VEDDER PRICE®

Chicago • New York • Washington, DC • London • San Francisco

May 2013

IP Strategies

Supreme Court Exhausts Copyright Owners' Rights in Gray Market Goods Dispute

If you sell products or other merchandise in international markets that are protected under U.S. copyright laws, the recent opinion by the U.S. Supreme Court in *Kirtsaeng v. John Wiley & Sons, Inc*. affects your ability to control the resale of such products. The opinion, issued on March 19, 2013, has wide-reaching effects for publishers of literary works (the category of works under which some software falls) and for other copyrighted goods. Under the first sale doctrine, the purchaser of a copyrighted work is free to distribute, sell, rent or dispose of the work as he or she sees fit. In a 6–3 decision, the Supreme Court decided that the first sale doctrine applies to copies of copyrighted goods lawfully made abroad. The purchaser was free to resell the purchased work in the United States at a much higher price than it was purchased for abroad.

The so-called "gray market," or the sale of goods legally purchased abroad and then imported and resold at an increased price, is an issue that international sellers have struggled with for years, particularly as global trade has increased. One estimate places the cost to U.S. sellers at as much as $63 billion in sales each year. The incentive for such an arbitrage opportunity presents numerous difficulties for sellers who want to price their goods differently in different geographic locales around the globe. Individuals, companies and retail stores have taken advantage of the opportunity that the price differential presents, and the sellers of the goods struggle to keep pace and restrict these practices.

Supap Kirtsaeng is an individual who took advantage of the arbitrage opportunity presented by publisher John Wiley & Sons Inc. in the price differential between English-language textbooks sold in the United States and those sold abroad. After losing at the district and appellate court levels, he took his case all the way to the Supreme Court and prevailed. Kirtsaeng, a Thai citizen, came to the United States to attend college and eventually obtained his Ph.D. During his studies, Kirtsaeng arranged to have his family and friends purchase English-language textbooks in Thailand at a discount relative to U.S. prices and then sold them in the United States for a profit via the Internet. The unique nature of this case is that the textbooks purchased in Thailand were produced by John Wiley & Sons' Asian affiliate. Despite the inclusion of a prohibition against importation into the United States printed in the textbooks, the Supreme Court held that the first sale doctrine applies to sales of goods lawfully manufactured and purchased abroad and thus the copyright owner's rights were exhausted. Kirtsaeng was then allowed to dispose of the books as he wished, including reselling them for a profit in the United States.

In reaching the decision, the majority declined to read a geographic limitation into the copyright statute. In doing so, the responsibility for changing the law is in the hands of Congress. While there is no indication at this time that Congress will take up the issue, sellers of goods protected via copyright may take action and might need

In this issue...

to revisit their practices for selling goods abroad at differing prices if the goods may easily be resold in the United States. While this decision limits a copyright owner's remedies for lawful purchases of protected goods, there might be restrictions and/or protections that may be imposed on distributors or producers of the goods to protect sellers' business practices.

If you have questions about this article, please contact **John E. Munro** at +1 (312) 609 7788 or your Vedder Price attorney. ■

Federal Circuit Holds That Expert Evidence Is Not Required to Show Prior Art Reference Is Not Enabled

In *In re Steve Morsa*, No. 2012-1085, decided March 25, 2013, the Federal Circuit held that expert evidence is not required to show a prior art reference is not enabled.

On April 12, 2011, Steve Morsa filed a nonprovisional patent application titled "Method and Apparatus for the Furnishing of Benefits Information and Benefits" for a system that received benefits information from a user, searched a database of benefits matching the benefits request, and returned the matched benefits request to the user.[1]

During prosecution of the application, the examiner rejected claim 271 based on a publication titled "Peter Martin Associates Press Release" (PMA) published on September 27, 1999, announcing the release of "HelpWorks, Web Edition."[2]

