



Recent Developments in Computer and Internet Law

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U.S. Supreme Court

Patents

As reported at 78 USPQ2d 1577, the U.S. Supreme Court on May 15, 2006 ruled unanimously that both a federal district court and the federal circuit failed to “fairly” apply the traditional four-part equitable test for whether an injunction should issue upon a judgment of patent infringement. Vacating the federal circuit’s ruling that the district court erred in refusing to impose an injunction against online merchants eBay and Half.com, the high court rejects the appeals court’s articulation of a “general rule” that permanent injunctions should issue when a valid patent has been infringed. The high court stated that the four-factor test governing award of injunctive relief, historically employed by courts of equity, applies to disputes arising under the Patent Act, since act expressly states, in 35 U.S.C. § 283, that injunctions “may” issue “in accordance with the principles of equity.” *eBay, Inc. v MercExchange LLC*.

Patents - Antitrust

As reported at 71 BNA’s PTCJ 457, the U.S. Supreme Court on March 1, 2006, ruled unanimously that courts should no longer presume that a patent confers market power for purposes of a tying claim under Section 1 of the Sherman Act, and that in all tying cases the plaintiff must prove that the defendant has market power in the tying product. The court says that after considering the congressional judgment reflected in the 1988 amendments to the Patent Act, which eliminated the market power presumption in patent misuse cases, there is no longer any reason to retain the presumption in the antitrust context. *Illinois Tool Works v Independent Ink*.

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Federal Courts/Rules

As reported at 71 BNA's PTCJ 692, on April 12, 2006, the Supreme Court approved a package of new and amended federal court rules, including new civil rules governing the treatment of electronically stored information (i.e., e-discovery). The new rules will take effect in December unless Congress takes steps to block their implementation. The proposed electronic discovery rules cover the treatment of electronic information during the early stages of litigation and discovery. The proposed rule amendments would require parties to discuss electronically stored information before discovery begins, provide parties a "safe harbor" from sanctions for destruction of electronic data through routine operations, and preserve a privilege claim for electronic information that is inadvertently disclosed during litigation.

U.S. Courts of Appeals

Patents

As reported at 72 BNA's PTCJ 184, the U.S. Court of Appeals for the Federal Circuit held on June 8, 2006, that a genuine issue of material fact exists as to whether prior art anticipates a "stroke direction" limitation in a Xerox handwriting recognition patent asserted against the makers of Palm handheld computers. Reversing in part a federal district court's conclusion that the patent is invalid, the court remands the matter for further proceedings on the stroke direction issue. However, the court affirms several other findings that elements of the Xerox patent were anticipated. *Xerox Corp. v 3Com Corp.*

As reported at 78 USPQ2d 1786, the U.S. Court of Appeals for the Federal Circuit held on May 11, 2006, that the term "host interface," in claim for personal digital assistant module requiring use of "host interface adapted so as to provide communications" between PDA and host computer, is properly limited to direct parallel bus interface, since such interface is only host interface described in specification of patent. *Inpro II Licensing S.A.R.L. v T-Mobile USA Inc.*

As reported at 71 BNA's PTCJ 720, on April 19, 2006, the U.S. Court of Appeals for the Federal Circuit held that a district court misconstrued a claim in a securities trading patent to require the distribution or display of all of the securities in a combined book order. "Distributing" and "displaying" limitations, in a patent claim for software that manages information for buying and selling securities, are not properly construed to require distribution and display of entire "order book," since specification of the patent discloses embodiments of the invention that distribute and display information for only subset of combined order book. *Lava Trading Inc. v Sonic Trading Management LLC.*

As reported at 78 USPQ2d 1428, the U.S. Court of Appeals for the Federal Circuit held on March 31, 2006, that a patent for system and method of manufacturing a single book in response to a customer's request, in which fundamental precept is that customer uses on-site computer to view promotional information and initial rapid single-copy printing, is not infringed by defendants' large-scale production of books for publishers and retailers from remote locations. *On Demand Machine Corp. v Ingram Industries, Inc.*

