FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Fall 2000

FENWICK & WEST LLP

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U.S. Patent Applications to be Published

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In late 1999, President Clinton signed the Intellectual Property and Communications Omnibus Reform Act of 1999 (the "Act"). The Act significantly modified the patent laws of the United States in a variety of ways, such as mandating publication of many patent applications filed on or after November 29, 2000. This article summarizes these modifications and identifies some factors that should be accounted for when forming a strategic patent plan.

Eighteen-Month Publication of Some Patent Applications

A common complaint of the patent system in the United States is that, because pending applications are not available to the public, a company that introduces a product or develops a technology may discover several years later that another company's patent was pending at the time of the product introduction. This patent may result in an expensive redesign or payment of a licensing fee to the patentee.

The Act reduces this threat by requiring that many utility patent applications filed on or after November 29, 2000, be published 18 months after the applications' earliest priority dates. The U.S. Patent and Trademark Office ("PTO") has published proposed rules implementing the Act that permit public access to an application as published and also permit public access to the prosecution history of the application. Therefore, a competitor of the applicant can review the modifications of the claims and potential estoppel arguments set forth by the applicant within days after such modifications and arguments are filed with the PTO.

This unfettered access to the prosecution history of pending applications provides competitors with a new product clearance strategy option. Instead of waiting until a patent issues, the competitor can now aggressively analyze pending applications to determine the likely scope of the claims. Although the claims may later be broadened, the information gleaned by reviewing the prosecution history provides the competitor with a better understanding of the risks of its own product development.

Applicant Can Opt Out of the Publication Requirement

Although this publication requirement improves the ability of competitors to learn about pending applications, there are some significant limitations. First, an application may be pending for up to 18 months before it is published, so there is still a period of time during which the competitor is not able to review the application. Second, the applicant can opt out of the publication process by certifying that the invention disclosed in the application has not and will not be filed in any country that requires publication 18 months after filing. Essentially, the applicant can prevent the application from being published in the United

States if the invention claimed and disclosed in the U.S. application is not included in any patent application filed internationally.

To opt out of the publication, the applicant must, at the time of filing, make a request for nonpublication and file a certification that the invention disclosed in the application has not and will not be filed in any country that requires publication 18 months after filing. Failure to opt out at the time of filing causes the application to be published unless the application is affirmatively abandoned several months prior to the publication date.

Patent applicants are encouraged to file such requests and certifications with all applications unless the applicant is sure that the invention disclosed in an application will be, or has been, filed internationally. This strategy preserves all of an applicant's options since, if the applicant later decides to file an international application, the applicant is permitted to rescind a nonpublication request within 45 days after such an international filing. Failure to meet this 45-day deadline may result in the abandonment of the application.

Provisional Rights

If an application is published, the Act provides provisional rights to the applicant. These provisional rights give the applicant the right to a reasonable royalty against one who makes, uses, offers for sale or sells in the United States the invention as claimed in the published application, subject to the following conditions. First, the right to a reasonable royalty applies only to a published claim that is "substantially identical" to an issued claim. The meaning of "substantially identical" is not defined in the statute. It may be that a published claim subject to a modification that substantively changes its scope will not be found substantially identical to an issued claim. In order to maximize the potential provisional rights, applicants should include both broad and narrow claims in the published patent application. This strategy will provide the applicant with a better chance of having some of the published claims be substantially identical to an issued claim since a published narrow claim may issue without modification even when a published broad claim requires substantial modification.

The second condition that must be met in order for provisional rights to be available is that the accused infringer must be given "actual notice" of the published application. What is required to provide "actual notice" is not defined in the Act. However, the legislative history suggests that the "actual notice" requirement is similar to the actual notice requirement under 35 USC §287(a). The Federal Circuit has held this latter statute to require that the patent owner provide an affirmative communication of a specific charge of infringement by a specific accused product or device. Therefore, it is unlikely that merely sending a copy of the published application, without more, would satisfy the actual notice requirement of the Act.

The third condition is that the infringement action must be brought within six years after the patent issues. This condition is consistent with 35 USC §286, which prevents the recovery of damages for any infringement that was committed more than six years prior to the filing of the claim for infringement. Since the provisional rights mature only when the patent issues, the ability to enforce these provisional rights also lasts for six years.

