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NUMBER 1

RECENT DEVELOPMENTS IN TRADEMARK LAW

Mark A. Thurmon*

It has been another interesting year¹ in trademark law. The last year was a “quiet” year by some measures. There were no trademark decisions from the United States Supreme Court and no significant new trademark legislation from Congress. Yet despite the absence of key developments at the highest level, there were many interesting, and important, trademark cases decided in the United States Courts of Appeals. These decisions are the subject of the current review.

The cases reviewed below include a large number of highly questionable conclusions reached by our federal appellate courts. These courts are not supposed to make mistakes, or at least not often. The fundamentals of trademark law are not difficult. We have seen, however, a great deal of expansion in trademark law over the last decade or so. It is not surprising that courts and commentators differ in opinion on some of the novel issues in trademark law. That, however, is not what happened in the questionable cases discussed below.

The federal appellate courts are making too many basic mistakes in trademark cases. I do not know why this is happening. Perhaps too many trademark cases are handled by attorneys who do not specialize in intellectual property law. Given the expanded scope of trademark law, trademark issues arise far more often today than ten or fifteen years ago, a fact that certainly might lead more attorneys to “dabble” in trademark law. Whatever the reason, a significant number of decisions from the United States Courts of Appeals contain serious errors on basic points of trademark law. Perhaps the year reviewed in

*© 2008, Mark A. Thurmon, Associate Professor of Law, Southern University Law Center and Of Counsel to Roy, Kiesel, Keegan & DeNicola. An earlier version of this article was presented at the Houston Intellectual Property Law Association’s Institute on Intellectual Property Law on September 25-27, 2008.

¹ This review covers the period of September 2007 through August 2008.

this article is anomalous. Hopefully it was, as the trend it seems to reflect is indeed troubling.

There is no particular reason for the sequence of the cases reviewed below. It is tempting to try to classify cases based on this issue or that, but such an effort is seldom true to the decisions. Few cases raise a single issue, and many turn on the resolution of numerous important issues. Examples of this fact abound in the cases reviewed below. One case that is reviewed in some detail includes an important analysis of the distinctiveness requirement of trademark law, the use in commerce requirement for Lanham Act jurisdiction, and the relevance of parody in the likelihood of confusion analysis. It would be difficult, if not misleading, to attempt to classify such a case as being just a distinctiveness or just a parody case.

There were, however, more cases involving questions of distinctiveness than usual, and as a result, I have presented a group of cases under that heading to start the review. Interestingly, there were no trade dress cases and no functionality cases this year. There were fewer Internet trademark disputes than in recent years, too. In their place, we find a mix of cases ranging from false advertising to the extraterritorial application of the Lanham Act.

In an effort to provide the reader with a bit of structure I have placed, but not classified, the cases in the following broad categories: (1) distinctiveness issues; (2) false advertising; (3) infringement and unfair competition; (4) dilution and parody; (5) defenses; (6) procedural issues, including jurisdiction; (7) damages issues; and (8) miscellaneous issues. I turn now to the cases involving distinctiveness disputes.

1. Distinctiveness cases

A. *Utah Lighthouse Ministry v. Foundation for Apologetic Information & Research*²

This case wins the award for the worst trademark case of the year! There were other cases with errors, but none that came close to this decision by the Tenth Circuit Court of Appeals. It is rare to find a case where a United States Court of Appeals gets it so wrong on almost every issue. This is one such case.

The plaintiff operates a business that engages in criticism of the Church of Jesus Christ of Latter-day Saints (LDS).³ LDS is the official Mormon Church. Plaintiff has a bookstore and a website

² 527 F.3d 1045 (10th Cir. 2008).

³ *Id.* at 1048.

dedicated to advancing the messages of those who criticize the LDS church or who take positions contrary to those of the LDS church.⁴ Perhaps not surprisingly, the plaintiff's business is not without its critics.

One such critic is The Foundation for Apologetic Information and Research (FAIR), described by the court as a "volunteer organization that responds to criticisms of the LDS church."⁵ FAIR operates a website, which has an online bookstore, that provides information supporting the LDS church.⁶ Allen Wyatt, another named defendant, and a key player in this story, "is the vice president and webmaster for FAIR."⁷

"In November 2003, Wyatt created a website parodying the UTLM website—the Wyatt website is similar in appearance but has different, though suggestively parallel, content."⁸ For example, both sites used "the image of a lighthouse with black and white barbershop stripes."⁹ Wyatt "registered ten domain names ... [that were] combinations of 'Utah Lighthouse Ministry,' 'Sandra Tanner,' 'Gerald Tanner,' 'Jerald Tanner,' and '.com' and '.org.'"¹⁰ The text on Wyatt's site was similar as well. For example, plaintiff's site has the following welcome statement: "Welcome to the Official Website of the Utah Lighthouse Ministry, founded by Jerald and Sandra Tanner."¹¹ Wyatt's site used this welcome statement: "Welcome to an official website about the Utah Lighthouse Ministry, which was founded by Jerald and Sandra Tanner."¹² Wyatt did not include any type of disclaimer on his site.

Plaintiff sued, alleging trademark infringement and violation of the anticybersquatting statute. The district court granted summary judgment for defendants on all claims. The court identified three elements of the trademark infringement claim: (1) that plaintiff has a protectable trademark; (2) that defendants' use is in commerce; and (3) that defendants' use is likely to cause confusion. The district court found no genuine issue of material fact on any of these three elements. The Tenth Circuit affirmed in what is a truly remarkable decision. Because the court made so many mistakes on each of these three "elements," I address them separately below.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 1049.

⁸ *Utah Lighthouse Ministry*, 527 F.3d at 1049.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

a) *Distinctiveness of the UTAH LIGHTHOUSE mark*

First, the Tenth Circuit addressed the question of whether plaintiff's UTAH LIGHTHOUSE mark was protectable, that is, whether it was distinctive.¹³ Plaintiff owned a U.S. trademark registration, and relied on that registration in its response to defendants' motion for summary judgment.¹⁴ The district court rejected plaintiff's position because the registration was obtained after defendants' infringement began and after the litigation began.¹⁵ The district court went on to hold that plaintiff had not presented enough evidence of secondary meaning with respect to its use of the trademark on its website.¹⁶

The Tenth Circuit first addressed the plaintiff's reliance on its federal trademark registration. After noting that the registration was obtained after the litigation began, the court stated "it is not necessary to decide that issue on this appeal."¹⁷ The Tenth Circuit never explained why it was not necessary to resolve this issue.

There is nothing in the Lanham Act limiting the presumption of validity.¹⁸ The statute says a registration "shall be" evidence the mark is valid.¹⁹ Plaintiff owned a registration, yet the district court rejected it. How can that issue not be necessary to the appeal? If the district court was wrong, and it was, then the Tenth Circuit should have reversed on this issue. It might still uphold the grant of summary

¹³ *Id.* at 1051.

¹⁴ *Utah Lighthouse Ministry*, 527 F.3d at 1050.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 1050 n.3 ("It is not clear that a mark must be registered at the time the suit is filed to benefit from the statutory presumption, but it is not necessary to decide that issue on this appeal.")

¹⁸ Lanham Act, 15 U.S.C. § 1115(a) (2002) (showing nothing in the text supporting the rule adopted by the district court. The statute uses unequivocal language: "Evidentiary value; defenses. *Any registration issued under the Act of March 3, 1881, or the Act of February 20, 1905, or of a mark registered on the principal register provided by this chapter and owned by a party to an action shall be admissible in evidence and shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration subject to any conditions or limitations stated therein, but shall not preclude another person from proving any legal or equitable defense or defect, including those set forth in subsection (b) of this section, which might have been asserted if such mark had not been registered.*") (emphasis added).

¹⁹ *Id.*

judgment on other grounds, but the district court's ruling on the distinctiveness issue would require reversal. The issue is clearly essential to the appeal, despite the Tenth Circuit's statement to the contrary.

It is also disappointing that the Tenth Circuit did not resolve this point, because other courts may make the same error. The Lanham Act presumption of validity goes to the question of whether the plaintiff's trademark is a valid mark, not to the infringement issue. The validity of the plaintiff's trademark does not depend upon when the alleged infringing use began. Nor does it matter when the registration issues. The point of the registration is that the United States Patent and Trademark Office has examined the trademark and found it valid.

The district court and the Tenth Circuit then compounded this error by skipping the normal distinctiveness analysis altogether, and going straight to the question of secondary meaning. On appeal, plaintiff argued that the district court erred by not determining whether the plaintiff's mark, UTAH LIGHTHOUSE, was inherently distinctive or merely descriptive.²⁰ That seems like a good argument. The Tenth Circuit, however, refused to even consider this argument because plaintiff had not raised it before the district court.²¹ How can a party waive the court's obligation to conduct the required legal analysis? First, plaintiff is told its U.S. trademark registration counts for nothing, and then plaintiff is told it cannot object because the district court conducted *no* distinctiveness analysis at all.

What was the argument plaintiff waived? It was the basic spectrum of distinctiveness inquiry used by every circuit court in the United States. It was the fundamental trademark distinctiveness analysis. There is *no* other way to evaluate distinctiveness. Different labels could be used for the categories, and different categories could be used, but trademark law requires that the court determine whether the plaintiff's trademark is inherently distinctive or not. If the mark is inherently distinctive, it is protected from the first use. If the mark is descriptive, on the other hand, the mark is protected only upon a showing of secondary meaning. This is not optional analysis. It cannot be skipped if distinctiveness is in dispute.

Despite these basic tenets of trademark law, the Tenth Circuit expressly rejected plaintiff's argument that the spectrum of distinctiveness analysis should have been conducted.²² In doing so, the Tenth Circuit followed the same erroneous path as the district

²⁰ *Utah Lighthouse Ministry*, 527 F.3d at 1050-51.

²¹ *Id.* at 1051 (noting that "UTLM did not raise this argument below").

²² *Id.*

court. The only distinctiveness issue the Tenth Circuit addressed was the question of secondary meaning.

As explained above, secondary meaning is required only if a mark is merely descriptive.²³ Yet neither the district court nor the Tenth Circuit ever addressed the question of whether plaintiff's mark was merely descriptive. One could argue that such a conclusion was implicit in the district court's analysis, but that would not relieve the Tenth Circuit of the need to conduct the distinctiveness analysis. And one cannot contend the Tenth Circuit implicitly found the mark merely descriptive, because the Tenth Circuit expressly refused to conduct the spectrum of distinctiveness analysis.²⁴

This point is important. The plaintiff's trademark is "UTAH LIGHTHOUSE." Perhaps this mark is partially geographically descriptive, as plaintiff's business is located in Utah.²⁵ But how could this mark, when considered as a whole, be deemed merely descriptive? What does it describe? Plaintiff operates a bookstore and website that focus on materials critical of the LDS church. The mark UTAH LIGHTHOUSE does not seem to describe such a business. Given the fact that there are no lighthouses in Utah (it is a landlocked state), this trademark does not seem capable of being merely descriptive of anything.

So despite the fact that the plaintiff was entitled to a presumption of validity under the Lanham Act, and the fact that plaintiff's trademark appears to be inherently distinctive, the Tenth Circuit held that summary judgment was proper on the distinctiveness issue because plaintiff failed to present sufficient evidence of secondary meaning.²⁶ Did I mention that plaintiff has been using its trademark since 1982? That is over 25 years of use. The Lanham Act also says that five years of use (i.e., 1/5 of what plaintiff had) can be sufficient, standing alone, to show secondary meaning.²⁷ So even if the mark was merely descriptive—and it clearly was not—the plaintiff still should have won on the distinctiveness issue. There is no conceivable explanation for the Tenth Circuit's error on this issue.

²³ See, e.g., *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 196 (1985) ("A mark that is merely descriptive of an applicant's goods or services is not registrable unless the mark has secondary meaning.").

²⁴ *Utah Lighthouse Ministry*, 527 F.3d at 1051.

²⁵ In fact, the plaintiff disclaimed the word "Utah" in its federal registration. No other restriction of any kind was required by the trademark examiner. See U.S. PTO record for registration number 3119677.

²⁶ *Utah Lighthouse Ministry*, 527 F.3d at 1051.

²⁷ 15 U.S.C. § 1052(f) (2006).

b) *The “Use” Issue*

After affirming the district court’s summary judgment grant on the distinctiveness issue, the Tenth Circuit turned to the use in commerce issue. The court’s treatment here is confusing, as the Tenth Circuit seemed to hold that there is an additional “trademark use” element required under § 1125(a).²⁸ According to the Tenth Circuit, “the defendant in a trademark infringement and unfair competition case must use the mark in connection with the goods or services of a competing producer, not merely to make a comment on the trademark owner’s goods or services.”²⁹ The court may have unwittingly wandered into an area of current controversy in trademark law. I say unwittingly because the Tenth Circuit did not acknowledge this controversy or cite any of the recent cases or commentary on the issue. Before turning to the current controversy, it is helpful to identify the types of “use” issues that arise in trademark law.

There are at least two distinct “use” issues that arise in Lanham Act cases. First, the Lanham Act is based on Congress’ right to regulate certain commerce.³⁰ As a result, the Lanham Act can only reach acts that involve commerce within Congress’ regulatory authority. This includes interstate commerce, foreign commerce, and commerce with Native American tribes. The “use in commerce” language in the Lanham Act refers to this threshold, jurisdictional requirement. It is not a demanding requirement. The courts and Congress have read the use in commerce standard liberally to extend Lanham Act jurisdiction to the broadest extent possible.

The relatively recent Anti-cybersquatting Consumer Protection Act (ACPA),³¹ provides a good example of the minimal amount of “use” required to satisfy the jurisdictional use in commerce requirement. The ACPA prohibits certain types of bad faith registration or use of domain names.³² Congress necessarily concluded that such actions constitute use in commerce and thus fall within Congressional power to regulate. This conclusion is important, because the mere bad faith registration of a domain name, without any use of the domain name in connection with an active Internet site, can be sufficient to violate the ACPA. In other words, just registering a domain name in bad faith is a “use in commerce” sufficient to satisfy the threshold, jurisdictional requirement. This is a minimal

²⁸ *Utah Lighthouse Ministry*, 527 F.3d at 1051-52.

²⁹ *Id.* at 1053.

³⁰ U.S. Const. Art. 1, § 8, cl.3.

³¹ Codified at 15 U.S.C. § 1125(d) (2006).

³² *Id.*

requirement, and it is rare that a challenged use by a defendant will not satisfy this requirement.

The Tenth Circuit did not apply the typical use in commerce analysis. The plaintiff argued that the only “use” issue raised in the appeal was the question of whether the defendant’s actions were a use in commerce.³³ Plaintiff clearly would have prevailed on that point, because the defendants operated a commercial website. In addition, defendants registered and used a number of domain names similar to the plaintiff’s trademark. The defendants’ actions easily satisfied the minimal use in commerce requirement.

There is another statutory use issue found in the federal dilution statute.³⁴ When the dilution statute was debated in the 1990s, some expressed concern that a broad, federal dilution law would allow the owners of famous trademarks to silence all parodies, all criticisms of their products or actions, and other types of commentary using their trademarks.³⁵ These uses were not really commercial in nature, or at least, not entirely commercial.

In response to these concerns, Congress adopted a noncommercial use exception to the dilution statute.³⁶ This statutory noncommercial use exception, however, is limited to dilution claims, and therefore, was not relevant to this case.³⁷ This exception makes sense to seasoned trademark attorneys, but may seem rather odd to persons unfamiliar with trademark law. To satisfy the Lanham Act’s

³³ *Utah Lighthouse Ministry*, 527 F.3d at 1052 n.4.

³⁴ 15 U.S.C. § 1125 (c).

³⁵ See generally William G. Barber, *Dumping the Designation of Source@ Requirement from the TDRA: A Response to the Alleged Trademark Use Requirement in Dilution Cases*, 24 SANTA CLARA COMPUTER & HIGH TECH L.J. 559 (2008) (providing a detailed explanation of the legislative history behind the “use” language in the federal dilution statute).

³⁶ The federal dilution provision states:

(3) Exclusions. *The following shall not be actionable as dilution by blurring or dilution by tarnishment under this subsection:*

(A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with--

(i) advertising or promotion that permits consumers to compare goods or services; or

(ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.

(B) All forms of news reporting and news commentary.

(C) *Any noncommercial use of a mark.*

15 U.S.C. § 1125(c)(3) (emphasis added). The three exclusions all address potential overbreadth concerns.

³⁷ Plaintiff initially brought a dilution claim, but did not appeal the district’s ruling on that claim. 527 F.3d at 1049 n.1.

jurisdictional requirements, as explained above, a challenged act must be a “use in commerce.” The dilution provision then excludes “noncommercial uses.” To be accurate, Congress excluded noncommercial uses in commerce from the dilution statute. Obviously, the “noncommercial use” exclusion of the dilution provision does not rely on the same definition of commerce as that used in the threshold “use in commerce” analysis. The background of the “noncommercial use” exclusion makes it clear that this provision is intended to remove certain parody, criticism, and commentary uses from the scope of federal dilution claims.³⁸

It is equally clear, at least to this author, that Congress did not intend to apply the same noncommercial use rule to *all* claims under the Lanham Act.³⁹ The statutory noncommercial use exception is found *only* in the dilution section of the Lanham Act. Congress could have, but did not, add this exception as a defense to all Lanham Act claims. The Tenth Circuit, however, recognized trademark use by a competitor as an element of all Lanham Act claims. This interpretation renders superfluous the noncommercial use exception to the dilution provision, and in fact, goes well beyond the scope of that exception. It is difficult to reconcile such a reading of the Lanham Act with the express language of the Act or the legislative history of the Act.

The most recent “trademark use” cases focus primarily on the Internet keyword disputes. A keyword is an invisible term used by an Internet search engine to trigger a result. Google uses keywords in its popular, and extremely profitable, AdWords program. Because many of the keywords used by Google’s customers are trademarks, disputes have arisen over whether the sale of such keywords violates trademark law.⁴⁰ In pre-Google cases, somewhat similar issues arose when

³⁸ See Barber, *supra* note 35.

³⁹ This is the subject of an ongoing debate in the commentary and the courts. Articles addressing this issue include the following: Barber, *supra* note 35; Margreth Barrett, *Internet Trademark Suits and the Demise of Trademark Use*, 39 U.C. DAVIS L. REV. 371 (2006); Graeme B. Dinwoodie & Mark D. Janis, *Lessons from the Trademark Use Debate*, 92 IOWA L. REV. 1703 (2007); Graeme B. Dinwoodie & Mark D. Janis, *Confusion Over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597 (2007); Stacey L. Dogan & Mark A. Lemley, *The Trademark Use Requirement in Dilution Cases*, 24 SANTA CLARA COMPUTER AND HIGH TECH. L.J. 541 (2008); Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669 (2007); Uli Widmaier, *Use, Liability, and the Structure of Trademark Law*, 33 HOFSTRA L. REV. 603 (2004).

⁴⁰ See generally Chris Colyer, *Searching for a Solution: The Lanham Act's "Use in Commerce" Requirement in Search Engine Keyword Advertising Cases*, 56 KAN. L. REV. 679, 682-84 (2008); Stephanie Yu Lim, *Can Google be Liable for Trademark Infringement? A Look at the "Trademark Use" Requirement as Applied*

meta-tag keywords were used to trigger better results on search engines listings.⁴¹

Google and others have argued that use of keywords is not a trademark use or a use in commerce.⁴² The keyword cases are not entirely consistent. Some seem to rely on the trademark use concept that is at the heart of the current scholarly debate.⁴³ Others seem to apply the use in commerce analysis, or some variant of it.⁴⁴ In any event, these cases involve invisible, behind-the-scenes, actions. It is not surprising that some have questioned whether such actions constitute uses of the plaintiff's trademark. They are certainly not the type of visible trademark use discussed in the vast majority of trademark cases.

This case, however, did not involve invisible uses of Internet keywords. The defendants used the trademark in the visible content of their website. They used variants of plaintiff's trademark in domain names that referred Internet users to defendants' site. In addition, the defendants operated a commercial website that was critical of plaintiff's business and plaintiff's positions about the LDS church. Defendants operated a competing business, both in a commercial sense and in a partisan sense. Even if the standard stated by the Tenth Circuit is used—that the defendant must use the challenged mark on goods and services as a competitor—the standard appears to be satisfied. The Tenth Circuit, however, reached the opposite

to Google AdWords, 14 UCLA ENT. L. REV. 265, 266-70 (2007). Several courts have addressed this issue over the last couple of years, with courts dividing on the issue. *See Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, 2007 WL 1159950 (N.D. Cal. 2007) (holding that the sale of keywords is a use in commerce); *800-JR Cigar, Inc. v. GoTo.com, Inc.*, 437 F.Supp.2d 273 (D.N.J. 2006) (holding that the sale of keywords is a use in commerce); *Buying for the Home, L.L.C. v. Humble Abode, L.L.C.*, 459 F.Supp.2d 310 (D.N.J. 2006) (holding that the sale of keywords is a use in commerce); *Int'l Profit Assoc. v. Paisola*, 461 F.Supp.2d 672, 677 n.3 (N.D. Ill. 2006) (holding that the sale of keywords is a use in commerce); *J.G. Wentworth, S.S.C. v. Settlement Funding L.L.C.*, 2007 WL 30115 (E.D. Pa. 2007) (holding that the sale of keywords is a use in commerce); *Edina Realty, Inc. v. TheMLSOnline.Com*, 2006 WL 737064 (D. Minn. 2006) (holding that the sale of keywords is a use in commerce). Some courts have held that keywords are not actionable uses, and therefore, are outside the scope of the Lanham Act. *Rescuecom Corp. v. Google, Inc.*, 456 F.Supp.2d 393 (N.D.N.Y. 2006); *Merck & Co. v. Medioplan Health Consulting, Inc.*, 425 F.Supp.2d 402, 415 (S.D.N.Y. 2006).

⁴¹ *See, e.g., Sarah J. Givan, Using Trademarks as Location Tools on the Internet: Use in Commerce?*, 2005 UCLA J.L. & TECH. 4 (2005).

⁴² *Google*, 2007 WL 1159950 at 2; *Rescuecom*, 456 F.Supp.2d. at 396; *Merck*, 425 F.Supp.2d. at 412; *Buying for the Home*, 459 F.Supp.2d at 318.

⁴³ *Rescuecom*, 456 F.Supp.2d at 404; *Merck*, 425 F.Supp.2d at 421.

⁴⁴ *Google*, 2007 WL 1159950 at 6; *Buying for the Home*, 459 F.Supp.2d. at 323.

conclusion and affirmed summary judgment for defendants on the use issue.⁴⁵

c) *Likelihood of Confusion - Parody*

On the likelihood of confusion issue, the Tenth Circuit remarkably held that no issues of genuine fact existed.⁴⁶ That is hard to imagine, given the facts of this case. Both the district court and the Tenth Circuit seemed to give the defendants a free ride because their website was a parody site.⁴⁷ That fact is certainly relevant to the likelihood of confusion analysis, but it's surely not the only relevant fact.⁴⁸

The district court and Tenth Circuit both inaccurately described the defendants' website as a parody. A parody is a use that pokes fun at a well-known trademark.⁴⁹ For example, in the *Louis Vuitton* case reviewed below the Fourth Circuit notes that a parody is more likely to work when the parodied mark is famous.⁵⁰ In addition, a parody may make social comment on the other trademark, which is typically done through the parody itself.⁵¹

These facts were not present in this case. In fact, defendants' site does not appear to be a parody at all. It looks more like a direct, frontal assault on the plaintiff's business. Furthermore, it is hard to see how defendants' site "pokes fun" at the plaintiffs. Nor is there any suggestion that the plaintiffs were famous.

A successful parody is a use that calls to mind the famous trademark, while presenting a message incongruous with the famous

⁴⁵ *Utah Lighthouse Ministry*, 527 F.3d at 1045.

⁴⁶ *Id.* at 1056.

⁴⁷ *Id.* at 1057.

⁴⁸ In a strikingly ironic move, the Tenth Circuit rejected plaintiff's argument that the parody issue was waived by defendants because it was not raised before the district court. After conceding the "Defendants did not raise the issue of parody in the district court except with reference to the cybersquatting claim," the Tenth Circuit held that the parody issue must be considered. *Id.* at 1057 n.9. The Tenth Circuit reached this conclusion because "parody is not an affirmative defense that must be asserted by the defendant, but is simply a factor to be considered in determining the likelihood of confusion." *Id.* That is a fair position to take, but it is hard to reconcile with the Tenth Circuit's prior holding that plaintiff was allowed to waive the entire legal framework for determining whether a mark is distinctive.

⁴⁹ *ULTM*, 527 F.3d at 1055 (Where the Tenth Circuit notes that a parody benefits from "the humorous association" with the trademark).

⁵⁰ *Louis Vuitton Mattetier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007).

⁵¹ *Id.* at 261.

trademark.⁵² Again, the *Louis Vuitton* case, with its Chewy Vuiton dog toys, is a good example. The defendants' use here does not do this, but rather just attacks the plaintiff. The defendants operated a criticism and commentary site. Their use raises important free speech issues, as do many parodies. But it was *not* a parody. It did not poke fun at plaintiff or plaintiff's trademark. Instead, defendants used an imitation of the plaintiff's trademark to misdirect traffic to the defendants' site. There, the defendants presented Internet users with information supportive, not critical, of the LDS church. Surely such intent to deceive should have played some part in the likelihood of confusion analysis. The Tenth Circuit, however, held that defendants' intent was to parody, and thus did not make confusion more likely.⁵³

Yet despite these questions about whether this use was in fact, a parody, the district court and Tenth Circuit based their likelihood of confusion analysis almost entirely on their view that this was a parody.⁵⁴ And they did this in the context of a motion for summary judgment filed by the defendants.

For example, the Tenth Circuit glossed over the striking degree to which defendants' site copied the look of plaintiff's site. This issue is critical in a parody or nominative use case.⁵⁵ The Ninth Circuit noted the importance of this point in the *New Kids* case,⁵⁶ when it held that to prevail on a nominative fair use defense, a party must show that it used no more of the plaintiff's trademark than was necessary.⁵⁷ The facts in this case suggest that defendants used considerably more than

⁵² See *id.* at 261 (Where the Fourth Circuit notes that the defendant's parody was "a comment on the rich and famous").

⁵³ *ULTM*, 527 F.3d at 1057.

⁵⁴ *Id.* at 1055.

⁵⁵ *Id.* at 1056-57.

⁵⁶ See *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th Cir. 1992) (Where the Ninth Circuit describes nominative use as "the use of the trademark [that] does not attempt to capitalize on consumer confusion or to appropriate the cachet of one product for a different one").

⁵⁷The *New Kids* court held that:

where the defendant uses a trademark to describe the plaintiff's product, rather than its own, we hold that a commercial user is entitled to a nominative fair use defense provided he meets the following three requirements: First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.

Id.

was necessary for any parodic or other nominative purpose. This point should have been a key focus in this case. It was never mentioned in the court's discussion of the merits.

It is striking that the defendants used an identical lighthouse background, and an almost identical welcome message. Despite these similarities, the Tenth Circuit concluded "there are sufficient differences between the content and style of the two websites to avoid the possibility of confusion."⁵⁸ Wow! So much for resolving doubt in favor of the nonmovant. The Tenth Circuit found the sites were different enough to prevent even a "possibility of confusion."⁵⁹ That is a remarkable position to take given the facts of this case. The welcome messages are both are quoted above. Unless one was extremely familiar with plaintiff's site and very careful, would not that person assume the defendants' site was actually the plaintiff's site based on defendants' welcome message? Additionally, defendant did not include any type of disclaimer message.

It is clear that defendant Wyatt wanted to divert Internet traffic away from plaintiff's site so that defendants could promulgate their information critical of the plaintiffs.⁶⁰ Although I am no fan of the Internet initial interest confusion doctrine, this seems to be one case where that doctrine might have applied. Yet despite these issues, the district court and Tenth Circuit held there were no genuine issues of material fact on the infringement issue.⁶¹ The Tenth Circuit never even mentioned initial interest confusion.

This case is remarkable for how badly flawed it is on almost every issue.⁶² I say almost, because the Tenth Circuit correctly rejected plaintiff's anticybersquatting claim.⁶³ There was evidence that defendants wanted to harm the business of plaintiffs, but that is not the type of bad faith targeted by the anticybersquatting statute.⁶⁴

⁵⁸ *ULTM*, 527 F.3d at 1057.

⁵⁹ *Id.*

⁶⁰ *Id.* at 1049.

⁶¹ *Id.* at 1059.

⁶² Some commentators may agree with the Tenth Circuit's holding on the "use" issue. But even if the court correctly addressed the legal requirement (a view I find very difficult to accept), its factual conclusion is inconsistent with the evidence. Defendants did use the plaintiff's trademark in connection with competing services. Under any "use" rule, the plaintiff should have won. Instead, defendants were granted summary judgment.

