e-commercelaw&policy

THE E-COMMERCE NEWSLETTER FOR LAWYERS
APRIL 2011 VOLUME 13 ISSUE 04
WWW.E-COMLAW.COM

Chile clarifies landmark net neutrality law

A long-awaited regulation clarifying the scope and impact of a landmark July 2010 net neutrality law ('the Law') was finally published in the Chilean Official Gazette on 18 March, putting an end to the criticism and uncertainty surrounding the rights and obligations of internet service providers (ISPs). Chile became the first country in the world to legally prohibit ISPs from discriminating against certain types of content following the Law, but has been faced with controversy as to how it was going to implement it in practice ever since. In particular, previous versions of the regulation, backed by telecoms regulator Subtel, were interpreted as allowing ISPs to block certain types of content provided they officially justified the reasons to do so, defeating the purpose of the Law itself.

The 18 March regulation has been hailed as more straightforward and protective of consumer rights, as traffic management measures will be strictly restricted. 'We are satisfied with this outcome and this is an excellent result for the protection of internet user and entrepreneurial rights,' said net neutrality campaigners *Neutralidad Sí*.

IN THIS ISSUE

AdWords A new wave of litigation in the US **03**
Software Liability & end user agreements **06**
South Africa New consumer rights Act **08**
Content agreements & site development **10**
UK ASA extends its online remit **12**
Patents Protecting the value of software **14**

New EU consumer rights place 'unfair burden on e-retailers'

Europe's business community has responded negatively to a number of amendments to the Consumer Rights Directive (CRD), which were approved by the European Parliament (EP) on 24 March.

"[This is] a costly vote for businesses, and it shows that Members of the European Parliament (MEPs) have lost sight of one of the key objectives [of the CRD], which was to cut legal costs for businesses wishing to sell cross-border," said Arnaldo Abruzzini, Secretary General of Eurochambers, which represents around 1,200 European Chambers of Commerce.

Andrew McClelland, Director of Operations and Regulatory Affairs at the Interactive Media in Retail Group (IMRG), said: "Some of these amendments will have a terrible effect on the growth of e-commerce."

Although a final vote has been postponed until an agreement with the Council of Ministers - representing the Member States (MS) - is reached, the amendments are 'to protect online shoppers and boost consumer confidence in buying in other MS' and 'will be the basis on which MEPs will try to reach an agreement with MS,' the EP said in a statement.

"The new EP position is bad news for businesses," said Nick Johnson, Partner at Osborne Clarke. "[Businesses] will have to incur significant costs, but with little benefit in return."

Under the new rules, goods must be delivered within 30 days and consumers will have a 14-day EU-wide withdrawal period in which they may change their minds.

The newly introduced Article 17 has especially angered many e-businesses, since it will make retailers liable for covering the cost of the return of a product valued over €40 after a consumer exercises their right to withdraw.

'This places an unfair burden on e-retailers,' the IMRG said in a statement. 'For those sectors that have high return rates and low product costs, the potential losses could be catastrophic.'

Rohan Massey, Partner at McDermott Will & Emery, is not surprised many retailers have responded negatively since "the obligations [are] being placed on traders". He predicts products are going to be more expensive since "traders will look to offset costs by increasing prices". Johnson agrees with this: "Of course, consumers will ultimately pay for all of this. Prices [will] go up. That, in turn, means EU businesses lose out to competitors in the US, Asia and elsewhere - hardly a recipe for job creation and economic growth in Europe."

Michiel Willems

Uncertainty over workability of browser 'do not track' systems

The US Associated Press News Registry announced in March it was working on the technological requirements necessary to implement Mozilla Firefox's 'Do Not Track' (DNT) option - a feature integrated in the web browser that enables users to signal they wish to opt out of online behavioural advertising (OBA). This is only the most recent example in the development of online DNT privacy features, implemented by an increasing number of web browsers in response to user demands over 'more choice and control over online tracking'. This rise in the number of web browsers implementing such systems - and the different standards attached to them - raises questions as to what extent the advertising industry can self-regulate, and, particularly, uncertainty as to how these systems could actually work in practice. A spkesperson for Google, which is currently working on its own 'Keep My Opts-Out' add-on for its Chrome browser, said that "the idea of DNT is interesting, but there doesn't seem to be consensus on what 'tracking' really means". This is a thought echoed by Andrew Tibber, Senior Associate at Burges Salmon, who pointed out that "the criticism levelled at DNT is that, to be universally effective, it needs the buy-in of websites and advertising networks to recognise the 'http' header technology it deploys. On top of that, for advertisers, the obvious fear is that target audience numbers could decline, with a corresponding negative effect on the attractiveness of OBA as a business model."

ecommercelaw&policy

THE E-COMMERCE NEWSLETTER FOR LAWYERS
VOLUME 13 ISSUE 04 APRIL 2011
WWW.E-COMLAW.COM

Turn the page

Google's precious plans to create a 'digital library' with most of the world's books available for all seems further away than ever after a New York City court ruled on 24 March it did not approve the Amended Settlement Agreement (ASA), a November 2009 agreement between Google, the Association of American Publishers and the Authors Guild. Judge Denny Chin, of the US District Court for the Southern District of New York, said "the question presented [to the Court] is whether the ASA is fair, adequate, and reasonable. I conclude that it is not".

The latest twist in the Google Book saga is a heavy blow for the internet giant, whose desire to digitalise most of the world's books dates back to 2005, when it was first sued by a number of authors for copyright infringement after Google had started scanning the first books. Although the ASA was reached in 2009 - stating that authors' consent to publish their books is presumed unless they explicitly object - a number of writers and publishers, as well as the US Department of Justice, kept rejecting the deal and said Google should operate on an 'opt-in' basis (consent should be given explicitly), rather than ASA's opt-out regime. Following these objections, the ASA was subject to a 'fairness hearing' in February 2010 and Judge Chin ruled back then the deal could not be approved. Now, 13 months down the line, Chin has come to the same conclusion.

Once Google has swallowed the latest legal disappointment, it will realise it has become unlikely US courts are going to approve any settlement that continues to include an opt-out arrangement. In its current form, the courts simply won't buy it. Judge Chin clearly stated that "many of the concerns raised in the objections would be ameliorated if the ASA were converted from an 'opt-out' settlement to an 'opt-in' settlement". He 'urged' the parties "to consider revising the ASA accordingly".

Undoubtedly, Google will do anything to prevent an 'opt-in' system. Under such a regime, it will take much longer to establish a 'global online library' - since Google will have to ask each and every author for their approval - it will be costlier (some authors will demand individual arrangements) and it will be impossible to include 'orphan books' - works that are still under copyright protection but whose right holders cannot be located.

What should have become a page turner, is slowly turning into a never ending story. Judge Chin has decided a 'status conference' will take place on 25 April, where Google can outline its next steps and everyone will get a taste of what the next chapter is going to be like.

AT A GLANCE

EU EU Court of Justice Advocate General Jääskinen held, in a 24 March Opinion, that a trade mark owner can prevent a third party from using its mark as a keyword, if users could be confused as to the origin of the goods or services in question.

UK Telecoms regulator Ofcom published its Annual Plan 2011/12 on 4 April, outlining managing next generation broadband, spectrum, consumer switching and online piracy as key priorities.

EU Microsoft has filed a complaint against Google with the EU Commission alleging the search engine giant has engaged in 'anti-competitive' practices.

UK Justice Secretary Ken Clarke said that he does not expect many complaints will arise following the implementation of the Bribery Act 2010, on the basis that 'reasonable hospitality' principles would be implemented. The Ministry of Justice published guidance for this Act on 30 March.

