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In this issue

KEYWORDS AND ADVERTISING: Should I buy my competitor's trademark?

By Mary Ellen Himes

In some businesses it is fairly common and routine practice: buy the competitor's trademark as a keyword from Google (or other search engines) and show up in search results when the public searches for the competition's products. Many companies are asking themselves and their counsel: Will we be sued for trademark infringement? Should we do this?

Let's start first with "Will we be sued for trademark infringement?" Judging from the increased number of court opinions appearing over the last 18 months regarding keywords and trademark infringement, yes, you could be sued for purchasing your competitor's trademark for keyword advertising. One theory behind the infringement alleges "initial confusion," meaning "a customer searched for my blue widgets and your red widgets came up. The customer clicked on your red widgets, thinking we were related. Ultimately, the customer bought yours, not mine, even if he knew what he was buying in the end and was not confused at time of purchase." Initial interest confusion in some respects is similar to false advertising "bait and switch."

To prove trademark infringement, your competitor must show that the trademark was "in use in commerce" and that there was a "likelihood of confusion." Courts differ on the first issue: use. Is it "use" to buy a keyword for trademark infringement? Or because the consumer never sees the hidden search, is it not "use"? Regardless of the angle or the steps used to analyze trademark infringement, the courts seem to agree: without visible use of the mark, ultimately, no trademark infringement exists. The circuits differ widely on how to reach this result.

In the Second Circuit, most cases hold that simply buying keywords is not "use in commerce" and cases get dismissed against Defendants. The Second Circuit reasons that

> A company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to an individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act, which is concerned with the use of trademarks in connection with the sale of goods or services…")[1]

Here, companies have avoided liability for infringement based on the threshold argument that the keywords did not appear in the sponsored link or in the text associated with the link, and therefore the trademark was not in "use." Courts considered this "use" "internal" and not "use in the trademark sense."[2] The Second Circuit compares the advertising practice to product placement in stores "where, for example, a drug store places its generic products alongside similar national brand products to capitalize on the latter's name recognition."[3]

In other circuits, most notably the Ninth Circuit, however, the courts find that the purchase of the mark constitutes "use." Moreover, California does not seem to differentiate between suits among competitors or a suit against Google for trademark infringement: both scenarios pass the threshold "use" requirement.[4] The courts then continue on to determine whether this "use" creates a "likelihood of confusion." Most times, without some proof that consumers were actually confused by the marks or proof

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[1] *1-800 Contacts, Inc. v. WhenU.com*, 414 F.3d 400, 409 (2d Cir. 2005), *cert. denied,* 546 U.S. 1033 (2005).
[2] *See*, *e.g., Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 425 F. Supp. 2d 402, 415 (S.D.N.Y. 2006); *see also 1-800 Contacts, Inc. v. WhenU.com*, 414 F.3d 400, 409 (2d Cir. 2005), *cert. denied,* 546 U.S. 1033 (2005); *Fragrancenet.com, Inc. v. Fragrancex.com, Inc.*, 493 F. Supp. 2d 545 (E.D.N.Y. 2007) (denying motion to amend complaint as futile because buying keyword advertising does not constitute "use").
[3] *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*, 431 F. Supp. 2d 425, 427 (S.D.N.Y. 2006) (*Merck II*).
[4] *Compare Storus Corp. v. Aroa Marketing, Inc.*, NO. C-06-2454 MMC (N.D. Cal. Feb. 15, 2008) (discussed herein) *with Google Inc. v. American Blind and Wallpaper Factory*, Case No. 5:03-cv-05340-JF 2007 U.S. Dist. LEXIS 32450 at *21 (N.D. Cal. April 18, 2007) (finding that sale of trademarked terms in Adwords program is use under Lanham act and citing *GEICO, 800-JR-Cigar, Inc. v. GoTo.com, Inc.*, 437 F. Supp. 2d 273 (D.N.J. 2006); *Buying for the Home, LLC v. Humble Abode,* 459 F. Supp. 2d 310 (D.N.J. 2006); *Edna Realty Inc. v.TheMLSOnline.Com*, 2006 U.S. Dist. LEXIS 13775 (D. Minn. 2006), and *J.G. Wentworth S.S.C. v. Settlement Funding LLC*, 2007 U.S. Dist. LEXIS 288 (E.D. Pa. 2007) (slip copy)).

that the infringing use was "visible" to the public, the trademark action will not be successful against the defendant.