⁶³ *ULTM*, 527 F.3d. at 1058.

⁶⁴ *Id.*

B. *E.T. Browne Drug Co. v. Cococare Prods, Inc.*⁶⁵

This case turns on the question of whether the phrase “Cocoa Butter Formula” is a distinctive element of the plaintiff’s trademark “Palmer’s Cocoa Butter Formula.”⁶⁶ When the defendant used the same phrase on its competing products, the plaintiff sued.⁶⁷ “The District Court entered summary judgment in Cococare’s favor after concluding that the term is generic and thus may not receive protection from the trademark laws.”⁶⁸

The Third Circuit affirmed, but for different reasons.⁶⁹ The court held that some doubt existed on the question of whether the phrase “Cocoa Butter Formula” was generic, and therefore, summary judgment should not have been granted on that issue.⁷⁰ But, the court went on, “even assuming it is descriptive, this term must have a secondary meaning to be protectable. Because Browne failed to identify sufficient evidence to create a genuine issue of material fact on that point, we affirm the grant of summary judgment in favor of Cococare.”⁷¹

The court’s analysis of the genericness issue is somewhat confusing. The district court apparently used an alternative to, or an alternate form of, the primary significance test (i.e., what is the primary significance of the term or phrase to relevant consumers?).⁷² The discussion of this point gets a bit convoluted, and ultimately does not appear to make much difference. In fact, what the court really seems to do on this issue is to mix the primary significance approach with a more economics/market analysis.⁷³ The latter approach has been used in a number of Seventh Circuit cases (no big surprise there!).⁷⁴

⁶⁵ 2008 U.S. App. LEXIS 16585 (3d Cir. 2008).

⁶⁶ *Id.* at *1-2.

⁶⁷ *Id.* at *3.

⁶⁸ *Id.* at *1-2.

⁶⁹ *Id.* at *2.

⁷⁰ *Id.*

⁷¹ *E.T. Browne Drug Co.*, 2008 U.S. App. LEXIS 16585 at *2.

⁷² *Id.* at *11-12.

⁷³ *See Id.* at *27-28 (explaining that some of the evidence “indicates that other competitors (and thus Cococare) did not need to use the word ‘Formula’ to communicate to consumers the type of products that it sold”).

⁷⁴ *See, e.g., Door Sys. v. Pro-Line Door Sys.*, 83 F.3d 169, 171-72 (7th Cir. 1996). *See also* William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. LAW & ECON. 265, 296 (1987) (explaining the rule against protecting generic terms as trademarks as a market-based rule intended to ensure competitors are able to use the terms it needs to communicate key information about goods to consumers).

This case also includes a relatively detailed discussion of a Thermos-type survey⁷⁵ submitted by the plaintiff. The district court faulted the survey for at least two reasons.⁷⁶ The case provided a good opportunity for the court to weigh in on the question of what type of genericness survey is more relevant or probative, but the Third Circuit passed on that issue. Instead, the Third Circuit suggested that both Thermos and Teflon survey formats are equally valid.⁷⁷ I do not think most candid survey experts or commentators on this issue would agree. If nothing else, this case seems to keep open the option, at least in the Third Circuit, of using either type of genericness survey.

After concluding that summary judgment was improper on the genericness issue, the court held the phrase was, at best, merely descriptive.⁷⁸ The court then evaluated the plaintiff's secondary meaning evidence. This evidence consisted of advertising of the plaintiff's full brand, "Palmer's Cocoa Butter Formula."⁷⁹ The court concluded that such evidence did not indicate that consumers found the phrase "Cocoa Butter Formula" distinctive, separate, and apart from its use with the name "Palmer's."⁸⁰

The court's conclusion appears quite correct. This result highlights a real-world challenge for parties claiming secondary meaning in portion of a composite trademark. This challenge is

⁷⁵ In a Thermos-type survey respondents are given the product without any markings and asked what they would call it or what words they would use to ask for such a product at a store. *See, e.g.*, 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 12:15 (4th ed. 2008). [hereinafter MCCARTHY]. This type of survey will often produce a substantial number of generic responses if the disputed term is the primary trademark of a dominant product in the market. This type of survey, for example, probably would yield "evidence" that brands like Band-Aid and Jell-O are generic. Where the disputed term or phrase is used more as a product claim or statement, the Thermos-type survey is not likely to produce significant generic responses. The present case fell into the second category, leading this author to suspect that plaintiff selected this survey format because it believed few consumers would say, "I would ask for the Cocoa Butter Formula." Such a use would not make much sense. It does not necessarily follow, however, that the same consumers understood "Cocoa Butter Formula" to be a distinctive brand.

The Teflon-type survey, on the other hand, first explains the difference between a brand and a generic. *Id.* § 12:15. Respondents are then asked to classify a group of terms or phrases, including the test subject, as either generic or brand. Persuasive arguments can be made that the Teflon-type survey better addresses the genericness issue by focusing on understanding rather than use of the disputed terms.

⁷⁶ E.T. Browne Drug Co., Nos. 06-4543 & 06-4648, 2008 U.S. App. LEXIS 16585, at *23-24 (3d Cir. Aug. 5, 2008).

⁷⁷ *Id.* at *24-28.

⁷⁸ *Id.* at *29.

⁷⁹ *Id.* at *31-32.

⁸⁰ *Id.* at *33-34.

particularly difficult where, as here, there is one undisputedly distinctive portion of the trademark (i.e., Palmer's). To show secondary meaning in such a situation, the claimant probably needs either secondary meaning survey evidence or advertising that presents only the challenged term or phrase.⁸¹ That type of advertising was not done in this case, and as a result, the plaintiff could not create a genuine issue of material fact on the secondary meaning issue.⁸² Summary judgment, therefore, was affirmed on the alternate basis of no secondary meaning.

C. *Boston Duck Tours, LP v. Super Duck Tours, LLC.*⁸³

This case illustrates two important points, one legal and one practical. The legal issue is whether the phrase "duck tour" is generic for certain kinds of tours.⁸⁴ The practical point involves timing, and what it really means to be preliminarily enjoined, even if it is later determined that the injunction should not have issued.

The plaintiff, Boston Duck Tours, has offered tours of the Boston area in amphibious vehicles for many years.⁸⁵ It is a successful business. In 2001, the defendant, Super Duck Tours, began offering tours in a different type of amphibious vehicle in Portland, Maine.⁸⁶ In late 2006, Super Duck Tours began preparations to offer its tour services in Boston.⁸⁷ Plaintiff sued, seeking a temporary restraining order and preliminary injunction.⁸⁸

Defendant argued that the phrase "duck tour" is generic for tours conducted from amphibious vehicles.⁸⁹ The vehicles used by Plaintiff and several operators of similar tours in other cities are based on a World War II vehicle called a DUKW, and pronounced "duck."⁹⁰ There was substantial evidence that the term "duck" is generic for this type of vehicle.⁹¹ The district court, however, found that the combination "duck tour" was not generic.⁹² "Having mistakenly

⁸¹ MCCARTHY, *supra* note 75, §15:30.

⁸² *Id.*

⁸³ 531 F.3d 1 (1st Cir. 2008).

⁸⁴ *Id.* at 7.

⁸⁵ *Id.* at 8.

⁸⁶ *Id.* at 8-9.

⁸⁷ *Id.* at 9.

⁸⁸ *Id.* at 10.

⁸⁹ *Boston Duck Tours*, 531 F.3d at 11.

⁹⁰ *Id.* at 8.

⁹¹ *Id.* at 19-20.

⁹² *Id.* at 18-19 (the district court considered the two words "duck" and "tours" separately, an approach the First Circuit found erroneous).

concluded that the phrase ‘duck tours’ was nongeneric, the district court placed undue emphasis on the similarity of that phrase in the parties’ marks and concluded that the differences between the composite marks was ‘slight.’”⁹³

The district court proceeded quickly. The complaint was filed on July 2, 2007.⁹⁴ On July 11, 2007, a preliminary injunction hearing was held.⁹⁵ The court entered its judgment on July 13, enjoining the defendant from using the phrase “duck tours” in its trade name or trademarks.⁹⁶

The First Circuit noted how quickly the district court ruled and the time demands the district court faced.⁹⁷ Ironically, the First Circuit did not seem to rush the case, at least not in any extraordinary manner. The appellate decision was issued on June 18, 2008, almost a year after the preliminary injunction ruling.⁹⁸

The First Circuit reversed.⁹⁹ It found that the phrase “duck tour” was generic.¹⁰⁰ The evidence seemed to support this conclusion, since the word “duck” was generally conceded to be generic for the kind of amphibious vehicle used by plaintiff. “Tour” clearly is generic for a tour, which is what both parties offer their customers. The only real question on the genericness issue, in my view, was whether the phrase “duck tour” was generic for both parties’ services.

Defendant did not use the old World War II type of “duck” vehicle.¹⁰¹ Instead, defendant used a more modern amphibious bus called a Hydra-Terra vehicle.¹⁰² This new vehicle had certain advantages over the old, and the court did not discuss whether this new type of amphibious vehicle was also generically identified as a “duck.”¹⁰³ The difference in the types of vehicles used may have been relevant to the genericness inquiry—that is, would the phrase “duck tours” be generic if only plaintiff used a vehicle called a “duck”? It

⁹³ *Id.* at 25.

⁹⁴ *Id.* at 10.

⁹⁵ *Boston Duck Tours*, 531 F.3d at 10.

⁹⁶ *Id.* at 10-11. (the injunction did not prohibit defendant from using the term “duck,” a point challenged on appeal by the plaintiff).

⁹⁷ *Id.* at 30 (“[W]e have had the luxury of time in reaching our decision in this difficult case—a luxury that the district court did not have.”).

⁹⁸ *Id.* at 10.

⁹⁹ *Id.* at 30.

¹⁰⁰ *Id.* at 20-21.

¹⁰¹ *Boston Duck Tours*, 531 F.3d at 8.

¹⁰² *Id.*

¹⁰³ *Id.*

would have been helpful if the First Circuit had discussed this issue, but it did not.¹⁰⁴

The First Circuit conducted a multi-factor likelihood of confusion analysis, comparing the plaintiff's Boston Duck Tours trademark with the defendant's Super Duck Tours mark.¹⁰⁵ Because it found the phrase "duck tours" generic, the First Circuit accorded no weight to those terms in the likelihood of confusion analysis.¹⁰⁶ When the parties' trademarks and overall presentations were compared, the court found them quite different.¹⁰⁷ Indeed, the only similarity seemed to be the common use of the phrase "duck tours," which could not be a basis for enjoining the defendant. The injunction was consequently vacated.¹⁰⁸

But what about the reality of defendant's loss at the district court? What was defendant to do? It had to comply with the preliminary injunction. Defendant could stop operations or change its trademark. It did the latter, changing its name to Super Duck Excursions, with emphasis on the Super Duck part of its name.¹⁰⁹ Defendant repainted its vehicles, reprinted materials, changed its website, and provided notice to customers that it was still in operation.¹¹⁰ Business went on.

¹⁰⁴ The First Circuit's analysis and conclusion are correct, and an additional discussion would have clarified the analysis, rather than altering it. The genericness inquiry asks whether the plaintiff's trademark is generic for the plaintiff's goods or services. The court held that the terms "duck tours" was generic for plaintiff's services, and thus plaintiff could not claim exclusive rights in those terms. The fact that the defendant did not use a "duck" does not have a direct bearing on the distinctiveness of plaintiff's trademark.

The Second Circuit dealt with an analogous, but reversed, situation in *Genesee Brewing Co. v. Stroh Brewing Co.*, 124 F.3d 137 (2d Cir. 1997). The plaintiff in *Genesee* used the mark Honey Brown for a lager beer. There was no recognized Honey Brown style of lager, and for that reason, the court concluded that the mark was not generic. The defendant, however, made a honey brown ale, which was a well-established style of ale. In other words, the terms "honey brown" were generic for the type of beer made by defendant, but not generic for the type of beer made by plaintiff. The end result was that plaintiff's trademark was distinctive, but defendant was entitled to use the words "honey brown" on its beer. Though the *Boston Duck Tours* case raises the reverse issue—that is, the words are generic for plaintiff's use, but may not be generic for defendant's use—the same logic should apply. The distinctiveness inquiry must be based on the nature of the trademark owner's goods or services.

¹⁰⁵ *Boston Duck Tours*, 531 F.3d at 14-15.

¹⁰⁶ *Id.* at 24.

¹⁰⁷ *Id.* at 25 (comparison of word marks); 29-30 (comparison of composite marks).

¹⁰⁸ *Id.* at 31.

¹⁰⁹ See Super Duck Excursions, Home page, <http://www.superduckexcursions.com/SDT/HomePage> (last visited Nov. 15 2008).

¹¹⁰ *Id.*

Then, about a year later, the First Circuit ruled that the injunction should not have issued. Now what should defendant do? It already has added some use of Super Duck Tours on its website,¹¹¹ but its vehicles and printed materials have been developing good will under the Super Duck Excursions name for about a year now. Should it change back? Defendant may change back, but this case provides a good illustration of why a preliminary injunction often ends a trademark dispute. It can be hard to go back, and doing so often will mean giving up whatever good will was developed after the change. It also may create the image with consumers that the party is unstable, as it keeps changing its name.

The plaintiff was required to post a substantial bond to cover some of the economic damage caused by the wrongly issued preliminary injunction.¹¹² But, what were defendant's injuries? It can claim the costs of physically changing its name (i.e., repainting its vehicles and printing new materials) and perhaps lost sales due to any time period in which it could not operate due to the name change process. Beyond that, it will be hard for the defendant to prove monetary losses. What would defendant's sales have been if not for the preliminary injunction? That is very difficult to gauge, and defendant is unlikely to be able to quantify such a loss.

What the defendant really loses when a preliminary injunction wrongly issues is good will, which is very hard to quantify. The defendant lost the opportunity to build good will in the name Super Duck Tours during the time the injunction was in place. What is the value of that? It's impossible to know, and as a result, it is highly unlikely that defendant will recover for that part of its loss. Moreover, developing good will requires time, and that is something that cannot be recaptured. This case provides a good, practical example of the reason that many trademark disputes end if a preliminary injunction is granted.

D. *Leelanau Wine Cellars, Ltd. v. Black & Red, Inc.*¹¹³

The plaintiff, Leelanau Wine Cellars, Ltd. ("LWC"), has made and sold wine from Michigan's Leelanau peninsula region for about thirty years.¹¹⁴ It has used the mark Leelanau Cellars for many years,

¹¹¹ *Id.*

¹¹² *Boston Duck Tours, LP v. Super Duck Tours, LLC*, 514 F. Supp. 2d 119, 128-29 (D. Mass. 2007).

¹¹³ 502 F.3d 504 (6th Cir. 2007).

¹¹⁴ *Id.* at 510-11.

and registered this mark with the PTO in 1997.¹¹⁵ Defendant began using the mark Chateau de Leelanau Vineyard and Winery in 2000.¹¹⁶ In 2001, plaintiff sued.¹¹⁷

This case turned on the distinctiveness of the term “Leelanau.” Plaintiff’s position was greatly weakened by the fact that Michigan Leelanau Peninsula is designated as an Approved American Viticultural Area (“AVA”), and has been since 1981.¹¹⁸ As such, wines grown in this region are entitled to use the area name as an appellation of origin on labels and in ads.¹¹⁹

“The district court deemed LWC’s mark geographically descriptive, and the parties rightly do not contest the correctness of that determination, as it is not clearly erroneous.”¹²⁰ In addition, the district court held that the statutory presumption of validity did not help LWC because its infringement claim focused only on the term “Leelanau” and not on its entire registered trademark.

The court recognized that LWC’s Leelanau Cellars mark was entitled to a presumption of secondary meaning under the Lanham Act. It went on to observe, however, that LWC actually sought a determination that “relevant consumers understand that the use of the term ‘Leelanau’ in connection with the sale of Michigan wine refers to LWC as the source of the wine rather than to the wine itself.” It concluded that “[b]ecause ‘Leelanau’ alone is solely geographically descriptive and is not LWC’s registered mark,” the statutory presumption did not apply, “because there is no basis to conclude that the United States Patent and Trademark Office determined that ‘Leelanau’ alone had obtained secondary meaning in connection with LWC’s use of LEELANAU CELLARS in its sales of wine.”¹²¹

The Sixth Circuit Court of Appeals reversed on this narrow issue.¹²² Plaintiff’s infringement claim was based on its registered mark, “Leelanau Cellars.” That mark was registered, and plaintiff, therefore, was entitled to rely on the Lanham Act’s statutory presumption of validity.¹²³ The Sixth Circuit noted “that there is strong evidence in the record tending to undermine LWC’s claim of secondary meaning,” but held that the district court was required to evaluate that evidence.¹²⁴

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 511.

¹¹⁷ *Id.*

¹¹⁸ *Leelanau Wine Cellars*, 502 F.3d at 510.

¹¹⁹ *Id.*

¹²⁰ *Id.* at 513 (internal citations omitted).

¹²¹ *Id.* at 514.

¹²² *Id.*

¹²³ 15 U.S.C. § 1115 (a).

¹²⁴ *Leelanau Wine Cellars*, 502 F.3d at 514.

The error in the district court's analysis resulted from its conflation of the distinctiveness and infringement inquiries. The question of whether the mark was descriptive was not explored apart from the infringement analysis, but was instead conducted as part of that analysis. The Sixth Circuit's ruling on this point is correct, and emphasizes the need to keep these two parts of an infringement case separate. In fact, "[t]he district court's finding that LWC's mark was descriptive but lacking in secondary meaning should have ended its analysis, as a descriptive mark without secondary meaning is not entitled to trademark protection."¹²⁵ Instead, the district court performed the multi-factor likelihood of confusion analysis despite the fact that it had already found the plaintiff's mark to be unprotectable.¹²⁶

In the end, however, the district court's error became its saving grace. Because the district court performed the multi-factor likelihood of confusion analysis, the Sixth Circuit had a full record to review on that point. After reversing the district court's holding on the distinctiveness issue, the Sixth Circuit reviewed the likelihood of confusion analysis.¹²⁷ The Sixth Circuit "nevertheless affirm[ed] the district court's judgment on the ground that LWC has failed to demonstrate a likelihood of confusion created by B&R's use of its mark."¹²⁸ The Sixth Circuit then concluded, correctly in my view, that the plaintiff's mark was very weak, and that this fact made confusion much less likely.¹²⁹

The *Leelanau* decision is generally sound, but it contains a couple of comments that show one of the downsides of courts' rigorous use of a multi-factor test. In *Leelanau*, it seems clear the Sixth Circuit concluded plaintiff should lose because the only similarity in the two marks was the term "Leelanau." Because this term was so clearly geographically descriptive (one might even suggest the term is geographically generic given the AVA designation), the court was on very solid ground on this point. If plaintiff were to prevail, defendant would be prohibited from using the AVA name in its branding for its wine.

¹²⁵ *Id.*

¹²⁶ *See Leelanau Wine Cellars, Ltd. V. Black & Red, Inc.*, 452 F. Supp. 2d 772 (W.D. Mich. 2006).

¹²⁷ *Leelanau Wine Cellars*, 502 F.3d at 515.

¹²⁸ *Id.*

¹²⁹ *Id.* at 516 (noting "the federal designation of the Leelanau Peninsula as an AVA substantially decreased the possibility that a potential consumer would, upon seeing the mark, necessarily think of LWC's product").

Where the court went wrong, to the extent it did, was in characterizing other likelihood of confusion factors as supporting its conclusion. The best example was the Sixth Circuit's conclusion that the similarity of goods factor supported its conclusion that confusion was not likely. The court noted that the parties "produce the same product in a shared geographical region."¹³⁰ It is hard to imagine more closely related goods. Yet despite this obvious fact, the Sixth Circuit reached the following conclusion: "Because B&R and LWC do not possess similar marks, however, this factor weighs against a finding of a likelihood of confusion."¹³¹

What? This makes no sense. The fact that the parties use different trademarks has nothing to do with the relatedness of the goods. The similarity of the marks is a separate matter, and is evaluated under a separate factor. The relatedness of the goods factor did favor the plaintiff in this case. The Sixth Circuit should have said so. The correct analysis would be to recognize that the similarity of the goods factor, standing alone, can never be sufficient to prove infringement. If it was sufficient, then Ford would infringe Chevrolet, and so on for any marks used on directly competing goods. The entire point of the multi-factor approach is to separate out the different factors and to evaluate them separately. The Sixth Circuit did not do that here.¹³²

The court also gave short shrift to the plaintiff's actual confusion evidence, a treatment that probably was justified.¹³³ Plaintiff presented some self-serving hearsay testimony of one of its employees.¹³⁴ The evidence was not very strong, and could have been rejected as hearsay. The Sixth Circuit, however, suggested that plaintiff's actual confusion evidence was weak because that evidence consisted of "anecdotal accounts of confusion."¹³⁵ What other types of direct evidence of actual confusion would the court expect? Anecdotal evidence of actual confusion can be quite compelling in some instances. It all depends on the nature of the incidents reported, not on whether the evidence is anecdotal. In this case, plaintiff's

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² This mistake is ironic because the Sixth Circuit was careful in pointing out the district court's error of conflating the distinctiveness and likelihood of confusion issues. *Leelanau Wine Cellars*, 502 F.3d at 514.

¹³³ Plaintiff also presented a likelihood of confusion survey. *Id.* at 518. The Sixth Circuit found the survey was suspect for several reasons, and held that the survey results "cannot serve as dispositive proof of the likelihood of confusion." *Id.* at 519.

¹³⁴ *Id.*

¹³⁵ *Id.*

evidence was weak because it lacked detail and was self-serving.¹³⁶ It was not because the evidence was anecdotal.

It would have been better for the Sixth Circuit to recognize that the strength and similarity of the marks factors were dispositive in the likelihood of confusion analysis in this case. The sole common element in the parties' trademarks was the term "Leelanau," which defendant clearly was entitled to use on its labels to identify the AVA region. Plaintiff's trademark was very weak. Given these two facts, infringement should not be found absent compelling countervailing evidence, such as strong actual confusion evidence or evidence of bad faith intent to ride on the plaintiff's good will. No such evidence was presented here. The multi-factor analysis is not a matter of counting up the factors on each side and granting victory to the party who "wins" on the most factors.¹³⁷ The factors are weighted based on the particular facts of each case,¹³⁸ and in this case, the strength and similarity of the marks factors were far more important than all the other factors combined. The decision would be considerably stronger if the Sixth Circuit had recognized this principle.

E. *The Freecycle Network, Inc. v. Oey.*¹³⁹

Mr. Oey had a change of heart. He was a member of The Freecycle Network (TFN) program, a non-profit organization that encourages the free exchange of unwanted items to reduce the number of such items in landfills.¹⁴⁰ Mr. Oey originally encouraged the non-profit organization to seek trademark protection for its name and mark.¹⁴¹ After the organization began efforts to do so, Mr. Oey changed his mind and concluded that it would be better for the term "freecycle" to remain in the public domain as a generic term.¹⁴²

After his change of heart, Mr. Oey began to advocate for his position. He posted comments on the Internet indicating his view, and he encouraged others to do the same, and to use the term "freecycle" generically.¹⁴³ His actions were aimed at frustrating the efforts of TFN to obtain federal trademark protection for its name and mark.

¹³⁶ *Id.*

¹³⁷ *Homeowners Group, Inc. v. Home Mktg. Specialists*, 931 F.2d 1101, 1106-07 (6th Cir. 1991).

¹³⁸ *Id.* at 1107.

¹³⁹ 505 F.3d 898 (9th Cir. 2007).

¹⁴⁰ *Id.* at 900-01.

¹⁴¹ *Id.* at 901.

¹⁴² *Id.*

¹⁴³ *Id.*

TFN sued and obtained a preliminary injunction blocking Mr. Oey from engaging in such actions.¹⁴⁴ Oey appealed, with the help of many well-known law professors, including Mark Lemley, James Boyle, Lawrence Lessig and others.¹⁴⁵ The Ninth Circuit reversed in a rather scathing opinion.¹⁴⁶ It noted that the district court gave little explanation for its ruling, confused the law, and seemed to ignore most of the legal elements of TFN's claims.¹⁴⁷

One reason for the reversal was the fact that Oey's actions did not constitute use in commerce of TFN's alleged trademark.¹⁴⁸ "Oey simply expressed an opinion that TFN lacked trademark rights in the term 'freecycle' and encouraged like-minded individuals to continue to use the term in its generic sense and to inform the PTO of their opinions."¹⁴⁹ He did not engage in false advertising because he was not engaged in commercial advertising or promotion of anything.¹⁵⁰ The Ninth Circuit also indicated that TFN had failed to show that Oey's actions were likely to cause confusion or mistake.¹⁵¹

TFN also claimed Oey had disparaged its trademark, but the Ninth Circuit rejected that claim.¹⁵² Section 1125(a) does not prohibit disparagement of a trademark per se.¹⁵³ Section 1125(a) does prohibit disparagement of the goods or services of another, but Oey did not do that.¹⁵⁴ In fact, he continued to believe in and support the mission and goals of TFN. He just did not think TFN should claim exclusive rights to the name "freecycle." Finally, the court rejected the notion that intentional genericide is actionable.¹⁵⁵ It noted that genericide is bad for a trademark owner, but concluded that the Lanham Act does not prohibit persons from trying to render brands generic.¹⁵⁶

This case is as interesting for what it does not say as it is for what it does say. Despite the obvious First Amendment undertones in this dispute, the Ninth Circuit does not treat this as a free speech dispute. It never addresses the First Amendment, and resolves the

¹⁴⁴ *Id.*.

¹⁴⁵ *Freecycle*, 505 F.3d at 900 (identifying these and others amici).

¹⁴⁶ *See generally id.* at 903-06.

¹⁴⁷ *Id.* at 902.

¹⁴⁸ *Id.* at 903.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

¹⁵¹ *Freecycle*, 505 F.3d at 903 (finding that Oey's "use was not likely to cause confusion, mistake, or deceive anyone as to the connection of Oey's services (or any other) with TFN").

¹⁵² *Id.* at 904.

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 904 n.11.

¹⁵⁵ *Id.* at 906.

¹⁵⁶ *Id.* at 905-06.

case entirely on trademark law principles.¹⁵⁷ That is a good analysis, as the Supreme Court has long held that a constitutional issue should be resolved only if there is no other way to resolve a dispute.¹⁵⁸ Here, the Ninth Circuit found trademark law adequate, and it did not need to delve into First Amendment law. The case might have been more interesting if it had, but so it goes.

2. False Advertising

A. *Natural Answers, Inc. v. SmithKline Beecham Corp.*¹⁵⁹

This case presents two important trademark law issues: (1) trademark abandonment; and, (2) false advertising standing. The plaintiff is a small Florida natural supplement company that developed an herbal lozenge product to help persons stop smoking.¹⁶⁰ The product was sold under the mark HERBAQUIT from 2000 until some time in mid 2002.¹⁶¹ In 2001, plaintiff contacted GlaxoSmithKline (GSK) (i.e., the defendant in this litigation) about forming a joint venture to promote plaintiff's lozenges.¹⁶² GSK declined to form the joint venture.¹⁶³

In late 2002, GSK introduced its COMMIT lozenges, which contain nicotine and are sold as a smoking cessation aid.¹⁶⁴ In its advertising, GSK touted its new product as "the first and only stop smoking lozenge."¹⁶⁵ Plaintiff filed suit in late 2004, alleging trademark infringement and false advertising.¹⁶⁶ GSK moved for summary judgment on all claims. The district court granted the motion, and the Eleventh Circuit affirmed.¹⁶⁷

The trademark abandonment issue ultimately doomed the plaintiff's entire case. And though the record certainly suggests plaintiff did abandon its HERBAQUIT trademark, it is not so clear that this issue should have been resolved on summary judgment.

¹⁵⁷ See *Freecycle*, 505 F.3d at 906 (vacating the district court decision based on interpretation of the Lanham Act).

¹⁵⁸ See Lisa A. Kloppenberg, *Avoiding Constitutional Questions*, 35 B.C.L. Rev. 1003, 1011-27 (1994) (explaining the development of the Avoidance Doctrine).

¹⁵⁹ 529 F.3d 1325 (11th Cir. 2008).

¹⁶⁰ *Id.* at 1326.

¹⁶¹ *Id.*

¹⁶² *Id.* at 1327.

¹⁶³ *Id.*

¹⁶⁴ *Id.*

¹⁶⁵ *Natural Answers*, 529 F.3d at 1327.

¹⁶⁶ *Id.*

¹⁶⁷ *Id.* at 1326, 1328.

