

### ***Goodbye to Medinol: Federal Circuit Alters Fraud Standards***

The Lanham Act provides that a registration procured by fraud is subject to cancellation. Over the past several years, there has been much discussion and litigation regarding what constitutes fraud egregious enough to subject a registration to cancellation. A 2003 decision by the United States Patent and Trademark Office Trademark Trial and Appeal Board (TTAB), *Medinol Ltd. v. Neuro Vasx, Inc.*, proffered an answer to this question and elucidated a trademark owner's exposure to claims of fraud. In *Medinol*, the TTAB held that a registration may be subject to cancellation for fraud in situations where a registrant attests that a mark is in use on multiple goods

when in fact it is not. The same result would occur where an applicant files a Statement of Use identifying multiple goods, where the mark is not being used on all goods. Under *Medinol*, any such fraud in the procurement or maintenance of a registration could render the entire registration void. It would not impact any common law rights, but it would make the federal trademark registration and the rights that come with it, disappear.

According to *Medinol*, attesting that a mark is in use on all goods identified in an application or registration, when it is not, constitutes a false statement. Since

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### ***Microsoft Wordless Following Injunction to Stop Selling MS WORD***

In an August 11, 2009 decision (*i4i Ltd. vs. Microsoft Corporation*) that struck some as rendering Texas justice, and left others with a sense of *schadenfreude*, Judge Leonard Davis of the US District Court for the Eastern District of Texas entered an order wherein "Microsoft Corporation is hereby permanently enjoined from performing the following actions with Microsoft Word 2003, Microsoft Word 2007, and [similar products]..." The judge's order not only enjoined the further sale of any copies of MS WORD "that have the capability of opening a .XML, .DOCX,

or .DOCM file ('an XML file') containing custom XML" in the United States, but also confirmed a jury verdict in favor of the plaintiff in the case, *i4i Ltd.*, awarding past and prospective damages in the amount of \$200 million. Even for Microsoft, this is real money.

Microsoft filed the usual post trial motions to overturn the jury verdict, to reduce the amount of damages, to grant a stay of the injunction pending appeal, and others. In its final order, the court denied Microsoft's

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### ***ICANN's Efforts to Combat Domain Name Tasting a Sweet Success***

Last year, ICANN, the governing organization for domain names, approved a provision that attempted to combat a common abuse of the five-day Add Grace Period (AGP) called domain tasting, by making it more expensive to register domain names en masse. This move worked, as recent report released by ICANN shows a 99.7% decrease in AGP deletes during the period of June 2008 to April 2009.

Domain name tasting refers to the practice of speculatively registering large quantities of domain names, populating

attendant websites with pay-per-click advertising, monitoring incoming traffic, and dropping the names that have not generated enough revenue to justify acquisition at the end of the AGP for a full refund. Registrants whose business models are based on tasting often delete as many as 95.5% of their newly-registered domains within the AGP. Tens of millions of domains were registered speculatively and deleted each month through the loophole of tasting. Frequently, these domain names would include trademarks

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### ***ACR in Action***

In our November 2008 Newsletter, we provided an overview of the USPTO's new Accelerated Resolution Process ("ACR") in trademark oppositions. The ACR process was created as a means to streamline and simplify opposition proceedings and to allow for more timely resolution of same by eliminating trial. In order to take advantage of ACR, the parties must stipulate that, in lieu of trial, the Board can resolve any issues of material fact. Generally, ACR is intended as an avenue of rapid resolution of "simple" cases—where the issues and the facts are clear. Because ACR only went into effect in late 2007, there have been few decisions to judge whether the process indeed yields the streamlined results it is intended to provide.

The ACR fast track is available to TTAB litigants at the outset of a proceeding and generally that is where the decision to take the track is made. However, the rules do allow for the parties to opt in to the ACR process at any time during a proceeding as well. Thus, where discovery reveals the issues between the parties are relatively simple, the parties can opt in to ACR and thus obtain a TTAB decision of their

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### ***A Sound Investment***

In an era where the music industry is continuing to struggle with declining CD sales and other problems due to the movement into the digital age, music publishing, on the other hand, is prospering more than ever.

