

## INTELLECTUAL PROPERTY UPDATE

Squire, Sanders & Dempsey L.L.P.

### Winter 2007

#### Inside:

New Developments in Trademark Law: The Trademark Dilution Revision Act of 2006.....	2
Why the Entertainment Law Specialty Isn't So Special .....	4
Proposed Rule Changes May Dramatically Alter the US Patent System.....	6
Ninth Circuit Rejects Copyright Fair Use Defense in Hard Disk Imaging Scheme.....	9

## New Developments in Trademark Law: The Trademark Dilution Revision Act of 2006

On October 6, 2006, the President signed into law H.R. 683, the Trademark Dilution Revision Act of 2006 (TDRA). The TDRA amends the Federal Trademark Dilution Act of 1995 (FTDA), and it arose largely as a response to the courts' interpretations of that previous law.

Stating that "[t]he owner of a famous mark shall be entitled ... to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark," the FTDA created a federal cause of action for trademark dilution.<sup>1</sup> After passage of the FTDA, however, the circuit courts of appeal were in disagreement as to whether the phrase "causes dilution" required the owner of a trademark to prove actual dilution and economic injury before being entitled to injunctive relief, or whether a showing of likelihood of dilution was sufficient.

In 2003, the US Supreme Court addressed this disagreement among the circuit courts in *Mosley v. V. Secret Catalogue*, 537 U.S. 418 (2003). *Mosley* involved a dilution claim brought under the FTDA by lingerie company Victoria's Secret against Victor's Little Secret, an adult-themed novelty shop. The Court held that, under the FTDA, in order to enjoin the defendant from using its trademark, plaintiff Victoria's Secret had to show objective proof of actual dilution. This actual dilution standard set a very high and often insurmountable burden for plaintiffs attempting to make dilution claims. Indeed, it prompted some observers to claim that the federal dilution claim created by the FTDA was dead in its tracks.

In passing the TDRA, Congress sought, among other things, to correct the actual dilution standard embodied in *Mosley*. The TDRA replaces 15 U.S.C. § 1125(c), which contained the "causes dilution" language, with language that entitles the owner of a famous trademark to an injunction against another person who "...at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark,

<sup>1</sup> Trademark dilution, unlike trademark infringement, does not depend upon a likelihood of consumer confusion caused by two similar trademarks being used on similar goods or services. Rather, dilution typically occurs in one of two ways. "Blurring" is an association arising from the similarity between a trademark and a famous trademark that impairs the distinctiveness of the famous trademark. Blurring occurs when consumers see a plaintiff's famous trademark used by another to identify another source of goods or services such that the unique and distinctive ability of the plaintiff's trademark to identify and distinguish the plaintiff's goods or services is weakened. Dilution can also occur by "tarnishment," which is an association arising from the similarity between a trademark and a famous trademark that harms the reputation of the famous trademark. Tarnishment occurs when a famous trademark is linked to the inferior goods or services of another, or is shown in an immoral or reprehensible light that is likely to result in negative associations with the famous trademark's owner. The TDRA deals with both types of dilution and limits dilution claims to those based on either blurring or tarnishment.

regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.” (15 U.S.C. § 1125(c)(1)) With this language, the TDRA replaces the strict actual dilution standard from *Mosley* with a more relaxed and less burdensome likelihood of dilution standard.

The TDRA also adds a list of non-exclusive factors for courts to examine when determining whether a likelihood of dilution exists. These factors include: (1) the degree of similarity between the mark or trade name and the famous mark; (2) the degree of inherent or acquired distinctiveness of the famous mark; (3) the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark; (4) the degree of recognition of the famous mark; (5) whether the user of the mark or trade name intended to create an association with the famous mark; and (6) any actual association between the mark or trade name and the famous mark. (15 U.S.C. § 1125 (c)(2)(B)) This list of factors should help courts to more uniformly determine the type of conduct that creates a likelihood of dilution.

