Intellectual Property Law Conference

Presented by the:
IP Section

Friday, October 23, 2015
8:30 a.m. - 5:10 p.m.

Live:
State Bar of Nevada
Las Vegas

3100 W. Charleston Blvd., Ste. 100 Las Vegas, NV 89102 702-382-2200

9456 Double R Blvd. Suite B Reno, NV 89521 775-329-4100

7 CLE Hours

PRESENTER BIOGRAPHIES

TIM BRISSON is the Director of Innovation and Lead Patent Attorney for ipCreate, the premier innovation-on-demand company. He oversees the complex interaction between inventors, patent searchers and drafters, along with outside legal counsel. He orchestrates the generation of large, strategically developed portfolios. Prior to joining ipCreate, Mr. Brisson served at hopTo, Inc. (formerly GraphOn, Inc.) as General Patent Counsel, where he managed patent prosecution, licensing, and IP enforcement activities. Mr. Brisson was also a shareholder in Sierra Patent Group, a boutique IP firm located in Lake Tahoe, NV.

Mr. Brisson graduated from University of the Pacific, McGeorge School of Law (with Distinction), and holds a Bachelor of Science in Engineering-Physics from the University of the Pacific. Mr. Brisson is registered to practice before the USPTO (1999), and is a member of both the State Bar of Nevada (1999) and California (2000). Mr. Brisson served in the United States Air Force as a Space Systems Maintenance Technician. He is a named inventor on several patents in the field of audio/video interfaces, and AC power line filtering. Mr. Brisson is also an accomplished guitar player, having served as band leader or sideman with many notable blues acts, and currently plays with his own band, Foxtrot Mary.

KATHLEEN KERR BRAGDON holds a B.A. degree from Connecticut College and a Ph.D. degree from Brandeis University, both in biochemistry. Following a postdoctoral position in the Laboratory of Cell Biology at the National Cancer Institute, NIH, Kathleen joined the USPTO, specifically in Technology Center 1600 for Biotechnology & Organic Chemistry, in 1999 and examined patent applications in classes 435 and 514 concerning recombinant enzymes and their applications. Kathleen was recognized as examining Master's level art in 2003, became a primary examiner in 2004, and received the Department of Commerce Bronze Medal Award in 2005. Further in 2005, she became the supervisory patent examiner of Art Unit 1656 examining enzymology and protein crystallography patent applications. In 2008, Kathleen accepted a position as a Quality Assurance Specialist for Technology Center 1600. Her roles in training and quality assurance prepared her to accept a detail in 2013 that focused on AIA First Inventor to File implementation and training for both examiners and the public. Kathleen recently received a Department of Commerce Gold Medal award for her work on the AIA First Inventor to File implementation. Kathleen accepted a new position as Senior Advisor to Deputy Commissioner for Patent Quality Valencia Martin Wallace where she focuses on the development and implementation of the USPTO's Enhanced Patent Quality Initiative.

R. PARRISH FREEMAN is a registered patent attorney and is equipped to prosecute matters before the United States Patent and Trademark Office (USPTO), but he has focused his practice over the years on enforcing and defending intellectual property rights rather than procuring them. In recent years, however, Parrish's practice has grown to include certain USPTO proceedings such as inter partes review (IPR) and the other post-issuance patentability challenge proceedings (CBM and PGR) created by the Leahy-Smith America Invents Act of 2011. Parrish's understanding of the interplay between these new administrative proceedings and traditional infringement litigation has given his clients a real advantage over their adversaries.

Parrish often writes and lectures in the areas of Internet trademark enforcement and electronic discovery in patent cases. He currently volunteers his time as a subcommittee co-chair with the American Intellectual Property Law Association's Trademark Internet Committee and with the American Bar Association's Patent Litigation Committee.

Away from work, Parrish enjoys serving as a USA Swimming Official at swim meets around the country, mountain biking, and Nordic skiing.

MARY LAFRANCE is the IGT Professor of Intellectual Property Law at the William S. Boyd School of Law, University of Nevada, Las Vegas, where she has taught since 1999, specializing in intellectual property and entertainment law. She previously taught at Florida State University, in both the College of Law and the School of Motion Pictures, Television, and Recording Arts.

Professor LaFrance is a summa cum laude graduate of Bryn Mawr College. She received her J.D. with High Honors from the Duke University School of Law, where she served as Executive Editor of the Duke Law Journal and simultaneously earned her M.A. in Philosophy. Prior to teaching, she clerked for the United States Court of Appeals for the D.C. Circuit, and practiced law for three years in Washington, D.C. Professor LaFrance has authored or co-authored six books as well as numerous articles and book chapters on intellectual property and entertainment law. Her most recent book, *Entertainment Law on a Global Stage*, was published by West Academic in September 2015. She also serves as a regional theatre critic for talkinbroadway.com.

JODI DONETTA LOWRY, Esq. is a partner at Gibson & Treu LLP in Las Vegas. She is an alumna of Hollins University ('91, art history and English) and Washington and Lee University School of Law ('94) who has practiced in Nevada since 2001. In 2010 she was named a Mountain States SuperLawyers "Rising Star" in intellectual property litigation. She has written for *Nevada Lawyer* and *Communiqué* and is a member of the editorial board for the 2015 updates to the fifth edition of the *Nevada Civil Practice Manual.*

DOUGLAS R. NEMEC concentrates on intellectual property litigation and related counseling, including providing intellectual property advice in connection with corporate transactions. Mr. Nemec has litigated numerous cases in a wide range of technologies, from pharmaceuticals and other chemicals to IT and electronics. He has particular experience in life sciences matters, including patent litigation under the Hatch-Waxman Act. Mr. Nemec also is registered to practice before the U.S. Patent and Trademark Office, where he represents clients in patent interference proceedings and other matters. He is a member of the Skadden group recognized by *The National Law Journal* as one of the country's leading IP practices in its 2013 "IP Hot List."

JUSTIN PIERCE covers a wide range of intellectual property matters, including patent litigation, trademarks and brand protection, anti-counterfeiting, copyrights, design rights, trade secrets, licensing, rights of publicity, domain name and social media disputes, and international government affairs work relating to intellectual property matters. Mr. Pierce also has significant experience in the application of intellectual Property analytics and the development of intellectual property strategy.

Mr. Pierce has a unique combination of in-house and outside counsel experience in managing intellectual property assets and portfolios for large and small companies. Further, Mr. Pierce is a multifaceted intellectual property counsel with significant expertise in handling an array of intellectual property matters.

As a patent litigator, Mr. Pierce has represented a number of clients in a variety of fields, including apparel, consumer goods, electronics, food and beverage, footwear, media, mobile device, pharmaceutical, software and telecommunications fields. As a brand protection attorney, Mr. Pierce develops and implements global brand protection strategies for a number of companies around the world, ranging from start-ups to multinational corporations. And, as an IP transactions attorney, Mr. Pierce has extensive experience in licensing and leveraging IP assets in order to support the overall business goals of clients.

HERBERT R. (DICK) SCHULZE is Of Counsel to Holland & Hart, Reno, where he specializes in all aspects of intellectual property law. Prior to joining Holland & Hart he served as a Managing Counsel at Agilent Technologies in Santa Clara, managing the company's IP program in its central research labs and throughout Asia-Pacific, and before Agilent became a separate company he performed a similar function for Hewlett-Packard. Previously, he was an associate with Fulwider, Patton, Lee & Utecht in Southern California, a partner at Wilhelm & Schulze in San Diego County, a law clerk to U.S. District Court Judge Howard Turrentine in the Southern District of California, and a military lawyer in the U.S. Air Force where he served five years' active duty and 25 years as a reserve officer, retiring as a colonel in 1997.

Mr. Schulze is a graduate of MIT in electrical engineering and the University of Chicago Law School. He is admitted in Nevada, California, Colorado, South Dakota, and before the USPTO. He has two children – a medical doctor and a Montessori teacher – and four grandchildren. When not practicing law he can be found at Northstar California ski resort, passionately pursuing his second profession as a snowboard instructor.

NANCY R. SNOW is a 3rd year part-time law student at the William S. Boyd School of Law, University of Nevada, Las Vegas. She is a Junior Editor for the Nevada Law Journal and a member of the "Organization of Women Law Students" and the "Organization of Part-time and Non-traditional Law Students." Nancy graduated with a Bachelor of Science in Electrical Engineering from Virginia Polytechnic Institute and University and is a registered patent agent. Prior to joining Holland & Hart, Nancy taught Engineering Technology at the College of Southern Nevada and acted as a patent liaison at Shuffle Master International, LLC. "

MARKETA TRIMBLE is Professor of Law at the William S. Boyd School of Law of the University of Nevada, Las Vegas. She specializes in international intellectual property law and publishes extensively on matters at the intersection of conflict of laws/private international law and intellectual property law, particularly patent law and copyright law. She has authored several works in the area of cyberlaw, particularly regarding the legal issues of geoblocking and the circumvention of geoblocking. She is the co-author of a respected international intellectual property law casebook.

CJ VEVERKA focuses his practice on intellectual property disputes, including patent, trademark, and copyright enforcement and defense, domestically and internationally. He has extensive experience developing and coordinating global IP enforcement strategies for his clients throughout Europe and Asia. C.J. has litigated cases related to a variety of technologies, including fitness and recreation equipment, electrical and electromechanical systems, computer software and hardware, biodegradable polymers, and medical and dental devices. He has also handled infringement litigation cases involving patents, trademarks, copyrights, and trade dress.

Before joining Maschoff Brennan, C.J. practiced for 16 years as a litigator at a major IP law firm in Salt Lake City. He is licensed to practice law before the U.S. Patent and Trademark Office. He has also been admitted to practice before many Federal District Courts, as well as before the U.S. Courts of Appeals for the Federal and Tenth Circuits.
As a native of northern Nevada, C.J. enjoys most outdoor sports, especially skiing, hiking, and fishing. C.J. also loves to travel with his wife and two teenage children.

THOMAS ZELLERBACH, a partner in the Silicon Valley office, is a member of the Intellectual Property group. Mr. Zellerbach focuses his practice on intellectual property litigation and counseling with an emphasis on copyright, trademark, false advertising, and trade secret issues. Mr. Zellerbach also has extensive experience in proceedings before the U.S. Patent and Trademark Office and the Trademark Trial and Appeals Board for clients in a wide variety of industries.

TIME	**TOPIC**	**SPEAKERS**	**NOTES**
8:30am – 9:30 am	IP Challenges with 3D Printing	Justin Pierce	
9:30am – 10:30am	Tool Kit for Advising Start-Up Companies on IP	Dick Schulze and Nancy Snow	
10:30 am – 10:45am	*Break*		
10:45am – 11:45am	Protecting Brands in Social Media Today	J.D. Lowry	
11:45pm – 12:45 pm	Lunch sponsored by :	RICOH imagine. change.	
PATENT TRACK			
12:45 pm – 1:45 pm	Patent Quality	Kathleen Bragdon	
1:45 pm – 2:45 pm	Fed Circuit Update	CJ Veverka Parrish Freeman	
2:45 pm – 3:00 pm	*Break*		
3:00 pm – 4:00 pm	Alice	Tim Brisson	

TRADEMARK/COPYRIGHT TRACK			
12:45 pm – 1:45 pm	Year in Review: Trademark	Prof. Mary LaFrance	
1:45 pm – 2:45 pm	Year in Review: Copyright	Prof. Marketa Trimble	
2:45 pm – 3:00 pm	*Break*		
3:00 pm – 4:00 pm	Proving Irreparable Harm in TM Infringement Cases	Tom Zellerbach	
4:00 pm – 4:10pm	*Break*		
COMBINED SESSION *(Moot Court Building)*			
4:10 pm – 5:10 pm	IP Ethics	Douglas Nemec	

VENABLE LLP

IP Strategies in the 3D Printing Era

Justin Pierce

VENABLE LLP

IP Strategies in the 3D Printing Era

- Technology & Industry Overview
  - New Business/Licensing Opportunities
  - New Risks
- Types of Infringements to Consider
- Options for IP Enforcement
- Developing a Comprehensive IP Portfolio

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IP Strategies in the 3D Printing Era

- Technology & Industry Overview
  - Additive Manufacturing (AM): the process of making three-dimensional objects from a digital model by depositing successive layers of material on top of one another to form the object.
  - Common AM techniques include:

Technology	Materials
Fused deposition modeling (FDM)	Thermoplastics, metals, rubber, clay, porcelain
Stereolithography (SLA)	Photopolymers
Selective laser sintering / melting (SLS / SLM)	Thermoplastic powders, metal powders, ceramic powders

  - Innovation in technologies is improving material properties of AM end-products.
    - AM historically used for rapid prototyping.
    - Research and development in many industries, including:
      - Medical and dental devices
      - Consumer products
      - Airline and automotive parts
  - Recent developments with other materials and at various sizes (micro to large scale printing).

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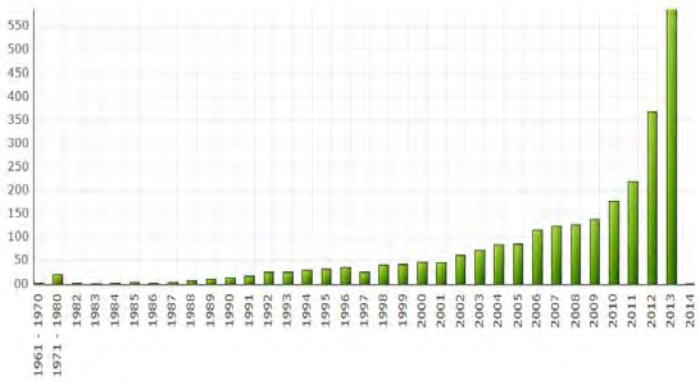
IP Strategies in the 3D Printing Era

- Technology & Industry Overview
  - Exponential growth in U.S. patent publications related to additive manufacturing.



"3D printing Technology Insight Report" from Gridlogics Technologies Pvt Ltd

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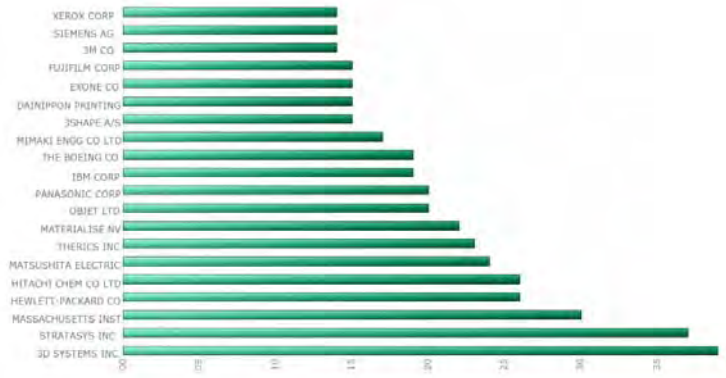
IP Strategies in the 3D Printing Era

- Technology & Industry Overview
  - The major companies in additive manufacturing (by assigned patents):



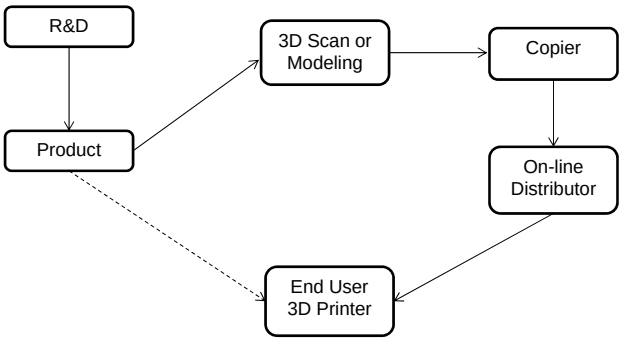
"3D printing Technology Insight Report" from Gridlogics Technologies Pvt Ltd

IP Strategies in the 3D Printing Era

- Technology & Industry Overview
  - Innovation is making AM easier:
    - Lower cost desktop and industrial 3D printers.
    - Availability of 3D digital design files.
    - 3D scanning equipment and modeling software.
    - 3D printing services for consumers.
  - Technology creates new business opportunities, e.g. licensing designs, or websites that create markets for individuals to distribute 3D design files (i.e. www.shapeways.com).
  - Technology creates new potential for infringers and counterfeiters.

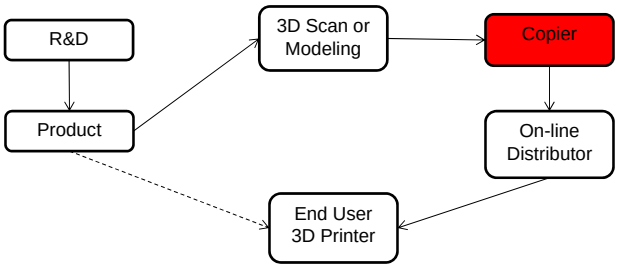
IP Strategies in the 3D Printing Era

- Overview of 3D Design & Product Flow



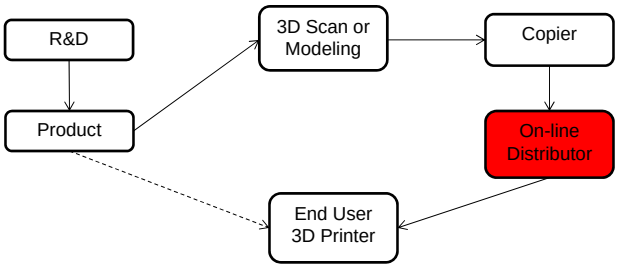
IP Strategies in the 3D Printing Era

- Types of Potential Infringers to Consider
  - The Copier
    - Obtains digital file by 3D scanning or modeling of a physical product.
    - May either sell or freely distribute digital files directly or through On-line Distributor.
    - May be difficult to identify.



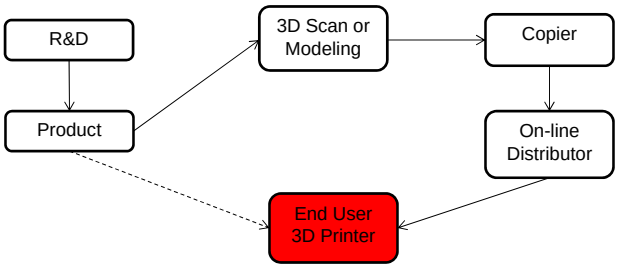
IP Strategies in the 3D Printing Era

- Types of Potential Infringers to Consider
  - The Distributor
    - Many legitimate websites set up for distributing 3D files (i.e. www.shapeways.com).
    - Many websites for selling digital materials (i.e. www.itunes.com).
    - Other websites setup for distributing pirated digital files.



IP Strategies in the 3D Printing Era

- Types of Potential Infringers to Consider
  - The End User / 3D Printer
    - May be consumers, businesses, 3D printing service, etc.
    - May be difficult to identify.
    - Manufacturing location may quickly change due to size and portability of 3D printers.
    - Quality of goods will likely range from low to high quality depending on the type of 3D printer.



IP Strategies in the 3D Printing Era

- Options for IP Enforcement
  - Potential Infringers:
    - End User 3D Printer
      - May be difficult to identify and/or locate if printer is an individual.
      - Cost of enforcement may be prohibitive.
      - May impact public relations.
    - On-line Distributor
      - Easy to identify and locate.
      - More susceptible to judgment (injunction or monetary relief)
    - Copier
      - May be difficult to identify and/or locate.
      - Cost of enforcement may be prohibitive.
    - Parties who knowingly aid in direct infringement
      - 3D printer manufacturers or 3D printing services.
      - Negative case law – must prove "knowing" infringement.

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IP Strategies in the 3D Printing Era

- Options for IP Enforcement
  - Different Causes of Action
    - Patent Infringement (design or utility)
    - Copyright Infringement
    - Trademark or Trade Dress Infringement
  - Choices of Venue or method of Enforcement
    - Federal District or State Court
      - Monetary damages, injunctions, destruction of infringing goods.
    - International Trade Commission
      - Exclusionary order, cease and desist order.
      - Digital files are considered "imported" articles under Section 337.
    - Digital Millennium Copyright Act (DMCA)
      - DMCA takedown notices
- Consider anticounterfeiting and antipiracy technology (e.g. taggants, or digital watermarking) to authenticate, track and trace, and prevent counterfeiting and piracy.

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IP Strategies in the 3D Printing Era

- Developing a Comprehensive IP Portfolio
  - Consider multi-layered IP protection to systematically lockdown and enforce IP rights.
    - Utility Patents
    - Design Patents
    - Copyright
    - Trademark and Trade Dress
    - Trade Secret
  - Craft the IP portfolio considering potential infringers and cost of enforcement against each potential infringer.
  - Consider protection of the materials, filament, and/or combination of ingredients used to 3D print a particular component, part or product.
  - Consider offense and not just defense, e.g. licensing.

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IP Strategies in the 3D Printing Era

- Utility Patents
  - Consider drafting claims to cover a variety of potential infringements.
    - End User 3D Printer
      - Claim the apparatus printed by End User 3D Printer.
      - Claim the method for receiving a digital file to manipulate a 3D printer to manufacture an apparatus.
      - Claim the computer-readable medium containing instructions for manufacturing the apparatus.
    - On-line Distributor
      - Claim the method for providing a digital file to manipulate a 3D printer to manufacture an apparatus.
      - Claim the computer-readable medium containing instructions for manufacturing the apparatus.
    - Copier
      - Claim the computer-readable medium containing instructions for manufacturing the apparatus.
    - Other infringers?

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IP Strategies in the 3D Printing Era

- Design Patents – Protect a product's appearance
  - May be obtained in under 1-year under normal examination (or in 3-4 months under expedited examination) from the U.S. Patent and Trademark Office.
  - Seek Design Patents for portions of a product, as well as the product as a whole.
  - Consider filing Continuation applications in order to disclaim different aspects of the product design to respond to infringements.
- Design Patents may be enforced against the End User 3D printer (the direct infringer) and parties who knowingly aid in their direct infringement.

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IP Strategies in the 3D Printing Era

- Copyright
  - Traditionally used to protect creative works that serve no functional purpose.
    - Severability: Need to sever elements protectable under copyright from functional elements.
    - Merger: Digital file of functional elements does not necessarily make them subject to copyright protection.
  - Utilize DMCA takedown notices against Distributors of digital files.
    - Fast and low cost option to have infringing content removed from an online service provider's (OSP) website.
    - Copyright registration in the product and/or digital files of the product is not required for the DMCA takedown notice – however, consider copyright registration to be eligible for statutory damages in the event of a lawsuit.
  - Enforce Copyright against all potential infringers (except for those OSPs immunized under the DMCA takedown provisions).

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IP Strategies in the 3D Printing Era

- Trademark and Trade Dress
  - Identify design elements, logos, and marks that identify the source of the product.
  - Requires active monitoring and policing in order to retain and strengthen trademark rights.
    - Actively monitor distribution channels for 3D digital designs to discover use of identified design elements, logos, and marks.
    - Utilize cease and desist letters to put infringers on notice.
    - Failure to police the trademark or trade dress may result in loss of rights.

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IP Strategies in the 3D Printing Era

- Trade Secret
  - Maintain confidentiality of digital files.
  - Police the internet for misappropriation of digital files.
  - Maintain confidentiality of the materials, filament, and/or combination of ingredients used to 3D print a particular component, part or product.

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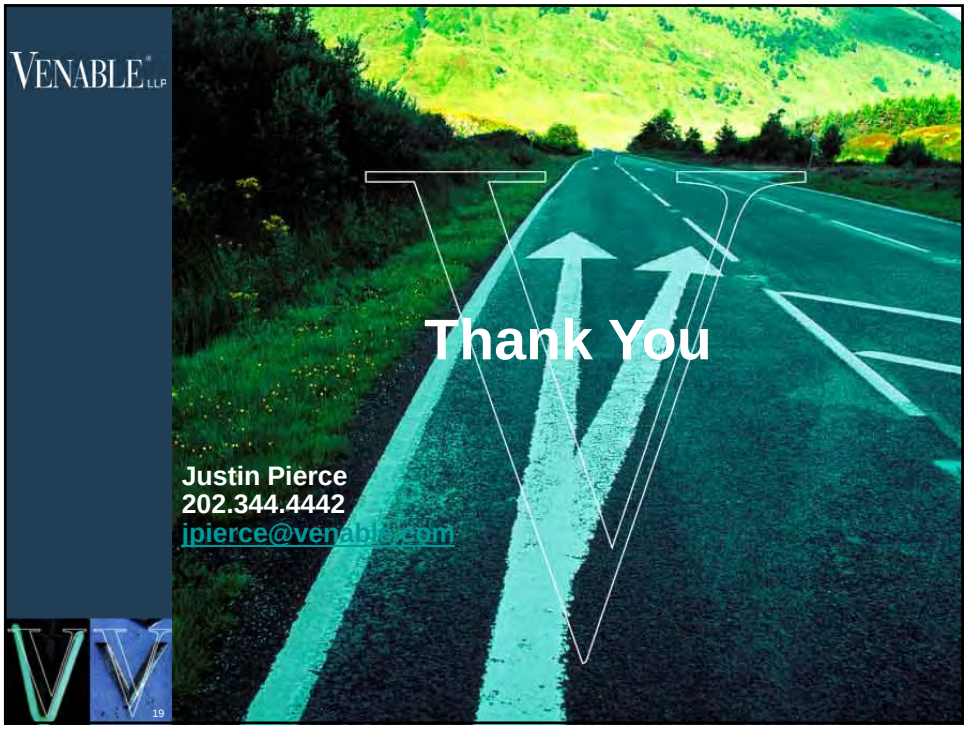
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IP Strategies for the Rise of 3D Printing

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By now, you have probably heard the buzz about 3D printing. 3D printing, also known as "additive manufacturing," is a process of making three-dimensional objects from a digital model by depositing successive layers of material on top of one another to form the object. Although 3D printing has been around for more than 30 years, recent advancements have drastically improved the quality of printed objects, while also lowering costs. A number of websites have emerged that allow individuals to upload and download digital design files, which will lead to more widespread use of the technology. 3D printing is also advancing beyond printing solid objects to more complex objects, such as printed electronic parts and even human tissue. The use of 3D printing technology is set to grow in the near future, as key patents relating to laser sintering (one of the most affordable forms of 3D printing) expire.

Consequently, the rise of 3D printing poses unique intellectual property challenges for designers and manufacturers of products, especially those relating to consumer products. The long lead times and capital expenditures associated with conventional manufacturing of consumer goods can be virtually eliminated with 3D printing. For basic items, counterfeiting can be as simple as making a computer model of your product using a three-dimensional scanner, and printing the product from that model using a 3D printer. Also, due to the decreasing size of 3D printing machinery, counterfeiters can move operating sites quickly to avoid law enforcement. Further, similar to a number of illegal digital music and video file-sharing services, counterfeiters may sell designs or instructions (e.g., a three dimensional model) for consumers to use on their own 3D printers to make the counterfeit product at home. These changes in manufacturing pose infringement issues not directly addressed by current intellectual property strategies. This article suggests some approaches and strategies that can be used to combat counterfeiting and infringement by entities using 3D printing technology.

Approaches to Dealing with the Rise of 3D Printing

Direct vs. Indirect Infringement

Rights holders have a few options to pursue when they discover infringement. One such option is to sue the direct infringer, another is to pursue the parties who have knowingly aided in direct infringement, and yet another is to do both. Unfortunately, infringement due to 3D printing will likely present challenges in each scenario for rights holders in our current legal system.

First, suing a direct infringer means that you have to identify and/or locate the infringing entity; and it may not be practical to expend significant resources to find an infringer, especially when the infringer turns out to be an individual using a 3D printer who has made a small number of unauthorized copies. The cost of pursuing such individuals (combined with potentially negative public relations) will almost always exceed the benefit of any recovery of monetary damages.

Second, intellectual property owners may have difficulty targeting manufacturers of 3D printers due to a Supreme Court decision[1] in 1984 that exempted manufacturers of recording devices from copyright infringement provided those devices had a legitimate purpose.

Third, when it comes to 3D printing services, an intellectual property owner may be able to sue the service for indirect infringement if the service printed an infringing object on demand. Yet, to succeed in such a case, the intellectual property owner would have to prove that the service knew the printing of the object violated the IP owner's rights.

Proactive Approaches

While intellectual property owners may find enforcement of their rights more challenging in this new environment, manufacturers and product designers should consider the following proactive approaches:

- **Focus on innovation and speed to market** – Although it's easier said than done, businesses must strive to implement a production cycle that stays ahead of competitors and counterfeiters alike. Companies that bring their products (and new versions) to market quickly, not only entice consumers to purchase the new versions of a product, but also make it hard for those trying to imitate the latest version of their product.

- **Adapt business models that harness the benefits of 3D printing technology** – As legitimate usage of digital music download and video streaming services continues to grow, it is clear that more and more consumers are seeking to buy or consume high-quality digital or streaming content from authorized sites and sources. Thus, we also expect to see the same from consumers in the near future. As they will seek user-friendly 3D printing service and expect a certain level of quality in the final 3D printed product. Savvy brand owners and manufacturers can harness the benefits of 3D printing technology to offer a wide variety of product accessories, and efficiently offer replacement parts. In fact, large corporations like Hasbro and Hershey's have already begun integrating 3D printing into the licensing of their brands; enabling the commercial printing of everything from "SuperFanArt" My Little Pony figurines to "CocoJet" Hershey's dark chocolate.[2] By proactively using 3D printing to both produce high quality goods and enable greater consumer access to one's brand, businesses have much to gain from an early investment in this market.

- **Build multilayered IP protection** - Routinely lockdown, provide notice of, and enforce IP rights for each of the unique, distinctive and complementary elements of branding, content, design and innovation associated with key products and services as early as possible. Provide notice of IP ownership and appropriately mark (or virtually mark) those products. Next, enforce these rights on a regular basis against infringing entities that pose a threat to either the company's business or to public health and safety.

Intellectual Property Strategies for Dealing with 3D Printing

Design Patents

Design patents have gained enormous popularity since the landmark damages award in the Apple v. Samsung smart phone case. As with counterfeit products manufactured using conventional techniques, design patents can be a valuable tool in fighting 3D printed counterfeits. In contrast to utility patents, design patents can be obtained in about one year under standard examination, and in approximately three to four months under expedited examination. This allows the design patent to come into force while the product is still in the heart of its life cycle. Accordingly, design patents give designers and manufacturers a patent tool that can be used to strike fast.

Given the nature of many products manufactured by 3D printing, such as household products, smart phone cases, etc., design patents can often protect the heart of the product – its appearance. Given the fast pace at which 3D printers can change their product configurations, companies should seek design patent protection for *portions* of a product, as well as the product

as a whole. This multi-faceted strategy can be useful to prevent counterfeiters from making small changes to a part of a product in order to circumvent design patent protection. Companies should also consider filing continuation applications – the process of keeping an application pending after the original application has granted – to allow changes in design scope to combat potential design-arounds as they come on the market.

Utility Patents

3D printing may present a unique challenge with respect to utility patent enforcement. As discussed above, many counterfeiters will shift from a model of manufacturing counterfeit products in factories, to a model of distributing computer files used by consumers to print counterfeit products in the home. This scenario is analogous to the revolution in the music industry, when it shifted from consumers buying compact disks in retail stores to consumers downloading music files from various online services.

Shifting manufacturing from the factory to the home presents an issue for utility (and design) patent enforcement, which requires a direct infringer to “make,” “use,” “sell,” or “offer to sell” the patented invention. Under a file-distribution model, patent holders may be forced to assert their patents against the end consumers, or alternatively, sue the counterfeiter under theories of indirect infringement, which can be more difficult to prove.

To better protect against infringement under the file-distribution model, companies should be proactive about including claims in their utility patent applications that combat the unique aspects of infringement by 3D printing. For example, companies could claim a computer readable medium containing instructions to manufacture their product, or a computer-implemented method of distributing instructions for manufacturing a product. To protect against infringement by traditional manufacturers using 3D printers in the factory, companies should also consider claiming methods of manufacturing their products via 3D printing, or the 3D-printed product itself. The Lego Group, for instance, has recently applied for a patent claiming a method of manufacturing its product in a layer-by-layer, or 3D printing, fashion. Its recent patent application (U.S. Patent App. No. WO 2014005591 A1) also claims 3D-printed Legos themselves, as well as Lego sets made of 3D printing components. This type of patent application represents an example of the progressive brand protection strategies that will become necessary to effectively enforce patent rights in the future, and should be followed by those wishing to maintain brand strength in the 3D printing market.

Copyright

Copyright is traditionally used to protect creative works that serve no functional purpose. In the context of 3D printing, this means that the majority of functional objects (e.g. tools and component parts) copied and printed by 3D printers will not be protected by copyright. In contrast, objects such as toys, sculptures, ornaments and certain decorative accessories will be protected by copyright.

Consider the following illustrative scenario on how courts will likely analyze copyright infringement in the 3D printing context. Company A sues Company B for copyright infringement because Company B is selling a 3D-printed product that allegedly infringes the copyrighted shape/design of Company A’s decorative water container.[3] The court finds that the decorative water container is similar to “modern sculpture” and “has a distinctive shape.” The court, however, in applying the concept of conceptual separability, finds that it is impossible to conceptually separate the distinctive appearance element of the water container from its functional element of holding content. As a result, even though the facts show it is likely that Company B copied the design of Company A’s water container, the court finds that Company B is not liable for copyright infringement of Company A’s design. The court reasons that the primary purpose of Company A’s water container design is to

provide a useful function, i.e. “to hold the contents within its shape,” and that *copyright can only protect nonuseful objects*.

It is important to note that this does not mean useful objects will have no protection. Patent rights protect many of the useful articles that are beyond the scope of copyright. And, as discussed above, design patents can protect elements of a useful object’s appearance, while utility patents can protect novel aspects of how a useful object operates or works. Further, in many countries, rights holders can obtain trademark rights on distinctive elements of a useful object’s appearance. Therefore, as discussed earlier, we recommend using a multilayered strategy to combine the necessary complementary rights in a way to cover each element of a functional object. In a recent example of this technique, the maker of Uggs-brand shoes filed suit against retailers, alleging common law trademark infringement, trade dress infringement, and design patent infringement of its rights in specific Uggs shoes. Though the case is still pending, by layering varying types of protection onto an otherwise non-copyrightable shoe, this rights-holder has greatly increased its probability of success, and thus its control over the Uggs brand. Finally, while this case does not involve 3D printing, it makes clear that layering trademark, trade dress, and patent protection is an invaluable tool when protecting functional, non-copyrightable objects, and a tool that will prove even more important as 3D printers become more advanced and accessible.

Another tool in the arsenal of copyright holders will be the Digital Millennium Copyright Act (DMCA), which can be used against unauthorized entities offering to 3D print goods that are protected by IP rights. In a recent example, HBO successfully used the DMCA to force a company to stop making 3D printed phone chargers modeled after the Iron Throne from the popular cable television show *Game of Thrones*. Similar rights-holder actions, both under the DMCA and the Copyright Act more broadly, have resulted in the online removal of 3D-printed items including, among others: a model of the “cube” from Paramount’s *Super 8* film[4]; Pokémon character planters[5]; Final Fantasy VII video game figurines[6]; and the now infamous “Left Shark” figurines, based on a costumed performer in the Katy Perry 2015 Super Bowl Halftime Show.

However, while these notices often result in the removal of the offending item from 3D printing websites, it is important to note the risk inherent in sending them. Specifically, as these requests are often published online and subject to strong public pushback, rights-holders should think carefully about the impression that their legal claims will make on consumers. Indeed, as illustrated by the “Left Shark” cease and desist letter, some attempts to protect a brand may in fact do more harm than good.

Trademark or “Trade Dress” Rights

3D printing will pose serious concerns for many industries that heavily rely upon branding to sell their products. Unconventional trademarks rights such as trade dress, trademarks in 3D shapes and colors will play a key role in protecting company brands in the 3D printing context. Consider, for example, that 3D printing technology can now be used to the ability to print ingestible products such as food, supplements and pharmaceuticals. In fact, infringers using 3D printers and the “right mix” of ingredients now have the capability to mass-produce certain ingestible products with the same outward physical appearance as legitimate products. This could result in a significant volume of counterfeit goods reaching the marketplace. This is particularly worrying when such products would be combined with potentially flawless imitation packaging, labelling and instructions for use, since the overall product could appear to the relevant consumer as identical to the genuine item.

Naturally, this is a growing concern for brand and public safety conscious companies within these industry sectors as there are few, if any ways, to control the ingredients counterfeiters may use to imitate an ingestible product. As a result, rights holders may be faced with a scenario where goods that look identical to their own products are reaching the marketplace, but with

either ineffective or potentially dangerous ingredients. This clearly could result in situation that exposes the right holder to reputational damage and significant legal liability. We know that this sort of scenario has taken place many times in the past, however the availability of improved 3D printing technology potentially enables increased local production – and a corresponding increase in the complexity of policing.

To address this situation, rights holders will need to consider how to incorporate the monitoring of products created by 3D printing into their on-going anti-counterfeiting programs. While this is easier said than done, there are a number of basic steps that should be taken now. For example, brand owners should ensure that all products placed on the market are fully protected by way of trademark registration. This includes not just the brand name and related stylistic or logo elements, but also securing three-dimensional registered trademark protection for those products which have distinctive character. Further, rights holders should secure registered design protection for the external appearance of the products themselves and their packaging where appropriate.

Trade Secrets

A final and important consideration for rights holders will be the risk posed by infringers obtaining the actual recipe (or right mix of ingredients) for the item in question, and the mass production of the recipe by way of 3D printing. While remedies may exist by way of enforcing patents and rights in confidential information, such steps are reactive. This technological development highlights the need for a proactive stance through increased vigilance in the marketplace. There are a number of steps rights holders should take now to enhance their ability to protect and prevent disclosure of their trade secrets. These steps include, for example: 1) systematically identifying valuable confidential information, 2) requiring confidentiality and non-disclosure agreements with all employees, contractors and even customers, 3) limiting access to confidential information, 4) using and adhering to “confidential” designations on documents, 5) using copy protection and embedded codes to trace copies, 6) controlling visitor and employee access to certain facilities, and 7) restricting downloading of confidential information. Taking these steps can significantly reduce the risks posed by trade secret theft. Further, in the unfortunate event that trade secret theft still occurs, rights holders following these steps will be better positioned to enforce their rights in trade secret litigation.

Conclusion

3D printing will provide right holders and designers with major manufacturing and economic benefits, likewise it is very likely that some will use 3D printing to further anti-competitive behavior or surreptiously expose the public to health and safety concerns. While the global marketplace for 3D goods is early on its development, it’s not too early to consider how rights holders can take proactive and practical steps to get a better handle on how the rise of 3D printing will impact their businesses.

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[1] *Sony Corp. of America v. Universal City Studios, Inc.* (1984).

[2] ”Introducing SuperFanArt,” SHAPEWAYS.COM, (http://www.shapeways.com/discover/superfanart) (detailing Hasbro’s partnership with Shapeways for licensed 3D printable toys); Shandrow, Kim L., “CocoJet: 3-D Printing and Hershey’s Chocolate, Together at Last,” ENTREPRENEUR.COM (http://www.entrepreneur.com/article/241596) (describing Hershey’s partnership with 3D Systems to create a commercially available “chocolate making machine” named CocoJet).

[3] *Inhale, Inc. v. Starbuzz Tobacco, Inc.*

[4] Masnick, Mike, “Prop Wars: Can Paramount Prevent People From Offering Up Plans To 3D Print Movie Props?,” TECHDIRT.COM, (https://www.techdirt.com/articles/20110630/03133214920/prop-wars-can-paramount-prevent-people-offering-up-plans-to-3d-print-movie-props.shtml).
“Pokémon targets 3D printed design, citing copyright infringement,” WORLDIPREVIEW.COM, (http://www.worldipreview.com/news/pok-mon-targets-3d-printed-design-citing-copyright-infringement-7067).

[5] Statt, Nick “Print chop: How copyright killed a 3D-printed Final Fantasy fad,” CNET.COM, (http://www.cnet.com/news/print-chop-how-copyright-killed-a-3d-printed-final-fantasy-fad).

[6] Donahue, Bill, “Katy Perry Gets 3D ‘Left Shark’ Design Pulled After Threats,” LAW360.COM, (http://www.law360.com/articles/619441).

IP Due Diligence Checklist

for possible acquisition of

Universal Gaming Holdings ("UGH"), Inc.

by

Slots & Lotteries United Technologies ("SLUT"), Inc.

NOTE:

Singular includes plural.
In addition to answering the questions, provide copies of all pertinent documents.

Inventions and Patents

Separately for each UGH product in the catalog and for any ideas or products under development:

- Developers of the product
  - Who developed this product?
  - Has each such person who is an employee signed an employee invention agreement?
  - Has each such person not an employee assigned all rights to UGH?

- Provisional patent applications
  - Does UGH have a provisional patent application on this product?
    - What is the filing date?
    - Was there any disclosure or offer of sale prior to the filing date?
      - (press conferences, trade shows, sneak previews, suppliers, etc.)
    - Have all inventors assigned ownership of the application to UGH?
      - Have the assignments been recorded?
    - Has the application been converted to a non-provisional?

- Non-provisional patent applications
  - Does UGH have a non-provisional patent application on this product?
    - What is the filing date?
    - Does the non-provisional include information not in any applicable provisional?
    - Was there any public disclosure or offer of sale prior to the filing date?
      - (press conferences, trade shows, sneak previews, suppliers, etc.)
    - Have all inventors assigned ownership of the application to UGH?
      - Have the assignments been recorded?
    - Have international patent applications been filed?
      - What is their status?
    - If the patent has issued:
      - Have maintenance fees been paid?
      - Has UGH granted a license to anyone else?

Patents of Others
- Have any infringement studies been done to determine whether the product infringes anyone else's patents?
- Does the product include a licensed patent of someone else?
  - What are the terms of the license?
  - Has the validity of the licensed patent been evaluated?
- Have there been any accusations, formal or informal, of infringement?

Provide copies of any R&D agreements
- R&D being done by UGH for others?
- R&D being done by others for UGH?

Works of Authorship

Provide a schedule of UGH's works of authorship, including for example:
- Product literature
- Advertising copy
- Photographs
- Graphics
- Instruction manuals

For each work owned by UGH:
- Was the work created by an employee?
- Was the work created by a contractor?
  - Was there a written "work for hire" contract?
  - Has the contractor assigned rights in the work to UGH?
- Has a copyright registration been filed?
- Has the work been published?
  - What is the publication date?

For each work not owned by UGH:
- Does UGH have a license to use the work?

Software

Provide copies of licenses for software that others have licensed to UGH.

Have UGH's office computers been audited to be sure software on them is licensed?

Is any software held in a third-party escrow?

Provide a schedule of software that is:
- Embedded in, or accompanies, an UGH product
- Offered as an UGH product
- In PCs or other computers used internally by UGH

Software owned by UGH:
- Was the work created by an employee?
- Was the work created by a contractor?
  - Was there a written "work for hire" contract?
  - Has the contractor assigned rights in the work to UGH?
- Has a copyright registration been filed?
- Has it been published?
  - What is the publication date?

Does any UGH-created software include Open Source code?
- Is the Open Software license being complied with?

<u>Trademarks</u>

Provide a schedule of trademarks, including for example:
- Word marks
- Logos
- Service marks
- Trade names
- Names of products including model names

For each trademark owned by UGH
- Was it created by an employee?
- Was it created by a contractor?
  - Has the contractor assigned rights in the mark to UGH?
- When was the mark first used anywhere? In interstate commerce?
- Has a state registration been filed?
  - Have any needed renewals been filed?
- Has a Federal registration been filed?
  - Has the registration issued?
  - Have any needed affidavits and renewals been filed?

For each trademark not owned by UGH
- How is UGH using the mark?
- Does UGH have a license to use the mark?
  - Does the license require UGH to acknowledge the owner of the mark?
  - Is UGH acknowledging the owner?

Are there any accusations of trademark infringement by or against UGH?

Is there any thought of ever using the mark internationally?
- What does it mean in the languages of the countries?
- Have any international registrations been applied for?

Trade Secrets

Schedule of trade secrets
- Don't include the actual secret information in the schedule
  - Customer names, addresses, payment & ordering details
  - Supplier names, addresses, ordering details
  - Financial and business records
  - Technical information
    - Unpublished patent applications
    - Source code
    - Technical know-how
    - Manufacturing know-how

Nondisclosure Agreements (NDAs)
- Has UGH entered into any NDAs promising to preserve others' secrets?
  - Is there a time limit on the duty to keep information secret?
  - Which UGH employees have actually accessed the disclosed information?
  - What steps are being taken to avoid inadvertent disclosure?
- Has UGH granted anyone else access to UGH's secrets through an NDA?
  - What monitoring is being done to be sure UGH's information stays secret?

Physical Security
- How are UGH's physical premises secured?
  - Security guard?
  - Locked doors for sensitive areas?
  - Visitor register?
  - Visitor badges?
- How are documents protected?
  - Marking as "Confidential"?
  - Kept in a safe?
  - Who has access?

Are employees periodically briefed on protecting trade secrets?

Employees

Provide each employee's written employment agreement.
- Does it include trade secrets?
- Does it include an assignment to UGH of all inventions arising from the employee's work or related to UGH's business and R&D?
- Does it include an assignment of works of authorship?
- Does it include an assignment of software?
- Does it require employee to disclose to UGH inventions and works of authorship?

Provide each key employee's covenant not to compete
- If California law applies, covenant is likely unenforceable

Warranties & Litigation

Does each UGH supplier warrant that products being sold to UGH do not infringe someone's IP?
Provide sales documents from principal suppliers showing such warranties

Does UGH warrant to its customers that its products do not infringe anyone else's IP?

Are there any pending lawsuits by or against UGH respecting IP?

Are there any disputes or allegations by or against UGH respecting IP?

Brand Protection In Social Media

by J.D. Lowry, Esq., with creative contributions by Steven A. Gibson, Esq.

Gibson & Treu LLP

October 2015

I. WHAT IS A "BRAND"?

There is no federal or state statute or case law known to the above-signed that defines a "brand," but the concept remains critical for brand proprietors irrespective of the fine points of hornbook intellectual property law. A "brand" transcends the goods and/or services provided by the brand's proprietor, and any legally protectable indicia thereof. A "brand" may include, without limitation:

- Trademarks and service marks, the traditional indicators of source.
- Trade dress. *See, e.g., The Clearly Food & Beverage Co., Inc. v. Top Shelf Beverages, Inc.,* case no. C-13-1763-JLR, 2015 U.S. Dist. LEXIS 55673 (W.D. Wash. April 28, 2015) (attached), in which one of the ineffable qualities of the plaintiff's brand was recognized to be the unique, revered[1] "teardrop" shape of the Clearly Canadian flavored-sparkling-water brand's bottle. *Clearly* at *29.
- Commercial properties, which expand a brand into areas not traditionally protected by trademark, trade dress, copyright,

[1] Perhaps only to those of us of a certain age, but there you have it.

and patent law. (*See, e.g., Pinterest Inc. v. Pintrips, Inc.,* 15 F.Supp.3d 992 (N.D. Cal. 2014), in which the Northern District of California grappled to some extent with the protectability of the notion of a "pin" *vis-à-vis* Internet content. Query: Is a Pinterest "pin" a quintessential example of a common-law-protectable commercial property?)

- Transcendent, intangible aspects of image
- Goodwill.

II. WHO ARE BRAND ACTORS?

Multiple actors traditionally create, maintain, and affect a brand, including:

- The proprietor of the brand as a business
- Employees of the business
- Independent contractors
- Franchisees
- Strategic alliances between the proprietor and other businesses
- Spokespeople and paid endorsers

The rise of social media has, for better or worse, transformed the consuming public into a brand actor over which the brand's proprietor has no immediate control. As discussed below, both traditional and non-traditional brand actors may engage in a wide variety of activity in social media contexts that can have a negative affect on a brand in an ever-evolving variety of ways.

III. HOW CAN SOCIAL MEDIA ACTIVITY AFFECT A BRAND?

A. What Social Media Outlets May Be At Issue?

- The most familiar social media outlets and platforms are Facebook, Twitter, Pinterest, Instagram, Tumblr, YouTube, and Vine.
- Less commonly encountered platforms in late 2015 that are the subject of continued academic discussion include MySpace and Second Life.
- Individual blogs deal with virtually any subject. Many bloggers post general musings regarding a wide variety of subjects that may from time to time include particular brands. Others may devote an entire blog to a brand without any solicitation on the part of the brand proprietor.
- Businesses, organizations, and groups of individuals sharing particular interests may operate message boards devoted for the most part to their specific subjects of concern, whether on a stand-alone forum website or a discussion section of a website operated for other reasons.
- Discussion communities such as Reddit and Fark.com exist to facilitate user interaction regarding a virtually limitless array of subjects.
- Genre-specific user-submitted fiction and commentary websites publish individuals' original content that, in the case of "fan

fiction," may draw characters, plots, and other creative elements from pre-existing works of popular culture.

- Business review outlets include Yelp and Angie's List.
- The local subdomains of craigslist.com have largely supplanted print classified advertising in almost all respects, from event announcements to sales to job offerings to personal advertising.
- Wikipedia cannot be considered *not* to constitute "social media" given its conceptual, philosophical openness to contributions from even anonymous contributors living under regimes in which the mere establishment of a username might lead to incarceration, torture, capital punishment, and worse. The "free encyclopedia that anyone can edit" is a primary initial reference source for millions worldwide. (Followers of the Seventh Circuit and/or Judge Richard Posner may have noted that Judge Posner regularly cites Wikipedia as an information source in published opinions.) A few aspects of Wikipedia operations little-known to most:
    - There are almost 300 separate Wikipedias in different languages. Their terms of use and content/conduct regulations are all completely separate from one another. Administrators of the English Wikipedia, for example, have no ability to act with respect to content or conduct on, for example, the Spanish Wikipedia. The Wikimedia Foundation, headquartered in San Francisco, exercises some level of plenary authority over all the Wikipedias

but will generally refrain from becoming involved in content or conduct disputes unless serious legal issues (stalking, large-scale plagiarism, child endangerment) come to its attention.

- The English Wikipedia vigorously polices encyclopedia content against "COI" editing—"conflict of interest," when a content contributor or editor bears a close real-world relationship to the subject of the article in question. Non-attorney volunteers are the administrators of this process. Many exercise draconian authority to delete content and block users whom they perceive to be manipulating content in a non-objective fashion.
- New accounts will be denied with respect to usernames that appear to reflect an organizational, rather than a personal, account, and accounts will be blocked if it appears to administrators that more than person is using the account.
- The English Wikipedia's administrators will immediately block any user who makes anything those non-attorney volunteers construe as a "legal threat" from making any further contributions to the encyclopedia unless the threat is recanted.
- The English Wikipedia's administrators are zealously devoted to enforcing the English Wikipedia's copyright guidelines, whose exclusionary principles go well beyond

established U.S. statutory and case-law fair-use guidelines in their prohibitory effect.

B. What Can Go Wrong?

- Individuals who are active on social media and have a negative experience with respect to a brand make their dissatisfaction known in ways that range from constructive criticism to malicious sabotage.
    - Facebook users may simply post to friends about their negative experience… or they may set up a dedicated page to complain and encourage others to "share" resulting postings.
    - "Yelpers" may simply post an objectively negative review of a business… or they may engage in a campaign of posting false and malicious reviews and encouraging others to do the same.
    - Message board community users may simply start a new thread to complain about their experience and solicit others' thoughts… or they may coordinate deliberate brand sabotage activities with other users that may ultimately have international impact.
- Employees and independent contractors tasked with creating social media content may innocuously post content that turns out to offend some segment of the public, or may deliberately

retaliate against their employer and/or burdensome customers through posting inappropriate content.

- Individuals associated with the brand, from employees to spokespeople, may engage in non-brand-related activities that provoke public outcry and lead to protest activity that negatively affects the brand simply by association.
- Independent agents and salespeople who draw their livelihood (or engage in significant avocational activity) with respect to a brand may create well-meaning content intended to promote the brand that unintentionally has the opposite effect. *See, e.g., CrossFit, Inc. v. Alvies,* case no. 13-3771-SC (N.D. Cal. January 22, 2014) (attached), in which a personal trainer posted instructions for CrossFit workout techniques that the company deemed to be unsafe. Such content creators may also advertise products with which a brand proprietor may not wish the brand to be associated.

IV. SOCIAL MEDIA AND BRANDS: SOME LEGAL CONSIDERATIONS

A. New Infringement Problems And Considerations In Injunctive Relief

Social media has created new avenues for mark infringement that require creative thinking in crafting proposed injunctions. Remarkably, in *Vivid Entertainment, LLC v. J&B PB, LLC,* case no. 2:13-cv-524-FtM-29DNF, 2015 U.S. Dist. LEXIS 3121 (M.D. Fla. January 12, 2015) (attached), the Middle District of Florida entered a permanent

injunction in a mark infringement/cybersquatting case that imposed the mandatory obligation on the defendants to:

> notify in writing and direct all publishers of directories or lists, including [I]nternet search engines, in which Defendant's use of the [infringing] domain name… or the [infringing] trademark… appears, to delete all references to these names from their public databases, search engine directories, directory assistance and from all future directories in which said name is to appear, and to delete all forwarding or "cache memory" or storage mechanisms referencing such name...

Vivid Entertainment at *21-*22. The extent to which a third-party search engine, "public database," or other content provider with a philosophical objection to eliminating the entire past history associated with an infringing mark is up for debate and was apparently not part of the Middle District of Florida's calculus.

B. Establishing Personal Jurisdiction Through Social Media Evidence

Nonetheless, social media has also created new opportunities for the same level of creative thinking in terms of establishing specific personal jurisdiction. The likelihood is high that an infringement/misappropriation defendant with a social media presence is, knowingly or not, the subject of discoverable analytic information regarding contacts with specific states, and the U.S. as a whole, that can be argued in support of (or, for those on the defense side, against) a particular court's exercise of personal jurisdiction.

The Ninth Circuit's oft-cited standard with respect to specific jurisdiction, for reference purposes at a minimum, is that:

(1) The non-resident defendant must purposefully direct his activities or consummate some transaction with the forum or resident thereof; or perform such act by which he purposefully avails himself of the forum, thereby invoking the benefits and protections of its laws;

(2) the claim must be one which arises out of or relates to the defendants' forum-related activities; and

(3) the exercise of personal jurisdiction must comport with fair play and substantial justice, *i.e.,* it must be reasonable.

Yahoo! Inc. v. La Ligue Contre Le Racisme Et L'Antisemitisme, 433 F.3d 1199, 1205-06 (9th Cir. 2006). This author's personal experience, likely paralleling those of many conference attendees, is that defendants in Internet-based intellectual property infringement/misappropriation cases as of late 2015 tend to be located outside the United States. Federal courts will entertain jurisdictional allegations based on Fed. R. Civ. P. 4(k)(2)'s long-arm provision, but, certainly in the District of Nevada and elsewhere in the Ninth Circuit, will not do so axiomatically. Rule 4(k)(2) specifically allows U.S. federal courts to exercise personal jurisdiction, in claims arising under federal law (*i.e.* ***not*** Nevada state-law or common-law claims of, *e.g.,* state mark infringement, misappropriation of commercial properties, or unjust enrichment) over overseas defendants not subject to personal jurisdiction in any state court of general jurisdiction, if the Complaint alleges sufficient contacts with the U.S. as a whole that are sufficient to allow federal personal

jurisdiction to comport with due process. *See Holland America Line Inc. v. Wartsilä North America, Inc.,* 485 F.3d 450, 461 (9th Cir. 2007).

Attached is an unpublished opinion and order by Judge Larry Burns of the Southern District of California in *NuboNau, Inc. v. NB Labs, Ltd.,* case no. 10-cv-2631-LAB (BGS), 2012 U.S. Dist. LEXIS 32963 (S.D. Cal. March 9, 2012) (attached) featuring a detailed and highly instructive analysis of the use of analytic data regarding search engines and pop-up ads (and clicks thereon) leading to the court's conclusion that personal jurisdiction was appropriate in neither California nor the United States. Google Analytics and providers of click-through advertising are able to provide reports triangulating to an astonishing level of specificity the number of users who have clicked on a particular link or advertisement and where they are located geographically based on the users' Internet Protocol addresses. In *NuboNau,* a defendant was able to present to the court evidence that a particular website at issue "has been visited 3,928,717 times *total,* and 34.296 times by California residents. Of those 34,296 visits, 4,240 were click-[through] visits for which Google was paid." *NuboNau* at *18 (emphasis in original). Under the particular facts of *NuboNau,* the court did not find these statistics to reflect sufficient "purposeful direction" at California to justify the exercise of personal jurisdiction, but by no means did the court rule out the possibility that such statistics could be used to establish a due-process-compliant basis for personal jurisdiction. (Among a wide variety of other facts considered by the court was the notion that the overseas defendant promoted itself

through accounts on Facebook and Twitter—social media platforms whose propagating companies are, of course, located in California. "[T]he Court doesn't find that merely engaging Twitter and Facebook to promote one's business constitutes purposeful direction at California, simply because Twitter and Facebook happen to be based there and require users to litigate all lawsuits arising out of their accounts in California," Judge Burns held. *NuboNau* at *23.)

C. Mark-Specific Considerations

It is now, more or less, a truism among federal courts that "[m]ere use of the [I]nternet… is insufficient to show that the parties operate within the same marketing channel." *RIPL Corp. v. Google Inc.,* case no. 2:12-cv-02050-RSM, 2014 U.S. Dist. LEXIS 47210 (W.D. Wash. April 3, 2014), *citing Network Automation, Inc. v. Advanced Systems Concepts, Inc.,* 638 F.3d 1137, 1151 (9th Cir. 2011) ("Today, it would be the rare commercial retailer that did not advertise online, and the shared use of a ubiquitous marketing channel does not shed much light on the likelihood of consumer confusion.") *RIPL Corp.* demonstrates that, in a likelihood-of-confusion analysis in the trademark context, courts have recognized that social media platforms offered free for use by the public at large fall into different marketing channels than paid software platforms. Increasing public familiarity with the Internet has led to an increased recognition of when the public will and will not engage in particular levels of discernment with respect to marketing channels.

D. Enforcement Pitfalls

It is perhaps a fitting subject on which to conclude these materials to remind attorneys engaged in brand-policing activities that enforcement can sometimes cause a host of new problems. As described at the beginning, part of what makes a brand is its goodwill. Long before the social media era, brands lost goodwill by overzealous enforcement against the wrong defendants; now, the potential for international publicity over public-relations missteps that previously might have merited little more than a mention in *News of the Weird* mandates thoughtful, fact-specific consideration of enforcement strategies.

Enforcing attorneys must also ensure that their enforcement strategies fall within appropriate legal parameters. *CrossFit, Inc. v. Alvies,* already discussed in the context of CrossFit, Inc.'s ("CrossFit's") initial claims against a fitness blogger, presents an entirely separate issue of interest relating to an enforcement misstep. As part of CrossFit's *mark* enforcement strategy, CrossFit sent a DMCA *copyright* takedown notice to Facebook requesting removal of blogger defendant Ms. Alvies' "CrossFitMamas" Facebook page. Ms. Alvies counterclaimed under 17 U.S.C. § 512(f), which imposes liability on "[a]ny person who knowingly materially misrepresents" that material infringes on a *copyright* for resulting damages sustained by the putative infringer. The Northern District of California declined to dismiss Ms. Alvies' counterclaim, agreeing that Ms. Alvies "plausibly alleged that CrossFit materially misrepresented that [Ms.] Alvies's Facebook page

infringed on a copyright, since CrossFit's claims are based only on its asserted trademark rights." *CrossFit* at 5:28-6:3. The court was not swayed by CrossFit's argument that Facebook has a takedown procedure with respect to alleged trademark violations as well; "[w]hether CrossFit may have been able to convince Facebook to remove Alvies's page on some other ground has no bearing on CrossFit's compliance with the DMCA." *Id.* at 6:3-5.

Your authors invite questions regarding any aspect of these materials, particularly, in Miss Lowry's case, with respect to considerations regarding intellectual property law issues on Wikipedia and the most effective potential means of enforcing same. Her copy-editing contributions (to articles having as little as possible to do with the law) to English Wikipedia are accessible via her username, julietdeltalima.

THE CLEARLY FOOD & BEVERAGE CO., INC., Plaintiff, v. TOP SHELF BEVERAGES, INC., Defendant.

CASE NO. C13-1763JLR

UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON

2015 U.S. Dist. LEXIS 55673

April 28, 2015, Decided
April 28, 2015, Filed

PRIOR HISTORY: *Clearly Food & Bev. Co. v. Top Shelf Bevs., Inc., 2015 U.S. Dist. LEXIS 34629 (W.D. Wash., Mar. 18, 2015)*

COUNSEL: [*1] For The Clearly Food & Beverage Co., Inc., Plaintiff: John E Whitaker, WHITAKER LAW GROUP, SEATTLE, WA; Philip P Mann, Timothy J Billick, MANN LAW GROUP, SEATTLE, WA.

For Top Shelf Beverages, Inc., Defendant: Nathaniel G Kelly, LEAD ATTORNEY, PRO HAC VICE, LAW OFFICE OF NATE KELLY, SAN FRANCISCO, CA; James A Hertz, Richard H Friedman, FRIEDMAN RUBIN (BREMERTON), BREMERTON, WA; Michael P Hogan, Kevin S Costanza, SEED INTELLECTUAL PROPERTY LAW GROUP PLLC, SEATTLE, WA.

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JUDGES: JAMES L. ROBART, United States District Judge.

OPINION BY: JAMES L. ROBART

OPINION

ORDER GRANTING IN PART AND DENYING IN PART SUMMARY JUDGMENT

I. INTRODUCTION

Before the court is Defendant Top Shelf Beverages, Inc.'s ("Top Shelf") motion for summary judgment. (*See* Mot. (Dkt. # 47).) This is a trademark case involving two brands of bottled beverages: "Clearly Canadian" sparkling water and "Clearly Kombucha" fermented tea. Having considered the submissions of the parties, the balance of the record, and the relevant law, **[*2]** and deeming oral argument unnecessary, the court GRANTS in part and DENIES in part Top Shelf's motion for summary judgment.

II. BACKGROUND

Unless otherwise noted, the following facts are undisputed. Plaintiff The Clearly Food & Beverage Co. ("Clearly Food") owns the trademark "Clearly Canadian," United States Trademark Registration No. 1,697,898, as used on "flavored mineral waters, fruit flavored mineral waters, non-flavored mineral waters, carbonated mineral waters, non-carbonated mineral waters, bottled drinking waters, spring waters, soft drinks and fruit juices." (Resp.

(Dkt. # 54)) at 4; Ledden Decl. (Dkt. # 47-3) Ex. 2 ("Assignment").) Clearly Food obtained this trademark from the now-defunct Clearly Canadian Beverage Corporation ("CC Beverage") in January 2012. (*See* Assignment.) CC Beverage sold bottles of flavored sparkling water under the brand name "Clearly Canadian." (Req. for Not. (Dkt. # 49) Ex. E ("Trustee's Rep.").) After struggling for several years to compete in the beverage market, CC Beverage filed for bankruptcy in March 2010. (*Id.*; Req. for Not. Ex. D ("Bank. Filing").) In January, 2012, the Clearly Canadian trademark was sold to Clearly Food on behalf of CC Beverage's **[*3]** secured creditors. (Ledden Decl. Ex. 1 ("Not. of Seizure").) Although by that time the product was no longer being manufactured, Clearly Food intended to "reintroduce Clearly Canadian" by "bringing back the original legacy line in its premium glass teardrop bottle (6+ flavors)." (Ledden Decl. Ex. 3 ("Khan 8/23/11 Email"), *see also* Ex. 14 ("2012 Bus. Plan") (detailing Clearly Food's product development and pricing, marketing, sales, and distribution strategies, with a goal to "enter full-scale commercial production by March 2013 for North America").)

Since then, manufacturing of Clearly Canadian beverages in limited quantities has resumed. (Dabish Decl. (Dkt. # 56) ¶¶ 2-5.) Bottles of Clearly Canadian sparkling water have been sold online. (Colley Dep. (Dkt. # 57-1) at 91:6-92:4.) Clearly Food is engaged in an online pre-sales campaign directed at consumers, and has also received larger-scale orders from several beverage distributors. (2d Khan Decl. (Dkt. # 93-13) at ¶¶ 3-5.) Clearly Food plans to begin selling its products in retail grocery stores in 2015. (*Id.*)

Top Shelf was founded by Caleb Cargle and Alison Zarrow in 2009. (Cargle Decl. (Dkt. # 47-1) ¶ 2; *see generally* Cargle Dep. **[*4]** (Dkt. # 57-3) at 35:17-37:19.) Top Shelf currently sells a flavored kombucha beverage under the trademarked label "Clearly Kombucha." (Cargle Dep. ¶ 1.) Kombucha is a drink brewed from green tea and then fermented with a symbiotic colony of bacteria and yeast. (*Id.* ¶ 16.) Mr. Cargle and Ms. Zarrow have developed a unique type of kombucha that is "clear." (*Id.* ¶ 7.) That is, due to the filtration process used during brewing, their kombucha is "free from solid 'floaties' typically associated with kombucha [that are] . . . caused by the symbiotic colony of bacteria and yeast." (*Id.* ¶¶ 6-7.)

The co-founders originally sold their product under the brand "Top Shelf Kombucha." (*Id.* ¶ 9.) They marketed Top Shelf Kombuhca as a high-end or "premium" mixer and non-alcoholic substitute, and sold it in a miniature champagne bottle. (*Id.* ¶ 8.) Although supplies were limited by their production capabilities, they believed the sales results "showed promise." (*Id.* ¶ 10.)

At the end of 2010, the co-founders changed strategies. (*Id.* ¶ 12; Zarrow Dep. (Dkt. # 57-5) at 9:11-17.) After consulting with brand advisors, they decided to differentiate their product from its competitors based on its "clear" character. **[*5]** (Cargle Decl. ¶ 12; Zarrow Dep. at 12:16-24.) They also decided that they wanted Top Shelf to be recognized as a socially conscious brewer with transparent manufacturing practices. (Cargle Decl. ¶ 13) To reflect those goals, they decided to change the name of their product to "Clearly Kombucha." (*Id.*)

The co-founders applied for a federal trademark registration in November 2010, and the "Clearly Kombucha" mark was published for opposition in April 2011. (Req. for Not. Exs. A, B.) After the mark was published, the Clearly Kombucha brand launched in Ralph's grocery stores throughout California. (Cargle Decl. ¶ 14.) Clearly Kombucha beverages are now sold at various retailers, including, among others, Safeway stores in northern California and the Pacific Northwest, Ralph's stores in southern California, a few Whole Foods grocery stores in Northern California, and PCC natural food stores in Washington and Oregon. (Cargle Dep. at 73:3-74-12; Zarrow Dep. at 27:21-28.) Clearly Kombucha is also available for purchase over the Internet. (Cargle Dep. at 83:21-25.)

In September, 2013, Clearly Food filed this action against Top Shelf, bringing claims for trademark infringement under the Lanham Act **[*6]** *§ 32, 15 U.S.C. § 1114*, unfair competition under the Lanham Act § 43(a), *15 U.S.C. § 1125(a)*, trademark dilution under Lanham Act § 43(c), *15 U.S.C. § 1125(c)*, and trademark infringement and unfair competition under Washington State law. (*See generally* Compl. (Dkt. # 1).) Top Shelf's motion for summary judgment on all claims is now before the court. (*See* Mot.)

III. ANALYSIS

A. Summary Judgment Standard

Federal Rule of Civil Procedure 56 permits a court to grant summary judgment where the moving party demonstrates (1) the absence of a genuine issue of material fact and (2) entitlement to judgment as a matter of law. *Celotex Corp. v. Catrett, 477 U.S. 317, 322, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*; *see also Galen v. Cnty. of L.A., 477 F.3d 652, 658 (9th Cir. 2007)*. The moving party bears the initial burden of showing the absence of a genuine issue of material fact. *Celotex, 477 U.S. at 323*.

If the moving party does not bear the ultimate burden of persuasion at trial, it can show the absence of an issue of material fact in two ways: (1) by producing evidence negating an essential element of the nonmoving party's case, or (2) by showing that the nonmoving party lacks evidence of an essential element of its claim or defense. *Nissan Fire & Marine Ins. Co. v. Fritz Cos., 210 F.3d 1099, 1106 (9th Cir. 2000)*. If the moving party will bear the ultimate burden of persuasion at trial, it must establish a prima facie showing in support of its position on that issue. *UA Local 343 v. Nor-Cal Plumbing, Inc., 48 F.3d 1465, 1471 (9th Cir. 1994)*. That is, the moving party must present evidence that, if uncontroverted **[*7]** at trial, would entitle it to prevail on that issue. *Id. at 1473*.

If the moving party meets its burden of production, the burden then shifts to the nonmoving party to identify specific facts from which a factfinder could reasonably find in the nonmoving party's favor. *Celotex, 477 U.S. at 324*; *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 252, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. In determining whether the factfinder could reasonably find in the nonmoving party's favor, "the court must draw all reasonable inferences in favor of the nonmoving party, and it may not make credibility determinations or weigh the evidence." *Reeves v. Sanderson Plumbing Prods., Inc., 530 U.S. 133, 150, 120 S. Ct. 2097, 147 L. Ed. 2d 105 (2000)*.

B. Judicial Notice

Top Shelf requests that the court take judicial notice of the following documents: (1) Top Shelf's Trademark Application for the Clearly Kombucha mark, (2) the Notice of Publication of the Clearly Kombucha mark, (3) the Trademark Registration Certificate for the Clearly Kombucha mark, (4) the Combined Declaration of Use and/or Exclusable Nonuse /Application for Renewal of Registration of a Mark under Sections 8 & 9 for the Clearly Canadian mark, (5) the Proposal under the Bankruptcy and Insolvency Act filed in March 2010 by CC Beverage, and (6) the Trustee's Report to Creditors filed in *In the Matter of the Proposal of Clearly Canadian Beverage Corporation*, dated March 17, 2010. **[*8]** (*See* Req. for Not. Exs. A-F.) Top Shelf obtained the trademark documents from the U.S. Patent and Trademark Electronic Search System, and obtained the bankruptcy documents from the Supreme Court of British Columbia (Vancouver Registry). (*Id.* ¶¶ 6-7.)

Rule 201 of the Federal Rules of Evidence permits a federal court to take judicial notice of a fact that is not subject to "reasonable dispute" because it is "capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned." *Fed. R. Evid. 201(b)(2)*. The public records of administrative agencies and other courts are appropriate matters for judicial notice. *Reyn's Pasta Bella, LLC v. Visa USA, Inc., 442 F.3d 741, 746 n.6 (9th Cir. 2006)* (taking notice of court filings); *see also Dahon N. Am., Inc. v. Hon, No. 2:11-CV-05835-ODW, 2012 U.S. Dist. LEXIS 57510, 2012 WL 1413681, at *8 (C.D. Cal. Apr. 24, 2012)* (taking judicial notice of documents filed on the United States trademark website); *CDx Diagnostics Inc. v. Histologics LLC, No. CV 13-7909-DOC RNBX, 2014 U.S. Dist. LEXIS 92683, 2014 WL 3347525, at *3 (C.D. Cal. July 7, 2014)* (collecting cases taking judicial notice of documents from administrative agencies). Clearly Food has not objected to Top Shelf's request. Accordingly, for the purposes of this motion, the court grants Top Shelf's request for judicial notice.

C. Abandonment

"To prove abandonment of a mark as a defense to a claim of trademark infringement, a defendant must show that there was: **[*9]** '(1) discontinuance of trademark use *and* (2) intent not to resume such use.'" *Wells Fargo & Co. v. ABD Ins. & Fin. Servs., Inc., 758 F.3d 1069, 1072 (9th Cir. 2014), as amended* (Mar. 11, 2014) (quoting *Electro Source, LLC v. Brandess-Kalt-Aetna Grp., Inc., 458 F.3d 931, 935 (9th Cir. 2006)*; *see also 15 U.S.C. § 1127*. Non-use for three consecutive years constitutes prima facie evidence of abandonment. *Herb Reed Enterprises, LLC v. Fla. Entm't Mgmt., Inc., 736 F.3d 1239, 1247-48 (9th Cir. 2013)*; *15 U.S.C. § 1127*. In the Ninth Circuit, non-use for three consecutive years creates only a rebuttal presumption of abandonment--it does not shift the burden of proof to the trademark owner.

Abdul-Jabbar v. Gen. Motors Corp., 85 F.3d 407, 411 (9th Cir. 1996). A trademark owner can rebut the presumption of abandonment by showing valid reasons for non-use or lack of intent to abandon the mark. *Id.*

"The standard for non-use is high." *Herb Reed Enterprises, LLC, 736 F.3d at 1247-48*. "Non-use requires '*complete* cessation or discontinuance of trademark use.'" *Id.* (quoting *Electro Source, LLC, 458 F.3d at 936*). The phrase "trademark use" means use that "includes placement on goods sold or transported in commerce; is bona fide; is made in the ordinary course of trade; and is not made merely to reserve a right in a mark."[1] *Electro Source, LLC, 458 F.3d at 936* (quoting *15 U.S.C. § 1127*). Even a "single instance of use is sufficient against a claim of abandonment of a mark if such use is made in good faith." *Wells Fargo & Co., 758 F.3d at 1072* (quoting *Carter-Wallace, Inc. v. Procter & Gamble Co., 434 F.2d 794, 804 (9th Cir. 1970))*.

1 Although "bona fide" is not defined in *Section 1127*, the Ninth Circuit has noted that "*Black's Law Dictionary* provides two similar definitions for 'bona fide': '1. Made in good faith; without fraud **[*10]** or deceit. 2. Sincere; genuine.'" *Electro Source, LLC, 458 F.3d at 936* (quoting Black's Law Dictionary at 186 (8th ed. 2004)). The Ninth Circuit has also noted that "the term 'bona fide' in common parlance means 'made or carried out in good faith; sincere.'" *Id.* (quoting The American Heritage College Dictionary 158 (3d. ed. 2000)).

Evaluating whether a use is in "the ordinary course of trade" is "often an intensely factual undertaking." *Electro Source, LLC, 458 F.3d at 940*. Courts must consider the "totality of the circumstances" to determine if genuine, albeit limited usage of the mark occurred "in the ordinary course of trade." *Id.*; *Wells Fargo & Co., 758 F.3d at 1072*. Relevant factors include the "genuineness and commercial character of the activity, the determination of whether the mark was sufficiently public to identify or distinguish the marked [products] in an appropriate segment of the public mind as those of the holder of the mark, the scope of the [trademark] activity relative to what would be a commercially reasonable attempt to market the service [or product], the degree of ongoing activity of the holder to conduct the business using the mark, [and] the amount of business transacted." *Electro Source, LLC, 458 F.3d at 941* (quoting *Chance v. Pac-Tel Teletrac Inc., 242 F.3d 1151, 1159 (9th Cir. 2001))*. "Good faith nominal or limited commercial sales of trademarked goods are sufficient **[*11]** . . . to avoid abandonment[] where the circumstances legitimately explained the paucity of the sales." *Electro Source, LLC, 458 F.3d at 939*.

Because abandonment of a trademark is "in the nature of forfeiture, [it] must be strictly proved." *FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 515 (9th Cir. 2010)*. The Ninth Circuit has not determined whether this high standard of proof requires "clear and convincing" evidence or a "preponderance of the evidence." *Id.*; *see Grocery Outlet Inc. v. Albertson's Inc., 497 F.3d 949, 954 (9th Cir. 2007)* (separate concurrences disagreeing as to the applicable standard of proof). The court need not decide which standard of proof applies here because, viewing the evidence in the light most favorable to Clearly Food, Top Shelf fails to carry its burden under either standard. *See FreecycleSunnyvale, 626 F.3d at 515* (declining to decide which standard applied to a motion for summary judgment); *Electro Source, LLC, 458 F.3d at 936* (same).

a. Relevant facts

Top Shelf contends that the Clearly Canadian mark is presumptively abandoned because "there is no genuine dispute of material fact that there has not been any bona fide use of [the Clearly Canadian trademark] from 2008 to the present day." (Mot. at 17.) The relevant facts, taken in the light most favorable to Clearly Canadian, *Reeves, 530 U.S. at 150*, are as follows.

CC Beverage's last full-scale production run of beverages bearing the Clearly Canadian trademark occurred **[*12]** sometime in 2009. (Ledden Decl. Ex. 8 ("6/3/14 Khan Email"); Ledden Decl. Ex. 9 ("12/22/11 Khan Email").) On September 4, 2009, Clearly shipped 432 cases of Clearly Canadian 20-ounce bottles to Paw Paw Wine Distributors ("Paw Paw") in Michigan. (Bogen Decl. (Dkt. # 55) ¶ 5, Attach. A.) In turn, Paw Paw sold Clearly Canadian 20-ounce and 14-ounce beverages to retailers from 2009 through 2011. (*Id.* Attachs. B, C.) In an August 2009 transaction, GrayCo Sales Limited ("Grayco"), a beverages distributor in Ontario, Canada, sold approximately $225,000 worth of Clearly Canadian product to the retailer Big Lots. (Colley Dep. at 23:6-15; 24:19-25:3.)

Intrastate Distributors, Inc. ("Intrastate"), a beverage

wholesale and manufacturing company located in Michigan, bottled Clearly Canadian product during 2011 and 2012. (Dabish Decl. ¶¶ 2-3.) Graham Colley, the president of Grayco, maintained a trade booth at the Canadian National Exhibition in 2010 and 2011 featuring Clearly Canadian products. (2012 Bus. Plan. at 32-33 ("3/30/12 Colley Letter").)

In March, 2012, Graham Colley, the president of Grayco, negotiated a license with Clearly Food to sell Clearly Canadian beverages. (Colley Dep. at 32:22-33:1; **[*13]** 45:7-9; 47:15-23.) Under the license, Grayco was required to pay Clearly Food a royalty for each case of product sold. (*Id.* at 46:10-47:8.)

In 2012, Intrastate filled approximately 1,800 12-pack cases of 11-ounce bottles with Clearly Canadian product. (Dabish Decl. ¶ 5.) On August 14, 2012, Instrastate sold 1,872 cases of Clearly Canadian beverages (in raspberry and black cherry flavors) to Grayco. (*Id.* ¶¶ 5-6, Attachs. A, B.) The order totaled approximately $10,000.00, and was shipped to Grayco in Ontario, Canada, on August 15, 2012. (*Id.*; Colley Dep. at 33:15-18).) Grayco displayed and sold Clearly Canadian beverages during the 2012 Canadian National Exhibition. (3/30/12 Colley Letter.) This fair, which runs from mid-August to Labor Day, typically receives over 1.5 million attendees. (*Id.*) In October, 2012, Grayco sold 720 cases of Clearly Canadian beverages to an online retailer called Beverages Direct, and transported the product to Beverages Direct in the United States. (Colley Dep. at 39:343:9; 66:11-24; 79:15-79; Khan Dep. at 79:21-80:6 (referencing a Grayco invoice dated October 23, 2012, to Beverages Direct).) In turn, Beverages Direct sold the Clearly Canadian product exclusively **[*14]** to retail purchasers located in the United States. (Colley Dep. at 91:6-92:4.)

In the summer of 2013, Intrastate sold another approximately $10,000.00 worth of Clearly Canadian product to Grayco. (*Id.* at 32:22-2; 67:1-17.) Grayco again sold several pallets worth of the beverage to Beverages Direct, and reserved the balance for the 2013 Canadian National Exhibition. (*Id.* at 67:1-17.)

Since then, Clearly Food's 2014 online pre-sales campaign has generated over 10,000 orders, resulting in over 27,000 cases of product due to be shipped in 2015. (2d Khan Decl. ¶ 4.) Over 90% of those transactions are with customers in the United States. (*Id.*) Clearly Food has also received eight "full truckload" orders from seven different beverage distributors. (*Id.* ¶ 5.) As a result, Clearly Food will ship over 30,000 bottles of Clearly Canadian product in 2015. (*Id.*; *see also* Billick Decl. Ex. N (invoices for the purchase orders).) Clearly Canadian will be sold directly to consumers at grocery stores within those distributors' networks. (2d Khan Decl. ¶ 5.) Clearly Food has deployed various online, social media, and other marketing campaigns. (Khan Dep. at 46:12-19; 91:15-92:2; 95:8-15.)

b. Application

[*15] Contrary to Top Shelf's contention, Clearly Food's evidence, viewed as a whole, shows that intermittent, yet appreciable commercial sales of Clearly Canadian beverages occurred from 2009 through the present. The court concludes that a jury considering this evidence could reasonably find that those sales are sufficient to preclude a finding that use of the trademark was discontinued. *See Electro Source, LLC, 458 F.3d at 939* ("Good faith nominal or limited commercial sales of trademarked goods are sufficient . . . to avoid abandonment[] where the circumstances legitimately explained the paucity of the sales.") Specifically, a jury could find that the scope of trademark and business activity in which CC Beverage and Clearly Food engaged from 2009 to the present were commercially reasonable given the situation: namely, a brand transfer, during bankruptcy proceedings, by a declining business to a start-up company seeking to revitalize the brand. *See Electro Source, LLC, 458 F.3d at 939* (finding no abandonment because a struggling business's efforts to exhaust its remaining inventory prior to dissolution constituted "core trademark activities that necessarily contemplate trading upon the goodwill of the mark"). Even a "single instance of use is sufficient against a claim of abandonment of a mark if such use is made in good faith," *Wells Fargo & Co., 758 F.3d at 1072*, and Clearly Food puts forth evidence of multiple uses arguably made in good faith. Although Top Shelf adduces evidence suggesting that the sales made immediately after Clearly Food acquired the trademark were made solely for the purpose of preserving the mark, the court may not weigh the evidence on summary judgment. *See Reeves, 530 U.S. at 150*; (Ledden Decl. Ex. 4 ("10/2/12 Khan Email"), Ex. 5 ("3/15/12 Khan Email"), Ex. 9 ("12/22/11 Khan Email"); Khan Dep. at 51:20-52:6.) As such, when evidence of all Clearly Canadian sales between 2009 and the present is taken into account, summary judgment on the issue of non-use is inappropriate.

In its reply brief, Top Shelf contends for the first time that sales to third-party retailers or distributors do not constitute use in commerce within the meaning of the Lanham Act because such sales are not uses by or for the benefit of the trademark owner. (Reply (Dkt. # 102) at 4-5.) Top Shelf bases its argument on two twenty-year-old opinions by the Trademark Trial and Appeal Board ("TTAB") that stated: "A party cannot defend against a claim of abandonment by relying on some residual goodwill generated **[*16]** through post-abandonment sales of the product by distributors or retailers." *Parfums Nautee Ltd., 22 U.S.P.Q.2d 1306 (P.T.O. Jan. 15, 1992)*; *Societe Des Produits Marnier Lapostolle, 10 U.S.P.Q.2d 1241, at *4 n.5 (P.T.O. Feb. 10, 1989)* (finding a presumption of abandonment when the last shipment of trademarked products to the United States occurred more than three years prior, despite the fact that retailers continued to sell the product thereafter).

Top Shelf does not explain how these TTAB rulings fit into Ninth Circuit jurisprudence regarding abandonment.[2] (*See* Reply.) More importantly, in the Ninth Circuit, new issues and evidence may not be raised in reply briefs. *See Bazuaye v. I.N.S., 79 F.3d 118, 120 (9th Cir. 1996)* ("Issues raised for the first time in the reply brief are waived."). Because Clearly Food has not had an opportunity to respond to Top Shelf's newly raised argument, and because, as explained below, consideration of the argument would not change the outcome of this motion, the court declines to decide the issue at this time. *See Provenz v. Miller, 102 F.3d 1478, 1483 (9th Cir. 1996)* (stating that a court should not consider new issues or evidence submitted in a reply brief without giving the opposing party an opportunity to respond).[3]

2 The court is aware of only one district court in this circuit that has followed those rulings. *See Zamacona v. Ayvar, No. CV0702767ABCFMOX, 2009 U.S. Dist. LEXIS 12178, 2009 WL 279073, at *2 (C.D. Cal. Feb. 3, 2009)*; *but see Soweco, Inc. v. Shell Oil Co., 617 F.2d 1178, 1189 (5th Cir. 1980)* (finding no abandonment because "[t]here was no **[*17]** evidence that [the mark owner] intended to abandon its trademark; moreover, its products were still in interstate commerce at the time of the registration, since they were still on distributors' shelves at that time"); *Am. Motors Corp., 178 U.S.P.Q. (BNA) ¶ 377 (P.T.O. Apr. 27, 1973)* (finding no abandonment because although the trademark owner had discontinued the product, there was a "considerable reservoir of goodwill in the mark" that inured to the owner "as a consequence of the large number of [trademarked] vehicles still on the road," among other things).

3 For the same reasons, the court STRIKES all of the new evidence that Top Shelf filed in support of its reply brief (Dkt. # 103). *See Tovar v. U.S. Postal Serv., 3 F.3d 1271, 1273 (9th Cir. 1993)* (striking portions of a reply brief that presented new information); *Nautilus Grp., Inc. v. Icon Health & Fitness, Inc., 308 F. Supp. 2d 1208, 1214 (W.D. Wash. 2003)* (striking a declaration with new evidence submitted in reply). The court does not consider that information in ruling on Top Shelf's motion for summary judgment.

Even if the court agreed that Clearly Food could not rely on sales by unaffiliated retailers or distributors, summary judgment on the abandonment claim would not be appropriate. It is undisputed that Clearly Canadian beverages were sold in the United States by or on behalf of Clearly Canadian to Paw Paw in September **[*18]** 2009, and to Beverages Direct in October 2012. (*See* Bogen Decl. ¶ 5, Attach. A; Colley Dep. at 39:3-43:9; 66:11-24; 79:15-79*:* Khan Dep. at 79:21-80:6.); *Star-Kist Foods, Inc. v. P.J. Rhodes & Co., 769 F.2d 1393, 1396 (9th Cir. 1985)*; *15 U.S.C. §1127*. A jury could reasonably find that the gap between these sales constitutes non-use or gives rise to a presumption of abandonment. *See Abdul-Jabbar, 85 F.3d at 411*; *but see* (Dabish Decl. ¶¶ 5-6, Attachs. A, B (recording an intervening August 2012 sale by Intradistrict to Grayco); Khan Dep. at 49:4-19 (stating that Clearly Food entered the license agreement with Grayco because Grayco could obtain the financing necessary to produce Clearly Canadian bottles).) But even if a jury found non-use or a presumption of abandonment, Clearly Food has set forth sufficient evidence to raise a question of material fact regarding the second prong of abandonment: intent to resume use of the mark.

Multiple documents, as well as Mr. Khan's deposition testimony, evidence Clearly Food's intent to resume use of the Clearly Canadian trademark in commerce, beginning as early as August 2011 and continuing to the present day. (*See, e.g.*, 8/23/11 Khan Email ("[W]e are acquiring Clearly Canadian. We are bringing back the original legacy line in its premium

original glass teardrop bottle (6 **[*19]** flavors) . . . . Goal 1: re-introduce Clearly Canadian by January 1, 2012."); 2012 Bus. Plan (detailing Clearly Food's product development and pricing, marketing, sales, and distribution strategies, with a goal to "enter full-scale commercial production by March 2013 for North America"); Ledden Decl. Ex. 15 ("1/21/12 Kahn Email") ("Everyone here sees it as a national mission to put [Clearly Canadian] back where it belongs."); Kahn Dep. at 91:15-93:19.) Of course, "nothing in the statute entitles a registrant who has formerly used a mark to overcome a presumption of abandonment arising from subsequent non-use by simply averring a subjective affirmative 'intent not to abandon." *Electro Source, LLC, 458 F.3d at 937*. Clearly Food, however, also puts forth evidence of affirmative steps it took during 2012 to resume using the Clearly Canadian mark in commerce, including seeking out manufacturing and distribution retail partners, lining up investors, and creating a business plan. (*See* 2012 Bus. Plan; 1/21/12 Kahn Email ("We are in diligence on acquiring 1 to 2 Canadian bottling production facilities."); Ledden Decl. Ex. 16 (email soliciting investors), Ex. 17 (email seeking a retail partner); Dabish Decl. ¶ 6 (stating that **[*20]** Mr. Khan contacted other distributors, co-packers, retailers, and sales professionals regarding Clearly Canadian). A jury relying on this evidence could reasonably find that Clearly Food intended to resume use of the Clearly Canadian mark, and that therefore a finding of abandonment was unwarranted. *See Burgess v. Gilman, 316 F. App'x 542, 544 (9th Cir. Sept. 4, 2008)* (holding that trademark owner rebutted presumption of abandonment by presenting evidence that it was "actively considering" and "repeatedly reassessing" whether it would resume use of the trademark); *Lambert Corp. v. LBJC Inc., No. 2:13-CV-00778-CAS, 2014 U.S. Dist. LEXIS 83108, 2014 WL 2737913, at *9 (C.D. Cal. June 16, 2014)* (holding that trademark owner showed intent to resume use because she had "discussed a 're-launch' with representatives of 'high-end' retailers, but ha[d] not yet executed the re-launch because 'the right terms and conditions for doing so have not been determined'"). Consequently, summary judgment on this claim is inappropriate.

Finally, Top Shelf appears to argue in the alternative that the trademark was abandoned by CC Beverage before Clearly Food purchased the trademark. Because the mark had not been out of use for more than three years at the time of the sale, Top Shelf does not receive the benefit of a presumption of abandonment. *See 15 U.S.C. § 1127*. Neither **[*21]** party has pointed the court to evidence that would bear on CC Beverage's intent. (*See* Mot.; Resp.) The burden of proof on this claim, however, rests on Top Shelf. *See Abdul-Jabbar, 85 F.3d at 411, n.4*. Although a jury could reasonably infer a lack of intent to resume using the trademark based on CC Beverage's financial troubles, the court cannot say a jury would be required to find a lack of intent. *See Electro Source, LLC, 458 F.3d at 941* ("If trademark protection were stripped the minute a company runs into financial trouble or decides to liquidate, the two cornerstone interests in trademark would be defeated--protection of the public through source identification of goods and protection of the registrant's investment in the trademark."). After all, as the Ninth Circuit has noted, "[s]ome business and financial firms even specialize in rescuing troubled companies, rehabilitating the business, and capitalizing on their goodwill and intellectual property, including trademarks." *Id.* Therefore, the court finds that Top Shelf has not carried its burden to "strictly prove" that the trademark was abandoned by CC Beverage prior to its purchase by Clearly Food. *See FreecycleSunnyvale, 626 F.3d at 515*.

In sum, abandonment is "generally a factual issue," and this case is no exception. *See Electro Source, LLC, 458 F.3d at 941* (reversing **[*22]** a grant of summary judgment because the district court improperly weighed evidence and drew inferences against the trademark owner). For all the reasons discussed above, the court concludes that summary judgment in Top Shelf's favor on the abandonment claim is inappropriate.

D. Fraud

Top Shelf contends that Clearly Canadian's trademark registration should be cancelled for fraud. (Mot. at 12-14.) A party who believes it has been harmed by a trademark's registration may seek the cancellation of that trademark's registration on certain specified grounds, including that the trademark was obtained by the commission of fraud on the United States Patent and Trademark Office ("Trademark Office"). *15 U.S.C. § 1064*; *see also 15 U.S.C. § 1119* ("In any action involving a registered mark the court may . . . order the cancelation of registrations . . . ."). "When a trademark's registration is cancelled, its owner is no longer entitled to the rights that flow from federal registration, including the presumption that the mark is valid." *Hokto Kinoko Co. v. Concord Farms, Inc., 738 F.3d 1085, 1097 (9th Cir.*

2013)

To succeed on a claim for cancellation based on fraud, Top Shelf "must adduce evidence of (1) a false representation regarding a material fact; (2) the registrant's knowledge or belief that the representation **[*23]** is false; (3) the registrant's intent to induce reliance upon the misrepresentation; (4) actual, reasonable reliance on the misrepresentation; and (5) damages proximately caused by that reliance." *Id.* (citing *Robi v. Five Platters, Inc., 918 F.2d 1439, 1444 (9th Cir. 1990))*. A false representation in the original trademark application or an affidavit accompanying a renewal application may be grounds for cancellation if all five requirements are met. *Id.* Top Shelf, however, "bears a heavy burden of demonstrating that a trademark should be cancelled." *Id.*; *see also Robi, 918 F.2d at 1444*.

Top Shelf bases its fraud claim on the declaration by Clearly Food's Chief Executive Officer, Robert Kahn, that accompanied the June 28, 2012, application to renew the Clearly Canadian trademark. (*See* Mot. at 12-14.) As required by Section 8 of the Lanham Act, Mr. Kahn declared that the Clearly Canadian trademark "is in use in commerce on or in connection with the goods and/or services identified above, as evidenced by the attached specimen(s) showing the mark as used in commerce."[4] (Request Ex. F ("Renewal").) Mr. Kahn attached as a specimen a photograph of an empty plastic bottle of Clearly Canadian peach-flavored sparkling water. (*See id.*) This beverage had been purchased in Michigan in 2011 **[*24]** by an affiliate of Mr. Khan. (Khan Dep. 58:5-60:25.)

> 4 Federally registered trademarks remain in force for 10 years; between the 9th and 10th year of registration, an owner must file a renewal application under Section 9 of the Lanham Act, which must be accompanied by a Section 8 declaration that the mark is in use in commerce. *See 15 U.S.C. §§ 1058, 1059*.

For the same reasons discussed in the preceding section, the court finds that questions of fact preclude a finding as to whether the Clearly Canadian trademark was in fact in use in commerce as of June 2012. *See supra* § III.C. Because Top Shelf cannot prove the first element--namely, that Mr. Kahn's declaration contained a false representation regarding a material fact--summary judgment is inappropriate on this claim. *See Celotex, 477 U.S. at 324*.

Even assuming that the statement that the Clearly Canadian trademark was in use in commerce in June 2012 was false, Top Shelf fails to establish the second and third elements of fraud. "Deception must be willful to constitute fraud." *In re Bose Corp., 580 F.3d 1240, 1243 (Fed. Cir. 2009)*; *see also Far Out Prods., Inc. v. Oskar, 247 F.3d 986, 996 (9th Cir. 2001)* (holding that a trademark owner "can only be adjudicated to have filed a fraudulent [incontestability affidavit] if he acted with scienter"). Mr. Kahn testified in deposition that, although he knew Clearly Food itself **[*25]** was not manufacturing plastic bottles of Clearly Canadian beverages at the time he signed the declaration, he believed that the Clearly Canadian product was still being sold by third parties in commerce through 2011 (as shown by his affiliate's then-recent purchase of the specimen bottle), and understood that such sales were sufficient to satisfy the Section 8 standard of use in commerce. (Khan Dep. 23:25-24:7; 61:1-25; 69:13-72:13.) As such, there are questions of fact as to whether Mr. Kahn knew the trademark was not being used in commerce as required by Section 8 and intended to mislead the Trademark Office as to that fact. *See In re Bose Corp., 580 F.3d at 1246* (finding that the registrant did not commit fraud when it filed a combined Section 8 and Section 9 affidavit stating that the mark was in use in commerce where the registrant erroneously believed that the repairing of damaged previously sold goods and returning the repaired goods to the customers constituted use in commerce).

Top Shelf puts forth evidence suggesting that Mr. Kahn understood that Clearly Canadian itself needed to use the trademark in commerce in 2012 in order to avoid abandonment. (*See, e.g.* 10/2/12 Khan Email; 3/15/12 Khan Email; 12/22/11 Khan Email; Khan Dep. at 51:20-52:6.) **[*26]** The court, however, is not permitted to weigh the evidence or make credibility determinations at this stage. *See Reeves, 530 U.S. at 150*. Although deceptive intent may be inferred from indirect and circumstantial evidence, *see In re Bose Corp., 580 F.3d at 1246*, the court cannot say that a jury considering Top Shelf's evidence could only reasonably find a willful intent to deceive. *See Far Out Prods., Inc. v. Oskar, 247 F.3d 986, 996 (9th Cir. 2001)* (finding that the defendants "did not even meet their initial burden in moving for summary judgment" because they "did not present any evidence of the affiant's state of mind, including whether he acted in bad faith or with knowledge"). At trial, a jury may well find that Top Shelf has carried its "heavy

burden" to show fraud. *See Hokto Kinoko Co., 738 F.3d at 1097*. At this juncture, however, the court finds that summary judgment is inappropriate. *See Celotex, 477 U.S. at 324*; *Hokto Kinoko Co., 738 F.3d at 1097* (declining to cancel a trademark for fraud where the challenger "adduced no evidence that [the registrant] knew of the misstatement . . . or intended to defraud the [Trademark Office]").

