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# INTELLECTUAL PROPERTY LITIGATION

**BY LEWIS R. CLAYTON**

## 'Yahoo!': A French Court Order's Power in the U.S.

SINCE SEPT. 11, Americans have become increasingly concerned about the willingness of foreign governments and courts to cooperate with us to curtail the activities of groups that we believe pose threats to our citizens and vital interests. That issue was raised — in reverse — in *Yahoo! Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 2001 WL 1381157 (N. D. Cal., Nov. 7, 2001), where the court declared unenforceable in the United States a French court order directing that Internet portal Yahoo! prevent the auction of Nazi artifacts and block access to pro-Nazi Web sites.

### French Organizations Fight

Last year, two French organizations formed to combat anti-Semitism (collectively "LICRA"), sued Yahoo! in Paris claiming that Nazi-related goods were available on Yahoo! automated auction sites. The French court found that Nazi-related objects, including Hitler's *Mein Kampf* and material denying the Holocaust, were being offered on the Yahoo! auction site. French citizens are able to access these materials through Yahoo!'s French service, operated by Yahoo!'s French subsidiary at www.yahoo.fr, or directly on Yahoo!'s main www.yahoo.com site. Accordingly, the court found a violation of French criminal law prohibiting the exhibition for sale of Nazi propaganda and artifacts.

It ordered Yahoo! to eliminate French citizens' access to Nazi material on the Yahoo! auction site and to Web pages displaying text from *Mein Kampf* and post a warning on Yahoo.fr about such material. It also ordered Yahoo! to "take all necessary measures to dissuade and render impossible any access via Yahoo.com to the Nazi artifact auction service and to any other site or service that may be construed as constituting an apology for Nazism or a contesting of Nazi crimes."

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Yahoo! posted the required warning, prohibited postings on Yahoo.fr in violation of French law and revised the auction policy of Yahoo.com to prohibit the sale of items associated with hate groups. It did not comply with the remainder of the order.

Enforcement of the order in France was problematic because, according to a Yahoo! lawyer quoted in the Nov. 15, 2001 *Washington Internet Daily,* Yahoo!'s French subsidiary has no assets there, and the French court ruled that the subsidiary was not responsible for the actions of the U.S. parent. Concerned about enforcement here, Yahoo! sued LICRA in federal court in San Jose, Calif., seeking a declaratory judgment that the French judgment is unenforceable in the United States.

Granting Yahoo!'s motion for summary judgment, Judge Fogel easily found that the French order's prohibition of the sale of Nazi-related items and access to Nazi-related Web sites was a content-based restriction on speech in violation of the First Amendment. It therefore refused to extend comity to the French judgment. As Judge Fogel noted, "There is little doubt that Internet users in the United States routinely engage in speech that violates, for example, China's laws against religious expression, the laws of various nations against advocacy of gender equality or homosexuality, or even the United Kingdom's restrictions on freedom of the press." It is difficult to imagine a U.S. court enforcing such foreign laws.

On the other hand, as two British lawyers wrote, criticizing the U.S. decision, how would "Americans feel if, for example, a Web site based outside the U.S. was explaining how to manufacture and distribute anthrax but the foreign country's court then said it would not interfere because such activity is lawful there"? Freitas and Quinn, "Will Web Ruling Promote Unfair Competition?" *London Times,* Nov. 20, 2001.

### Patents

Can egregious misconduct in litigation ever justify a sanction invalidating the patent at issue? The Federal Circuit said no in *Aptix Corp. v. Quickturn Design Systems, Inc*., 2001 WL 1380851 (Fed. Cir., Nov. 5, 2001). In *Aptix,* the inventor of a patent on field programmable circuit boards, attempting to push back the invention date and overcome invalidating prior art, submitted to the court an engineering notebooks that was a "complete fraud from bark to core, a notebook without a single genuine entry." To top that off, he staged a robbery of his office to attempt to explain missing notebook pages. While affirming the trial court's dismissal of the suit and award of attorney's fees, the Federal Circuit reversed the district court's order declaring the patent unenforceable. Over a dissent, the Court of Appeals panel held that litigation misconduct, as opposed to fraud on the Patent Office, cannot never lead to invalidation of the property right represented by the patent. Of course, dismissal of an action for fraud is likely to be admissible in a later litigation, making it extremely difficult for a dishonest inventor ever to win an infringement suit.

Section 255 of the Patent Act allows for the correction of "a mistake of a clerical or typographical nature, or of a minor character, which was not the fault" of the Patent Office and occurred in good faith. Deciding an issue of first impression, in *Superior Fireplace Co. v. Majestic Products Co*., 2001 WL 1338793 (Fed. Cir., Nov. 1, 2001), a Federal Circuit panel, over a dissent, held that a correction that broadens a claim may be made under §255 only where "it is clearly evident from the specification, drawings, and prosecution history how the error should appropriately be corrected." The court emphasized the "public notice" function of patent claims — unless the nature of an error is evident from the file wrapper, the public cannot know the boundaries of the claims. The decision places a premium on the patentee's duty to check for and document errors in the application process.

In contrast to its approach in *Superior Fireplace*, the Federal Circuit in *Special Devices, Inc. v. OEA, Inc.*, 2001 WL 1298888 (Fed. Cir., Oct. 26, 2001), refused to read a "supplier exception" into the on-sale bar in §102(b) of the Patent Act. Section 102(b) provides that a patent is invalid when the invention was the "on sale" in the U.S. more than a year before filing of the application. More than a year before its application, OEA made a proposal to a supplier to manufacture the invention, placed an order for production and agreed with the supplier on a requirements contract — each of which constituted an offer to sell under §102(b). The court found no statutory authority to exempt a patentee-supplier relationship from the on-sale bar.