Despite the TDRA's apparent expansion of trademark dilution law, this new statute does place some limitations upon the claims that can be made. For instance, the original FTDA did not define “famous marks.” As such, courts interpreted marks with “niche fame” – marks that are famous within a narrow sub-community, market or geographic area – to be eligible for protection from dilution. The new TDRA, on the other hand, clarifies that “a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner.” Although it allows that both inherently distinctive famous marks and famous marks that have acquired distinctiveness through use are capable of protection from dilution, the TDRA provides that, for both types of distinctive marks, “niche fame” is insufficient to meet the prerequisite “famousness” that the mark must have in order to be eligible for protection from dilution.

In summary, the TDRA expands the potential for dilution claims by requiring a plaintiff to show only a likelihood of dilution. Further, it clarifies the method for making such a showing by providing a list of non-exclusive factors for courts to consider in making the likelihood of dilution determination. At the same time, however, the new statute also limits potential dilution claims by requiring that a plaintiff's mark be “famous” with the general consuming public across the entire United States, thereby excluding dilution claims for marks that are famous only within a limited sub-community, market or geographic area.

The practical outcome likely to result from the relaxation of the dilution standard and the tightening of the “famousness” requirement in the TDRA is that it will be easier to bring and prevail upon trademark dilution claims, at least for owners of nationally well-known trademarks who have invested a great deal of money

and effort into building such marks' value and reputation by creating widespread public recognition of them. Indeed, by making dilution a more viable federal claim, the TDRA has to some extent further separated trademark claims from their traditional conceptual underpinning – the prevention of consumer confusion. In doing so, the TDRA is clearly poised to protect well-known brands and the owners whose efforts have brought about their notoriety.

On the other hand, the changes brought about by the TDRA will make it more difficult for trademark owners using their marks in more limited sub-communities or markets to bring, sustain and prevail upon trademark dilution claims. This will decrease the ability of such trademark owners to protect from dilution their marks which, while famous within their particular industry or market, may lack the wider fame required by the TDRA.

*Suzanne K. Ketler, Associate, Cleveland*

## Why the Entertainment Law Specialty Isn't So Special

(Excerpt from *Inside the Minds: Winning Legal Strategies for Entertainment, Sports, and Media Law* (Aspatore Books, 2006).)

### Exploring Issues in Entertainment Law

No attorney should be intimidated by the vast world of entertainment law. Though intellectual property and entertainment litigation are often considered their own sub-specialties, the substantive law of this area is very similar to that encountered in other industries.

Like many other areas of law a practitioner may encounter, entertainment law is generally governed by the interpretation of contracts and the disputes that arise from breaches in those contracts. What sets entertainment work apart are the unique aspects of "the industry." Like any other area of law, client service is far superior if the attorney understands the context in which the client operates.

As an attorney in the Los Angeles office of a large law firm whose broader practice includes serving clients in the entertainment industry, my main areas of focus have been intellectual property related. In this regard, I primarily represent clients whose concerns touch the areas of copyright and trademark law. Secondly, I represent clients with licensing deals and right of publicity issues. And as a litigator, I represent these clients when contracts have been breached or rights to intellectual property have been infringed.

Although primarily a litigator, I also advise clients on the protection of their intellectual property. This includes directing them to colleagues who draft agreements that allow clients to license and register different properties in the motion picture, television, satellite and wireless arenas.

In addition to the more traditional intellectual property work, many clients seek me out because they are interested in protecting their reputations and images. I tend to consider this more quasi-intellectual property work, although some would call it hard core entertainment law. That is probably because celebrities are often concerned with the right of publicity. Indeed, one of my most recent representations in this area involved a leading actress seeking to halt the distribution of a potentially embarrassing video.

### **Financial Implications**

It has been said that "all publicity is good publicity." This is not always the case for those persons who rely on their popularity and acceptance with the American public for their livelihoods. It was definitely not the case in my representation of the major box office star in her right of publicity matter. She was eager to prevent the release of a potentially embarrassing videotape.