Morsa appealed the examiner's rejection to the Board of Patent Appeals and Interferences (BPAI), arguing that the PMA was not enabling prior art.[3] Specifically, Morsa argued that the PMA was not enabling on its face and that the PMA lacked specific details on the features and operational characteristics of the "HelpWorks, Web Edition" software.[4] Morsa supported this argument by posing specific and pointed questions regarding the absence of detail in the PMA, citing case law discussing the requirement that prior art be enabling, and citing specific reasons why the disclosure in the PMA could not produce the claimed invention.[5] Further, Morsa pointed out that the PMA totaled only 117 words.[6] In upholding the examiner's rejections, the BPAI concluded that the PMA was presumed enabling because Morsa failed to provide affidavits or declarations to establish that the PMA was not enabling.[7]

In overturning the BPAI's decision, the Federal Circuit stated that the burden to challenge prior art rests with the applicant, and the examiner need not provide evidence of enablement when asserting a prior art reference.[8] However, once an applicant challenges the enablement of a prior art reference, the examiner must address the challenge.[9] The court held that in challenging a prior art reference, the applicant must do more than state an unsupported belief that a reference is non-enabling, but the use of declarations or affidavits was not required in all cases.[10] The court went on to state that where a reference appears not to be enabled on its face, a challenge may be lodged without the use of "expert assistance."[11]

The court also rejected the USPTO's argument that a prior art reference that is "at least as enabling" as an application renders the prior art reference enabled.[12] In rejecting this assertion, the court stated that an examiner should compare the level of detail of a prior reference to the level of detail in the related portions of an application to determine whether a prior art reference is enabled as to the claims.[13] The court also stated that, absent a finding that an applicant's disclosures are unrelated to the claimed invention, an application is not comparable to a prior art reference if the detail of the disclosure of the application far exceeds that of the prior art reference.[14]

If you have questions about this article, please contact **Timothy M. Nitsch** at +1 (312) 609 7535 or your Vedder Price attorney. ■

1 *Morsa*, at 2.
2 *Id.* at 3.
3 *Id.* at 5.
4 *Id.* at 5-6.
5 *Id.*
6 *Id.* at 6.
7 *Id.*
8 *Id.* at 9-10.
9 *Id.* at 10.
10 *Id.*
11 *Id.*
12 *Id.*
13 *Id.*
14 *Id.*

International Trade Commission Rules Lack of Domestic Industry Results in a Termination of Investigation

The International Trade Commission (ITC) is an independent, quasi-judicial agency that adjudicates the importation of products that allegedly infringe U.S. intellectual property rights. The ITC can halt the importation of goods that infringe U.S. patents and/or trademarks, and thus is an effective tool for obtaining a relatively rapid determination of infringement (one year) and an exclusion order. One of the requirements for such an order is to prove harm to a domestic industry. The following case (ITC investigation 337-TA-874) is an example of one way that such an investigation can be defeated.

In a recent decision, the ITC ordered an investigation into whether certain laminated products infringed the claims of a nonpracticing entity's (NPE) patent. In initiating the investigation, the ITC ordered the administrative law judge (ALJ) overseeing the investigation to hold a preliminary hearing and to issue a decision as to whether the NPE has the required domestic industry in the United States to bring an investigation before the ITC. A finding of a lack of domestic industry would result in a termination of the investigation, as the NPE would not have standing with the ITC. This is a departure from current ITC practice, and it may provide an effective tool for preventing NPEs from bringing frivolous suits before the ITC.

Under 19 U.S.C. § 1337(a), the ITC has jurisdiction to hear matters in which a party alleging infringement (the complainant) has, or is in the process of establishing, a domestic industry in the United States. The determination of domestic industry is a two-prong test. The first prong, referred to as the "technical prong," requires the complainant to show that it is practicing a valid claim of each asserted patent in a product sold in the United States. The analysis of the technical prong is similar to an infringement analysis, in which each claim is compared to the domestic product.[1] The second prong of the test, referred to as the "economic prong," requires the complainant to demonstrate "(a) a significant investment in plant and equipment, (b) significant employment of labor and capital, or (c) a substantial investment in its exploitation, including engineering, research and development, or licensing."[2]

The complaint in the present investigation (337-TA-874) was brought by Lamina Packaging Innovations, an NPE, against a group of companies including Hasbro, John Jameson Import Company, Cognac Ferrand USA, Inc. and Camus Wines & Spirits Group. In the investigation, Lamina Packaging alleged that the respondents were infringing two of Lamina's patents directed to a packaging material. In initiating the investigation, the ITC ordered the ALJ to issue an initial determination as to whether Lamina has satisfied the economic prong of the domestic industry requirement. Further, the ITC stated that the initial determination would become the ITC's final determination 30 days after the date of service of the initial determination. Accordingly, a finding of no domestic industry by the ALJ would result in a termination of the investigation. The ITC ordered the ALJ to issue a decision on domestic industry within 100 days from the institution of the investigation.