Redaction of Published Application

The Act permits applicants to redact any portions of a published application that will not be published internationally. However, the PTO has made the procedures for taking advantage of the redaction provisions difficult and expensive to implement. After filing the original application, the applicant must file a redacted copy of the application within 16 months after the earliest claimed priority date. Both the originally filed application and the redacted copy must be filed electronically using the PTO's new electronic filing system (EFS). Concurrently with the filing of the redacted copy, the applicant must submit the following (on paper): (1) a certified copy of each foreign-filed application that corresponds to the application for which a redacted copy is submitted; (2) a translation of each foreign-filed application that is in a language other than English along with a statement that the translation is accurate; (3) a marked-up copy of the originally filed application showing the redactions in brackets; and (4) a certification that the redacted copy of the application eliminates only a part or description of the invention that is not contained in any application filed in a foreign country. To take advantage of the Act's redaction provision, an applicant should decide to do so as early as possible in order to permit enough time to satisfy all of the above requirements.

Publication Logistics

The PTO has stated that it will inform the applicant of the anticipated publication date on the filing receipt and will send an additional notice if the publication date is modified by more than two weeks. Applications will be published every Thursday. The PTO is still in the process of determining the procedures for publication, but it is anticipated that the applications will not be physically published; that is, the PTO will not publish the applications in an Official Gazette. Instead, the applications will be available electronically over the Internet.

Conclusion

The Act's provision requiring the publication of many U.S. patent applications is a significant departure from the preceding U.S. law in which patent applications were kept confidential until the patent issued. Although the effect of the law is tempered by the opt-out provisions in the Act, the public availability of both the applications and the prosecution documents provide significant new options for companies to use when analyzing a competitor's pending U.S. patent applications.

The Privacy Bandwagon Rolls On: More Rules from the FTC

John Hancock

The Federal Trade Commission ("FTC") has published final rules under the Gramm-Leach-Bliley Act (the "Act"), 15 U.S.C. § 6801. While this law is principally aimed at banks, brokers and insurers, the privacy section has a much broader reach. The FTC's rules (the "Rules") implementing the Act became effective on November 13, 2000, and require compliance by July 1, 2001.

The Act requires "financial institutions" to take certain privacy protection steps for "nonpublic personal information" relating to "consumers." These terms are key for understanding the Rules. Many companies that are not usually considered "financial institutions" are included under the Act. The Rules require that a financial institution: (1) provide initial and annual notice of its privacy policies; (2) limit disclosure to nonaffiliated third parties of nonpublic personal information about consumers; and (3) allow consumers to "opt out" from disclosures.

Definitions

A "financial institution" is an entity that engages to a significant degree in activities that are "financial in nature." This phrase includes activities traditionally considered to be the province of banks, stockbrokers and insurance companies. It also includes anything in the Federal Reserve Board's Regulation Y list of activities "closely related to banking." Found on this list are: selling money orders or travelers checks; providing financial data processing, software or hardware; activities performed by collection agencies; giving tax advice or providing a tax preparation service; providing consumer educational materials on financial management matters; management consulting on any financial, economic, accounting or audit matter; career counseling for financial services companies or employees in finance-related fields; compiling consumers' online accounts; and printing and selling MICR-encoded items (such as checks).

The list is quite long and startlingly inclusive. However, incidental activities such as accepting a credit card in payment for goods or accepting layaway payments do not cause an entity to become a financial institution within the meaning of the Rules. Companies that do not deal with "consumers" or "customers" also escape coverage.

A "consumer" is an entity that obtains financial products or services from a financial institution primarily for personal, familial or household purposes. A "financial product or service" is something a financial institution offers by engaging in an activity that is "financial in nature" as defined above. A "customer" is a consumer engaged in a continuing relationship with a financial institution involving an ongoing service, as compared to isolated transactions.

"Nonpublic personal information" ("NPI") includes both personally identifiable financial information ("PIFI") and lists derived using PIFI. PIFI, in turn, is defined as information a consumer supplies to obtain a financial product or service, or information the financial institution obtains about a consumer in the course of supplying a financial product or service. Thus, NPI includes not only financial information such as investments or credit card transactions, but also information such as a medical history or a mother's maiden name obtained while performing a financial service.