CECILE PARK PUBLISHING
Editor Lindsey Greig
lindsey.greig@e-comlaw.com
Associate Editor Michiel Willems
michiel.willems@e-comlaw.com
Associate Editor Amélie Labbé-Thompson
amelie.labbethompson@e-comlaw.com
Subscriptions Ngaio Claris
ngaio.claris@e-comlaw.com
telephone +44 (0)20 7012 1384
Design MadeInEarnest
www.madeinearnest.com
Print The Premier Print Group

Follow us on Twitter!
www.twitter.com/Ecomlawpolicy

E-Commerce Law & Policy
is published monthly by
Cecile Park Publishing Limited
17 The Timber Yard, Drysdale Street,
London N1 6ND
telephone +44 (0)20 7012 1380
facsimile +44 (0)20 7729 6093
www.e-comlaw.com

False advertising litigation and the use of Google AdWords

With AdWords in the limelight in the EU once again after the recent Advocate General Opinion in the Interflora v Marks & Spencer case (which will be covered extensively in Volume 11 Issue 2 of our sister Publication, *E-Commerce Law Reports*), the question of the power of online keywords is more than ever in need of an answer. In the US, those issues are giving rise to extensive litigation, as discussed by Christopher A. Cole and Lauren A. Teitelbaum, of Manatt, Phelps & Phillips, LLP.

Google's huge presence in the online advertising market has led to a battle for supremacy in search result listings among advertisers. Online marketers and advertisers purchase keywords, often including the trademarked names and phrases of their competitors, in order to achieve a higher ranking. Achieving a listing among the top five on the first page can make the difference between a successful online campaign and one that performs poorly.

Until recently, unhappy marketers who found their trademarked terms hijacked by competitors for the purposes of Google search in the United States had resorted to a variety of trade mark lawsuits in an attempt to hinder the practice. 'Piggybacking' of competitor trademarks has given rise to many lawsuits against Google and competitors for trademark infringement, in violation of the federal Lanham Act, 15 U.S.C. 1125(a). While numerous, however, these cases have mostly been unsuccessful, resulting in a growing body of precedent that endorses the secondary market for direct competitors to buy trademarks for the purposes of achieving a higher search ranking and thereby diverting potential customers to their websites.

While the courts initially disagreed regarding the threshold issue of whether mere purchase of trademarked keywords constituted a 'use in commerce,' giving rise to potential liability for trade mark infringement, most courts have concluded that they are indeed a 'use in commerce'[1]. The cases have typically foundered, however, when it came to a second prong of the infringement analysis: whether purchase of a competitor's trade mark for use in search terms is inherently deceptive or likely to cause consumer confusion[2]. Because consumers do not peer into the search term metadata, most courts have concluded that confusion cannot be established merely by use of a purchased competitor trademark.

Not surprisingly, given the growing failure of trade mark infringement lawsuits, unhappy marketers who find their marks piggybacked, and whose search rankings have dropped, have recently resorted to more novel theories in an effort to stymie the practice. We have seen a growing number of false advertising cases against keyword buyers, arising under a related prong of the Lanham Act, Lanham Act, 15 U.S.C. § 1125(a)(1)(B). Like trade mark infringement, this law offers potentially sweeping injunctive and monetary relief, including attorneys fees, to the successful plaintiff. In such cases, competitors have alleged that the use of the trademarked terms belonging to a competitor constitutes false advertising because consumers are likely to be misled to find that an advertisement brought up with piggyback competitor keyword search is in reality offering items not remotely comparable to those of the trademark owner, or in some occasions that are not for sale at all[3]. This can be likened to the concept of 'initial interest confusion' or, in the false advertising terminology, 'bait and switch'.

Two recent cases illustrate the newly emerging theories of false advertising in the context of keyword searches. The first, Morningware, Inc. v Hearthware Home Products, Inc.[4], includes an allegation of product disparagement based on the overall impression of an advertisement in the context of the keyword search. The second case, recently filed against Groupon, a social media driven coupon provider that has enjoyed a meteoric rise in the US,

alleges false advertising even where the purchased keywords are not trademarked, but nevertheless divert consumers from a competitor's site to advertisements that may be unrelated to the initial keyword search.

False advertising under the Lanham Act

Under US law, there is a broad remedy for false advertising by competitors - provided by Section 43(a) of the Lanham Act. The law authorizes a party to sue a competitor who, in connection with the sale of goods or services, uses a 'false or misleading description of fact, or false or misleading representation of fact which...in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities' 15 U.S.C. § 1125(a)(1)(B). To establish a violation of § 43(a), it is well established that the plaintiff must show, by a preponderance of the evidence that:

- The defendant has made false or misleading statements about their own or another's products.
- The misrepresentation is material in that it is likely to influence the purchasing decision.
- The misrepresentation actually deceives or has the tendency to deceive a substantial segment of its audience.
- The defendant placed the false or misleading statement in interstate commerce.
- There is a likelihood of injury to plaintiff (e.g., declining sales, loss of good will).

Lanham Act suits are brought in federal court, and generally are accompanied by a request for a preliminary injunction, seeking an immediate halt to the offending advertisements pending a trial on the merits. In addition to equitable relief, plaintiffs can seek to recover money damages, including lost profits caused by the false advertising or disgorgement of the defendant's profits attributable to the false advertising campaign. Furthermore, plaintiffs can seek treble damages and to recover court costs and attorneys' fees, although the latter are only awarded in extraordinary cases.

A new wave of lawsuits is breaking out. Online marketers and advertisers using Google AdWords are being targeted by allegations of false advertising when they purchase keywords

Product disparagement and keyword advertising

In Morningware, Inc. v Hearthware Home Products, Inc., the Plaintiff, Morningware, which sells countertop electric ovens, sued Hearthware, its nearest competitor in the countertop electric oven market, for false advertising. Hearthware participated in pay-per-click advertising offered by search engines, including AdWords. Hearthware's purchases included mentions of Morningware's products. Thus, for example, when consumers entered the search term 'Morningware' into Google, a Hearthware advertisement link would appear before a link to the Morningware website. Hearthware's link displayed a message stating, 'The Real NuWave(r) Oven Pro, Why Buy an Imitation? 90 Day Gty,' The Morningware mark was never placed on this link, nor in any other Hearthware advertisement, website, or on products.

Among other claims, Morningware alleged that Hearthware had caused the 'Why Buy an Imitation?' statement to appear to consumers who merely entered Morningware's name into Google, and that this was a false and misleading claim regarding the superiority of Hearthware products to Morningware products. It alleged that consumers who viewed the 'why buy an imitation?' language would likely be misled into believing that Morningware's products were 'imitations,' whereas Hearthware products were not. Furthermore, Morningware alleged that the advertisement unfairly diverted consumers through deception to the Hearthware website and also injured Morningware's goodwill and reputation.

The Court denied Hearthware's motion to dismiss the claim, finding that the text of the 'Why Buy an Imitation?' was sufficient to state a claim that consumers were led to incorrectly believe that Morningware's products were inferior or fake.

The Morningware case illustrates that online marketers and advertisers can be liable if their purchase of AdWords results in the display of a message in response to search results that can be construed as misleading in the context of the consumer interaction with the search engine. Hearthware's claim, 'Why buy an imitation?', might have been considered puffery or otherwise not actionable if it had appeared in a neutral context, but by using the search engine optimization strategy to force the claim into a primary position above the name of a competitor, Hearthware created a comparative context. Moreover, damages from this activity would be much easier to measure than in the typical false advertising case, merely by counting the number of diverted 'click-throughs' and comparing successful conversion rates both before and after the offending campaign.

