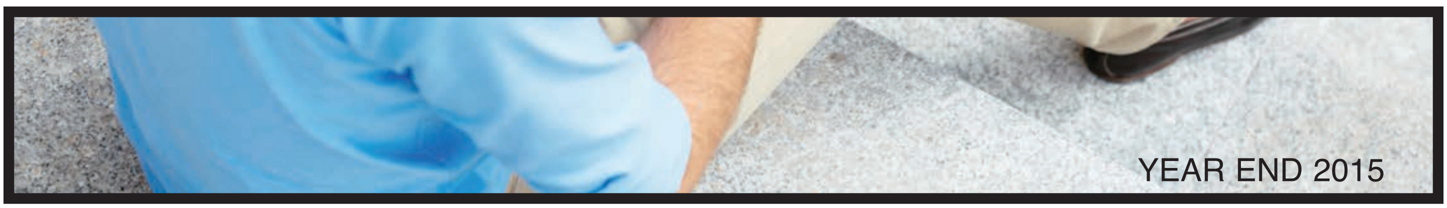
# IDEAS ON INTELLECTUAL PROPERTY LAW

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Cantor Colburn LLP

*Intellectual Property Attorneys*

# Can online search results trigger trademark liability?

Search engines have become an indispensable tool for online shopping. In turn, they've spawned litigation over the use of trademarks in searches. Most of the lawsuits to this point have involved keyword advertising, where a company buys ads triggered by searches for a competitor's trademarked good or service.

But can a customer's search results lead to trademark liability for a merchandiser — even in the absence of keyword advertising? That was the question addressed by the U.S. Court of Appeals for the Ninth Circuit in *Multi Time Machine, Inc. v. Amazon.com, Inc.*

## Controversial results

Multi Time Machine, Inc., manufactures MTM Special Ops military-style watches. With an eye toward cultivating and maintaining an image as a high-end, exclusive brand, MTM doesn't sell its watches to Amazon for resale, nor does it authorize its distributors to sell its watches on the online shopping website.

If an Amazon user enters "MTM Special Ops" in its search tool, Amazon returns a page of results showing the search term in the search field. Immediately below the search field, the page displays the phrase "Related Searches: MTM special ops watch" and then states "Showing 10 Results." The page doesn't indicate that Amazon doesn't sell MTM products. Rather, it displays aesthetically similar, multifunction watches made by MTM's competitors, such as Luminox.

**Initial interest confusion happens early in the shopping process if confusion creates initial interest in a competitor's product.**

In contrast, Amazon's competitors — Buy.com and Overstock.com — clearly announce that no search results match the "MTM Special Ops" query. They don't route the visitor to a page with MTM's trademark repeatedly at the top and competitors' watches below.

MTM sued Amazon, asserting that a shopper might be confused into thinking a relationship exists between Luminox and MTM. As a result of this "initial confusion," MTM said, the shopper might look into buying a Luminox watch instead of seeking an MTM watch elsewhere.


The trial court dismissed the case, finding that Amazon's use of MTM's trademark created no likelihood of confusion as "a matter of law" — meaning that a jury couldn't possibly come to a contrary conclusion. MTM appealed to the Ninth Circuit.

## Likelihood of confusion

As the appellate court explained, a defendant who creates a likelihood of confusion by using another mark has infringed the mark. A defendant can create such confusion

## The critical role of labeling in e-commerce

In *Multi Time Machine, Inc. v. Amazon.com, Inc.* (see main article), the U.S. Court of Appeals for the Ninth Circuit noted that, in the context of "Internet commerce," clear labeling might eliminate the likelihood of confusion created by the use of a trademark.


The court found that the labeling of search results that feature competitors' products is important and concluded that Amazon's labeling created a genuine issue of fact that required further litigation — regardless of how the traditional *Sleekcraft* analysis played out. Specifically, it held that a jury could infer that users who are confused by the search results are confused as to why MTM products aren't listed.