The fact that a consumer is a customer of a financial institution is NPI, unless the fact is derived from publicly available sources such as bankruptcy records. Customer lists are almost always NPI. Of course, if the customer list is not for a financial institution it is not covered by the Rules.

Information is considered "publicly available," and thus not NPI, if it can be obtained from official public records, widely distributed media or information required to be disclosed by law. The institution must investigate whether the information is actually public. Thus, a consumer's listed phone number is not NPI, but the institution cannot just assume the number is listed.

Notice

The institution must give a privacy notice to: (1) customers before a customer relationship is established; and (2) consumers before NPI is disclosed to any third party.

Customers: At the outset of the business relationship and at least annually after that, the institution must clearly explain

- its policies and practices involving disclosing NPI to affiliated and nonaffiliated parties, including what categories of information it discloses and who the recipients might be;
- what it does with the NPI of people who are no longer customers; and
- how it goes about protecting customers' NPI.

Customer notices must be delivered promptly after the relationship is established where the relationship is not established at the customer's election (as when a credit account is sold), unless the customer agrees to a slightly delayed notice in the interest of getting the product or service faster.

Consumers: An institution may not disclose consumers' NPI to a nonaffiliated third party unless it

- clearly and conspicuously discloses that the information may be disclosed to a third party;

- gives the consumer an opportunity, before disclosure, to direct that the NPI not be disclosed to the third party; and

- explains how the consumer can opt out.

Institutions must provide these initial and opt-out notices, and give a reasonable amount of time in which to opt out, to new and existing customers before July 1, 2001. Previously collected NPI on former customers or noncustomer consumers may not be disclosed without the required notices.

Notice must be in written form that a consumer is reasonably expected to actually receive. Electronic notice is sufficient if the consumer agrees to it. A change-in-terms notice is required when the privacy policy changes. Similarly, customers must receive annual privacy notices similar to the initial notice.

The notice must describe (1) the categories of NPI that the institution collects; (2) the categories of NPI that it discloses; (3) the categories of affiliates and third parties to which it discloses NPI; (4) disclosures made about former customers; (5) disclosures of NPI to vendors; (6) opt-out rights under the Act and under the Fair Credit Reporting Act (which deals in part with disclosure of credit-related information sharing among affiliates); and (7) security and similar policies for protecting NPI.

Opt-Out

Consumers may opt out of disclosure of NPI to third parties. The institution must notify consumers of the possibility of disclosure and explain how to opt out. New customers dealing online can opt out at any time within 30 days after the date the customer acknowledges receipt of the notices. Even consumers who are not "customers" may opt out. The opt-out choice covers all the NPI the institution has, not just information collected after the consumer opts out.

Providing an opt-out address to which the consumer may write is not sufficient. Methods such as Web site opt-out forms or toll-free phone numbers are acceptable. Posting opt-out information on a Web site is insufficient for the initial opt-out information, but is fine for annual notices if the customer agrees to receive notices there. A change-in-terms notice describing a revised privacy policy must include a new opt-out opportunity.

Exceptions

The opt-out provision does not apply when an institution provides NPI to a third party that performs services for or acts on behalf of the institution (*e.g.*, vendors such as marketing

firms). The institution must disclose that it provides this information and contractually bind the third party in a confidentiality agreement.

Consumer notice and opt-out rights do not apply to information disclosed to perform or administer a transaction requested by the consumer, or to maintain or service the consumer's account with the institution. This notice exception is for the "isolated transaction" consumer notice, not the required notice to customers. The distinction between this exception and the vendor disclosure rule is hard to draw, but it appears that for customer relationships there is no significant distinction.

Disclosures made with the consumer's consent do not require notice and an opt-out right. The boundary is unclear between this consent and the "consent" that might be part of a user agreement or disclosure. In its discussion of the Rules the FTC said consent must be "clearly made," not obtained with "a line buried in a document," but it gave no concrete guidelines.

Finally, there is a laundry list of other disclosures exempt from notice and opt-out requirements, such as disclosures to collect delinquent accounts, disclosures required by law and the like.