'Bait-and-switch'

Last month, online daily-deal service Groupon was hit with an AdWords lawsuit in which allegations of false advertising took center stage. According to the lawsuit, Groupon manipulated the AdWords system by purchasing keywords unrelated to any

particular deals it was offering solely for the purpose of increasing the popularity of its website and in order to attain a more favorable ad placement on Google at a lower cost[5].

The Plaintiff is a San Francisco tour company that depends almost entirely on online sales. It alleges that it has participated in AdWords since 2005 and has had a 'satisfactory and profitable' experience with the program, with its ads 'consistently displayed in one of the top 3-4 spots' until Groupon began to bid on its preferred search terms in September 2010. At that point, the Plaintiff claims that it noticed the 'costs of its click-throughs began to skyrocket' and its ranking began to decline for important search terms.

According to the complaint, Groupon has engaged in prohibited bait-and-switch advertising by bidding on terms such as 'San Francisco Tours,' 'Napa Wine Tours,' and 'Alcatraz Tours' because it falsely implies that it offers such tours, often at a discount such as '90% off' or '50-90% off'. Furthermore, although such search terms were purchased and used by Groupon, consumers who clicked through on the resulting link were most often offered an irrelevant coupon. Some Groupon links, however, contained the allegedly false claims 'It's like San Francisco at 90% off' and 'Do Napa at 50-90% off'.

The Plaintiff argued that it has suffered 'the loss of customers and potential customers who, once diverted, either give up their search in frustration, or pursue other avenues of advertising or information to locate tours in the San Francisco area'. Additionally, the Plaintiff offers the unusual argument that it has been injured in fact because Groupon's strategy of using broad keywords unrelated to products it is actually selling 'operate[s] to make the amount Groupon has to bid to secure an advantageous ad position artificially low, and make the price the Plaintiff has to bid to secure an advantageous ad position artificially high'. In turn, this diversion of customers and increase costs allegedly threaten the survival of the Plaintiff's business.

The Plaintiff's theory of market manipulation by Groupon seems unlikely to prevail, absent some evidence of collusion between Groupon and Google, which the Plaintiff has yet to allege. The Plaintiff has a better shot at showing that consumers who were diverted to the Groupon advertisements were misled by the offers for '90%' off popular destinations, when no such offers were actually provided. Still, it will have to demonstrate standing to pursue such a claim under the Lanham Act, as it is entirely unclear whether the Plaintiff could establish an adequate causal nexus between its alleged injury and such claims.

Conclusion

It is well-known that Google AdWords can lead to trademark infringement claims. A new wave of lawsuits is breaking out, however. Online marketers and advertisers using Google AdWords are being targeted by allegations of false advertising when they purchase keywords. To minimize the risk of liability, the advertiser should avoid creating a false, disparaging impression of a competitor's product or brand, even where it does not use the competitor's trademark in the resulting online link or advertising. Even if the purchased keywords are not trademarked, advertisers should ensure that the products they offer are actually related to the key words, in order to avoid allegations of false advertising and bait-and-switch.

Christopher A. Cole Partner
Lauren A. Teitelbaum Associate
Manatt, Phelps & Phillips, LLP
ccole@manatt.com
lteitelbaum@manatt.com

1. See, e.g. Rescuecom Corp. v Google Inc., 562 F.3d 123 (2d Cir. 2009).
2. See, for example, 1-800 Contacts, Inc. v Lens.com, Inc., No. 2:07-cv-591 CW, 2010 U.S. Dist. LEXIS 132389 (D. Utah 14 December 2010).
3. See for example, Soaring Helmet Corp. v Nanal, Inc., No. C09-0789JLR, 2011 U.S. Dist. LEXIS 262 (W.D. Wash. 3 January 2011).
4. 673 F.Supp.2d 630 (N.D. Ill. 2009),
5. Google explains that 'having relevant keywords and ad text, a strong CTR (Click Through Rate) on Google, and a high CPC (Cost Per Click) bid will result in a higher position for your ad.' See http://adwords.google.com/support/aw/bin/answer.py?hl=en&answer=6111 See Complaint, San Francisco Comprehensive Tours, LLC v Groupon, Inc., CV11-1300 (N.D. Cal. 17 March 2011).

Liability matters under end user licence agreements

When it comes to software, users as well as owner rights and obligations are often characterised by uncertainty and complexity. The questions of acceptance, enforceability and, importantly, of acceptance of the terms of licence agreements are crucial issues to which there are no precise answers, as there is very little case law on the matter. Mark Webber and Lee Rubin, of Osborne Clarke, discuss the scope and legal implications of licence agreements.

Whether you are using your laptop, your Blackberry or your Playstation, it is becoming increasingly common to see windows that pop up before you install a new piece of software, or any software update, full of legalese. To complete the installation, you have to scroll through pages of text and then click the 'I Agree' button. These End User Licence Agreements (EULAs) are used as steps to legally bind consumers to a number of the strict terms - where you never sign your name and often in reality you may never fully read the terms you are agreeing to, or even have authority to bind or enter into the EULA[1].

What purpose do these EULAs serve? EULAs were first developed as a method of creating a legally-binding contract between the software owner and the consumer. The aim was to not only protect the rights of the software owner, but also to allow the licence terms to be enforced directly against the consumer. This aim is summarised by two principles. First, it may be presumed that if a consumer has bought some software, he cannot use the software without explicit agreement from the software owner - but is this actually correct? The simple answer is no. Take the example where a consumer buys the latest version of Windows from a retailer. There will clearly be a contract for the supply of the goods (the box containing the CD-ROM on which the Windows software is loaded) between the consumer and the retailer. However, Microsoft, as the software owner, is not party to this agreement and, in reality, the software in the box is licensed and not sold. The traditional doctrine of privity of contract suggests that the EULA must be put in place to establish a contractual relationship between Microsoft and the consumer so that the consumer may actually use the software and copy it onto his computer. But the consumer already has this right under statute - the Copyrights Designs and Patents Act 1988 (CDPA) says that a person who legally acquires computer software has the right to copy it if that is what is necessary to make the software useable.

Similarly, a second principle behind the rationale of EULAs, that they are necessary to protect the business interests of the software owner, can also be refuted. The CDPA prohibits unlawful copying of software: no additional agreement between a software owner and a consumer is necessary, and software owners have brought successful prosecutions in the past. In addition, although software owners will often seek to use EULAs to hold the software owner harmless in the event that the software causes damage to the consumer's computer or data, it is questionable depending on the circumstances whether this is lawful under the Unfair Contract Terms Act 1977. Any attempt to force a consumer to agree to terms which exclude the software owner's liability if the software is not fit for purpose is also likely to be prohibited under the Unfair Terms in Consumer Contracts Regulations 1999.

So, if these EULAs are neither necessary for the consumer's benefit, nor helpful to the software owner, why do they exist and are they enforceable? Unfortunately, there is very little case law in England[2] that applies to EULAs and they have never met any real opposition in the country, either. The only substantial issues that have been raised have been those relating to the general mechanisms of creating a contract. To highlight some of these issues, it is helpful to distinguish between the two types of EULAs:

- Shrink-wrap agreements are those EULA which are 'wrapped' in the box containing the software 'sold' by a retailer. Typically, the EULA will contain terms such as 'by opening this box you are bound by the terms and conditions of this licence agreement' so that opening the box to install the software indicates consent to the terms of the EULA.
- Click-wrap agreements are those EULAs which have evolved from shrink-wrap agreements whereby the software is electronically purchased and then installed. Under these types of EULAs, the user consents to the terms by clicking the 'I Accept' button at the time of installing the software or at the website from which the software can be downloaded.

