

# The IP Legal Browser



The Newsletter of the FBA's Intellectual Property Law Section

Summer 2011

## Message From the Editor

By Brian P. Bialas

Things continue to change in the FBA's Intellectual Property Law Section. In our last edition of the IP Legal Browser, we reported that the section had changed its name from the Intellectual Property and Communications Law Section to the Intellectual Property Law Section and amended the section bylaws. In this edition, we announce that we have now filled several standing committee leadership positions: Kelly Farnan of Richards Layton & Finger in Wilmington, Del., will be chairing our Patent Law Committee; Jason Nardiello of Locke Lorde Bissell & Liddell in New York will be chairing our Trademark Law Committee; and Betsy Zedek, counsel for Content Protection at Fox Entertainment Group in Los Angeles will be chairing our Copyright Law Committee. We are also happy to welcome our new membership coordinator, Vijay Toke of Hiaring and Smith in San Rafael, Calif.

In addition, Scott Moriarty, after many years as assistant editor and then editor-in-chief of the IP Legal Browser, has decided to step down to devote more time to his new job as an associate at Lockridge Grindal Nauen PLLP in Minneapolis, where he specializes in complex commercial litigation, including intellectual property. He has passed the editorial torch on to me. Everyone in the FBA's Intellectual Property Law Section thanks Scott for all of his hard work and wishes him well at his new position.

Of course, Scott did not leave us without a great issue. Normally, we like to focus on one of the three major areas of intellectual property law on a rotating basis: copyright, trademark, or patent law. In this issue, we have articles on all

three. Andrew Mills Holford provides a primer on how the courts apply the "abstraction-filtration-comparison" test in copyright infringement cases involving software and the proper use of experts in such cases. Marc Levy discusses the Ninth Circuit's recent decision in *Network Automation v. Advanced System Concepts*, a case that sets forth an important test for determining likelihood of confusion for trademark infringement in the context of keyword advertising on the Internet. Thomas C. Carey summarizes the Supreme Court's recent decision in *Microsoft v. i4i Limited Partnership*, in which the Supreme Court concluded that the "clear and convincing" standard to prove patent invalidity should remain intact.

In addition to these excellent articles, Jason Nardiello provides a synopsis of a recent networking event in New York City held to promote the FBA in the Southern District of New York

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### The IP Legal Browser

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## Network Automation v. Advanced System Concepts: Keyword Advertising 2.0<sup>1</sup>

By Marc Levy

For a number of years now, keyword advertising has been one of the most frequently discussed issues among both trademark law academics and practitioners. Keyword advertising consists of using words to trigger advertisements that appear on Internet search engines when users perform a search using those words. Keyword advertisers pay the search engine a fee whenever one of their keyword-triggered ads is clicked by a user. Keyword advertising presents significant trademark issues when advertisers select trademarks of others to generate advertisements. Keyword advertising also is economically important in the ever-expanding world of electronic commerce: Keyword advertising is at the heart of Google's business model and thus represents billions in revenue. In *Network Automation v. Advanced System Concepts*, 638 F.3d 1137 (9th Cir. 2011), the Ninth Circuit recently focused on how to evaluate whether keyword advertising creates a likelihood of confusion, setting forth a sophisticated test for assessing liability for trademark infringement within the context of e-commerce.

### I. Keyword Advertising 1.0

The ability to use trademarks of others as keywords is a significant part of Google's business model in selling keyword advertising. Eager to protect itself, Google initially launched its primary defense of keyword advertising based on the proposition that the use of a trademark as a keyword to trigger a sponsored advertisement was not actionable because it was not a "use in commerce" under the Lanham Act.<sup>2</sup> This wholesale defense of keyword advertising created a split among the circuits and engendered most of the analytical discussion of keyword advertising for several years. This state of affairs might be called "Keyword Advertising 1.0."

### II. Keyword Advertising 2.0

In 2009, the Second Circuit ruled in *Rescuecom Corp. v. Google Inc.*<sup>3</sup> that the use of a trademark as a keyword to trigger advertising is an actionable use in commerce, and subsequent courts have left little doubt regarding the validity of that decision. Since then, courts have begun to focus on the core issue of likelihood of confusion as applied to keyword advertising. What are the factors that separate the lawful use of a trademark as a

keyword to trigger a sponsored advertisement from an unlawful use? The analysis of this issue might be called "Keyword Advertising 2.0." Early on, one district court tackled this question and ruled that purchasing a trademark as a keyword to trigger advertising that did not include use of the trademark in the text of the advertisement was not likely to cause confusion.<sup>4</sup>

