



# IP Advisory

A PUBLICATION OF BENESCH FRIEDLANDER COPLAN & ARONOFF LLP'S INTELLECTUAL PROPERTY GROUP

## The Federal Circuit Raises the Bar for Willful Infringement, Provides Clarification on Attorney-Client Privilege

Before the Federal Circuit's recent unanimous *en banc* decision in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), a party who had actual notice of another's patent rights had an "affirmative duty to exercise due care" to determine whether he was infringing. This duty of care included the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity. In patent litigation, a party found liable for willful patent infringement is subject to enhanced damages. Given the duty of care standard and the potential for enhanced damages, an accused willful patent infringer will often assert advice of counsel as a defense. Until the Federal Circuit's *Seagate* decision, however,

depending on the jurisdiction, an accused willful patent infringer was in some cases forced to choose between using advice of counsel as a defense and maintaining its attorney-client privilege as to its trial counsel.

### The District Court Orders Seagate to Disclose Trial Counsel Communications

Convolve, Inc. and the Massachusetts Institute of Technology (collectively "Convolve") filed a lawsuit in federal court against Seagate Technology, LLC ("Seagate") alleging infringement of two patents issued to Convolve. The complaint was later amended to include an infringement claim with respect to a

*continued on page 2*

### IN THIS ISSUE:

The Federal Circuit Raises the Bar for Willful Infringement, Provides Clarification on Attorney-Client Privilege

"Blowing the Whistle" on Copyright Infringement

Can Foreign Patent Infringement Claims be Litigated in U.S. Courts?

In Light of *KSR International Co. v. Teleflex Inc.*, the USPTO Issues Guidelines for Determining Obviousness

eBay Outshines Tiffany in Trademark Liability Suit

Play Fair and Square with the USPTO or Risk Owning an Unenforceable Patent

Software License Agreements: Protect Your Business from Interruptions and Unexpected Costs

## News About Us – Fourth Quarter Report 2008

- Mark Avsec spoke, and a film produced by him entitled "Anatomy of an Infringement" was featured, at the "Future of Music" symposium at the University of California, Berkeley Boalt School of Law
- Mark Avsec was named Vice-Chair of Benesch's Intellectual Property Group
- Steve Auvil was elected President-Elect of the Cleveland Intellectual Property Law Association
- Susan Clady was elected Secretary of the Cleveland Intellectual Property Law Association
- Steve Auvil was listed in The Best Lawyers of America® 2008
- Steve Auvil and Mark Avsec were named as Ohio Super Lawyers 2008
- Susan Clady attended the International Trademark Association's annual meeting in Berlin
- Steve Auvil was admitted to practice before the U.S. Supreme Court; on the day he was sworn in by the justices, Steve attended the oral arguments session in *LG Electronics v. Quanta Computer* concerning the patent exhaustion doctrine

# The Federal Circuit Raises the Bar for Willful Infringement, Provides Clarification on Attorney-Client Privilege

continued from page 1

third patent issued to Convoke, as well as claims of willful infringement. Prior to the lawsuit, Seagate sought opinion letters from outside counsel regarding Convoke's existing patents. Outside counsel ultimately issued three opinion letters during the course of the litigation relating

to whether Seagate was infringing Convoke's patents, as well as the validity and enforceability of all three patents in dispute.

After Convoke asserted its claims of willful infringement, Seagate notified Convoke that it intended to rely on the opinion letters to

defend against the claims. Seagate subsequently disclosed all of outside opinion counsel's work product and made him available for deposition. Convoke, however, sought additional discovery—specifically, communications and work product of Seagate's other counsel, including its trial counsel. Upon Convoke's motion to compel the discovery, the district court held that by asserting the advice of counsel defense, Seagate had waived the attorney-client privilege and work product protection between it and any counsel with respect to communications relating to infringement, invalidity, and enforceability of the patents.

## The Federal Circuit Vacates the District Court's Order

After Seagate unsuccessfully petitioned the district court for a stay and certification of an interlocutory appeal, it petitioned the Federal Circuit for a writ of mandamus. The Federal Circuit

Court of Appeals granted *en banc* review *sua sponte* to determine:

(1) whether asserting an advice of counsel defense to a claim of willful infringement waives the attorney-client privilege for communications with the asserting party's trial counsel; (2) the effect of any such waiver on trial counsel's work-

product immunity; and (3) whether, in light of the first question, the court should reconsider the statutory duty of care standard announced in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983).

The Federal Circuit vacated the district court's order compelling discovery.

