

Federal Circuit affirms f.o.b. decision in *Litecubes*

Shipping goods into the United States free on board (f.o.b.) may be good business, but it may not protect the seller from patent infringement, the Court of Appeals for the Federal Circuit ruled.

In *Litecubes v. Northern Light Products (dba GlowProducts)*, GlowProducts — a Canadian corporation — was defending itself against charges of patent infringement involving illuminable novelty artificial “ice cubes” that can be placed in beverages.

GlowProducts does not have offices, facilities, or assets in the United States. The company sold the accused products directly to customers in the United States, shipping them f.o.b. from its facilities in Canada.

GlowProducts argued that the district court had no jurisdiction over the claims at issue because it had shipped products to U.S. customers f.o.b., meaning the buyers obtained title and assumed risk of loss from a designated location in Canada to the final destinations. Thus, GlowProducts contended, it had not sold its products in the United States. Instead, they argued, the sales took place in Canada and customers were importing the goods into the United States.

The court disagreed.

“In *Litecubes*, the Federal Circuit said that f.o.b. shipments aren’t relevant to subject matter jurisdiction; they’re relevant

to proving a claim of infringement,” says Mark Joy, a member in LVM’s Chicago office. “Just because foreign companies do as much as possible to stay outside the United States — including sending goods f.o.b — doesn’t mean they can circumvent U.S. patent protections.”

Adds John Augustyn, a member in LVM’s Chicago office, “GlowProducts was trying to claim they didn’t commit any infringing acts in the United States, but the Federal Circuit said the issue was not one of title. Instead, the court said it was an issue of contractual performance. And in this case, GlowProducts was engaging in transactions with customers in the United States, as well as shipping them merchandise.”

Additionally, the courts said, GlowProducts “failed to explain why the criterion should be the place where legal title passes rather than the more familiar places of contracting and performance. ... The place where the title passes has not been regarded as the test of the interstate character of a sale.”

Finding that there were no jurisdictional issues to decide and that there was substantial evidence to support a jury’s verdict of infringement, the Federal Circuit upheld the decision by the U.S. District Court for the Eastern District of Missouri.

“This ruling demonstrates that merely labeling something f.o.b. won’t preclude a finding of infringement,” Augustyn says. “You need to consider the facts behind the contract of the sale, and also performance — where products have been shipped to or through.”

The argument may continue, however, as GlowProducts has requested that the Federal Circuit consider the case *en banc*.

Federal Circuit decision: Covenant not to sue does not negate jurisdiction

One of the year's most significant decisions from the Court of Appeals for the Federal Circuit was handed down in *Caraco Pharmaceutical Laboratories v. Forest Laboratories* (April 1, 2008). Relying on last year's U.S. Supreme Court *MedImmune* decision, the Federal Circuit held in *Caraco* that a declaratory judgment action could not be dismissed as lacking jurisdiction despite the grant of a covenant not to sue.

This decision addresses a scenario that has become very common in Hatch-Waxman litigation: a patentee settles an infringement action against the first abbreviated new drug application (ANDA) applicant to file a Paragraph IV certification, and then grants a covenant not to sue to each subsequent Paragraph IV ANDA applicant.

The result is that these second and subsequent ANDA applicants have been unable to pursue legal action against the patentee because of the covenant not to sue.

Absent legal action, no judgment could be obtained that might trigger the start of the 180-day exclusivity period associated with the first ANDA applicant, preventing the second and subsequent ANDA applicants from receiving final FDA approval.

"The *Caraco* decision opens the door to these second and subsequent Paragraph IV certifiers to pursue a declaratory judgment action regardless of the existence of a covenant not to sue," says Chris Griffith, a member of LVM's Chicago office.

At the district court, *Caraco's* declaratory judgment action was dismissed as lacking the "case or controversy" required by Article III of the Constitution because Forest had agreed not to sue *Caraco*. Forest's strategy in granting the covenant was based on a Federal Circuit decision in *Teva v. Novartis*, wherein the grant of an irrevocable covenant not to sue was found to eliminate the case or controversy, mandating dismissal of the action.

In reversing the district court, the Federal Circuit applied the three-part framework of *MedImmune* to determine whether a "substantial controversy" exists: (1) whether plaintiff has standing; (2) whether the issues presented are ripe for judicial review; and (3) whether the case is not rendered moot at any stage of the litigation. Resolution of the first issue was of the most significance in this case.