Not only was her reputation on the line, but also her future box office earnings, which could have been impacted when the decision was made to seek legal representation to prevent the release of the video. Although the facts may be somewhat more provocative than in other legal fields, the financial implications of entertainment law are not very different from those implications in other areas of practice. In this regard, it may be surprising to note that one difference is that the immediate financial impact may not be as readily apparent in the entertainment context as it is in others. Though my client may have been personally eager to halt the release of the video, there may have been good business reasons to allow it to go public.

It is crucial, therefore, to discuss with your client whether the steps they take in relation to any litigation are likely to affect the next movie deal or their reputation. Those financial assumptions must always be factored into any solution offered a client. And, like any other factor, they must be evaluated on a case-by-case basis.

The other financial implications of entertainment law which are frequently dealt with are those resulting from individuals or businesses failing to take the steps necessary to protect the value of their intellectual property.

The concept of intellectual property is not an easy one to grasp for lay people. Everyone can easily understand the value of inventory or equipment – tangible assets. But often, less sophisticated clients –

especially those with immediate monetary concerns and needs – have some difficulty understanding the long-term value of a copyright, trademark or licensing deal. New and startup companies especially fall prey to this because of their cash flow crunch. They are also often new to the notion and process of protecting intellectual property, and may be insufficiently versed in its long-term value.

It is the primary job of the intellectual property lawyer in these instances to help educate clients on these matters. It is imperative that clients understand that failing to invest in the protection of intellectual property rights, not making that initial commitment, often leads to increased costs and risky litigation down the road. The significant cost to the client of failing to make an initial investment in intellectual property protection becomes clear when, for example, a dispute arises because a licensing deal was not clearly and succinctly written, or if a trademark is sought to be cancelled by a competitor, or if a non-disclosure agreement is not signed and the client's ideas are exploited by others to their financial detriment.

#### **Parting Advice**

A good piece of advice with regard to negotiations and settlements is that the parties that enter into them need to spend the appropriate amount of time, and money, thinking about what could go wrong. This is not easy. People often like to think only about what will go right in a deal. The specialists in what can go wrong – lawyers – add an additional cost to any transaction or deal. Some of the most valuable advice an attorney can provide is helping the client figure out what can go wrong and then determining how to avoid it. That is extremely helpful to clients who need guidance setting priorities. If a client does not think about how a deal could go wrong and what may happen if it is not successful, that client is more likely to run into trouble later. Regardless of whether the client is at the beginning of a deal or resolving a dispute, once that first dispute arises, the client may have many more unless it irons out all of the wrinkles. Do it early.

*Adam R. Fox, Partner, Los Angeles*

### **Proposed Rule Changes May Dramatically Alter the US Patent System**

The United States Patent & Trademark Office (USPTO) is advancing three rule change packages that will, if enacted as presented (as some predict will occur), dramatically alter the US patent system. The first rule change package concerns the number of continuing applications and requests for continued examination that an applicant may file. The second concerns the number of claims that will be examined and the third

package concerns the filing of information disclosure statements. Each rule change package creates significant burdens for patent applicants.

In the first rule change package, the USPTO seeks to limit to one the number of continuing applications and requests for continued examination (RCE) that an applicant may file as a matter of right. If enacted, this rule change will have dramatic consequences. An applicant has three options upon final rejection of an application: (1) abandon the application (typically not a realistic option), (2) appeal the final rejection (not a desirable option, because the process is lengthy and costly) or (3) file either a continuing application or an RCE (often a desirable option, as it provides an opportunity to continue to seek patent protection). Whether filing a continuing application or an RCE, the applicant can either amend the claims presented or not amend and argue the merits of the claims.

The key point is that under current US patent law, there is no limit to the number of continuing applications or RCEs that an applicant may file. Under the proposed rule change, however, the applicant will be allowed to file only one continuing application or RCE as a matter of right. The proposed rule change envisions only a narrow exception. Specifically, an applicant will have to prove that the amendment, argument or evidence that necessitates the continuing application or RCE could not have been submitted prior to the close of prosecution. Satisfying this exception is likely to be difficult. Accordingly, if this rule change is enacted, there will be fewer opportunities to obtain allowable patent claims. In other words, after the claims are finally rejected, both in the original application and in either a continuing application or an RCE of the original application, an applicant will have only two options from which to choose: abandon the application or appeal the final rejection.