Plaintiff conceded that it lacked the resources to market the product on its own, and that it was interested in finding a partner to assist in marketing the product.¹⁶⁸ Plaintiff introduced an affidavit by its president asserting that in December, 2003 he contacted Philip Morris to solicit interest in a joint venture to sell the HERBAQUIT lozenges.¹⁶⁹ No documentary evidence (i.e., no copy of the letter) apparently was submitted.¹⁷⁰

The issue was not use, as plaintiff conceded it had no bona fide trademark use since 2002.¹⁷¹ The question was whether plaintiff had an intent to resume use within the reasonably foreseeable future.¹⁷² Clearly, plaintiff wished to resume use, so the real question was whether the plaintiff had engaged in specific actions intended to facilitate an actual resumption of use.¹⁷³ The statements about the Philip Morris contact were relevant to this question.¹⁷⁴

The Eleventh Circuit rejected this evidence as an “unsupported assertion” insufficient to create a genuine issue of material fact.¹⁷⁵ Is that a fair characterization? Plaintiff contacted GSK in 2001 about a possible joint venture.¹⁷⁶ Given this evidence, it certainly seems plausible that plaintiff also contacted others, including Philip Morris, in an effort to find a partner for its venture. It is a close call, but if doubts are resolved in favor of the nonmovant, it would seem the court should have accepted this evidence.

It is not clear why the court did not accept this evidence as showing that plaintiff was still making some effort in late 2003 to market its product. But, as a matter of public policy, such efforts must have a reasonable chance of success within a reasonable period of time. The issue is whether a party can hold onto trademark rights after use has ended, or whether the “market” for the trademark should be open to others who are ready and able to sell goods.¹⁷⁷ In this case, the evidence, even giving plaintiff the benefit of the doubt, showed that its solicitation of GSK went nowhere, and that the same happened with Philip Morris.¹⁷⁸ That evidence hardly shows a party who is taking the necessary actions to resume use.

¹⁶⁸ *Id.* at 1327.

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

¹⁷¹ *Natural Answers*, 529 F.2d at 1330.

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.*

¹⁷⁵ *Id.*

¹⁷⁶ *Id.* at 1327.

¹⁷⁷ *Natural Answers*, 529 F.2d at 1330.

¹⁷⁸ *Id.*

In any event, the abandonment holding obviously killed plaintiff's trademark infringement claims.¹⁷⁹ It also was fatal to the false advertising claims, but in a less direct fashion. The Eleventh Circuit held that plaintiff lacked prudential standing to bring a false advertising claim.¹⁸⁰ The court used the same multi-factor standing test it endorsed in *Phoenix of Broward, Inc. v. McDonald's Corp.*¹⁸¹ In the *Phoenix* case, a group of Burger King franchisees sued McDonald's claiming that McDonald's monopoly game ads were false or misleading.¹⁸² The Eleventh Circuit held the plaintiffs in *Phoenix* lacked standing because there was no direct link between the allegedly false advertising and the claimed injury.¹⁸³

It is easy to see that the plaintiff here also lacked standing under this test. If the plaintiff abandoned its trademark, and was not selling anything in the market, what harm could plaintiff claim as a result of the allegedly false advertising? Perhaps plaintiff could claim that this advertising claim ruined its chances of finding a partner to help reintroduce its product, which plaintiff claimed was the first stop-smoking lozenge. But that is a tenuous link, at best, and it is much less compelling than the injury arguments that failed in the *Phoenix* case.

There is, however, something troubling about these Eleventh Circuit standing cases. In both cases, if the allegations were true, the advertising at issue was clearly false or misleading. And in both cases, a competitor, or a potential competitor, brought the claim. By creating an additional, more demanding standing rule, the court has produced a standard that prevents many potentially valid false advertising claims from being heard under the Lanham Act. And though it is true that other legal avenues for challenging such ads remain open (e.g., the FTC could pursue the matter), as a practical matter, it is far more likely that such claims will be brought if competitors are allowed to bring them. Time will tell whether this rule is consistent with the intent of Congress.

This decision also contains some loose language on the abandonment issue. After initially setting out the proper standard for

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ 489 F.3d 1156 (11th Cir. 2007).

¹⁸² The case followed a series of reports about fraud in connection with the McDonald's game. The reports did not implicate McDonald's in the scams, but did suggest the integrity of the game had been compromised. The latter premise was the foundation of the false advertising claim in *Phoenix*. *Id.* at 1160.

¹⁸³ *Id.* at 1173. The Burger King franchisees claimed lower sales at their restaurants because more people were going to McDonald's restaurants to play the allegedly misleading game McDonald's was running. The Eleventh Circuit found this alleged injury too indirect to support standing. *Id.* at 1169-70.

abandonment,¹⁸⁴ the court later justified its decision by stating, “Because the record on summary judgment unquestionably demonstrates that Natural Answers has in no way undertaken ‘actual and continuous use’ to ‘retain’ an enforceable interest in HERBAQUIT LOZENGES, Natural Answers does not hold a valid trademark upon which it can base a Lanham Act trademark infringement claim.”¹⁸⁵ This statement does *not* reflect the proper abandonment standard, because “actual and continuous use” is *not* required.¹⁸⁶ Instead, the requisite level of continuous use necessary to defend against an abandonment claim is a looser standard, which even allows for periods of nonuse or reduced use, as long as the trademark owner plans to resume commercial use of the mark and valid reasons are given for any periods of nonuse.¹⁸⁷ Thus, the statement by the court, which does not address this caveat, could lead to confusion if some lower courts try to follow it as an abandonment test.

B. *Sybersound Records, Inc. v. UAV Corp.*¹⁸⁸

This case presented an interesting question: can a party base a Lanham Act false advertising claim on statements by a competitor regarding its compliance with copyright law?¹⁸⁹ The Ninth Circuit held that no such claim is allowable, but I question the court’s reasoning.¹⁹⁰ This decision seems to be yet another gap in the protection provided by the Lanham Act’s false advertising provision. All of these gaps are the result of court-crafted rules.

The dispute involved karaoke recordings. Plaintiff makes and sells karaoke CDs, as do the various defendants.¹⁹¹ Many of the big customers for these products (e.g., Wal-Mart and others) require that suppliers certify their recordings are 100% licensed.¹⁹² A karaoke recording requires a license and the payment of royalties to the copyright holders for each song included on the karaoke CD.¹⁹³ According to the plaintiff, several of its competitors claim to be in

¹⁸⁴ *Natural Answers*, 529 F.3d at 1329 (noting that “a defendant must establish two elements in order to show that a plaintiff has abandoned his trademark: [1] that the plaintiff has ceased using the mark in dispute and [2] that he has done so with an intent not to resume its use”) (internal quotation omitted).

¹⁸⁵ *Id.* at 1330 (internal citations omitted).

¹⁸⁶ *See, e.g.,* MCCARTHY, *supra* note 75, at § 17:11.

¹⁸⁷ *Id.*

¹⁸⁸ 517 F.3d 1137 (9th Cir. 2008).

¹⁸⁹ *Id.* at 1141.

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

100% compliance with these licensing requirements, but do not, in fact, comply.¹⁹⁴ Plaintiff claimed that it lost sales to competitors who should not have made sales (i.e., because the competitors did not really satisfy the customers' requirements) and that it spent more on royalties to fully comply, thus leaving it with less profit margin than its competitors.¹⁹⁵

This claim, though somewhat unusual, would appear to be a plausible false advertising claim under the Lanham Act. The statements by the competitors to customers were made as part of commercial advertising or promotion, since these statements were made to gain or retain major commercial accounts.¹⁹⁶ The statements are material, because without the statements, the competitors would not make the sales. And plaintiff seems to allege a sufficiently direct injury to satisfy the standing rules.

So why did the Ninth Circuit reject the claim? The court held that this claim improperly interfered with the domain of copyright law.¹⁹⁷ According to the Ninth Circuit, bringing a Lanham Act false advertising claim based on statements about compliance with copyright law licensing requirements creates a tension between the Copyright Act and the Lanham Act.¹⁹⁸ The plaintiff did not have a right to bring the copyright claims, and the court saw the false advertising claim as a sort of end-run around that issue.¹⁹⁹

To support its conclusion, the Ninth Circuit relied on *Dastar v. Twentieth Century Fox Film Corp.*²⁰⁰ In *Dastar*, the Supreme Court rejected a 43(a) claim under the Lanham Act based on alleged failure to provide attribution to creators of an underlying work.²⁰¹ The work had passed into the public domain, so no copyright claim could be brought.²⁰² The Court held that to allow a 43(a) claim for lack of attribution under such circumstances could provide a sort of perpetual copyright protection, although, as the Court acknowledged, the scope of relief under the Lanham Act and the Copyright Act were different.²⁰³ The *Dastar* Court also noted that misrepresentations about the nature or content of the underlying work might support a proper Section 43(a) claim.²⁰⁴

¹⁹⁴ *Sybersound Records*, 517 F.3d at 1141.

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* at 1143-44.

¹⁹⁸ *Id.* at 1143.

¹⁹⁹ *Id.* at 1144.

²⁰⁰ 539 U.S. 23 (2003).

²⁰¹ *Id.* at 37-38.

²⁰² *Id.*

²⁰³ *Id.* at 37.

²⁰⁴ *Id.* at 38.

The Ninth Circuit did not provide much explanation for its reliance on *Dastar*, and I believe the court made a mistake. On one hand, it is true that allowing the false advertising claim presented here would allow a party who could not bring a copyright infringement claim to potentially obtain relief under the Lanham Act. But that fact alone does not mean the claim places the Lanham Act and Copyright Act in tension. The two Acts are only in tension if the result of applying one would undermine the policy or purpose of the other. That was true in *Dastar* because the same parties who might otherwise have brought a copyright infringement claim (i.e., if the copyright remained in force) were trying to obtain similar relief under the Lanham Act. Allowing such a claim would undermine copyright law's policy of adding works to the public domain.

It is hard to see how the claim in this case would undermine copyright law. In fact, the opposite may be true. What if a reclusive copyright owner, or patent owner for that matter, has made it known that he will not sue to enforce his rights? What if one competitor has a license and pays royalties to this reclusive rights holder? What if a competitor promotes its products (e.g., to major customers like Wal-Mart) as being fully licensed by the reclusive party? Wal-Mart might still be concerned, because ownership of these rights could change hands and litigation might then follow. If the licensed party brings a false advertising claim against the competitor who is not licensed, how could that action undermine copyright or patent law?

The Ninth Circuit appeared concerned that it would have to resolve the underlying copyright infringement claim to resolve the plaintiff's false advertising claim.²⁰⁵ That is a valid concern, but it does not, without more, justify rejecting the false advertising claim. It is, for example, quite common for a breach of contract claim to require resolution of a patent infringement issue when the claim involves an alleged breach of a patent license agreement.²⁰⁶ This situation raises difficult and troubling issues, such as state courts engaging in patent claim construction and resolving patent infringement issues. But despite these issues, the claims proceed. It is hard to understand why the same should not be true in this case.

²⁰⁵ *Sybersound Records*, 517 F.3d at 1143.

²⁰⁶ *See, e.g., Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F. Supp. 1057, 1060 (S.D.N.Y. 1974).

3. Infringement/Unfair Competition - General

A. *Optimum Technologies, Inc. v. Henkel Consumer Adhesives, Inc.*²⁰⁷

Imagine that your client is a small, family-owned manufacturing company that has one promising product. Your client had trouble getting national distribution for its product, so it struck a “handshake” deal with a large, national company that sells products of the same general type. Company X, the big player, has accounts with all the major retailers, like Wal-Mart, Target, Home Depot, and so on. At first, things go well, with sales taking off and everyone happy.

But after several years, Company X develops its own alternative to your client’s product. Without telling your client what is going on, Company X rolls out its product in place of your client’s product. The new Company X product has similar-looking packaging, uses the same UPC code, but uses a different trademark. Overall, the new product looks quite similar to the old one. Some retailers are told Company X is introducing an improved version of the product, and others apparently are told nothing. Moreover, many employees at stores are unaware of the change, and believe they are stocking and selling the same product as before. Your client is told by Company X that its product has been dropped, and that Company X will not buy it any longer. Your client first realizes what has happened when one of its employees sees the new Company X product on the shelves of a national retailer.

What can you do? You assign a sharp, young law clerk to research the issue and she returns with a neat Memo arguing that your client has a good illegal substitution case. Your client is located in North Georgia, which seems perfect, because the seminal illegal substitution cases involved claims by Coca-Cola, an Atlanta company, against retail stores and restaurants.²⁰⁸ In those cases, customers asked for a Coke, and were served a Pepsi without being told of the substitution.²⁰⁹ The Ninth Circuit held that such actions were trademark infringement because of the substitution.²¹⁰ Your sharp, young law clerk argues the same should hold here, where Company X essentially substituted its own replacement product for your client’s established product.

This scenario is similar to the background of the *Optimum Technologies* case, though I’m speculating about the law clerk role.

²⁰⁷ 496 F.3d 1231 (11th Cir. 2007).

²⁰⁸ *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250 (9th Cir. 1982).

²⁰⁹ *Id.* at 1252.

²¹⁰ *Id.*

Plaintiff, Optimum Technologies, is a small, north Georgia company that developed a two-sided adhesive for holding area rugs in place.²¹¹ It had some market penetration, but was having trouble getting into the big national discount stores like Wal-Mart.²¹² So Optimum struck a deal with Manco,²¹³ a tape and adhesives company perhaps best known for its “Duck” tape, which is sold with a duck logo. Manco had a long-standing relationship with Wal-Mart, K-Mart and other discount chains.²¹⁴ Manco agreed to sell Optimum’s “Lok-Lift” branded product. No written agreement was used. It was a handshake deal.²¹⁵

There was one subtle, but crucial twist. Under this agreement, Optimum agreed to use new packaging designed or approved by Manco.²¹⁶ The packaging used Optimum’s Lok-Lift trademark, but the rest of the packaging was made to resemble the look of other Manco products.²¹⁷ The color scheme was consistent with other Manco packaging, and the Manco Duck trademark was also used.²¹⁸ In other words, this was a co-branded product.

When Henkel, Manco’s successor, decided to develop its own alternative product, it kept the same overall packaging design.²¹⁹ The same box shape, the same product depictions, the same color scheme, and even the Manco duck logo remained.²²⁰ The same UPC code was used too, though few consumers are likely to notice that.²²¹ In short, because Manco had essentially required Optimum to repackage the Lok-Lift product as a Manco product, it was a simple matter for Manco’s successor, Henkel, to roll out its own product and eliminate Optimum, its biggest potential competitor, in one strike.

At first blush, it might seem Optimum had a good case against Henkel. Not so fast. In fact, the district court granted summary judgment for Henkel on almost all issues.²²² The Eleventh Circuit affirmed in what was one of the most striking trademark decisions of the last year.²²³ The end result *may* be correct on the trademark

²¹¹ *Id.* at 1235.

²¹² *Id.* at 1235-36.

²¹³ A few years after this deal was struck, Manco was acquired by Henkel, the named defendant. *Id.* at 1235 n.3.

²¹⁴ *Id.* at 1236.

²¹⁵ *Id.*

²¹⁶ *Optimum Techs, Inc.*, 496 F.3d at 1236.

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ *Id.* at 1236-37.

²²⁰ *Id.* at 1237.

²²¹ *Id.*

²²² *Optimum Techs, Inc.*, 496 F.3d at 1239-40.

²²³ *Id.*, 496 F.3d at 1235.

infringement issue, but it seems questionable on the unfair competition point.

If there is a recurring theme in this case it is to read the law as narrowly as possible. In fact, this seems to be a developing theme within the Eleventh Circuit, with the false advertising prudential standing cases²²⁴ being another example. Time and again, this panel read the Lanham Act in a very narrow manner.²²⁵ In this author's opinion, such a restrictive reading is inappropriate given the strong public policy interests, such as protecting consumers from misleading marketing actions, behind the Lanham Act.

Need examples? The *Optimum Techs., Inc.* case provides such an example in that the Eleventh Circuit held there was no trademark infringement because Henkel made no unauthorized uses of Optimum's Lok-Lift trademark.²²⁶ The court accepted that the shelf tags and store displays using Optimum's Lok-Lift trademark were unauthorized uses of the mark.²²⁷ However, Henkel didn't make the shelf tags or the display signs. Henkel made the product, which bore the trademark Hold-It in place of the Lok-Lift trademark.²²⁸ Therefore, the Eleventh Circuit held that Henkel's only trademark uses were of its own new trademark and were not unauthorized uses of Optimum's Lok-Lift trademark.²²⁹

This makes no sense. Assume I sell some Kate Spade knock-off handbags, but I use the trademark Kade Spate on them. Assume I then trick a high-end department store into selling the hand bags, because the store thinks they are real Kate Spade bags. According to the Eleventh Circuit's logic, I have not committed trademark infringement because I have not made any unauthorized use of the Kate Spade trademark!

The above example would be a gross conceptual error. Trademark infringement does not require unauthorized use of the plaintiff's trademark. Rather, trademark infringement requires unauthorized use of a trademark that is confusingly similar to the plaintiff's trademark.²³⁰ The real issue in the *Optimum Technologies* case was whether Henkel's replacement product, with its new trademark and its overall appearance, was likely to cause confusion.

²²⁴ See *Natural Answers, Inc. v. SmithKline Beecham Corp.*, 529 F.3d 1325 (11th Cir. 2008) and *Phoenix of Broward, Inc. v. McDonald's Corp.*, 489 F.3d 1156 (11th Cir. 2007).

²²⁵ *Natural Answers*, 529 F.3d 1325; *Phoenix*, 489 F.3d 1156.

²²⁶ *Optimum Techs., Inc.*, 496 F.3d at 1242-43.

²²⁷ *Id.* at 1243.

²²⁸ *Id.*

²²⁹ *Id.* at 1243-44, 1247.

²³⁰ 15 U.S.C. § 1125(a)(1).

The fact that Henkel used its new Hold-It trademark rather than the Lok-Lift trademark should have been an important factor in the analysis, but that fact, standing alone, should not have been dispositive.

The court made a bizarre error when it rejected Optimum's contributory infringement argument.²³¹ Optimum presented summary judgment evidence of store employees who were confused by the new Henkel product.²³² This is hardly surprising, given the facts of the case. Some store managers and other employees thought the new Henkel Hold-It product was either the same as the former Lok-Lift product or that it was made by the same source.²³³

The Eleventh Circuit correctly noted that to establish contributory infringement there must be an act of direct infringement.²³⁴ Given the evidence of improper store shelf tags and display signs, one would think Optimum would have little trouble identifying the direct infringement acts. The stores were the direct, albeit inadvertent, infringers. This is a good argument on the facts of this case.

The Eleventh Circuit, however, held that Optimum could not claim that the store employees were both confused and infringing.²³⁵ The court reasoned that either the stores were confused and the victims of the infringement or they were the infringing parties.²³⁶ This logic ignores the fact that trademark infringement does not require intent.²³⁷ The stores may well have been innocent, and confused, parties to the infringement. They may have believed they were still selling the Lok-Lift product, which would make them confused. However, they were in fact selling the new Henkel Hold-It product in displays with signs that used the Lok-Lift trademark. In this author's opinion, this is trademark infringement, and it does not matter whether it happens because the store intentionally misled its customers or because the store itself was misled. The question is whether consumers are misled.

Having rejected the trademark infringement claims, the Eleventh Circuit turned to the 15 U.S.C. § 1125(a) passing off claim. The court held that no passing off occurred because Henkel did not

²³¹ The court quite correctly noted that Optimum failed to plead contributory infringement, and that may well have been a proper reason to reject the claim. *Optimum Techs., Inc.*, 496 F.3d at 1244-45. The court, however, did not stop there, and tried to bolster its rejection of the contributory infringement claim by showing that the claim lacked merit. That is where the court got into trouble.

²³² *Id.*

²³³ *Id.*

²³⁴ *Id.* at 1244.

²³⁵ *Id.*

²³⁶ *Id.*

²³⁷ 15 U.S.C. § 1125 (2006).

pass off its new Hold-It product as being made by Optimum.²³⁸ In other words, passing off is possible, the court concluded, only where the defendant falsely represents that the plaintiff was the source of the goods rather than the defendant.²³⁹

There are at least two problems with this narrow view of the 15 U.S.C. § 1125(a) claim. First, it is not clear that § 1125(a) is limited to any particular type of confusing activity. The Eleventh Circuit noted that courts have read § 1125(a) as creating a federal cause of action for passing off, and the court then limited its analysis to passing off.²⁴⁰ This analysis is misguided, because the holdings relied upon by the Eleventh Circuit recognized a claim under § 1125 for passing off trademark infringement of an unregistered mark.²⁴¹ Where the plaintiff's mark is federally registered, passing off is already covered by 15 U.S.C. § 1114,²⁴² and recognizing the same claim under § 1125 adds nothing. The sweeping language of § 1125 supports a broader application than just to a single type of passing off claim, and the Eleventh Circuit should not have limited its analysis under § 1125.

Second, the court should have interpreted passing off in this instance to include the facts alleged by Optimum. Because of the prior relationship between Henkel and Optimum, it is highly likely that consumers would assume the "new" Henkel Hold-It product is either the same as, or made by the same source as, the former Lok-Lift product. After all, both products had the same look, both bore the Manco Duck trademark, and both were sold in exactly the same places in stores. The new Henkel Hold-It product, quite literally, replaced the Lok-Lift product. Whether that was passing off depends more on what conclusions consumers are likely to reach than on whether Henkel claimed to be the manufacturer.

In truth, the fact distinguishing this scenario from the classic passing off scenario is that Henkel essentially held itself out as the source of the Lok-Lift product. To require Optimum to prove that Henkel was passing off its new Hold-It product as being made by Optimum makes no sense under such facts.

Despite the errors in the court's analysis, the Eleventh Circuit may have reached the correct result. The real key to this dispute is the

²³⁸ *Optimum Techs. v. Henkel Consumer Adhesives*, 496 F.3d 1231, 1248 (11th Cir. 2007).

²³⁹ *Id.*

²⁴⁰ *Id.*

²⁴¹ *Id.* at 1247-48, (citing *Dastar v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 30 (2003)) (noting that courts consistently read 15 U.S.C. § 1125(a) as "creating a federal cause of action for traditional trademark infringement of unregistered marks").

²⁴² 15 U.S.C. § 1114 (2006).

co-branding agreement. By entering into such an agreement with Manco, Optimum allowed its Lok-Lift trademark to be linked, in the eyes of consumers, with Manco. The opposite is also true; the Manco logo and packaging were linked with Optimum's Lok-Lift trademark. Since these links were authorized by both parties, neither party can complain if such links are the cause of confusion down the road.

To appreciate the importance of this fact, consider the overall appearance of the Lok-Lift product prior to Henkel's introduction of the new product. Most of the package appearance was dictated or designed by Henkel. It was in Manco's color scheme, shared common features with other Manco products, and even included the Manco Duck trademark.²⁴³ It was, by all outward appearances, a Manco branded product. Optimum could not claim trademark infringement, or passing off, based on Manco's use of those features. In other words, at the end of the day, Optimum's trademark infringement claim came down to whether the word marks, Hold-It and Lok-Lift, were confusingly similar. I don't think they are. For that reason, Optimum probably lost.

But if this case had gone to a jury, Optimum might have won. The case was brought in north Georgia by a small, family-owned, local company. It is not hard to imagine a jury finding that Henkel acted improperly. It was clear that Henkel withheld its business plans from Optimum, and harmed Optimum by developing the market and then taking it over for itself.²⁴⁴

The § 1125(a) claim is a close call. Henkel's overall actions may well have been sufficient to get this claim to the jury. After all, Henkel clearly could have taken steps to ensure that its new product was less likely to be confused with the prior Lok-Lift product. Henkel had a right to continue using its Manco branding, but Henkel surely appreciated that its use of the same product appearance, the same UPC code, and the same package shape and size would cause confusion in the market.

This case seems to bear some similarities with other recent Eleventh Circuit false advertising decisions that focus on legal formalities more than on marketplace realities.²⁴⁵ Trademark law is different from many other areas of the law because there is always, or at least always should be, a strong public interest in avoiding confusing and misleading marketing actions. By allowing Henkel to "get away with" its plan to eliminate its most likely competitor in this manner, the decision sends an implicit, but very clear, signal that such

²⁴³ Optimum Techs., 496 F.3d at 1236.

²⁴⁴ *Id.* at 1236-37.

²⁴⁵ See cases cited *supra* note 224.

conduct is acceptable, even if consumers are confused. I don't think this is what Congress intended.

4. Dilution

A. *Jada Toys, Inc. v. Mattel, Inc.*²⁴⁶

The Ninth Circuit initially decided this case in 2007.²⁴⁷ The Ninth Circuit made two significant errors in this decision. First, the court applied the actual dilution standard, despite the fact that the Trademark Dilution Revision Act ("TDRA") had expressly adopted the likelihood of dilution standard.²⁴⁸ The district court applied the actual dilution standard, but it had a good excuse: the district court's decision came after the *Moseley* case, in which the Supreme Court held that the original federal dilution statute required evidence of actual dilution,²⁴⁹ but before the TDRA.²⁵⁰ The Ninth Circuit, in its original decision, noted the passage of the TDRA, but applied the actual dilution standard.²⁵¹

The Ninth Circuit also erred in treating a pair of likelihood of confusion surveys as evidence of actual dilution.²⁵² The surveys were *not* evidence that Mattel's marks were actually diluted.²⁵³ The Ninth Circuit, in an apparent effort to find a reason for reversing the summary judgment granted to Jada Toys, deemed these surveys as evidence of actual dilution.²⁵⁴ This error should never have happened, because the Ninth Circuit should have applied a likelihood of dilution standard.

Early this year, and about six months after its initial decision was published, the Ninth Circuit panel issued an amended decision.²⁵⁵ The primary change is in the court's dilution analysis. In its new decision, the court held that the likelihood of dilution standard should

²⁴⁶ *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d 628 (9th Cir. 2008).

²⁴⁷ *Jada Toys, Inc. v. Mattel, Inc.*, 496 F.3d 974 (9th Cir. 2007).

²⁴⁸ *Id.* at 980 n.2, 982.

²⁴⁹ *Moseley v. Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003).

²⁵⁰ *Jada Toys*, 496 F.3d 974, 980 n.2 (9th Cir. 2007). The *Moseley* case was decided in 2003, the district court issued its ruling in this case in early 2005, and the TDRA was enacted in 2006. In other words, the TDRA was enacted after the district court decision but before the Ninth Circuit ruled on the appeal.

²⁵¹ *Id.* at 982.

²⁵² *Id.*

²⁵³ *Id.* The surveys purported to show that confusion was likely, as likelihood of confusion tends to do. It is hard to see how such a survey could constitute evidence of actual dilution.

²⁵⁴ *Id.*

²⁵⁵ *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d 628 (9th Cir. 2008).

apply because the Federal Trademark Dilution Act (“FTDA”)²⁵⁶ provides only prospective relief, such that a new standard is *not* retroactive because the only relief available is forward-looking.²⁵⁷ It is also clear that adopting the likelihood of dilution standard was a primary purpose of the TDRA.

The Ninth Circuit noted that it made the same mistake in a second case,²⁵⁸ but it did not amend that decision.²⁵⁹ Apparently, neither party requested rehearing or raised this issue in *Horphag v. Garcia*.²⁶⁰ It is not clear how or why the issue came up in the *Jada Toys* case, since Mattel won in the prior decision under the more demanding standard and, therefore, would have had no reason to ask the Ninth Circuit to reconsider its decision. Perhaps Jada Toys raised this error in a request for rehearing, though the application of the less demanding likelihood of dilution standard could not help Jada Toys. In any event, the Ninth Circuit has acknowledged its error and clarified that the likelihood of dilution standard should apply in all cases resolved after the enactment of the TDRA.²⁶¹

5. Parody²⁶²

A. *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, L.L.C.*²⁶³

The Chewy Vuiton dog toy saga goes on. Score another win for the underdog. The plaintiff is the owner of the famous Louis Vuitton trademark used on high end handbags and other related items.²⁶⁴ The Louis Vuitton mark is clearly a status brand, with its handbags costing thousands of dollars and being used by some of the

²⁵⁶ 15 U.S.C. § 1125 (2000) (codified as amended at 15 U.S.C. § 1125 (2006)).

²⁵⁷ *Jada Toys*, 518 F.3d at 634 n.2. This is not, strictly speaking, correct. The FTDA does allow for damages awards in cases of willful dilution. 15 U.S.C. § 1125(c) (2006). An award of damages for past acts is *not* a form of prospective relief, and for that reason, it would be a retroactive change to use the new likelihood of dilution standard if the change results in a damages award. This situation is avoidable, of course, by limiting relief to injunctions in cases like this one.

²⁵⁸ *Horphag Research Ltd. v. Garcia*, 475 F.3d 1029, 1035 (9th Cir. 2007).

²⁵⁹ *Jada Toys*, 518 F.3d at 634 n.2.

²⁶⁰ *See generally* *Horphag*, 475 F.3d 1029.

²⁶¹ *Jada Toys, Inc. v. Mattel, Inc.*, 518 F.3d at 635-36.