The court held that the then-current standard of care for willful infringement failed to comport with the general understanding of willfulness in the civil context and allowed for punitive damages in a manner inconsistent with Supreme Court precedent. In so holding,

the Federal Circuit Court of Appeals overruled *Underwater Devices*. The court held that proof of willful infringement requires at least a showing of "objective recklessness." Moreover, the court held that asserting the advice of counsel defense and disclosing opinions of opinion counsel constitutes neither the waiver of the attorney-client privilege, nor waiver of work product protection for communications with trial counsel.

## Looking Forward

Given the Federal Circuit's recent decisions concerning the doctrine of willful infringement, including *Seagate Technology, In re EchoStar Communications Corp.*, 448 F.3d 1294 (Fed. Cir. 2006), and *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004), the Federal Circuit is plainly focused on balancing the practical concerns facing litigants on both sides. *Seagate Technology* should be of particular interest to patent applicants or holders because it raises the standard of proof necessary for a claim of willful infringement and clarifies that asserting advice of counsel as a defense to such a claim will generally not waive the attorney-client privilege or work product protection with respect to trial counsel.

Angela Gott and Rob Nupp are associates with the firm's Intellectual Property Practice Group. Angela can be reached at (216) 363-4162 or [agott@beneschlaw.com](mailto:agott@beneschlaw.com) and Rob can be reached at (216) 363-4541 or [mupp@beneschlaw.com](mailto:mupp@beneschlaw.com).

## “Blowing the Whistle” on Copyright Infringement

I was driving home from work not long ago and heard an advertisement on a 50,000 watt radio station offering up to \$1 million to individuals to report companies using unlicensed software. The campaign, launched by the Business Software Alliance (the “BSA”) and dubbed “Blow the Whistle,” encourages employees or former employees to report employers they suspect are using unlicensed software products. The BSA is an organization that represents many business software manufacturers/vendors—companies like Microsoft and Symantec, and a host of others—who distribute common business software used in almost every business.

How would your company fare in a software audit? Are you aware of present or former employees (e.g., someone who was terminated or left under less than ideal conditions) who might have an axe to grind with your company or one of your other employees? Even if your company is ethical and your company’s IT department employs excellent software management practices, it is no fun to go through a BSA audit.

Now is the time to conduct a software audit and discover the status of software licenses, before the BSA sends your company an audit letter. Make sure that your company has dated receipts or other documentary evidence corroborating that every piece of software loaded on every company computer, including laptops, has been duly licensed and paid for. Should you discover software that has not been properly licensed, your company should promptly take a license or delete that software. Perhaps you will discover unlicensed software installed on computers that are no longer in use, even though the unused computers are still on company premises. Perhaps a current or former employee installed unlicensed software without permission and the IT department is not even aware of its

existence. Perhaps unlicensed software was installed on additional machines to accommodate your company’s growth and the IT department simply forgot to obtain and pay for additional “seats.”

It is too late to take corrective action after your company receives a BSA audit letter. After you receive a BSA audit letter, you cannot delete any software that may not have been properly licensed (that is spoliation of evidence and is improper, and the BSA will remind you of that in its letter). You also cannot purchase the software until the BSA’s audit is completed (the BSA will not count receipts in the audit that are dated after the date of the BSA’s audit letter).

In general, the BSA will ask a company to conduct its own audit and will provide the audit guidelines. Companies must certify to the BSA the results of the audit as a condition of settlement. The penalties for copyright infringement can be severe, and should a company falsify an audit report and later be uncovered, a federal district court would almost certainly impose the steepest penalties. Generally, these types of cases trigger statutory damages, and the general range of such damages exacted is between \$750 and \$30,000 per work infringed—but the damages can be as high as \$150,000 per work infringed for egregious violations. Moreover, under the fee-shifting provisions of the Copyright Act, the prevailing plaintiff, i.e., the BSA, almost always will recover attorneys’ fees from the defendant.

Given the threat of statutory damages and fees-shifting, the BSA will often demand twice the retail value of each unlicensed work on any computer, plus require the company to delete the unlicensed software. In other words, if a company cannot produce a dated receipt

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corroborating it purchased a piece of software that retails for \$5,000, the BSA will demand \$10,000 from the offending company (twice the retail value) and also demand that the software be deleted. Thus, if the company will need to use the software post-audit, the company will then be required to obtain a new license (for another \$5,000)—for a total outlay of \$15,000 for

one unlicensed piece of software on a single computer. Multiply this by many pieces of unlicensed software on many computers and it is easy to appreciate the magnitude of the problem.

