



# ideas on intellectual property law

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klemchuk kubasta llp

Campbell Centre II  
8150 North Central Expy., Suite 1150  
Dallas, TX 75206  
t. 214.367.6000  
[www.kk-llp.com](http://www.kk-llp.com)

# A secondary consideration

## Court rejects third-party liability for copyright, trademark infringement

Cases of infringement seem to have multiplied with the growth of the Internet. Copyright and trademark holders are casting a wider net to ensnare liable third parties. In *Perfect 10 v. Visa Int'l*, however, the Ninth Circuit Court of Appeals shot down a publisher's assertion of secondary liability against credit card companies that process payments for infringing merchants.

### THE CHARGES

Perfect 10 publishes a magazine and operates a subscription Web site, both of which feature copyrighted images. It claims copyrights in the photos, as well as federal registration of its trademark.

The company alleged that numerous Web sites have stolen its proprietary images, altered them, and illegally offered them for sale online. Instead of suing the direct infringers, Perfect 10 pursued the financial institutions that process credit card payments to the allegedly infringing sites. It alleged that it had sent the defendants repeated notices identifying the infringing sites and informing the defendants that consumers used

their credit cards to purchase infringing images; the companies took no action.

Perfect 10 sued the defendants, claiming contributory and vicarious copyright and trademark infringement. The district court dismissed the action and Perfect 10 appealed.

### CONTRIBUTORY COPYRIGHT INFRINGEMENT: DENIED

To formulate an updated test for contributory copyright infringement, the Ninth Circuit synthesized several earlier tests. It concluded that a defendant must 1) have knowledge of another's infringement, and 2) either materially contribute to or induce that infringement. In the present case, the court found it unnecessary to consider the knowledge element because Perfect 10 couldn't satisfy the second element.

Perfect 10 argued that the defendants induced and contributed to the infringement by continuing to process credit payments despite having knowledge of the infringement. But the court pointed out that the companies had no direct connection to the infringement. The infringement involved the reproduction, alteration, display and distribution of Perfect 10's images on the Internet. Although the defendants may have made it easier for infringers to profit, the infringement would occur even if the payments weren't made using the defendant's credit cards.

The court distinguished the current situation from that in an earlier case Perfect 10 had brought against Google. There, the court ruled that Google could be held contributorily liable. The distinction was that Google's search engine itself assisted in the distribution of infringing content to Internet users, while the defendants' payment systems didn't. The defendants didn't assist or enable Internet users to locate infringing material and they didn't distribute it.



Perfect 10 cited other cases finding contributory liability where the defendants provided the “site and facilities” for the infringing activity. The Ninth Circuit held that the infringing Web sites — not the defendants’ payment networks — represent the site of infringement. No infringing material ever resided on or passed through the defendants’ networks or computers.

As to inducement, Perfect 10 argued that the defendants induced customers to use their credit cards to purchase infringing images. The court disagreed. It explained that inducement requires “purposeful, culpable expression and conduct,” in addition to communication of an inducing message to their users. Perfect 10 didn’t establish “clear expression” or “affirmative acts” with the specific intent to foster infringement.

### **VICARIOUS COPYRIGHT INFRINGEMENT: DENIED**

Unlike contributory liability, vicarious liability is based on agency principles. A plaintiff must allege that the defendant had the right and ability to supervise the infringing conduct and a direct financial interest in the conduct.

Perfect 10 contended that the credit card companies’ rules and regulations for member banks and merchants — which prohibit the provision of services to merchants engaging in certain illegal activities — constituted the right and ability to control the infringing Web sites. But, while the defendants could take steps that might indirectly reduce infringing activity, they lacked the ability to directly control or stop that activity. According to the court, the ability to withdraw a financial “carrot” doesn’t create the “stick” of right and ability to control.

