



Straight Talk:
IP and Technology Developments
July 2011

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Patents by the Numbers

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IP and Technology Developments - July 2011

July 21, 2011

Numbers help us think, and they help express what has happened and what will likely happen. It is often difficult to find a number when you are looking for it. Patent infringement cases are no different. Despite Mark Twain's warning about the three kinds of lies—lies, damn lies and statistics—here are answers to questions that you might find useful when you do not have enough information to otherwise answer them:

Patent Prosecution

How long does it take to get the first office action from the Patent Office?

26 months - USPTO statistic as of April 2011

How long does it take to get a patent issued?

34 months - USPTO statistic as of April 2011

This includes patents that were abandoned, so the average of just cases prosecuted to conclusion would likely be longer.

What are the chances that a (utility) patent application will result in a patent?

46% - USPTO statistic as of April 2011

For comparison, the USPTO granted 219,614 utility patent applications in 2010. There were 456,106 utility patent applications filed in 2009, which is about the same number in 2008 (456,321) and 2007 (456,154). So 48% would be the estimate from this data.

Patent Reexaminations

What are the chances the PTO will grant an *ex parte* reexamination?

ex parte: 92%

inter partes: 95%

USPTO statistics as of March 2011

How much will an *ex parte* reexamination cost?

\$10,000 - median from AIPLA 2009 Report

How long will an *ex parte* reexamination take?

26 months - USPTO mean (average) as of March 2011

20 months - USPTO median as of March 2011

What are the odds in an *ex parte* reexamination?

All claims confirmed: 24%

All claims cancelled: 13%

Claims modified: 63%

USPTO statistics as of March 2011 for third-party-requested reexams

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How much will an *inter partes* reexamination cost?

\$188,000 - median from AIPLA 2009 Report

How long will an *inter partes* reexamination take?

37 months - USPTO mean (average) as of March 2011

33 months - USPTO median as of March 2011

What are the odds in an *inter partes* reexamination?

All claims confirmed: 12%

All claims cancelled: 45%

Claims modified: 43%

USPTO statistics as of March 2011

Patent Infringement Cases

What are the odds of a patentee winning his infringement case?

38% - Overall: This is the % for 15 most active patent dockets (1995-2009) as reported by PwC. PwC reported the success rates for 1995-2009 generally in two numbers as reflected below. Weighting those numbers yields the same overall percentage (38%).

31% - Non-practicing entity: success rates for 1995-2009 as reported by PwC

40% - Practicing entity: success rates for 1995-2009 as reported by PwC

What are the odds of a patentee winning if he gets to a jury?

75% - Jury win rate for patentees who survive SJM and get to a jury, reported by UofH's patstats.

How much will the patent infringement case cost to defend?

If less than \$1 million at risk - \$650,000

If \$1-25 million at risk - \$2,500,000

If \$25 million+ at risk - \$5,500,000

Medians from AIPLA 2009 Report

How long will the patent infringement case take to get to trial?

2.5 years - Median from PwC for 2009

What is the royalty rate a patent receives through litigation?

8% - Median as reported by Navigant Consulting using USPQ- and Lexis-reported decisions (1982-2009)

If the patentee wins his infringement case, how much will he get?

\$2.8 million - Median award (2000-2009) as reported by Navigant Consulting using USPQ- and Lexis-reported decisions

\$5.2 million - Median of 15 most active patent dockets reported by PwC for 1995-2009

\$6 million - Median verdict for winning patentees reported by UofH's patstats covering over a decade of reported cases

\$10.5 million - Median award for 2009 reported by PwC

\$17.8 million - Mean (average) award (2000-2009) as reported by Navigant Consulting using USPQ- and Lexis-reported decisions

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Note that, even for the same dataset (the first and last numbers above), the median (the middle value) and the mean (the average of all values) differ greatly. This is because of the extremely large values for the largest awards: the top 3% of the awards account for nearly 45% of the total (Navigant). So the “average” patent damage award will have a distribution like this:

- 5% - chance of an award of more than \$100 million
- 27% - chance of an award of \$10-100 million
- 33% - chance of an award of \$1-10 million
- 36% - chance of an award of less than \$1 million

2000-2009 awards as reported by Navigant Consulting using USPQ- and Lexis-reported decisions

Another way to account for variability but express the middle is to use the middle 50% (the first quartile to third quartile):

\$0.7 million to \$27 million - The 2008 distribution of awards using the PwC 2008 database as reported by Mazzeo, et al.