²⁶² *Utah Lighthouse Ministry v. Found. for Apologetic*, 527 F.3d 1045 (10th Cir. 2008), could be included in this section, too, as the Tenth Circuit placed great weight on the parody issue in that case.

²⁶³ *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, L.L.C.*, 507 F.3d 252 (4th Cir. 2007).

²⁶⁴ *Id.* at 257.

world's most famous celebrities.²⁶⁵ There appear to be no other highly similar trademarks in use, and this fact, coupled with the mark's fame, make it the kind of mark potentially vulnerable to trademark dilution.

But what about parody uses? The defendant sells a line of dog beds and dog chew toys with names that parody a number of iconic high-end brands.²⁶⁶ In addition to "Chewy Vuiton," the defendant sells products under the names "Chewnel No. 5," parody of Chanel No. 5 brand; "Furcedes," parody of Mercedes, and so on.²⁶⁷ Louis Vuitton Malletier ("LVM") sued for trademark infringement and dilution.²⁶⁸ The important holding on the infringement claim was that the more famous a mark is, the more likely a parody of the mark will work.²⁶⁹ In other words, a mark's strength does not help it in the likelihood of a confusion analysis when the defendant's use is a parody. The Fourth Circuit affirmed the district court's conclusion on this point.²⁷⁰ This view reverses the normal rule that a stronger mark is entitled to more protection, but this view makes some sense in a true parody setting.

The primary significance of this decision is its dilution treatment. The district court provided little explanation for its ruling on the dilution by blurring claim.²⁷¹ On appeal, the Fourth Circuit addressed whether defendant's use qualified as a "fair use," and, thus, was excluded from the reach of a federal dilution claim. LVM and the International Trademark Association ("INTA"), filing as an amicus, argued that the FTDA places a limit on the fair use defense.²⁷² That defense does not extend to uses "as a designation of source for the person's own goods or services."²⁷³ In other words, if the defendant's parody use is also a trademark use for the defendant's goods, the FTDA's fair use defense would not apply.

The Fourth Circuit agreed with INTA's argument on this point, but held that the parodic nature of the defendant's use was still

²⁶⁵ *Id.*

²⁶⁶ *Id.* at 258.

²⁶⁷ *Id.*

²⁶⁸ *Id.*

²⁶⁹ *Id.* at 261.

²⁷⁰ *Id.*

²⁷¹ *Louis Vuitton Malletier v. Haute Diggity Dog*, 464 F. Supp. 2d 495, 505 (E.D. Va. 2006), *aff'd*, 507 F.3d at 265 (2007) ("strength is not likely to be blurred by a parody dog toy product. Instead of blurring Plaintiff's mark, the success of the parodic use depends upon the continued association with Louis Vuitton.").

²⁷² *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, L.L.C.*, 507 F.3d 252, 266-67 (4th Cir. 2007).

²⁷³ 15 U.S.C. § 1125(c)(3)(A)(ii) (2006).

relevant to the likelihood of blurring analysis.²⁷⁴ LVM argued that because the fair use exception did not apply, the parody issue was irrelevant.²⁷⁵ LVM essentially argued that any use of a highly similar mark would dilute, a position the Fourth Circuit rejected.

In what might become the most important legacy of this case, the Fourth Circuit noted that a successful parody of a famous mark may actually increase the fame and distinctiveness of the trademark.²⁷⁶ “Indeed, by making the famous mark an object of the parody, a successful parody might actually enhance the famous mark’s distinctiveness by making it an icon. The brunt of the joke becomes yet more famous.”²⁷⁷ This view is quite offensive to owners of iconic brands like LVM. There is a strong common sense appeal to this enhancement view, however, and I suspect more courts will follow this logic in the future.

The Fourth Circuit noted that defendant’s “Chewy Vuiton” was not identical to LVM’s famous mark.²⁷⁸ This seemed an important issue to the court, as it held that “these uses by Haute Diggity Dog were not so similar as to be likely to impair the distinctiveness of LVM’s famous marks.”²⁷⁹ It is likely that most parody uses will involve some variation of the famous mark, and for that reason, this requirement, to the extent it is a requirement, should be satisfied in most parody cases.

The Fourth Circuit also rejected LVM’s tarnishment claim, as had the district court.²⁸⁰ LVM argued that the low-priced dog toys would tarnish the reputation of the famous high-end Louis Vuitton mark.²⁸¹ LVM claimed that some of the chew toys posed a choking risk.²⁸² The Fourth Circuit noted that no evidence supported this contention, and that defendant’s products, though moderately priced, were not shown to be of poor quality.²⁸³

There is an important potential issue lurking behind the scenes in this case and others like it. The Louis Vuitton mark is a status brand. It represents an aspect of our social order that some find offensive and immoral. Those who decide to parody these types of trademarks may well have strong First Amendment arguments, despite the fact that their uses are commercial speech. A satire that calls into

²⁷⁴ *Louis Vuitton*, 507 F.3d 252, 266-67 (4th Cir. 2007).

²⁷⁵ *Id.* at 265-66.

²⁷⁶ *Id.* at 267.

²⁷⁷ *Id.*

²⁷⁸ *Id.* at 268.

²⁷⁹ *Id.*

²⁸⁰ *Id.* at 268-69.

²⁸¹ *Id.* at 268.

²⁸² *Id.*

²⁸³ *Id.* at 268-69.

question brands used with extremely expensive status products may well be a part of a social commentary protected by the First Amendment.

I mention this point because the cases do not. The Fourth Circuit makes no mention of such concerns. LVM argued that the Fourth Circuit should disregard the parody issue in its trademark analysis.²⁸⁴ But what if the court had done that? Wouldn't that approach to the trademark issue raise the pressure on the court to address what was otherwise a latent First Amendment issue? In my view, it is quite appropriate for courts to consider the parody issue as part of the trademark analysis, simply because the parodical nature of uses, like those at issue in this dispute, *do* impact the way consumers view the uses. There is, however, the additional benefit: by disposing of these claims on trademark grounds, the courts do not have to delve into constitutional speech issues.

Ultimately, I suspect part of the dilemma lies in Congress's trademark use exception to the fair use defense. The FTDA included the fair use defense, at least in part, to address First Amendment concerns raised by the specter of federal dilution protection.²⁸⁵ By excluding trademark uses from the fair use defense, Congress gave some First Amendment protection, but excluded commercial trademark uses from that protection. That doesn't always work, because some parodic trademark uses will be both commercial speech and political/social commentary. The stronger the latter component, the more problematic it is to exclude such uses from the fair use defense. I doubt we've seen the end of this issue.

A. *North American Medical Corp. v. Axiom Worldwide, Inc.*²⁸⁶

The meta-tag myth lives on! Despite the evidence to the contrary, the federal courts continue to rely on the myth that meta-tags impact search engine results.²⁸⁷ This issue is really about Google,

²⁸⁴ *Id.* at 265-66.

²⁸⁵ 15 U.S.C. § 1125(c)(3)(A) (2006).

²⁸⁶ *N. Am. Med. Corp. v. Axiom Worldwide Inc.*, 522 F.3d 1211 (11th Cir. 2008).

²⁸⁷ A full discussion of this issue is well beyond the scope of this article, but a brief overview is helpful. Many webpages use hyper-text markup language or HTML, which provides certain metadata fields called meta-tags. See Danny Sullivan, Search Engine Watch, *How to Use HTML Meta Tags* (Mar. 5, 2007), <http://searchenginewatch.com/2167931>.

These meta-tags contain information not shown on the visible webpage. They were created to allow web designers to include metadata relevant to the content of the website. By the mid-1990s, however, many web designers realized that leading

because it is, for most Internet users, the only search engine used. Courts increasingly focus their analysis on Google, a practice that makes sense. But the same courts then ignore what Google and others have said over and over again: keyword meta-tags are *not* indexed by Google and, therefore, have no impact on search results obtained using Google.²⁸⁸

So why use keyword meta-tags? That's a good question.²⁸⁹ There are still some secondary search engines that index these tags,

search engines used the meta-tags as a means of ranking search results. In an effort to obtain higher placement within such results, some web designers misused the HTML meta-tags by filling these invisible fields with terms likely to be searched, but that may have had nothing to do with the actual content of the site. This practice was called spamdexing, because it was a way to "spam" a search engine index through improper use of meta-tags. The practice became so common that it undermined the reliability of search engine results.

It was within this context that Google emerged. Google claimed that its search process would yield more relevant results and many users agreed. Not surprisingly, Google excluded some of the HTML keywords from its search process. The title meta-tag is still used, but it is not really an invisible tag because the content of this field is displayed in the search results. The keyword meta-tag field, which had been the most widely abused, is not indexed by Google. In fact, very few search engines now index the HTML keyword meta-tag.

Some search engine experts have known this for years. See Danny Sullivan, Search Engine Watch, *Death of a Meta Tag* (Oct. 1, 2002), <http://searchenginewatch.com/2165061> (explaining why search engines stopped indexing the keyword meta-tag). At least one legal commentator has acknowledged this fact, too. See David M. Fritch, *Searching For Initial Interest Confusion And Trademark Protection In Cyberspace*, 6 U. PITT. J. TECH. L. & POL'Y 1, 10 n.53 (2005).

Several other commentators, however, seem to just blindly rely on outdated, incorrect analysis taken largely from the Ninth Circuit's misguided decision in *Brookfield Comm'n, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036 (9th Cir. 1999). See, e.g., G. Rita A. Abbati, *Metatags, Keywords, and Links: Recent Developments Addressing Trademark Threats in Cyberspace*, 40 SAN DIEGO L. REV. 341 (2003), Manavinder S. Bains, *The Search Engine Economy's Achilles Heel? Addressing Online Parallel Imports Resulting from Keyword and Metatag Misuse*, 2006 STAN. TECH. L. REV. 6 (2006), Jeffrey M. Becker and Purvi J. Patel, *Recent Trademark Challenges in Cyberspace and the Growth of the Initial Interest Confusion and Nominative Fair Use Doctrines*, 9 COMP. L. REV. & TECH. J. 1 (2005), Thomas C. Folsom, *Missing The Mark In Cyberspace: Misapplying Trademark Law To Invisible And Attenuated Uses*, 33 RUTGERS COMPUTER & TECH. L.J. 137 (2007).

²⁸⁸ See, e.g., Wikipedia, *Meta element*, http://en.wikipedia.org/wiki/Meta_tags (explaining the demise of the HTML keyword meta tag, and noting that "Google does not use HTML keyword or meta tag elements for indexing").

²⁸⁹ Interestingly, within the Search Engine Optimization (SEO) area, there seems to be disagreement about whether to use the HTML keyword meta tag, despite the fact that Google does not appear to index this tag. See, e.g., Michael D. Jensen, *The Fate of the Keyword Meta Tag: Misspellings* (Oct. 31, 2007),

and some website designers may feel it is worth using these tags just in case they might make a difference. I suggest that view is dead wrong. The only context in which meta-tags seem to make a difference today is in trademark litigation. If I were a defendant in such a case, I would consider suing my web designer for including terms in the keyword meta-tags that have no benefit. These meta-tags may be terms that do not help you get higher placement within Google search results, but that do have a real legal downside.

This case is remarkable because it shows that courts continue to ignore reality. That would not be so surprising if these decisions were made solely by the judges, who, for the most part, are older jurists who may not be so familiar with the Internet. But these judges have law clerks, the best and brightest from top law schools, and these clerks surely should be able to present the judges with evidence that show these cases are grounded upon a flawed factual premise.

In *Axiom Worldwide*, the defendant used two of plaintiffs' trademarks in its keyword meta-tags.²⁹⁰ The district court found this use caused defendant to get high search engine placement on Google, despite the defendant's protestations that meta-tags do not impact Google results.²⁹¹ The district court then found that the use of these trademarks in its meta-tags was sufficient to create a likelihood of confusion as to sponsorship or affiliation.²⁹² The court found source confusion, without expressly relying on the initial interest confusion doctrine.²⁹³

The Eleventh Circuit affirmed.²⁹⁴ Why? How could both courts get it so wrong? Consider the "evidence." The only "uses" of plaintiff's trademarks on the defendant's website were in the hidden meta-tags.²⁹⁵ When a search was performed on Google using these trademarks, defendant's site supposedly was the second site listed in the results.²⁹⁶ Since the defendant's only use of the plaintiff's trademarks was in the meta-tags, and defendant's site came up second in the search results, both the district court and the Eleventh Circuit concluded that the meta-tags were the cause of the high search results.²⁹⁷

<http://www.soloseo.com/blog/2007/10/31/the-fate-of-the-keywords-meta-tag-misspellings/>.

²⁹⁰ *N. Am. Med. Corp. v. Axiom Worldwide Inc.*, 522 F.3d 1211, 1216 (11th Cir. 2008).

²⁹¹ *Id.* at 1216-17.

²⁹² *Id.* at 1220-21.

²⁹³ *Id.* at 1222.

²⁹⁴ *Id.* at 1229.

²⁹⁵ *Id.* at 1216.

²⁹⁶ *Id.* at 1216-17.

²⁹⁷ *Id.* at 1217 n.3 (rejecting defendant's argument).

There is something very wrong with this story. The Eleventh Circuit affirmed the infringement finding because the only reason it could see for the Google search results was the inclusion of plaintiff's trademarks in the defendant's keyword meta-tags. That conclusion may appear reasonable, but the Google search engine uses a very complex process to identify and rank search results. What other sites were retrieved when a search was done using the plaintiff's trademarks? If the plaintiff and defendant were one and two in the search results, what sites were three and four and so on? Why did those sites appear in the results? There must be some other explanation for the result in this case, because the factual conclusion reached by the district court and affirmed by the Eleventh Circuit, that keyword meta-tags caused high search results on Google, is simply wrong.

So what happened here? When I searched using these trademarks, I found defendant Axiom in the Google Sponsored Links section. In other words, Axiom is using these trademarks as keywords in Google's Adwords program, and as a result is coming up in the top area of the search results listing. Axiom is not being shown as an actual search result. This result is rather striking, because Axiom has now obtained, through use of the Google AdWords program, a result quite similar to the one condemned by the court.

In any event, the court's analysis of the infringement issue is bogus. After starting from the assumption that Axiom's use of its competitor's trademarks in keyword meta-tags impacted search results on Google, the court then found that use was likely to cause source confusion.²⁹⁸ In other words, simply using a competitor's trademarks in meta-tags was the kiss of death. The Eleventh Circuit tried to limit the reach of its conclusion by noting that the parties were competitors and that Axiom did not do any comparative advertising regarding the plaintiff on its site.²⁹⁹ This conclusion is somewhat odd. Based on the court's logic, if Axiom had included comparative advertising on its own website, it might not have been found to infringe due to the use of plaintiff's trademarks in its keyword meta-tags.

In addition to the flawed factual assumption discussed above, there are two other very serious problems with this analysis. First, the court never considers whether it is wrong to use a competitor's keywords in hidden meta-tags. Why is that practice wrong? Even if the practice did impact search engine results, it would never give higher results than those of parties who use the trademarks frequently in the actual content of their sites. Keyword density, or the density of

²⁹⁸ *Id.* at 1223.

²⁹⁹ *Id.* at 1224 n.10.

the use of a searched keyword within the actual content of a site, is an important factor in website ranking by search engines. If the only use was in a meta-tag list, assuming the meta-tags were indexed by the engine, the density would be very low. In other words, using a competitor's trademarks in keyword meta-tags could, at most, result in an appearance below the trademark owner within a listing of search results.

Why shouldn't competitors try to get their websites listed in search results for their competitor's products? Aren't comparative advertising and consumer choice good things? If the listing appearing in the search results is clear and non-confusing, then what reason is there to prohibit or discourage competitors from seeking a spot among the listings? Given the way Internet searching is done, a competitor's failure to get some placement on the search results page is likely to mean a missed opportunity to present that Internet user with information about the party's goods or services. A balancing or reasonableness test is needed, of course, and if the competitor takes steps to mislead, then a valid objection might be made. The problem with this case is that the court never even allowed for the possibility that valid reasons may exist for including a competitor's trademarks in a keywords' meta-tag listing.

Remember that Axiom now appears above all the search results as a Google sponsored link. In other words, the court enjoined the defendant from doing what doesn't work such as spamdexing Google using HTML keyword meta-tags. Yet now, the defendant is doing things that do work, such as using the Google AdWords program with the plaintiff's trademarks as keywords. Axiom now receives choice placement on the search results page, which is the result the courts seemed to think Axiom had achieved using keyword meta-tags. Now, without violating the injunction, Axiom is able to achieve a result far superior to anything the court considered. Of course, Axiom has to pay Google to obtain this result, but that apparently is a price Axiom is willing to pay.

Ironically, courts have taken a different view of the Google Adwords program.³⁰⁰ Courts remain divided on whether use of another's trademark as a Google Adwords keyword constitutes a use in commerce, but the trend appears to be toward finding that such uses are in commerce.³⁰¹ The fact that the Eleventh Circuit in this case had little trouble finding that the use of a competitor's trademarks in

³⁰⁰ See *supra* note 40.

³⁰¹ *N. Am. Med. Corp. v. Axiom Worldwide Inc.*, 522 F.3d 1211, 1219 (11th Cir. 2008).

hidden keyword meta-tags was a use in commerce is indicative of this trend.³⁰²

If a keyword meta-tag use is a use in commerce—given the questionable commercial impact of such a use—then surely a Google AdWord keyword use is a use in commerce.³⁰³ The latter clearly has a real impact in commerce.

The other big issue under the Google Adwords program is whether the use of a competitor's trademarks as keywords constitutes infringement. Google has done an excellent job of litigating this issue, and its involvement clearly has helped shape the law here. Most courts do not jump to the conclusion that such use is an infringement, but instead focus more on the visible content displayed in the Sponsored Links section of the Google search results page.³⁰⁴ If the visible content is clear and not confusing, then the use is allowed, even though this content may have been triggered by a paid-for use of a direct competitor's trademark.³⁰⁵ Some trademark owners remain strongly opposed to this part of Google's Adwords program, but I think they are losing the war.

In the end, this case is striking because it perpetuates the meta-tag myth and its infringement analysis is so inconsistent with the trend toward focusing on the actual visible content of a site or a listing, rather than on what hidden keywords triggered the appearance of that content or listing.³⁰⁶ Decisions like this one have been criticized for several years, but they keep coming. At some point, perhaps the federal courts will realize they really missed the boat on this one.

³⁰² *Id.* at 1219-20.

³⁰³ This comparison is not entirely fair, because the Eleventh Circuit operated from the mistaken belief that the keyword meta-tags also create a real result.

³⁰⁴ *Axiom Worldwide, Inc.*, 522 F. 3d 1211, 1217.

³⁰⁵ *Id.* at 1219.

³⁰⁶ *Id.* at 1227-28. The case is also important for the Eleventh Circuit's holding on the injunction issue. The district court granted a preliminary injunction. The Eleventh Circuit affirmed the finding that plaintiff was likely to succeed on the merits, but held that an injunction should not automatically follow from such a conclusion. Relying on the Supreme Court's analysis in *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), the Eleventh Circuit held that the district court should not have presumed irreparable injury, but should have evaluated that issue.

7. Laches - *Black Diamond Sportswear, Inc. v. Black Diamond Equipment, Ltd.*³⁰⁷

This is an unpublished decision, but it deals with an important issue: the laches defense. The facts strongly supported the laches defense, and the district court granted summary judgment on that issue.³⁰⁸ The Second Circuit affirmed.³⁰⁹ The more interesting aspect of this case is the Second Circuit's conclusion that laches barred all relief.³¹⁰

The evidence in this case showed that plaintiff had knowledge of the defendant's use and did not take action to stop the use for several years.³¹¹ There apparently was no evidence of actual consent to the use by the plaintiff. This point is important because consent is the element that distinguishes laches from acquiescence.³¹² The distinction is significant because the traditional rule is that laches will not bar injunctive relief in a trademark case, but acquiescence will.³¹³ Given the apparent lack of evidence of consent by the plaintiff, one would have expected the Second Circuit to limit the laches defense to any monetary claims in the case. The plaintiff made exactly that argument, but the Second Circuit disagreed.³¹⁴

The Second Circuit made two mistakes in its laches analysis. First, the court seems to have conflated the laches and acquiescence defenses. To support its conclusion that a laches defense may bar injunctive relief, the court relied upon two cases that involved acquiescence.³¹⁵ For example, the Second Circuit quoted the following text from one of its prior decisions: "We have recognized that, even where laches is a valid defense to damages, 'a court may nonetheless grant injunctive relief if it determines that the likelihood of confusion is so great that it outweighs the effect of plaintiff's delay

³⁰⁷ *Black Diamond Sportswear, Inc. v. Diamond Equip., Ltd.*, 2007 WL 2914452 (2d Cir. 2007).

³⁰⁸ *Id.* at *1.

³⁰⁹ *Id.* at *1.

³¹⁰ *Id.* at *4-*5.

³¹¹ *Id.* at *3.

³¹² *See, e.g., Kellogg Co. v. Exxon Corp.*, 209 F.3d 562, 568-69 (6th Cir. 2000) (noting the difference between two distinct equitable defenses).

³¹³ *Id.* at 568 ("Although laches precludes a plaintiff from recovering damages, it does not bar injunctive relief."). *See also id.* at 569 (holding that "Exxon must prove acquiescence" to bar the injunctive relief sought by Kellogg).

³¹⁴ *Black Diamond Sportswear, Inc. v. Diamond Equipment, Ltd.*, 2007 WL 2914452, at *4 (2d Cir. 2007).

³¹⁵ *Id.*

in bringing suit.”³¹⁶ The court, however, failed to note that the quoted language was preceded by the line, “Even where laches *and acquiescence* would bar damages”³¹⁷ In other words, in the case relied upon by the Second Circuit, there was a holding by the district court of both laches and acquiescence.

The Second Circuit also relied upon *SunAmerica Corp. v. Sun Life Assurance Co. of Canada*, which is an important decision dealing with acquiescence.³¹⁸ In *SunAmerica*, there was ample evidence of acquiescence, as the two companies had coexisted for nearly one hundred years and had consented to each other’s use of a similar trademark.³¹⁹ But as the banking and insurance industries changed, and their businesses began to overlap more and more, the two companies found that confusion became more and more of a problem. The Eleventh Circuit provided a careful analysis of this difficult issue, and held that even where acquiescence normally would bar all relief, some form of an injunction may be required if confusion is inevitable.³²⁰ Though this is an important, and instructive, decision, it does not say anything about whether a finding of laches alone is sufficient to bar injunctive relief.

The Second Circuit’s second mistake was to get the traditional rule—that is, the rule that laches alone is not sufficient to bar injunctive relief³²¹—completely backwards. Some courts have held that where the delay is extreme and the resulting prejudice is substantial, a laches defense may be sufficient to bar all relief. In other words, some courts have recognized an exception to the general

³¹⁶ *Id.* (quoting *ProFitness Physical Therapy Ctr. v. Pro-Fit Orthopedic & Sports Physical Therapy*, 314 F.3d 62, 68 (2d Cir. 2002)).

³¹⁷ *ProFitness Physical Therapy Ctr. v. Pro-Fit Orthopedic & Sports Physical Therapy*, 314 F.3d 62, 68 (2d Cir. 2002) (emphasis added).

³¹⁸ *SunAmerica Corp. v. Sun Assurance Co. of Can.*, 77 F.3d 1325 (11th Cir. 1996).

³¹⁹ *Id.* at 1341.

³²⁰ *Id.* at 1334-35.

³²¹ *E.g.*, *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass’n*, 532 F. Supp. 1376, 1390 (S.D. Tex. 1982) (citing *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 614-15 (7th Cir. 1965); *Blue Bell, Inc. v. Ruesman*, 335 F. Supp. 236, 237 (N.D. Ga. 1971); *Am. Hosp. Ass’n v. Bankers Commercial Life Ins. Co.*, 275 F. Supp. 563, 565 (N.D. Tex. 1967) *aff’d*, 403 F.2d 718 (5th Cir. 1968); 74 AM. JUR. 2D *Trademarks and Tradenames* § 159 (1974) (The court cited section 159; however this section relates to the sufficiency of evidence with respect to secondary meaning which is wholly unrelated to laches barring injunctive relief. 74 AM. JUR. 2D *Trademarks and Tradenames* § 159 (2001). This appears to be an understable typo in the opinion, as section 148 explicitly explains the effect of laches upon a party’s ability to receive injunctive relief. 74 AM. JUR. 2D *Trademarks and Tradenames* § 148 (2001) (“[A]n injunction will not generally be refused because of a delay in seeking the relief, even though the delay may be such as to preclude an accounting of profits.”))).

rule, and have held that a laches defense may be sufficient to bar injunctive relief under certain circumstances.³²² The Second Circuit, on the other hand, held that the general rule is that laches will bar all relief, and that the “exception to laches” is the situation where laches would not bar injunctive relief.³²³ That is a reversal of the traditional rule. Given these mistakes in the court’s analysis, perhaps the unpublished status of this opinion is a good thing.

8. Declaratory Judgment Jurisdiction - *Rhoades v. Avon Products, Inc.*³²⁴

Declaratory judgment actions are common, and may become more common following the Supreme Court’s decision last year in *MedImmune, Inc. v. Genentech, Inc.*³²⁵ Though *MedImmune* was a patent case and involved an invalidity declaratory judgment action brought by a licensee, the Supreme Court’s analysis suggested that declaratory judgment actions should not be viewed with disfavor.³²⁶ The *Rhoades* case, which came several months after *MedImmune*, was a trademark dispute involving a very different fact pattern, but the end result was the same: the Ninth Circuit held that a declaratory judgment action was appropriate and should have been heard.³²⁷ The case is also interesting because of the treatment by the district court judge.

Rhoades developed a line of microdermabrasion products and devices, and sought to register numerous trademarks with the Patent and Trademark Office (“PTO”).³²⁸ These marks “include[d] ‘DermaNew,’ ‘KeraNew,’ ‘GemaNew,’ . . .” and variants of these.³²⁹ Avon owns the mark ANEW for a line of skin care products.³³⁰ Avon opposed Rhoades’ trademark applications, asserting that these marks were likely to cause confusion with Avon’s ANEW mark.³³¹ The

³²² See, e.g., *Univ. of Pitt. v. Champion Prods. Inc.*, 686 F.2d 1040, 1044 (3d Cir. 1982) (quoting *Anheuser-Busch, Inc. v. Du Bois Brewing Co.*, 175 F.2d 370, 374 (3d Cir. 1949)) (noting there is a narrow number of instances in which a delay in bringing suit is such that it bars injunctive relief).

³²³ *Black Diamond Sportswear, Inc. v. Black Diamond Equip., Ltd.*, No. 06-3508-cv, 2007 U.S. App. LEXIS 23515, at *11(2d. Cir. Oct. 5, 2007) (quoting *ProFitness Physical Therapy Ctr. v. Pro-Fit Orthopedic & Sports Physical Therapy P.C.*, 314 F.3d 62, 68 (2d Cir. 2002)).

³²⁴ *Rhoades v. Avon Prods., Inc.*, 504 F.3d 1151 (9th Cir. 2007).

³²⁵ *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

³²⁶ *Id.* at 126.

³²⁷ *Rhoades*, 504 F.3d at 1154-55.

³²⁸ *Id.* at 1155.

³²⁹ *Id.*

³³⁰ *Id.*

³³¹ *Id.*

parties began settlement negotiations that lasted for a few years.³³² During the course of those settlement efforts, Avon's attorneys threatened litigation if a settlement could not be reached.³³³ The threats were at times implicit and were part of settlement discussions.³³⁴

When the settlement efforts finally broke down, Rhoades filed a declaratory judgment action in Los Angeles.³³⁵ As luck would have it, Rhoades drew Judge Manuel ("Manny") Real, a judge well-known for following his gut instinct as often as he follows controlling law. Judge Real is outspoken, sometimes rules quickly from the bench, and is somewhat incorrigible. He handled the trademark suit years ago involving the claim by actors from the Cheers television show against a bar that used mannequins resembling the characters the actors played on the show, including the Norm and Cliff characters.³³⁶ Judge Real granted summary judgment for the defendants based on a visual comparison of photographs of the mannequins to photographs of the characters themselves.³³⁷ The Ninth Circuit reversed, because Judge Real did not apply the multi-factor likelihood of confusion analysis.³³⁸ On remand, Judge Real compared the actual figures to the plaintiffs and again granted summary judgment.³³⁹ The Ninth Circuit reversed again, reiterating its prior holding that the likelihood of confusion multi-factor test must be used.³⁴⁰

In this case, Judge Real cut off Rhoades' attorney before he could respond to the motion to dismiss.³⁴¹ Judge Real's entire decision consisted of the following: "I think that the complaint is improper, brought for an improper motive, and I'm not exercising my discretion to undertake the declaratory judgment action since it should be back where it belongs and be finished there motion [sic]. And the motion to dismiss is granted."³⁴² Rhoades' attorney was not allowed

³³² *Id.*

³³³ *Id.*

³³⁴ *Id.* at 1155-56.