### **CONTRIBUTORY TRADEMARK INFRINGEMENT: DENIED**

Turning to trademark issues, the court observed that the tests for contributory trademark infringement were even more difficult than those for copyright. Contributory trademark infringement requires the defendant to 1) intentionally induce the primary infringer to infringe, or 2) continue to supply an infringing product to an infringer with

knowledge that the infringer is mislabeling the particular product supplied. Where service is involved, rather than a product, the court must weigh the extent of control the defendant exercised over the third party’s means of infringement.

Perfect 10 cited no affirmative acts by the credit card companies that suggested third parties infringe its mark or induced them to do so. The court also found that Perfect 10 failed to allege facts showing direct control and monitoring of the instrumentality used to infringe its mark. Contrary to the company’s claim, the credit card payment network wasn’t such an instrumentality. The court said the infringement occurred without any involvement by the credit card companies or their payment systems.

### **VICARIOUS TRADEMARK INFRINGEMENT: DENIED**

Vicarious trademark infringement liability requires that the defendant and the direct infringer have an apparent or actual partnership, and authority to bind each other in transactions with third parties or exercise joint ownership or control over the infringing product.

Perfect 10 claimed that the defendants maintained a “symbiotic financial partnership” with the infringing Web sites because the sites operated their businesses under the credit card companies’ rules and regulations. As further proof of the relationship, it argued that the companies shared the profits on a transaction-by-transaction basis.

The court found that the relationship between the defendants and the sites didn’t establish joint ownership or control for trademark purposes. Rather, the defendants processed payments and collected their usual fees, nothing more.

### **EVOLVING CREDIT**

For now, third parties in the Ninth Circuit retain some protection from liability for infringement, but copyright and trademark holders likely will continue trying to push the boundaries. Potentially vulnerable third parties need to keep their hands clean. 💡

# It's in the way that you use it

*Court allows some “use” prior to patent application*

Say you've invented a new device and want to test it with an actual user — will you forfeit patentability under the public use bar? What if you show the device to potential investors? In *Motionless Keyboard Co. v. Microsoft Corp.*, the Federal Circuit Court of Appeals ruled that neither action blocked the patentability of an ergonomic keyboard.

## KEYING IN

Motionless Keyboard Co. (MKC) owns two related patents. The '477 patent claims a keyboard designed to accommodate the human hand's architecture by requiring only slight finger gestures to activate the keys. Patent '322, issued as a continuation-in-part of '477, claims a hand-held device that frees the thumb to activate the keys in different ways.

Thomas Gambaro invented both devices. He developed several prototypes, one of which was developed on Feb. 22, 1987. Shortly thereafter, he entered a business partnership to find financial support for further development and patenting of the technology. Gambaro demonstrated the model to his partner, potential investors and a friend. The investors signed nondisclosure agreements, but the friend didn't. Gambaro also disclosed the model to

a typing tester — the only individual to use the device to transmit data to a computer.

Eventually, Gambaro assigned both patents to MKC. After MKC obtained the patents from Gambaro, it sued Microsoft, Nokia and Saitek for infringement.

## THE LETTER OF THE LAW

Section 102(b) of the Patent Act denies patents where “the invention was ... in public use or on sale in this country, more than one year prior” to the date of the patent application. The '477 application was filed on June 6, 1991, making the critical date June 6, 1990; the critical date for the '322 patent is Jan. 11, 1992.

Public use includes any public use of the invention by a person (other than the inventor), who is under no limitation, restriction or obligation of secrecy to the inventor. The bar is based on a “reluctance to allow an investor to remove existing knowledge from public use.”

The district court reasoned that Gambaro's disclosures to potential investors showed the invention entered the public domain before the critical date because his partner had no obligation of secrecy. It dismissed the relevancy of the nondisclosure



## Getting a grip on the infringement issue

Motionless Keyboard Co. (MKC) appealed the district court's finding that Microsoft and Saitek game joysticks and Nokia cellular phones didn't literally infringe its '322 patent for a hand-held device.