E. Infringement

Top Shelf also moves for summary judgment on Clearly Food's trademark infringement claims. (*See* Mot. at 19-22.) To assess whether a defendant has infringed a plaintiff's trademark, courts apply a "likelihood of confusion" test that asks whether **[*27]** use of the plaintiff's trademark by the defendant is likely to cause confusion or to cause mistake, or to deceive as to the affiliation, connection, or association of the two products."[5] *Mattel, Inc. v. Walking Mountain Productions, 353 F.3d 792, 806-07 (9th Cir. 2003)*; *see also New W. Corp. v. NYM Co. of Calif., Inc., 595 F.2d 1194, 1201 (9th Cir. 1997)*. "The test for likelihood of confusion is whether a 'reasonably prudent consumer' in the marketplace is likely to be confused as to the origin of the good or service bearing one of the marks." *Entrepreneur Media, Inc. v. Smith, 279 F.3d 1135, 1140 (9th Cir. 2002)*.

5 Clearly Food brings claims under both Section 32 of the Lanham Act, *15 U.S.C. § 1114(1)*, and *Section 43* of the Lanham Act, *15 U.S.C. § 1125(a)(1)*. (*See generally* Compl.) Although Section 32 provides protection only to registered marks and *Section 43* provides protection to unregistered marks, with respect to proving infringement, the same "likelihood of confusion" standard applies to both provisions. *See GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199, 1207 (9th Cir. 2000)*; *Brookfield Commc'ns, Inc., v. West Coast Entm't Corp., 174 F.3d 1036, 1046-47 n.8 (9th Cir.1999)*. As such, the court's analysis of the "likelihood of confusion" standard is independent of the prospective outcome of Top Shelf's cancellation-of-registration claim. *See Grupo Gigante SA De CV v. Dallo & Co., 391 F.3d 1088, 1108 (9th Cir. 2004)* ("Ultimately, very little turns on the cancellation-of-registration claim because registration is not necessary to establish trademark protection under federal . . . law.").

The Ninth Circuit has developed an eight-factor test to guide courts in assessing likelihood of confusion. *Id.* (citing *AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348-49 (9th Cir.1979), abrogated on other* **[*28]** *grounds by Mattel Inc. v. Walking Mountain Prods., 353 F.3d 792, 810 n.19 (9th Cir. 2003))*. The non-exclusive factors include (1) strength of the protected mark, (2) proximity and relatedness of the goods, (3) type of goods and degree of consumer care, (4) similarity of the protected mark and the allegedly infringing mark, (5) marketing channel convergence, (6) evidence of actual consumer confusion, (7) the defendant's intent in selecting the allegedly infringing mark, and (8) likelihood of product expansion. *Pom Wonderful LLC v. Hubbard, 775 F.3d 1118, 1125 (9th Cir. 2014)*.

The "ultimate question of likelihood of confusion is predominantly factual in nature, as is each factor." *Entrepreneur Media, 279 F.3d at 1141*. Rather than mechanically identifying the number of factors that favor of each party, a court must "consider what each factor, and--more importantly--what the analysis as a whole, reveals about the ultimate question . . . : the likelihood of consumer confusion as to the origin of the product or service bearing the allegedly infringing mark." *Id.* At the end of the day, "it is the totality of facts in a given case that is dispositive." *Pom Wonderful LLC, 775 F.3d at 1125*.

1. Similarity of the marks

"The greater the similarity between the two marks at issue, the greater the likelihood of confusion." *GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199, 1206 (9th Cir. 2000)*. The Ninth Circuit has "developed three axioms that apply to the 'similarity' analysis: 1) **[*29]** Marks should be considered in their entirety and as they appear in the marketplace; 2) Similarity is best adjudged by appearance, sound, and meaning; and, 3) Similarities weigh more heavily than differences." *Entrepreneur Media, Inc., 279 F.3d at 1144*.

First and foremost, the court notes that both marks appear in the marketplace primarily as labels on the bottles of single-serve beverages. (*See* Mot. at 21 (showing pictures of the trademarks alone and as used on bottles).) The salient differences are that the Clearly Canadian logo is screen printed, whereas the Clearly Kombucha logo is a paper label, and the Clearly

Canadian bottle has a "teardrop" shape, whereas the Clearly Kombucha label has a traditional "beer bottle" shape. (*See* Ledden Decl. Ex. 21 (side-by-side comparison of the bottled beverages).) Second, the court notes that the appearance of the trademarks as used on the bottle labels is not overly similar: the Clearly Canadian label has horizontal text and a picture of the fruit that represent's the beverage's flavor; the Clearly Kombucha label has vertical text and an apparently whimsical drawing; the fonts are also different.[6] (*See id.*) Moreover, the logos as used separately from the bottles are not overly similar: **[*30]** Clearly Canadian's logo consists of blue, horizontal text, and a red bottle with a maple leaf; Clearly Kombucha's label is a black, oversized letter "C" with the work "Clearly" written vertically inside the "C" and the word "kombucha" written in a different font outside of the "C." (*Compare* Ledden Decl. Ex. 19 *with* Ledden Decl. Ex. 20.)

> 6 The previous version of the Clearly Kombucha bottle looked different: that version used horizontal writing in a different font, the word "Clearly" was written in significantly larger text than the word "Kombucha," and the background consisted of brightly colored vertical stripes. (*See* Whittaker Decl. Exs. N, O.)

On the other hand, the sound of the trademarks is quite similar: both begin with the word "clearly" and end with a word that begins with a phonetic hard "c" sound. *See Palm Bay Imports, Inc. v. Veuve Clicquot Ponsardin Maison Fondee En 1772, 396 F.3d 1369, 1372 (Fed. Cir. 2005)* (finding that the first word in the trademark constituted the "dominant feature in the commercial impression" created by the mark). In addition, as Clearly Food points out, the common word "clearly" is the operative word in both trademarks: the Trademark Office required both registrants to disclaim rights to the use of the words "Canadian" and "kombucha" without the preceding word **[*31]** "clearly." (Req. for Not. Ex. C; Ledden Decl. Ex. 2 (Appendix A).) Last, the meaning of the trademarks is also similar, insofar as they both rely on the word "clearly" to describe an aspect of their product. (*See* Zarrow Dep. at 16:22-17:2.)

Overall, the court finds that the third axiom--that similarities weigh more heavily than differences--controls the result here. Although Top Shelf has identified certain differences between the marks, a reasonable jury could find that the similarities in how the marks are used in the marketplace and the sound and meaning of the marks outweigh those differences. *See Entrepreneur Media, Inc., 279 F.3d at 1144*. Therefore, the court concludes that a reasonable jury could find that the marks are similar. As such, for summary judgment purposes, this factor weighs in Clearly Food's favor.

2. Marketing channels

Here, there is evidence that both companies market and sell their beverages over the Internet through their own websites, third party retail sites, and Facebook. (*See* Zarrow Dep. at 51:24-52:5; Cargle Dep. at 83:21-25; Khan Dep. at 46:12-19; 91:15-92:2; 95:8-15.) Yet, "[g]iven the broad use of the Internet today, the same could be said for countless companies." *Playboy Enterprises, Inc. v. Netscape Commc'ns Corp., 354 F.3d 1020, 1028 (9th Cir. 2004)*. "*Some* use of the Internet for marketing **[*32]** . . . does not alone and as a matter of law constitute overlapping marketing channels." *Entrepreneur Media, Inc., 279 F.3d at 1151*.

The parties hotly contest whether the two products would typically be stored in the same shelves, aisles, or general areas of a retail store. (*See* Mot. at 22 (contending that Clearly Kombucha must be located in the refrigerated section); Supp. Resp. (Dkt. # 94) at 10-11 (contending that Clearly Kombucha appears on warm shelves).) Because the court must weigh the facts in the light most favorable to Clearly Food, the court assumes for the purposes of this motion that retail stores would choose to display Clearly Kombucha products near Clearly Canadian products more often than not, which weighs in favor of finding of likelihood of confusion. (*See* Billick Decl. Ex. I (restocking notes from 2013 showing that retail stores stocked Clearly Kombucha on warm shelves and next to bottled water products such as Perrier, Smart Water, Vitamin Water, Evian, and Fiji, as well as next to flavored beverages such as Snapple and Sobe), Ex. J.) The significance of the potential adjacent storage, however, is blunted by the fact that Clearly Canadian is not currently sold in any brick and mortar retail stores. Clearly **[*33]** Food has recently engaged a sales and marketing company to market Clearly Canadian "to the top twenty-five grocery store chains across the United States," and expects that Clearly Canadian will be sold in unspecified grocery stores in 2015. (2d Khan Decl. ¶¶ 3, 5.) However, it remains unclear whether Clearly Canadian will be sold in similar retail stores as Clearly Kombucha, or in the same geographic region as

Clearly Kombucha, in the near or intermediate future. (*See* Zarrow Dep. at 27:21-28 (explaining that Clearly Kombucha was sold in limited stores on the West Coast).)

In sum, a reasonable jury could not find that the parties' current marketing channels "overlap to any significant degree." *See Entrepreneur Media, Inc., 279 F.3d at 1151*. Future overlap, although possible, is speculative, and the minor existing overlap in Internet use is insignificant because the "shared use of a ubiquitous marketing channel does not shed much light on the likelihood of consumer confusion," *Network Automation, Inc. v. Advanced Sys. Concepts, Inc., 638 F.3d 1137, 1151 (9th Cir. 2011)*. Therefore, the court finds that this factor merits little weight in the likelihood of confusion analysis, and what weight it does merit benefits Top Shelf. *Id.*

3. Relatedness of the goods

"Related goods are generally more likely than unrelated goods to **[*34]** confuse the public as to the producers of the goods." *GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199, 1207 (9th Cir. 2000)*. "Related goods are those products which would be reasonably thought by the buying public to come from the same source if sold under the same mark." *Entrepreneur Media, Inc., 279 F.3d at 1147*. The Ninth Circuit applies "a sliding scale approach as to the weight that relatedness will carry dependent upon the strength of the trademark holder's mark." *Entrepreneur Media, Inc., 279 F.3d at 1147*.

Clearly Food identifies the following undisputed similarities between the two products. To begin with the obvious, Clearly Canadian and Clearly Kombucha are single-serve, bottled beverages. (*See* Ledden Decl. Ex. 21.) Moreover, both products are "sparkling" (carbonated) beverages, and are marketed as such. (*See* Dkt. # 47-4 (2014 presentation to Clearly Canadian investors); Billick Decl. (Dkt. # 95) Ex. A (a December, 2010 "Gourment California Foods Product Brief" identifying Clearly Kombucha's "core position" as a "lightly sparkling" beverage), Ex. B (2009 business plan to market Top Shelf Kombucha as "the world's first luxury sparkling elixir"), Ex. C (October 2013 email from Ms. Zarrow to a potential distributor describing Clearly Kombucha as a "sparkling, fermented, nonalcoholic tea"), Ex. D (2013 business plan describing **[*35]** Clearly Kombucha as a "sparkling fermented tea"), Ex. E, Ex. F at 3, Ex. G ("Brand Ambassador" handbook instructing marketers demonstrating Clearly Kombucha in retail stores to "[a]sk EVERY person that walks by if they would like a sample of 'sparkling tea'" unless the person already had kombucha in his or her cart).) Additionally, both products are "clear" beverages, and are marketed as such. (*See* Cargle Dep. (Dkt. # 57-3) at 37:1-25; Cargle Decl. ¶¶ 12-13; Zarrow Dep. at 12:20-24; 16:22-25.) Finally, both products are perceived as healthy alternatives to other carbonated beverages, such as soda, and marketed as such. (*See* Ledden Decl. Ex. 8 ("2007 Survey"); Dkt. # 47-4 (2014 presentation to Clearly Canadian investors); 2012 Bus. Plan; Billick Decl. Ex. D (Clearly Kombucha 2013 business plan) at 9), Ex. E (notes from a Clearly Kombucha marketing demonstration).

Top Shelf points out that Clearly Kombucha differs from Clearly Canadian in that it is a flavored fermented tea rather than flavored water. (*See* Mot. at 22.) Top Shelf attempts to further distinguish the products by emphasizing the affirmative health benefits allegedly associated with kombucha, as well as the fact that Top Shelf **[*36]** targets a "niche" health-conscious demographic. (*See* Mot. at 21-23.) However, "the relatedness of each company's prime directive isn't relevant." *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp., 174 F.3d 1036, 1056 (9th Cir. 1999)*. Rather, "the focus is on whether the consuming public is likely somehow to associate [the alleged infringer's] products with [the mark owner]." *Id.*; *see also Am. Int'l Group, Inc. v. Am. Int'l Bank, 926 F.2d 829, 832 (9th Cir. 1991)*.

Viewing the evidence in the light most favorable to Clearly Food, the court concludes that a jury could reasonably find that the consuming public is likely to associate the Clearly Kombucha product with the Clearly Canadian brand. The thrust of Top Shelf's argument is that the two brands do not directly compete for customers. But even if a jury concluded that the two brands do not directly compete, a jury could still reasonably find that the similarity of their products--namely, clear, sparkling, single-serve beverages--would likely result in consumer confusion between the brands and products. *See American Int'l Group, Inc., 926 F.2d at 832* (concluding that although the parties were not direct competitors, customer confusion could result in light of the similarities between the financial services offered by the parties). Therefore, for summary judgment purposes, this factor weighs in Clearly Food's favor.

4. Strength of Clearly [*37] Canadian's mark

"The more likely a mark is to be remembered and associated in the public mind with the mark's owner, the greater protection the mark is accorded by trademark laws." *GoTo.com, Inc., 202 F.3d at 1207*. The "'strength' of the trademark is evaluated in terms of its conceptual strength and commercial strength." *Id.* "Marks can be conceptually classified along a spectrum of increasing inherent distinctiveness." *Id.* "From weakest to strongest, marks are categorized as generic, descriptive, suggestive, and arbitrary or fanciful." *Id.* For purposes of this motion, the court concludes that a jury could reasonably find that the Clearly Canadian trademark is either descriptive or suggestive. *See Entrepreneur Media, 279 F.3d at 1141-42* ("Descriptive marks define qualities or characteristics of a product in a straightforward way that requires no exercise of the imagination to be understood. A suggestive mark is one for which a consumer must use imagination or any type of multistage reasoning to understand the mark's significance, the mark does not *describe* the product's features, but *suggests* them.").

"Although a suggestive or descriptive mark is inherently a weak mark, it may be strengthened by such factors as extensive advertising, length of exclusive **[*38]** use, [and] public recognition." *Id.* Clearly Food claims that its mark enjoys substantial public recognition to this day. (Resp. at 16.) In support of that claim, Clearly Food provides evidence that the Clearly Canadian mark has been in use since 1989 (Ledden Decl. Ex. 6 ("2014 Marketing Pres."); that CC Beverage sold millions of dollars worth of Clearly Canadian beverages yearly through 2007 (although sales dwindled substantially after 1992) (*id.*); that Clearly Canadian's Facebook page has received over 35,000 "Likes" by members of the public (Screenshot (Dkt. # 57-6)); and that in November 2014, a daily Internet comedy show with in excess of one million subscribers discussed the Clearly Canadian beverages for four-and-a-half minutes (*see* Resp. at 13 (citing the Good Mythical MORE YouTube Channel at https://www.youtube.com/channel/UCzpCc5n 9hqiVC7HhPwcIKEg (last accessed April 28, 2015)); Sewer Adventures Episode November 10, 2014, http://youtu.be/2ajd-vy_JM4?t=6m50s (last accessed April 28, 2015). A jury could reasonably find that this evidence of public recognition so strengthens the mark as to tip this factor in favor of finding a likelihood of confusion.[7] *See Entrepreneur Media, Inc, 279 F.3d at 1141-42* (finding that monthly sales of half a million products could strengthen a descriptive mark such that the factor **[*39]** weighed in favor of likely confusion). However, this evidence is by no means overwhelming; a jury could also reasonably find that the mark remained weak. Therefore, the court concludes that, for summary judgment purposes, this factor weighs only slightly in Clearly Food's favor.

7 Here, Clearly Food contends--but provides no evidence showing--that the Clearly Canadian mark is incontestable. (Resp. at 2.) The incontestable status of a mark serves as conclusive proof that the mark has secondary meaning. *Entrepreneur Media, Inc., 279 F.3d at 1142, n.3*. Therefore, an incontestable mark cannot be challenged as invalid on the basis that the mark is descriptive and has not acquired secondary meaning. *Id.* If the Clearly Canadian mark is incontestable, Top Shelf's arguments that the mark is not entitled to protection because it is descriptive must fail. (*See* Mot. at 24.) The incontestable status, however, does not require a finding that the mark is strong for infringement purposes. *Entrepreneur Media, Inc., 279 F.3d at 1142, n.3*. Therefore, the relative strength or weakness of an incontestable mark is still relevant to the likelihood of confusion analysis. *Id.*

5. Actual confusion

"Evidence of actual confusion is strong evidence that future confusion is likely." *Entrepreneur Media, Inc, 279 F.3d at 1150*. However, "the converse is **[*40]** not true." *GoTo.com, Inc., 202 F.3d at 1208*. Nonetheless, a "reasonable juror may . . . find *de minimis* evidence of actual confusion unpersuasive as to the ultimate issue of likelihood of confusion." *Id.*

Here, the parties present conflicting evidence as to confusion. Top Shelf relies on a survey taken by its expert, Dr. Thomas Maronick, in which "the majority of respondents . . . said that Clearly Kombucha is either not affiliated with or sponsored by any other company organization, or they 'don't know.'" (Ledden Decl. Ex. 18 ("Maronick Rep.") at 9.) For its part, Clearly Food presents evidence of actual consumer confusion: in five separate instances, written comments from consumers encountering Top Shelf's products online have expressed the belief that Clearly Kombucha and Clearly Canadian are affiliated. (*See* Whittaker Decl. Exs. M (comment asking Clearly Kombucha, "are you no longer making

Clearly Canadian, too?"), N (comment next to picture of Clearly Kombucha bottles: "instead of clearly Canadian it's clearly Kombucha!"), O (comment next to picture of Clearly Kombucha bottles: "I've heard of (and loved) Clearly Canadian, but never Clearly Kombucha!"); Ledder Decl. Ex. 13 ("Silverman Rep.") ¶ 47 (referencing consumer **[*41]** queries posted on Clearly Kombucha's Facebook page asking, "Are you producing Clearly Canadian too? You are the same company yes?" and "Why are you pushing only Clearly Kombucha? Your Clearly Canadian should be on top! I used to drink you all the time growing up.").) Clearly Food also identifies various flaws in Top Shelf's survey that Clearly Food claims require the expert's opinion to be discounted. (Resp. at 25-26 (pointing out that a majority of the survey respondents also answered that Clearly Kombucha *was* affiliated with another company, or they "don't know").)

The court is not permitted to weigh the evidence on summary judgment. Although a jury could reasonably find that Clearly Food's evidence was de minimus, a jury could also reasonably credit Clearly Food's evidence of actual confusion over Top Shelf's survey. *See Americana Trading Inc. v. Russ Berrie & Co., 966 F.2d 1284, 1289 (9th Cir. 1992)* (finding that one letter from a confused consumer plus evidence of retailer confusion was sufficient evidence for a trier of fact to find actual confusion). Therefore, for summary judgment purposes, this factor weighs in Clearly Food's favor.

6. Likelihood of expansion

Clearly Food claims that it intends to release a sparkling tea beverage in the United States that **[*42]** will overlap with the Clearly Kombucha product. (Mot. at 24. (citing Khan Dep. at 106-08).) However, Clearly Food fails to provide any supporting evidence for that assertion. The pages of Mr. Khan's deposition to which Clearly Food cites do not discuss expansion plans into sparkling tea beverages or otherwise. (*See* Khan Dep. at 106-08 (discussing whether Mr. Kahn believed Clearly Canadian-branded air fresheners would infringe his company's trademark).) "[M]ere speculation is not evidence." *Surfvivor Media, Inc. v. Survivor Prods., 406 F.3d 625, 634 (9th Cir. 2005)*. Clearly Food's "complete inability to adduce any concrete evidence of expansion plans tilts this factor in favor of" Top Shelf. *Id.*

7. Consumer degree of care

"In analyzing the degree of care that a consumer might exercise in purchasing the parties' goods, the question is whether a 'reasonably prudent consumer' would take the time to distinguish between the two product lines. *Surfvivor Media, Inc., 406 F.3d at 634*. "[T]he standard used by the courts is the typical buyer exercising ordinary caution . . . . [W]hen the goods are expensive, the buyer can be expected to exercise greater care in his purchases . . . ." *Network Automation, Inc., 638 F.3d at 1152*.

Again, the parties present conflicting evidence as to the degree of care consumers of their products are likely to exercise. Top Shelf's expert **[*43]** opines that kombucha is a "niche product" and that the price point of Clearly Kombucha is high enough, relative to other bottled beverages, to foster a relatively greater degree of care among consumers. (*See* Silverman Rep. ¶¶ 55-56.) Top Shelf's founder testifies that its clients are particularly health-conscious, and therefore are more discerning when choosing bottled beverages. (Cargle Decl. ¶ 20.) On the other hand, Clearly Canadian points to evidence showing that Top Shelf's beverages have been sold at a variety of price points, ranging on the low end from $1.50 to $3.00. (*See* Supp. Resp. at 12-13).

"With respect to small, inexpensive goods . . . the consumer is likely to exercise very little care." *Surfvivor Media, Inc, 406 F.3d at 634*; *see also CytoSport, Inc. v. Vital Pharms., Inc., 617 F. Supp. 2d 1051, 1076 (E.D. Cal. 2009)* (finding a low degree of care with respect to bottled drinks costing between $3.00 and $5.00). A jury reviewing the parties' evidence could reasonably find that consumers purchasing Clearly Canadian and Clearly Kombucha beverages exercise a low degree of care. Therefore, for the purposes of summary judgment, this factor weighs in Clearly Food's favor.

8. Defendant's intent

"[A]n intent to confuse customers is not required for a finding of trademark infringement." *GoTo.com, Inc, 202 F.3d at 1208*. Accordingly, **[*44]** this factor is of "minimal importance." *Id.* (declining to attempt to divine the defendant's intent). Clearly Food establishes that Top Shelf's founders were aware of the Clearly Canadian brand, product, and trademark at the time they adopted the Clearly Kombucha mark, which weighs in favor of infringement.[8] *See* (Whittaker Decl. Ex. B ("Cargle Dep.") at 99:17-101:22); *Surfvivor Media, 406 F.3d at 634*. For its part, Top Shelf's founder testifies that the intent in changing the name of its product to Clearly

Kombucha was both to emphasize the "clear" nature of its product, which is the result of a filtration system that removes floating solids ordinarily found in kombucha, as well as to "reflect transparency in the brewing process." (Cargle Decl. ¶¶ 12-13; Zarrow Dep. at 16:22-17:2.) This minimal evidence does little to aid a jury's determination of intent. Because this factor is "minimally important," the court concludes that this factor is neutral for the purposes of summary judgment. *See GoTo.com, Inc, 202 F.3d at 1208*.

8 Although Clearly Food contends that Top Shelf purchased bottles of Clearly Canadian in August of 2011 in order to mimic their labeling, Clearly Food puts forth no evidence supporting this assertion. (*Compare* Resp. (citing Whittaker **[*45]** Decl. Ex. P) *with* Whittaker Decl. (omitting Exhibit P).)

9. Summary

The Ninth Circuit has consistently observed that, "[b]ecause of the intensely factual nature of trademark disputes, summary judgment is generally disfavored in the trademark arena." *Entrepreneur Media, Inc, 279 F.3d at 1140*. That observation holds true here. The court finds that, on this record, a majority of the factors--namely, the similarity of marks, the relatedness of the products, the strength of the mark, actual confusion, and consumer degree of care--raise questions of material fact that a jury could reasonably resolve in Clearly Food's favor. More importantly, the court finds that, taking the evidence in the light most favorable to Clearly Food, a jury evaluating the totality of the circumstances could find that these factors show a likelihood of confusion between the Clearly Canadian and Clearly Kombucha products and marks. *See Pom Wonderful LLC, 775 F.3d at 1125*. Because a reasonable jury could find a likelihood of confusion as to the origin of the Clearly Kombucha beverages, summary judgment on Clearly Food's trademark infringement claim is inappropriate. *See Mattel, 353 F.3d at 806-07*; *Entrepreneur Media, 279 F.3d at 1141*.

F. Dilution

"Dilution" refers to the "whittling away of the value of a trademark" when the mark is used to identify different products. **[*46]** *Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 903 (9th Cir. 2002)*. "A plaintiff seeking relief under federal anti-dilution law must show that its mark is famous and distinctive, that defendant began using its mark in commerce after plaintiff's mark became famous and distinctive, and that defendant's mark is likely to dilute plaintiff's mark."[9] *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co., 633 F.3d 1158, 1169 (9th Cir. 2011)* (quoting *Visa Int'l Serv. Ass'n v. JSL Corp., 610 F.3d 1088, 1089-90 (9th Cir. 2010))*. Top Shelf challenges only one element of this test; specifically, Top Shelf contends that Clearly Food cannot show that the Clearly Canadian mark is famous. (Mot. at 18.)

9 There are two types of dilution: dilution by blurring and dilution by tarnishment. *15 U.S.C. § 1125(c)(2)(B), (C)*; *Mattel, Inc., 296 F.3d at 903*.

"[A] mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." *15 U.S.C. § 1125(c)(2)(A)*. To determine the degree of fame a mark retains, courts look to the following four non-exclusive factors:

> (i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties.
>
> (ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark.
>
> (iii) The extent of actual recognition of the mark.
>
> (iv) Whether the mark was registered under the Act of March 3, 1881, **[*47]** or the Act of February 20, 1905, or on the principal register.

Id.; *see also Jada Toys, Inc. v. Mattel, Inc., 518 F.3d 628, 635 (9th Cir. 2008)*. Protection from dilution is a cause of action "reserved for a select class of marks--those marks with such powerful consumer associations that even non-competing uses can impinge on their value." *Nissan Motor Co. v. Nissan Computer Corp., 378 F.3d 1002, 1011 (9th Cir. 2004)*. For this reason, protection from dilution extends "only to those whose mark is a 'household name.'" *Id.*

Top Shelf puts forth the following evidence showing

that Clearly Food cannot prove that the Clearly Canadian mark was famous as of early 2011, the date the Clearly Kombucha products were launched. (*See* Mot. at 18-19; Cargle Decl. ¶ 14.) A consulting group's 2007 report on the Clearly Canadian trademark showed that only 34 % of the survey respondents who had consumed flavored soda or water within the last month (and only 22% of the survey respondents overall) were aware of the Clearly Canadian brand. (*See* 2007 Survey at 4-5, 10, 22.) This recognition rate was much lower than the rate for competitors such as Aquafina (94%), Schweppes (77%), Perrier (76%), VitaminWater (61%), and Pellegrino (43%). (*Id.*) The report concluded that, in 2007, the brand was "in a good starting place for rebuilding." (*Id.*)

Sales of the Clearly **[*48]** Canadian product, however, had declined steadily between 1992 and 2007, and between 2007 and 2009 they dropped to a minimal amount. (*See* 2014 Investor Pres. at 14; Trustee's Rep. at 3 (stating that after 2005, CC Beverage "struggled in the competitive beverage market" despite "attempts . . . to revive the business").) In 2009, production of Clearly Canadian beverages ceased. (6/3/14 Khan Email; 12/22/11 Khan Email.) By 2010, CC Beverage "no longer ha[d] meaningful operations." (Trustee's Rep. at 3; 2012 Bus. Plan at 5 ("The brand . . . entered dormancy in late 2010 . . . .") Cybersquatters had taken over the Clearly Canadian website domains. (Ledden Decl. Ex. 10.) Negligible sales of Clearly Canadian were occurring on the secondary market. (*See* Bogen Decl. ¶ 5, Attachs. A, B, C; Colley Dep. at 23:6-15; 24:19-25:3.)

Clearly Food's responsive briefing does not mention its trademark dilution claim, or otherwise attempt to rebut Top Shelf's contention that the Clearly Canadian mark was not famous in early 2011. (*See* Resp.) The court will not sift through the record searching for evidence on Clearly Food's behalf. *See United States v. Dunkel, 927 F.2d 955, 956 (7th Cir. 1991)* ("Judges are not like pigs, hunting for truffles buried in briefs.") The court finds that the evidence Clearly Food **[*49]** put forth to support its trademark infringement claim is insufficient to raise a question of fact regarding the dilution claim.

Specifically, the facts that Clearly Canadian's social media page has received 35,000 "Likes" and an Internet comedy show recently discussed Clearly Canadian beverages for four minutes, *see supra* § III.E, are insufficient to show that Clearly Canadian was a "household name" to consumers in the United States in early 2011. That evidence does not remedy Clearly Food's failure to point the court to any affirmative evidence showing the "duration, extent, and geographic reach of advertising and publicity" of the Clearly Canadian mark; the "amount, volume, and geographic extent of sales of goods or services offered under the mark"; or the "extent of actual recognition of the mark." *See 15 U.S.C. § 1125(c)(2)(A)*. That evidence also cannot negate the fact that the record currently before the court shows that, as of 2007, consumer awareness of the Clearly Canadian brand was already low, sales up to that point had been lackluster, and the brand's visibility only diminished from that point on. *See Jada Toys, Inc., 518 F.3d at 635* ("[A] reasonable trier of fact could conclude that the HOT WHEELS mark is famous [because] it has **[*50]** been in use for over thirty-seven years; 350 million dollars have been expended in advertising the mark; three billion HOT WHEELS units have been sold since the inception of the mark; and HOT WHEELS are sold in all fifty states and throughout the world.").

Accordingly, the court can only conclude that Clearly Food has failed to carry its burden to put forth evidence from which a trier of fact could reasonably find in Clearly Food's favor. *Celotex, 477 U.S. at 324*. Because no trier of fact considering the record currently before the court could conclude that the Clearly Canadian trademark was "widely recognized by the general consuming public of the United States" in early 2011, summary judgment on the trademark dilution claim is appropriate. *See 15 U.S.C. § 1125(c)(2)(A)*.

G. State Law Claims

Clearly Food also brings claims under Washington state law for trademark infringement and unfair competition. (*See* Compl.) Top Shelf moves for summary judgment in its favor on these claims as well. (Mot. at 26.) Top Shelf, however, fails to set forth the applicable state law, or otherwise explain why the claims should be adjudicated in its favor without a trial. (*See id.*) Instead, Top Shelf asserts that there are no material issues of fact with **[*51]** respect to those claims "for the very same reasons [as] discussed above with respect to Plaintiff's federal trademark infringement claims." (*Id.*) Needless to say, Top Shelf has failed to carry its burden of production. *See Nissan Fire & Marine Ins. Co., 210 F.3d at 1106*. Summary judgment on the remaining state law claims is not appropriate.

H. Motions to Seal

In the course of briefing this motion, the parties have managed to generate an inordinate number of motions to seal, some of which the court has granted. (*See generally* Dkt.) At this time, three motions are still outstanding: Top Shelf's ex parte motion to seal documents associated with its motion for summary judgment (Dkt. # 50); Clearly Food's motion to seal documents associated with its responsive brief (Dkt. # 52); and Top Shelf's motion to seal documents associated with its reply brief (Dkt. # 58).

Under the court's Local Rules, "[t]here is a strong presumption of public access to the court's files." *Local Rules W.D. Wash. LCR 5(g)*; *see also Nixon v. Warner Commc'ns, Inc., 435 U.S. 589, 597, 98 S. Ct. 1306, 55 L. Ed. 2d 570 (1978)*. Accordingly, a party must demonstrate "compelling reasons" to seal judicial records attached to a dispositive motion. *Kamakana v. City & Cnty. of Honolulu, 447 F.3d 1172, 1179 (9th Cir. 2006)*. "Only in rare circumstances should a party file a motion, opposition, or reply under seal." *Local Rules W.D. Wash. LCR 5(g)(5)* **[*52]** .

In an attempt to clarify the issues raised by the parties' remaining motions to seal, the court directed the parties to provide a joint list identifying the docket number of each document subject to a pending motion to seal. (Dkt. # 110.) Inexplicably, the parties responded to the court's invitation by listing only the documents allegedly subject to the motion to seal found at Docket. No. 101, which the court had already granted. (*See* Dkt. # 111.) The court cannot help parties who refuse to help themselves. Accordingly, the court interprets the remaining motions to seal to the best of its ability, and rules as follows.

First, the court interprets Top Shelf's motion at Docket No. 58 as a premature motion to seal the subsequently filed reply brief (Dkt. # 102) and accompanying exhibits (Dkt. # 103). The court, however, has already stricken the evidence filed with Top Shelf's reply brief from the record. *See supra* § III.C n.3. Therefore, Top Shelf's motion to seal the exhibits found at Docket. No. 103 is moot. The court also finds that Top Shelf has not shown good cause to seal the reply brief itself. *See Kamakana, 447 F.3d at 1179*. The brief does not mention any trade secrets, confidential information, **[*53]** marketing strategies, or business plans of either party. "Only in rare circumstances should a party file a motion, opposition, or reply under seal." *Local Rules W.D. Wash. LCR 5(g)(5)*. Those circumstances are not found here. Therefore, the court DENIES Top Shelf's motion to seal found at Docket No. 58. For completeness' sake, the court also STRIKES the exhibits filed at Docket No. 59 because they are redundant to the exhibits filed at Docket No. 103.

Second, the court refers to Clearly Food's response (Dkt. # 60) to Top Shelf's motion at Docket No. 50 to determine which exhibits associated with Top Shelf's motion for summary judgment should be sealed.[10] *See Local Rules W.D. Wash. LCR 5(g)(3)* (providing that the party that designated a document as confidential pursuant to a protective order has the burden of showing it should be sealed). The court concludes that good cause exists to seal Exhibits 3, 4, 6-8, 11-15, 17, and 22 to Top Shelf's motion for summary judgment, which are interspersed throughout Docket Nos. 47-1 through 47-16, and 48. The exhibits contain Clearly Food's confidential financial projections, marketing strategies, and business plans, all of which could be used against **[*54]** Clearly Food by competitors. *See Kamakana, 447 F.3d at 1179*. However, the court finds that there is not good cause to seal the motion itself; Clearly Foods has not shown that the motion discloses confidential business information. Accordingly, in a subsequent order, the court will grant in part and deny in part Top Shelf's ex parte motion to seal found at Docket No. 50.

10 Top Shelf erroneously filed this motion to seal as an ex parte motion. (*See* Dkt. # 51 (order directing Top Shelf to show cause why the motion was filed as an ex parte motion); Dkt. # 62 ¶ 13 (Top Shelf's response conceding that the "ex parte filing was the result of an error in procedure").) Ordinarily, Clearly Foods would not receive notice of the court's ruling on an opposing party's ex parte motion. The court, however, finds it appropriate to provide Clearly Food notice of its ruling for three reasons: (1) the ex parte restriction is an error, (2) the operative document is Clearly Food's response, and (3) the motion concerns Clearly Food's confidential information. Therefore, the court will address the substance of its ruling on the putative ex parte motion in this order. For docketing purposes only, a separate, non-public order ruling on **[*55]** the ex parte motion will follow this order.

A problem arises because Top Shelf has included documents that should be sealed in the same pdf files as

documents that should not be sealed. (*See* Dkt. # 47-1 through 47-16.) To remedy this problem, the court DIRECTS the clerk to maintain the seal on Docket Nos. 47 and 48 in their entirety, and ORDERS Top Shelf to file unsealed versions of Exhibits 1, 2, 5, 9, 10, 16, and 18-21 to Top Shelf's motion for summary judgment within 10 days of the date of this order.

Third, the court refers to Top Shelf's response (Dkt. # 63) to Clearly Food's motion to seal at Docket No. 52 to determine which exhibits associated with Clearly Food's opposition should be sealed. *See Local Rules W.D. Wash. LCR 5(g)(3)*. Although Clearly Food moved to seal the opposition and all exhibits filed with the opposition, Top Shelf clarifies that only Exhibits C and E to the Whitaker Declaration should be sealed. (*See* Dkt. # 63.) These exhibits, which are the depositions of Mr. Cargle and Ms. Zarrow, are found at Docket Nos. 57-3 and 57-7, respectively. The court concludes that good cause exists to seal those exhibits: both Mr. Cargle and Ms. Zarrow testified about Top Shelf's **[*56]** business plans, marketing strategies, financial history and projections, and other confidential information, and this information could be used against their company by competitors. *See Kamakana, 447 F.3d at 1179*. Accordingly, the court GRANTS in part and DENIES in part Clearly Food's motion to seal at Docket No. 52. The court directs the clerk to LIFT the seal on every document in Docket Nos. 54 through 57, with the exception of Docket Nos. 57-3 and 57-7, which shall remain under seal.

I. Motion to strike

On the last page of its supplemental response, Clearly Food makes a desultory attempt to strike the expert report of Mr. Silverman on the basis that Mr. Silverman's opinion is premised on inadequate facts and/or factual inaccuracies. (Supp. Resp. at 15.) Because the briefing on this subject is incomplete, the court denies the motion to strike as currently presented.

IV. CONCLUSION

For the foregoing reasons, the court GRANTS in part and DENIES in part Defendant's motion for summary judgment (Dkt. # 47). The court STRIKES the exhibits filed at Docket Nos. 59 and 103. The court DENIES Top Shelf's motion to seal (Dkt. # 58) and DIRECTS the clerk to LIFT the seal on Docket No. 102. The court ORDERS Top Shelf to file **[*57]** unsealed versions of Exhibits 1, 2, 5, 9, 10, 16, and 18-21 to Top Shelf's motion for summary judgment within 10 days of the date of this order. The court DIRECTS the clerk to LIFT the seal on Docket No. 47.

Finally, the court GRANTS in part and DENIES in part Clearly Food's motion to seal (Dkt. # 52) and DIRECTS the clerk to LIFT the seal on Docket Nos. 54 through 57, with the exception of Docket Nos. 57-3 and 57-7, which shall remain under seal.

Dated this 28th day of April, 2015.

/s/ James L. Robart

JAMES L. ROBART

United States District Judge

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

CROSSFIT, INC., Plaintiff, v. JENNI ALVIES, and DOES 1-10, Defendants. AND RELATED COUNTERCLAIMS	Case No. 13-3771 SC ORDER GRANTING IN PART AND DENYING IN PART MOTION TO DISMISS AMENDED COUNTERCLAIMS

I. INTRODUCTION

Plaintiff CrossFit, Inc. ("CrossFit") brings this action against Defendant Jenni Alvies ("Alvies") for trademark infringement, among other things. ECF No. 1 ("Compl."). Alvies has counterclaimed for (1) declaratory judgment; (2) violation of California's Unfair Competition Law ("UCL"), Cal. Bus. & Prof. Code. § 17200, et seq.; and (3) false advertising under the Lanham Act, 15 U.S.C. § 1125. ECF No. 16 (First Amended Counterclaims ("FACC")). CrossFit now moves to dismiss Alvies's counterclaims pursuant to Federal Rule of Civil Procedure 12(b)(6). ECF No. 24 ("MTD"). The motion is fully briefed, ECF Nos. 26 ("Opp'n"), 30

("Reply"), and appropriate for determination without oral argument per Civil Local Rule 7-1(b). For the reasons set forth below, the motion is GRANTED in part and DENIED in part.

II. BACKGROUND

As it must on a Rule 12(b)(6) motion to dismiss, the Court treats all well-pleaded allegations in the FACC as true.[1] CrossFit has developed a fitness training regimen and provides a nationally standardized certificate program to personal trainers who desire to become licensed CrossFit affiliates. Compl. ¶¶ 9, 11. CrossFit owns several registered United States trademarks and service marks comprised of the word mark CROSSFIT, including a service mark for use in connection with fitness training services. Compl. ¶ 10, FACC ¶ 23. CrossFit has also filed trademark applications with the United States Patent and Trademark Office ("PTO") for other uses of the CROSSFIT mark on an "intent-to-use" basis, meaning that CrossFit has yet to use the mark in commerce in connection with those uses. FACC ¶ 24. The applications relate to nutritional energy bars, computer software that tracks workouts, weight-loss equipment, magazines, books, and sports bags. Id. ¶¶ 25-28.

In April 2011, Alvies, a stay-at-home mother of four children, launched a blog at "crossfitmamas.blogspot.com." FACC ¶ 21. Around the same time, Alvies created a "CrossFit Mamas" Facebook page. Id. ¶ 48, Compl. ¶ 13. Alvies used the blog to post daily high-intensity interval training routines. Id. ¶¶ 20-21. Readers

[1] For background, the Court also refers to a number of allegations from CrossFit's complaint. However, for the purposes of adjudicating the instant motion, the Court only considers Alvies's allegations.

of the blog use the comments section to post and track their personal progress on certain exercises. Id. ¶ 21. In an effort to recoup some money for her efforts, Alvies sold vitamin meal-replacement shakes through the blog and added Google AdWords advertising. Id. ¶ 22.

On May 9, 2013, a paralegal from CrossFit contacted Alvies and demanded that Alvies stop using the CrossFit name on her blog and affiliated Facebook page. Id. ¶ 48. CrossFit's paralegal also began communicating with at least one reader of Alvies's blog about the quality of Alvies's workouts. Id. ¶ 52. The paralegal stated that she had "assessed a few days of [Alvies's] workouts" and determined it was "bad programming." Id. The paralegal also represented that a CrossFit trainer determined that Alvies's workouts were "stupid and unsafe." Id.

CrossFit also requested that third parties remove Alvies's Blog and sent a takedown notice to Facebook pursuant to the Digital Millennium Copyright Act ("DMCA"). Id. ¶ 55. Alvies allegedly reached an agreement with CrossFit's paralegal whereby she would move her blog to the domains "califitmamas.com" and "califitmamas.blogspot.com." Id. ¶ 49. The paralegal allegedly asserted that Alvies could not use the term "CFMamas" because "CF" is a common abbreviation of CrossFit. See id. ¶ 51.

Thereafter, CrossFit continued to demand that Alvies disable her Google AdWords and cease selling the vitamin shakes. CrossFit also allegedly reneged on the deal struck by its paralegal, demanding that Alvies cease using the domain "califitmamas.com." Alvies subsequently moved her blog to "hiitmamas.blogspot.com." After the second move, CrossFit repeatedly demanded that Alvies

delete over two years of blog posts. Alvies alleges that CrossFit's demands constitute "an improper effort to eradicate all Internet evidence of Alvies's prior use in commerce of marks subject to the Intent-to-Use Applications regarding nutritional shakes, computer software to track workouts, and others." Id. ¶ 64.

In August 2013, CrossFit filed the instant action against Alvies in federal court, asserting causes of action for trademark infringement, false designation of origin, trademark dilution, and cyberpiracy. Alvies counterclaims for (1) declaratory judgment, (2) violation of the UCL, and (3) false advertising under the Lanham Act. CrossFit now moves to dismiss all three counterclaims.

III. LEGAL STANDARD

A motion to dismiss under Federal Rule of Civil Procedure 12(b)(6) "tests the legal sufficiency of a claim." Navarro v. Block, 250 F.3d 729, 732 (9th Cir. 2001). "Dismissal can be based on the lack of a cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory." Balistreri v. Pacifica Police Dep't, 901 F.2d 696, 699 (9th Cir. 1988). "When there are well-pleaded factual allegations, a court should assume their veracity and then determine whether they plausibly give rise to an entitlement to relief." Ashcroft v. Iqbal, 556 U.S. 662, 679 (2009). However, "the tenet that a court must accept as true all of the allegations contained in a complaint is inapplicable to legal conclusions. Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." Id. (citing Bell Atl. Corp. v.

Twombly, 550 U.S. 544, 555 (2007)).

IV. DISCUSSION

A. Declaratory Relief

Alvies seeks declaratory judgment on a number of grounds. CrossFit moves to dismiss with respect to only one aspect of Alvies's counterclaim. Specifically, CrossFit targets Alvies's claim that CrossFit violated 17 U.S.C. § 512(f) by making material misrepresentations in the DMCA takedown notice it submitted to Facebook. MTD at 6-8. The DMCA targets the circumvention of digital walls guarding copyrighted material, but does not provide remedies for trademark infringement. See 17 U.S.C. § 502. Alvies asserts that CrossFit's invocation of the DMCA was improper and misleading since CrossFit's claims are based on the assertion of trademark rights, not copyrights. FACC ¶ 72. Under the DMCA, specifically 17 U.S.C. 512(f), any person who knowingly materially misrepresents that material infringes on a copyright shall be liable for damages incurred by the alleged infringer.

CrossFit argues that Alvies's claim is implausible because Facebook allows trademark takedown notices as well as DMCA copyright takedown notices. MTD at 7. This argument lacks merit. As an initial matter, it is unclear why the Court should take judicial notice of Facebook's internal compliance procedures. This is simply not a fact that "is generally known within the trial court's jurisdiction," or that "can be accurately and readily determined from sources whose accuracy cannot reasonably be questioned." Fed. R. Evid. 201(b)(1), (2). Even if judicial notice were appropriate, Alvies has plausibly alleged that CrossFit

materially misrepresented that Alvies's Facebook page infringed on a copyright, since CrossFit's claims are based only on its asserted trademark rights. Whether CrossFit may have been able to convince Facebook to remove Alvies's page on some other ground has no bearing on CrossFit's compliance with the DMCA.

CrossFit also contends that Alvies's claim fails because she was not injured by the DMCA takedown notice. MTD at 7. CrossFit argues that if it had not submitted a DMCA takedown notice, it could have submitted a trademark takedown notice that would have had the same effect. Id. Essentially, CrossFit is asking the Court to find that (1) Alvies's Facebook page infringed on CrossFit's trademarks, and (2) had CrossFit submitted a trademark takedown notice, Facebook would have removed Alvies's page. This is asking too much. The Court cannot adjudicate CrossFit's trademark claims on a motion to dismiss Alvies's counterclaim, let alone hypothesize about what Facebook would or would not have done if it had received a trademark takedown notice regarding Alvies's Facebook page. The Court limits its analysis to the allegations in Alvies's pleading. Those allegations indicate that Alvies derived at least some income from her blog and that the blog was associated with the Facebook page that CrossFit caused to be removed through an improper DMCA takedown notice.

Alvies's counterclaim for declaratory relief remains undisturbed.

B. UCL

Alvies's UCL claim is premised on the theory that CrossFit has engaged in harassing conduct in an effort to eradicate all evidence of Alvies's prior use of marks that are subject to CrossFit's

intent-to-use applications with the PTO. FACC ¶ 75. The UCL counterclaim targets CrossFit's efforts to delete Alvies's blog and Facebook page and to stop Alvies from selling vitamin shakes. Id. The UCL prohibits any business act or practice that is unlawful, unfair, or fraudulent. Cal. Bus. & Prof. Code § 17200. Alvies asserts claims under all three prongs. FACC ¶¶ 76-78.

CrossFit argues that Alvies lacks standing because she has failed to plead an economic injury. Mot. at 8-9. The Court disagrees. Alvies alleges that her blog and affiliated Facebook page generated at least a modicum of revenue through the sale of vitamin shakes and Google AdWords, and that CrossFit wrongfully caused those pages to be removed. Thus, it is plausible that CrossFit's alleged misconduct resulted in economic injury to Alvies.

However, a private plaintiff's remedies under the UCL "are generally limited to injunctive relief and restitution." Cel-Tech Commc'ns, Inc. v. Los Angeles Cellular Tel. Co., 20 Cal. 4th 163, 179 (Cal. 1999). Alvies's prayer for relief is vague with respect to the UCL. She merely asks that the Court enter judgment that CrossFit violated the statute. FACC p. 17. There is no indication that Alvies is seeking injunctive relief. Moreover, under the UCL, a plaintiff cannot recover restitution unless that plaintiff had an "ownership interest in the money or property sought to be recovered" and the defendant "acquired the plaintiff's money or property by means of . . . unfair competition." Shersher v. Super. Ct., 154 Cal. App. 4th 1491, 1494 (Cal. Ct. App. 2007) (internal quotations omitted). Here, it is unclear how CrossFit could have acquired the lost revenue alleged by Plaintiff.

Accordingly, the Court DISMISSES Alvies's UCL claim with leave to amend.

C. False Advertising under the Lanham Act

The Lanham Act prohibits "false representations in the advertising and sale of goods and services. Jack Russell Terrier Network of N. Ca. v. Am. Kennel Club, Inc., 407 F.3d 1027, 1036 (9th Cir. 2005). To prevail on a false advertising claim under the Lanham Act, a plaintiff must show, inter alia, "a false statement of fact by the defendant in a commercial advertisement about its own or another's product." Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1139 (9th Cir. 1997). The injury alleged must be "competitive or harmful to the plaintiff's ability to compete with the defendant." Jack Russell, 407 F.3d at 1027 (quotations omitted).

Alvies claims that CrossFit violated the Lanham Act by making false and misleading representations to readers of her blog regarding her workout regimens. FACC ¶ 83. Specifically, Alvies targets the CrossFit paralegal's representations to a blog reader that Alvies's workouts are "bad," "stupid," or "unsafe." Id. Alvies further alleges that CrossFit's representations have irreparably injured her goodwill and reputation. Id. ¶ 84.

CrossFit argues that Alvies lacks standing to assert a false advertising Lanham Act claim because the parties are not direct competitors. MTD at 17. CrossFit reasons that it is "one of the largest fitness training companies in the country," while Alvies is merely a "blogger who . . . sells Google AdWords and . . . vitamin shakes." Id. The argument lacks merit. Both parties offer fitness training services. See Compl. ¶ 9; FACC ¶ 18. Their

business models differ, but they offer similar services to consumers. That Alvies earns revenues through advertisements and vitamin shake sales rather than a nationally standardized certificate program does not mean that she does not compete with CrossFit. Moreover, nothing in the Lanham Act suggests that differences in size preclude a finding of competition.

Next, CrossFit argues that Alvies fails to allege her Lanham Act counterclaim with sufficient particularity. MTD at 18. To the extent that CrossFit contends that Alvies's Lanham Act claim fails to meet the pleading requirements of Rule 9(b), its argument lacks merit. Alvies has pleaded sufficient facts to put CrossFit on notice of the allegedly false statement that forms the basis of her Lanham Act claim. Alvies's pleading identifies who made the statement, to whom the statement was made, the exact contents of the statement, why the statement is false, and the approximate time of the statement.

However, the Court agrees that Alvies has pleaded insufficient facts to establish that the conduct alleged constitutes advertising for the purposes of the Lanham Act. Under the Act's false advertising provisions, statements are only actionable if they constitute "commercial advertising or promotion," which has been defined as "(1) commercial speech; (2) by a defendant who is in commercial competition with plaintiff; (3) for the purpose of influencing consumers to buy defendant's goods or services." Coastal Abstract Serv., Inc. v. First Am. Title Ins. Co., 173 F.3d 725, 735 (9th Cir. 1999) (quoting Gordon & Breach Sci. Publishers v. Am. Inst. of Physics, 859 F. Supp. 1521 (S.D.N.Y. 1994)). "While the representations need not be made in a 'classic

advertising campaign,' but may consist instead of more informal types of 'promotion,' the representations (4) must be disseminated sufficiently to the relevant purchasing public to constitute 'advertising' or 'promotion' within that industry." Id. "Representations that are commercial advertising or promotion under the Lanham Act must be part of an organized campaign to penetrate the market, rather than isolated disparaging statements." eMove Inc. v. SMD Software Inc., CV-10-02052-PHX-JRG, 2012 WL 1379063, at *5 (D. Ariz. Apr. 20, 2012).

Alvies's pleading targets a single, isolated email from a CrossFit paralegal to a reader of Alvies's blog. This hardly constitutes "an organized campaign to penetrate the market." See id. Without more, the Court cannot conclude that Alvies's Lanham Act counterclaim concerns commercial advertising or promotion. Accordingly, the Lanham Act counterclaim is DISMISSED with leave to amend. The amended pleading should identify CrossFit's allegedly disparaging statements and explain how they were disseminated to the purchasing public.

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V. CONCLUSION

For the foregoing reasons, CrossFit's motion to dismiss is GRANTED in part and DENIED in part. Alvies's counterclaim for declaratory relief remains undisturbed. Her counterclaims for violations of the UCL and the Lanham Act are DISMISSED with leave to amend. Alvies shall file an amended pleading within thirty (30) days of the signature date of this Order. Failure to do so may result in dismissal with prejudice of her UCL and Lanham Act counterclaims.

IT IS SO ORDERED.

January 22, 2014

UNITED STATES DISTRICT JUDGE

VIVID ENTERTAINMENT, LLC, a California limited liability company, Plaintiff, v. J&B PB, LLC, a Florida limited liability company, JOSE BASERVA, ANTHONY MCCARTY, an individual, and VIVID, LLC, a Florida limited liability company, Defendants.

Case No: 2:13-cv-524-FtM-29DNF

UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF FLORIDA, FORT MYERS DIVISION

2015 U.S. Dist. LEXIS 3121

January 12, 2015, Decided
January 12, 2015, Filed

SUBSEQUENT HISTORY: Summary judgment granted by, Dismissed by, in part, Sanctions allowed by, Motion denied by, As moot *Vivid Entm't, LLC v. Baserva, 2015 U.S. Dist. LEXIS 11088 (M.D. Fla., Jan. 30, 2015)*
Motion denied by *Vivid Entm't, LLC v. Baserva, 2015 U.S. Dist. LEXIS 13847 (M.D. Fla., Feb. 5, 2015)*
Motion granted by, Judgment entered by *Vivid Entm't, LLC v. Baserva, 2015 U.S. Dist. LEXIS 103829 (M.D. Fla., Aug. 7, 2015)*
Motion to strike denied by, Motion granted by, Judgment entered by *Entm't v. V., 2015 U.S. Dist. LEXIS 112458 (M.D. Fla., Aug. 25, 2015)*

COUNSEL: [*1] For Vivid Entertainment, LLC, a California limited liability company, Plaintiff, Counter Claimant: Joshua Byrne Spector, LEAD ATTORNEY, Joey M. Lampert, Perlman, Bajandas, Yevoli & Albright, PL, Ft. Lauderdale, FL; Paul Dewey Turner, LEAD ATTORNEY, Perlman, Yevoli & Albright, PL, Ft Lauderdale, FL.

J&B PB, LLC, a Florida limited liability company, Defendant, Pro se, Fort Myers, Fl.

Jose Baserva, Defendant, Pro se, Fort Myers, Fl.

Anthony McCarty, an individual, Defendant, Pro se, Massillon, OH.

Eleanor Funk, Movant, Pro se.

Jose Baserva, Counter Claimant, Pro se, Fort Myers, Fl.

For Vivid Entertainment, LLC, Counter Defendant: Joshua Byrne Spector, LEAD ATTORNEY, Joey M. Lampert, Perlman, Bajandas, Yevoli & Albright, PL, Ft. Lauderdale, FL; Paul Dewey Turner, LEAD ATTORNEY, Perlman, Yevoli & Albright, PL, Ft Lauderdale, FL.

J&B PB, LLC, a Florida limited liability company, J&B PB, LLC, a Florida limited liability company, Counter Claimants, Pro se, Fort Myers, Fl.

J&B PB, LLC, a Florida limited liability company, Counter Defendant, Pro se, Fort Myers, Fl.

Jose Baserva, Counter Defendant, Pro se, Fort Myers, Fl.

Jose Baserva, Counter Claimant, Pro se, Fort Myers, Fl.

J&B PB, LLC, a Florida limited **[*2]** liability company, Counter Claimant, Pro se, Fort Myers, Fl.

JUDGES: JOHN E. STEELE, UNITED STATES DISTRICT JUDGE.

OPINION BY: JOHN E. STEELE

OPINION

OPINION AND ORDER

This matter comes before the Court on plaintiff's Motion for Final Judgment After Default Against Defendants J&B PB, LLC; Vivid, LLC; and Anthony McCarty (Doc. #99) filed on October 3, 2014. Neither defendant J&B PB, LLC nor defendant Vivid, LLC appeared or responded to the motion. Defendant Anthony McCarty appeared and sought an extension of time to respond, however the deadline to respond has expired, see Doc. #124, and no response was filed. The motion is now ripe for consideration.

I. Procedural Background

On July 15, 2013, Vivid Entertainment, LLC (plaintiff or Vivid Entm't) initiated a Complaint (Doc. #1) against J&B PB, LLC (J&B) and Jose Baserva (Baserva) alleging trademark infringement, use of false designation of origin, cybersquatting, and state law claims. Defendants appeared and filed an Answer, Affirmative Defenses and Counterclaim (Doc. #26), an Amended Answer, Affirmative Defenses, Counterclaims (Doc. #31), and a Second Amended Answer, Affirmative Defenses, Counterclaims (Doc. #35). On May 6, 2014, plaintiff filed an Amended Complaint **[*3]** (Doc. #45) adding Vivid, LLC (Vivid) and Anthony McCarty (McCarty) as defendants and adding additional state claims.

Defendants J&B and Baserva appeared and filed an Answer to Amended Complaint (Doc. #50) and adopted their previously filed Affirmative Defenses and Counterclaims. After proper service of process, Vivid and McCarty both failed to appear and respond to the Amended Complaint, and upon appropriate motions, a Clerk's Entry of Default (Docs. ## 60, 70) was issued against Vivid and against McCarty.

On July 24, 2014, the Court permitted counsel for J&B and Baserva to withdraw, but required J&B to acquire new counsel within 30 days. (Doc. #67.) An extension of time to secure new counsel for J&B was denied, Doc. #86, and upon failing to timely secure new counsel, the Clerk was directed to enter a default against J&B. On September 19, 2014, a Clerk's Entry of Default (Doc. #92) was issued against J&B. Defendant Baserva is proceeding *pro se* and is not in default or subject to the instant Motion for Final Judgment. (See Docs. ## 80, 86.) On August 27, 2014, McCarty filed a Response to Motion for Default (Doc. #81) stating that service of process was improper, and that he and Vivid **[*4]** should be permitted to appear and defend. McCarty did not file a motion to set aside or vacate the Clerk's default against him or Vivid, or file anything further to set aside or vacate the defaults. Plaintiff did file a Response (Doc. #85) in opposition, however no further action took place on the defaults.

On October 24, 2014, McCarty filed a Motion for Extension of Time (Doc. #106) to respond to the Motion for Final Judgment, which was opposed, Doc. #110. On December 8, 2014, the request was granted and McCarty was permitted an additional 14 days to respond. That deadline has now expired and McCarty did not file a response.

As the default against McCarty remains in place, the Court will proceed and consider the Motion for Final Judgment against J&B, Vivid, and McCarty. The Court finds that plaintiff has fulfilled the necessary prerequisite for a default judgment against all three defendants pursuant to *Fed. R. Civ. P. 55(a)*.

II. Factual Basis

"A defendant, by his default, admits the plaintiff's well-pleaded allegations of fact, is concluded on those facts by the judgment, and is barred from contesting on appeal the facts thus established. [ ] A default judgment is unassailable on the merits, but only so **[*5]** far as it is supported by well-pleaded allegations. [ ] A default defendant may, on appeal, challenge the sufficiency of the complaint, even if he may not challenge the sufficiency of the proof." *Eagle Hosp. Physicians, LLC v. SRG Consulting, Inc., 561 F.3d 1298, 1307 (11th Cir. 2009)*(internal quotations and citations omitted).

Plaintiff is the world's largest producer of adult entertainment. Plaintiff's predecessor, Vivid Video, Inc., registered the trademark VIVID with the United States Patent and Trademark Office for several different products and services, including for online websites and night club services. On December 26, 2000, plaintiff's

predecessor was issued Registration No. 2,415,035, for the websites and on August 7, 2001, plaintiff's predecessor was issued Registration No. 2,475,741, for night club services (collectively the Trademarks). On August 30, 2007, Vivid Video, Inc. assigned the Trademarks to plaintiff under a Nunc Pro Tunc assignment effective July 26, 2002.

Plaintiff sells and distributes goods bearing the Trademarks, and plaintiff's products are famous, recognized, and distributed worldwide. Plaintiff owns over 350 domain names, which include the Trademarks prominently displayed. The Trademarks are distinctive, and the public associates the Trademarks **[*6]** with the goods and services of plaintiff and high quality erotic and adult entertainment. Plaintiff has granted licenses to use the Trademarks for nightclubs in Las Vegas, Nevada (Vivid), New York, NY and Los Angeles, CA (Vivid Cabaret), Charlotte, NC (Vivid's Gentleman's Club, and Miami-Dade County, FL (Vivid Live Gentlemen's Club).

In or about April 2011, J&B began using and imitating the Trademarks in the operation and promotion of Vivid Cabaret Nightclub in Palm Bay, Florida, and Baserva began using or imitating the Trademarks on vividcabaret.com to promote Vivid Cabaret Nightclub. Baserva is the sole owner of J&B and is the registered owner of the domain name vividcabaret.com. From April 2011 through October 19, 2011, J&B used and imitated the Trademarks in the operation and promotion of Vivid Cabaret Nightclub. Even after selling Vivid Cabaret Nightclub, J&B continues through the present to use and imitate the Trademarks and infringing domain name and website vividcabaret.com.

On October 19, 2011, J&B sold the assets of Vivid Cabaret Nightclub to Vivid, of which McCarty is the sole owner. On December 4, 2012, plaintiff sent a cease and desist letter to Vivid, and on May 10, 2013, **[*7]** Vivid signed an Agreement agreeing to cease using and imitating the Trademarks. However, from November 2011 to the present, Vivid has used and continues to use and imitate the Trademarks in the operation of Vivid Cabaret Nightclub.

On April 10, 2013, plaintiff sent J&B a cease and desist letter demanding it discontinue use of the Trademarks and to transfer the vividcabaret.com domain name to plaintiff. Baserva responded and admitted to registering the domain name, and defendants are using the Trademarks on social media to promote Vivid Cabaret Nightclub. On April 23, 2013, Baserva filed a trademark application for Vivid Cabaret, however in February 2014, the application was refused because of the likelihood of confusion and suspended based on the pendency of this action. Upon information and belief, defendants plan on opening and operating other adult entertainment nightclubs using and imitating the Trademarks.

Count I alleges infringement of registered trademarks by J&B and Vivid[1] under the Lanham Act, *15 U.S.C. § 1114*, and Count II alleges the use of false designation of origin by J&B and Vivid under the Lanham Act, *15 U.S.C. § 1125(a)*. Count IV alleges infringement of registered trademarks by J&B and Vivid under *Florida Statute § 495.131*. Count **[*8]** V alleges a violation of Florida's Deceptive and Unfair Trade Practices Act (FDUTPA), *Fla. Stat. § 501.201, et seq.*, by J&B and Vivid, Count VI asserts a common law claim of unfair competition against J&B and Vivid. Count VII asserts common law civil conspiracy against McCarty (and Baserva). Count VIII asserts a breach of the Agreement by Vivid, and lastly, Count IX alleges fraudulent inducement by McCarty.

1 Baserva is also named in Count I and is the only defendant named in Count III. As Baserva is not in default, the Court has excluded him from Count I and Count III is not referenced herein.

III. Default Judgment

Plaintiff seeks a default judgment against J&B and Vivid for infringement and the false designation of origin, along with the state claims, and against McCarty for conspiracy and fraudulent inducement based on the well pled allegations in the Amended Complaint, and the docket. The Court finds that an evidentiary hearing is not required in this case and will render a decision based on the documents submitted.

In addition to previously filed documents, plaintiff submits the Expert Report of Michael A. Einhorn, Ph.D. on Behalf of Plaintiff (Doc. #99-1, Exh. 1), an economist working in the area of media and **[*9]** intellectual property, as the valuation of actual damages and defendant revenues. Plaintiff also submits the Affidavit of Joshua Spector, Esq. (Doc. #99-2, Exh. 2), an attorney with the firm representing plaintiff, to show the continuing use of Vivid Cabaret and vividcabaret.com on social media.

A. J&B and Vivid

"[I]n order to prevail on a trademark infringement claim, a plaintiff must show that its mark was used in commerce by the defendant without the registrant's consent and that the unauthorized use was likely to deceive, cause confusion, or result in mistake. *McDonald's Corp. v. Robertson, 147 F.3d 1301, 1307 (11th Cir. 1998)*. For a false designation of origin claim, "plaintiff must establish that the defendant adopted a mark confusingly similar to the plaintiff's mark such that there was a likelihood of confusion as to the origin of the goods." *Ross Bicycles, Inc. v. Cycles USA, Inc., 765 F.2d 1502, 1503 (11th Cir. 1985)* (citing *Conagra, Inc. v. Singleton, 743 F.2d 1508, 1512 (11th Cir.1984))*. "The likelihood of confusion test applies to both causes under the Lanham Act-infringement and false designation of origin." *Caliber Auto. Liquidators, Inc. v. Premier Chrysler, Jeep, Dodge, LLC, 605 F.3d 931, 935 n.16 (11th Cir. 2010)*(citations omitted).

If plaintiff establishes a likelihood of confusion as to Count I for infringement, this will also be determinative of the Florida state law claims for infringement, common law unfair competition, and FDUTPA in to Counts IV, V, and VI. *Custom Mfg. & Eng'g, Inc. v. Midway Servs., Inc., 508 F.3d 641, 652-653 (11th Cir. 2007)*. The Court finds that **[*10]** the well pled allegations in the Amended Complaint, as summarized above, and set forth in paragraphs 47-54, 57-64, 76-83, 86-93, and 96-101, establish a likelihood of confusion and support a default judgment in favor of plaintiff as to Counts I, II, IV, V, and VI against J&B and Vivid.

Plaintiff also asserts a breach of contract claim in Count VIII against Vivid. Plaintiff presents all the necessary elements for a breach of contract, see *Buschman v. Anesthesia Bus. Consultants LLC, No. C-13-1787 EMC, 42 F. Supp. 3d 1244, 2014 U.S. Dist. LEXIS 65798, 2014 WL 1911430, at *5 (N.D. Cal. May 13, 2014)*[2] (the elements are a valid contract, plaintiff's performance, defendant's breach, and resulting damages), and the Agreement is attached to the Amended Complaint (Doc. #45-9, Exh. 8). The requisite damages are the same as the actual damages presented under the Lanham Act. Upon review, the Court will also grant a default judgment in favor of plaintiff as to Count VIII against Vivid.

2 The Agreement has a Governing Law clause: "The Agreement shall be construed and enforced under and in accordance with the laws of the United States and the State of California." (Doc. #45-9, Exh. 8, ¶ 6.) Therefore, the Court applies California law to the Agreement. **[*11]**

B. McCarty

Only two counts pertain to McCarty: Count VII for civil conspiracy and Count IX for fraudulent inducement. In Count VII, plaintiff alleges that McCarty and Baserva conspired to misappropriate and infringe the Trademarks of plaintiff. More specifically, as deemed admitted, plaintiff alleges that McCarty negotiated the terms of the Agreement on behalf of Vivid in furtherance of the conspiracy, and even offered to facilitate and assist with the discontinuance of the Trademarks by Vivid. In furtherance of the conspiracy, McCarty took action to open and operate other nightclubs using the Trademarks and continued use of the Trademarks on the vividcaberet.com domain name and website. Despite plaintiff's argument to the contrary, see Doc. #99, pp. 15-16, plaintiff does not allege that McCarty conspired to commit cybersquatting, and Baserva is not in default or deemed to have admitted any of the facts.

To establish a conspiracy, plaintiff must show an agreement between two or more parties, to do an unlawful act or to do a lawful act by unlawful means, through an "overt act in pursuance of the conspiracy", and resulting damage. *Charles v. Florida Foreclosure Placement Ctr., LLC, 988 So. 2d 1157, 1160 (Fla. 3d DCA 2008)* (citations omitted). The Court finds that the admitted **[*12]** facts may establish a breached agreement by Vivid resulting in damage, however, Baserva's actions are not deemed admitted and the alleged conspiracy is primarily between McCarty and Vivid. Pursuant to the intracorporate conspiracy doctrine, McCarty cannot conspire with Vivid as McCarty is the sole owner of the company. See *Grider v. City of Auburn, Ala., 618 F.3d 1240, 1261 (11th Cir. 2010)* ("[t]he intracorporate conspiracy doctrine holds that acts of corporate agents are attributed to the corporation itself, thereby negating the multiplicity of actors necessary for the formation of a conspiracy." (citations and quotation marks omitted)). Therefore, Count VII will be dismissed without prejudice.

In Count IX, plaintiff alleges that, after J&B's sale of Vivid Cabaret Nightclub to Vivid, plaintiff sent written correspondence to Vivid as pre-litigation notification to stop using its Trademarks. On May 10, 2013, McCarty stated that Vivid would cease all use of the Trademarks

within 90 days, however Vivid did not discontinue use of the Trademarks and McCarty knew that Vivid would not do so. McCarty made the statements to induce plaintiff to enter into an agreement and forego filing a lawsuit, and plaintiff did not file suit to enforce its rights as a result of **[*13]** the agreement. McCarty was at least in part motivated by the benefit of plaintiff's promotional efforts around the opening of its club in Miami, Florida.

To prove fraudulent inducement, plaintiff must show a false statement of material fact, that McCarty knew or should have known was false, and that McCarty made the statement with the intent to induce plaintiff's reliance on the false statement, and that plaintiff justifiably relied on the false statement to its detriment. *Prieto v. Smook, Inc., 97 So. 3d 916, 917 (Fla. 4th DCA 2012)*. The Court finds that the facts are sufficiently pled to support a default judgment against McCarty as to Count IX. Plaintiff asks that the Court reserve ruling on the issue of damages. (Doc. #99, p. 18.) The Court will defer the entry of judgment as to McCarty and require plaintiff to file a motion as to the amount of damages.

IV. Relief

Plaintiff seeks statutory damages under the Lanham Act, permanent injunctive relief, and attorneys' fees. For damages, plaintiff seeks $500,000 against J&B and Vivid, respectively, and an additional $50,000 against McCarty for conspiracy. As stated above, the Court is dismissing the conspiracy claim, therefore the $50,000 as to McCarty will be denied. Plaintiff also seeks reasonable **[*14]** attorney's fees to be determined at a later date upon a finding of entitlement.

A. Permanent Injunction

Upon establishing a violation of infringement and/or false designation of origin, plaintiff is entitled to injunctive relief. *15 U.S.C. § 1116*. "Under traditional equitable principles, a plaintiff seeking a permanent injunction must demonstrate (1) it has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction." *Angel Flight of Ga., Inc. v. Angel Flight Am., Inc., 522 F.3d 1200, 1208 (11th Cir. 2008)* (citing *eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391, 126 S. Ct. 1837, 164 L. Ed. 2d 641 (2006))*. In infringement cases, it is "generally recognized" that there is no adequate remedy at law and that infringement by its very nature causes irreparable harm, *Tally-Ho, Inc. v. Coast Cmty. Coll. Dist., 889 F.2d 1018, 1029 (11th Cir. 1989)* (quoting *Processed Plastic Co. v. Warner Commc'ns, 675 F.2d 852, 858 (7th Cir. 1982))*, however "injunctive relief may issue only in accordance with the principles of equity", *N. Am. Med. Corp. v. Axiom Worldwide, Inc., 522 F.3d 1211, 1227 (11th Cir. 2008)*(quoting *eBay Inc., 547 U.S. at 393*)(internal quotation marks omitted). Avoiding confusion is a legitimate public interest. *Angel Flight of Ga., Inc., 522 F.3d at 1209*.

Considering the well pled admitted facts in this case, coupled with defendants' ongoing and continuing use of the Trademarks through at least September 2014, **[*15]** see Affidavit (Doc. #99-2, Exh. 2), the Court finds that injunctive relief is appropriate.

B. Statutory Damages

Upon establishing a violation of infringement and/or false designation of origin, plaintiff is also entitled to recover: "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." *15 U.S.C. § 1117(a)*. To obtain profits, plaintiff must only prove defendant's sales and need not demonstrate actual damage. *15 U.S.C. § 1117(a)*; see also *Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988)*. An accounting of "profits is appropriate where: (1) the defendant's conduct was willful and deliberate, (2) the defendant was unjustly enriched, or (3) it is necessary to deter future conduct." *Optimum Technologies, Inc. v. Home Depot U.S.A., Inc., 217 F. App'x 899, 902 (11th Cir. 2007)*(citation omitted). In this case, plaintiff seeks statutory damages under *15 U.S.C. § 1117(c)* and *(d)*, and the same damages as applied to the Florida state law claims.

For the infringement of the Trademarks, plaintiff may elect an award of statutory damages, instead of actual damages and profits,

> in the amount of--
> **(1)** not less than $1,000 or more than $200,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or
> **(2)** if the court finds that the use of the counterfeit mark was willful, not more

> than $2,000,000 **[*16]** per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

15 U.S.C. § 1117(c). For the false designation of origin claim, plaintiff may instead recover "statutory damages in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just." *15 U.S.C. § 1117(d)*. To determine damages, the Court may enter judgment for any amount over the amount for actual damages, not to exceed three times the amount, and if the recovery based on profits is "inadequate or excessive", the Court has the discretion to "enter judgment for such sum as the court shall find to be just." *15 U.S.C. § 1117(a)*.

Based on the assessment of its expert Michael A. Einhorn, Ph.D., plaintiff states that the conservative estimate of actual damages against Vivid would be $35,017, and $10,082 against J&B, and with treble damages, the total would be $135,297. Plaintiff further submits that revenues for J&B were $336,075, and if extrapolated, Vivid's revenues were at least $1,167,225. Therefore, plaintiff suggests that the statutory award sought is considerably lower than the amounts that could be shown by plaintiff. (Doc. #99, pp. 11-13.) The Court has considerable discretion in **[*17]** determining a "just" amount of damages. The Court finds that defendants' use and infringement of the Trademarks was willful, and therefore the cap on the amount of statutory damages would be $2 million. The Court otherwise finds that Count II is capped at $100,000 per domain name. If plaintiff was granted three times the actual damages, the amount would be just over $400,000. Therefore, the Court finds that $500,000 in statutory damages against J&B and $500,000 in statutory damages against Vivid would be just. No monetary damages have been determined against McCarty.

C. Attorney's Fees

Plaintiff seeks attorney's fees under the Lanham Act, *15 U.S.C. § 1117(a)*, arguing that this case qualifies as an exceptional case warranting an award. Plaintiff also seeks attorney's fees pursuant to FDUTPA, which permits an award of reasonable attorney's fees to a prevailing party, *Fla. Stat. § 501.2105*, and plaintiff seeks attorney's fees pursuant to the Agreement with Vivid, which provides for attorney's fees to a prevailing party in an enforcement action.

To qualify as an exceptional case, defendant's infringing acts must have been malicious, fraudulent, deliberate, or willful. *Burger King Corp. v. Pilgrim's Pride Corp., 15 F.3d 166, 168 (11th Cir. 1994)*. J&B and Vivid are deemed to have admitted the well pled facts **[*18]** in the Amended Complaint, and therefore the deliberate infringement of plaintiff's Trademarks. Defendants' actions were willful and knowing, and continued even after notice and after Vivid entered into an agreement to cease and desist the infringement of the Trademarks. The Court finds that this presents an exceptional case warranting reasonable attorney's fees as to Counts I and II.

For an award of attorney's fees under FDUTPA, the Court considers certain factors relevant to the inquiry, including the ability to pay, the scope and history of the litigation, and whether the claim was brought to resolve a significant legal question under FDUTPA. *N. Am. Clearing, Inc. v. Brokerage Computer Sys., Inc., 395 F. App'x 563, 565 (11th Cir. 2010)*(citing *Humane Soc'y of Broward Cnty., Inc. v. Fla. Humane Soc'y, 951 So. 2d 966, 971 (Fla. 4th DCA 2007))*. Plaintiff does not discuss these factors, and the Court does not find that plaintiff has met its burden to support a discretionary award under FDUTPA. Id. Therefore, the request for attorney's fees will be denied under this basis.

Lastly, plaintiff seeks attorney's fees pursuant to the Agreement with Vivid. (Doc. 345-9, Exh. 8.) The Agreement is governed by California law and provides for reasonable attorneys' fees incurred to enforce the Agreement. Under the California Civil Code,

> In any action on a contract, where the contract specifically **[*19]** provides that attorney's fees and costs, which are incurred to enforce that contract, shall be awarded either to one of the parties or to the prevailing party, then the party who is determined to be the party prevailing on the contract, whether he or she is the party specified in the contract or not, shall be entitled to reasonable attorney's fees in addition to other costs.

Cal. Civ. Code § 1717(a). The Court finds that plaintiff is entitled to attorney's fees against Vivid as to Count VIII.

Plaintiff will be required to file a separate motion as to the amount of fees after the entry of judgment. See *M.D. Fla. R. 4.18(a)*. In doing so, plaintiff will be required to limit or separate the attorney's fees to Counts I, II, and VIII only, and only as to defendants J&B and Vivid.

Accordingly, it is hereby

ORDERED AND ADJUDGED:

1. Plaintiff's Motion for Final Judgment After Default Against Defendants J&B PB, LLC; Vivid, LLC; and Anthony McCarty (Doc. #99) is **GRANTED** as follows:

A. Count VII is dismissed without prejudice;

B. A default judgment shall be entered in favor of plaintiff and against J&B in the amount of $500,000 and against Vivid in the amount of $500,000, as to Counts I, II, IV, V, and VI;

C. J&B and Vivid are **[*20]** permanently enjoined as further provided below;

D. A default judgment shall further be entered in favor of plaintiff and against Vivid as to Count VIII and plaintiff shall take nothing on this Count; and

E. A default judgment shall be entered in favor of plaintiff and against McCarty as to Count IX.

2. The Clerk shall enter judgment as to J&B and Vivid as provided herein but withhold entry of judgment as to McCarty pending a determination of damages. The Clerk shall otherwise terminate all three defendants (J&B, Vivid, and McCarty) on the docket.

3. Plaintiff shall submit a motion as to the appropriate damages sought against McCarty as to Count IX within **SEVEN (7) DAYS** of this Opinion and Order.

4. Plaintiff's Motion for Sanctions for Defendant McCarty's Failure to Comply with Court Order [DE125] (Doc. #134) is **DENIED as moot**.

5. Plaintiff shall serve a copy of this Opinion and Order on defendants.

IT IS FURTHER ORDERED AND ADJUDGED:

6. Plaintiff is the exclusive owner of all right, title, and interest in the trademark "VIVID", registered with the United States Patent and Trademark Office for online websites and night club services. Having found J&B and Vivid (Defendants) liable as to Counts **[*21]** I and II, Defendant and their agents, officers, employees, representatives, successors, assigns, attorneys and all other persons acting for, with, by, through or under authority from Defendants, and each of them, are hereby permanently enjoined from:

(a) using the trademark VIVID or any colorable imitation thereof;

(b) using any trademark that imitates or is confusingly similar to or in any way similar to the trademark VIVID or that is likely to cause confusion, mistake, deception or public misunderstanding as to the origin of Plaintiff's products, services or their connectedness to Defendants; and

(c) using the domain

name <vividcabaret.com> or any colorable imitation thereof.

7. Pursuant to the permanent injunction, Defendants shall:

(d) notify in writing and direct all publishers of directories or lists, including internet search engines, in which Defendant's use of the domain name <vividcabaret.com> or the trademark VIVID appears, to delete all references to these names from their public databases, search engine directories, directory assistance and from all future directories in which said name is to appear, and to delete all forwarding or "cache memory" or storage mechanisms referencing **[*22]** such name;

(e) transfer to Plaintiff the domain name registration for <vividcabaret.com>;

(f) deliver up for destruction all containers, labels, signs, prints, packages, wrappers, receptacles, advertising, promotional material or the like in possession, custody or under the control of Defendant bearing a trademark found to infringe Plaintiff's trademark VIVID rights, as well as all plates, matrices, and other means of making the same;

(g) serve on Plaintiff within 30 days of the entry of this Opinion and Order a report in writing under oath setting forth in detail the manner and form in which Defendants have complied with the injunction; and

(h) immediately notify in writing and direct all publication in which any advertisements or other references to Defendants' business are schedule to appear to cancel all advertisements and references using Plaintiff's Trademarks.

DONE and ORDERED at Fort Myers, Florida, this 12th day of January, 2015.

/s/ John E. Steele

JOHN E. STEELE

UNITED STATES DISTRICT JUDGE

NUBONAU, INC., etc., Plaintiff, vs. NB LABS, LTD, etc., et al., Defendants.

CASE NO. 10cv2631-LAB (BGS)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA

2012 U.S. Dist. LEXIS 32963

March 9, 2012, Decided
March 9, 2012, Filed

PRIOR HISTORY: *NuboNau, Inc. v. NB Labs, Ltd., 2011 U.S. Dist. LEXIS 125410 (S.D. Cal., Oct. 31, 2011)*

COUNSEL: [*1] For Nubonau, Inc., a California corporation, Plaintiff: Anne F. Bradley, Mary R. Conklin, Miriam Beezy, LEAD ATTORNEYS, Foley & Lardner, LLP, Los Angeles, CA; Debra D. Nye, LEAD ATTORNEY, Foley and Lardner LLP, San Diego, CA.

For NB Labs, Ltd., a United Kingdom company, Cult Beauty Limited, a United Kingdom company, Defendants: Camilo Echavarria, LEAD ATTORNEY, Anna R. Buono, Davis Wright Tremaine LLP, Los Angeles, CA.

For Dotcom Retail Ltd., a United Kingdom company, Defendant: Charles J. Meyer, LEAD ATTORNEY, PRO HAC VICE, Woodard, Emhardt, Moriarty, McNett & Henry, LLP, Indianapolis, IN; Michael Allen Painter, LEAD ATTORNEY, Isaacman Kaufman and Painter, Los Angeles, CA.

JUDGES: HONORABLE LARRY ALAN BURNS, United States District Judge.

OPINION BY: LARRY ALAN BURNS

OPINION

ORDER ON DEFENDANTS' MOTIONS TO DISMISS

Still pending in this case are the Defendants' motions to dismiss for lack of personal jurisdiction. Last October, after the motions had been filed but before NuboNau had opposed them, the Court allowed NuboNau to take limited discovery relating to the Defendants' jurisdictional arguments. Specifically, the Court ordered Dotcom Retail to "respond to NuboNau's thirteen document requests and eight interrogatories **[*2]** to the extent they request information regarding contacts with California." (Dkt. No. 24 at 9.) It also ordered Cult Beauty to respond to NuboNau's document requests and interrogatories "with all responses limited to Cult Beauty's contacts in California." (Dkt. No. 24 at 9.) Finally, it ordered NB Labs to produce documents and answer interrogatories regarding its contacts both in California and the United States as a whole. [1] After NuboNau had taken the discovery allowed by the Court it filed an opposition to the motions to dismiss, to which Defendants each filed a reply.

1 NuboNau now claims that it "was not allowed to conduct jurisdictional discovery related to the Defendants' contacts with the United States generally" in order to establish jurisdiction under the federal long-arm statute, *Fed. R. Civ. P. 4(k)(2)*. (Opp'n Br. at 3 n.1.) With respect to NB Labs, that's wrong. With respect to Dotcom Retail

and Cult Beauty, the Court would put the point differently. There must be a colorable showing that personal jurisdiction exists before jurisdictional discovery is warranted, and NuboNau failed to make that showing with respect to the *national* **[*3]** contacts of Dotcom Retail and Cult Beauty.

The fact is that the Court gave a reasoned explanation for allowing NuboNau to take discovery only on the *California* contacts of Dotcom Retail and Cult Beauty:

> Without any evidence that Dotcom Retail has sold NUBO products outside of California in the United States, NuboNau has made no colorable showing that jurisdiction arises here pursuant to *Rule 4(k)(2)*. It is therefore not entitled to discovery on Dotcom Retail's contacts in the broader United States. Dotcom Retail does concede that it made sales outside of California. (Dkt. No. 19 at 2; Dkt. No. 8-2.) But the number of such sales -- three -- is only marginally more significant than its California sales, and thus could not support a finding of national jurisdiction where there is no personal jurisdiction. *Holland America, 485 F.3d at 461*. Moreover, in correspondences with counsel for Dotcom Retail, counsel for NuboNau suggests that jurisdictional discovery of Dotcom Retail's contacts throughout the United States is necessary for "a determination of the best venue in the United States for this lawsuit." This is not a valid basis for the nation-wide discovery NuboNau seeks, nor is the fact **[*4]** that Dotcom Retail invoked *Rule 4(k)(2)* in its motion to dismiss. The fact is that NuboNau makes no showing whatsoever that jurisdiction is appropriate here under *Rule 4(k)(2)*, and seeks relevant discovery only on the "bare allegation," in the face of denials by Dotcom Retail, that such jurisdiction exists. *Terracom, 49 F.3d at 562*.
>
> Finally, the Court notes that, in an email correspondence with counsel for NB Labs and Cult Beauty *after* the motions to dismiss were filed, counsel for NuboNau originally requested information "specifically related to your client's connections to California, including any efforts to market or sell its products to consumers in California." No request was made for nationwide discovery, even though NuboNau was aware at the time that Defendants were arguing against federal jurisdiction under *Rule 4(k)(2)*. Jurisdictional discovery is warranted when "pertinent facts bearing on the question of jurisdiction are *controverted . . . ." Data Disc, 557 F.2d at 1285 n.1* (emphasis added). It's not warranted when a plaintiff has no facts to support jurisdiction and is simply in search of some.

(Dkt. No. 24 at 8.)

As with its request for jurisdictional discovery, NuboNau lumps **[*5]** the Defendants together, at least in the "Legal Argument" portion of its opposition brief. The Court will address their motions to dismiss independently. First, however, it will reiterate the relevant jurisdictional standards.

I. Jurisdictional Standards

When NuboNau first requested jurisdictional discovery, it suggested that the Defendants' California contacts were adequate to establish the Court's personal jurisdiction over them, but that in the alternative the Defendants' *national* contacts were adequate to establish jurisdiction under the federal long-arm statute, *Fed. R. Civ. P. 4(k)(2)*. It did not distinguish between the Defendants:

> Finally, NuboNau should be granted discovery not only to California contacts, but to all national contacts. Although NuboNau firmly believes that it can establish personal jurisdiction in California, should the Court find otherwise, NuboNau could still maintain its federal claims based on Defendants' national contacts across the United States collectively. *See Fed. R. Civ. P. 4(k)(2)*. Where foreign defendants may otherwise have insufficient contacts with any one state, the foreign defendants' contacts with the United States as a whole may be aggregated **[*6]** to establish personal jurisdiction on claims arising under federal law.

(Dkt. No. 18-1 at 6.) The Court's allowance of jurisdictional discovery forced NuboNau to change that approach, at least as to Defendants Dotcom Retail and Cult Beauty. Now, because the Court limited NuboNau's discovery from these Defendants to information regarding their contacts *in California*, NuboNau cannot argue that the Court has jurisdiction over them under *Rule 4(k)(2)*. Instead, it argues strictly that jurisdiction over them exists "in connection with the retail activities of [their] e-commerce business that clearly targets California customers." (Opp'n Br. at 11, 14.) With respect to NB Labs, NuboNau appears to rely only on *Rule 4(k)(2)*. It argues that "specific jurisdiction over NB Labs is proper for claims directly related to its use of the Nubo mark within the United States in a manner that is likely to cause confusion." (Opp'n Br. at 9.)

The "Legal Argument" portion of NuboNau's brief confuses things, however, because there NuboNau appears to argue that jurisdiction exists over *all* Defendants, not just NB Labs, under *Rule 4(k)(2)* (even though its analysis is weighted heavily toward the Court's jurisdiction **[*7]** over NB Labs). Indeed, the major subheading in this section is titled "Under *Fed. R. Civ. P. 4(k)(2)* This Court May Consider Each Defendant's Contacts With The Entire United States." (Opp'n Br. at 15.) Anyway, the Court is assuming that NuboNau believes specific jurisdiction exists over Dotcom Retail and Cult Beauty because of their *California* contacts, while it exists over NB Labs under *Rule 4(k)(2)* because of its *national* contacts.

A. Specific Jurisdiction

Three conditions must be satisfied to trigger the Court's specific jurisdiction over a non-resident defendant.

> (1) The non-resident defendant must purposefully direct his activities or consummate some transaction with the forum or resident thereof; or perform some act by which he purposefully avails himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections of its laws;
>
> (2) the claim must be one which arises out of or relates to the defendant's forum-related activities; and
>
> (3) the exercise of personal jurisdiction must comport with fair play and substantial justice, i.e., it must be reasonable.

Yahoo! Inc. v. La Ligue Contre Le Racisme Et L'Antisemitisme, 433 F.3d 1199, 1205-06 (9th Cir. 2006).

"Purposeful **[*8]** direction," the first condition [2], occurs where the defendant (1) commits an intentional act, (2) expressly aimed at the forum state, (3) causing harm that the defendant knows is likely to be suffered in the forum state. *Id. at 1206* (citing *Schwarzenegger, 374 F.3d at 802*. This test, which is traceable to the Supreme Court's decision in *Calder v. Jones, 465 U.S. 783, 104 S. Ct. 1482, 79 L. Ed. 2d 804 (1984)*, is an effects test that focuses on where a defendant's acts were *felt*, rather than where they actually occurred. *Yahoo! Inc., 433 F.3d at 1206*. The "harm" required need not be the *brunt* of the harm of the defendant's acts. To the contrary, "[i]f a jurisdictionally sufficient amount of harm is suffered in the forum state, it does not matter that even more harm might have been suffered in another state." *Id. at 1207*.

> 2 The Ninth Circuit distinguished between "purposeful availment" and "purposeful direction" in *Schwarzenegger v. Fred Martin Motor Co., 374 F.3d 797, 801 (9th Cir. 2004)*. An availment analysis, most often used in suits sounding in contract, looks for "evidence of the defendant's actions in the forum, such as executing or performing a contract there." *Id. at 802*. A

direction analysis, most often used in **[*9]** suits sounding in tort, looks for "evidence of the defendant's action outside the forum state that are directed at the forum, such as the distribution in the forum state of goods originating elsewhere." *Id. at 803*. The Court will use the "purposeful direction" analysis because a trademark action is more akin to a tort suit, and indeed, the acts of Dotcom Retail at issue took place outside of California.

The second condition -- the claim must arise out of the defendant's forum-related activities -- simply means that the defendant's alleged activities must be the "but for" cause of the claim. *Bancroft & Masters, Inc. v. Augusta Nat. Inc., 223 F.3d 1082, 1088 (9th Cir. 2000)*.

Comportment with fair play and substantial justice, the third condition, requires the Court to consider several factors, including: (1) the extent of the defendant's purposeful interjection into the forum state; (2) the burden on the defendant of defending in the forum; (3) the extent of the conflict with the sovereignty of the defendant's state; (4) the forum state's interest in adjudicating the dispute; (5) the most efficient judicial resolution of the controversy; (6) the importance of the forum to the plaintiff's **[*10]** interest in convenient and effective relief, and (7) the existence of an alternative forum. *Id. at 1088*. Each factor must be considered, and none is dispositive. *Ziegler v. Indian River County, 64 F.3d 470, 475 (9th Cir. 1995)*.

B. 4(k)(2) Jurisdiction

Rule 4(k)(2) "permits federal courts to exercise personal jurisdiction over a defendant that lacks contacts with any single state if the complaint alleges federal claims and the defendant maintains sufficient contacts with the United States as a whole." *Getz v. Boeing Co., 654 F.3d 852, 858 (9th Cir. 2011)*. For jurisdiction to arise under the Rule, the claim must arise under federal law, the defendant must not be subject to the personal jurisdiction of any state court of general jurisdiction, and the federal court's exercise of personal jurisdiction must comport with due process. *Holland America Line Inc. v. Wartsila North America, Inc., 485 F.3d 450, 461 (9th Cir. 2007)*. The due process analysis under *Rule 4(k)(2)* is nearly identical to the traditional personal jurisdiction analysis, the only difference being that the focus shifts from contacts with the forum state to contacts with the nation as a whole. *Id. at 463* (citing *Pebble Beach Co. v. Caddy, 453 F.3d 1151, 1159 (9th Cir. 2006))*.

II. [*11] Dotcom Retail

NuboNau alleges that "Dotcom Retail offers NUBO products for sale through its website www.BeautyBay.com . . . which [is] accessed by consumers worldwide." (Compl. ¶ 22.) In opposing jurisdictional discovery Dotcom Retail argued that its only sales to California were orchestrated by NuboNau's investigator, but one of Dotcom Retail's argument for dismissal is that it isn't legally responsible for the BeautyBay website in the first place. [3] Rather, it owns the website's domain name (and trademark), and just licenses it to a separate subsidiary company, BeautyBay.com Limited. As Dotcom Retail sees it, then, "Plaintiff has mistakenly identified an uninvolved company in its complaint." (Dkt. No. 8-1 at 1.) The Court will bypass this alter ego issue because *even if* BeautyBay.com's contacts with California could be attributed to Dotcom Retail the Court does not find them sufficient to support personal jurisdiction here.

3 The Court acknowledged this in its order on jurisdictional discovery: "While Dotcom Retail's argument for dismissal is that it has no legal responsibility for the BeautyBay website, it appears willing to stand in the place of BeautyBay for the purpose of NuboNau's **[*12]** request for jurisdictional discovery." (Dkt. No. 24 at 7.)

NuboNau's first charge against Dotcom Retail to establish specific jurisdiction -- and, specifically, to satisfy the "purposeful direction" condition -- is that "Dotcom admits that BeautyBay.com has sold NUBO products to customers in California . . . ." (Opp'n Br. at 12.) That's rather misleading. What Dotcom Retail admits is that it received two orders from California, both of which "were apparently placed by agents of the Plaintiff." (Opp'n Br., Ex. 18 at 4.) One was placed by an investigator with National Trademark Investigations, and another was placed by NuboNau co-owner Hazel Walker. The Court already ruled in its order on jurisdictional discovery that "this kind of orchestrated purchase cannot give rise to personal jurisdiction over Dotcom Retail in California." (Dkt. No. 24 at 7.) *See Sinatra v. National Enquirer, Inc., 854 F.2d 1191, 1195 (9th Cir. 1988)* ("In order to have purposefully availed oneself of conducting activities in the forum, the defendant must have performed some type of affirmative conduct which allows or promotes the transaction of business within the

forum state."); *Edberg v. Neogen Corp., 17 F.Supp.2d 104, 112 (D.Conn. 1998)* **[*13]** ("Only those contacts with the forum that were created by the defendant, rather than those manufactured by the unilateral acts of the plaintiff, should be considered for due process purposes.").

"In the internet context, the Ninth Circuit utilizes a sliding scale analysis under which 'passive' websites do not create sufficient contacts to establish purposeful availment, whereas interactive websites may create sufficient contacts, depending on how interactive the website is." *Jeske v. Fenmore, 2008 U.S. Dist. LEXIS 100409, 2008 WL 5101808 at *4 (C.D. Cal. Dec. 1, 2008)* (citing *Boschetto v. Hansing, 539 F.3d 1011, 1018 (9th Cir. 2008))*. "[T]he likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the internet." *Cybersell, Inc. v. Cybersell, Inc., 130 F.3d 414, 419 (9th Cir. 1997)* (quotation omitted). Here, Dotcom Retail's website isn't inherently passive -- it is, after all, a website that consumers visit to buy products -- but through the website Dotcom Retail has conducted virtually *no* commercial activity involving the NUBO products at issue. Under the Ninth Circuit's sliding scale, the Court finds **[*14]** no basis for jurisdiction when the only relevant commercial activity was both minimal and instigated by NuboNau. *See Life Alert Emergency Response, Inc. v. Lifealert Sec., Inc., 2008 U.S. Dist. LEXIS 105851, 2008 WL 5412431 at *4 (C.D. Cal. Dec. 29, 2008)* ("The mere maintenance of an interactive website, without consummated commercial activity, is not sufficient to establish specific jurisdiction over Defendant.").