Google, a frequent defendant in the keywords actions, thus far has managed to avoid liability either because such "use" does not cause "confusion,"[5] or because, as a threshold matter, courts find no "use."[6]

In the *GEICO* case, Google avoided partial liability for those searches in which the "Sponsored Links" search results contained no references to GEICO's marks in their headings or text because GEICO failed to establish a likelihood of confusion for those search results.[7] The search results, however, that did reference GEICO or its marks constituted a likelihood of confusion in violation of the Lanham Act.[8] For Lanham Act purposes, the Virginia Court drew a distinction between those search results that referenced the claimed mark and those that did not. As a threshold matter, the Virginia court held that allowing advertisers to pay to have their ads appear next to the normal listings that result when the marks are entered as search terms constituted "use in commerce" under the Lanham Act.[9]

As stated above, to find confusion and thus infringement, Courts seem to require a "use" that can be "seen" by the consumer. For example, in *Storus Corp. v. Aroa Marketing, Inc.*,[10] the court granted Storus's motion for summary judgment of infringement against lead defendant Aroa, finding initial interest confusion in part because the Google ad began with a mark identical to the Storus mark, underlined, and in a font size larger than that used for any other text in the ad. Such context would cause Aroa's ad to "divert" consumers to a web site that is not Storus's website. In contrast, Google defeated part of GEICO's suit when the court concluded that the "use" could not be seen by the consumer because the mark did not appear in the Sponsored Links but only in the keyword, thus failing to provide any likelihood of confusion.[11] The court found, however, that where the GEICO

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[5] *See GEICO v. Google, Inc.*, 2005 U.S. Dist. LEXIS 18642; 77 U.S.P.Q.2d 1842 (E.D. Va. Aug. 8, 2005).
[6] *Rescuecom corp. v. Google, Inc.,* 456 F. Supp. 2d 393 (N.D.N.Y 2006) (currently on appeal at the U.S. Court of Appeals for the Second Circuit, case no. 06-4881, argued April 3, 2008).
[7] *GEICO*, 2005 U.S. Dist. LEXIS 18642 at *25-26.
[8] *Id.* at *26.
[9] *Id.* at *11.
[10] NO. C-06-2454 MMC (N.D. Cal. Feb. 15, 2008).
[11] *GEICO,* 2005 U.S. Dist. LEXIS 18642 at *25-26.
[12] *Id.* at *26-27.
[13] 2007 U.S. Dist. LEXIS 288 at *18-19.
[14] *See Hamzik v. Zale Corp.*, 3:06-cv-1300; 2007 U.S. Dist. LEXIS 28991 at * 10-11 (N.D.N.Y. April 19, 2007) (denying a motion to dismiss because the "use" alleged in the complaint included actual use of the mark and not mere keyword purchasing, thus distinguishing the case from other cases in the district where mere keyword purchasing was found not to constitute "use in commerce" under the Lanham Act).
[15] For more information, see Venable's IP News & Comment, February 2008, available at: http://www.venable.com/publications.cfm?action=view&publication_id=1852&publication_type_id=1 (Two types of reexamination exist—(1) *ex parte* reexamination and (2) *inter partes* reexamination. For *ex parte* reexamination, once an individual submits the request for the reexamination, they can no longer actively participate in the proceedings—only the Patent Examiner and the Patent Owner are involved. During *inter partes* reexamination, however, the third party requestor may participate in all aspects of the reexamination. This includes allowing the third party to submit correspondence opposing a Patent Owner's response to an Office Action. *Inter partes* reexamination is relatively new and is available only for cases filed on or after November 29, 1999.)

[16] *Inter Partes* Reexamination Filing Data, June 30, 2008, United States Patent and Trademark Office.
[17] Kimberly A. Moore & Andrew R. Sommer, *Patent Lemmings*, p. 26 (on file with author) (2008).
[18] *Inter Partes* Reexam. Filing Data; PricewaterhouseCoopers, *A Closer Look 2008 Patent Litigation Study: Damages awards, success rates and time-to-trial, p.14* (2008).

mark appeared in the Sponsored Link, GEICO established a likelihood of confusion and a violation of the Lanham Act.[12] Similarly, in *Wentworth*, the court did not find a likelihood of confusion where the search results returned independent and distinct links, and no allegations existed that defendant's advertisements and links incorporated plaintiff's marks in any way.[13] Indeed, even in the Second Circuit, *visible* use in a search result, in contrast to mere keyword purchasing, will survive a motion to dismiss.[14]

Although the threshold question of "use" remains distinctly different among the circuits, the end analysis and result appear to be the same nationwide. To support a finding of a likelihood of confusion and hence a trademark violation, the use of the mark must be visible to the consumer.

Companies might conclude, then, that purchasing their competitor's keywords is "safe" as long as their competitor's mark is "unseen." The reality is, however, that buying the keywords may lead to a suit, which can cost time and money, even if ultimately you defeat the suit. But *not* buying the keywords, particularly if you suspect your competition is buying yours, could also cost you time, money and potential customers. Ultimately, the decision to buy or not to buy (or to sue or not to sue if your competitor is showing up in your search results) should be based on the factors influencing your business, the law of your circuit and the circuits where you do business, and the risks you face. An attorney well versed in this area of the law can help you decide which path to choose.