All things considered (chances of winning and damages), what’s a patent worth at trial?

<\$2 million - Median award of all cases that go through trial (2005-2009) in UofH study as reported by PLI

If appealed, how long will that take?

11 months - Median from docketing to disposition after hearing or submission of district court cases as reported by the Federal Circuit for 2010

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EU Requires Consent Before Cookies Can Be Placed

Dean W. Harvey and Ignacio Hirigoyen
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On May 26, 2011, the 2009 amendments¹ to the e-Privacy Directive² (the "Directive") regulating the use of internet cookies in the European Union ("EU") went into effect. The Directive, as amended, requires website operators and advertising companies falling within the legal jurisdiction of the EU to gain explicit consent before placing any cookie on users' machines.

What Is changing?

Before the Directive was amended the EU only required companies to inform users that cookies were utilized and to supply users with information regarding how to "opt out" if the users objected to the cookie being created on their device. Sites often include in their privacy policies information regarding the use of cookies and the ability by users to "opt out" of the placement of such cookies.

Generally, the Directive only permits cookies to be placed after users have given consent (an "opt in" option). However, the Directive would not require consent for certain cookies that are "strictly necessary" to provide the services requested by a user. For example, if a user accesses a website to purchase an item, before proceeding to checkout, the site will be able to "remember" what was chosen on the previous page in order to be able to perform the transaction. These are known as "Session Cookies," and no consent shall be required for the use of this type of cookies.

How Should Companies Prepare for the New Requirements?

The first step in this preparation should be to assess how website(s) of a company under the jurisdiction of the EU work. This can be done by:

1. Performing a comprehensive audit of the company's website(s) to identify what type of data files and cookies are stored on users' devices when they visit the site, and which of those cookies are necessary to their business and might require consent, and also identify the Session Cookies that will fall outside the legislation.
2. Cleaning up their web pages and discontinuing the use of cookies that are outdated or that have been rendered obsolete because of changes to the company's website.
3. Determining if the website displays content from third parties (e.g., from an advertising network or a streaming video service). Such third parties may read and write their own cookies or similar technologies onto a company's users' devices. The process of getting consent for these cookies will be more complex and everyone should make sure that the user is aware of what is being collected and by whom.

Once a company has identified the type of cookies it places on its visitors' devices, it can begin to devise the plan it will use to require visitors' consent that best fits the company's business model and needs.

Obtaining Users' Consent

Below are implementation strategies that may assist in achieving compliance with the new legislation.

1. Browser Settings

Browser settings could be one possible mechanism to get the consent of users. When users visit a company's website, the website would identify whether a certain type of cookie is enabled in the users' browser. If users' browsers enable the type of cookies used by the company's site, it may be argued that consent was already granted. However, it is unclear whether this type of browser-enabled consent can satisfy the stricter requirements of the new legislation.

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Another potential problem with this alternative is that many browsers are not sophisticated enough to support this functionality and not everyone will access a website through up-to-date browsers. Thus, this approach does not appear likely to lead to full compliance.

2. Pop-ups

Using pop-ups to ask for consent may initially seem like an easy option for complying with the new legislation since the company would be asking the user directly for their consent to install a cookie on their device. The drawback with this strategy is that pop-ups are unappealing to web users, and can be blocked.