NuboNau next cites a number of Dotcom Retail's activities in California that have *nothing* to do with the advertising or sale of NUBO-branded products. For example, between April 2009 and the commencement of this lawsuit, BeautyBay.com sold approximately 400 *non*-NUBO products worth approximately $40,000 to California residents. (Opp'n Br., Ex. 7 at BB 6-13; Ex. 18 at 4.) BeautyBay.com also sells the products of California-based companies other than NB Labs. (Opp'n Br., Ex. 18 at 4; Ex. 7 at BB 17-24.) And for approximately one month in the summer of 2009, an officer of BeautyBay.com visited California to explore the possibility of creating a U.S. subsidiary, and as part of that effort he rented an apartment and met with attorneys, marketing agencies, and an insurance agent. (Opp'n Br., Ex. 18 at 5.) The **[*15]** second condition for specific personal jurisdiction to exist bears repeating here. NuboNau's claims against Dotcom Retail "must be one[s] which arise[ ] out of or relate[ ] to the defendant's forum-related activities." *Yahoo! Inc., 433 F.3d at 1205*. [4] NuboNau's claims, however, are trademark-based claims that revolve around the advertising and sale of NUBO products in California. (*See* Compl. ¶¶ 22, 28, 33, 38, 43, 50, 56.) The fact that Dotcom Retail has sold *other* products to customers in California, or has entered into commercial agreements with *other* California-based vendors, or generally explored the possibility of establishing a California presence, is a completely separate matter. To put the point another way, the core claim of this trademark case is that consumers are likely to confuse the NUBO products sold by Dotcom Retail for NuboNau products. In no way can that be considered a consequence of Dotcom Retail selling non-NUBO products to California residents, or a Dotcom Retail official visiting California and meeting with lawyers and an insurance agent to explore business opportunities. *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 243 F.Supp.2d 1073, 1085 (C.D. Cal. 2003)* **[*16]** ("Contacts with U.S. agents such as public relations representatives and lawyers . . . and the use of a California company . . . are simply not but for causes of the alleged infringement."); *Fujitsu-ICL Systems, Inc. v. Efmark Service Co. of Illinois, Inc., 2000 U.S. Dist. LEXIS 13862, 2000 WL 1409760 at *5 (S.D. Cal. June 29, 2000)* ("Here, Defendant's two meetings in California were not related to the negotiation or performance of the disputed contracts."). Specific jurisdiction is "tethered to a relationship between the forum and *the claim*," not simply the forum and the defendant. *Holland America, 485 F.3d at 460* (emphasis added).

4 This is the point NuboNau misses in citing and relying on: (1) *Stomp, Inc. v. NeatO, LLC, 61 F.Supp.2d 1074 (C.D. Cal. 1999)*; (2) *Allstar Marketing Group, LLC v. Your Store Online, LLC, 666 F.Supp.2d 1109 (C.D. Cal. 2009)*; and (3) *Chanel, Inc. v. Lin, 2010 U.S. Dist. LEXIS 61295, 2010 WL 2557503 (N.D. Cal. May 7, 2010)*. (*See* Opp'n Br. at 18-19.) In *Stomp, Inc.*, a patent infringement case, the Northern District of California decided it had jurisdiction over a company that sold *the allegedly infringing products* over the internet to California residents. *61 F.Supp.2d at 1077* ("The products being sold

on NeatO's website **[*17]** incorporate the technology of the *'446 patent* at issue."). In *Allstar Marketing Group*, too, a trademark and copyright infringement case, a district court exercised personal jurisdiction over a defendant that operated "a highly commercial website through which regular sales of *allegedly infringing products* are made to customers in this state." *666 F.Supp.2d at 1122* (emphasis added). Finally, specific jurisdiction in *Chanel, Inc.* wasn't premised on the defendant's sale of just *any* products in California, but on its use of an interactive website "to advertise and sell *infringing products.*" *2010 U.S. Dist. LEXIS 61295, 2010 WL 2557503 at *5* (emphasis added).

NuboNau also seizes on Dotcom Retails's internet advertising through Google to show California contacts that give rise to personal jurisdiction. Specifically, Dotcom Retail admits that it pays Google for search engine results that send internet shoppers its way, that it has designated most of the world as its target market, and that "[t]raffic attributable to persons in California under Google's program and which is presumably in response to information which Google displayed to persons in California, accounts for approximately 0.11% of BeautyBay.com's total traffic **[*18]** attributable to Google's advertising program." (Opp'n Br., Ex. 18 at 10.) As the Court reads the internet traffic data submitted by NuboNau, BeautyBay.com has been visited 3,928,717 times *total*, and 34,296 times by California residents. Of those 34,296 visits, 4,240 were click-thru visits for which Google was paid. [5] (Opp'n Br., Ex. 7 at BB 25-27.)

5 Citing the same data sheets, NuboNau interprets them to mean that "Google advertisements were displayed over 4 million times to US residents, and resulted in over twenty eight thousand click-thru visits to BeautyBay.com from US residents, with over four thousand of those click-thru visits from California residents." (Opp'n Br. at 13.) The Court does see that BeautyBay.com received over 28,000 click-thru visits from the United States, but it doesn't see the basis for NuboNau's assertion that Google ads for BeautyBay.com were displayed 4 million times to residents of the United States.

To be clear, "no court has ever held that an Internet advertisement alone is sufficient to subject the advertiser to jurisdiction in the plaintiff's home state." *Cybersell,130 F.3d at 414*. Rather, there must be something more "to indicate that the defendant purposefully **[*19]** (albeit electronically) directed his activity in a substantial way to the forum state." *Id.* That "something more" may be the individualized targeting of, or express aiming at, a forum resident. [6] *Pebble Beach Co. v. Caddy, 453 F.3d 1151, 1156 (9th Cir. 2006)*. For example, in *Panavision Int'l v. Toeppen, 141 F.3d 1316 (9th Cir. 1998)*, the Ninth Circuit found that an Illinois-based cybersquatter who registered a California company's trademark as part of a domain name could be sued in the Central District of California because the cybersquatter actually demanded money from the plaintiff in order to release the domain name. The Court does not believe that the minimal fraction of Dotcom Retail's *worldwide* Google-based advertising that appeared on computer screens in California is sufficient to establish that Dotcom Retail "purposefully directed" its actions to California. The Google ads are akin, in the Court's judgment, to ads in national publications that simply happen to make their way into California, and courts have consistently held this not to constitute "purposeful direction." *See Neuromechanical, LLC v. Kiro Kids Pty. Ltd., 2011 U.S. Dist. LEXIS 12150, 2011 WL 333337 at *3 (D. Ariz. Jan. 31, 2011)* (collecting **[*20]** cases). [7] Just because a foreign act has foreseeable effects in a forum state does not mean specific jurisdiction there is appropriate. *Bancroft, 223 F.3d at 1087*.

6 It can also be the fact that the plaintiff and defendant are competitors *and* the defendant knows that the forum state is the plaintiff's principal place of business. *See The Bear Mill, Inc. v. Teddy Mountain, Inc., 2008 U.S. Dist. LEXIS 38007, 2008 WL 2323482 at *6 (D. Idaho May 7, 2008)* ("The fact that the parties are competitors in the teddy bear and franchise business, coupled with Defendant's knowledge of the location of Plaintiffs' business, begs the question as to whether the 'something more' requirement under the 'effects' test is satisfied. Given the confluence of such factors, jurisdiction should be recognized here."). This principle is not implicated in this case, at least as between NuboNau and Dotcom Retail.

7 Just as "[t]he placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum State," an internet advertisement that

> happens to pop up in a forum state isn't necessarily purposefully directed there. *Asahi Metal Industry Co., Ltd. v. Superior Court of California, 480 U.S. 102, 112, 107 S. Ct. 1026, 94 L. Ed. 2d 92 (1987)*.

This **[*21]** isn't to say that internet advertising can't ever constitute "purposeful direction" for jurisdictional purposes. It can, but there must be more than the click-thru Google advertisements seized on by NuboNau here. For example, in *Park Inns Int'l v. Pacific Plaza Hotels, Inc.*, an Arizona district court exercised jurisdiction over an Oakland hotel in a trademark infringement action because of its online advertisements, but those advertisements: (1) included the allegedly infringing trademark; and (2) actually resulted in the transaction of business. *5 F.Supp.2d 762 (D. Ariz. 1998)*. Neither of these things can be said of BeautyBay.com advertisements prompted by Google searches in California. Another way to put this point, of course, is to make it less about "purposeful direction" and more about whether NuboNau's claims actually arise out of Dotcom Retail's contacts in California. Considering that Dotcom Retail made only two sales of NUBO products in California (both orchestrated by NuboNau), and that the Google ads, presumably, merely directed internet browsers to BeautyBay.com's website and not to particular NUBO product pages, it's hard to argue that the alleged infringement *arises out* **[*22]** *of* the Google ads. *See also Advice Company v. Novak, 2009 U.S. Dist. LEXIS 4641, 2009 WL 210503 (N.D. Cal. Jan. 23, 2009)* (no specific jurisdiction in a trademark case filed against an Arizona company in California *even where* Internet banner and link ads and nationwide mailings reached California *and* advertisements were placed in a California magazine).

Finally, NuboNau calls to the Court's attention the fact that Dotcom Retail "also uses a Twitter account and a Facebook account to promote its business," and that it has agreed to litigate all lawsuits arising out of these accounts in California. (Opp'n Br. at 13.) First, in case NuboNau means to suggest that merely having a commercial relationship with a California company subjects Dotcom Retail to this Court's jurisdiction, it is mistaken. The Supreme Court addressed that argument squarely in *Burger King Corp. v. Rudzewicz, 471 U.S. 462, 105 S. Ct. 2174, 85 L. Ed. 2d 528 (1985)*: "If the question is whether an individual's contract with an out-of-state party *alone* can automatically establish sufficient minimum contacts in the other party's home forum, we believe the answer clearly is that it cannot." *Id. at 478*. Where the commercial relationship isn't even with the plaintiff, the Supreme Court's **[*23]** holding in *Burger King* would seem to be even stronger. As for the choice-of-law provision in Dotcom Retail's user agreements with Twitter and Facebook, *Burger King* also recognized that this, on its own, cannot confer jurisdiction in the state whose law is specified. *Id. at 482*. *See also Fujitsu, 2000 U.S. Dist. LEXIS 13862, 2000 WL 1409760 at *5* (noting that "the mere fact that a state's law can be properly applied to a dispute does not necessarily confer personal jurisdiction over the parties in the state's courts"). With *Burger King* in mind, the Court doesn't find that merely engaging Twitter and Facebook to promote one's business constitutes purposeful direction at California, simply because Twitter and Facebook happen to be based there and require users to litigate all lawsuits arising out of their accounts in California. [8] To the extent NuboNau disagrees, the Court would simply proceed to the second condition of the specific jurisdiction analysis and find that NuboNau alleges nothing in particular about Dotcom Retail's activities on Twitter and Facebook to support a finding that its alleged trademark infringement arises out of those activities. To the contrary, NuboNau simply argues, generally, that Dotcom **[*24]** Retail uses the social media platforms to "promote its business." (Opp'n Br. at 13.)

8 The Court finds particularly instructive the Central District of California's treatment of an argument similar to NuboNau's in *Life Alert, 2008 U.S. Dist. LEXIS 105851, 2008 WL 5412431 at *4*. The Court will quote that decision at length because it is precisely on point here.

> Plaintiff also points to the fact that Dr. Arkinstall has been using Google Analytics, a service of the California-based Google, Inc., since January 2007 to generate reports regarding user activity on the website. Google Analytic's Terms of Service requires users to submit disputes arising from its use of the service to the jurisdiction of the courts in Santa Clara, California and it provides that their relationship with Google is governed by California law. Since

> Defendant agreed to those terms, Plaintiff argues, Defendant should be deemed to have invoked the protection and benefits of California law. That argument is not convincing, because that agreement does not apply to disputes that are unrelated to one's use of Google Analytics. More importantly, Plaintiff's claim does not arise out of Defendant's "contract" with Google. Defendant's use of Google has **[*25]** nothing to do with the activity that gave rise to this trademark action--Defendant's attempt do [sic] business with California and United States residents.

For the above reasons, the Court finds no basis for exercising specific jurisdiction over Dotcom Retail. NuboNau has not shown the kind of "purposeful direction" on Dotcom Retail's part that is the first condition of such jurisdiction, nor has it even argued that its actual trademark-based claims arise out of acts that it believes constitute "purposeful direction." NuboNau points to no authority that supports jurisdiction on the particular facts it alleges, and the authority consulted by the Court counsels the opposite result. *See, e.g., Schwarzenegger, 374 F.3d at 802-07*; *Cybersell, 130 F.3d at 419-20*; *Advice Co., 2009 U.S. Dist. LEXIS 4641, 2009 WL 210503 at *16*; *Fujitsu, 2000 U.S. Dist. LEXIS 13862, 2000 WL 1409760 at *6-7*. [9] Dotcom Retail's motion to dismiss for lack of personal jurisdiction is therefore **GRANTED.**

> 9 The Court has already determined that *general* personal jurisdiction couldn't be established in this case. (Dkt. No. 24 at 2-3 ("The Defendants are all based in the United Kingdom, and there is no indication whatsoever that their operations in California or any other state, **[*26]** if any, are so continuous and substantial that they can be said to be physically present there.").) NuboNau seems to concede this. (Opp'n Br. at 16 ("Second, NuboNau asserts that none of the Defendants are subject to the courts of general jurisdiction of any state.").)

III. Cult Beauty

The above analysis of the Court's specific jurisdiction over Dotcom Retail should make it clear where the analysis with respect to Cult Beauty is headed. NuboNau alleges the following California contacts. First, Cult Beauty twice sold NUBO products in California, both times to an investigator with National Trademark Investigations. (Dkt. No. 12-1 at 3.) Second, Cult Beauty stocks and sells products from three California-based companies: (1) Neil George Hair Care, a Beverly Hills Salon; (2) Jouer, a Los Angeles cosmetics company; and (3) Fix Malibu, a Malibu skincare company. (Opp'n Br, Ex. 10 at 5; Ex. 8 at CB 13-29.)). Third, Cult Beauty has made 74 sales of non-NUBO products to California residents, totaling approximately $10,000. (Opp'n Br., Ex. 10 at 6; Ex. 8 at CB 1-3.) Fourth, Cult Beauty has an email subscriber list, to which 155 California residents subscribe. (Opp'n Br., Ex. 10 at 6.) And fifth, **[*27]** like Dotcom Retail, Cult Beauty has a Twitter and Facebook account. (Opp'n Br, Ex. 12 at 8.) For the same reasons given above with respect to Dotcom Retail, the Court finds a lack of purposeful direction on Cult Beauty's part. Moreover, none of the contacts seized upon by NuboNau are the "but for" cause of Cult Beauty's alleged trademark offenses, and so NuboNau's claims cannot be said to arise out of those contacts as is required for the Court to base its exercise of specific jurisdiction upon them. Cult Beauty's motion to dismiss for lack of personal jurisdiction is **GRANTED.**

IV. NB Labs

NB Labs is the Defendant NuboNau is most eager to bring into this Court, and its contacts with the United States are certainly more substantial than those of Dotcom Retail and Cult Beauty, who simply sell NUBO products online. The Court will first lay out, in no particular order, NB Labs' alleged contacts with the United States. Second, it will discuss an exchange between NB Labs and NuboNau in which NuboNau warned NB Labs of its trademark in the United States. Third, it will determine whether jurisdiction is appropriate under the federal long-arm statute, *Fed. R. Civ. P. 4(k)(2)*.

A. NB Labs' Contacts

First, **[*28]** NuboNau claims that "NB Labs admits that its resellers have sold Nubo brand products into California." (Opp'n Br. at 5.) The Court has addressed

this above. The only sales of NUBO products in California were orchestrated by NuboNau's investigator from National Trademark Investigations. NB Labs provides firm evidence of this in its motion to dismiss. (*See* Dkt. No. 11-1 at 3-4.)

Second, NuboNau points out that five NUBO products are manufactured in Florida. NB Labs concedes this. The products are indeed manufactured by a third party company based in Florida with whom NB Labs has had a relationship since 2007, and they are shipped to the United Kingdom for packaging and resale. (Opp'n Br, Ex. 5 at 7-8.) NUBO products say "Made in USA" on their packaging. (Opp'n Br., Ex. 21.)

Third, NB Labs maintains two websites, www.nblabs.com and www.nubobeauty.com, and the latter has been visited just under 3,000 times from within the United States, with over 700 of those visits made by California residents. (Opp'n Br., Ex. 6 at NB Labs 279.)

Fourth, referencing documents produced by NB Labs that it cannot make complete sense of (nor can the Court), NuboNau claims that NB Labs engaged in some online advertising, **[*29]** and that its ads popped up on computers in the United States over 2 million times and were actually clicked on over a thousand times. (Opp'n Br., Ex. 6 at NB Labs 282.) NuboNau claims, in addition, that NB Labs' online ads were "targeted at the United States," but this appears as a mere conclusory allegation for which the Court doesn't see any direct evidence in the documents produced by NB Labs.

Fifth, NB Labs contacted a consulting firm in the United States to advise it on entering the United States market through high-end retail stores. This firm was The Krysalis Group, and it submitted a marketing proposal to NB Labs on February 17, 2010. (Opp'n Br., Ex. 6 at NB Labs 60-64.) NB Labs never engaged The Krysalis Group, however, and explains that "no marketing or promotion was initiated." (Opp'n Br., Ex. 5 at 10.) In addition, an employee of NB Labs emailed a NUBO "brand presentation" to an employee of NuboNau on August 12, 2010 and acknowledged that NB Labs was in the process of engaging a public relations agency in the United States and launching its products at Henri Bendel and The Plaza Hotel in New York City. (Walker Decl., Ex. 1 at 5.)

Sixth, NuboNau argues that "emails produced **[*30]** by NB Labs show that between September 2010 and January 2011, an NB Labs employee named Rachel Wiener, using the email address rw@nblabs.com, was working in the United States to make contact with high-end skincare buyers from major US retailers such as Neiman Marcus and Nordstrom on NB Labs' behalf." (Opp'n Br. at 7.) That's a little bit misleading. Emails produced by NB Labs show that Ms. Wiener had sparked the interest of United States buyers in NUBO, and on September 13, 2010 she provided their mailing addresses to NB Labs so that product samples could be sent to them. (Opp'n Br., Ex. 6 at NB Labs 43.) On September 28, having heard nothing, Ms. Wiener sent a follow-up email asking about the status of the samples. (Opp'n Br., Ex. 6 at NB Labs 43.) On November 9, 2010, Marina Shcherbinina, the CEO of NB Labs, replied to Ms. Wiener that the samples hadn't been sent because of "a problem with TM registration." (Opp'n Br., Ex. 6 at NB Labs 46.) Almost two months later, on January 7, 2011, Ms. Shcherbinina told Ms. Wiener over email that NB Labs' lawyer had advised that no products be shipped to the United States, even for personal use. (Opp'n Br., Ex. 6 at NB Labs 48.) [10]

10 Also, NB Labs **[*31]** explains that Ms. Wiener was an independent contractor, not an employee of the company, and that she didn't promote the NUBO brand as much as seek potential opportunities for it. (Reply Br. at 8.) The Court doubts this makes a substantial difference in the analysis.

Seventh, in August and early September of 2009, Ms. Shcherbinina was in contact with a cosmetics buyer from Bergdorf Goodman in New York City, Patricia Saxby, about presenting the NUBO brand to Ms. Saxby and discussing an exclusive United States launch of NUBO at Bergdorf. They scheduled a meeting for September 15, 2009. (Opp'n Br., Ex. 6 at NB Labs 53-59.) Ms. Shcherbinina planned on being in the United States at this time for "HBA," which the Court presumes is some kind of beauty industry trade show. (Opp'n Br., Ex. 6 at NB Labs 56.) NB Labs sent sample NUBO products to Ms. Saxby on October 16, 2009. (Opp'n Br., Ex. 6 at NB Labs 175.) On this same trip, Ms. Shcherbinina met with The Plaza Hotel. (Opp'n Br., Ex. 5 at 10.)

Eighth, in 2009 NB Labs shipped sample NUBO products to Vogue magazine, a spa called Bliss, and Fred Segal, a high-end retail store in California. As the Court reads the UPS records produced by NB Labs, **[*32]**

Vogue's shipment went out on June 5, 2009 and the other two went out on June 22, 2010. [11] (Opp'n Br., Ex. 6 at NB Labs 168, 172, 173.) NB Labs concedes that it contacted Fred Segal about launching its products, but explains that it never received a response. (Opp'n Br., Ex. 5 at 5.)

> 11 NB Labs suggests that all shipments went out in 2009, but the Court reads the UPS records for the shipments to Bliss and Fred Segal differently. (*See* Opp'n Br. at 6.)

Ninth, in July of 2010 NB Labs attended a beauty industry trade show in Las Vegas called Cosmoprof. (Opp'n Br., Ex. 5 at 8.) There, samples of NUBO products were distributed to approximately seven retail vendors, including The Plaza Hotel, Fred Segal, Henri Bendel, and Bliss. (Opp'n Br., Ex. 5 at 9.) After the trade show, NB Labs discussed the possibility of launching its products with Beauty Collection, another company with which it met in Las Vegas. (Opp'n Br., Ex. 5 at 5.)

Tenth, like Dotcom Retail and Cult Beauty, NB Labs has a Twitter account. (Opp'n Br., Ex. 6 at NB Labs 189-278.) According to NuboNau, NB Labs "has aggressively promoted its Nubo brand worldwide using its Twitter account, including within the United States." (Opp'n Br. **[*33]** at 8.)

B. Notice of Trademark

Sometime in late 2008, but perhaps early in 2009, NB Labs applied to register its NUBO trademark in the United States. (Dkt. No. 11-2, Shcherbinina Decl. ¶ 9.) The United States Trademark Office denied NB Labs' application because of NuboNau's preexisting trademark on July 29, 2010. [12] Aware of this, NuboNau's president Phillip Walker instructed an employee named Clemence Coussy in early August of 2010 to "contact NB Labs directly to ask for details regarding the NB Labs product including availability and supply to retailers in the United States." (Opp'n Br., Walker Decl. ¶ 6.) Paul Sillence, in charge of international sales for NB Labs, responded to Mr. Coussy's email on August 12, 2010. Mr. Sillence attached a NUBO brand presentation and acknowledged that NB Labs was in the process of engaging a United States-based public relations firm. He also told Mr. Coussy he had just returned from New York "where we are planning a launch at Henri Bendel in January and also the Plaza Hotel." (Opp'n Br., Walker Decl., Ex. 1.) Mr. Sillence noted that NB Labs had a "US warehouse in Boston" and could "invoice in US dollars." (Opp'n Br., Walker Decl., Ex. 1.) To be clear, **[*34]** this was on August 12, 2010.

> 12 If NuboNau has included this denial in the record, the Court cannot locate it. The Court simply trusts Paul Walker's declaration on this point. (Opp'n Br., Walker Decl. ¶ 5.) It takes the July 29, 2010 date from an email sent by Philip Walker to Paul Sillence. (*See* Opp'n Br., Walker Decl., Ex. 4.)

On August 18, 2010, not even a week after Mr. Sillence responded to Mr. Coussy, Mr. Walker emailed Mr. Sillence, who apparently is an acquaintance. (Opp'n Br., Walker Decl., Ex. 4.) The purpose of Mr. Walker's email was to flag NuboNau's trademark in the United States and suggest that NUBO either avoid the market or else enter it with a different brand name:

> We have spent a considerable amount of time and money securing our trademarks and brand name in the US. We understand that Nubo has applied for a trademark in the US. On 29 July 2010 the US Trademark authorities raised concerns about your proposed trademark on the grounds that the name Nubo is too similar to NuboNau, and would cause confusion to the consumer . . .
>
> It is our view that the names are too similar and that given the investment we have made and the level of professional advice we have had to secure **[*35]** our trademarks, we would vigorously defend our trademarks. I am hoping that we might have raised the issue in enough time for both of us to avoid what would no doubt be at the least very expensive legal bills, and at worst significant financial damage for one of us . . .
>
> No doubt you will need to decide what is best for your company. Hopefully the issue can be resolved with the minimum cost for all parties concerned, I just wanted to flag the issue to you as soon as possible.

(Opp'n Br., Walker Decl., Ex. 4.) Ms. Shcherbinina

replied to Mr. Walker by email on September 14, 2010. NuboNau describes this email as "stating that she continues to plan to launch her product in the United States despite NuboNau's assertions of infringement." (Opp'n Br. at 4.) That paints an incomplete picture of Ms. Shcherbinina's lengthy and at points conciliatory email. Ms. Shcherbinina did indeed say that launching NUBO products in the United States "is still our plan," and that she considered NuboNau's legal case "not that strong." But she also expressed an interest in minimizing confusion between NuboNau and NUBO products, proposed to differentiate however possible to co-exist, and invited NuboNau to enter **[*36]** the European market where NUBO's trademark was well-established. (Opp'n Br., Walker Decl., Ex. 5.) Ms. Shcherbinina also indicated that she hadn't heard of NuboNau until Mr. Walker's August 18, 2010 email.

On September 15, 2010, the day after Ms. Shcherbinina emailed Mr. Walker, he acknowledged receipt of her email and said he would be in touch in due course. (Opp'n Br., Walker Decl., Ex. 6.) As of September 27, 2010, however, he hadn't responded, and on that date Ms. Shcherbinina sent a follow-up email in which she noted that NUBO's European trademark preceded that of NuboNau, that "the EU trade mark office did not regard the two trade marks as confusingly similar," and that if NuboNau objected to NUBO's registration in the United States NB Labs would attempt to invalidate NuboNau's European trademark. (Opp'n Br., Walker Decl., Ex. 6.)

It is worth noting that all of NB Labs' attempts to enter the United States market, which are really the core of NuboNau's argument that specific jurisdiction exists under the federal long-arm statute, *preceded* Mr. Walker's August 18, 2010 email to Ms. Shcherbinina in which NB Labs learned of NuboNau's United States trademark for the first time: (1) reaching **[*37]** out to The Krysalis Group (February 17, 2010); (2) attempting to launch NUBO products with Henri Bendel (August 12, 2010); (3) contacting a cosmetics buyer with Bergdorf Goodman (September 15, 2009); (4) shipping samples of Nubo products to Vogue, Bliss, and Fred Segal (June of 2009 and June 22, 2010); and (5) attending the Cosmoprof trade show in Las Vegas (July of 2010).

NuboNau tries to argue that Ms. Wiener was soliciting NUBO buyers in the United States *after* August 18, 2010, but that's not exactly right. (*See* Opp'n Br. at 7, 9 ("These facts also show that as recently as January 5, 2011, long after NB Labs received notice of this claim and even after this lawsuit was filed, NB Labs was still employing a US-based sales person to promote the Nubo products.").) It is true that on September 13, 2010, *after* Ms. Shcherbinina had seen Mr. Walker's August 18, 2010 email and one day before she responded to it, Ms. Wiener checked in on the status of samples to be sent to promising accounts in the United States. (Opp'n Br., Ex. 6 at NB Labs 43.) However, in two emails to Ms. Wiener on the subject, first on November 9, 2010 and then on January 7, 2011, Ms. Shcherbinina was clear that a trademark **[*38]** issue had sprouted that was stalling the sale of NUBO products in the United States. (Opp'n Br., Ex. 6 at NB Labs 46, 48.) Indeed, after August 18, 2010 NB Labs repeatedly told potential customers in the United States that its products were unavailable in the United States and could not be shipped there. (*See, e.g.*, Opp'n Br., Ex. 6 at NB Labs 71-97.) It also told its resellers not to sell to customers in the United States. (Opp'n Br., Ex. 6 at NB Labs 98-103.)

C. Discussion

To revisit the legal standard, the Court may exercise specific jurisdiction over NB Labs only if (1) it purposefully directed its activities toward the United States; (2) NuboNau's claims against it arise out of those activities; and (3) the exercise of personal jurisdiction is reasonable. *Yahoo! Inc., 433 F.3d at 1205-06*. The focus is on contacts with the United States as a whole, rather than contacts strictly with California, because NuboNau asserts that jurisdiction arises under the federal long-arm statute, *Fed. R. Civ. P. 4(k)(2). Holland America, 485 F.3d at 461*.

It's clear to the Court, up front, that several contacts highlighted by NuboNau should not even enter into the analysis, for reasons the Court either **[*39]** gave in its previous order on jurisdictional discovery or in this Order with respect to its specific jurisdiction over Dotcom Retail and Cult Beauty. Those contacts are: (1) the orchestrated sales of NUBO's products from Dotcom Retail and Cult Beauty to NuboNau's investigator; (2) the fact that NUBO products are manufactured in Florida; (3) NB Labs' websites [13] and its online advertising; and (4) NB Labs' Twitter account. Either those contacts do not constitute purposeful direction at the United States (or purposeful availment of the privilege of conducting business in the United States), or it cannot plausibly be

said that NuboNau's trademark-based claims arise out of those contacts. What distinguishes NB Labs' contacts from those of the dismissed retail Defendants, and what NuboNau makes really the biggest deal out of, are NB Labs' attempts to enter the United States market. Having narrowed the discussion to those contacts, the question before the Court is whether a company's *pre*-market contacts with a forum, as it were, can give rise to specific jurisdiction over the company in that forum.

13 NB Labs may have an even better argument than Dotcom Retail and Cult Beauty that its website **[*40]** isn't purposefully directed towards the United States because it lists prices in pounds sterling and includes a charge for the United Kingdom's VAT tax. (Dkt. No. 11-2, Shcherbinina Decl. ¶ 5.) NB Labs also claims that its website "states that NB Labs does not ship to the United States." (Dkt. No. 41 at 4.)

1. Purposeful Direction

Purposeful direction, as noted above, requires that a defendant commit an intentional act, expressly aimed at the United States, that causes harm the defendant knows is likely to be suffered in the United States. The second and third prongs of the requirement -- express aiming and harm -- are sometimes collapsed into one. *See, e.g., Bancroft, 223 F.3d at 1087* (deducing that the "express aiming" requirement "is satisfied when the defendant is alleged to have engaged in wrongful conduct targeted at a plaintiff whom the defendant knows to be a resident of the forum state"); *Wine Group LLC v. Levitation Management, LLC, 2011 2011 U.S. Dist. LEXIS 115740, WL 4738335 at *6 (E.D. Cal. Oct. 6, 2011)* (noting that courts have considered whether the defendant individually targeted a plaintiff known to be a forum resident in evaluating whether online activity is expressly aimed at a forum).

The Court **[*41]** has no problem with NuboNau arguing that NB Labs' exploration of the United States market -- reaching out to The Krysalis Group, communicating with a cosmetics buyer at Bergdorf Goodman, sending samples to Vogue, Bliss, and Fred Segal, attending Cosmoprof in Las Vegas, and working with Ms. Wiener to establish accounts in the United States -- was comprised of intentional acts. That's uncontroversial. The far more troubling argument is that NB Labs caused harm *that it knew* NuboNau was likely to suffer in California. NuboNau claims "there are some contested facts regarding when NB Labs first became aware of the NuboNau mark," but the Court doesn't know what those are. To the contrary, it seems *un*contested that prior to August of 2010 NB Labs was feeling out the United States, and that after Mr. Walker emailed Mr. Sillence on August 18, 2010 NB Labs abandoned those efforts. Thus, all NuboNau can point to are NB Labs' exploratory efforts, which the Court finds are not the kind of "expressly aimed" intentional acts that can constitute purposeful direction. *See One True Vine v. Liquid Brands, 2011 U.S. Dist. LEXIS 58322, 2011 WL 2148933 at *5 (N.D. Cal. May 31, 2011)* ("The Court is unaware of any authority--and Plaintiff **[*42]** has failed to cite any--for the proposition that sending samples of a product to a prospective distributor is sufficient to meet the express aiming requirement."). They are more like *attempted* purposeful direction.

Even if the Court were to accept that NB Labs' attempts to enter the United States market constituted "purposeful direction," it would find that NuboNau's claims do not arise out of those attempts. Against this, NuboNau argues that "but for NB Labs' efforts to expand into the United States market . . . there could be no confusion or harm to NuboNau's goodwill." (Opp'n Br. at 24.) The "confusion" only arises, however, when an allegedly infringing good actually makes its way to the market and stands a chance of perplexing customers as to its corporate or brand origin. Likewise, the distinctive quality of NuboNau's trademark can't be diluted or harmed by a good that doesn't make its way into the stream of commerce in the United States in the first place.

Each of NuboNau's claims against NB Labs, as the Court has already noted, presumes that NUBO products were actually sold or available for sale in the United States and in consumers' lines of sight. Its trademark infringement claim **[*43]** alleges that "NB Labs' use of 'NUBO' . . . is likely to cause confusion among consumers as to the source of NB Labs' . . . products." (Compl. ¶ 33.) Its false designation claim alleges the same thing. (Compl. ¶ 38.) Its trademark dilution claim alleges that "NB Labs' use of 'NUBO' in connection with its products . . . is causing dilution of the distinctive quality of the NUBONAU Marks." (Compl. ¶ 43.) Its second trademark dilution claim alleges that NB Labs' use of "NUBO" as a trademark "is causing NuboNau monetary damage and irreparable harm and resulting in Defendants' enrichment." (Compl. ¶ 50.) Its unfair

competition claim alleges the same thing. (Compl. ¶ 56.) Its false advertising claim alleges that NB Labs claims its products are all natural and organic when in fact they are not. (Compl. ¶ 63.) The point here is that none of these claims arise out of the *pre*-market contacts on which NuboNau tries to establish jurisdiction. NuboNau cannot seriously argue, for example, that NB Labs' conversations with The Krysalis Group, or its mere shipment of product samples to Vogue, or its conversations with a cosmetics buyer for Bergdorf Goodman, is likely to cause confusion *among consumers* **[*44]** as to the source of its products. 14 None of NB Labs' attempts to enter the United States market, in other words, are the but for cause of NuboNau's alleged injuries.

14 Probably the best argument NuboNau can make is that *industry insiders* might be confused as to whether NUBO products have anything to do with NuboNau, but those people are not consumers, and they are probably *un*likely to be confused, anyway. Unlike the consumer, who makes a purchasing decision based on rather limited, superficial information that pops out on a product's packaging or in its advertisement, a cosmetics buyer for a retail chain has a highly developed sense of who its suppliers are and how their products are differentiated. Ms. Saxby, the Bergdorf Goodman cosmetics buyer, would well understand that NB Labs is based in the United Kingdom and is a completely different company from the San Diego-based NuboNau. She would also be perfectly able to distinguish their respective products.

In light of the above, the Court finds no purposeful direction here on the part of NB Labs, and its motion to dismiss for lack of personal jurisdiction is therefore **GRANTED.**

V. **Conclusion**

The Defendants' motions to dismiss are **GRANTED.** **[*45]** The Clerk shall close this case.

IT IS SO ORDERED.

DATED: March 9, 2012

/s/ Larry Alan Burns

HONORABLE LARRY ALAN BURNS

United States District Judge

RIPL CORP., a Washington corporation, Plaintiff, v. GOOGLE INC., a Delaware corporation, Defendant. GOOGLE INC., a Delaware corporation, Counterclaimant, v. RIPL CORP., a Washington corporation, Counterdefendant.

No. 2:12-cv-02050-RSM

UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON

2014 U.S. Dist. LEXIS 47210

April 3, 2014, Decided
April 3, 2014, Filed

PRIOR HISTORY: *RIPL Corp. v. Google Inc., 2013 U.S. Dist. LEXIS 179193 (W.D. Wash., Dec. 17, 2013)*

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JUDGES: RICARDO S. MARTINEZ, UNITED STATES DISTRICT JUDGE.

OPINION BY: RICARDO S. MARTINEZ

OPINION

ORDER ON MOTIONS

I. INTRODUCTION

Before the Court are several discovery-related motions and cross motions for summary judgment in this trademark infringement action between Plaintiff RIPL Corp. ("RIPL") and Defendant Google Inc. ("Google"). The Court heard argument on the cross motions for summary judgment on March 24, 2014. For the reasons that follow, Google's Motion for Summary Judgment (Dkt. ## 99, 100) is granted in its entirety; RIPL's Motion for Partial Summary Judgment (Dkt. # 94) is denied; RIPL's Motion to Dismiss (Dkt. # 55) is stricken as moot; Google's two Motions to **[*2]** Compel (Dkt. ## 27, 63) and its Motion for a Protective Order (Dkt. # 44) are stricken as moot; RIPL's Sealed Motion to Waive Attorney/Client Privilege (Dkt. # 60) is stricken as moot; and the remaining Motions to Seal (Dkt. ## 57, 97, 104) are granted.

II. BACKGROUND

This is a reverse confusion trademark infringement case between RIPL, the senior user of "RIPL" and Google, the junior user of "RIPPLES." RIPL was founded in 2005 as Kahuna Technologies, Inc. ("Kahuna") to develop and operate proprietary software.

When Kahuna obtained the domain name "ripl.com" in 2006, it changed its name to RIPL. It later filed an application for RIPL as a service mark for use in connection with Internet-related services. RIPL owns a U.S. Service Mark on "RIPL," Registration Number 3,490,487, which issued on August 19, 2008.

The first identified use of the RIPL mark in connection with consumer services occurred on March 27, 2007, when RIPL made a "web application for the automated sharing of content between users based on the interests they share" available to a limited number of University of Washington students, faculty, and staff with a University of Washington e-mail address. Dkt. # 103, Alger Decl., **[*3]** Ex. A (RIPL Dep. 84:1-21); Dkt. # 102, Alger Decl., Ex. E at 5-7. The March 27, 2007 release was referred to as the "beta launch." RIPL received mixed reviews about the launch and the user accounts were thought to be "wiped" from the system. *See* Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 62:6-10). RIPL then turned its attention to creating its Application Programming Interface ("API"), which it released in 2009 or 2010. *See id.* at 146:2-150:6. The API was based on the original automated content sharing software but was designed for corporate customers to run the content sharing software on their own websites. *Id.* RIPL was unsuccessful in licensing the API to any third-party business. *Id.* at 52:3-5. The API was marketed, but never sold, to several media companies.[1]

1 Including: Myspace, Myspace Music, Real Networks, Rhapsody, Universal Music, Vevo, Google, Inc., Google TV, Picasa, Liberty Media, QVC, AOL, Huawei, Yahoo, ROVI Corp., Hewlett-Packard (PC, Palm), Paramount Television, Synergy Sports, Adobe, Apple, Facebook, Sony, Sony Electronics, Sony Music, Amazon, Microsoft, MSN, Xbox, IPTV, Phone, Music, Drive, Windows, Windows Live, Spaces, Mesh, T-Mobile, aQuantive, HTC, Cisco, Amdocs, **[*4]** Akamai, Sub Pop, Overdrive, Classmates, Comcast, The Platform, NBC, Brightcove, Warner Music, Warner Media,Overdrive, Inc. Dkt. # 111-2, p. 9, Billick Decl., Ex. C.

RIPL's CEO, Bill Messing, has been the sole employee of RIPL since October 2008. Dkt. # 103, Alger Decl., Ex. A (RIPL Dep. 21:25-22:11). RIPL has not filed any tax returns since 2007, and has never had any revenue. Dkt. # 103, Alger Decl., Ex. A and B (Messing Dep. 138:3-13; RIPL Dep. 200:5-10, 237:16-21). Mr. Messing maintains at least one website for the company and states that he will respond to inquiries made to him via e-mail and telephone. Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 67:10-17).

Google+, Google's free social networking site, introduced a new service called Google+Ripples in October 2011. Dkt. # 101, Borovoy Decl. ¶ 3. When activated, Ripples displays a graphic visualization of how content is shared and distributed among Google+ users. *Id.* The feature is only available within the Google+ environment when a user clicks "View Ripples" from a drop down menu. *See id.*

Around February 2012, RIPL began negotiations with a company called Ripple Commerce to license the "phonetic expression of the RIPL trademark." **[*5]** Dkt. # 103, Alger Decl., Ex. R. Ultimately, the deal was unsuccessful. *See* Dkt. # 102, Alger Decl., Ex. D (Sloan Dep. 35: 2-9). At some point during negotiations with Ripple Commerce, RIPL decided that Google's pending trademark registration for Ripples infringed its trademark rights. RIPL sent Google a cease-and-desist letter and filed an opposition to Google's registration before the Trademark Trial and Appeal Board. RIPL also filed this district court action alleging that Google+Ripples infringes its registered trademark, and infringes its common law trademark rights. In addition, RIPL asserts claims for false designation of origin, unfair competition, and violation of Washington's Consumer Protection Act.

III. DISCUSSION

A. Cross Motions for Summary Judgment

Google has asserted two counterclaims in this action. It seeks to establish that RIPL abandoned use of the RIPL service mark in commerce, and that the RIPL service mark registration should be cancelled. RIPL has moved for summary judgment on the abandonment counterclaim. Google has cross moved for summary judgment on the abandonment counterclaim and has moved for summary judgment on trademark infringement and damages. Google contends **[*6]** that there is no likelihood of confusion between the marks to warrant a determination that Google+Ripples infringes RIPL's service mark. Google also notes that likelihood of confusion is a required element of each of Plaintiff's additional claims. Thus, if the Court finds no likelihood

of confusion, each of RIPL's claims may be dismissed on summary judgment. The Court turns first to the issue of abandonment and then to trademark infringement. As resolution of abandonment and trademark infringement are dispositive of RIPL's claims, the Court does not address Google's motion with respect to damages. Further, because the Court finds no infringement as a matter of law, the pending discovery-related motions are now moot.

1. Legal Standard

Summary judgment is proper where "the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." *Fed. R. Civ. P. 56(a)*; *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. In ruling on summary judgment, a court does "not weigh the evidence or determine the truth of the matter but only determine[s] whether there is a genuine issue for trial." *Crane v. Conoco, Inc., 41 F.3d 547, 549 (9th Cir. 1994)* **[*7]** (citing *FDIC v. O'Melveny & Myers, 969 F.2d 744, 747 (9th Cir. 1992), rev'd on other grounds, 512 U.S. 79, 114 S. Ct. 2048, 129 L. Ed. 2d 67 (1994))*. Material facts are those which might affect the outcome of the suit under governing law. *Anderson, 477 U.S. at 248*.

The court must draw all reasonable inferences in favor of the non-moving party. *See O'Melveny & Myers, 969 F.2d at 747*. However, the nonmoving party must "make a sufficient showing on an essential element of her case with respect to which she has the burden of proof" to survive summary judgment. *Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. "If a party fails to properly support an assertion of fact or fails to properly address another party's assertion of fact as required by *Rule 56(c)*, the court may . . . consider the fact undisputed for purposes of the motion" or the court may "grant summary judgment if the motion and supporting materials . . . show that the movant is entitled to it." *Fed. R. Civ. P. 56(e)(2)-(3)*. Whether to consider the fact undisputed for the purposes of the motion is at the court's discretion and the court "may choose not to consider the fact as undisputed, particularly if the court knows of record materials that should be grounds **[*8]** for genuine dispute." *Fed. R. Civ. P. 56*, advisory committee note of 2010. On the other hand, "[t]he mere existence of a scintilla of evidence in support of the plaintiff's position will be insufficient; there must be evidence on which the jury could reasonably find for the plaintiff." *Anderson, 477 U.S. at 252*.

2. Abandonment

Under the Lanham Act, a service mark may be any "word, name, symbol, device or any combination thereof--(1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register ... to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown." *15 U.S.C. § 1127*. The statute defines service marks and trademarks similarly; the marks differ only in the sense that trademarks identify goods while service marks identify services. *Chance v. Pac-Tel Teletrac Inc., 242 F.3d 1151, 1156 (9th Cir. 2001)*; *see 15 U.S.C. § 1127*.

To maintain trademark rights, a mark must be used in commerce. *15 U.S.C. § 1127*. For service marks, two elements must be satisfied to meet the "use in commerce" requirement. *Rearden LLC v. Rearden Commerce, Inc., 683 F.3d 1190, 1204 (9th Cir. 2012)*. **[*9]** Use in commerce may be demonstrated when (1) when the service mark is used or displayed in the sale or advertising of services and (2) when the services are rendered in commerce. *Id.* (citing *15 U.S.C. § 1127*). Because the test is conjunctive, it is not enough for a mark owner to simply advertise its services: the test requires an "element of actual use" and an "element of display." *Chance, 242 F.3d at 1159*.

A trademark owner abandons its rights "[w]hen use has been discontinued with intent not to resume such use." *15 U.S.C. § 1127*. "Nonuse for 3 consecutive years shall be prima facie evidence of abandonment." *Id.* "[U]se of a trademark defeats an allegation of abandonment when: the use includes placement on goods sold or transported in commerce; is bona fide; is made in the ordinary course of trade; and is not made merely to reserve a right in the mark." *Electro Source, LLC v. Brandess-Kalt-Aetna Grp., Inc., 458 F.3d 931, 936 (9th Cir. 2006)* (quotation marks omitted).

The statute implies a strict standard. *Id. at 937*; *15 U.S.C. § 1127*. To prevail on a claim for abandonment, the moving party must demonstrate complete discontinuance of use. *See id. at 937*. To determine whether a mark has **[*10]** been abandoned, the Ninth Circuit applies a totality-of-the-circumstances approach

and considers the following factors:

> the genuineness and commercial character of the activity, the determination of whether the mark was sufficiently public to identify or distinguish the marked service [or product] in an appropriate segment of the public mind as those of the holder of the mark, the scope of the [trademark] activity relative to what would be a commercially reasonable attempt to market the service [or product], the degree of ongoing activity of the holder to conduct the business using the mark, the amount of business transacted, and other similar factors which might distinguish whether a service [or product] has actually been "rendered in commerce."

Electro Source, 458 F.3d at 940 (9th Cir. 2006).

Once discontinuance of use has been established, the question of whether a trademark holder intends to resume use in commerce depends on more than a "purely subjective intention in the abandoner's mind to re-engage in a former enterprise at some indefinite future time." *Specht v. Google, Inc., 758 F. Supp. 2d 570, 595 (N.D. Ill. 2010).* "The registrant must put forth evidence with respect to what **[*11]** activities it engaged in during the nonuse period or what outside events occurred from which an intent to resume use . . . could reasonably be inferred." *Imperial Tobacco Ltd., Assignee of Imperial Grp. PLC v. Phillip Morris, Inc., 899 F.2d 1575, 1581 (Fed. Cir. 1990).* Such evidence should include specific plans to use the mark in commerce. *See Specht, 758 F. Supp. 2d at 595.*

As discussed above, RIPL contends that it offers two services in conjunction with the RIPL service mark: a "consumer service" and a "business-facing Application Programming Interface ("API")." Dkt. # 95, Messing Decl., ¶ 6. Google argues that both uses of the RIPL service mark were abandoned.

a. The Consumer Service

RIPL's consumer service comprised downloadable software that was first made available, on a restricted basis in 2007, on the ripl.com website. Dkt. # 103, Alger Decl., Ex. A (RIPL Dep., 78:1-15). Once downloaded, the software was designed to show the user media content that was being consumed by other people in her network, and to monitor her media consumption for the purpose of distributing that content to others. *See id.* at 78:15-22. The only evidence in the record that this consumer service was promoted **[*12]** by RIPL and used by any individuals was during the March 27, 2007 beta launch that was limited to university students, faculty, and staff that had a university e-mail address. Dkt. # 103, Alger Decl., Ex. A (RIPL Dep. 84:1-21). RIPL contends that it has not abandoned the RIPL service mark in connection with its consumer service because the "product for individuals has been made available for purchase on the ripl.com website since it went live on March 27, 2007." Dkt. # 110, p. 3. Google, however, contends that the RIPL mark was either never used in commerce, or at best, abandoned in 2008 because there have been no active users of the consumer service since that time, and RIPL has no plans to develop this or any other consumer-facing service in the future. *See* Dkt. ## 99, 100, p. 3.

Considering the totality of the circumstances, a reasonable jury could not conclude, on this record, that RIPL used its service mark in connection with the consumer service after the 2007 beta launch. First, although RIPL argues in its briefing that the consumer service is available for purchase on the ripl.com website, it has failed to file on the record evidence that it cites to support its assertion. *See* **[*13]** Dkt. # 110, p. 3 (citing Billick Decl., Ex. B, which was never filed in this case). Second, RIPL has submitted no evidence to show any sales of the consumer service, nor has it submitted evidence to show that any individual user downloaded the software. Third, RIPL has submitted no evidence to show that it has engaged in any marketing or promotional activity whatsoever to advertise this consumer service after the beta launch. The only evidence provided or cited by RIPL to support its contention that the consumer service is used in commerce are two statements made by Mr. Messing: that (1) "[t]he RIPL service is and has always been available at the 'ripl.com' domain," and (2) that the last "release" of the consumer product was in 2009. Dkt. # 95, Messing Decl., ¶¶ 7, 6, respectively.

In contrast, Google cites to the deposition testimony of Mr. Messing to show that no consumer ever purchased the consumer service, no purchaser was known to have used the consumer service after the beta launch, and to show that Mr. Messing does not monitor the website to see whether anyone has visited it. Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 30:2-14, 59:5-12,

62:6-64:21); Alger Decl., Ex. G at 8. **[*14]** Construing the evidence in the light most favorable to RIPL, the record suggests only that a 2009 version of the consumer service was made available on RIPL's website, but RIPL has supplied no evidence to show that any consumer purchased or used the service, or whether anyone even visited the site. Applying the relevant factors, there is no evidence of commercial activity, no evidence that the website, service, or mark was sufficiently public to create an association between the mark and its owner, and no evidence of marketing activity beyond maintaining the website past 2007. Moreover, RIPL has failed to provide evidence to show that a customer could purchase the consumer service from its website. *See Specht, 758 F. Supp. 2d at 593* (concluding that mere maintenance of a website was not a bona fide use in commerce); *see also In re Genitope Corp., 78 U.S.P.Q.2d 1819 (T.T.A.B. 2006)* (website indicating how a customer could obtain more information about a product, but not containing information on how to purchase a product, constituted mere advertising and was not acceptable to show trademark use). On balance, RIPL has not provided evidence that it rendered its consumer service in commerce **[*15]** after the 2007 beta launch.[2] Accordingly, the Court finds that RIPL has not used the service mark in connection with the consumer service for more than three years such that abandonment may be presumed.

> 2 The Court assumes, but does not decide, that the consumer service was used in commerce in the first instance.

To meet the second prong of the abandonment inquiry, Google must show that RIPL did not have an intent to resume use of the mark in commerce. Although RIPL argues that Google must prove that it had "no intent to abandon" the mark, it has misstated the standard. "Abandonment under *§ 1127* requires an intent not to resume trademark use, as opposed to a prospective intent to abandon the mark in the future." *Electro Source, 458 F.3d at 937*. The Ninth Circuit has recognized that "[n]othing in the statute entitles a registrant who has formerly used a mark to overcome a presumption of abandonment arising from subsequent non-use by simply averring a subjective affirmative 'intent not to abandon.'" *Id.* (quoting *Imperial Tobacco Ltd., 899 F.2d at 1581*.

Here, RIPL has not offered evidence of a plan to resume use of the mark in conjunction with its consumer-facing service. As RIPL's 30(b)(6) **[*16]** deponent, Mr. Messing testified that RIPL expected to leave the consumer service "in the state it's in" while RIPL developed the business-facing API. Dkt. # 103, Alger Decl., Ex. A (RIPL Dep. 213:16-22). He further testified that at some unknown later date, RIPL "may go back to the consumer service." *Id.* at 213: 23-24 - 214:1-4. Such evidence does not constitute an intent to resume use.

RIPL has presented no evidence to demonstrate that RIPL has actively promoted or sold to the consumer-facing market beyond the 2007 beta launch. RIPL has also failed to provide evidence that it has specific plans to reenter the consumer market. Thus, RIPL abandoned use of the mark in connection with its consumer-facing service.

b. RIPL's Business-facing API

Although this is a closer question, RIPL has failed to provide evidence from which the Court could infer that RIPL has used the RIPL mark for anything beyond mere advertising since 2010, nor has RIPL offered evidence of concrete plans to establish a future bona fide commercial use of its API.

RIPL relied exclusively on the declaration of RIPL CEO Bill Messing to establish use in commerce in its cross motion for summary judgment. He states:

> RIPL had just **[*17]** embarked on a promotional push with the launch of the marketing site in 2012 when it became aware of Google's attempted registration of the "Ripples" mark. It makes no sense to seek investment dollars while under attack by Google, so RIPL Corp. has been operating on a shoestring budget until this cloud is lifted. That means making sure the web site is available, making sure that visitors have the ability to contact the company by email and phone, and pursuing leads opportunistically. RIPL Corp. commonly receives inquiries about the RIPL API and web site, and I pursue those leads whenever feasible.

Dkt. # 95, Messing Decl., ¶ 9.

In response to Google's cross motion for summary

judgment, RIPL relied exclusively on its attorney's declaration and the attached exhibits for evidence of use of the mark in commerce with respect to the API. The relevant exhibits contain the following: (1) RIPL's response to Google's Interrogatory No. 6, in which RIPL states that it "dedicated most of 2011 to developing customers for the API" and that it changed its website in 2012 (Dkt. # 111-2, p. 12, Billick Decl., Ex. C); (2) RIPL's response to Google's Interrogatory No. 12, in which RIPL states that "2010 **[*18]** included numerous pitch meetings with prospective business partners," that in 2011 its "resources did not allow it to hire personnel or promote extensively," and that in 2012 it created a new website for the API and followed "up on its marketing efforts with numerous prospects at the annual Consumer Electronics show in Las Vegas" (Dkt. # 111-4, pp. 8, Billick Decl., Ex. E); and (3) e-mails from 2010 that describe a summary of business communications made between RIPL and several businesses (Dkt. # 111-5, pp. 2-4, Billick Decl., Ex. F). Importantly, there are no e-mails or other evidence to show that RIPL conducted business meetings to promote the sale of the API after 2010. For use of the mark past 2010, the record suggests only that RIPL changed the website for the API and that it attended a trade show in 2012.

As discussed above, maintenance of a website alone is insufficient to demonstrate use in commerce because RIPL has failed to demonstrate that its website provides customers with information on how to purchase its products. In addition, RIPL has failed to demonstrate that its attendance at a trade show in 2012 constituted use in commerce sufficient to overcome a presumption of **[*19]** non-use of the mark past 2010. RIPL has not detailed what sales efforts it has made or whether its attendance at the trade show amounted to something more than "unsolicited proposal(s) . . . that lead nowhere." *Natural Answers, Inc. v. SmithKline Beecham Corp., 529 F.3d 1325, 1330 (11th Cir. 2008)* (holding that evidence of a failed putative negotiation after abandonment was insufficient to demonstrate an intent to resume use). Although "non-sales activities such as solicitation of potential customers may be taken into account as part of the totality of the circumstances inquiry[,]" RIPL's vague allusions to a 2012 "promotional push" do not countenance a finding that RIPL's API was rendered in commerce. *Rearden LLC v. Rearden Commerce, Inc., 683 F.3d 1190, 1205 (9th Cir. 2012)* (internal quotations and citations omitted).

In contrast, Google has cited to numerous instances in the record that support a finding of abandonment. First, RIPL has never sold or licensed any product or service under the RIPL mark in the business market. Nor does it currently have any customers. Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 52:3-5, 81:2-4). Second, RIPL's CEO Bill Messing testified that "[w]e're **[*20]** not actively promoting right now." Dkt. # 103, Alger Decl., Ex. A (RIPL Dep. 96:23, 284:25-285:1). He also stated that with respect to the website: "I'm not acting on visits to the site, no . . . . If they contact me, I will follow up on it." Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 69:5-16, 71:6-14). Third, RIPL has provided no evidence of its business reputation. Mr. Messing testified that RIPL's brand equity and reputation are "unknowable" and he failed to identify a single person who could testify about its business reputation. Dkt. #103, Alger Decl., Ex. A (RIPL Dep. 204:14-206:20; 232:14-233:11).

To survive summary judgment, RIPL must provide actual evidence of use in commerce and intent to resume use, which it has failed to do. RIPL could have provided screen shots of the website and explained how the website works, or provided testimony from potential clients about RIPL's ongoing solicitation efforts or its reputation in the industry. But RIPL has offered nothing concrete to rebut Google's arguments and relies only on RIPL's maintenance of the RIPL website and allusions to limited promotional activity to demonstrate use of the mark in commerce. Further, RIPL has provided **[*21]** no evidence of a plan to resume use of its mark in connection with the API. Accordingly, summary judgment is GRANTED in Google's favor.

3. Trademark Infringement - Likelihood of Confusion

To prevail on a trademark infringement claim in a reverse confusion case, the plaintiff must demonstrate (1) that it is the senior user; (2) of a valid trademark; (3) and that the defendant--or junior user--is using its mark in a way that is likely to confuse the plaintiff's customers into believing that they are dealing with the defendant. *Brookfield Communs., Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1053 (9th Cir. 1999)*. "The core element of trademark infringement is the likelihood of confusion, *i.e.*, whether the similarity of the marks is likely to confuse customers about the source of the products." *Brookfield, 174 F.3d at 1053*. In *AMF, Inc. v. Sleekcraft Boats*, the Ninth Circuit Court of Appeals delineated an eight factor test to determine whether there

exists a "likelihood of confusion" between the marks at issue. *599 F.2d 341, 348-49 (9th Cir. 1979), abrogated in part on other grounds as recognized by in Mattel, Inc. v. Walking Mountain Prods., 353 F.3d 792 (9th Cir. 2003).* The *Sleekcraft* factors **[*22]** are (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) type of goods and degree of care likely to be exercised by the purchaser; (7) defendant's intent in selecting the mark; and (8) likelihood of expansion of product lines. *Id.* Because the likelihood of confusion analysis is a factual inquiry, the issue before the court is "whether a reasonable jury could conclude that a consumer might reasonably believe that" RIPL's service is actually Google's service. *One Industries, LLC v. Jim O'Neal Distributing, Inc., 578 F.3d 1154, 1162 (9th Cir. 2009).*

"The Sleekcraft factors are intended to function as a proxy or substitute for consumer confusion, not a rote checklist." *Rearden, 683 F.3d at 1209*. Further, not all *Sleekcraft* factors may be relevant in a particular case. *Id.* ("[a] determination may rest on only those factors that are most pertinent to the particular case"). Because the likelihood of confusion inquiry is inherently factual and open-ended, summary judgment is often disfavored. *Id. at 1210*. However, the Ninth Circuit has affirmed summary judgment rulings "[i]n cases where the evidence **[*23]** is clear and tilts heavily in favor of a likelihood of confusion[.]" Id. (quoting *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc., 457 F.3d 1062, 1075 (9th Cir. 2006)).*

a. Strength of the Marks

The conceptual, or inherent, strength of a trademark is evaluated on a spectrum that assigns more strength to marks that are fanciful or arbitrary, and less strength to those that are merely generic or descriptive of the goods they represent. *See, e.g., Surfvivor Media, Inc. v. Survivor Productions, 406 F.3d 625, 631-32 (9th Cir. 2005).* In the middle are those that are suggestive. *See id. at 632.* Suggestive marks require an inferential or imaginative step to connect the trademark to the good or service offered. *Id.* The strength of both the senior and junior mark is relevant in a reverse confusion trademark action. *Id.*

The RIPL and Ripples services are broadly related to content sharing over social media. Neither mark is descriptive of the service provided; each requires an inferential step to associate the propagation of "concentric, circular waves" with the propagation of media content over social media. Thus, both marks are suggestive, which means that, conceptually, they are assigned moderate **[*24]** strength along the strength spectrum.

"Identifying whether a mark is generic, descriptive, suggestive, arbitrary or fanciful, however, is only the first step of the inquiry. The second step is to determine the strength of the mark in the marketplace." *One Industries, 578 F.3d at 1164* (quotations and citations omitted). Importantly, "[w]hen similar marks permeate the marketplace, the strength of the mark decreases." *Id.* Both marks are weakened by the presence of several ripple-like marks operating within the social media sphere. *See M2 Software, Inc. v. Madacy Entertainment, 421 F.3d 1073, 1088 (9th Cir. 2005)* ("Use of similar marks by third-party companies in the relevant industry weakens the mark at issue."). For example, Google's trademark search revealed "RIPPLR" for use with social media strategy and marketing, "Ripple Group" associated with business analysis in the digital media content and technology industry, "ripplusa" associated with social media services, "Ripple Tag" associated with social networking, "webripples" associated with social media, and "MEDIA RIPPLE" associated with software for managing and sharing digital media content. *See* Dkt. # 116, Alger Decl., Ex. A. Because **[*25]** RIPL and Ripples operate in a relatively crowded field of ripple-associated trademarks, their market strength is weakened. Moreover, RIPL has presented no evidence to demonstrate commercial strength because it has failed to provide any evidence of actual marketplace recognition. RIPL could have submitted evidence such as advertising expenditures to demonstrate heightened commercial strength of its mark, but it has failed to do so. *See Network Automation, Inc. v. Advanced Systems Concepts, Inc., 638 F.3d 1137, 1149 (9th Cir. 2011)* ("advertising expenditures can transform a suggestive mark into a strong mark") (quotation and citation omitted). In sum, both marks are weakened by a lack of commercial strength. Because RIPL has failed to raise a genuine issue of material fact, this factor favors Google.

b. Proximity of the Goods, and Type of Goods and Degree of Care of Purchaser Factors

"The standard for deciding whether the parties' goods or services are 'related' is whether customers are 'likely to

associate' the two product lines." *Surfvivor Media, 406 F.3d at 633* (quoting *Dreamwerks Production Group, Inc. v. SKG Studio, 142 F.3d 1127, 1131 (9th Cir. 1998))*. Goods and services may be related **[*26]** when they are "sold to the same class of consumers." *Nautilus Grp., Inc. v. Savvier, Inc., 427 F. Supp. 2d 990, 996 (W.D. Wash, 2006)*. But "[w]hen fundamental functionality is distinct, the case supports a finding of 'no confusion.'" *Realnetworks, Inc. v. QSA Toolworks, LLC, Case No. C07-1959 MJP, 2009 U.S. Dist. LEXIS 71848, 2009 WL 2512407, at *4-5 (W.D. Wash. Aug. 14, 2009)*.

Google+Ripples is a feature that is available to every Google+ account holder. On the Google+ site, there is a dropdown menu that allows a Google+ user to "View Ripples." Dkt. # 101, Borovoy Decl., ¶ 3. When activated, the feature allows the user to see a display of how public postings have been shared and reshared among other Google+ users. *Id.* As noted before, a user does not purchase a Google+ account, nor can the user purchase the Ripples feature. Both are free. *Id.* at ¶ 7.

RIPL's products are functionally different. The consumer facing product comprises software that may be downloaded. The software collects information about the user's media content and is designed to "push" that content to other users within the network so that they would automatically receive media content without having to search for it. The business facing product **[*27]** is an expensive piece of software that RIPL has marketed to large media companies so that they could enable their own websites with the "push" technology.

Although RIPL contends that the goods are related "because the RIPL product both collects and displays data from social media, and . . . Google's Ripples displays data from the Google+ social media site," that argument ignores the functional differences between how the products work and their intended consumer. Mr. Messing testified that RIPL's main function is "to automate the distribution of content from one user to another based on the interests they share." Dkt. # 103, Alger Decl., Ex. B (Messing Decl. 153:2-9). He then acknowledged that "[n]obody else can make that statement." *Id.* at 153:9-10. In contrast, "Google+Ripples does not push or cause the automated republication of content nor does it track consumption of content (*i.e.*, whether users have read or listened to a piece of media)." Dkt. # 101, Borovoy Decl., ¶ 6. RIPL has failed to support its argument with evidence that demonstrates similarity of RIPL and Google's services. Further, Mr. Messing's testimony directly contradicts RIPL's argument that the services are functionally **[*28]** the same.

Similarly, RIPL has failed to demonstrate that the intended consumers of RIPL and Ripples would exercise the same degree of care in purchasing the RIPL and Ripples services. The degree of care exercised by consumers is measured under the reasonably prudent consumer standard. *See, e.g., Brookfield, 174 F.3d at 1060*. This standard requires courts to consider the price of the products at issue and the level of sophistication expected of a consumer purchaser. *Id.*

Here, both the price of products and the sophistication of the intended consumers are different. For RIPL's consumer-facing technology, it maintains a passive website and does not monitor web traffic. The only time the software was actually known to be used was during the 2007 beta launch. RIPL has proffered no evidence to show that it actively markets its consumer facing product to any individuals. For the API, RIPL has stated that it marketed the API to large corporations. *See* Dkt. # 103, Alger Decl., Ex. B (Messing Dep. 67:22-24) (stating that RIPL is seeking "one strategic customer for the API"). RIPL's intended customers appear to be large companies that would have savvy purchasing arms. RIPL has provided no evidence **[*29]** to demonstrate that users of Google's free service exercise the same degree of care as a potential customer of RIPL's API. Although Plaintiff argues that Google also markets its Ripples feature to large companies, the argument misses the point. A large company would exercise a different level of sophistication when considering purchasing RIPL's API versus utilizing a free Google feature. Thus, these factors collectively favor Google.

c. Similarity of the Marks

To determine whether the marks are similar, the court must compare their sight, sound, and meaning. *Entrepreneur Media, Inc. v. Smith, 279 F.3d 1135, 1146 (9th Cir. 2002)*. The Ninth Circuit has developed the following axioms to guide the similarity analysis: (1) "the marks must be considered in their entirety and as they appear in the marketplace," (2) "similarity is adjudged in terms of appearance, sound, and meaning," and (3) "similarities are weighed more heavily than differences." *GoTo.com, Inc. v. Walt Disney Co., 202 F.3d 1199, 1206 (9th Cir. 2000)* (citations omitted). Although sound and meaning in this case are similar, the Court finds that

when the marks are considered in their entirety, they differ dramatically by sight **[*30]** and by how they are presented in the marketplace.

The marks are visually distinct when considered in their entirety. First, RIPL is a short-form derivative of ripple. RIPL's CEO chose the derivative because he wanted a mark that was "edgy" like Motorola's adoption of RAZR. Dkt. # 103, Alger Decl., Ex. A (RIPL Dep. 54:22-55:10, 57:9-20). The CEO saw value in not adopting the full spelling of ripple. *See id.* Ripples, on the other hand is the full, seven character plural form of the common word, ripple. Second, Google's mark, as used in the market place, is usually attached to Google+ as depicted below. Dkt. # 101, Borovoy Decl., ¶ 5. Ripples appears in plain, lowercase blue font, and is often presented in association with the Google+ house mark. *Id.*

Third, RIPL's mark has three forms, two of which use decorative, thicker font and have concentric rings around or near the mark. The less-stylized font version has a tag line that reads "social discovery for digital media." Dkt. # 103, Alger Decl., Ex. DD; *id.*, Ex. A (RIPL Dep. 59:17-69:22).

Although both marks use blue font and lowercase letters, the marks are differentiated by RIPL's use of decorative font, concentric circles, and a tagline, **[*31]** as opposed to Google's use of unadorned font. RIPL wholly failed to address the visual distinctions raised by Google and states only that "inspecting logos side-by-side should be done with great caution." Dkt. # 110, p. 14. Notably, RIPL fails to support that statement with any citation. Courts have often found marks to be dissimilar by comparing the same visual distinctions made here. *See, e.g., Nautilus, 427 F. Supp. 2d at 996* (finding marks dissimilar where different fonts used); *see also Surfvivor Media, 406 F.3d at 633* (finding no material issue of fact where one mark usually displayed with a slogan or stylized graphics). As the case law makes clear, "marks are to be considered in their entirety and as they appear in the marketplace." *GoTo.com, 202 F.3d at 1206*. Because RIPL has failed to explain or demonstrate how the marks, when considered in their entirety, are similar, it has not raised a genuine material issue of fact.

d. Evidence of Actual Confusion

RIPL has supplied no evidence of actual confusion. This factor also favors Google.

e. Marketing Channels

Convergent marketing channels increase the likelihood that a consumer would be confused as to the origin of the goods. *Sleekcraft, 599 F.2d at 353*. **[*32]** Plaintiff contends that RIPL and Ripples share the same marketing channel because the products are marketed over the internet.

Mere use of the internet, however, is insufficient to show that the parties operate within the same marketing channel. *See Network Automation, 638 F.3d at 1151*. ("Today, it would be the rare commercial retailer that did not advertise online, and the shared use of a ubiquitous marketing channel does not shed much light on the likelihood of consumer confusion."); *Realnetworks, 2009 U.S. Dist. LEXIS 71848, 2009 WL 2512407 at *5 (W.D. Wash. Aug. 14, 2009)*. The RIPL API is marketed to sophisticated purchasers acting on behalf of companies. The Ripples mark is marketed to existing and future Google+ account holders, some of whom may be the same large companies, but none would reasonably confuse Google's free service with RIPL's software platform.[3] Aside from citing generic use of the internet, RIPL has failed to submit any evidence that shows that the RIPL and Ripples marks share similar marketing channels. This factor favors Google.

3 RIPL also contends that it markets to casual users by maintaining a website where the software may be downloaded. It has provided no evidence that any particular **[*33]** casual user has visited the site or downloaded that software.

f. Google's Intent in Selecting the Mark

A plaintiff need not demonstrate that the alleged

infringer intended to deceive consumers to prevail on a claim for trademark infringement. *E. & J. Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280, 1293 (9th Cir. 1992)*. But if the plaintiff provides evidence that the alleged infringer knowingly adopted a similar mark, the court must presume that the defendant intended to deceive the public. *Sleekcraft, 599 F.2d at 354*.

Plaintiff has presented no evidence to show that Google knew about the RIPL mark prior to adopting Ripples. Google supplied the results of its internal trademark search, which show that the search did not reveal the RIPL trademark. *See* Dkt. # 116, Alger Decl., Ex. A. In addition, Google's 30(b)(6) designee, Rick Borovoy, stated that Google's trademark search did not identify RIPL or its mark and that no individual on the team involved in selecting Ripples had any knowledge of RIPL or its mark. Dkt. # 101, Borovoy Decl., ¶ 4. RIPL contends that Google must have found the RIPL mark during its trademark search and is therefore "hiding" relevant information from RIPL. This **[*34]** theory stems from counsel's review of Google's privileged e-mail communications that were at issue earlier in the case. Although the Court has not determined that the e-mails are admissible, it previously reviewed the e-mails that were filed under seal and notes that they do not support RIPL's theory that Google knew about RIPL or its mark when it adopted Ripples. Plaintiff's argument is pure speculation and unsupported by the evidence. Thus, the factor favors Google.

g. Likelihood of Product Line Expansion

"Inasmuch as a trademark owner is afforded greater protection against competing goods, a 'strong possibility' that either party may expand his business to compete with the other will weigh in favor of finding that the present use is infringing." *Sleekcraft, 599 F.2d at 354* (quotations and citation omitted). RIPL has provided no evidence that demonstrates that it is likely to expand its business to compete with Google+ users. Although RIPL contends that RIPL's services are "available to . . . casual individual users of Google+" (Dkt. # 110, p. 20), it has failed to show that it has any "casual individual users" and has further failed to show that it is likely to market a service to **[*35]** those users in the future. As noted by the *Groupion* court, "what is relevant is the substance of the two companies' respective products and services, not the characterizations or labels offered by the parties regarding the products and services." *Groupion, LLC v. Groupon, Inc., 859 F. Supp. 2d 1067, 1080 (N.D. Cal. 2012)*. As discussed above, RIPL has failed to provide evidence that demonstrates that Google+Ripples is functionally similar to RIPL's services or that each is intended to reach the same consumer. This factor also favors Google.

h. Summary of Sleekcraft Analysis

Having considered the evidence in the light most favorable to RIPL, the Court finds that RIPL has failed to raise a material issue of fact as to any *Sleekcraft* factor such that the marks are not confusingly similar as a matter of law. Because likelihood of confusion is a required element for each of RIPL's alleged causes of action, RIPL's complaint is DISMISSED in its entirety.

IV. CONCLUSION

Having considered the motions, the response and replies thereto, the attached declarations and exhibits, oral argument, and the remainder of the record, the Court hereby finds and ORDERS:

> (1) Google's Motion for Summary Judgment **[*36]** (Dkt. ## 99, 100) is GRANTED;
>
> (2) RIPL's Motion for Partial Summary Judgment (Dkt. # 94) is DENIED;
>
> (3) The pending Motions to Seal (Dkt. ## 57, 97, 104) are GRANTED;
>
> (4) Google's Motion for Protective Order (Dkt. # 44) is STRICKEN AS MOOT;
>
> (5) Google's First and Second Motions to Compel (Dkt. ## 27, 63) are STRICKEN AS MOOT;
>
> (6) RIPL's Motion to Dismiss (Dkt. # 55) is STRICKEN AS MOOT;
>
> (7) RIPL's Sealed Motion to Waive Attorney/Client Privilege (Dkt. # 60) is STRICKEN AS MOOT.

DATED this 3rd day of April 2014.

/s/ Ricardo S. Martinez UNITED STATES DISTRICT JUDGE

RICARDO S. MARTINEZ

UNITED STATES
PATENT AND TRADEMARK OFFICE

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Enhanced Patent Quality Initiative

Kathleen Bragdon, Ph.D.
Senior Advisor to the Deputy Commissioner for Patent Quality, USPTO

Friday, October 23, 2015
Intellectual Property Law Conference, State Bar of Nevada

Leading in Quality Excellence – Every Interaction Counts

UNITED STATES
PATENT AND TRADEMARK OFFICE
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Agenda

- Introduction
- Office of Quality Management
- Enhanced Patent Quality Initiative (EPQI)
  - Background
  - Summary of Comments
- Emerging Themes of the EPQI
- Open Forum
- Next Steps

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3

Creating a World-Class Patent System

This is the Right Time for a Greater Focus on Quality

- America Invents Act (AIA) provides USPTO with a stable budget
- USPTO continues to reduce patent application inventory and pendency
- On-going investments in IT and training provide an opportunity to improve quality in our patent system
- <u>USPTO has always made patent quality a priority</u>

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4

Creating a World-Class Patent System NOW

This is the Right Time for a Greater Focus on Quality

- With the addition of Post Grant Review by the Patent Trial and Appeal Board (PTAB) under the AIA, issued patents can be under greater scrutiny
- Non-practicing entities continue to be a concern the public; frivolous lawsuits hurt the IP system as well as the economy
- With clarity of patent rights comes certainty in patent rights making IP-intensive industry stronger
- USPTO has always made patent quality a priority

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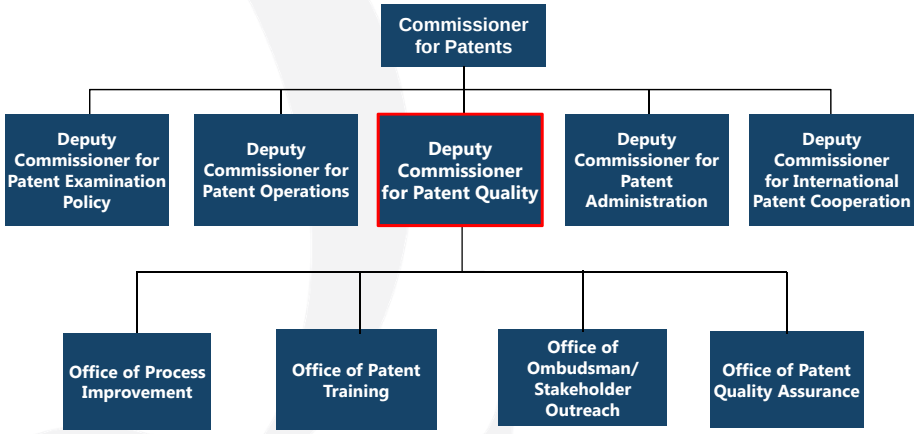
Office of Patent Quality

Leading in Quality Excellence – Every Interaction Counts

6

Patents Organization



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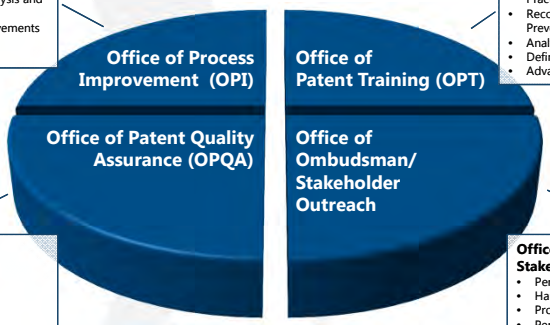
Office of Patent Quality

Office of Process Improvement
- Processes Audits & Recommendations
- Provides Coordinated Analysis and Monitoring
- Advises on Process Improvements
- Analyzes Trends
- Defines Standards/Metrics

Office of Patent Training
- Provides Training Assistance
- Provides Enhanced Practices/Procedures
- Recommends Corrective Action & Preventive Action, as needed
- Analyzes Trends
- Defines Standards/Metrics
- Advances Legal and Technical Training



Office of Patent Quality Assurance
- Performs Quality Reviews
- Ensures ISO Compliance
- Analyzes Trends
- Defines Standards/Metrics
- Provides Feedback

Office of Ombudsman and Stakeholder Outreach
- Performs Incident Management
- Handles Complaints
- Provides Internal/External feedback
- Performs Trend Analysis
- Defines Standards/Metrics
- Handles External Partnering/Engagement

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Enhanced Patent Quality Initiative

Visit USPTO's Enhanced Patent Quality Initiative website at

http://www.uspto.gov/patent/initiatives/enhanced-patent-quality-initiative

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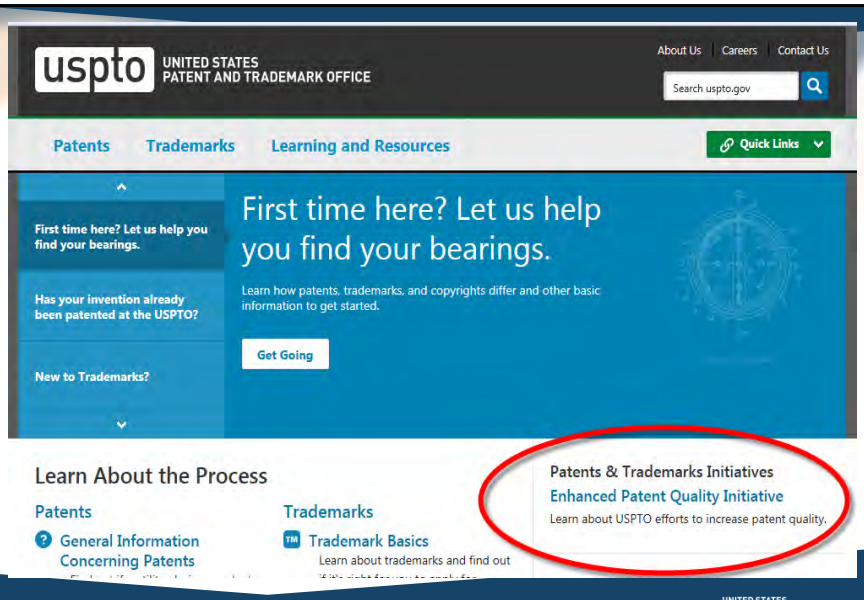

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Enhanced Patent Quality Initiative - Background

- In February, the USPTO presented six proposals to stimulate the public's thinking on patent quality (see 80 Fed. Reg. 6475 (Feb. 5, 2015))
- These six proposals were built around three patent quality pillars:
  I. Excellence in Work Product
  II. Excellence in Measuring Patent Quality
  III. Excellence in Customer Service

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Initial Proposals of the Enhanced Patent Quality Initiative

I. Excellence in work products
1. Applicant requests prosecution review of selected applications
2. Automated pre-examination search
3. Clarity of the record

II. Excellence in measuring patent quality
4. Review/improvements to quality metrics

III. Excellence in customer service
5. Review of current compact prosecution model and effect on quality
6. In-person interview capability with all examiners

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Comments on the Enhanced Patent Quality Initiative

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Comments on the Enhanced Patent Quality Initiative

- Comments and suggestions on the Enhanced Patent Quality Initiative (EPQI) have been collected from a variety of sources:
  - Two-Day Patent Quality Summit (held on March 25-26, 2015)
  - Federal Register Notice Comment Period (closed May 20, 2015)
  - Internal examiner forums and feedback forms
  - Roadshows and roundtables across the country
- We continue to collect feedback via our mailbox WorldClassPatentQuality@uspto.gov

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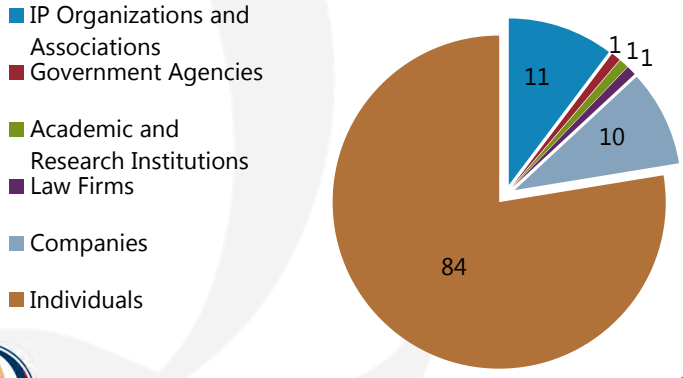
Official Federal Register Responses

108 Responses/Emails



All responses in their entirety have been published at:
http://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-request-comments-enhancing-patent-quality

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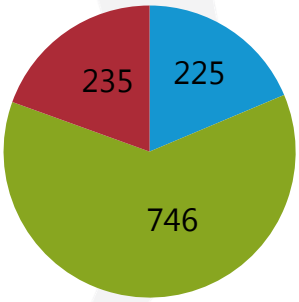
Submissions – All Sources

1206 Submissions*



- Internal
  Includes Examiner Forum/Feedback and WCPQ Internal
- Patent Quality Summit
- WCPQ - External

* Response/emails were broken into submissions based on proposal categories. Each email/response, therefore, may map to more than one submission.

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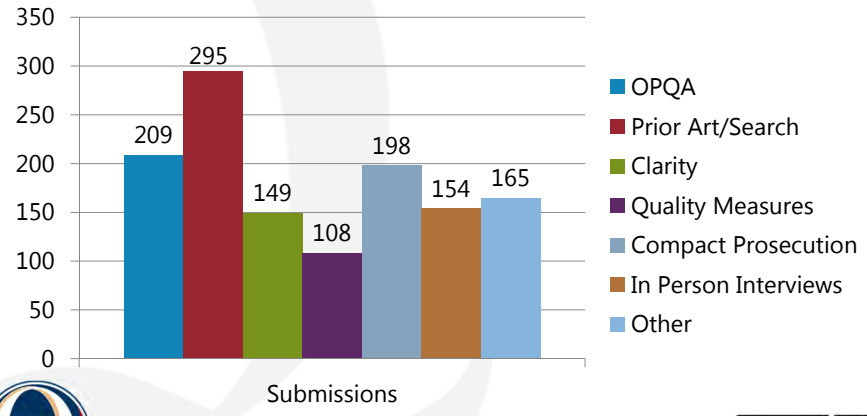
Topic Distribution – All Sources



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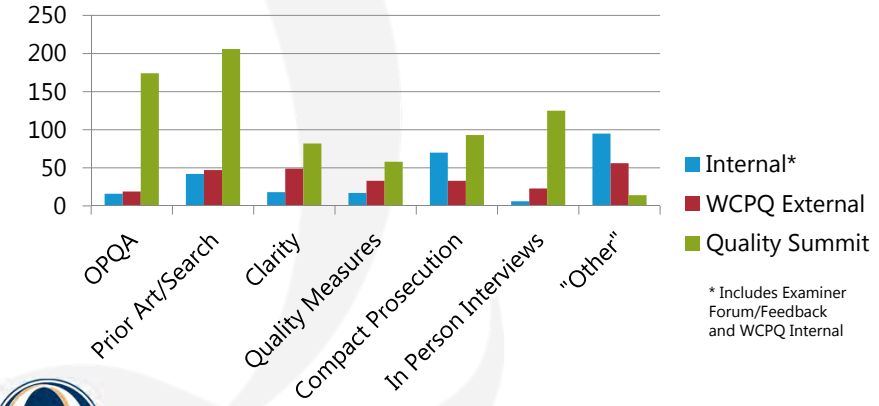
Topic Distribution – By Source



* Includes Examiner Forum/Feedback and WCPQ Internal

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"Other" Topic Distribution

- Additional Examiner/SPE Resources
- More Time for Examiners
- Improved/Additional Examiner Training
- Examiner Performance Appraisal Plans/Awards
- Miscellaneous

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Emerging Themes from Comments

- Having examiners clearly articulate their position on the record is a critical component of quality
- The USPTO needs to differentiate between measures of patent process and patent product
- The quality of the interview is much more important than the type of the interview (e.g., telephonic, video conferencing, in-person)

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Next Steps

- Develop programs to address these emerging themes and continue to collect feedback through:
  - WorldClassPatentQuality@uspto.gov email box
  - Patent Quality Chat Webinar Series
  - Patent Quality Roadshows
- Use all feedback in the evolution of these programs
- Continue to encourage stakeholder involvement by means of providing feedback, attending outreach events, and participating in pilot programs

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Open Forum
Enhanced Patent Quality Initiative

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THANK YOU

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Maschoff Brennan
INTELLECTUAL PROPERTY AND COMPLEX LITIGATION

Developments in Federal Circuit Patent Law

Presented by:

C.J. Veverka

Parrish Freeman

Developments in Indefiniteness 35 U.S.C. § 112

Nautilus, Inc. v. Biosig Instruments, Inc.

134 S. Ct. 2120 (2014)

- Background
  - Biosig brought an infringement action against Nautilus
  - Summary judgment was granted at trial finding the claims of Biosig's patent indefinite
  - Federal Circuit reversed the indefiniteness finding under the "insolubly ambiguous" standard
  - Nautilus petitioned for certiorari

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Nautilus, Inc. v. Biosig Instruments, Inc.

134 S. Ct. 2120 (2014)

- Supreme Court Holding
  - A patent is invalid for indefiniteness if its claims, read in light of the patent's specification and prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention
  - Remands

Biosig Instruments, Inc. v. Nautilus, Inc.

783 F.3d 1374 (Fed. Cir. 2015)

- Holding on remand, with obvious tension
  - The [Supreme] Court has accordingly modified the standard by which lower courts examine allegedly ambiguous claims; we may now steer by the bright star of 'reasonable certainty,' rather than the unreliable compass of 'insoluble ambiguity…'
  - We conclude that Biosig's claims inform those skilled in the art with reasonable certainty about the scope of the invention

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.

135 S. Ct. 831 (2015)

- Background
  - Teva brought a patent infringement suit against Sandoz
  - The trial court resolved factual disputes, and construed the patent claims in favor of Teva's construction
  - Sandoz appealed to the Federal Circuit. On *de novo* review, the Federal Circuit found the claims indefinite.
  - Teva petitioned for certiorari challenging the application of *de novo* review

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.

135 S. Ct. 831 (2015)

- Supreme Court Holding
  - when the trial court judge solely reviews evidence intrinsic to the patent, the judge's determination is solely a determination of law and therefore reviewed *de novo*.
  - to overturn the trial judge's resolution of an underlying fatual dispute used in arriving at that claim construction, the appellate court must find that the trial judge made a clear error with respect to those factual findings.

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.

789 F.3d 1335 (Fed. Cir. 2015)

- Holding
  - Even though none the trial court's factual findings were clearly erroneous, the claim was still invalid for indefiniteness "by clear and convincing evidence because read in light of the specification and the prosecution history, the patentee has failed to inform with reasonable certainty those skilled in the art about the scope of the invention."

Eidos Display, LLC v. AU Optronics Corp.

779 F.3d 1360 (Fed. Cir. 2015).

- Background
  - Eidos brough suit for patent infringement against AU Optronics Corporation
  - Trial court found the claims of the asserted patent indefinite
  - Eidos appealled to the Federal Circuit

Eidos Display, LLC v. AU Optronics Corp.

779 F.3d 1360 (Fed. Cir. 2015).

- Holding
  - To the extent the district court considered extrinsic evidence in its claim construction order or summary judgment order, that evidence is ultimately immaterial to the outcome because the intrinsic record is clear…
  - We reverse the district court's finding of indefiniteness because Eidos' proposed construction for the disputed limitation reflects how a person of ordinary skill in the art at the time of the invention would have understood the limitation after reading the intrinsic record

The Dow Chemical Company v. Nova Chemicals Corp.

Nos. 2014-1431, 2014-1462, 2015 WL 5060947 (Fed. Cir. Aug. 28th, 2015).

- Background
  - Dow brought suit against Nova for patent infringement
  - A jury found the claims of the asserted patent valid and infringed
  - The Federal Circuit affirmed
  - The district court awarded damages
  - Nova appealed the damages award

The Dow Chemical Company v. Nova Chemicals Corp.

Nos. 2014-1431, 2014-1462, 2015 WL 5060947 (Fed. Cir. Aug. 28th, 2015).

- Holding
  - We hold that the intervening change in the law of indefiniteness resulting from *Nautilus* provides an exception to the doctrine of law of the case or issue preclusion.
  - In reviewing the supplemental damages award under the *Nautilus* standard, we hold that the claims are indefinite and reverse the award of supplemental damages.

Developments in Attorney's Fees
35 U.S.C. § 285

Octane Fitness, LLC v. Icon Health & Fitness, Inc.
134 S. Ct. 1749 (2014)

- Background
  - ICON brought suit against Octane for patent infringement
  - Trial court granted summary judgment dismissing claim
  - Octane sought attorney's fees, which were not awarded
  - Federal Circuit affirmed applying *Brooks Furniture* test
  - Octane petitioned for certiorari

Octane Fitness, LLC v. Icon Health & Fitness, Inc.

134 S. Ct. 1749 (2014)

- Supreme Court Holding
  - § 285: "The court in exceptional cases may award reasonable attorney fees to the prevailing party"
  - We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is "exceptional" in the case-by-case exercise of their discretion, considering the totality of the circumstances

Octane Fitness, LLC v. Icon Health & Fitness, Inc.

134 S. Ct. 1749 (2014)

- Supreme Court Holding
  - Finally, we reject the Federal Circuit's requirement that patent litigants establish their entitlement to fees under § 285 by "clear and convincing evidence."
  - patent-infringement litigation has always been governed by a preponderance of the evidence standard

AdjustaCam, LLC v. Newegg, Inc.

No. 2013-1665, 2015 WL 5449927 (Fed. Cir. Sept. 17, 2015)

- Background
  - AdjustiCam filed suit against Newegg, Inc. for patent infringement
  - AdjustiCam eventually dismissed its claims
  - Newegg sought attorneys fees under the *Brooks Furniture* test, which were denied
  - Newegg appealed

AdjustaCam, LLC v. Newegg, Inc.

No. 2013-1665, 2015 WL 5449927 (Fed. Cir. Sept. 17, 2015)

- Holding
  - Since the district court's decision, the Supreme Court decided *Octane Fitness, LLC v. Icon Health & Fitness, Inc*. In that case, the Supreme Court rejected the *Brooks Furniture* test as overly rigid.
  - The Supreme Court lowered the burden of proof for establishing that a case is 'exceptional.' We decline to substitute our judgment for that of the district court in applying these new standards in the first instance. Accordingly, we remand for reconsideration in light of *Octane Fitness*."

Honeywell Int'l Inc. v. Nokia Corp.

No. 2012-1373, 2015 WL 5295007 (Fed. Cir. Sept. 11, 2015)

- Background
  - Honeywell filed suit against Nokia for patent infringement
  - the patent was found to be invalid for violation of the on-sale bar
  - Nokia sought attorney's fees, which were denied
  - Nokia appealed

Honeywell Int'l Inc. v. Nokia Corp.

No. 2012-1373, 2015 WL 5295007 (Fed. Cir. Sept. 11, 2015)

- Holding
  - During the pendency of this appeal, in a pair of decisions, the Supreme Court set aside our prior precedent under § 285
  - As the district court applied our prior precedent under § 285, we vacate the district court's decision on this issue and remand for further consideration of whether the case should be deemed exceptional under 35 U.S.C. § 285, in light of the Supreme Court's guidance from *Highmark* and *Octane Fitness*

Oplus Technologies, Ltd. v. Vizio, Inc.

782 F.3d 1371 (Fed. Cir. 2015)

- Background
  - Oplus Technologies, Ltd. filed a patent infringement action against Vizio, Inc.
  - The trial court granted summary judgment of noninfringement for all asserted patents
  - Vizio moved for attorney's fees, which were denied
  - Vizio appealed

Oplus Technologies, Ltd. v. Vizio, Inc.

782 F.3d 1371 (Fed. Cir. 2015)

- Holding
  - [Octane] lowers considerably the standard for awarding fees. In light of this change in the law, we believe it appropriate to vacate and remand this case in order for the district court to reconsider the propriety of awarding fees.
  - Although the award of fees is clearly within the discretion of the district court, when, as here, a court finds litigation misconduct and that a case is exceptional, the court must articulate the reasons for its fee decision.

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Year In Review: Developments in Patent Law

Presented by Maschoff Brennan, P.L.L.C.
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Parrish Freeman

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35 U.S.C. §112 - Indefiniteness

Nautilus, Inc. v. Biosig Instruments, Inc.
134 S. Ct. 2120 (2014)

I. Background

Biosig Instruments, Inc. ("Biosig") was the assignee to the patent in dispute, which corresponded to a heart rate monitor used during exercise. Biosig filed the infringement suit alleging that Nautilus, Inc. ("Nautilus") sold exercise machines containing the patented device without Biosig's authorization. At trial, Nautilus moved for summary judgment alleging that the claim language ("in spaced relationship with each other") was indefinite under 35 U.S.C. § 112. The trial court agreed and dismissed the suit. On appeal, the Federal Circuit reversed concluding that a patent claim is definite so long as the claim is "amenable to construction," and the claim, as construed, is not "insolubly ambiguous." Following the Federal Circuit's decision, Natuilus petitioned for certiorari.

II. Holding

"A patent is invalid for indefiniteness if its claims, read in light of the patent's specification and prosecution history, fail to inform, with reasonable certainty, those skilled in the art about the scope of the invention. The definiteness requirement, so understood, mandates clarity, while recognizing that absolute precision is unattainable. The standard we adopt accords with opinions of this Court stating that the certainty which the law requires in patents is not greater than is reasonable, having regard to their subject-matter."

On Remand:

Biosig Instruments, Inc. v. Nautilus, Inc.
783 F.3d 1374 (Fed. Cir. 2015)

I. Holding

"As the Supreme Court emphasized in Nautilus II, § 112 requires that a patent specification conclude with one or more claims particularly pointing out and distinctly claiming the subject matter of the invention… The Court has accordingly modified the standard by which lower courts examine allegedly ambiguous claims; we may now steer by the bright star of 'reasonable certainty,' rather than the unreliable compass of 'insoluble ambiguity…' Considering this background, and the Supreme Court's articulated concerns in Nautilus II (the necessarily inexact balance between 'the inherent limitations of language' and the 'modicum of uncertainty' which is 'the price of ensuring the appropriate incentives for innovation,' on the one hand, and, on the other, enough precision 'to afford clear notice of what is claimed'), we conclude that Biosig's claims inform those skilled in the

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art with reasonable certainty about the scope of the invention. As we have stated in the past, [t]he degree of precision necessary for adequate claims is a function of the nature of the subject matter."

Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.
135 S. Ct. 831 (2015)

I. Background

Teva Pharmaceuticals USA, Inc. ("Teva") owned a patent covering a method of manufacturing a drug used to treat multiple sclerosis (Copaxone). Teva brought an infringement action against Sandoz, Inc. ("Sandoz") alleging that Sandoz infringed this patent when it marketed a generic version of Copaxone. The United States District Court for the Southern District of New York construed the patent claims and subsequently found them valid and infringed. In construing the patent, the trial court judge resolved a factual dispute related to the definiteness of the term "molecular weight" in favor of the patentee's construction. Sandoz appealed this ruling, and maintained that the patent's claims were indefinite because the proper method of measuring "molecular weight" as claimed was neither described in the patent file wrapper, or supported by the patentee's extrinsic evidence. On appeal, the Federal Circuit reviewed the trial court's legal and factual claim construction findings under a *de novo* standard of review. Under this *de novo* review, the Federal Circuit found that the term "molecular weight" was indefinite, reversing the trial court. The Federal Circuit remanded the case back to the district court for proceedings consistent with their decision. Teva promptly petitioned for certiorari, specifically challenging the Federal Circuit's *de novo* review of the trial court's claim constuction.

II. Holding

In the majority opinion authored by Justice Breyer, the Supreme Court held that when the trial court judge solely reviews evidence intrinsic to the patent (i.e. the patent file wrapper), the judge's determination is solely a determination of law and therefore reviewed *de novo*. However, the Supreme Court also acknowledged that a trial judge will often consider extrinsic evidence in determining the proper construction of a patent (i.e. expert testimony) in addition to the intrinsic evidence, and will often resolve factual disputes related to that extrinsic evidence. In such circumstances, the district judge will resolve the factual dispute and interpret the patent claim in light of the facts as found. When this occurs, the ultimate claim construction will still be a legal conclusion subject to *de novo* appellate review. However, to overturn the trial judge's resolution of an underlying fatual dispute used in arriving at that claim construction, the appellate court must find that the trial judge made a clear error with respect to those factual findings.

On Remand:
Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.
789 F.3d 1335 (Fed. Cir. 2015)

I. Holding

On remand from the Supreme Court, Judge Moore, writing for the majority, again found that the patent claims were invalid for indefiniteness. In the summary of the opinion, Judge Moore concluded that even though none the trial court's factual findings were clearly erroneous, the claim was still invalid for indefiniteness "by clear and convincing evidence because read in light of the specification and the prosecution history, the patentee has failed to inform with reasonable certainty those skilled in the art about the scope of the invention." Judge Moore reasoned that because neither the claims nor specification indicated a method to calculate "molecular weight," and none of the factual findings of the trial court indicated with reasonable certainty which "molecular weight" calculation method was intended by the patent claims, the claim was indefinite.

Eidos Display, LLC v. AU Optronics Corp.
779 F.3d 1360 (Fed. Cir. 2015).

I. Background

Eidos Display, LLC ("Eidos") was the owner of a patent related to the manufacturing processes of electro-optical devices, such as liquid crystal displays (LCD). Eidos brough suit for patent infringement against AU Optronics Corporation ("AU") alleging that AU infringed this patent. At trial, the trial court judge granted summary judgement for AU holding that the the claims of the patent were indefinite because "the Court is unable to arrive at a construction that would allow a person of ordinary skill in the art to determine what is claimed when the claim is read in light of the specification." Eidos appealed that ruling to the Federal Circuit.

II. Holding

We review the grant of summary judgment of indefiniteness *de novo*, applying the same standard used by the district court. We review the district court's ultimate indefiniteness determination *de novo*. The indefiniteness inquiry here is intertwined with claim construction, which, because the meaning of the claim at issue is clear in view of the intrinsic record and undisputed facts, we also review *de novo*. To the extent the district court considered extrinsic evidence in its claim construction order or summary judgment order, that evidence is ultimately immaterial to the outcome because the intrinsic record is clear…

We reverse the district court's finding of indefiniteness because Eidos' proposed construction for the disputed limitation reflects how a person of ordinary skill in the art at the time of the

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invention would have understood the limitation after reading the intrinsic record. The patent teaches a person of ordinary skill in the art that "a contact hole for source wiring and gate wiring connection terminals" is formed by etching separate contact holes for the source wiring connection terminals and for the gate wiring connection terminals, as described in the specification and prosecution history. Therefore, the limitation "a contact hole for source wiring and gate wiring connection terminals" in claim 1 of the patent is not indefinite under 35 U.S.C. § 112.

The Dow Chemical Company v. Nova Chemicals Corp. (Canada)
Nos. 2014-1431, 2014-1462, 2015 WL 5060947 (Fed. Cir. Aug. 28th, 2015).

I. Background

The Dow Chemical Company ("Dow") filed suit against NOVA Chemicals Corporation ("NOVA") alleging patent infringement. A jury found the asserted claims to be valid and infringed. NOVA appealed, and the Federal Circuit affirmed, holding that the asserted claims were not indefinite. NOVA petitioned for certiorari from the Supreme Court, however that petition was denied in 2012. The district court subsequently conducted a bench trial for the supplemental damages period through the expiration date of the infringed patents. On March 28, 2014, the district court granted supplemental damages to Dow in the form of lost profits and reasonable royalties and denied Dow's request for enhanced damages. Final judgment was entered on April 14, 2014. NOVA appealed on April 23, 2014. Dow cross-appealed on May 1, 2014. While these appeals were pending, the Supreme Court decided *Nautilus, Inc. v. Biosig Instruments, Inc.*

II. Holding

We hold that the intervening change in the law of indefiniteness resulting from *Nautilus* provides an exception to the doctrine of law of the case or issue preclusion. Three conditions must be satisfied to reopen a previous decision under the change of law exception for both law of the case and issue preclusion. First, the governing law must have been altered. Second, the decision sought to be reopened must have applied the old law. Third, the change in law must compel a different result under the facts of the particular case. Each of these requirements was satisfied here.

First, there can be no serious question that *Nautilus* changed the law of indefiniteness. This was indeed the very purpose of the *Nautilus* decision…second, there is also no question that our original decision applied pre-*Nautilus* law…third, as we now discuss, our original decision would have been different under the new *Nautilus* standard. In our review of the supplemental damages award, we therefore evaluate the indefiniteness of the claims under the *Nautilus* standard. In reviewing the supplemental damages award under the *Nautilus* standard, we hold that the claims are indefinite and reverse the award of supplemental damages.

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35 U.S.C. § 285 - Attorneys Fees

Octane Fitness, LLC v. Icon Health & Fitness, Inc.

134 S. Ct. 1749 (2014)

I. Background

ICON Health and Fitness ("ICON") brought a patent infringement action against Octane Fitness ("Octane") alleging that they infringed its patent for elliptical machines that allowed for adjustable stride length. At trial, the judge granted summary judgment of noninfringement and denied Octane's motion for attorney fees. On appeal, the Federal Circuit affirmed applying the *Brooks Furniture Manufacturing* test. Certiorari was granted in this case to review the Federal Circuit's use of the *Brooks Furniture Manufacturing* test.

Under *Brooks Furniture Manufacturing*, attorney's fees under 35 U.S.C. §285 should be awarded only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions. Absent misconduct in conduct of the litigation or in securing the patent," the test elaborates that fees "may be imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." This test was clarified by the Federal Circuit in *iLOR, LLC v. Google, Inc.*, where the court held that litigation is objectively baseless only if it is "so unreasonable that no reasonable litigant could believe it would succeed," and that litigation is brought in subjective bad faith only if the plaintiff "actually knows" that it is objectively baseless.

II. Holding

Our analysis begins and ends with the text of § 285: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." This text is patently clear. It imposes one and only one constraint on district courts' discretion to award attorney's fees in patent litigation: The power is reserved for "exceptional" cases. The Patent Act does not define "exceptional," so we construe it in accordance with its ordinary meaning. In 1952, when Congress used the word in § 285 (and today, for that matter), "[e]xceptional" meant "uncommon," "rare," or "not ordinary." Webster's New International Dictionary 889 (2d ed. 1934).

We hold, then, that an "exceptional" case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is "exceptional" in the case-by-case exercise of their discretion, considering the totality of the circumstances. As in the comparable context of the Copyright Act, "[t]here is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised in light of the considerations we have identified."

The Federal Circuit's formulation is overly rigid. Under the standard crafted in *Brooks Furniture*, a case is "exceptional" only if a district court either finds litigation-related misconduct of an independently sanctionable magnitude or determines that the litigation was both "brought in subjective bad faith" and "objectively baseless." This formulation superimposes an inflexible framework onto statutory text that is inherently flexible.

Finally, we reject the Federal Circuit's requirement that patent litigants establish their entitlement to fees under § 285 by "clear and convincing evidence." We have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence. And nothing in § 285 justifies such a high standard of proof. Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one. Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard…and that is the "standard generally applicable in civil actions," because it "allows both parties to share the risk of error in roughly equal fashion."

AdjustaCam, LLC v. Newegg, Inc.

No. 2013-1665, 2015 WL 5449927 (Fed. Cir. Sept. 17, 2015)

I. Background

AdjustiCam, LLC is the exclusive licensee of a patent related to a convertible clip for supporting portable cameras. AdjustiCam filed suit against Newegg, Inc. for infringement of this patent. Ultimately, the case was dismissed after AdjustiCam filed unopposed motions to dimiss its claims against Newegg, Inc. After dismissal, Newegg, Inc. filed a motion for declaration that this case was "exceptional" under 35 U.S.C. § 285 under the *Brooks Furniture Manufacturing* standard. The trial court denied this motion, and Newegg, Inc. appealed.

II. Holding

"Since the district court's decision, the Supreme Court decided *Octane Fitness, LLC v. Icon Health & Fitness, Inc.* In that case, the Supreme Court rejected the *Brooks Furniture* test as overly rigid. It held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position ... or the unreasonable manner in which the case was litigated." A district court "may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." Further, the Supreme Court held that the governing burden of proof is not clear and convincing evidence, but a preponderance of the evidence, as in other aspects of civil litigation.

Although the governing standard has changed, Newegg argues that remand is not necessary. They argue that in *Octane Fitness*, the Supreme Court relaxed the test for finding a case 'exceptional' under § 285. Because the district court erred under the more 'rigid' *Brooks Furniture* standard, they say, it necessarily erred under the new *Octane Fitness* standard. But the Supreme Court did not simply relax the standard under § 285. It substantially changed the analysis. The district court may now consider

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the totality of the circumstances to determine whether this case is 'exceptional,' and the district court is not necessarily required to find evidence of the specific factors outlined in *Brooks Furniture*. Further, the Supreme Court lowered the burden of proof for establishing that a case is 'exceptional.' We decline to substitute our judgment for that of the district court in applying these new standards in the first instance. Accordingly, we remand for reconsideration in light of *Octane Fitness*."

Honeywell Int'l Inc. v. Nokia Corp.
No. 2012-1373, 2015 WL 5295007 (Fed. Cir. Sept. 11, 2015)

I. Background

Honeywell International Inc. and Honeywell Intellectual Properties Inc. ("Honeywell") filed suit against numerous defendants in October 2004 for patent infringement. At trial, the patent was found to be invalid for violation of the on-sale bar. The Federal Circuit affirmed. After the Federal Circuit affirmed, the defendants filed fees motions under 35 U.S.C. § 285. The motions were denied under the *Brooks Furniture Manufacturing* standard. The defendants each timely filed a notice of appeal.

II. Holding

"During the pendency of this appeal, in a pair of decisions, the Supreme Court set aside our prior precedent under § 285. In those cases, the Court (i) rejected our precedent under § 285 that required both a showing of subjective bad faith and objective baselessness to find a case exceptional, (ii) lowered the burden of proof for proving a case exceptional, and (iii) changed the standard of review on appeal. As the district court applied our prior precedent under § 285, we vacate the district court's decision on this issue and remand for further consideration of whether the case should be deemed exceptional under 35 U.S.C. § 285, in light of the Supreme Court's guidance from *Highmark* and *Octane Fitness*.

Oplus Technologies, Ltd. v. Vizio, Inc.
782 F.3d 1371 (Fed. Cir. 2015)

I. Background

Oplus Technologies, Ltd. filed a patent infringement action against Vizio, Inc. The trial court granted summary judgment of nononinfringment on all the asserted patents. After, Vizio moved to recover attorneys' and expert witness fees pursuant to 35 U.S.C. § 285. The trial court denied Vizio's request. Vizio appealed to the Federal Circuit.

II. Holding

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Section 285 provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." When the district court issued its opinion, we had required that patent litigants establish entitlement to fees under § 285 by clear and convincing evidence. Since the district court issued its opinion, the Supreme Court rejected this requirement, holding that "nothing in § 285 justifies such a high standard of proof." This change in the law lowers considerably the standard for awarding fees. In light of this change in the law, we believe it appropriate to vacate and remand this case in order for the district court to reconsider the propriety of awarding fees.

Although the award of fees is clearly within the discretion of the district court, when, as here, a court finds litigation misconduct and that a case is exceptional, the court must articulate the reasons for its fee decision.

Gaymar Industries, Inc. v. Cincinnati Sub-Zero Products, Inc. 790 F.3d 1369 (Fed. Cir. 2015)

I. Background

Gaymar Industries, Inc. ("Gaymar") is the assignee of a patent directed to a patient temperature control system. Gaymar brought suit against Cincinnati Sub-Zero Products, Inc. ("CSZ") alleging that CSZ infringed their patent. CSZ prevailed in the patent infringement action and sought attorney's fees. The trial court eventually declined to award fees, applying the *Octane Fitenss* standard. CSZ appealed to the Federal Circuit.

II. Holding

Under *Octane*, a district court may consider "the substantive strength of a party's litigating position," including objective reasonableness, when determining if the case "stands out from others." Here, after *Octane*, the district court chose not to rest its decision on the reasonableness of Gaymar's litigation position—a step it might have taken—but instead refused to award fees under *Octane* based in significant part on its finding that "[g]iven CSZ's own litigation misconduct, it does not have 'clean hands' sufficient to render this an 'exceptional case.'"

To be sure, the conduct of the parties is a relevant factor under *Octane's* totality-of-the-circumstances inquiry, including the conduct of the movant, but we conclude that the district court committed clear error here in finding misconduct by CSZ…In view of the serious consequences of a finding of misconduct, it is important that the district court be particularly careful not to characterize bad lawyering as misconduct. "CSZ's own litigation misconduct" was cited by the district court for finding that this was not an exceptional case in light of *Octane*. Because none of the examples cited by the district court constitutes litigation misconduct, a remand is required.

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35 U.S.C. §112 – Means Plus Function

Williamson v. Citirx Online, LLC

792 F.3d 1339 (Fed. Cir. 2015)

I. Background

Williamson, as a trustee for the At Home Corporation Bondholder's Liquidating Trust, owns a patent for methods and systems for "distriuted learning" that utilize industry standard computer hardware and software linked by a network to provide a virtual classroom. Williamson brought a patent infringement suit against Citrix Online, LLC ("Citrix") alleging that the company was violating his patent. At trial, the district court judge construed the claims of Williamson's patent, *inter alia*, and found that the term "distributed learning control module," was a means-plus-function term under 35 U.S.C. § 112. The district court then concluded that the specification failed to describe sufficient structure to perform the claimed functions. Following these constructions, the parties stipulated to final judgment and Williamson then appealed.

II. Holding

In *Lighting World, Inc. v. Birchwood Lighting, Inc.*, we applied for the first time a different standard to the presumption flowing from the absence of the word "means" and held that "the presumption flowing from the absence of the term 'means' is a strong one that is not readily overcome." In *Flo Healthcare Solutions, LLC v. Kappos*, we raised the bar even further, declaring that "[w]hen the claim drafter has not signaled his intent to invoke § 112, ¶ 6 by using the term 'means,' we are unwilling to apply that provision without a showing that the limitation essentially is devoid of anything that can be construed as structure." Recently, in *Apple Inc. v. Motorola, Inc.*, we yet again observed that this presumption is "'strong' and 'not readily overcome'" and noted that, as such, we have "'seldom' held that a limitation without recitation of 'means' is a means-plus-function limitation." Our opinions in *Lighting World*, *Flo Healthcare* and *Apple* have thus established a heightened bar to overcoming the presumption that a limitation expressed in functional language without using the word "means" is not subject to § 112, paragraph 6.

Our consideration of this case has led us to conclude that such a heightened burden is unjustified and that we should abandon characterizing as "strong" the presumption that a limitation lacking the word "means" is not subject to § 112, para. 6… Henceforth, we will apply the presumption as we have done prior to *Lighting World*, without requiring any heightened evidentiary showing and expressly overrule the characterization of that presumption as "strong." We also overrule the strict requirement of "a showing that the limitation essentially is devoid of anything that can be construed as structure."

The standard is whether the words of the claim are understood by persons of ordinary skill in the art to have a sufficiently definite meaning as the name for structure. When a claim term lacks the word "means," the presumption can be overcome and § 112, para. 6 will apply if the challenger demonstrates that the claim term fails to "recite sufficiently definite structure" or else recites

"function without reciting sufficient structure for performing that function." The converse presumption remains unaffected: "use of the word 'means' creates a presumption that § 112, ¶ 6 applies."

Here, the word "module" does not provide any indication of structure because it sets forth the same black box recitation of structure for providing the same specified function as if the term "means" had been used.

35 U.S.C. § 101 – Patent Eligible Subject Matter

Ariosa Diagnostics, Inc. v. Sequenom, Inc.

788 F.3d 1371 (Fed. Cir. 2015)

I. Background

Sequenom Diagnostics, Inc. ("Sequenom") developed and patented a method for detecting paternally inherited cffDNA in maternal blood plasma or serum and using that cffDNA to determine fetal characteristics. Ariosa Diagnostics, Inc. ("Ariosa") began selling a similar diagnostic test for cffDNA, and after receiving cease and desist letters from Sequenom, filed a declatory judgment action against Sequenom. Sequenom counterclaimed alleging infringement. Eventually, the parties filed cross motions for summary judgment regarding the validity of the patent under 35 U.S.C. § 101. The trial court then held that the claims were not directed to patent eligible subject matter. Sequenom appealed to the Federal Circuit.

II. Holding

The Supreme Court has made clear that the principle of preemption is the basis for the judicial exceptions to patentability. For this reason, questions on preemption are inherent in and resolved by the § 101 analysis. The concern is that "patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity." In other words, patent claims should not prevent the use of the basic building blocks of technology—abstract ideas, naturally occurring phenomena, and natural laws.

We do not disagree that detecting cffDNA in maternal plasma or serum that before was discarded as waste material is a positive and valuable contribution to science. But even such valuable contributions can fall short of statutory patentable subject matter, as it does here.

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35 U.S.C. § 286 – Laches

SCA Hygiene Products v. First Quality Baby Products, LLC
2015 WL 5474261 (Fed Cir. Sept. 18, 2015)

I. Background

SCA Hygiene Products Akitebolag ("SCA") is the owner of a patent related to adult incontinence products. The company brought a patent infringement suit against competitor First Quality Baby Products, LLC ("First Quality"). Initially, SCA sent cease and desist letters to First Quality, in which First Quality responded with their opinion that the patent was invalid. Prior to filing suit, SCA then initiated a reexamination proceding of the patent, and did not notify First Quality. Five years later, the reexamination proceeding concluded and confirmed the patentability of all the patented claims. Three years after the reexamination concluded, SCA filed their complaint for infringement. The district court proceeded with discovery and issued a claim construction order. First Quality then moved for partial summary judgment of noninfringement and for summary judgment of laches and equitable estoppel. The district court granted First Quality's motion as to laches and equitable estoppel and dismissed the noninfringement motion as moot. SCA appealed, and on September 17, 2014, the Federal Circuit affirmed the district court's opinion on laches, but reversed as to equitable estoppel. SCA subsequently filed a petition for rehearing en banc, asking this court to reconsider this conclusion in light of the Supreme Court's ruling in *Petrella v. Metro-Goldwyn-Mayer*. That rehearing petition was granted to determine if 1) laches is a defense to equitable and legal remedies in a patent infringement suit, and 2) if a successful laches defense affects the grant of an injunction or an ongoing royalty.

II. Holding

We determine that Congress codified a laches defense in 35 U.S.C. § 282(b)(1). § 282 uses inclusive language, the legislative history characterizes § 282 as "broader" and "general," and the Federico Commentary explicitly states that § 282 includes lache. Section 282 codified whatever laches doctrine existed when Congress enacted the Patent Act in 1952. Although the development occurred over time, by 1952 nearly every circuit had approved of the proposition that laches could bar legal relief for patent infringement, and no court had held to the contrary. The laches doctrine codified in § 282 must have meaning, and, absent any direction from Congress, it takes on its common law meaning. Following a review of the relevant common law, that meaning is clear: in 1952, laches operated as a defense to legal relief. Therefore, in § 282, Congress codified a laches defense that barred recovery of legal remedies.

We must recognize "the distinction between ... estoppel and laches." Whereas estoppel bars the entire suit, laches does not. As outlined above, laches in combination with the eBay factors may in

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some circumstances counsel against an injunction. However, a patentee guilty of laches typically does not surrender its right to an ongoing royalty.

35 U.S.C. § 271(a) - Direct Infringement

Akamai Technologies v. Limelight Networks, Inc.

797 F.3d 1020 (Fed. Cir. 2015).

I. Background

Akamai Technologies, Inc. ("Akamai") filed a patent infringement action against Limelight Networks, Inc. ("Limelight") alleging infringement of several patents, including one which claims methods for delivering content over the Internet. The case proceeded to trial, at which the parties agreed that Limelight's customers, not Limelight, performed several steps in the claimed methods. At trial, the district court concluded that Limelight could not have directly infringed the patent at issue because performance of the several of the method steps could not be attributed to it. On initial appeal, the Federal Circuit reversed en banc, holding that a defendant who performed some steps of a method patent and encouraged others to perform the rest could be liable for inducement of infringement even if no one was liable for direct infringement. The en banc court concluded that the evidence could support liability for Limelight on an inducement theory and remanded for further proceedings. Certiorari was granted, where the Supreme Court held that a defendant is not liable for inducing infringement under § 271(b) when no one has directly infringed under § 271(a) or any other statutory provision. The Supreme Court then remanded back to the Federal Circuit to readdress how this change in the law affects the scope of 35 U.S.C. § 271(a).

II. Holding on Remand From Supreme Court

Direct infringement under § 271(a) occurs where all steps of a claimed method are performed by or attributable to a single entity. Where more than one actor is involved in practicing the steps, a court must determine whether the acts of one are attributable to the other such that a single entity is responsible for the infringement. We will hold an entity responsible for others' performance of method steps in two sets of circumstances: (1) where that entity directs or controls others' performance, and (2) where the actors form a joint enterprise.

To determine if a single entity directs or controls the acts of another, we continue to consider general principles of vicarious liability. In the past, we have held that an actor is liable for infringement under § 271(a) if it acts through an agent (applying traditional agency principles) or contracts with another to perform one or more steps of a claimed method. We conclude, on the facts of this case, that liability under § 271(a) can also be found when an alleged infringer conditions

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participation in an activity or receipt of a benefit upon performance of a step or steps of a patented method and establishes the manner or timing of that performance. In those instances, the third party's actions are attributed to the alleged infringer such that the alleged infringer becomes the single actor chargeable with direct infringement. Whether a single actor directed or controlled the acts of one or more third parties is a question of fact, reviewable on appeal for substantial evidence, when tried to a jury.

Alternatively, where two or more actors form a joint enterprise, all can be charged with the acts of the other, rendering each liable for the steps performed by the other as if each is a single actor. A joint enterprise requires proof of four elements: an agreement, express or implied, among the members of the group; a common purpose to be carried out by the group; a community of pecuniary interest in that purpose, among the members; and an equal right to a voice in the direction of the enterprise, which gives an equal right of control. As with direction or control, whether actors entered into a joint enterprise is a question of fact, reviewable on appeal for substantial evidence.

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Notes Regarding Reexaminations and Inter Partes Reviews

Dome Patent L.P. v. Lee
2015 WL 5155181 (Fed. Cir. Sept. 3, 2015)

I. Holding

When the Patent Office institutes ex parte reexamination, it reopens prosecution to determine whether the claimed subject matter should have been allowed in the first place. At that point, there is no need to presume that the Patent Office had "done its job" in the previous examination. Accordingly, the presumption of validity is no longer applicable.

We would hinder this intent if we required the district court here to presume that the reexamined claim is valid because of the Patent Office's previous determination and, consequently, to impose a burden to defend its own subsequent reexamination decision by clear and convincing evidence. Thus, the district court did not err by requiring the Patent Office to show by a preponderance of the evidence that the reexamined claim is obvious.

In re Cuozzo Speed Technologies, LLC
793 F.3d 1268 (Fed. Cir. 2015).

I. Holding

We conclude that 35 U.S.C. § 314(d) prohibits review of the decision to institute IPR even after a final decision. On its face, the provision is not directed to precluding review only before a final decision. It is written to exclude all review of the decision whether to institute review. Section 314(d) provides that the decision is both "nonappealable" and "final," i.e., not subject to further review.

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Notes Regarding Patent Exhuastion

Lexmark International, Inc. v. Impression Products, Inc.
785 F.3d 565 (Fed. Cir. 2015)

I. Questions Pending En Banc Rehearing

In light of *Kirtsaeng v. John Wiley & Sons, Inc.*, should this court overrule *Jazz Photo Corp. v. International Trade Commission*, to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.

In light of *Quanta Computer, Inc. v. LG Electronics, Inc.*, should this court overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, to the extent it ruled that a sale of a patented article, when the sale is made under a restriction that is otherwise lawful and within the scope of the patent grant, does not give rise to patent exhaustion.

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ALICE

EVERYTHING OLD IS NEW AGAIN

TIMOTHY A. BRISSON

STATE BAR OF NEVADA IP LAW CONFERENCE

OCT. 23RD, 2015

LAS VEGAS, NEVADA

DETERMINING CLAIM WORTHINESS: A MOST DIFFICULT TASK

- *Considering the exclusive right to invention as given not of natural right, but for the benefit of society, I know well the difficulty of drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.*
- -Thomas Jefferson, 1813

HOW WE GOT HERE

- Bilski (2010) foreshadowed the current uncertainty:
  - "And nothing in today's opinion should be read as endorsing interpretations of §101 that the [Fed. Cir.] has used in the past."
- Mayo (2012) introduced the now-infamous two-part test:
  - Determine whether the claims at issue are directed to one of the patent-ineligible concepts (law of nature, natural phenomena, abstract idea).
  - If yes, then is there an "inventive concept"? – does the claim include an element or a combination of elements that is sufficient to ensure that the claim amounts to ***significantly more*** than a claim to the ineligible concept itself.

HOW WE GOT HERE (CONT.)

- Alice (2014) amplifies preemption concerns:
  - A patent should not impede innovation more than promote it – contrary to the primary objective of patent law.
- S. Ct.'s concern is that patent law not inhibit further discovery by improperly preempting the future use of building blocks of human ingenuity:
  - fundamental/longstanding economic practices
  - certain methods of organizing human activity
  - an idea in and of itself
  - mathematical relationships/formulas
- Preemption analysis is taking center stage in recent cases

WHERE WE ARE TODAY

- The preemption issue will take years to level out in the CAFC
  - No patent cases currently on S. Ct. docket
- Since the S. Ct. has nixed all previous CAFC tests, cases now decided in a vacuum in view of *Mayo*
- Keep an eye on *Sequenom*
  - Is a valuable 'discovery' patentable?
  - "But for the sweeping language in the Supreme Court's *Mayo* opinion, I see no reason, in policy or statute, why this breakthrough invention should be deemed patent ineligible." (J. Linn, concurring)

WHERE WE ARE TODAY (CONT.)

- Fundamental question becomes:
  - Is this particular invention – *as claimed* – worthy of the government-granted limited monopoly represented by a utility patent? (Is the 'significantly more' aspect enough?)
- Analysis often appears to be quasi-combination novelty/obviousness test where the "significantly more" aspect (inventive step) is identified and vetted in a single pass
- Many cases disposed of early (motions to dismiss/summary judgement)
  - Often little or no fact finding and/or claim construction
- Cases stand or fall on the specification and claims alone

DDR VS. ULTRAMERCIAL

- ***DDR Holdings, LLC v. Hotels.com, L.P.***, 773 F.3d 1245 (Fed. Cir. 2014)
  - Lone CAFC finding eligible subject matter in computer tech arts
- **Ultramercial Inc. v. Hulu LLC** (Fed. Cir. 2014)
  - "directed to the abstract idea of offering free media in exchange for watching advertisements and that the mere implementation of that idea on a computer does not change that fact."
  - "we do not purport to state that all claims in all software-based patents will necessarily be directed to an abstract idea."
- These cases can be reconciled when the underlying patents are analyzed

DDR QUOTES
(PREEMPTION)

- *Although the claims address a business challenge (retaining website visitors), it is a challenge particular to the Internet.*
- *[T]he claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.*
- *[DDR's] claims are different enough in substance from those in Ultramercial because they do not broadly and generically claim "use of the Internet" to perform an abstract business practice (with insignificant added activity).*

DDR QUOTES
('SIGNIFICANTLY MORE')

- *Unlike the claims in Ultramercial, the claims at issue here specify how interactions with the Internet are manipulated to yield a desired result—a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink.*
- *When the limitations of [DDR's] asserted claims are taken together as an ordered combination, the claims recite an invention that is not merely the routine or conventional use of the Internet.*

PRACTICAL TIPS

- Describe/claim "how" to implement the invention (data structures and hyperlink functionality in DDR)
  - Use 'patent profanity'
- Include business model and/or value (keeping visitors on web site in DDR)
  - Follow the money

PRACTICAL TIPS

- With the exception of some limited tech areas (e.g., financial services), software patents are alive and well in the USPTO
- '2000s-style flowchart-only software specifications will not suffice
  - Average length (and cost) of specifications will need to increase
- Go "old-school": Everything old is new again
  - Skilled patent artisans are key to drafting rich technical documents
  - Provide ample technical detail and terminology in the description, drawings, AND claims. GET UNDER THE HOOD.

Thank you!

ALICE

EVERYTHING OLD IS NEW AGAIN

TIMOTHY A. BRISSON

STATE BAR OF NEVADA IP LAW CONFERENCE

OCT. 23RD, 2015

LAS VEGAS, NEVADA

United States Court of Appeals for the Federal Circuit

ARIOSA DIAGNOSTICS, INC., NATERA, INC.,
Plaintiffs-Appellees

DNA DIAGNOSTICS CENTER, INC.,
Counterclaim Defendant-Appellee

v.

SEQUENOM, INC., SEQUENOM CENTER FOR MOLECULAR MEDICINE, LLC,
Defendants-Appellants

ISIS INNOVATION LIMITED,
Defendant

2014-1139, 2014-1144

Appeals from the United States District Court for the Northern District of California in Nos. 3:11-cv-06391-SI, 3:12-cv-00132-SI, Judge Susan Y. Illston.

Decided: June 12, 2015

DAVID ISAAC GINDLER, Irell & Manella LLP, Los Angeles, CA, argued for plaintiff-appellee Ariosa Diagnostics, Inc. Also represented by ANDREI IANCU; AMIR NAINI, Russ August & Kabat, Los Angeles, CA.

WILLIAM PAUL SCHUCK, Bartko, Zankel, Bunzel & Miller, San Francisco, CA, for plaintiff-appellee Natera, Inc., counterclaim defendant-appellee DNA Diagnostics Center, Inc.

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WILLIAM LARRY RESPESS, I, Sheppard, Mullin, Richter, & Hampton LLP, San Diego, CA, for amicus curiae The San Diego Intellectual Property Law Association.

Before REYNA, LINN, and WALLACH, *Circuit Judges.*

Opinion for the court filed by *Circuit Judge* REYNA.

Concurring Opinion filed by *Circuit Judge* LINN.

REYNA*, Circuit Judge.*

This appeal is from a grant of summary judgment of invalidity of the asserted claims of U.S. Patent No. 6,258,540 ("the '540 patent"). The United States District Court for the Northern District of California found that the asserted claims of the '540 patent are not directed to patent eligible subject matter and are therefore invalid under 35 U.S.C. § 101. For the reasons explained below, we *affirm*.

I

In 1996, Drs. Dennis Lo and James Wainscoat discovered cell-free fetal DNA ("cffDNA") in maternal plasma and serum, the portion of maternal blood samples that other researchers had previously discarded as medical waste. cffDNA is non-cellular fetal DNA that circulates freely in the blood stream of a pregnant woman. Applying a combination of known laboratory techniques to their discovery, Drs. Lo and Wainscoat implemented a method for detecting the small fraction of paternally inherited cffDNA in maternal plasma or serum to determine fetal characteristics, such as gender. The invention, commercialized by Sequenom as its MaterniT21 test, created an alternative for prenatal diagnosis of fetal DNA that avoids the risks of widely-used techniques that took samples from the fetus or placenta. In 2001, Drs. Lo and Wainscoat obtained the '540 patent, which relates to this discovery.

The parties agree that the patent does not claim cffDNA or paternally inherited cffDNA. Instead, the '540 patent claims certain methods of using cffDNA. The steps of the method of claim 1 of the '540 patent include amplifying the cffDNA contained in a sample of a plasma or serum from a pregnant female and detecting the paternally inherited cffDNA. Amplifying cffDNA results in a single copy, or a few copies, of a piece of cffDNA being multiplied across several orders of magnitude, generating thousands to millions of copies of that particular DNA sequence. In the amplification step, DNA is extracted from the serum or plasma samples and amplified by polymerase chain reaction ("PCR") or another method. PCR exponentially amplifies the cffDNA sample to detectable levels.

In the detecting step, the lab technician adds the amplified cffDNA to an agarose gel containing ethidium

bromide to stain and visualize the paternally inherited cffDNA.

The ’540 patent also provides for making a diagnosis of certain fetal characteristics based on the detection of paternally inherited cffDNA. The specification explains that analysis of cffDNA permits more efficient determination of genetic defects and that a pregnant woman carrying a fetus with certain genetic defects will have more cffDNA in her blood than will a woman with a normal fetus. ’540 patent col. 3 ll. 30-43.

Claims 1, 2, 4, 5, 8, 19-22, 24, and 25 of the ’540 patent are at issue in this appeal.[1] Independent claim 1 requires:

> 1. A method for detecting a paternally inherited nucleic acid of fetal origin performed on a maternal serum or plasma sample from a pregnant female, which method comprises
>
> amplifying a paternally inherited nucleic acid from the serum or plasma sample and
>
> detecting the presence of a paternally inherited nucleic acid of fetal origin in the sample.

’540 patent col. 23 l. 61-67.

For comparison, independent claims 24 and 25 require:

> 24. A method for detecting a paternally inherited nucleic acid on a maternal blood sample, which method comprises:

[1] The parties have stipulated that for the purposes of this appeal claims 1, 2, 4, 5, 8, 9-22, 24 and 25 are representative of claims 6, 7, 12, 13, 15, and 18 of the ‘540 patent. J.A. 24-25, 30-31.

> removing all or substantially all nucleated and anucleated cell populations from the blood sample,
>
> amplifying a paternally inherited nucleic acid from the remaining fluid and subjecting the amplified nucleic acid to a test for the Paternally [sic] inherited fetal nucleic acid.
>
> 25. A method for performing a prenatal diagnosis on a maternal blood sample, which method comprises
>
> obtaining a non-cellular fraction of the blood sample
>
> amplifying a paternally inherited nucleic acid from the non-cellular fraction
>
> and performing nucleic acid analysis on the amplified nucleic acid to detect paternally inherited fetal nucleic acid.

Id. at 26 ll. 20-36.

The remaining claims explain how the method of detection occurs or how it can be used. For example, claim 2 depends from claim 1 and claims amplification by polymerase chain reaction. *Id.* at col. 24 ll. 60-61. Claim 4 similarly depends from claim 1 and claims detection via a sequence specific probe. *Id.* col. 24 ll. 65-67. Claim 21 also depends from claim 1, but instead of focusing solely on a method for detecting, it focuses on a method for performing a prenatal diagnosis, using claim 1's method for detecting. *Id.* col. 26 ll. 4-14.

II

Appellee Ariosa Diagnostics, Inc. (formerly known as "Aria Diagnostics, Inc.") makes and sells the Harmony Test, a non-invasive test used for prenatal diagnosis of certain fetal characteristics. Natera, Inc. makes and sells

the Non-Invasive Paternity Test, which is intended to confirm the paternity or non-paternity of a gestating fetus from genetic information in fetal DNA available in the blood of the pregnant female. Diagnostics Center, Inc. is a licensee of Natera.

In response to letters threatening claims of infringement, Ariosa Diagnostics, Inc., Natera, Inc. and Diagnostics Center, Inc. each filed separate declaratory judgment actions from December 2011 through early 2012 against Sequenom alleging that they did not infringe the '540 patent. Sequenom counterclaimed alleging infringement in each case. The district court related the three actions for pretrial purposes.

In the *Ariosa* action, Sequenom filed a motion seeking to preliminarily enjoin Ariosa from selling the accused Harmony Prenatal Test. In July 2012, the district court issued an order denying Sequenom's motion for a preliminary injunction. In the context of doing so, the district court found that there was a substantial question over whether the subject matter of the asserted claims was directed to eligible subject matter. Sequenom appealed to this court.

On August 9, 2013, this court vacated and remanded the case, holding that the district court erred in certain respects not relevant to this appeal. *Aria Diagnostics, Inc. v. Sequenom, Inc.*, 726 F.3d 1296, 1305 (Fed. Cir. 2013). In addition, this Court noted that it offered no opinion "as to whether there is or is not a substantial question regarding the subject matter eligibility of the asserted claims" of the '540 patent, but remanded "for the district court to examine subject matter eligibility . . . . in light of *[Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 569 U.S. ___, 133 S. Ct. 2107, 2117 (2013)]." *Id.* at 1304.

After remand, the parties filed cross motions for summary judgment regarding invalidity under 35 U.S.C.

§ 101. The district court agreed with Ariosa's argument that the claims of the '540 patent were directed to the natural phenomenon of paternally inherited cffDNA and that the claims did not add enough to the natural phenomenon to make the claims patent eligible under § 101. The district court determined that the steps of amplifying and detecting were well-understood, routine, or conventional activity in 1997, when the application for the '540 patent was filed. The district court concluded that the '540 patent was not directed to patentable subject matter because "the only inventive component of the processes of the '540 patent is to apply those well-understood, routine processes to paternally inherited cffDNA, a natural phenomenon." J.A. 18. The district court also found that the claimed processes posed a risk of preempting a natural phenomenon. Sequenom appeals.

We have jurisdiction under 28 U.S.C. § 1295(a)(1).

III

We review the grant of summary judgment under the law of the regional circuit, in this case the Ninth Circuit. *Charles Mach. Works, Inc. v. Vermeer Mfg. Co.*, 723 F.3d 1376, 1378 (Fed. Cir. 2013). The Ninth Circuit reviews the grant or denial of summary judgment de novo. *Leever v. Carson City*, 360 F.3d 1014, 1017 (9th Cir. 2004). We also review de novo the question of whether a claim is invalid under section 101. *In re BRCA1- and BRCA2-Based Hereditary Cancer Test Patent Litig.*, 774 F.3d. 755, 759 (Fed. Cir. 2014).

Section 101 of the Patent Act defines patent eligible subject matter:

> 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.

35 U.S.C. § 101. The Supreme Court has long held that there are certain exceptions to this provision: laws of nature, natural phenomena, and abstract ideas. *Alice Corp. v. CLS Bank Int'l*, ___ U.S. ___, 134 S. Ct. 2347, 2354 (2014) (collecting cases).

In *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ___, 132 S. Ct. 1289 (2012), the Supreme Court set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts. First, we determine whether the claims at issue are directed to a patent-ineligible concept. *Id.* at 1297. If the answer is yes, then we next consider the elements of each claim both individually and "as an ordered combination" to determine whether additional elements "transform the nature of the claim" into a patent-eligible application. *Id.* at 1298. The Supreme Court has described the second step of this analysis as a search for an "inventive concept"—i.e., an element or combination of elements that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself." *Id.* at 1294; *see also Digitech Image Techs., LLC v. Elecs. For Imaging, Inc.*, 758 F.3d 1344, 1351 (Fed. Cir. 2014) ("Without additional limitations, a process that employs mathematical algorithms to manipulate existing information to generate additional information is not patent eligible.").

The claims of the '540 patent that are at issue in this appeal are method claims. Methods are generally eligible subject matter. In this case, the asserted claims of the '540 patent are directed to a multistep method that starts with cffDNA taken from a sample of maternal plasma or serum—a naturally occurring non-cellular fetal DNA that circulates freely in the blood stream of a pregnant woman. *See, e.g.*, '540 patent claims 1, 24, 25. It is undisputed that the existence of cffDNA in maternal blood is a natu-

ral phenomenon. Sequenom does not contend that Drs. Lo and Wainscoat created or altered any of the genetic information encoded in the cffDNA, and it is undisputed that the location of the nucleic acids existed in nature before Drs. Lo and Wainscoat found them. The method ends with paternally inherited cffDNA, which is also a natural phenomenon. The method therefore begins and ends with a natural phenomenon. Thus, the claims are directed to matter that is naturally occurring.

The written description supports the conclusion that the claims of the '540 patent are directed to a naturally occurring thing or natural phenomenon. In the Summary and Objects of the Invention section of the '540 patent, the patent states that "[i]t has now been discovered that foetal DNA is detectable in maternal serum or plasma samples."[2] '540 patent col. 1 ll. 50-51. The patent goes on to state that "[t]his is a surprising and unexpected finding; maternal plasma is the very material that is routinely discarded by investigators studying noninvasive prenatal diagnosis using foetal cells in maternal blood." *Id.* col. 1 ll. 51-55. In the discussion, the patent notes:

> In this study we have demonstrated the feasibility of performing non-invasive foetal RhD genotyping from maternal plasma. This represents the first description of single gene diagnosis from maternal plasma.

Id. col. 10 ll. 53-58. Further, the description of the invention notes: "[w]e have demonstrated that foetal DNA is present in maternal plasma and serum," *id.* col. 13 ll. 6-7, and "[t]hese observations indicate that maternal plasma/serum DNA may be a useful source of material for the

[2] The term "fetal" and "foetal" are used interchangeably in the '540 patent and by the parties.

non-invasive prenatal diagnosis of certain genetic disorders," *id.* col. 13 ll. 11-13. The patent also states: "[t]he most important observation in this study is the very high concentration of foetal DNA in maternal plasma and serum." *Id.* col. 16 ll. 12-14. Thus, the claims at issue, as informed by the specification, are generally directed to detecting the presence of a naturally occurring thing or a natural phenomenon, cffDNA in maternal plasma or serum. As we noted above, the claimed method begins and ends with a naturally occurring phenomenon.

Because the claims at issue are directed to naturally occurring phenomena, we turn to the second step of *Mayo*'s framework. In the second step, we examine the elements of the claim to determine whether the claim contains an inventive concept sufficient to "transform" the claimed naturally occurring phenomenon into a patent-eligible application. 132 S. Ct. at 1294. We conclude that the practice of the method claims does not result in an inventive concept that transforms the natural phenomenon of cffDNA into a patentable invention.

Mayo made clear that transformation into a patent-eligible application requires "more than simply stat[ing] the law of nature while adding the words 'apply it.'" *Id.* at 1294. A claim that recites an abstract idea, law of nature, or natural phenomenon must include "additional features" to ensure "that the [claim] is more than a drafting effort designed to monopolize the [abstract idea, law of nature, or natural phenomenon]." *Id.* at 1297. For process claims that encompass natural phenomenon, the process steps are the additional features that must be new and useful. *See Parker v. Flook*, 437 U.S. 584, 591 (1978) ("The process itself, not merely the mathematical algorithm, must be new and useful.").

In *Mayo*, the patents at issue claimed a method for measuring metabolites in the bloodstream in order to calibrate the appropriate dosage of thiopurine drugs in

the treatment of autoimmune diseases. 132 S. Ct. at 1294. The respondent contended that the claimed method was a patent eligible application of a natural law that described the relationship between the concentration of certain metabolites and the likelihood that the drug dosage will be harmful or ineffective. Methods for determining metabolite levels, however, were already "well known in the art." *Id.* at 1298. Further, the process at issue amounted to "nothing significantly more than an instruction to doctors to apply the applicable laws when treating their patients." *Id.* In that case, "[s]imply appending conventional steps, specified at a high level of generality," was not enough to supply an inventive concept. *Id.* at 1300.

Like the patentee in *Mayo*, Sequenom contends that the claimed methods are patent eligible applications of a natural phenomenon, specifically a method for detecting paternally inherited cffDNA. Using methods like PCR to amplify and detect cffDNA was well-understood, routine, and conventional activity in 1997. The method at issue here amounts to a general instruction to doctors to apply routine, conventional techniques when seeking to detect cffDNA. Because the method steps were well-understood, conventional and routine, the method of detecting paternally inherited cffDNA is not new and useful. The only subject matter new and useful as of the date of the application was the discovery of the presence of cffDNA in maternal plasma or serum.

The specification of the '540 patent confirms that the preparation and amplification of DNA sequences in plasma or serum were well-understood, routine, conventional activities performed by doctors in 1997. The '540 patent provides that "[t]he preparation of serum or plasma from the maternal blood sample is carried out by standard techniques." '540 patent col. 2 ll. 27-28. It also provides that "[s]tandard nucleic acid amplification systems can be used, including PCR, the ligase chain reaction, nucleic

acid sequence based amplification (NASBA), branched DNA methods, and so on." *Id.* col. 2 ll. 44-47.

Other evidence supports this conclusion. For example, Sequenom's expert, Dr. Evans, testified at deposition that PCR and other methodologies for amplifying DNA were "already well known in science [in 1997]." J.A. 1092-93, 1995-96. Similarly, in a declaration filed during prosecution of the '540 patent, Dr. Lo testified that "[s]uitable amplification techniques can be ordinary PCR or more sophisticated developments thereof, but these techniques were all known in the literature before the date of my invention." J.A. 1109.

The detecting step was similarly well-understood, routine, and conventional. During prosecution of the application that became the '540 patent, the applicant stated:

> [O]ne skilled in the art is aware of a variety of techniques which might be used to detect different nucleic acid species. For example, there are numerous techniques which might be used to detect repeat expansions, single gene mutations, deletions or translocations. These techniques are a matter of routine for one skilled in the art for the analysis of DNA.

J.A. 1052. The applicant went on to note:

> [O]ne skilled in the art is readily able to apply the teachings of the present application to any one of the well-known techniques for detection of DNA with a view to analysis of foetal DNA in paternal [sic] plasma or serum.

J.A. 1055. Similarly, the applicant later added that "[t]he person skilled in the art has a broad range of techniques available for the detection of DNA in a sample." J.A. 1057.

The dependent claims are broad examples of how to detect cffDNA in maternal plasma. The dependent claims are focused on the use of the natural phenomenon in combination with well-understood, routine, and conventional activity. For example, claim 2 identifies the polymerase chain reaction as the amplification technique to be used in the detection method of claim 1. As noted above, this technique was well-understood, routine, and conventional in 1997, as specified by the patent itself. Like claim 1, claims 5 and 8 focus on detecting a specific chromosome within the cffDNA—a natural phenomenon—again, adding no inventive concept to the limitations of claim 1. None of the remaining asserted dependent or independent claims differ substantially from these claims. Thus, in this case, appending routine, conventional steps to a natural phenomenon, specified at a high level of generality, is not enough to supply an inventive concept. Where claims of a method patent are directed to an application that starts and ends with a naturally occurring phenomenon, the patent fails to disclose patent eligible subject matter if the methods themselves are conventional, routine and well understood applications in the art. The claims of the '540 patent at issue in this appeal are not directed to patent eligible subject matter and are, therefore, invalid.

IV

In its opinion, the district court addressed the principle of preemption. The district court noted:

> It is important to note that the '540 patent does not merely claim uses or applications of cffDNA, it claims methods for detecting the natural phenomenon. Because generally one must be able to find a natural phenomenon to use it and apply it, claims covering the only commercially viable way of detecting that phenomenon do carry a substantial risk of preempting all practical uses of it.

J.A. 19.

Sequenom argues that there are numerous other uses of cffDNA aside from those claimed in the '540 patent, and thus, the '540 patent does not preempt all uses of cffDNA, as shown by evidence in the record before the district court. Sequenom also argues that "a method applying or using a natural phenomenon in a manner that does not preclude alternative methods in the same field is non-preemptive, and, by definition, patent-eligible under Section 101." Appellants' Br. 30. Similarly, Sequenom and amici argue that because the particular application of the natural phenomena that the '540 patent claims embody are narrow and specific, the claims should be upheld. Ariosa argues that the principle of preemption does not alter the analysis. Ariosa argues that the claimed methods are not, as Sequenom asserts, limited and specific.

The Supreme Court has made clear that the principle of preemption is the basis for the judicial exceptions to patentability. *Alice*, 134 S. Ct at 2354 ("We have described the concern that drives this exclusionary principal as one of pre-emption"). For this reason, questions on preemption are inherent in and resolved by the § 101 analysis. The concern is that "patent law not inhibit further discovery by improperly tying up the future use of these building blocks of human ingenuity." *Id.* (internal quotations omitted). In other words, patent claims should not prevent the use of the basic building blocks of technology—abstract ideas, naturally occurring phenomena, and natural laws. While preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility. In this case, Sequenom's attempt to limit the breadth of the claims by showing alternative uses of cffDNA outside of the scope of the claims does not change the conclusion that the claims are directed to patent ineligible subject matter. Where a patent's claims are deemed only to disclose patent ineligible subject matter under the *Mayo* framework, as they are

in this case, preemption concerns are fully addressed and made moot.

Sequenom and amici encourage us to draw distinctions among natural phenomena based on whether or not they will interfere significantly with innovation in other fields now or in the future. The Supreme Court cases, however, have not distinguished among different laws of nature or natural phenomenon according to whether or not the principles they embody are sufficiently narrow. *See, e.g.*, *Parker v. Flook*, 437 U.S. 584 (1978) (holding narrow mathematical formula unpatentable). In *Parker v. Flook*, the Supreme Court stated the issue in the case as follows: "The question in this case is whether the identification of a limited category of useful, though conventional, post-solution applications of such a formula makes respondent's method eligible for patent protection." *Id.* at 585. The answer to that question was "no" because granting exclusive rights to the mathematical formula would be exempting it from any future use.

V

For completeness, we address Sequenom's remaining arguments. Sequenom argues that "before the '540 patent, *no one* was using the plasma or serum of pregnant mothers to amplify and detect paternally-inherited cffDNA." Appellants' Br. 49 (emphasis original). This argument implies that the inventive concept lies in the discovery of cffDNA in plasma or serum. Even if so, this is not the invention claimed by the '540 patent.

Sequenom further argues that "[o]ne simple measure of [Drs.] Lo and Wainscoat's contribution is that their 1997 Lancet publication has been cited over a thousand times." Appellants' Br. 25. Sequenom also notes that "the method reflects a significant human contribution in that [Drs.] Lo and Wainscoat combined and utilized man-made tools of biotechnology in a new way that revolutionized prenatal care." *Id.* We agree but note that the Supreme

Court instructs that "[g]roundbreaking, innovative, or even brilliant discovery does not by itself satisfy the § 101 inquiry." *Myriad Genetics, Inc.*, 133 S. Ct. at 2117. The discovery of the BRCA1 and BRCA2 genes was a significant contribution to the medical field, but it was not patentable. *Id.* at 2117. While Drs. Lo and Wainscoat's discovery regarding cffDNA may have been a significant contribution to the medical field, that alone does not make it patentable. We do not disagree that detecting cffDNA in maternal plasma or serum that before was discarded as waste material is a positive and valuable contribution to science. But even such valuable contributions can fall short of statutory patentable subject matter, as it does here.

VI

For each of the reasons stated above, we affirm the district court's summary judgment ruling.

AFFIRMED

COSTS

No costs.

United States Court of Appeals for the Federal Circuit

ARIOSA DIAGNOSTICS, INC., NATERA, INC.,
Plaintiffs-Appellees

DNA DIAGNOSTICS CENTER, INC.,
Counterclaim Defendant-Appellee

v.

SEQUENOM, INC., SEQUENOM CENTER FOR MOLECULAR MEDICINE, LLC,
Defendants-Appellants

ISIS INNOVATION LIMITED,
Defendant

2014-1139, 2014-1144

Appeals from the United States District Court for the Northern District of California in Nos. 3:11-cv-06391-SI, 3:12-cv-00132-SI, Judge Susan Y. Illston.

LINN, *Circuit Judge*, concurring.

I join the court's opinion invalidating the claims of the '540 patent only because I am bound by the sweeping language of the test set out in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ___, 132 S. Ct. 1289 (2012). In my view, the breadth of the second part of the test was unnecessary to the decision reached

in *Mayo*. This case represents the consequence—perhaps unintended—of that broad language in excluding a meritorious invention from the patent protection it deserves and should have been entitled to retain.

It has long been established that "[l]aws of nature, natural phenomena, and abstract ideas are not patentable." *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014) (citations omitted). In *Mayo*, the Supreme Court set forth a two-step framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts. The first step looks to determine whether claims are directed to a patent-ineligible concept. *Mayo*, 132 S. Ct. at 1297. If they are, the second step is to consider whether the additional elements recited in the claim "transform the nature of the claim" into a patent-eligible application by reciting an "inventive concept" that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself." *Id.* at 1294.

In applying the second part of the test, the Supreme Court in *Mayo* discounted, seemingly without qualification, any "[p]ost-solution activity that is purely conventional or obvious," *id.* at 1299 (original alterations omitted). This was unnecessary in *Mayo*, because doctors were already performing in combination all of the claimed steps of administering the drug at issue, measuring metabolite levels, and adjusting dosing based on the metabolite levels, *id.*

In *Diamond v. Diehr,* the Supreme Court held that "a new combination of steps in a process may be patentable even though all the constituents of the combination were well-known and in common use before the combination was made." 450 U.S. 175, 188 (1981). As *Mayo* explained: *Diehr* "pointed out that the basic mathematical equation, like a law of nature, was not patentable. But [*Diehr*]

found the overall process patent eligible because of the way the additional steps of the process integrated the equation into the process as a whole." *Mayo* 132 S. Ct. at 1298. Despite that recognition, *Mayo* discounted entirely the "conventional activity" recited in the claims in that case because the steps "add nothing specific to the laws of nature other than what is well-understood, routine, conventional activity, previously engaged in by those in the field." *Id.* at 1299. While that conclusion might have been warranted in that case, given the fact that the "conventional activities" in *Mayo* were the very steps that doctors were already doing—administering the drug at issue, measuring metabolite levels, and adjusting dosing based on the metabolite levels—the Supreme Court did not limit its ruling to those particular facts and circumstances.

The Supreme Court's blanket dismissal of conventional post-solution steps leaves no room to distinguish *Mayo* from this case, even though here *no one* was amplifying and detecting paternally-inherited cffDNA using the plasma or serum of pregnant mothers. Indeed, the maternal plasma used to be "routinely discarded," '540 patent col.1 ll.50–53, because, as Dr. Evans testified, "nobody thought that fetal cell-free DNA would be present."

It is hard to deny that Sequenom's invention is truly meritorious. Prior to the '540 patent, prenatal diagnoses required invasive methods, which "present[ed] a degree of risk to the mother and to the pregnancy." *Id.* at col.1 ll.16–17. The available "techniques [we]re time-consuming or require[d] expensive equipment." *Id.* at col.1 ll.17–37. Dr. Mark Evans testified that "despite years of trying by multiple methods, no one was ever able to achieve acceptable success and accuracy." In a groundbreaking invention, Drs. Lo and Wainscoat discovered that there was cell-free fetal DNA in the maternal plasma. The Royal Society lauded this discovery as "a para-

digm shift in non-invasive prenatal diagnosis," and the inventors' article describing this invention has been cited well over a thousand times. The commercial embodiment of the invention, the MaterniT21 test, was the first marketed non-invasive prenatal diagnostic test for fetal aneuploidies, such as Down's syndrome, and presented fewer risks and a more dependable rate of abnormality detection than other tests. Unlike in *Mayo*, the '540 patent claims a new method that should be patent eligible. While the instructions in the claims at issue in *Mayo* had been widely used by doctors—they had been measuring metabolites and recalculating dosages based on toxicity/inefficacy limits for years—here, the amplification and detection of cffDNA had never before been done. The new use of the previously discarded maternal plasma to achieve such an advantageous result is deserving of patent protection. *Cf.* Rebecca S. Eisenberg, *Prometheus Rebound: Diagnostics, Nature, and Mathematical Algorithms*, 122 Yale L.J. Online 341, 343–44 (2013) (noting that despite *Mayo*'s declaration that a claim to "a new way of using an existing drug" is patentable, *Mayo*, 132 S. Ct. at 1302, it is unclear how a claim to new uses for existing drugs would survive *Mayo*'s sweeping test).

In short, Sequenom's invention is nothing like the invention at issue in *Mayo*. Sequenom "effectuate[d] a practical result and benefit not previously attained," so its patent would traditionally have been valid. *Le Roy v. Tatham*, 63 U.S. 132, 135–36 (1859) (quoting *Household Coal & Iron Co. v. Neilson*, Webster's Patent Case 673, 683 (House of Lords 1843)); *Le Roy v. Tatham*, 55 U.S. 156, 175 (1852) (same); *see generally* Jeffrey A. Lefstin, *Inventive Application: a History*, 67 Fla. L. Rev. (forthcoming 2015), *available at* http://ssrn.com/abstract=2398696 (last visited June 10, 2015) (analyzing traditional notions of patent eligibility of newly discovered laws of nature). But for the sweeping language in the Supreme Court's *Mayo* opinion, I see no

reason, in policy or statute, why this breakthrough invention should be deemed patent ineligible.

US005970479A

United States Patent [19]

Shepherd

[11] **Patent Number: 5,970,479**

[45] **Date of Patent: Oct. 19, 1999**

[54] **METHODS AND APPARATUS RELATING TO THE FORMULATION AND TRADING OF RISK MANAGEMENT CONTRACTS**

[75] Inventor: **Ian K. Shepherd**, Toorak, Australia

[73] Assignees: **Swychco Infrastructure Services Pty. Ltd.**, Melbourne, Australia; **Swychco Support Services Pty. Ltd.**, Sydney, Australia

[21] Appl. No.: **08/070,136**

[22] Filed: **May 28, 1993**

[30] **Foreign Application Priority Data**

May 29, 1992 [AU] Australia ..... PL 2677
Jun. 30, 1992 [AU] Australia ..... PL 3216

[51] **Int. Cl.**[6] **G06F 17/60**

[52] **U.S. Cl.** **705/37**; 705/4

[58] **Field of Search** 364/408; 705/4, 705/37

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[57] **ABSTRACT**

Methods and apparatus which deal with the management of risk relating to specified, yet unknown, future events are disclosed.

'Sponsor' stakeholders specify a particular product relating to an event or phenomenon for which there is a range of possible future outcomes.

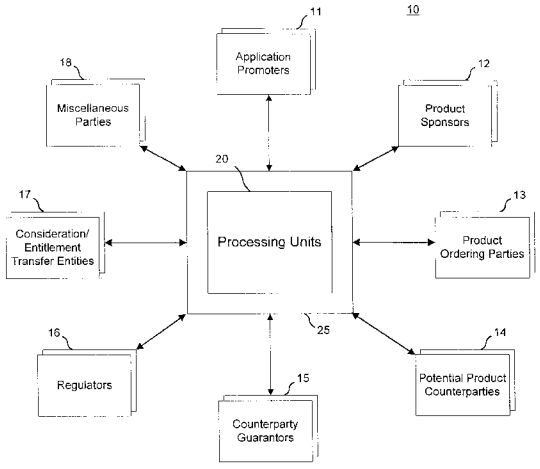
'Ordering' stakeholders then offer contracts relating to the predetermined phenomenon and corresponding range of outcomes. The offered contracts specify an entitlement or (pay-off) at the future time of maturity for each outcome, and a consideration (or premium) payable, in exchange, to a 'counter-party' stakeholder.

Independently of the offered contracts, the 'counter-party' stakeholders input data as to their view of the likelihood of occurrence of each outcome in the predetermined range into the future, or specifically at the predetermined date of maturity.

Each offered contract is priced by calculating counter-party premiums from the registered data, and a match attempted by a comparison of the offered premium with the calculated premiums.

Matched contracts can be further traded until maturity, and at-maturity processing handles the exchange of entitlement as between the matched parties to the contract.

39 Claims, 101 Drawing Sheets



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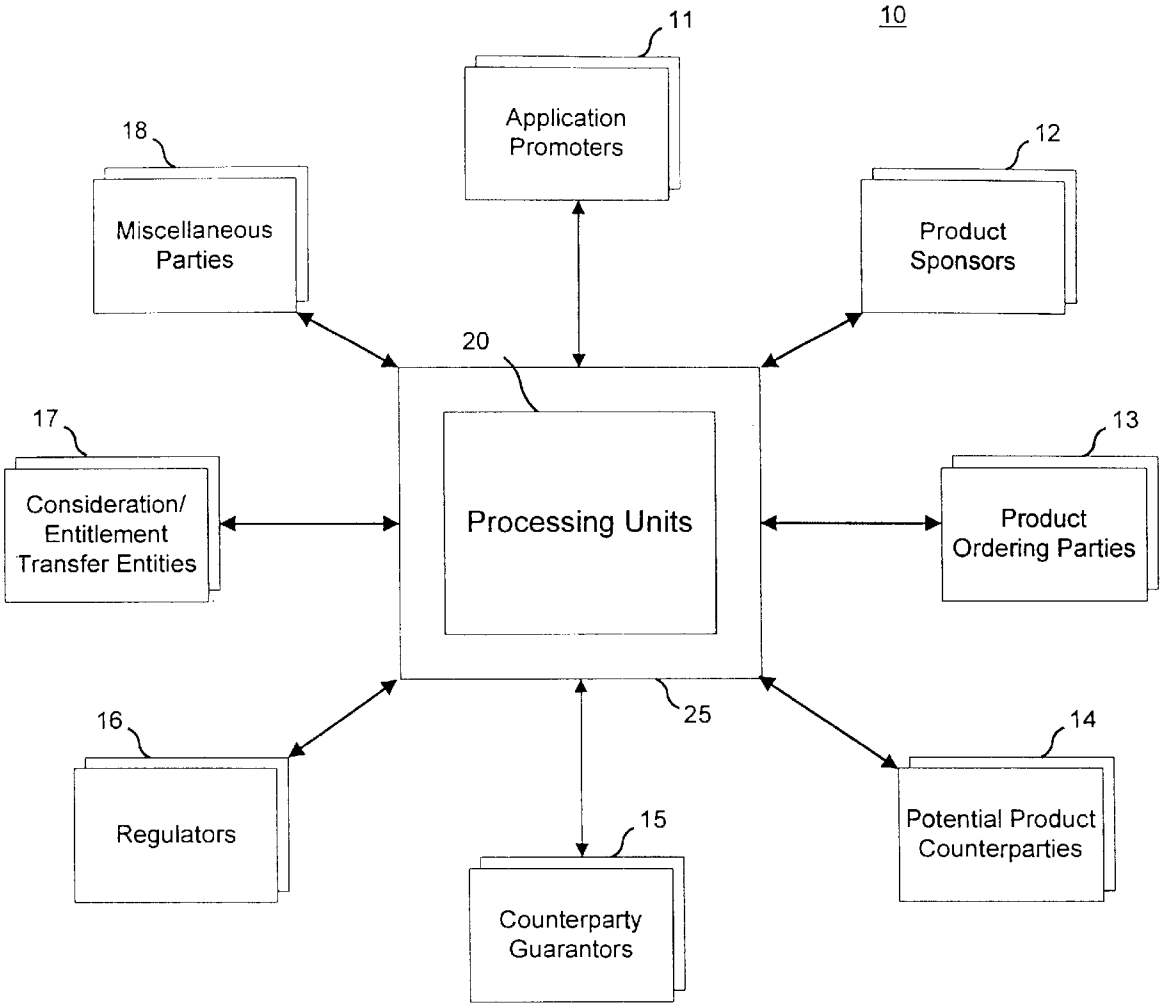

10
11
Application Promoters
12
Product Sponsors
13
Product Ordering Parties
14
Potential Product Counterparties
15
Counterparty Guarantors
16
Regulators
17
Consideration/ Entitlement Transfer Entities
18
Miscellaneous Parties
20
Processing Units
25

FIG. 1

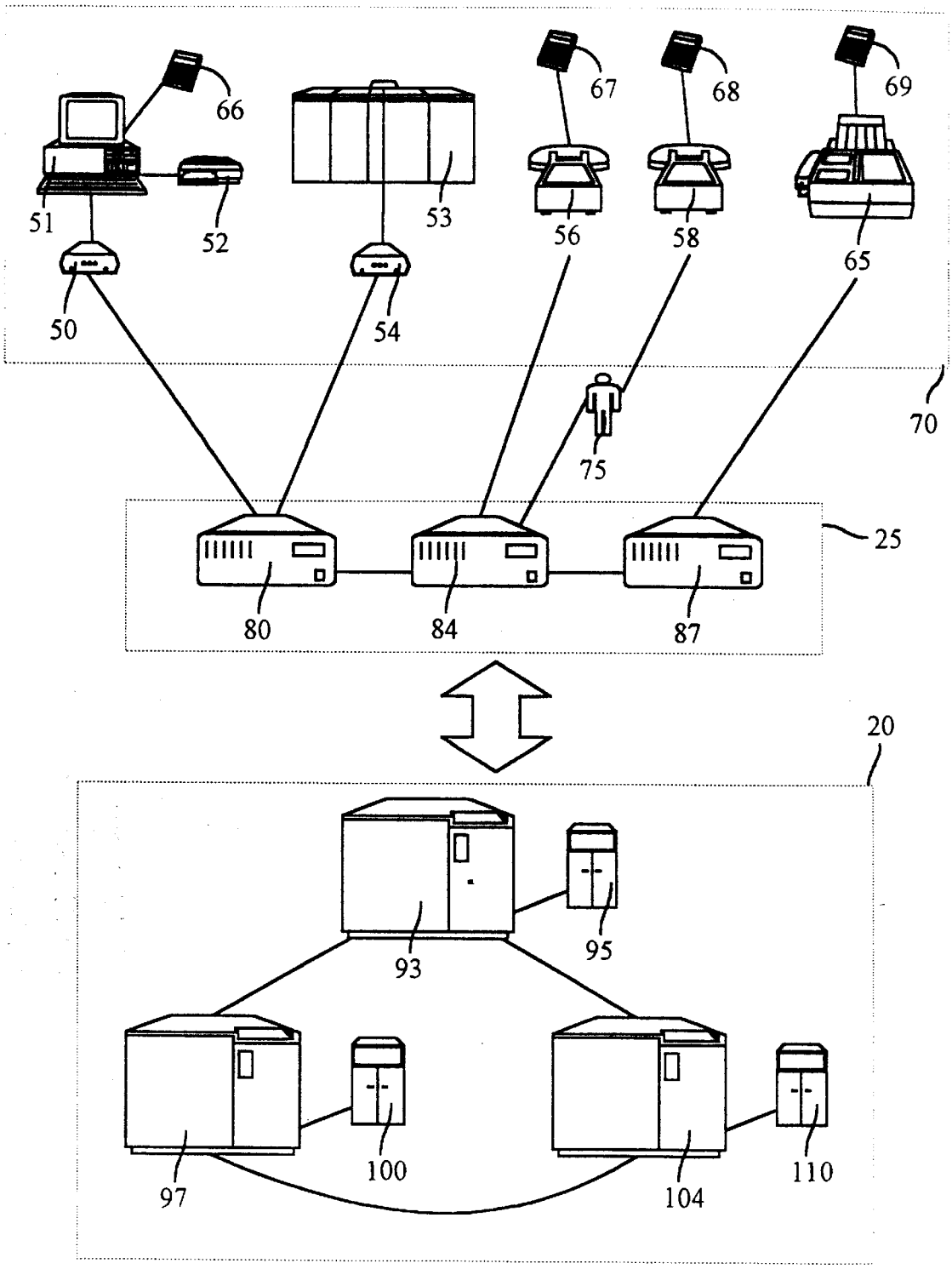

66
67
68
69
51
52
53
56
58
65
50
54
70
75
25
80
84
87
20
93
95
97
100
104
110

Fig. 2

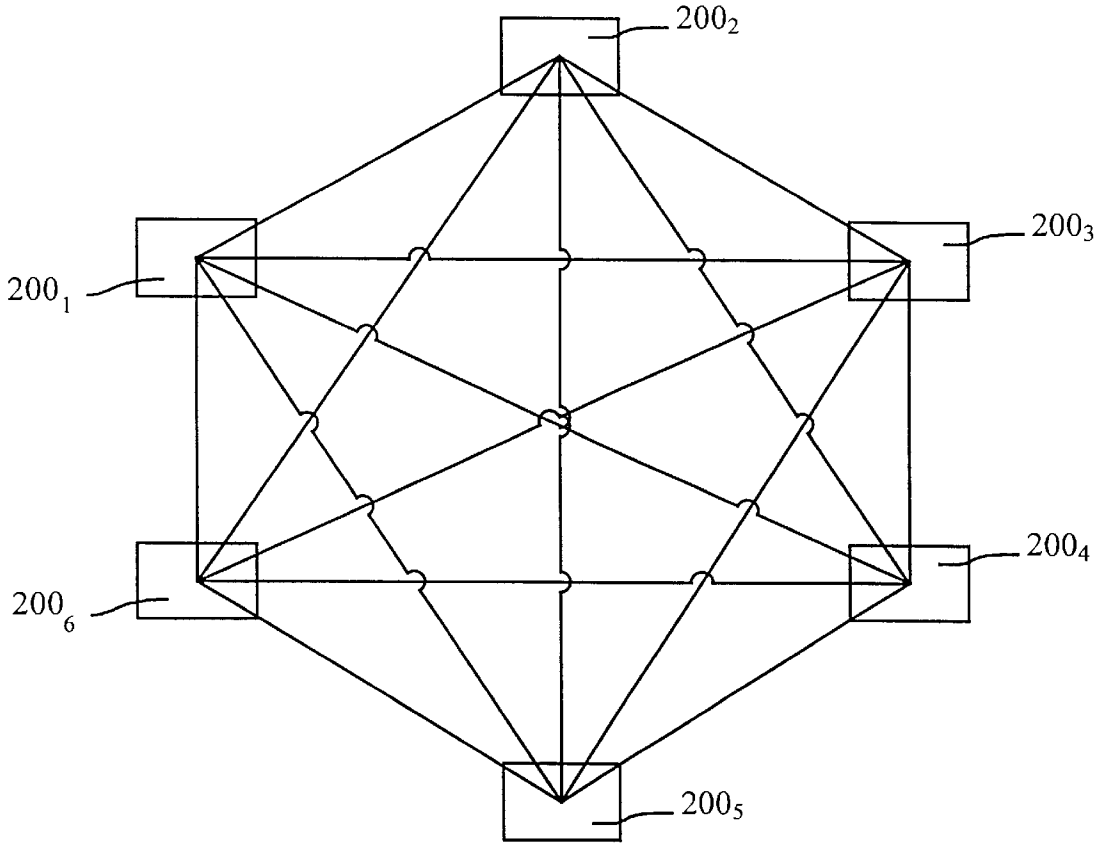


Fig. 2b

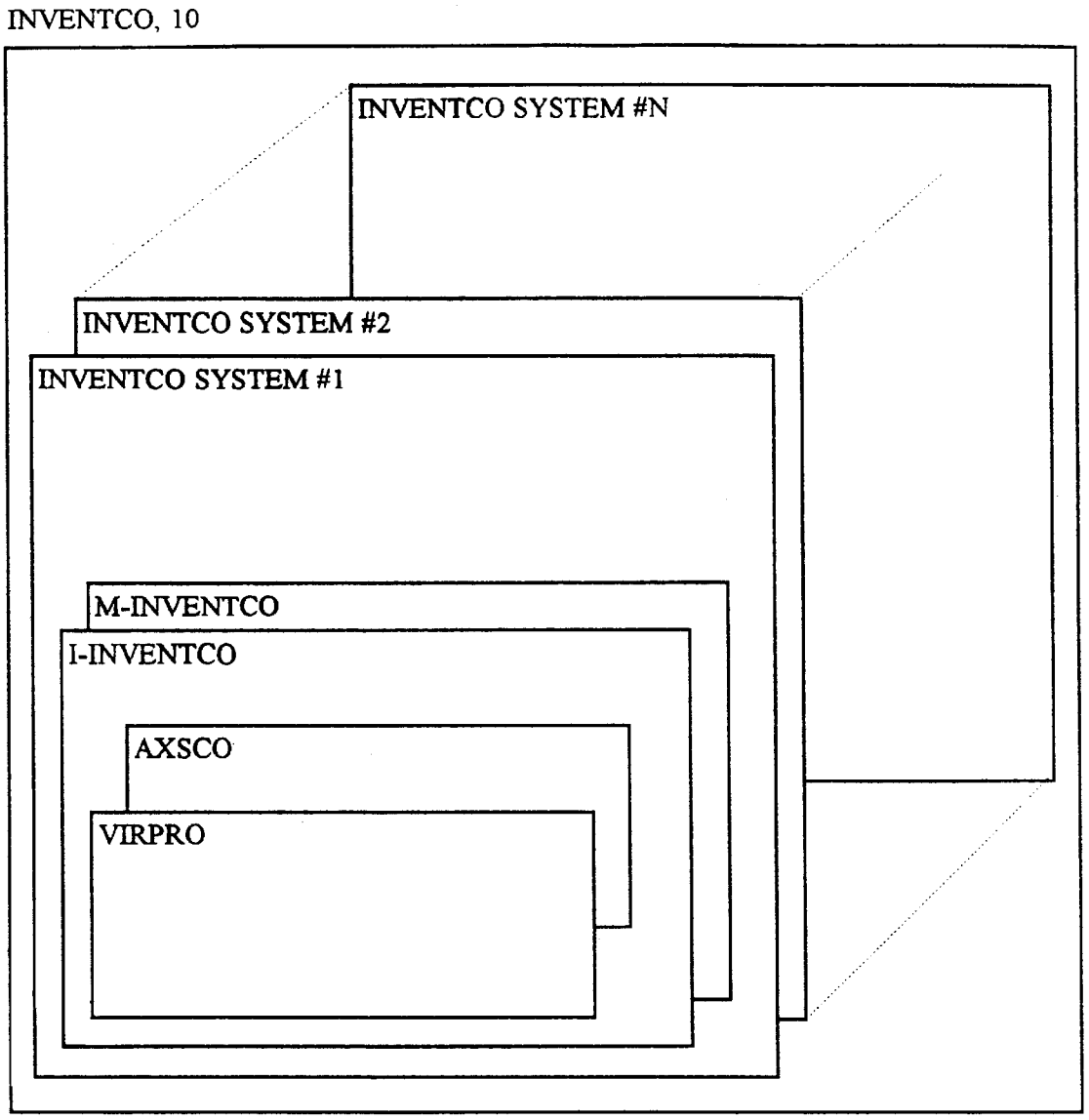

INVENTCO, 10
INVENTCO SYSTEM #N
INVENTCO SYSTEM #2
INVENTCO SYSTEM #1
M-INVENTCO
I-INVENTCO
AXSCO
VIRPRO

Fig. 3

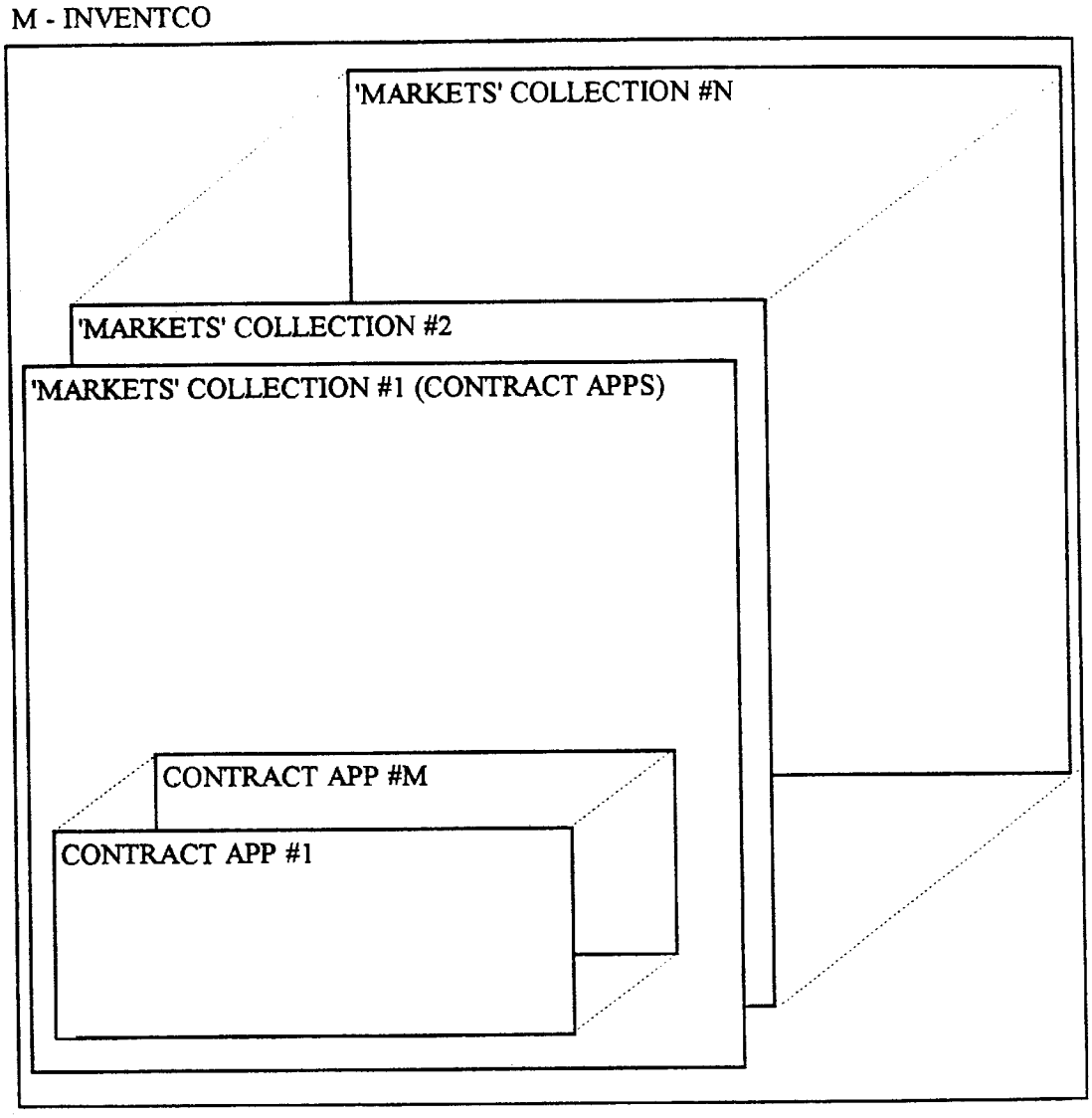

M - INVENTCO
'MARKETS' COLLECTION #N
'MARKETS' COLLECTION #2
'MARKETS' COLLECTION #1 (CONTRACT APPS)
CONTRACT APP #M
CONTRACT APP #1

Fig. 4

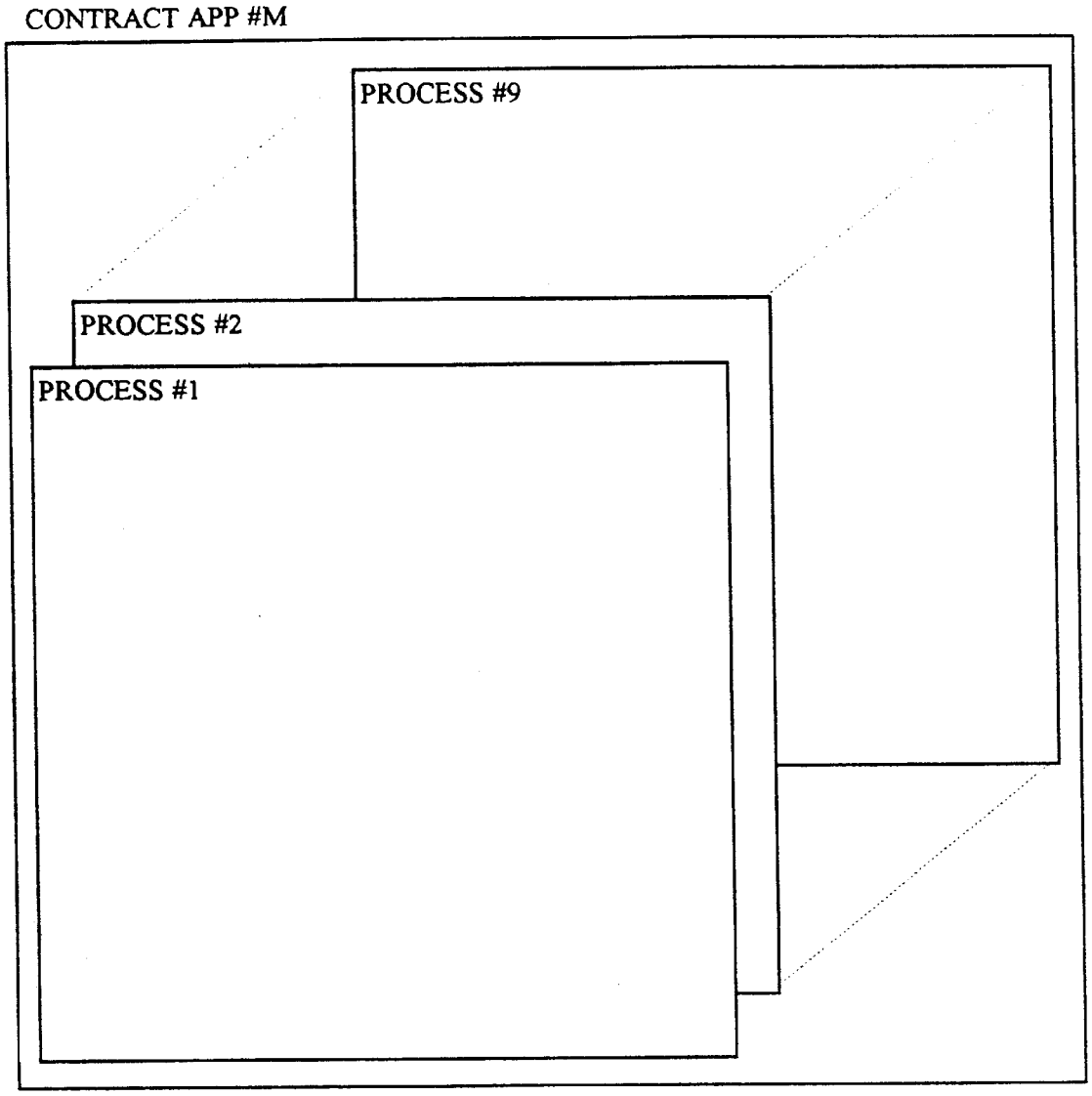


Fig. 5

EXAMPLE I

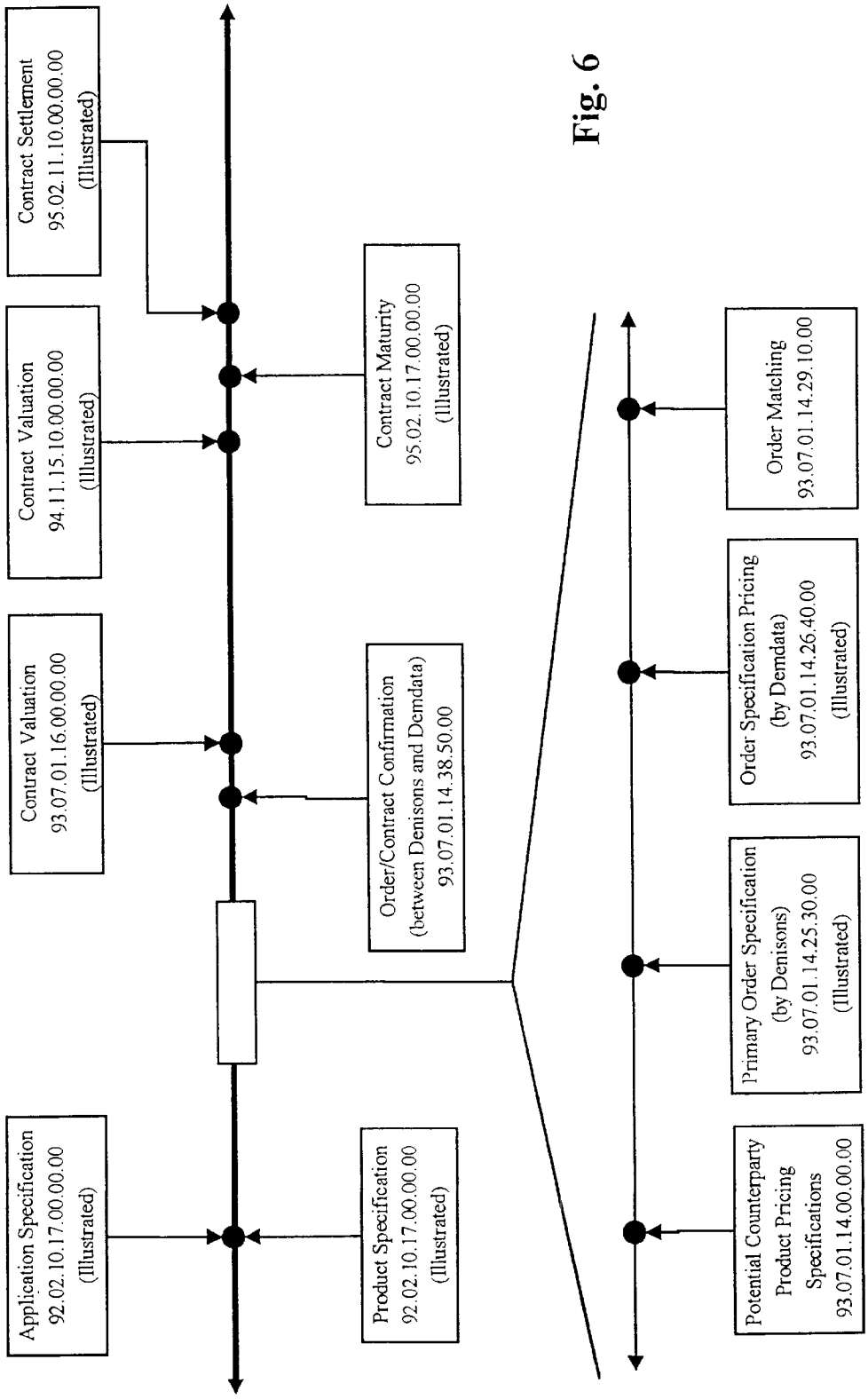


Fig. 6

EXAMPLE II

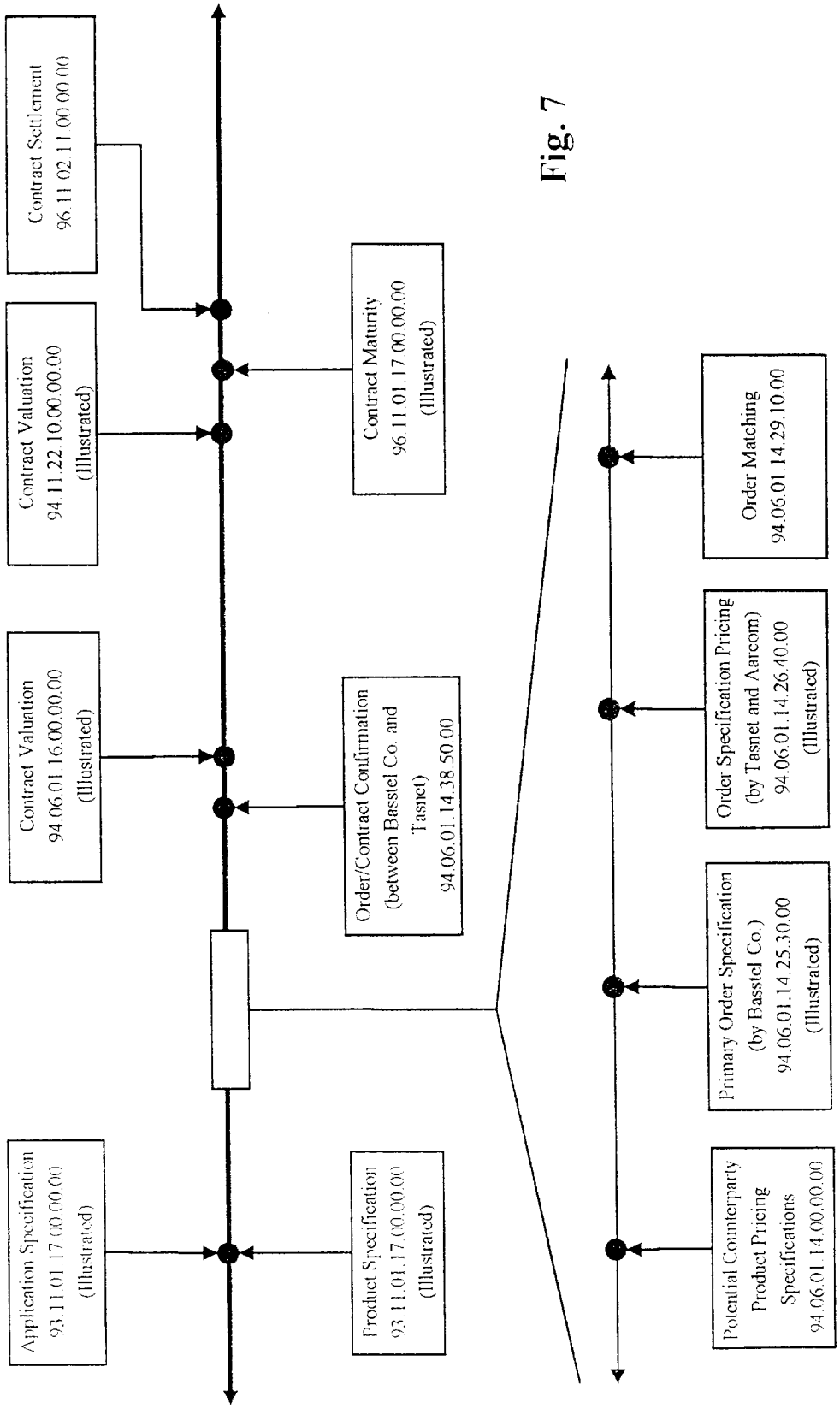


Fig. 7

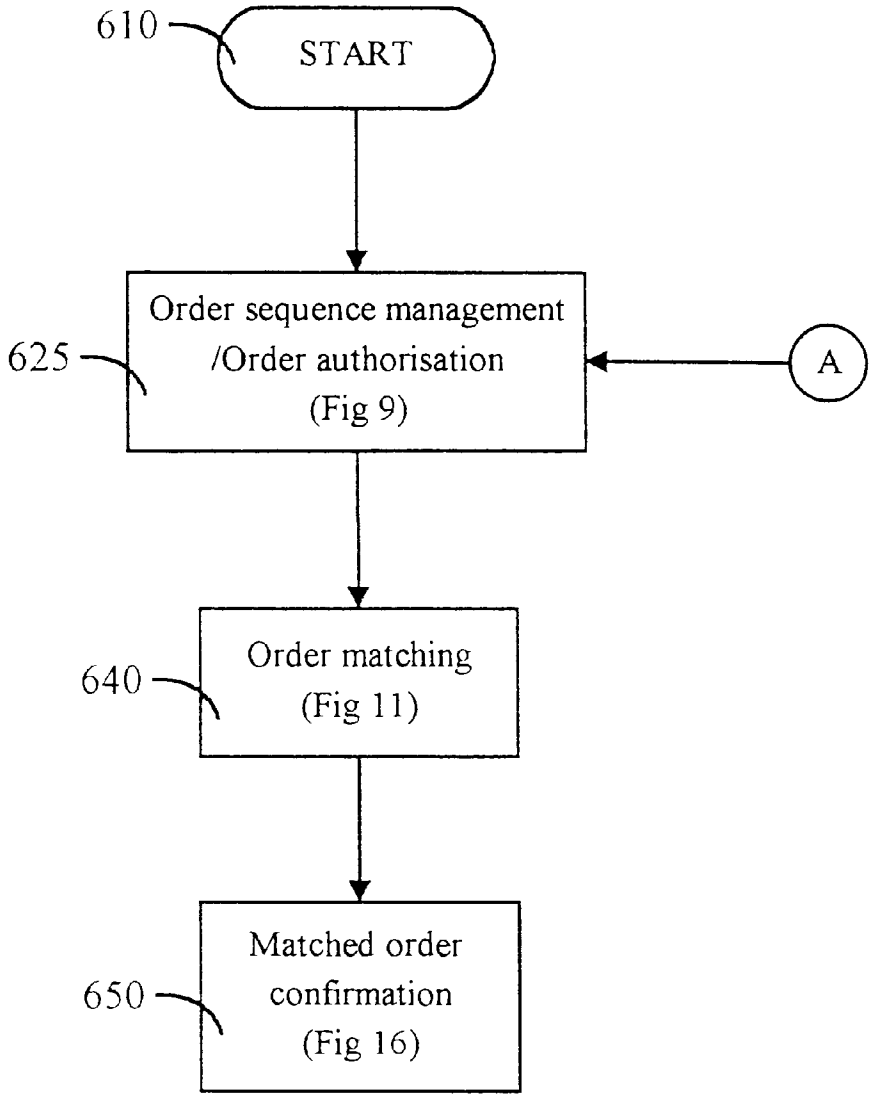

610
START
625
Order sequence management
/Order authorisation
(Fig 9)
A
640
Order matching
(Fig 11)
650
Matched order
confirmation
(Fig 16)