Further Disclosure

Third parties that receive NPI from financial institutions cannot further disclose the NPI to a fourth party unless either (1) disclosure falls within one of the Rule's exceptions, or (2) the financial institution itself could lawfully have disclosed the NPI to the fourth party. Since a consumer can opt out at any time, this effectively eliminates the second alternative. Information disclosed pursuant to an exception, such as information disclosed for account maintenance, can be used only for that exception.

The Rules prohibit disclosure of account numbers, access codes and the like to third parties for marketing purposes except where the third party provides a service or acts as an agent under the institution's direction for the purpose of marketing the institution's services or products, or where the third parties are identified to the consumer at the outset. Encrypted account numbers used as tracking identifiers and which cannot provide access are excepted.

Quick Updates

Actual Harm Required for Trademark "Dilution"

In *Westchester Media, Co. v. PRL USA Holdings, Inc.*, 214 F.3d 658 (5th Cir. 2000), the Fifth Circuit held that the publisher of Polo magazine infringed Ralph Lauren's POLO trademark, but was not liable for trademark dilution under the Federal Trademark Dilution Act ("FTDA"). Under the FTDA, the owner of a "famous mark" is protected "against another person's commercial use . . . of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark." The FTDA defines dilution

as "the lessening of the capacity of a famous mark to identify and distinguish goods and services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake or deception."

After affirming the lower court's infringement finding, the court considered plaintiff's FTDA dilution claim. In so doing, the Court of Appeals for the Fifth Circuit interpreted the FTDA to require proof that the defendant's use of plaintiff's famous mark resulted in actual economic harm, rather than merely proof that the defendant's use would create a likelihood of causing actual harm, in order to establish a claim under the FTDA. The Fifth Circuit, therefore, adopted the rule established by the Fourth Circuit in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449 (4th Cir. 1999). Because the plaintiff could not prove that the defendant's use caused actual economic harm, the plaintiff's dilution claim under the FTDA failed.

Bad Faith Intent Must Be Pled in "in rem" Actions Under the ACPA

The court in *Harrods Ltd. v. Sixty Internet Domain Names*, 56 USPQ2d 1048 (E.D. Va. August 15, 2000) held that in order to state a claim in an "in rem" action under the Anticybersquatting Consumer Protection Act ("ACPA"), a trademark owner must allege that the owner of a domain name registered the domain at issue with a bad faith intent to profit from that registration. Under the ACPA, a trademark owner is entitled to bring an in rem action against the domain registrant when the registrant is not subject to the personal jurisdiction of the court. The effect of a judgment in an in rem action, however, is limited to the property (*i.e.*, the domain name) and does not impose a personal liability on the property owner, since the property, and not the property owner, is before the court. Thus, the consequence of a successful in rem action under the ACPA would be a transfer of the domain at issue to the trademark owner.

In interpreting Congress' intent in drafting the ACPA to require an allegation of bad faith in in rem proceedings, the Harrods court noted that every provision of the ACPA reflects Congress' intent to combat "cyberpiracy" (registering, trafficking in or using similar trademarks with a bad-faith intent to profit from the trademark's goodwill in violation of the rights of trademark owners). Thus, because Congress did not design the ACPA to combat domain name registrants ignorant of existing trademarks, or those registrants with a good faith reason to believe that they have the right to register certain domain names, the court concluded that every claim under the ACPA requires an allegation that the domain registrant acted in bad faith. The court dismissed the plaintiff's concerns that proving bad faith in an in rem proceeding could be difficult where a default proceeding occurs by noting that evidence of the domain registrant's failure to provide accurate information when registering the domain, or the domain registrant's pattern of conduct evidencing bad faith intent to profit from the registration, provide sufficient avenues through which a plaintiff facing a defaulting domain name owner could obtain an in rem judgment against the domain name.

