FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Winter 2000

FENWICK & WEST LLP

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Significant Changes in U.S. Patent Laws

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On November 29, 1999, President Clinton signed into law the Intellectual Property and Communications Omnibus Reform Act of 1999 (the "Act"), 106 Pub. L. No. 106-113, 113 Stat. 1501 (1999). This Act significantly modifies certain aspects of the patent laws of the United States including mandating the publication of certain U.S. patent applications, expanding the number of situations in which a patent term can be extended and adding a first inventor defense against a claim of patent infringement for methods of doing and conducting business.

Publication of Patent Applications

The Act establishes that U.S. patent applications that are filed on or after November 29, 2000, will be published 18 months after their earliest priority date. The Act further provides the patent owner with a provisional right to a reasonable royalty against third parties if certain conditions are met.

The Act, however, exempts some U.S. applications from being published if the application is (1) no longer pending at the time publication is scheduled, (2) subject to a secrecy order or (3) a provisional application or a design patent application. In addition, the Act provides an option for the applicant to exempt an application from publication. In particular, to exempt an application, an applicant must, when filing a U.S. application, certify that the subject matter of the application has not and will not be filed in a foreign country (or under a multinational agreement) that requires publication of the application 18 months after the earliest priority date. The applicant can later rescind the exemption request, thereby triggering the publication of the application either after 18 months from the earliest priority date or, if rescinded after the 18-month date, as soon as practical by the USPTO.

However, should an applicant file a request for nonpublication but then file an international application, which publishes the application after 18 months, the applicant must notify the USPTO within 45 days of such an international filing in order for the U.S. application to be published after 18 months from the earliest priority date. Should the applicant fail to notify the USPTO of such activity, the U.S. application will be deemed abandoned by the USPTO. Such an abandonment may only be revived if the failure to notify the USPTO was unintentional.

An advantage of the publication of U.S. applications is the corresponding provisional rights which may then be available. In particular, upon issuance of the patent corresponding to the published patent application, a patent holder may be able to obtain a "reasonable royalty" (for the period between publication of the application and issuance of the patent) against any person who, with actual notice of the published patent application, “makes, uses, offers for sale, or sells in the United States . . . or imports . . . into the United States” the invention as claimed in the published patent application or, in the case of a claimed process, “uses, offers for sale, or sells in the United States or imports into the United States products made by” a process as claimed in the published patent application.

Such rights, however, are deemed “provisional” because the rights to a reasonable royalty for the period between publication and issuance only matures into an actual right upon the issuance of the patent. In addition, the Act requires that the invention as claimed in the issued patent be “substantially identical” to the invention as claimed in the published patent application. Furthermore, the provisional rights are only available to the patent holder if a cause of action is brought within 6 years of the patent issuance. Lastly, the patent holder must place a party upon “actual” notice of the published U.S. application before provisional rights are available. Even though actual notice is not specifically defined in the Act, the legislative history for the Act and legal precedent regarding the actual notice provisions for damage limitations under 35 U.S.C. §287 (1999) suggest that mere inclusion of the published patent application in a commercial database is not adequate to satisfy this notice requirement. Instead, the legislative history suggests that a patent holder will likely need to perform a more direct act, such as sending an alleged infringer a copy of the published application and accusing them of infringing the claims.

Patent Term Extension

For U.S. utility applications filed on or after May 29, 2000, the Act also increases the number of situations in which the term of a patent can be extended. The Act has provisions that require a day-for-day extension of the patent term based upon a delay by the USPTO where a delay is defined as (1) failing to provide a notification under §132 (*e.g.*, an office action or a notice of allowance) within 14 months of the filing date or entry into the national phase, (2) failing to respond to a reply or an appeal within 4 months, (3) failing to act on an application within 4 months after a decision by the Board of Patent Appeals and Interferences or by a federal court or (4) failing to issue a patent within 4 months after the issue fee has been paid and all other requirements have been met by the applicant.

The Act also guarantees a 3 year pendency of a patent application by providing an extension for any delay beyond 3 years except for (1) any time consumed by a continuation application, (2) any delay requested by the applicant and (3) any time consumed by an interference, an imposition of a secrecy order or an appellate review. This section reduces the effect of the 1995 law implementing the GATT-TRIPs agreement, which modified the patent term from 17 years after the date of issuance to 20 years after the earliest priority date. However, this section will likely exclude extending the patent terms of applications in which continuation prosecution applications (CPAs) or other types of continuation applications have been filed. This will prevent the abuses that existed before 1995 in which an applicant was able to repeatedly file continuation applications, while maintaining their 17-year patent term, in order to delay the issuance of a patent until a relevant market became more "mature."

