing the original work, whatever it may have to say about society at large.”<sup>19</sup> So in a sense, *Campbell* was not a difficult case as it made clear that in assessing the first “purpose and character of the use” factor, a “parody” coincided with the statutory examples of “criticism” and “comment,” subject of course to further assessment of the other three fair use factors. Indeed, Leval had cautioned that “[t]he existence of any identifiable transformative objective does not, however, guarantee success in claiming fair use.”<sup>20</sup> But having let Leval’s transformative use test out of the bag, the court opened a floodgate.

Following *Campbell*, Leval wrote another lesser-known article that praised the Supreme Court’s approach as advancing copyright law’s goal of bringing “intellectual enrichment to the public by giving authors a *limited* control over their writings to provide them with financial incentive to create.”<sup>21</sup> Leval further emphasized that the first and fourth §107 factors were of “cardinal importance” because the more a transformative use is made of a work, “the less likely it is that appropriative use will be a substitute for the original, and therefore the less impact it is likely

to have on the protected market opportunities of the original.”<sup>22</sup> At the same time, however, he cautioned against granting fair use protection to permit “minor changes” to circumvent copyright law and “leaving authors and artists defenseless” and unable to earn a living.<sup>23</sup>

Since *Campbell*, every fair use case that has come up before the Second Circuit—Leval’s “home” court—has referenced transformative use as the primary focus of the first §107 fair use factor.<sup>24</sup> And the Second Circuit is not alone in having adopted transformative use analysis.<sup>25</sup> Despite this extensive application of the transformative use doctrine, courts still struggle in applying the doctrine. In some cases, once transformative use is found under the first §107 factor, it largely overrides the other three factors.

One of the more controversial fair use cases that relied heavily on transformative use is the Second Circuit’s decision in *Cariou v. Prince*.<sup>26</sup> In assessing whether 30 works by appropriation artist Richard Prince were entitled to a fair use defense respecting copyrights in original photographs contained in Patrick Cariou’s published book “Yes Rasta,” the court held that to be entitled to the defense under the first §107 factor, an allegedly infringing work need not comment on, relate to the historical context of, or critically refer back to the copyrighted work. Finding that the law imposes no such requirement, and that a defendant’s commercial use also is not dispositive, the court held that a secondary work may constitute a fair use even if it serves some purpose other than those cited as examples in the Copyright Act’s fair use clause, namely criticism, comment, news reporting, teaching, scholarship and research. The court also emphasized that to qualify as a fair use, the copied work generally must alter the original with “new expression, meaning, or message.”<sup>27</sup> In its review, the Second Circuit rejected Cariou’s request to treat Prince’s lack of testimony regarding any new meaning of his works as dispositive; rather, the court stated there is no rule requiring a defendant to explain and defend his or her use as transformative. What is important, the court stated, is how the work in question appears to the reasonable observer. Ultimately, the court held that 25 of Prince’s 30 works were entitled to the fair use defense as a matter of law because they were transformative.

The Second Circuit cautioned, however, that its conclusion in *Cariou* did not suggest that merely adding cosmetic changes or presenting a work in a new format alone would constitute fair use. Instead, a work has to add something new and present the work with a fundamentally different aesthetic to be protected as fair use. In this context, with respect to five Prince works remanded to the district court, the Second Circuit noted that “[e]ach of those artworks differs from, but is still

similar in key aesthetic ways, to Cariou’s photographs [and] it is unclear whether these alterations amount to a sufficient transformation of the original work of art such that the new work is transformative.”<sup>28</sup>

## Rejecting Transformative Use

Upending two decades of case law that has adopted “transformative use” as the sine qua non of fair use, in affirming a district court’s finding of fair use in *Kienitz v. Sconnie Nation*, the Seventh Circuit expressly rejected transformative use and, in particular, the Second Circuit’s heavy reliance on that doctrine in *Cariou*. *Kienitz* was a well-publicized case in which a posterized, low-resolution photograph of Paul Soglin, the mayor of Madison, Wis., appeared on a T-shirt as political commentary about Soglin having participated in the Mifflin Street Block Party.