Beyond that decision, however, few keyword advertising cases have lasted long enough to create decisions on the merits on the likelihood of confusion issue, but recently this has begun to change. The first significant decision on this question was the *Hearts on Fire Co. v. Blue Nile Inc.* case from the District of Massachusetts, where the court announced a new seven-factor test for addressing keyword advertising.<sup>5</sup>

In March of this year, the Ninth Circuit issued the first decision from a U.S. Court of Appeals on the subject in *Network Automation*. The Ninth Circuit's decision reflects a growing judicial sophistication concerning the realities of the Internet marketplace and how trademark principles should apply to them.

### III. Network Automation v. Advanced System Concepts

Network Automation (Network) is the maker of a popular job scheduling and event monitoring software product called AutoMate. Advanced Systems Concepts (ASC) is one of Network Automation's competitors. It makes a competitive software product called ActiveBatch. ActiveBatch is a registered U.S. trademark. Like many companies, Network decided to advertise its AutoMate product by bidding on certain keywords, including the trademark of a direct competitor, ActiveBatch, to trigger the presentation of a Network advertisement as a sponsored link on Google and Microsoft Bing. The text of the advertisement did not include the ActiveBatch mark. At the top of the next page is a sample of one of Network's sponsored link advertisements.

ASC sued for trademark infringement and the district court granted a preliminary injunction. To evaluate likelihood of confusion, the court applied the eight-factor test for source confusion set forth in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979). In doing so, the court emphasized three factors as significant for "cases involving the Internet": the similarity of the marks, relatedness of the goods or services, and

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simultaneous use of the Web as a marketing channel.

The Ninth Circuit reversed. First, the Ninth Circuit quickly disposed of the “use in com-

merce” issue. The court made explicit what the courts and commentators have generally assumed ever since its decision in *Brookfield Communications Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036, 1054 (9th Cir. 1999), namely, that the use of a trademark as a keyword is a use in commerce.<sup>6</sup> Interestingly, by relying on the Second Circuit’s decision in *Rescuecom*, the court made no distinction between the search engine’s sale of a trademark as a keyword (the issue in *Rescuecom*) and an advertiser’s bidding on a trademark as a keyword, which is what Network Automation did. While academics have spilled much ink discussing the merits of this distinction, the courts have effectively shut the door on this issue.

The Ninth Circuit then turned to the issue of likelihood of confusion. The court embraced a statement from *Brookfield*, which it quoted at the very beginning of the opinion: “We must be acutely aware of excessive rigidity when applying the law in the Internet context; emerging technologies require a flexible approach.”<sup>7</sup> Before launching into the likelihood of confusion analysis, the court announced that it would be guided by two principles, that “the Sleekcraft factors (1) are non-exhaustive, and (2) should be applied flexibly, particularly in the context of Internet commerce.”<sup>8</sup> Indeed, the court stated that only some of the factors may be relevant to determining whether confusion is likely in the case at hand.<sup>9</sup>

The court first rejected the district court’s application of the Internet troika of factors. In looking back to *Brookfield*, the origin of the Internet troika, the court noted that it only applied the three factors to uses of a mark as a domain name, not to the use of a mark for metatags—words embedded in the code of a web page historically used by search engines to index a web page—which is more akin to the keyword advertising use at issue.<sup>10</sup> The court then walked through the *Sleekcraft* factors, identifying which factors are relevant in the keyword advertising context.

**Strength**

The strength of the mark is typically a very relevant factor, as stronger marks (whether conceptually or commercially) generally receive broader protection. In the case of keyword advertising, the court held that this factor was probative “because a consumer searching for a generic term is more likely to be searching for a product category.” That consumer is more likely to expect links and advertisements from a variety of sources. “By contrast, a user searching for a distinctive term is more likely to be looking for a particular product, and therefore could be more susceptible to confusion when sponsored links appear

that advertise a similar product from a different source.”<sup>11</sup> At the same time, the court also recognized that ordinary consumers of these software products may be particularly sophisticated and knowledgeable: “they might also be aware that ASC is the source of ActiveBatch software and not be confused at all.”<sup>12</sup>

**Proximity of the Goods**

How closely related the goods in question are typically is among the most significant factors in determining whether relevant consumers would likely be confused as to their respective sources.<sup>13</sup> And the district court held that it was particularly important as one of the Internet troika. The Ninth Circuit rejected this reasoning. The court effectively discounted the value of this factor in isolation: “Because the products at issue here are virtually interchangeable, this factor may be helpful, but it must be considered in conjunction with the labeling and appearance of the advertisements and the degree of care exercised by the consumers of the ActiveBatch software.”<sup>14</sup>