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Inter Partes Reexamination Still on the Rise

By Justine A. Gozzi

In the February 2008 issue of Venable's *IP News & Comment*, we reported the increasing importance of using *inter partes* reexamination as a sword in shielding litigation. [15] The mid-year statistics of 2008 show that *inter partes* reexamination has skyrocketed. The statistics reveal that *inter partes* reexamination is a strong tool for rendering patents unenforceable.

In 2007, third parties filed 126 reexamination requests, which had increased by 56 requests in the previous year.[16] The latest data from the United States Patent and Trademark Office shows that *inter partes* reexamination continues to rise. Through June 30, 2008, the number of reexamination filings has already passed the entire year's filings of 2007 to reach a startling 128 reexaminations. Based on the past 5 years, a linear regression model shows that the projected number of filings for 2008 to be about 137. Within only 6 months, the number of filings is almost at that projected target and there are still 6 months to go. Based on the pace for 2008, the number of projected reexamination requests now is approximately 256 requests by the end of 2008. In summary, over the past 5 years i*nter partes* reexamination has shown great increases, but 2008 shows an explosion of interest in *inter partes* reexamination. Figure 1.1 displays the increase in reexamination requests over the past 5 years along with the targets for 2008.

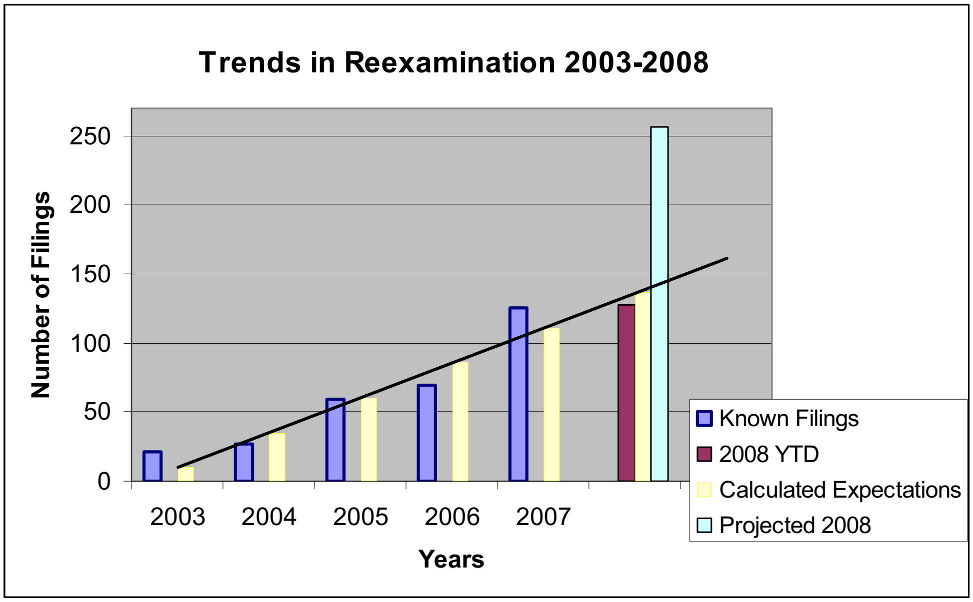

Figure 1.1

A potential downside to *inter partes* reexamination is the pendency of the request. The United States Patent and Trademark Office is behind in processing *inter partes* reexaminations. In fact, only 32 *inter partes* reexamination certificates have issued as of September 2, 2008, and the other requests are still pending. Surprisingly, 22 of the 32 certificates issued with all claims canceled or disclaimed of the patent at issue. Only four certificates issued with all of the claims confirmed, and six certificates issued with claim changes. Therefore, in 68% of the requests for *inter partes* reexamination the patent was rendered ***un****enforceable*. Figure 1.2 shows the percentages.