Trademarks

As reported at 77 USPQ2d 1629, in an unpublished opinion, the U.S. Court of Appeals for the Third Circuit on May 2, 2005, affirmed issuance of a preliminary injunction in an action in which plaintiff condominium board brought claims for infringement and dilution against defendant condominium unit owner, who registered Internet domain name "sapphirebaycondos.com" and operated website at that address, since district court did not abuse its discretion in concluding that defendant's use of plaintiff's trade name and service mark "Sapphire Bay Condominiums" caused irreparable harm. *Board of Directors of Sapphire Bay Condominiums West v Simpson.*

As reported at 78 USPQ2d 1400, on March 30, 2006, the U.S. Court of Appeals for the Fourth Circuit held that by initiating action seeking transfer of Internet domain name, defendant breached settlement agreement containing broad release and covenant not to sue that covered all claims, whether known or unknown at time of settlement. *Convey Compliance Systems Inc. v 1099 Pro Inc.*

As reported at 72 BNA's PTCJ 190, the U.S. Court of Appeals for the Federal Circuit held on June 7, 2006, that "M2 Communications" for CD-ROMs in the field of pharmacy and medicine is not likely to be confused with the federally registered "M2" mark on computer software for multimedia in the film and music industries. *M2 Software Inc. v M2 Communications Inc.*

Antitrust/Licensing

As reported at 72 BNA's PTCJ 15, on April 18, 2006, the U.S. Court of Appeals for the Fourth Circuit held that consumers who acquired Microsoft Corp. soft-

ware pre-installed on their computers are barred from seeking recovery for allegedly unlawful pass-through overcharges under the U.S. Supreme Court *Illinois Brick* case. *Kloth v Microsoft Corp.*

Copyrights

As reported at 72 BNA's PTCJ 82, the U.S. Court of Appeals for the Ninth Circuit held on May 17, 2006, that making copies of software in excess of the number permitted by the licensing agreement constitutes copyright infringement even though the licensee claimed that the number of people using the computer program in question at any one time could not exceed the number of licenses purchased. *Wall Data, Inc. v Los Angeles County Sheriff's Department.*

U.S. District Courts

Patents

As reported at 72 BNA's PTCJ 210, the U.S. District Court for the Eastern District of Texas held on June 14, 2006, that applying the standards set forth in the *eBay* case, the principles of equity as set forth in a four-part test does not call for an injunction against Microsoft Corp., which has been found to have infringed on a plaintiff's product activation patent. *z4 Technologies Inc. v Microsoft Corp.*

As reported at 71 BNA's PTCJ 463, the U.S. District Court for the District of Delaware ruled on February 22, 2006, that a business method patent for trading U.S. Treasury securities was "infected" and rendered unenforceable by inequitable conduct that occurred in the prosecution of a patent application from which it claimed priority. *eSpeed Inc. v Brokertec USA LLC.*

As reported at 71 BNA's PTCJ 489, the U.S. District Court for the Eastern District of Virginia on March 3, 2006, dismissed the case between NTP and RIM and released \$612.5 million from an escrow account immediately after the Ontario-based BlackBerry manufacturer Research in Motion Ltd. agreed to pay NTP Inc. \$612.5 million to settle NTP's patent infringement claims and for a license on the infringed patents. *NTP Inc. v Research in Motion Ltd.*

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As reported at 71 BNA's PTCJ 668, the U.S. District Court for the District of Massachusetts held on March 31, 2006, that a patented method for allocating Web server resources based on the particular location a user seeks was not infringed by software that allocates resources based on the particular user making the request. *Bea Systems Inc. v Web Balance Inc.*

Copyright

As reported at 71 BNA's PTCJ 425, the U.S. District Court for the Central District of California held on February 17, 2006, that Google Inc.'s use of its Image Search feature to display thumbnail versions of photographs found on an adult-oriented website likely infringes the website's copyrights. Rejecting Google's fair use defense, and partially granting the website's motion for a preliminary injunction, the court stresses that Google's use is primarily commercial and that its display of thumbnails harms the website's own market for the downloading of reduced-sized images on cell phones. However, the court holds that Google's "framing" of the images does not directly infringe. *Perfect 10 Inc. v Google Inc.*