Fig. 8

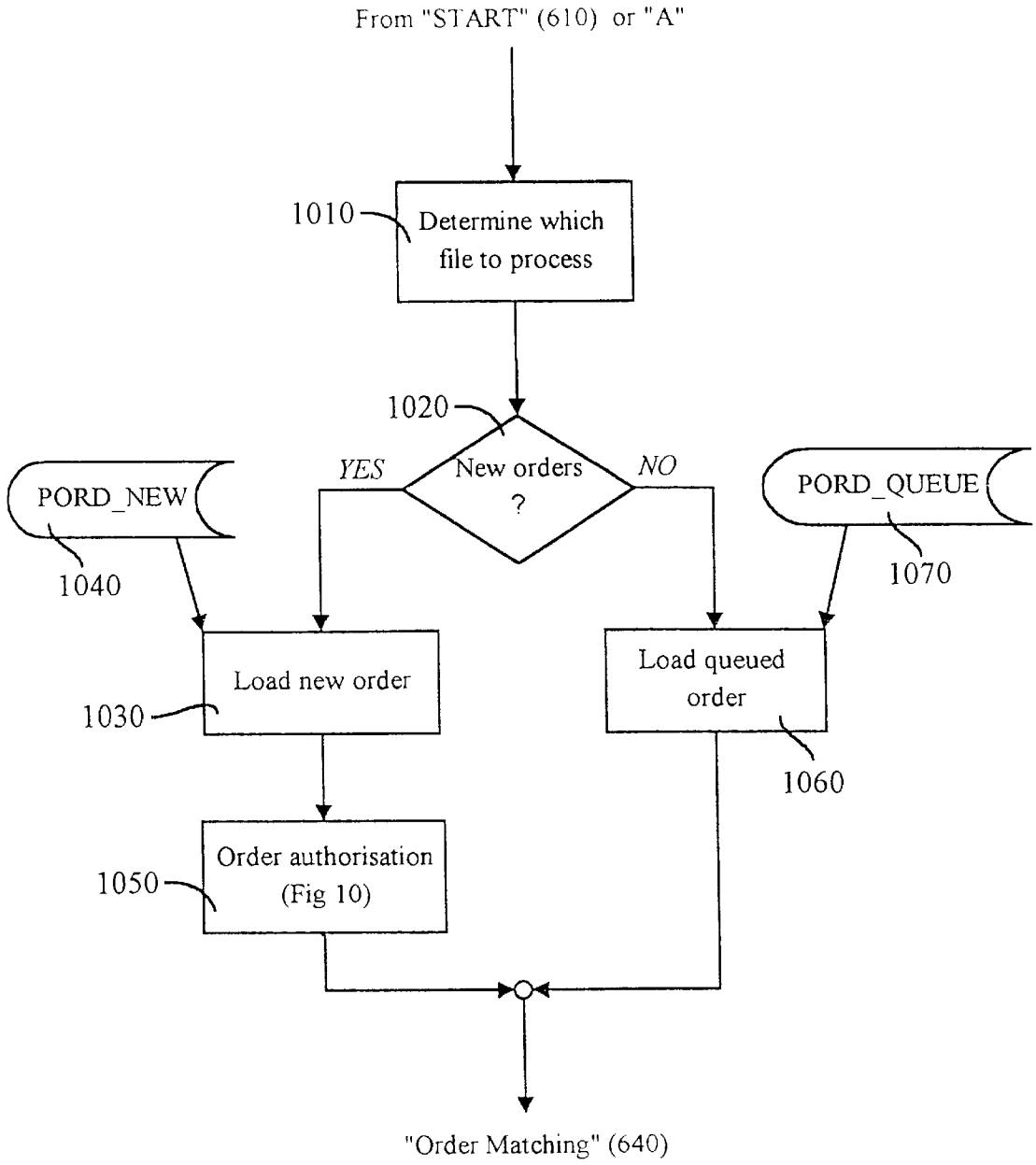

From "START" (610) or "A"
1010
Determine which file to process
1020
New orders ?
YES
NO
PORD_NEW
1040
PORD_QUEUE
1070
Load new order
1030
Load queued order
1060
Order authorisation (Fig 10)
1050
"Order Matching" (640)

Fig. 9

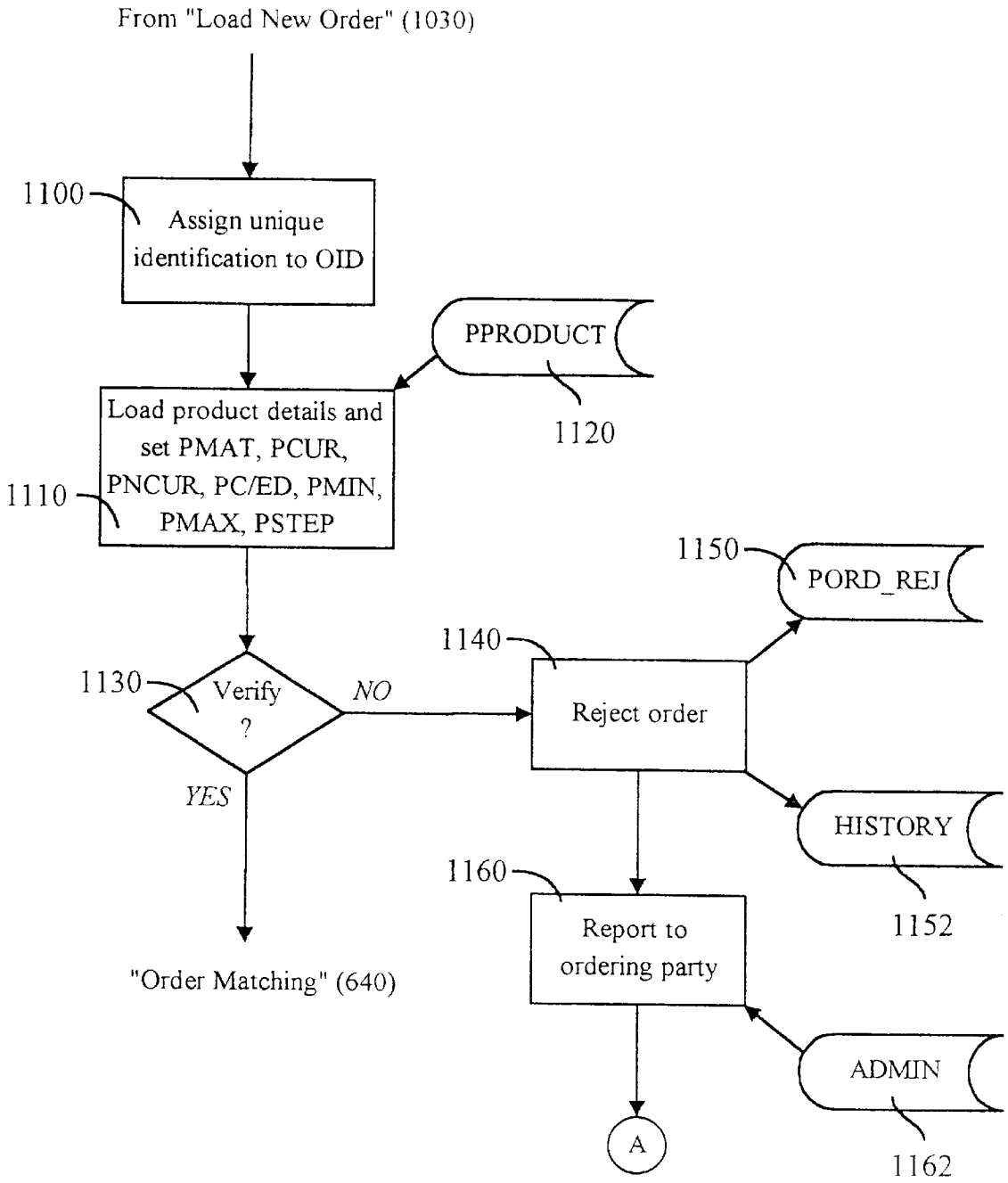

From "Load New Order" (1030)
1100
Assign unique identification to OID
PPRODUCT
1120
Load product details and set PMAT, PCUR, PNCUR, PC/ED, PMIN, PMAX, PSTEP
1110
1150
PORD_REJ
1140
1130
Verify ?
NO
Reject order
YES
HISTORY
1152
1160
Report to ordering party
"Order Matching" (640)
ADMIN
A
1162

Fig. 10

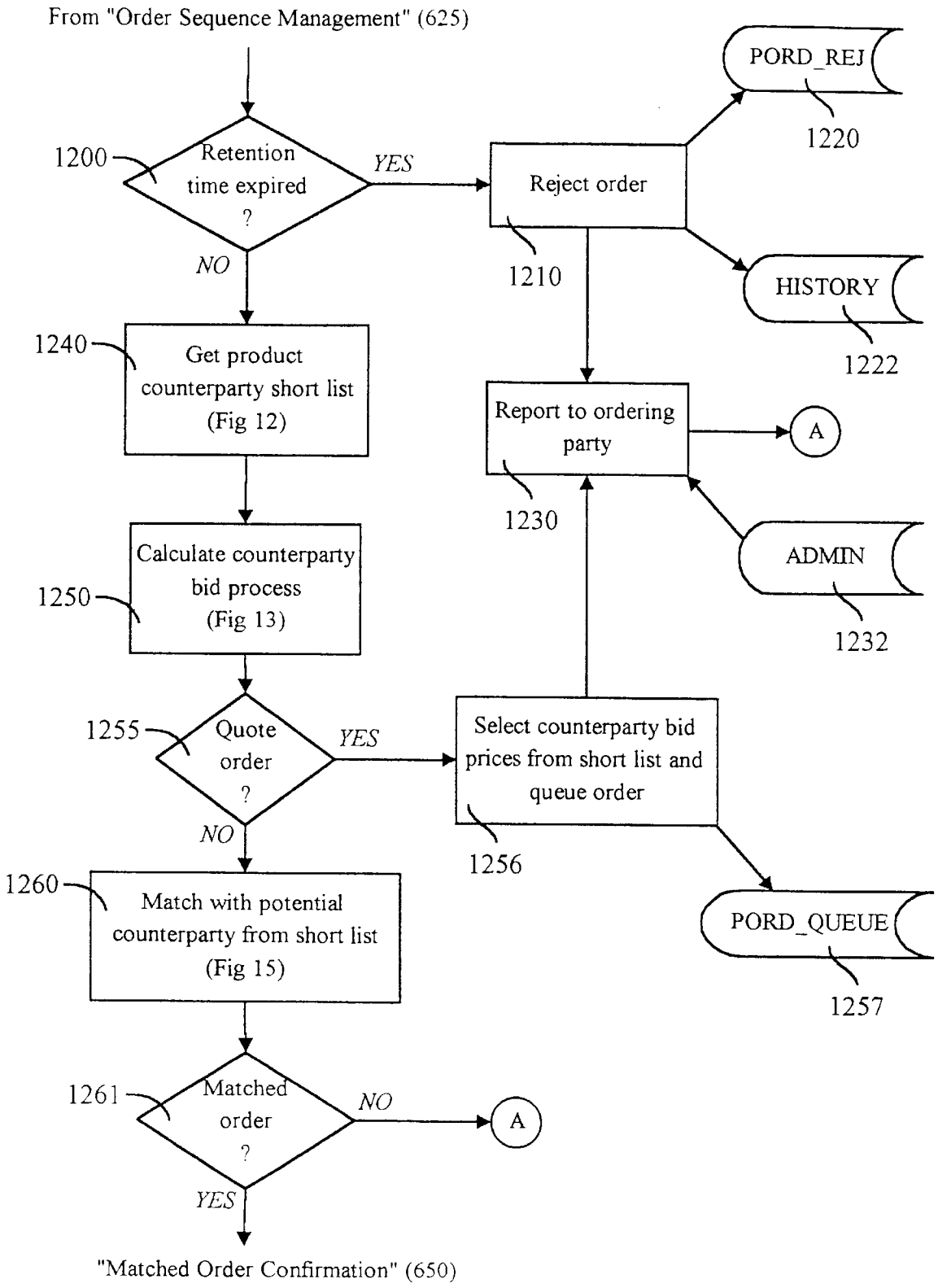

From "Order Sequence Management" (625)
1200
Retention time expired ?
YES
NO
Reject order
1210
PORD_REJ
1220
HISTORY
1222
1240
Get product counterparty short list (Fig 12)
Report to ordering party
1230
A
ADMIN
1232
1250
Calculate counterparty bid process (Fig 13)
1255
Quote order ?
YES
NO
Select counterparty bid prices from short list and queue order
1256
PORD_QUEUE
1257
1260
Match with potential counterparty from short list (Fig 15)
1261
Matched order ?
NO
A
YES
"Matched Order Confirmation" (650)

Fig. 11

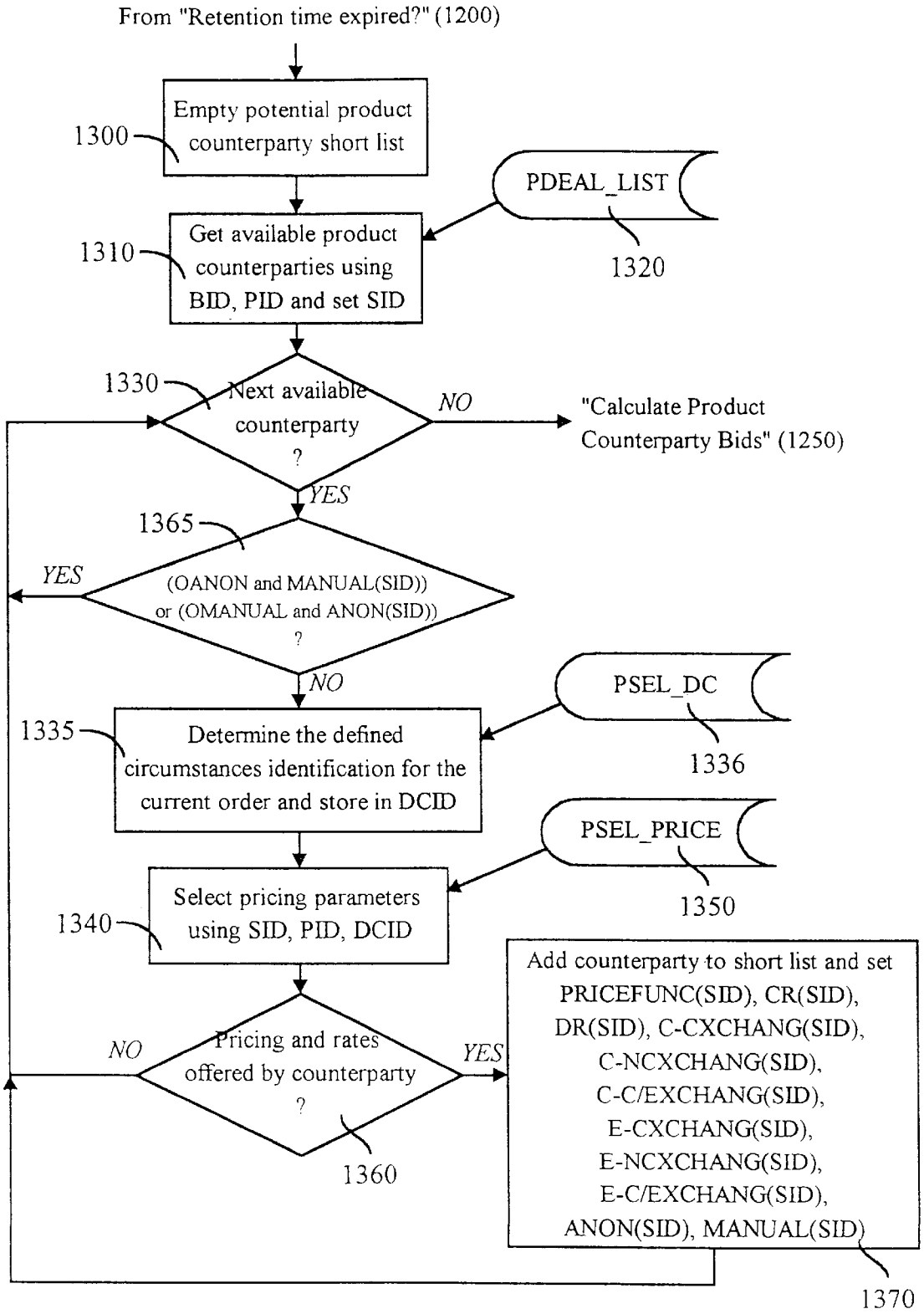

From "Retention time expired?" (1200)
Empty potential product counterparty short list
1300
PDEAL_LIST
1320
Get available product counterparties using BID, PID and set SID
1310
Next available counterparty ?
1330
NO
"Calculate Product Counterparty Bids" (1250)
YES
1365
YES
(OANON and MANUAL(SID)) or (OMANUAL and ANON(SID)) ?
NO
PSEL_DC
1336
1335
Determine the defined circumstances identification for the current order and store in DCID
PSEL_PRICE
1350
Select pricing parameters using SID, PID, DCID
1340
Add counterparty to short list and set PRICEFUNC(SID), CR(SID), DR(SID), C-CXCHANG(SID), C-NCXCHANG(SID), C-C/EXCHANG(SID), E-CXCHANG(SID), E-NCXCHANG(SID), E-C/EXCHANG(SID), ANON(SID), MANUAL(SID)
NO
Pricing and rates offered by counterparty ?
YES
1360
1370

Fig. 12

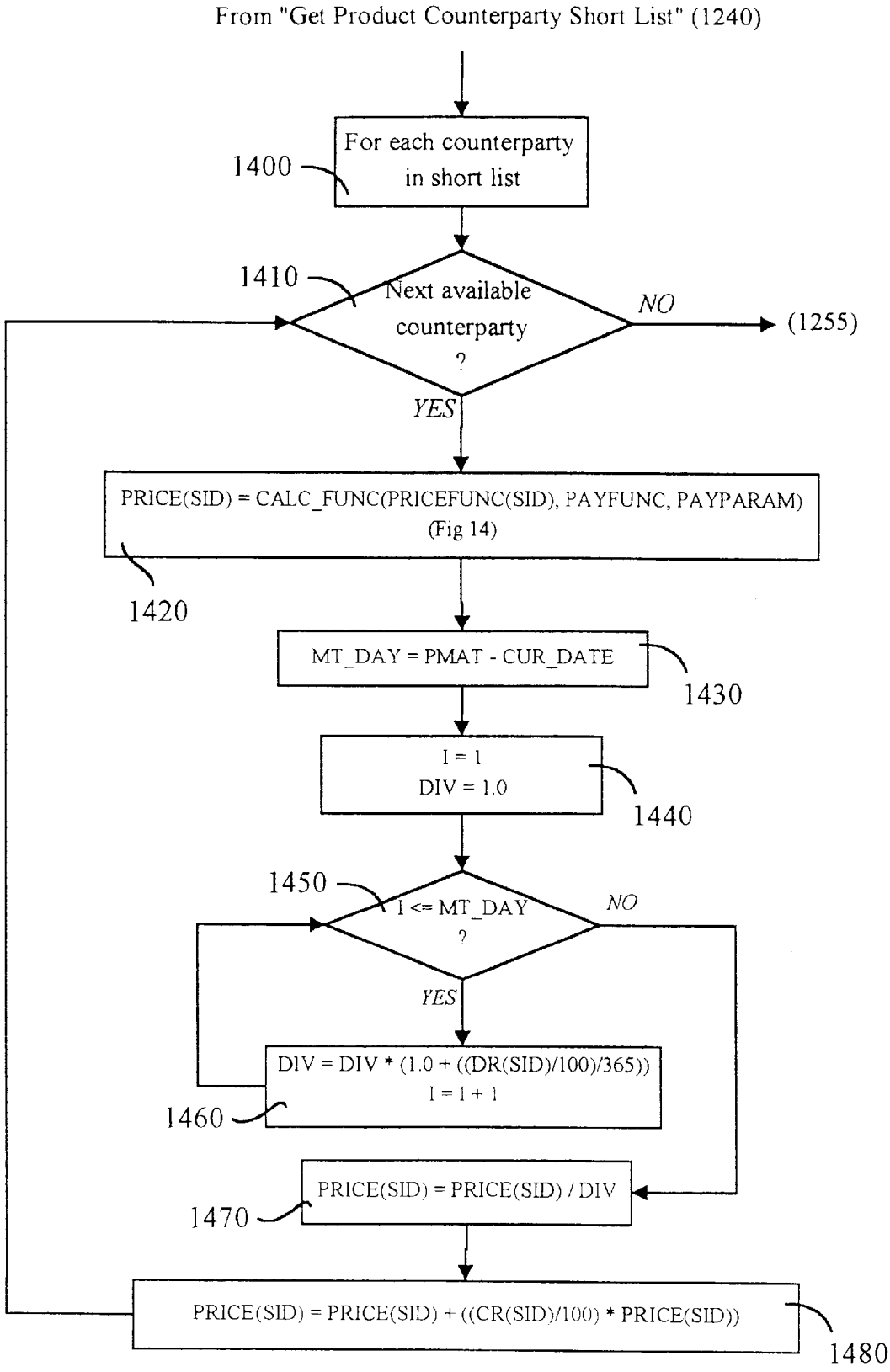

From "Get Product Counterparty Short List" (1240)
For each counterparty in short list
1400
1410
Next available counterparty ?
NO
(1255)
YES
PRICE(SID) = CALC_FUNC(PRICEFUNC(SID), PAYFUNC, PAYPARAM) (Fig 14)
1420
MT_DAY = PMAT - CUR_DATE
1430
I = 1
DIV = 1.0
1440
1450
I <= MT_DAY ?
NO
YES
DIV = DIV * (1.0 + ((DR(SID)/100)/365))
I = I + 1
1460
PRICE(SID) = PRICE(SID) / DIV
1470
PRICE(SID) = PRICE(SID) + ((CR(SID)/100) * PRICE(SID))
1480

Fig. 13

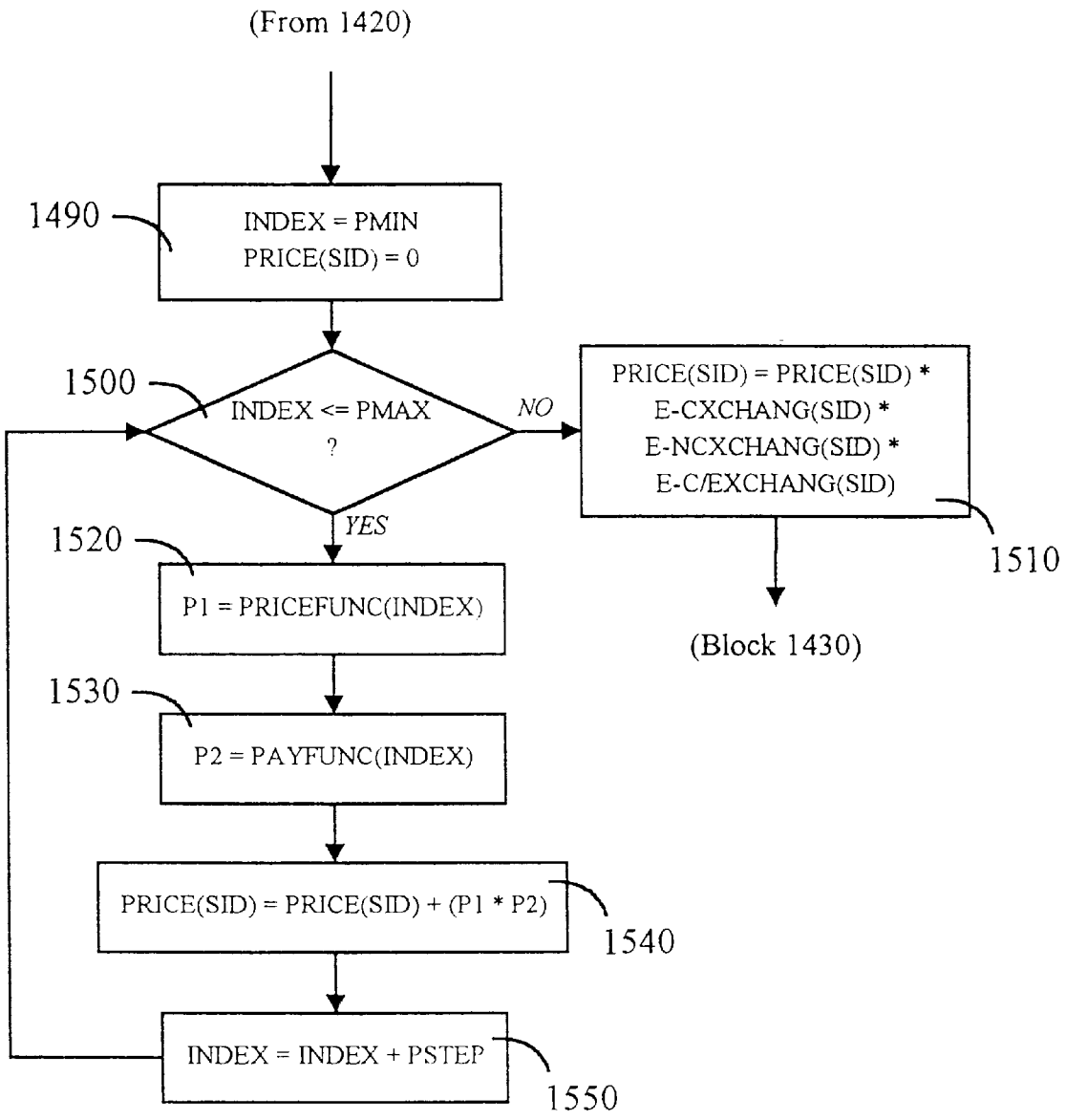

(From 1420)
1490
INDEX = PMIN
PRICE(SID) = 0
1500
INDEX <= PMAX
?
NO
YES
PRICE(SID) = PRICE(SID) *
E-CXCHANG(SID) *
E-NCXCHANG(SID) *
E-C/EXCHANG(SID)
1510
(Block 1430)
1520
P1 = PRICEFUNC(INDEX)
1530
P2 = PAYFUNC(INDEX)
PRICE(SID) = PRICE(SID) + (P1 * P2)
1540
INDEX = INDEX + PSTEP
1550

Fig. 14

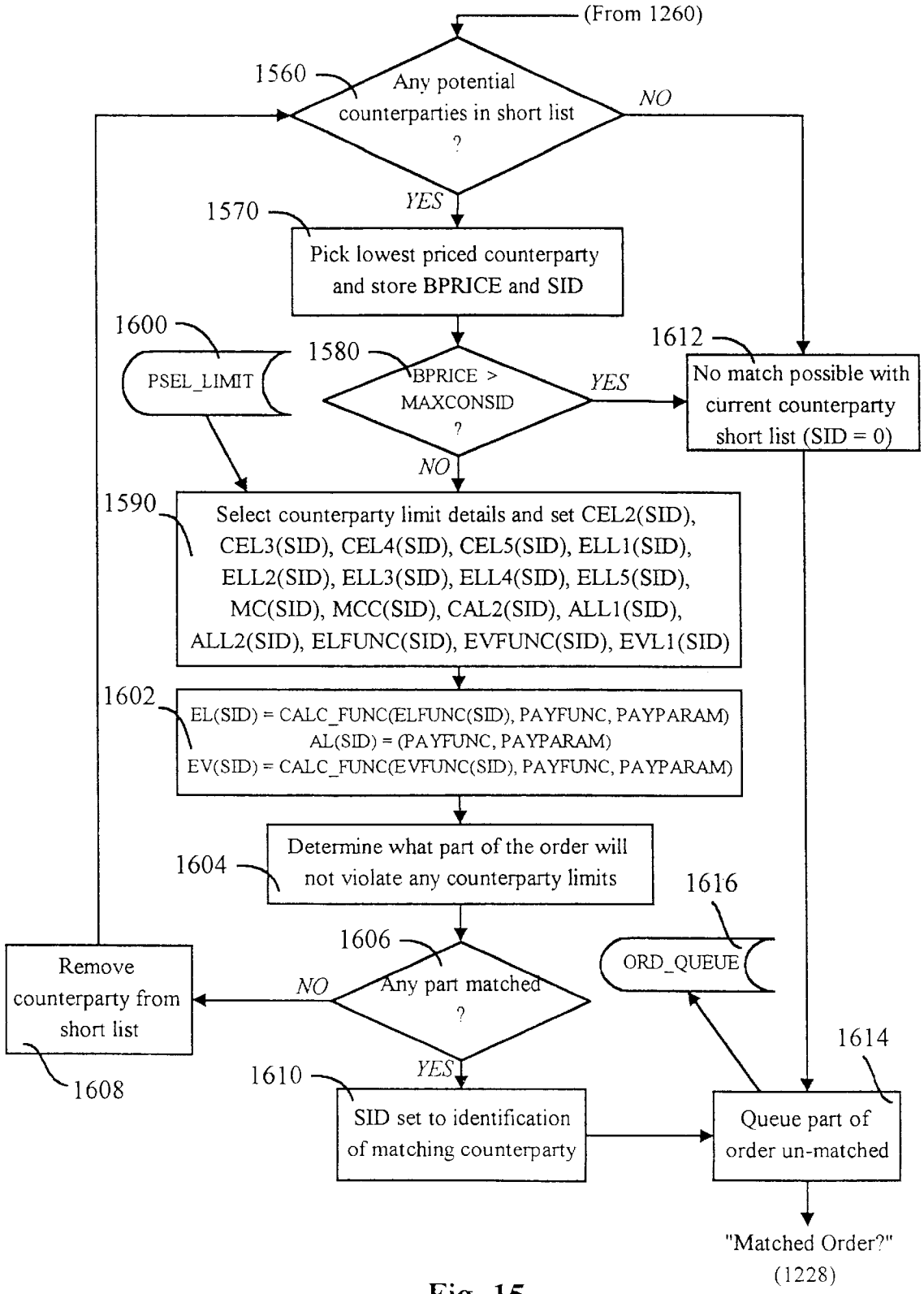

(From 1260)
1560
Any potential counterparties in short list ?
NO
YES
1570
Pick lowest priced counterparty and store BPRICE and SID
1600
PSEL_LIMIT
1580
BPRICE > MAXCONSID ?
YES
1612
No match possible with current counterparty short list (SID = 0)
NO
1590
Select counterparty limit details and set CEL2(SID), CEL3(SID), CEL4(SID), CEL5(SID), ELL1(SID), ELL2(SID), ELL3(SID), ELL4(SID), ELL5(SID), MC(SID), MCC(SID), CAL2(SID), ALL1(SID), ALL2(SID), ELFUNC(SID), EVFUNC(SID), EVL1(SID)
1602
EL(SID) = CALC_FUNC(ELFUNC(SID), PAYFUNC, PAYPARAM)
AL(SID) = (PAYFUNC, PAYPARAM)
EV(SID) = CALC_FUNC(EVFUNC(SID), PAYFUNC, PAYPARAM)
1604
Determine what part of the order will not violate any counterparty limits
1616
ORD_QUEUE
1606
Any part matched ?
NO
Remove counterparty from short list
1608
YES
1610
SID set to identification of matching counterparty
1614
Queue part of order un-matched
"Matched Order?"
(1228)

Fig. 15

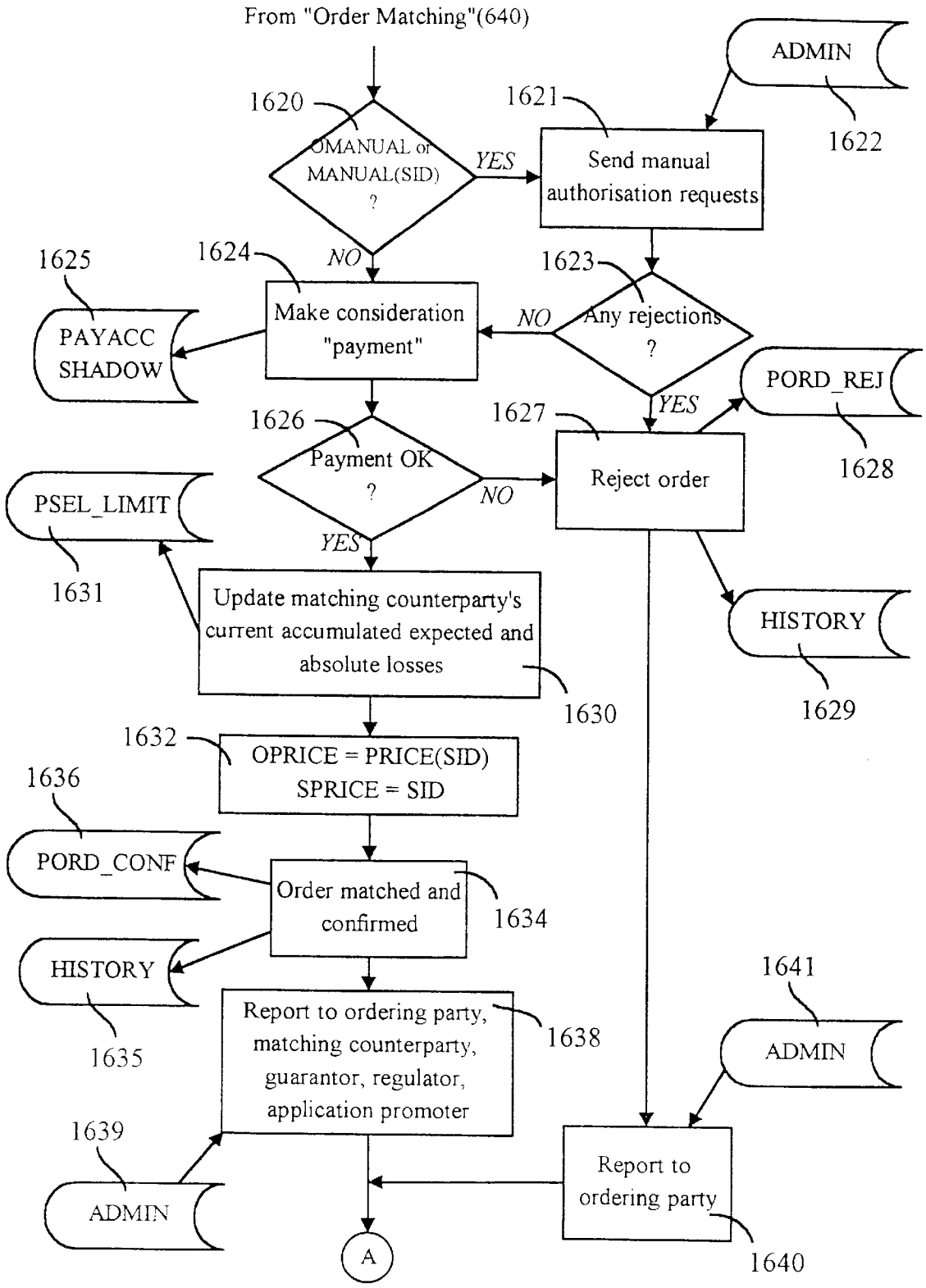

From "Order Matching"(640)
1620
OMANUAL or MANUAL(SID) ?
YES
NO
1621
Send manual authorisation requests
ADMIN
1622
1623
Any rejections ?
NO
YES
1624
Make consideration "payment"
1625
PAYACC SHADOW
PORD_REJ
1628
1626
Payment OK ?
NO
YES
1627
Reject order
PSEL_LIMIT
1631
Update matching counterparty's current accumulated expected and absolute losses
1630
HISTORY
1629
1632
OPRICE = PRICE(SID)
SPRICE = SID
1636
PORD_CONF
Order matched and confirmed
1634
HISTORY
1635
Report to ordering party, matching counterparty, guarantor, regulator, application promoter
1638
1641
ADMIN
1639
ADMIN
Report to ordering party
1640
A

Fig. 16

EXAMPLE III

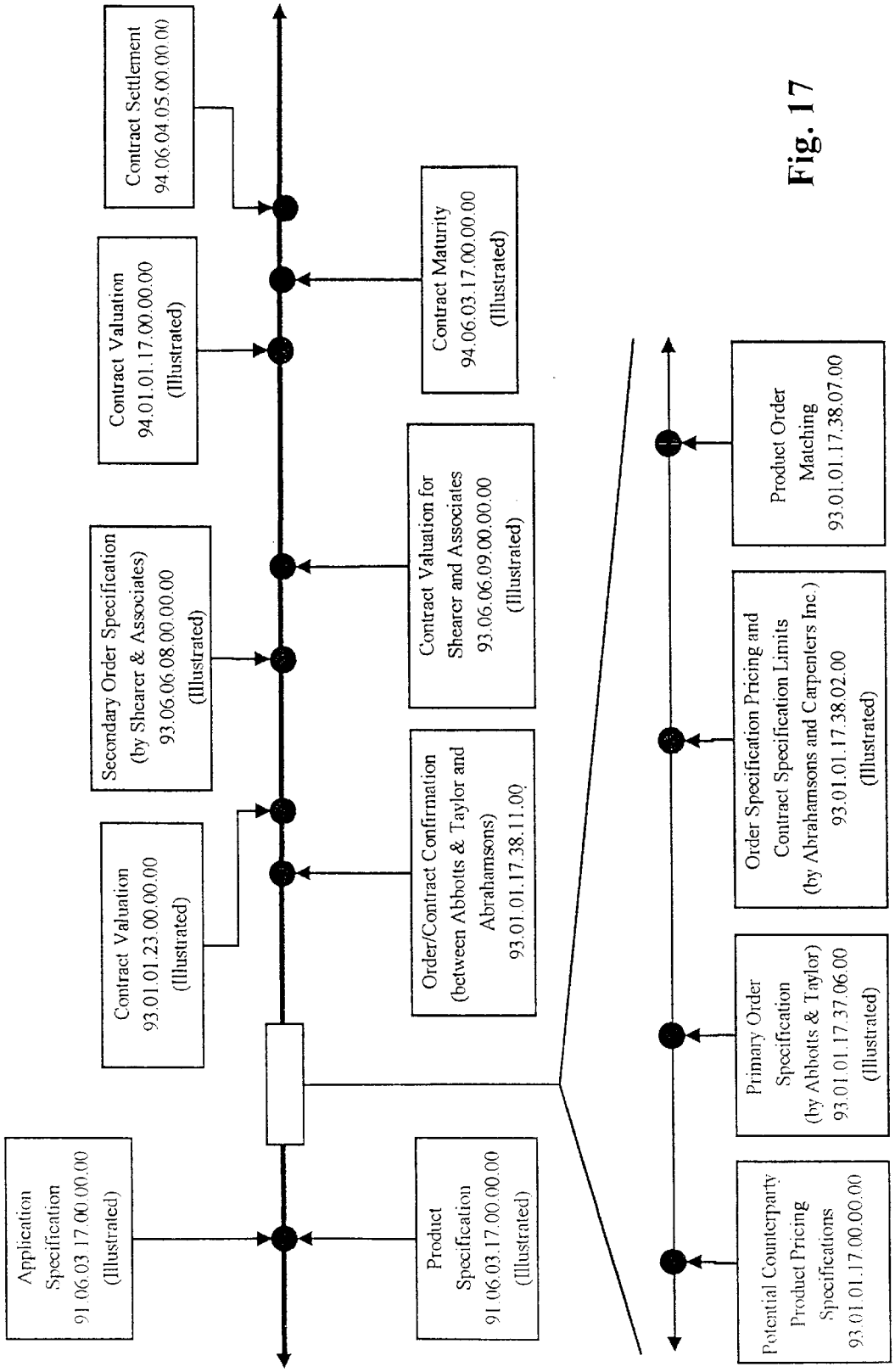


Fig. 17

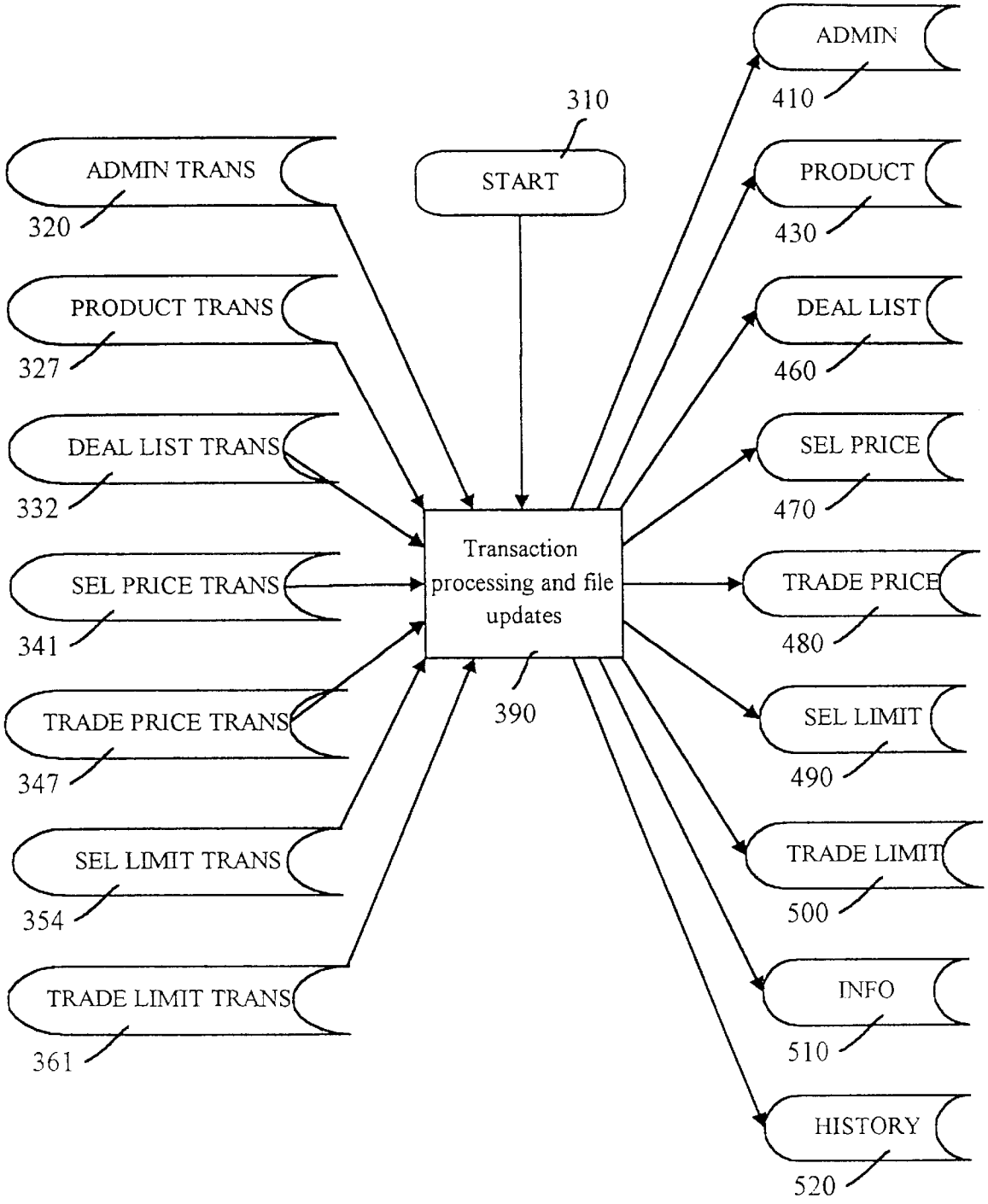

ADMIN TRANS
320
PRODUCT TRANS
327
DEAL LIST TRANS
332
SEL PRICE TRANS
341
TRADE PRICE TRANS
347
SEL LIMIT TRANS
354
TRADE LIMIT TRANS
361
310
START
Transaction processing and file updates
390
ADMIN
410
PRODUCT
430
DEAL LIST
460
SEL PRICE
470
TRADE PRICE
480
SEL LIMIT
490
TRADE LIMIT
500
INFO
510
HISTORY
520

Fig. 18

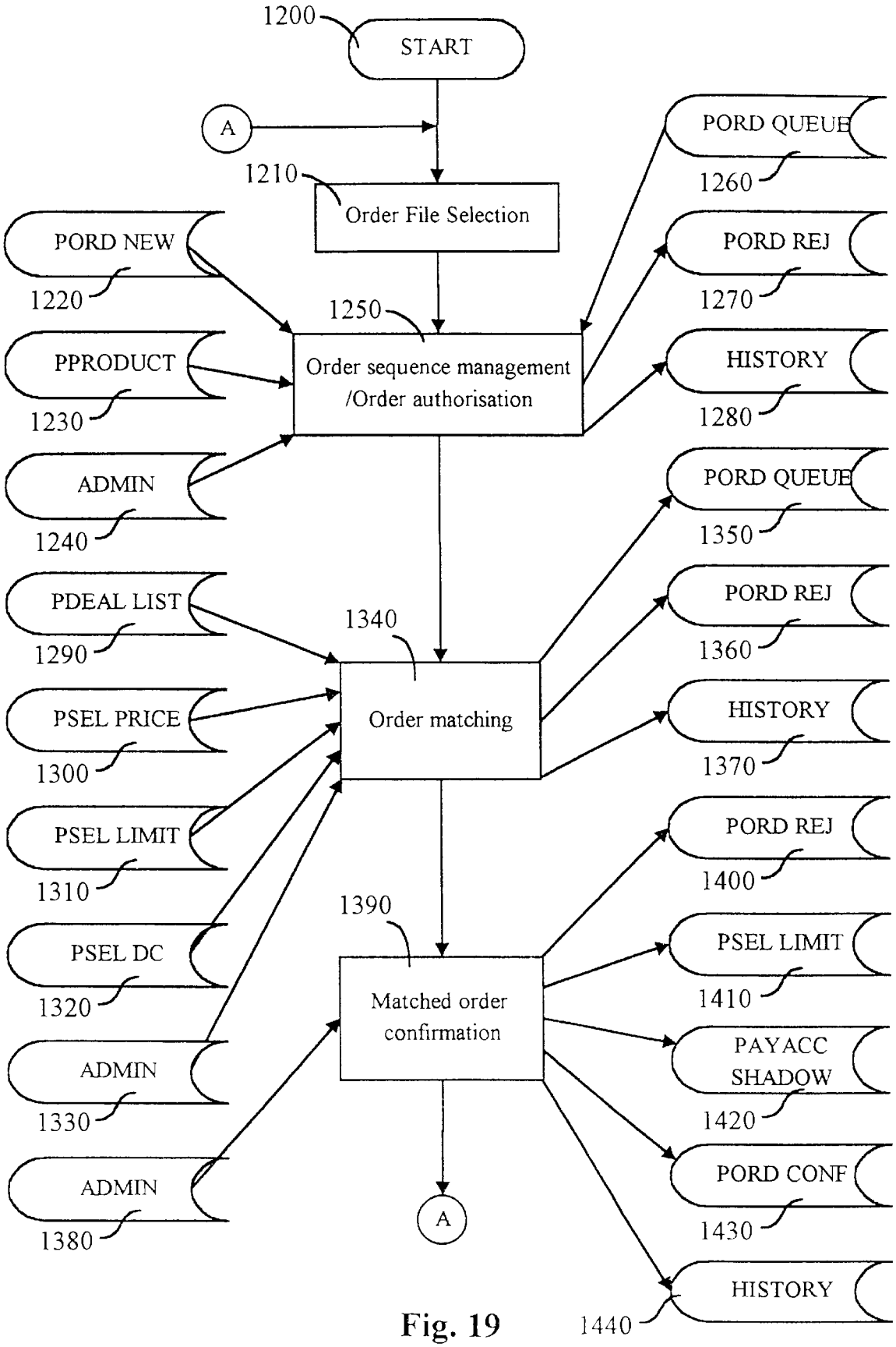

1200
START
A
1210
Order File Selection
PORD NEW
1220
PPRODUCT
1230
ADMIN
1240
PDEAL LIST
1290
PSEL PRICE
1300
PSEL LIMIT
1310
PSEL DC
1320
ADMIN
1330
ADMIN
1380
1250
Order sequence management /Order authorisation
PORD QUEUE
1260
PORD REJ
1270
HISTORY
1280
PORD QUEUE
1350
PORD REJ
1360
HISTORY
1370
1340
Order matching
1390
Matched order confirmation
A
PORD REJ
1400
PSEL LIMIT
1410
PAYACC SHADOW
1420
PORD CONF
1430
HISTORY
1440

Fig. 19

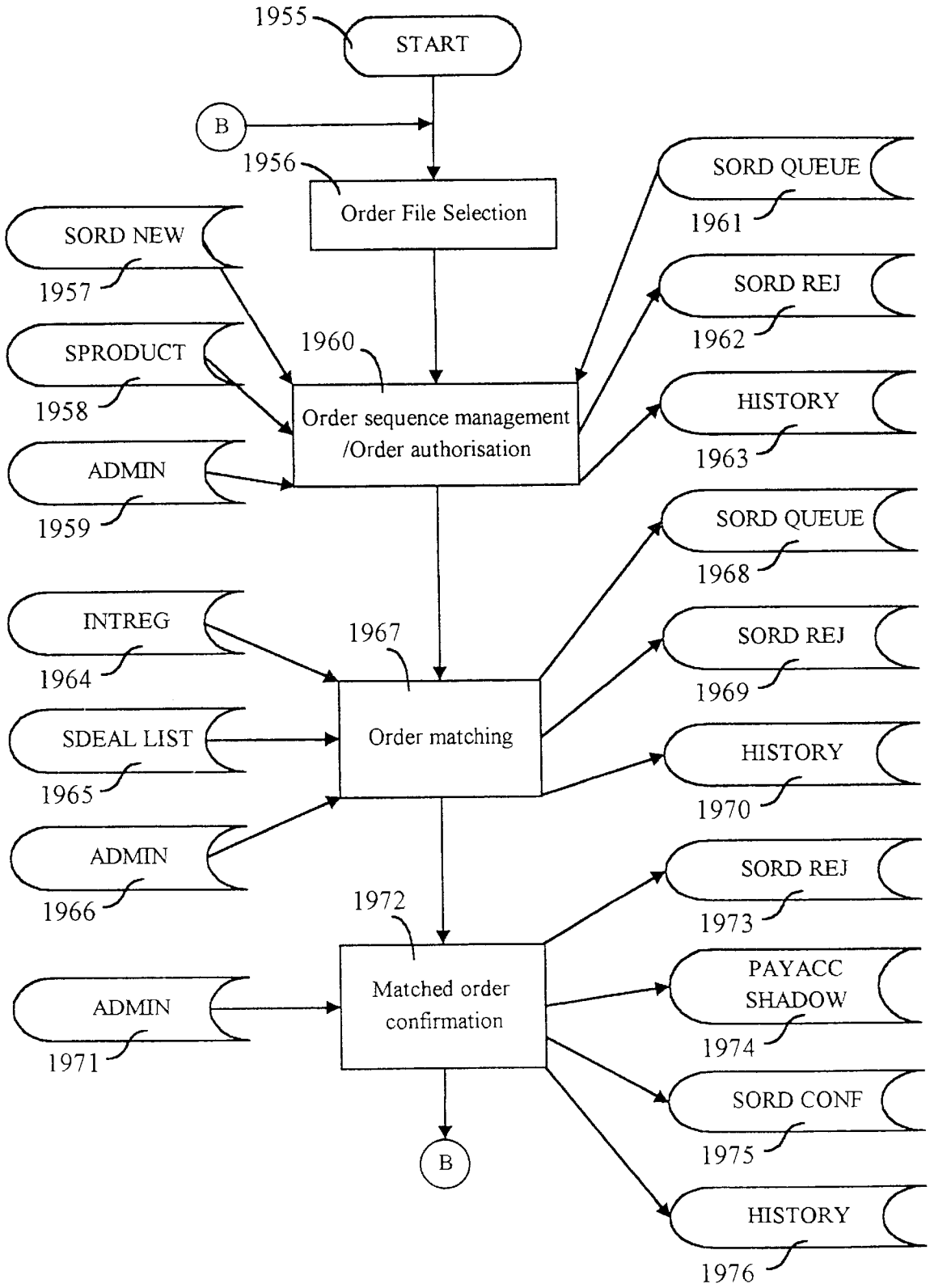

1955
START
B
1956
Order File Selection
SORD NEW
1957
SPRODUCT
1958
ADMIN
1959
1960
Order sequence management /Order authorisation
SORD QUEUE
1961
SORD REJ
1962
HISTORY
1963
INTREG
1964
SDEAL LIST
1965
ADMIN
1966
1967
Order matching
SORD QUEUE
1968
SORD REJ
1969
HISTORY
1970
ADMIN
1971
1972
Matched order confirmation
SORD REJ
1973
PAYACC SHADOW
1974
SORD CONF
1975
HISTORY
1976
B

Fig. 20

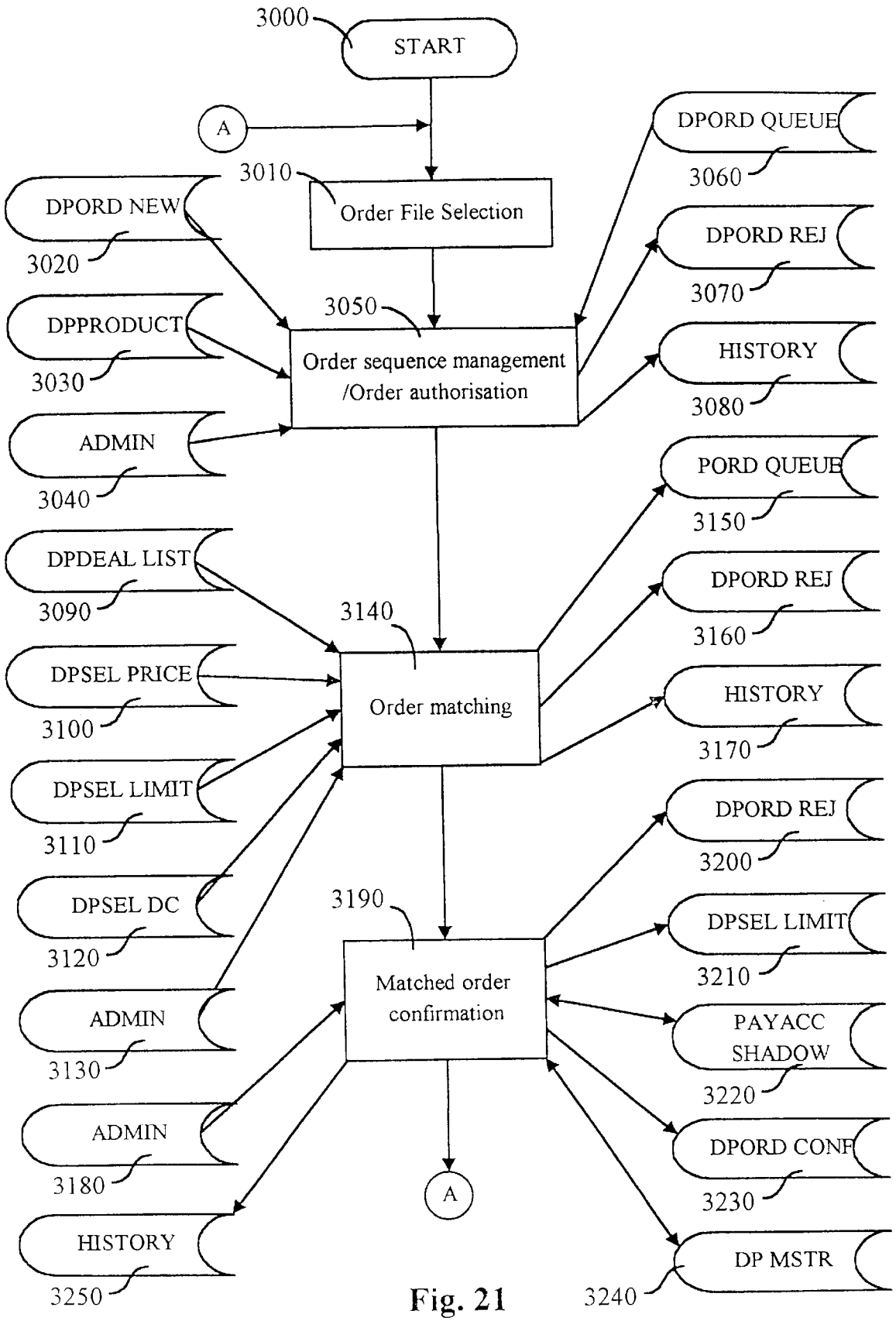

3000
START
A
3010
Order File Selection
DPORD NEW
3020
DPPRODUCT
3030
ADMIN
3040
3050
Order sequence management /Order authorisation
DPORD QUEUE
3060
DPORD REJ
3070
HISTORY
3080
DPDEAL LIST
3090
DPSEL PRICE
3100
DPSEL LIMIT
3110
DPSEL DC
3120
ADMIN
3130
ADMIN
3180
HISTORY
3250
3140
Order matching
PORD QUEUE
3150
DPORD REJ
3160
HISTORY
3170
3190
Matched order confirmation
DPORD REJ
3200
DPSEL LIMIT
3210
PAYACC SHADOW
3220
DPORD CONF
3230
DP MSTR
3240
A

Fig. 21

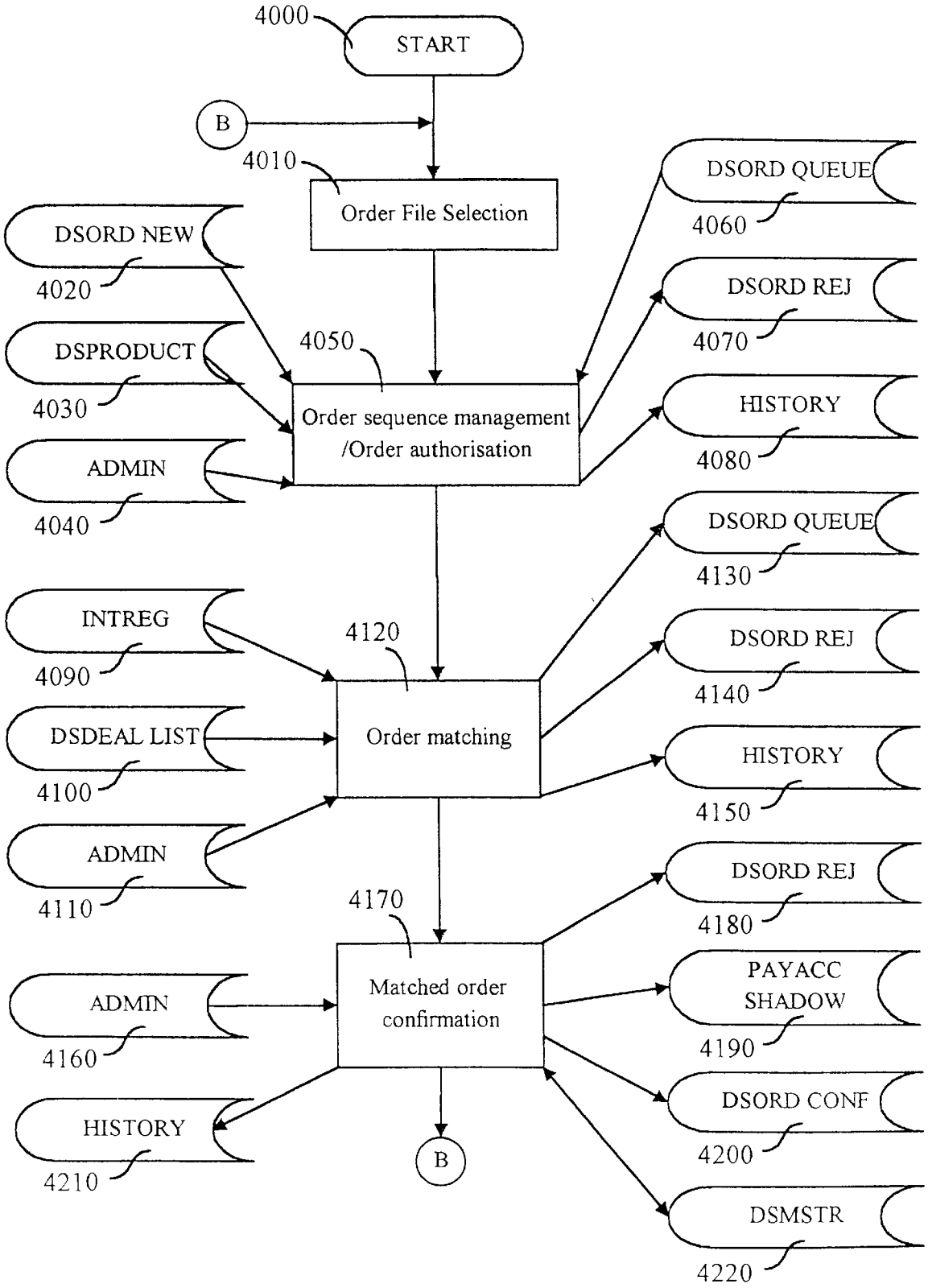

4000
START
B
4010
Order File Selection
DSORD NEW
4020
DSPRODUCT
4030
ADMIN
4040
4050
Order sequence management
/Order authorisation
DSORD QUEUE
4060
DSORD REJ
4070
HISTORY
4080
INTREG
4090
DSDEAL LIST
4100
ADMIN
4110
4120
Order matching
DSORD QUEUE
4130
DSORD REJ
4140
HISTORY
4150
ADMIN
4160
4170
Matched order
confirmation
DSORD REJ
4180
PAYACC
SHADOW
4190
DSORD CONF
4200
DSMSTR
4220
HISTORY
4210
B

Fig. 22

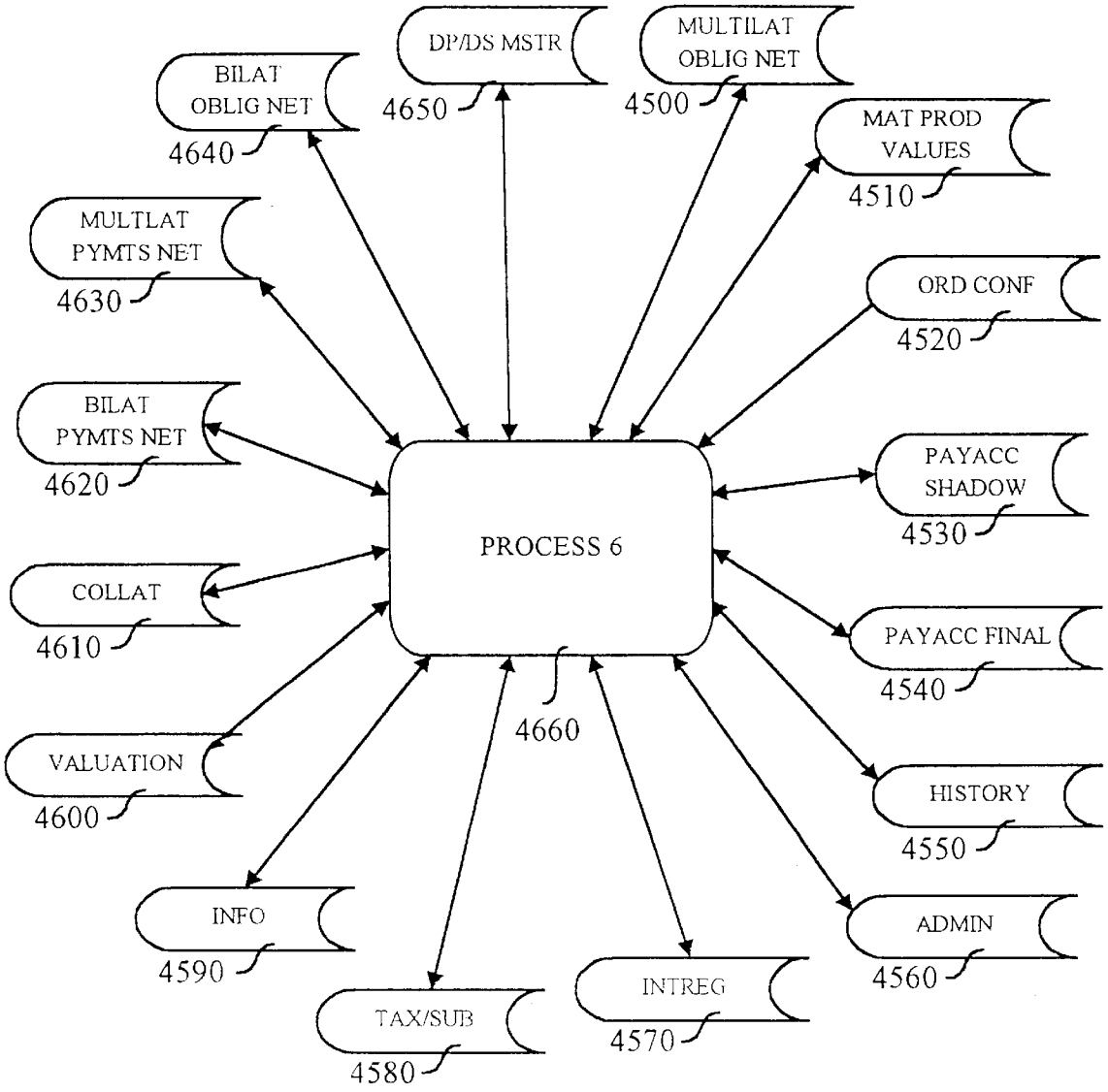

DP/DS MSTR
4650
MULTILAT OBLIG NET
4500
BILAT OBLIG NET
4640
MAT PROD VALUES
4510
MULTLAT PYMTS NET
4630
ORD CONF
4520
BILAT PYMTS NET
4620
PAYACC SHADOW
4530
PROCESS 6
COLLAT
4610
PAYACC FINAL
4540
4660
VALUATION
4600
HISTORY
4550
INFO
4590
ADMIN
4560
INTREG
4570
TAX/SUB
4580

Fig. 23

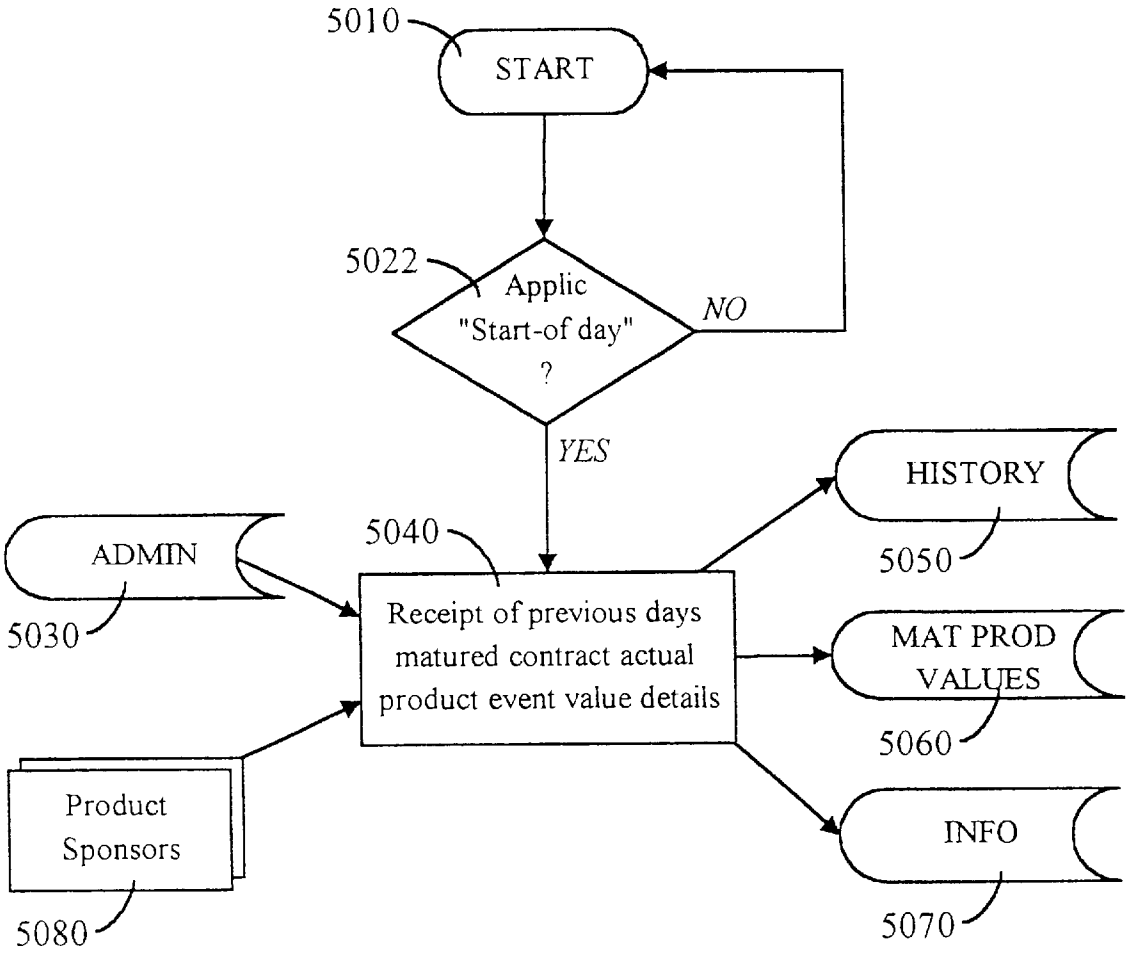

5010
START
5022
Applic "Start-of day" ?
NO
YES
HISTORY
5050
ADMIN
5030
5040
Receipt of previous days matured contract actual product event value details
MAT PROD VALUES
5060
Product Sponsors
5080
INFO
5070

Fig. 24

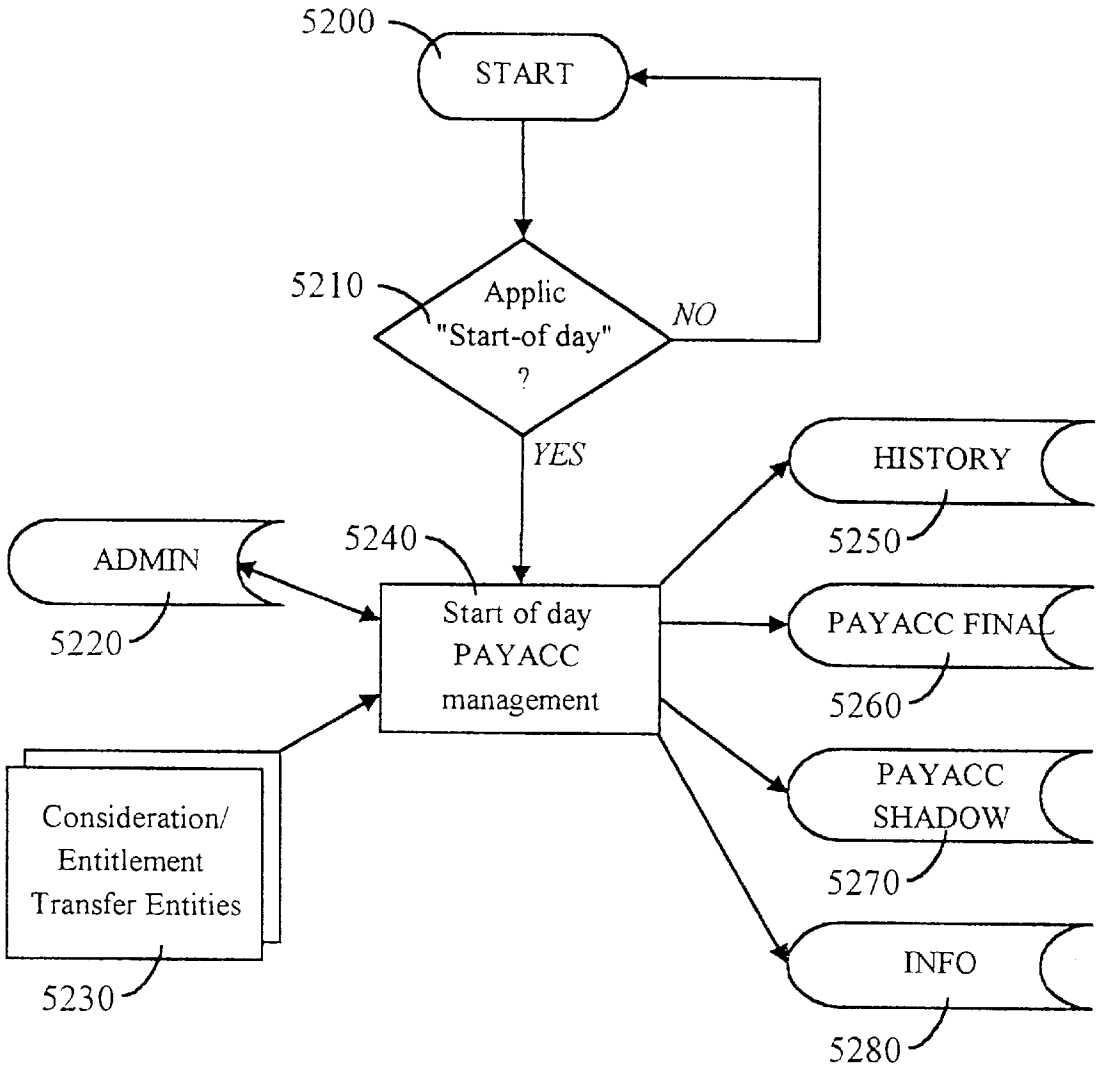

5200
START
5210
Applic "Start-of day" ?
NO
YES
HISTORY
5250
ADMIN
5220
5240
Start of day PAYACC management
PAYACC FINAL
5260
PAYACC SHADOW
5270
Consideration/ Entitlement Transfer Entities
5230
INFO
5280

Fig. 25

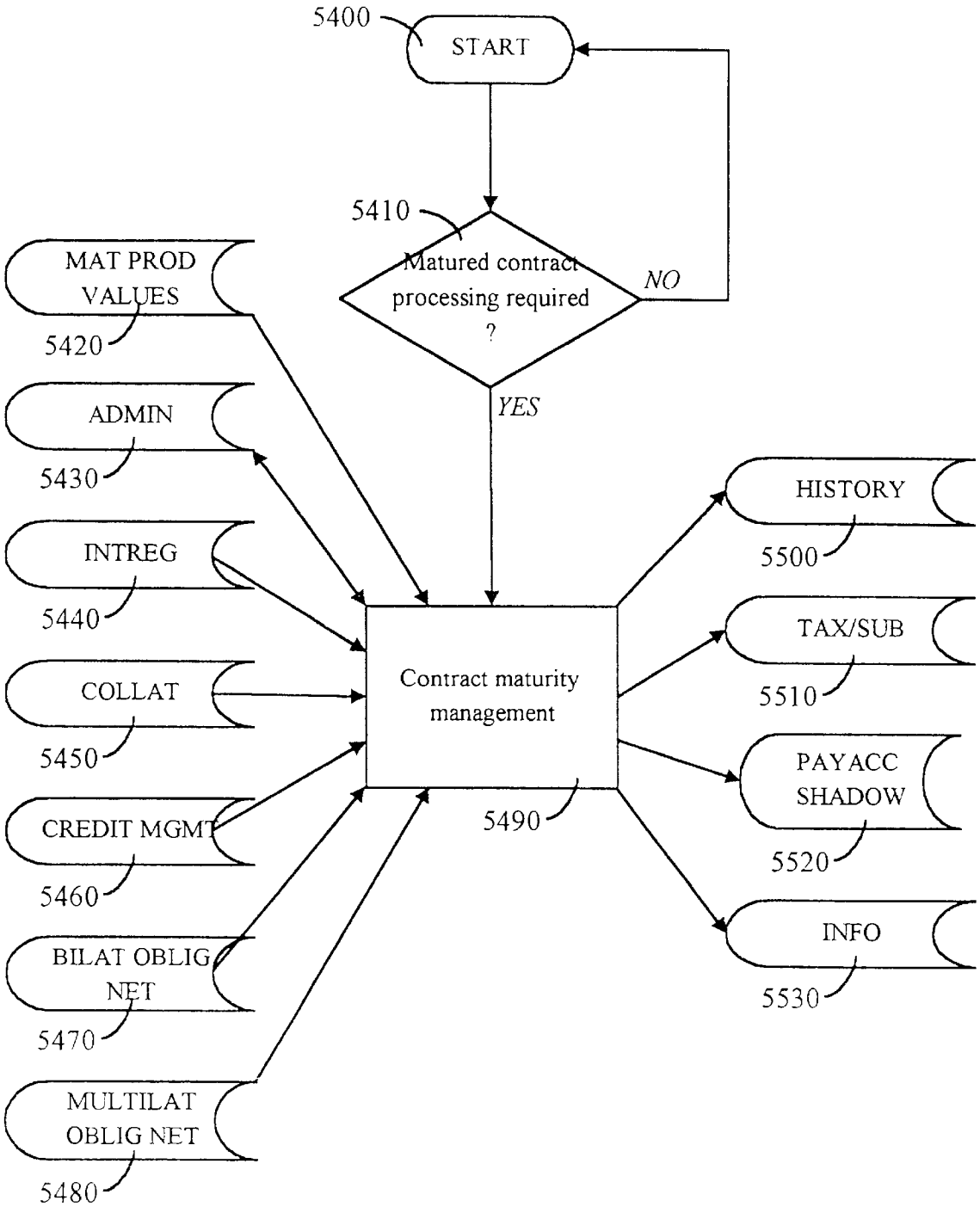

5400
START
5410
Matured contract processing required ?
NO
YES
MAT PROD VALUES
5420
ADMIN
5430
INTREG
5440
COLLAT
5450
CREDIT MGMT
5460
BILAT OBLIG NET
5470
MULTILAT OBLIG NET
5480
Contract maturity management
5490
HISTORY
5500
TAX/SUB
5510
PAYACC SHADOW
5520
INFO
5530

Fig. 26

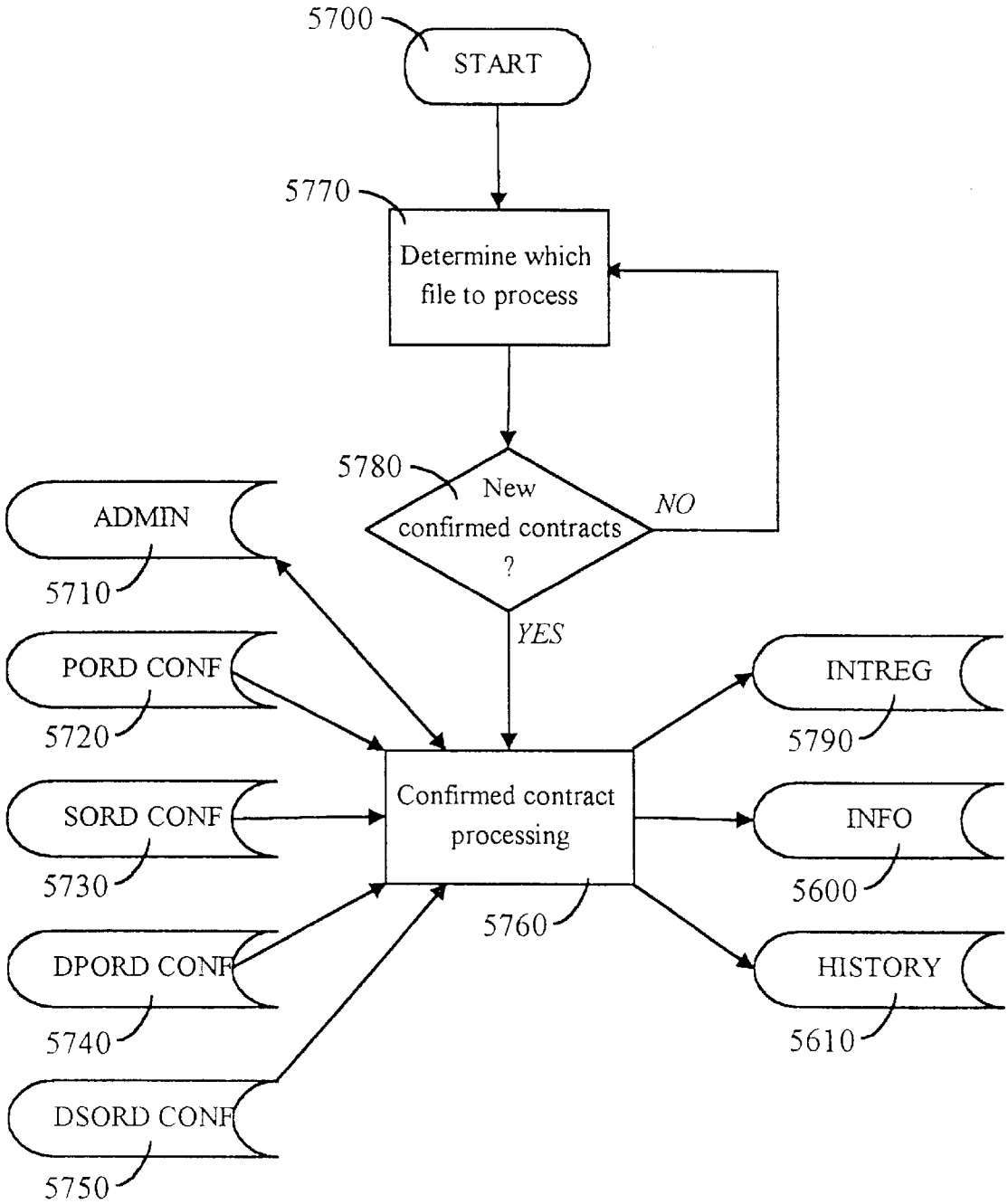

5700
START
5770
Determine which file to process
5780
New confirmed contracts ?
NO
YES
ADMIN
5710
PORD CONF
5720
SORD CONF
5730
DPORD CONF
5740
DSORD CONF
5750
Confirmed contract processing
5760
INTREG
5790
INFO
5600
HISTORY
5610

Fig 27

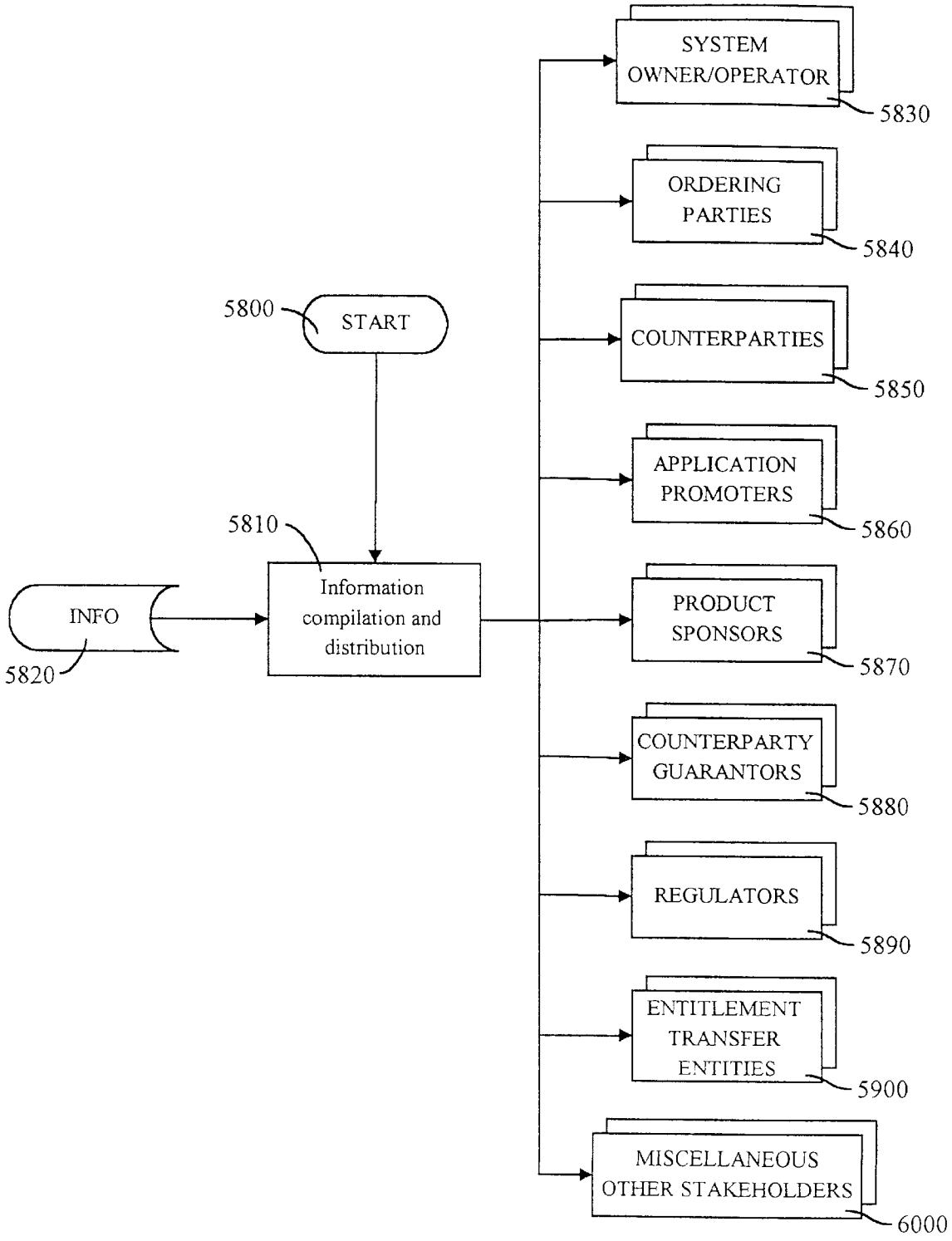

5800
START
5810
Information compilation and distribution
INFO
5820
SYSTEM OWNER/OPERATOR
5830
ORDERING PARTIES
5840
COUNTERPARTIES
5850
APPLICATION PROMOTERS
5860
PRODUCT SPONSORS
5870
COUNTERPARTY GUARANTORS
5880
REGULATORS
5890
ENTITLEMENT TRANSFER ENTITIES
5900
MISCELLANEOUS OTHER STAKEHOLDERS
6000

Fig. 28

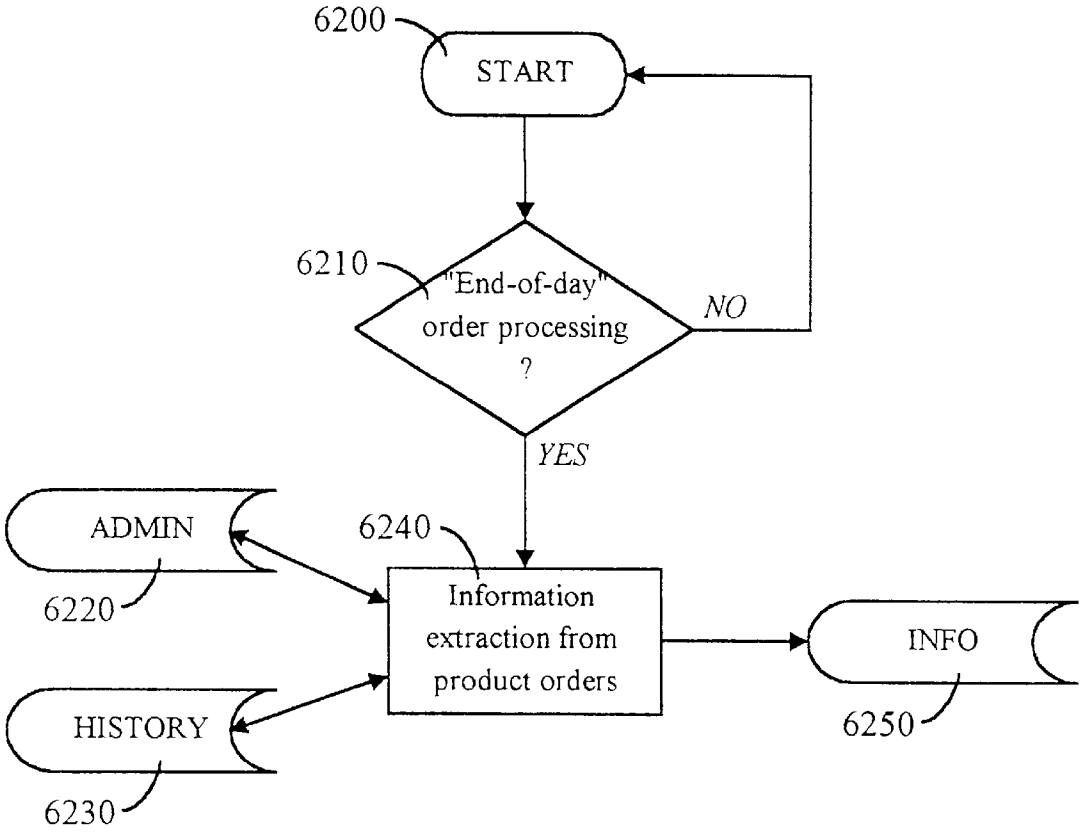

6200
START
6210
"End-of-day" order processing ?
NO
YES
ADMIN
6220
6240
Information extraction from product orders
INFO
6250
HISTORY
6230

Fig. 29

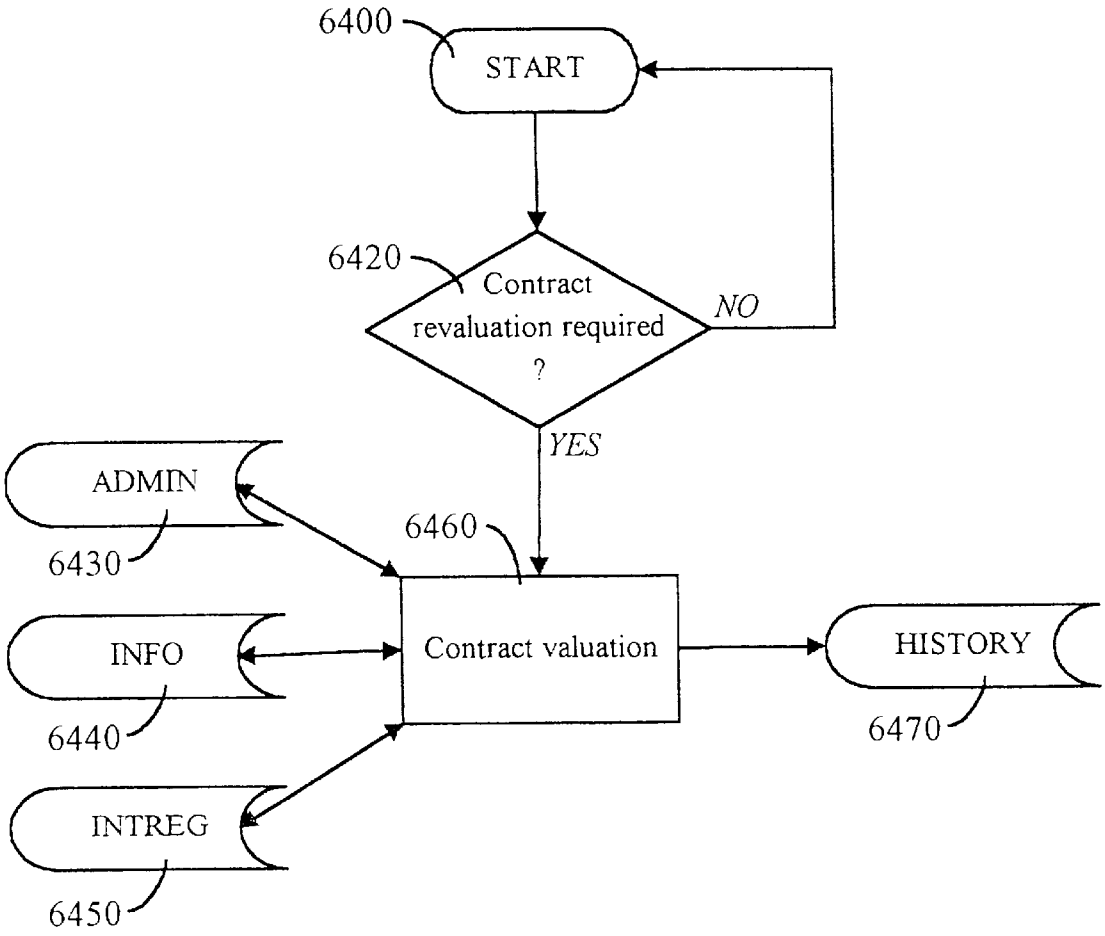

6400
START
6420
Contract revaluation required ?
NO
YES
ADMIN
6430
6460
INFO
6440
Contract valuation
HISTORY
6470
INTREG
6450

Fig. 30

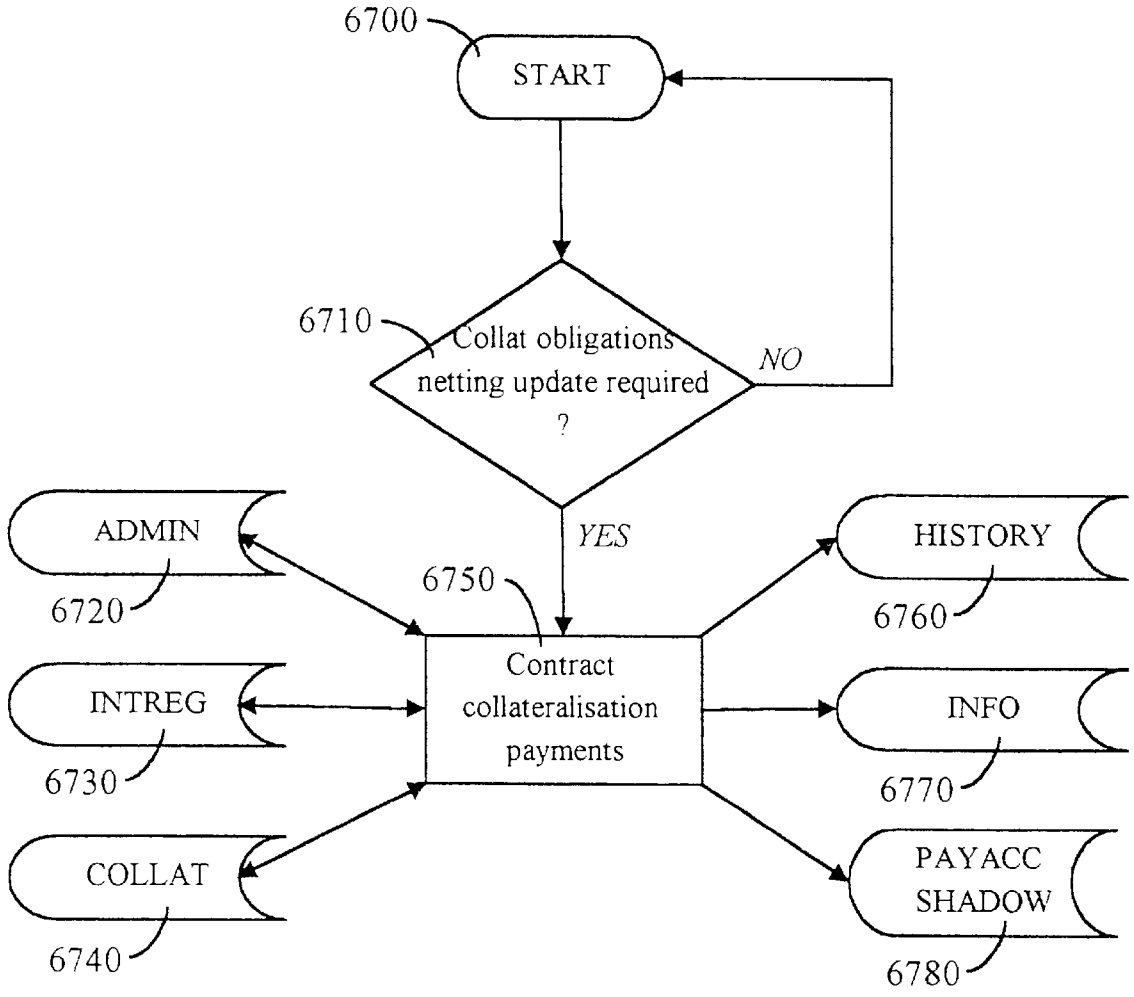

6700
START
6710
Collat obligations netting update required ?
NO
YES
ADMIN
6720
INTREG
6730
COLLAT
6740
6750
Contract collateralisation payments
HISTORY
6760
INFO
6770
PAYACC SHADOW
6780

Fig. 31

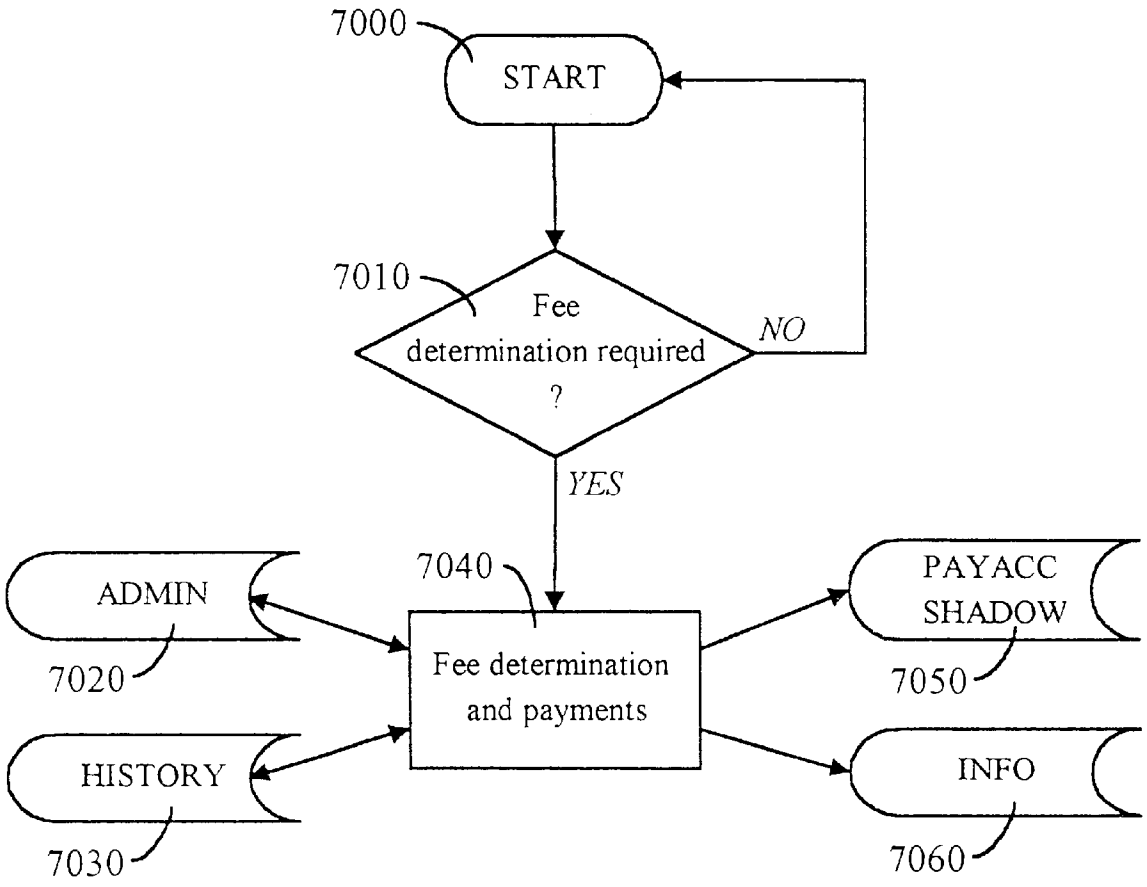

7000
START
7010
Fee
determination required
?
NO
YES
7040
Fee determination
and payments
ADMIN
7020
HISTORY
7030
PAYACC
SHADOW
7050
INFO
7060