The Act also provides for extensions of a patent term for delays due to interferences, secrecy orders and successful appeals while eliminating the current 5 year cap on any such extension. The Act does limit the term extension by (1) not counting any overlapping delays, (2) excluding any delay that would extend the term of a patent beyond a date identified in a terminal disclaimer and (3) reducing the period of extension for all periods of time in which the applicant fails to engage in "reasonable" efforts to conclude prosecution of the application. The Act states that the period of no reasonable effort is the cumulative total of any periods of time in excess of 3 months that the applicant takes in responding to a notice from the USPTO.

First Inventor Defense

The Act also adds a first inventor defense that protects users who would otherwise infringe certain method claims. The Act states that it is a defense to infringement of a method claim (a "method of doing or conducting business") if a person acting in good faith independently and actually reduces the claimed subject matter to practice at least 1 year before the effective filing date of the patent and the subject matter was commercially used before the effective filing date.

There are a number of ambiguities about this section— most notably, what is a "method of doing or conducting business?" It is unclear whether this applies to nonmethod claims that are part of a programmed machine as in *State Street Bank and Trust Co. v. Signature Financial Group*, 149 F.3d 1368, 47 U.S.P.Q.2d (BNA) 1596 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999). Although the congressional record does state that "whether an invention is a method is to be determined based upon its underlying nature and not on the technicality of the form of the claims in the patent," it is unclear what weight this statement will be given in a civil litigation. This defense is available for all patents except those involved in a patent infringement action or any subject matter for which an adjudication of infringement has been made as of November 29, 1999.

The Act also provides protections for inventors against invention promotion firms by requiring such firms to disclose information relating to the firms' business to the inventors in writing. In addition, the Act decreases certain fees (including patent application filing fees) and expands the ability for third parties to participate in reexamination proceedings.

Another Shot Fired in the Privacy Wars: FTC Rules on Children's Privacy

John Hancock

The FTC has published its rules on children's privacy, the first broadly applicable U.S. rule directly aimed at Internet privacy. In October of 1998, Congress passed the Children's Online Privacy Protection Act of 1998, 15 U.S.C. 6501 *et seq* (the "Act"). The Act gave the Federal Trade Commission a year to establish rules protecting children from perceived abuses in collecting and disclosing information about them. The resulting rules, 16 C.F.R. Pt. 312 (1999), (available at http://www.ftc.gov/os/1999/9910/childrensprivacy.pdf) will be effective on April 21, 2000 (the "Rules"). Notwithstanding the Rules' focus on children's privacy, they will have broad effects on consumer-oriented Internet sites.

The general nature of the Rules is fairly straightforward. A Web site operator collecting personal information from children under 13 years old must post a notice of how it uses and discloses such information; get parental consent before collecting such information; provide for parental review of the information collected, including revocation of consent; not collect unnecessary information as a condition of a child's participation in games and the like; and establish reasonable procedures to protect the confidentiality, security and integrity of information collected from children. Of course, the detailed interpretation and application of these principles is important.

An "operator" is a person (corporation, etc.) that operates a Web site or online service for commercial purposes, and that collects personal information about users, or the person for whom such information is collected. "Operator" includes a person offering products or services for sale through the Web site. This would exclude nonprofit organizations' sites and "personal home pages" with guest books. But a company that outsources hosting of its site would still be considered the operator of the site. However, "operator" does not include a person that supports the technical operation of the site, such as a hosting service or a fulfillment company, which does not use the information for other purposes. A business serving ads would not be an "operator" subject to the Rules unless it is collecting personal information known to come from children. Others to whom personal information might be disclosed are "third parties" and are not covered by the Rules, although parents can prohibit disclosure to third parties.

"Personal information" is, essentially, any information that would allow a person to be contacted in the real world. It includes first and last name, a physical address, an e-mail address, an instant message identifier, a phone number or photograph. It also includes information associated with this kind of information. For example, an operator may collect a wealth of preference and behavior information associated with a cookie that is not personal information. However, if the user registers (for example, with a name and e-mail address) and the operator associates the registration information with the cookie, then all the information collected anonymously using the cookie becomes personal information.

