

# Intellectual Property

2009 FALL BULLETIN

## ***U.S. v. Lori Drew* — The Central District of California Rejects CFAA Criminal Liability for Violation of Website Terms of Use, But Leaves Open the Possibility of CFAA Civil Liability**

BY ILANA S. RUBEL

A recent ruling in a highly publicized case in the United States District Court for the Central District of California rejected an aggressive legal theory that could have led to broad criminalization of the breach of terms conditioning access to websites and other computerized information. However, the opinion did leave the door open for trade secret and other civil litigants to rely on a similar theory.

The Computer Fraud and Abuse Act (CFAA) allows for both criminal and private civil actions to be brought based upon access to a protected computer that is “without authorization” or that “exceeds authorization.” In the last few years, plaintiffs have increasingly sought to use the CFAA as a basis for civil lawsuits based on misappropriation of company information, unauthorized website scraping, and any other purportedly objectionable taking of a plaintiff’s computerized data. The premise underlying these lawsuits is that, while the defendants in question (typically absconding employees or exploitative website users) had ready access to the data at issue, such access was conditioned upon satisfaction of a duty of loyalty to the employer or of website terms and conditions. When these conditions of access were not met, either because the employee was obtaining the information in breach of duty or because the website user was breaching terms of use, the aspiring CFAA plaintiff argues that the access became “unauthorized,” triggering a CFAA action. Courts have split on whether to allow a CFAA claim to be asserted in what are otherwise trade secret and breach of contract actions, with recent opinions trending against such allowance. However, that trend may be changing.

This expansive reading of “unauthorized” access under the CFAA was most recently tested in the criminal context in the case of *United States v. Drew*, 2009 WL 2872855 (C.D. Cal Aug. 28, 2009). While Judge George Wu made clear that a violation of website terms and conditions alone will not be considered a criminal CFAA violation, he also indicated in his opinion that a failure to satisfy conditions for computer access could yet give rise to a civil CFAA action.

### **Background of the Case**

The background of this “cyberbullying” case may sound familiar to those following national headlines. In 2006, defendant Lori Drew, a Missouri mother, and two others used social networking site MySpace.com to concoct the online persona of “Josh Evans,” a 16-year old boy who purportedly lived in a nearby Missouri town. Drew’s teenage daughter was at the time engaged in a dispute with a 13-year old girl living on the same street, Megan Meier. Drew used the fictitious Josh Evans to strike up an online friendship with Meier and attempted to extract information from Meier regarding rumors she may have spread about Drew’s daughter. After a few weeks of online flirting, “Josh” terminated the relationship, telling Meier that “the world would be a better place without you.” Meier committed suicide soon afterwards, bringing nationwide publicity and concern.

As details of the incident and Drew’s role in the tragedy emerged, public pressure grew for prosecution of Drew, but given the lack of any statute criminalizing cyberbullying, Missouri prosecutors took no action. Strangely, it was 1,500 miles away, in Southern California, that Drew was finally hauled into court. Citing the location of MySpace servers in Beverly Hills, the U.S.

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Attorney brought charges against Drew in Los Angeles citing her alleged violation of § 1030(a)(2)(C) of the CFAA, which proscribes “unauthorized access” to a protected computer to obtain information. The government contended that her access to MySpace servers via the bogus “Josh Evans” account was unauthorized because she had provided false registration information, used information from MySpace for harassment purposes, and otherwise breached MySpace’s terms and conditions.

### The Arguments on Either Side

The prospect that a breach of website terms and conditions could lead to criminal liability made this a case to watch for Internet freedom advocates, and the Electronic Frontier Foundation, the Center for Democracy and Technology, Public Citizen and a variety of legal scholars came to Drew’s defense as *amici curiae*. In support of her pre-trial motion to dismiss, Drew’s defenders pointed out the dangerous ramifications of the prosecution view, noting that it would “convert the millions of internet-using Americans who disregard terms of service into federal criminals.” The CFAA, they argued, should be targeted to true “hackers;” it is not a mechanism to convert a civil breach of terms of access into a criminal act. The case was nevertheless allowed to proceed to trial, where prosecutors argued that violating the MySpace terms of service in order to harass Meier was the legal equivalent of hacking a computer. On November 26, 2008, a California jury convicted Drew on three counts of unauthorized computer access.

