FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Winter 2003

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Table of Contents

Homer and Dr. Evil Meet the Anticybersquatting Consumer Protection Act

by Sally M. Abel (sabel@fenwick.com) and Andrew Song

Suppose that Homer, Greek author and owner of the trademark HOMER in Greece, brings a Uniform Domain Name Dispute Resolution Policy (“UDRP”) proceeding against Homer Simpson, a resident of Springfield, U.S.A., for use of “homer.com.” The website provides no commercial goods or services and merely shows a man dressed in a female panda suit being chased by a male panda. Suppose Homer Simpson successfully defends against the Greek author’s UDRP challenge. Can the Greek author then sue in U.S. court under the U.S. Anticybersquatting Consumer Protection Act (“ACPA”), seeking an order transferring the domain, based only on trademark rights in Greece?

A recent court ruling may permit foreign trademark owners to do just that. In *Barcelona.com, Inc. v. Excelentisimo Ayuntamiento de Barcelona*, 189 F. Supp. 2d 367, 373-74 (E.D. Va 2002), a federal district court allowed the City of Barcelona, Spain, to base its successful ACPA claim entirely on trademark rights outside the United States. A resident of Spain had registered the domain “barcelona.com” and was using the domain in connection with a website offering information about Barcelona, along with services such as email and a chat room. Subsequently, the domain holder approached the City of Barcelona and offered the domain for sale at a grossly inflated value.

In response, the City demanded that the domain holder give up the domain. Instead, the holder transferred the domain to a recently formed U.S. corporation, barcelona.com, Inc., whose sole shareholders were the domain holder and his wife. The corporation listed a New York mailing address in the domain name registration record but did not actually have office space in New York.

The City subsequently brought and prevailed in a UDRP action. *Id*. at 370-71. The holder then sued in the Eastern District of Virginia, seeking a declaratory judgment that its use of the domain was not unlawful under the ACPA. *Id*. at 371. The ACPA permits domain holders to sue to enjoin the transfer of their domain if it has been “suspended, disabled, or transferred” in a UDRP proceeding. 15 U.S.C. § 1114(d)(2)(v) (2001). After the holder filed suit, the City countered with an ACPA claim of its own, alleging that the holder had used the domain with a “bad faith intent to profit” from the City of Barcelona’s trademark. *Barcelona.com*, 189 F. Supp. 2d at 373.

For both ACPA claims, the court noted that the City did not have a U.S. trademark for BARCELONA. *See id*. at 371-74. The court then focused on the City’s trademark rights in

Spain. *See id*. at 372. Although the City had not registered BARCELONA alone as a trademark in Spain, it had registered composite marks containing the word BARCELONA, such as EXCELENTISIMO AYUNTAMIENTO DE BARCELONA and other marks coupling BARCELONA with descriptors such as TELEVISION or TEATRE. *Id*. Applying the principle in Spanish law that the dominant word in a multiword trademark is "given decisive relevance," the court found that BARCELONA was the dominant word in the City's registered marks. *Id*. In addition, the court observed that Spanish law prohibits the registration of the name of a municipality as a trademark without the authorization of the municipal authorities, and the holder obviously did not have the authorization from the City of Barcelona to register BARCELONA. *See id*. These findings convinced the court that the City "owns a legally valid Spanish trademark for the dominant word 'Barcelona'.[sic]" *Id*.

The court then concluded that the City could base its ACPA claim solely on these rights in Spain because the language of the ACPA makes no distinction between U.S. and foreign marks. *See id*. at 373. The court considered Congress' intent clear: "the framers were perfectly aware of the international nature of the Internet when enacting the law." *Id*.