The Rules cover information relating to children under 13. They will be applied both to Web sites that target children, such as nintendo.com, and also to general audience sites that collect information the operator knows to come from children. Therefore, a site that solicits registration information including birthdays will have to conform to the Rules when a child registers. Information that indirectly reveals age, such as school grade, is also sufficient to bring the Rules into play.

The Commission has an open-ended definition of Web sites targeted to children. They will consider the subject matter, the age of models, use of animated characters, the types of promotions on the site and other factors including empirical information about the site's actual audience composition. Of course, this may leave ambiguity for sites concerning children's items that have caught adults' fancy (*e.g.*, Beanie Babies) or general interest sites that draw many children. The rules will apply to separate areas of sites that specifically target children without covering the entire general interest site (*e.g.*, the "Yahooligans" area of the Yahoo! site).

Where site operators have co-branded and private label areas associated with the site that are hosted and operated elsewhere, the Rules do not define "Web site" so as to make its boundaries clear. It seems likely that the Commission would consider the larger site with which such a special area is associated and the information available to the operator of the special area in determining whether the Rules apply. If the operator of the special area has access to personal information collected on the main site, and the main site is directed to children or the personal information discloses that it is from children, the Rules will apply. On the other hand, where links alone are involved and the sites do not share branding and "look and feel," the Rules will not apply, for example, to one site merely because the other targets children.

The notice requirement has few surprises. A link to notice of information practices must be on the home page and at each area where information is collected from children. The link must be clear and prominent. It is insufficient to place a link at the bottom of the page in small type, as is common today for links to privacy policies. The notice must include contact information for the operator(s), the types of information collected from children, the way the information is used (*e.g.*, used for marketing, posted publicly in user profiles, etc.), details concerning disclosure to third parties and certain information about the Act's requirements (parental review rights, etc.).

Probably the most difficult part of the Rules to comply with is the requirement for parental consent. Before collecting personal information from a child, the operator must give the parent notice and obtain consent. The notice must contain the information in the online information practices notice, advise the parent that the operator wants to collect personal information from the child and describe how the parent can provide consent. There are several possible ways of obtaining that consent, each of which seems flawed. Some are too slow, others too expensive and others too uncertain. The Rules approve a consent form to be signed and returned by mail or fax; phoning a toll-free number staffed by trained live operators; credit card verification; digital certificates in a public key system; or e-mail accompanied by a PIN or password obtained by one of the approved methods. Until April 21, 2002, e-mail coupled with extra steps such as a return e-mail or a mailed confirmation is also acceptable where information is only used internally. The Commission intends this to be a nonexclusive listing of methods of obtaining consent. Of all these options, e-mail is obviously the most practical for site operators and the least certain of obtaining actual parental consent. The Commission has, in effect, invited the industry to come up with something better during the first two years the Rules will be effective.

Where there is a material change in information practices from that covered by parental consent, a new notice and consent are required.

There are certain exceptions to the prior consent requirement. Obviously, the operator cannot have consent before collecting sufficient personal information to solicit parental consent. If parental consent is not forthcoming after a reasonable time, the operator must delete the information collected. Additionally, the information (such as an e-mail address) may, without consent, be used to respond to the child and thereafter be deleted, for example in answering an inquiry. If the information will be used for multiple responses to the child's specific request (*e.g.*, periodic updates to information) and for no other purpose, then prior consent is not required for the first response. In this case the parent must receive notice promptly after the first response and must be able to revoke permission for continued contact with the child. Finally, prior consent is not required if information is collected and used solely to the extent reasonably necessary to protect the child's safety, to protect the site from liability, to provide it to law enforcement agencies and for sundry other stated purposes.

The Rules give parents the right to a description of the type of information collected on a child, the right to refuse further collection of information and to direct the deletion of existing information and the right to review the information actually stored by the operator. The difficult part of this provision is identifying the parent. The Rules are obviously of little use if someone falsely posing as a parent can readily get detailed information concerning children. The Rules require that the operator use a means of verification to "ensure that the requestor [of information on file] is a parent of that child, taking into account available technology, and not be unduly burdensome to the parent.” Fortunately, the Rules also shield the operator from state or federal liability for disclosure in good faith following reasonable procedures in responding to a request.

The Rules prohibit an operator from requiring as a condition of a child’s participation in a game or another activity that the child discloses more personal information than is reasonably necessary to engage in the activity. For example, if a child will have a chance to win a prize, it is reasonable to obtain contact information but not to obtain preferences in music and the like.