Drew promptly moved for directed acquittal, advancing many of the same policy arguments presented unsuccessfully before trial. The post-trial briefing turned primarily on cases applying the CFAA in the civil context and, in particular, on the construction of the phrase “without authorization,” as the CFAA requires that access to the computer in question be without or exceeding authorization. The government highlighted those cases in the trade secret context finding that an employee accesses a computer “without authorization” for purposes of the CFAA when that employee is acting in breach of their duty of loyalty, regardless of whether actual access was nominally permitted, as in *Int’l Airport Ctrs., LLC v. Citrin*, 440 F.3d 418 (7th Cir. 2006). However, as the defense pointed out, a growing number of cases have held that access to a protected computer occurs “without authorization” only when initial access is not permitted (such as *U.S. Bioservices Corp. v. Lugo*, 595 F. Supp. 2d 1189 (D. Kan. Jan. 21, 2009) and *Lasco Foods, Inc. v. Hall and Shaw Sales, Marketing & Consulting, LLC*, 600 F. Supp. 2d 1045 (E.D. Mo. Jan. 22, 2009)). Thus, even if the access occurs under a false pretext, or for impermissible purposes, it may nevertheless be “authorized” for CFAA purposes. In moving to dismiss after trial, Drew noted this

trend in civil CFAA cases and advocated that the CFAA should not properly be directed toward those whose access was at least initially authorized, albeit perhaps based on false representations.

Judge Wu ultimately overturned the jury’s verdict on July 2, 2009 and granted the defense’s motion for acquittal, noting that if Drew were found guilty then anyone who violated MySpace’s terms of service could also be found guilty of a federal crime. His August 28, 2009 opinion elaborated upon this rationale, observing that it clearly could not be the case that any breach of a term of service (including the “lonely heart who submits intentionally inaccurate data about his or her physical appearance”) could give rise to criminal liability. Because no one could know which terms would give rise to criminal liability when violated, the government’s theory that a breach of website terms of use forms a basis for criminal CFAA liability runs afoul of the void-for-vagueness doctrine.

While this ruling was welcomed by Internet freedom advocates, its substantial protections from criminal CFAA liability do not translate to insulation from civil CFAA liability for those that access computers without meeting all conditions for permitted access. On the contrary, Judge Wu explicitly found that “a website’s terms of service/use can define what is (and/or is not) authorized access vis-à-vis that website.” This is an implicit rejection of the view that the CFAA is meant to address only true “hackers,” and not those who access computers with initial permission but in breach of a contractual or fiduciary duty.

### Impact on Civil CFAA Litigation

As discussed above, in recent years, the CFAA has become a popular supplement or even alternative to a trade secret action for civil litigants. Trade secret actions arise under state law, but the CFAA confers federal subject matter jurisdiction, enabling the suit to proceed in federal court, which a plaintiff might prefer for strategic reasons. Moreover, the CFAA allows an action for the mere taking of “information,” an easier hurdle to clear for a plaintiff that may not be able to show the strict confidentiality of misappropriated information required for a trade secret action. This avenue was initially a promising one for trade secret plaintiffs, but had become less so of late as courts were increasingly denying CFAA actions where the accused employee may have been acting disloyally in taking computerized company information but had not actually hacked into the company network to do so. The *Drew* opinion, in rejecting the predicate that access must be wholly illicit in order to be “unauthorized” for CFAA purposes, provides significant if indirect support for trade secret litigants seeking to proceed under the CFAA.

Insofar as website owners may also seek to rely on the CFAA as a means to pursue web “scrapers,” competitors, or simply users that access their websites in breach of the site’s terms and conditions, *Drew* similarly provides support. Website owners can cite *Drew* for the proposition that a breach of website terms of use can render access to a fully public website unauthorized for CFAA purposes.

Finally, *Drew* is on the whole good news for the Internet-using community at large. While web users may still face civil liability for violations of the “fine print” in the terms of use, they can rest easier knowing they should not face CFAA criminal charges.

## What Did *Phillips* Really Do to Claim Construction?

BY CHARLENE M. MORROW

In 2005, the United States Court of Appeals for the Federal Circuit sat *en banc* to consider how patent claims should be construed and issued a decision that expressly rejected some of its prior decisions as having improperly broadened the scope of patents. *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*). It described how the rejected approach of starting with the plain meaning rather than how terms are used in the specification could “systematically cause the construction of the claim to be unduly expansive.”