The relevant patent claim referenced "a concavity in said housing at said key-actuation position, and a thumb-associable cluster of keys forming a keyboard within said concavity." MKC sought a broad construction of the phrase, meaning the keys or portions of them — specifically, the tops of the keys — could themselves form a concavity within the housing.

The Federal Circuit found that the use of the terms "concavity in said housing" and "keyboard within said concavity" defined a depression within the housing of the device and set the keyboard entirely within that depression. It pointed out that all of the keyboard renderings in the application showed a concavity in the housing of the device, with the keyboard entirely within the concavity.

The accused joysticks and phones, therefore, didn't literally infringe the patent because they lacked a concavity in the housing and a keyboard within the cavity. Some of the phones contained keys with slight depressions, but the keys didn't constitute a concavity in the housing.

agreements, stating that a confidentiality agreement won't preclude application of the public use doctrine if the invention was disclosed for commercial purposes, such as obtaining capital.

So the district court granted the defendants' motion for summary judgment, finding noninfringement because the patents were invalid under the public use doctrine. MKC appealed.

### COURT DICTATES ON PUBLIC USE

The appellate court cited two long-standing U.S. Supreme Court decisions addressing public use. In *Egbert v. Lippman*, the inventor gave two samples of a corset spring to a female friend, who used them for two years before the patent application was filed. Although the inventor received no commercial advantage, the court found the invention had been used for its intended purpose without limitation or confidentiality restrictions. The use was not in public view, but it was public nonetheless. In *Electric Storage Battery Co. v. Shimadzu*, the Supreme Court held that "ordinary use of a machine or the practice of a process in a factory in the usual course of producing articles for commercial purposes is a public use."

The Federal Circuit observed that in all of Gambaro's disclosures — to his business partner, a friend, potential investors and the typing tester —

the model was only once connected to a computer or other device for its intended purpose. The typing tests were conducted on July 25, 1990, after the critical date for '477.

As to the '322 patent, the typist appeared to have performed a one-time test to assess typing speed on the same date, and she signed a nondisclosure agreement that day. The court found that the one-time typing test along with a signed nondisclosure agreement and no record of continued use of the invention by the typist didn't constitute public use.

The appellate court further concluded that the other disclosures provided only a visual view of the keyboard design, without any disclosure of the model's ability to translate finger movements to transmit data. "In essence, these disclosures visually displayed the keyboard design without putting it into use."

### THE FINAL WORD

The Federal Circuit emphasized that the device was never connected to enter data into a system in the normal course of business. It distinguished previous cases where inventions were used for their intended purpose. Would-be patent holders, then, should take care with the context in which they disclose their inventions prior to filing their applications. 💡

# Energy drinks battle over trade dress

Oh, for the simpler days of the cola wars. Today's beverage market brings us wars between threatening energy drink creatures. The Ninth Circuit Court of Appeals recently sided with a Freek over a Monster in *Hansen Beverage Co. v. National Beverage Corp.*

## POWERING UP

Hansen produces and markets the Monster Energy line of beverages. Its containers feature a clawed-out M and the word "Monster" on a dark background with a bold accent color. National sells Freek energy drinks packaged in containers with dark backgrounds and distinctive accent colors. The package features the word "FREEK" in stylized font and a distorted image of a "frightening, evil-eyed creature's face."

When Hansen brought a trade dress infringement claim against National, the district court granted a preliminary injunction prohibiting National from manufacturing, distributing, promoting and selling Freek drinks in their current containers.

On appeal, National argued Hansen hadn't demonstrated the requisite probable success of its claim.

## TRADE DRESS INGREDIENTS

Trade dress refers to a product's total image — including features like size, shape, color, color combinations, texture and graphics. Under Section 43(a) of the Lanham Act, a plaintiff must establish that its trade dress is protectable and the accused product's trade dress creates a likelihood of consumer confusion.

There was no dispute that Monster's package features "protectable, source-identifying marks." So the court was left to consider only whether Freek's trade dress created a likelihood of confusion.