The position of the enforceability of shrink-wrap agreements is unclear as questions over a clear acceptance mechanism have been raised. It is uncertain whether the opening of a box is sufficient evidence of acceptance of the terms of the EULA. Although not addressing whether a legally binding contract has come into existence, the Contracts (Rights of Third Parties) Act 1999 (CRTP) is helpful in that where there is a

contract in place between the retailer and the end user and where that contract contains clauses that benefit a third party - the software owner - then those provisions will generally be enforceable by the software owner by virtue of the CRTP.

Turning to click-through agreements, generally, English law favours online contracts. In the past, the only substantial issues that have been raised in relation to this type of EULA have been those relating to how an offer can be accepted on a website. Historically, in December 2001, whilst reviewing formal requirements in commercial transactions, the UK Law Commission concluded that clicking on a website button can demonstrate consent to the terms of an agreement. Similarly, at an EU-level, the E-Commerce Directive (2000/31/EC) supports electronic business in the EU. Article 9 of this Directive states that any kind of agreement (including EULAs) can be validly concluded electronically, but a Member State may exclude certain contracts from being concluded in this way. However, to date no Member State has exercised its right here to exclude EULAs from being concluded electronically.

The EU Commission has recently launched a consultation[3] on e-commerce and the implementation of the E-Commerce Directive to address its concern that e-commerce has not been as successful as it could be, and highlighting a figure of less than 2% of Europe's total trade attributable to e-commerce. With its objective to develop retail electronic commerce, it is unlikely that the European Council will come down hard on the questions surrounding the enforceability of EULAs.

With no indication, either in the English courts or at an EU-level, that the use of EULAs is set to diminish there is another form of click-wrap agreements becoming more widespread - a Terms of Service (TOS) agreement. Like EULAs, TOS agreements bind consumers without signature and attempt to govern consumers' use of online services, such as social networking sites, webmail and online gaming. Many terms such as those dealing with liability are common between an EULA and a TOS agreement, but typically, especially in the social networking arena, a TOS agreement includes terms that expressly forbid types of behaviour and communication, and some even state that all user communication through an online service will be monitored. Additionally, many are international (often US) in origin and have not been adapted for English law and local consumer protections (for example, denying the jurisdiction of local courts or excluding implied warranties and conditions that cannot be excluded). It is likely that it will become increasing common for TOS agreements to forbid consumers from using products to discuss certain topics, and, as most online services require software to be installed on a user's computer or provide access to software in the cloud, TOS agreements may claim to govern activity on a user's own computer.

By ripping open that box or scrolling down to click the acceptance button, you could be...allowing another person to use your content or rights, and potentially open yourself up to litigation threatened by a software owner

Consumers should be warned to approach EULAs with caution, or at least more caution than has been used of late. By automatically ripping open that box or scrolling down to click the acceptance button, you could be agreeing to hugely onerous terms, allowing another person to control your communication, use your content or rights, and potentially opening yourself up to litigation threatened by a software owner. You may need to ask yourself whether it is really worth installing that latest game or the most recent version of your favourite social networking app?

Mark Webber Partner
Lee Rubin Solicitor
Osborne Clarke
mark.webber@osborneclarke.com
lee.rubin@osborneclarke.com

1. See BMMSoft, Inc. v White Oaks Technology, Inc. [2010] WL 3340555 (N.D.Cal. 25 August 2010) where the US court held that a subcontractor hired to install software at the offices of the end user, was not bound by the EULA since it had clicked acceptance (as agent for the end user) on behalf of the end user and not on its own behalf.
2. For enforceability of EULAs elsewhere in the world: in the US, see Hotmail v Money Pie, Inc. [1998] (47 U.S.P.Q 2d (BNA) 1020 (N.D.Cal 1998) where the court held that by the end user clicking on the 'I agree' button at the bottom of the page with the Hotmail terms of service was sufficient to indicate the end user's consent to those terms; Specht v Netscape Communications Corp. [2001] 150 F. Supp. 2d 585, 591-96 (S.D.N.Y. 2001) where the court held that the EULA was unenforceable as prior to downloading the software end users were invited to review the terms of the EULA which was located elsewhere on the website and could only be viewed by accessing a hyperlink. The court held that the mere reference to the EULA and the lack of a specific consent mechanism did not make the EULA enforceable; Ibid.; in Canada see Bérubé v Rational Entertainment Limited [2010] ONSC 5545 (CanLII) where an end user in Ontario agued that the click though EULA was a standard-form contract that was against public policy because it related to the use of an online gambling site (online gambling was not legal in Ontario). The court disagreed and held that the clause in the EULA was clear that 'the Software is not for use by...individuals connecting to this Site from jurisdictions from which it is illegal to do so. PokerStars is not able to verify the legality of the Service in each jurisdiction and it is the User's responsibility to verify such matters.' The court dismissed the case based on the terms of the EULA to which the end user had agreed.
3. See http://ec.europa.eu/internal_market/consultations/docs/2010/e-commerce/questionnaire_%20e-commerce_en.pdf

Insight into the new Consumer Protection Act

The recent Consumer Protection Act of South Africa has been hailed by some as the most exhaustive and comprehensive piece of legislation on consumer rights in the world, dealing with issues ranging from direct marketing to cancellation policies and contract phrasing. Gerrit Van Gaalen, Partner at Van Gaalen Attorneys, examines how this new Act will change the consumer law landscape in the country.

Scope of the Consumer Protection Act of South Africa

Although the Consumer Protection Act of South Africa ('the Act') was introduced in 2009, it has only been fully operational since 31 March 2011. The Act is technology neutral, meaning it applies to every consumer, regardless of the medium used to conlude a contract. However, it has particular implications for the e-commerce industry one should keep in mind.

Some say that following this Act, South African consumers will be the most extensively protected in the world. The term 'consumer' is understood in the traditional sense - a physical person - as well as a juristic person (which includes associations, partnerships, corporate bodies and trusts). The government recommended that the threshold over which a business can no longer be protected is ZAR 3 million (approximately £286,000) - all juristic persons below that amount will thus be dealt with as if they are consumers. Importantly, the definition of 'consumer' covers not only the person who bought the goods or services, but also their actual user or recipient, the scope of which could potentially be huge.

On the other side, a supplier is seen as a person who markets the goods or services, meaning that they will be the ones who promote or supply them.

If an organisation thinks it is exempt from the application of the Act because it only provides information on the internet, it is mistaken. The scope of 'services' under the Act includes the provision of information as well as any education, advice or consultation, banking or financial services (except where such services constitute advice services, as per relevant specific legislation).

Consumer rights and the Act

There are eight fundamental consumer rights oulined in the Act. It is strongly recommended that all e-commerce suppliers familiarise themselves with the detail of each in conjunction with the Electronic Communications and Transactions Act. Subject to certain exceptions - for example, the provision of certain goods or services to minors, or price differences for people over the age of 60 - the supplier must treat all consumers the same. Some of the main rights covered in the Act are oulined here.

The right to privacy

The supplier must implement appropriate procedures - during and within a reasonable timeframe after a direct marketing communication - allowing the consumer to refuse direct marketing techniques and to request the supplier to desist from further direct marketing techniques. The supplier or person initiating the communication may not charge consumers for managing their demand.

Furthermore, the consumer will have the right to pre-emptively block any direct marketing attempt made by email, letter, telephone call etc, which means that any supplier involved in direct marketing - especially via the internet - will have to ensure that it does not target those consumers that have added their names to a register, soon to be established by the National Consumer Commission. After the supplier has directly contacted the consumer over the internet, he will have to refrain from contacting the consumer for five business days - known as the 'cooling off' period.

The direct marketer will not be allowed to contact the consumer during certain proposed periods: on Sundays and public holidays, between 7pm and 8am on

weekdays, and before 9am and after 12am on Saturdays.