3. Execution of an Agreement

There is no reason why consent for the purposes of complying with the new legislation cannot be gained through electronic execution of an agreement, including other website terms and conditions. However, it is important to note that changing a website's terms of use alone to include consent for cookies would not satisfy the requirements of the legislation, even if a user had previously consented to the terms. To satisfy the new rules on cookies, the company has to make users aware of the changes to the terms and conditions and specifically that the changes refer to their use of cookies; then the company needs a positive indication that users understand and agree to the changes, such as checking a box. The key point is to be upfront with the users about how the website operates and making certain that the users are fully informed.

4. Consent Based on Certain Settings

Certain sites deploy cookies depending on users' choices. For this type of cookie, consent may be obtained as part of the process by which users confirm what they want to do or how they want the site to work. For example, some websites "remember" which version a user wants to access, such as version of the site in a particular language. If this feature is enabled by the storage of a cookie, then the company provides notice of this to the user and the user consents by establishing the settings. This approach would only apply to features for which the company would explain to users that the site can remember certain settings they have chosen (i.e., language, font, background, music on, etc.).

5. Consent Based on Certain Features

After users choose a particular feature on a website, such as playing a video, the site will remember what that user has done on previous visits in order to personalize that user's content. In these cases, consent will be acquired by presuming that by the user taking certain action, the user is telling the webpage what he/she wants the site to do (either opening a link, clicking a button or agreeing to the functionality being "switched on"), and the cookie will be placed. Companies using this strategy need to make clear to users that by choosing to take a certain action the company is obtaining consent from the user. The more complex or intrusive the activity the more challenging it will be to fully inform the user.

Conclusion

The amended Directive moves the EU from an "opt out" to an "opt in" model for obtaining consent before placing cookies on a user's device. Compliance with this requirement will likely present significant challenges. In order to comply, companies need to understand what cookies their sites place, and establish a strategy for obtaining consent from users in the EU.

1. Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 OJ L 337 amending the e-Privacy Directive.

2. Directive 2002/58/EC of the European Parliament and of the Council of 12 July concerning the processing of personal data and the protection of privacy in the electronic communications sector of 12 July 2002 OJ L 201/37.

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Recent Cases Should Make Software Licensors Review Their Distribution Methods and License Terms (and They May Even Make Us Look at Open Source Licenses in a Different Way)

Jeff Dodd and Roger Williams

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Three recent copyright cases from the Ninth Circuit Court of Appeals, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010), *UMG Recordings Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2010) and *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 629 F.3d 928 (9th Cir. 2011), underscore how methods of distribution and license terms can be mutually reinforcing or, alternatively, mutually destructive. Software licensors should re-examine their methods for distributing their software and the terms of their licenses in light of these three important cases.

First Sale and Licenses. Let us take the first sale cases first. As a general rule, someone who becomes an owner of a copy of a copyrighted work may distribute that copy without infringing the copyright owner's distribution rights under the Copyright Act; owners of copies of computer programs have certain additional "first sale" rights, including the right to make copies essential to use. The owner of the copyright still retains ownership of the copyright and may enforce it. However, the owner of a particular copy (or any person "authorized by the owner") can re-sell that particular copy without infringing the copyright owner's exclusive right to distribute the copyright work. You can see why a software licensor would not want first sale to apply to its software: if the licensee were treated as owner of the copy, she could freely transfer that copy without infringing the licensor's copyright.

So who owns a copy? This question is relatively easy to answer when one is talking about a traditional medium of expression, such as a book purchased from Brazos Bookstore in Houston, our favorite bookstore (which just happens to be partly owned and addictively patronized by Jeff Dodd). This question is not so easily answered with respect to software that is subject to a license. Technically, by granting a license, the licensor unmistakably signals that limitations attach to the use. The courts have grappled with the circumstances in which a copy held under the auspices of a license could nonetheless be lawfully owned by the licensee so that the licensee could transfer the copy without regard to restrictions on distribution.