There are two significant practical consequences that should result from enactment of this rule change. First, if there are fewer opportunities to obtain allowable patent claims, applicants should endeavor to file claims that are justifiably broad, but comparatively easy for an examiner to allow following a first or a second examination of the application. In other words, if claims are filed that are unjustifiably broad, they are more likely to be finally rejected in the original application and then finally rejected again in any continuing application or RCE of the original application, requiring an applicant to appeal the final rejection or abandon the application. Second, in order to file such claims, a detailed understanding of the prior art will be necessary. To reach this understanding, greater time and cost will be incurred to obtain and evaluate a quality prior art search.

The second rule change package will limit the USPTO's examination to 10 claims designated by the applicant. Examination of additional claims will require the applicant to provide an examination support document, which must contain (1) a statement that a preexamination search was conducted as well as details of how the search was conducted, (2) an information disclosure statement (IDS), (3) an identification of all limitations in the designated claims that are disclosed by the references cited in the IDS, (4) a detailed explanation of how each designated claim is patentable over the references cited in the IDS, (5) a concise statement of the utility of the invention and (6) a showing of where each limitation in every designated claim has support in the application and any priority application.

To avoid these onerous requirements for filing the proposed examination support document, many applicants will not designate more than 10 claims for examination. Consequently, many applicants may end up abandoning applications with allowable subject matter. For example, an applicant may abandon an application in which 10 designated claims have been finally rejected and any claims in excess of the 10 designated claims have not been examined. Some of the undesignated claims may include allowable subject matter, but the applicant will not learn this because the undesignated claims are not examined.

Another consequence of the proposed examination support document is that patents will issue with some claims fully examined and others only partially examined. For instance, if the examiner identifies allowable subject matter in one or more of 10 designated claims and the undesignated claims depend upon these allowable claims, then the undesignated claims would be allowable and unexamined. These unexamined and allowable claims may not be entitled to a presumption of validity as strong as that for the examined claims. Such a patent would be inherently weaker in litigation.

Under the third rule change package, the USPTO will require applicants to describe the prior art references identified in an IDS with more than 20 references or, for an IDS with fewer than 20 references, a prior art description is required for references over 25 pages. Under current law, there is typically no requirement for an applicant to describe a prior art reference submitted in an IDS. Moreover, under current law, there is generally no limit to the number of prior art references that an applicant may file in an IDS. Under the newly-proposed IDS rules, an applicant who wants to avoid describing the prior art filed in an IDS (such descriptions may affect the scope of the patent claims) will have to file the IDS early. Under the newly-proposed rules, failure to file an IDS early during prosecution can trigger the prior art description requirements. Moreover, the applicant's lawyer will have to carefully evaluate the prior art to exclude from the IDS art that is immaterial to patentability or redundant with other prior art submitted in the IDS, thereby

potentially keeping the number of references in the IDS below the limit of 20 and avoiding characterization of prior art references under 25 pages.

Assuming the rule change packages are enacted as proposed, they will significantly alter the US patent system. Applicants will be encouraged to (1) file applications that are (a) more easily reviewed and allowed by the USPTO and (b) more tightly focused in content to limit the number of claims required to cover the invention, and (2) file an IDS early including only material, non-redundant prior art references. Accomplishing these goals while simultaneously obtaining meaningfully broad patent protection will be challenging and more expensive for patent applicants.

*A.J. Moss, Senior Associate, Phoenix*  
*Alex D. Starkovich, Associate, Phoenix*

### **Ninth Circuit Rejects Copyright Fair Use Defense in Hard Disk Imaging Scheme**

Owners of copyrights for software continue to face problems related to the sale of mass licenses and monitoring the use of their software. Computer licensing is essentially an honor system and copyright owners can do little to prevent installation of the purchased or licensed software on multiple computers. Recognizing this, the Ninth Circuit, in *Wall Data Inc. v. Los Angeles County Sheriff's Department*, 447 F.3d 769 (9th Cir. 2006), recently clarified what would entitle a defendant to the fair use defense in such circumstances.