Finally, the Commission has invited industry self-regulation. The Commission invites self-regulatory groups to establish systems conforming to the Rules which can then be approved by the Commission. Among the requirements for a group to become approved are an effective, mandatory method of assessing operators’ compliance with the guidelines (*e.g.*, through periodic review, or seeding operator databases coupled with reviews) and incentives for compliance. Incentives can include publicly reporting disciplinary actions, methods of consumer redress or reporting violators to the Commission. The advantage of gaining guideline approval is that it affords industry groups an opportunity to gain clarity where the Rules are vague. For example, while the Rules require “reasonable” steps to identify parents for purposes of the parental review provisions, an industry group could remove the danger of being found in violation by specifying a particular process in the guidelines it has approved.

This discussion is necessarily a summary. Information published with the Rules has a wealth of detail and interpretation and should be consulted before completing a plan to comply with the Rules.

Quick Updates

Rosa Parks Loses Bid to Prevent Rap Group from Using Her Name

Rosa Parks cannot prevent a rap group from using her name in its song title. In *Parks v. LaFace Records*, No. 99-CV-60256AA, 1999 U.S. Dist. Lexis 18097 (E.D. Mich. Nov. 18, 1999), the court denied Parks' motion for compensation, in part, because the right of publicity does not apply to a song's title. Further, the court determined that the First Amendment protected the use because the title was related to the song's lyrics. Parks' unfair competition and defamation claims failed because the album's cover and inserts clearly identified the defendants as the source, and because the song contained "no factual statements, false or otherwise, about plaintiff." Her claims of emotional distress and interference with business relations were also denied because the defendant's conduct was not extreme and outrageous, and there was no per se wrongful conduct in using Parks' name.

Filipino Yellow Pages Not Protectable

"FILIPINO YELLOW PAGES" is an unprotectable composite of the generic terms "FILIPINO" and "YELLOW PAGES." *Filipino Yellow Pages v. Asian Journal Publications*, 53 U.S.P.Q.2d 1001 (9th Cir. 1999). The Ninth Circuit held that in determining whether a composite mark is generic, the mark must be looked at as a whole. The court reiterated the Ninth Circuit's position that words that cannot individually become a trademark may become protectable when taken together. However, an analysis of whether a particular mark made up of generic components is generic must not be limited to dictionary definitions and should include the unique factual context in which the mark is used.

Preliminary Injunction Denied in Domain Name Dispute

In *CCBN.com v. C-Call.com*, No. 99-11604-PBS, 1999 U.S. Dist. LEXIS 18187 (D. Mass. Nov. 18, 1999), the owner of the domain name "StreetEvents.com," an Internet-based service targeted at investment professionals, was denied a preliminary injunction against one of its primary competitors based on the competitor's use of the domain name and trademark "StreetFusion.com" for similar services directed to a similar market. While the district judge acknowledged that both parties' marks used the word "STREET," the parties' Web pages—distinct in design, color and layout—weighed against confusion. The sophistication of the targeted investment professionals also weighed against confusion, as well as the services' respective costs. (One of the services was free and the other charged $400,000 a year for a subscription.) Finding no conclusive evidence of bad faith, and concluding that neither mark had been in use for enough time to acquire secondary meaning, the court determined there was no likelihood of confusion.

Federal Circuit Revisits Rule on Means-Plus-Function Claiming

In *Micro Chem. v. Great Plains Chem.*, 194 F.3d 1250 (1999), the Federal Circuit revisited means-plus-function claiming and 35 U.S.C. §112, paragraph 6. At issue was U.S. Patent No. 4,733,971, relating to a method and apparatus for dispensing additives into livestock feed.

The patent disclosed several major methods for dispensing the proper amounts of additives, including “volumetric metering” and “loss of weight.”

The claim construction centered on a “weighing means for determining the weights of selected additives dispensed by said dispensing means from said storage means.” The district court identified this limitation as means-plus-function, reviewed the specification and concluded that the corresponding structure included weight towers and a partitioned, inverting hopper. Thus, the district court interpreted each of the apparatus claims as requiring these specific structural elements or their equivalents. Based upon this finding, the district court determined the claims were not infringed.