As reported at 71 BNA's PTCJ 562, the U.S. District Court for the Western District of Wisconsin held on March 20, 2006, that a stem cell advocacy organization alleging that an anti-abortion group had copied its website to confuse voters about competing stem-cell ballot initiatives is entitled to a preliminary injunction barring use of the organization's trademarks, designs, and source code. *Peri Hall & Associates Inc. v Elliot Institute for Social Sciences Research.*

As reported at 71 BNA's PTCJ 564, the U.S. District Court for the Eastern District of Pennsylvania held on March 10, 2006, that the Google search engine's automatic archiving of websites and Usenet newsgroup posts, and its excerpting of such posts in response to users' search queries lack the "volitional" element necessary for a claim of direct copyright infringement. *Parker v Google Inc.*

As reported at 71 BNA's PTCJ 721, on April 14, 2006, the U.S. District Court for the District of Arizona held, in an unpublished opinion, that the mere

presence of sound recording files in a computer user's Kazaa share folder can constitute copyright infringement. *Interscope Records v Duty.*

As reported at 71 BNA's PTCJ 721, on April 18, 2006, the U.S. District Court for the District of Columbia ruled that infringement defendant's motion to quash, for lack of personal jurisdiction, subpoena issued to defendant's Internet service provider seeking defendant's identity is denied, since parties cannot formally litigate any aspect of personal jurisdiction until defendant has actually been identified, and it is therefore premature to consider issue of personal jurisdiction in context of subpoena directed at determining identity of defendant. *Virgin Records America Inc. v Does 1-35.*

As reported at 77 USPQ2d 1833, the U.S. District Court for the Northern District of California held on June 1, 2005, that the operator of peer-to-peer Internet file-sharing network did not directly infringe right to distribute musical compositions and recordings by maintaining centralized indexing system listing file names of all "MP-3"-formatted music files available on network, since infringing works never resided on operator's system, and mere fact that names of plaintiffs' works appeared in operator's index is not conclusive proof that works were actually uploaded onto network. As further reported at 72 BNA's PTCJ 123, the same court ruled on May 17, 2006, that record company plaintiffs that seek to hold investors in the old Napster service secondarily liable for copyright infringement are not limited to the actual knowledge standard articulated by the Ninth Circuit in *Napster. In re Napster Inc. Copyright Litigation.*

As reported at 77 USPQ2d 2020, the U.S. District Court for the Eastern District of Kentucky held on August 10, 2005, that an action for declaratory judgment that plaintiff's microchips do not infringe defendant's copyrights or violate Digital Millennium Copyright Act is consolidated with defendant's earlier-filed action, in which it asserts claims for infringement and violation of DMCA, since claims overlap, and separate trials would place undue burden on parties, witnesses, and judicial resources. *Static Control Components Inc. v Lexmark International Inc.*

As reported at 78 USPQ2d 1466, on September 27, 2005, the U.S. District Court for the Central District of California temporarily enjoined a defendant seller of peer-to-peer file-sharing tutorial program, in action alleging violation of Federal Trade Commission Act's Section 5(a) from misrepresenting or assisting others to misrepresent facts material to consumer's decision to purchase product or service, including legality of peer-to-peer file-sharing software program or service, and legality of downloading current-release movies, computer games, or music files. *Federal Trade Commission v Myricks*.

As reported at 78 USPQ2d 1471, on September 22, 2005, the U.S. District Court for the Western District of Texas held that plaintiff recording companies, moving for default judgment in an action alleging that defendant downloaded and distributed copyrighted sound recordings without authorization, are entitled to permanent injunction and order directing defendant to destroy all copies of plaintiff's recordings that defendant has downloaded, since finding of default establishes defendant's liability for infringement, and since there is no adequate remedy at law, in that plaintiffs' injury cannot be fully compensated or measured in money damages. *Motown Record Co. v Armendariz*.