This is the first circuit court to expressly reject transformative use, and it did so rather emphatically. The court found it unnecessary to address transformative use, finding that it was “not one of the statutory factors” under §107, despite the Supreme Court having previously mentioned it in *Campbell v. Acuff-Rose Music*.<sup>29</sup> The Seventh Circuit was skeptical about the Second Circuit’s application of transformative use in *Cariou*, emphasizing that “asking exclusively whether something is ‘transformative’ not only replaces the list in §107 but also could override 17 U.S.C. §106(2), which protects derivative works. To say that a new use transforms the work is precisely to say that it is derivative and thus, one might suppose, protected under §106(2).” *Cariou* and its predecessors in the Second Circuit do not explain how every ‘transformative use’ can be ‘fair use’ without extinguishing the author’s rights under §106(2).”<sup>30</sup> In referring to the right to create derivative works under §106(2), however, the Seventh Circuit seems to have ignored the preamble to §107, which begins with: “Notwithstanding the provisions of section[] 106 . . .”<sup>31</sup> Congress thus intended for §107, where fair use was justified, to override an author’s exclusive right to create derivative works.

The court in *Kienitz* ultimately affirmed the finding of fair use based on a direct application of the four §107 factors, placing particular emphasis on the fourth factor concerning the effect on the potential market for the copyrighted photograph.<sup>32</sup> The fact that the defendant intended the shirt to make a political statement also influenced the court’s decision under the first factor. Nevertheless, the court took the additional, unusual step of noting its displeasure with “lazy appropriators,” who were not intended to be protected by §107, and emphasized that the defendant did not need to use the plaintiff’s photograph to create its lampoon and that the T-shirt was not used to mock (parody) the photograph itself, but instead targeted Mayor

Soglin. The court further noted that Kienitz, as a photographer, could have his livelihood negatively affected if future clients believed portraits taken for dignified purposes could end up on T-shirts and be used in a derogatory manner. Nevertheless, because Kienitz failed to raise these additional arguments, the court was compelled to find fair use.

## What Lies Ahead

Whether this signifies the start of a slow shift away from transformative use theory remains to be seen, but if so, it would be a sea change. A need for “transformative use” doctrine itself becomes questionable if all it does is replace one vague and undefined fair use test with another—the very thing Leval cautioned against. The danger of applying transformative use in a rote manner without a clear understanding of the purpose of fair use only leads to the same problem cited in Leval’s 1990 commentary—inconsistent application of the defense, and a lack of consistency and agreement among judges in their respective approaches to fair use. Courts should not avoid the preamble in §107, which refers to a “fair” use and provides guidance through non-exclusive examples “such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” Those examples illuminate Congress’ thinking and were not plucked from thin air. Transformative use can remain a useful tool if courts do not lose sight of Leval’s admonition that to be “fair,” the use must serve the copyright objective of stimulating productive thought and public instruction without excessively diminishing the incentives for creativity.

1. 17 U.S.C. §107. Section 107 states:

Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

2. *Kienitz v. Sconnie Nation*, 766 F.3d 756 (7th Cir. Sept. 15, 2014).

3. 714 F.3d 694 (2d Cir. 2013).

4. *Dereck Seltzer v. Green Day*, 725 F.3d 1170, 1176 (9th Cir. 2013).

5. 103 Harv. L. Rev. 1105 (1990)

6. *Id.* at 1111.

7. *Id.*

8. *Id.* (emphasis added).

9. *Id.*

10. *Id.* (emphasis added).

11. *Id.*

12. *Id.*

13. 17 U.S.C. §106.

14. 510 U.S. 569 (1994).

15. 510 U.S. at 579. A recent example of a work not being deemed “transformative” but nevertheless qualifying under the first Section 107 factor is *Cambridge University Press v. Patton*, 769 F.3d 1232 (11th Cir. Oct. 17, 2014). There the court found that free teaching course books that included reproductions of graduate-level scholarly and academic materials, while not transformative in and of themselves because they were verbatim copies of the originals converted to digital format and served the same intrinsic purposes as the originals, the use was clearly for nonprofit educational purposes and not commercial exploitation, and thus the first Section 107 factor favored a finding of fair use.

16. *Id.*

17. Merriam-Webster Dictionary at <http://www.merriam-webster.com/dictionary/parody>.

18. Decisions upholding Internet indexing as fair use, for example, also can be justified as falling within a modern scope of online “research” as one of the lawful Section 107 examples, without resorting to transformative use analysis. See, e.g., *Authors Guild v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014).

19. 510 U.S. at 582.

20. 103 Harv. L. Rev. at 1111.

21. “*Campbell v. Acuff-Rose*: Justice Souter’s Rescue of Fair Use,” 13 *Cardozo Arts & Entertainment Journal* 19 (1994)

22. *Id.* at 22-23.