It has now been several years since the *Phillips* decision, and we have had the opportunity to see whether application of the principles articulated in *Phillips* has affected the results in subsequent cases. While the results in a number of subsequent cases have been affected, the principles articulated in *Phillips* have received uneven reception, both in the trial courts and at the appellate level. Recent decisions are suggesting that judicial approaches to this issue continue to shift and the fundamental aspect of claim construction addressed by *Phillips* is still far from settled.

### Claim Construction Prior to *Phillips*

*Phillips* reviewed, and set standards for, how to read a patent claim. The court had previously articulated the notion that a patent claim should be read from the point of view of one of ordinary skill in the art, so that it would give fair notice to competitors of what was — and was not — within the scope of the claim. See *Springs Window Fashions L.P. v. Novo Indus., L.P.*, 323 F.3d 989, 995 (Fed. Cir. 2003) (“The public notice function of a patent and its prosecution history requires that a patentee be held to what he declares during the prosecution of his patent.”) However, over time some judges began applying a “plain meaning” analysis that in most instances results in an arguably broader claim construction. The Federal Circuit in *Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193, 1202-03 (Fed. Cir. 2002) emphasized that both English language terms and technical terms in the claims should be given the full breadth of

definitions attributed to them by dictionaries and treatises. The only time a more narrow definition was to be applied was when the patent holder has made a “clear disavowal of claim scope” in the patent specification or during its prosecution. *Id.* at 1204. The court cautioned against even reviewing the patent specification and prosecution history prior to arriving at the ordinary meaning of claim terms, lest error ensue. *Id.*

The result of this now out-of-favor approach can be illustrated by reference to the decision in *Inverness Medical Switzerland GmbH v. Warner Lambert Co.*, 309 F.3d 1373, 1378-79 (Fed. Cir. 2002). In that case, the Federal Circuit applied the plain meaning analysis and concluded that the term “on” in the phrase “on said test strip” should be construed most broadly as not just including surface deposition (*i.e.* “on”), but also including impregnating the test strip with the reagent (*i.e.*, “in”). The court reached this conclusion by citing a dictionary definition of “on” as a “function word to indicate presence within.” However, the usage example Webster’s Dictionary provides of this “on” is of being on a jury. (Webster’s Encyclopedic Unabridged Dictionary of the English Language 1005 (1994)). The court reached this construction despite the fact that the patent specification taught only surface deposition, and described how surface deposition was “preferable” to impregnating the carrier.

### *Phillips* on Claim Construction

*Phillips* disapproved of the *Texas Digital* and *Inverness Medical* decisions, and enunciated the following approach to claim construction. Instead of starting with dictionaries and treatises, the court instructed to use the patent specification as a glossary for the claim language. The *Phillips* court adopted the language of prior Federal Circuit decisions that instructed that the patent specification is “the single best guide to the meaning of a disputed term,” and that the patent specification “acts as a dictionary when it expressly defines terms used in the claims or when it defines terms by implication.” The *en banc* panel also cited the *Echostar* case, which held that “even when guidance is not provided in explicit definitional format, the specification may define claim terms by implication such that the meaning may be found in or ascertained by a reading of the patent documents.” 415 F.3d at 1321 (citing *Irdeto Access, Inc. v. Echostar Satellite Corp.*, 383 F.3d 1295, 1300 (Fed. Cir. 2004)).

Accordingly, a court engaged in claim construction should now do a close reading of the entire specification for both implicit and explicit definitions and apply both during the claim construction phase. The courts should not “elevate” dictionaries and treatises to such prominence.

### Claim Construction Since *Phillips*

We now have four years of caselaw applying *Phillips*, and so it seems fair time to ask whether *Phillips* has impacted just the analysis, or the results, in subsequent cases. Based on a review of the Federal Circuit decisions over that time period, it appears that *Phillips* substantively has impacted the outcome in the majority of decisions issued by the Federal Circuit, but there continues to be a minority of decisions that apply the pre-*Phillips* clear disavowal case holdings. Accordingly, we have come since *Phillips* to a regime where when the *Phillips* analysis is applied, the claims often are construed to cover only what the inventor described in the specification; however, either the *Phillips* analysis is not always applied or the courts are beginning to better define the limits of the *Phillips* decision.