The right to choose

Suppliers that consider bundling goods or services must ensure that they can explain to the consumer that the benefits of bundling outweigh their limitations or that there is an associated economic benefit.

No fixed-term agreement for services or goods may be longer than 24 months. The consumer will further have a right to cancel equivalent to 20 business days advance notice, subject to the supplier's right to a reasonable cancellation fee if such cancellation occurs during the 24 months period. No charge will be allowed at the expiration of the agreement period.

Under a fixed-term agreement, the supplier must, no more than 80 days and no less than 40 days prior to the expiration date, provide the consumer with a written notice that the agreement will expire, be renewed and the options available to the consumer. This, in itself, will most definitely create an additional administration burden for the supplier.

The consumer shall further have the right to cancel advance reservations, bookings or orders. However the supplier shall be entitled to request a deposit on accepting the booking or order, and charge a reasonable cancellation charge.

It will be imperative for suppliers to ensure that they sell what they present on the internet. If the consumer has agreed to purchase goods solely on the basis of a description or sample provided by the supplier, the goods delivered to the consumer must in all material respects and characteristics correspond to that which an 'ordinary alert consumer' would have been entitled to expect.

If an organisation thinks it is exempt from the application of the Act because it only provides information on the internet, it is mistaken as the scope of 'services' under the Act includes the provision of information as well as any education, advice or consultation, banking or financial services

Furthermore, a provision which will surely create some legal uncertainty is the one covering shrink-wrapped goods such as computer software.The consumer is entitled to inspect the goods to make sure they correspond to his expectations, a provision which will most likely give rise to complications.

On this basis, consumers shall have the right to return goods where they had no opportunity to examine them before delivery.

The right to disclosure and information

Notices including terms and conditions must be written in plain language so consumers with 'average literacy skills and minimal experience' are able to understand.

A supplier offering goods and services via the internet will still have to comply with the requirements under Section 43 of the Electronic Communications Act in terms of price disclosure and sales records (i.e. provision of a written record of each transaction to be provided to the consumer).

Business names

The consumer must know who he is dealing with, especially on the internet. As a result, the supplier will only be able to trade with a consumer under the name it has previously registered on a relevant business register. The practice of using 'trading as' names with no other reference to a registered name has now been abolished.

Consumer complaints

The Act entitles the consumer to address complaints to a court and to utilise alternative dispute forums. A consumer will be able to lodge a complaint with the National Consumer Commission, various appointed ombudsmen or in certain industries, to a Tribunal.

Conclusion

This is not just another act. What the Labour Relations Act did for employees in South Africa in 1995, this Act will do for consumers. Although some commentators believe this Act will ultimately limit e-commerce initiatives, it will most definitely ensure that suppliers deal with consumers fairly and without withholding important information.

It is clear from the above and from the rest of the Act that no e-commerce supplier should promote or supply goods or services to South African consumers without first reading very carefully through this piece of legislation and obtaining proper legal advice.

Gerrit Van Gaalen Partner
Van Gaalen Attorneys
gerrit@vangaalenlaw.co.za

Website development: content and advertising agreements

Establishing an online businesses can be a demanding and lengthy process. Following on from last month's article, which tackled the issues of website development and hosting contracts, Sam de Silva, Partner at Taylor Walton LLP, considers they key issues in respect of content and advertising agreements.

Content and advertising agreements

One of the main reasons for the internet's popularity is that it provides access to vast amounts of information and is an effective tool for gathering and providing information. With increasing bandwidth has come the ability to provide increasingly diversified forms of content for a website.

The convergence of the telecommunications, broadcasting, media and information technology industries increases marketplace competition and creates innovation opportunities. One such opportunity is the development of strategic alliances with media companies, resulting in websites that use content from a number of different providers.

Providing website content

The main aim of the website is to attract potential customers. As businesses have become more sophisticated, the type and form of the content available on the website can be what makes one business stand out from all the others. The website's purpose also needs consideration. There is little point in having a sophisticated e-commerce enabled website if all the website does is provide information. The content must suit the potential market.

The three main ways a business can build website content are:

- create and provide the content itself;
- copy the content from other sources; and
- have third parties provide the content.

Providing content in house: while content can be created in house, this can be time consuming and expensive. Copying content from other sources: if the content that is being copied, is not in the public domain or has not been authorised (and is still within its period of copyright protection), this is infringement of another party's copyright.

Having third parties provide content: if a third party is going to provide content for a website, a content agreement is then necessary to set out the rights and obligations of the content user and content provider. However, it should be kept in mind that the issues that arise for provision of content for the internet are similar to those that arise for 'bricks and mortar' businesses, such as magazine publishers that use or provide content.

Advertising

Advertising is a form of content that populates many websites. Although advertising has its particular issues, an advertising agreement is similar in a lot of respects to other content agreements. Although the internet has created its own unique forms of advertising (for example, banner advertising that can be clicked on to take a user to the advertiser's website), many of the advertising issues are the same as if the advertising was not online.

There are also a number of websites that act as intermediaries between advertisers and website publishers. Advertisements are selected and placed on websites publishing the types of advertisement being offered.

Some of the key issues that need to be considered in relation to content and advertising agreements are set out below.

Use of content

The company will need to consider why the content is being provided and the extent to which the internet user is able to manipulate the content:

- Does the content need to be displayed in a particular form?
- Can the content on the website be combined with content provided by another content provider?

There is a need to state clearly in the content agreement exactly which types of media the content can be displayed on. Issues to be considered are:

- From where will the company be getting the content?
- Can that content be displayed on the internet?
- Which party bears the risk if there is a claim about misuse of the content?
- Is there a limit on the extent to which parties will be liable?

The list of questions and issues to consider depends on the company's particular circumstances.

The content agreement should also contemplate the different platforms that can access content on the internet. Although the internet is mainly accessed over a wired platform consisting of many networks that are physically linked, it is possible to access the internet over a wireless platform. Will the content agreement for display of content on the internet cover the display of content to a mobile phone using WAP technology?

Exclusivity

The exclusivity of the arrangement will depend on whether a party wishes to limit the extent to which other content users can use the same content provided by the

company. Exclusivity can work both ways. Often a content provider wants exclusivity for a certain category of content. For example, a content provider who gives financial information to a content user may want to restrict the ability of competitors to provide information to the same content user. Conversely, the company can enter into an exclusive arrangement with the content provider under which it is the only person with access to the content.

Intellectual property

The use or provision of content is effectively the use or provision of intellectual property. Therefore, careful consideration needs to be given to intellectual property issues in the agreement. These include:

- ownership of pre-existing intellectual property;
- ownership of modifications to the content; and
- indemnities for third party intellectual property infringement.

These provisions need to be examined in the particular context of the use or provision of content and/or advertising in the agreement.

The content agreement should cover:

- how the content is presented on the website;
- who is responsible for making sure the content is presented in the desired way;
- what brand or brands will appear and how; and
- whose brand will be associated with the content.

The content agreement should also set out the particular form or manner in which the content is to be delivered to the user.

Indemnity and liability

What indemnities are provided by the content provider or advertiser? Who is liable if an action is brought in relation to the content? These are particularly relevant in the context of advertising when a company advertising on a website makes misleading statements or infringes intellectual property rights, or where content contains defamatory statements. Which party runs the risk of litigation? These issues need to be thought out and included in the agreement clearly.

Although a website allocates a particular space to banner advertising, the same advertisement will not necessarily appear every time the website is accessed - it is the advertiser, not the website owner, who [has to ensure] the advertisement complies with relevant legal requirements

Updates

The content agreement should state clearly:

- which party updates the content being provided; and
- how frequently those updates will occur.