If your company is faced with a BSA audit, immediately contact counsel with experience in prior BSA audits. Experienced counsel will know what questions to ask of the BSA, how to conduct the audit, and how to minimize the damage. Now is the time to contact an attorney with BSA audit experience to assist your IT group in conducting a company-wide software audit—before the BSA sends your company an audit letter. This should be on every general counsel’s to-do list.

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Mark Avsec is a partner with the firm’s Intellectual Property Practice Group. He can be reached at (216) 363-4151 or mavsec@beneschlaw.com.

## Can Foreign Patent Infringement Claims be Litigated in U.S. Courts?

It is axiomatic in today's global business climate that companies are selling products in more countries and, equally, experiencing multi-national competition. Similarly, protecting intellectual property has also become increasingly multi-national. In the patent arena, it is not atypical for a U.S. company or inventor to seek patent protection simultaneously in the United States and in multiple countries so as not to be left unprotected in some current or future market. When it

comes time for enforcement, however, must a U.S. patent holder with corresponding foreign patents litigate the foreign patents where they

were issued or can foreign patent infringement claims be litigated in U.S. courts? On the one hand, it might be more efficient for a plaintiff to adjudicate all issues in one forum; on the other hand, a foreign patent is an act of a foreign sovereign and the question of infringement requires interpretation of that sovereign's patent laws. The answer to the question is important to both the conduct of international business and the global enforcement of intellectual property rights.

For now, at least, the verdict appears to be that foreign patent infringement claims cannot be litigated here. On February 1, 2007, a panel of the U.S. Court of Appeals for the Federal Circuit vacated a decision of the United States District Court for the Western District of Oklahoma that had permitted a plaintiff to claim infringement not only of his U.S. patents, but of his foreign patents as well. *Voda v. Cordis Corp.*, 476 F.3d 887 (Fed. Cir. 2007). Although the case focused on the narrow, procedural question of whether the court had abused its discretion by basing jurisdiction over

these claims on the federal "supplemental jurisdiction" statute, the majority's reasoning may well be read as rejecting the idea of U.S. courts adjudicating foreign patent infringement claims in most circumstances.

In *Voda*, the plaintiff held United States patents on a catheter device, as well as European, British, Canadian, French, and German patents on the same device. The foreign patents issued from a common Patent Cooperation Treaty

("PCT") application. After bringing infringement claims against defendant Cordis Corporation based on his United States patents, Voda later sought to

amend his complaint to add claims of infringement of his foreign patents. The district court determined that it had supplemental jurisdiction over the foreign infringement claims under 28 U.S.C. § 1367. Cordis lodged an interlocutory appeal of the court's decision with the Federal Circuit. While the appeal was pending, the case proceeded to trial on the U.S. patent infringement claims, and a jury found in favor of Voda in May 2006.

Section 1367(a) of U.S. Code, Title 28 provides that "in any civil action of which the district courts have original jurisdiction, the district courts shall have supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy[.]" Relying in part on the Federal Circuit's statements in one older case, *Mars, Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368 (Fed. Cir. 1994), that it was within a district court's discretion to exercise supplemental jurisdiction over foreign patent infringement claims, the district court allowed Voda to add his claims of

foreign patent infringement to the case. On appeal, the Federal Circuit did not disavow its statements in the *Mars* case. However, the Federal Circuit found that the lower court had not sufficiently considered the exceptions to Section 1367(a) that are set forth in a subsection of the same provision, Section 1367(c). Among other things, that subsection provides that the court "may decline to exercise supplemental jurisdiction over a claim under subsection (a) if ... in exceptional circumstances, there are other compelling reasons for declining jurisdiction."

The Federal Circuit found a spate of reasons to thwart the exercise of jurisdiction in *Voda*. Principal among them were: (1) the United States' treaty obligations and (2) the judicial doctrine of comity. Although the court noted the existence of patent harmonization treaties, it chose deference because no treaty was shown to allow one jurisdiction to adjudicate patents of another: "[W]e as the U.S. judiciary should not unilaterally decide either for our government or for other foreign sovereigns that our courts will become the adjudicating body for any foreign patent with a U.S. equivalent [patent] 'so related' to form 'the same case or controversy.'" *Voda*, 476 F.3d at 900. The court concluded that without such a treaty allowing one jurisdiction to adjudicate patents of another, the district court's exercise of supplemental jurisdiction could undermine U.S. treaty obligations. As for principles of comity, the court found that "extending our jurisdiction through § 1367(a) in this case could undermine 'the spirit of cooperation' underlying the comity doctrine." *Id.* at 902. The court noted that if foreign courts were to copy the lower court here and exercise jurisdiction over *United States* patent infringement claims, the results, such as forum shopping by U.S. plaintiffs abroad,

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might not be to the advantage or liking of the United States. *Id.* at 903.