³³⁵ *Id.* at 1156.

³³⁶ *Wendt v. Host Int'l, Inc.*, 125 F.3d 806, 809 (9th Cir. 1997).

³³⁷ *Id.*

³³⁸ *Id.*

³³⁹ *Id.*

³⁴⁰ *Id.* at 809, 812. The Ninth Circuit clearly was frustrated by the conduct of Judge Real, as he did not follow their instructions when the case was remanded the first time. In the second appeal, the Ninth Circuit was explicit that the case was remanded for trial, and not for another possible summary judgment grant. *Id.* at 809 ("we reverse and remand for trial"), 814-15 ("grant of summary judgment is reversed and the case is remanded to the district court for trial").

³⁴¹ *Rhoades v. Avon Prods., Inc.*, 504 F.3d 1151, 1156 (9th Cir. 2007).

³⁴² *Id.*

to make any further arguments to the judge.³⁴³ On appeal, Rhoades asked the Ninth Circuit to remand the case to a different judge.³⁴⁴ The court noted that this was an extraordinary request, but it was granted.³⁴⁵ Given Judge Real's reputation, and his treatment of this case, the Ninth Circuit felt a new judge was needed.

There were two declaratory judgment issues presented in this case, and both were easy to resolve. The first was whether there was an actual case or controversy. The court held that Avon's threats of litigation clearly satisfied this requirement.³⁴⁶ The second issue was whether the district court was correct to defer to the Trademark Trial and Appeal Board ("TTAB").³⁴⁷ The Ninth Circuit again followed the well-established rule that federal court litigation should not be stayed pending a TTAB proceeding.³⁴⁸ This rule is based, in large part, on the fact that a TTAB proceeding does not involve exactly the same issues as an infringement claim.³⁴⁹

Avon's position on the case or controversy issue provides a good practice note. Avon contended that Rhoades relied on inadmissible evidence to satisfy the case or controversy requirement.³⁵⁰ Rhoades relied on statements made during settlement meetings and letters written as part of the settlement effort. Avon argued that such materials were inadmissible under Federal Rule of Evidence 408. The Ninth Circuit rejected this argument because Rule 408 does *not* block the use of such evidence for purposes other than to prove liability.³⁵¹ The court held that using such statements to prove that an actual case or controversy exists is entirely appropriate. Just marking a letter as a Rule 408 Settlement Communication will not render the letter unusable for all purposes. A threat of litigation is still a threat, regardless of the context in which it is made.

It is also worth noting that Avon's motion was resolved without an evidentiary hearing. In the declaratory judgment context, that means the court must accept all well-pled assertions as true.³⁵² Avon tried to challenge some of the allegations in Rhoades'

³⁴³ *Id.*

³⁴⁴ *Id.* at 1165-66.

³⁴⁵ *Id.*

³⁴⁶ *Rhoades*, 504 F.3d at 1158.

³⁴⁷ *Id.* at 1162.

³⁴⁸ *Id.* at 1162-64.

³⁴⁹ *Id.* (quoting at length from *Goya Foods, Inc. v. Tropicana Prods., Inc.*, 846 F.2d 848, 853-54 (2d Cir. 1988)).

³⁵⁰ *Id.* at 1160.

³⁵¹ *Id.* at 1160-61.

³⁵² *Id.* at 1160.

complaint, but the Ninth Circuit rejected that challenge.³⁵³ Keep this point in mind too: If you oppose a declaratory judgment action and believe the facts do not support it, but the “facts” alleged in the declaratory complaint do, you should request an evidentiary hearing so the district court can evaluate the jurisdictional evidence. Only then can you go past the allegations of the declaratory judgment complaint. That did not happen here, and for that reason, Avon was not allowed to impeach the allegations in Rhoades’ DJ complaint.³⁵⁴

9. Statutory Damages and Election of Remedies

A. *K&N Engineering, Inc. v. Bulat*³⁵⁵

Assume you represent a trademark owner in a counterfeiting case. Your evidence of actual damages is thin, as it commonly will be, so you advise the client to seek statutory damages under 15 U.S.C. § 1117(c). The court rules in your favor and awards statutory damages. You then file a request for attorney fees, expecting that such an award should follow from the court’s finding of intentional counterfeiting. But the court tells you that by opting for statutory damages under § 1117(c), you waived your right to obtain an award of attorney fees. Can that be right?

Apparently so, at least in the Ninth Circuit. My hypothetical is exactly what happened in this case. The district court awarded twenty thousand dollars in statutory damages and one hundred thousand dollars in attorney fees.³⁵⁶ The Ninth Circuit affirmed the statutory damages award³⁵⁷ and reversed the attorney fees award, holding that a party who opts for statutory damages cannot also obtain attorney fees.³⁵⁸ The logic for this ruling is difficult to follow.

The court noted at the outset that statutory interpretation must be based on the language of the statute.³⁵⁹ Nothing remarkable there. But when the outcome of that process is totally inconsistent with the underlying purposes of the statutory scheme, surely there should be some sort of idiot check to prevent this kind of result. Congress has added one provision after another to the Lanham Act to *help* the fight

³⁵³ *Id.* at 1162. (Avon disputed the allegation that its counsel had threatened litigation, but the court held that such well-pled allegations must be accepted as true for the purposes of resolving the motion to dismiss.)

³⁵⁴ *Id.* at 1160.

³⁵⁵ *K&N Eng’g, Inc. v. Bulat*, 510 F.3d 1079 (9th Cir. 2007).

³⁵⁶ *Id.* at 1081.

³⁵⁷ *K&N Eng’g, Inc. v. Bulat*, 259 Fed.Appx. 994, 2007 WL 4467563 (9th Cir. 2007).

³⁵⁸ *K&N Eng’g*, 510 F.3d at 1082-83.

³⁵⁹ *Id.* at 1081.

against counterfeit goods.³⁶⁰ Not once in recent history has Congress amended the Lanham Act to restrict the remedies or rights of trademark owners in counterfeit cases.³⁶¹

The statutory damages provision is a good example. Trademark owners often had trouble proving quantifiable losses due to counterfeiting. The fake Rolex watch example is a good one. Very few of the folks who buy ten dollar fake Rolex watches would have shelled out ten thousand dollars for the real thing. By allowing trademark owners to opt for statutory damages in counterfeit cases, Congress was filling a gap and ensuring that trademark owners receive some compensation for the injury caused by counterfeiting, even though that injury can be hard to quantify in an individual case.

Congress surely did *not* intend to simultaneously remove the trademark owners' right to recover the attorney fees expended in going after counterfeits! That would make no sense. In many, probably most, cases, the trademark owner will spend more on attorney fees than it would expect to recover in actual or statutory damages. This case is a good example, as the district court awarded five times more money in attorney fees than in statutory damages.³⁶² This decision is wrong. Congress needs to clarify its intent and make the statute clear on this point.

One other practical issue is striking about this case. If the Ninth Circuit held that the trademark owner could not opt for *both* statutory damages and attorney fees, why did the court not allow the trademark owner the choice of the two? After all, the district court did not impose this election requirement on the trademark owner. Clearly, if forced to pick, the trademark owner would have selected the attorney fees award in this case. The Ninth Circuit did not give the trademark owner that choice, and instead left it with the smaller of the two monetary awards.³⁶³ This decision is the worst of both worlds for the trademark owner.

³⁶⁰ See Brian J. Kearney, *The Trademark Counterfeiting Act of 1984: A Sensible Legislative Response to the Ills of Commercial Counterfeiting*, 14 FORDHAM URB. L.J. 115, 120-21 (1985/1986); See also, Sam Cocks, *The Hoods Who Move the Goods: An Examination of the Booming International Trade in Counterfeit Luxury Goods and an Assessment of the American Efforts to Curtail its Proliferation*, 17 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 501, 526-27 (2007).

³⁶¹ Trademark Act of 1946, 15 U.S.C. §§ 1051-1141 (2000).

³⁶² *K&N Eng'g*, 510 F.3d at 1081.

³⁶³ *Id.*

B. *American Rice, Inc. v. Producers Rice Mill, Inc.*³⁶⁴

This case involved a dispute over the use of trademarks on par-boiled rice sold in Saudi Arabia.³⁶⁵ This case involved an infringement claim and a breach of contract claim stemming from a settlement entered into after a prior dispute between the parties.³⁶⁶ The facts are interesting, and the infringement question rather close. The Fifth Circuit panel split on the infringement issue, with two judges voting to affirm³⁶⁷ and one judge, Jerry Smith, concluding the marks were simply too different to cause confusion.³⁶⁸ Though I can appreciate Judge Smith's reaction, I tend to agree with the majority. I don't see any clear error in the district court's findings.

The case involves two important recovery holdings. First, the court held that the plaintiff was entitled to recover the defendant's revenue as profits because the defendant failed to prove any deductions to its sales.³⁶⁹ This holding appears correct, though it may have been unfair under the circumstances. The defendant, rather than proving up specific deductions, presented evidence that its actual profits were quite small.³⁷⁰ This evidence was based on tax returns. The district court accepted this evidence, but the Fifth Circuit rejected it.³⁷¹ Perhaps the Fifth Circuit should have remanded on this point to allow the defendant the opportunity to present evidence of deductions. On the other hand, defendant should have presented that evidence to the district court, even though that court accepted the defendant's preferred argument. As a result of the Fifth Circuit's holding on this issue, the profits award went from \$227.10 to \$1,256,280.00.³⁷²

The second recovery issue involved the Texas election of remedies rule. The district court awarded profits under the Lanham Act and attorney fees based on the breach of contract claim.³⁷³ The attorney fees award was considerably less than the profits award

³⁶⁴ *American Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321 (5th Cir. 2008).

³⁶⁵ *Id.* at 326.

³⁶⁶ *Id.*

³⁶⁷ *Id.* at 330

³⁶⁸ *Id.* at 341 (dissenting opinion).

³⁶⁹ *Id.* at 338-41 (majority opinion).

³⁷⁰ *American Rice*, 518 F.3d at 337.

³⁷¹ *Id.* at 338-39.

³⁷² *Id.* at 340-41.

³⁷³ *Id.* at 335.

authorized by the Fifth Circuit, so the court held that the plaintiff could recover only the profits.³⁷⁴

Though the plaintiff probably was not very upset with the ultimate result, the election of remedies holding does provide an important practice note. Texas law likely makes it easier to obtain an award of attorney fees on a breach of contract theory than it would be to obtain such an award under the Lanham Act. But, if profits are awarded under the Lanham Act, the plaintiff should ask the court to also award attorney fees under the Lanham Act. After all, if there is sufficient evidence of bad faith to warrant a profits award based on the trademark claim, there is a good chance the same evidence would support an exceptional case finding and, thus, an award of attorney fees. This point is important under Texas law, and perhaps in other jurisdictions with election of remedies laws, because no election is required if both monetary awards are granted under the Lanham Act.

10. Other cases

A. *Schlotsky's, Ltd. v. Sterling Purchasing & National Distribution Co.*³⁷⁵

The owners of the Schlotsky's business went bankrupt in 2004.³⁷⁶ This case is partially a result of the financial troubles leading up to the bankruptcy. Defendant Sterling was appointed a non-exclusive distribution and supply chain manager.³⁷⁷ Sterling, however, went beyond its authority and claimed on several occasions to be the exclusive agent of Schlotsky's.³⁷⁸ In early 2005, the plaintiff, Schlotsky's, Ltd., became the owner of the trademarks and business, having purchased them from the bankruptcy court.³⁷⁹

Plaintiff selected two distribution agents and assigned them geographic regions.³⁸⁰ Sterling was not selected. When Sterling continued to claim more authority than it had and interfered with the

³⁷⁴ *Id.* at 336. The Fifth Circuit's treatment of the profits issue changed the result on the election of remedies issue. The district court found on \$227.10 in profits, but awarded \$383,986.10 in attorney fees, making the fees award the much larger of the two. The Fifth Circuit, however, increased the profits to \$1,256,635.00, making it the larger award and, thus, leading to an election of the profits remedy rather than the attorney fees remedy. *Id.* at 341.

³⁷⁵ *Schlotsky's, Ltd. v. Sterling Purchasing & Nat'l Distrib. Co.*, 520 F.3d 393 (5th Cir. 2008).

³⁷⁶ *Id.* at 395.

³⁷⁷ *Id.* at 396.

³⁷⁸ *Id.*

³⁷⁹ *Id.*

³⁸⁰ *Id.* at 396-97.

plaintiff's efforts to run its business, the plaintiff sued.³⁸¹ A jury found Sterling liable for willful violations of the Lanham Act.³⁸² The district court found that Sterling acted in bad faith, and awarded both injunctive relief and attorney fees.³⁸³

Sterling argued that the Lanham Act was not applicable, but the court rejected that argument.³⁸⁴ Plaintiff alleged that Sterling's statements were likely to cause confusion as to sponsorship or approval, and the evidence seemed to clearly support that claim.³⁸⁵ The Fifth Circuit also affirmed the injunctive relief and attorney fees awards.³⁸⁶ In sum, this case awarded both injunctive relief and fees based primarily on evidence of willful violations of the Lanham Act. By basing both awards on the Lanham Act claims, the plaintiff did not face the election of remedies issue raised in the *American Rice, Inc.* case discussed above.

B. *Applied Information Sciences Corp. v. eBay, Inc.*³⁸⁷

This was not a difficult case, but it does provide a good explanation of the proper way to evaluate a federal trademark infringement claim. The plaintiff has a federal registration for the mark SmartSearch for certain computer software and related materials.³⁸⁸ The defendant used the terms "Smart Search" for certain advanced search features available on its Internet auction site.³⁸⁹ The issue was whether the plaintiff's claim required proof that defendant's use was within the scope of the goods identified in the plaintiff's federal trademark registration.³⁹⁰ eBay argued that such evidence was required, and it appears the district court may have agreed; however, this point is not entirely clear.³⁹¹

The Ninth Circuit held that no such evidence is required.³⁹² Trademark infringement is a two-step analysis, the court explained.³⁹³ The first question is whether the plaintiff has a valid trademark

³⁸¹ *Schlotsky's, Ltd.*, 520 F.3d at 397.

³⁸² *Id.* at 397, 402.

³⁸³ *Id.*

³⁸⁴ *Id.* at 397-400.

³⁸⁵ *Id.* at 399.

³⁸⁶ *Id.* at 401-02.

³⁸⁷ *Applied Info. Sci. Corp. v. eBay*, 511 F.3d 966 (9th Cir. 2007).

³⁸⁸ *Id.* at 968-69.

³⁸⁹ *Id.* at 969.

³⁹⁰ *Id.* at 972.

³⁹¹ *Applied Info. Sci. Corp.*, 511 F.3d at 969.

³⁹² *Id.*

³⁹³ *Id.*

right.³⁹⁴ In this case, the plaintiff's U.S. trademark registration was sufficient evidence to prevent summary judgment for the defendant on this issue.³⁹⁵ The question raised by the plaintiff's assertion of its federal registration was whether the plaintiff was using the mark on goods or services within the scope of that registration.³⁹⁶ So long as plaintiff's use was within the scope of its registration, the plaintiff could rely on the registration as evidence that its trademark was valid.³⁹⁷ The nature of the defendant's use is irrelevant to the question of whether the plaintiff has valid trademark rights.³⁹⁸

It was, however, a somewhat hollow victory for the plaintiff. Though it won on the validity issue, the Ninth Circuit noted that the plaintiff failed to present any evidence or argument on the likelihood of confusion issue.³⁹⁹ Thus, eBay was entitled to summary judgment of no infringement.⁴⁰⁰ It appears the plaintiff moved for summary judgment without presenting any likelihood of confusion evidence. eBay then cross-moved for summary judgment, and eBay's motion was granted.⁴⁰¹

Though the case is odd—what infringement plaintiff would move for summary judgment without addressing the likelihood of confusion factors?⁴⁰²—it does provide some helpful explanation of the distinct nature of the validity and infringing issues.

C. *Estate of Francisco Coll-Monge v. Inner Peace Movement*⁴⁰³

This case raises an interesting question concerning ownership of trademarks registered by an individual who was a prominent leader of the non-profit corporations who used the marks. It is also a story about what happens when a key leader of a movement dies, and his heirs decide to change course.

³⁹⁴ *Id.*

³⁹⁵ *Id.* at 970.

³⁹⁶ *Id.*

³⁹⁷ *Applied Info Sci. Corp.*, 511 F.3d at 970.

³⁹⁸ *Id.* at 972-73.

³⁹⁹ *Id.* at 973.

⁴⁰⁰ *Id.*

⁴⁰¹ *Id.* at 969.

⁴⁰² The plaintiff could have moved for partial summary judgment on the validity issue alone. The decision is not clear on the scope of the plaintiff's motion. But even if this were true, the plaintiff still must gather and submit its infringement evidence in response to the defendant's motion for summary judgment on the infringement claim. The failure to do so is hard to understand.

⁴⁰³ *Estate of Francisco Coll-Monge v. Inner Peace Movement*, 524 F.3d 1341 (D.C. Cir. 2008).

Francisco Coll co-founded two non-profit corporations in the 1960s: Inner Peace Movement, Inc. and Peace Community Church.⁴⁰⁴ In the early 1990s, Coll registered some of the trademarks used by these non-profits.⁴⁰⁵ He died in 1999.⁴⁰⁶ His heirs apparently want to stop the non-profits from using the trademarks, or at least want to exercise control over such use, and perhaps require payment of royalties by the non-profits.⁴⁰⁷

The non-profit corporations claimed that Coll registered the marks on their behalf, in his capacity as president of the corporations.⁴⁰⁸ Plaintiffs argued that Coll was acting on his own behalf, and that he owned the marks under the related companies doctrine.⁴⁰⁹ This doctrine holds that when one party uses a trademark but a related company actually controls and directs the trademark use, the related company is the owner of the mark.⁴¹⁰ The use inures to the benefit of the controlling related company.⁴¹¹ Whether this doctrine should apply in this case could be decisive.

The district court granted summary judgment for the non-profits, holding that the related companies doctrine should not apply to non-profit organizations.⁴¹² The Court of Appeals for the District of Columbia reversed, holding that no such limitation can be placed on the related companies doctrine.⁴¹³ After reviewing the summary judgment record, which contained evidence that Coll did exercise a high degree of personal control over the non-profit corporations, the Court of Appeals concluded that genuine issues of material fact existed on this point.⁴¹⁴ Summary judgment, therefore, was reversed.⁴¹⁵

The decision here is reasonable, but the D.C. Circuit's explanation of the related companies doctrine leaves a bit to be desired. The court properly focused on the issue of control, but did not note that this case differs in key respects from the classic related companies scenario. In the paradigm scenario, one company owns the trademarks and controls the nature and manner of their use, while other "related" companies actually make use of the marks. A good

⁴⁰⁴ *Id.* at 1344.

⁴⁰⁵ *Id.* at 1345.

⁴⁰⁶ *Id.*

⁴⁰⁷ *Id.*

⁴⁰⁸ *Id.* at 1346.

⁴⁰⁹ *Inner Peace Movement*, 524 F.3d at 1347.

⁴¹⁰ *Id.* at 1347-48 (quoting 15 U.S.C. § 1055 (2006)).

⁴¹¹ *Id.* at 1348.

⁴¹² *Id.* at 1347.

⁴¹³ *Id.* at 1348.

⁴¹⁴ *Id.* at 1348-49.

⁴¹⁵ *Inner Peace Movement*, 524 F.3d at 1349.

example of a related companies situation is a corporation where one corporate entity owns and controls the corporate trademarks, while other corporate entities engage in the use of the marks. Franchising and trademark licensing by universities and sports teams are also good examples of where this doctrine applies.

In this case, there was no other distinct entity that owned or controlled the trademark uses, except Coll himself, who was an officer and director of the non-profit corporations.⁴¹⁶ It would seem the only way Coll, or more accurately, his heirs, could prevail on a related companies argument would be to prove that these non-profit corporations were sham entities (that they were alter-egos of Coll) or that Coll breached his fiduciary obligations to these corporations. This approach, however, should not succeed because the party who engages in a breach of fiduciary duties or who operates a sham corporation is *not* entitled to benefit from his actions.⁴¹⁷ If these non-profit corporations were valid corporations and observed the required corporate formalities, it would seem that Coll's heirs cannot win on the related companies issue.

D. *Paulsson Geophysical Services, Inc. v. Sigmar*⁴¹⁸

The issue in this case was extraterritoriality of the Lanham Act. This was the second case dealing with this issue from the Fifth Circuit this year.⁴¹⁹ In both cases, the court held the challenged acts had sufficient impact on commerce within the United States to justify an application of the Act.⁴²⁰

In this case, the defendants were accused of misusing plaintiff's trademarks in connection with business dealings in Mexico.⁴²¹ The defendants argued there was no subject matter jurisdiction because the alleged infringement occurred outside the United States.⁴²² The Fifth Circuit looked at whether the alleged acts of infringement had an impact on commerce in the United States, rather than where the acts occurred.⁴²³ Because defendants' acts appeared to have substantial impact on commerce in the United States, as the defendants obtained financing in the U.S. and obtained profits in

⁴¹⁶ *Id.* at 1349.

⁴¹⁷ *Feltman v. Prudential Bache Sec.*, 122 B.R. 466, 474 (S.D. Fla. 1990).

⁴¹⁸ *Paulsson Geophysical Servs., Inc. v. Sigmar*, 529 F.3d 303 (5th Cir. 2008).

⁴¹⁹ *See supra* notes 359-69 and accompanying text.

⁴²⁰ *See Sigmar*, 529 F.3d 303 at 309; *American Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 340 (5th Cir. 2008).

⁴²¹ *Sigmar*, 529 F.3d 303 at 305-06.

⁴²² *Id.* at 306.

⁴²³ *Id.* at 306-07.

the U.S., the court held there was subject matter jurisdiction under the Lanham Act.⁴²⁴

⁴²⁴ *Id.* at 308-09.



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The Death of *State Street*?

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Abstract

Last year marked the tenth anniversary of the Court of Appeals for the Federal Circuit’s opinion in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, holding that mathematical algorithms are patentable under section 101 of the Patent Act as long as they have “practical utility,” and that there is no “business method exception,” inviting ongoing debate over the value, validity, and public benefit of pertinent patents.¹ This article takes a look at what has happened since the issuance of that opinion, both at the Supreme Court and Federal Circuit level, including the 2007 Federal Circuit decisions in *In re Comiskey* and in *In re Nuijten* and last year’s en banc review of *In re Bilski*, which put at least part of *State Street* to rest.

I. Introduction

About one decade ago, in 1998, the United States Court of Appeals for the Federal Circuit—a unified federal appellate court that was established to better facilitate the review of patent cases,² and which has been called “pro-patent”³—held in *State Street Bank &*

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¹ *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375-76 (Fed. Cir. 1998).

² See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25; see also S. REP. No. 97-275 (1981), as reprinted in 1982 U.S.C.C.A.N. (96 Stat.) 25.

³ See Hon. Richard Linn, *The Future Role of the United States Court of Appeals for the Federal Circuit Now That It Has Turned 21*, 53 AM. U. L. REV. 731, 733 (2004) (“[T]he Federal Circuit was soon perceived to be a pro-patent court.”) [hereinafter Linn, *The Future Role*]; see also Paul M. Baisier & David G. Epstein,

Trust Co. v. Signature Financial Group, Inc. that, in determining whether a patent claim's subject matter fits within section 101 of the Patent Act, the courts "should not focus on *which* of the four categories of subject matter [listed in section 101] a claim is directed to—process, machine, manufacture, or composition of matter—but rather on the essential characteristics of the subject matter, in particular, its practical utility."⁴ The court continued to call the "business method exception,"⁵ which was believed to be a judicially-created doctrine excluding business methods from patentability, "ill-conceived," and held that the question "[w]hether [patent] claims are directed to subject matter within § 101 should not turn on whether the claimed subject matter does 'business' instead of something else."⁶

Patent experts have interpreted the Federal Circuit's holding in *State Street* to mean that the question of whether an invention is patentable subject matter turns solely on the question of its practical utility, while the four categories of subject matter provided in section 101 were more or less exemplary.⁷ *State Street* and the concept of patenting business methods led to ongoing controversial public debate over the value, validity, and public benefit of the same,⁸ including debates over specific controversial patents such as the Amazon.com one-click buy patent.⁹

In 2006, the Supreme Court of the United States took on patent cases for the first time in twenty-five years and issued opinions limiting patent owner and applicant's rights by qualifying doctrines established by the Federal Circuit. In one case, *eBay Inc. v. MercExchange, L.L.C.*, the Supreme Court abolished the established

Resolving Still Unresolved Issues of Bankruptcy Law: A Fence or An Ambulance, 69 AM. BANKR. L.J. 525, 539 (1995) ("The Federal Circuit has been criticized as being notoriously pro-patent." (citing Eric Schmitt, *Judicial Shift in Patent Cases*, N.Y. TIMES, Jan. 21, 1986, at D2)) [hereinafter Baisier & Epstein, *Resolving Still Unresolved Issues*].

⁴ *State Street*, 149 F.3d at 1375.

⁵ *Id.*

⁶ *Id.* at 1377.

⁷ See, e.g., Steven Seidenberg, *Patent Pushback: The Federal Circuit Gets the Message, May Be Loosening Patent Protections*, A.B.A. J. Dec. 2007, at 14, 15.

⁸ See, e.g., Michael S. Guntersdorfer & David G. Kay, *Software Patents Pro And Con*, IEEE SOFTWARE MAG., July-Aug. 2002, at 8, 8-10, available at <http://doi.ieeeecomputersociety.org/10.1109/MS.2002.10020> (responding to letters to the editor regarding previous publication: Michael S. Guntersdorfer & David G. Kay, *How Software Patents Can Support COTS Component Business*, IEEE SOFTWARE MAG., May-June 2002, at 78, available at <http://doi.ieeeecomputersociety.org/10.1109/MS.2002.1003460>).

⁹ See, e.g., Stephen Dirksen et al., *Who's Afraid of Amazon.com v. Barnesandnoble.com?*, 2001 DUKE L. & TECH. REV. 0003, ¶¶ 5-6, <http://www.law.duke.edu/journals/dltr/articles/2001dltr0003.html>.

concept of so-called “automatic injunctions” in patent infringement cases holding that consideration of an entry of a permanent injunction in a patent case is subject to the same four-factor test applicable in non-patent cases and that it is not automatic even after infringement has been found.¹⁰ In another case, *KSR International Co. v. Teleflex*, the Court tackled the question of when a patent claim is obvious and, therefore, unpatentable under section 103, broadening the way prior art could be used to find the same and demoting a showing of a motivation to combine such prior art to merely one way of proving obviousness, instead of a requirement.¹¹ Finally, in *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court clarified that accused patent infringers, and even licensees, may seek declaratory judgments of invalidity and/or noninfringement even without threat of suit.¹²

This new trend of limiting patent rights by the Supreme Court then arrived at the Federal Circuit. Aside from following the Supreme Court’s decisions, which the Federal Circuit is bound to do, the Federal Circuit appears to go beyond these holdings and seems to reign in other broad holdings as well. It has specifically done so to its holding in *State Street*, which the Supreme Court has already criticized in non-binding concurrences and dissents.¹³ This article reviews the jurisprudence of the patentability of business and computational methods and computer programs before and after *State Street*, and provides what appears to be the current rule after the Federal Circuit’s most recent decision in *In re Bilski*.

II. The Rise of *State Street*

Section 101 of the Patent Act, encoded in Title 35 of the United States Code, defines which inventions are patentable: “any new and useful process, machine, [article of] manufacture, or composition of matter, or any new and useful improvement thereof.”¹⁴ In the early twentieth century, the United States Supreme Court clarified that “scientific truth, or the mathematical expression of it, is not patentable invention,”¹⁵ and neither are “phenomena of nature.”¹⁶

¹⁰ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006).

¹¹ *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727, 1739-43 (2007).

¹² See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S. Ct. 764, 770-77 (2007).

¹³ See *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 136 (2006) (mem.) (Breyer, J., dissenting). See, e.g., *eBay*, 547 U.S. at 397 (Kennedy, J., concurring).

¹⁴ 35 U.S.C. § 101 (2006).

¹⁵ *Mackay Radio & Tel. Co. v. Radio Corp. of Am.*, 306 U.S. 86, 94 (1939).

¹⁶ *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948).