The court determined that *Caraco* had standing to pursue its declaratory judgment action for noninfringement because: *Caraco* was being excluded from selling an alleged noninfringing product due to Forest's action; *Caraco* could trace its injury to an action by Forest; and *Caraco's* injury could be addressed by a favorable judgment.

While the Federal Circuit reversed the district court's decision, a petition seeking an *en banc* rehearing of the appeal before all the Federal Circuit judges is pending.

PTO appeals ban on rules changes

The U.S. Patent & Trademark Office (PTO) lost little time in filing a Notice of Appeal asking the Court of Appeals for the Federal Circuit to overturn a district court decision that prohibited implementation of broad changes in the rules regarding the filing of continuations and the number of claims that can be submitted in an application.

In issuing a permanent injunction April 1, the U.S. District Court for the Eastern District of Virginia said the Patent Office had overstepped its authority by attempting to make substantive, rather than simply procedural, changes in the way it handles applications.

The PTO filed a Notice of Appeal early in May, but it is likely to be approximately a year before the Federal Circuit announces its decision.

At issue are rules changes the PTO has proposed as a part of its ongoing struggle to reduce a backlog of more than 760,000 cases. The rules would limit the number of claims that could be submitted in patent applications unless applicants conducted prior art searches and filed examination support documents (ESD). The rules also would effectively preclude more than two continuations and more than one request for continued examination (RCE) per application.

"The PTO has a terrible backlog, and they're trying to reduce that backlog," says Jeremy Jay, a member in LVM's Washington, D.C., office. "But these rules were problematic. For example, applicants currently have no obligation to conduct a prior art search, and the ESD requirement would now create that obligation."

The district court found that the ESD requirement shifted the examination burden away from the PTO and onto applicants, thus adversely affecting applicants' rights. The court also found that limiting the number of continuations, RCEs and claims abrogated applicants' rights, rendering the rules a substantive change — one the PTO is not empowered to institute.

"Patent Office rules are operable only under the umbrella of the statutes," says Dan Hefner, a member in LVM's Chicago office. "The PTO doesn't have the right to change the law, and the district court judge said these rules would, in effect, do that."

Virtual world raises real trademark questions

Internet-based virtual worlds such as Second Life raise interesting trademark questions. In Second Life, players create their own characters, known as avatars, to explore the Second Life world and interact with other avatars. Players also create virtual content, such as land, buildings and goods, which players can use or sell to other avatars.

In Second Life, appearance counts. Players often purchase impressive virtual items, such as Prada sunglasses, Rolex watches and Ferrari cars, in a quest to keep up with the Internet Joneses. These virtual items have been created by other Second Life players, typically without permission of the trademark owners.

Players purchase virtual items with virtual dollars, but virtual dollars translate to real money, because players must purchase virtual dollars from Second Life with real money. Players can also cash out accumulated virtual dollars for real money. In fact, some people make a living selling virtual items on Second Life.

"The virtual items are not real, but the money is, and so are the trademarks,"

says Tamara Miller, a member in LVM's Chicago office. "People are making a profit using trademarks that do not belong to them, and they may be using trademarks in ways that damage the trademark owners' goodwill."

Courts have not addressed whether this practice amounts to trademark infringement, trademark dilution or unfair competition, or the extent to which trademark owners are harmed by this practice. Presently, Second Life has no procedure for filing trademark complaints.

If the popularity of online virtual worlds continues to grow, however, trademark owners eventually may seek legal redress. Courts may have to consider whether the sale of a virtual item branded with a real trademark constitutes use of the trademark "in commerce," the *sine qua non* of trademark infringement.

Trademark owners should consider the extent to which they are damaged by this practice. Second Life retailers do not realize the same profits as retailers of real products, because items on Second Life are relatively cheap. For example, in Second Life, costly

Prada sunglasses may sell for the equivalent of 50 cents, and a Ferrari for five dollars.

"The prices are relatively low, but the market is enormous and some people sell many, many virtual items," says Caroline Stevens, an associate in LVM's Chicago office.

With more than 11 million registered avatars, the potential for profit is enormous. In April 2008 alone, almost 372,000 players used virtual dollars to buy virtual goods and services. According to at least one estimate, the Second Life economy is growing at a rate of 25 percent every month.

Until courts consider the trademark issues, "It may be advisable for trademark owners to police Second Life in search of unauthorized uses of their trademarks," says Miller. "They also may want to establish a presence in Second Life, which could deter unauthorized use of their trademarks."

"By setting up shop in Second Life," Stevens adds, "trademark owners can advertise their products to a huge audience."