The court did leave a window open to the exercise of supplemental jurisdiction over foreign patent infringement claims, stating that circumstances would change “if the United States were to enter into a new international patent treaty[.]” *Id.* at 905. However, the small size of this window only underscores how unlikely it is that any district court can permissibly exercise supplemental jurisdiction over foreign patent infringement claims.

To be sure, litigants may seek other potential avenues of jurisdiction for these claims. One would be diversity jurisdiction. The “diversity” statute, 28 U.S.C. § 1332, provides for federal court jurisdiction over cases involving citizens of different states within the U.S. if the amount in controversy exceeds \$75,000.00. The purpose of this long-established statute is ostensibly to protect against possible prejudice of state courts against out-of-state parties. *See, e.g., Stifel v. Hopkins*, 477 F.2d 1116, 1125-26 (6th Cir. 1973). The *Voda* litigants had briefed the question of diversity jurisdiction, but because *Voda* had not pled diversity jurisdiction, the Federal Circuit declined to consider it. Nevertheless, the same

broad treaty and comity concerns delineated by the *Voda* panel would seem to forestall attempts at asserting diversity jurisdiction in future cases.

A recent Ohio case decided after *Voda*, however, contradicts this view. In that case, a plaintiff asserted U.S., Australian, and Chinese patent infringement claims. On the defendant’s motion to dismiss the foreign patent infringement claims, the court held that, notwithstanding the *Voda* decision, it could exercise diversity jurisdiction over the claims. *Baker-Bauman v. Walker*, No. 3:06cv017, 2007 WL 1026436, at \*2 (S.D. Ohio Mar. 29, 2007). Because the decision does not address the purpose of the diversity statute or explain why the treaty and comity concerns expressed in *Voda* do not apply to the exercise of jurisdiction of foreign patent infringement claims under that statute as compared to the statute governing supplemental jurisdiction, it is difficult to know whether it will be cited as precedent by other courts.

Given the nature of the global marketplace and the rising costs of litigation, it is not surprising that litigants are attempting to litigate all of their patent rights, foreign and domestic, in

a single U.S. district court proceeding. For now, at least, the Federal Circuit has decided that there are compelling reasons to deny the U.S. district courts jurisdiction over foreign patent infringement claims. The door may not be completely shut, however, and creative litigants may yet find a way to bring such claims into the federal courthouse.

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Bryan Schwartz is a partner with the firm’s Intellectual Property Practice Group. He can be reached at (216) 363-4420 or [bschwartz@beneschlaw.com](mailto:bschwartz@beneschlaw.com).

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## In Light of *KSR International Co. v. Teleflex Inc.*, the USPTO Issues Guidelines for Determining Obviousness

The Supreme Court's April 30, 2007 decision in *KSR International Co. v. Teleflex Inc.* has prompted the United States Patent and Trademark Office ("the USPTO") to issue examination guidelines for determining obviousness under 35 U.S.C.

§ 103. The guidelines also set forth a list of rationales that patent examiners can utilize to support an obviousness

rejection. The guidelines became effective on October 10, 2007 and supersede any conflicting sections of the current Manual of Patent Examining Procedure.

Every person or entity that seeks to obtain patent protection will be affected by the guidelines. Obvious developments, *i.e.*, those that would have been obvious to a person of ordinary skill at the time of the invention, are not patentable. Prior to the *KSR* decision, the Federal Circuit rigidly applied the teaching-suggestion-

motivation ("TSM") test, which permitted an obviousness rejection if the examiner could identify a prior art teaching, suggestion, or motivation to make the claimed invention. The new guidelines reinforce the Supreme Court's

holding in *KSR* and indicate that examiners are no longer required to use the TSM test at all in reaching a proper obviousness rejection.

*Every person or entity that seeks to obtain patent protection will be affected by the guidelines.*

Under the new USPTO guidelines, when making an obviousness determination, "neither the particular motivation to make the claimed invention nor the problem the inventor is solving controls. The proper analysis is whether the claimed invention would have been obvious to one of ordinary skill in the art after consideration of all the facts."

Although rejections using the traditional TSM rationale are still proper, the USPTO expects examiners to consider whether one or more of the rationales set forth in the new obviousness guidelines

support the rejection as well. Ultimately, obviousness rejections must be clearly articulated based upon explicit factual findings and supporting rationale. Any response from the applicant must likewise present a reasoned statement explaining how the examiner has erred in reaching the conclusion.