As reported at 72 BNA's PTCJ 123, on May 17, 2006, the U.S. District Court for the Southern District of Ohio held that a seller of refurbished automatic teller machines cannot defeat a claim of copyright infringement of the ATM's underlying software by asserting the first sale doctrine. That doctrine does not apply where the original purchaser obtained the copyrighted work (software) subject to a license and thus never has ownership, the court said, citing 17 U.S.C. § 109(d). Nor did the seller prevail on its argument based on the Copyright Act's maintenance and repair exception, 17 U.S.C. § 117(c). That section permits copies to be made that are for the "maintenance or repair" of the machine on which the software resides. The copyright owner, NCR Corp., alleged that The ATM Exchange Inc. infringed its code by copying the software into the RAM of a personal computer connected to the ATM. The court declined to dismiss the claim based on Exchange's assertion of the maintenance/repair exception. First, NCR alleged that Exchange used the RAM copies in connection with testing an unlicensed upgrade to the software that incorporated new encryption standards. The court interpreted this allegation as going beyond the scope of the maintenance/repair exception. Second, NCR alleged

that the copies of its software that Exchange possessed were not "authorized copies" and thus disqualified Exchange from relying on the exception. The court also addressed NCR's assertions under the "intermediate copying" doctrine. NCR alleged that Exchange distributed one of the NCR ATMs, with an unlicensed copy of the software, to a software developer. That developer then used that software to develop an upgrade that incorporated new encryption standards. However, the upgrade did not contain any of the underlying NCR code within it. NCR argued, and the court agreed, that intermediate copying may constitute infringement even if the end result does not contain copyrighted material. *NCR Corp. v ATM Exchange, Inc.*

As reported at 78 USPQ2d 1834, the U.S. District Court for the Eastern District of Pennsylvania held on November 3, 2005, that plaintiff licensor of computer software has reasonable likelihood of success on merits of claim that defendant licensees are liable for contributory infringement of plaintiff's copyrighted code following termination of parties' licensing agreement, since defendants created guide that instructs users to transfer plaintiff's embedded code into upgraded version of defendants' software, and since parties' licensing agreement did not authorize defendants to grant their sublicensees right to copy plaintiff's code from earlier version of defendants' software to later, upgraded version. *AMC Technology LLC v SAP AG*.

Copyright/Licensing

As reported at 71 BNA's PTCJ 694, on April 6, 2006, the U.S. District Court for the Eastern District of California held that a shrinkwrap agreement in which software licensing terms are disclosed within the box containing the software media is enforceable under California law. The court also holds that a state law claim for breach of the agreement was not preempted and that the plaintiff's copyright was infringed. *Meridian Project Systems Inc. v Hardin Construction Co.*

Copyrights/Spoliation Of Evidence

As reported at 77 USPQ2d 1933, the U.S. District Court for the Eastern District of Pennsylvania held on December 2, 2005, that defendant's conduct in "wiping" all data from the hard drive of his computer, after

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receiving notice of infringement suit, warrants inference of spoliation of evidence in action in which defendant is accused of obtaining illegal digital copy of motion picture and making it available for distribution via Internet distribution system; however, spoliation inference does not warrant conclusion that movie and network software were in fact stored on defendant's computer. *Paramount Pictures Corp. v Davis*.

Copyright/DMCA

As reported at 78 USPQ2d 1755, the U.S. District Court for the District of New Jersey held on January 10, 2006, that plaintiff's graphic logo containing hyperlink to its online copyright notice does not constitute "copyright management information" as defined in Digital Millennium Copyright Act, since trademark law protections for logo functioning as service mark should not be augmented with copyright law protections. *IQ Group Ltd. v Wiesner Publishing LLC*.