The most recent cases, exemplified by *Vernor*, examine the full range of rights reserved and granted in the license to determine whether ownership of the copy of the software passed. *Vernor* held that "a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." The court found that the license terms reserved title for Autodesk and imposed "significant" transfer and use restrictions, making the customers licensees, not owners, of the copies of software and preventing them (and their transferees) from transferring the copies under the shelter of first sale doctrines. Interestingly, the "significant" transfer and use restrictions (save, perhaps, the prohibitions on transfer or use outside the Western Hemisphere) were the unremarkable fare of standard forms: the license was not transferable (though that would be true as a matter of law); the software "could not be transferred or leased without Autodesk's written consent"; the license prohibited modifications, reverse-engineering, removal of proprietary marks and circumventing copy protection devices; and the license called for termination if the licensee engaged in unauthorized copying or failed to observe other license restrictions. Rare will be the software license that fails to include such rudimentary restrictions. Indeed, *Vernor* has petitioned the Supreme Court to review this decision, arguing (in part) that because such rudimentary restrictions are ubiquitous, the Ninth Circuit's decision effectively abolishes the first sale doctrine for the software industry. **In any event, our first practice point is, "If you are a software licensor, good licensing hygiene practice is to include in your licenses an explicit reservation of title and, at the very least, the standard restrictions on transfer and use catalogued in *Vernor*."**

UMG Recordings followed *Vernor* but added a very important caveat: To constitute a "license" that would defeat a first sale defense, the arrangement had to be based on an "agreement." In *UMG Recordings*, Augusto bought and resold promotional music CDs handed out to disc jockeys. Each CD, however, bore a label that purported to limit use and to prohibit resale of

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the CDs. For example:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.

Pointing to these labels on the CDs, UMG denied that it had transferred title to the particular copies of the CDs.

The Ninth Circuit disagreed. The CDs were distributed without any prior arrangements and without any attempt to track or monitor their distribution or use. Moreover, no license would be found absent an agreement: Here there was no evidence of any response or other action by an original recipient of the promotional CD to show that the recipient had accepted or otherwise agreed to the terms of UMG's "license." With no evidence that the original recipients had agreed to the terms of the purported license, the Ninth Circuit concluded that UMG had transferred title to the CDs.

So called "label" licenses like the one UMG used are not as rare as one might think. They have been featured in patent and copyright cases relating to products as diverse as cameras, printer cartridges, medical products, and, of course, movie and music media. In fact, some licensors will use a variant of a unilateral label license such as, "By opening this package, and installing the software, you will be deemed to have agreed to the terms of the license included in the package." Indeed, consider what the Free Software Foundation advises software developers to do to make their programs subject to the General Public License (version 2):

How to Apply These Terms to Your New Programs

If you develop a new program, and you want it to be of the greatest possible use to the public, the best way to achieve this is to make it free software which everyone can redistribute and change under these terms.

To do so, attach the following notices to the program. It is safest to attach them to the start of each source file to most effectively convey the exclusion of warranty; and each file should have at least the "copyright" line and a pointer to where the full notice is found.

one line to give the program's name and an idea of what it does.

Copyright (C) yyyy name of author

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If *UMG Recordings* is followed by other courts, we question whether merely imposing such notices, without more, really establishes an agreement that would suffice as a license that could defeat first sale defenses. [A patent case, *Jazz Photo Corp. v. International Trade Com'n*, 264 F.3d 1094 (Fed. Cir. 2001), *cert. denied*, 536 U.S. 950 (2002), also looks to contract law to test the efficacy of label limitations on uses of patented articles that are sold]. According to the GPL instructions, no one has to assent to the terms, no one has to track or monitor use or distribution. The panoply of limitations and restrictions supposedly attach merely because the software includes a notice that the GPL applies and because of distribution or modification of the open source software covered by the GPL.