In light of these new guidelines, obviousness rejections are more likely to be asserted by examiners. Patent applicants should be familiar with the rationale suggested by the guidelines as well as the requirements for overcoming such rejections.

The obviousness guidelines were published in the Federal Register on October 10, 2007 and are available on the USPTO's website at <http://www.uspto.gov/web/offices/com/sol/notices/72fr57526.pdf>.

Rob Nupp is an associate with the firm's Intellectual Property Practice Group. He can be reached at (216) 363-4541 or [mupp@beneschlaw.com](mailto:mupp@beneschlaw.com).

## eBay Outshines Tiffany in Trademark Liability Suit

Trademark owners should be aware of Judge Richard J. Sullivan's July 14, 2008 decision in *Tiffany (NJ) Inc. v. EBay, Inc.* Tiffany, described by the district court as "the famous jeweler with the coveted blue boxes," filed suit against eBay, "the prominent online marketplace," for direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution. Tiffany alleged that eBay facilitated and allowed the sale of counterfeit Tiffany silver jewelry on its website. Tiffany filed suit when eBay refused to comply with Tiffany's demands that eBay refuse to post any listing

offering five or more Tiffany items and immediately suspend the accounts of sellers suspected by Tiffany of engaging in potentially infringing activity. Ultimately, the court held that Tiffany failed to carry its burden with respect to each claim alleged in the complaint and entered judgment for eBay.

### Direct Infringement

Tiffany argued that eBay directly infringed its trademarks in three ways: (1) by advertising the availability of Tiffany jewelry on eBay, both on its home page and in eBay documents and publications; (2) by purchasing

"sponsored links" on Google and Yahoo!, advertising eBay listings that offered Tiffany jewelry for sale; and (3) by participating in the sales of counterfeit merchandise on its website. eBay responded that its use of the Tiffany trademarks is a protected, nominative fair use. The court agreed.

The doctrine of nominative fair use is a defense to trademark infringement, permitting a defendant to use a plaintiff's trademark to "identify the plaintiff's goods so long as there is no likelihood of confusion about the source of defendant's product or the mark-holder's sponsorship or affiliation." In this case, the court held that it would be both impractical and ineffectual for eBay to identify Tiffany jewelry without using

the term Tiffany. In addition, the court held that when eBay uses Tiffany's marks on its website, it does so only to the extent reasonably necessary to identify the associated

products. Moreover, eBay's conduct with respect to the Tiffany marks did not suggest sponsorship or endorsement by Tiffany. Therefore, the court held that eBay's use of the Tiffany marks in its advertising materials was a protected, nominative fair use. Likewise, the court held that eBay's use of the marks in sponsored links was effectively identical to its use on the eBay website and,

therefore, was also a protected, nominative fair use. Finally, the court rejected Tiffany's allegation of direct infringement as misplaced, particularly in light of Tiffany's stipulations that eBay never takes possession of the items sold and that eBay does not directly sell counterfeit Tiffany merchandise to buyers.

### Contributory Infringement

The court also found that eBay is not liable for contributory trademark infringement. The court first determined that the test set forth by the Supreme Court in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1983), governed Tiffany's claim. The court concluded that: (1) eBay retains significant control over the transactions conducted through eBay; (2) eBay has actively promoted the sale of Tiffany jewelry items; (3) eBay profits from the listing of items and successful completion of sales; (4) eBay maintains

significant control over the listings on its website; and (5) eBay's own witnesses admitted that eBay maintains a classified ad service separate and apart from the

*[T]he court concluded that Tiffany's generalized assertions of trademark infringement were insufficient to establish that eBay "knew or had reason to know" of the infringement and were insufficient to impose on eBay an affirmative duty to remedy the situation. Furthermore, the court held that eBay was not willfully blind to evidence of counterfeiting on its website. Indeed, the court lauded eBay's continuous use and implementation of anti-fraud measures.*

eBay listings at issue in the case. Thus, the court held, despite eBay's contentions that it is merely a classified ad service, that eBay is analogous to a flea market. Further, considering the extent of control exerted by eBay over its website, the court held that the *Inwood* test was the applicable standard for determining liability.