Because Amazon doesn't forestall any confusion by informing users that it doesn't carry the products, a jury could determine that confused users will wonder whether a competitor has acquired MTM or is otherwise affiliated with or approved by MTM. Thus, the court said, a jury could ultimately infer that the labeling of the search results — and Amazon's failure to notify customers that it doesn't have results that match MTM's mark — give rise to initial interest confusion.

through initial interest confusion. Initial interest confusion doesn't occur when a customer is confused about the source of a product at the time of purchase. Rather, it happens earlier in the shopping process if confusion creates initial interest in a competitor's product — even if that confusion is dispelled before an actual sale occurs.

To determine whether a trademark use gives rise to a likelihood of confusion, the Ninth Circuit considers eight nonexclusive factors known as the *Sleekcraft* factors. (The name refers to the 1979 case of *AMF Inc. v. Sleekcraft Boats*.) In this case, the court analyzed the five factors it deemed relevant to whether the case should be dismissed before trial:

1. Strength of the mark,
2. Similarity of the goods,
3. Evidence of actual confusion,
4. Defendant's intent, and
5. Degree of care exercised by purchasers.

The appellate court found that the strength of the mark, similarity of the goods and defendant's intent appeared to weigh in favor of a finding of likelihood of confusion. The remaining two factors weighed in favor of Amazon. The court ultimately held that it was up to a jury to determine how heavily each of the factors should weigh.

### Insufficient argument

The appeals court also addressed Amazon's contention that the user-generated search term "MTM Special Ops" doesn't constitute a "use in commerce" as required for infringement liability under the Lanham Act, the federal trademark law.

The Ninth Circuit had previously held that the use of a trademark as a search engine keyword that triggers display of a competitor's ad is a use in commerce. And it held here that the customer-generated use of a trademark in the retail search context is also a use in commerce.

### Not a done deal

Notably, the appeals court cautioned that it was "by no means certain that MTM will be able to prove likelihood of confusion." It's possible that MTM's failure to introduce evidence of actual confusion, paired with the high degree of care likely exercised by purchasers of high-end watches, could end up precluding infringement liability. Nonetheless, this case represents an important development at the intersection of online commerce and trademark law. ❍

# Drawing the line

*Court bars further claims against exonerated manufacturer*

A recent decision by the U.S. Federal Circuit Court of Appeals — *SpeedTrack Inc. v. Office Depot, Inc.* — is good news for manufacturers accused, but exonerated, of patent infringement. These parties need no longer worry about accusers harassing customers with infringement suits after the initial allegations against the manufacturer have failed.

## Customer complaints

SpeedTrack, Inc. sued Office Depot and three other retailers, alleging infringement of its patent for a computer filing system for accessing files and data according to user-designated criteria. Specifically, SpeedTrack alleged that the defendants' online retail websites infringed the patent by using software developed by Endeca Technologies, Inc.

The defendants claimed the lawsuit should be dismissed because SpeedTrack's claims were precluded by a prior lawsuit in which the Federal Circuit had affirmed a trial court's judgment that the same software didn't infringe the patent. The trial court here agreed, granting judgment for the defendants. SpeedTrack appealed.

## *Kessler* doctrine

The district court relied on the so-called *Kessler* doctrine, which bars a patent infringement action against a customer of a seller who has previously prevailed against the patentee because of invalidity or noninfringement of the patent. (The doctrine's name refers to the 1907 case of *Kessler v. Eldred.*) According to the U.S. Supreme Court, under *Kessler,* a party who obtains a final adjudication in its favor obtains "the right to have that which it lawfully produces freely bought and sold without restraint or interference."

In 2014, the Federal Circuit reaffirmed the continued vitality of the doctrine, holding that it precludes some claims that wouldn't otherwise be barred by "claim or issue preclusion" (that is, when a cause of action or issue of fact is barred from being relitigated because it has already been settled between the parties). In that case, the court explained that, when the alleged infringer succeeds in showing noninfringement, the specific accused device(s) acquires the status of a noninfringing device in relation to the patent claims that had been allegedly infringed.