Investors, such as pension funds and equity firms, are increasingly being drawn to purchasing publishing catalogs, especially of seasoned musicians with proven longevity, which they consider to be promising assets due to the recurring and stable cash flow they provide from the royalties due every time songs are played

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registration rights in the United States are based on use of a mark, a statement concerning whether a mark is in use is certainly material in obtaining or maintaining a federal trademark registration. But what knowledge of the falsity of a statement is required? The *Medinol* decision held that if a registrant knew, or should have known, that a statement made in connection with a registration was false, then the entire registration could be void for fraud. This led to registrants and applicants taking considerable steps to ensure their marks were in use on all goods identified in their filings before attesting to same. This also rendered a number of registrations void due to simple misunderstandings.

In *Bose Corp. v. Hexwave Inc.*, one such misunderstanding caused the TTAB to find a registration void for fraud. There, Bose Corp. had registered the mark WAVE covering several different goods and opposed registration of Hexwave Inc.'s application for HEXWAVE. In the opposition proceeding, Hexwave counterclaimed for cancellation of the Bose WAVE mark on the grounds that Bose committed fraud on the PTO in renewal of that registration.

When Bose sought renewal of the registration, it attested that the mark was in use on all goods identified in the registration. However, Bose had actually ceased manufacture and sales of one type of product contained in the registration before the time to renew. However, the company was still servicing those goods for prior purchasers and Bose believed such service constituted use of the mark. The TTAB disagreed, finding that servicing did not constitute actual use of the mark on such goods. Therefore, the statement that the mark was in use on all goods identified in the registration was false and material to renewal of the registration. Further, since Bose was no longer selling the goods

at issue, TTAB found that Bose knew or should have known it was not using the mark in connection with those goods at the time it filed for renewal. Following *Medinol*, these facts and imputation of knowledge to Bose constituted fraud on the PTO and the TTAB cancelled the WAVE registration in its entirety.

Bose appealed this decision to the United States Court of Appeals for the Federal Circuit. On August 31, 2009, that court issued a decision reversing the TTAB decision and essentially overruling *Medinol*. Per the Federal Circuit, though a party's knowledge is certainly relevant to the question of whether a statement is fraudulent, the standard is much higher than what the TTAB found in *Medinol* and applied in *Bose*. Rather than establishing that a registrant must have "known or reasonably should have known" a statement was false at the time it was made, the Federal Circuit held that establishing fraud on the PTO in this context requires a showing of an actual intent to deceive the PTO supported by clear and convincing evidence.

Looking at the facts in *Bose*, the Federal Circuit agreed with the TTAB that servicing goods did not constitute actual use of the mark on those goods. Therefore, the WAVE mark was not in use on all goods at the time Bose sought renewal. However, the court did not find any actual intent to deceive the PTO when the renewal was filed. Rather, the renewal was filed on the mistaken belief that service of goods constituted use of the mark on those goods. Because there was no actual intent to defraud, the registration should not have been cancelled, at least not in its entirety.

By dictating a firm standard that fraud on the PTO requires a showing, by clear and convincing evidence, that there was an actual intent to deceive, the Federal Circuit essentially overrules the *Medinol* de-

cision and significantly changes USPTO fraud jurisprudence. Trademark owners should still take care in their statements to the USPTO in connection with registration or renewal of their marks and should certainly inquire as to use of their marks on all goods identified when attesting to same. However, the fraud standard of actual intent to deceive the PTO will expose far fewer registrations to potential cancellation. If a party has an objective, good faith belief that a mark is in use on all goods identified in a registration or application, then if it turns out later the mark is not in use on some goods, the registration will not be found void for fraud in its entirety.

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motions, and entered a permanent injunction. Some district courts, and the US Court of Appeals for the Federal Circuit, have occasionally stayed the effect of injunctions, but not payment of damages, pending the hearing of an appeal. The district court denied this motion but did provide a stay of the injunction order for a period of sixty days to enable Microsoft a period for appeal. Microsoft will be required to post a bond for the damages in the event of an appeal.