**Similarity of the Marks**

The similarity of the marks is typically the most important of all confusion factors in trademark cases.<sup>15</sup> Here, the district court granted it that level of importance. But the Ninth Circuit held this to be error. The Ninth Circuit recognized that the similarity of the marks should not have the elevated level of importance in the context of keyword advertising because “the consumer does not confront two distinct trademarks. Rather, after entering one company’s mark as a search term, the consumer sees a competitor’s sponsored link that displays neither company’s trademarks.” As such, the court acknowledged only that this factor “could be helpful” in determining initial interest confusion “depending on the labeling and appearance of the advertisement.”<sup>16</sup>

**Actual Confusion**

Actual confusion, when available, is nearly always relevant to prove likelihood of confusion. The Ninth Circuit did not depart from this traditional analysis. The court announced that the factor should be accorded no weight in the preliminary injunction context at the inception of the alleged infringing conduct.

**Marketing Channels**

As the third member of the Internet troika, the district court gave substantial weight to marketing channels in the confusion analysis.

Here again, the Ninth Circuit displayed a more mature view of the Internet and gave no real significance to this factor in determining whether there is a likelihood of confusion. The court wrote: “Today, it would be the rare commercial retailer that did not advertise online, and the shared use of a ubiquitous marketing channel does not shed much light on the likelihood of confusion.”<sup>17</sup>

**Type of Goods and Degree of Care**

The Ninth Circuit held the type of goods and the degree

*Keyword Advertising continued from page 3*

of care to be “highly relevant” to determining likelihood of confusion in the context of keyword advertising. The court acknowledged that the novelty of the Internet is evaporating as online commerce becomes commonplace. The court rejected its own conclusion from 1999 that Internet users on the whole exercise a low degree of care. “While the statement may have been accurate then, we suspect that there are many contexts in which it no longer holds true.”<sup>18</sup>

**Defendant’s Intent**

The district court found that the defendant’s intent supported a finding of confusion because Network knowingly used ASC’s ActiveBatch trademark to present its keyword advertisement. The Ninth Circuit rejected this analysis. Again, referring to the context of the keyword advertising, the court held that the intent factor cannot be found to support a finding of confusion “without first determining that Network intended to deceive consumers rather than compare its product to ActiveBatch.”

**Likelihood of Expansion of the Product Lines**

Because the parties were direct competitors, the district court found that the likelihood of expansion of the product lines was unimportant. The Ninth Circuit agreed.

**Other Factors**

Here is where the Ninth Circuit broke important new ground. Following the District of Massachusetts in *Hearts on Fire*, the Ninth Circuit held that the appearance and context of the keyword advertisement on the search results page was critical to determining whether there is infringement. The Ninth Circuit held: “The appearance of the advertisements and their surrounding context on the user’s screen are similarly important here.” The court noted that even if Network did not clearly identify itself in the text of the advertisements, “Google and Bing have partitioned their search results pages so that the advertisements appear in separately labeled sections for ‘sponsored’ links.” The court held that the “labeling and appearance of the advertisements as they appear on the results page includes more than the text of the advertisement, and must be considered as a whole.”<sup>19</sup>

**The Ninth Circuit’s Keyword Advertising Factors:**

Having reviewed the entire list of *Sleekcraft* factors, the Ninth Circuit announced the following as the “most relevant” factors in determining likelihood of confusion in a keyword advertising case between two competitors: (1) strength of the mark; (2) evidence of actual confusion; (3) type of goods and degree of care likely to be exercised by the purchaser; and (4) the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page.<sup>20</sup>

The court considered but declined to adopt the new list of factors adopted by the District of Massachusetts in *Hearts on Fire*. The court expressed a reluctance to abandon the *Sleekcraft* factors in favor of yet another list of factors. Yet, while the Ninth Circuit’s list is different, the spirit of the *Hearts on Fire* opinion lives in this decision. Like the district court

in *Hearts on Fire*, the Ninth Circuit placed the focus of the confusion analysis squarely on the full context of the keyword advertisement as it appears to the consumer and the perspective that the consumer brings to her perception of that advertisement. This decision should be a landmark for other courts around the country to look at the reality of the keyword advertising situation when determining infringement issues.