**A party who obtains a final adjudication in its favor obtains "the right to have that which it lawfully produces freely bought and sold without restraint or interference."**

## The same claims

SpeedTrack had already lost a similar lawsuit against Walmart. There, the trial court and Federal Circuit had held that the Endeca software, and Walmart's use of it, didn't infringe SpeedTrack's patent. In this case, the appellate court found that SpeedTrack was pursuing the same infringement claims against other customers of Oracle (which acquired Endeca in 2011). The defendants established that their use of the software was "essentially the same" as the use found to be noninfringing in the earlier case.

Therefore, the appeals court dismissed SpeedTrack's argument that customers weren't entitled to invoke *Kessler* — that only manufacturers could do so. Allowing customers to assert the doctrine, it said, is consistent with the Supreme Court's goal of protecting the manufacturer's right to sell an exonerated product free from interference or restraint.

### Comforting decision

The court's ruling on the availability of the *Kessler* doctrine to defeat future infringement claims against exonerated products should provide some comfort to manufacturers. As long as the customer can show that its use is "essentially the same" as that exonerated, it will be immune. ❍

# *Alice* rocks the boat once again

## *Price optimization method isn't patent-eligible*

In 2014, the U.S. Supreme Court's ruling in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l* established a two-part test for determining patent eligibility. In its wake, the decision left many of those seeking patent protection for financial-related methods involving computers feeling a bit queasy. Now their boat has been rocked once again by another *Alice*-related decision: *OIP Technologies, Inc. v. Amazon.com, Inc.*

### Better pricing decisions

OIP Technologies owns a patent on a computer-implemented method for "pricing a product for sale." The patent covers a price-optimization method that "helps vendors automatically reach better pricing decisions through automatic estimation and measurement of actual demand to select prices."

The patent explains that, traditionally, merchandisers have manually determined prices based on their qualitative knowledge of the items, pricing experience and other business policies. This approach slows the merchandiser's reaction time to changing market conditions and often keeps businesses from charging an optimal price that maximizes profitability.

OIP sued Amazon for infringement of its patent. The trial court dismissed the case, finding the methods patent-ineligible. OIP appealed.

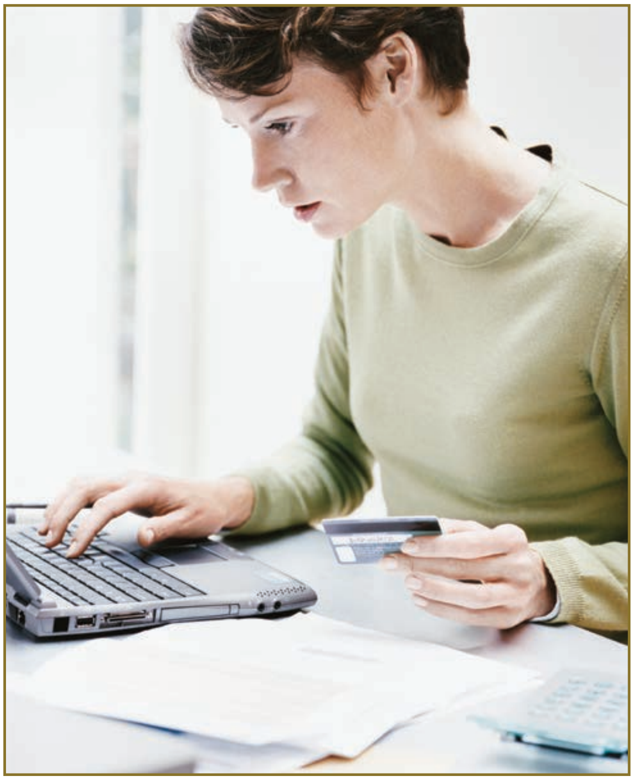
## Background on *Alice*

Under the federal Patent Act, a patent may be obtained for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." The U.S. Supreme Court has long held that laws of nature, natural phenomena and abstract ideas aren't patent-eligible.

As mentioned, in *Alice*, the high court established a two-part test for determining patent eligibility. First, a court must determine whether the patent claim covers a patent-ineligible concept, such as an abstract idea. If so, it must then consider the elements of the claim and determine whether these additional elements, individually or taken together as an ordered combination, transform the claim into a patent-eligible application.