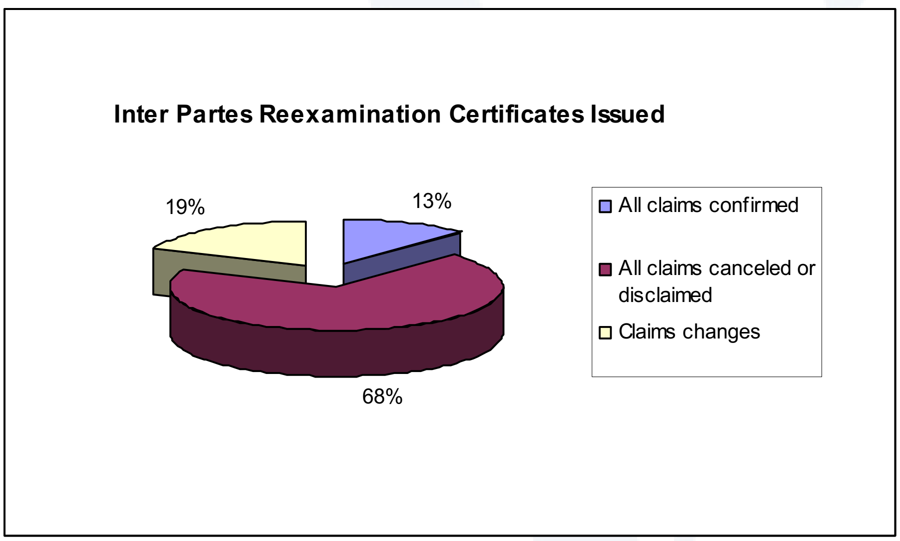

Figure 1.2

A comparison of the *inter partes* reexaminations statistics with the average disposition of patent litigation trials from 1990-2003 is revealing: 70.7% of the patent litigation cases found the patent valid and enforceable.[17] This percentage is almost at direct odds with the percentage outcomes in *inter partes* reexamination (68% unenforceable). With the average pendency for an *inter partes* reexamination certificate being approximately 32.7 months and the national average pendency for a patent litigation case being approximately 26 months, a stay in litigation pending the outcome of an *inter partes* reexamination may increase the overall pendency of the matter, while the resolution of the matter can completely change in favor of the alleged infringer.[18]

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Final Rules Announced for Practice Before the Board of Patent Appeals and Interferences

By Joan Ellis, Ph.D.

On June 10, 2008, the final rules governing practice before the Board of Patent Appeals and Interferences (BPAI) of the United States Patent and Trademark Office (USPTO) were published in the *Federal Register*. The new rules will apply to all appeal briefs filed on or after December 10, 2008. According to the USPTO, the rules are necessary to enable the BPAI to handle an increasing number of appeals more efficiently. The rules are also said to benefit practitioners and expedite prosecution by (1) reducing the number of briefs held defective; and (2) prohibiting the examiner from raising a new ground of rejection in the Answer. However, the rules introduce numerous formal requirements that will add to the preparation time and thus to the cost of filing an appeal brief.

The major differences that distinguish the new rules from previous briefing practice involve changes in format and the imposition of sanctions for failure to comply with the rules. All briefs, both the original appeal and reply, must now contain the following sections: (1) statement of the real party in interest; (2) statement of related cases identified by application, patent appeal, interference or court docket number; (3) jurisdictional statement; (4) table of contents; (5) table of authorities; (6) [reserved] (7) status of the amendments; (8) grounds of the rejections to be reviewed; (9) statement of facts; (10) arguments; and (11) appendix. The appendix must further contain (a) a claims section, (b) a claims support and drawing analysis section, (c) a means or step plus function analysis section, (d) an evidence section, and (e) a related cases section.

> At first blush, the rules might appear to simplify the briefing format but, as usual, the “devil is in the details.” The jurisdictional statement, for example, must include (1) the date of the decision from which the appeal was taken; (2) the date the notice of appeal was filed; (3) the date the appeal brief is being filed; (4) the dates of any requested extensions of time; (5) the date the extension of time was granted. Thus, rather than a simple statement of the statute under which the BPAI has jurisdiction, a brief must enumerate each step taken in the appeal process and the dates on which said steps were performed.

The statement of facts section of the brief must consist of numbered short declarative sentences setting forth a single fact that clarifies “the position of an appellant on dispositive issues and assist the examiner in reconsidering the patentability of the rejected claims." Each fact must be supported by a citation to the page number or drawing in the Record (the official content of the file of an application or reexamination proceeding on appeal). This new requirement is said to be important because in the past some appeal briefs did not sufficiently develop the facts, making it necessary for the Board to ferret them out of the record.

The argument section must contain separate headings for each ground of rejection and an explanation as to why the appellant believes the examiner is in error. In addition, for each argument the appellant must identify where the argument was first made to the examiner or state that the argument has not previously been made. Similar to the statement of facts section, the argument must identify the page in the record where the examiner made the point to which the appellant is responding. Each claim that an appellant wants to have considered separately must be separately argued under a separate heading; otherwise the Board may select a single claim and presume that the claims stand or fall together.

In addition, similar to Bd.R. 41.128, which governs interference practice, the new *ex parte* briefing rules now provide for sanctions against an appellant for misconduct. Examples of misconduct include: (1) failure to comply with an order entered into an appeal or an applicable rule; (2) advancing or maintaining a frivolous argument; or (3) engaging in dilatory tactics. Sanctions may involve an order expunging a paper or precluding an appellant from filing a paper, holding the application on appeal to be abandoned or reexamination proceeding terminated, dismissal of the appeal, etc.

Only a few of the new briefing requirements have been discussed above. Practitioners are advised to carefully study the final rules because they contain many traps for the unwary. The new rules focus primarily on procedural, not substantive, changes to an appeal brief. Contrary to one of the stated goals of the final rules, this new emphasis on form over substance makes it more likely that the USPTO will find a brief defective.