Whether this reality-based analysis ultimately works in favor of keyword advertisers or trademark owners remains to be seen. The factors themselves do not dictate that result. At the same time, by placing heavy emphasis on the relative sophistication of consumers and the full context of the advertisement, the confusion analysis gives keyword advertisers a robust opportunity to argue that their advertisements are fair and not likely to cause confusion. □

**Endnotes**

<sup>1</sup>*Network Automation v. Advanced Sys. Concepts*, 638 F.3d 1137 (9th Cir. 2011).

<sup>2</sup>E.g., *Am. Airlines Inc. v. Google Inc.*, 4:07-cv-00487 (N.D. Tex. Oct. 24, 2007) (denying Google’s motion to dismiss based on no use in commerce).

<sup>3</sup>*Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 127 (2d Cir. 2009).

<sup>4</sup>*J.G. Wentworth S.S.C. Ltd. P’ship v. Settlement Funding LLC*, C. A. No. 06-0597, 2007 WL 30115 (E.D. Pa. Jan. 4, 2007) (unpublished).

<sup>5</sup>*Hearts on Fire Co. v. Blue Nile Inc.*, 603 F. Supp. 2d 274, 289 (D. Mass. 2009).

<sup>6</sup>*Brookfield Commc’ns Inc. v. West Coast Entm’t Corp.*, 174 F.3d 1036 (9th Cir. 1999).

<sup>7</sup>*Brookfield*, 174 F.3d at 1054.

<sup>8</sup>*Network Automation*, 638 F.3d at 1145.

<sup>9</sup>*Id.*

<sup>10</sup>*Id.* at 1148.

<sup>11</sup>*Id.* at 1149. The Court did not cite any empirical evidence for this assumption and it has been questioned by commentators. Professor Eric Goldman has pointed out that a consumer may use a well-known trademark as a search term not to search just for that product, but as a pathway to search for other competitive products. See E. Goldman, *Deregulating Relevance in Internet Trademark Law*, 54 EMORY L.J. 507 (2005).

<sup>12</sup>*Id.*

<sup>13</sup>See B. Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CAL. LAW REV. 1581 (2006) (finding that similarity of the marks together with similarity of the goods was 95% accurate in determining whether likelihood of confusion was found).

<sup>14</sup>*Network Automation*, 638 F.3d at 1150.

<sup>15</sup>*Beebe, supra*, note 13.

<sup>16</sup>*Network Automation*, 638 F.3d at 1150-51.

<sup>17</sup>*Id.* at 1151.

<sup>18</sup>*Id.* at 1152.

<sup>19</sup>*Id.* at 1153-54.

<sup>20</sup>*Id.* at 1154.

## Software Copyright Infringement Update: All Mixed Up or Ready to Go?

By Andrew Mills Holford

Let me set the scene: Your favorite client has come to you after being served with a federal complaint for infringing the copyright of a competitor's software program. Just for good measure, let's say there are also a whole host of other nasty claims concerning circumvention of technological measures, theft of trade secrets, and interference with economic advantage. Or, maybe a new client has called you to seek advice on how to bring suit against a rival company with a new software program that its customers are suspiciously gravitating towards. What do you do?

The area of software infringement involves fierce competition, bold acts, rogue employees, and, more often than not, the ubiquitous pin drive. Some of the stories and fact patterns from the cases are worthy of Shakespeare's pen. Needless to say, "all hands on deck, battle stations please" must become your mantra. Whether you're new to this area or a seasoned veteran, you'll need a map for your travels. Let this article serve as your compass.

### The Abstraction-Filtration-Comparison Test

A good starting place is the seminal Second Circuit decision in *Computer Associates International Inc. v. Altai*, 982 F.2d 693 (2d Cir. 1992). Although it is enough to make your eyes glaze over and no doubt it has caused some serious head scratching, *Altai* is widely credited with creating, or borrowing from Judge Learned Hand, the modern abstraction-filtration-comparison (AFC) framework currently used to evaluate substantial similarity of software. *Altai* provides a tool for divining exactly what's a protectable "golden nugget," what's not, and how to determine whether there's actionable copyright infringement.

To prove copyright infringement, a plaintiff must show ownership of a valid copyright and copying of constituent elements of the work that are original. Copying can be shown by direct evidence or indirect evidence. For indirect cases, copying is shown by the party's access to the material and substantial similarity between the two works in question. The *Altai* court broke new ground by adopting a substantial similarity analysis that involves a three step process: (1) abstraction; (2) filtration; and (3) comparison. Although the *Altai* test

was originally applied to non-literal copying of non-literal elements of a computer program (discussed below), it has been widely approved for use in all variations of computer software infringement cases.