According to the reasoning in *Barcelona.com*, the Greek author in our hypothetical should be able to successfully bring an ACPA claim to enforce his Greek trademark rights in U.S. court. The only difference between Homer's situation and Barcelona's is the outcome of the underlying UDRP action: in our hypothetical, the foreign trademark owner lost the UDRP proceeding and found it necessary to file suit, whereas the City of Barcelona won its UDRP proceeding and only brought its ACPA claim in response to the aggrieved domain holder's court challenge. But this difference is inconsequential because a court need not give any deference to a UDRP decision. *See Weber-Stephen Products Co. v. Armitage Hardware and Building Supply, Inc.*, 54 U.S.P.Q. 2d 1766 (N.D. Ill.); *Parisi v. Netlearning, Inc.*, 139 F. Supp. 2d 745, 752 (E.D. Va. 2001).

Read broadly, *Barcelona.com* arguably opens up U.S. courts to all foreign trademark owners who seek redress against cybersquatters, even when *neither* party is a U.S. resident. Did the court anticipate this result? If so, did Congress intend that the ACPA reach that far?

Suppose, for example, that Dr. Evil, a Russian resident, obtains the domain "austinpowerssucks.com" online through the popular domain name registrar Verisign, located in Herndon, Virginia. The website merely says, "Austin Powers has bad teeth." The Russian domain holder has no other contacts with the United States besides the initial registration of the domain with Verisign. Austin Powers, a British resident and owner of the British mark AUSTIN POWERS, institutes a UDRP action against Dr. Evil but loses. He then brings an ACPA claim in the Eastern District of Virginia against Dr. Evil. What result?

Dr. Evil would be subject to jurisdiction in the Eastern District of Virginia because the Verisign registration agreement to which he is contractually bound contains a jurisdictional waiver. Although Dr. Evil could try to invalidate the agreement as an adhesion contract, the court would likely find that Dr. Evil has waived any objection to jurisdiction in the Eastern District of Virginia.

Suppose, however, that Dr. Evil was able to evade service of process through his time machine, and the court was unable to exercise personal jurisdiction over Dr. Evil. The ACPA permits a U.S. court to exercise *in rem* jurisdiction over the domain name itself where personal jurisdiction over the holder is unavailable. See 15 U.S.C. § 1125(d)(2)(A)(ii)(I). In those circumstances, a trademark owner can bring an *in rem* suit in the judicial district where the domain registrar is located, the situs of the domain. *See id*. § 1125(d)(2)(A)(ii).

In Dr. Evil's case, the Eastern District of Virginia may exercise *in rem* jurisdiction over "austinpowerssucks.com" because Dr. Evil obtained the domain from Verisign. With or without Dr. Evil's presence, under *Barcelona.com* the British resident may well be able to assert his British trademark rights in U.S. court and obtain the transfer of the domain of a Russian resident who did nothing more in the United states than register the domain online through a U.S. registrar.

Now suppose that Austin Powers rather than Dr. Evil won the UDRP proceeding. Dr. Evil then brings an ACPA action in the Eastern District of Virginia to enjoin the transfer of the domain. *See id*. § 1114(d)(2)(v). Does the court have jurisdiction?

The Eastern District of Virginia has proper subject matter jurisdiction. *See Sallen v. Corinthians Licenciamentos LTDA*, 237 F.3d 14 (1st Cir. 2001). In that case, Corinthians Licenciamentos LTDA, the exclusive licensee of the popular Brazilian soccer team Corinthiao, prevailed in a UDRP proceeding against the U.S. holder of "corinthians.com." *Id*. at 21-22. The domain holder then sued in Massachusetts district court, seeking a declaratory judgment that his use of the disputed domain did not violate the ACPA. *Id*. at 22. The Brazilian trademark owner argued that the court lacked subject matter jurisdiction. *Id*. at 17. In particular, it claimed that there was no case or controversy, as required by Article III, Section 2 of the U.S. Constitution, because the trademark owner never had any intention of suing the domain holder under the ACPA. *See id*. at 25. The trial court agreed, but the appellate court reversed, holding that subject matter jurisdiction was proper because the trademark owner had initiated the UDRP proceeding and the parties each claimed exclusive rights to the domain. *See id*. at 26.