The requirements for updating content are critical, because the internet has resulted in much shorter time frames for information provision, meaning that content can date quickly.

Quality control

Most internet users are subject to acceptable use policies - either from their ISP or their workplace. These content rules need to be adhered to. as they are set up to ensure inappropriate, objectionable, or poor-quality material is not included in the content provided. While a content provider should be subject to general obligations regarding the content's suitability (such as acceptable use policies), the company may wish to also have the explicit right to remove any material it considers offensive or objectionable.

Linking and framing

If someone else's content is being used, linking and framing to other websites are key ways to build up the website's substance. The ability to link or frame to and from the website raises a number of legal issues that may need to be covered in a content agreement (for example, copyright infringement and trademark infringement). A discussion of these issues is beyond the scope of this chapter.

Compliance with the law

The parties to an agreement need to consider who is responsible for ensuring the content complies with any legal requirements. Given that some types of internet banner advertising are dynamic - so constantly changing - this becomes an important issue. Although a website allocates a particular space to banner advertising, the same advertisement will not necessarily appear every time the website is accessed. In these situations, it is the advertiser, not the website owner, who should be responsible for ensuring the advertisement complies with all relevant legal requirements.

Advertisers should also be aware of various advertising guidelines contained in codes of conduct issued by the Advertising Standards Authority (ASA) and the Direct Marketing Association (DMA). These are voluntary codes that ASA and DMA members agree to abide by.

Term of agreement

Parties need to agree on the appropriate lifespan for any content agreement. Most content agreements have a limited term, reflecting the rapid rate of change in what is being offered over the Internet. If the agreement is for a limited term, the parties should consider whether it will be subject to renewal and which party has the right of renewal.

Dr Sam De Silva Partner
Taylor Walton LLP
sam.desilva@taylorwalton.co.uk

Expansion of the ASA's online remit: what to look out for

With online advertising now accounting for a quarter of the total annual UK advertising spend of over £16 billion[1], the digital remit of the Advertising Standards Authority (ASA) has recently been brought into focus by an extension seen by many in the advertising industry as a welcome development[2]. Tom Dye, Associate at Freshfields Bruckhaus Deringer LLP, examines the exact scope of the ASA's 'significant' new powers.

New online remit

Extension to non-paid-for space

While the ASA has previously regulated paid-for online advertising such as pop-ups, banners and keyword search results, Lord Chris Smith, the Chairman of the ASA, announced in September 2010 that the ASA had received more than 4,500 complaints since 2008 about online marketing communications which it could not investigate because they fell outside its remit. Against a background of just under 29,000 complaints dealt with in 2009, this represented a clear consumer imperative to close a gap in the ASA's online coverage. Now, changes to the Committee of Advertising Practice (CAP) Code of Non-Broadcast Advertising, Sales Promotion and Direct Marketing ('the CAP Code') mean that since 1 March 2011, the ASA has the power to regulate organisations' marketing communications on their own websites and in other non-paid-for online space under their control (such as organisations' Facebook, Twitter and other social networking pages). The ASA's remit now extends to these activities to the extent that they are directly connected with the supply or transfer of goods, services, opportunities and gifts, or consist of direct solicitations of donations for organisations' own fundraising activities. The extended online remit will not apply to the categories of materials already excluded from the CAP Code (including pure editorial content, corporate reports, classified private advertisements and press releases), or to two new categories of excluded materials - 'investor relations' (communications with the financial community about a company) and 'heritage advertising' (historical advertising campaigns that may be non-compliant after the changes come into effect but which can still be accessed online in appropriately identified sections of a website)[3].

New sanctions

The expanded CAP Code also equips the ASA with new sanctions to accompany its expanded remit. Generally, these build on the fact that adverse publicity has traditionally been seen as the key deterrent for non-compliant advertisers: the ASA's website now contains a section dedicated to a new enhanced 'name and shame' procedure, which will allow the ASA to publish details of organisations and their non-compliant communications. The ASA may also conduct paid search campaigns to highlight non-compliant advertisers. In addition, the ASA may, with the co-operation of search engines, remove paid-for search advertisements linking to an organisation's non-compliant web page or other online space under the organisation's control. The CAP has said that it regards this as an 'extreme' measure, and, while it has indicated that it has the agreement of major search engines to this process[4], it remains to be seen whether, on a case-by-case basis, they will engage with the ASA in exercising this sanction.

Comment

Scope and awareness

While the ASA has heralded its 'significant' new powers as good news for consumers and businesses, the extension of the CAP Code's applicability raises several questions about where its boundaries now lie.

The remit expansion has been backed by business- and consumer-facing advertising by the ASA to raise general awareness, and it has increased its complaints investigation staff by 10% in anticipation of an increased workload[5]. The CAP's CopyAdvice team has also launched a website 'health check' service for organisations' websites against the CAP Code. The advertising industry has agreed to extend the funding mechanism of a 0.1% levy on paid-for online advertising through search engines to cover the ASA's activities in the extended remit, and this will be supplemented initially by seed capital from Google[6]. Nevertheless, the extent to which the expanded remit will lead to a significant increase in the complaints received by the ASA, and whether the ASA's resources will be sufficient if it does, remains to be seen.

What is clear is that the extended remit will require the ASA to make new, significant judgements about what constitutes a marketing communication, as opposed to online editorial content, news, public relations material or user-generated content. Organisations will need to carefully assess online brand activity, which may straddle several of these categories. For example, an online news feed on an organisation's own website that contains linked promotional information or pop-up banners could blur the boundaries, and as organisations' online presences

become increasingly complex and sophisticated, the divisions between 'news', 'PR' and 'ads' may become increasingly fluid. In particular, organisations' use of social networking sites and user-generated content may well produce grey areas.

Social networking and user generated content

Organisations whose online advertisements are essentially an extension of campaigns conducted primarily in other media covered by the CAP Code (for example, by reproducing the content of newspaper or magazine advertisements online on their own websites) are unlikely to have any major concerns with the expanded remit, provided they already comply with the CAP Code in their advertising generally. However, many organisations use the interactive nature of the internet to reach customers in ways not possible using other media, by operating their own dedicated pages on social networking sites like Facebook and Twitter as well as their traditional websites.

The extension of the CAP Code's application to 'other non-paid-for space online under their control' clearly means that organisations must now ensure that marketing communications made by them on their social networking pages will have to be legal, decent, honest and truthful, and otherwise in compliance with the Code. However, the interactive nature of these sites means that content generated by private individuals is often also displayed on organisations' social networking pages alongside, or often largely instead of, content supplied directly by the advertiser, and eliciting such user-generated content may form a key part of an online advertising strategy.

User-generated content is not covered by the CAP Code purely because it appears on an organisation's website or social networking pages. However, to the extent that an organisation incorporates this content into its own marketing communications - either on its own website or in other online space under its control - the CAP has made it clear that it will fall within the ASA's new remit. Whether user-generated content has been adopted or incorporated into an organisation's own marketing communications will depend on the specific facts in each case, but the CAP has given the example of an organisation placing a consumer's positive comment prominently on its website as being likely to fall within the expanded scope of the CAP Code, while statements appearing on a consumer message board which is only moderated for offensive language would be unlikely to be of interest to the ASA[7]. However, there will clearly be borderline areas, such as message boards that are moderated more closely to remove negative comments. The ASA has said that companies who 'retweet' comments about their products made by private individuals on Twitter might be expected to back-up any claims made by the consumer about those products[8].