At the abstraction stage, a court, with the assistance of the parties, breaks a computer program down into separate parts and isolates each level of abstraction. These parts may be literal elements of a computer program such as the program's source or object code. The parts could also be non-literal elements that result in a program's structure, sequence and organization such as the user interface, menus or flow charts. Once this is done, the court must "filter" what is copyrightable from the identified separate parts of the program. This stage may involve applying defenses such as fair use, the idea/expression dichotomy, merger and/or scenes a faire. Those aspects of the original program that survive filtration are then compared to the program in question to determine if sufficient infringement exists.

### Literal and Nonliteral Copying

In the beginning, you'll need to consider and determine the type of copying at issue: is it literal or nonliteral copying of the code and/or one or several of the more conceptual elements identified above? Literal copying might involve the direct copying of source or object code in the same programming language or the wholesale borrowing of a screen display. Non-literal copying might inhabit the netherworld of non-literal elements, such as a program's structure and fundamental essence or it could involve code paraphrasing in a different programming language.<sup>1</sup>

Some of these concepts are illustrated by *Marketing Technology Solutions Inc. v. Medizine LLC*, an unpublished decision from the Southern District of New York. No. 09 Civ. 8122 (LMM), 2010 WL 2034404 (S.D.N.Y. May 18, 2010) (unpublished). The *Medizine* court was faced with allegations of literal and nonliteral copying of code. The developer, a former employee of the plaintiff, allegedly developed part of

*Copyright Infringement continued on page 6*



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*Copyright Infringements continued from page 5*

defendant's program while still working for the plaintiff.

Even though only a small portion of literally copied code was involved, the court rejected a de minimis defense and denied summary judgment. The court found the qualitative question, or importance of the code, more important than the quantitative question or amount of the code copied. Further, when evaluating the non-literal copying of a different questionable aspect of the program - an algorithm - the court recognized that "the value in a program lies in its behavior" or what the program does. In short, the defendants could not support their position that the questionable algorithm, written in a different language, was mandated by considerations of efficiency, external factors, or taken from the public domain. Therefore, the court found insufficient evidence for these defenses.

### **The Use of Experts**

Once you've determined what literal or nonliteral elements were copied, you'll need to prove the copying to the court. In this regard, experts play a central and vital role in developing software copyright claims and supporting defenses.

Recently, the Sixth Circuit reasoned that the plaintiff's failure to offer expert testimony was fatal to an indirect claim for software copyright infringement. See *R.C. Olmstead Inc. v. CU Interface LLC*, 606 F.3d 262, 275 (6th Cir. 2010). In that case, the defendant successfully struck the plaintiff's deficient report for failing to comply with the requirements of Rule 26(a)(2) (B), which requires that an expert report contain a complete statement of the expert's opinions and the basis and reasons for asserting such an opinion, including the data considered by the expert. The panel held, in the absence of any direct evidence of copying, that plaintiff had not identified any original protectable expression in the program for the court to evaluate. Affirming the district court, the *Olmstead* court held that the stricken report, as well as a deficient supplemental declaration, "fell woefully short of the rigorous abstraction-filtration-comparison analysis required to find substantial similarity in copyright claims."<sup>2</sup> This case serves as a warning to parties to carefully identify and define the nature of their software copyright infringement claim(s).

Another interesting expert case, *Nikish Software Corp. v. Manatron Inc.*, comes from the Southern District of Indiana. No. 1:07-cv-0358-TWP-DML, 2010 WL 5099281 (S.D. Ind. Dec. 8, 2010) (unpublished). At its core, the underlying procedural dispute was whether defendant could have access to the plaintiff's source code. As a result, the parties developed a joint discovery plan whereby they hired an expert to review their respective codes. Furthermore, the parties agreed to treat the expert's findings as a rebuttable presumption. Although a laudable effort, things became predictably sour when the expert found no relevant similarities between the two codes. The plaintiff then switched its theories and argued the defendant's program was nevertheless a derivative work. The plaintiff even confessed that the code submitted to the expert wasn't the version the defendant allegedly copied years before. After rejecting such a bait and switch, the district court found nothing

remained but a handful of cryptic statements, all of which were insufficient to survive defendant's motion for summary judgment. This case instructs parties to carefully consider all aspects of any agreements reached in discovery and how they can impact dispositive motion practice.