Following the district court's final order, and as was widely expected, Microsoft moved the Federal Circuit for an emergency stay pending full hearing on the appeal. Microsoft has briefed its motion, relying in part on the fact that a reexamination was filed and accepted by the US Patent and Trademark Office, and indeed that a "preliminary rejection" of the claims had been instituted against the patent in suit. It has been noted by at least one commentator, however, that reliance on the reexamination rejection is unusual in that the Federal Circuit does not give much weight to USPTO actions in a reexamination. Statistically, in most reexaminations, rejections are usually

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overcome and at least one of the original claims in a reexamined patent survives the proceeding and is confirmed by the USPTO in a Reexamination Certificate.

Additional grounds supporting the motion also have been relied upon, including the anticipation and obviousness arguments rejected by the jury and the district court at trial. In an appreciation of the urgency of this matter, oral arguments on the merits

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dispute in a relatively short order.

Very recently, the TTAB issued a decision in a case where the parties used ACR. In *Eveready Battery Co., Inc. v. Green Planet Inc.*, Eveready opposed registration of Green Planet's application to register SLICK ULTRA PLUS for disposable razors, basing the opposition on, among other registrations, Eveready's registration for SCHICK for razors, and its family of SCHICK-formative marks for such goods. The opposition was filed in October, 2007, before the ACR rules were in effect. Thus, the case started off on the regular opposition track and the parties conducted discovery. After the close of fact discovery, but before any trial, Eveready moved for summary judgment contending there were no disputed facts as to its priority of use of SCHICK, identity of goods, similarities between the marks and likelihood of confusion. The motion was denied as the Board felt there was a disputed factual issue as to the similarity of the marks.

Following denial of summary judgment, the parties agreed to shift their case to the ACR track. They stipulated to a number of facts, including Eveready's priority of use and also stipulated that the TTAB could render its decision on the merits of the case, resolving fact questions based on a preponderance of the evidence. The various stipulations left only one issue for

of the Injunction have been scheduled for September 23, 2009. The Federal Circuit's decision on the emergency stay motion is expected before October 10, 2009, after which the appeal may proceed in due course on the damages issues. In the meantime, Microsoft is most likely working on a patch that will disable the functionality of the .XML applications, which during trial i4i had shown was a possible fix in the event that the injunction is not stayed.

the TTAB to decide: were SLICK ULTRA PLUS and Plaintiff's family of SCHICK marks so similar as to create a likelihood of confusion. The parties briefed the issue and the TTAB ultimately decided the fact question in favor of Eveready, finding the marks so similar as likely to be confused.

The use of ACR in this case allowed the parties to obtain a final decision on the merits well before they would have, had they stayed on the regular case track and gone through the time and process of a trial. Once the case was fully briefed, the TTAB issued a decision within sixty days. The jump to ACR in this case likely advanced the final decision on the merits by a full year. In addition, by doing away with trial, the parties likely saved tens of thousands of dollars.

The *Eveready* decision indicates that ACR can and does work. Though not used from the outset, when the parties realized their case was quite simple—were the marks similar—the availability of the process indeed streamlined the litigation. It allowed the case to be resolved faster, by perhaps as much as a year, had the parties not used ACR. Thus, not only should TTAB litigants consider ACR at the outset of a proceeding, but they should also think of opting in to the process where the issues in a case have narrowed or become clear. Given this, ACR appears to function as advertised.

**ICANN** (continued from page 1)

or misspellings of trademarks and would appear on companies' domain name watch reports.

To combat the abuses of tasting, ICANN made a registrar-level transaction fee of \$0.20 per domain name registration non-refundable if the number of domain names deleted each month exceeded the maximum of (i) 10% of the registrar's net new registrations in that month, or (ii) fifty (50) domain names, whichever is greater. This change ended the practice of refunding the full fee for "tasted" domains. For registrants and registrars whose business model was based on these abuses, the change added a significant cost to doing business—the more deletes that would occur each month, the greater would be the expense for speculatively registering domain names. It appears that most registrars instead chose to stop the abusive practice.

Of particular note is a review of the drop in number of deletes at the registry level. Most dramatic is the decrease in .COM monthly deletes, dropping from over 15.8 million deletes in June 2008 to less than 38,000 in April 2009. The .NET registry also saw a significant drop from more than 1.8 million deletes to around 6,200 deletes in the same period. Overall, the reporting gTLDs in the study showed a decrease from 17.6 million deletes to just over 58,000 deletes.