One example of a post-*Phillips* analysis is provided in *Nystrom v. Trex Co.*, 424 F.3d 1136 (Fed. Cir. 2005), in which the question was whether a patent on assembling boards into a floor or deck could cover composite-based decking materials. The Federal Circuit concluded that when the claims recited a “board” they were limited to a wooden board, because while the specification acknowledged that other building materials existed, every teaching in the specification was about cutting lumber into logs. This trumped a dictionary definition offered by the plaintiff that described a “board” as “[a] flat piece of wood or similarly rigid material adapted for a special use.”

Since *Phillips*, the Federal Circuit has issued several decisions involving information technologies in which the claim construction essentially limits the claims to the technical milieu in which the inventor was working. First, there are a number of cases in which the claims have been limited to particular system architectures. For example, in *Mangosoft, Inc. v. Oracle Corp.*, 525 F.3d 1327 (Fed. Cir. 2008), the court construed “local” in the context of a computer system to mean just an internal hard drive and not peripherals of that node. In doing so, it rejected the plaintiff’s proposed construction, which “would read ‘local’ to mean something beyond the breadth of anything in the claims or the specification.... The problem is that nothing in the intrinsic record describes or supports such an expansive meaning.” In *InPro II Licensing, S.A.R.L. v. T-Mobile USA, Inc.*, 450 F.3d 1350 (Fed. Cir. 2006), the court held that “host interface” for a personal digital assistant was limited to a parallel bus interface, where only such an interface was taught, and a preference for it over a serial bus was emphasized. Similarly, in *Verizon Services Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295 (Fed. Cir. 2007), the term “local wireless” was limited to within a few feet of a base station based on statements in a related patent.

In *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F.3d 1331 (Fed. Cir. 2006) and *Decisioning.com, Inc.*, v.

*Federated Department Stores, Inc.*, 527 F.3d 1300 (Fed. Cir. 2008) the Federal Circuit looked at various types of sales operations, and concluded in one case that when the claims used “customer” a retail customer was meant, not someone shopping on the Internet, and that in the other case, when a point of sale was referred to, it too referred to retail purchases.

A third set of examples is found in the networking cases of *Microsoft Corp. v. Multi-Tech Sys., Inc.*, 357 F.3d 1340 (Fed. Cir. 2004) and *Netcraft Corp. v. eBay, Inc.*, 549 F.3d 1394 (Fed. Cir. 2008). In each case, the claims were limited to the communications environments from which they had originated. For example, in *Multi-Tech*, the terms “sending,” “transmitting” and “receiving” were limited to communicating data packets over a direct point-to-point telephone line and excluding transmission over a packet-switched network because the specification “repeatedly and consistently describes” the transmission of packets over a telephone line.” Similarly, in *Netcraft*, the term “communications link” was limited to Internet access provided by an Internet Service Provider.

Despite the above cases, which along with other similar decisions since *Phillips* seem to suggest a strong trend towards narrower claim constructions than would have been reached in the pre-*Phillips* era, there are also some very recent decisions that suggest that this trend is not all encompassing.

For example, in each of two recent cases, the court rejected a narrow claim interpretation based on citation to pre-*Phillips* caselaw and an objection that the prosecution of the patent in suit did not clearly disclaim claim scope such that the narrow construction was appropriate. In *Cordis Corp. v. Boston Scientific Corp.*, 561 F.3d 1319 (Fed. Cir. 2009), the claim term at issue related to a stent with pairs of reinforcing struts. The specification disclosed only pairs of struts that were in phase, and the question was whether claim language, added during prosecution to distinguish over art showing pairs of struts that were out of phase, was a disclaimer of scope. The Federal Circuit found the amendment over the prior art and subsequent allowance did not constitute a “clear and unmistakable” disclaimer of claim scope and declined to limit the claims to the type of stent design disclosed. In so holding, the court cited both *Phillips* and *Inverness Medical*, the 2002 case whose analysis had been critiqued in *Phillips*. Similarly, in *University of Pittsburgh v. Hedrick*, 573 F.3d 1290 (Fed. Cir. 2009), the court also held that there had not been “a clear and unmistakable disavowal of [claim] scope” during prosecution. In that case, the claims were directed to adipose-derived stem cells that can differentiate into specific types of cells. During prosecution the applicant received a rejection over prior art teaching stem cells derived

from bone marrow. They submitted a paper showing that adipose derived cells differed in their intrinsic properties from mesenchymal cells. The examiner stated agreement with this proposition, and found the claims ready for allowance. The Federal Circuit did not find clear disavowal of coverage of mesenchymal cells. These two cases suggest either that *Phillips* should not be read as changing the “clear disavowal” rule as applied to the prosecution history during claim construction, or that the prosecution history in these cases was vague enough that the limits of construing the claim in light of the prosecution history had been reached.