### **The AFC Framework in Practice**

Finally, it's also useful to understand how courts have approached the AFC framework recently. One interesting application of this framework is found in *Real View LLC v. 20-20 Technologies Inc.*, a case from the District of Massachusetts that involved the nonliteral elements of a screen display and graphical user interface. 683 F. Supp. 2d 147 (D. Mass. 2010).

In that case, the district court held a separate hearing on the issue of whether the program at issue contained expression protected by copyright law. This is significant because it forced the parties to further define their claims and defenses under the abstraction and filtration elements. By doing this, the court placed the burden squarely on the parties to detail what was specifically at issue (i.e., screen layouts, icons, sub-windows, search boxes, etc.). The court was provided with a numbered list of over 50 discrete elements ("abstractions") of the program at issue. The *Real View* court's opinion then engaged in a highly methodical approach to the filtration and comparison elements. Ultimately, the court found that parts of the screen display and user interface were copyrightable as a compilation and other parts weren't copyrightable at all. The *Real View* opinion offers a useful example to parties looking for an effective way to present their claims and defenses and structure their arguments, giving parties a chance to see how to meaningfully present a list of abstractions and identify defenses for a court's consideration.

A different approach is illustrated by a recent opinion from the District of Minnesota, *CHS Inc. v. Petronet LLC*, Civ. No. 10-94 (RHK/FLN), 2011 WL 1885465 (D. Minn. May 18, 2011) (unpublished). To demonstrate infringement, the plaintiff showed that both parties had virtually identical flowcharts with matching typographical errors. The parties also presented experts, each with forceful opposing opinions.

The court denied summary judgment, both on the factual issue presented by the matching flowcharts, and on the issues of dueling experts. Even though the plaintiff's expert failed to overtly follow an AFC analysis, the *CHS* court still found enough identifiable or abstracted elements of the software to allow a finding that some issues of material fact existed for trial. While the court did not specifically adopt the AFC methodology, and acknowledged that the Eighth Circuit has not adopted it to date, the court did find it useful. All in all, this case highlights how a more or less stringent reading of the AFC test might make all the difference. Counsel should be aware of *Altai's* status in his or her jurisdiction.

### **Conclusion**

Software copyright infringement cases require careful attention and planning. The discovery process is complex and the

## FBA Members and Guests Mix and Mingle at the “Don’t Copy My Cocktail” Reception at the Night Hotel in New York City

In Spring 2011, the Intellectual Property Section of the FBA, in concert with the co-chairs of the Intellectual Property Committee of the Southern District of New York (SDNY) Chapter, Jason Nardiello and Olivera Medenica, hosted a cocktail reception named “Don’t Copy My Cocktail.” The purpose of the event was to raise awareness of the FBA, as well as the SDNY Chapter, among New York attorneys—and intellectual property attorneys in particular. The event was a great success with a good number of both SDNY Chapter members and nonmembers in attendance. We are also happy to report that there were no known instances of cocktail infringement!



claims often evolve in unpredictable ways. Although the terminology may seem new, the law is fairly established and new cases continue to offer practical insights into the nuances of this area. Furthermore, many helpful resources exist to update the lawyer who finds himself or herself in the center of one of these disputes. I hope that this article serves as one such resource. □

### Endnotes

<sup>1</sup>As a primer for all these terms and for an analysis of some of the confusion that has ensued, I recommend a decision

from the District of Massachusetts: *Ilog Inc. v. Bell Logic, LLC*, 181 F. Supp. 2d 3 (D. Mass. 2002). The *Ilog* court does a fine job of outlining the state of the law and the importance of distinguishing between literal copying and non-literal copying of literal and non-literal elements of computer programs.

<sup>2</sup>The district court later found the plaintiff’s copyright claims to be “objectively baseless” and awarded attorney’s fees and costs as a result. See *R.C. Olmstead, Inc. v. CU Interface, LLC*, No. 5:08CV234, 2011 WL 557599 (N.D. Ohio Feb. 16, 2011) (unpublished).

## The “Clear and Convincing” Standard Survives a Frontal Assault; Will Later Flanking Attacks Succeed?

By Thomas C. Carey

*Microsoft v. i4i Limited Partnership*<sup>1</sup> involves a patent infringement case brought by a small Canadian software company against Microsoft Corporation. In this case, David fought Goliath all the way to the Supreme Court and walked away with a \$290 million victory. The implications for patent law are less clear, for the opinion of the court was joined by only four justices, with four others concurring in two separate opinions and the Chief Justice having recused himself.