The Ninth Circuit determines this by assessing eight factors:

1. The strength of the mark,
2. The proximity or relatedness of the goods,
3. The similarity of the marks,
4. Evidence of actual confusion,
5. The marketing channels used,
6. The degree of care customers are likely to exercise in purchasing the goods,
7. The defendant's intent in selecting the mark, and
8. The likelihood of expansion into other markets.

The court cautioned against a mechanical application of the factors. Some factors may prove more important than others, depending on the situation.

## NOT TO THE COURT'S TASTE

In this case, the court focused on the dissimilarities of the graphics and marks in the trade dress as most probative of confusion. Similarity, it explained, is determined by the appearance, sound and meaning of the marks when considered in their entirety as they appear in the marketplace.

The Ninth Circuit found the trade dresses at issue to be similar in overall appearance only to the extent they both feature "aggressive" graphics and bold colors on dark backgrounds. As the court noted, these design elements are common in the energy drink market and "therefore are unlikely to lead to confusion as to source."



Further, Freek’s trade dress doesn’t feature either of Monster’s source-identifying marks — the word “Monster” and the large M. Rather, Freek prominently displays its trade name and a graphic of a distorted and frightening face (the so-called “Freek Man”). These significant differences weighed heavily against the conclusion that consumer confusion is likely to result.

### “MONSTER” MASH?

Hansen argued that confusion was likely because “Monster” and “Freek” are confusingly similar in meaning, and the Freek Man is the picture equivalent of a monster. The court ruled that the word “monster” is too indefinite and general to support a finding of consumer confusion.

It also rejected the claim that Freek Man is the picture equivalent of a monster under the doctrine of word-picture equivalency. The court found the doctrine is applicable only when “the word mark and its pictorial representation are concrete and narrowly focused.” This would include, for example, a picture of nuts and a stein of beer for “Beer Nuts” and a picture of a jockey on a horse for “Jockey.”

### DRINK IT UP

In the end, though, the discussion was moot. The court vacated its opinion after the parties settled their dispute. But in crowded product markets, businesses need more than vague similarities and elements used by numerous competitors to achieve protectable trade dress. 🧠

## Damages awarded for unauthorized but unused copies

When calculating damages for copyright infringement, which controls: the copying or the use of the copies? In *Thoroughbred Software Int’l v. Dice Corp.*, the Sixth Circuit Court of Appeals clarified that an infringer is liable for damages even if the unauthorized copies aren’t used.

Thoroughbred and Dice entered into a software licensing agreement under which Thoroughbred required a license for each purchased copy, except for one backup copy. It later discovered that Dice had dozens of unauthorized installations of its software — although not all were actually in use. The district court awarded actual damages for the used software under the license fee but denied actual damages for the unused software. Thoroughbred appealed.

Dice claimed that it wouldn’t have purchased the infringing copies if it had been required to pay a license fee for all of the different modules in the copies. It asserted that it had made extra copies merely as a matter of convenience in case a customer subsequently wanted to activate a module. At that time, Dice said, it would have contacted Thoroughbred to obtain authorization and submit payment.

The appellate court found that this contradicted the licensing agreement, which made no mention of an arrangement permitting Dice to make copies or install licensed software without prior payment to and approval from Thoroughbred. In fact, the software license agreement expressly prohibited copying or otherwise reproducing any part of the software package contents other than to make one backup and load the software.

Under the agreement, Dice should have paid a license fee for each copy of the software. This obligation provided the causal connection between the unused infringing software and Thoroughbred’s actual damages. Therefore, Dice was liable for the unpaid license fees for all of the unauthorized copies made, regardless of their use.

In this case, as in so many licensing disputes, the agreement’s language proved critical to the ultimate cost of its breach. Take the time to draft these vital documents carefully.



Campbell Centre II  
8150 North Central Expy., Suite 1150  
Dallas, TX 75206  
t. 214.367.6000  
[www.kk-llp.com](http://www.kk-llp.com)

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