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We are not picking on the GPL; as we said above, many others have relied on similar techniques for imposing limits on the range of use. Nor are we saying that a license can never be created whenever a GPL is employed or that those who distribute or acquire GPL software would have the incentive or desire to raise a first sale defense. In some circumstances, even an accused infringer may want to prove that there is an enforceable license to limit the type of remedies to which he may otherwise be exposed. **However, and here is our second practice point, all those who license software should re-examine their distribution methods to see whether they can create an inference of assent to terms, whether in connection with a downloading routine or otherwise.**

Conditioning Use on Compliance with License Terms. Very often a license grant will provide that that use sanctioned by the granting clause is subject to the licensee's performance of and compliance with all of the other provisions in the license. Sometimes the license grant is conditioned upon the performance of specific obligations. The GPL, for example, allows copying and distributing licensed software if certain notices are included and if it is distributed in (or is accompanied by a copy in) source code form and allows modification (and distribution of modifications) as long as any work distributed "that in whole or in part contains or is derived from the Program or any part thereof" is licensed as "a whole at no charge" and under the terms of the GPL. What if a licensee does not comply with one or more restrictions or obligations when the license grant expansively conditions use on such compliance? Is the licensee liable for infringement, on the theory that any breach is by definition outside of scope?

MDY Industries addressed that question (among others, including the scope of DMCA liability). In the case, § 4 of the license relating to the World of Warcraft (WoW) game software had a "Limitations on Your Use of the Service," which, in part, stated:

You agree that you will not ... (ii) create or use cheats, bots, "mods," and/or hacks, or any other third-party software designed to modify the World of Warcraft experience; or (iii) use any third-party software that intercepts, "mines," or otherwise collects information from or through the Program or Service.

MDY Industries distributed a "Glider" program that "played" the initial levels of WoW for users. The question was whether a user employing the Glider program infringed (thereby making *MDY Industries* a contributory infringer of) the WoW copyright. The Ninth Circuit first examined whether the "Limitations" on use were mere "covenants" or "conditions." What is the difference? Copyright remedies are available when a condition to scope of a license is not observed, whereas the breach of a covenant is actionable only under contract law. Copyright remedies are generally far more robust than contract remedies; remedies for copyright infringement can include injunctive relief, statutory damages and attorneys' fees in addition to actual damages. In the Ninth Circuit's view, the license prohibitions against bots and unauthorized third-party software were covenants rather than copyright-enforceable conditions. The court first observed that "nothing in that section conditions Blizzard's grant of a limited license on players' compliance with ... § 4's restrictions." The court relied on the specific words used in the Limitations paragraph, which used covenant language ("You agree that...") instead of conditional language (e.g., "provided that"), and gave short shrift to the heading in the license (which expressly described § 4 as "Limitations").

Far more importantly, the court also held that "for a licensee's violation of a contract to constitute copyright infringement, there must be a nexus between the condition and the licensor's exclusive rights of copyright." Thus, even if Blizzard had included conditional language in § 4 of the license, violating restrictions would not give rise to infringement to the extent that the restrictions were not grounded in one of the exclusive copyright rights. For example, a prohibition on creation of derivative works would be grounded in copyright and the breach of that prohibition would exceed scope and give rise to infringement liability; in contrast, the antibot provisions in § 4(ii) and (iii) did not have a nexus to the exclusive rights of copyright and thus would be treated as a covenant, the breach of which would give rise to contractual, not copyright, remedies.

Although a license could be drafted so that every term in the license is a condition, according to the Ninth Circuit the only terms that will be construed as defining the scope of the license are those that are grounded in one of the exclusive rights of copyright. (Inconsistently, the court suggested that breach of a royalty or other payment obligation could give rise to infringement liability even though such a breach had no nexus to the exclusive rights of copyright; other courts, however,

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have viewed breach of payment obligations as giving rise only to a breach of contract.) According to the court, were it to hold “otherwise, Blizzard—or any software copyright holder—could designate any disfavored conduct during software use as copyright infringement, by purporting to condition the license on the player's abstention from the disfavored conduct.”