Also, the Eastern District of Virginia has personal jurisdiction over Austin Powers. In bringing a UDRP claim, the trademark owner has to agree to submit to the jurisdiction of the courts in at least one "mutual jurisdiction." UDRP Rules ¶ 3(b)(xiii). A court of "mutual jurisdiction" is defined as the location of either (a) the principal office of the registrar, or (b) the domain holder's address listed with the registrar. UDRP Rules ¶ 1. Here, the principal office of the registrar is in Virginia. Therefore, Powers waived any objection to jurisdiction in the Eastern District of Virginia. Although Powers could challenge the agreement as an adhesion contract, in the end the court would likely permit Dr. Evil to proceed with an ACPA claim against Powers.

These various hypotheticals demonstrate that the ACPA conceivably can have a global reach that is as broad as the Internet itself. In light of *Barcelona.com*, foreign trademark owners can sue in a U.S. court to enforce their foreign trademark rights against foreign domain holders. In addition, foreign holders may be able to challenge UDRP decisions in a U.S. court to prevent the termination or transfer of their domain, even when the trademark rights at stake are foreign rights. These cases have not yet come before the courts, but it will be interesting to watch whether the courts will continue to interpret the ACPA as broadly as the Barcelona.com court has or whether *Barcelona.com* will be overturned on appeal.

Structuring International Manufacturing and Distribution Activities with the U.S. Patent Laws in Mind

by Charlene M. Morrow (cmorrow@femwick.com) and Rebecca A. E. Fewkes

Introduction

One issue faced by companies that conduct international manufacturing and distribution activities is the extent to which activities directed at markets outside the United States are still within the reach of U.S. patent law. This article addresses the current, and in most instances not yet settled, state of the law on whether U.S. patent law reaches:

- Offers made within the United States to sell products outside the United States;
- Products that are temporarily within the United States;
- The cross-border practice of a patented invention; and
- Export of items used outside of the United States to create an infringing item.

A sensitivity to these issues is helpful in designing manufacturing and distribution arrangements that limit unnecessary exposure to U.S. patent claims.

Background

Section 271 of Title 35 of the United States Code contains the basic provision that liability for infringement of a U.S. patent attaches for making, using, offering to sell or selling any patented invention *within the United States*, or for importing any patented invention *into the United States*, during the patent term. However, the reach of U.S. patent law has been expanded both by decisions applying this basic provision and by specific amendments to section 271. This article provides an overview of four developing issues involving the international reach of the U.S. laws.

Liability for Presales Activities Occurring Within the United States for Sales Outside the United States

The first issue is whether it may be a violation of United States patent rights to conduct presales activities within the United States for products that will be sold outside the United States Section 271(a) makes “offers to sell . . . within the United States” of a patented invention an infringement. The offer-to-sell provision was adopted to harmonize U.S. law with the 1994 Uruguay Round’s Trade-Related Aspects of International Property (“TRIPS”) agreement, which provides that a patent shall confer on its owner the ability to prevent third parties from “offering for sale . . . or importing . . . for these purposes that product.” Uruguay Round Agreements Act, Pub. L. No. 103-465, § 533(a)(1), 108 Stat. 4809, 4988 (1994).

Thus far, the Federal Circuit has not squarely addressed this issue. In *Rotec Indus. v. Mitsubishi Corp.*, 215 F. 3d 1246 (Fed. Cir. 2000), which involved activities in the United States leading up to a sale in China, the majority opinion does not discuss this issue. The concurring opinion does, urging a rule that an offer within the United States to sell a device or system elsewhere does not infringe a U.S. patent. Two district courts have concluded that only offers to sell relating to sales that will occur within the borders of the United States give rise to liability. *Cybiotronics Ltd. v. Golden Source Elecs. Ltd.*, 130 F. Supp. 2d 1152, 1168 (C.D. Cal. 2001); *Quality Tubing, Inc. v. Precision Tube Holdings Corp.*, 75 F. Supp. 2d 613, 616 (S.D. Tex. 1999).