Typically, lack of domestic industry is an affirmative defense presented by a respondent. The new ruling by the ITC may allow respondents to terminate ITC investigations early, opposed to the current practice that requires respondents to endure a summary judgment motion or a trial before a domestic industry decision is rendered. As more NPEs file complaints with the ITC in an attempt to "test run" future district court cases, this recent decision may greatly reduce the number of NPE cases filed with the ITC.

If you have questions about this article, please contact **Timothy M. Nitsch** at +1 (312) 609 7535 or your Vedder Price attorney. ■

Replication without Human Intervention: Lessons from *Monsanto v. Bowman*

Until now, the practicing of an invention needed some direct form of human action; someone was needed to "do something" to bring the invention into existence, as well as replicate it by making more (in the case of a physical object) or performing it again (in the case of a method). However, this may no longer be necessary in all instances. At least in the case of some biological technologies, once an invention has been created by a human, further human intervention may no longer be needed for replicating the invention. In these instances, does a patent owner lose the right to exclude future uses, sales, offers for sale or importations of such an invention?

In *Monsanto v. Bowman*, the Supreme Court is poised to bring some clarity to this question. Monsanto Company designs and manufactures herbicide-resistant soybean seeds and related technology. Monsanto sold patented seeds to farmers for growing and resale as commodity items to be used in such things as public-school lunches and animal feed. Such sales were made under license agreements that allowed the beans to be sold without any ongoing restrictions on the use of those beans.

Vernon Bowman is a soybean farmer. Bowman purchased these beans and replanted them as second-generation seeds, which were the products of seeds purchased from a licensed Monsanto technology distributor.

[1] *Alloc, Inc. v. Int'l Trade Comm'n,* 342 F.3d 1361, 1375 (Fed. Cir. 2003).
[2] 19 U.S.C. § 1337(b).

Monsanto sued Bowman for patent infringement, arguing that the beans were products of Monsanto's patented herbicide-resistant seeds and that, by planting them instead of purchasing new seeds, Bowman violated the Monsanto Technology Agreement for the seeds. The U.S. District Court found that Bowman's activities infringed upon Monsanto's patent and awarded damages to Monsanto for violation of its patented technology. The Federal Circuit agreed and upheld the decision, holding that Monsanto's patent covered both the original seeds and a product of the original seeds, such as those second-generation beans grown by Bowman.

Bowman appealed, arguing that, under the doctrine of patent exhaustion, Monsanto's patent rights were exhausted upon its initial sale of the seeds that Bowman later purchased from the licensed distributor, and that use of progeny seeds is an expected use of the product. In response, Monsanto argued that in the case of self-replicating technologies, such as seeds that grow and produce more seeds, the patent extends to the underlying technology (i.e., herbicide resistance) and not only to the seed itself.

The important question raised in this case is whether an exception to the doctrine of patent exhaustion for self-replicating technologies is needed and/or warranted. While this question is clearly important to the biotechnology and agricultural industries, it also has the potential to significantly affect the software and robotics industries. For example, as robotics and artificial intelligence become increasingly sophisticated in their abilities to adapt and "grow," it does not seem too outlandish to think that, one day, these may also become self-replicating technologies.

If you have questions about this article, please contact **Mark A. Dalla Valle** at +1 (312) 609 7620 or your Vedder Price attorney. ■

Trademark Owners Should Record with ICANN's Trademark Clearinghouse

On March 26, 2013, the Internet Corporation for Assigned Names and Numbers (ICANN), a nonprofit organization overseeing the Internet's domain name space, will begin to accept applications to record trademarks in the Trademark Clearinghouse (TMCH). The new generic Top-Level Domain (gTLD) program will add more than 1,400 new top-level domains, including .brand and .generic TLDs, to the Internet. Trademark owners should review their trademark holdings to determine which to record with the TMCH to protect against registration of domain names by third parties that incorporate the recorded marks.