While we understand (and are sympathetic to) the Ninth Circuit's concern about allowing licensors to transform every license provision into a condition on the scope of use, we believe that the court may have gone too far. First, it may be hard to parse out which license terms are “grounded in the exclusive rights of copyright.” Consider the GPL. Do the requirements that a licensee give its modifications without charge, in source code form and under the terms of the GPL really have a nexus to the exclusive rights of copyright held by one or more GPL licensors?

Second, and more fundamentally, we wonder whether a categorical rule about what can constitute a condition to scope—a rule that the Ninth Circuit itself promptly (and perhaps wrongly) violated as to payment obligations—is appropriate at all. Contract doctrine harbors several methods to disfavor and curb the risks inherent in conditions. Perhaps freedom of contract and other important public policies counsel a more flexible approach to allowing contract parties, especially in a negotiated license, to determine what conduct is or is not shielded from infringement, subject to the contract doctrines that blunt abusive uses of conditions.

That said, we do not wear the judicial robes, so we offer our third, and last, practice point for software licensors: **You should consider reviewing your licenses to prune blanket or loose conditions to the license grant and tighten the connections between the granting or scope language and the specific activities and events that should be covered by conditions.**

Jeff Dodd is co-author of *Modern Licensing Law* published by West; this article is derived, in part, from a forthcoming update to that treatise. He reserves (because he is contractually obligated to do so) all copyrights with respect to the work upon which this is based.

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On Your . Mark, Get Set, GO! — ICANN Opens the Internet to Unlimited Generic Top-Level Domains

Michele P. Schwartz and Prisca LeCroy
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Since the dawn of the internet, web addresses have ended with a few familiar letter combinations, such as .com, .gov and .org. These endings are known as generic top-level domains (gTLDs). While the possibilities for second-level domains—the information before the final dot—have been virtually unlimited, only 22 gTLDs exist on the internet today. All that is about to change.

On June 20, 2011, the Internet Corporation for Assigned Names and Numbers (ICANN) approved a program to massively expand the number of available gTLDs. Between January 12, 2012, and April 12, 2012, eligible entities can apply to have almost any word, phrase or combination of characters made into a gTLD. Would-be gTLD registry owners must fill out a lengthy application and pay a hefty evaluation fee of \$185,000. Despite the hurdles, ICANN expects this development to open a whole new era of internet use, with the possibility of unlimited gTLDs spawning competition and creativity in areas yet unimagined. Expect to see many companies applying for these gTLDs using their well-known brands; .Coke, .IBM and .McDonalds are likely to be on the gTLD horizon.

Why Should My Company Apply?

Securing a gTLD associated with your company is the ultimate in brand management. The owner of the gTLD has complete control and can assign or sell as many or as few associated web addresses as it wants. No longer will potential clients and customers have to wonder whether a website that uses your name or offers similar products and services is actually associated with your company. Only websites that you vet and approve can use your gTLD.

Securing a gTLD can also be a business unto itself. While companies with trademarks may wish to make those trademarks into gTLDs, new companies could form for the sole purpose of selling web addresses with desirable gTLDs—imagine .lawyer or .fashion or .money.

How Much Will It Cost?

The application fee is expected to be US\$185,000 for a basic application. An initial US\$5,000 deposit per requested application must be paid upon filing. The rest of the evaluation fee will be charged as the application proceeds through the evaluation process. There may be additional fees if the application requires specialized review and these fees could be many thousands of dollars.

In addition to filing fees, there will be business start-up costs associated with starting a Registry under a new gTLD. Registering a new gTLD means that your company will be a Registry, responsible for putting new domain names (e.g., your.newgTLD) in the right databases so that the new domain name can be located on the Internet. Therefore, technical internet expertise with its associated costs should be anticipated if your company applies for its own gTLD. ICANN will evaluate your company's ability to support a Registry during the evaluation process.

What Is the Process?

The application process consists of up to six stages: Administrative Check, Initial Evaluation, Extended Evaluation, Dispute Resolution, String Contentions and Transition to Delegation.