Liability for Goods Temporarily in the United States

A second issue arises with respect to articles temporarily in the United States. At least one district court has held that import of an apparatus into the United States for display at a trade show was not an infringement, where the apparatus was not used. *Creo Prods. v. Presstek, Inc.*, 166 F. Supp. 2d 944, 975 (D. Del. 2001). Similarly, prior to the amendment of Section 271 to add liability for import into the United States, at least one district court had held that storage of goods in the United States destined for sale elsewhere was not infringement. *Fausett v. Pansy Ellen, Inc.*, 19 U.S.P.Q.2d 1228, 1230 (N.D. Ga. 1990); *see also Windsurfing Int' l v. Fred Ostermann GmbH*, 668 F. Supp. 812 (S.D.N.Y. 1987) (holding that an injunction was not violated by shipping sailboards made in France from the United States to Canada for sale). The Federal Circuit has not yet addressed this issue.

Cross-Border Practice of an Invention

The third issue is when U.S. patent laws reach the cross-border practice of an invention. The Federal Circuit has not addressed this issue either, and the district courts have been making case-by-case determinations based upon the location of the defendant entity, the site of control of the patented system and the location of "essential" elements of the invention. *E.g., Freedom Wireless, Inc. v. Boston Communs. Group, Inc.*, 198 F. Supp. 2d 11 (D. Mass. 2002), and cases cited therein.

Liability for Export Activities

A fourth group of issues is presented by Congress' amendment of Section 271(f) to reach certain acts of exportation from the United States In 1984, two types of export activity were prohibited: to supply or cause to be supplied from the United States either "all or a substantial portion of the components of a patented invention . . . in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States," or "any component of a patented invention that is especially made . . . for use in the invention and not a staple article" if that export was made with knowledge that the component was so made, and with the intention that such component be combined outside of the United States into the invention. 35 U.S.C. § 271(f)(1), (2).

Thus far, the caselaw applying this provision is limited. The Federal Circuit has ruled that section 271(f) does not impose liability on an “offer to supply,” but requires an actual act of supplying or causing to supply in order to trigger the statute. *See Rotec*, 215 F.3d at 1258. It has also ruled, however, that a patent holder need not prove actual assembly of the patented apparatus outside of the United States *See Waymark Corp. v. Porta Sys.*, 245 F.3d 1364, 1368 (Fed. Cir. 2001).

There have also been a number of decisions at the district court level, but none by the Federal Circuit, concerning which types of inventions have “components” such that they have protection under section 271(f). In *Enpat, Inc. v. Microsoft Corp.*, 6 F. Supp. 2d 537, 539 (E.D. Va. 1998), the court concluded that the plaintiff’s software method patent had “no ‘components’ for purposes of § 271(f),” and precluded damages based on the export of the software. Similarly, in *Aerogroup International v. Marlboro Footworks Ltd.*, 955 F. Supp. 220 (S.D.N.Y. 1997), *aff’d without opinion*, 152 F3d 948 (Fed. Cir. 1998), the court concluded that a design patent has no “component parts” under 271(f). However, other cases have concluded that where a patentee can show that an exported chemical compound is a component of a final patented chemical compound, section 271(f) applies. *E.g., Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 2001 U.S. Dist. LEXIS 16895 (S.D.N.Y. 2001); *W.R. Grace & Co. v. Intercat, Inc.*, 60 F. Supp. 2d 316, 319 (D. Del. 1999).