After applying the *Inwood* test, however, the court concluded that Tiffany's generalized assertions of trademark infringement were insufficient to establish that eBay "knew or had reason to know" of the infringement and were insufficient to impose on eBay an affirmative duty to remedy the situation. Furthermore, the court held that eBay was not willfully blind to evidence of counterfeiting on its website. Indeed, the court lauded eBay's continuous use and implementation of anti-fraud measures. The court observed that when eBay does become generally aware of counterfeiting on its website, it takes proactive measures to stop the wrongdoing. Moreover, "eBay has invested significant financial, technological, and personnel resources in developing tools to ferret out and eliminate counterfeit goods from its website." Finally, the court concluded that when eBay is specifically apprised of potential infringement, eBay takes appropriate corrective action in the form

of removing the offending listing and eventually suspending the seller. Although the court stated that it was sympathetic to Tiffany's frustrations and ongoing burden policing its rights, particularly given the number of eBay listings for Tiffany jewelry, the court declared that "even if it were true that eBay is best situated to staunch the tide of trademark infringement to which Tiffany and countless other rights owners are subjected, that is not the law." Therefore, the court held that eBay was not liable for contributory trademark infringement.

### Other Claims

The court also found that Tiffany failed to prove by a preponderance of evidence its claims of unfair competition, false advertising, and dilution. With respect to unfair competition, the court held that both the Lanham Act and common law unfair competition claims must fail because the direct and contributory infringement claims failed.

As for the false advertising claims, Tiffany failed to prove that eBay's advertising is literally false because eBay does, in fact, sell authentic Tiffany merchandise on its website. Therefore, eBay's use of the term "Tiffany" in its advertising is a protected, nominative fair use. Further, to the extent the advertising is impliedly false, Tiffany failed to prove that eBay had specific knowledge as to the illegal nature of individual listings and failed to take action. In addition, to the extent that the advertising was false, the court held that the falsity related to the liability of the individual sellers, not eBay.

Regarding dilution, because eBay has not used Tiffany's marks to identify its own goods and services and because eBay has consistently removed potentially infringing listings upon receiving notice from Tiffany, Tiffany

*continued on page 8*

## eBay Outshines Tiffany in Trademark Liability Suit

continued from page 7

had not established dilution by blurring. Nor had Tiffany established dilution by tarnishment where eBay's use of the Tiffany marks was in association with products that third party sellers have characterized as Tiffany items and where eBay took appropriate steps to discontinue the availability of its website to known infringers of Tiffany's marks. Furthermore, the court held that even if Tiffany could establish dilution, eBay's use of the Tiffany marks falls within the anti-dilution statute's nominative fair use exception. Finally, the court rejected Tiffany's claim of contributory dilution and questioned whether such a cause of action even exists.

### Take-Away

Imitation is the highest form of flattery? Some of our clients know this all too well as they regularly deal with "knock-offs" in the marketplace. That is not likely to change. Some of these knock-offs are currently sold and will likely continue to be sold through eBay. This case validates eBay's general business model. If knock-offs of your business's products are sold through eBay, utilize eBay's VeRO notification system and the postings will likely be swiftly removed. Unfortunately, trademark owners must vigilantly and persistently pursue infringers on a case-by-case basis. Feel

free to call Angela Gott (contact information below), Susan Clady ((216) 363-4152), or Mark Avsec ((216) 363-4151) to discuss the programs that your company can initiate to combat counterfeit goods most effectively and the measures available to deal with those who manufacture, import, or sell those goods.

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Angela Gott is an associate with the firm's Intellectual Property Practice Group. She can be reached at (216) 363-4162 or [agott@beneschlaw.com](mailto:agott@beneschlaw.com).

## Play Fair and Square with the USPTO or Risk Owning an Unenforceable Patent

In *Nilssen v. Osram Sylvania*, 504 F.3d 1223 (Fed. Cir. 2007), the Federal Circuit affirmed that fifteen of Ole K. Nilssen's patents are unenforceable due to the inventor's inequitable conduct during patent prosecution. Nilssen's inequitable conduct included: (1) failure to disclose a relationship with an affiant; (2) improper payment of small entity maintenance fees; (3) misclaimed priorities; (4) failure to disclose related litigation; and (5) failure to disclose prior art. Considering these infractions, the Federal Circuit concluded that together they evidenced the inventor's attempt to avoid playing "fair and square" with the patent system.

Nilssen initially used attorneys to prosecute his patents covering fluorescent light and ballast technology. However, Nilssen soon began prosecuting the patent applications

himself because he concluded that his understanding of the subject matter, including patent statutes, regulations, and case law, was superior to any patent attorney. Despite the fact that Nilssen decided to go it alone, he was still expected to know he had a duty of candor, good faith, and honesty in dealing with the United States Patent and Trademark Office ("the USPTO"). Forms of inequitable conduct before the USPTO include: affirmative misrepresentations of material facts; failure to disclose material information; and submission of false information coupled with intent to deceive.