In *Wall Data*, a sheriff's department purchased 3,663 licenses, conducted a "hard disk imaging" whereby it copied the contents of a single master hard drive and then loaded the software on to a total of 6,007 computers. The sheriff's department argued that its use constituted fair use because it had configured the software to be accessed only by 3,663 workstations at a time, thus not exceeding the number of licenses held.

In applying the four fair use factors – purpose and character of use, nature of copyrighted work, amount and substantiality of portion taken, effect on potential market – the Ninth Circuit rejected the claimed fair use defense. It held that: (1) the use had a commercial character because the hard drive imaging saved man-hours and eliminated possible errors associated with separately installing the software packages on each computer; (2) the software was a creative work; (3) the sheriff's department copied the entire software and put its copies to the exact same purpose as the copyrighted work; and (4) the hard drive

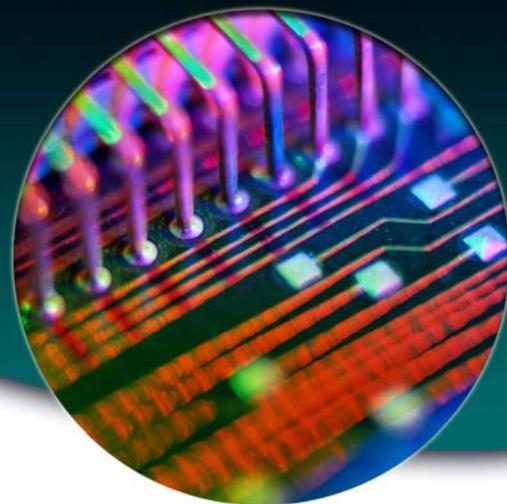
imaging process put the software to uses beyond those the sheriff's department bargained for, thereby affecting the owner's legitimate market for the product.

The Ninth Circuit's analysis for the fourth fair use factor may signify a move toward a more restrictive application of the fair use defense for copyrighted software. In 1994, the Supreme Court, in *Campbell v. Acuff-Rose Music*, held that the fourth fair use factor required courts to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether the alleged infringer's unrestricted and widespread conduct would result in a substantially adverse impact on the potential market for the original. In *Wall Data*, however, the Ninth Circuit reasoned that "[w]henver a user puts copyrighted software to uses beyond the uses it bargained for, it affects the legitimate market for the product." This appears to place on an alleged infringer a more onerous burden to prevail on this factor than there had previously been. Under this approach, a court would seemingly deem any use exceeding that permitted by the license to affect the legitimate market for the product and, therefore, militate against a finding of fair use.

*Xavier M. Brandwajn, Associate, Palo Alto*

*The contents of this newsletter are not intended to serve as legal advice related to individual situations or as legal opinions concerning such situations. Counsel should be consulted for legal planning and advice.*

©Squire, Sanders & Dempsey L.L.P.  
All Rights Reserved  
January 2007



## Squire Sanders Intellectual Property Practice

### Nathan Lane III

Intellectual Property Practice Group Leader  
+1.415.954.0249, San Francisco  
+1.650.843.3322, Palo Alto  
nlane@ssd.com

### James M. Smith

Intellectual Property Update Editor  
Palo Alto  
+1.650.843.3230  
jmsmith@ssd.com