The Federal Circuit has also ruled that 271(f) does not cover export of an unpatented machine to carry out a patented method. *See Standard Havens Prods. v. Gencor Indus.*, 953 F.2d 1360, 1374 (Fed. Cir. 1991). However, it has not reached the issue—on which district courts have reached varying unpublished results—of whether articles such as schematics or other electronic data that do not become part of an infringing apparatus, but rather are used to make it, fall within the scope of this provision. In an analogous case, *Trustees of Columbia Univ. v. Roche Diagnostics GmbH*, 150 F. Supp. 2d 191 (D. Mass. 2001), the district court held that certain cell lines were not a “component” of the patented invention but rather would be used in its manufacture. However, in *Moore U.S.A., Inc. v. Standard Register Co.*, 144 F. Supp. 2d 188 (W.D.N.Y. 2001), the district court treated the export of paper, glue and blueprints for their use in creating the patented invention as a violation of 271(f).

Conclusion

The current state of the caselaw in the area of liability for activities directed at countries other than the United States, with a number of issues not yet addressed by the Federal Circuit, presents a counseling challenge for lawyers representing companies with international manufacturing or distribution activities. However, awareness of the developing issues will assist lawyers with risk analysis in structuring various transactions.

Quick Updates

The Broad Impact of One Bad Apple

In *Frank's Casing Crew & Rental Tools, Inc. v. PMR Technologies, Ltd.*, 292 F.3d 1363 (Fed. Cir. 2002), the United States Court of Appeals for the Federal Circuit effectively held that in patent prosecution, one bad apple can contaminate the entire barrel, even if the bad apple had no business in the barrel in the first place. In this case, the rightful inventor of a patented method and apparatus lost the right to enforce the patent based on the "deliberate scheming" of two other named inventors, who may have invented nothing at all.

The patent at issue relates to a computerized method and apparatus for monitoring torque while connecting threaded oilfield pipes. The district court found that Peter Weiner—who was not named on the patent—was at least a co-inventor of the patented method. The district court also determined that two named inventors—brothers Darrel and Larry Vincent—obtained the patent behind Weiner's back through "a pattern of intentional conduct designed to deceive attorneys and the patent office as to who the true inventors were." Because of this "direct evidence of deliberate scheming" by the Vincents, the Federal Circuit affirmed the district court's finding that the patent is unenforceable due to inequitable conduct.

Unfortunately for the innocent true inventor Weiner, this determination also rebounded against him and his assignee. In the same case, Weiner's assignee sought to correct inventorship on the patent to name Weiner as inventor and to assert infringement of the patent by another party. However, the district court held, and the Federal Circuit affirmed, that because the patent was unenforceable, it could not be enforced by anyone, not even by Weiner, who had been omitted from the patent application in the first place due to the "deliberate scheming" of the Vincents: "Misdeeds of co-inventors, or even a patent attorney, can affect the property rights of an otherwise innocent individual."

This is not, in itself, a new proposition of law. However, Weiner's assignee argued that this case was different because the Vincents were not inventors at all, and their conduct thus could not render the patent unenforceable. The Federal Circuit rejected this argument, noting that the patent would not have existed without participation of the wrongdoers: "If not for the Vincents, the '063 patent never would have issued; Weiner made no claim of inventorship until 1998." In other words, if Weiner wanted to enforce a patent for his invention, he could have filed his own application, rather than attempting to enforce a patent that existed because of the misdeeds of someone else.

Extending California Freedom of Employment Policy

Among states, California is unique in its strong public policy against contractual provisions that in any way restrain freedom of employment. This policy is codified in Section 16600 of the Business and Professions Code. A recent California Supreme Court case, *Advanced Bionics Corp. v. Medtronic, Inc.*, 29 Cal. 4th 697 (2002), examine the influence that this policy exerts outside California's jurisdictional boundaries on out-of-state parties and their contracts.

Advanced Bionics involved a Minnesota corporation called Medtronic, which had an employment relationship with a product manager named Mark Stultz. At the inception of their relationship, Medtronic and Stultz entered into an employment agreement that contained a two-year, post-termination, covenant-not-to-compete, which in general precluded Stultz from working on "competitive products" for anyone else. The agreement also contained a choice-of-law provision that made Minnesota law govern any issues of validity, enforceability, construction and interpretation, because Stultz was employed at all times by Medtronic at its Minnesota headquarters.