In 1972, the Supreme Court reiterated in *Gottschalk v. Benson* that mathematical formulae are not patentable.¹⁷ Accordingly, it rejected a software program that converted binary-coded decimal numbers into pure binary numbers as it “ha[d] no substantial practical application except in connection with a digital computer.”¹⁸ Six years later, the Court further rejected an application for a method that computed updated “alarm limits” based on temperature and other process factors during catalytic conversion in *Parker v. Flook*, even though “the claims cover a broad range of potential uses of the method,” including “in the petrochemical and oil-refining industries.”¹⁹ Indeed, claim one of the application asserted “[a] method for updating the value of at least one alarm limit on at least one process variable involved in a process comprising the catalytic chemical conversion of hydrocarbons”²⁰

The Court explained its decision as follows:

A competent draftsman could attach some form of post-solution activity to almost any mathematical formula; the Pythagorean theorem would not have been patentable, or partially patentable, because a patent application contained a final step indicating that the formula, when solved, could be usefully applied to existing surveying techniques. The concept of patentable subject matter under § 101 is not ‘like a nose of wax which may be turned and twisted in any direction’²¹

The Court added, “[t]he rule that the discovery of a law of nature cannot be patented rests, not on the notion that natural phenomena are not processes, but rather on the more fundamental understanding that they are not the kind of ‘discoveries’ that the statute was enacted to protect.”²² With regard to its prior holding in *Benson*, the *Flook* Court noted:

It should be noted that in *Benson* there was a specific end use contemplated for the algorithm— utilization of the

¹⁷ *Gottschalk v. Benson*, 409 U.S. 63, 71-72 (1972).

¹⁸ *Id.* at 71.

¹⁹ *Parker v. Flook*, 437 U.S. 584, 586 (1978).

²⁰ *Id.* at 596-97.

²¹ *Id.* at 590 (quoting *White v. Dunbar*, 119 U.S. 47, 51 (1886)).

²² *Flook*, 437 U.S. at 593.

algorithm in computer programming. . .
. . . Of course, as the Court pointed out,
the formula had no other practical
application; but it is not entirely clear
why a process claim is any more or less
patentable because the specific end use
contemplated is the only one for which
the algorithm has any practical
application.²³

In 1981, the Supreme Court engaged in a seeming U-turn, when it decided in *Diamond v. Diehr* that an invention could not be denied a patent solely because it contained a computer program.²⁴ Diehr had filed a patent application for a process for molding (“curing”) synthetic rubber.²⁵ The curing process depended on multiple factors such as rubber size, thickness, cure time and pressure, and the temperature inside the mold.²⁶ Diehr used a computer program that continuously measured the temperature on the inside of the mold and controlled the press accordingly.²⁷ The preamble to claim one read: “A method of operating a rubber-molding press for precision molded compounds with the aid of a digital computer, comprising:”²⁸

Hence, the invention in both *Flook* and *Diehr* used computer programs to regulate processes by continuously measuring variables such as temperature. The Court explained the distinction:

Parker v. Flook, supra, presented a similar situation. The claims were drawn to a method for computing an “alarm limit.” An “alarm limit” is simply a number and the Court concluded that the application sought to protect a formula for computing this number. Using this formula, the updated alarm limit could be calculated if several other variables were known. The application, however, did not purport to explain how these other variables were to be determined, nor did it purport “to

²³ *Id.* at 590 n.11 (citation omitted).

²⁴ *Diamond v. Diehr*, 450 U.S. 175, 187 (1981).

²⁵ *Id.* at 177.

²⁶ *Id.*

²⁷ *Id.* at 178-79.

²⁸ *Id.* at 181 n.5.

contain any disclosure relating to the chemical processes at work, the monitoring of process variables, or the means of setting off an alarm or adjusting an alarm system. All that it provides is a formula for computing an updated alarm limit.” In contrast, the respondents here [i.e., Diehr et al.] do not seek to patent a mathematical formula. Instead, they seek patent protection for a process of curing synthetic rubber. Their process admittedly employs a well-known mathematical equation, but they do not seek to pre-empt the use of that equation. Rather, they seek only to foreclose from others the use of that equation in conjunction with all of the other steps in their claimed process.²⁹

Hence, the key distinction was that *Diehr* only sought protection for use of a well-known equation within his specific, patentable invention, while the application in *Flook* contained no patentable invention “once th[e] algorithm [wa]s assumed to be within the prior art.”³⁰ In other words, the invention in *Diehr* was not the known formula itself, but it merely used the formula as part of a system that, overall, was inventive.³¹ The claimed invention in *Flook* was instead limited to computing the alarm limit only—which was not inventive by itself—and it “did not ‘explain how to select the approximate margin of safety, the weighing factor, or any of the other variables.’”³² Yet, some patent law scholars considered *Diehr* a “turning point.”³³ Combined with the establishment of the allegedly pro-patent Court of Appeals for the Federal Circuit,³⁴ and the

²⁹ *Id.* at 186-87 (quoting *Parker v. Flook*, 437 U.S. 584, 586 (1978) (footnote omitted)).

³⁰ *Flook*, 437 U.S. at 594.

³¹ *See Diehr*, 450 U.S. at 187.

³² *Id.* at 187 n.10 (quoting *Flook*, 437 U.S. at 586).

³³ *See, e.g., R. O. Nimtz, Diamond v. Diehr: A Turning Point*, 8 RUTGERS COMPUTER & TECH. L.J. 267, 270 (1981).

³⁴ *See* Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25; *see also* S. REP. No. 97-275 (1981), *reprinted in* 1982 U.S.C.C.A.N. (96 Stat.) 25.; Linn, *The Future Role*, *supra* note 3, at 733 (“[T]he Federal Circuit was soon perceived to be a pro-patent court.”). *See also* Baisier & Epstein, *Resolving Still Unresolved Issues*, *supra* note 3, at 539 (“The Federal Circuit has been criticized as

continued rise of computer technology in the 1980s and 90s—accompanied by a rise of computer-related patent applications³⁵—the Patent Office developed guidelines for computer-related inventions and began issuing patents that were explicitly software-related.³⁶

In 1998, the Federal Circuit effected the high watermark of software patentability. Until then, two exceptions to patentability had been recognized in the legal community: the mathematical algorithm exception (applying the so-called *Freeman-Walter-Abele* test to determine whether an algorithm was unpatentable because it only represented an abstract idea)³⁷ and, arguably, the business method exception.³⁸

In *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, the Federal Circuit found that the mathematical algorithm test was misleading³⁹ and that the business method exception had never existed as such (rather, that prior business method inventions had always been denied on other grounds).⁴⁰ The court held that instead of focusing on which one of the four listed categories the subject matter of an invention fits into, it is the practical utility requirement of section 101 of the Patent Act that is essential, namely whether a “useful, concrete and tangible result” is produced, which should be tested together with the requirements of novelty (section 102) and non-obviousness (section 103).⁴¹

being notoriously pro-patent.” (citing Eric Schmitt, *Judicial Shift in Patent Cases*, N.Y. TIMES, Jan. 21, 1986, at D2)).

³⁵ See, e.g., Jennifer Sullivan, *Net Overloads US Patent Agency*, WIRED.COM, May 4, 1999, <http://www.wired.com/print/politics/law/news/1999/05/19473> (“[Patent commissioner Todd] Dickinson says the number of computer-related patent applications has skyrocketed 250 percent during the Clinton administration.”).

³⁶ See UNITED STATES PATENT AND TRADEMARK OFFICE, MANUAL OF PATENT EXAMINING PROCEDURE § 2110 (4th ed. 1979, rev. 1981); see also United States Patent and Trademark Office, Examination Guidelines for Computer-Related Inventions, 61 Fed. Reg. 7478 (Feb. 28, 1996).

³⁷ See *In re Pardo*, 684 F.2d 912, 915 (C.C.P.A. 1982); see also *In re Freeman*, 573 F.2d 1237, 1246 (C.C.P.A. 1978); *In re Walter*, 618 F.2d 758, 767 (C.C.P.A. 1980); *In re Abele*, 684 F.2d 902, 907 (C.C.P.A. 1982).

³⁸ While it had made its way into legal treatises, the business method exception was never explicitly upheld. See 1-1 DONALD S. CHISUM, CHISUM ON PATENTS § 1.03[5] (2000) (discussing the rise and fall of the business method exception or exclusion). See also *In re Howard*, 394 F.2d 869, 870-72 (C.C.P.A. 1968) (mentioning the alleged business method exception but stopping short of deciding whether business methods are inherently unpatentable as suggested by concurring Judge Kirkpatrick).

³⁹ *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998) (quoting *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994)).

⁴⁰ *Id.* at 1375.

⁴¹ *Id.* at 1374-75 (quoting *Alappat*, 33 F.3d at 1544).

In *AT&T Corp. v. Excel Communications, Inc.*, the Federal Circuit affirmed its holding in *State Street*, expressing that the *State Street* opinion was “gui[ded]” by the Supreme Court’s decision in *Diehr*,⁴² and reiterating that ““after *Diehr* and *Chakrabarty*, the *Freeman-Walter-Abele* test has little, if any, applicability to determining the presence of statutory subject matter.”⁴³ However, the breadth of the *State Street* holding was arguably ignored subsequently in a less noticed decision by the Federal Circuit in *WMS Gaming Inc. v. International Game Technology*, where the court appears to rely solely on the previous rule expressed in *In re Alappat*.⁴⁴ In *Alappat*, the court had held that algorithms are patentable because they limit a general purpose computer to a specific purpose performing functions pursuant to the software, whereby creating a “special purpose machine.”⁴⁵ With regard to *State Street*, the *WMS Gaming* opinion only notes that the court in *State Street* agreed with the rule set out in *Alappat*, but the opinion does not mention *State Street*’s more sweeping statement that whether an invention constitutes a process, machine, manufacture or composition—the categories recited in section 101—is immaterial, as long as it has practical utility and also satisfies “the other ‘conditions and requirements’ of Title 35, including novelty, nonobviousness, and adequacy of disclosure and notice.”⁴⁶ If it is indeed only the utility which matters, and not whether an invention is a machine or not, focusing the analysis on whether an invention is a “special purpose machine” seems off mark.⁴⁷

However, overall, it appears that the spirit of the time was that “anything under the sun that is made by man” is patentable,⁴⁸ and it

⁴² *AT&T Corp. v. Excel Cmmc’ns, Inc.*, 172 F.3d 1352, 1357 (Fed. Cir. 1999).

⁴³ *Id.* at 1359 (quoting *State Street*, 149 F.3d at 1374). The Supreme Court’s holding in *Diamond v. Chakrabarty* regarded the patenting of laboratory-created micro-organisms, not software, but it is relevant as to the patentability of “products of nature.” See *Diamond v. Chakrabarty*, 447 U.S. 303, 309-11 (1980).

⁴⁴ *WMS Gaming Inc. v. Int’l Game Tech.*, 184 F.3d 1339, 1348-49 (Fed. Cir. 1999).

⁴⁵ *Id.* at 1348-49 (quoting *Alappat*, 33 F.3d at 1545).

⁴⁶ Compare *WMS Gaming*, 184 F.3d at 1349 n.4 with *State Street*, 149 F.3d at 1375.

⁴⁷ See generally *State Street*, 149 F.3d 1375.

⁴⁸ See, e.g., *Chakrabarty*, 447 U.S. at 309 (quoting S. REP. NO. 82-1979, at 5 (1952); H.R. REP. NO. 82-1923, at 6 (1952)). See also *Diamond v. Diehr*, 450 U.S. 175, 182 (1981) (quoting S. REP. NO. 82-1979, at 5 (1952); H.R. REP. NO. 82-1923, at 6 (1952)); *Hughes Aircraft Co. v. United States*, 148 F.3d 1384, 1385 (Fed. Cir. 1998) (Clevenger, J., dissenting) (referring to *State Street* when noting that “this court has recently held, virtually anything is patentable”); Michael Guntersdorfer, *Software Patent Law: United States And Europe Compared*, 2003 DUKE L. & TECH. REV. 0006, ¶ 34, <http://www.law.duke.edu/journals/dltr/articles/2003dltr0006.html>.

took a newly discovered interest in patent law by the Supreme Court to reign in the breadth of patentability.

III. The Supreme Court's Born-Again Interest in Patent Law

For quite some time, it appeared that the Supreme Court might have been waiting for the Congressional action it had repeatedly requested with regard to patentability of new technology, such as computer programs.⁴⁹ In *Gottschalk v. Benson*, the Court had stated:

If these programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed.⁵⁰

Indeed, after *Diamond v. Diehr*, the Supreme Court took a hiatus of a quarter of a century before it considered a patent case again in *eBay Inc. v. MercExchange, L.L.C.*⁵¹

In, *eBay* the issue was the standard for when to enter an injunction against a defendant who has been found a patent infringer.⁵² Before *eBay*, the “general rule [applied by the Federal Circuit was] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.”⁵³ This was sometimes referred to as an “automatic” injunction.⁵⁴

However, the Supreme Court expressly overruled this practice and returned to the “well established principles of equity [that] a

⁴⁹ See *Gottschalk v. Benson*, 409 U.S. 63, 73 (1972) (stating that “action by Congress is needed”); *Parker v. Flook*, 437 U.S. 584, 596 (1978) (stating that “a clear signal from Congress” was required (quoting *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972))).

⁵⁰ *Benson*, 409 U.S. at 73 (footnotes omitted).

⁵¹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

⁵² See *id.* at 390-91.

⁵³ *Id.* at 391 (quoting *eBay, Inc. v. MercExchange, L.L.C.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005)).

⁵⁴ See, e.g., D. Crouch, *eBay v. MercExchange: Automatic Injunction in Patent Cases*, PATENTLYO, Sept. 27, 2005, http://patentlaw.typepad.com/patent/2005/09/eBay_v_mercexch.html.

plaintiff seeking a permanent injunction must satisfy a four-factor test,” whether the case involves patent infringement or not, namely:

- (1) that [the plaintiff] has suffered irreparable injury;
- (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
- (4) that the public interest would not be disserved by a permanent injunction.⁵⁵

Technically, *eBay* only regarded permanent injunctions.⁵⁶ Preliminary injunctions are not discussed in the opinion.⁵⁷ Indeed, when considering preliminary injunctions, the test applied is slightly different to account for the different state of the proceeding: “the moving party may be entitled to a preliminary injunction if it establishes [the following] four factors: ‘(1) a reasonable likelihood of success on the merits, (2) irreparable harm if an injunction is not granted, (3) balance of hardships . . . ; and (4) . . . the public interest.’”⁵⁸

However, it has been held that “[t]he standard for a permanent injunction is essentially the same as for a preliminary injunction,” and that the new *eBay* rule applies to both standards.⁵⁹ Accordingly, district courts have relied on *eBay* when considering preliminary injunctions as well.⁶⁰ Indeed, in a recent opinion, the Federal Circuit scrutinized and affirmed a district court’s decision to enter a preliminary injunction, citing to *eBay* when it prefaced its discussion that “[i]n patent cases, traditional rules of equity apply to requests for injunctive relief.”⁶¹

⁵⁵ *eBay*, 547 U.S. at 391.

⁵⁶ *See id.* at 390.

⁵⁷ *See id.*, *passim*.

⁵⁸ *See, e.g.*, *Sanofi-Syntheolabo v. Apotex, Inc.*, 470 F.3d 1368, 1374 (Fed. Cir. 2006) (quoting *Amazon.com v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001)).

⁵⁹ *Carico Invs., Inc. v. Texas Alcoholic Beverage Comm’n*, 439 F. Supp. 2d 733, 750 (S.D. Tex. 2006); *see also Rx.com v. Hruska*, No. H-05-4148, 2006 WL 2583434, at *8 (S.D. Tex. Sept. 7, 2006).

⁶⁰ *See, e.g.*, *Seitz v. Envirotech Sys. Worldwide Inc.*, No. H-02-4782, 2007 WL 1795683, at *2 (S.D. Tex. June 19, 2007) (mem.).

⁶¹ *Canon Inc. v. GCC Int’l Ltd.*, No. 2006-1615, 2008 WL 213883, at *2 (Fed. Cir. Jan. 25, 2008) (citing *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006)).

A little less than one year after *eBay*, the Supreme Court also decided *KSR International Co. v. Teleflex*.⁶² In *KSR*, the Court overruled another Federal Circuit test, called the “teaching, suggestion, or motivation,” or TSM, test, which it rejected as too “rigid.”⁶³ Under this test, “a patent claim [was] only proved obvious if ‘some motivation or suggestion to combine the prior art teachings’ [could] be found in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art.”⁶⁴

Relying on its own precedent, the Supreme Court held that despite a “need for ‘uniformity and definiteness,’”⁶⁵ the question of obviousness is “a broad inquiry . . . invit[ing] courts, where appropriate, to look at any secondary considerations”⁶⁶ Accordingly, the Court found the Federal Circuit’s TSM test “inconsistent” with Supreme Court precedent.⁶⁷

One such previous case the Court relied on was *Sakraida v. AG Pro, Inc.*, which had held that “when a patent ‘simply arranges old elements with each performing the same function it had been known to perform’ and yields no more than one would expect from such an arrangement, the combination is obvious.”⁶⁸ Such “predictable variation[s],” whose patentability may be barred by 35 U.S.C. § 103, include ones drawn from elements found in “the same field *or a different one*.”⁶⁹ In other words, “familiar items may have obvious uses beyond their primary purposes, and in many cases a person of ordinary skill will be able to fit the teachings of multiple patents together like pieces of a puzzle.”⁷⁰ After all, “[a] person of ordinary skill is also a person of ordinary creativity, not an automaton.”⁷¹

The Court conceded that “[t]o facilitate review,” a court’s obviousness “analysis should be made explicit.”⁷² However, all that is required is that “there must be some articulated reasoning with some

⁶² *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 127 S. Ct. 1727, 1739-43 (2007).

⁶³ *Id.* at 1734, 1739-41.

⁶⁴ *Id.* at 1734 (quoting *Al-Site Corp. v. VSI Int’l, Inc.*, 174 F.3d 1308, 1323-24 (Fed. Cir. 1999)); *cf.* 35 U.S.C. § 103(a) (2006) (“A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter . . . would have been obvious . . . to a person having ordinary skill in the art . . .”).

⁶⁵ *KSR*, 127 S. Ct. at 1739 (quoting *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966)).

⁶⁶ *Id.* (citing *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966)).

⁶⁷ *Id.*

⁶⁸ *Id.* at 1740 (quoting *Sakraida v. AG Pro, Inc.*, 425 U.S. 273, 282 (1976)).

⁶⁹ *Id.* at 1739 (emphasis added).

⁷⁰ *Id.* at 1742.

⁷¹ *Id.*

⁷² *Id.* at 1741.

rational underpinning to support the legal conclusion of obviousness.”⁷³ “[T]he analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim”⁷⁴

In dismissing the TSM test, the Supreme Court recognized that “[h]elpful insights . . . need not become rigid and mandatory formulas.”⁷⁵ Finding that “[i]n many fields it may be that there is little discussion of obvious techniques or combinations,” the Court held that “obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents.”⁷⁶ Contrary to the United States Court of Appeals for the Federal Circuit’s view that “[o]bvious to try’ has long been held not to constitute obviousness,”⁷⁷ the Supreme Court held that “the fact that a combination was obvious to try *might* show that it was obvious under § 103.”⁷⁸ Therefore, “any need or problem known in the field of endeavor at the time of invention and addressed by the patent can provide a reason for combining the elements in the manner claimed.”⁷⁹

The Supreme Court also weakened patentees when it declared in early 2007 that licensees may sue their licensors in declaratory judgment actions, seeking a finding of invalidity or noninfringement.⁸⁰ Before this decision, a common perception had been that a party could not ask for such judicial declaration “unless the patentee threatened the alleged infringer with an infringement claim.”⁸¹ The problem for licensees was that “so long as [they] continue[d] to pay royalties, there [was] only an academic, not a real controversy, between the parties.”⁸² However, the Supreme Court held in *MedImmune, Inc. v. Genentech, Inc.* that the case or controversy requirement of Article III is satisfied where a licensee is essentially paying royalties “under protest,” while believing that the patent at issue is really invalid or not infringed.⁸³ The licensee is not required to first breach the license agreement to

⁷³ *Id.* (quoting *In re Kahn*, 441 F.3d 977, 988 (Fed. Cir. 2006)).

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ *Teleflex, Inc. v. KSR Int’l Co.*, 119 Fed. Appx. 282, 289 (Fed. Cir. 2005) (quoting *In re Deuel*, 51 F.3d 1552, 1559 (Fed. Cir. 1995)), *rev’d* 127 S. Ct. 1727 (2007).

⁷⁸ *KSR*, 127 S. Ct. at 1742 (emphasis added).

⁷⁹ *Id.*

⁸⁰ *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S. Ct. 764, 770-77 (2007).

⁸¹ *See* Eliot G. Disner, *Putting Some Common Sense Back into Patent Enforcement*, LOS ANGELES LAW., Dec. 2007, at 44, 44.

⁸² *MedImmune*, 127 S. Ct. at 773 (quoting *Altwater v. Freeman*, 319 U.S. 359, 364 (1943)).

⁸³ *See id.* (quoting *Altwater*, 319 U.S. at 365).

create an actual infringement controversy, thereby “risk[ing] treble damages and the loss of [most] of its business.”⁸⁴

The Court almost took another patent case in 2006, entitled *Laboratory Corp. of America Holdings v. Metabolite Laboratories, Inc.*, but then dismissed the writ of certiorari as having been improvidently granted.⁸⁵ However, the dissenting opinion by Justice Breyer, joined by Justices Stevens and Souter, could be understood as a harbinger of what was ahead.⁸⁶ Noting that “too much patent protection can impede rather than ‘promote the Progress of Science and useful Arts,’”⁸⁷ Justice Breyer took a direct stab at *State Street*: “That case does say that a process is patentable if it produces a ‘useful, concrete and tangible result.’ But this Court has never made such a statement and, if taken literally, the statement would cover instances where this Court has held the contrary.”⁸⁸

In sum, it appears that the Supreme Court decided that it was time to reign in the Federal Circuit on patent-favorability and substitute its own somewhat mechanical rules by underlying more general principles, thereby requiring greater consideration and balancing of case-specific factors and arguably reducing the predictability of a specific case’s outcome. It is up for discussion whether the Supreme Court’s recent opinions were influenced by the rising unpopularity of “patent trolls”—a derogative term coined in 2001 by Intel Corp.’s assistant general counsel Peter Detkin to describe TechSearch L.L.C., the plaintiff in a patent suit filed against Intel.⁸⁹ Consistent with Detkin’s use of the term in reference to TechSearch, “patent trolling” has been invoked often by others who disagree with the business models of entities such as Acacia Research Corporation, NTP, Inc., Rambus, Inc., Ronald A. Katz Technology Licensing, L.P., the plaintiff MercExchange, L.L.C. in the *eBay* case, and others—entities that engage in the business of securing or acquiring patents for the purpose of licensing the patented technology to other businesses (and suing those who use the technology but decline to acquire the licenses), while producing or offering few or no products themselves.⁹⁰ However, in *eBay*, concurring Justice

⁸⁴ *Id.* at 775.

⁸⁵ See *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 124 (2006).

⁸⁶ *Id.* at 125-39 (Breyer, J., dissenting).

⁸⁷ *Id.* at 126-27 (emphasis omitted) (quoting U.S. Const. art. I, § 8, cl. 8).

⁸⁸ *Id.* at 136 (citation omitted).

⁸⁹ See, e.g., Lisa Lerer, *Meet the Original Patent Troll*, IP LAW & BUSINESS, July 20, 2006, <http://www.law.com/jsp/article.jsp?id=1153299926232>.

⁹⁰ See, e.g., Christopher A. Harkins, *Fending Off Paper Patents And Patent Trolls: A Novel “Cold Fusion” Defense Because Changing Times Demand It*, 17 ALB. L.J. SCI. & TECH. 407, 466-67 (2007).

Kennedy—joined by Justices Stevens, Souter and Breyer—addressed this industry specifically, and also took another stab at business method patents:

In cases now arising[,] trial courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition[,] injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.⁹¹

IV. A Back-Paddling Federal Circuit

The Federal Circuit is, of course, bound by the new Supreme Court precedent. For example, it has rigorously enforced the *eBay*

⁹¹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396-97 (2006) (Kennedy, J., concurring) (citations omitted).

holding, even overturning erroneous district court decisions on an “abuse of discretion” standard.⁹² Indeed, it enforced *MedImmune* just as strictly: for example, recognizing that “[t]he Supreme Court’s opinion in *MedImmune* represents a rejection of our reasonable apprehension of suit test,” the court vacated a district court’s dismissal of a declaratory judgment action against a patent owner which was based on this former Federal Circuit test in *SanDisk Corp. v. STMicroelectronics, Inc.*⁹³ However, while commenting in the previously quoted concurrence and dissent in *eBay* and *Metabolite*, respectively, the Supreme Court has yet to issue a binding opinion rejecting *State Street*. And indeed, the Court may never will, as the Federal Circuit has arguably started to paddle back already all by itself.

In *In re Comiskey*, the Federal Circuit considered a patent application for a method for mandatory arbitration, a method it characterized “may be viewed as falling within the general category of ‘business method’ patents.”⁹⁴ The written description described “an automated system” implementing this method using a “computer on a network,” and some of the application’s claims were geared toward such system, but some others claimed the pure method without requiring “use of a mechanical device such as a computer.”⁹⁵

While technically affirming the holding in *State Street* that there is no general business method exception, the court also cautioned that *State Street* does not stand for the “patentability of business methods generally” either, but that “business methods ‘are subject to the same legal requirements for patentability as applied to any other process or method.’”⁹⁶ The court further cautioned that while “Congress intended statutory subject matter to include anything under the sun made by man,” “that this statement does ‘not . . . suggest that

⁹² See *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363, 1379-80 (Fed. Cir. 2008) (holding that “whether an injunction is warranted in a patent case is to be determined, as in other cases, according to the well established four part test” and that the district court abused its discretion when it entered a permanent injunction, because the plaintiff would not be irreparably harmed by the defendant’s future sales as it was awarded royalties that included an “upfront entry fee,” and the irreparably harm factor “greatly outweigh[ed] the other *eBay* factors in this case” (citing *eBay*, 547 U.S. at 391)). See also *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1359 (Fed. Cir. 2008) (affirming the district court’s dissolution of a permanent injunction in light of the *eBay* decision based on a finding of absence of irreparable harm and disservice to the public interest).

⁹³ 480 F.3d 1372, 1380, 1383 (Fed. Cir. 2007).

⁹⁴ *In re Comiskey*, 499 F.3d 1365, 1368-70, 1373-74 (Fed. Cir. 2007).

⁹⁵ *Id.* at 1368-70.

⁹⁶ *Id.* at 1374 (quoting *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1371, 1375, 1377 (Fed. Cir. 1998)).

§ 101 has no limits or that it embraces every discovery.”⁹⁷ So far, the holding includes no big surprises, but then the court continues:

“[T]he question is whether the method described and claimed is a ‘process’ within the meaning of the Patent Act.”

....

[T]he Supreme Court has held that a claim reciting an algorithm or abstract idea can state statutory subject matter only if, as employed in the process, it is embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter, i.e., a machine, manufacture, or composition of matter. .

. . . “[T]he Supreme Court has recognized only two instances in which such a method may qualify as a section 101 process: when the process ‘either [1] was tied to a particular apparatus or [2] operated to change materials to a ‘different state or thing.’”

....

[A] claim that involves both a mental process and one of the other categories of statutory subject matter (i.e., a machine, manufacture, or composition) may be patentable under § 101.

....

However, mental processes--or processes of human thinking--standing alone are not patentable even if they have practical application.⁹⁸

A requirement that a claim that involves a mental process must also involve one of the other categories of statutory subject matter expressly listed in section 101, namely a machine, manufacture or composition,⁹⁹ appears in stark contrast to the Federal Circuit’s previous holding in *State Street* that “[t]he question of whether a claim encompasses statutory subject matter should *not* focus on *which* of the

⁹⁷ *Id.* at 1375 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

⁹⁸ *Id.* at 1375-77 (quoting *Gottschalk v. Benson*, 409 U.S. 63, 64 (1972); quoting *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978); citing *Benson*, 409 U.S. at 67; *Diamond v. Diehr*, 450 U.S. 175, 182 n.7, 184 (1981) (citations omitted)).

⁹⁹ *See Comiskey*, 499 F.3d at 1377 (citing *Diehr*, 450 U.S. at 184).

four categories of subject matter a claim is directed to,” “but rather on the essential characteristics of the subject matter, in particular, its practical utility.”¹⁰⁰ Instead, *Comiskey* appears to reinvolve focus on these distinct categories when considering patentability under section 101.¹⁰¹

Based on this analysis, the court concluded that the pure method claims at issue did not fall within section 101, and remanded the case with regard to the other claims for determination “whether the addition of general purpose computers or modern communication devices to *Comiskey*’s otherwise unpatentable mental process would have been non-obvious to a person of ordinary skill in the art,” hinting at unpatentability of those remaining claims under section 103.¹⁰² Some commentators have interpreted this holding to “add[] another proviso,” namely, “[t]o be considered patentable subject matter, the inventor’s process must either be implemented by a specific type of machine or change materials to a different state.”¹⁰³

In *In re Nuijten*, a patent appeal case decided by the Federal Circuit on the same day as *Comiskey*, the court went straight to the *State Street* controversy to resolve the apparent conflict described above.¹⁰⁴ The claims at issue in *Nuijten* involved electrical or electromagnetic signals, described via process of encoding the same.¹⁰⁵ The court held that a transitory signal did not fit any of the four categories of patentable subject matter of section 101 and was, therefore, unpatentable.¹⁰⁶ The court clarified the apparent discrepancy with *State Street* as follows:

Before embarking on an analysis considering each of the four categories, we must address a prior statement of this court which *Nuijten* argues forecloses such an analysis. In *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir. 1998), we noted that “[t]he question of whether a claim encompasses statutory subject matter should not focus on which of the four categories of subject matter a claim is directed to—process, machine,

¹⁰⁰ *State Street*, 149 F.3d at 1375 (emphasis added; footnote omitted).