Administrative Check: Once the application period closes, ICANN will check applications to be sure all mandatory questions have been answered, required supporting documents included and fees paid. ICANN will post the public portions of all complete applications. (Approximately two months.)

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Initial Evaluation: During this stage, ICANN will review the applied-for gTLD string to ensure it will not cause confusion with another gTLD or create internet stability or security problems. ICANN will also evaluate the applicant entity's financial, technical and operational abilities. During this time, third parties can file formal objections to applied-for gTLDs. (Approximately five months.)

Extended Evaluation: Entities failing the Initial Evaluation may request an Extended Evaluation. This stage allows for additional exchange of information between the applicant and ICANN but does not introduce any new evaluation criteria. (Approximately five months.)

Dispute Resolution: If third parties have submitted formal objections, those disputes will be resolved through independent dispute resolution service providers. An applicant must prevail against all legitimate objectors in order to proceed to the next stage. (Approximately five months, to run concurrently with Extended Evaluation.)

String Contentions: If two or more entities apply for the same gTLD or confusingly similar gTLDs and the entities are unable to settle the dispute among themselves, the dispute will be resolved through an auction or other applicable procedure. (Approximately 2.5-6 months.)

Transition to Delegation: During this final stage, applicants enter into a formal registry agreement with ICANN and complete various technical tests. (Approximately two months.)

In the best-case scenario—where no one objects and the proposed gTLD does not raise any special concerns—an application could pass directly from the Initial Evaluation to the Pre-Delegation stage. ICANN estimates that an application following this path would take about nine months.

Does My Company Qualify?

Any corporation, organization or institution in good standing is eligible to apply. Individuals, sole proprietorships and yet-to-be-formed entities are not eligible. ICANN will evaluate whether your entity has the technical, operational and financial capacity to operate a successful domain name registry.

ICANN will also screen applicant entities and their officers, directors, partners and major shareholders for past cybersquatting behavior and criminal history. Absent exceptional circumstances, an entity that has committed, or that includes an individual who has committed, a crime on ICANN's enumerated list within the last ten years will be disqualified. According to ICANN, the listed crimes track the "crimes of trust" standard sometimes used in the banking and finance industries.

Can I Reserve My Trademark?

ICANN will not accept advanced reservations of trademarks. Trademark holders must apply during the application window. An entity need not have a trademark to apply for a gTLD, although the trademark holder can object if someone else tries to register its trademark. And trademark holders may not jump the gun by applying now with intentions to use the gTLD sometime in the future. Successful applicants will be expected to use the gTLD immediately. Those with no immediate plan to use a gTLD should wait for a future application window, although it is not clear how long that wait will be.

Can I Prevent Others from Using My Brand As a gTLD?

If you choose not to file for a gTLD that incorporates your company's mark or name, but want to be sure no one else registers an infringing gTLD that contains your mark or a confusingly similar term, you will be able to file a formal objection to the registration of the infringing gTLD which will then be prosecuted in a fashion similar to other disputes involving trademark and domain name registration. As you can surmise from the rich history of cases involving cybersquatters, typosquatters and plain old domain name infringers, your company should be diligent about monitoring applications for new gTLDs.

Articles

For those with the means and the vision to be on the cutting edge of the next big internet innovation, January 12 will be here before you know it. Though all the rules concerning how the new gTLDs will be registered or disputed have not yet been finalized, it is surely worthwhile to stay informed of this new gTLD procedure and to be prepared from both an offensive and defensive position, should you wish to capitalize on or protect your company's trademarks, service marks or business name.