Trademarks

As reported at 71 BNA's PTCJ 593, the U.S. District Court for the Western District of Washington held on March 6, 2006, that a defendant's response to a charge of cybersquatting by a competing local business was sufficient to avoid summary judgment. *Seattle Laptop Inc. v A-1 Best Computer Inc.*

As reported at 78 USPQ2d 1142, the U.S. District Court for the Northern District of Illinois held on December 21, 2005, that plaintiff is likely to prevail on claim that defendant's "Persona" trade name infringes plaintiff's "Personeta" trade name, since both parties sell telecommunications software, since parties' names are similar in appearance and sound, and since emerging telecom providers may be especially prone to believing that parties' products come from single source. *Personeta Inc. v Persona Software Inc.*

As reported at 78 USPQ2d 1060, the U.S. District Court for the Eastern District of North Carolina held on January 23, 2006, that infringement defendant is entitled to judgment on pleadings as to plaintiffs' claims premised on assertion that their use of "WindowPad"

mark was prior to defendant's use of registered "Windows" mark, since res judicata precludes relitigation of priority issue, in that Trademark Trial and Appeal Board previously found that plaintiffs' use of "WindowPad" was junior to defendant's use of "Windows." *Lewis v Microsoft Corp.*

As reported at 71 BNA's PTCJ 622, the U.S. District Court for the Southern District of New York held on March 30, 2006, that purchase of trademarked term as search engine keyword is not an actionable "use in commerce" of the mark. *Merck & Co. v Mediplan Health Consulting Inc. d/b/a RXNorth.com*.

As reported at 72 BNA's PTCJ 159, the U.S. District Court for the Western District of Washington held on May 15, 2006, that website metatags that are similar to a competitor's marks raise "serious questions" of infringement that merit a preliminary injunction. *Shainin II LLC v Allen*.

As reported at 72 BNA's PTCJ 190, the U.S. District Court for the Western District of Washington held on May 22, 2006, that Uniform Domain-Name Dispute Resolution Policy rulings are non-binding. *Stenzel v Pifer*.

U.S. Patent and Trademark Office**Trademarks**

As reported at 78 USPQ2d 1819, the Trademark Trial and Appeal Board held on March 31, 2006, that a specimen consisting of a single Web page that includes applicant's design mark and product overview for applicant's pharmaceutical preparations is not acceptable to show use of applicant's mark, since Web page, which does not explain how to order goods by mail or telephone or provide link for ordering, may be viewed as promotional material, but advertising is not acceptable to show trademark use on goods. *In re Genitope Corp.*

State Courts

California

As reported at 78 USPQ2d 1130, on August 30, 2005, the California Court of Appeals held that an action for misappropriation of trade secrets and other state-law torts, brought against reporter and news media group based on a website publication of confidential documents relating to litigation about electronic voting software, falls within scope of California's "anti-SLAPP" statute, which protects statements made in public forum and conduct in furtherance of right of free speech, in connection with issues of public interest. *Jones Day v MediaNews Group*.

As reported at 72 BNA's PTCJ 18, on April 27, 2006, a California Superior Court jury cleared Bank of America of charges that the institution stole software code from a software developer. K.C. Multimedia accused a former employee of stealing source code it developed 25 years before. Those secrets, used for wireless and online customer transactions, allegedly were then given to Bank of America. *K.C. Multimedia v Bank of America*.

Florida

As reported at 78 USPQ2d 1793, a Florida circuit court held on November 2, 2005, that pursuant to a motion to compel filed by defendants accused of driving while under influence of alcohol, State of Florida is ordered to produce software source code for breath analyzers, despite state's contention that source code constitutes trade secret, since Fla. Stat. § 316.1932 expressly provides that defendants are entitled to "full information" concerning instrument used to establish their guilt. *State v Bjorkland*.

National Arbitration Forum

As reported at 78 USPQ2d 1360, on June 22, 2005, the National Arbitration Forum ruled that complainant music entertainer, who has been world-famous performer known as "Stevie Wonder" for more than 40 years, and who owns U.S. and foreign trademark registrations for "Stevie Wonder" and common-law rights in name, is entitled to have "steviewonder.com" Internet domain name transferred from respondent fan club to complainant. *Morris v Unofficial Fan Club*.

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