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The Importance of Secondary Considerations in Proving Nonobviousness in the Post-KSR Era

By Steven J. Schwarz

The KSR Decision

Section 103 of the patent code states that a patent may not be obtained if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains. Typically, an obviousness rejection under Section 103 is based either on a combination of two or more prior art references, or on a modification of a single prior art reference.

In the recent decision of *KSR International Co. v. Teleflex Inc.*, the Supreme Court arguably lowered the burden on a patent examiner in rejecting a patent application as being obvious. More specifically, the Supreme Court rejected the rigid "teaching, suggestion, or motivation" test (TSM test), which required the patent examiner to show a teaching, suggestion, or motivation in the prior art to modify, or combine, the prior art teachings in the manner claimed by the patent applicant. Instead, the Court returned to the more flexible approach set forth in the long-standing Supreme Court case of *Graham v. John Deere Co. of Kansas City*, which set forth four factors for applying Section 103. These factors, which have come to be known as the "Graham Factors," include: (1) the scope and content of the prior art; (2) the level of ordinary skill in the art; (3) the differences between the claimed invention and the prior art; and (4) objective evidence of nonobviousness (also known as "secondary considerations").

The Increased Importance of Secondary Considerations

In KSR, the Supreme Court emphasized the importance of secondary considerations in determining obviousness, since they "give light to the circumstances surrounding the origin of the subject matter sought to be patented." In *Ortho-McNeil Pharma., Inc. v. Mylan Labs., Inc.*, a case subsequent to KSR, the Federal Circuit found the secondary considerations to be "[o]f particular importance beyond the prima facie analysis" and "not just a cumulative or confirmatory part of the obviousness calculus but . . . independent evidence of nonobviousness." 520 F.3d 1358, 1365 (Fed. Cir. 2008). Therefore, it is clear that the secondary considerations have gained importance in the post-KSR era.

Evidence of secondary considerations, when available, often works in favor of proving patentability. Therefore, in view of KSR's rejection of the rigid TSM test, and its emphasis on the importance of secondary considerations in determining obviousness, it can be especially valuable in post-KSR patent practice to introduce evidence of secondary considerations during prosecution of a patent application.

What Are the Secondary Considerations?

Secondary considerations are real-world evidence about the invention. The Graham opinion set forth three, non-exhaustive examples of secondary considerations. These were whether the invention achieved commercial success, whether the invention satisfied a long-felt but unsolved need, and failure of others. Cases subsequent to Graham set forth other examples of secondary considerations, such as praise for the invention, copying of the invention, unexpected results, and skepticism or disbelief before the invention.

How Do You Introduce Evidence of Secondary Considerations?

In the context of patent prosecution, evidence of the secondary considerations is typically introduced through inventor declarations, for example, in response to an obviousness rejection from the U.S. Patent and Trademark Office. Alternatively, evidence showing secondary considerations can be described directly in the patent application itself. In a litigation context, evidence of secondary considerations can be introduced in a number of ways, including expert testimony.

Conclusion

After KSR, secondary considerations are more valuable than ever in proving nonobviousness. Therefore, inventors, in-house counsel, and prosecuting attorneys are encouraged to keep secondary considerations in mind during all phases of patent prosecution, for example, when deciding whether to file a patent application, when preparing the application, and when responding to rejections from the U.S. Patent and Trademark Office. In addition, favorable evidence regarding secondary considerations should be used when defending a challenge to an issued patent's validity, for example, during a Reexamination proceeding in the U.S. Patent and Trademark Office, or during a litigation in the district courts. Strong evidence of secondary considerations, such as commercial success, praise, or copying, may play a crucial role in obtaining and/or defending your patents.

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Henry Daley, Ph.D., Named One of the Top Ten Attorneys in Nanotechnology

Nanotechnology Law and Business selected Henry Daley, Ph.D. as one of its "Top Ten Intellectual Property Lawyers Influencing Nanotechnology" in its Summer 2008 issue.

Dr. Daley is a partner in Venable's Technology Division. His experience with nanotechnology extends back to his undergraduate research when he conducted optical scattering experiments from dispersions of nanoparticles, to his work in a teaching lab as a graduate student under the supervision of a nominee for the Nobel Prize for the discovery of fullerenes, to more recent legal counseling and patent work related to nanotechnology.

Dr. Daley has been active with the Northern Virginia Technology Council's Nanotechnology Committee for several years, a member of the nanotechnology committee of the Intellectual Property Owners' Association (IPO), and a member of a committee that advised the legislature of the Commonwealth of Virginia on the formation of a nanotechnology institute aimed at bringing together universities, government research labs, and industry to encourage the commercialization of nanotechnology. Dr. Daley has written dozens of nanotechnology patent applications in a range of fields, including nanomaterials, nanoelectronics, nanophotonics, nanomachines, and drug delivery systems based on nanotechnology.