Fig. 32

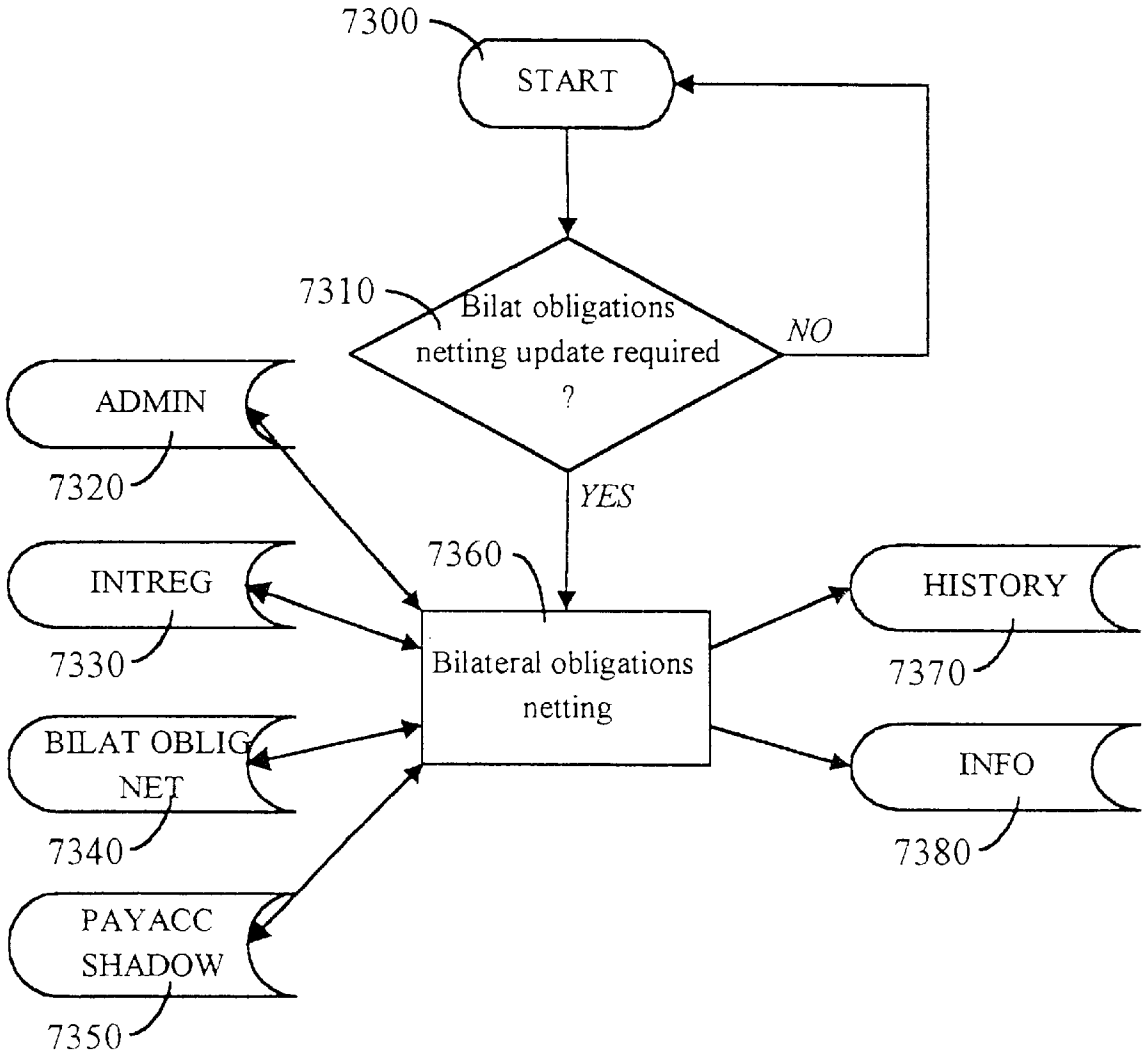

7300
START
7310
Bilat obligations netting update required ?
NO
YES
ADMIN
7320
INTREG
7330
BILAT OBLIG NET
7340
PAYACC SHADOW
7350
7360
Bilateral obligations netting
HISTORY
7370
INFO
7380

Fig. 33

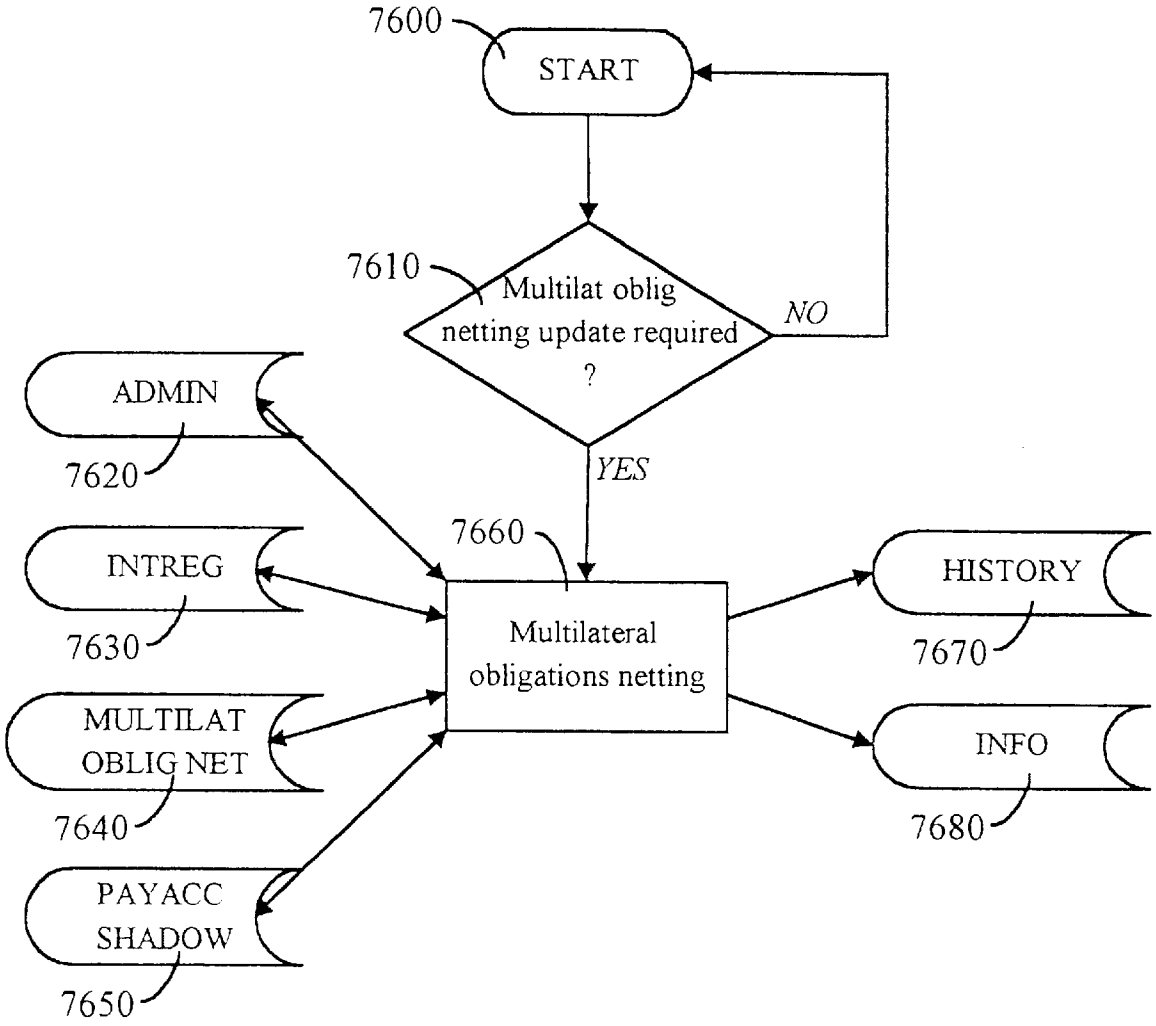

7600
START
7610
Multilat oblig netting update required ?
NO
YES
ADMIN
7620
INTREG
7630
MULTILAT OBLIG NET
7640
PAYACC SHADOW
7650
7660
Multilateral obligations netting
HISTORY
7670
INFO
7680

Fig. 34

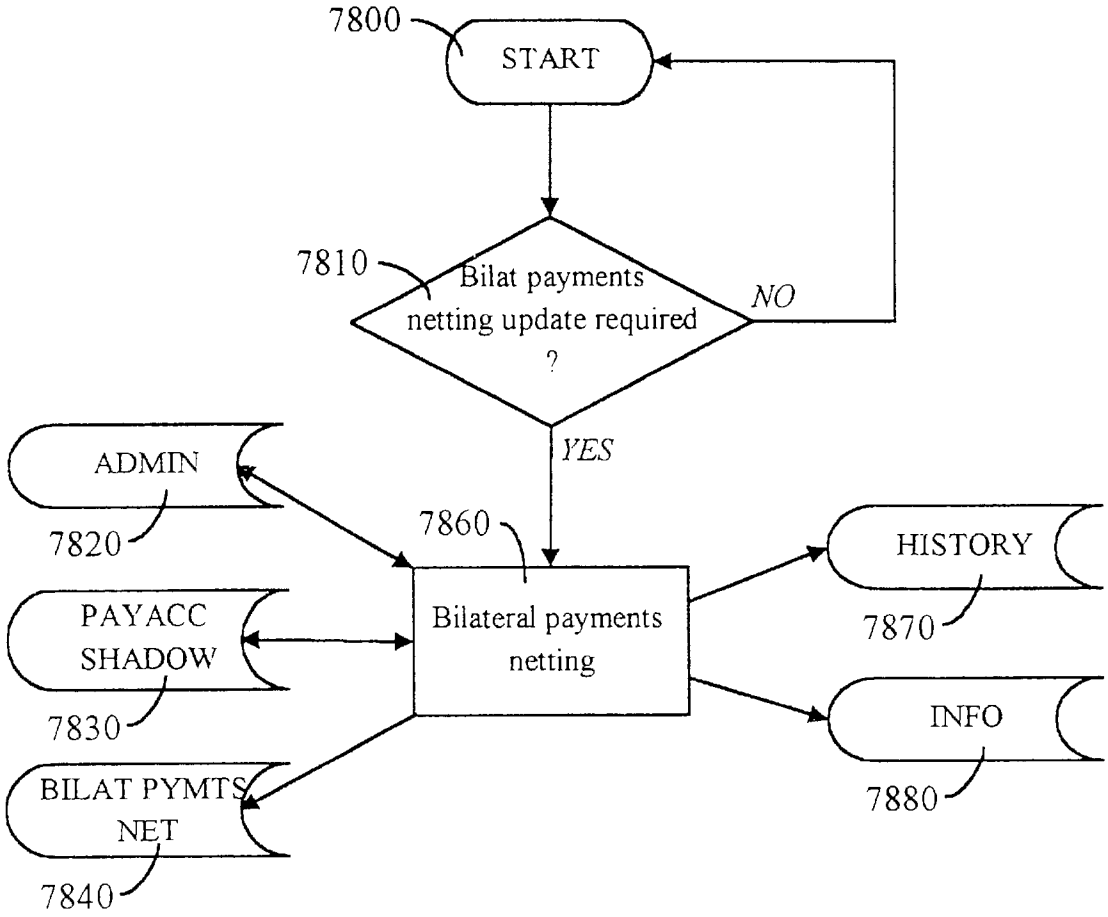

7800
START
7810
Bilat payments netting update required ?
NO
YES
ADMIN
7820
7860
Bilateral payments netting
HISTORY
7870
PAYACC SHADOW
7830
INFO
7880
BILAT PYMTS NET
7840

Fig. 35

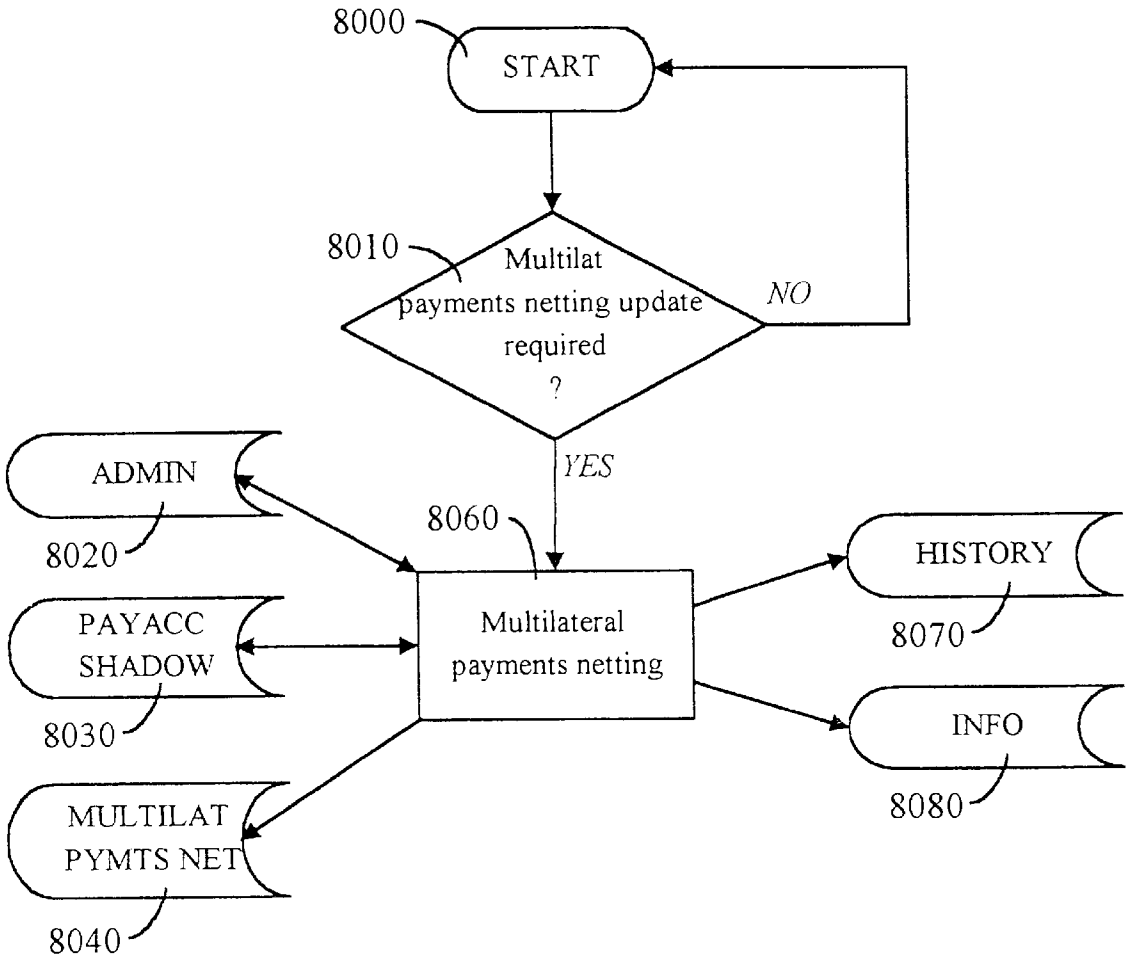

8000
START
8010
Multilat payments netting update required ?
NO
YES
ADMIN
8020
8060
HISTORY
8070
PAYACC SHADOW
8030
Multilateral payments netting
INFO
8080
MULTILAT PYMTS NET
8040

Fig. 36

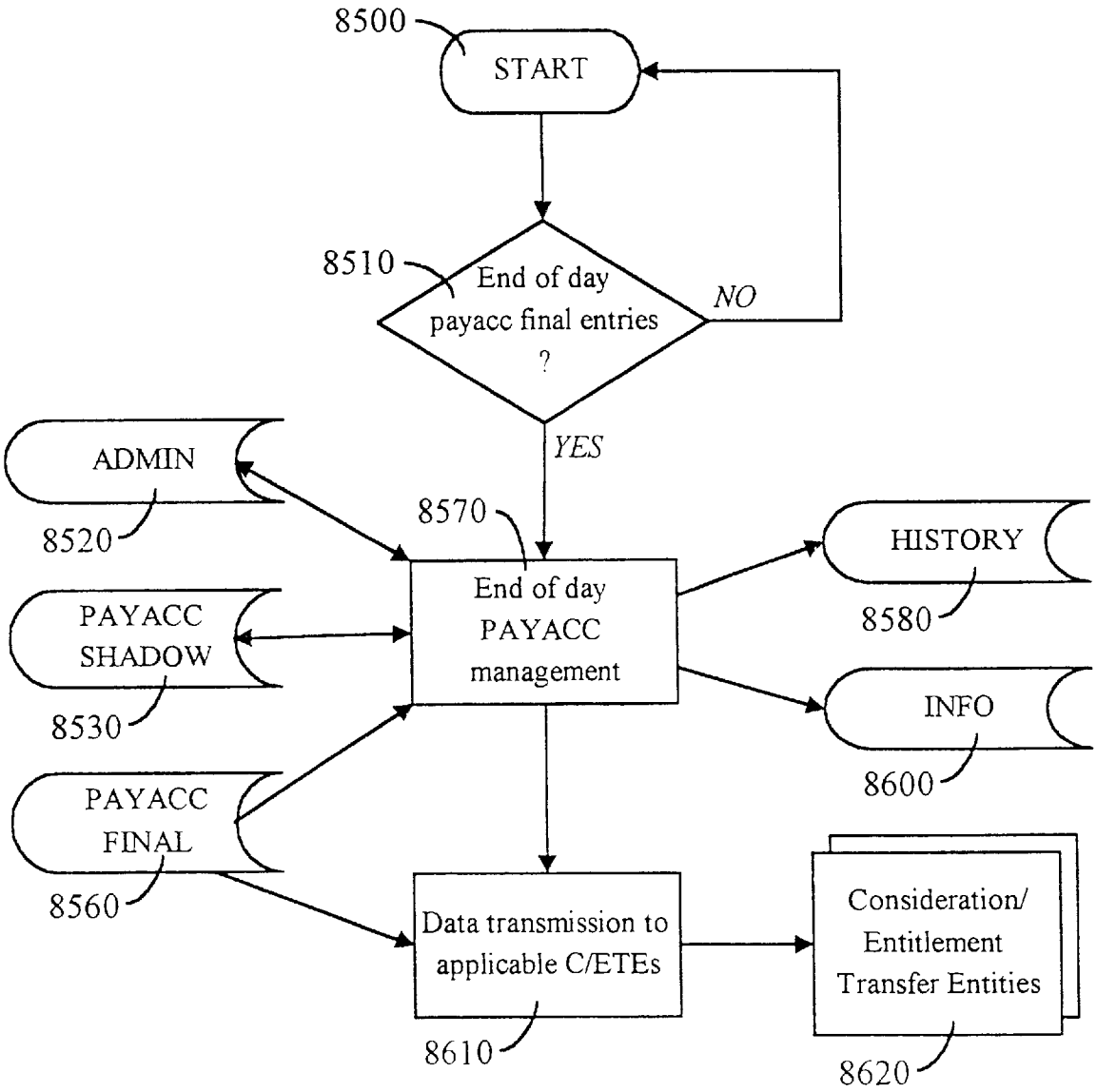

8500
START
8510
End of day payacc final entries ?
NO
YES
ADMIN
8520
8570
End of day PAYACC management
HISTORY
8580
PAYACC SHADOW
8530
INFO
8600
PAYACC FINAL
8560
Data transmission to applicable C/ETEs
8610
Consideration/ Entitlement Transfer Entities
8620

Fig. 37

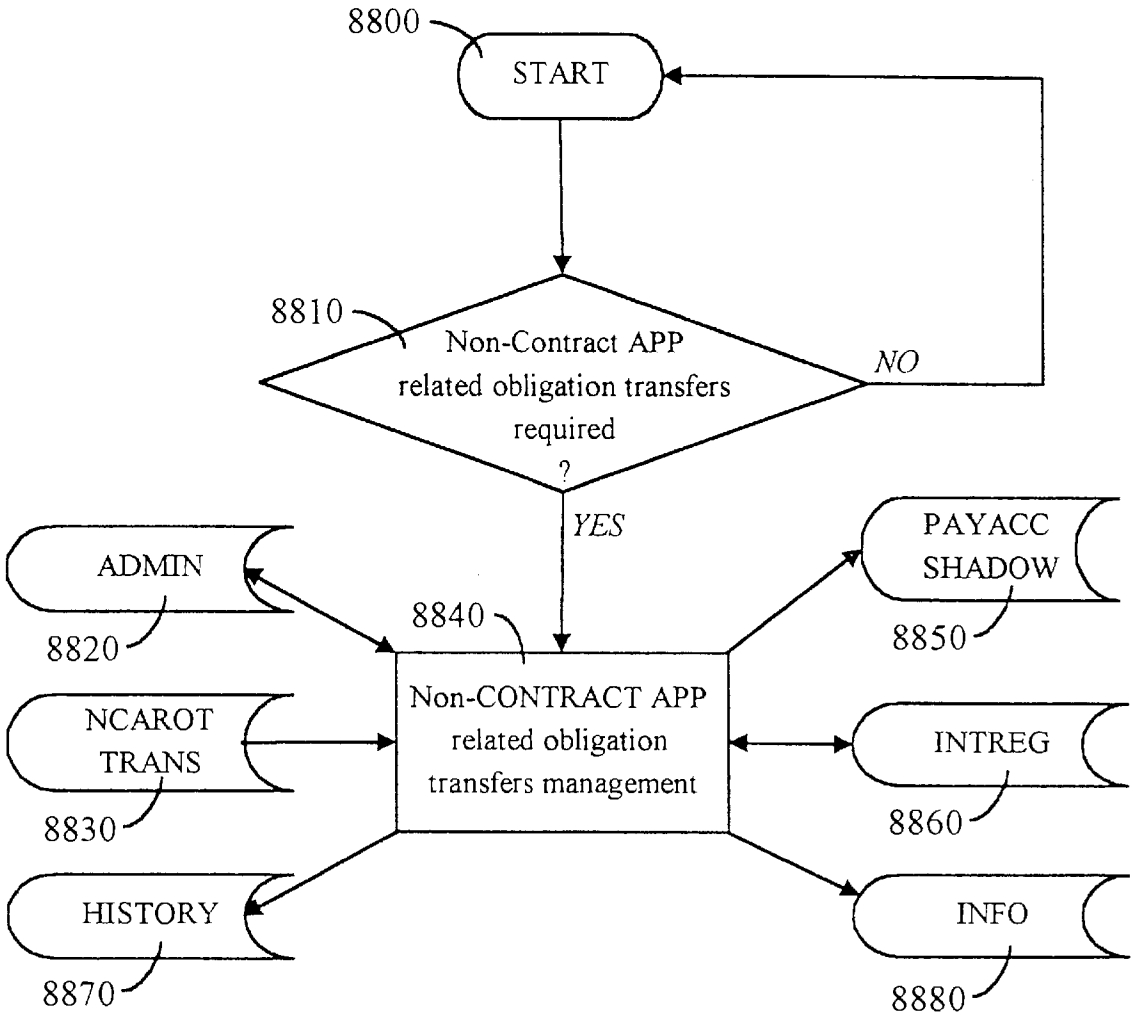

8800
START
8810
Non-Contract APP related obligation transfers required ?
NO
YES
ADMIN
8820
NCAROT TRANS
8830
HISTORY
8870
8840
Non-CONTRACT APP related obligation transfers management
PAYACC SHADOW
8850
INTREG
8860
INFO
8880

Fig. 38

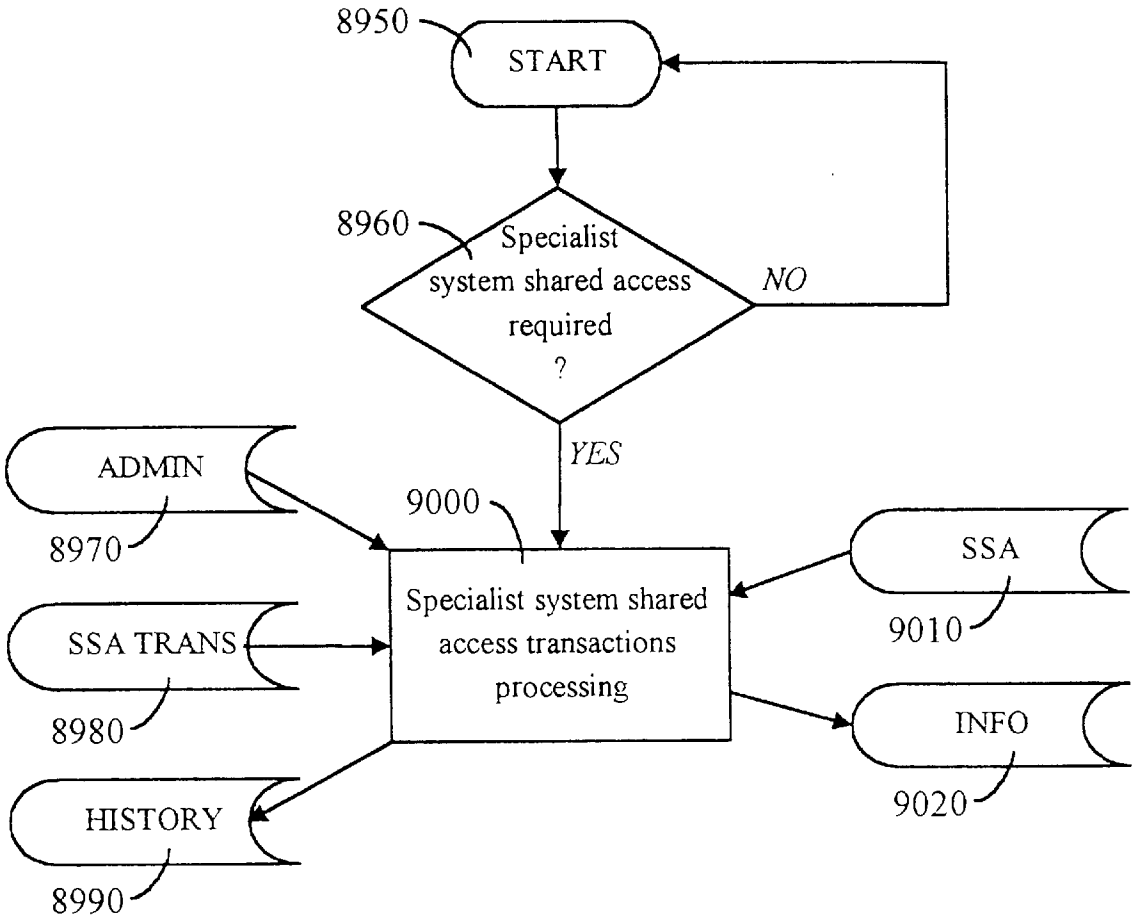

8950
START
8960
Specialist system shared access required ?
NO
YES
ADMIN
8970
9000
SSA
9010
SSA TRANS
8980
Specialist system shared access transactions processing
INFO
9020
HISTORY
8990

Fig. 39

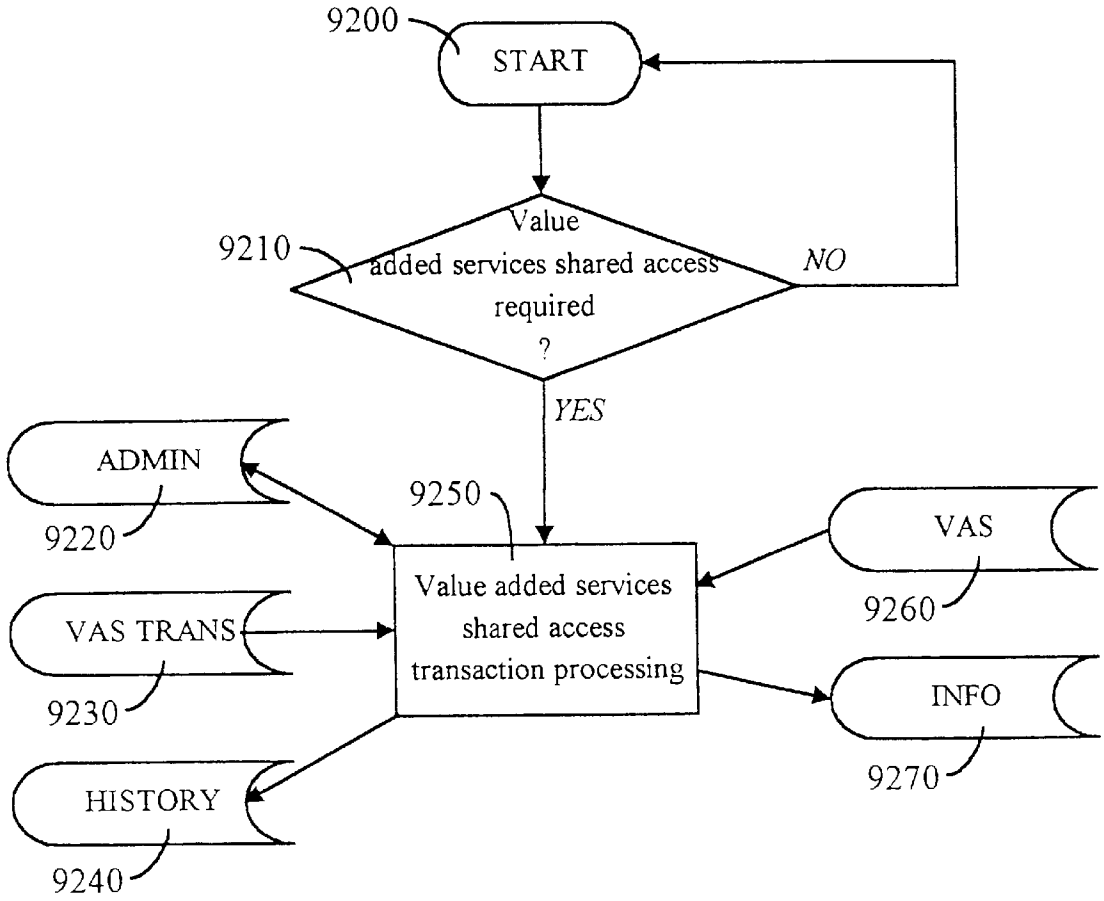

9200
START
9210
Value added services shared access required ?
NO
YES
ADMIN
9220
9250
VAS
9260
VAS TRANS
9230
Value added services shared access transaction processing
INFO
9270
HISTORY
9240

Fig. 40

FIG. 41

APPLICATION SPECIFICATION

Part A

Application ID:	100	Applicable Product ID's
Application Promoter:	Demdata Inc	Preferred/preferential dealing?
Primary Application Use:	Defect liability management	Pre or Post Tax Matching?
Feasible Counterparty No's:	Single counterparty	Tax deduction/subsidy at source?
Public/private use?:	Public	Degree of Trading transparency:
Acceptable comms mediums:	Computer to computer	Secondary trading allowed?
Retail/Wholesale Use:	Wholesale	Derivative trading allowed?
Pricing and Matching Process:	Minimize consideration payment under an EV/CE regime	Deferred Order Submissions possible?
		Partial Matches possible?
		Settlement terms:
		- considerations
		- entitlements
Contract Revaluation Frequency:	Daily	Manual Approvals possible?
		Ordering Party consideration credit?
Ordering Parties allowed negative contract payoffs?	No	Collateralisation Payments?
		- Counterparties
Application Access Limitations:	Nil	- Ordering Parties
		Bilateral Obligations Netting?
		Bilateral Payments Netting?
		Multilateral Obligations Netting?
		Multilateral Payments Netting?

Netting Details (if applicable)		Collateralisation Details (if applicable)	
Applicable Discount Rate:	Not Applicable	Trustee:	Not Applicable
Obligation Netting trigger:	Not Applicable		
Min required settlements:	Not Applicable		

Ordering Party Consideration-Credit Options		
Counterparty provided?	--Participating Basis:	--Ord. Party-guarantor protected
		--Unprotected
	--Non-Participating Basis:	--Ord. Party-guarantor protected
		--Unprotected
Ordering Party Guarantor provided?	--Participating Basis:	
	--Non-Participating Basis:	

FIG. 41 CONT.

AS AT 92.02.10.17.00.00.00

1200-1250	Application Access Limitations
Unavailable	
Pretax	Contract Ordering Parties:
Not Applicable	Nil
Nil	
No	
No	
Yes	
Yes	Contract Counterparties:
	Nil
Immediate	
Immediate	
No	
No	
	Counterparty Guarantors:
No	Nil
No	
No	
No	Others:
No	Nil
No	

	Valuation Details	Consideration Credit Details
	Applicable Discount Rate: 10% p.a.	Ordering Party Guarantor: Not Applicable

	1	2	3	4
-Participating				
-Non-Participating				
-Participating				
-Non-Participating				

Key:
Counterparty:
1.Interest Rate(% p.a.)
2.Participation rate(%)

Order Party-quarantor
1.Interest Rate(% p.a.)
2.Participation rate(%)

FIG. 42

PRODUCT SPECIFICATION

PRODUCT ID: 1210

Product Summary

Application ID: 100 Product Sponsor:

Product Specification

Market: Factory Output Quality Indices

Sub-market: 64-bit Microprocessor Fault Tolerance Index

Market type: Spot

Establishment date/time: 95.02.10.17.00.00.00

Maturity date/time: 95.02.10.17.00.00.00

Minimum Product Definition Value: 0.00 Maximum Product Definition Value:

Product Details

Conditional Payoff Dimensions ID:	One	Actual/Perceived Market Identifier:	
Market Phenomena Class Identifier:	Fault Tolerance Index	Specific Phenomenon:	
Elemental/compound sub-market Identifier	--	Sub-market Phenomenon Class Identifier:	
Future Period Date/time Identifier:	At Contract Maturity date/time	Event Type Identifier:	
Minimum Product Definition Value:	0	Maximum Product Definition Value:	
Product Establishment Date/time:	92.02.10.17.00.00.00	Product Maturity Date/time:	
Consideration denomination of Product:	Money	Currency type denomination of Product(if applic)	
Entitlement denom. of Product:	Exclusive Production Warrants (XPW's)		

FIG. 42 CONT.

AS AT 92.02.10.17.00.00.00

Demdata Inc

Consideration denom.type: Money

Entitlement denom. type : Exclusive Production Warrants(XPW's)

Currency type (if applic.) : Com Bnk Dep.

National currency type (if applic.): AUD

100 Product Step Value: 02

Actual
Dept of Defense Reject Summaries
--
Spot Value

Elemental/compound
Market Identifier:Single Market

100

Product Step Value: 02

95.02.10.17.00.00.00

Com Bnk Dep.

National currency type denomination
of Product (if applic.) AUD

FIG. 43

PRIMARY ORDER SPECIFICATION AS AT:

Ordering Party:	Denisons
Own reference:	5096263

Application ID:	100

Product:	(ID: 1210)		
Market	Factory Output Quality Indices		
Sub-Market	64B.M.F.T.Index	Market Type	Spot
Estab.date/time	92.02.10.17.00.00.00		
Maturity date/time	95.02.10.17.00.00.00		

Application Promoter	Demdata Inc
Product Sponsor	Demdata Inc
Counterparty-guarantor	--
Regulator	Dept of Defense

"X"Value: 5

X Range Value	1	2	3	4	5	6
Alpha (X)	0	22	48	94	100	
Alpha (X)	0	21.040	21.040	161.900	161.900	

G	1	6				
a	2		11			
m	3			3		
m	4				11	
a	5					

ORDER SUPPORT DETAILS

Communications medium:	Computer-to-computer	
Consideration Credit sought?	No	
Desired Form of Consideration Credit(if appl.)		Not Applicable
Counterparty Collateralisation payments required?		No
Preparedness to make 'own' collateralisation payments(if applicable)?		Not Applicable
Applicable Marginal Tax rate(if applicable)?		
-Consideration:	Not Applicable	
-Entitlements:	Not Applicable	
Netting System Participation?		
-Bilateral Obligations netting?(if applic.)		No
-Bilateral Payments netting?(if applic.)		No
-Multilateral Obligations netting?(if applic.)		No
-Multilateral Payments netting?(if applic.)		No

FIG. 43 CONT.

93.07.01.14.25.30.00

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Consideration type	Money	Money	N.A.
Entitlement type	XPW's	N.A.	XPW's
Currency type(if applic.)	Com Bnk Dep	Com Bnk Dep	Com Bnk Dep
National Curr.type(if applic.)	AUD	AUD	AUD
Max.Consid.Amount	N.A.	32,000	As below

Pricing and Matching Process
Minimize consideration payment under an EV/CE regime

SPECIAL
DEAL TYPE: Not Applicable

Partial Matches desired? No
Manual Approval of Matches desired? No
Desired degree of trading transparency
(if applicable) Not Applicable
Applicable Consid./Entitlement Transfer Entity
Account details: ABC Banking Corp
Operating A/c 1-1-502026-617634-1(and 2)
Desired date/time of Order Submission: Immediate
Desired Order retention perid: 00.00.01.00.00.00
Desired Max.time for counterparty
manual order approval(if applic.): Not Applicable

Preferred/Preferential Dealing:

Not Applicable

Unacceptable Counterparties and Other Stakeholders

Not Applicable

FIG. 44

ORDER SPECIFICATION PRICING By : Demdata Inc

COUNTERPARTY PRICING SPECIFICATION

Application ID:
ProductID:

Defined Circumstances ID 14

Commission Rate: 1.10%

Discount Rate:

Feasible Product Definition Values	Gross Contingent Entitlement Amounts	Op/CP C/Credit Adjust	Net Contingent Entitlement Amounts	Component Product Prices
0-20	0.000	0.00	0.000	0.149588
22-48	(21.040)	0.00	(21.040)	0.666056
50	(27.160)	0.00	(27.160)	0.020458
52	(33.290)	0.00	(33.290)	0.020396
54	(39.410)	0.00	(39.410)	0.020328
56	(45.540)	0.00	(45.540)	0.020258
58	(51.660)	0.00	(51.660)	0.020180
60	(57.790)	0.00	(57.790)	0.008007
62	(63.910)	0.00	(63.910)	0.007927
64	(70.030)	0.00	(70.030)	0.007844
66	(76.160)	0.00	(76.160)	0.007758
68	(82.280)	0.00	(82.280)	0.007669
70	(88.410)	0.00	(88.410)	0.007578
72	(94.530)	0.00	(94.530)	0.007484
74	(100.660)	0.00	(100.660)	0.007387
76	(106.780)	0.00	(106.780)	0.007288
78	(112.910)	0.00	(112.910)	0.007187
80	(119.030)	0.00	(119.030)	0.007084
82	(125.150)	0.00	(125.150)	0.006979
84	(131.280)	0.00	(131.280)	0.006872
86	(137.400)	0.00	(137.400)	0.006763
88	(143.530)	0.00	(143.530)	0.006653
90	(149.650)	0.00	(149.650)	0.006542
92	(155.780)	0.00	(155.780)	0.006429
94-100	(161.900)	0.00	(161.900)	0.019515
				1.06023

x Applic. Entitle. Exchange Rates (.....) (.....) (.....)
C/E Currency Nat Curr.
= Base contract bid price(in Product Denom. terms)
Net Present Value (at..... 9.90% p.a. ...)
+ Flat Commission (..... 1.10% ...)
= Contract Bid Price (in Product Denom. terms)
x Applic. Consid. Exchange Rates (.....) (.....) (.....)
C/E Currency Nat Curr.
= Contract Bid Price (in OP requested terms)(if applic.)
Implied Base 'Margin' on Contract
+ Exchange Rate and Consideration Investment Margin
= Implied Contract Value (to CP)

FIG. 44 CONT.

AS AT 93.07.01.14.26.40.00

100 1210	Consideration Exchange Rates (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....
9.90% p.a.	Entitlement Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....

Implied Contingent Entitlement Amounts	Assessed Probabilities of Occurence	Net Contingent Entitlement (Valuation) Amts.	Net Contingent Negative Entitlement (Valuation) Amounts	Maximum Absolute Negative Entitlement Amounts
0.000	0.195375	0.000	0.000	
(14.014)	0.620536	(13.056)	(13.056)	
(0.555)	0.008358	(0.227)	(0.227)	
(0.678)	0.008295	(0.276)	(0.276)	
(0.801)	0.008228	(0.324)	(0.324)	
(0.923)	0.008158	(0.372)	(0.372)	
(1.043)	0.008084	(0.418)	(0.418)	
(0.463)	0.008007	(0.463)	(0.463)	
(0.507)	0.007927	(0.507)	(0.507)	
(0.549)	0.007844	(0.549)	(0.549)	
(0.591)	0.007758	(0.591)	(0.591)	
(0.631	0.007669	(0.631	(0.631	
(0.670)	0.007578	(0.670)	(0.670)	
(0.707)	0.007484	(0.707)	(0.707)	
(0.744)	0.007387	(0.744)	(0.744)	
(0.778)	0.007288	(0.778)	(0.778)	
(0.811)	0.007187	(0.811)	(0.811)	
(0.843)	0.007084	(0.843)	(0.843)	
(0.873)	0.006979	(0.873)	(0.873)	
(0.902)	0.006872	(0.902)	(0.902)	
(0.929)	0.006763	(0.929)	(0.929)	
(0.955)	0.006653	(0.955)	(0.955)	
(0.979)	0.006542	(0.979)	(0.979)	
(1.002)	0.006429	(1.002)	(1.002)	
(3.159)	0.019515	(3.159)	(3.159)	(161.900)
(34.110)	1.0000	(30.770)	(30.770)	(161.900)

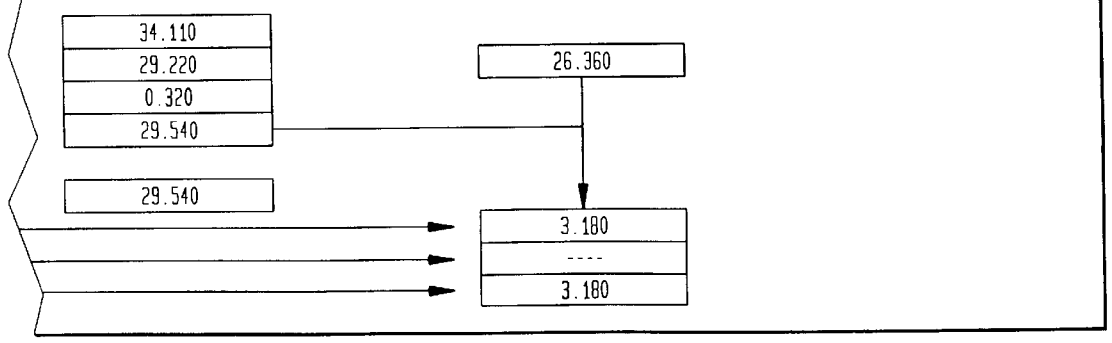


FIG. 45

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Denisons
Counterparty:	Demdata Inc

Application ID:	100
O.P.Own reference:	5096263

Product:	(ID:	1210	)
Market	Factory Output Quality Indices		
Sub-Market	64B.M.F.T.Index	Market Type	Spot
Estab.date/time		92.02.10.17.00.00.00	
Maturity date/time		95.02.10.17.00.00.00	

Application Promoter	Demdata Inc
Product Sponsor	Demdata Inc
Counterparty-guarantor	--
Regulator	Dept of Defense

Order ID (if app.)	85746235
Conf.date/time (if app.)	93.07.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at 93.07.01.16.00.00.00

	F.P.V's	Contract
Expected Value	38	29.330
Std. Deviation	4	6.213

Special Deal Type: Not Applicable

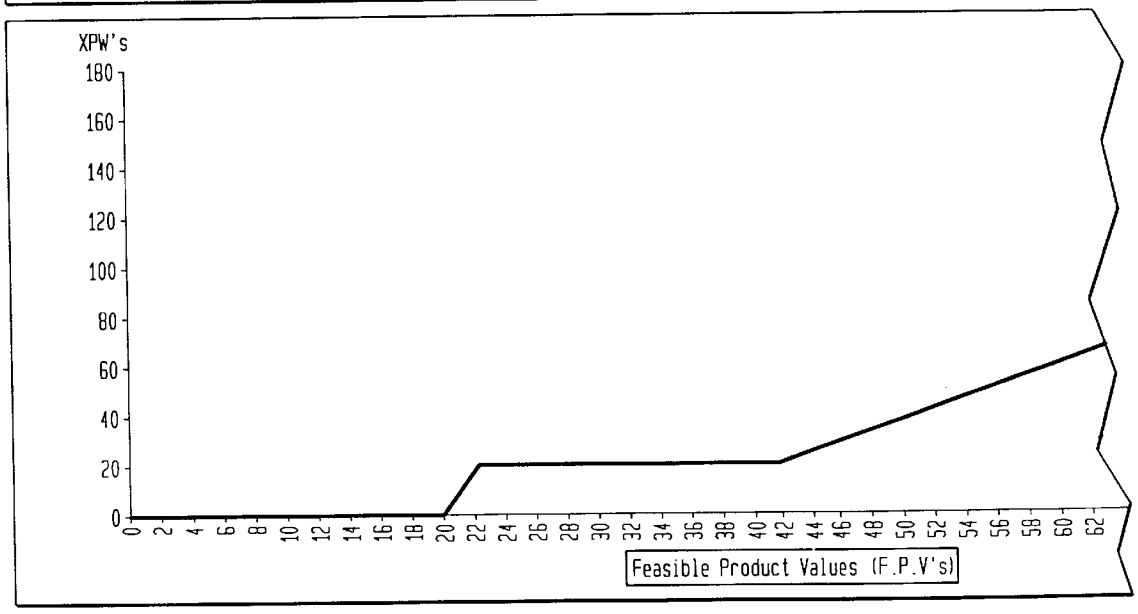


FIG. 45 CONT.

AS AT 93.07.01.16.00.00.00 Report for: Denisons

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money/XPW's	Money	XPW's
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	N.A.
National Curr.type(if applic.)	AUD	AUD	N.A.
Amount	N.A.	29.540	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

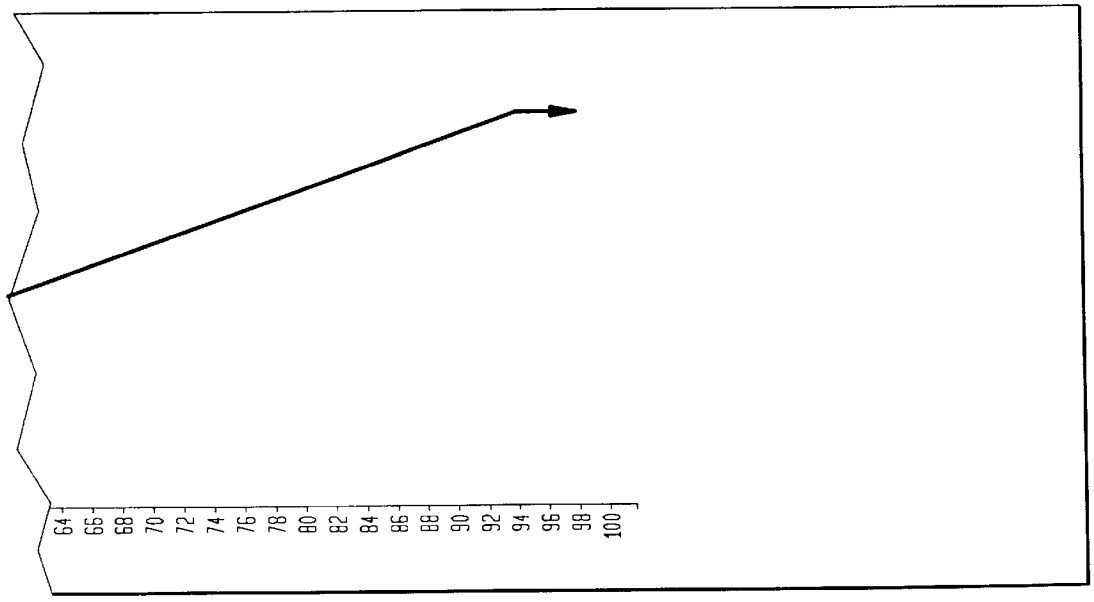


FIG. 46

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Denisons
Counterparty:	Demdata Inc

Application ID:	100
C.P.Own reference:	MD2-D

Product:	(ID	1210	)
Market	Factory Output Quality Indices		
Sub-Market	64B.M.F.T.Index	Market Type	Spot
Estab.date/time		92.02.10.17.00.00.00	
Maturity date/time		95.02.10.17.00.00.00	

Application Promoter	Demdata Inc
Product Sponsor	Demdata Inc
Counterparty-guarantor	--
Regulator	Dept of Defense

Order ID (if app.)	85746235
Conf.date/time (if app.)	93.07.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at 93.07.01.16.00.00.00

	F.P.V's	Contract
Expected Value	38	(29.330)
Std. Deviation	4	(6.213)

Special Deal Type: Not Applicable

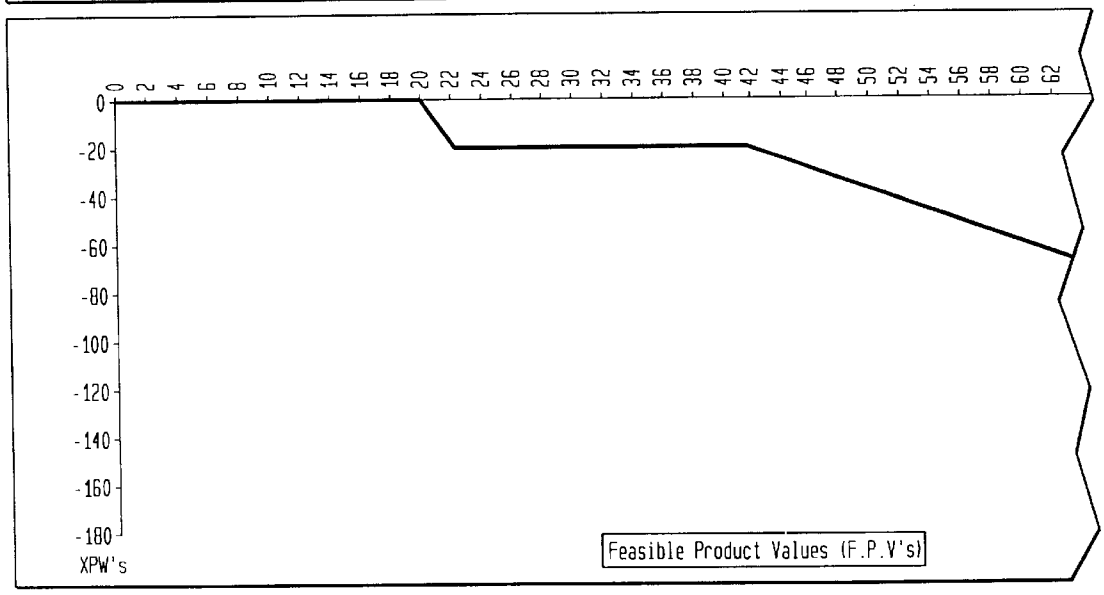


FIG. 46 CONT.

AS AT: 93.07.01.16.00.00.00 Report for: Demdata Inc

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money/XPW's	Money	XPW's
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	N.A.
National Curr.type(if applic.)	AUD	AUD	N.A.
Amount	N.A.	29.540	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

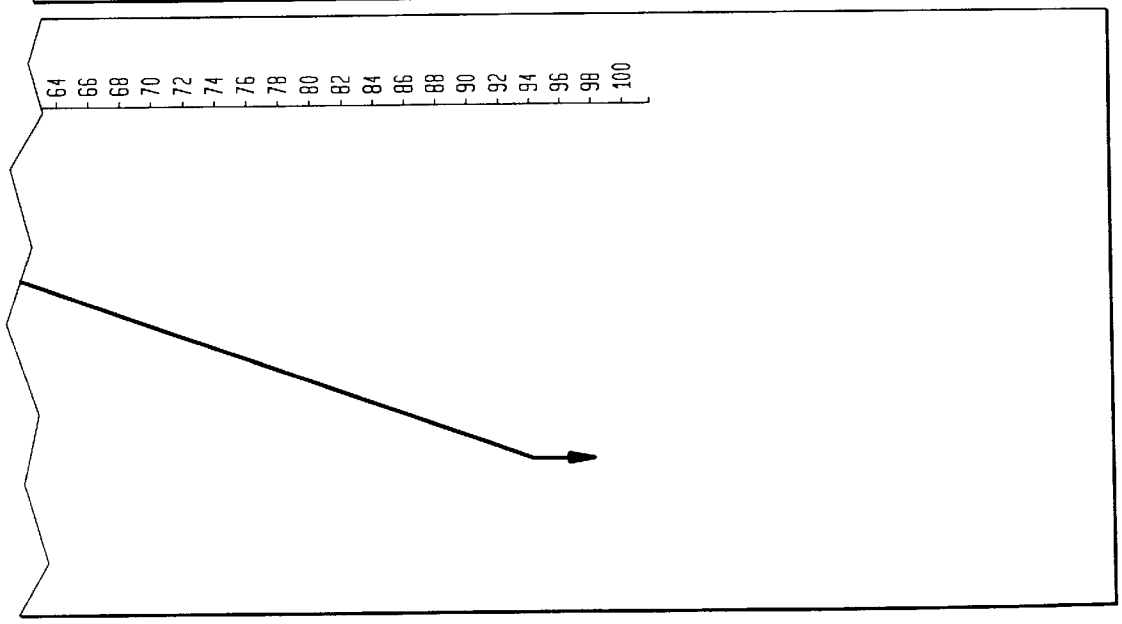


FIG. 47

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Denisons
Counterparty:	Demdata Inc

Application ID:	100
O.P.Own reference:	5096263

Product:	(ID:	1210	)
Market	Factory Output Quality Indices		
Sub-Market	64B.M.F.T.Index	Market Type	Spot
Estab.date/time		92.02.10.17.00.00.00	
Maturity date/time		95.02.10.17.00.00.00	

Application Promoter	Demdata Inc
Product Sponsor	Demdata Inc
Counterparty-guarantor	--
Regulator	Dept of Defense

Order ID (if app.)	85746235
Conf.date/time (if app.)	93.07.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at 94.11.15.10.00.00

	F.P.V's	Contract
Expected Value	58	42.160
Std. Deviation	5	6.209

Special Deal Type: Not Applicable

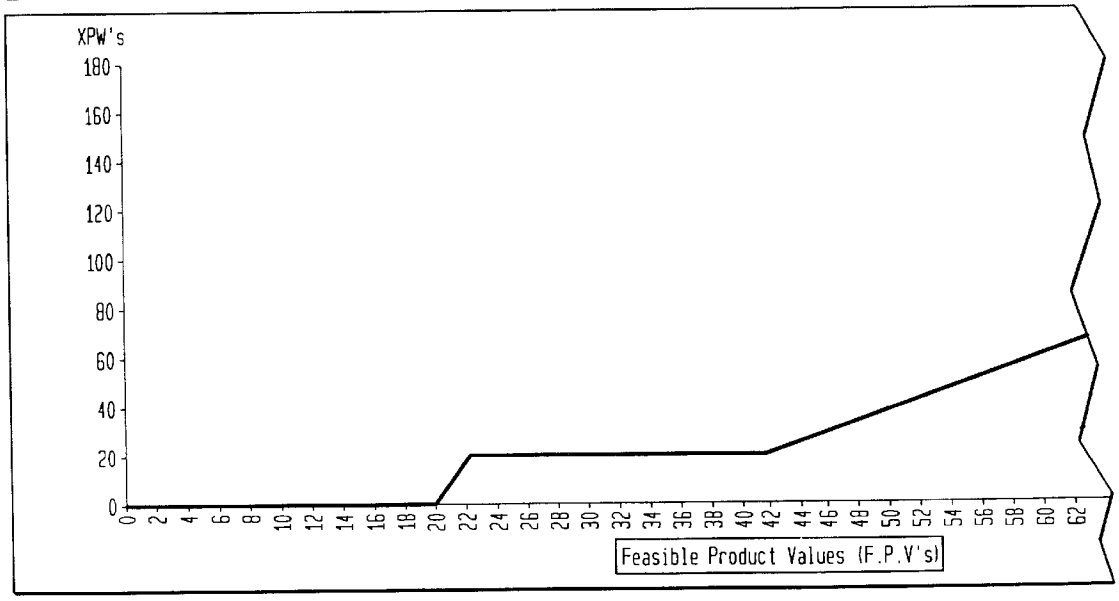


FIG. 47 CONT.

AS AT: 94.11.15.10.00.00.00 Report for: Denisons

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money/XPW's	Money	XPW's
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	N.A.
National Curr.type(if applic.)	AUD	AUD	N.A.
Amount	N.A.	29,540	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

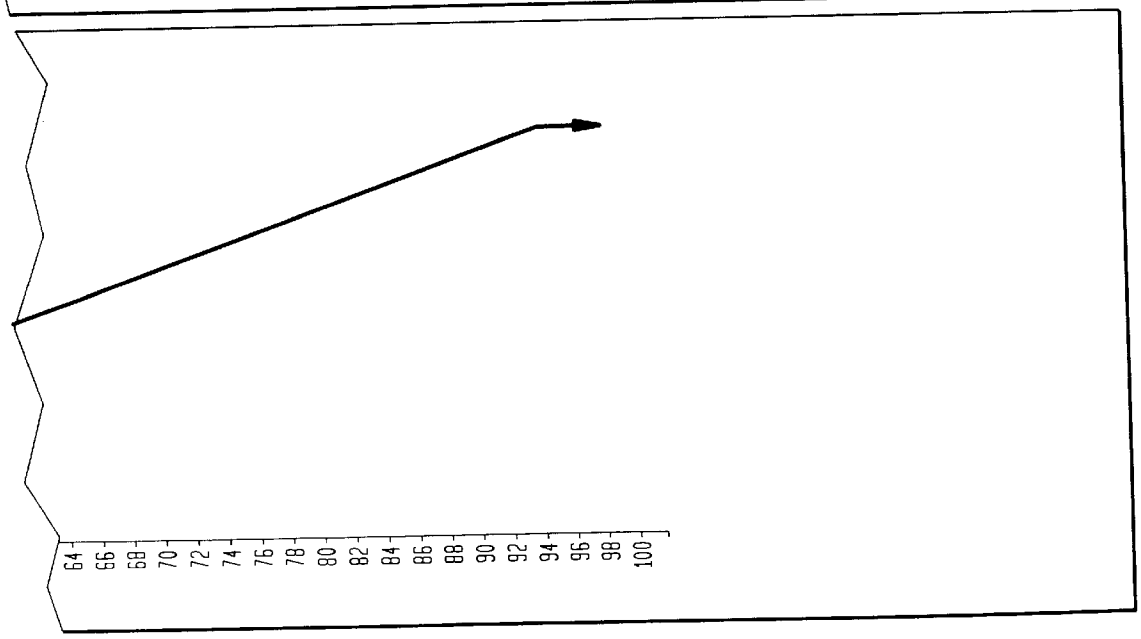


FIG. 48

CONTRACT MATURITY

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Denisons
Counterparty:	Demdata Inc

Application ID:	100
O.P.Own reference:	5096263

Product:	(ID	1210	)
Market	Factory Output Quality Indices		
Sub-Market	64B.M.F.T.Index	Market Type	Spot
Estab.date/time		92.02.10.17.00.00.00	
Maturity date/time		95.02.10.17.00.00.00	

Application Promoter	Demdata Inc
Product Sponsor	Demdata Inc
Counterparty-guarantor	--
Regulator	Dept of Defense

Order ID (if app.)	85746235
Conf.date/time (if app.)	93.07.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at 95.02.10.17.00.00.00

	F.P.V's	Contract
Expected Value	74	100.660
Std. Deviation	0	0

Special Deal Type: Not Applicable

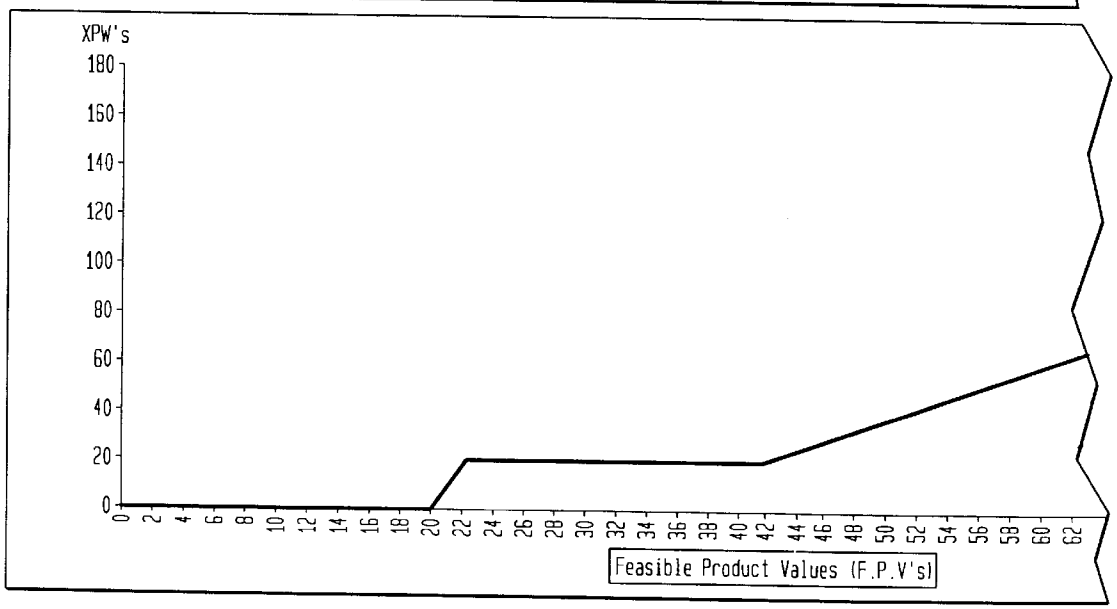


FIG. 48 CONT.

AS AT: 95.02.10.17.00.00.00 Report for: Denisons

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money/XPW's	Money	XPW's
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	N.A.
National Curr.type(if applic.)	AUD	AUD	N.A.
Amount	N.A.	29,540	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

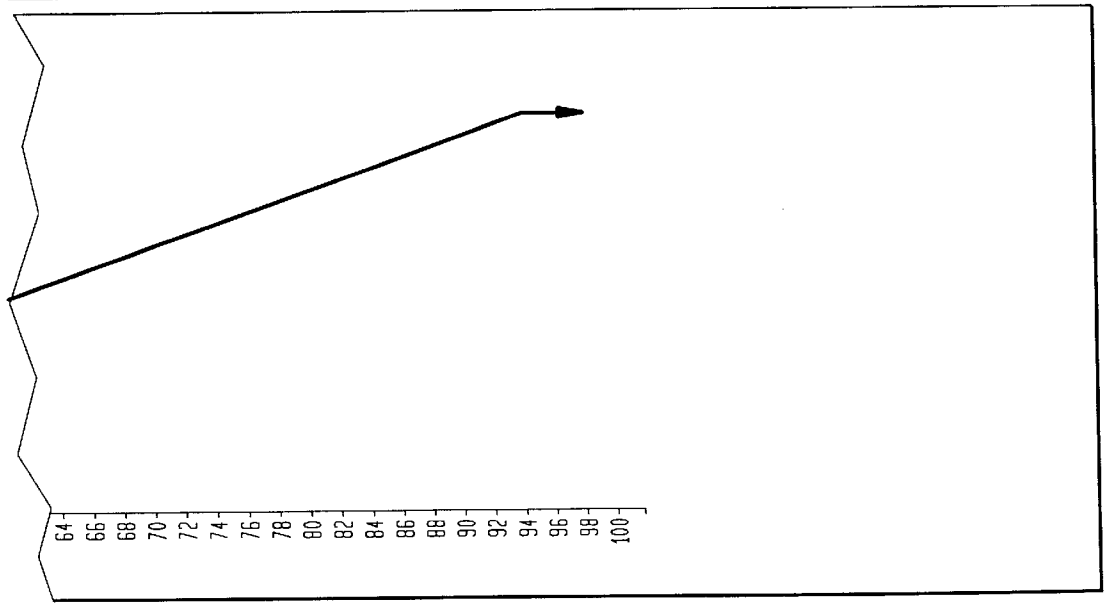


FIG. 49

APPLICATION SPECIFICATION

Part A

Application ID:	001	Applicable Product ID's
Application Promoter:	Newcom Inc	Preferred/preferential dealing?
Primary Application Use:	Hardware capacity management	Pre or Post Tax Matching?
Feasible Counterparty No's:	Multiple counterparties	Tax deduction/subsidy at source?
Public/private use?:	Private	Degree of Trading transparency:
Acceptable comms mediums:	Computer to computer	Secondary trading allowed?
Retail/Wholesale Use:	Wholesale	Derivative trading allowed?
Pricing and Matching Process:	Minimize consideration payment under an EV/CE regime	Deferred Order Submissions possible?
		Partial Matches possible?
		Settlement terms:
		- considerations
		- entitlements
Contract Revaluation Frequency:	Daily	Manual Approvals possible?
		Ordering Party consideration credit?
Ordering Parties allowed negative contract payoffs?	Yes	Collateralisation Payments?
Application Access Limitations:	Nil	- Counterparties
		- Ordering Parties
		Bilateral Obligations Netting?
		Bilateral Payments Netting?
		Multilateral Obligations Netting?
		Multilateral Payments Netting?

Netting Details (if applicable)		Collateralisation Details (if applicable)	
Applicable Discount Rate:	Not applicable	Trustee:	Not Applicable
Obligation Netting trigger:	Not applicable		
Min required settlements:	Not applicable		

Ordering Party Consideration-Credit Options

Counterparty provided?	--Participating Basis:	--Ord.Party-guarantor protected
		--Unprotected
	--Non-Participating basis:	--Ord.Party-guarantor protected
		--Unprotected
Ordering Party Guarantor provided?	--Participating basis:	
	--Non-Participating basis:	

FIG. 49 CONT.

AS AT 93.11.01.17.00.00.00

2001-2020	Application Access Limitations
Available	
Not applicable	Contract Ordering Parties:
Not applicable	Nil
Nil	
Yes	
Yes	
Yes	
Yes	Contract Counterparties:
	Nil
Immediate	
Immediate	
No	
No	
	Counterparty Guarantors:
No	Nil
No	
No	
No	Others:
No	Nil
No	

	Valuation Details	Consideration Credit Details
	Applicable Discount Rate: 6.50%	Ordering Party Guarantor: Not Applicable

	1	2	3	4
-Participating				
-Non-Participating				
-Participating				
-Non-Participating				

Key:
Counterparty:
1.Interest Rate(% p.a.)
2.Participation rate(%)

Order Party-guarantor
1.Interest Rate(% p.a.)
2.Participation rate(%)

FIG. 50

PRODUCT SPECIFICATION

PRODUCT ID: 2001

Product Summary

Application ID: 001 Product Sponsor:

Product Specification

Market: Telecommunications Carrying Capacity

Sub-market: Prime T.T.U.'s (Transmission time units 1200-1800 hrs daily NY-Boston link)

Market type: Spot

Establishment date/time: 93.11.01.17.00.00.00

Maturity date/time: 96.11.01.17.00.00.00

Minimum Product Definition Value: -1.000 Maximum Product Definition Value:

Product Details

Conditional Payoff Dimensions ID: One Actual/Perceived Market Identifier:

Market Phenomena Class Identifier: Primary Specific Phenomenon:

Elemental/compound sub-market Identifier -- Sub-market Phenomenon Class Identifier:

Future Period Date/time Identifier: At Contract Maturity date/time Event Type Identifier:

Minimum Product Definition Value: -1.000 Maximum Product Definition Value:

Product Establishment Date/time: 93.11.01.17.00.00.00 Product Maturity Date/time:

Consideration denomination of Product: Ord Party T.T.U.'s Currency type denomination of Product(if applic)

Entitlement denom. of Product: Counterparty T.T.U.'s (Transmission Time Units)

FIG. 50 CONT.

AS AT: 93.11.01.17.00.00.00

Newcom Inc

Consideration denom.type: Ordering party T.T.U.'s

Entitlement denom.type Counterparty T.T.U.'s

Currency type(if applic.): Not applicable

National currency type(if applic.): Not applicable

1.000 Product Step Value: 0.05

Actual

(Log of) difference in the OP's utilization of the CP's network and the CP's utilization of the OP's network

--

Spot Value

Elemental/compound

Market Identifier:Single Market

1.000

Product Step Value: 0.05

96.11.01.17.00.00.00

Not applicable

National currency type denomination of Product (if applic.) Not applicable

FIG. 51

PRIMARY ORDER SPECIFICATION AS AT:

Ordering Party:	Basstel Co.
Own reference:	06H582

Application ID:	001

Product:	(ID: 2001)		
Market	Telecommunications Carrying Capacity		
Sub-Market	Prime T.T.U.'s	Market Type	Spot
Estab.date/time	93.11.01.17.00.00.00		
Maturity date/time	96.11.01.17.00.00.00		

Application Promoter	Newcom Inc
Product Sponsor	Newcom Inc
Counterparty-guarantor	--
Regulator	I.T.T.

"X"Value: 4

X Range Value	1	2	3	4		
Alpha (X)	(1.00)	(0.35)	0.20	1.00		
Beta (X)	386.340	386.340	(498.43)	(498.43)		

G	1	11			
a	2		8		
m	3			11	
m	4				
a	5				

ORDER SUPPORT DETAILS

Communications medium:	Computer-to-computer	
Consideration Credit sought?	No	
Desired Form of Consideration Credit(if appl.)		Not Applicable
Counterparty Collateralisation payments required?		No
Preparedness to make 'own' collateralisation payments(if applicable)?		Not Applicable
Applicable Marginal Tax rate(if applicable)?		
-Consideration:	Not Applicable	
-Entitlements:	Not Applicable	
Netting System Participation?		
-Bilateral Obligations netting?(if applic.)		No
-Bilateral Payments netting?(if applic.)		No
-Multilateral Obligations netting?(if applic.)		No
-Multilateral Payments netting?(if applic.)		No

FIG. 51 CONT.

94.06.01.14.25.30.00

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Consideration type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Entitlement type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Currency type(if applic.)	N.A.	N.A.	N.A.
National Curr.type(if applic.)	N.A.	N.A.	N.A.
Max.Consid.Amount	N.A.	58.000	As below

Pricing and Matching Process:
Minimize consideration payment under an EV/CE regime

SPECIAL DEAL TYPE: Ordering party negative entitlement allowed.

Partial Matches desired? No
Manual Approval of Matches desired? No
Desired degree of trading transparency (if applicable) Not Applicable
Applicable Consid./Entitlement Transfer Entity
Account details: ABC Banking Corp
Operating A/c 1-1-502026-345896-0
Desired date/time of Order Submission: Immediate
Desired Order retention period: 00.00.01.00.00.00
Desired Max.time for counterparty manual order approval(if applic.): Not Applicable

Preferred/Preferential Dealing:

Nil

Unacceptable Counterparties and Other Stakeholders

Not Applicable

FIG. 52

ORDER SPECIFICATION PRICING By: Tasnet

COUNTERPARTY PRICING SPECIFICATION

Application ID:
ProductID:

Defined Circumstances ID 8

Commission Rate: 1.00%

Discount Rate:

Feasible Product Definition Values	Gross Contingent Entitlement Amounts	OP/CP C/Credit Adjust	Net Contingent Entitlement Amounts	Component Product Prices
(1.00)-(0.35)	(386.340)	0.00	(386.340)	0.567639
(0.30)	(305.910)	0.00	(305.910)	0.022156
(0.25)	(225.470)	0.00	(225.470)	0.021499
(0.20)	(145.040)	0.00	(145.040)	0.019544
(0.15)	(64.610)	0.00	(64.610)	0.017349
(0.10)	15.830	0.00	15.830	0.017241
(0.05)	92.260	0.00	96.260	0.016989
0	176.700	0.00	176.700	0.016258
0.05	257.130	0.00	257.130	0.016001
0.10	337.560	0.00	337.560	0.015847
0.15	418.000	0.00	418.000	0.015654
0.20-1.00	498.430	0.00	498.430	0.290238
				1.036416

x Applic. Entitle. Exchange Rates (.....) (.....) (.....)
C/E Currency Net Curr.
= Base contract bid price(in Product Denom. terms)
Net Present Value (at..... 9.90% p.a. ...)
+ Flat Commission (..... 1.00% ...)
= Contract Bid Price (in Product Denom. terms)
x Applic. Consid. Exchange Rates (.....) (.....) (.....)
C/E Currency Net Curr.
= Contract Bid Price (in OP requested terms)(if applic.)
Implied Base 'Margin' on Contract
+ Exchange Rate and Consideration Investment Margin
= Implied Contract Value (to CP)

FIG. 52 CONT.

AS AT:94.06.01.14.26.40.00

001 2001	Consideration Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....
9.90% p.a.	Entitlement Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....

Implied Contingent Entitlement Amounts	Assessed Probabilities of Occurence	Net Contingent Entitlement (Valuation) Amts.	Net Contingent Negative Entitlement (Valuation) Amounts	Maximum Absolute Negative Entitlement Amount
(219.302)	0.544514	(210.3675)	(210.3675)	
(6.777)	0.016838	(5.151)	(5.151)	
(4.847)	0.016793	(3.786)	(3.786)	
(2.8346)	0.016718	(2.425)	(2.425)	
(1.1209)	0.016614	(1.073)	(1.073)	
0.2729	0.016481	0.261		
1.6354	0.016320	1.571		
2.8727	0.016132	2.851		
4.1143	0.015918	4.093		
5.3493	0.015678	5.292		
6.5433	0.015414	6.443		
144.6633	0.29257	145.825		(498.43)
(69.432)	1.0000	(56.463)	(222.8025)	(498.430)

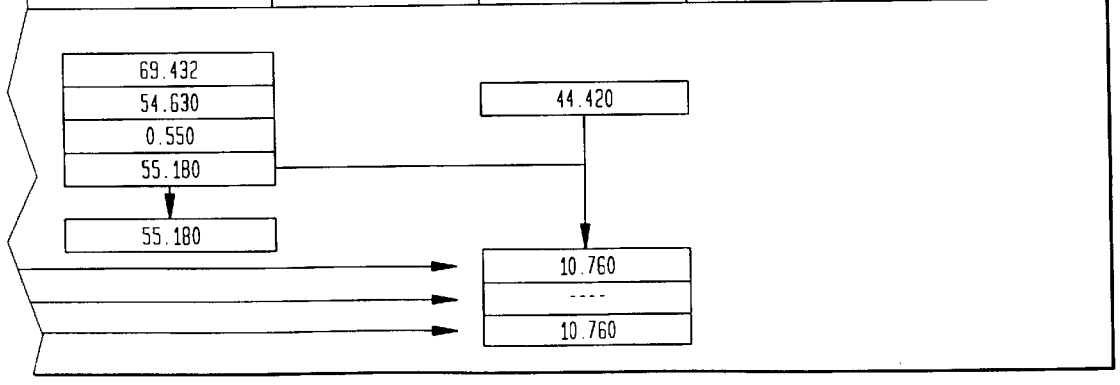


FIG. 53

ORDER SPECIFICATION PRICING By : Aarcom

COUNTERPARTY PRICING SPECIFICATION

Application ID:
ProductID:

Defined Circumstances ID 9

Commission Rate: 0.90%

Discount Rate:

Feasible Product Definition Values	Gross Contingent Entitlement Amounts	OP/CP C/Credit Adjust.	Net Contingent Entitlement Amounts	Component Product Prices
(1.00)-(0.35)	(386.340)	0.00	(386.340)	0.566603
(0.30)	(305.910)	0.00	(305.910)	0.018357
(0.25)	(225.470)	0.00	(225.470)	0.018492
(0.20)	(145.040)	0.00	(145.040)	0.018417
(0.15)	(64.610)	0.00	(64.610)	0.018313
(0.10)	15.830	0.00	15.830	0.016481
(0.05)	92.260	0.00	92.260	0.016320
0	176.700	0.00	176.700	0.016132
0.05	257.130	0.00	257.130	0.015918
0.10	337.560	0.00	337.560	0.015678
0.15	418.000	0.00	418.000	0.015414
0.20-1.00	498.430	0.00	498.430	0.292577
				1.028702

x Applic. Entitle Exchange Rates (.....) (.....) (.....)
C/E Currency Net Curr.
= Base contract bid price(in Product Denom. terms)
Net Present Value (at..... 8.50% p.a...)
+ Flat Commission (..... 0.90% ...)
= Contract Bid Price (in Product Denom. terms)
x Applic. Consid. Exchange Rates (.....) (.....) (.....)
C/E Currency Net Curr.
= Contract Bid Price (in OP requested terms)(if applic.)
Implied Base 'Margin' on Contract
+ Exchange Rate and Consideration Investment Margin
= Implied Contract Value (to CP)

FIG. 53 CONT.

AS AT:94.06.01.14.26.40.00

001 2001	Consideration Exchange Rates (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....
8.50% p.a.	Entitlement Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....

Implied Contingent Entitlement Amounts	Assessed Probabilities of Occurence	Net Contingent Entitlement (Valuation) Amts.	Net Contingent Negative Entitlement (Valuation) Amounts	Maximum Absolute Negative Entitlement Amount
(218.901)	0.545015	(210.561)	(210.561)	
(5.616)	0.017545	(5.3672)	(5.3672)	
(4.169)	0.017020	(3.83749)	(3.83749)	
(2.671)	0.016978	(2.4625)	(2.4625)	
(1.183)	0.016875	(1.0902)	(1.0902)	
0.261	0.016754	0.265		
1.571	0.016256	1.565		
2.851	0.015689	2.772		
4.093	0.015456	3.974		
5.292	0.015625	5.274		
6.443	0.015401	6.438		
145.829	0.291395	145.240		(498.430)
(66.200)	1.0000	(57.790)	(223.318)	(498.430)

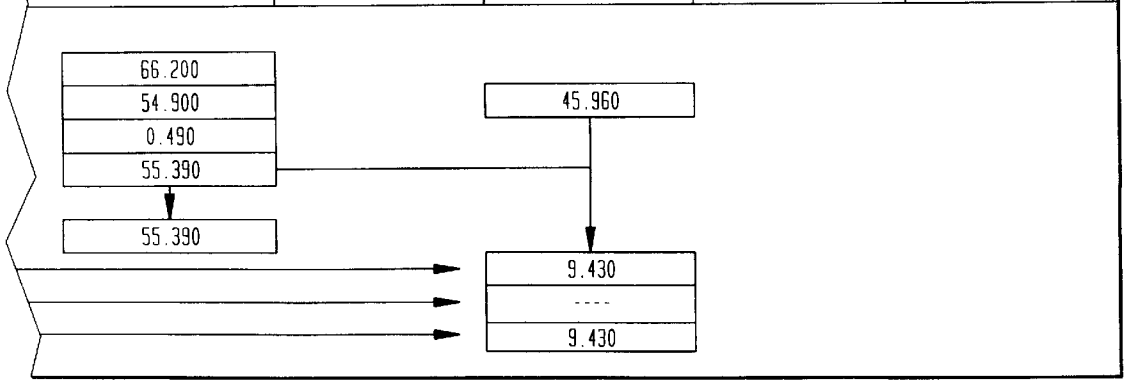


FIG. 54

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Basstel Co.
Counterparty:	Tasnet

Application ID:	001
C.P.Own reference:	17M036

Product:	(ID:	2001	)
Market	Telecommunications carrying capacity		
Sub-Market	Prime T.T.U.'s	Market Type	Spot
Estab.date/time	93.11.01.17.00.00.00		
Maturity date/time	96.11.01.17.00.00.00		

Application Promoter	Newcom Inc
Product Sponsor	Newcom Inc
Counterparty-guarantor	--
Regulator	I.T.T.

Order ID (if app.)	92837465
Conf.date/time (if app.)	94.06.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at	94.06.01.16.00.00.00	
	F.P.V's	Contract
Expected Value	(0.150)	54.236
Std. Deviation	0.023	9.207

Special Deal Type: Ordering party negative entitlement allowed

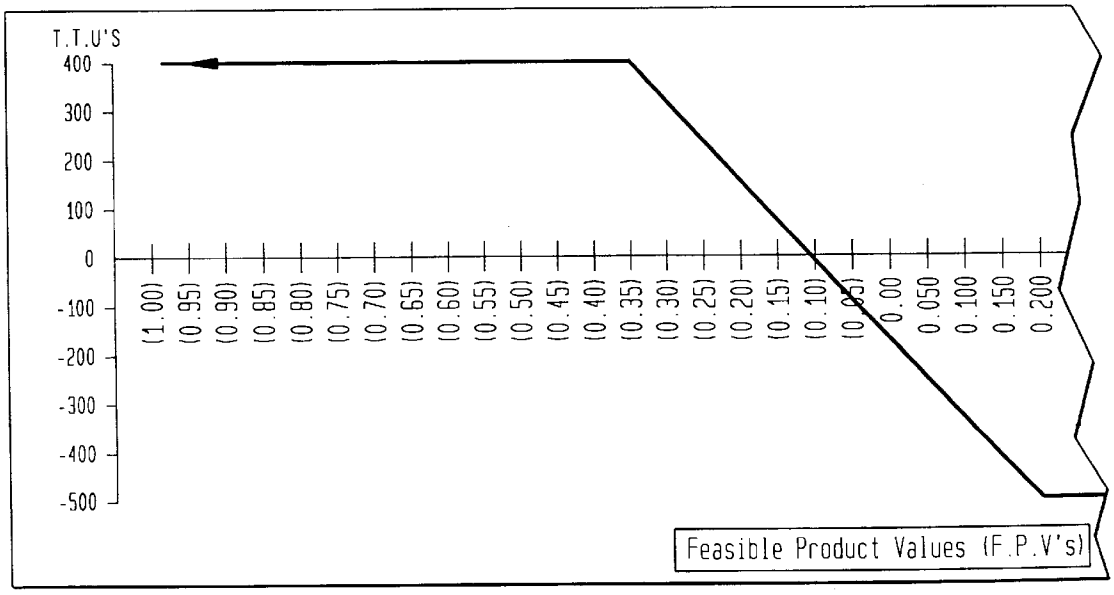


FIG. 54 CONT.

AS AT 94.06.01.16.00.00.00 Report for: Basstel Co.

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Currency type(if app)	N.A.	N.A.	N.A.
National Curr.type(if applic.)	N.A.	N.A.	N.A.
Amount	N.A.	55,180	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

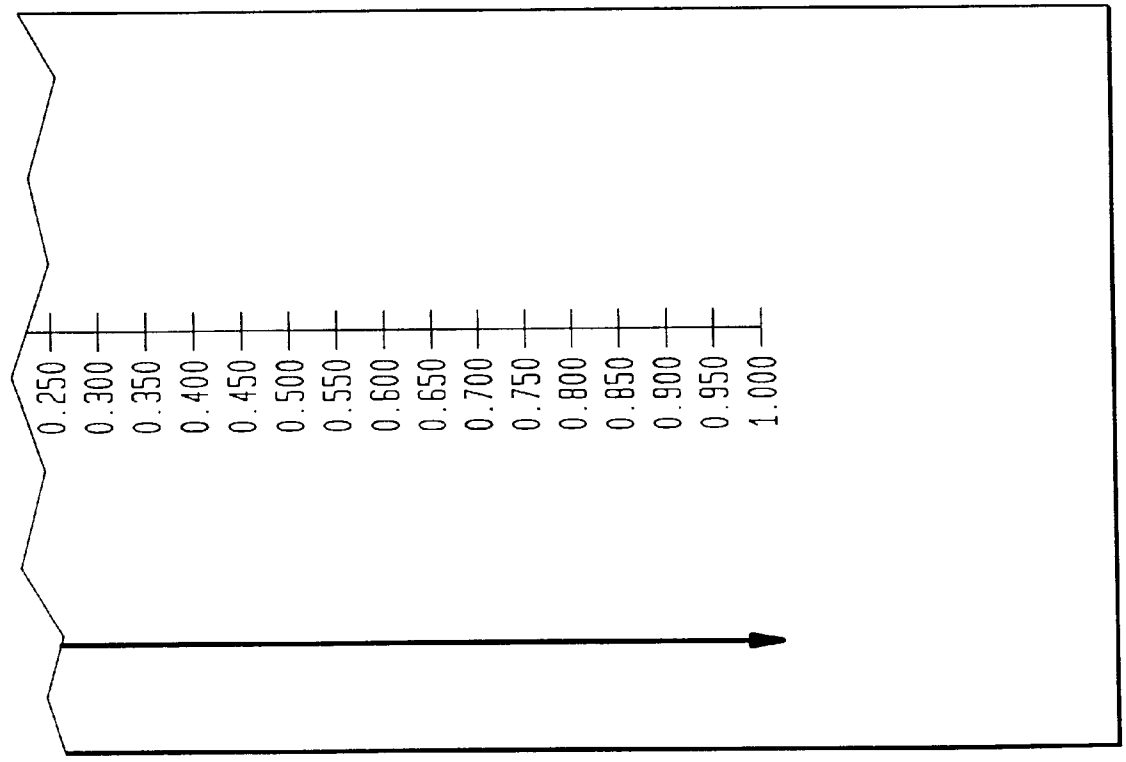


FIG. 55

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Basstel Co
Counterparty:	Tasnet

Application ID:	001
O.P.Own Reference:	06H582

Product:	(ID	2001	)
Market	Telecommunications carrying capacity		
Sub-Market	Prime T.T.U.'s	Market Type	Spot
Estab.date/time	93.11.01.17.00.00.00		
Maturity date/time	96.11.01.17.00.00.00		

Application Promoter	Newcom Inc
Product Sponsor	Newcom Inc
Counterparty-guarantor	--
Regulator	I.T.T.

Order ID (if app.)	92837465
Conf.date/time (if app.)	94.06.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at	94.06.01.16.00.00.00	
	F.P.V's	Contract
Expected Value	(0.150)	54.236
Std. Deviation	0.023	9.207

Special Deal Type: Ordering party negative entitlement allowed

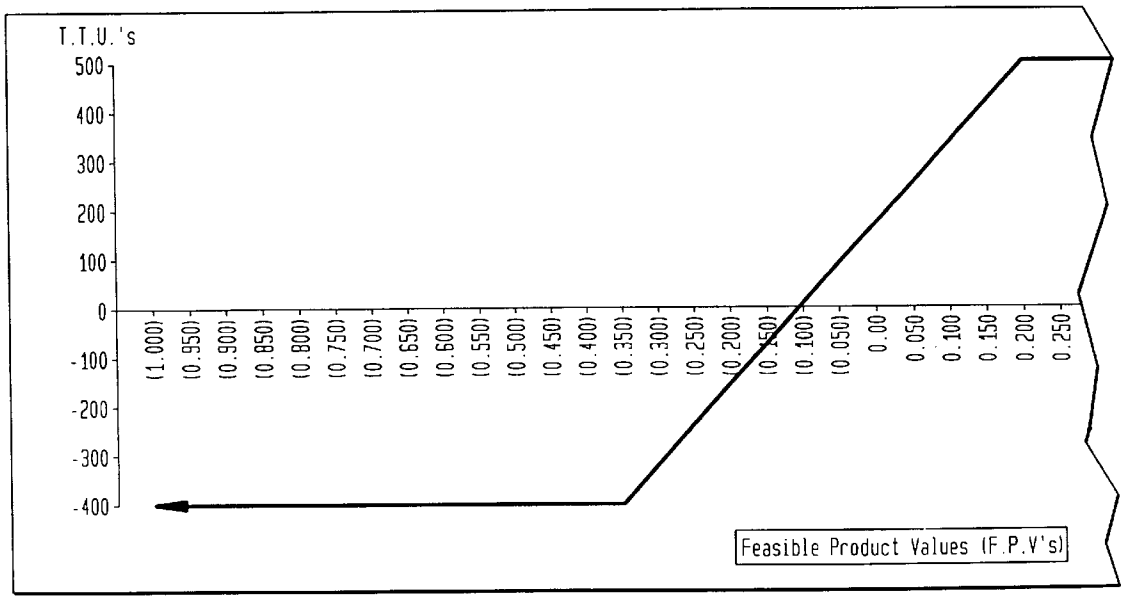


FIG. 55 CONT.

AS AT 94.06.01.16.00.00.00 Report for: Tasnet

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Currency type(if app)	N.A.	N.A.	N.A.
National Curr.type(if applic.)	N.A.	N.A.	N.A.
Amount	N.A.	55,180	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

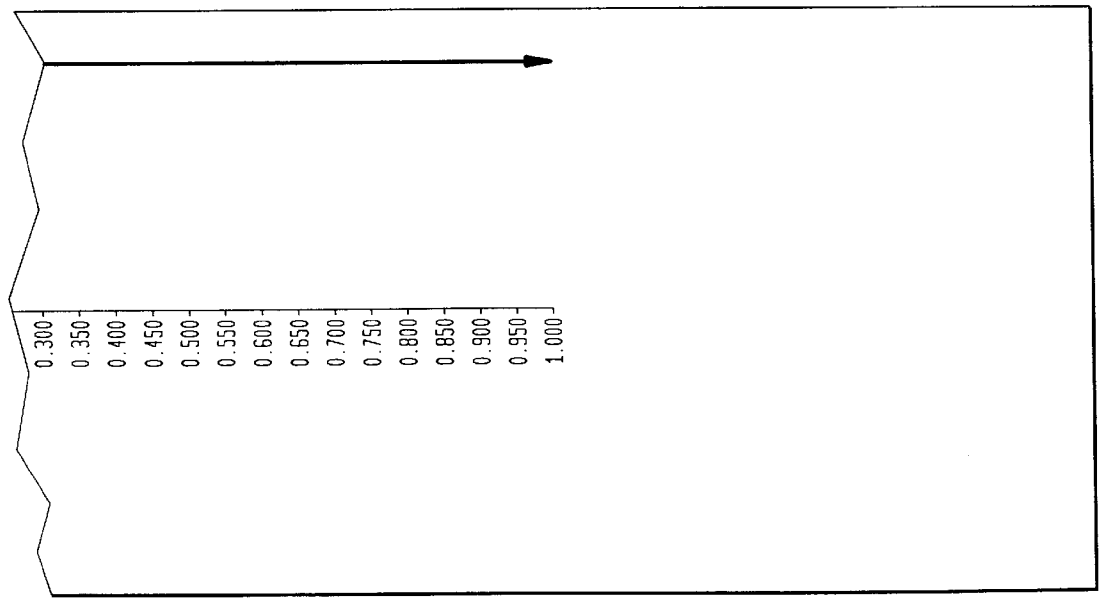


FIG. 56

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Basstel Co
Counterparty:	Tasnet

Application ID:	001
C.P.Own reference:	17M036

Product:	(ID	2001	)
Market	Telecommunications carrying capacity		
Sub-Market	Prime T.T.U.'s	Market Type	Spot
Estab.date/time		93.11.01.17.00.00.00	
Maturity date/time		96.11.01.17.00.00.00	

Application Promoter	Newcom Inc
Product Sponsor	Newcom Inc
Counterparty-guarantor	--
Regulator	I.T.T.

Order ID (if app.)	92837465
Conf.date/time (if app.)	94.06.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at 94.11.22.10.00.00.00

	F.P.V's	Contract
Expected Value	(0.400)	350.810
Std. Deviation	0.010	74.200

Special Deal Type: Ordering party negative entitlement allowed

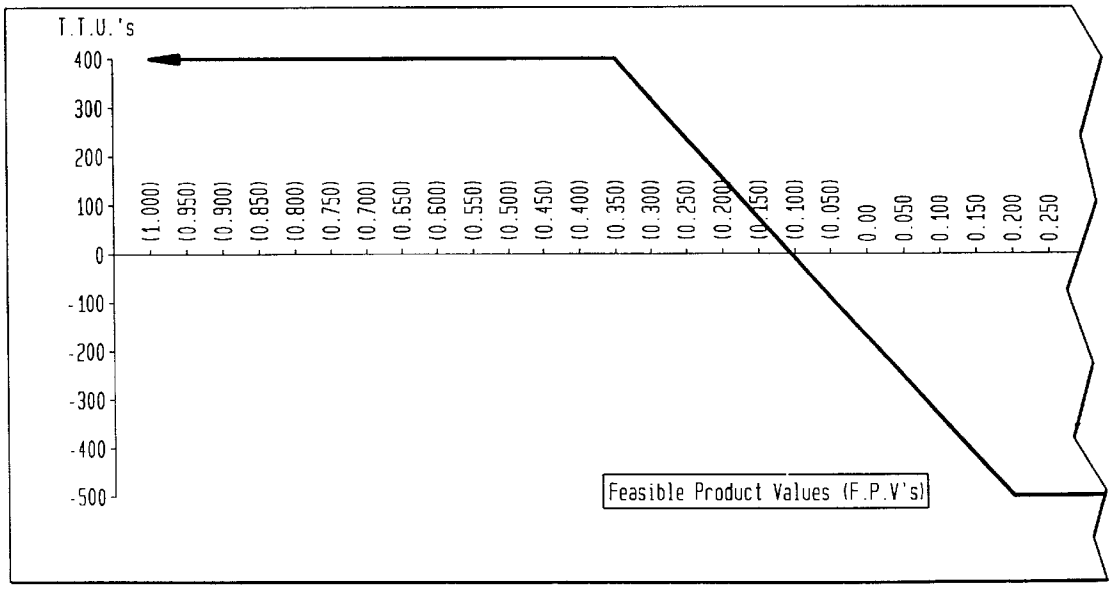


FIG. 56 CONT.