## Quick Updates

### ***DePuy Spine v. Medtronic*—Ensnarement Defense Is a Question of Law**

The United States Court of Appeals for the Federal Circuit recently held that the ensnarement defense is a legal limitation on the doctrine of equivalents to be decided by the court, not a jury. *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314 (Fed. Cir. 2009). The ensnarement defense prevents a patentee from asserting a scope of equivalency that would “ensnare” the prior art. In *DePuy*, the district court took the question of ensnarement away from the jury and thereafter denied the defense in a bench trial conducted after the jury found Medtronic had infringed DePuy Spine’s patent under the doctrine of equivalents. Medtronic challenged the district court’s denial of its ensnarement defense and argued that it was entitled to present the defense to the jury.

In upholding the district court decision, the Federal Circuit relied on *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 520 U.S. 17 (1997), in which the United States Supreme Court recognized “various legal limitations” on the doctrine of equivalents which are to be decided by the court, namely the “all elements rule” and prosecution history estoppel. Although the Supreme Court did not include the ensnarement defense in the legal limitations described in that case, the Federal Circuit noted that it has consistently treated the ensnarement defense as one of those legal limitations. In an earlier case, the Federal Circuit described both prosecution history estoppel and ensnarement as “two policy oriented limitations” on the doctrine of equivalents which are to be decided as questions of law.

Procedurally, the ensnarement defense operates in the same way as prosecution history estoppel – after the jury has found equivalence for each element of a claim, the ensnarement defense can limit the scope of equivalency the patentee may assert. The burden is on the patentee to establish that the asserted scope of equivalency will not ensnare the prior art. As with prosecution history estoppel, factual issues underlying the legal question can

be determined by the court on the basis of expert testimony or other extrinsic evidence regarding: “(1) the scope and content of the prior art; (2) the differences between the prior art and the claimed invention; (3) the level of ordinary skill in the art; and (4) any relevant secondary considerations.”

Based on the Federal Circuit’s decision, defendants should raise any ensnarement defense in pretrial motions to limit the scope of equivalency asserted by the patentee before the case reaches the jury.

### ***Football Assoc. v. YouTube*—Statutory Damages Booted For Unregistered Foreign Works**

YouTube and its parent Google face copyright infringement lawsuits on a number of fronts, including by the English Football Association Premier League. But even if the Premier League were to prevail on its claim that YouTube video clips of its soccer matches infringe its copyrights, there is one class of damages for which YouTube will not be liable, namely, statutory damages. *Football Ass’n Premier League Ltd. v. YouTube, Inc.*, 2009 WL 1939812 (S.D.N.Y. July 3, 2009).

Judge Louis Stanton held that, “Section 412 [of the Copyright Act] has no exception excusing foreign works from its mandate it requires [timely] registration to obtain statutory damages for both domestic and foreign works,” with the exception of works that fall under the Act’s “live broadcast exemption.” Judge Stanton spurned the Premier League’s argument that, consistent with the Berne Convention’s rejection of formalities, the registration requirements in § 412 should not be applied to bar recovery of statutory damages for foreign works.

The court noted that whereas § 411(a) (which makes registration a prerequisite to suit) is expressly limited to United States works, § 412 contains no such limitation. The court also relied on an express statement in the Copyright Act’s legislative history that § 412 “would be applicable to works of foreign and domestic origin alike” in ruling that there is no exception to the registration requirement for foreign works. Ultimately, the court held (consistent with a line of earlier cases) that Berne and other treaties that the Premier League tried to rely on were not self-executing and thus the Copyright Act would have to be amended to exclude foreign works from § 412’s registration’s requirements. Separately, the court also held that there was no exception to the well-established principle that punitive damages are not available for copyright infringement, even for foreign works.

The consequence of this decision is that companies outside of the United States seeking to enforce their copyrights here should register their works with the Copyright Office to keep all their options open. Importantly, failure to timely register foreign works will also preclude plaintiffs from

recovery of attorney's fees in the event that such plaintiffs are successful in proving copyright infringement.