¹⁰¹ See *Comiskey*, 499 F.3d at 1375-77.

¹⁰² *Id.* at 1380-81.

¹⁰³ See Seidenberg, *supra* note 7, at 15.

¹⁰⁴ *In re Nuijten*, 500 F.3d 1346, 1353-54 (Fed. Cir. 2007).

¹⁰⁵ See *id.* at 1351.

¹⁰⁶ *Id.* at 1353-57.

manufacture, or composition of matter—but rather on the essential characteristics of the subject matter, in particular, its practical utility.” However, we do not consider this statement as a holding that the four statutory categories are rendered irrelevant, non-limiting, or subsumed into an overarching question about patentable utility. . . . In telling courts where they “should not focus” their analysis, *State Street* was advising not to be concerned about debates over “*which* of the four categories,” *id.* (emphasis added), subject matter falls into—that is, not to be overly concerned with pigeonholing subject matter once the court assures itself that *some* category has been satisfied. If, for instance, a court determines that a claim encompasses either a process or machine but is unsure which category is appropriate, it need not resolve the ambiguity. The claim must be within at least one category, so the court can proceed to other aspects of the § 101 analysis.¹⁰⁷

In other words, it is not the practical utility alone that section 101 requires—as many patent experts had understood *State Street* to hold¹⁰⁸—but an invention still has to fit into *at least* one of the four listed categories, even if it does not fit into a single one.¹⁰⁹

For those who wonder why the product-by-process¹¹⁰ signal claim at issue in *Nuijten* did not qualify as a manufacture, it should come as a consolation that the Federal Circuit was not unanimous on this issue either: Judge Gajarsa, writing for the two-judge majority of

¹⁰⁷ *Id.* at 1353-54 (footnote omitted).

¹⁰⁸ See Seidenberg, *supra* note 7, at 15.

¹⁰⁹ *Nuijten*, 500 F.3d at 1354.

¹¹⁰ Product-by-process claims allege a product, “which . . . is defined at least in part in terms of the method or process by which it is made.” *Nuijten*, 500 F.3d at 1355 (quoting *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1315 (Fed. Cir. 2006)). Such claims are for example used for chemical compositions, where describing the process of making the same is more feasible than describing the structure of the resulting composition. See *SmithKline*, 439 F.3d at 1315.

the three-member panel, explains that a “manufacture” has to be some sort of “tangible article[] or commodit[y].”¹¹¹ A transient signal that could be “encoded on an electromagnetic carrier and transmitted through a vacuum—a medium that, by definition, is devoid of matter,” did not qualify.¹¹² Dissenting Judge Linn saw it differently.¹¹³ In the spirit of “anything under the sun that is made by man,” he sees no tangibility requirement for “manufacture,” and since the claimed signal was also “new” and “useful,” it passed section 101 in Judge Linn’s view.¹¹⁴

This year, *State Street* faced further scrutiny: In February, the Federal Circuit granted a re-hearing, *en banc*, in *In re Bilksi*,¹¹⁵ an appeal from the Patent and Trademark Office’s Board of Patent Appeals and Interferences’ final rejection of a patent application for a financial “method of managing the consumption risk costs associated with a commodity sold at a fixed price, . . . , for example, . . . energy.”¹¹⁶ The full panel addressed the questions of (i) whether such method is patentable under section 101, (ii) what standard should govern patentability under section 101, (iii) whether the method at issue constitutes an abstract idea or mental process and when a claim that contains mental and physical steps constitutes patentable subject matter, (iv) whether a patentable method or process must result in physical transformation or be tied to a machine, and (v) whether to reconsider *State Street* (and *AT&T Corp.*).¹¹⁷ Forty amicus briefs were filed by many prominent entities too numerous to list them all here.

My prediction at the time was that the Supreme Court’s holdings in *eBay*, *KSR*, and *MedImmune*, overruling or limiting more stringent, and arguably pro-patent, tests established by the Federal Circuit, combined with Justices Kennedy’s and Breyer’s comments in *eBay* and *Metabolite*, respectively, suggested hostility toward the *State Street* holding,¹¹⁸ and may cause the Federal Circuit to further limit or

¹¹¹ *Nuijten*, 500 F.3d at 1356.

¹¹² *Id.* at 1357.

¹¹³ *See id.* at 1358-69 (Linn, J., dissenting).

¹¹⁴ *See id.* at 1358-59 (quoting *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980)).

¹¹⁵ 264 Fed. Appx. 896, 897 (Fed. Cir. 2008).

¹¹⁶ Brief of Appellants at 3, *In re Bilski*, 264 Fed. Appx. 896, 897 (Fed. Cir. 2008) (No. 2007-1130). It is notable that the method at issue in *State Street* was a financial method as well, namely a “[d]ata processing system for hub and spoke financial services configuration.” *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1370 (Fed. Cir. 1998); *see also* U.S. Patent No. 5,193,056 (filed Mar. 11, 1991).

¹¹⁷ *Bilski*, 264 Fed. Appx. at 897.

¹¹⁸ *See eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395-97 (2006) (Kennedy, J., concurring); *Lab. Corp. of Am. Holdings v. Metabolite Lab., Inc.*, 548 U.S. 124, 136-37 (2006) (Breyer, J., dissenting).

qualify *State Street*¹¹⁹ to preempt another overruling by the High Court. And indeed, on October 30, 2008, the Federal Circuit issued its *en banc* opinion in *In re Bilski*¹²⁰ and did exactly that.

When considering whether Bilski's financial risk management method fit into any of the subject matter categories of section 101, the court determined by method of exclusion that the claims were "not directed to a machine, manufacture, or composition of matter," and the issue was, therefore, whether they fit within the meaning of the term "process" as found in section 101.¹²¹ Relying on *Flook, Diehr*, and *Benson*, the court held that the meaning of "process" within section 101 is narrower than the ordinary meaning of the word, namely excluding processes that claim "laws of nature, natural phenomena, [or] abstract ideas."¹²² Honing in on *Diehr*, the court then clarified that unpatentable processes are those that "seek to pre-empt the use of" a fundamental principle," as opposed to "claims that seek only to foreclose others from using a particular 'application' of that fundamental principle."¹²³ This, the court said, is "[t]he question before us"¹²⁴

To resolve this question of "whether [a] claim recites a fundamental principle and, if so, whether it would pre-empt substantially all uses of that fundamental principle," the court turned to the Supreme Court's "machine-or-transformation test," which had been established in *Benson*.¹²⁵ Specifically, the test asks whether "(1) [the process] is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing."¹²⁶ The Federal Circuit explained:

A claimed process involving a fundamental principle that uses a particular machine or apparatus would not pre-empt uses of the principle that do not also use the specified machine or apparatus in the manner claimed. And a claimed process that transforms a particular article to a specified different

¹¹⁹ Cf. *In re Comiskey*, 499 F.3d 1365, 1374-77 (Fed. Cir. 2007); *Nuijten*, 500 F.3d at 1353-54.

¹²⁰ See *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008).

¹²¹ See *id.* at 951.

¹²² *Id.* at 952 (quoting *Diamond v. Diehr*, 450 U.S. 175, 185 (1981) (citing *Parker v. Flook*, 437 U.S. 584, 588-89 (1978) and *Gottschalk v. Benson*, 409 U.S. 63, 67 (1972))).

¹²³ *Id.* at 953 (quoting *Diehr*, 450 U.S. at 187).

¹²⁴ *Id.* at 954.

¹²⁵ See *id.* at 954-60 (citing *Benson*, 409 U.S. at 70).

¹²⁶ *Id.* at 954 (citing *Benson*, 409 U.S. at 70).

state or thing by applying a fundamental principle would not pre-empt the use of the principle to transform any other article, to transform the same article but in a manner not covered by the claim, or to do anything other than transform the specified article.¹²⁷

The court applied this principle to show why the process claim in *Diehr* was patentable—“operat[ing] on a computerized rubber curing apparatus and transform[ing] raw, uncured rubber into molded, cured rubber products,” and, therefore, “me[eting] both criteria”¹²⁸—while the alarm limit calculation in *Flook* was neither “tied to any specific machine or apparatus” nor “limited to any particular chemical (or other) transformation,” and, therefore, unpatentable.¹²⁹ However, the court also cautioned that, when applying the test, one must also consider whether these limitations are actually limiting: pointing to the facts of *Benson*, the Federal Circuit showed that mindless application of the test could have led to the conclusion that since the claimed binary-coded decimal numbers to pure binary numbers conversion process was technically tied to a digital computer, i.e., a specific machine or apparatus, and, therefore, patentable.¹³⁰ But since the process had no application other than on a digital computer, it would have pre-empted the fundamental principle regardless, and was, therefore, really unpatentable.¹³¹

After discussing, and relying on, Supreme Court precedence, the Federal Circuit eventually takes an ax to some of its own prior holdings, including *State Street*.¹³² At first, the court seems to affirm *State Street*, insofar as it confirms that the *Freeman-Walter-Abele* test is “inadequate” to determine patentability of processes,¹³³ which *State Street* had found as well.¹³⁴ Indeed, *Bilski* also “reaffirm[s]” the holding of *State Street* that “the so-called ‘business method exception’ was unlawful.”¹³⁵

However, then, the Federal Circuit discards the “useful, concrete, and tangible result” test, which had been established in

¹²⁷ *Id.*

¹²⁸ *See id.* (citing *Diehr*, 450 U.S. at 187).

¹²⁹ *See id.* at 955 (citing *Parker v. Flook*, 437 U.S. 584, 586, 595 (1978)).

¹³⁰ *See id.* (citing *Benson*, 409 U.S. at 71-72).

¹³¹ *See id.*

¹³² *See id.* at 959.

¹³³ *See id.*

¹³⁴ *See State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998).

¹³⁵ *See Bilski*, 545 F.3d at 960.

Alappat, and on which *State Street* and also *AT&T* had relied, as “inadequate.”¹³⁶ Hedging with regard to the purpose of these prior holdings, the court provides that “looking for ‘a useful, concrete and tangible result’ may in many instances provide useful indications of whether a claim is drawn to a fundamental principle or a practical application of such principle,” but cautions that this inquiry alone “is insufficient to determine whether a claim is patent-eligible under section 101.”¹³⁷ The court explains that this test “was certainly never intended to supplant the Supreme Court’s test” and reaffirms the Supreme Court’s “machine-or-transformation test” as “the proper test to apply” instead.¹³⁸

Finally, with regard to its prior holding in *Comiskey*, the Federal Circuit clarifies that any interpretation of that decision that it “applied a new section 101 test that bars any claim reciting a mental process that lacks significant ‘physical steps,’” was incorrect.¹³⁹ Instead, the court had “simply recognized that the Supreme Court has held that mental processes, like fundamental principles, are excluded by section 101,” and *Comiskey* “actually applied the machine-or-transformation test”¹⁴⁰

V. Conclusion

After twenty-five years of arguable broadening of patent owner rights by the Federal Circuit, the Supreme Court has initiated a reversal of the trend, and the Federal Circuit has acknowledged this trend. After the Federal Circuit arguably broadened patentability under section 101 to include all inventions with practical utility that produce a “useful, concrete and tangible result,”¹⁴¹ regardless of which and how they fit into any of the enumerated categories of process, machine, manufacture or composition of matter,¹⁴² arguably treating these enumerated categories as mere examples,¹⁴³ we are now back to the 1972 *Benson* “machine or transformation test.”¹⁴⁴ However, by

¹³⁶ See *id.* at 959-60 (citing *State Street*, 149 F.3d at 1373; *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994); *AT&T Corp. v. Excel Cmmc’ns, Inc.*, 172 F.3d 1352, 1357 (Fed. Cir. 1999)).

¹³⁷ See *id.* at 959.

¹³⁸ *Id.* at 959-60.

¹³⁹ See *id.* at 960; cf. Seidenberg, *supra* note 6, at 15.

¹⁴⁰ *Bilksi*, 545 F.3d at 960.

¹⁴¹ See *State Street*, 149 F.3d at 1374-75.

¹⁴² See *id.*; cf. 35 U.S.C. § 101 (2006).

¹⁴³ See Seidenberg, *supra* note 7, at 15.

¹⁴⁴ See *Bilksi*, 545 F.3d at 954-60 (citing *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972)).

also relying on *Diehr*,¹⁴⁵ which originally made way to the patenting of computer programs,¹⁴⁶ and by reaffirming that there is no “business method exception,”¹⁴⁷ business methods and mathematical algorithms should still be patentable under the following conditions:

Section 101 requires not only that a patentable invention must have “practical utility,” but it also must fall into the patentable categories of “process, machine, manufacture, or composition.”¹⁴⁸ The invention does not have to neatly fit into one single category—for example, it may be considered both a machine and a process at the same time.¹⁴⁹ But the invention must still fit within the sum of the scope carved out by the enumerated categories of patentable subject matter together, i.e., it must be “within *at least one* category,” but it may arguably fall within more than one.¹⁵⁰ For example, “a claim that involves both a mental process and one of the other categories of statutory subject matter [. . .] may be patentable.”¹⁵¹

Hence, computer programs and mathematical algorithms should still be patentable inventions as part of a machine if they limit a general purpose computer to a special purpose “machine,”¹⁵² thereby being tied to a machine,¹⁵³ or if they effect a “transformation” of another patentable category, e.g., a “manufacture” or “composition of matter.”¹⁵⁴

In other words, to the extent they ever truly existed, the days of any business method or algorithm, even with practical utility, being patentable by itself may be over. However, patenting computer programs that implement such a method or algorithm, thereby limiting a general purpose computer to a special purpose *machine*, should still be possible. And if the method or algorithm can be linked in such way to a manufacture or composition (instead of a machine) that the invention meets the “transformation test,” then such combination should constitute patentable subject matter as well. One way a method

¹⁴⁵ See *id.* at 952-58.

¹⁴⁶ See *Diamond v. Diehr*, 450 U.S. 175, 187 (1981).

¹⁴⁷ See *Bilski*, 545 F.3d at 960.

¹⁴⁸ 35 U.S.C. § 101 (2006); see also *In re Nuijten*, 500 F.3d 1346, 1353-54 (Fed. Cir. 2007).

¹⁴⁹ *Nuijten*, 500 F.3d at 1354.

¹⁵⁰ *Id.* (emphasis added).

¹⁵¹ *In re Comiskey*, 499 F.3d 1365, 1377 (Fed. Cir. 2007).

¹⁵² See *In re Alappat*, 33 F.3d 1526, 1545 (Fed. Cir. 1994); *WMS Gaming, Inc. v. Int'l Game Tech.*, 184 F.3d 1339, 1348-49 (Fed. Cir. 1999).

¹⁵³ See *Bilski*, 545 F.3d at 954-60 (citing *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972)).

¹⁵⁴ See *id.*

or algorithm can be linked to a manufacture or composition is if it
“change[s] materials to a different state.”¹⁵⁵

* * *

¹⁵⁵ See Seidenberg, *supra* note 7, at 15 (citation omitted); see also *Comiskey*, 499 F.3d at 1375 n.10, 1377.



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**THE FAMOUS MARKS DOCTRINE: A CALL FOR AMERICAN COURTS
TO GRANT TRADEMARK RIGHTS TO FAMOUS FOREIGN MARKS**

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I. INTRODUCTION

Last year, the United States Court of Appeals for the Second Circuit rejected a trademark infringement claim by a restaurant owner in India who claimed that a New York City restaurant misappropriated his mark. Although the New York City restaurant substantially imitated the Indian restaurant, the Second Circuit determined that the Indian owner had no substantive rights under the Lanham Act because he had not used the mark in commerce in the United States. With this decision, the Second Circuit altered the landscape for the foreign famous marks doctrine.¹ By diverging from the Ninth Circuit's adoption of the famous marks doctrine, the Second Circuit only added to the unsettled nature of this doctrine.

This paper argues that the Second Circuit's decision was erroneous and that federal courts should affirmatively adopt the famous marks exception to the territoriality principle of trademarks. In Part I, we discuss the relevant principles associated with the territoriality principle and the famous marks doctrine, including a brief history of the creation of the doctrine. In Part II, we provide an objective analysis of the Ninth Circuit's decision to adopt the famous marks doctrine and the Second Circuit's decision to reject it. In Part III, we argue that federal courts should adopt the famous marks doctrine in accordance with the language of the Lanham Act, prior judicial opinions, and sound policy rationales. Finally, Part IV provides a brief conclusion summarizing our analysis and arguments.

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¹ Throughout this paper the terms "famous marks doctrine," "famous marks exception," and the "well-known marks doctrine" should be treated synonymously.

A. The Territoriality Principle of Trademarks

Territoriality is a well-settled and basic United States trademark law principle. This principle essentially states that substantive rights in a trademark exist independently in each country. Accordingly, “ownership of a mark in one country does not automatically confer upon the owner the exclusive right to use that mark in another country.”² Thus, United States courts will not maintain jurisdiction over actions that seek to enforce those trademark rights that only exist under foreign trademark law.³

According to the territoriality principle, a trademark owner must use its mark within the territory of the United States to gain federal protection under the Lanham Act.⁴ Indeed, the territoriality principle states that “foreign use [of a mark] is ineffectual to create trademark rights in the United States.”⁵ Therefore, unless a foreign mark holder can provide evidence which shows use in commerce within the United States, that owner generally does not have the right to gain protection for that mark in the United States.⁶

The territoriality principle was specifically promulgated in the Paris Convention for Industrial Property in 1883 (hereinafter “Paris Convention”).⁷ Specifically, Article 6(3) of the Paris Convention states that “[a] mark duly registered in a country of the Union shall be regarded as independent of marks registered in other countries of the Union, including the country of origin.”⁸

B. The Famous Marks Doctrine

Although the territoriality principle is a long-standing and well-established doctrine in United States trademark law, some United

² *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 155 (2d Cir. 2007).

³ *E. Remy Martin & Co. v. Shaw-Ross Int’l Imports, Inc.*, 756 F.2d 1525, 1531 (11th Cir. 1985).

⁴ *ITC*, 482 F.3d at 155.

⁵ *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.*, 495 F.2d 1265, 1271 n.4 (2d Cir. 1975).

⁶ *ITC*, 482 F.3d at 156 (citing *Person’s Co. v. Christman*, 900 F.2d 1565, 1569-70 (Fed. Cir. 1990)).

⁷ Although the United States was not present at the Convention in 1883, it became a signatory nation on May 30, 1887. *See* World Intellectual Property Organization, Contracting Parties – Paris Convention, *available at* <http://www.wipo.int> (follow “treaties” hyperlink; then follow “Paris Convention” hyperlink; then follow “Contracting Parties [PDF]” hyperlink) (last visited Nov. 26, 2007).

⁸ Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1583, 1970 WL 104436 at Article 6(3).

States courts have carved out an exception to this general principle for famous foreign marks. Under this famous marks exception, “a trademark or service mark is protected within a nation if it is well known in that nation even though the mark is not actually used or registered in that nation.”⁹ For example, assume a famous German car manufacturer’s trademark is recognized by a substantial number of American citizens for its superior quality. Under the famous marks doctrine the German car manufacturer could potentially prevent American car manufacturers from exploiting its trademark, regardless of whether the German car manufacturer had used the mark in the United States.

The famous marks doctrine is derived from the 1925 addition of Article 6bis to the Paris Convention. Article 6bis requires member states to:

refuse or to cancel the registration . . . [of a mark which is] liable to create confusion, [when that] mark [is] considered by the competent authority of the country of registration or use to be *well known* in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.¹⁰

Although the language of Article 6bis appears to mandate the protection of famous foreign marks, the Paris Convention is not necessarily binding on American courts. Indeed, the majority of United States courts that have addressed the issue have concluded that the Paris Convention is not self-executing.¹¹ Thus, congressional

⁹ 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:64 at 29-182 (4th ed. 2002) [hereinafter MCCARTHY].

¹⁰ Paris Convention for the Protection of Industrial Property, Mar. 20 1883, as rev. at The Hague, Nov. 6, 1925, 21 U.S.T. 1583, 828 U.N.T.S. 305 at Article 6^{bis}(1) (emphasis added).

¹¹ See, e.g., *Empresa Cubana Del Tabaco v. Culbro Corp.*, 399 F.3d 462, noted in *Empresa Cubana Del Tabaco v. Culbro Corp.*, 73 U.S.P.Q.2d (BNA) 1936 (2d Cir. 2005); *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894 (9th Cir. 2002); *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287 (3rd Cir. 1979). See *In re Rath*, 402 F.3d 1207, 1209 (Fed. Cir. 2005) (“[W]e find that the Paris Convention is not a self-executing treaty and requires congressional implementation.”); *Int’l Cafe v. Hard Rock Cafe Int’l, Inc.*, 252 F.3d 1274, 1277 n.5 (11th Cir. 2001) (“The Paris Convention is not self-executing because, on its face, the Convention provides that it will become effective only through domestic legislation.”). *But see* *Davidoff Extension S.A. v. Davidoff Int’l, Inc.*, 612 F. Supp. 4, 8 (S.D. Fla. 1984) (“The Paris Convention is self-executing and, by virtue of Article VI of the U.S. Constitution, a part of the law to be enforced by the courts.” (addressing an argument based upon *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956))), *aff’d without op.*,

enacting legislation is necessary to create substantive rights under the Paris Convention.¹² Although Congress has enacted much of the Paris Convention through the Lanham Act, it remains unclear whether the famous marks doctrine articulated in Article 6bis has been enacted through the Lanham Act.

II. THE CURRENT CIRCUIT SPLIT

While many federal district courts disagree on whether the famous marks doctrine should be adopted, only two federal circuit courts have directly ruled on the issue. In 2004, the Ninth Circuit Court of Appeals expressly adopted the famous marks doctrine in *Grupo Gigante S.A. De C.V. v. Dallo & Co.* (hereinafter “*Grupo Gigante*”).¹³ Subsequently, in 2007, the Second Circuit Court of Appeals expressly rejected the famous marks doctrine in *ITC Ltd. v. Punchgini, Inc.* (hereinafter “*ITC*”).¹⁴

A. The Ninth Circuit’s Adoption of the Famous Marks Doctrine

In *Grupo Gigante*, the appellant, a Mexican corporation, had operated a large chain of grocery stores named “Gigante” exclusively in Mexico since 1962.¹⁵ By 1991, the corporation had almost one hundred grocery stores in Mexico using the Gigante name, including six stores just south of the United States-Mexico border in Baja.¹⁶ In 1991, Michael Dallo, knowing of Gigante’s success in Mexico, began operating a grocery store named “Gigante Market” just north of the United States-Mexico border in San Diego.¹⁷ When Grupo Gigante explored the possibility of expanding its stores into Southern California, it discovered Dallo’s use and sued him for infringement of its “Gigante” trademark.¹⁸

Although Grupo Gigante had not used its “Gigante” trademark in commerce in the United States, the Ninth Circuit adopted the famous marks exception to the territoriality principle to allow Grupo

774 F.2d 1178 (11th Cir. 1985); *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956) (stating in dictum that the Paris Convention is self-executing).

¹² See cases cited *supra* note 11.

¹³ *Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F.3d 1088, 1094 (9th Cir. 2004).

¹⁴ *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 172 (2d Cir. 2007).

¹⁵ *Grupo Gigante*, 391 F.3d at 1091.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.* at 1091-92.

Gigante to enforce its trademark rights in the United States.¹⁹ In adopting the famous marks doctrine, the Ninth Circuit stated:

While the territoriality principle is a long-standing and important doctrine within trademark law, it cannot be absolute. An absolute territoriality rule without a famous-mark exception would promote consumer confusion and fraud. Commerce crosses borders. In this nation of immigrants, so do people. Trademark is, at its core, about protecting against consumer confusion and ‘palming off.’ There can be no justification for using trademark law to fool immigrants into thinking that they are buying from the store they liked back home.²⁰

To preserve the territoriality principle, the Ninth Circuit held that mere secondary meaning was not sufficient to implicate the famous marks exception.²¹ Instead, “the court must be satisfied, by a preponderance of the evidence, that a *substantial* percentage of consumers in the relevant American market are familiar with the foreign mark.”²² In making this determination, the court looked to factors such as “the intentional copying of the mark by the defendant, and whether customers of the American firm are likely to think they are patronizing the same firm that uses the mark in another country.”²³ Therefore, the Ninth Circuit required a level of brand recognition higher than mere secondary meaning, but not necessarily as high as is required for anti-dilution protection.²⁴

B. The Second Circuit’s Rejection of the Famous Marks Doctrine

Whereas the Ninth Circuit has chosen to adopt the famous marks doctrine, the Second Circuit recently declined to adopt the doctrine. In early 2008, the Second Circuit looked at the famous marks doctrine in conjunction with a North Indian restaurant. In *ITC*,²⁵ the plaintiff, a restaurant corporation based out of New Delhi, India, had created an extremely popular dining bistro called “Bukhara”

¹⁹ *Id.* at 1094.

²⁰ *Grupo Gigante*, 391 F.3d at 1094.

²¹ *Id.* at 1098.

²² *Id.* (emphasis in original).

²³ *Id.*

²⁴ See MCCARTHY, *supra* note 9, § 29:4 at 29-15.

²⁵ 482 F.3d 135.

(hereinafter “ITC-Bukhara”). ITC-Bukhara gained substantial popularity for its quality in New Delhi.²⁶ This popularity enabled ITC to open several other ITC-Bukhara restaurants throughout the world, including locations in Chicago and New York.²⁷ Nonetheless, from 1986 to 1997 ITC-Bukhara enjoyed minimal success in the United States, and due to a downturn in the restaurant industry, ITC closed down both of its restaurants in New York and Chicago.²⁸

In 1999 the defendants, Punchgini Inc., who had previously worked at ITC-Bukhara in New York, created the “Bukhara Grill.” Based in New York, Bukhara Grill serves North Indian cuisine and has the same décor, wood slab menus, staff uniforms, and logos as ITC-Bukhara.²⁹ Indeed, the Second Circuit found that the Bukhara Grill and ITC-Bukhara showed, “numerous similarities,” which were “suggestive of deliberate copying.”³⁰ Nonetheless, the Second Circuit refused to adopt a famous marks exception to the territoriality principle, thus denying ITC-Bukhara relief.³¹

In coming to its decision, the Second Circuit distinguished several pertinent cases, which had previously adopted the famous marks doctrine. First, the Second Circuit looked to various Trademark Trial and Appeal Board (hereinafter “T.T.A.B.”) decisions. The Second Circuit acknowledged that the T.T.A.B. found, on multiple occasions, that use of the famous foreign marks in the United States was not required in order to receive trademark protection.³² However, the court read those T.T.A.B. decisions to be void of any language which indicates that the “famous marks doctrine derives from any provision of the Lanham Act or other federal law.”³³ The Court distinguished the T.T.A.B. decisions largely on account of their reliance on cases decided under New York state unfair competition

²⁶ In 2002 and 2003, “Restaurant” magazine declared the New Delhi Bukhara one of the world’s fifty best restaurants. *Id.* at 143 n.4.

²⁷ *ITC*, 482 F.3d at 143.

²⁸ The Second Circuit found that ITC abandoned its Bukhara restaurants in New York and Chicago after it closed them down permanently in 1997. *Id.* at 147-53.

²⁹ *Id.* at 144.

³⁰ *Id.*

³¹ *Id.* at 161.

³² *Id.* at 158-59. *See also* All England Lawn Tennis Club v. Creations Aromatiques, 220 U.S.P.Q. 1069 (T.T.A.B. 1983) (holding the opposer had acquired rights in the term “WIMBLEDON” as the phrase had acquired fame and notoriety in connection with the annual tennis championship); *Mother’s Rests. v. Mother’s Other Kitchen*, 218 U.S.P.Q. 1046 (T.T.A.B. 1983) (arguing a foreign mark may have priority over the first use of a similar mark in the United States if the foreign mark is a “famous” mark); *Vaudable v. Montemarte, Inc.*, 193 N.Y.S.2d 332 (N.Y. Sup. Ct. 1959) (granting injunction restraining defendant’s from using the name “Maxim’s” to the owner of the famous French restaurant, Maxim’s).