The i4i patent claimed an improved method for editing computer documents. The method involves storing a document's content separately from its metacodes. Although aware of the i4i patent, Microsoft included in Word 2003 a “Custom XML” feature that allowed users to create documents that infringed the i4i patent claims.

i4i had sold a software product called S4 more than one year before the patent application was filed. S4 was not mentioned in the prosecution of the i4i patent. Thus, no patent examiner had reviewed the question of whether it constituted invalidating prior art. Although the prior art may not have been cited to the PTO, i4i's biggest S4 customer was in fact the Patent and Trademark Office. i4i's chairman, remarking on this, said: “It's a pretty cruel joke to turn around now and say that the patent office didn't understand the industry, considering they were investing an enormous amount trying to manage the whole patent process through our technology.”<sup>2</sup>

i4i successfully sued Microsoft for patent infringement. On the matter of potentially invalidating prior art, the trial record indicates that the source code of S4 had been destroyed years before the commencement of the litigation. Thus, it was impossible to prove whether S4 practiced the art claimed in the i4i patent. The creators of S4 were also the inventors named in the i4i patent, and they testified that S4 did not practice the art disclosed in the patent.

At the conclusion of the case, the trial court judge instructed the jury that, to invalidate the i4i patent, Microsoft would have to prove its case by “clear and convincing evidence.” The jury found that Microsoft had not met this burden. The trial court judge upheld the damages award of \$290 million and issued a permanent injunction against the sale of Word with the Custom XML feature.

Microsoft appealed the case to the Federal Circuit, which upheld both the damages award and the injunction.<sup>3</sup> Not satisfied, Microsoft appealed to the Supreme Court.

In its Supreme Court appeal, Microsoft focused on the question of the evidentiary standard needed to show that prior art should have prevented the issuance of a patent. Microsoft argued that the exacting “clear and convincing” standard of proof was not the correct standard to apply, and that it should only have had to prove invalidity by the more relaxed “preponderance of the evidence” standard.

Microsoft presented this argument in two flavors: first, that the “clear and convincing” standard should not apply at all to patent challenges; and second, that at least it should not apply when the challenge is based upon evidence not presented to the patent examiner who approved the patent application.

If Microsoft had succeeded in its argument, issued patents would have been much easier to challenge than they have been to date. Recognizing the importance of the case, several parties filed amicus briefs. Taking Microsoft's side were Apple, the Business Software Alliance, Cisco, CTIA (the Wireless Organization), EMC, Google, and Timex. Supporting i4i and the “clear and convincing” standard were 3M, six former USPTO commissioners or directors, 10 universities, 19 venture capital firms, Bayer AG, Dolby Laboratories, Eli Lilly, Proctor and Gamble, the Boston Patent Law Association, the San Diego Intellectual Property Law Association, and the United States of America, among others.

In considering Microsoft's arguments, the Supreme Court referred to its opinion in *Radio Corporation of America v. Radio Engineering Labs. Inc.*<sup>4</sup> In that case, Justice Cardozo reviewed 100 years of prior case law involving the standard of proof required to invalidate a patent. He firmly concluded that the Supreme Court and most appellate courts had consistently required clear and convincing evidence in order to invalidate a patent.

In *i4i*, the Supreme Court held that Congress had effectively codified the venerable “clear and convincing” standard in 1952 when it enacted § 282 of the Patent Act, which says: “A patent shall be presumed valid. The burden of establishing invalidity of a patent shall rest on a party asserting it.” The Court concluded

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that there was no basis for overriding the “clear and convincing” standard as ratified by Congress.

The court acknowledged that the rationale for the ‘clear and convincing’ standard was not as powerful where the patent examiner had not had the opportunity to consider the prior art that was the basis of the challenge. Nonetheless, the court suggested that the benefit of that rigorous standard was part of the bargain with the inventor, an inducement to motivate him or her to disclose the invention in the patent application process. The court saw no reason to withdraw that inducement.

However, the majority softened its position when it noted earlier decisions of certain courts of appeals that said that the presumption of validity is weakened when new evidence is presented at trial.<sup>5</sup> The Court reconciled these cases by stressing the language of the Federal Circuit in *American Hoist & Derrick Co. v. Sowa & Sons Inc.*<sup>6</sup> In that case, Judge Rich said:

When new evidence touching validity of the patent not considered by the PTO is relied on, the tribunal considering it is not faced with having to disagree with the PTO or with deferring to its judgment or with taking its expertise into account. The evidence may, therefore, carry more weight and go further to ward sustaining the attacker’s unchanging burden.<sup>7</sup>

While the majority agreed with the notion that new evidence can be given greater weight, it stuck by the “clear and convincing” standard and upheld the trial court’s result. Justice Thomas, in concurrence, was unable to agree that § 282 can be read as dictating a “clear and convincing” standard. He concurred, however, because he did not see any persuasive reason to change the standard that had been applied for more than 170 years.