DMCA Protects DVD Makers

In a suit filed under the Digital Millennium Copyright Act ("DMCA"), the court in *Universal City Studios, Inc. v. Reimerdes*, 2000 U.S. Dist. LEXIS 11696, 55 USPQ2d 1873 (S.D.N.Y. Aug. 17, 2000) considered the claim of eight major motion picture studios against Web site owners who posted DeCSS, an antiencryption computer code, on their sites and provided links to other sites posting DeCSS. Embedded with an encryption code known as the Content Scramble System ("CSS"), digital versatile discs ("DVDs") contain copies of movies which can be viewed only on DVD players and computers equipped with licensed, CSS-decrypting technology; they cannot be copied. DeCSS enables users to view, and make virtually identical copies of, DVD movies without the licensed technology. The defendants did not copy DVDs themselves but admitted posting and linking to DeCSS.

The court held that one of the DMCA's two main anticircumvention provisions, Title 17 U.S.C. Section 1201(a)(2), applied here. That section states, "No person shall offer to the public, provide, or otherwise traffic in any technology . . . that (A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under [the Copyright Act]; (B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under [the Copyright Act]; or (C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under [the Copyright Act]." 55 USPQ2d at 1185-86.

The Web site owners raised two key defenses. First they argued that DeCSS is the product of the kind of reverse-engineering expressly permitted under the DMCA because it allows for the interoperability of a computer program. Specifically, it allows the computer language of DVDs to work on Linux-based computers. Rejecting that argument, the court pointed out that because the defendants did not reverse-engineer DeCSS themselves, their conduct falls outside of the statute's exception. Moreover, the court noted that defendants' use of DeCSS was not supported by such permitted reverse-engineering because it runs on both Windows and the Linux operating system, and there was no need to create a DVD player for the Windows operating system.

Defendants also argued that the DMCA violates the First Amendment on several grounds. The court rejected all of those arguments. The court held that the DMCA's provisions at issue here are constitutional because they are content neutral and, without unduly restricting expression, "further the important government interest of protecting copyrighted works against piracy." 55 USPQ2d at 1898. The court also rejected defendants' Fair Use defense, holding that it does not apply to providing and trafficking in a circumvention technology. 55 USPQ2d at 1890-11891. The Fair Use doctrine, codified at 17 U.S.C. Section 107, allows the unauthorized use of copyrighted works for limited purposes, such as education. The court found defendants liable for both posting and linking to DeCSS.

Certificate of Correction is Controlling After Issuance

In *Southwest Software, Inc. v. Harlequin Inc.*, 226 F.3d 1280, 56 USPQ2d 1161 x (no period) (Fed. Cir. Sept. 18, 2000), the Federal Circuit addressed the issue of whether certificates of correction filed under 35 USC § 254 should be considered a part of a patent only in lawsuits that arise after the certificate has issued. In this case, after plaintiffs filed a suit for patent infringement, defendants noted that the certified copy of the patent from the U.S. Patent and Trademark Office ("PTO") was missing a Program Printout Appendix ("PPA") despite its being referenced in the patent. Plaintiffs promptly requested a certificate of correction from the PTO under 35 USC § 254. In a trial motion for judgment as a matter of law ("JMOL"), defendants argued that the missing PPA meant that the patent claim at issue was invalid for a lack of enablement and best mode under 35 USC § 112, paragraph 1 and, alternatively, if the certificate of correction was valid, it was not effective in the present suit. The district court denied the JMOL motion. On appeal, the Federal Circuit held that "the certificate of correction that added the [PPA] is not to be given effect in this pre-certificate lawsuit. The certificate of correction is only effective for causes of action arising after it was issued." Thus, because the certificate was not effective for the purposes of the present action, the PPA could not be considered part of the patent for the purposes of the present action. Statutory construction of § 254 stated the certificate has "the same effect and operation in law on the trial of actions for causes thereafter arising." This meant, "for causes arising after the PTO issues a certificate of correction, the certificate of correction is to be treated as part of the original patent." Therefore, the Federal Circuit stated "[b]y necessary implication, for causes arising before its issuance, the certificate of correction is not effective." The Federal Circuit then turned to the issue of the validity of the patent claim at issue. It stated that if issues of invalidity were a result of the missing PPA, the invalidity would cease after the issuance of the certificate of correction. Thus, it remanded to the district court to determine whether, in the absence of the PPA, the patent claim at issue was invalid for lack of enablement and best mode.

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