AS AT 94.11.22.10.00.00.00 Report for: Basstel Co

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Currency type(if app)	N.A.	N.A.	N.A.
National Curr.type(if applic.)	N.A.	N.A.	N.A.
Amount	N.A.	55,180	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

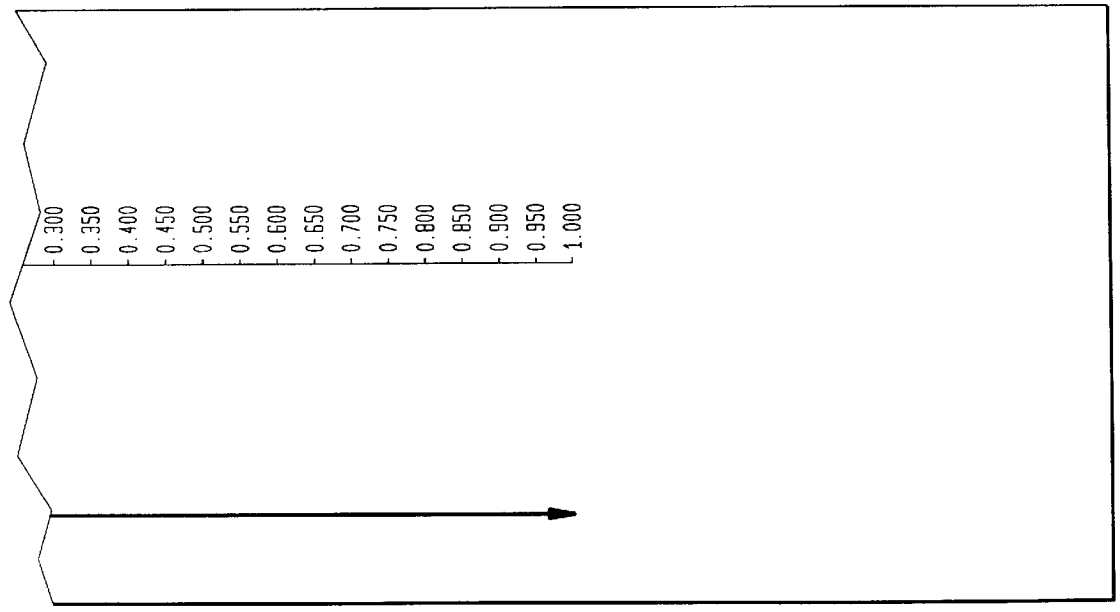


FIG. 57

CONTRACT MATURITY

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Basstel Co
Counterparty:	Tasnet

Application ID:	001
C.P.Own reference:	17M036

Product:	(ID:	2001	)
Market	Telecommunications carrying capacity		
Sub-Market	Prime T.T.U.'s	Market Type	Spot
Estab.date/time		93.11.01.17.00.00.00	
Maturity date/time		96.11.01.17.00.00.00	

Application Promoter	Newcom Inc
Product Sponsor	Newcom Inc
Counterparty-guarantor	--
Regulator	I.T.T.

Order ID (if app.)	92837465
Conf.date/time (if app.)	94.06.01.14.38.50.00
Contract/Product context:	1 of 1

Valuations as at	96.11.01.17.00.00.00	
	F.P.V's	Contract
Expected Value	(0.400)	386.340
Std. Deviation	0	0

Special Deal Type: Ordering party negative entitlement allowed

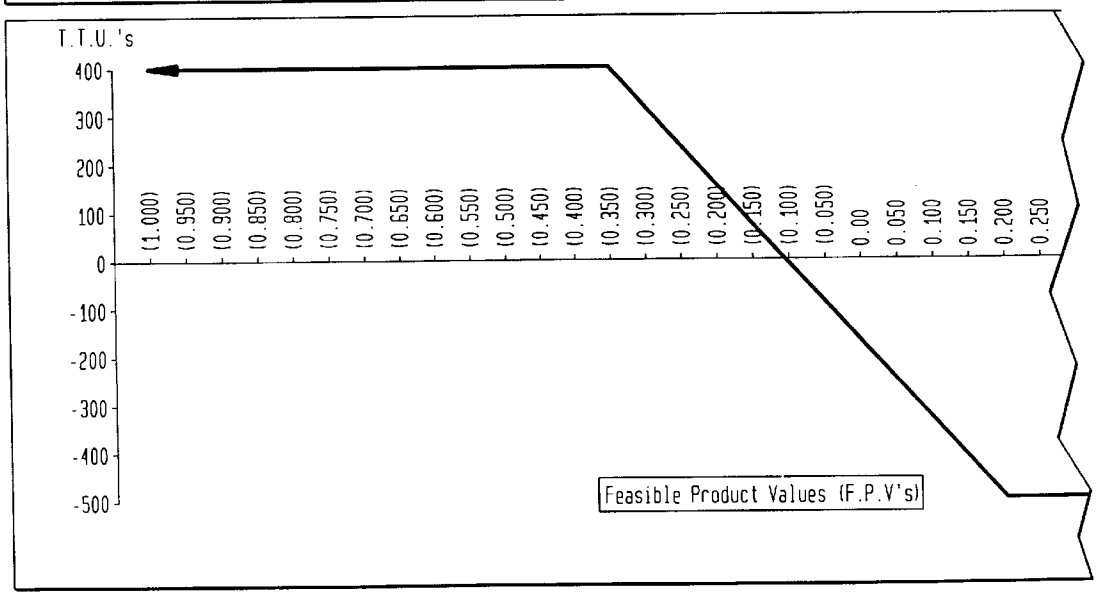


FIG. 57 CONT.

AS AT 96.11.01.17.00.00.00 Report for: Basstel Co

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	T.T.U.'s	T.T.U.'s	T.T.U.'s
Currency type(if app)	N.A.	N.A.	N.A.
National Curr.type(if applic.)	N.A.	N.A.	N.A.
Amount	N.A.	55,180	As below

Pricing and Matching Process: Minimize consideration payment under an EV/CE regime

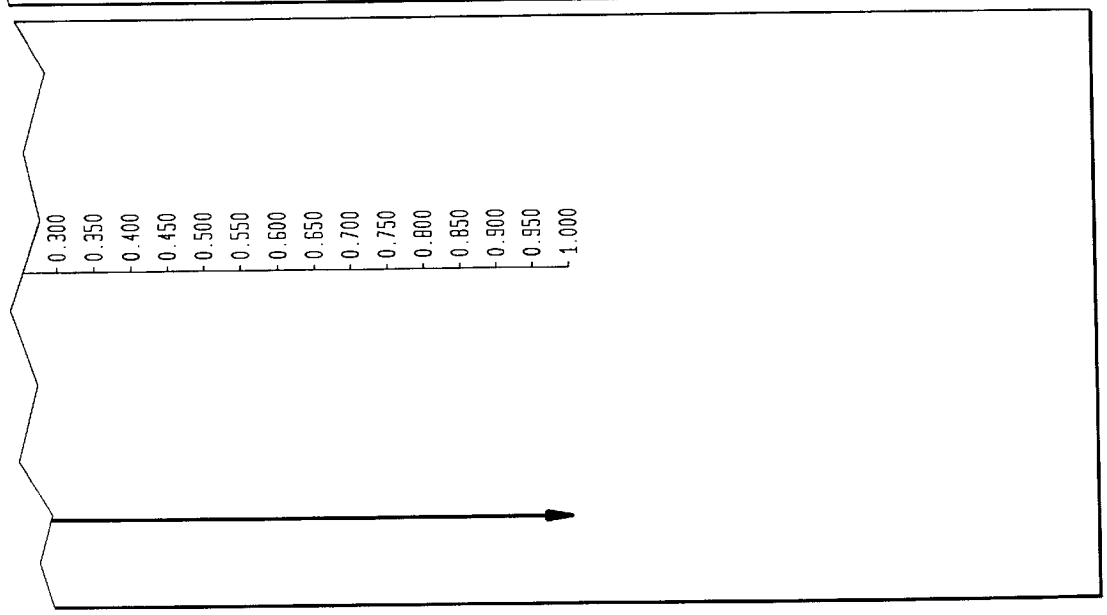


FIG. 58

APPLICATION SPECIFICATION

Part A

Application ID:	001	Applicable Product ID's:
Application Promoter:	B.L.C. Inc	Preferred/preferential dealing?
Primary Application Use:	Economic risk management	Pre or Post Tax Matching?
Feasible Counterparty Numbers:	Multiple counterparties	Tax deduction/subsidy at source?
Public/private use:	Public Use	Degree of Trading Transparency:
Acceptable comms mediums:	Computer-computer link	Secondary trading Allowed?
Retail/Wholesale Use:	Wholesale	Derivative trading Allowed?
Pricing & Matching Process:	Minimize pre-tax consideration payment under an EV/CE regime	Deferred Order Submissions possible?
		Partial Matches possible?
		Settlement terms:
		- Considerations
		- Entitlements:
Contract revaluation frequency:	Daily	Manual Approvals possible?
		Ordering Party consideration credit available?
Ordering Parties allowed negative contract payoffs?	Yes	Collateralisation payments required?
Application Access limitations:	Nil	- Counterparties
		- Ordering Parties
		Bilateral Obligations Netting?
		Bilateral Payments Netting?
		Multilateral Obligations Netting?
		Multilateral Payments Netting?

Netting Details (if applic.)		Collateralisation Details (if applic.)
Applicable Discount rate:	9.80% p.a.	Trustee:
Obligation netting trigger:	100.000	NOT APPLICABLE
Min required settlements:	5.000	

Ordering Party Consideration-Credit Options		
Counterparty provided?	--Participating basis:	--Ord.Party-guarantor protected
		--Unprotected
	--Non-participating basis:	--Ord.Party-guarantor protected
		--Unprotected
Ordering Party Guarantor provided?	--Participating basis:	
	--Non-participating basis:	

FIG. 58 CONT.

AS AT 91.06.03.17.00.00.00

10020-11400	Application Access Limitations
Available	
Pre-Tax	Contract Ordering Parties
Not Applicable	NIL
NIL	
Yes	
Yes	
Yes	
Yes	Contract Counterparties
	NIL
Immediate	
Immediate	
No	
Yes	
	Counterparty Guarantors
Yes	NIL
Yes	
Yes	
Yes	Others:
No	NIL
No	

Valuation Details	Consideration Credit Details (if applicable)
Applicable discount rate: 9.80%	Ordering Party Guarantor: ADVENTCO Inc

	1	2	3	4
-Participating	7	1	0.5	0.3
-non-part. basis	7	1	0.5	
	8	1		
-Participating	11		0.5	0.3
-non-part. basis	11		0.5	
	19			
			16	1
			20	

Key:
Counterparty:
1.Interest Rate(% p.a.)
2.Participation rate(%)

Ord. Party-Guarantor
3.Interest Rate(%p.a.)
4.Participation rate(%)

FIG. 59

PRODUCT SPECIFICATION

PRODUCT ID: 10061

Product Summary

Application ID: 001 Product Sponsor:

Product Specification

Market: Stock Indices

Sub-market: PTSE 75

Market type: Spot

Establishment date/time: 91.06.03.17.00.00.00

Maturity date/time: 94.06.03.17.00.00.00

Minimum Product Definition Value: 1600 Maximum Product Definition Value:

Product Details

Conditional Payoff Dimensions ID:	One	Actual/Perceived Market Identifier:	
Market Phenomena Class Identifier:	Share Price Index	Specific Phenomenon:	
Elemental/compound sub-market Identifier	--	Sub-market Phenomenon Class Identifier:	
Future Period Date/time Identifier:	At Contract Maturity date/time	Event Type Identifier:	
Minimum Product Definition Value:	1600	Maximum Product Definition Value:	
Product Establishment Date/time:	91.06.03.17.00.00.00	Product Maturity Date/time:	
Cons./entitlement denomination of Product:	Money	Currency type denomination of Product(if applic)	

FIG. 59 CONT.

AS AT 91.06.03.17.00.00.00

B.L.C. Inc

Consideration/entitlement denom.type:Money

Currency type(if applic.): Com Bnk Dep.

National currency type(if applic.): AUD

2200 Product Step Value: 0010

Actual
PTSE 75
--
Spot Value
2200
94.06.03.17.00.00.00

Elemental/compound Market Identifier:Single Market

Product Step Value:0010

Com Bnk Dep.

National currency type denomination
of Product (if applic.) AUD

FIG. 60

PRIMARY ORDER SPECIFICATION AS AT:

Ordering Party:	Abbots & Taylor
Own reference:	POZ260

Application ID:	001

Product:	(ID: 10061)		
Market	Stock Indices		
Sub-Market	PTSE 75	Market Type	Spot
Estab.date/time	91.06.03.17.00.00.00		
Maturity date/time	94.06.03.17.00.00.00		

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corporation
Regulator	Pacific Central Bank

"X"Value: 4

X Range Value	1	2	3	4	5	6
Alpha (X)	1600	1930	1990	2200		
Beta (X)	187.200	187.200	37.440	37.440		

G	1	11				
a	2		8			
m	3			11		
m	4					
a	5					

ORDER SUPPORT DETAILS

Communications medium:	Computer-to-computer
Consideration Credit sought?	No
Desired Form of Consideration Credit(if appl.)	Not Applicable
Counterparty Collateralisation payments required?	Yes
Preparedness to make 'own' collateralisation payments(if applicable)?	Not Applicable
Applicable Marginal Tax rate(if applicable)?	
-Consideration:	Not Applicable
-Entitlements:	Not Applicable
Netting System Participation?	
-Bilateral Obligations netting?(if applic.)	No
-Bilateral Payments netting?(if applic.)	No
-Multilateral Obligations netting?(if applic.)	No
-Multilateral Payments netting?(if applic.)	No

FIG. 60 CONT.

93.01.01.17.37.06.00

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if applic.)	Com Bnk Dep	Com Bnk Dep	Com Bnk Dep
National Curr.type(if applic.)	AUD	AUD	AUD
Max.Consid.Amount	N.A.	54,000	As below

Pricing and Matching Process:
Minimize pre-tax consideration payment under an EV/CE regime

SPECIAL DEAL TYPE: Collateralisation Payments

Partial Matches desired? Yes
Manual Approval of Matches desired? No
Desired degree of trading Transparency(if applicable) Not Applicable
Applicable Consid./Entitlement Transfer Entity Account details: ABC Banking Corp Operating A/c 1-1-502026-619930-0
Desired date/time of Order Submission: Immediate
Desired Order retention period: 00.00.01.00.00.00
Desired Max.time for counterparty manual order approval(if applic.): Not Applicable

Preferred/Preferential Dealing:

NIL

Unacceptable Counterparties and Other Stakeholders

NIL

FIG. 61

ORDER SPECIFICATION PRICING

By : Abrahamsons
(Potential Counterparty No. 1)

COUNTERPARTY PRICING SPECIFICATION

Application ID:
ProductID:

Defined Circumstances ID
26

Commission Rate
1.25%

Discount Rate
10.00% p.a.

Feasible Product Definition Values	Gross Contingent Entitlement Amounts	Op/CP C/Credit Adjust.	Net Contingent Entitlement Amounts	Component Product Prices
<	0.00	0.00	0.00	
1600	(187.200)	0.00	(187.200)	0.000220
1610	(187.200)	0.00	(187.200)	0.000227
1620	(187.200)	0.00	(187.200)	0.000237
1630	(187.200)	0.00	(187.200)	0.000249
1640	(187.200)	0.00	(187.200)	0.000266
1650	(187.200)	0.00	(187.200)	0.000287
1660	(187.200)	0.00	(187.200)	0.000314
2130	(37.440)	0.00	(37.440)	0.029642
2140	(37.440)	0.00	(37.440)	0.028625
2150	(37.440)	0.00	(37.440)	0.027469
2160	(37.440)	0.00	(37.440)	0.026193
2170	(37.440)	0.00	(37.440)	0.024819
2180	(37.440)	0.00	(37.440)	0.023369
2190	(37.440)	0.00	(37.440)	0.021865
2200	(37.440)	0.00	(37.440)	0.020330
>	0.000	0.000	0.000	0.146635
				1.0402

x Applic. Entitle. Exchange Rates (.....) (.....) (.....)
C/E Curr. Nat Curr.
= Base contract bid price(in Product Denom. terms)
Net Present Value (at..... 10.00% p.a. ...)
+ Flat Commission (..... 1.25% ...)
= Contract Bid Price (in Product Denom. terms)
x Applic. Consid. Exchange Rates (.....) (.....) (.....)
C/E Curr. Nat Curr.
= Contract Bid Price (in OP requested terms)(if applic.)
Implied Base 'Margin' on Contract
+ Exchange Rate and Consideration Investment Margin
= Implied Contract Value (to CP)

FIG. 61 CONT.

AS AT 93.01.01.17.38.02.00

001 10061	Consideration Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....
	Entitlement Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....

Implied Contingent Entitlement Amounts	Assessed Probabilities of Occurence	Net Contingent Entitlement (Valuation) Amts.	Net Contingent Negative Entitlement (Valuation) Amounts	Maximum Absolute Negative Entitlement Amount
(0.041)	0.000020	(0.004)	(0.004)	(187.200)
(0.042)	0.000027	(0.005)	(0.005)	
(0.044)	0.000037	(0.007)	(0.007)	
(0.047)	0.000049	(0.009)	(0.009)	
(0.050)	0.000066	(0.012)	(0.012)	
(0.054)	0.000087	(0.016)	(0.016)	
(0.059)	0.000114	(0.021)	(0.021)	
(1.110)	0.029442	(1.102)	(1.102)	
(1.072)	0.028425	(1.064)	(1.064)	
(1.028)	0.027269	(1.021)	(1.021)	
(0.981)	0.025993	(0.973)	(0.973)	
(0.929)	0.024619	(0.922)	(0.922)	
(0.875)	0.023169	(0.867)	(0.867)	
(0.819)	0.021665	(0.811)	(0.811)	
(0.761)	0.020130	(0.754)	(0.754)	
0.000	0.158835	0.000	0.000	
(59.580)	1.0000	(55.000)	(55.000)	(187.200)

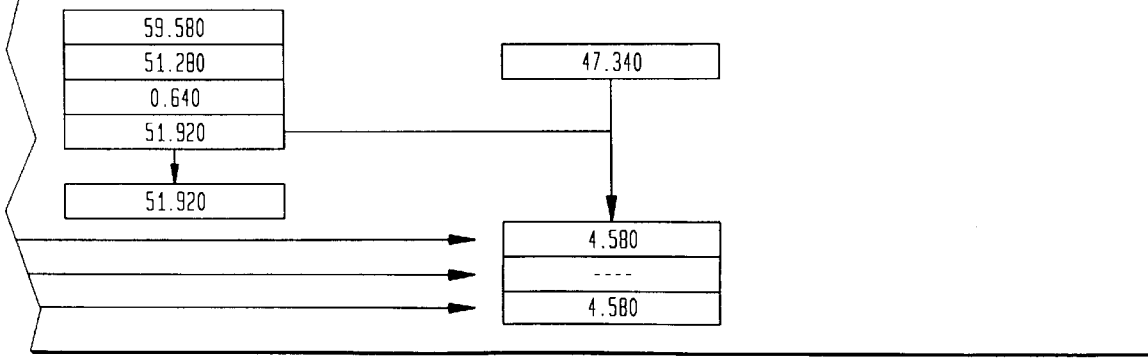


FIG. 62

ORDER SPECIFICATION PRICING

By : Carpenters Inc
(Potential Counterparty No.2)

COUNTERPARTY PRICING SPECIFICATION

Application ID:
ProductID:

Defined Circumstances ID
17

Commission Rate
1.30%

Discount Rate
9.8% p.a.

Feasible Product Definition Values	Gross Contingent Entitlement Amounts	Op/CP C/Credit Adjust.	Net Contingent Entitlement Amounts	Component Product Prices
<	0.00	0.00	0.00	
1600	(187.200)	0.00	(187.200)	0.000220
1610	(187.200)	0.00	(187.200)	0.000226
1620	(187.200)	0.00	(187.200)	0.000237
1630	(187.200)	0.00	(187.200)	0.000249
1640	(187.200)	0.00	(187.200)	0.000265
1650	(187.200)	0.00	(187.200)	0.000287
1660	(187.200)	0.00	(187.200)	0.000314
2130	(37.440)	0.00	(37.440)	0.029641
2140	(37.440)	0.00	(37.440)	0.028625
2150	(37.440)	0.00	(37.440)	0.027469
2160	(37.440)	0.00	(37.440)	0.026192
2170	(37.440)	0.00	(37.440)	0.024819
2180	(37.440)	0.00	(37.440)	0.023369
2190	(37.440)	0.00	(37.440)	0.021864
2200	(37.440)	0.00	(37.440)	0.020330
>	0.000	0.000	0.000	0.146635
				1.0300

x Applic. Entitle. Exchange Rates (.....) (.....) (.....)
C/E Curr. Nat Curr.
= Base contract bid price(in Product Denom. terms)
Net Present Value (at..... 9.80% p.a. ...)
+ Flat Commission (..... 1.30% ...)
= Contract Bid Price (in Product Denom. terms)
x Applic. Consid. Exchange Rates (.....) (.....) (.....)
C/E Curr. Nat Curr.
= Contract Bid Price (in OP requested terms)(if applic.)
Implied Base 'Margin' on Contract
+ Exchange Rate and Consideration Investment Margin
= Implied Contract Value (to CP)

FIG. 62 CONT.

AS AT 93.01.01.17.38.02.00

001 10061	Consideration Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....
	Entitlement Exchange Rates: (if applic) :C/E .....-..... Currency.....-..... Nat.Curr.....-.....

Implied Contingent Entitlement Amounts	Assessed Probabilities of Occurence	Net Contingent Entitlement (Valuation) Amts.	Net Contingent Negative Entitlement (Valuation) Amounts	Maximum Absolute Negative Entitlement Amount
(0.041)	0.000020	(0.004)	(0.004)	(187.200)
(0.042)	0.000028	(0.005)	(0.005)	
(0.044)	0.000037	(0.007)	(0.007)	
(0.047)	0.000049	(0.009)	(0.009)	
(0.050)	0.000065	(0.012)	(0.012)	
(0.054)	0.000087	(0.016)	(0.016)	
(0.059)	0.000114	(0.021)	(0.021)	
(1.110)	0.029442	(1.102)	(1.102)	
(1.072)	0.028425	(1.064)	(1.064)	
(1.028)	0.027266	(1.021)	(1.021)	
(0.981)	0.025993	(0.973)	(0.973)	
(0.929)	0.024619	(0.922)	(0.922)	
(0.875)	0.023169	(0.867)	(0.867)	
(0.819)	0.021666	(0.811)	(0.811)	
(0.761)	0.020130	(0.754)	(0.754)	
0.000	0.158834	0.000	0.000	
(60.840)	1.0000	(55.120)	(55.120)	(187.200)

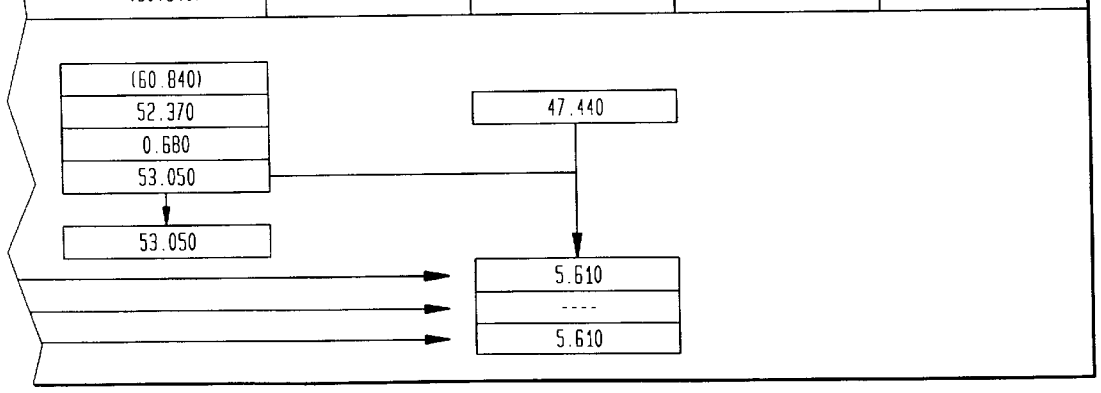


FIG. 63

CONTRACT SPECIFICATION LIMITS By: Abrahamsons

COUNTERPARTY CONSTRAINTS VERIFICATION

Details / Measure	Incremental Impact
Absolute Loss	187.200
Expected Loss	55.000
Exp.Incr.Value	4.580

Individual Contract Constraint Impact		Single Product Portfolio Constraint Impact
Min/max required incremental impact of contract	Status Check	Allowable Incremental Imppact of contract
500.000(max)	Y	NOT APPLICABLE
100.000(max)	Y	600.000(max)
300.000(min)	Y	NOT APPLICABLE

Details / Measure	Incremental Impact
Absolute Loss	
Expected Loss	55.000
Exp.Incr.Value	

All Mat. Dates Total Product Portfolio Constraint Impact	
Allowable Incremental Impact of contract	Status Check
NOT APPLICABLE	
210.000(max)	Y
NOT APPLICABLE	

FIG. 63 CONT.

AS AT 93.01.01.17.38.02.00

Status Check	"Equivalent" Maturity Date Total Product Portfolio Constraint Impact		"Same Month" Mat. Date Total Product Portfolio Constraint Impact	
	Allowable Incremental Impact of Contract	Status Check	Allowable Incremental Impact of Contract	Status Check
	NOT APPLICABLE		NOT APPLICABLE	
Y	497.000(max)	Y	1046.000(max)	Y
	NOT APPLICABLE		NOT APPLICABLE	

	Current	Limit	Status Check
Contract expected loss as a proportion of the expected loss of all contracts/products	6 %	7 %	Y
Product expected loss as a proportion of the expected loss of all contracts/products	62 %	65 %	Y

FIG. 64

CONTRACT SPECIFICATION LIMITS By: Carpenters Inc

COUNTERPARTY CONSTRAINTS VERIFICATION

Details / Measure	Incremental Impact	Individual Contract Constraint Impact		Single Product Portfolio Constraint Impact
		Min/max required incremental impact of contract	Status Check	Allowable Incremental Imppact of contract
Absolute Loss	187.200	460.000(max)	Y	NOT APPLICABLE
Expected Loss	55.000	93.000(max)	Y	414.000(max)
Exp.Incr.Value	5.610	280.000(min)	Y	NOT APPLICABLE

Details / Measure	Incremental Impact	All Mat. Dates Total Product Portfolio Constraint Impact	
		Allowable Incremental Imppact of contract	Status Check
Absolute Loss		NOT APPLICABLE	
Expected Loss	55.120	661.000(max)	Y
Exp.Incr.Value		NOT APPLICABLE	

FIG. 64 CONT.

AS AT 93.01.01.17.38.02.00

Status Check	"Equivalent" Maturity Date Total Product Portfolio Constraint Impact		"Same Month" Mat. Date Total Product Portfolio Constraint Impact	
	Allowable Incremental Impact of Contract	Status Check	Allowable Incremental Impact of Contract	Status Check
	NOT APPLICABLE		NOT APPLICABLE	
Y	280.000(max)	Y	370.000(max)	Y
	NOT APPLICABLE		NOT APPLICABLE	

	Current	Limit	Status Check
Contract expected loss as a proportion of the expected loss of all contracts/products	4.5 %	5 %	Y
Product expected loss as a proportion of the expected loss of all contracts/products	50 %	55 %	Y

FIG. 65

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Abbotts & Taylor
Counterparty:	Abrahamsons

Application ID:	001
O.P.Own reference:	POZ260

Product:	(ID:	10061	)
Market	Stock Indices		
Sub-Market	PSTE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corp
Regulator	Pacific Central Bank

Order ID (if app.)	9156515899
Conf.date/time (if app.)	93.01.01.17.38.11.00
Contract/Product context:	1 of 1

Valuations as at 93.01.01.23.00.00.00

	F.P.V's	Contract
Expected Value	1970	53.000
Std. Deviation	333	21.160

Special Deal Type: Collateralisation Payments

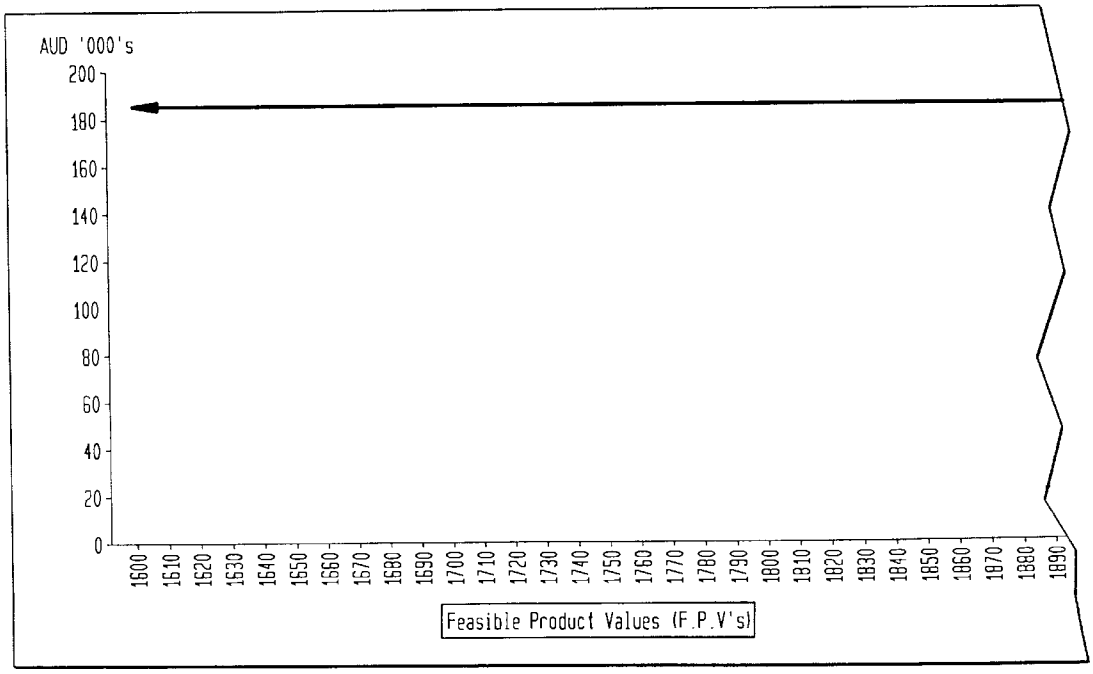


FIG. 65 CONT.

AS AT: 93.01.01.23.00.00.00 Report for: Abbotts & Taylor

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if applic.)	Com Bnk dep.	Com Bnk dep.	Com Bnk dep.
National Curr.type(if applic.)	AUD.	AUD.	AUD.
Amount	N.A.	51,920	As below

Pricing and Matching Process:
Minimize pre-tax consideration payment under an EV/CE regime

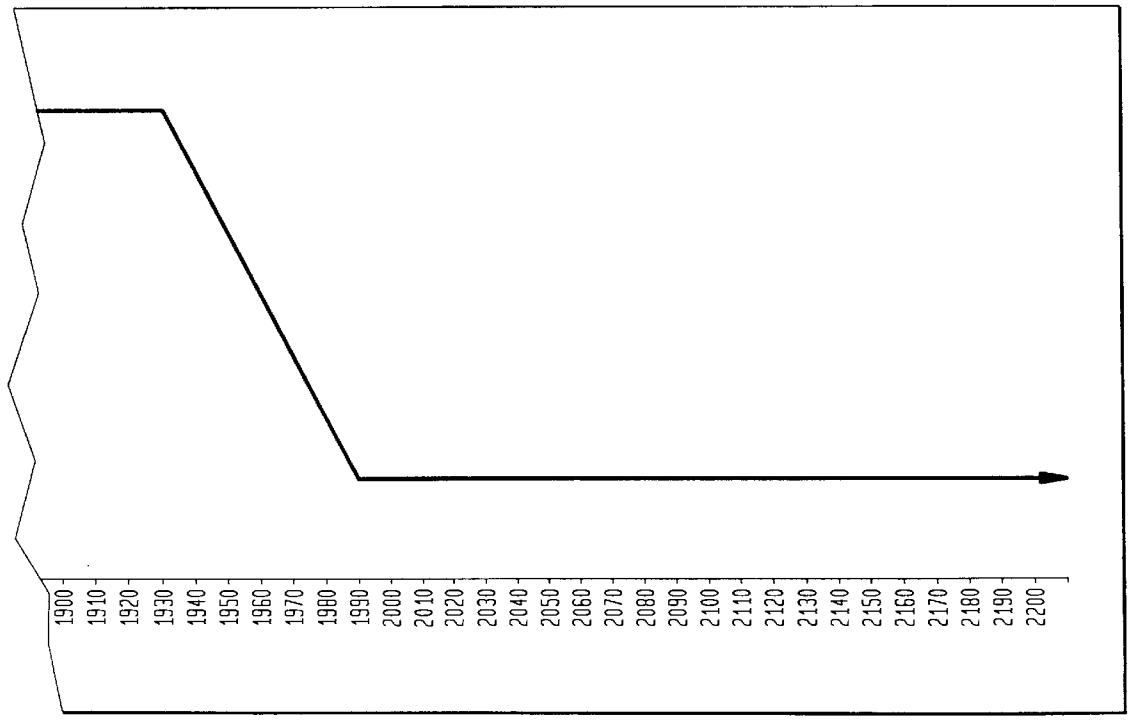


FIG. 66

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Abbotts & Taylor
Counterparty:	Abrahamsons

Application ID:	001
C.P.Own reference:	FFR-263

Product:	(ID:	10061	)
Market	Stock Indices		
Sub-Market	PSTE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corp.
Regulator	Pacific Central Bank

Order ID (if app.)	9156515899
Conf.date/time (if app.)	93.01.01.17.38.11.00
Contract/Product context:	1 of 1

Valuations as at 93.01.01.23.00.00.00

	F.P.V's	Contract
Expected Value	1970	(53.000)
Std. Deviation	333	(21.160)

Deal Type: Collateralisation Payments

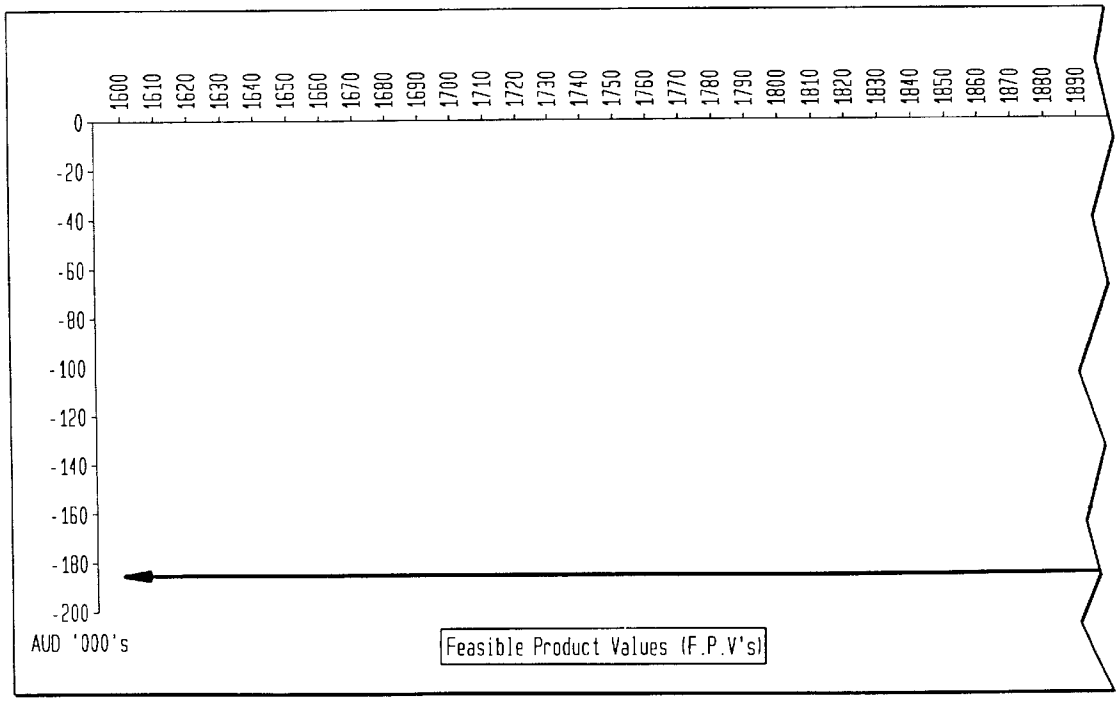


FIG. 66 CONT.

AS AT 93.01.01.23.00.00.00 Report for: Abrahamsons

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	Com Bnk dep.
National Curr.type(if applic.)	AUD.	AUD.	AUD.
Amount	N.A.	51,920	As below

Pricing and Matching Process: Minimize pre-tax consideration payment under an EV/CE regime

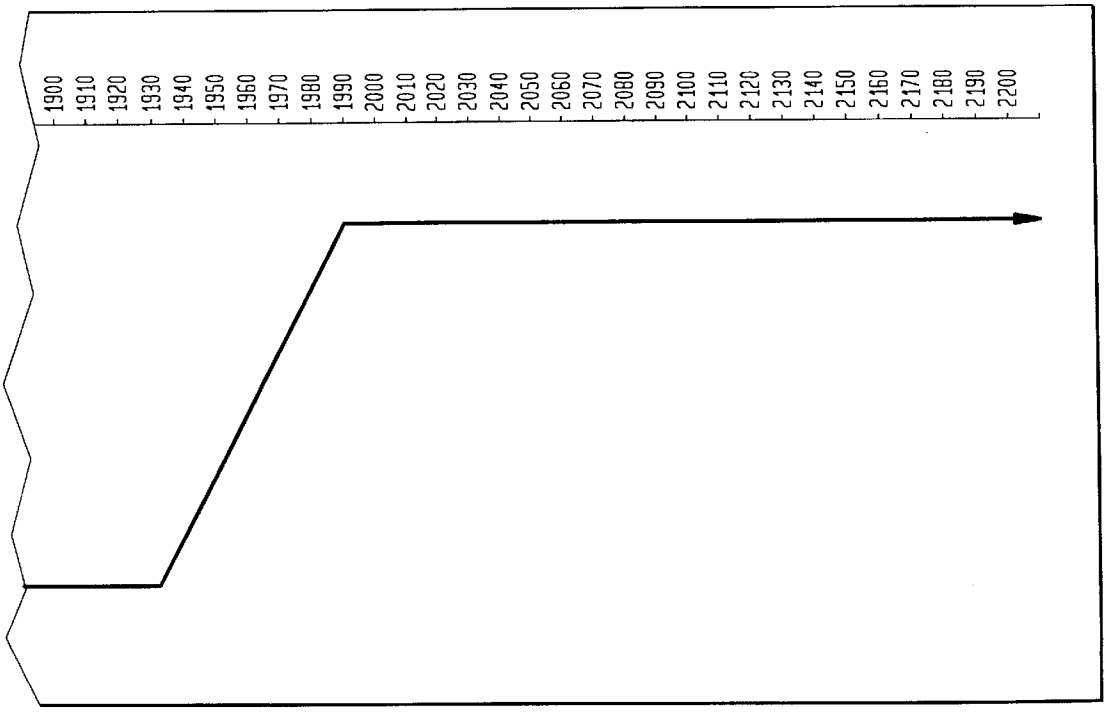


FIG. 67

SECONDARY ORDER SPECIFICATION AS AT:

Acquiring Party:	Shearer & Associates
Own reference:	61932076

Application ID:	001
Order ID:	9156515899
Acq.P.Own reference:	667-3

Product:	(ID:	10061)	
Market	Stock Indices		
Sub-Market	PSTE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corporation
Regulator	Pacific Central Bank

"X"Value: 4

X Range Value	1	2	3	4	5	6
Alpha (X)	1600	1930	1990	2200		
Alpha (X)	187.200	187.200	37.440	37.440		

G	1	11
a	2	8
m	3	11
m	4	
a	5	

CONTRACT CONDITIONS

Communications medium:	Computer-to-computer
Consideration Credit sought?	No
Desired Form of Consideration Credit(if appl.)	Not Applicable
Counterparty Collateralisation payments required?	Yes
Preparedness to make 'own' collateralisation payments(if applicable)?	Not Applicable
Applicable Marginal Tax rate(if applicable)?	
-Consideration:	Not Applicable
-Entitlements:	Not Applicable
Netting System Participation?	
-Bilateral Obligations netting?(if applic.)	No
-Bilateral Payments netting?(if applic.)	No
-Multilateral Obligations netting?(if applic.)	No
-Multilateral Payments netting?(if applic.)	No

FIG. 67 CONT.

93.06.06.08.00.00.00

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if applic.)	Com Bnk Dep	Com Bnk Dep	Com Bnk Dep
National Curr.type(if applic.)	AUD	AUD	AUD
Max.Consid.Amount	N.A.	60,000	As below

Pricing and Matching Process:
Minimize pre-tax consideration payment under an EV/CE regime

SPECIAL DEAL TYPE: Collateralisation Payments

Partial Matches desired? Yes
Manual Approval of Matches desired? No
Desired degree of trading Transparency(if applicable) Not Applicable
Applicable Consid./Entitlement Transfer Entity Account details: ABC Banking Corp
Operating A/c 1-1-502026-846752-0 (and 1)
Desired date/time of Order Submission: Immediate
Desired Order retention perid: 00.00.01.00.00.00
Desired Max.time for counterparty manual order approval(if applic.): Not Applicable

Preferred/Preferential Dealing:

NIL

Unacceptable Counterparties and Other Stakeholders

NIL

FIG. 68

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Shearer & Associates
Counterparty:	Abrahamsons

Application ID:	001
C.P.Own reference:	667-3

Product:	(ID	10061	)
Market	Stock Indices		
Sub-Market	PTSE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corp
Regulator	Pacific Central Bank

Order ID (if app.)	9156515899
Conf.date/time (if app.)	93.01.01.17.38.11.00
Contract/Product context:	1 of 1

Valuations as at	93.06.06.09.00.00.00	
	F.P.V's	Contract
Expected Value	1960	58.300
Std. Deviation	306	10.610

Special Deal Type:	Collateralisation Payments

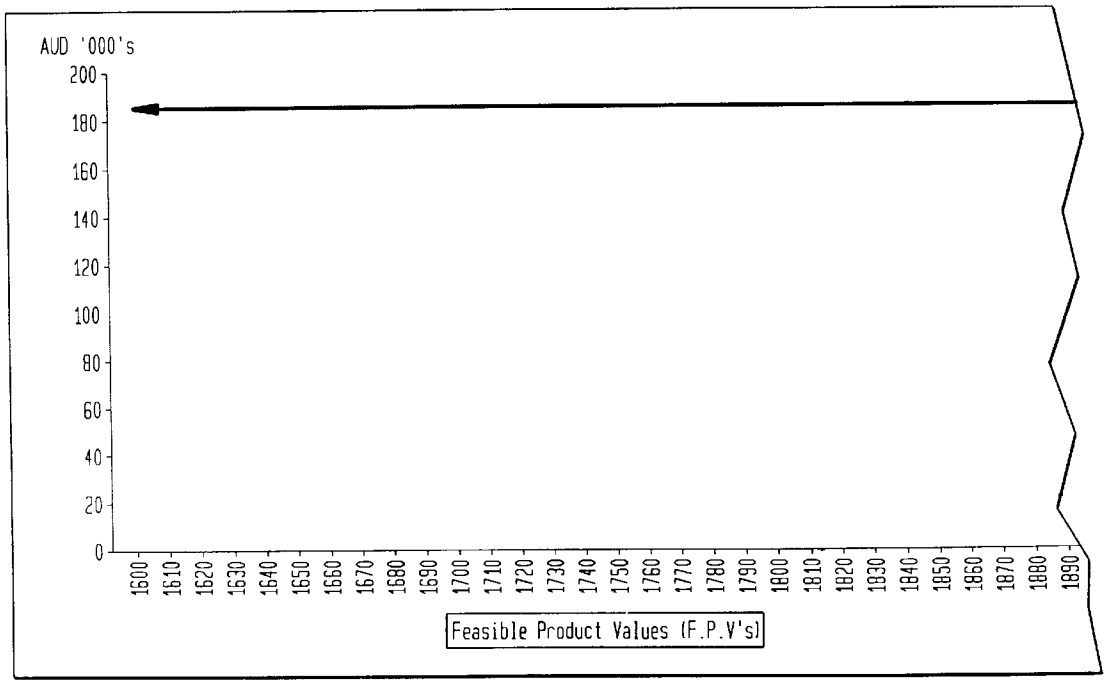


FIG. 68 CONT.

AS AT 93.06.06.09.00.00.00 Report for: Shearer & Associates

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	Com Bnk dep.
National Curr.type(if applic.)	AUD.	AUD.	AUD.
Amount	N.A.	58,300	As below

Pricing and Matching Process: Minimize pre-tax consideration payment under an EV/CE regime

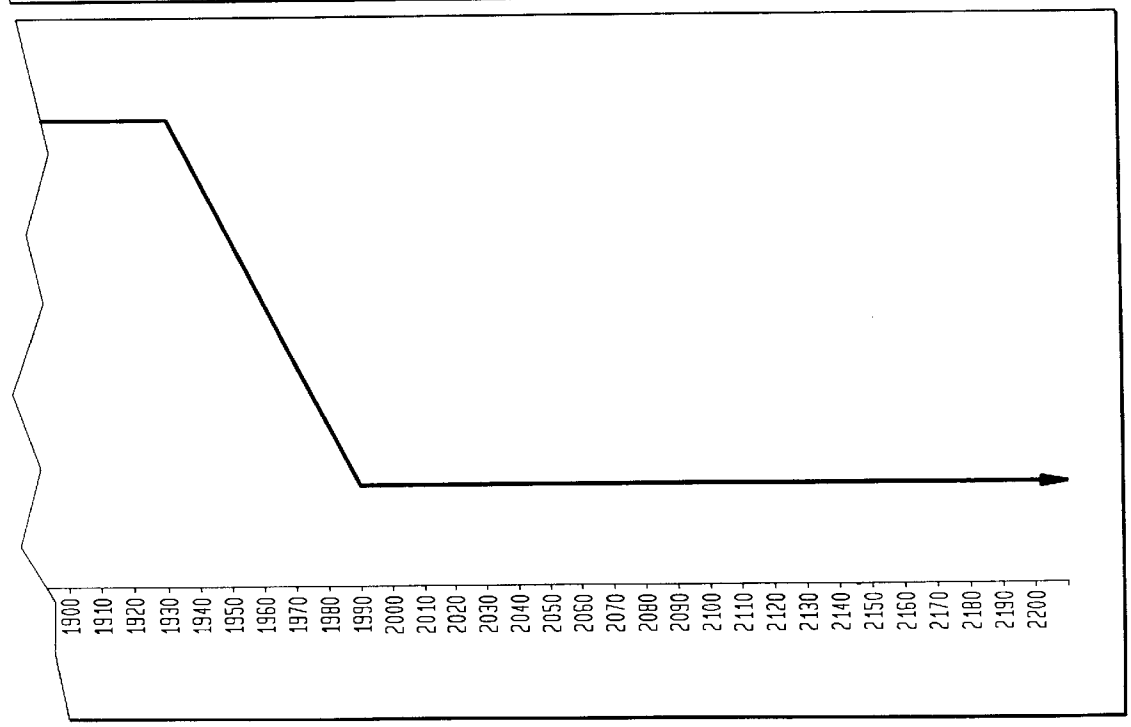


FIG. 69

CONTRACT VALUATION

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Shearer & Associates
Counterparty:	Abrahamsons

Application ID:	001
C.P.Own Reference:	667-3

Product:	(ID:	10061	)
Market	Stock Indices		
Sub-Market	PTSE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corp
Regulator	Pacific Central Bank

Order ID (if app.)	9156515899
Conf.date/time (if app.)	93.01.01.17.38.11.00
Contract/Product context:	1 of 1

Valuations as at 94.01.01.17.00.00.00

	F.P.V's	Contract
Expected Value	1800	162.360
Std. Deviation	283	35.160

Special Deal Type:	Collateralisation Payments

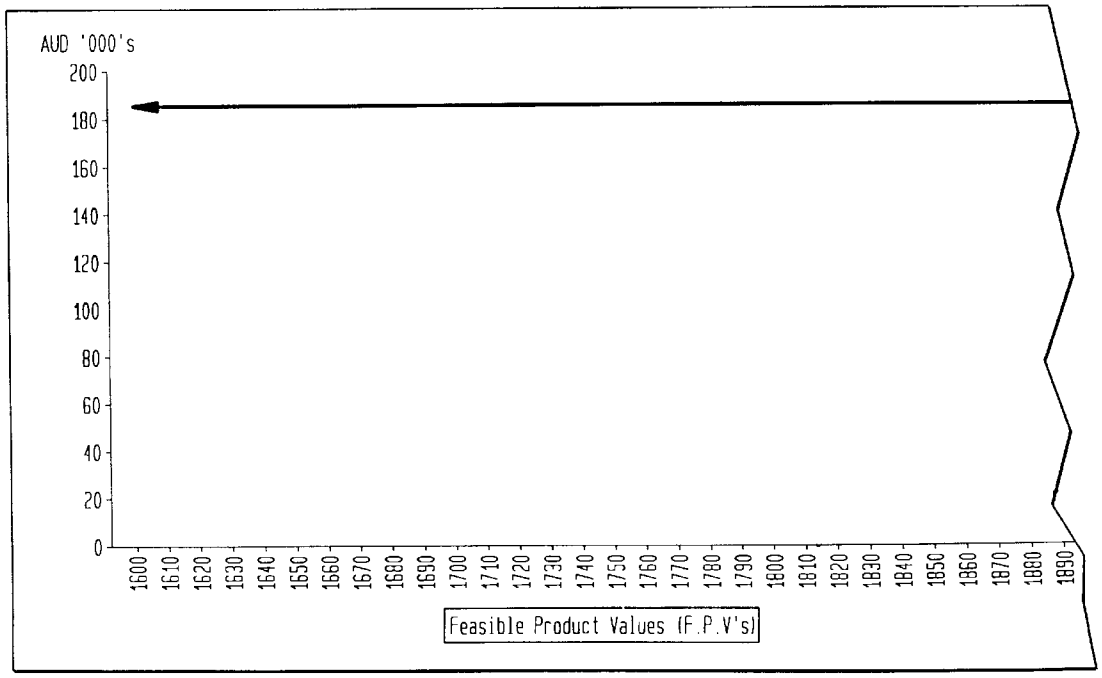


FIG. 69 CONT.

AS AT 94.01.01.17.00.00.00 Report for: Shearer & Associates

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if appl)	Com Bnk dep.	Com Bnk dep.	Com Bnk dep.
National Curr.type(if applic.)	AUD.	AUD.	AUD.
Amount	N.A.	58,300	As below

Pricing and Matching Process: Minimize pre-tax consideration payment under an EV/CE regime

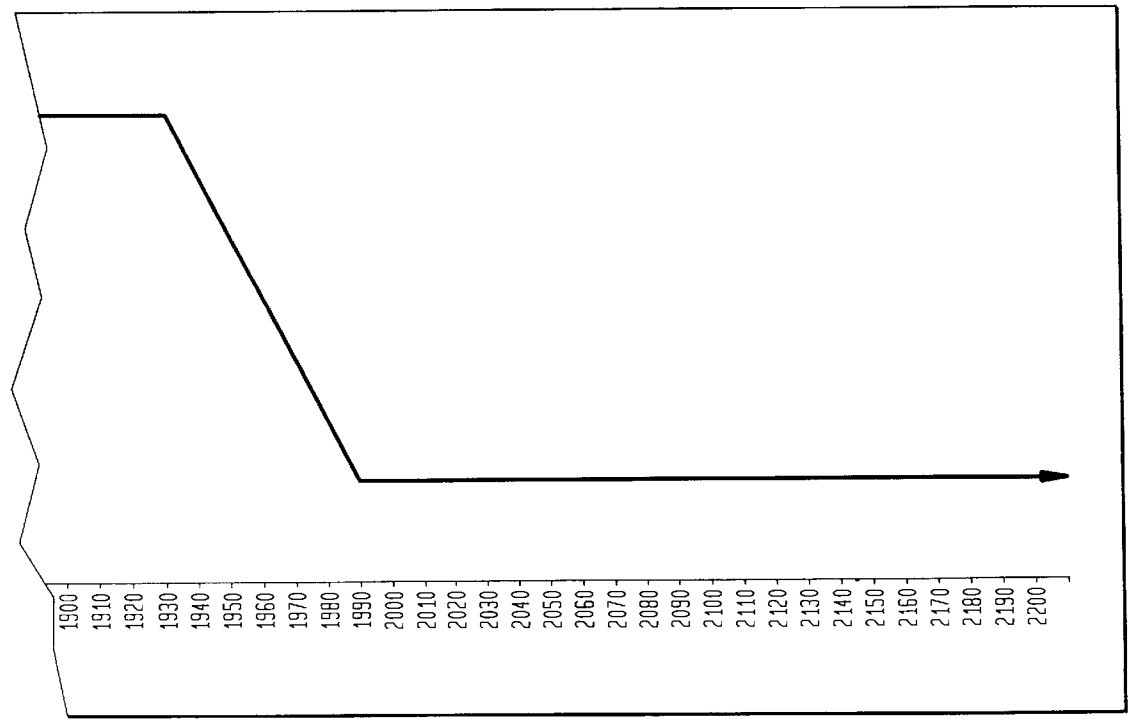


FIG. 70

CONTRACT MATURITY

CONTRACT SUMMARY (GRAPHICAL)

Ordering Party:	Shearer & Associates
Counterparty:	Abrahamsons

Application ID:	001
C.P.Own Reference:	667-3

Product:	(ID:	10061	)
Market	Stock Indices		
Sub-Market	PTSE 75	Market Type	Spot
Estab.date/time		91.06.03.17.00.00.00	
Maturity date/time		94.06.03.17.00.00.00	

Application Promoter	B.L.C. Inc
Product Sponsor	B.L.C. Inc
Counterparty-guarantor	CNZ Banking Corp
Regulator	Pacific Central Bank

Order ID (if app.)	9156515899
Conf.date/time (if app.)	93.01.01.17.38.11.00
Contract/Product context:	1 of 1

Valuations as at 94.06.03.17.00.00.00

	F.P.V's	Contract
Expected Value	1820	187.200
Std. Deviation	0	0

Special Deal Type: Collateralisation Payments

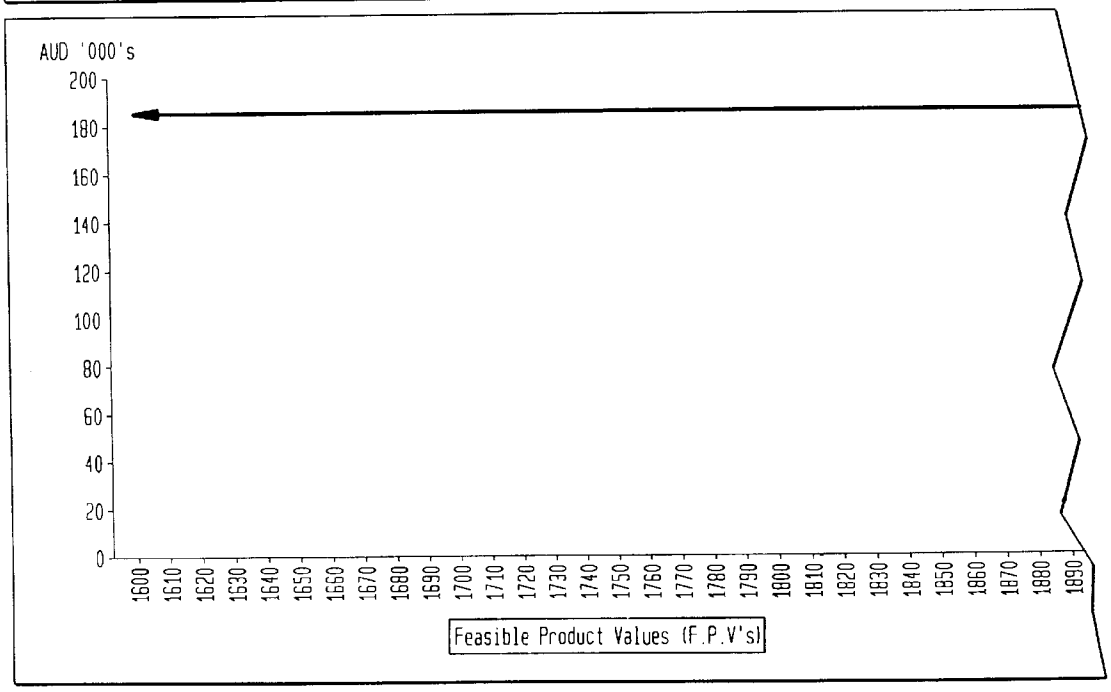
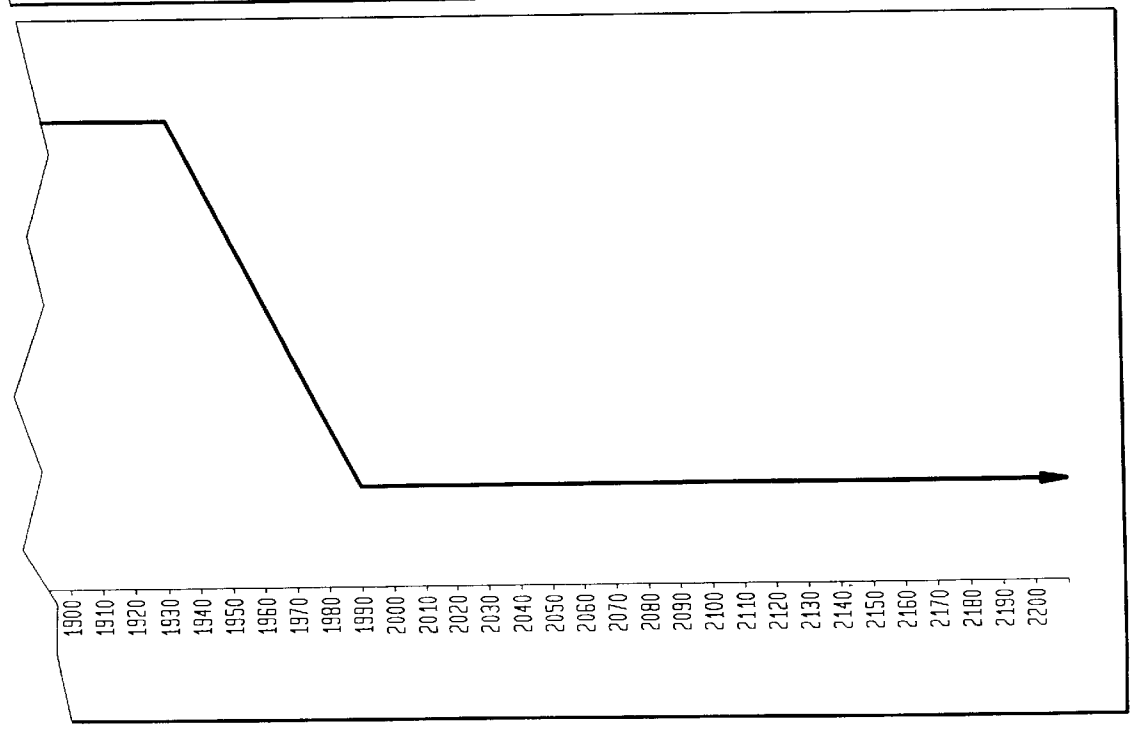


FIG. 70 CONT.

AS AT 94.06.03.17.00.00.00 Report for: Shearer & Associates

	Consideration/ Entitlement Denomination	Consideration	Entitlement
Cons./Entitlement type	Money	Money	Money
Currency type(if app)	Com Bnk dep.	Com Bnk dep.	Com Bnk dep.
National Curr.type(if applic.)	AUD.	AUD.	AUD.
Amount	N.A.	58,300	As below

Pricing and Matching Process: Minimize pre-tax consideration payment under an EV/CE regime



METHODS AND APPARATUS RELATING TO THE FORMULATION AND TRADING OF RISK MANAGEMENT CONTRACTS

TECHNICAL FIELD

This invention relates to methods and apparatus, including electrical computers and data processing systems applied to financial matters and risk management. In particular, the invention is concerned with the management of risk relating to specified, yet unknown, future events.

BACKGROUND ART

Individuals and enterprises are continually exposed to risk because of future events beyond their control. The outcome of those events can either positively or negatively impact on their wellbeing. Individuals and enterprises should generally prefer not to face exposure to the possibility of adverse consequences, regardless of their perception of the likelihood of such events occurring. It is in their interest to consider foregoing 'resources' they currently possess if doing so would reduce the possibility of being so greatly exposed to future outcomes.

Risk can take many forms in view of the large range and type of future events which might result in adverse consequences. Risk can be categorised, in one instance, as 'economic' in nature. Phenomena that constitute economic risk include: commodity prices, currency exchange rates, interest rates, property prices, share prices, inflation rates, company performance, and market event based indices.

Another characterisation of risk concerns 'technical' phenomena. This can include things like the breakdown of an electricity generation plant, aircraft engine failure, and the damage to, or failure of, orbiting telecommunications satellites. The outcomes for each of these phenomena will be adverse for the users and/or supplier.

Other forms of risk defy ready characterisation, such as weather-based (viz., rain damage or lightning strike), or other natural occurrences (viz., earthquakes or iceberg collision with sea-going vessels).

There are also less tangible risks associated with, for example, the emission of atmospheric pollutants or the disposal of intractable toxic wastes, in the sense that the future consequences are unknown, save that there is a notion, based on current information, that they could be adverse.

The capability to manage risk is more important today than it was in the past, and is likely to become ever-more important into the future, because there is an ever increasing exposure to a wider generic range of future phenomena beyond the control of individuals or enterprises. There is also a wider feasible range of possible future events, and greater uncertainty about the likelihood of occurrence, associated with any single future phenomenon viz., an increasing volatility.

It is also thought that individuals are now more risk-averse in recessionary times, when there are fewer available discretionary resources to trade-off to protect themselves from such adverse future events.

In the prior art, individuals and enterprises faced with 'technical' risk have hedged against future outcomes by mechanisms such as the adoption of quality assurance practices, warranties, increased research and development activity (and associated intellectual property rights such as patents, utility models and registered designs), the purchase of modernised plant and equipment, and improved

inventory, occupational health and safety and employer/employee relations practices.

Consider a manufacturer of, say, integrated circuits (ICs), which has many clients wishing to purchase its ICs. The demand may result in a delay in delivery due to limited manufacturing capacity, thereby requiring advance production scheduling for orders already in-hand. Typically, the manufacturer will give a warranty to a purchaser as to measurable performance criteria for its ICs; if a batch does not perform to the specified criteria, the manufacturer is required by contract to replace that batch. That is, a purchaser may have no interest in obtaining monetary compensation for the poor quality ICs, as the purchaser needs the components for their own products. In that case, the 'consideration' the warranty makes is the priority scheduling of a substitute batch of that type of IC, possibly displacing other scheduled production runs, or deferring delivery to another purchaser.

Such contractual arrangements are piece-meal in nature, and can only be struck between the manufacturer and each individual purchaser. They also leave the manufacturer exposed to claims from other customers whose orders are delayed by the re-scheduling. The manufacturer has no convenient mechanism available to it to hedge against such claims, perhaps by way of reserving production rights with another manufacturer, in lieu of unavailability of their own manufacturing facility.

In the face of such 'economic' risk, it is known for individuals and enterprises to hedge against adverse outcomes by indirect means such as self-insurance, and directly by means such as futures contracts, forward contracts, and swaps.

There are disadvantages or limitations associated with such available economic risk management mechanisms. Particularly, they provide, at best, only indirect approaches to dealing with the risk management needs. The available mechanisms are relatively expensive, and provide limited phenomenon coverage, and therefore cannot meet the requirements of the party seeking to hedge against such wide-ranging future risk. The infrastructure and pay-out costs associated with switching between, say, a commodities market and a stock market are often prohibitive for entities small and large alike. As a consequence, entities find themselves saddled with obligations they have little control over and cannot escape.

In respect of the "less tangible" forms of risk, an example in the prior art of a form of management of that risk is that of 'pollution rights' sold by the U.S. Environmental Protection Agency (EPA) in March 1993 for the atmospheric emission of sulphur dioxide. This was done by an auction of "allowances" permitting the release into the atmosphere. By the year 1995, any company or organisation emitting sulphur dioxide in the U.S. without enough allowances to cover their total emissions will face prosecution. This means polluters must either buy further allowances, or else modify or replace their plant and equipment to reduce these emissions. The EPA will regulate the total number of allowances able to be obtained. The existing allowances have already become a valuable tradeable 'property' as between sulphur dioxide emitters, that is, even before the time when no further allowances will be able to be purchased.

Management techniques for the "less tangible" forms of risk are in their infancy. The existing forms indicate an emerging demand for systems and methods to enable effective management.

Specific examples in the prior art of patents relating to methods and apparatus which deal with various forms of risk

management include British Patent No. 2 180 380, in the name of Merrill Lynch Pierce Fenner and Smith Incorporated, directed to an Automated Securities Trading Apparatus (corresponding to U.S. Pat. No. 4,674,004, and further related to U.S. Pat. Nos. 4,346,442 and 4,376,978). Other examples include U.S. Pat. No. 4,739,478 assigned to Lazard Freres and Co., directed to Methods and Apparatus for Restructuring Debt Obligations, U.S. Pat. No. 4,751,640 assigned to Citibank, N.A., directed to An Automated Investment System, and U.S. Pat. Nos. 4,752,877, 4,722,055, and 4,839,804 assigned to College Savings Bank directed to Methods and Apparatus for Funding Future Liability of Uncertain Cost.

The present invention comes about in view of the shortcomings of existing risk management mechanisms, and the perceived increasing importance of the management of risk relating to specified, yet unknown, future events.

In this sense, the invention is directed to something having economic value to individuals, enterprises and societies as a whole. Methods and apparatus that provide for the management of risk offer material advantages by, for example, minimising adverse future outcomes, providing both a form of compensation in the event of adverse future outcomes, and forms of risk management not otherwise supported or available in the prior art, and thus have value in the field of economic endeavour.

DISCLOSURE OF THE INVENTION

The invention encompasses methods and apparatus enabling the management of risk relating to specified, yet unknown, future events by enabling entities (parties) to reduce their exposure to specified risks by constructing compensatory claim contract orders on yet-to-be-identified counter-parties, being contingent on the occurrence of the specified future events. The entities submit such orders to a 'system' which seeks to price and match the most appropriate counter-party, whereupon matched contracts are appropriately processed through to their maturity.

Therefore, the invention enables parties to manage perceived risk in respect of known, yet non-predictable, possible future events. These future events may relate to measurable phenomena whose outcome is verifiable, and cannot be materially influenced by any other entity having a stake in that outcome.

The ability to price and match risk aversion contracts essentially comes about because of the nature of risk itself. Any number of people will each have differing views as to the likelihood of an outcome of some future event. This means that when each person is required to independently assess a range of outcomes for a specified future date, there almost always will be a variance in those assessments. Thus it is possible to match these expectations as between parties to form a contract. The potential counter-parties to an offered contract have the motivation of taking up an opportunity to exploit differing views of future outcomes to their advantage, either for some gain or, again, as a form of risk management.

It is important that the assessments as to future outcomes of events are made independently of any other party who could be a counter-party to a contract. The nature of the pricing and matching, therefore, is totally different to conventional negotiation or bidding as between parties.

The present invention enables entities to better manage risk, as they are able to think more explicity about possible future events beyond their control which they perceive will have adverse consequences for them. They will have the capacity to utilise existing resources to reduce exposure to a specific risk, and have access to a generally available mechanism by which they can explicity trade-off existing assets for increased certainty about the future. They are also free to decide upon the degree to which they should make such trade-offs, and to actually effect and subsequently manage such trade-offs in a simple and low cost manner.

The present invention also provides an automated infrastructure to which parties have access without restrictions relating to nationality or residential requirements. This allows the parties to participate directly without requiring an intermediary.

Therefore, in accordance with one aspect of the present invention, there is disclosed a data processing system to enable the formulation of multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a range of future outcomes, and said contract data specifying a future time of maturity, entitlements due at maturity for the range of outcomes, and a consideration due to a counter-party stakeholder;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data as to a respective view of the outcomes in said predetermined range of outcomes in the future for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data: and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including selecting the registering data corresponding to the time of maturity for each predetermined phenomenon and calculating a counter-consideration derived from said entitlements, and said matching including comparing said consideration and said counter-consideration to match an offered contract with at least one of said counter-party stakeholders.

In accordance with a second aspect of the present invention there is disclosed a method to enable the formulation of multi-party risk management contracts, the method comprising the steps of:

(a) inputting into data processing apparatus, by at least one ordering stakeholder input means thereof, contract data representing at least one offered contract in at least one predetermined phenomenon having a range of future outcomes, and said contract data specifying a future time of maturity, entitlement due at maturity for the range of outcomes, and consideration due to a counter-party stakeholder;

(b) inputting into said data processing apparatus, by at least one counter-party stakeholder input means thereof, counter-party registering data as to a respective view of each outcome in said predetermined range of outcomes in the future for one or more of said predetermined phenomena;

(c) storing, in a data storage means of said data processing apparatus linked with each said stakeholder means and linked with each said counter-party stakeholder input means, said contract data and said registering data; and

(d) pricing and matching at least one of the offered contracts, by data processing means of the data pro-

cessing apparatus linked with said data storage means said pricing and matching comprising the steps, for each offered contract, of:

(i) selecting the registering data corresponding to the time of maturity for a predetermined phenomenon;

(ii) calculating a counter-consideration derived from the said entitlement;

(iii) comparing the said consideration and the said counter-consideration; and

(iv) matching a contract on the basis of the said comparison.

In preferred embodiments, the ordering stakeholders and counter-party stakeholders can be considered to be contract buyers and contract sellers respectively. The entitlement for each outcome can be in the form of 'money' payoffs (both positive and negative) at maturity of a matched contract, or can be other types of compensation, possibly in the form of goods, services, promises, credits or warrants. The consideration, whether buyer specified or seller calculated, can again be in the nature of a premium or payments, or can relate to other 'non-money' forms of property or obligations, typically transferable when a contract is matched, although possibly deferable, until, and potentially beyond, the time of maturity.

In the period between the match of a contract and maturity the various buyers, sellers and other contract stakeholders can review any contract to which they are a party and seek to trade that contract to other parties by the pricing and matching procedure, or variations on the pricing and matching procedure. They would tend to do so if their view of the future outcome of the phenomenon, being the subject of the contract, had changed markedly, or as a means to minimise expected losses if some unforseen adverse trend in the present day outcome of the phenomenon has occurred. As well as trading existing contracts, further contracts can be offered to 'lay off' or avert risk. Stakeholder parties can build up a portfolio of matched contracts and offered contracts, which are continually traded to obtain the best possible position at any time, and that position can be continually reviewed with time.

It is further possible for offered contracts to be based on the difference between phenomena, and so manage perceived risk as between the phenomena. Elemental contract phenomena can therefore be developed to meet the most particular needs of buyers and sellers, thus creating great flexibility.

In most instances the date of maturity will be predetermined by a 'product sponsor' stakeholder, who otherwise cannot be a buyer or seller of contracts they sponsor. Even so, it is conceivable that the date of maturity can be tied to a specified time from the instant a contract is matched. This may be appropriate where the time of maturity is in the near future, in which case offered contracts could otherwise remain unmatched following initial offer even up until the time of maturity.

Other stakeholders have executive roles in administration, guaranteeing the performance of buyers and seller, regulation, supervision and so on. In this way the number and types of buyers and sellers that can be considered in pricing and matching offered contracts can be controlled.

The invention also encompasses apparatus and method dealing with the handling of contracts at maturity, and specifically the transfer of entitlement.

Therefore, in accordance with a further aspect of the invention, there is disclosed a method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

(a) creating a shadow credit record and debit record for each party to be held independently from the exchange institutions by a supervisory institution;

(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and debit record;

(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusts each respective party's shadow credit record or debit record, allowing only those transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

BRIEF DESCRIPTION OF THE DRAWINGS

A number of embodiments of the invention will now be described with reference to the accompanying drawings, in which:

FIG. **1** shows a block diagram of a generic 'system' embodying the invention;

FIG. **2** shows a block diagram of an indicative hardware platform supporting the system of FIG. **1**;

FIG. **3** shows a representation of INVENTCO and its main component parts;

FIG. **4** shows a block diagram of a subset of the components of an INVENTCO system's markets-depository (M-INVENTCO);

FIG. **5** shows a block diagram of the process components of a subset of one type of 'market' (termed CONTRACT APP) which can reside within M-INVENTCO;

FIG. **6** shows a timeline applicable to Example I;

FIG. **7** shows a timeline applicable to Example II;

FIGS. **8** to **16** show flow diagrams of the contract pricing and matching methodology;

FIG. **17** shows a timeline applicable to Example III;

FIGS. **18** to **70** show flow diagrams of the first to ninth process components for a CONTRACT APP; and

FIGS. **41** to **70** show tables and charts associated with Examples I, II and III.

DETAILED DESCRIPTION OF A BEST MODE FOR CARRYING OUT THE INVENTION

1. Introduction

The description firstly discusses the relation of the various users (stakeholders) of the 'system', followed by a consideration of a hardware data processing platform and peripheral input/output devices by which stakeholders interact with each other and the system.

This is followed by a discussion of the scope of the 'applications' that can be supported by the system in relation to the various stakeholders, and the interrelation of component parts thereof.

Details as to software methodologies for implementation of the applications supported by the system are also

described, including a number of worked examples relating to the formulation and trading of risk management contracts.

In the course of the detailed description reference is made to a number of non-conventional expressions and terminologies. For convenience, an explanation of these is listed in the Glossary hereinbelow.

2. 'Systems' Configurations

FIG. **1** shows a block diagram of a generic 'system' embodying the invention. The various stakeholders or parties to the system **10** each have access to a centralised processing unit **20**. The processing units **20** can be constituted by one or more data processing apparatus, with each one thereof providing access for any one or more of the various stakeholders to applications software supported by the system **10**, as all the processing units would be interconnected. Access to the one or more data processing apparatus is controlled by a generic form of communications co-ordination and security processing unit **25**.

FIG. **1** also indicates that there are a number of types of stakeholder, and a number of individual stakeholders within each stakeholder type. The basic types of stakeholder are described as: applications promoters **11**, product sponsors **12**, product ordering parties (buyers) **13**, potential product counter-parties (sellers) **14**, counter-party guarantors **15**, regulators **16**, consideration/entitlement transfer ('accounting') entities **17**, and miscellaneous parties **18**. The detailed roles of each of these stakeholders will be subsequently described in greater detail at a later time. The number of types of stakeholder represented in FIG. **1** is typically the largest that will be supported by the system **10**.

An embodiment of a computer system for the system **10** is shown in FIG. **2**. The core of the system hardware is a collection of data processing units. In the embodiment described, the processing unit **20** comprises three interlinked data processors **93,97,104**, such as the Sun 670 MP manufactured by Sun Microsystems, Inc. of the USA. Each processing unit **93,97,104** runs operational system software, such as Sun Microsystems OS 4.1.2, as well as applications software. The applications software is, in part, written around the flow diagrams subsequently described in FIGS. **8** to **16**, and FIGS. **18** to **40**, and accesses, or otherwise creates, the data files as summarised in the section headed PROCESS 2 VARIABLES AND DATA FILES hereinbelow. The processor configuration shown in FIG. **1** represents a large system designed to handle the transactions of thousands of stakeholders, the input and output data generated by those stakeholders, and risk management contract pricing, matching and subsequent processing functions.

Each processing unit **93,97,104** is operably connected with it one or more mass data storage units **95,100,110** to store all data received from stakeholders, and other data relating to all other software operations generating or retrieving stored information. Suitable mass storage units are, for example, such as those commercially available from Sun Microsystems.

A number of communications controllers **80,84,87**, forming the communications co-ordination and security processing unit **25**, are coupled with the processing unit **20**. These controllers effect communications between the processing units **93,97,104** and the various external hardware devices used by the stakeholders to communicate data or instructions to or from the processing units. The communications controllers are such as the Encore ANNEX II, the IBM AS/400 server or the CISCO Systems AGS +.

A large range of communications hardware products are supported, and collectively are referred to as the stakeholder input/output devices **70**. One amongst many of the communication devices **70** are personal computers **51** and associated printers **52**, which have communications connection with the communications controller **80** by means of a modem **50**. There can also be an external host device **53**, such as a mini or mainframe computer, again linked with the communications controller **80** by means of a modem **54**. In other forms, communications can be established simply by means of a tone dialing telephone **56**, which provides for the input of instructions or data by use of the tone dialing facility itself. In the alternative, a voice connection via an operator **75** can be effected by a conventional telephone **58**. Both these external devices are shown connected with the communications controller **84**. A further possibility is to have data transfer by means of a facsimile machine **65**, in this case shown linked to the communications controller **87**.

In all cases, users of the input devices are likely to be required to make use of system access password generation and encryption devices such as the Racal RG 500 Watchword Generator **66,67,68,69**, (for personal use) and the Racal RG 1000, which is incorporated in a mainframe computer **53**. The corresponding decoding units for these devices are incorporated in the communications controllers **80,84,87**.

The generic processing unit **20** also includes a large number of 'portable' information recordal devices, such as printers, disc drives, and the like, which allow various forms of information to be printed or otherwise written to storage media to be transferable. This is particularly appropriate where confirmatory documentation of matched risk contracts is required to be produced, either for safekeeping as a hard copy record, else to be forwarded to any one or more of the stakeholders that are a party to each individual matched contract.

The generic system **10** shown in FIG. **1** encompasses many varied configurations, relating not only to the number and types of stakeholders, but also the 'architectures' realisable by the system hardware and software in combination. In that sense the arrangement shown in FIG. **2** is to be considered only as broadly indicative of one type of hardware configuration that may be required to put the invention into effect.

The 'virtual' level of the system **10** is termed INVENTCO. INVENTCO is a collection of one or more potentially interrelated systems, as shown in FIG. **3**. Each INVENTCO system (INVENTCO SYSTEM #1 . . . INVENTCO SYSTEM #N) enables the formulation and trading of a wide range of contractual obligations, including risk management contracts. The hardware configuration shown in FIG. **2**, is to be understood both as a realisation for a single INVENTCO system, and equally can represent a number of INVENTCO SYSTEMS, where the processing unit **20** is common to all and supports a number of communications co-ordination and security units **25**, others of which are not shown, together with associated external communications devices **70**, also not shown.

While INVENTCO allows the formulation and trading of risk management contracts, it is also responsible for processing of such contracts through to, and including, their maturity, and in some respects, subsequent to maturity.

Where there are a number of INVENTCO systems, those systems may be inter-dependent or stand-alone in nature. If inter-dependent, INVENTCO (**10**) is responsible for transactions between those systems.

INVENTCO and all of its component parts can be legally or geographically domiciled in separate countries or states.

The supra-national nature of INVENTCO enables the stakeholders to avail themselves of the risk management mechanisms independently of legal domicile or other such restrictions that are often a feature of some conventional risk management mechanisms, subject to meeting certain criteria regarding credit worthiness and such. Indeed, the legal domicile, location, ownership and participating stakeholders of INVENTCO, or any of the sub-systems, can be continually changing.

FIG. **3** further shows that each INVENTCO SYSTEM comprises an infrastructure component, termed I-INVENTCO, and a markets depository component M-INVENTCO. I-INVENTCO is concerned with coordination of communications and other security considerations, that part termed AXSCO, and also provides a network and general management system, termed VIRPRO. M-INVENTCO is a depository of authorised product-market (applications) software residing within INVENTCO under the authorisation of VIRPRO, and as distributed using I-INVENTCO.

One or more local or wide area telecommunication networks may link VIRPRO and M-INVENTCO to AXSCO, and thus to each other. In this way both VIRPRO and M-INVENTCO effectively reside around AXSCO.

AXSCO therefore comprises multiple, uniquely addressed communications controllers linked together in a number of possible ways. In one embodiment, AXSCO is represented by the communications co-ordination and security processing unit **25** shown in FIG. **2**. The component hardware, such as the three controllers **80**,**84**,**87** shown in FIG. **2**, typically are responsible for three types of operational applications. The first is in respect of time stamping data received from other parts of INVENTCO and data similarly transmitted to entities external of INVENTCO. The second is in respect of protecting the identity and/or location of entities within INVENTCO from one another, and from entities external to INVENTCO. The third is responsible for overall management of the routing of data received and to be transmitted within INVENTCO and to external entities thereto.

Referring now to FIG. **4**, within M-INVENTCO reside different collections of system sponsored phenomena or 'markets', one collection of which is termed CONTRACT APPS. Each CONTRACT APP within the CONTRACT APPS 'markets' collection is essentially related to a specific type of risk management phenomenon. The purpose of individual CONTRACT APPS is two-fold. First, to effect the trading/exchange/transfer of risk management contracts (and derivatives of these transactions) between participating product ordering parties and counter-parties on terms acceptable to the parties involved, as well as to others within INVENTCO registered as having a legitimate interest in the nature, size and composition of these trades/exchanges/transfers. And second, to appropriately manage all matched/confirmed contracts through to their time of maturity.

Individual CONTRACT APPS are responsible for performing the above-described tasks according to the specific rules they embody, defined by their applicable stakeholders.

The role played by the various stakeholders to CONTRACT APPS, remembering that in many cases it would not be necessary to have the involvement of all the possible types of stakeholder, briefly stated is as follows:

(a) An application promoter is an entity having overall responsibility for the functioning of a CONTRACT APP, having being granted that responsibility by VIRPRO.

(b) A product sponsor is an entity which promotes and administers the rules of trading, and subsequent management of defined "products" selected for inclusion in a CONTRACT APP by its application promoter.

(c) An ordering party (buyer) is an entity seeking to acquire a CONTRACT APP product from a potential counter-party (seller).

(d) A counter-party (seller) is an entity potentially prepared to satisfy the CONTRACT APP product needs of an ordering party (buyer).

(e) A guarantor is an entity guaranteeing a seller's ability to settle or meet obligations as a result of a CONTRACT APP effected match.

(f) Regulators are entities overseeing the on-going performance of all other stakeholders involved in a CONTRACT APP, and especially guarantors.

(g) Consideration/entitlement transfer ('accounting') entities are those parties with which all other CONTRACT APP stakeholders maintain 'accounts' to transfer required considerations/entitlements to or from each other.

(h) Other miscellaneous parties are those having some other defined stake in the functioning of a CONTRACT APP.

In any implementation of the system, multiple numbers of each form of stakeholder are accommodated. A detailed consideration of the nature of CONTRACT APPS and the types of stakeholders to a CONTRACT APP is given in the section headed CONTRACT APPS hereinbelow.

As shown in FIG. **5**, any one CONTRACT APP consists of a cluster of nine (and potentially more, or fewer) specific processes, these include:

(a) a process handling file administration and updating tasks supporting all other processes (termed Process 1);

(b) a process handling the receipt and processing of "primary" risk aversion contract transactions (termed Process 2);

(c) a process handling the receipt and processing of "secondary" risk aversion contract transactions (termed Process 3);

(d) a process handling the receipt and processing of "derivative-primary" risk aversion contract transactions (termed Process 4);

(e) a process handling the receipt and processing of "derivative-secondary" risk aversion contract transactions (termed Process 5);

(f) a process handling the "back office" management of all four types of risk aversion contract transactions, and transactions handled by Processes 7 to 9 (termed Process 6);

(g) a process handling non-CONTRACT APP-transaction related consideration, entitlement, and other "payment" obligation transfers between stakeholders (termed Process 7);

(h) a process handling CONTRACT APP (and authorised other INVENTCO) stakeholder access to specialist systems to assist the stakeholder concerned to decide how best to interface with a defined element of INVENTCO (termed Process 8); and

(i) a process handling CONTRACT APP (and authorised other INVENTCO) stakeholder access to a range of INVENTCO-facilitated "value added services" (termed Process 9).

A detailed discussion of the nine CONTRACT APP processes is given in the second headed DESCRIPTION OF CONTRACT APP PROCESSES hereinbelow.

All these processes collectively access multiple data files and multiple records within these files. A description of the variables and data files used by Process 2, a key component process of a CONTRACT APP, is provided in the second headed PROCESS VARIABLES AND DATA FILES hereinbelow.

The foregoing description identifies the essential interreaction between the hardware platform and the applications computer software run thereon.

A first example of the life-cycle of a risk management contract will now be described. A further detailed discussion of the nature of risk management contracts is given in the second headed RISK MANAGEMENT CONTRACTS hereinbelow.

3. Life Cycle of Risk Management Contract: Example I

The first example of a risk management contract describes a contract to manage risk associated with faults in microprocessors. In summary, the example shows how the system could enable one party, such as a supplier of military standard equipment seeking to avoid the adverse consequences of faulty microprocessors (specifically, 64-bit microprocessors) used in that equipment to make a contract with another party, such as a manufacturer of these microprocessors, who is seeking to exploit an opportunity based on their view of the future incidence of faults in the microprocessors they produce.

The specific offering is one which provides a contract ordering party with a specified contingent entitlement to "exclusive production warrants" (XPWs). That is, warrants providing the holder with priority access to a specified quantity of replacement and additional microprocessors sourced, immediately, from a defined, different, guaranteed high-quality, production line available to the supplier in consideration of payment of a money amount. The XPW entitlement is contingent on the value, at contract maturity date, of a percentage index of the proportion of 64-bit microprocessors shipped by the manufacturer, during a specified prior period, which are subsequently determined to be faulty to a defined degree. The defined degree, in this case, is the microprocessor being fault-free, as determined by successful completion of self-tests.

In this example, the relevant key stakeholders are: an application promoter (Demdata Inc); various product sponsors (the relevant one for the example being Demdata Inc itself); various primary product ordering parties (the relevant one for the example being Denisons); a single potential counterparty (Demdata Inc again); and an application regulator (the Department of Defence).

The timeline depicting the steps in the contract from the first step, Application Specification, to the final step, Contract Settlement is shown in FIG. **6**. FIGS. **41–48** are eight detailed explanatory charts supporting FIG. **6**. They should be read together with the following description.

Looking at the first step in the timeline (Application Specification) in conjunction with chart FIG. **41**, it can be seen that Demdata Inc established a Contract APP (Application ID 100) on 92.02.10.17.00.00 (that is, in inverse order, 5 pm on Feb. 10, 1992) to deal with defect liability management. Application ID 100 supports a range of products (Applicable Product ID's **1200–1250**).

Looking at the second step in the timeline (Product Specification) in conjunction with chart FIG. **42**, it can be seen that Demdata was also Product Sponsor of Product **1210** at the same time (92.02.10.17.00.00). This Product relates to the market termed: Factory Output Quality Indices, and to the sub-market termed 64-bit Microprocessor Fault Tolerance Index. The maturity date for Product **1210** is 95.02.10.17.00,00.00. The consideration for a specific contract lnvolving Product **1210** is in the form of money (commercial bank deposits denominated in Australian dollars). The entitlement is in the form of Exclusive Product Warrants (XPWs); these entitle the contract ordering party to priority access over the forward production capacity of a defined, guaranteed-high-quality, 64-bit microprocessor production line. Product **1210** specifies a range of 0% to 100% in 2% increments in respect of the sub-market outcomes.

Looking at the third step in the timeline (Potential Counterparty Product Pricing Specifications), it can be found that Demdata is acting as the sole potential counterparty for forthcoming primary product orders dealing with Product **1210**. At this point in the timeline (93.07.01.14.00.00.00), 17 months after the specification of Product **1210**, Demdata has currently-specified parameters for pricing potentially forthcoming orders for the product.

Looking at the fourth step in the timeline (Primary Order Specification) in conjunction with chart FIG. **43**, it can be seen that an Ordering Party, Denisons, is seeking a contract (from the offering party, Demdata) in Product **1210** at that time (93.07.01.14.25,30.00), chart FIG. **43** shows the specific 'pay-off' parameters that Denisons has defined for the contract it is seeking at this time, including a maximum acceptable contract consideration (premium) amount of 32,000 (denominated in commercial bank. Australian dollars).

Looking at the fifth step in the timeline (Order Specification Pricing) in conjunction with chart FIG. **44**, it can be seen that Demdata (using the specified pricing parameters set at 93.07.01.14.00.00.00) prices the Denison order at 93.07.01.14.26.40.00, Demdata's pricing parameters indicate that their appropriate Defined Circumstances ID for Denisons is 14. As is shown, this ID in turn implies a Commission Rate of 1.10%, a Discount Rate of 9.90%, a particular set of Component product prices and a particular set of Assessed Probabilities of occurrence over the range of feasible product values (outcomes).

The Contract Bid Price is calculated automatically by the application software in the following manner: The ordering party-specified desired contingent entitlement amounts, i.e. the "registered data", (covering the feasible product definition value range) are multiplied by the potential counterparty-specified component product prices (which will rarely add to "1" because each counterparty is endeavouring to 'game' potential ordering parties in different ways) to yield the corresponding number of implied contingent entitlement amounts. When added together, these figures sum to (34.110), where the brackets signify a negative value. This figure represents an expected future counterparty-entitlement payout amount (as at the designated contract maturity date of 95.02.10.17.00.00). The present day value of this figure, calculated using the specified discount rate of 9.90% per annum, is 29.220. To this amount is added the potential counterparty's desired flat commission amount of 1.10%, yielding a contract Bid Price (in the consideration/entitlement denomination of the product, commercial bank-denominated Australian dollars) of 29,540. No exchange rates are applicable in this case, because the ordering party, Denisons, is not seeking to deal in a consideration or entitlement denomination different to the denominations formally specified for the product. Demdata's parameters calculate that a consideration bid price of 29,540 will yield them a base margin on the contract of 3,180 (again denominated in commercial bank, Australian dollars).

This margin amount is calculated in the following manner: The ordering party-specified desired contingent entitle-

ment amounts (covering the feasible product definition value range) are multiplied by the potential counterparty-specified assessed probabilities of occurrence to yield a corresponding number of net contingent entitlement valuation amounts. When added together, these sum to (30.770). This amount represents an expected future counterparty-entitlement loss-on the contract (as at the designated contract maturity date of 95.02.10.17.00.00). The present value of this amount, calculated using the specified discount rate of 9.90% per annum, is 26,360. Thus, (ignoring for this example the margin Demdata may gain from using, in some manner, the consideration amount of 29,540 through to the time the contract expires, and various transaction fees) the margin Demdata can expect from entering into this contract with Denisons is their calculated present-value indifference price of 29,540 less their calculated present-value expected loss on the contract of 26,360 (or 3,180).

The amounts in the last two rows of the table of FIG. **44** are used for checking that this contract, if entered into by Demdata, will not result in them violating any self imposed portfolio valuation or composition limits. This notion is explained in detail in Example III.

Looking at the sixth step in the timeline (Order Matching), it can be found that Demdata's contract bid price of 29,540 is below Denison's specified maximum consideration price of 32,000, leading to a matching of the order at 93.07.01.14.29.10.00.

The seventh step in the timeline (Order/Contract Confirmation) can be soon to take place twelve minutes later at 93.07.01.14.38.50.00, after the system has determined that Denisons is able to (and then does) immediately pay the required consideration funds amount of 29,540 to Demdata.

Looking at the eighth step in the timeline (Contract Valuation) in conjunction with FIG. **45**, it can be seen that a contract valuation report for Denisons was published not much longer than one hour after confirmation of the contract, that is, at 93.07.01.16.00.00.00. As can be seen, the market estimate of the future product value of the 64BMFT Index at this moment is 38 (with a standard deviation of 4), which implies that this contract has an expected future value of 29.330 XPWs (with a standard deviation of 6,213).

On FIG. **46** it can be seen the equivalent report for Demdata Inc of their expected future entitlement payout is identical to Denisons' expected future entitlement receipt (ignoring future fee payments which may be netted against these payments/receipts). The above-described market estimate of the future product value is determined by the system applying a defined composite of contract-counterparty assessed probabilities of occurrence figures drawn from the collection of all like contracts recently matched/confirmed by the system.

The ninth stop in the timeline (Contract Valuation) refers to a contract valuation report published for Denisons sixteen months later, at 94.11.15.10.0.00.00 (see FIG. **47**). As can be seen, the market estimate of the future product value of the 64BMFT index at this moment is 58 (with a standard deviation of 5), which implies that this contract now has an expected future value of 42,160 XPWs (with a standard deviation of 6,209). This is an increase in expected future value of 12,830 XPWs for Denisons since the former valuation date/time.

The tenth step in the timeline, Contract Maturity, refers to the actual determination of the product value at time of maturity, 95,02.10.17.00.00.00. As can be seen on FIG. **48**, this product value of the 64BMFT index was specified by Demdata (as Product Sponsor) to be 74, implying a contract value of 100,660 XPWs to Denisons and a corresponding obligation on Demdata. The amount of 74 represents the percentage of 64-bit microprocessors shipped by Demdata, during a specified period some time before the designated contract maturity date, which are subsequently determined (possibly by the application regulator, The Department of Defence) to be faulty.

The eleventh step in the timeline involves the formal assignment of 100,660 XPWs by Demdata to Denisons (ignoring possible fee payments by one or both parties).

4. Life cycle of Risk Management Contract: Example II

The second example describes & risk management contract associated with the utilisation of telecommunications carrying capacity. In summary, the example shows how the system could enable one party (a telecommunications carrier) seeking to avoid the adverse consequences of under and over-committing their call carrying capacity between specified points (say, between the two cities, Now York and Boston) to make a contract with another party (say, another telecommunications carrier with call carrying capacity between the same two cities) similarly prepared to hedge against the consequences of this occurring.

The specific offering is one which provides a contract ordering party with a specified contingent entitlement to transmission time units between the hours 1200–1800 daily on the NY–Boston link within a defined future period (termed, Prime TTU's) upon assignment by the ordering party—to the counterparty—of a calculated consideration amount of Prime TTUs on the ordering party's own NY–Boston line within another defined future period (these defined TTUs may or may not be convertible to TTUs on other city links). The TTU entitlement is contingent on the value, at contract maturity date, of the log of the difference between the ordering party's utilisation of the counterparty's network and the counterparty's utilisation of the ordering party's network, during a specified prior period ending on the contract maturity date.

In this example, the relevant key stakeholders are: an application promoter (Newcom Inc); various product sponsors (the relevant one for the example being Newcom Inc itself); various primary product ordering parties (the relevant one for the example being Basstel Co.): two potential counterparties (Tasnet and Aarcom); and an application regulator (ITT).

The timeline depicting the steps in the contract from the first step, Application Specification, to the final step, Contract Settlement, is shown in FIG. **7**. FIGS. **49–57** are nine detailed explanatory charts supporting FIG. **7**. They should be read together with the following description.

Looking at the first step in the timeline (Application Specification) in conjunction with FIG. **49**, it can be seen that Newcom Inc established a Contract APP (Application ID 001) on 93.11.01.17.00.00 (that is, 5 pm on Nov. 1, 1993) to deal with hardware capacity management. Application ID 001 supports a range of products (Applicable Product ID's **2001–2020**).

Looking at the second step in the timeline (Product Specification) in conjunction with FIG. **50**, it can be seen that Newcom Inc was also Product Sponsor of Product **2001** at the same time (93.11.01.17.00.00). This Product relates to the market termed Telecommunications Carrying Capacity and to the sub-market termed Prime TTUs. The maturity date for Product **2001** is 96.11.01.17.00.00.00. The consideration for a specific contract involving Product **2001** is in the form of "Ordering Party TTUs". The entitlement is in the form of "Counterparty TTUs"; these entitle the contract ordering party to "transmission time units between the hours 1200–1800 daily on the NY–Boston link (within a defined

future period)". The feasible values of PRIME TTUs are normalised in the range of −1.0 to +1.0, respectively signifying the proportionate utilisation of respective networks as between the parties to a contract.

Looking at the third step in the timeline (Potential Counterparty Product Pricing Specifications), one can find two other carriers, Tasnet and Aarcom, acting as potential counterparties for forthcoming primary product orders dealing with Product **2001**. At this point in the timeline (94.06.01.14.00.00.00), 7 months after the specification of Product **2001**, both Tasnet and Aarcom have currently-specified parameters for pricing potentially forthcoming orders for the product.

Looking at the fourth step in the timeline (Primary Order Specification) in conjunction with FIG. **51**, it can be seen that an Ordering Party, Basstel Co., is seeking a contract, from an offering party, in Product **2001** at that time (94.06.01.14.25.30.00). Chart F**4** shows the specific parameters (entitlements) that Basstel Co. has defined for the contract it is seeking at this time, including a maximum acceptable contract consideration amount of 58,000 (denominated in its own TTUs).