### Majid AlBassam

Tyson's Corner  
malbassam@ssd.com

### David S. Elkins

Palo Alto  
delkins@ssd.com

### Zhaoyang Li (Paul)

San Francisco  
zli@ssd.com

### Bernard F. Rose

San Francisco  
brose@ssd.com

### Song Zhu

Palo Alto  
szhu@ssd.com

### Angela M. Augustus

San Francisco  
aaugustus@ssd.com

### Peter C. Flanagan

Tyson's Corner  
pflanagan@ssd.com

### Mark Lupkowski

San Francisco  
mlupkowski@ssd.com

### Ram W. Sabnis

San Francisco  
rsabnis@ssd.com

### Olga M. Bezrukova

Moscow  
obezrukova@ssd.com

### Adam R. Fox

Los Angeles  
afox@ssd.com

### Eric G. S. Marcks

San Francisco  
emarcks@ssd.com

### Angela Scott

Miami  
anscott@ssd.com

### Xavier M. Brandwajn

Palo Alto  
xbrandwajn@ssd.com

### Douglas H. Goldhush

Tyson's Corner  
dgoldhush@ssd.com

### Jose Luis Martin

Palo Alto  
jlmartin@ssd.com

### Charna E. Sherman

Cleveland  
cesherman@ssd.com

### Alan L. Briggs

Washington DC  
abriggs@ssd.com

### Philip J. Graves

Los Angeles  
pgraves@ssd.com

### Caroline H. Mead

San Francisco  
cmead@ssd.com

### Bryan A. Sims

Tyson's Corner  
bsims@ssd.com

### Barry D. Brown

Palo Alto  
bbrown@ssd.com

### Anna A. Grozovskaya

Moscow  
agrozovskaya@ssd.com

### Joseph A. Meckes

San Francisco  
jmeckes@ssd.com

### Michael E. Sobel

Palo Alto  
msobel@ssd.com

### David E. Brown

Tyson's Corner  
dbrown@ssd.com

### Chris Hubbard

London  
chubbard@ssd.com

### A.J. Moss

Phoenix  
amoss@ssd.com

### Alex D. Starkovich

Phoenix  
astarkovich@ssd.com

### John A. Burlingame

Tyson's Corner  
Washington DC  
jburlingame@ssd.com

### Jonathan Y. Kang

Los Angeles  
jkang@ssd.com

### Hisako Muramatsu

Los Angeles  
hmuramatsu@ssd.com

### Jeffrey C. Talkington

San Francisco  
jtalkington@ssd.com

### Nicholas Chan

Hong Kong  
nchan@ssd.com

### Cameron K. Kerrigan

San Francisco  
ckerrigan@ssd.com

### Arlene P. Neal

Tyson's Corner  
aneal@ssd.com

### Linda Teng

Beijing  
lteng@ssd.com

### Stephen E. Chelberg

Tokyo  
schelberg@ssd.com

### Suzanne K. Ketler

Cleveland  
sketler@ssd.com

### Jacqueline M. Nicol

Phoenix  
jnicol@ssd.com

### James D. Troxell

Cleveland  
jtroxell@ssd.com

### Alicia M. Choi

Tyson's Corner  
amchoi@ssd.com

### Donnie L. Kidd Jr

Tyson's Corner  
dkidd@ssd.com

### Stephen T. Owens

Los Angeles  
sowens@ssd.com

### Aaron R. Winger

Shanghai  
awinger@ssd.com

### Francesca E. Crisera

San Francisco  
fcrisera@ssd.com

### Michael A. Lechter

Phoenix  
mlechter@ssd.com

### David E. Rogers

Phoenix  
drogers@ssd.com

### Philip Zender

San Francisco  
pzender@ssd.com

## NORTH AMERICA

Cincinnati  
Cleveland  
Columbus  
Houston  
Los Angeles  
Miami  
New York  
Palo Alto  
Phoenix  
San Francisco  
Tallahassee  
Tampa  
Tyson's Corner  
Washington DC  
West Palm Beach

## LATIN AMERICA

Buenos Aires\*  
Caracas  
Rio de Janeiro  
Santiago\*  
Santo Domingo

## EUROPE

Bratislava  
Brussels  
Bucharest\*  
Budapest  
Dublin\*  
Frankfurt  
Kyiv\*  
London  
Milan\*  
Moscow  
Prague  
Warsaw

## ASIA

Beijing  
Hong Kong  
Shanghai  
Tokyo

Associated Office\*