Through its Trademark Claims Service, the TMCH will notify domain name applicants when domain names are sought that use trademarks recorded with the TMCH and advise trademark registrants if the domain names are registered. Recordation in the TMCH is also a prerequisite for sunrise-period registration of trademarks as second-level domain names before others are able to register domain names. Trademarks must also be in actual use for them to be eligible for sunrise registration. The TMCH will charge a fee of $145 per trademark per year to record the trademark for both services. Some discounts will be available for multiyear registrations. Preparation, filing and maintenance of TMCH recordations will require additional fees. Trademark owners will also have to pay if they wish to register their trademarks as domain names during sunrise periods.

Vedder Price can assist in determining which trademarks to protect in the domain name space, record and maintain trademarks in the TMCH, and review domain name registration notices. Please contact us for more information, to arrange for a cost and process briefing, and to record trademarks with this important trademark protection program.

If you have questions about this article, please contact **Robert S. Beiser** at +1 (312) 609 7848 or your Vedder Price attorney. ■

Intellectual Property Group Members

Chicago

Robert S. Beiser, *Editor* .... +1 (312) 609 7848
Angelo J. Bufalino, *Chair* .... +1 (312) 609 7850
Mark A. Dalla Valle .... +1 (312) 609 7620
Jeffrey C. Davis .... +1 (312) 609 7524
Christopher P. Moreno............+1 (312) 609 7842
John E. Munro ....+1 (312) 609 7788
Timothy M. Nitsch...................+1 (312) 609 7535
Robert S. Rigg.........................+1 (312) 609 7766
Michael J. Turgeon ....+1 (312) 609 7716
Alain Villeneuve .... +1 (312) 609 7745

New York

John C. Cleary........................ +1 (212) 407 7740
Thomas J. Kowalski.................+1 (212) 407 7640
Deborah L. Lu, Ph.D................+1 (212) 407 7642
Samuel H. Megerditchian. ....+1 (212) 407 7644
Smitha B. Uthaman, Ph.D.,
Patent Agent........................+1 (212) 407 7646

Washington, DC

Rebecca Goldman Rudich.......+1 (202) 312 3366

Intellectual Property Group

Vedder Price offers its clients the benefits of a full-service patent, trademark, copyright and technology law practice that is active in both domestic and foreign areas. Vedder Price's practice is directed not only at obtaining protection of intellectual property rights for its clients, but also at successfully enforcing such rights and defending its clients in court and before federal agencies, such as the U.S. Patent and Trademark Office (USPTO) and the U.S. International Trade Commission, when necessary.

About Vedder Price

Vedder Price is a thriving general-practice law firm with a proud tradition of maintaining long-term relationships with our clients, many of whom have been with us since our founding in 1952. With approximately 300 attorneys and growing, we serve clients of all sizes and in virtually all industries from our offices in Chicago, New York, Washington, DC, London and San Francisco.

This communication is published periodically by the law firm of Vedder Price. It is intended to keep our clients and other interested parties generally informed about developments in this area of law. It is not a substitute for professional advice. For purposes of the New York State Bar Rules, this communication may be considered ATTORNEY ADVERTISING. Prior results do not guarantee a similar outcome.

Vedder Price P.C. is affiliated with Vedder Price LLP, which operates in England and Wales, and with VP (CA), LLP, which operates in California.

VEDDER PRICE®

Chicago
222 North LaSalle Street
Chicago, IL 60601
T: +1 (312) 609 7500
F: +1 (312) 609 5005

New York
1633 Broadway, 47th Floor
New York, NY 10019
T: +1 (212) 407 7700
F: +1 (212) 407 7799

Washington, DC
1401 I Street NW, Suite 1100
Washington, DC 20005
T: +1 (202) 312 3320
F: +1 (202) 312 3322

London
4 Coleman Street
London EC2R 5AR
T: +44 (0)20 3667 2900
F: +44 (0)20 3667 2901

San Francisco
One Embarcadero Center
Suite 500
San Francisco, CA 94111
T: +1 (415) 749 9500
F: +1 (415) 749 9502

VEDDER PRICE®

Chicago

New York

Washington, DC

London

San Francisco

www.vedderprice.com