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Venable Secures Victory in Internet Business Method Patent Dispute

Ruling has broad implications for patent infringement suits

Venable litigators J. Douglas Baldridge and Caroline Petro Gately, assisted by Dr. Michael A. Sartori, Chair of Venable's Patent Prosecution Group, recently obtained dismissal with prejudice of a patent infringement suit filed against The Boca Raton Resort & Club (BRRC) for allegedly infringing U.S. Patent 5,253,341 (the '341 patent), known in trade circles as the "JPEG-On-The-Internet" patent. The plaintiff and holder of the '341 patent, Global Patent Holdings, LLC (Global Patent), is in the business of demanding royalties for use of the '341 patent and suing companies and others that do not comply. Global Patent also brought suit against 18 other parties in a total of four district court cases asserting the same claims.

In its case against BRRC, Global Patent claimed that the hotel group infringed the '341 patent because its webpage (www.bocaresort.com) contains JPEG images that an Internet user who visits the webpage may view. Pursuing a strategy that was not adopted by the 19 other companies sued by Global Patent, the Venable lawyers argued that Global Patent could not support a claim of infringement, because some of the infringing acts were alleged in the complaint to be taken by the website owner (the hotel) and some by an Internet user. Relying on the reasoning of two recent Federal Circuit decisions, the Venable lawyers argued that infringement of a process patent requires the defendant to perform every step of the claim or direct or control the steps performed by another party. Plaintiff Global Patent's theory of "joint infringement" ran counter to the recent Federal Circuit case law.

After full briefing and oral argument, Judge Kenneth A. Marra of the United States District Court for the Southern District of Florida accepted Venable's theory and dismissed the case with prejudice.

"We recognized the force of the recent precedent and pursued a focused strategy against Plaintiff Global Patent to our client's advantage," said Gately, a litigation partner in Venable's Washington, D.C. office. The other 18 parties defending against Global Patent's claims either settled or are still embroiled in litigation.

"From the beginning of the case we worked with our client to devise a strategy that our co-defendants did not follow," said Baldridge, head of Venable's D.C. Litigation Practice Group. Baldridge added, "The Court's decision serves as a much-needed blueprint for protecting website owners from suits of this nature."

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Honeywell Int'l v. U.S. – Important Considerations Highlighted in the COFC's Most Recent Patent Infringement Decision

By Thomas J. Madden, Paul A. Debolt and James Y. Boland

Honeywell Int'l Inc. v. U.S., 81 Fed. Cl. 514 (2008)

On April 14, the U.S. Court of Federal Claims issued its latest opinion in Honeywell International Inc.'s patent infringement suit against the Government. This decision, along with the other opinions that were incorporated into it, highlights important issues that can arise from patent infringement suits against the Government.

The COFC has issued several other opinions in this matter, including *Honeywell Int'l Inc. v. U.S.*, 66 Fed. Cl. 400 (2005) (COFC's *Markman* patent claim interpretation decision); *Honeywell Int'l Inc. v. U.S.*, 70 Fed. Cl. 424 (2006) (COFC held that defendants did not infringe Claims 1 and 3 of the patent); *Honeywell Int'l Inc. v. U.S.*, 71 Fed. Cl. 759 (2006); and *Honeywell Int'l Inc. v. U.S.*, 81 Fed. Cl. 224 (2008) (COFC held that Honeywell lacked standing to assert a claim under the Invention Secrecy Act because the subject patent did not issue upon the application that was subject to the secrecy order). In this case, the COFC ruled not only that the one claim in Honeywell's patent that was infringed by the devices at issue was invalid, but also that Honeywell could not recover damages for the infringement of certain of the devices at issue even if the patent was valid and infringed because those claims were barred under the "first sale" doctrine.

This case began in December 2002, when Honeywell International Inc. and Honeywell Intellectual Properties Inc. (collectively "Honeywell") brought suit against the U.S. in the COFC alleging that the Government infringed two of its patents and violated, among other things, 28 USCA § 1498(a) and the Invention Secrecy Act of 1951, 35 USCA §§ 181–188 (if the Government has authorized and consented to the use of a patent in the performance of a Government contract, a patent holder seeking judicial relief for an alleged infringement of its patent must file suit in the COFC). In its initial filing, Honeywell asserted that the Government infringed two of its patents. Honeywell subsequently amended its complaint to remove claims with respect to one of the patents.

The remaining patent at issue relates to a display system that Honeywell argued had, for the first time, enabled military pilots to use night vision goggles in conjunction with a full-color cockpit display. Lockheed Martin Corp. and its subcontractor, L-3 Corp., which supplied the display system for the C-130J aircraft, subsequently intervened in the case. Lockheed did so because of patent indemnity provisions in certain C-130J contracts, which the Government asserted could obligate Lockheed to reimburse the Government for the amount of a judgment entered in favor of Honeywell, following a finding that the displays used in the C-130J infringed the subject patent. Likewise, L-3 decided to intervene because of a similar indemnification provision in its contract with Lockheed.