In another concurrence, Justice Breyer, joined by Justices Scalia and Alito, said that the “clear and convincing” standard applies to questions of fact, not questions of law. Extrapolating from that premise, Justice Breyer went on to say:

Many claims of invalidity rest, however, not upon factual disputes, but upon how the law applies to facts as given. Do the given facts show that the product was previously “in public use”? 35 U.S.C. § 102(b). Do they show that the invention was “novel[]” and that it was “nonobvi-

ous”? §§ 102, 103. Do they show that the patent applicant described his claims properly? § 112. Where the ultimate question of patent validity turns on the correct answer to legal questions—what these subsidiary legal standards mean or how they apply to the facts as given—today’s strict standard of proof has no application.<sup>8</sup>

Applying this logic to *i4i v. Microsoft* (which Justice Breyer did not attempt to do), perhaps the trial court should have told the jury that Microsoft had to prove by clear and convincing evidence that S4 practiced the art set forth in the patent; and if it did, then the question of whether the invention disclosed in the patent was obvious in light of S4 would be decided by a “preponderance of the evidence” standard.

While this is an interesting theory, it appears that the four justices who joined the opinion of the Court were not persuaded by it. Otherwise, it would have appeared in the Court’s opinion. Thus, this apparent split may contain the seeds of a later challenge to the “clear and convincing” standard. What is needed is a case where that standard is applied to issues that might be viewed as questions of law, such as whether an invention was novel in light of prior art.

In the meantime, Microsoft’s frontal attack on the “clear and convincing” standard was a failure. Only time will tell whether attempts to trim the edges off the standard will be successful.

## Endnotes

<sup>1</sup>*Microsoft v. i4i Corp.*, 564 US at \_\_\_ (US June 9, 2011) (available at [www.supremecourt.gov/opinions/10pdf/10-290.pdf](http://www.supremecourt.gov/opinions/10pdf/10-290.pdf)).

<sup>2</sup>[www.betanews.com/joewilcox/article/i4i-chairman-speaks-candidly-about-Microsoft-patent-infringement-case/1303190233](http://www.betanews.com/joewilcox/article/i4i-chairman-speaks-candidly-about-Microsoft-patent-infringement-case/1303190233).

<sup>3</sup>*i4i Limited Partnership v. Microsoft*, [www.i4ilp.com/court/2010-03-10%20i4i%20Revised%20Opinion.pdf](http://www.i4ilp.com/court/2010-03-10%20i4i%20Revised%20Opinion.pdf) (Fed. Cir. 2010).

<sup>4</sup>293 US 1 (1934).

<sup>5</sup>E.g., *Jacuzzi Bros. Inc. v. Berkeley Pump Co.*, 191 F.2d 632, 634 (9th Cir 1951); *H. Schindler & Co. v. C. Saladino & Sons*, 81 F.2d 649, 651 (1st Cir. 1936); *Gillette Safety Razor Co. v. Cliff Weil Cigar Co.*, 107 F.2d 105, 107 (4th Cir. 1939); *Butler Mfg. Co. v. Enterprise Cleaning Co.*, 81 F.2d 711, 716 (8th Cir. 1936).

<sup>6</sup>725 F.2d 1350 (Fed. Cir. 1984)

<sup>7</sup>*Id.* at 1360.

<sup>8</sup>Slip Op. at 1.

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and co-sponsored by the Intellectual Property Section. Jason’s report comes complete with pictures, and it appears a good time was had by one and all! The IP Section plans to sponsor additional regional networking and substantive events in the coming months, so please keep your eye out for announcements and check the calendar on our section website at [www.fedbar.org/Sections/Intellectual-Property-Section.aspx](http://www.fedbar.org/Sections/Intellectual-Property-Section.aspx).

Finally, I urge you to get involved with the Federal Bar Association! In addition to publication through our newsletter, we are also soliciting articles for “IP Insight,” the monthly intellectual property feature in *The Federal Lawyer*, our national magazine. If you are interested in contributing to either publication, please send me an e-mail at [bbialas@foleyhoag.com](mailto:bbialas@foleyhoag.com).

Thanks, and enjoy the rest of your summer! □

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