23. *Id.* Of particular interest is Leval’s discussion of the “hotly debated” issue of appropriation art and associated infringement remedies, where he suggested that between acts of blatant infringement and those that pass the fair use test there lies a third, less frequent kind of use, which, while failing the fair use test despite some transformative characteristics, still offer “originality and independent value” and present only a small threat of economic harm to the copyright owner. In such cases, he said, the remedy should only be damages and not injunctive relief. *Id.* at 24-25.

24. See *Authors Guild v. HathiTrust*, 2014 U.S. App. LEXIS 10803 (2d Cir. N.Y. June 10, 2014); *Swatch Group Mgmt. Servs. v. Bloomberg L.P.*, 742 F.3d 17 (2d Cir. 2014); *Cariou v. Prince*, 714 F.3d 694 (2d Cir. 2013); *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006); *Bill Graham Archives v. Dorling Kindersley*, 448 F.3d 605 (2d Cir. 2006); *NXIVM v. Ross Inst.*, 364 F.3d 471 (2d Cir. 2004); *Davis v. Gap*, 246 F.3d 152 (2d Cir. 2001); *Nihon Keizai Shimbun v. Comline Bus. Data*, 166 F.3d 65 (2d Cir. 1999); *Castle Rock Entertainment v. Carol Publ’g Group*, 150 F.3d 132 (2d Cir. 1998); *Infinity Broad. v. Kirkwood*, 150 F.3d 104 (2d Cir. 1998); *Leibovitz v. Paramount Pictures*, 137 F.3d 109 (2d Cir. 1998); *Ringgold v. Black Entertainment TV*, 126 F.3d 70 (2d Cir. 1997); *American Geophysical Union v. Texaco*, 60 F.3d 913 (2d Cir. 1994); *Twin Peaks Prods. v. Publ’ns Int’l, Ltd.*, 996 F.2d 1366 (2d Cir. 1993).

25. See, e.g., *Gaylord v. United States*, 595 F.3d 1364, 1372 (Fed. Cir. 2010); *A.V., a minor by Vanderhye v. iParadigms*, 562 F.3d 630, 638 (4th Cir. 2009); *Peter Letterese & Assoc. v. World Inst. of Scientology Enters. Int’l*, 533 F.3d 1287, 1309 (11th Cir. 2008); *Kelly v. Arriba Soft*, 336 F.3d 811, 818 (9th Cir. 2003).

26. 714 F.3d 694 (2d Cir. 2013). Prince, a well-known appropriation artist, altered and incorporated several of Cariou’s photographs in a series of paintings and collages entitled “Canal Zone.” In 2007 and 2008, Prince exhibited these works through art dealer Larry Gagosian’s eponymous gallery, which produced and sold an exhibition catalog containing reproductions of Prince’s works featuring the photographs.

27. 714 F.3d at 706.

28. *Id.* at 711.

29. In *Ty v. Publications Int’l*, 292 F.3d 512, 522 (7th Cir. 2002), the Seventh Circuit did mention “transformative use” in discussing the purpose of the fair use doctrine, but then distinguished that from the fair use “statutory definition, which though extensive is not illuminating. (More can be less, even in law.)”

30. *Kienitz v. Sconnie Nation*, 766 F.3d 756, 758 (7th Cir. 2014)

31. 17 U.S.C. §107.

32. 766 F.3d at 759. The court noted that “[a] t-shirt or tank top is no substitute for the original photograph. Nor does Kienitz say that defendants disrupted a plan to license this work for apparel. Kienitz does not argue that defendants’ products have reduced the demand for the original work or any use of it that he is contemplating.” The court further emphasized that Kienitz had licensed the photograph to Soglin for “no royalty” and that it was “posted on a public website for viewing and downloading without cost.”

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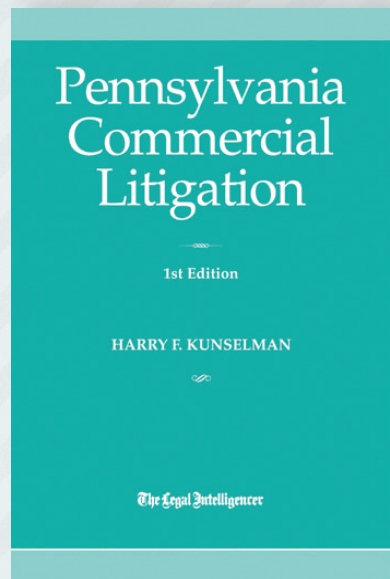
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