As any computer owner knows, software manufacturers attempt to place significant restrictions on the use of their products by "licensing," rather than selling, software. Displaying hostility to that practice and disagreeing with other trial courts, *Softman Products Co. v. Adobe Systems, Inc.*, 2001 WL 1343955 (C.D. Cal., Oct. 19, 2001), refused to enforce resale restrictions in Adobe license agreements.

## Copyright

Softman bought package sets of Adobe products, which sell at a discount, and then, in violation of Adobe license agreements with distributors, re-sold the individual components. Denying Adobe a preliminary injunction, the court held that Adobe sold, and did not "license" software to its distributors. Under the first sale doctrine, a buyer of software, as opposed to a licensee, is free to resell the item without approval of the copyright holder. In finding a sale, the court relied particularly on the facts that Adobe received a single payment for perpetual transfer of possession of the software, and that the buyer assumed the risk of loss. Given their importance to the software industry, these issues will receive more attention on appeal in this case and in other courts around the country.

In May, immediately following oral argument, the Eleventh Circuit Court of Appeals lifted a controversial preliminary injunction that blocked publication of *The Wind Done Gone* (TWDG), a novel that recounts the story of Margaret Mitchell's *Gone With the Wind* (GWTW) from the perspective of black slaves. On Oct. 10, the court issued a comprehensive opinion explaining its reasoning. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001). While agreeing with the District Court that TWDG exploits the "copyrighted characters, story lines and settings" of GWTW, the court found that TWDG is a parody of GWTW, entitled to protection of the fair use doctrine in §107 of the Copyright Act. The court adopted an expansive view of parody, defining it as a work that aims to "comment upon or criticize a prior work by appropriating elements of the original" to create a new "artistic" work. It found that TWDG is "a critical statement that seeks to rebut and destroy the perspective, judgments and mythology" of GWTW, and that, in view of the different perspectives of the works, there was no evidence that TWDG would affect the market for GWTW or licensed derivatives of it.

*Salerno v. City University of New York*, 2001 WL 1267158 (S.D.N.Y., Oct. 23, 2001), illustrates the difficulties faced by copyright holders who allege claims against state agencies. Ms. Salerno claimed that her copyright in portions of a documentary film was infringed by the City University of New York (CUNY) and a CUNY Institute. Relying on *Florida Prepaid v. College Savings Bank*, 527 U.S. 627 (1999), which held that Congress lacks the power to abrogate state sovereign immunity under Article I of the Constitution, the court found that CUNY and its institute, both state instrumentalities, were immune from suit under the Eleventh Amendment. It allowed plaintiff to proceed, however, to seek prospective injunctive relief against individual officers of CUNY and the institute. On Nov. 1, two identical bills (S. 1611 and H.R. 3204) were introduced to allow owners of copyright, patent and trademark rights to sue state governments. Attempting to overcome the *Florida Prepaid* ruling, the bills provide that no state could recover damages for infringement of its intellectual property rights unless it waived sovereign immunity by Jan. 1, 2004.

## Trademark

In *Dial One of the Mid-South, Inc. v. BellSouth Telecommunications, Inc.*, 269 F.3d 523 (5th Cir. 2001), the Fifth Circuit held on Oct. 18 that entitlement to the "innocent infringer" established by §1114(2) of the Lanham Act, under which a defendant is not liable for damages, depends upon the "objective reasonableness" of the defendant's conduct. Plaintiffs, a franchisor and two of its franchisees, sued Bell South, which erroneously continued to list a former franchisee as a present franchisee in the southeast Louisiana Yellow Pages. BellSouth conceded it had knowledge of the franchise termination, but argued that plaintiffs should be required to show that it acted with "actual malice" within the meaning of *New York Times v. Sullivan*, 376 U.S. 254 (1964). The court rejected that position, finding no statutory language to support it, and noting that false commercial speech enjoys no constitutional protection. On that basis, an award of lost profits was affirmed.

A different trademark defense — fair use — was recognized in *Packman v. Chicago Tribune Co.*, 267 F.3d 628 (7th Cir. 2001), where the Seventh Circuit affirmed a summary judgment dismissing the claims of the owners of a trademark THE JOY OF SIX, registered for use in connection with "entertainment services in the nature of" basketball and football games. The Court of Appeals held that use of the phrase by the *Chicago Tribune* in a 1998 headline celebrating the sixth NBA championship won by the Chicago Bulls and on associated promotional items was fair under §1115(b)(4) of the Lanham Act. The *Tribune* did not use the phrase as a trademark — instead, its famous masthead identified the source of its products — the phrase was descriptive of "emotions associated with six of anything," and there was no evidence of the *Tribune's* bad faith.

## 'Checkpoint Systems'

In *Checkpoint Systems, Inc. v. Check Point Software Technologies, Inc.*, 269 F.3d 270 (3rd Cir. 2001), the Third Circuit on Oct. 19 joined the list of courts recognizing the doctrine of "initial interest confusion," but nevertheless affirmed a judgment finding no likelihood of confusion between the marks at issue. Initial interest confusion occurs when consumers are initially misled to believe that two products or services with similar trademarks come from the same source, but later learn that is not true. The doctrine developed to prevent an infringer from obtaining a "free ride on the goodwill of the established mark." While embracing the doctrine, the Third Circuit held that evidence of initial interest confusion should be evaluated depending upon the relatedness of the parties' products and the degree of care exercised by consumers in purchasing decisions. In the case before it, the evidence of initial interest confusion was "de minimis."