Based on the results of the study, one avenue of domain name abuse appears to be substantially curtailed. As a result, trademark owners should see a significant reduction in expenses associated with reviewing short-lived domain name registrations that took advantage of the goodwill associated with well-known trademarks for the duration of the AGP before being dropped and "tasted" anew.

**Sound** (continued from page 1)

on the radio, on television, in movies, in video games, in advertising, and online.

With the digital age, the entities that rely on forms of distribution for profit, i.e. labels, are being forced to consider other ways of doing business or risk failure. The internet has largely erased the need for physical copies of prerecorded songs and piracy continues to burden the distribution of music digitally. Publishers, on the other hand, are not reliant on income from distribution of prerecorded music. Rather, publishers collect revenue every time any one of the "sticks" in the "bundle of rights" included in copyright ownership of a particular song is exploited, be it public performance, synchronization of the song with audiovisual content, or print rights. Due to the diverse sources from which royalties are incurred, investment in music publishing is increasingly being considered a stable investment. Investors are attracted to the catalogs because their value does not monetize quickly, like with traditional assets, but rather revenue is constantly and steadily generated over a long period of time as songs are exploited. Moreover, due to the characteristics of the music industry, royalties are generated, most often, on an international basis.

Most recently, First State Media Group acquired Sheryl Crow's publishing catalog for \$10 million, including 153 of her songs released from 1993 to 2008, and also rights to her next two albums. First State Media also acquired the DreamWorks Music Publishing catalog back in 2007. Its Media Works Fund I has made over \$150 million music-copyright investments since its launch in October 2008, and includes the catalogs of The Carpenters, John Denver, Evanescence, George Benson and Creed.

Other examples include Pegasus Capital, which purchased song publisher Spirit

Music Group for an estimated \$55 million for its rights to works from artists such as Madonna and Frank Sinatra. Dutch Fund ABP, the world's third largest pension fund, purchased the Rodgers & Hammerstein catalog, containing songs from "The Sound of Music," among others, for an estimated \$200 million, and in the biggest deal to date, Vivendi's Universal Music Group purchased Bertelsmann BMG's catalog in 2006 for \$2.1 billion in order to repay debt from share repurchases. The catalog includes songs from Coldplay and Barry Manilow.

Further, EMI Group Limited recently considered securitizing its music catalog to refinance its corporate debt, before it decided to use corporate debt financing instead, and the recent death of Michael Jackson has led many to wondering whether the Beatles music catalog will be the next to be collateralized.

Ownership of songs by investors is a twenty-four-hour job. The songs must be constantly promoted and exploited for the revenue to be generated, meaning they need management teams with know-how. Currently, investors are competing with publishing divisions of music companies for ownership of these rights. It does not matter whether the catalog is owned by an investor or publisher, so long as the investor maintains an experienced management team to oversee exploitation of the songs.

For an artist, the upside is having access to a whole management team whose job is to constantly find avenues for exploiting the artist's music. For example, under Crow's deal with First State Media, Crow will work with the management team to promote the use of her songs in television and movies, and, she will also work with First State's existing songwriting teams to co-write bespoke songs for film productions. She retains her songwriter's

share of copyright, meaning she will partake in any upside profit generated by First State's management team.

The idea of collateralizing publishing catalogs originated in 1997 with David Pullman's "BowieBonds." Pullman, founder and chief executive of Los Angeles-based Pullman Group LLC, issued \$55 million worth of 10-year asset-backed bonds to insurer Prudential Insurance Co. on behalf of rock star David Bowie, based on future royalties from 25 of Bowie's albums recorded before 1990. The deal became perhaps the most famous IP securitization of all time, with the securities yielding 7.9%. The bonds were praised for their long life and international and steady income streams. The securitization of the collections of other artists, such as James Brown, Ashford & Simpson and the Isley Brothers, later followed.

It appears Pullman's idea has expanded into a trend, further shaking up the ever-changing music industry. While some fear that the increased interest in publishing catalogs will ultimately drive prices up, for now, more and more songwriters are placing their catalogs on the market and more and more investors are eager to buy. At a time when many asset classes are performing poorly, well-constructed portfolios for institutional investors are increasingly including investments in intellectual property rights.