The Government routinely requires patent indemnification under commercial-item contracts. See, e.g., FAR 27.201-2(c)(1); FAR 12.301(b)(3) (requiring incorporation of FAR 52.212-4, which includes a patent indemnity provision).

The *Honeywell* decisions illustrate the extent to which companies can become embroiled in protracted litigation as a result of such indemnification provisions. Consequently, companies must be mindful of the financial risks associated with these provisions.

Intervention May Be a Non-Party Indemnitor's Only Opportunity to Challenge the Validity of the Disputed Patent—Although under no obligation to do so, potential patent indemnitors may join and participate in an infringement suit pending at the COFC to protect their interests. Traditionally, an indemnitor will be notified of the existence of the pending suit under Rule 14 of the Rules of the COFC, which allows the indemnitor to "appear to assert and defend" its interest in the case as a third-party defendant. 41 USCA § 114(b) (statutory authority for RCFC 14). Additionally, RCFC 24 allows a non-party to intervene of right if it claims an interest in the subject matter of the action, if disposition of the action would practically impair or impede its ability to protect the interest, and if the non-party's interest is not adequately represented by existing parties.

Before deciding to intervene, companies should review the extent of their potential liability and consider the value of cooperating with the Government and providing a joint defense. Of particular importance to a potential intervenor are the res judicata or stare decisis implications of the COFC's decision on future litigation involving the patent's validity. For example, an indemnitor must know that it could be precluded from challenging the validity of a patent as a defense to a Government claim if the COFC already found the patent valid and infringed. Here, the preclusive effect of the COFC's judicial treatment of the patent on subsequent litigation was a basis for granting L-3's motion to intervene under RCFC 24(a)(2). See *Honeywell*, 71 Fed. Cl. 759.

Judge Braden, in finding that L-3 met the requirements for intervention of right under RCFC 14, held that the indemnification obligation and the possibility that L-3 could be a defendant in a separate action involving the subject patent's validity "more than satisfies a direct and immediate interest" for purposes of intervention. Id. at 765. To reach this result, the Court applied the rationale of *Klamath Irrigation Dist. v. U.S.*, 64 Fed. Cl. 328 (2005), a non-patent infringement case in which the COFC found that the potential impact of adverse precedent on future litigation involving the same resources was a sufficient "interest" for RCFC 24 intervention.

In *Klamath*, the Court held that potentially adverse precedent need not be binding under res judicata or stare decisis to impair a non-party's ability to protect its interest because in "practical reality," an adverse decision in one case could impact a succeeding court in an action involving similar issues, regardless of whether that decision is formally binding. See id. at 334-35. In *Honeywell*, 71 Fed. Cl. 759, Judge Braden applied this rationale in the patent infringement context, holding that litigation involving the subject patent "would have a persuasive, if not collateral effect, on future litigation in which infringement ... is at issue." Id. at 765. Stated differently, a finding of patent validity in the COFC litigation could be persuasive for another court in a subsequent patent validity dispute between the Government and the indemnitor, even if the other court is not formally bound under res judicata or stare decisis. Thus, before intervening in a patent litigation, patent indemnitors should consider the consequences of not intervening in the pending suit because it may be their only effective opportunity to challenge the patent's validity. *See Bird v. U.S.*, 51 Fed. Cl. 536, 547 n.12 (2002).

COFC Relies on KSR in Finding Patent Invalid—After an extensive *Markman* claim construction hearing, see *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), aff'd, 517 U.S. 370 (1996), and stipulations from the parties, the COFC found that Claim 2 of Honeywell's patent was invalid. As a consequence of its earlier decision that Claims 1 and 3 were not infringed, the COFC's decision effectively defeated Honeywell's suit with respect to the devices at issue. In addition, the COFC found Claim 2 invalid because the patent did not meet the "written description requirement," i.e., it did not readily disclose that the invention described in the amended application was within the subject matter of the original filed claims. See *Honeywell*, 81 Fed. Cl. at 572 (holding that "written disclosure in the original [application] ... would not necessarily lead one skilled in the art, in 1985, to conclude that the original [application] ... contained the same subject matter as the amendments").

Significantly, *Honeywell* is the first COFC patent infringement decision since the U.S. Supreme Court issued *KSR Int'l Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007). Following this new mandate, the COFC applied KSR, the factors outlined in *Graham v. John Deere Co.*, 383 U.S. 1 (1966), and other established precedent, and found that the defendants established by clear and convincing evidence that Claim 2 of Honeywell's patent was invalid because it was obvious to one of ordinary skill in the field of night vision compatible aids and military cockpit displays. See *Honeywell*, 81 Fed. Cl. at 539. In reaching this result, the Court clarified the rules applicable to what courts must consider in deciding whether claims of a patent are invalid for obviousness. The Court specifically rejected the U.S. Court of Appeals for the Federal Circuit's practice of rigidly applying the "teaching, suggestion, or motivation" validity factors announced in *John Deere*, reiterating the importance of a more "expansive and flexible approach." See *KSR*, 127 S.Ct. at 1739.