Finding inequitable conduct (based on Nilssen's numerous infractions), the Federal Circuit ruled his patents unenforceable. In so doing, the Federal Circuit acknowledged that an inventor may know more about the technical

subject matter of an invention than an attorney. Notwithstanding this, the court observed, "the complicated patent process requires technical and legal credentials in order to effectively prosecute patents for inventors."

The bottom line is that an inventor going it alone is still expected to know and play by the rules. As evidenced in *Nilssen*, inventors who hire inexperienced counsel or no counsel at all could face a substantial risk. To avoid the harsh result imposed upon Nilssen, an inventor should engage experienced patent counsel who shares the inventor's understanding of the invention and related technology.

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Brian Kenney is an associate with the firm's Intellectual Property Practice Group. He can be reached at (216) 363-4424 or [bkenney@beneschlaw.com](mailto:bkenney@beneschlaw.com).

## Software License Agreements: Protect Your Business from Interruptions and Unexpected Costs

Licensed software often is a vital component of doing business. However, unless you make certain that your company enters into software license agreements incorporating the verbal promises made by software vendors, your company could face business interruptions and incur unexpected costs. Here are a few topics that should be carefully considered and addressed in a written software license agreement.

### **What will happen if the licensed software does not function in accordance with your expectations?**

Glossy sales brochures provided by software vendors will be worthless if the software is installed and does not meet your business needs. The license agreement should clearly specify the functionality of the software, including any customizations to the software. Also, you should consider structuring the payments so that a large percentage of the fees will be due after you test and accept the software.

**What if you discover that your company must purchase additional hardware in order for the licensed software to function?** Hardware can be expensive. The license agreement should specifically designate the hardware that will be required to operate the software. Furthermore, the software vendor should expressly warrant that the licensed software will function as promised when used with certain hardware.

**What will happen if the licensed software stops functioning?** Software vendors frequently promise that “services” will be provided. However, unless these services are described in the license agreement, your company could end up paying additional fees for services that you thought would be included, such as bug fixes, training services, or help desk support. Also, if the licensed software is critical to your company’s business operations, the license agreement should include a firm commitment from the software vendor to be responsive in accordance with designated response times.

**What if your company is sued by a third party claiming that the licensed software infringes its intellectual property rights?** The software license should include well-drafted indemnification provisions that will offer protection from losses and fees (including attorneys’ fees) that your company could incur due to claims of infringement by third parties.

**What will happen if the software vendor goes out of business?** Under certain circumstances, *e.g.*, if your company is making a significant monetary investment, the license agreement should include provisions for a software source code escrow to allow your company to maintain the licensed software by having access to the source code if the software vendor fails to maintain the software.

**What if the software vendor decides to publish confidential information that it accesses through your system?** If the software vendor will have access to your company’s and/or customers’ data, the license agreement should include comprehensive obligations and remedies to protect this valuable confidential information.

**What if you discover that your company is prohibited from transferring its software license as part of a stock or asset sale?** The scope of the software license grant and the assignment provisions should be carefully drafted to accommodate such developments.

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Laura Beresh is an associate with the firm’s Intellectual Property Practice Group. She can be reached at (216) 363-4418 or [lberesh@beneschlaw.com](mailto:lberesh@beneschlaw.com).

## Additional Information

Benesch's Intellectual Property (IP) Practice Group represents clients in protecting their most valuable asset class: their intellectual capital. Whether obtaining intellectual property rights, prosecuting infringement actions, or helping clients exploit their intellectual property rights, the IP Group has the legal training and experience to help clients get the most out of their intellectual capital. In addition, Benesch's IP Group is skilled in counseling clients with respect to IP rights of others and in defending clients in IP actions brought against them in courts and administrative agencies throughout the United States and internationally.

Our intellectual property client base is as broad and diverse as the services we provide. Those clients that rely on our services for IP protection and advice include individual entrepreneurs, universities and other research institutions, early stage companies, high technology businesses, middle market companies, and large multinational corporations. We have served a vast array of industries and businesses including: tire and rubber; fluid handling components and systems; paints and coatings; medical devices; plastics and polymers; liquid crystal displays; advanced lighting; adhesives; vehicle suspension systems; combustion systems; refrigeration systems; communications equipment; dispensing systems; material handling equipment; vehicle braking systems; food processing equipment; power tools; fitness equipment and other consumer goods; financial services; insurance services; music and entertainment; and computer software.