## Routine, conventional activities

In this case, the U.S. Court of Appeals for the Federal Circuit found that OIP's patent claims covered the concept of "offer-based price optimization." This concept, the court said, is similar to other "fundamental economic concepts" — such as using advertising as an exchange or currency, intermediated settlement, risk hedging and data collection — that have been found to be abstract ideas by the Supreme Court and the Federal Circuit. The fact that OIP's patent claims didn't preempt all price optimization, or could be limited to price optimization in the e-commerce setting, didn't make the claims any less abstract.



Beyond the abstract idea of offer-based price optimization, the patent claims recited well-understood routine conventional activities, either by requiring conventional computer activities or routine data-gathering steps. For example, one claim described:

- "Sending a first set of electronic messages over a network to devices … programmed to communicate,"
- Storing test results in a "machine-readable medium," and
- "Using a computerized system … to automatically determine an estimated outcome and setting a price."

The court found these computer functions were well understood, routine, conventional activities previously known to the industry.

**The U.S. Supreme Court has long held that laws of nature, natural phenomena and abstract ideas aren't patent-eligible.**

At best, said the court, the patent described the automation of the fundamental economic concept of offer-based price optimization through the use of generic computer functions. The key distinguishing feature of the patent claims was the ability to automate or otherwise make more efficient traditional price-optimization methods. But, the court observed, relying on a computer to perform routine tasks more quickly or more accurately is insufficient to transform an abstract idea into a patent-eligible application.

## Anchored decision

OIP requested reconsideration of the appeals court's decision, asserting that *Alice* was being wielded like a "buzz saw." But the court was unmoved. This doesn't bode well for other parties arguing for the patent-eligibility of similar economic concepts. ❍

# Time out! Trademark fails for lack of intent to use

Say you learn that the Trademark Trial and Appeal Board (TTAB) has rejected a likelihood of confusion argument made by a party that opposes your trademark application. Time to pop the champagne, right? You're in the clear!

Not exactly. Or at least this wasn't the case in the recent decision of *M.Z. Berger & Co., Inc. v. Swatch AG*. Here, just such a trademark challenge ultimately succeeded because the TTAB and the U.S. Court of Appeals for the Federal Circuit eventually concluded that the applicant lacked the requisite "bona fide intent" to use the mark in commerce.

## Alarming application

M.Z. Berger & Co., Inc., manufactures, imports and sells watches, clocks and personal care products. In 2007, it filed an intent-to-use application, seeking to register the mark "iWatch" for a variety of watches, clocks and related goods.

Swatch AG filed an opposition to the mark on the ground that it was confusingly similar to its mark "Swatch." It also asserted that Berger lacked a bona fide intent to use the mark in commerce at the time it filed its application.

The TTAB found no likelihood of confusion, but sustained Swatch's opposition because Berger had failed to demonstrate the necessary intent. Berger appealed.

## Clocking the applicant

The Lanham Act, the federal trademark law, doesn't define "bona fide intent." After examining legislative history, the appellate court held that an applicant must show objective evidence of intent to use a mark at the time the application is filed. Although the evidentiary bar isn't high, it said, the circumstances must indicate that the intent to use the mark was "firm" and not merely intent to reserve a right in the mark.

Berger argued that it satisfied the standard for intent by providing some objective evidence in support of its position. But the Federal Circuit disagreed. It explained that all circumstances regarding an applicant's intent must be considered, including those that would tend to disprove the requisite intent.

In light of the inconsistent testimony offered by Berger employees, and the general lack of documentary support, the court found that substantial evidence supported the TTAB's conclusion that Berger's intent at the time of application was to get dibs on the mark — not to use it in commerce.

## Providing documentation

If you intend to apply for a trademark, be prepared to provide sufficient documentation of your intent to use the mark at the time of application. If you are unable to clearly demonstrate bona fide intent, you could lose out on the mark. ❍

Cantor Colburn LLP
*Intellectual Property Attorneys*

20 Church Street
22nd Floor
Hartford, CT 06103