The Premier League is not, however, without options. The court confirmed that it may be able to avail itself of an exception under Section 411(c), which is designed to address the unique situation that presents itself when works are being transmitted live at the same time as they are being fixed in a tangible form for the first time. The owners of such works, which are anticipated to include sporting events, concerts, and news and public affairs programs, may obtain statutory damages without registering the works if the right holders serve an "Advance Notice of Potential Infringement" on the prospective infringer, with supporting information, at least 48 hours before the work is transmitted or broadcast. The Premier League alleges that virtually all of its video clips fall within this exception and that it has served appropriate advance notices on YouTube; the court held the pleadings to be sufficient on this point to withstand a motion to dismiss.

#### **Cablevision Copyright Rulings Finally Final — Buffer Reproductions Are Not Infringing Copies**

On June 29, 2009, the United States Supreme Court denied *certiorari* in the much-watched *Cartoon Networks / Cablevision* case, bringing to a close a prolonged struggle over a "remote storage" digital video recording (DVR) system created by Cablevision to allow its customers to record and later access television programming "in the cloud," that is, on and from Cablevision's servers as opposed to a device in the home. *CNN, Inc. v. CSC Holdings, Inc.*, 129 S. Ct. 2890 (2009). The denial lets stand the central ruling of the United States Court of Appeals for the Second Circuit that unauthorized reproductions of data, such as digital movie files, in computer buffers do not violate plaintiffs' copyrights, as buffer replications are not infringing copies because they are not fixed "for a period of more than transitory duration." *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008), *rev'g Twentieth Century Fox Film Corp. v. Cablevision Sys. Corp.*, 478 F. Supp. 2d 607 (S.D.N.Y. 2007).

The case was the subject of myriad *amicus* briefs, and in January 2009 the Supreme Court invited the United States government to express its views. In May, the Solicitor General filed a brief for the Obama administration, urging the court to deny *certiorari* on the grounds that there was no conflict among the circuits on the matters at issue, that the case represented a poor vehicle for addressing the matters posed by remote DVR recording and that the Second Circuit's rulings had been reasonable. The Solicitor General's brief noted that "[f]rom the consumer's perspective, respondents' RS-DVR service would offer essentially the same functionality as a VCR or a set-top DVR," and appeared to take the view that consumers' use of recording functionality should not be treated differently depending on whether

it was performed on a device in the home or via a service of a third party. One month after the government filed its *amicus* brief, the Supreme Court denied *certiorari*, leaving undisturbed the Second Circuit Court of Appeals decision of August 2008.

The key holdings of the Second Circuit's decision:

- Before a data reproduction can be deemed an infringing copy, it must satisfy a "duration requirement" as well as the requirement it be embodied in a tangible medium of expression. Where fragments of a stream of data are copied into a buffer for no more than 1.2 seconds before being automatically overwritten, such reproductions are not copies and their unauthorized creation is not copyright infringement.
- Although the operation of Cablevision's DVR system created unauthorized, fixed copies of complete video works on Cablevision's hard drives, Cablevision was not liable as a direct infringer because it was Cablevision's customers, not Cablevision, who made the copies by supplying the "volitional conduct" required for direct liability.
- Cablevision did not infringe the public performance right through the operation of its DVR system. A playback transmission of previously recorded programming made to a single customer, using a single unique copy produced by that customer on Cablevision's hard drives, was not a performance *to the public* and therefore did not infringe.

#### **Trademark Office *Bona Fide* Intent Requirement**

Applications for registration of a trademark in the United States can be filed based on current use of the trademark in commerce or based on an applicant's intent to use the mark. Applicants who file based on an intent to use a trademark must state under penalty of perjury that they have a *bona fide* intent to use the trademark in the United States in connection with every product or service listed in the application.

In recent years, the United States Patent and Trademark Office has construed the *bona fide* intent requirement more strictly than has traditionally been the case. In *Honda Motor Co. v. Winkelmann*, 90 U.S.P.Q.2d (BNA) 1660 (TTAB 2009), the Trademark Trial and Appeal Board ("TTAB") sustained Honda's opposition to Winkelmann's application on the basis that Winkelmann had failed to establish that he had the a *bona fide* intent to use the mark in the United States. Honda, which owns the mark "CIVIC", opposed Winkelmann's intent-to-use application for the mark "V.I.C." for use in connection with vehicles. During discovery, Honda asked Winkelmann to produce evidence of his intent to use the mark in the U.S., such as a business plan. When Winkelmann failed to produce any documents, Honda moved for summary judgment on the basis that Winkelmann lacked the required *bona fide*