What is clear is that the extended remit will require the ASA to make new, significant judgements about what constitutes a marketing communication as opposed to online editorial content, news, public relations material or user-generated content

In this context, organisations should also have regard to the CAP Code's requirement that marketing communications should not falsely imply that the marketer is acting as a consumer, particularly in the light of recent confirmation of the Office of Fair Trading's view that paid-for online marketing activities which do not identify themselves as such (for example, third-parties who are paid to blog or tweet favourably about an organisation's products) may infringe unfair trading legislation[9]. Ultimately, and particularly as they await the development of the ASA's new approach in this area, organisations should take particular care with regard to how they allow user-generated content to appear on web space under their control.

Conclusion

An expanded remit backed by new sanctions and sufficient funding is likely to produce a more active ASA, so organisations should review their current online marketing activities in light of the new rules, and take specialist advice on new material from the outset to reduce the risks of an ad campaign falling foul of the newly-applicable regulations. Organisations whose online marketing activities have a particular focus on user-generated content should take particular care, as use of this material may now fall within the scope of the CAP Code where previously it did not.

Tom Dye Associate
Freshfields Bruckhaus Deringer LLP
tom.dye@freshfields.com

1. According to the Internet Advertising Bureau, www.iabuk.net/en/1/adspendbreaks4billionmilestone280311.mxs
2. See, for example, comments made by the Incorporated Society of British Advertisers on the announcement of the remit extension, available at www.isba.org.uk/isba/news/695
3.The CAP has given the example of the classic 'Guinness is Good For You' posters in a dedicated section of the Guinness website, www.guinness.com/en-gb/AdsGallery.html?adsclass=classic
4. Webcast of CAP Advice:am seminar on the ASA's new remit, part three, at 04:20, see www.avtclient.co.uk/asa/advertising/index.aspx
5. See www.bbc.co.uk/news/technology-12597934
6. See http://asa.org.uk/Media-Centre/2010/ASA-digital-remit-extension.aspx
7. See www.cap.org.uk/CAP Services/Digital-remit-advice.aspx
8. See www.avtclient.co.uk/asa/advertising/index.aspx, part three, at 14:20
9. 'OFT announces crackdown on product endorsement blogs', *ECLP*, Volume 13, Issue 1, January 2011.

Protecting the value of software patents in the US

Applicants of software patents must constantly navigate an ever-changing legal minefield of potential pitfalls ranging from patentability to enforcement considerations to ensure that the full value of a granted patent can be realised. Brent R. Bellows, Ph.D., Member of Knowles Intellectual Property Strategies, LLC, examines the strategies that exist to protect the value of software patents.

A patent allows its owner to exclude others from making, using or selling the patented invention. Because of this, the filing of a patent application may implicate a wide range of offensive and defensive business goals and represents a powerful tool in any commercial setting. A patent owner that does not strategically position his patent claims to ensure validity and enforcement against potential infringers, however, will not only fail to realize the patent's full value, but also greatly undercut any business goals for filing the patent in the first place.

Because of ever-changing legal, technological and economic landscapes and requirements, many software-related patents thought to be well-positioned and valuable at the time of their grant may no longer be so.

The following discussion provides a non-exhaustive overview of several important issues that any software patent applicant or owner should be aware of in order to best protect the full value of his patents.

Avoid non-patentable subject matter pitfalls

Software-related patents face potential hurdles in meeting the patentable subject matter requirement of 35 U.S.C. § 101[1] due largely to their algorithmic or abstract nature. In the United States, claims directed to 'laws of nature, physical phenomena, and abstract ideas' are not patentable[2], although 'an application of a law of nature or mathematical formula to a known structure or process may well be deserving of patent protection'[3]. So, while a claim to software *per se* is not patentable[4], a claim to the application of such software may well be so[5].

In the Bilski case, the Supreme Court, while refusing to expressly rule on the patentability of software-related patents, did indicate that process claims narrowly tailored to the application of abstract ideas, while avoiding pre-empting the idea itself, may be patentable[6]. And even though the Supreme Court eschewed the 'machine-or-transformation' test as the sole test to determine § 101 compliance in Bilski, it did reiterate its usefulness as a tool in assisting the analysis[7]. Importantly, several lower courts have subsequently addressed § 101 patentability issues relating directly to software patents. The common theme in these cases appears to be that a software-related claim that ties the underlying application or algorithm to a concrete and limited practical application that avoids broad preemption of a concept is less likely to be an abstract idea and more likely to meet the patentability requirements of § 101 than a claim that is not so tied[8].

In light of these rulings, applicants must be mindful of how to properly claim software-related inventions to ensure that their claims meet patentability requirements. Applicants should:

- Draft claims that explicitly include the hardware that will interact or be controlled by the software. A claim that involves or is executed by a particular machine or apparatus is less likely to be drawn to an abstract idea. Applicants should avoid limitations that are merely 'tokens' or that represent 'insignificant, post-solution components'[9].
- Draft claims that meaningfully manipulate data representing physical or tangible objects. The claims should explicitly identify how the object is transformed from one form into another.
- Draft claims that emphasis the practical or limited nature of the application, avoiding preemption issues.
- Draft additional apparatus and system claims to avoid potential § 101 issues inherent in process claims.
- Draft specifications that clearly identify the functional application of the technology, and how improvements using the technology can be perceived in the real world.

Be aware of potentially differing burdens for proving invalidity

Under United States law, all patents are presumed valid[10]. Currently, an alleged infringer challenging the validity of a patent based on invalidating prior art is required to show by 'clear and convincing evidence' that the prior art renders the patent invalid[11]. This standard applies regardless of whether the prior art was considered by the US Patent and Trademark Office (USPTO) during prosecution of the asserted patent.

Recently, the Supreme Court granted a petition for writ of certiorari in Microsoft v i4i to address the proper evidentiary standard to be applied during a validity challenge[12]. Of consideration is a 'hybrid' evidentiary standard, wherein 'clear and convincing evidence' would be required to invalidate a patent when the asserted invalidating prior art was considered by the

USPTO during prosecution, while a 'preponderance of the evidence' would be required to invalidate the patent when the asserted prior art was not considered.

To the extent that the court adopts this 'hybrid' approach, applicants should contemplate strategies for expanding their identification of prior art for citation to the USPTO. This may include performing structured or formalized prior art searches, as well as identifying and citing all known cumulative art. By expanding the scope of prior art cited, applicants would decrease the realm of art that an alleged infringer could assert against the patent, which would inherently increases the value of the patent upon adoption of the 'hybrid' standard by ensuring a greater chance of maintaining the heightened standard of validity upon challenge.

Be mindful of the joint infringement trap for process or method claims

To prove direct infringement, a patent owner must show that a single entity practices every element of a valid claim[13]. Joint infringement occurs when no one party practices the asserted claim, but instead the steps of the claim are practiced by different parties[14]. Where a joint infringement situation occurs, the claim is directly infringed only if one party exercises 'control or direction' over the entire process such that every step is attributable to the controlling party[15]. 'Control or direction' only exists when there is an agency relationship between the parties who perform the method steps or when one party is contractually obligated to the other to perform the steps[16].

Software-related method claims routinely present joint infringement challenges due to their susceptibility to be practice by distributive or decentralized entities. Given the requirement to prove an agency relationship or contractual obligation amongst the practicing parties in these situations, applicants should strive to draft claims from the perspective of a single centralized entity, party, or computer component that cannot be disaggregated (e.g., drafting all steps from the perspective of a single server). Applicants who fail to adequately address joint infringement during claim drafting may be left with valid but unenforceable - and thus valueless - claims[17].

A software-related claim that ties the underlying application or algorithm to a concrete and limited practical application... is less likely to be an abstract idea and more likely to meet the patentability requirements of § 101 than a claim that is not so tied

Conclusion

Software patent applicants and owners should manage their portfolios with an eye toward software-specific issues that could detrimentally affect their software patents. Proactive steps may be taken by software patent applicants and owners to avoid these issues. Otherwise, software patent applicants and owners run the risk of unintentionally undermining the value of these business assets.