³³ *ITC*, 482 F.3d at 159.

law.³⁴ In addition, the Second Circuit distinguished the Ninth Circuit's decision in *Grupo Gigante*. Again the court looked specifically for any explicit holding tending to show that the Lanham Act includes language which enacts the famous marks doctrine.³⁵ The Second Circuit dismissed the Ninth Circuit's findings, commenting that the decision was made purely on policy grounds.³⁶ Specifically, the court stated that "it appears that the Ninth Circuit recognized the famous marks doctrine as a matter of sound policy."³⁷

Finally, the Second Circuit looked directly to the language of the Lanham Act and the Paris Convention to find that the language of §44(h) of the Lanham Act only requires national treatment.³⁸ This national treatment, as viewed by the Second Circuit, simply meant that "foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens."³⁹ However, the court acknowledged that its reading of §44(h) is in stark contrast to leading trademark commentator, Professor J. Thomas McCarthy.⁴⁰

Overall, the Second Circuit relied heavily on the express language of the Lanham Act. The court stated that the famous marks doctrine must be expressly included in the Lanham Act for federal courts to judicially recognize it. Furthermore, the court noted that Congress has amended the Act more than thirty times since 1947, but has not included language adopting the famous marks doctrine.⁴¹ Bearing this in mind, the Second Circuit opted to "wait for Congress to express its intent more clearly."⁴²

³⁴ *Id.* (stating that the T.T.A.B.'s "reliance on *Vaudable* suggests that recognition [of a famous marks doctrine] derives from state common law.").

³⁵ *Id.* at 159-60.

³⁶ *Id.* at 160. It is important to note that the Second Circuit acknowledged that the famous marks doctrine would create sound policy. *Id.* at 165.

³⁷ *Id.* at 160.

³⁸ *ITC*, 482 F.3d. at 162.

³⁹ *Id.*

⁴⁰ McCarthy reads § 44(h) as giving a statutory entitlement to "effective protection against unfair competition," and that its language is "coextensive with the substantive provisions of [Article 6bis]." See 5 MCCARTHY, *supra* note 9, at § 29:4, at 20-21 (quoting *Toho Co., Ltd. v. Sears, Roebuck & Co.*, 645 F.2d 788, 792 (9th Cir. 1981)).

⁴¹ *ITC*, 482 F.3d at 164.

⁴² *Id.*

III. THE FAMOUS MARKS DOCTRINE SHOULD BE ADOPTED BY AMERICAN COURTS

All United States federal courts should interpret the Lanham Act to incorporate the famous marks doctrine of Article 6bis of the Paris Convention for five distinct reasons. First, the plain language of Lanham Act Sections 44(b), 44(h), and 44(i) indicates that Article 6bis should be incorporated into United States trademark law. Second, even if the plain language of Sections 44(b) and 44(h) is ambiguous, it must be interpreted in accordance with Article 6bis under the Charming Betsy Canon. Third, the famous marks doctrine comports with the geographic nature of secondary meaning delineated in the Tea Rose-Rectanus Doctrine. Fourth, federal courts should attempt to create uniformity with the many state and federal courts that have adopted the famous marks doctrine, because Congress has impliedly ratified those courts' interpretation of the Lanham Act. Finally, the famous marks doctrine should be adopted to fulfill the overarching policy objectives of United States trademark law and global expansion.

A. The Plain Language of Lanham Act Sections 44(b), 44(h), and 44(i) Indicates That Congress Intended to Adopt the Famous Marks Doctrine.

Sections 44(b) and 44(h) of the Lanham Act, when read together, indicate that Congress intended to adopt the famous marks doctrine of Article 6bis of the Paris Convention. Section 44(b) specifically states: Any person whose country of origin is a party to any convention . . . to which the United States is also a party . . . *shall* be entitled to the benefits of this section . . . *to the extent necessary to give effect to any provision of such convention, treaty or reciprocal law.*⁴³

Furthermore, Section 44(h) of the Lanham Act declares that “[a]ny person designated in subsection (b) of this section . . . shall be entitled to effective protection against unfair competition, and the remedies provided [herein].”⁴⁴ Thus, when reading these two provisions together, foreign mark holders are entitled to effective protection against unfair competition to the extent necessary to give effect to Article 6bis of the Paris Convention.⁴⁵ Since Article 6bis

⁴³ 15 U.S.C. § 1126(b) (2006) (emphasis added).

⁴⁴ *Id.* § 1126(h).

⁴⁵ *See Toho Co. Ltd.*, (“[T]he federal right created by subsection 44(h) is co-extensive with the substantive provisions of the treaty involved . . . In this way,

mandates the refusal or cancellation of registration for famous foreign marks, federal courts should adopt the famous marks doctrine to give Article 6bis its intended effect.

Section 44(i) also implies that Congress intended the Lanham Act to adopt the famous marks doctrine. Specifically, Section 44(i) states that “[c]itizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b) of this section.”⁴⁶ However, the Lanham Act already conveys the rights to effective protection from unfair competition to United States citizens through other sections of the Lanham Act.⁴⁷ Therefore, Section 44(i) would be superfluous if it did not extend substantive trademark rights beyond those already existing in other sections of the Lanham Act. Since statutes must be construed to give full effect to each provision,⁴⁸ Section 44(i) should be construed to extend the substantive rights of the Lanham Act to include rights promulgated through Article 6bis of the Paris Convention. Thus, to give Section 44(i) its fully intended effect, federal courts should adopt the famous marks doctrine.

B. If the Lanham Act is Considered Ambiguous, the Charming Betsy Canon Mandates that Federal Courts Should Adopt the Famous Marks Doctrine.

Although federal courts should find that Lanham Act Section 44 adopts the famous marks doctrine as discussed *supra*, any potential ambiguity in Section 44 should be interpreted so as to comply with Article 6bis of the Paris Convention. In *Murray v. Schooner Charming Betsy*, the Supreme Court of the United States declared that “an act of Congress ought never to be construed to violate the law of nations if any other possible construction remains.”⁴⁹ The term “law of nations” is interpreted to mean international law, such as treaties and conventions.⁵⁰ Federal courts have used this canon, the

subsections (b) and (h) work together to provide federal rights and remedies implementing federal unfair competition treaties.”)

⁴⁶ 15 U.S.C. § 1126(i).

⁴⁷ See *General Motors Corp. v. Ignacio Lopez de Arriortua*, 948 F. Supp. 684, 689 (E.D. Mich. 1996) (“Interpreting section 44(b) as merely requiring “national treatment” renders section 44(i) superfluous.”).

⁴⁸ *United States v. Menasche*, 348 U.S. 528, 538-39 (1955) (“It is our duty ‘to give effect, if possible, to every clause and word of a statute.’”) (quoting *Inhabitants of Montclair v. Ramsdell*, 107 U.S. 147, 152 (1883)).

⁴⁹ *Murray v. Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804).

⁵⁰ See *Sale v. Haitian Centers Council, Inc.*, 509 U.S. 155, 178 (1993).

“Charming Betsy Canon,” to interpret Section 44 of the Lanham Act on multiple occasions.⁵¹

Under the modern Charming Betsy Canon, when a statutory ambiguity exists, the court must construe the statute to comply with international treaties. Thus, if a court finds Section 44 of the Lanham Act ambiguous regarding the adoption of the famous marks doctrine, it must construe Section 44 to comply with Article 6bis of the Paris Convention. Therefore, since Article 6bis contains the famous marks doctrine, Section 44 should be construed to incorporate the famous marks doctrine.

C. The Famous Marks Doctrine Complies With the Geographic Nature of Secondary Meaning Outlined in the Tea Rose-Rectanus Doctrine.

Under the Tea Rose-Rectanus Doctrine,⁵² secondary meaning defines the geographic area in which a user has priority.⁵³ This doctrine essentially states that a good faith junior user may establish priority rights in an area that is geographically remote from that of the senior user.⁵⁴ Although this appears to imply that “use in commerce” is necessary for priority, the Tea Rose-Rectanus Doctrine is predicated on the territorial definition of secondary meaning, not just the geographical extent of actual use.⁵⁵ As the Ninth Circuit stated:

[s]econdary meaning comes into play in determining just how far each user’s priority extends. Courts ask whether the first geographically limited use of the mark is well-known enough that it has gained secondary meaning not just within the area where it has been used, but also within the remote area, which is usually the area where a subsequent user is claiming the right to use the mark.⁵⁶

⁵¹ See *In Re Rath*, 402 F.3d at 1211; *Crocker Nat’l Bank v. Canadian Imperial Bank of Commerce*, 223 U.S.P.Q. (BNA) 909, 924 (T.T.A.B. 1984).

⁵² The name of the doctrine comes from two pre-Lanham Act Supreme Court cases, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916) (the “Tea Rose” case) and *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

⁵³ *Grupo Gigante*, 391 F.3d at 1096.

⁵⁴ See *Hanover Star Milling*, 240 U.S. at 403; *United Drug*, 248 U.S. at 90.

⁵⁵ *Hanover Star Milling*, 240 U.S. at 415-16 (“Into whatever markets the use of a trademark has extended, or its meaning has become known, there will the manufacturer or trader whose trade is pirated by an infringing use be entitled to protection and redress.”).

⁵⁶ *Grupo Gigante*, 391 F.3d at 1097.

Therefore, under both the Tea Rose-Rectanus Doctrine and the famous marks doctrine, a trademark owner with secondary meaning in a geographical territory should receive priority regardless of actual use in that territory.

D. All Federal Courts Should Follow the Many Courts Which Have Already Adopted the Doctrine.

When interpreting statutory language, courts should consider past judicial constructions of the same statutory language.⁵⁷ Indeed, federal courts should use prior judicial interpretations of the Lanham Act, especially from sister circuits, as persuasive authority for Section 44 construction.⁵⁸ Many state and federal courts, including the Ninth Circuit and the T.T.A.B., have expressly adopted the famous marks doctrine of Article 6bis.⁵⁹ Congress' reluctance to overrule the many courts that have adopted the famous marks doctrine implies that Congress intended to incorporate the famous marks doctrine into the Lanham Act. Considering that the Ninth Circuit adopted the famous marks doctrine in 2004 and the Second Circuit only recently rejected the doctrine in 2007,⁶⁰ Congress' inactivity would tend to weigh in favor of adopting the famous marks doctrine.⁶¹ Furthermore, all federal courts should adopt the famous marks doctrine to achieve the uniformity of trademark regulation which Congress attempted to achieve through enactment of the Lanham Act.⁶²

⁵⁷ See *Montgomery v. Huntington Bank*, 346 F.3d 693, 699 (6th Cir. 2003); *United States v. Herrera*, 289 F.3d 311, 320 (5th Cir. 2002).

⁵⁸ See *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1298-1302 (11th Cir. 2001).

⁵⁹ See e.g. *Grupo Gigante*, 391 F.3d at 1088; *Empresa Cubana del Tabaco v. Culbro Corp.*, 70 U.S.P.Q.2d 1650 (S.D.N.Y. 2004); *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate, Inc.*, 2005-1 Trade Cas. (CCH) P 74795, 2005 WL 1164073 (S.D.N.Y. 2005); *All England Lawn Tennis Club.*, 220 U.S.P.Q. 1069; *Mother's Rests*, 218 U.S.P.Q. 1046; *Vaudable*, 193 N.Y.S.2d 332; *Maison Prunier v. Prunier's Rest. & Café*, 288 N.Y.S. 529 (N.Y. Sup. Ct. 1936).

⁶⁰ See *Grupo Gigante*, 391 F.3d at 1098; *ITC*, 482 F.3d at 165.

⁶¹ This proposition is shown by Congress' decision not to amend the Lanham Act after the Ninth Circuit's decision in 2004. Conversely, Congress has not had a sufficient opportunity to amend the Lanham Act since the Second Circuit's decision earlier this year.

⁶² See *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 193 F.2d 77, 80 (2d Cir. 1952) ("the [Lanham] [A]ct created rights uniform throughout the Union."); *Centaur Commc'ns, Ltd. v. A/S/M Comm'ns, Inc.*, 830 F.2d 1217, 1219 (2d Cir. 1987) ("Congress intended . . . to establish uniform regulation of trademarks thereby eliminating the possibility that remedies would vary from state to state.").

1. Federal Courts Should Give Substantial Deference to the Trademark Trial and Appeal Board's Decision to Adopt the Famous Marks Doctrine.

If a court finds Section 44 of the Lanham Act to be ambiguous regarding the adoption of the famous marks doctrine, it should follow the T.T.A.B. decisions to adopt the famous marks doctrine under the Chevron Doctrine. Under the Chevron Doctrine, if an administrative agency is tasked with interpreting a particular statute, and that statute is ambiguous with respect to a specific issue, the courts will defer to the agency's reasonable interpretation of the statute.⁶³ Since the T.T.A.B. is charged with interpreting the Lanham Act,⁶⁴ federal courts should give substantial weight to its decision to adopt the famous marks doctrine. Indeed, even the *ITC* court stated that the T.T.A.B. is "to be accorded great weight under general principles of administrative law requiring deference to an agency's interpretation of the statutes it is charged with administering."⁶⁵

Currently, the T.T.A.B. has adopted the famous marks doctrine on at least two occasions. In *All England Lawn Tennis Club v. Creations Aromatiques*, the T.T.A.B. held that a foreign user of the "Wimbledon" mark could block a United States registrant from registering the trademark "Wimbledon Cologne," even though the foreign user had not used the "Wimbledon" mark in commerce in the United States.⁶⁶ Additionally, in *Mother's Rests. v. Mother's Other Kitchen*, the T.T.A.B. held that the Canadian trademark "Mother's Pizza Parlour" for restaurant services was likely to cause confusion with "Mother's Other Kitchen" in the United States.⁶⁷ Although each of these cases seemed to rely on precedent involving New York's unfair competition law, instead of the Lanham Act, their holdings are unequivocal: a famous marks exception to the territoriality principle exists. Therefore, federal courts should follow the T.T.A.B. by adopting the famous marks doctrine.

⁶³ See *Chevron v. Natural Res. Def. Council*, 467 U.S. 837 (1984).

⁶⁴ The T.T.A.B. is responsible for reviewing whether a trademark may be registered and conducting opposition and cancellation proceedings. See 15 U.S.C. §§ 1051, 1063-64.

⁶⁵ *ITC*, 482 F.3d at 159 (internal quotes omitted).

⁶⁶ *All England Lawn Tennis Club*, 220 U.S.P.Q. at 1072.

⁶⁷ *Mother's Rests*, 218 U.S.P.Q. at 1049.

- E. Courts Should Adopt the Famous Marks Doctrine Because it Comports with the Underlying Goals of Trademark Law, it Accounts for Good Faith Intentions, and it is Consistent with the Developing Globalization of Today's Marketplace.

In addition to the guidance of the T.T.A.B., the Charming Betsy Canon, the Tea Rose-Rectanus Doctrine, and the language of the Lanham Act, sound policy rationale supports adoption of a famous marks exception. Initially, and perhaps most importantly, the famous marks doctrine is consistent with the overarching goals of trademark law. Moreover, a failure to adopt the doctrine leaves courts without the necessary tools to account for the bad faith intentions of infringing parties. Finally, the expansion of globalized trade, advertising, travel, and immigration requires adoption of the doctrine in order to prevent confusion.

1. Courts Should Adopt the Famous Marks Doctrine Because it Enhances the Basic Goals of United States Trademark Law.

Trademark law was designed to safeguard against several harms. These safeguards include the prevention of “palming off,” the protection of goodwill, the protection and enhancement of atmospherics, and the ability to control the quality of products and services. Adopting a famous marks exception furthers each of these basic goals. Specifically, absent adoption, a would-be infringer can openly copy the mark of a foreign user and palm off that good or service as an original. If foreign famous marks can be readily copied and passed off as originals, United States consumers may end up paying more for an infringer’s lesser quality products. Here, the basic trademark goals of protecting atmospherics and preventing palming off are furthered by adoption of the famous marks doctrine. For example, envision a Columbian coffee manufacturer who is widely recognized in his country for the quality of his product, but did not gain effective protection of that coffee in the United States. If this manufacturer failed to foresee a viable market in the United States, and thus did not register his mark or take the necessary precautions, an “enterprising entrepreneur”⁶⁸ could take advantage of the Columbian

⁶⁸ While admittedly somewhat sarcastic, the term “enterprising entrepreneur” was developed by Fredrick W. Mostert in his article which provides an in-depth analysis of the pervasive development of global trademarks. See Fredrick W. Mostert, *Well-Known and Famous Marks: Is Harmony Possible in the Global Village?*, 86 TRADEMARK REP. 103, 104 (1996).

manufacturer's popularity by exploiting his goodwill. As a result, the relevant consumer population would be paying a higher atmospheric-based cost without benefiting from the Columbian manufacturer's superior quality.

The potential risk of goodwill exploitation is another reason why adoption of the famous marks doctrine comports with basic trademark goals. The ability of people to find foreign famous marks and palm them off in the United States as originals leaves goodwill vulnerable. A good example of this potential risk is found in *Vaudable v. Montmartre*.⁶⁹ In *Vaudable*, an extravagant and famous French restaurant in Paris was recreated by the defendant in New York City. The New York restaurant used the same interior, design, sign script, and name of its French counterpart without the permission of the French user.⁷⁰ This type of infringement upon a famous foreign mark is especially troubling because it only takes a single instance of bad publicity, on behalf of the New York restaurant to tarnish the goodwill already achieved by the French original. A poor health inspection, a notorious incident, or even just bad food could lead many people to think poorly of the innocent French restaurant, thus leading to dilution of the foreign user's mark.⁷¹

The ostensible ability of United States entrepreneurs to dilute foreign famous marks also causes a problem regarding foreign policy. Comity with others nations presents a unique rationale for accepting the famous marks doctrine. The golden rule of "do unto other as you would have them do unto you," applies in the international realm. It is unreasonable for foreign nations to give Americans' famous marks protection abroad if the United States is unwilling to grant other countries the same courtesies.⁷² For instance, Brazil and China both currently provide protection for unregistered American famous marks.⁷³ Thus, it is both sound foreign policy and wise for United States courts to follow suit by adopting the famous marks doctrine.

⁶⁹ *Vaudable*, 193 N.Y.S.2d at 332.

⁷⁰ *Id.* at 334.

⁷¹ See also, 5 MCCARTHY, *supra* note 9, at § 29:61 (acknowledging that one of the primary reasons for the famous marks doctrine is to protect mark owners from having their goodwill exploited by "trademark pirates who rush to register a famous mark on goods on which it has not yet been registered in a nation by the legitimate foreign owner.").

⁷² See also, *ITC*, 482 F.3d at 164-65 (noting that the ITC argued that the United States should be the first nation to start the trend of reciprocal protection for foreign famous marks).

⁷³ See Lei No. 9.279, de 14 de Maio de 1996, D.O., 15.05.1996. (Brazil), available at http://www.wipo.int/clea/docs_new/en/br/br003en.html; Chi Keung Kwong, *Well-known Mark Protection in China, Hong Kong, Macau and Taiwan*, World Trademark Law Report, July 7, 2004 (China).

Beyond the failure to protect the goodwill and the palming off of foreign famous marks, not adopting a famous marks exception also injures United States consumers. If famous marks can simply be copied and passed off as originals, United States consumers will not be assured of the quality of the famous foreign brand. It is in this respect that the basic trademark goal of quality control comes into play. For instance, an immigrant mother may entrust her infant's health to a famous brand of medicine from her home country. However, if the foreign user has not used the mark in the United States and the famous marks doctrine is not adopted, any unreliable drug manufacturer could sell an inferior product under the same trademark. Therefore, the mother would unknowingly be entrusting her child's health to a product of ostensibly inferior quality, thereby potentially exposing her child to harm. Recognition of the foreign famous marks exception would help avoid such problems by providing protection of quality. If the United States were to recognize this exception, it would likely prevent would-be infringers from being able to pollute the market with substandard goods under the auspices of superior foreign products.

The final basic trademark goal that would be furthered by adoption of the foreign famous marks exception is the prevention of confusion. By granting protection to famous foreign marks, courts would be expressly thwarting those who prey on the ineptitude of the consuming public. In fact, those who choose to palm-off famous foreign marks generally do so under the belief that they *will* confuse the public. After all, if the public was not confused, there would be no need for an exception. Indeed, Professor McCarthy believes that “[i]f a junior user were to use a mark in the United States that is confusingly similar to the foreign famous mark, then there would, *by definition*, be a likelihood of confusion among United States consumers.”⁷⁴

2. Courts Should Adopt the Famous Marks Doctrine Because it Would Require Parties to Have Innocent Intentions.

Courts should always look to the intentions of the parties when dealing in equity.⁷⁵ According to the Second Circuit's opinion, there

⁷⁴ See 5 MCCARTHY, *supra* note 9, at § 29:4 (emphasis added).

⁷⁵ See e.g., *Aetna Casualty & Surety Co. v. Aetna Auto Finance*, 123 F.2d 582, 584 (5th Cir. 1941) (stating that where, “it plainly appears that there is a purpose to reap where one has not sown, to gather where one has not planted, to build upon the

is neither a good faith standard nor a bad faith exception to the territoriality principle.⁷⁶ Thus, parties that have admittedly falsified a foreign famous mark in order to take advantage of the public are treated exactly the same as parties that have coincidentally created a similar mark.⁷⁷ Adoption of the famous marks exception would allow courts to look at the intentions and knowledge of the parties.⁷⁸ Those who have merely created a similar mark through coincidence would be able to find a level of protection in a given area. Conversely, parties that seek to prey on confusion or leech onto a reputable mark would be unable to find protection for their behavior.⁷⁹ Alternatively, courts would be unable to provide redress in even the most despicable cases without adoption of the famous foreign marks doctrine.

3. Courts Should Adopt the Famous Marks Doctrine Because the Globalization of People, Products, and Services Increases the Likelihood of Harm.

When the Paris Convention was originally signed in 1883 the world had a different dynamic. Travel was less frequent, advertising was still in its infancy, and the Internet was not even a conception. However, today all of these factors have changed. With this evolution, judicial interpretations of the Lanham Act should adjust. Indeed, the law “serves the best interests of society by adopting standards of

work and reputation of another, the use of the advertising or trade name or distinguishing mark of another, is in its nature, fraudulent and will be enjoined.”).

⁷⁶ See *ITC*, 482 F.3d 156.

⁷⁷ Michael Ayer explores the potential of a bad faith exception in further detail. While positing that there exists a potential for intentional market clogging, he believes that, “[t]he current bad faith exception, which requires proof of the American users’ intent to block planned expansion to the United States market by the foreign firm, essentially limits the exception to cases of insider wrongdoing.” Michel J. Ayer, *Why the Time has Arrived to Broaden Protection of Foreign Famous Trademarks in the United States and why it Won’t Happen*, 32 J. CORP. L. 927 at 940-41 n.102. Moreover, “[e]xpanding the exception to include those cases in which the American user had knowledge of the foreign use would be a radical departure from the current state of the law but may be the only way to adequately protect firms and their marks.” *Id.*

⁷⁸ Although looking at New York state law, at least one court has considered the relative fame of a mark in deciding whether bad faith infringement existed. See *Maison Pruiner*, 228 N.Y.S. at 559 (identifying the achieved fame of a mark as an element in deciding whether a secondary creator acts in bad faith).

⁷⁹ Looking to the good faith intentions of the parties is not unheard of in the famous marks realm. In *Grupo Gigante*, the District Court found that there was “no evidence that the [American firm] acted in bad faith or had knowledge of Grupo Gigante’s Mexican stores before opening their first Gigante Market in 1991.” *Grupo Gigante S.A. v. Dallo & Co., Inc.*, 119 F. Supp. 2d 1083, 1104 (C.D. Cal. 2000).

conduct and responsibility that fairly meet the emerging and developing needs of our time.”⁸⁰ Hence, the Ninth Circuit was correct when it opined that “[c]ommercer crosses borders. In this nation of immigrants, so do people.”⁸¹ Thus, “protection of the global trading system through the prevention of piracy and unfair exploitation of [famous] marks has become essential.”⁸²

With foreign travel at a historic high, Americans now have the ability to see the world and experience different markets. The repercussions of this are twofold. First, travelers are more likely to be aware of foreign famous marks. Whether it is a famous French restaurant or a Cuban cigar, the popular products and services of foreign countries are seen and used by traveling Americans. Second, an increase in travel creates a special exposure to infringement. Traveling Americans with malevolent motives are able to pirate the ideas and marks of famous foreign products more easily. Indeed, infringers now have the increased ability to take products from around the world and palm them off as originals. Perhaps the United States District Court for the Southern District of New York was correct when it stated that “[r]ecognition of the famous marks doctrine is particularly desirable in a world where international travel is commonplace and where the Internet and other media facilitate the rapid creation of business goodwill that transcends borders.”⁸³

Additionally, mass advertising has increased alongside the dramatic increase in travel. Magazines, newspapers, television, and the Internet all provide people with information about trademarks. This increase in advertising means that a foreign famous mark owner could advertise in the United States, thus creating goodwill, interest, and atmospherics, yet fail to obtain protection because of a lack of use. Indeed, Professor McCarthy writes that “[m]arks can become known in a nation in the absence of sales by various methods, such as advertising in internationally distributed media, such as magazines or television, by returning travelers who saw the mark in other nations, or by discussion in local media by reporters and commentators.”⁸⁴

The educational aspect of globalization stems from mass advertising. From traveling to advertising, people are able to become much more educated about foreign countries and their famous marks.

⁸⁰ *Larsen v. General Motor Corp.*, 391 F.2d 495, 506 (8th Cir. 1968).

⁸¹ *Grupo Gigante*, 391 F.3d at 1094.

⁸² Mostert, *supra* note 67, at 106.

⁸³ *De Beers LV Trademark Ltd.*, 2005 U.S. Dist. LEXIS 9307 at *25.

⁸⁴ See 4 MCCARTHY, *supra* note 9, at 11:78 (*referencing* § 29:4); see also *Int'l Bancorp, LLC., v. Societe des Bains de Mer et du Cercle des Etrangers a Monaco*, 329 F.3d 359 (4th Cir. 2003).

There exists an entire genre of travel-related magazines and information designed to educate Americans about the interesting and popular activities available in foreign countries. By gaining this education about the famous products produced by other countries, Americans are becoming increasingly susceptible to buying inauthentic goods. Adoption of the famous marks doctrine would limit the opportunity for people to palm off products and services that this education has provided. Of course, the Internet plays the largest part in this education process. Never before has so much information been so easily available. Everything from foreign newspapers to personal blogs can inform American consumers about new foreign products. The immediacy of this information means that a German beer maker, whose homebrewed beer gathers quick acclaim, is susceptible to Budweiser creating a beer under that same name and registering the beer before the German maker even has time to understand the global sales potential of his success.

Finally, globalization calls for an adoption of the famous marks doctrine because the American melting pot presents unique exposure to confusion vis-à-vis inauthentic famous foreign marks. Because the United States is a nation of immigrants, there exists a great potential for exploitation. The *Grupo Gigante* case provides a tremendous example of this risk. People are more at ease when they are using products with which they have become comfortable. From grocery stores to popular beverages, at some level, immigrants seek products which they were familiar with back home. With the United States populace being composed of 11.5 percent immigrants, adoption of a famous marks exception would help prevent the confusion experienced by this significant percentage.⁸⁵ With people from every part of the world both visiting and living within the United States, there needs to be some protection for their false assumption that the goods sold in the United States are the same as those sold in their country of origin.

Thus, because adoption of a famous marks exception to the territoriality principle would promote basic trademark goals, allow courts to look at the infringers' intentions, and adapt trademark principles to the increasing globalization of the United States marketplace, the famous marks doctrine should be adopted.

⁸⁵ STEVEN A. CAMAROTA, IMMIGRANTS IN THE UNITED STATES — 2002; A SNAPSHOT OF AMERICA'S FOREIGN-BORN POPULATION, CENTER FOR IMMIGRATION STUDIES, NOVEMBER 2002, available at <http://www.cis.org/articles/2002/back1302.pdf>.

III. CONCLUSION

The Second Circuit's *ITC* decision has created uncertainty in the way famous foreign trademarks are treated in the United States. Despite the guidance of the T.T.A.B. and various state and federal courts, this deviation leaves foreign famous marks vulnerable to various levels of judicial interpretation. Because so much is at stake regarding the recognition of famous foreign trademarks, federal courts should adopt the famous marks exception to the territoriality principle.

In addition to the reasoning and rationale of the *Grupo Gigante* decision, courts should find that the famous marks doctrine is incorporated by the plain language of Sections 44(b), 44(h), and 44(i) of the Lanham Act. However, beyond the plain language of the relevant Lanham Act sections, adherence to the Charming Betsy Canon, the Tea Rose-Rectanus Doctrine, and the Chevron Doctrine all indicate that the famous marks doctrine should be adopted. Finally, the famous marks doctrine should be adopted because it comports with the overarching policy objectives of United States trademark law and the evolving globalization of the world's marketplace.

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