Stultz subsequently resigned from employment with Medtronic and went to work for a competitor, Advanced Bionics, at its California headquarters. He and Advanced Bionics promptly filed an action in Los Angeles County Superior Court, seeking to have the covenant-not-to-compete and choice-of-law provisions in his agreement with Medtronic declared void under Section 16600. Medtronic responded to this action by filing its own lawsuit in Minnesota. Each state court then had to decide whether it would entertain the action before it and whether it would enjoin the defending party from proceeding with the parallel action in the sister state. The Los Angeles court decided to enter a temporary restraining order (TRO) enjoining Medtronic from moving forward with its Minnesota action.

On appeal, the Supreme Court of California reversed, holding that the TRO had been improvidently issued. Even assuming that Stultz's covenant-not-to-compete would be void under Section 16600, this result did not mean that the Los Angeles court could ignore principles of judicial restraint and comity, which counsel against the issuance of "antisuit TROs" in all but the most exceptional circumstances—when it is necessary for one court to take control of the litigation to ensure an orderly and just resolution. The risk of inconsistent rulings regarding the validity and enforceability of the covenant-not-to-compete did not give rise to such exceptional circumstances. The Supreme Court left unanswered, however, whether an employee who chooses to relocate to California may avoid contractual obligations that he or she entered into with a former employer in another state. As one concurring opinion put it, "[r]elocating to California may be, for some people, a chance for a fresh start in life, but it is not a chance to walk away from valid contractual obligations, claiming California policy as a protective shield."

Court Enjoins Critical Speech on Nissan.com Site Under FTDA

A recent California Central District Court case permanently enjoined posting or linking to "disparaging remarks or negative commentary" about Nissan motor company at the websites nissan.com and nissan.net. *Nissan Motor Co. v. Nissan Computer Corp.*, 2002 U.S. Dist. Lexis 22212 (C.D. Cal. 2002). The decision followed extensive litigation between plaintiffs Nissan Motor Co., Ltd., and Nissan North America, Inc., and the defendant Nissan Computer Corporation concerning ownership of the "nissan.com" and "nissan.net" domain names.

Nissan Computer is a computer sales and services company founded by Uzi Nissan, which registered the domain names "nissan.com" and "nissan.net" in 1994 and 1996, respectively. Following unsuccessful negotiations regarding a possible transfer of the "nissan.com" domain name, Nissan Motor filed a complaint against Nissan Computer in December 1999, asserting claims for (i) trademark dilution in violation of federal and state law; (ii) trademark infringement; (iii) domain name piracy; (iv) false designation of origin; and (v) state law unfair competition. In early 2002, the court granted Nissan Motor's motion for partial summary judgment for the infringement of the NISSAN mark by promotion of automobile-related goods and services by Nissan Computer. In August 2002, the court granted Nissan Motor's motion for summary judgment on the dilution claim.

Nissan Motor then moved for a permanent injunction against Nissan Computer's use of the domain names "nissan.com" and "nissan.net" and asked the court to order Nissan Computer to refrain from posting or linking to commercial websites, or websites containing negative commentary or remarks about it, and other activities that allegedly diluted its mark. The court allowed Nissan Computer to retain the domain names but enjoined it from posting or linking to (i) commercial content or advertising, or (ii) negative remarks or negative commentary regarding Nissan Motor.

In opposing this request for a permanent injunction, Nissan Computer argued that not all uses of the domain names constitute unlawful dilution. The court observed that the Federal Trademark Dilution Act, or FTDA, seeks to protect famous marks from association in the public's mind with wholly unrelated goods and services. However, the FTDA is not intended to prohibit noncommercial expression, such as parody, satire, editorial and other forms of expression that are not a part of a commercial transaction.