Brent R. Bellows, Ph.D. Member
Knowles Intellectual Property Strategies, LLC
bbellows@kipsllc.com.

1. 35 U.S.C. § 101 provides: Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.
2. Diamond v Chakrabarty, 447 U. S. 303, 309 (1980).
3. Bilski v Kappos, 130 S. Ct. 3218, 3230 (2010) (citing Diamond v. Diehr, 450 U.S. 175, 187 (1981)).
4. See, e.g., Ex Parte Forman, App. No. 2007-1546, Slip op. at 5 (BPAI 21 December 2007) (rejecting a claim to 'computer code' not embodied in any tangible medium).
5. See, e.g., Diehr, 450 U.S. at 192-193 (holding that a procedure for molding rubber that included a computer program is within patentable subject matter).
6. Bilski, 130 S. Ct. at 3229-3231.
7. Id. at 3227.
8. See, e.g., Research Corp. Techs. v Microsoft Corp., 627 F. 3d 859 (Fed. Cir. 2010) (holding that software related claims met § 101 requirements in part because they present 'functional and palpable applications'); H&R Block Tax Servs. V Jackson Hewitt Tax Serv., Inc., No. 6:08-cv-37 (E.D. Tex., 2 February 2011) (In Magistrate Report and Recommendation, applying a 'meaningful limits' test that focuses on preemption to determine compliance with § 101); CLS Bank Int'l v Alice Corp., No: 07-974, 2010 U.S. Dist. LEXIS 23669, *70 (D.D.C. 9 March 2011) (focusing on the extent to which the application of an abstract idea is specific and/or limited to determine whether an invention is patent eligible).
9. See, e.g., H&R Block, Slip op. at 21 (finding that the computer limitation in the claims to be an insignificant, post-solution component, which does not meaningfully limit the claims); Bancorp Servs. v Sun Life Assurance Co., No. 4:99-cv-1073 (E.D. Mo. 14 February 2011) (finding the claims not patentable because they do not 'narrow the computer implemented method to something more specific than a general purpose computer or recite any specific operations performed that would structurally define the computer'.).
10. 35 U.S.C. § 282.
11. See, e.g., American Hoist & Derrick Co. v Sowa & Sons, Inc., 725 F.2d 1350, 1360 (Fed. Cir. 1984).
12. Microsoft Corp. v i4i Limited Partnership, No: 10-290 (U.S. 29 November 2010).
13. BMC Resources, Inc. v Paymentech, 498 F.3d 1373, 1378-79 (Fed. Cir. 2007).
14. For example, if a method claim requires steps A, B, and C, joint infringement occurs if steps A and B are performed by one party, and step C is performed by a second party.
15. See Muniauction, Inc. v Thomson Corp., 532 F.3d 1318, 1329 (Fed. Cir. 2008).
16. Akamai Tech. v Limelight Networks, Inc., 629 F.3d 1311, 1320 (Fed. Cir. 2010).
17. Importantly, alternative theories of contributory or induced patent infringement require that direct infringement has been proven. Aro Mfg. Co. v Convertible Top Replacement Co., 365 U.S. 336, 341-2 (1961) ('There can be no contributory infringement in the absence of a direct infringement.').

Key e-commerce cases

Full reports in E-Commerce Law Reports Volume 11 Issue 1

Patents

Uniloc USA, Inc. v Microsoft

In this case, the Federal Circuit amended the standards according to which damages can be calculated in the case of a patent being infringed. The Federal Court abolished the '25% Rule of Thumb' which had been the basis until then for reasonable damages, and criticised the use of the 'entire market value' test.

The Plaintiff, Uniloc, had repeatedly presented evidence of Microsoft's $19 billion total revenue as an alleged reasonableness 'check' his demand for hundreds of millions in damages. Initially, the District Court allowed the evidence and argument, and the jury awarded $388 million in damages. The District Court realised that allowing the Plaintiff 's persistent references to Microsoft's $19 billion revenue had been prejudicial error, and ordered a new trial on damages.

The District Court ordered the new damages trial even though it had instructed the jury that it 'may not award damages based on Microsoft's entire revenue from all the accused products in the case'. Although jurors are presumed to follow their instructions, the District Court observed that 'the $19 billion cat was never put back into the bag' and 'it is impossible to know for sure how this evidence may have affected the jury's consideration of damages'. On appeal, the Federal Circuit affirmed the grant of a new damages trial, agreeing with the District Court that the entire market 'cat' was irrevocably out of the sack. 'The disclosure that a company has made $19 billion dollars in revenue from an infringing product cannot help but skew the damages horizon for the jury, regardless of the contribution of the patented component to this revenue'.

Timothy S. Teter Partner
Cooley LLP
teterts@cooley.com

Software

Bezpe nostní softwarová asociace - Svaz softwarové ochran v Ministerstvo kultury

The Bezpe nostní softwarová asociace (BSA) unsuccessfully applied to the Czech Ministry of Culture for authorisation for the collective administration of copyrights to computer programs, under Paragraph 98 of the Copyright Law. An appeal was lodged against the refusal decision to the Regional Court in Prague. BSA submitted that a computer's graphic user interface (GUI) should be protected by copyright. This action was dismissed and BSA appealed to the Supreme Administrative Court on a point of law. The Supreme Administrative Court decided to stay proceedings and refer the following two questions to the Court of Justice of the European Union (CJEU) regarding the interpretation of Directives 91/250 and 2001/29. The CJEU held that the Software Directive cannot protect a computer's GUI. However, a GUI can be protected under the Information Society Directive if it is the author's 'own creation'. The CJEU ruled on a reference from the Czech Supreme Administrative Court that:

- a GUI is not protected by copyright as a computer program;
- when the GUI is original and of the author's own intellectual creation, it can otherwise be protected by copyright; and
- the television broadcasting of a GUI does not constitute a communication of that work to the public.

This ruling will require the judiciary to interpret and reconcile the technology of computer programs, such as the GUI, with accepted principles of copyright law.

Dawn Osborne Partner
Palmer Biggs Legal
dawn.osborne@pblegal.co.uk

Counterfeiting

The North Face Apparel Corp. et al. v Fujian Sharing Import & Export Ltd. et al.

A Federal Judge in the Southern District of New York recently sent a strong message to online counterfeiters by granting the owners of the clothing brands The North Face and Polo Ralph Lauren the authority to shut down new websites selling counterfeit goods and seize proceeds from counterfeit sales, without seeking further court approval. Judge Alvin K. Hellerstein unsealed the order for contempt on 20 December 2010.

The Court in this case agreed to issue the contempt order due to the Defendants' blatant disregard for the Court's previous orders. The order issued in December 2010 is particularly noteworthy because it grants The North Face and Polo Ralph Lauren ongoing authority to provide notice of the order to domain name registrars when additional infringing domains are identified. The registrars have two days to temporarily disable the domains and ten days to transfer them to the brand owners. After getting notice of the order, internet service providers hosting any infringing websites owned or controlled by the Defendants must deny access to the IP addresses used by those websites within three days. Other parties must also discontinue providing services for the Defendants within two days of being provided notice. Payment account holders must transfer funds paid to the Defendants to the brand owners upon notice from the brand owners. Internet sales sites, including eBay, iOffer, and Tradekey were also ordered to delete accounts associated with the Defendants.

Anthony V. Lupo Partner
David S. Modzeleski Senior Associate
Eva J. Pulliam Associate
Arent Fox LLP
lupo.anthony@arentfox.com
modzeleski.david@arentfox.com
pulliam.eva@arentfox.com