Simply exploring Second Life would give trademark owners a sense of how the most popular virtual world operates.

U.S. Supreme Court rules in favor of *Quanta* in patent exhaustion case

The patent exhaustion doctrine applies to the authorized sale of components that "substantially embody" a patent, the U.S. Supreme Court decided June 9 in *Quanta Computer Inc. v. LG Electronics Inc.*

The court unanimously held that the doctrine bars LG's patent infringement claims against Quanta, a computer manufacturer. Quanta installed chips bought from Intel into computers Quanta made for companies such as Dell and Hewlett-Packard. LG authorized Intel to sell these chips, but it did not separately license Intel's customers.

LG sued Quanta, asserting that the combination of Intel products with non-Intel memory and related components infringed LG's patents. Quanta countered that those patents were exhausted based on

Intel's authorized sale of products, which had no reasonable non-infringing use, to Quanta.

The patent exhaustion doctrine provides that the initial authorized sale of a patented item terminates patent rights to that particular item. It also applies when the patentee licenses another company to make a product.

The Supreme Court said all "inventive aspects" for each patent were embodied in Intel's products and LG was therefore precluded from invoking patent law to control post-sale use of the products sold by Intel. The court held that a method can be "embodied" in a product that is designed to practice that method. Thus, the authorized sale of the product embodying the method can exhaust patent rights covering the method.

LVM named top trademark firm

Leydig, Voit & Mayer is in the Top 3 on *Intellectual Property Today's* 2008 survey of Top Trademark Firms. This year's list includes 328 law firms and individuals ranked by the number of trademark registrations issued in 2007. LVM's trademark registrations increased almost 184% last year, making it third in the country.

The *Quanta* decision reverses several contrary decisions of the Court of Appeals, and will likely make it more difficult for patentees to control downstream users and purchasers. When they want to license the same patents to multiple parties in a supply chain for the same product, patentees will need to consider the impact of each license they grant on subsequent licensing activities.

LVM Announces

Seattle

Frances M. Jagla, the inaugural winner of a major trademark lawyer of the year award at INTA 2007, has joined Leydig, Voit & Mayer as Counsel. Having substantial U.S. and international experience in name development, clearance filing, registration, maintenance and enforcement of trademarks and copyrights for Fortune 100 companies, Fran possesses in-depth knowledge of trademark related acquisitions, divestitures, licensing, and Internet domain name matters, as well as significant experience with trademark issues before the FDA and the EMEA. Prior to joining the firm, she served as senior corporate trademark counsel at Microsoft Corporation and Abbott Laboratories, and was a founding member of the Law Office of Frances M. Jagla, PLLC, in Sammamish, Washington.

Chicago

The following attorneys have become associated with the firm:

Elias P. Soupos received a B.S. in mechanical engineering, *cum laude*, in 2000 from the Illinois Institute of Technology. He also received a master's of engineering management, specializing in systems engineering and project management, *with honors*, from Northwestern University in 2004, and a J.D. from The John Marshall Law School in 2007.

Alice C. Su received a B.S. in materials engineering in 2000 and a M.S. in medical science in 2001 from Brown University. She received a J.D., *magna cum laude*, from the University of Illinois College of Law in 2007, where she served as an editor for the *Journal of Law, Technology & Policy*.

The firm sponsors a robust summer program, and the following law students will be introduced to the practice of intellectual property law:

Elizabeth M. Crompton (chemistry) is a student at George Mason University, class of 2010.

Anthony Friedman (biological sciences) is a student at the Washington University School of Law, class of 2009.

Damien Howard (electrical engineering) is a student at Northwestern University School of Law, class of 2010.

Mishel Kieffer (chemical engineering and psychology) is a student at the Washington University School of Law, class of 2010.

Kate Lesciotto (zoology and biological sciences) is a student at the Washington University School of Law, class of 2009.

Mark Liang (electrical engineering) is a student at the University of Chicago Law School, class of 2010.

John E. Munro (mechanical engineering) is a student at the University of Illinois College of Law, class of 2010.

Nimita Lalit Parekh (political science) is a student at The Ohio State University Moritz College of Law, class of 2009.

Jonathan B. Thielbar (mechanical engineering) is a student at the Washington University School of Law, class of 2009.

Jessica M. Tyrus (chemistry) is a student at Chicago-Kent College of Law, class of 2009.

David Van Buskirk (biochemistry) is a student at the University of Texas School of Law, class of 2009.

Marc R. Wezowski (biology) is a student at the University of Michigan Law School, class of 2009.

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