The court agreed that Nissan Computer could continue to use the domain names as long as they were used for noncommercial purposes; however, it concluded that "disparaging remarks or negative commentary at "nissan.com" and "nissan.net" (and links to such content) are sufficiently commercial to bring [Nissan Computer's] use of the domain names within the scope of the FTDA, and therefore should be precluded." The court acknowledged that use of a mark to criticize a company is not inherently commercial speech, and that courts have permitted the posting of such speech at websites under the noncommercial speech exemption. The court observed, however, that this case presented a situation where the *mark itself* is also the domain name:

> The goodwill that Nissan Motor has built up in the Nissan mark will ensure a steady stream of visitors expecting to find Nissan Motor at nissan.com and nissan.net. Critical commentary at nissan.com and nissan.net would exploit this goodwill in order to injure Nissan Motor. Under these circumstances, the critical speech becomes commercial and is subject to the proscriptions of the FTDA.

The court further observed that Nissan Computer was free to post critical commentary on other websites, as it had already done.

Copyright Protection not Broad Enough? Just Use Shrink-Wrap (Agreements)

On January 29, 2003, the Federal Circuit Court of Appeals issued a divided opinion upholding the enforceability of a clause in a shrink-wrap agreement prohibiting reverse engineering. *Bowers v. Baystate Technologies, Inc.*, 2003 U.S. App. Lexis 1423 (Fed. Cir. 2003). This decision is significant for software developers that routinely examine the features of competitors' products when making improved versions of their own products.

Howard Bowers marketed a software program known as Geodraft, which was used by engineers to insert technical tolerances for features of computer-generated designs. The software was offered under the terms of a shrink-wrap agreement that prohibited "reverse engineering." Baystate acquired copies of the Geodraft program and, after spending a number of weeks analyzing the software, introduced a competitor program that incorporated some Geodraft features.

Consequently, Bowers sued Baystate for copyright infringement, patent infringement and breach of the contractual provision prohibiting reverse engineering. A jury returned a verdict in Bowers's favor on all counts.

On appeal, Baystate contended that the Copyright Act preempted the contractual restriction on reverse engineering in the shrink-wrap agreement. Section 301(a) states that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright are governed exclusively" by the Copyright Act. This provision is designed to prevent plaintiffs from bringing parallel state law causes of action that do not differ from copyright infringement claims in any substantive way—minimizing the level of interference with the federal scheme of intellectual property protection. In this case, Baystate argued that the reverse engineering claim was nothing more than a copyright infringement claim.

The court disagreed. Instead, it held that the Copyright Act neither preempted nor narrowed the scope of Mr. Bowers's claim. Although the First Circuit had not expressly addressed whether the Copyright Act would preempt a state law that restrained copying, the court believed that the First Circuit would follow the reasoning set forth in the Seventh Circuit's *ProCD opinion*—namely, that the elements of mutual assent and consideration make contract claims qualitatively different from copyright infringement claims. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996). Therefore, the court held that the Copyright Act did not preempt Bowers's contract claim.

According to the court, the shrink-wrap license agreement prohibited all reverse engineering, "protection encompassing, but more extensive than copyright protection, which only prohibits certain copying." This pronouncement departs from the general path of federal copyright law, which typically allows reverse engineering as a "fair use," particularly when reverse engineering relates to the unprotected elements of a copyrighted work. In his dissent, Justice Dyk took issue with the adhesive nature of shrink-wrap agreements, where the purchaser has no real opportunity to negotiate the terms. By enforcing such contracts, state law would allow copyright holders to "eliminate the fair use defense in each and every instance at its option" and undermine the "protections Congress has afforded the public in the Copyright Act."

If this decision holds sway in other jurisdictions, then anti-reverse engineering provisions would allow software vendors to enjoy exclusive rights over both protected and unprotected content. Consequently, a company that analyzes a competitor's product in violation of a shrink-wrap agreement could be liable for substantial damages.

Intellectual Property Bulletin Editorial Staff

Winter 2003

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