The Benesch IP team has experience in all facets of intellectual property law and practice, with each member possessing a unique set of qualifications to help advance our clients' interests. Many of our attorneys have worked as scientists or engineers in industry, and others have taught law or authored publications that serve as important reference materials to the profession.

We have experience with all forms of intellectual property, including patents, copyrights, trademarks, and trade secrets. Services we provide include patent and trademark drafting and prosecution, advising clients on patent and trademark infringement and validity matters, and drafting intellectual property-related agreements. In addition, Benesch's IP Group has experience in complex patent, trade secret, trademark and copyright litigation.

With the support of Benesch's IP team, our clients are better positioned to preserve and protect new technologies with IP, use and manage their intellectual property thoughtfully, and avoid the IP rights of others so as to avoid unnecessary risk. For additional information about Benesch's IP practice, please contact one of our IP lawyers.

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Feel free to pass this *IP Advisory* on to a colleague; please email [jgurney@beneschlaw.com](mailto:jgurney@beneschlaw.com) if you would like to be added to the mailing list.

### For more information, contact any member of our Intellectual Property Group:

Steven M. Auvil | (216) 363-4686  
[sauvil@beneschlaw.com](mailto:sauvil@beneschlaw.com)  
Mark Avsec | (216) 363-4151  
[mavsec@beneschlaw.com](mailto:mavsec@beneschlaw.com)  
Laura Beresh | (216) 363-4418  
[lberesh@beneschlaw.com](mailto:lberesh@beneschlaw.com)  
Luis Carrion | (216) 363-4635  
[lcarrion@beneschlaw.com](mailto:lcarrion@beneschlaw.com)  
Susan E. Clady | (216) 363-4152  
[sclady@beneschlaw.com](mailto:sclady@beneschlaw.com)  
Angela R. Gott | (216) 363-4162  
[agott@beneschlaw.com](mailto:agott@beneschlaw.com)  
W. Scott Harders | (216) 363-4443  
[wharders@beneschlaw.com](mailto:wharders@beneschlaw.com)  
Bryan Jaketic | (216) 363-4478  
[bjaketic@beneschlaw.com](mailto:bjaketic@beneschlaw.com)  
Matthew W. Jupina | (216) 363-4491  
[mjupina@beneschlaw.com](mailto:mjupina@beneschlaw.com)  
Brian D. Kenney | (216) 363-4424  
[bkenney@beneschlaw.com](mailto:bkenney@beneschlaw.com)  
Benjamin E. Kern | (614) 223-9374  
[bkern@beneschlaw.com](mailto:bkern@beneschlaw.com)  
Rita Kline | (216) 363-4466  
[rkline@beneschlaw.com](mailto:rkline@beneschlaw.com)  
Robert R. Lech | (614) 223-9366  
[rlech@beneschlaw.com](mailto:rlech@beneschlaw.com)  
Eileen Mathews | (216) 363-4451  
[emathews@beneschlaw.com](mailto:emathews@beneschlaw.com)  
Amanda Miller | (216) 363-4457  
[amiller@beneschlaw.com](mailto:amiller@beneschlaw.com)  
Robert P. Nupp | (216) 363-4541  
[rnupp@beneschlaw.com](mailto:rnupp@beneschlaw.com)  
Bryan Schwartz | (216) 363-4420  
[bschwartz@beneschlaw.com](mailto:bschwartz@beneschlaw.com)  
Denis Ticak | (216) 363-4626  
[dticak@beneschlaw.com](mailto:dticak@beneschlaw.com)

#### Cleveland

200 Public Square, Suite 2300  
Cleveland, OH 44114-2378  
Phone: (216) 363-4500  
Fax: (216) 363-4588

#### Columbus

41 South High Street, Suite 2600  
Columbus, OH 43215-6109  
Phone: (614) 223-9300  
Fax: (614) 223-9330

#### Philadelphia

One Liberty Place  
1650 Market Street, 36th Floor  
Philadelphia, PA 19103-7301  
Phone: (267) 207-2947  
Fax: (267) 207-2949

#### Shanghai

Kerry Centre Suite 1802  
1515 W. Nanjing Road  
Shanghai, P.R. China 200040  
Phone: (86) 21-3222-0388  
Fax: (86) 21-5298-5955

#### Wilmington

222 Delaware Avenue, Suite 801  
Wilmington, DE 19801-1611  
Phone: (302) 442-7010  
Fax: (302) 442-7012

[www.beneschlaw.com](http://www.beneschlaw.com)