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 - EU Requires Consent Before Cookies Can Be Placed
 - Recent Cases Should Make Software Licensors Review Their Distribution Methods and License Terms (and They May Even Make Us Look at Open Source Licenses in a Different Way)
 - The New "Willful Blindness" Standard for Inducing Patent Infringement
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Articles

The New “Willful Blindness” Standard for Inducing Patent Infringement

Gregory L. Porter

IP and Technology Developments - July 2011

July 21, 2011

On May 31, 2011, the Supreme Court articulated the standard for inducing infringement in *Global-Tech Appliances Inc. v. SEB SA*, Case No. 10-6, 563 U.S. ____ (2011). The Court affirmed the Federal Circuit in finding willful infringement but stated that the proper standard for inducing patent infringement is “willful blindness” as opposed to the prior Federal Circuit standard “deliberate indifference to a known risk.”¹

Inducement of Infringement under 35 U.S.C. 271(b)

The patent laws provide that the making, using, selling or importing of a patented invention is, of course, a patent infringement. In addition, 35 U.S.C. 271(b) provides that “[w]hoever actively induces infringement of a patent shall be liable as an infringer.” Thus, the patentee may have a remedy against a manufacturer of a given product even in instances, for example, where the patented invention is a method that is infringed by a consumer’s method of using the manufacturer’s product.

The application of the law of inducement has historically been split. Some cases have held that inducement merely required that one cause the acts that result in infringement. Other cases required more specific intent. The Federal Circuit clarified in 2006 that “inducement requires evidence of culpable conduct, directed to encouraging another’s infringement, not merely that the inducer had knowledge of the direct infringer’s activities”² and stated that knowledge of the patent was required. Issues remained about the level of knowledge one had to have about the patent as the Federal Circuit and later the Supreme Court explained in the *Global-Tech* case.

Global-Tech Summary

The facts of the *Global-Tech* case were interesting in that the accused infringer directly copied its competitor’s product and obtained a patent attorney’s freedom to operate opinion. However, the accused infringer did not advise the patent attorney that it had directly copied its competitor’s design which precluded the attorney from being more precise in searching for prior art. The Federal Circuit held the accused infringer liable for inducement in the absence of actual knowledge of the patent since the accused infringer “deliberately disregarded a known risk that [its competitor] had a protective patent.”³

The Supreme Court granted *certiorari* and rejected the “deliberate disregard of a known risk” standard as being too broad. The Supreme Court explained that this standard made defendants liable for inducement even though the conduct was only negligent or reckless. The Supreme Court held “that induced infringement under §271(b) requires knowledge that the induced acts constitute patent infringement.”⁴ According to the Supreme Court, knowledge could be established not only through proof of actual knowledge, but also through proof of “willful blindness.” Without fully explaining why the doctrine of “willful blindness” in criminal law should be imported into the patent doctrine of inducing infringement, the Court engrafted the criminal law willful blindness standard. The Court held that it had two basic components: “(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.”⁵ As the Supreme Court explained,

We think these requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence. Under this formulation, a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts.⁶

Global-Tech Impact

The practical effects, if any, of the “willful blindness” standard are not immediately apparent. Meaningful statistics on the application of the new standard at the trial court, as well, the Federal Circuit’s views on the proper interpretation of the *Global-Tech* decision are years away. The application of the doctrine in industries with irregular patenting activities may be

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further away still. That is, it may be challenging to determine if and when a particular defendant was “willfully blind” if its competitors are radically varying their patent filing activity depending upon the economics of its fiscal year.

What is certain is that “willful blindness” on its face appears to require more stringent proof of culpability than the “deliberate indifference to a known risk” standard. However, in practice juries may well reach the same verdict in an overwhelming number of cases irrespective of the articulated standard in the jury charge. That is, the accused infringer’s conduct with respect to the patent will likely drive the jury to the same result whether they apply “deliberate disregard,” “willful blindness” or even some other standard. And with the subjective belief element, many cases may not be amenable to summary judgment resolution. Accordingly, patent practitioners should continue to attempt to draft claims that will be directly infringed by their competitors so as not to have to rely on the ever-evolving inducement standard of “willful blindness.”

1. Slip Opinion at 10.
2. *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006).
3. *SEB S.A. v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010).
4. Slip Opinion at 10.
5. Slip Opinion at 13.
6. Slip Opinion at 14.

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