Past Mergers and Acquisitions Can Have "First Sale" Implications—The COFC's decision also has important implications for companies with a history of mergers and acquisitions. Failure to review a patent's history may, as in this case, preclude a contractor from recovering any damages under the "first sale" doctrine. This doctrine provides that a patentee that sells the patented device relinquishes its right to later restrict the use of that device by the buyer under an implied license theory. See *Honeywell*, 81 Fed. Cl. at 576. The first sale doctrine is akin to the "exhaustion" doctrine that was the subject of the Supreme Court's recent decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 2008 WL 2329719 (June 9, 2008, U.S.).

Originally, the patent in *Honeywell* was owned by Allied Signal Technologies Inc. In 1999, Allied Signal merged with Honeywell and became Honeywell International Inc. Before the merger, Allied Signal sold some of the allegedly infringing color displays to the Government. Defendants argued that this sale gave the Government and its contractors an implied license to use the displays.

In response, Honeywell argued that because an entity other than Honeywell, the patentee, made the original sale, the Government did not receive an implied license to use the product *from Honeywell*. The Court dismissed this argument and found that the "patentee and the seller of the patented product ... are now the same corporate entity" as a result of their merger. *Honeywell*, 81 Fed. Cl. at 576–77. Consequently, Honeywell was "bound by the same 'restrictions, disabilities and duties' created by the 'First Sale' Doctrine, as [was] Honeywell Inc." Id. at 577. The COFC explained that allowing Honeywell to recover damages for patent infringement would amount to a "double recovery" because Honeywell, through Allied Signal, already received consideration from the Government for use of the invention. Id.

The COFC's holding is important in light of the number of mergers and acquisitions that have permeated the defense industry over the last 20 years. Pursuant to this holding, a company that otherwise believes it has a valid cause of action may learn, during the course of discovery, that one of its merger partners may have unknowingly licensed its patented technology to the Government. Thus, to the extent a company acquires patents through an acquisition, the acquiring company, as part of its due diligence effort, should determine under what circumstances, if any, the patented goods were provided to the Government. This information may decrease the value of the patent or lead the entity to not pursue the cause of action.

A Secrecy Order Issued under the Secrecy Act Can Affect the Patentee's Ability to Recover Damages—The *Honeywell* case contains a ruling on one of the least-litigated areas of patent law—the Invention Secrecy Act. Pursuant to that Act, the Government has the authority to withhold the issuance of a patent because of national interest concerns. In this case, the U.S. Patent and Trademark Office (USPTO) found that the patent was allowable in November 1987, but it was September 2000 before the Government lifted the secrecy order and permitted the prosecution of the patent to proceed. After a series of amendments and office actions before the USPTO, the patent issued in October 2002.

As part of this action, Honeywell sought recovery under the Secrecy Act for damages caused by the Government's use of the invention during the pendency of the secrecy order. The COFC did not reach the merits of Honeywell's Secrecy Act claim because it held that Honeywell lacked standing to bring this suit.

The patent's prosecution history, upon which Honeywell based its cause of action, could charitably be described as convoluted. Indeed, at one point during the patent application's prosecution, Honeywell deleted everything in the original application except the serial number assigned by the patent office, e.g., the specification, drawing, abstract and all claims subject to the secrecy order, and replaced those items with the specification, drawing and several claims from a pending patent that had been filed as a continuation application. As a result, the COFC held, in this case of first impression, that "the '914 patent did not issue 'on the '269 Application,' since the claims in the '269 Application, subject to the April 2, 1986 Secrecy Order, were completely different than the claims in the '914 patent that issued on October 22, 2002." *Honeywell*, 81 Fed. Cl. at 232.

The COFC's decision highlights pitfalls of the prosecution of a patent that is or has been subject to a secrecy order. Although changes to claims and specifications are part of the normal give-and-take of claim prosecution, inventors or companies that substantially revise the claims or the specifications risk a judicial determination that the claims in the final patent issued after the lifting of the secrecy order are not the same as the claims in the application that was subject to the order. Such a holding is significant because it could effectively eliminate any basis for recovery under the Secrecy Act.

Conclusion—Because the COFC does not issue patent infringement decisions frequently, companies and practitioners should pay close attention to the

Honeywell cases. These decisions not only reflect the manner in which the COFC applies existing patent law, but may also implicate other issues such as indemnification, intervention and the Invention Secrecy Act, which are not always present in cases before the federal district courts. Companies and practitioners should carefully consider these issues throughout the development and analysis of their case.

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