Upon review, the Federal Circuit reiterated the basic framework for determining whether the elements of a claim invoke means-plus-function treatment. If the word “means” appears in a claim element in association with a function, it is presumed that §112, paragraph 6 applies. The presumption collapses, however, if the claim element itself recites sufficient structure, material or acts to perform the claimed function. Additionally, without the term “means,” a claim element is presumed to fall outside of the means-plus-function interpretation. However, this presumption may also collapse if the element relies on functional terms to describe performance of the function.

The Federal Circuit agreed that the element at issue invoked means-plus-function treatment. However, the Court disagreed with the district court’s application of §112, paragraph 6. As the Federal Circuit explained:

> The statute does not permit limitation of a means plus-function claim by adopting a function different from that explicitly recited in the claim. Nor does the statute permit incorporation of structure from the written description beyond that necessary to perform the claimed functions.

Therefore, the district court improperly restricted the function of the weighing means to a more narrow cumulative weighing function. Instead, the Federal Circuit identified the functionality of the “weighing means” as merely determining weight. The Federal Circuit went on to state that the specification included several alternate methods for accomplishing this function, including a “volumetric metering” weighting method and a “loss of weight” method. When multiple embodiments are set forth in the specification that correspond with the claimed function, proper application of §112, paragraph 6 requires that the claimed language be interpreted as embracing each of these embodiments and their equivalents. Accordingly, the Federal Circuit concluded that under a proper claim construction, the accused device infringed the apparatus claims.

Realnetworks Wins TRO Against Streambox on DMCA Claim

On December 20, 1999, RealNetworks, Inc. ("RealNetworks") filed suit against Streambox Inc. ("Streambox") in the United States District Court, Western District of Washington, alleging violation of the Digital Millennium Copyright Act of 1998, 17 U.S.C. §1201 *et seq*. ("DMCA") and contributory, vicarious and direct copyright infringement. RealNetworks distributes server software for broadcasting audio and video "streams" over the Internet using RealNetworks' proprietary protocol. RealNetworks also distributes client software for playing back such streams as they are being broadcast by the RealNetworks server software. Streambox distributes software for converting data broadcast via the RealNetworks server software into other formats for local storage and later playback using non-RealNetworks software.

RealNetworks contends that the Streambox software was developed to permit users to copy content broadcast by the RealNetworks server software, and that the development and distribution of such software is a violation of §1201(b) of the DMCA. That section of the DMCA prohibits the distribution of technology which: (a) is primarily designed to circumvent technological copy protection measures; (b) has limited commercial purpose other than circumvention of technological copy protection measures; or (c) is marketed for the purpose of circumventing technological copy protection measures. RealNetworks alleges that content providers rely on the copy protection measures in the RealNetworks protocol, and that such content providers will be unwilling to release content using RealNetworks' server software if the content can be copied by the Streambox software.

Streambox contends that its software does not violate the DMCA, and that RealNetworks' suit is an attempt to stifle competition. Streambox analogizes its software to a VCR, arguing that use of the Streambox software is a "fair use" in the same way that the recording of broadcast television for later viewing is considered fair use under the Supreme Court's ruling in *Sony Corp. of America v. Universal City Studios, Inc.* 464 U.S. 417 (1984). Streambox also points to software that RealNetworks makes available on its Web site that performs the same function as the Streambox software as evidence that RealNetworks is not genuinely concerned about illegal copying of content.

On December 23, 1999, the court found that: (i) RealNetworks is likely to prevail on its claims for violation of the DMCA and copyright infringement; and (ii) the distribution of Streambox's software is causing RealNetworks irreparable harm. After weighing the balance of hardships, the court issued a temporary restraining order prohibiting Streambox from distributing its software.

California Appellate Court Adopts the Inevitable Disclosure Doctrine

A California appellate court has expressly adopted the inevitable disclosure doctrine as state law. The inevitable disclosure doctrine reflects the concern that when an employee leaves a job and goes to work for a competitor in a similar position, that employee, no matter how careful, vigilant, responsible or trustworthy, will inevitably disclose the trade secrets of his or her prior employer simply by performing the new job. The California Court of Appeal, in its November 30, 1999, decision in *Electro Optical Indus., v. White*, 90 Cal. Rptr. 2d 680 (Ca. Ct. App.), stated that "[a]lthough no California court has yet adopted it, the inevitable disclosure doctrine rule is rooted in common sense and calls for a fact-specific inquiry. We adopt the rule here." Surprisingly, the Court stated that the doctrine did not apply in this particular case because the information possessed by the defendant was not trade secret information under the law.

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