intent to use the mark in the United States at the time he filed the application. In response, Winkelmann argued that his *bona fide* intent was demonstrated by his prior use and registration of the mark in Europe and by the mere fact that he had filed a trademark application in the United States. Winkelmann also submitted pages from a German website for what appeared to be car care products called “MTW V.I.C.” The TTAB granted Honda’s motion for summary judgment because Winkelmann did not provide any objective proof that he had a *bona fide* intent to use the mark in the United States at the time he filed the application. The TTAB explained that the foreign registrations and the mere act of filing a United States application did not prove that Winkelmann had the necessary intent to use the mark in this country. It further noted that the German web pages might establish Winkelmann’s intent to use the mark in connection with car care packages, but not with the vehicles claimed in the U.S. application. Also, since the web pages were in German, they did not demonstrate any intent to use the mark in the United States.

In light of *Honda* and other recent TTAB decisions in which applications were found void due to the applicant’s lack of *bona fide* intent to use the applied-for mark, it seems likely that parties who file trademark oppositions will use this line of attack with greater frequency.

Trademark owners thus should take the following measures to lower the risk that their intent-to-use applications will be vulnerable to such attacks. First, when filing intent-to-use applications in the United States, applicants should include only those products and services they actually intend to provide under the proposed trademark. In addition, applicants should preserve records that can help demonstrate *bona fide* intent, such as business plans, memos, communications with prospective licensees, applications for regulatory permits, documents concerning test marketing, domain name registrations, and drafts of labels and packaging.

### **Breach of Duty of Loyalty May Not Justify a Preliminary Injunction**

When employees breach a duty of loyalty to their former employer and the harm to that former employer has already occurred, what remedy is appropriate? The Eighth Circuit Court of Appeals recently addressed this in *CDI Energy Services, Inc. v. West River Pumps, Inc.*, 567 F.3d 398 (8th Cir. 2009).

That case originated when three employees of CDI Energy Services (CDI), an oilfield equipment vendor, left CDI’s North Dakota field office to found a competitor, West River Pumps (WRP). Before leaving CDI, the employees asked CDI’s clients to move their business to WRP. The CDI North Dakota office

closed following the employees’ resignations, since they were that office’s only employees.

CDI then sued WRP, bringing state law claims of breach of loyalty and trade secret misappropriation. CDI moved for a preliminary injunction to prevent WRP from continuing its business. The district court denied CDI’s motion, and CDI appealed.

On appeal, in assessing the propriety of the district court’s denial of preliminary injunctive relief, the Eighth Circuit Court of Appeals considered four factors set forth in *Dataphase Systems, Inc. v. C L Systems, Inc.*, 640 F.2d 109, 114 (8th Cir. 1981). Specifically, the court considered: (1) the likelihood of success on the merits, (2) the presence/risk of irreparable harm, (3) the balance of the harms of granting/denying the injunction, and (4) the public’s interest.

Examining the trade secret claim under the first factor, the court found that CDI failed to show that its customer information actually was concealed as trade secret data. It was further undisputed that the customers in North Dakota were a small collection of readily identifiable oilfield companies, so the customer data was easily obtainable. The court thus found no justification for granting a preliminary injunction regarding CDI’s trade secret claim, and hence did not need to consider the remaining three factors for that claim.

For the breach of loyalty claim, the Eighth Circuit found the first factor was met. CDI had a likelihood of success since North Dakota law precludes employees from soliciting their current employer’s customers. Thus, the court then considered the remaining three factors regarding this claim.

For the second factor, the court found that the theft of CDI’s clients had already occurred and CDI’s office closed, so an injunction against WRP would no longer help CDI. The court could not order WRP’s customers to return to CDI.

Regarding the third factor, the court found the balance of the harms weighed in favor of WRP since an injunction would put WRP out of business. However, CDI’s office had already closed so it was unclear what additional harm an injunction might prevent for CDI.

The fourth factor weighed slightly in WRP’s favor. The court found that the public would best be served by preserving its access to WRP’s services.

The Eighth Circuit thus concluded that the district court was correct, and the factors supported denial of the preliminary injunction against WRP. Though CDI had been substantially harmed, the harm had already occurred and could best be remedied through damages rather than injunctive relief.



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