Looking at the fifth step in the timeline (Order Specification Pricing) in conjunction with FIG. **52**, it can be seen that Tasnet (using the specified pricing parameters set at 94.06.01.14.00.00.00) prices the Basstel Co. order at 94.06.01.14:26.40.00. Tasnet's pricing parameters indicate that their appropriate Defined Circumstances ID for Basstel Co. is 8. As is shown, this ID in turn implies a Commission Rate of 1.00%, a Discount Rate of 9.90% per annum, a particular set of Component product prices and a particular set of Assessed Probabilities of Occurrence. In a similar process to that described for Example I, this results in a Contract Bid Price of 55,180 (denominated in Basstel Co. TTUs), which Tasnet's parameters calculate will yield them a base margin on the contract of 10,760 (again denominated in Basstel Co. TTUs).

Still looking at the fifth step in the timeline, in conjunction with FIG. **53**, it can be seen that Aarcom (again using the specified pricing parameters set at 94.06.01.14.00.00.00) also prices the Basstel Co. order at 94.06.01.14.26.40.00. Aarcom's pricing parameters indicate that their appropriate Defined Circumstances ID for Basstil Co. is 9. As is shown, this ID in turn implies a Commission Rate of 0.90%, a Discount Rate of 8.50% per annum, a particular set of Component product prices and a particular set of Assessed Probabilities of Occurrence. This results in a Contract Bid Price of 55,390 (denominated in Basstel Co. TTUS), which Aarcom's parameters calculate will yield them a base margin on the contract of 9,430 (again denominated In Basstel Co. TTUs).

Looking at the sixth step in the timeline (Order Matching) it can be found that Tasnet's price bid of 55,180 is below Aarcom's bid of 55,390 and, in turn, that the 55,180 amount is below Basstel Co.'s specified maximum consideration price of 58,000. This leads to a formal matching of Basstel Co,'s order by Tasnet at 94.06.01.14.29.10.00.

The seventh step in the timeline (Order/Contract Confirmation) can be seen to take place nearly ten seconds later at 94.06.01.14.38.50.00, after the system has determined that Basstel Co. is able to (and then does) immediately assign the required consideration amount of 55,180 TTUs to Tasnet.

Looking at the eighth step in the timeline (Contract Valuation) in conjunction with FIG. **54**, one can see a contract valuation report for Basstel Co. published about two hours after confirmation of the contract, that is, at 94.06.01.16.00.00.00. As can be seen, the market estimate of the future product value of the log of the difference between Basstel Co.'s utilization of Tasnet's network and Tasnet's utilization of Basstel Co.'s network (during a specified prior period ending on the contract maturity date) at this moment is (0.150) (with a standard deviation of 0.023), which implies that this contract has an expected future value of 54,236 Tasnet TTUs (with a standard deviation of 9,207). On FIG. **55** one can see in the equivalent report for Tasnet that their required expected future entitlement payout is identical to Basstel Co.'s expected future entitlement receipt (ignoring future fee payments which may be netted against these payments/receipts).

The ninth step in the timeline (Contract Valuation) refers to a contract valuation report published for Basstel Co. five months later, at 94.11.22.10.00.00.00 (see FIG. **56**). As can be seen, the market estimate of the future product value of the log of the difference between Basstel Co.'s utilization of Tasnet's network and Tasnet's utilization of Basstel Co.'s network (during a specified prior period ending on the contract maturity date) at this moment is (0.400) (with a standard deviation of 0.010), which implies that this contract now has an expected future value of 350,181 Tasnet TTUs (with a standard deviation of 74,200). This is an increase in expected future value of 295,945 TTUS for Basstel Co. since the former valuation date/time.

The tenth step in the timeline (Contract Maturity) refers to the actual determination of the product value at time of maturity, 96.11.01.17.00.00.00. As can be seen on FIG. **57**, this product value of TTU's was specified by Newcom Inc (as Product Sponsor) to be (0.400), unchanged from the prior valuation date/time, implying a contract value of 368,340 Tasnet TTUs to Basstel Co. and a corresponding obligation on Tasnet. The amount is higher than the prior valuation figure due to the actual determination figure being naturally without a standard deviation element.

The eleventh step in the timeline involves the formal assignment of the 368,340 TTUs by Tasnet to Basstel Co. (ignoring possible fee payments by one or both parties).

5. Primary Product Order Processing

Before describing the third, and most detailed, example, consideration will be given to the 'core' product (contact) ordering, pricing and matching processes. Note that expressions such as (PORD NEW) represent file names.

The flow charts in FIGS. **8** to **16** depict the processing flow of the matching system for primary product orders submitted by ordering party stakeholders to a CONTRACT APP, where this APP is based upon: an EV-CE counterparty pricing regime (assuming paid consideration amounts do not yield an income stream in their own right); a sequential order matching process; consideration/entitlement value dates which are immediately after a product sponsor-designated date/time; and matching rules which do three things: First, identify, for each ordering party's order, a counterparty offering the lowest price bid for an order, subject to this price being at or below the specified maximum price the ordering party has indicated it is prepared to pay. Second, accommodate portfolio expected loss constraints on an 'equivalent maturity date products', 'same-month maturity products', and 'all-products' basis. And third, apply the above-described matching rules on a pre-tax basis, with partial matching of product orders, and without conditional order matching rules.

As shown in FIG. **8**, starting at block **610**, and proceeding to block **625**, the system determines which set of orders to process, authorises these orders, matches them with counterparties where possible, and then confirms them. As shown

in blocks **1010** to **1070** in FIG. **9**, the system holds newly submitted orders (PORD NEW), and all previously submitted, but as yet unmatched, orders which are defined as queued orders (PORD QUEUE). Parameters and algorithms can be implemented to give the system the ability to determine whether new or queued orders are to be processed at any time. For example, a simplistic algorithm would be to alternate between PORD NEW and PORD QUEUE one order at a time. Another example would be to load queued orders only when there is a change in the counterparty parameters. Test **1020** checks the decision made in block **1010**.

For new orders, the system moves to block **1030**. Details of the next recorded new order are loaded from the PORD NEW master file (block **1040**). The order data fields include: the ordering party identification (BID); the ordering party's own reference (BREF); the product identification (PID) specified by the ordering party; the entitlement "payoff" function type (PAYFUNC); the parameters for the entitlement "pay off" function (PAYPARAM); a "deal type" identifier (DTID); the anonymous and manual deal identifiers (OANON and OMANUAL); the order retention time limit (RET LIM); the maximum consideration the ordering party is prepared to pay (MAXCONSID); the number of the account from which the consideration is to be "paid" (ACC CONSID); and the number of the account to which any entitlement "pay off" amount is to be paid (ACC ENTITL). With this information set, the system's next step is to authorise the order. This occurs at block **1050**.

Order Authorisation

Blocks **1100** to **1162** in FIG. **10** provide an expansion of block **1050**. Starting at block **1100** the order is assigned a unique identification, which is set in the order data field OID. Before verifying the order, additional information is required by the system. At block **1110**, details of the product (order data field PID) are loaded from the master file PPRODUCT (block **1120**). The information includes the product maturity date (PMAT); the product consideration/entitlement denomination (PC/ED); the product currency denomination (PCUR) and national currency denomination (PNCUR); and the product limits and parameters (PMIN, PMAX, and PSTEP). The test **1130** checks that the order parameters are consistent with the master file parameters implied by the defined product identification (PID). Orders which fail this test are rejected at block **1140**, with details of these orders being stored in the master file PORD REJ (block **1150**). In turn, the ordering party is informed of this event (block **1160**). Processing then returns to the start of the flow chart (block **1010**), ready to load the next order. When an order is authorised, processing continues at block **640**.

In the case of a queued order being loaded (block **1060**), the order fields are set using the details stored in the queue file PORD QUEUE (block **1070**). This data is a combination of new order data (as described in block **1030**) and the data loaded/set when the order was originally verified (block **1110**). Authorised order processing continues with the order matching process at block **640**.

Order Matching

Blocks **1200** to **1616** in FIGS. **11** to **15** provide an explanation of block **640**. Orders have retention time limits, stored in the order variable RET LIM. Test **1200** checks that the order retention time has not expired. If it has, the order is rejected at block **1210**, with the order details copied to the rejected order file (PORD REJ). The ordering party is then informed of the rejection at block **1230**, and processing returns to the main loop via connector "A". If the order is still valid, the order matching process proceeds. The aim now is to find a suitable counterparty (or counterparties) who "prices" the ordering party's "entitlement function" within the limits set by the ordering party. Starting at block **1240**, the matching process described is one which seeks to identify, for each ordering party's order, a counterparty offering the lowest "price bid" for an order subject to this price being at or below the specified maximum "price" the ordering party has indicated it is prepared to pay.

Blocks **1300** to **1370** in FIG. **12** provide an explanation of block **1240**. The first step is to narrow down a group of counterparties prepared to at least deal with the ordering party. This is described as obtaining the available counterparty short list. First the counterparty short list is wiped (block **1300**). Next, the order data fields BID (ordering part identification) and PID (product identification) are used to search the PDEAL LIST master file (block **1320**) for all counterparties prepared to consider dealing with the ordering party in the specified product. Any stakeholders who have set a MANUAL or ANON flag are also loaded. For each counterparty selected, SID is set to the corresponding identification. Test **1330** commences a loop which allows every counterparty available to be dealt with in turn. For any currently selected counterparty (with identification set in SID), the data flow proceeds to test **1365**. Where the order data field OANON has been set by the ordering party and some stakeholder requires manual confirmation (MANUAL (SID)), the current potential counterparty is not included in the short list. Likewise if the ordering party set OMANUAL and some other stakeholder required anonymity (ANON (SID)). In both cases, data flow returns to test **1330**. Otherwise, flow continues at block **1335**. At this point, the system determines the applicable "defined circumstances" for the order. It uses the order data fields currently loaded and parameters set in the PSEL DC masterfile (block **1336**) to determine this. At block **1340**, pricing parameters including consideration/entitlement exchange rates (if applicable), commission rates, and discount rates are selected from the PSEL PRICE master file (block **1350**). Using the "defined circumstances" identification (set in DCID) all potential counterparties can have different sets of pricing parameters specified based on any of the order data fields of each order. Test **1360** checks that all the necessary parameters have been found. It is possible that the counterparty, though prepared to deal with the ordering party, does not have a complete set of pricing parameters for the current order specifications. Such a counterparty is not included in the counterparty short list, and processing returns to test **1330**. At block **1370**, the counterparty is added to the counterparty short list by including the pricing details in the variables: PRICEFUNC (SID), CR(SID), DR(SID), C-C/EDXCHANG(SID), C-CXCHANG(SID), C-NCXCHANG(SID), E-C/EDEXCHANG(SID), E-CXCHANG(SID), E-NCXCHANG(SID), MANUAL(SID), and ANON(SID). Processing then returns to test **1330** where the next selected potential counterparty is dealt with. When all selected potential counterparties have been processed, program flow returns to block **1250**. At this point a potential counterparty short list has been obtained.

Blocks **1400** to **1550** in FIGS. **13** and **14** depict block **1250** in more detail, where every potential counterparty has its price offer calculated, based on their individual pricing parameters, for the currently loaded order. At block **1400** a loop commences allowing each potential counterparty in the potential counterparty shortlist to be dealt with in turn. SID

is set to the identification of the counterparty currently selected. Test **1410** checks whether any counterparties are left for processing. At block **1420**, the potential counterparty's price bid is calculated. Blocks **1490** to **1550** describe this calculation in more detail. At block **1490** the variable, INDEX, is assigned the starting value of the product value range (PMIN). Also, "price" is initialised to zero. Test **1500** commences a loop, where every index point in the product range is traversed. Block **1520** calculates the pricing value returned by the potential counterparty's pricing function, PRICEFUNC, as stored in (PRICEFUNC(SID)), at the current index point, and stores the value in P1. Block **1530** determines the pay-off amount required by the ordering party at the current index point and stores this value in P2. At block **1540**, the total price at the current index point is calculated by multiplying P1 by P2. This value is added to the running total stored in PRICE(SID). At block **1550**, the index counter (INDEX) is incremented by the product step size (PSTEP), and flow returns to the test **1500**. When the end of the product range has been reached (PMAX), flow proceeds to block **1510**, where the calculated price bid is modified by the following calculation:

PRICE(SID)=PRICE(SID) * E-C/EDXCHANG(SID) * E-CXCHANG(SID) * E-NCXCHANG(SID).

Returning to block **1430**, the price bid stored in PRICE (SID) will be in the applicable product's consideration/entitlement denomination, currency denomination, and national currency denomination. The following steps (block **1430–1470**) determine and apply the applicable discount rate to the calculated price bid (currently in future value terms) to yield a price bid in present value terms. This is done as follows: At block **1430** the number of days to product maturity is determined. Block **1440** initialises the loop counter and discount rate divisor. For each day (or appropriate part thereof) between the current date/time and the product maturity date/time, the divisor is changed according to the formula (block **1460**):

DIV=DIV * (1+((DR(SID)/100)/365))

At block **1470**, the price bid is adjusted according to the formula:

PRICE(SID)=PRICE(SID)/DIV

Once the price bid in present value terms is known, the potential counterparty's defined commission is added to the price (block **1480**). Given that CR(SID) is a percentage commission rate, the formula is:

PRICE(SID)=PRICE(SID)+((CR(SID)/100) * PRICE (SID))

When test **1410** confirms that every potential counterparty has been priced, program flow continues at **1255**.

The test at **1255** checks whether the order was a "quote only" order. If so, flow continues at block **1256** where one or more of the counterparty bid prices are selected. At block **1230**, the ordering party is informed of the pricing information gathered. If the order was not a quote order (that is, it was a real product order), an attempt is now made to identify a counterparty from the potential counterparty short list matching the requirements of the current order. This is done at block **1260**. Blocks **1560** to **1616** in FIG. **15** describe this process in detail.

Starting at test **1560**, a check is made to ensure the potential counterparty shortlist is not empty. If it is, no match is possible and flow continues at block **1612**. At this point SID is assigned "0" to indicate that no counterparty was selected from the potential counterparty short list, before moving to block **1614** where the entire order (as no part was matched) is queued. When the list is not empty, program flow continues at block **1570**, where the lowest priced counterparty is selected from the counterparty short list. This determination is done based upon each potential counterparty's bid price (PRICE(SID)), being converted to the consideration/entitlement type, currency, and national currency consideration "payment" denominations sought by the ordering party (that is, PRICE(SID)=PRICE(SID) * C-C/EDXCHANG(SID) * C-CXCHANG(SID) * C-NCXCHANG(SID)). The counterparty identification is stored in SID, and its price offer is stored in BPRICE. At block **1580**, the following check is made:

BPRICE>MAXCONSID

If the selected price is greater than the ordering party's specified maximum consideration payment (MAXCONSID) limit, a match with the current potential counterparty is not deemed possible. This must also be true for any of the remaining counterparties in the counterparty short list. This part of the matching process returns without any potential counterparty in the short list having been selected for a match (block **1612**). Otherwise, the current price is acceptable, and the process proceeds to attempt a match with the current selected counterparty.

The next step (block **1590**), requires all the applicable contract, product, and portfolio absolute loss, expected loss, expected value limits, and maximum composition limits to be read from the PSEL LIMIT master file (block **1600**) and stored in ALL1(SID), ALL2(SID), ELL1(SID), ELL2(SID), ELL3(SID), ELL4(SID), ELL5(SID), EVL1(SID), MC(SID) and MCC(SID). The current absolute and expected losses accumulated are also read and stored in CAL2(SID), CEL2(SID), CEL3(SID), CEL4(SID), and CEL5(SID).The ELFUNC(SID) and EVFUNC(SID) values are also set for use when calculating the expected loss and expected value for the current order. Block **1602** calculates the price of the order entitlement function using the counterparty product expected loss and expected value parameters ELFUNC(SID) and EVFUNC(SID). The order's expected loss is stored in EL(SID); the order's expected value is stored in EV(SID). The absolute loss function is also determined at block **1602** and it is stored in AL(SID). Proceeding to block **1604**, the portion of the order which will not violate the counterparty limits is calculated. This check is made at test **1606**. If no part of the order is matched, process flow continues at block **1608**. The potential counterparty is removed from the counterparty shortlist.

If some portion of the order is matched with the current counterparty, processing continues at block **1610**. Here the SID is set to the identification of the matching counterparty. The unmatched portion (if any) is stored at block **1614** as a new order in the PORD QUEUE masterfile (block **1616**). Flow then returns to test **1261** in FIG. **11**. When a match occurs, program flow returns to block **650**. The matched order must now be confirmed by carrying out a number of additional steps, as shown in FIG. **16**, blocks **1620** to **1641**. If no match occurred, processing of the current order steps, and program flow returns to the beginning via connector "A". The system is ready to load the next available order.

Matched Order Confirmation

For matched orders to become a contract, a number of additional actions are required. First, at test **1620**, a check

for manual authorisation is made. If required, program flow moves to block **1621** where authorisation requests are sent to the relevant stakeholders. Block **1623** then tests the replies for any rejections. If one or more rejections were received, program flow continues at block **1627** where the order is rejected. Otherwise, flow continues at **1624**. Block **1624** effects the consideration payment by creating transactions in the payment shadow file (PAYACC SHADOW—block **1625**). However, this may fail if the accounts specified do not exist or if at least the required consideration amount is shown not to be available. Test **1626** checks that "consideration payment" was effected successfully. If "consideration payment" fails, the matched order is rejected (block **1627**), with details stored in the rejected order master file, PORD REJ (block **1628**). The ordering party is then informed of this event at block **1640**.

With successful payment, program flow proceeds to block **1630** where the counterparty's current accumulated absolute and expected loss figures are updated (masterfile PSEL LIMIT—block **1631**). At block **1632**, the order data field OPRICE is set to the price given by the counterparty PRICE(SID), and SPRICE set to the counterparty's identification, SID. At block **1634**, the matched order is certified as confirmed, with full details recorded in the masterfile PORD CONF (block **1636**). The next step, block **1638**, reports details of the newly created contingent contract to all stakeholders concerned. Program flow then returns to the beginning, via connector "A". The system is now ready to start processing the next order submitted by a specified ordering party.

6. Life Cycle of Risk Management Contract: Example III

The third example of a risk management contract describes a contract to manage risk associated with potential future movements in the value of a specified index of share prices (termed the PTSE **75** index). In summary, the example shows how the system could enable one party (such as an institutional fund manager) seeking to avoid the adverse consequences of a significant decline in the future value of the PTSE **75** index (specifically a decline by June 1994, relative to the assumed current (January 1993) value of the Index) to make a contract with another, as-yet-unknown, party, such as another fund manager seeking to avoid the adverse consequences of a significant corresponding increase in PTSE **75** Index value.

The specific offering is one which provides a contract ordering party with a specified contingent entitlement to a compensatory Australian dollar future payout upon payment of a calculated up-front consideration money amount by the ordering party to the as-yet-unknown counterparty. The future money entitlement is contingent on the value, at contract maturity date, of the independently-determined value of the PTSE **75** index.

In this example, the relevant key stakeholders are: an application promoter (BLC Inc); various product sponsors (the relevant one for the example being BLC Inc itself); various product ordering parties (the relevant ones for the example being Abbotts & Taylor and Shearer & Associates); various potential counterparties (the relevant ones for the example being Abrahamsons and Carpenters Inc); a counterparty guarantor (CNZ Banking Corporation); and an application regulator (the Pacific Central Bank).

The timeline depicting the steps in the contract from the first stop (Application Specification) to the final step (Contract Settlement) is shown in FIG. **17**. FIGS. **58** to **70** are thirteen detailed explanatory charts supporting FIG. **17**. They should be read together with the following description.

Looking at the first step in the timeline (Application Specification) in conjunction with FIG. **58**, it can be seen that BLC Inc established a Contract APP (Application ID 001) on 91.06.03.17.00.00 (that is, 5 pm on Jun. 3, 1991) to deal with economic risk management. Application ID 001 supports a range of products (Applicable Product ID's **10020–11400**).

Looking at the second step in the timeline (Product Specification) in conjunction with FIG. **59**, it can be seen that BLC Inc was also Product Sponsor of Product **10061** at the same time (91.06.03.17.00.00). This Product relates to the Market termed Stock Indices and to the Sub-market termed PTSE **75**. The maturity date for Product **10061** is 94.06.03.17.00.00.00. The consideration for a specific contract involving Product **10061** is in the form of money (commercial bank deposits denominated in Australian dollars). The entitlement is also in the form of commercial bank deposits denominated in Australian dollars, payable (if necessary) immediately after the Product's specified maturity date/time.

Looking at the third step in the timeline (Potential Counterparty Product Pricing Specifications), one can find two entities, Abrahamsons and Carpenters Inc, acting as potential counterparties for forthcoming primary product orders dealing with Product **10061**. At this point in the timeline (93.01.01.17.00.00,00), 19 months after the specification of Product **10061**, both Abrahamsons and Carpenters Inc have currently-specified parameters for pricing potentially forthcoming orders for the product.

Looking at the fourth stop in the timeline (Primary Order Specification), in conjunction with FIG. **60**, it can be seen that an Ordering Party, Abbotts & Taylor, is seeking a contract, from an offering party, in Product **10061** at that time (93.01.01.17.37.06.00). FIG. **60** shows the specific parameters (entitlement) that Abbotts & Taylor has defined for the contract it is seeking at this time, including a maximum acceptable contract consideration amount of 54,000 (denominated in commercial bank, Australian dollars).

In order to provide a more detailed explanation of the following fifth to seventh steps in the timeline, selected processing block numbers from FIGS. **8–16** will be referred to in brackets as follows:

Looking at the fifth step in the timeline (Order Specification Pricing) in conjunction with FIG. **61**, it can be seen that Abrahamsons' specified pricing parameters, as set at 93.01.01.17.37.05.00 are used to price the Abbotts & Taylor order at 93.01.01.17.38.02.00. Abrahamsons' pricing parameters indicate that their appropriate Defined Circumstances ID for Abbotts & Taylor is 26 [1240]. As is shown, this ID in turn implies a Commission Rate of 1.25%, a Discount Rate of 10.00% per annum, a particular set of Component product prices and a particular set of Assessed Probabilities of Occurrence. In a similar process to that described for Example I, this results in a Contract Bid Price of 51,920 (denominated in commercial bank, Australian dollars), which Abrahamsons' parameters calculate will yield them a base margin on the contract of 4,580 (again denominated in commercial bank, Australian dollars) [1250].

Still, looking at the fifth stop In the timeline, in conjunction with FIG. **62**, it can be seen that Carpenters Inc specified pricing parameters, as set at 93.01.01.17.37.06.00, are also used to price the Abbotts & Taylor order at 93.01, 01.17.38.02.00. Carpenters Inc's pricing parameters indicate that their appropriate Defined Circumstances ID for Abbotts

& Taylor is 17 [1240]. As is shown, this ID in turn implies a Commission Rate of 1.30%, a Discount Rate of 9.80% per annum, a particular set of Component product prices and a particular set of Assessed Probabilities of Occurrence. This results In a Contract Bid Price of 53,050 (denominated in commercial bank, Australian dollars), which Carpenters Inc's parameters calculate will yield them a base margin on the contract of 5,610 (again denominated in commercial bank, Australian dollars) [1250].

Again, still looking at the fifth step in the timeline, in conjunction with FIG. **63**, it can be seen that Abrahamsons' pricing-related parameters (also set at 93.01.01.17.37.05.00) for determining the acceptability of ordered-contracts on the basis of their absolute loss, expected loss, expected value, and maximum portfolio composition attributes are satisfied by Abbotts & Taylor's order [1604]. From Abrahamsons' perspective, this qualifies Abbotts & Taylor's order for Inclusion in their product/contract portfolio, as long as Abrahamsons' consideration price bid turns out to be lower than Carpenters Inc's price bid, and, in turn, this bid is below the maximum consideration price that Abbotts & Taylor has specified, In Its order specification (FIG. **60**), it is prepared to pay.

Finally, still looking at the fifth step in the timeline, but now in conjunction with FIG. **64**, it can be seen that Carpenters Inc's pricing-related parameters (set at 93.01.01.17.37.06.00) for determining the acceptability of ordered-contract on the basis of their absolute loss, expected loss, expected value, and maximum portfolio composition attributes are also satisfied by Abbotts & Taylor's order. Now, from Carpenters Inc's perspective, this qualifies Abbotts & Taylor's order for inclusion in their product/contract portfolio, in this case, as long as Carpenters Inc's consideration price bid turns out to be lower than Abrahamsons' price bid, and, in turn, this bid is below the maximum consideration price that Abbotts & Taylor has specified, in Its order specification (Page G4), it is prepared to pay.

Looking at the sixth step in the timeline (Order Matching), it can be found that Abrahamsons' price bid of 51,920 is below Carpenters Inc's bid of 53,050 and, in turn, that the 51,920 amount is below Abbotts & Taylor's specified maximum consideration price of 54,000. This leads to a formal matching of Abbotts & Taylor's order by Abrahamsons' at 93.01.01.17.38.07.00 [1260].

The seventh step in the timeline (Order/Contract Confirmation) takes place five seconds later at 93.01.01.17.38.11.00, after the system has determined that Abbotts & Taylor is able to (and then does) Immediately pay the required consideration funds amount of 51,920 to Abrahamsons [650].

Looking at the eighth stop in the timeline (Contract Valuation) in conjunction with FIG. **65**, one can see a contract valuation report for Abbotts & Taylor published nearly six hours after confirmation of the contract, that is, at 93.01.01.23.00.00.00. As can be seen, the market estimate of the future product value of the PTSE **75** Index at this moment is 1970 (with a standard deviation of 333), which implies that this contract has an expected future value of 53,000 commercial bank-denominated Australian dollars (with a standard deviation of 21,160). On FIG. **66** one can see in the equivalent report for Abrahamsons that their required expected future entitlement payout is identical to Abbotts & Taylor's expected future entitlement receipt (ignoring future fee payments which may be netted against these payments/receipts).

The ninth step in the timeline (Secondary Order Specification), detailed on FIG. **67**, occurs nearly six months after the above-described contract valuation event; that is, at 93.06.06.08.00.00.00. At this time, Abbotts & Taylor is seeking to sell its position in the contract which was matched/confirmed at 93.01.01.17.38.11.00 (and at that time assigned the Order ID of 9156515800 by the system) at a price better than 57,000. Shearer & Associates is prepared to pay 60,000 (commercial bank deposit-denominated Australian dollars) for this position. In all other respects the contract's attributes remain unchanged. On FIG. **68**, the tenth step in the timeline, a contract sale is seen to have occurred at a price of 58,300, just below the above-described 60,000 upper limit purchase-price amount specified by Shearer & Associates. This amount is the current best estimate of the contract's expected future value, with the standard deviation of this expected future value calculated by the system, utilizing other recent transaction data, as being 10,610. Shearer & Associates has now formally taken the place of Abbotts & Taylor as a stakeholder to the contract.

The eleventh step in the timeline (Contract Valuation) refers to a contract valuation report published for Shearer & Associates seven months later, at 94.01.01.17.00.00.00 (see FIG. **69**). As can be seen, the market estimate of the future product value of the PTSE **75** Index at this moment is 1800 (with a standard deviation of 283), which implies that this contract now has an expected future value of 162,360 commercial bank deposit-denominated Australian dollars (with a standard deviation of 35,160). This is an increase in expected future value of 104,060 for Shearer & Associates since the former valuation date/time. The above-described market estimate of the future product value is determined by the system applying a defined composite of contract-counterparty assessed probabilities of occurrence figures drawn from the collection of all like contracts recently matched/confirmed by the system.

The twelfth step in the timeline (Contract Maturity) refers to the actual determination of the product value at time of maturity, 94.06.03.17,00,00,00. As can be seen on FIG. **70**, this product value of the PTSE Index was specified by BLC Inc (as Product Sponsor) to be 1820, implying a contract value of 187,200 (commercial bank deposit-denominated Australian dollars) to Shearer & Associates, and a corresponding obligation on Abrahamsons. The figure of 1820 represents the actual value of the PTSE share price index at 94.06.03.17.00.00.00 as obtained by BLC Inc from the independently verifiable information source, the identity of which they would have disclosed at the time they first announced their sponsorship of trading in the PTSE **75** share Index product.

The thirteenth step in the timeline involves the formal payment of 187,200 (commercial bank deposit-denominated Australian dollars) by Abrahamsons to Shearer & Associates (ignoring possible fee payments by one or both parties).

7. Description of Consideration/Entitlement Payment Process

The purpose of the CONTRACT APP consideration/entitlement (and related transactions) payment/receipt process is to effect debits and credits to INVENTCO stakeholder accounts, typically at maturity of a contract, with participating consideration/entitlement transfer (or exchange) entities, reflecting payment/receipt entitlements and obligations originated within INVENTCO. The process effects these payments/receipts in a two-stage process. First, by debiting/crediting, on a real-time basis, the relevant

shadow records (in the data file PAYACC SHADOW) of the applicable stakeholder accounts-with a participating consideration/entitlement transfer entity (C/E entity), external to INVENTCO, with which they maintain an account. And second, by periodically effecting, via existing and potential payment mechanisms, corresponding payment instructions to the payment entities concerned. Details of the above-described mechanism are as follows.

All INVENTCO stakeholders maintain (a minimum of) two special-purpose (net-credit balance only) accounts with (at least) one selected, VIRPRO authorised, C/E transfer entity. The purpose of special-purpose accounts is to ensure that only INVENTCO-initiated debits and credits are capable of being effected to the accounts. Thus, at any time the balance of each PAYACC SHADOW file account record should, be equivalent to the true, but usually unknown, time-of-day balance of the actual account maintained by the C/E transfer entity.

The purpose of two accounts is to enable only credits to be effected through one account and only debits through another account. And the purpose of "net-credit balance only" accounts is to ensure that accumulated debits to the debits-only account never exceed the account opening balance plus accumulated credits to the credits-only account. C/E transfer entities will typically be (but do not need to be) institutions of any/all of six types: public/private record-registries of various types; credit card companies (typically for retail transactions only); commercial banks; central banks; taxation authorities; and non-bank clearing houses and depositories.

The resources transferred by these entities may be of any type. However, most typically, they will be deposits appropriate for the entity concerned: With respect to public/private record-registries—entitlement deposits (including shares in financial or physical assets, participation rights in wagers, and so on). With respect to credit/debit card companies—normal card company deposits (denominated in national currencies or synthetic currencies (for example, SDRs)). With respect to commercial banks—normal bank deposits (denominated in national currencies or synthetic currencies (for example, SDRs)). With respect to central banks—exchange settlement account (or equivalent) deposits. With respect to taxation authorities—taxation account deposits. And with respect to non-bank clearing houses and depositories—deposits of financial instruments, precious metals and the like. CONTRACT APP potential counterparties will also effectively be C/E transfer entities, as will ordering party guarantors (external to INVENTCO) where they offer credit to product ordering parties. Also, some accounts will be trust accounts maintained on behalf of potential counterparties (and some product ordering parties) involved in applications requiring the periodic payment of collateral to independent third parties to serve as an additional security device.

Immediately after the completion of its daily—or more frequent—transaction processing, and their associated settlement functions, each C/E transfer entity electronically notifies the applicable CONTRACT APP of the "opening balances" of all the debit and credit INVENTCO accounts it maintains (At this stage, the debit account balance should be zero and the credit account balance should be greater than or equal to zero). Where an INVENTCO stakeholder has an overdraft or line-of-credit with its C/E transfer entity, the credit value of this will be reflected in the non-zero balance of its credit account at this time.

Upon receipt of the above-described notifications, the applicable CONTRACT APP updates/confirms its stakeholder shadow balances. Thus, at this point-in-time, all credit and debit shadow account balances should be equivalent to their actual debit and credit account balances.

Progressively throughout the day (where "day" here is likely to be different for each C/E transfer entity due to a combination of differences in the time-zone locations of payment entities in relation to the applicable CONTRACT APP, and the likely different account processing cycles of these entities), INVENTCO-stakeholder—authorised debits and credits to INVENTCO stakeholder shadow accounts are effected on a real-time basis—debits to debit accounts and credits to credit accounts. At all times, the CONTRACT APP ensures that the cumulative debit balance of each stakeholder's debits account does not exceed the "opening balance" plus the cumulative credit balance of the stakeholder's credit account. Thus, at any time, for every INVENTCO stakeholder, the combination of each stakeholder's debit account and credit account will represent the "true", net, time-of-day value of the stakeholder's two actual special-purpose accounts maintained external to INVENTCO.

Debits and credits to INVENTCO stakeholder accounts are effected according to strict rules and conditions, being different for credits and debits. Credits can be made to any INVENTCO stakeholder's credit account with its nominated C/E transfer entity by any other INVENTCO stakeholder for any reason. Naturally, as INVENTCO stakeholders will not know the account details of other stakeholders, such credits will be effected either automatically, according to information and rules known by the applicable CONTRACT APP, or semi-automatically by way of an INVENTCO stakeholder requesting from VIRPRO, as they need to do so, a credit-account number of the stakeholder to which they wish to transfer assets. This account number may only be valid for a nominated period and would not typically be the specified stakeholder's actual account number with its nominated consideration/entitlement transfer entity—it would only be a reference to an INVENTCO file containing this number.

On the other hand, debits can only be made to an INVENTCO stakeholder's debit account with its nominated C/E transfer entity by the stakeholder itself, and by other stakeholders explicitly granted this right by each stakeholder, subject to these other stakeholders exercising this right according to the rules and conditions specified for them.

Where an INVENTCO stakeholder seeks to initiate/authorise debits to its nominated account(s) on its own, this can only be done through the stakeholder satisfactorily completing the identification and security procedures set down by their C/E consideration/entitlement transfer entity (and reflected in VIRPRO-specified INVENTCO communication procedures). The type of procedure set down by all participating C/E transfer entities involves (at least) the following: First, the consideration/entitlement transfer entity supplying VIRPRO with a confidential file of account Pin numbers corresponding to each of its INVENTCO stakeholder debit accounts, and a similarly confidential "black box" which, by initiating any of a number of possible proprietary password request-response processes involving any one of its customers possessing the appropriate device (s), confirms that remote messages received from that customer, and processed by the "black box", are authentic. Second, the consideration/entitlement transfer entity supplying their INVENTCO customers with a programmable smart card (or equivalent device) enabling each customer, remotely—via telephone or direct computer line, to unambiguously confirm their identity with their INVENTCO-maintained account, thereby having the capability to autho-

rise debits to their account within predefined parameters concerning factors such as maximum transaction amounts, possible transaction types, account usage patterns and so on. Third, INVENTCO providing the mechanisms for direct, confidential, stakeholder communications with their C/E transfer entity shadow debit accounts, and the formal updating of these accounts, through non real-time processes, utilizing the unique time-stamped reference numbers created as/when stakeholders authorise access to their account records.

Where an INVENTCO stakeholder has authorised other INVENTCO stakeholders to initiate debits to (any of) its nominated account(s) according to a standing authority of some type, this can only be done through the authorised stakeholder itself satisfactorily completing the identification and security procedures set down by the authorisation-granting stakeholder's nominated C/E transfer entity (and reflected in VIRPRO-specified INVENTCO communication procedures). Once again, the type of procedure, set down by all participating C/E transfer entities in this respect, involves (at least) the following: First, the C/E transfer entity supplying VIRPRO with a confidential file of account Pin numbers corresponding to each of its INVENTCO stakeholder debit accounts and each other INVENTCO stakeholder which has been authorised to effect debits (within defined parameters) to these accounts. Second, the C/E transfer entity supplying VIRPRO with a similarly confidential black box which, by initiating any of a number of possible proprietary password request-response processes involving an entity nominated by any of its customers possessing the appropriate device(s), confirms that remote messages received from that authorised entity, and processed by the black box, are authentic. Third, the C/E transfer entity supplying their INVENTCO customers with a collection of programmable smart cards (or equivalent devices), for distribution to these authorised entities, enabling each authorised entity, remotely—via telephone or direct computer line—to unambiguously confirm their identity with the customer's PAYACC SHADOW account, thereby having the capability to authorise debits to this account (again, within predefined parameters concerning factors such as maximum transaction amounts, possible transaction types, account usage patterns and so on). And four, INVENTCO providing the mechanisms for direct, confidential, authorised stakeholder communications with a stakeholder's C/E transfer entity shadow debit account(s).

At the end of each C/E transfer entity's specified day (or part of a day), the applicable CONTRACT APP transfers (at least) two things to the entity: First, if required, a series of figures representing the exchange settlement (or equivalent) accounting entries it has or will communicate to the C/E transfer entity's appropriate clearing authority (for each of the applicable consideration/entitlement denomination, currency and national currency types of the payments/receipts involved) where these figures represent the balancing net debit or credit figure corresponding to the aggregation of all of the entity's INVENTCO customer transactions in the prior day. And second, a detailed file of all customer transactions effected during the day (corresponding, if required, to the above-described net figures). Upon their receipt of these transactions and summary figures, the C/E transfer entity then debits/credits each transaction to the appropriate actual customer accounts, enabling new "closing" account balances to be calculated (these "closing" balances should be exactly the same as the end-of-day balances commumicated by the applicable CONTRACT APPS with it's file of customer transactions). In turn, these "closing balances" become the C/E transfer entity's account "opening balances" for the next day. The CONTRACT APPS notification process then repeats itself.

Where applicable, at days-end for the "clearing house" of clusters of like C/E transfer entities (for example, a national central bank), CONTRACT APP transfers netted exchange settlement accounting entries to the clearing houses concerned. These entries serve to "balance the individual customer account entries transferred to each associated C/E transfer entity individually.

8. Industrial Applicability

The invention has industrial application in the use of electrical computing devices and data communications. The apparatus and methods described allow the management of risk in an automated manner by means of programming of the computing devices. The types of events associated with the risk management apparatus and methodologies includes physical and technical phenomena, and therefore have value in the field of economic endeavour.

GLOSSARY OF KEY TERMS

A.

Alpha (X)

The Ordering party-specified event value corresponding to the Xth future product event value contract entitlement payoff (payout) inflection point.

Application Promoter

An entity authorised by VIRPRO that specifies and administers defined rules and regulations underlying a defined CONTRACT APP—including the specific products offered for trading; categories of, and conditions of involvement, of stakeholders; nature of involvement and dispute resolution procedures of stakeholders.

Automatic/manual deal and no deal flags

Indicators notified by each stakeholder to CONTRACT APP specifying the manner in which that stakeholder wishes to deal with each other stakeholder.

AXSCO

A communications co-ordination and security system, linked to all stakeholders and component applications.

B.

Base Pricing probabilities

The prices set by sellers for unit entitlement payoffs of a contract at each of its possible future index values denominated in the contract's formally specified consideration/entitlement, currency and national currency.

Beta (X)

The Ordering party-specified desired entitlement payoff (payout) amount in the desired currency denomination of contract entitlement payout (payoff) and national currency denomination of contract entitlement payout (payoff) corresponding to the Xth event value inflection point. Bilateral Obligations Netting indicator

An indicator that individual 'rolling' net present values of future payment/receipt commitments to/from all pairs of participating stakeholders are to be netted.

Bilateral Payments Netting indicator

An indicator that individual end-of-day gross payments/receipts to/from all pairs of participating INVENTCO stakeholders are to be netted.

C.

Commission rate

The minimum required percentage profit margin required by a Potential Counterparty above the "breakeven" bid price for an Ordering party purchase order.

Consideration/Entitlement Transfer Entity

An entity acceptable to VIRPRO and the Application Promoter, satisfying defined minimum standards of financial strength, credit standing and integrity, able to maintain Consideration/entitlement accounts on behalf of stakeholders and effect transfers of those assets as directed.

CONTRACT APP stakeholder types

Expected stakeholder types are Application Promoter, Product Sponsor, Product Ordering party, Counterparty, Counterparty-Guarantor, Regulator, Consideration/entitlement Transfer Entities and Miscellaneous other parties.

Contract and Product "absolute loss" limit

A value limit specified by a potential counterparty of the maximum absolute loss it is prepared to sustain on a contract/product irrespective of the assessment of the likelihood of any particular level of possible loss being incurred.

Contract and Product "expected loss" limit

A value limit specified by a potential counterparty of the maximum expected loss it is prepared to sustain on a contract/product based on the counterparty's assessment of the likelihood of all levels of possible loss being incurred.

Contract Authorisation

A process of verifying that an Ordering Party product purchase order contains data appropriate to the product being sought and that the Ordering Party is accurately identified and credentialled.

Contract Collateralisation indicator

A descriptor set by the Application Promoter specifying whether and on what basis, counterparties may be required to periodically transfer assets/monies (collateral) to an independent trust fund to ensure they will be able to meet their potential entitlement payoff obligations on the maturity date of a contract.

Contract Confirmation

The process of securing the positive agreement of all affected stakeholders to a purchase order, including acknowledgement by the relevant Consideration/entitlement transfer entity of the Ordering party's ability to pay the required product consideration and fees, either automatically or through manual approvals.

Contract Matching

See Ordering party/Potential counterparty matching process.

Contractual Obligation

a. A binding commitment one entity (or group of entities) has to provide products or services or information to another entity (or group of entities) in exchange for an agreed quantity of other products, services or information.

b. A binding commitment all entities have to the network and general management system entity VIRPRO and thus to each other, to accept constraints on their activities imposed by other authorised entities on terms specified and agreed to by them as a condition of their participation in one or more of the component systems.

Contract Portfolio Netting

A term used to describe the process of "setting-off" or "netting", the future payment entitlement obligations between Ordering parties and Counterparties, either bi-laterally or multi-laterally.

Currency and National Currency exchange rates

The rates used to convert contract consideration/entitlement currency and national currency requirements into the product's consideration/entitlement currency and national currency denomination.

D.

Deal flag

An indicator or "flag" notified to CONTRACT APP signifying that the stakeholder is satisfied to deal unreservedly with the stakeholder against whom the flag has been set.

Defined Circumstances

The possible combinations of the categories of product-order information provided by Ordering parties.

Defined Probability Distributions

A set of pricing probability parameters specified by an Ordering party and including at least, a probability distribution type identifier, the expected value of the distribution, the standard deviation of the distribution and a probability distribution adjustment value or function.

Desired Currency Denomination of Contract Entitlement

A term indicating the currency in which an Ordering party wishes to receive potential entitlement payments from the sought contract.

Desired Currency Denomination of Consideration Payment

A term indicating the currency in which an Ordering party wishes to pay the required consideration for the contract sought.

Desired National currency Denomination of Contract Entitlement

A term indicating the National currency in which an Ordering party wishes to receive potential entitlement payments from the sought contract.

Desired National currency Denomination of Consideration Payment

A term indicating the National currency in which the Ordering party wishes to pay the required consideration for the contract being sought.

Discount rate

The rate used to determine the present value of a potential counterparty's expected future entitlements.

E.

Entitlement

The payout expected by the offering party at maturity as specified for each outcome in the range of outcomes. The payout can be both positive and negative in value over the range of outcomes, and can be in the form of money or other non-money types of goods, services, promises, credits or warrants.

EV-CE pricing

A price discovery mechanism for primary contracts meaning "expected value certainty equivalent pricing" being the calculated expected present value or future value of the contract.

Expected Value

A function in EV-CE pricing which means the sum of the products of all possible contract entitlement payoff/payout amounts and the Ordering party's/Counterparty's assessment of the probability of occurrence of the future events which would contractually give rise to these entitlement payoff amounts.

Expected value limits on a Counterparty's aggregate product portfolio

Optional value limits specified by a Potential counterparty at any one time, where time can be specified in terms including "equivalent maturity date"; "same-month maturity date" and "all possible maturity dates" including product expected loss limits and maximum (and possibly minimum) proportion of the expected total loss of the aggregate of the Counterparty's product portfolio that can be accounted for by the expected loss on the individual contract/product.

G.

Gamma(X)

The Ordering party-specified desired shape of the function between each of the co-ordinates Alpha(1), Beta(1) and Alpha(2), Beta(2) and so on; such that Gamma can represent all possible mathematically definable shapes.

I.

I-INVENTCO

The Infrastructure component of INVENTCO.

INVENTCO

A collection of one or more (potentially interrelated) systems, where each system is the combination of a telecommunications, computing and other forms of infrastructure, and a variety of markets and support services distributed by this infrastructure.

M.

M-INVENTCO

A depository of VIRPRO authorised "markets" application software.

Manual deal flag

An indicator or "flag" notified to CONTRACT APP by a stakeholder signifying that the stakeholder wishes to manually approve a transaction involving the other stakeholder against whom the flag has been set.

Multilateral Payments Netting indicator

An indicator that individual end-of-day gross payments/receipts to/from all participating stakeholders from/to a specified third party trustee/clearing entity are to be netted.

Multilateral Obligations Netting indicator

An indicator that individual 'rolling' net present values of future payment/receipt commitments to/from all participating stakeholders from/to a third party trustee/clearing entity are to be netted.

N.

Negative Contract Payoffs

A type of contract in which the contract Ordering party may have a contingent payoff to the contract's Potential counterparty (i.e. the reverse of a normal contract).

No Deal flag

An indicator or "flag" notified to a CONTRACT APP by a stakeholder signifying that the stakeholder does not wish to deal in any way with the other stakeholder against whom the flag has been set.

O.

Ordering party Contingent Claims Function

Specifications of a product payoff or a mathematical function to calculate an Ordering party's product payoff requirement.

P.

Portfolio Product "expected loss" limit

A value limit, specified by a potential Counterparty, of the maximum expected loss the potential Counterparty is prepared to sustain on its product portfolio based on the Counterparty's assessment of the likelihood of all levels of possible loss being incurred.

Product Ordering party

An entity acceptable to VIRPRO and the Application Promoter, interested in and able to acquire a CONTRACT APP product.

Product Establishment date/time

The date/time an Application Promoter first offers a defined product for trading.

Product future event value "density" indicator

An indicator specifying the number of intermediate points between the minimum and maximum future event product definition values specified for the product by the Application Promoter/Product Sponsor.

Product event value "width" indicator

An indicator specifying the range (minimum-maximum) of future event values accommodated by the product as set by the Application Promoter/Product Sponsor.

Product future event value

A term used to indicate the actual value of a defined product at its date/time of maturity.

Product Maturity date/time

The date-time at which the Application Promoter is required to make a determination of the actual event value to enable entitlement and related payoffs on successful contracts.

Product Price Quote requests

A type of product purchase order for which the matching process is terminated and the result communicated to the Ordering party, when a desired price bid or range of price bids has been obtained.

Product Purchase Orders

Specific product purchase orders for which the Ordering party is seeking a potential Counterparty match, which may be of three types: automatic orders; manual orders and "hide" orders.

Product Purchase Order withdrawals

Ordering party-initiated requests to withdraw from processing pre-submitted but as yet unconfirmed product purchase orders.

Product potential Counterparty

An entity acceptable to VIRPRO and the Application Promoter, exceeding a defined minimum standard of financial strength, credit standing and integrity, offering defined CONTRACT APP products to product Ordering parties.

Product Sponsor

An entity acceptable to VIRPRO and the Application Promoter, having responsibility for detailed definition of product parameters including the continual determination of product values over time.

R.

Regulator

An entity acceptable to VIRPRO having local, state, national or international jurisdiction over one or more CONTRACT APPS.

S.

Set of Pricing Probabilities

The range of probabilities a potential Counterparty applies to a class of Ordering party order, specified by the value of "defined circumstances" and applying to every feasible future product event defined for that product by an Application Promoter.

Stakeholder

An entity that is a registered participant in one or more of INVENTCO's component parts.

V.

Value Dates

The respective dates/times at which matched contract consideration and entitlements are agreed to be made by the relevant Ordering party/Counterparty to a contract.

VIRPRO

The network and general management system component of INVENTCO.

X.

"X"

A term indicating the number of contract payoff (payout) inflection points the Ordering party is seeking within the allowable range of future product event values (including the value range extremity points).

CONTRACT APPS

Overview

CONTRACT APPS is a term used to refer to certain types of units of applications software which can, but do not need to, reside within an INVENTCO system's (M-INVENTCO) depository of "markets" software. The purpose of individual CONTRACT APPS is two-fold: First, to effect the trading/exchange/transfer of risk aversion transactions (and derivatives of these transactions) between participating ordering

parties and counterparties on terms acceptable to the parties involved as well as to others within INVENTCO registered as having a legitimate interest in the nature, size and composition of these trades/exchanges/transfers. And second, to appropriately manage all matched/confirmed contracts through to their time of maturity, including their ultimate settlement.

Individual CONTRACT APPS perform theses tasks according to the specific rules they embody, defined by their own stakeholders. CONTRACT APPS effectively reside upon AXSCO and within M-INVENTCO.

Stakeholder Types

CONTRACT APPS accommodate eight (and potentially fewer) generic types of their "own" stakeholders (as distinct from other INVENTCO stakeholders) termed: application promoter, product sponsors, product ordering parties, potential product counterparties, counterparty-guarantors, regulators, consideration/entitlement transfer entities, and other miscellaneous parties.

Some details of these stakeholders are as as follows: an application promoter is an entity having overall responsibility for the functioning of a CONTRACT APP (that responsibility having been granted by VIRPRO); a product sponsor is an entity which promotes and administers the rules of trading, and subsequent management, of defined contingent claims contracting product(s) selected for inclusion in a CONTRACT APP by its application promoter; a product ordering party is an entity seeking to acquire a CONTRACT APP product from a potential product counterparty (where a product ordering party can also be a product counterparty); a potential product counterparty is an entity potentially prepared to satisfy the CONTRACT APP product needs of a product ordering party (where a potential product counterparty can also be a product ordering party); a counterparty-guarantor is an entity guaranteeing a product counterparty's ability to settle any/all of its potential entitlement transfer obligations to a product ordering party to which it has become a counterparty as a result of a CONTRACT APP effected "match"; regulators are entities overseeing the on-going performance of all other stakeholders involved in a CONTRACT APP, especially counterparty-guarantors; consideration/entitlement transfer entities are entities with which all other CONTRACT APP stakeholders maintain "accounts" to transfer required considerations/entitlements to/from all each other; and miscellaneous parties are all other entities having a defined stake in the functioning of a CONTRACT APP.

Miscellaneous parties include: independent entities contracted by application promoters or product sponsors to formally determine the "value" of products on their date-of-maturity; multilateral obligations and payment netting trustee/clearing entity organisations; independent (non-regulator) taxation and other governmental authorities; electronic "gateway" providers (external to INVENTCO); and host system organizations (in the case of CONTRACT APPS within INVENTCO systems linked to a common host system). CONTRACT APPS accommodate any number of their own stakeholders of each of the above-defined generic types.

Product Types

CONTRACT APPS can support risk aversion contract "product types" with any combination of values of multiple attributes, including: the fundamental nature/purpose of the product; the establishment/maturity date/time of the product; the consideration/entitlement denomination type, currency (if applicable), and national currency (if applicable) consideration/entitlement identifiers associated with the product; the "width" and "density" identifiers of possible future event values of the product; and miscellaneous other product descriptors.

The "fundamental nature/purpose of the product" attribute may incorporate identifiers including: a conditional entitlement-payoff dimensions identifier; a market identifier; a sub-market identifier; and a market-type identifier. The "conditional entitlement-payoff dimensions identifier" specifies the number of dimensions to an ordering party's sought-after conditional entitlement-payoffs. The market identifier specifies whether the product relates to an "actual" or "perceived" phenomenon (or phenomena), the number of such phenomena (if applicable), and the applicable phenomenon category (for example, industrial, scientific, financial market hedging, and so on). The sub-market identifier provides a more specific description of the product concerned. The market-type identifier specifies the applicable future period date/time (where this can be anything—for example, "at a defined contract maturity date/time", "at a specified time on or before contract maturity date/time", and so on), and type-of-future event involved (where, again, this can be anything—for example, as an indicator of some relative value of a phenomenon (spot value, average value and so on), or as an indicator of the "rate-of-change" of some value of a phenomenon.

The "establishment and maturity date/time of the product" attribute specifies, respectively, the date/time an application promoter first offered a product for trading, and the date/time at which the defined product matures (that is, the date/time at which the product sponsor is required to make a determination of the actual event value at that date/time so enabling contract entitlement transfers to be effected).

The "consideration/entitlement denomination type, currency (if applicable), and national currency (if applicable) consideration/entitlement identifiers associated with the product" attribute specify: the type of consideration/entitlement involved (where this can include rights and entitlements, physical assets, and "money" of all possible types); in the case of a "money" consideration/entitlement type, the currency of the consideration/entitlement (where such currency types can include: public/private record-depository deposits, commercial credit card company deposits, commercial bank deposits, central bank deposits, taxation authority deposits, and deposits in non-bank clearing houses and depositories, and the like); and, again, in the case of a "money" consideration/entitlement type, the national currency of the consideration/entitlement identifier (where such national currency types can be in any national currency, or form of synthetic currency).

The "width and density identifiers of possible future event values of the product" attribute specifies, respectively: the minimum and maximum values of the allowable range of future event values accommodated by a product; and the number of intermediate points between the defined minimum and maximum future event values accommodated by the product.

The "miscellaneous other product descriptors" attribute specifies such things as: the degree of stakeholder access granted the product by the application promoter in question; the forms of trading-services granted the product by the application promoter in question (where this product attribute specifies the accessibility of the product to a range of feasible "stakeholder services" with respect to such things as contract portfolio netting, contract collateralisation, consideration credit provision, ordering party ability to specify negative contract entitlements, and availability of secondary/derivative market product trading); and the

degrees of trading, clearing and settlement "transparency" granted the product by the application promoter in question.

Transaction Types

A range of primary, secondary, derivative-primary, and derivative-secondary risk aversion contract transactions are accommodated by CONTRACT APPS.

The-range of "primary" (and derivative-primary (options, for example)) risk aversion contract transaction-types (handled principally by Processes 2 and 4—include: ordering party product orders (and option orders) for which the ordering party is seeking a counterparty "match", ordering-party price quote (and options price quote) requests; and ordering-party withdrawals of existing product orders (and withdrawal of options on product orders). Ordering party product orders consist of: automatic orders and manual orders. Automatic orders consist of: normal-automatic orders (being orders the ordering party is prepared to have matched automatically, subject only to the constraints defined in the ordering party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified); and anonymous-automatic orders (being orders the ordering party is prepared to have matched automatically, subject to the constraints defined in the ordering party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified, provided that no CONTRACT APP stakeholder has sought to manually authorise the transaction and, through so doing, being able to potentially identify the ordering party). Manual orders consist of normal-manual orders (being orders the ordering party wishes to manually authorise before they are finalised—that is, after a counterparty "match" has been effected but before the contract has been "confirmed"—subject only to the constraints defined in the ordering party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified); and anonymous-manual orders (being orders the ordering party wishes to manually authorise before they are finalised—that is, after a counterparty "match" has been effected but before the contract has been "confirmed"—subject to the constraints defined in the ordering party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified, provided that no CONTRACT APP stakeholder has also sought to manually authorise the transaction and, through so doing, potentially identify the ordering party).

The range of "secondary" (and derivative-secondary (options, for example) risk aversion contract transaction-types (handled principally by Processes 3 and 5—include: acquiring party product orders (and option orders) for which the acquiring party is seeking to "acquire" the position of a specified "risk counterparty" stakeholder in an existing contract; acquiring-party product price indications (and option price indications); and acquiring-party withdrawals of existing product orders (and option withdrawals).

Acquiring party product orders for which the acquiring party is seeking to "acquire" the position of a specified "risk counterparty" stakeholder in an existing contract, consist of automatic orders and manual orders.

Automatic orders consist of: normal-automatic orders (being orders the acquiring party is prepared to have matched automatically, subject only to the constraints defined in the acquiring party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified); and anonymous-automatic orders (being orders the acquiring party is prepared to have matched automatically, subject to the constraints defined in the acquiring party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified, provided that no CONTRACT APP stakeholder has sought to manually authorise the transaction and, through so doing, being able to potentially identify the acquiring party).

Manual orders consist of normal-manual orders (being orders the acquiring party wishes to manually authorise before they are finalised that is, after a "match" has been effected but before the contract "sale" is "confirmed"—subject only to the constraints defined in the acquiring party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified); and anonymous-manual orders (being orders the acquiring party wishes to manually authorise before they are finalised—that is, after a "match" has been effected but before the contract "sale" is "confirmed"—subject to the constraints defined in the acquiring party's order, in addition to whatever "match" constraints other CONTRACT APP stakeholders have prespecified, provided that no CONTRACT APP stakeholder has also sought to manually authorise the transaction and, through so doing, potentially identify the acquiring party).

Primary Product Pricing Process Types

CONTRACT APPS enable potential counterparties to automatically establish "bids" on any defined (primary and derivative-primary) product order according to either an "expected value/utility-certainty equivalent" (EV/U-CE) pricing regime, or any other mathematically-definable pricing regime.

In the case of an "expected value-certainty equivalent" (EV-CE) pricing regime, each potential counterparty specifies, amongst other things: an indicator of certain defined attributes of an as-yet-unknown product order; a base commission rate; a base discount rate; (if applicable) a set of base consideration/entitlement denomination, currency, and national currency exchange rates; base unit product prices; and desired adjustments to the preceding base-bid-price determinants dependent on any specific order (submitted by a specified ordering party).

The above-described indicator of certain defined attributes of an as-yet-unknown product order (termed, defined circumstances) may reflect any combination of the multiple characteristics of an order (irrespective of the ordering party concerned), including: the multiple attributes of the contingent claims function sought; the ordering party's interest or otherwise in being granted credit by a counterparty; the ordering party's interest or otherwise in participating in the possible netting and collateralisation features of the APP; and the maximum (and possibly minimum) consideration amount the ordering party is prepared to pay for their defined product. The above-described base commission rate specifies the minimum required percentage profit margin required by the counterparty above their breakeven consideration bid price for a product order.

The above-described base discount rate determines the present value of the counterparty's expected future entitlement associated with a contract (net of the ordering party's consideration, and making allowance for the future income stream this consideration is expected to generate). The above-described set of base consideration/entitlement denomination, currency and national currency exchange rates are used, where applicable, to convert an ordering party's contract requirements into the base consideration/entitlement denomination, currency and national currency of the product so enabling the contract matching process to make like comparisons of counterparty bids for product orders.

The above-described base unit product prices are prices set by potential counterparties for unit entitlement-payoffs of a contract at each of its possible future values, denominated in the contract's formally specified consideration/entitlement type and, if applicable, currency type and national currency type (where these unit prices can be specified as directly input figures for every feasible future product event (the sum of which may or may not add to 1), or as parameters of defined mathematical functions). The above-described desired adjustments to the preceding base-bid-price determinants dependent on the specific ordering party submitting a specific order can include: a commission rate adjustment; a discount rate adjustment; a consideration/denomination exchange rate adjustment; a currency exchange rate adjustment; and a national currency exchange rate adjustment.

In the case of an "expected utility-certainty equivalent" (EU-CE) pricing regime, each potential counterparty specifies all of the above-described parameters applicable to a EV-CE pricing regime as well as "utility bench-mark" figures for all possible consideration and entitlement "payment amounts" which could, conceivably, be associated with a product/contract.

Primary Product Matching Process Types

CONTRACT APPS may similarly accommodate any of a number of possible (primary and derivative-primary) order matching processes where these processes can be of multiple types, including sequential processes and simultaneous processes.

Sequential order matching processes can be characterised according to the "sequence determining" and "matching" rules they embody, where "sequence" rules may be of various types: "last-in-first-out (LIFO)", "first-in-first-out" (FIFO)", priced priority, and so on; and matching rules may also be of various types—for example, a specific matching process could seek, for each product ordering party, a counterparty (or counterparties) offering a product price at or below the maximum price the ordering party is prepared to pay (where the determined contract price could be either the lowest price offered by a potential counterparty, the mid-point between the an ordering party's specified "maximum consideration amount" and the lowest price offered by a potential counterparty, and so on); or seek for each potential product counterparty an ordering party prepared to pay the maximum price above a price at which the counterparty is prepared to deal (here, the determined contract price could be either: the ordering party's "maximum consideration amount" price, the mid point between the minimum price the counterparty is prepared to receive and the ordering party's "maximum consideration amount" price, and so on).

Simultaneous order matching processes are those seeking some type of optimum solution according to pre-defined objectives. For example: "maximise the number of ordering party-counterparty matches"; "maximize the aggregate consideration and/or entitlement value of ordering party-counterparty matches"; or "minimize the value of a function specifying the sum of the differences (possibly weighted according to their perceived importance) between the actual and desired values of match attributes of ordering parties and counterparties".

Both of the above-described sequential and simultaneous matching processes can also accommodate conditional contract matching rules; and pre and post tax price optimisation mechanisms.

Application Types

CONTRACT APPS may be: "in-house" APPS or "public" APPS; "single potential counterparty" APPS or "multiple potential counterparty" APPS; APPS with differing degrees and forms of "regulator" oversight of other application stakeholders; and APPS with differing degrees and forms of "counterparty-guarantor" oversight of product potential counterparties.

CONTRACT APPS support consideration "payment" value dates being "immediate" (meaning exactly the time at which a contract match is confirmed); or deferred until a defined time in the future, measured in terms of seconds, minutes, hours, or days. Similarly, CONTRACT APPS support entitlement "payment" value dates being "immediate" (meaning exactly the time at which the applicable application promoter formally notifies other CONTRACT APP stakeholders of the "result" of a maturing contract); or deferred until a defined time after the "result" of a maturing contract is known.

CONTRACT APPS allow contracts to be modified and liquidated after their creation. Contracts can be modified through: direct negotiation by the relevant "risk counterparties" to a particular contract; or the purchase/sale of "derivative" secondary risk aversion contract transactions (See Process 5 description below). Contracts can be similarly liquidated after their creation through sale of the contract (within or outside INVENTCO); and through direct negotiation between the initial ordering party and counterparties to the contract. They can also be effectively liquidated through the ordering party/counterparty acquiring a mirror image of the contract to which they are a party (within or outside of INVENTCO).

Post Order Process Types

CONTRACT APPS undertake various generic types of "post-order-process" management functions for all the above-described generic types of "transactions", including: a function which maintains a formal record of contractual commitments entered into by all CONTRACT APP stakeholders with one another, and with VIRPRO-authorised entities external to either the applicable CONTRACT APP or INVENTCO overall; a function which effects the independent valuation of consideration and entitlement obligations between CONTRACT APP stakeholders, and between CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP; a function which determines and effects "collateralisation" consideration/entitlement transfers between CONTRACT APP stakeholders, and between CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP, based on above-described valuations of consideration and entitlement obligations associated with CONTRACT APP transactions; a function which determines and effects, as required, the bi-lateral netting of accumulated "consideration/entitlement" obligations "between CONTRACT APP stakeholders, and between CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP; a function which determines and effects, as required, the multi-lateral netting of accumulated "consideration/entitlement" obligations" between CONTRACT APP stakeholders, and between CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP (involving a nominated third-party "clearing house" entity); a function which manages the processing, accounting, reporting, and entitlement "payment" tasks associated with maturing contracts; a function which determines system usage and access fees payable to/from all CONTRACT APP (and other INVENTCO) stakeholders, and to/from VIRPRO-authorised entities external to INVENTCO; a function which determines and

effects, as required, "bi-laterally netted" consideration/entitlement transfers from/to CONTRACT APP stakeholders themselves, and from/to CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP; a function which determines and effects, as required, "multi-laterally netted" consideration/entitlement transfers from/to CONTRACT APP stakeholders themselves, and from/to CONTRACT APP stakeholders and VIRPRO-authorised entities external to each applicable CONTRACT APP (involving a nominated third-party "clearing house" entity); and a function which compiles and distributes CONTRACT APP (and other INVENTCO) stakeholder customised information.

Supplementary Process Types

CONTRACT APPS undertake various other types of support processes, including: enabling stakeholders to transfer consideration, entitlement and other "payment" obligations to and from one another, independently of transfers initiated by CONTRACT APP transactions (See Process 7 description below); providing CONTRACT APP (and other INVENTCO) stakeholders with shared access to specialist systems to assist them to decide how best to interface with the multiple aspects of INVENTCO (See Process 8 description below); and providing CONTRACT APP (and other INVENTCO) stakeholders with access to a range of INVENTCO-facilitated "value added services" (See Process 9 description below).

Matching Constraint Types

For their operation, CONTRACT APPS require all stakeholders to a specific APP to specify, amongst other things, which other stakeholders they do and do not want to have interactions with, and the conditions under which they wish to manually authorise some aspect of a transaction involving any other CONTRACT APP stakeholder over which they have control authority of some form.

In specifying which other stakeholders they do and do not want to have interactions with, CONTRACT APP stakeholders have various options. Application promoters can specify acceptable product sponsors, products, ordering parties and potential counterparties within their application—individually and by type. Similarly, product sponsors can specify acceptable application promoters, products, ordering parties, potential counterparties and counterparty-guarantors within their application—individually and by type.

Product counterparties and ordering parties (collectively) can specify: ordering parties/potential counterparties they do and do not want to deal with—individually and by type; the extent of their preparedness to be involved in contract netting and collateralisation arrangements provided for by their application promoter; application promoters, product sponsors, products, and consideration/entitlement transfer entities they do and do not want to deal with—individually and by type; ordering parties/potential counterparties they prefer to deal with, and those with which they wish to deal exclusively; the degree of trading transparency they require; and their wish or otherwise to manually authorise order matches before they are confirmed.

Potential counterparties can specify which ordering parties, or classes of ordering parties, they are prepared to offer credit to (and under what terms), and ones they are prepared to allow "ordering party-guarantors" to offer credit to and under what terms. Similarly, product ordering parties (uniquely) can specify: counterparty-guarantors with which they do and do not want to deal (individually and by type); counterparties with which they wish to deal exclusively or preferentially to obtain a particular form of counterparty-credit; and potential "ordering party-guarantors" (external to INVENTCO) with which they do and do not want to deal.

Counterparty-guarantors can specify which potential counterparties have their authority to operate and which application promoters, product sponsors and ordering parties they are prepared, indirectly, to have relationships with. Similarly, regulators can specify which counterparty-guarantors, potential counterparties, ordering parties, application promoters, product sponsors and products have their authority to operate. Finally, consideration/entitlement transfer entities can monitor and maintain up-to-date rules with respect to ordering parties, counterparties, application promoters, product sponsors, counterparty-guarantors, and regulators they are and are not prepared to deal with—individually and by type.

Ordering Party Requirements

For their operation, CONTRACT APPS require primary product ordering party stakeholders to a CONTRACT APP, in registering an order for a product of their choice, to specify: the above-described "product type" and "other stakeholder involvement" information; multiple attributes of the specific order they are seeking; their interest or otherwise in being granted credit by potential counterparties for their contract consideration amount, or in availing themselves of the possible netting and collateralisation features of the APP concerned; the maximum (and possibly minimum) consideration "price" they are prepared to pay for their defined product; and various other dimensions of their needs, where these include: the name/title by which they wish to be identified by other APP stakeholders; the time at which they wish their order to be submitted; the period of time after an order has been submitted that they wish the order to be retained before it is automatically withdrawn; whether or not they are prepared to accept partial matches of their order; the degree of market transparency they wish to be exposed to; whether or not they wish wish to have the option of trading a matched contract on an authorised INVENTCO secondary market (See Process 5 description below); whether or not they wish to manually consider/authorise potential counterparty quotes on an order; in the case where potential counterparty quotes are required to be manually considered/authorised, the maximum time after potential counterparty quote details are provided to the ordering party that the ordering party wishes to consider the quote(s); and the consideration/entitlement transfer entity accounts from which/to which they wish to have relevant "payments" made/received.

The above-mentioned multiple attributes of a specific primary order an ordering party-is seeking include: their wish or otherwise to directly input the entitlement "coordinates" of their desired contingent claim order; their wish or otherwise to mathematically specify an entitlement function reflecting their desired product order, where such functions can be single or multidimensional (indicating a contingent contract entitlement conditional on two or more phenomena); the "consideration/entitlement unit", "currency" (if applicable), and "national currency" (if applicable) in which they wish to "pay"/"receive" their contract consideration/entitlement. Where an ordering party wishes to mathematically specify their desired primary product order as a single-dimensional entitlement function: the input term "X" can indicate the number of contract entitlement "inflection points" the ordering party is seeking within the allowable range of future product event values (including the value range extremity points); the input term "Alpha (X)" can indicate the ordering party-specified event value corresponding to the Xth future product event value contract entitlement inflection point; the input term "Beta (X)" can indicate the ordering party-specified desired

entitlement amount (in the desired "consideration/entitlement form", "currency" and "national currency" entitlement denomination) corresponding to the Xth event value inflection point; and the input term "Gamma (X-1)" can indicate the ordering party-specified desired shape of the function between each of the co-ordinates: [Alpha (1), Beta (1)] and [Alpha (2), Beta (2)], [Alpha (2), Beta (2)] and [Alpha (3), Beta (3)], and so on (as applicable), where Gamma can represent all possible, mathematically definable, shapes.

Potential Counterparty Requirements

For their operation, CONTRACT APPS also require primary product "potential counterparty" stakeholders to a CONTRACT APP to define various parameters on the basis of which they can automatically price orders, including parameters with which they wish to establish a "consideration bid" on a defined product order; possible individual contract and product constraints they require to be satisfied if they were to become a counterparty to a defined product ordering party order; and possible expected-value product-portfolio constraints they require to be satisfied if they were to become a counterparty to a defined product ordering party order.

In defining parameters with which they wish to establish a "consideration bid" on a defined product order under a "EV-CE" pricing regime (described above), each potential counterparty is required to specify, amongst other things: an indicator of the appropriate "defined circumstances" of all possible product orders; a base "commission rate"; a base "discount rate"; (if applicable), a set of base "consideration/entitlement denomination", "currency" and "national currency" exchange rates; base "unit product prices"; and desired adjustments to the base commission rate, discount rate, exchange rates, and unit product prices on specific product orders according to the determined-value of the "defined circumstances" indicator (based on a specific product order).

Possible individual contract and product constraints the potential counterparty requires to be satisfied if they were to become a counterparty to a defined product ordering party order, include: an absolute loss limit constraint (this constraint being specified as a single-figure constraint and/or as a function constraint); an expected loss limit constraint (this constraint defining the maximum "expected" aggregate loss the potential counterparty is prepared to incur on a contract/product, taking into account their assessment of the likelihood of all feasible future product values occurring); and a constraint on the maximum proportion of the expected total loss of the aggregate of the potential counterparty's contracts/products that can be accounted for by the expected loss of the defined individual contract/product. Similarly, possible expected-value product-portfolio constraints the potential counterparty requires to be satisfied if they were to become a counterparty to a defined product ordering party order include the maximum (and possibly minimum) proportion of the expected total loss of the aggregate of the potential counterparty's product portfolio that can be acccounted for by the expected loss of an individual contract/product.

Communications

CONTRACT APP stakeholders communicate with their applicable APP via AXSCO. Individual "stakeholder-to/from-AXSCO" communications can be by way of any/all of the following: voice communications with an AXSCO-linked "live operator" or "recorded messaging" system; touch-telephone communication with AXSCO directly; or computer-to-computer link with AXSCO (via a dedicated or dial-up communications line). With all three forms of communication, CONTRACT APP stakeholders may be required to utilize specified computer hardware and/or software mechanisms in their communications with AXSCO (including "payments" authorisation "black box" devices referred to below).

Component Processes

In their manifestation as telecommunications/computer software residing on telecommunications/computer hardware, individual CONTRACT APPS consist of a cluster of processes, utilizing a number of data files, residing on one or more processing units. A cluster of nine (and potentially more or fewer) specific processes and their related data files reside within a CONTRACT APP: a process handling file administration and updating tasks supporting all other processes (termed Process 1); a process handling the receipt and processing of "primary" risk management contract transactions (termed Process 2); a process handling the receipt and processing of "secondary" risk management contract transactions (termed Process 3); a process handling the receipt and processing of "derivative-primary" risk management contract transactions (termed Process 4); a process handling the receipt and processing of "derivative-secondary" risk management contract transactions (termed Process 5); a process handling the "back office" management of all four types of risk management contract transactions (termed Process 6); a process handling non-transaction related consideration, entitlement, and other "payment" obligation transfers between stakeholders (termed Process 7); a process handling CONTRACT APP (and other INVENTCO) stakeholder access to specialist systems to assist these stakeholders decide how best to interface with the multiple aspects of INVENTCO (termed Process 8); and a process handling CONTRACT APP (and other INVENTCO) stakeholder access to a range of INVENTCO-facilitated "value added services" (termed Process 9). These processes may function concurrently.

DESCRIPTION OF CONTRACT APP PROCESSES

Process 1

Process 1 handles file administration and updating tasks supporting all other processes (FIG. **18**). The PRODUCT, PRODUCT TRANS, DEAL LIST and DEAL LIST TRANS files referred to in FIG. **18** are applicable, individually or collectively, to primary, secondary, derivative-primary, and derivative-secondary contract orders. The SEL PRICE, SEL PRICE TRANS, SEL LIMIT and SEL LIMIT TRANS files are applicable only to primary and derivative-primary contract orders. The TRADE PRICE, TRADE PRICE TRANS, TRADE LIMIT and TRADE LIMIT TRANS files are applicable only to secondary and derivative-secondary contract orders.

The file administration and updating tasks handled by Process 1 comprise: dealing with general data-file information received from CONTRACT APP stakeholders; dealing with general data-file and order processing information received from relevant other INVENTCO stakeholders, particularily VIRPRO and AXSCO; dealing with trading support information received directly from CONTRACT APP stakeholders; dealing with potential counterparty primary, and derivative primary, product order "consideration bid" parameters and order-match constraints; dealing with existing-contract offering party secondary, and derivative secondary, order match conditions; and dealing with miscellaneous information from entities external to INVENTCO.

Existing and prospective stakeholders are required to supply their applicable CONTRACT APP with specified

identification and other information, and to continually maintain the integrity of this information. For each stakeholder, this information includes: applicable name(s), addresses, contact numbers, and references; their desired system access medium; their consideration/entitlement transfer entity account details; and, if applicable, their required schedule of fees and charges payable by other INVENTCO stakeholders. This information is maintained in the data file ADMIN, updated information being received by way of the transaction file ADMIN TRANS.

VIRPRO is required to supply the applicable CONTRACT APP with various forms of general data-file information Including: identification data relating to the application promoter for (each) CONTRACT APP; details of the permitted types of system access mediums; and consideration/entitlement denominations available in each application. Again, this information is maintained in the data file ADMIN, updated information being received by way of the transaction file ADMIN.TRANS.

VIRPRO is similarly required to supply the applicable CONTRACT APP with various forms of general data-file information including: information on all data received by and sent from the various parts of INVENTCO to one another and to entities external to INVENTCO; and statistical information of various types, including data traffic volumes, data file location information and so on. This information is continuously collected by AXSCO and maintained in the data file HISTORY.

Trading support information received directly from CONTRACT APP stakeholders comprises stakeholder relationship information of a general nature, and specific information from individual stakeholders.

Stakeholder relationship information of a general nature comprises "transaction communication parameters" and automatic/manual deal and no deal "flags". Transaction communication parameters are parameters set by all (registered) CONTRACT APP stakeholders defining the bounds within which they wish, for security reasons, all of their communications within INVENTCO to fall. Automatic/manual deal and no deal flags are "flags" set, as required, by all (registered) CONTRACT APP stakeholders indicating their requirements with respect to dealing with other CONTRACT APP stakeholders. This information is maintained in the data file DEAL LIST, updated information being received by way of the transaction file DEAL LIST TRANS.

Specific information from individual stakeholders differs according to the category of stakeholder involved.

Application promoters provide, amongst other things: Information for the data file, PRODUCT (updated transactions being received from the file, PRODUCT TRANS), and further information for the data file ADMIN (updated transactions being received from the file, ADMIN TRANS). Information for the data file, PRODUCT includes details of the specific products application promoters offer for trading/exchange/transfer. Information for the data file, ADMIN includes: the order pricing and matching process upon which the application is based; the consideration/entitlement "value date" regime upon which their application is based; the categories of other stakeholders allowed to participate in the application and the conditions under which they can do this; the specific rules of engagement of counterparty-guarantors by potential counterparties; the availability and, in turn, the terms and conditions for CONTRACT APP stakeholder utilization of "consideration credit", "collateralisation", and "netting" features of the application (embodied in the various post-order-processing management routines); and details of the consideration/entitlement transfer entities involved in the application and relevant security information concerning account access.

Product sponsors provide full details of the product(s) they are sponsoring; product ordering parties and potential counterparties (collectively) indicate, with respect to each other, the parties they either prefer to deal with or wish to deal with exclusively. Potential counterparties (exclusively) provide a variety of specific information, including: details of the Application promoter, Product sponsor, and Counterparty-guarantor rules under which they have chosen to operate; data recording the lines of credit (if any) offered to ordering parties and the general and specific terms and conditions of these credit lines (applicable to ordering parties individually and/or to defined classes of ordering parties); parameters with which a potential counterparty wishes to determine its consideration "bids" on orders. Counterparty-guarantors provide details of the potential counterparties (if any) they have agreed to guarantee and the nature of such guarantees. Regulators provide details of: all entities having a stake in the application and their relationships to one another (for example, which counterparty-guarantors cover which counterparties, which potential counterparties offer which products, and so on); specific regulations developed for the regime; and parameters defining the taxation treatment of all types of orders and related transactions. Consideration/entitlement transfer entities provide "set-up" and on-going account access and balance-updating services. All of the above-described information is maintained in the data file, ADMIN, updated information being received by way of the transaction file ADMIN TRANS.

In dealing with potential counterparty primary product order "consideration bid" parameters and order-match constraints, potential product order counterparties are required, amongst other things, to: define various parameters with which they wish to establish a "consideration bid" on a defined product order; and define parameters with which the potential counterparty wishes to determine adjustments to the "base-price" bids on product orders according to the specific ordering party involved (this information is maintained in the data file SEL PRICE; updated information is received by way of the transaction files SEL PRICE TRANS); define possible individual contract and product constraints the potential counterparty requires to be satisfied if they are to become a counterparty to a defined product ordering party order; and define possible expected-value product-portfolio constraints the potential counterparty requires to be satisfied if they are to become a counterparty to a defined product ordering party order (these latter two categories of information are maintained in the data files SEL LIMIT and BUY LIMIT; updated information being received by way of the transaction file SEL LIMIT TRANS).

In dealing with existing-contract offering party secondary order match conditions, offering parties are required, amongst other things, to specify: the Order IDs of the contracts in which the entity concerned wishes to "sell" its position as a contract stakeholder, and, for each such contract, the pricing and other parameters it requires to be satisfied before a contract position "sale" is effected. This information is maintained in the data file TRADE PRICE; updated information is received by way of the transaction file TRADE PRICE TRANS.

In dealing with potential counterparty derivative-primary product order "consideration bid" parameters and order-match constraints, potential product order counterparties are required to provide essentially the same information

described above in relation to primary product orders. However, in addition, information directly applicable to the relevant type of derivative-primary transaction concerned (say, an option to establish a primary product order at a later date) is also required.

In dealing with existing-contract-offering party derivative-secondary order match conditions, offering parties are required to provide essentially the same information described above in relation to secondary product orders. However, in addition, information directly applicable to the relevant type of derivative-secondary transaction concerned (say, an option to sell a position in a primary product order at a later date) is also required.

In dealing with miscellaneous information from entities external to INVENTCO, this information can be of any type and may, potentially, be used by any part of INVENTCO; the information is maintained in the data-file ADMIN with updated information being received by way of the transaction file ADMIN TRANS

Process 2

Process 2 handles the receipt and processing of "primary" risk management contract transactions, such transactions being of multiple types. Various sub-processes of Process 2 handle the receipt and processing of all possible types of these transactions, including product order processing, price quote requests, and withdrawals of existing product orders.

Primary "product orders" constitute the core "primary" risk management contract transaction type (FIG. **19** provides a summary flow chart, and the document text provides a detailed flow chart and description of the processing of this transaction type).

Primary product orders incorporate the following key items of information: ordering party identification information; CONTRACT APP application and product identification information; "other stakeholder involvement" information; the ordering party's desired form of product specification (directly input as entitlement coordinates or as mathematical function(s)); when the order specification is by way of a single-dimensional mathematical function, the parameters of such a function (which can include: the term "X", the term "Alpha (X)", the term "Beta (X)", the term "Gamma (X-1)"; the contract consideration and entitlement "denomination type", "currency (if applicable)" and "national currency (if applicable)"; the ordering party's interest or otherwise in being granted credit by potential counterparties for the yet-to-be-determined contract consideration amount; the ordering party's interest or otherwise in availing themselves of the possible netting and collateralisation features of the APP concerned; the consideration "price" range within which the ordering party is prepared to "pay" for their defined product; miscellaneous other dimensions of the ordering party's needs, and the consideration/entitlement transfer entity accounts from which/to which they wish to have relevant "payments" made/received). Upon its receipt, all of this information is written to—and subsequently processed from—the file PORD NEW.

Three sub-processes are involved in processing primary product orders—order authorisation, order matching, and matched order confirmation. In the case of the anticipated most typical form of order, termed a "normal-automatic" primary product order these sub-processes function as follows:

The primary product order authorisation sub-process verifies that all orders contain data appropriate to the product being sought and that each ordering party is accurately identified and credentialled (this sub-process draws principally on the data-file, PRODUCT).

The primary product order matching sub-process locates the best possible counterparty(ies) for the ordering party's transaction according to the application promoter-specified "matching rules" embodied in the APP; it does this utilizing three component sub-processes, termed: short-listing of potential-counterparties, individual potential-counterparty "pricing" calculations, and counterparty selection.

The "short-listing of potential counterparties" sub-process component establishes a list of potential counterparties (if any) willing to offer the product sought by the ordering party, upon their receipt from the ordering party of a consideration they deem to be appropriate (this sub-process draws principally on the data-file, PDEAL LIST).

The individual potential-counterparties pricing calculations sub-process component utilises the above-described pricing parameters re-specified by each short-listed potential counterparty to calculate the "bid" each of them is prepared to make on the ordering-party's product order (or part thereof), and to add these to the potential counterparties short-list file (this sub-process draws principally on the data-file, PSEL PRICE).

The "counterparty selection" sub-process component extracts from the above-described "potential-counterparties short-list" file the best possible counterparty(ies) for the ordering party's transaction, according to the application promoter-specified "matching rules" embodied in the APP, taking into account whatever matching constraints all applicable APP stakeholders may have prespecified. This selection being made, and the price bid being within the allowable limits specified by the ordering party, and there being no requirements for manual-approval intervention by any relevant stakeholder, a matched order is deemed to be in existence (this sub-process draws principally on the data-file, PSEL LIMIT).

The matched order confirmation sub-process effectively secures, automatically, the positive agreement of all affected stakeholders to the contract, including confirmation of the product ordering party's ability to immediately pay (or be granted counterparty credit, or ordering party guarantor credit, for) the required contract consideration (and possible other applicable fees). Automatic approvals of contracts are made by the CONTRACT APP electronically transferring resources recorded in the ordering party's applicable consideration/entitlement transfer entity account to the account of the applicable counterparty (See Appendix H for a description of the consideration/entitlement "payment" process). In turn, automatic updates of the counterparty's matching constraints maintained in the file PSEL LIMIT are made.

Upon completion of the above-described processing steps: unmatched order transactions are written to the file, PORD QUEUE, for subsequent match attempts; matched and confirmed order transactions are confirmed to the relevant CONTRACT APP stakeholders (this process drawing principally on the data-file, ADMIN) and are written to the file PORD CONF for subsequent "back-office" processing; and relevant CONTRACT APP stakeholders are notified of rejected orders (again, this process drawing principally on the data-file, ADMIN), records of this being written to the file PORD REJ for subsequent "back-office" processing. A copy of all processing outputs is written to the file, HISTORY.

Process 3

Process 3 handles the receipt and processing of "secondary" risk management contract transactions. Like "primary" risk management contracts, "secondary" risk management contracts are of multiple types; various sub-processes of

Process 3 handle the receipt and processing of all possible types of these transactions, including product order processing, product price indications, and withdrawals of existing product orders.

"Secondary product orders" constitute the core "secondary" risk management contract transaction type (FIG. **20** provides a summary flow chart of the processing of this transaction type).

"Secondary" product orders incorporate the following key items of information: potential acquiring party identification information; the pre-established Order ID reference to the sought-after primary contract; the potential acquiring party's interest or otherwise in being granted credit by offering parties for the yet-to-be-determined contract acquisition amount; the acquiring party's interest or otherwise in availing themselves of the possible netting and other features of the APP concerned; the acquisition "price" range within which the potential acquiring party is prepared to "pay" for the contract they have specified; other dimensions of the potential acquiring party's needs; and the consideration/entitlement transfer entity accounts from which/to which they wish to have "relevant payments" made/received. The above-described information is, upon receipt, written to—and subsequently processed from—the file SORD NEW.

Three sub-processes are involved in processing secondary product orders—order authorisation, order matching, and matched order confirmation. In the case of the anticipated most typical form of order, termed a "normal-automatic" secondary product order these sub-processes function as follows:

The secondary product order authorisation sub-process verifies that all orders contain data appropriate to the contract sought and that each potential acquiring party is accurately identified and credentialled (this sub-process draws principally on the data-file, SPRODUCT).

The secondary product order matching sub-process locates sought-after contract records and, based on the contents of these records, determines whether a "sale" of the position of the specified stakeholder in the contract to the potential acquiring party is possible—in particular, whether the acquisition "price" range within which the potential acquiring party has specified it is prepared to "pay" for the position of the specified current stakeholder is equal to, or in excess of, the "allowable sale price" figure prespecified by the applicable contract stakeholder. If a contract "sale" is found to be possible, and there being no requirements for manual-approval intervention by any relevant stakeholder, a "match" is deemed to have occurred.

The secondary product matched order confirmation sub-process effectively secures, automatically, the positive agreement of all affected stakeholders to the contract position "sale", including confirmation of the contract acquiring party's ability to immediately pay (or be granted current stakeholder credit, or acquiring party guarantor credit, for) the required "sale price" consideration (and possible other applicable fees). Automatic approvals of such "sales" are made by the CONTRACT APP electronically transferring resources recorded in the acquiring party's applicable consideration/entitlement transfer entity account to the account of the applicable current contract stakeholder.

Upon completion of the above-described processing steps: unmatched order transactions are written to the file, SORD QUEUE, for subsequent match attempts; matched and confirmed order transactions are confirmed to the relevant CONTRACT APP stakeholders (this process drawing principally on the data-file, ADMIN), required records being written to the file SORD CONF for further "back-office" processing as required; and rejected order transactions are similarly notified to the relevant CONTRACT APP stakeholders (again, this process drawing principally on the data-file, ADMIN), required records being written to the file SORD REJ for further "back-office" processing. A copy of all processing outputs is written to the file, HISTORY.

Process 4

Process 4 handles the receipt and processing of "derivative-primary" risk management contract transactions. Like "primary" risk management contracts, "derivative-primary" risk management contracts are of multiple types; various sub-processes of Process 4 handle the receipt and processing of all possible types of these transactions, including product order processing, product price indications, and existing product order withdrawals.

"Product option orders" is one illustrative "derivative-primary" risk management contract transaction type (FIG. **21** provides a summary flow chart of the processing of this transaction type).

"Derivative-primary" product option orders incorporate the following key items of information: ordering party identification information; CONTRACT APP application and product identification information; "other stakeholder involvement" information; the ordering party's desired form of product specification (directly input as entitlement coordinates or as mathematical function(s)); when the order specification is by way of a single-dimensional mathematical function, the parameters of such a function (which can include: the term "X", the term "Alpha (X)", the term "Beta (X)", the term "Gamma (X-1)"; the contract consideration and entitlement "denomination type", "currency (if applicable)" and "national currency (if applicable)"; the ordering party's interest or otherwise in being granted credit by potential counterparties for the yet-to-be-determined contract option consideration amount; the ordering party's interest or otherwise in availing themselves of the possible netting and collateralisation features of the APP concerned; the consideration "price" range within which the ordering party is prepared to "pay" for their defined product option; miscellaneous other dimensions of the ordering party's needs, and the consideration/entitlement transfer entity accounts from which/to which they wish to have relevant "payments" made/received). Upon its receipt, all of this information is written to—and subsequently processed from—the file DPORD NEW.

Three sub-processes are involved in processing derivative-primary product orders—order authorisation, order matching, and matched order confirmation . In the case of the most likely form of the above-mentioned illustrative option order, termed a "normal-automatic" derivative-primary product option order these sub-processes function as follows:

The primary product option order authorisation sub-process verifies that all orders contain data appropriate to the product option being sought and that each ordering party Is accurately identified and credentialled (this sub-process draws principally on the data-file, DPPRODUCT).

The primary product option order matching sub-process locates the best possible counterparty(ies) for the ordering party's transaction according to the application promoter-specified "matching rules" embodied in the APP; it does this utilizing three component sub-processes, termed: short-listing of potential option-counterparties, individual potential option-counterparty "pricing" calculations, and option-counterparty selection.

The "short-listing of potential option-counterparties" sub-process component establishes a list of potential option-

counterparties (if any) willing to offer the product option sought by the ordering party, upon their receipt from the ordering party of an option consideration they deem to be appropriate (this sub-process draws principally on the data-file, DPDEAL LIST).

The "individual potential option-counterparties pricing calculations" sub-process component utilises the above-described pricing parameters prespecified by each short-listed potential option-counterparty to calculate the "bid" each of them is prepared to make on the ordering-party's product option order (or part thereof), and to add these to the potential option-counterparties short-list file (this sub-process draws principally on the data-file, DPSEL PRICE).

The "option-counterparty selection" sub-process component extracts from the above-described "potential option-counterparties short-list" file the best possible counterparty (ies) for the ordering party's transaction, according to the application promoter-specified "matching rules" embodied in the APP, taking into account whatever matching constraints all applicable APP stakeholders may have prespecified. This selection being made, and the price bid being within the allowable limits specified by the ordering party, and there being no requirements for manual-approval intervention by any relevant stakeholder, a matched option order is deemed to be in existence (this sub-process draws principally on the data-file, DPSEL LIMIT).

The matched option order confirmation sub-process effectively secures, automatically, the positive agreement of all affected stakeholders to the options contract, including confirmation of the product-option-ordering party's ability to immediately pay (or be granted counterparty credit, or ordering party guarantor credit, for) the required option product consideration (and possible other applicable fees). Automatic approvals of contracts are made by the CONTRACT APP electronically transferring resources recorded in the ordering party's applicable consideration/entitlement transfer entity account to the account of the applicable counterparty. In turn, automatic updates of the option-counterparty's matching constraints maintained in the file DPSEL LIMIT are made.

Upon completion of the above-described processing steps: unmatched option-order transactions are written to the file, DPORD QUEUE, for subsequent match attempts; matched and confirmed option-order transactions are confirmed to the relevant CONTRACT APP stakeholders (this process drawing principally on the data-file, ADMIN) and are written to the reference file DP MSTR, and the file DPORD CONF for subsequent "back-office" processing; and relevant CONTRACT APP stakeholders are notified of rejected orders (again, this process drawing principally on the data-file, ADMIN), records of this being written to the file DPORD REJ for subsequent "back-office" processing. A copy of all processing outputs is written to the file, HISTORY.

If/when an option-holder wishes to exercise its option over a pre-established contract, it does so by appropriately notifying the CONTRACT APP which, in turn, retrieves the contract record from DPMSTR, effects the necessary additional consideration payments, and writes a new record to PORD CONF for subsequent back office processing. As described above, the appropriate HISTORY and other files are updated in this process.

Process 5

Process 5 handles the receipt and processing of "derivative-secondary" risk management contract transactions. Like "secondary" risk management contracts, "derivative-secondary" risk management contracts are of multiple types, various sub-processes of Process 5 handle the receipt and processing of all possible types of these transactions, including product order processing, product price indications, and withdrawals of existing product orders.

"Product option orders" is an illustrative "derivative-secondary" risk management contract transaction type (FIG. **22** provides a summary flow chart of the processing of this transaction type).

"Derivative-secondary" product option orders incorporate the following key items of information: potential acquiring party identification information; the pre-established Order ID reference to the sought-after primary contract (in relation to which an option is to be purchased or sold); the potential acquiring party's Interest or otherwise in being granted credit by offering parties for the yet-to-be-determined option contract acquisition amount; the acquiring party's interest or otherwise in availing itself of the possible netting and other features of the APP concerned; the acquisition "price" range within which the potential acquiring party is prepared to "pay" for the contract option they have specified; other dimensions of the potential acquiring party's needs; and the consideration/entitlement transfer entity accounts from which/to which they wish to have relevant "payments" made/received. The above-described information is, upon receipt, written to—and subsequently processed from—the file DSORD NEW.

The subprocesses involved in the processing of derivative-secondary product option orders are essentially a combination of the processes described above in the case of secondary product orders (Process 3) and derivative-primary product option orders (Process 4). At the completion of the matching process, matched orders are written to the reference file DSMSTR and the file DSORD CONF for subsequent back office processing.

If/when an option holder wishes to exercise its option over a pre-established contract, it does so by appropriately notifying the CONTRACT APP which, in turn, retrieves the contract record from DSMSTR, effects the necessary additional consideration payments, and writes a new record to SORD CONF for subsequent back office processing. As described above, the appropriate HISTORY and other files are updated in this process.

Process 6

Process 6 handles the "back office" management of "matched/confirmed" primary, secondary, derivative-primary, and derivative-secondary risk management contract transactions and transactions handled by Processes 7–9. The process incorporates multiple sub-processes, collectively accessing multiple data files (FIG. **23**): primary risk management contract back office processing; secondary risk management contract back office processing; derivative-primary risk management contract back office processing; derivative-secondary risk management contract back office processing; "Process 7" transactions back office processing; "Process 8" transactions back office processing; and "Process 9" transactions back office processing.

In relation to the back-office management of confirmed/matched primary risk management contracts—a number of sub-processes are involved, including: Receipt of the previous operating day's "matured-contract actual product event value" sub-process; "Start-of-day PAYACC management" sub-process; Contract maturity management sub-process; Confirmed contract processing sub-process; Information compilation and distribution sub-process; Information extraction from primary orders sub-process; Contract valuation sub-process; Contract collateralisation

payments sub-process; System Access and usage fee determination and payments sub-process; Bilateral obligations netting sub-process; Multilateral obligations netting sub-process; Bilateral payments netting sub-process; Multilateral payments netting sub-process; and "end-of-day PAYACC management" sub-process.

Receipt of the previous operating day's "matured-contract actual product event value" details. This sub-process is flowcharted in FIG. **24**; it involves the applicable CONTRACT APP receiving "matured-contract actual product event value" details from the relevant product sponsors (external to INVENTCO). The primary data-file, MAT PROD VALUES, is updated with this information. The support data-files, ADMIN, HISTORY, and INFO are similarly updated with applicable information.

"Start-of-day" PAYACC management. This sub-process is flowcharted in FIG. **25**; it involves the applicable CONTRACT APP receiving consideration/entitlement "actual account" opening-balances from participating consideration/entitlement transfer entities (external to INVENTCO) (see Process 7 for details). The primary data-files, PAYACC SHADOW and PAYACC FINAL are updated with this information. The support data-files, HISTORY, INFO and ADMIN, are similarly updated with applicable information.

Contract maturity management. This subprocess is flowcharted in FIG. **26**; It involves the applicable CONTRACT APP determining and giving effect to primary and related entitlement-transfers to/from applicable CONTRACT APP stakeholders, applicable other INVENTCO stakeholders, where such transfers are principally reflected in entries to the data-file, PAYACC SHADOW. CONTRACT APP determines and gives effect to these transfers, principally by drawing upon product/contract information maintained in the data files, INTREG, MAT PROD VALUES, COLLAT, CREDIT MGMT, BILAT OBLIG NET, and MULTILAT OBLIG NET. These data-files are appropriately updated in the process as are the support data-files, ADMIN, HISTORY, TAX/SUB, PAYACC SHADOW and INFO.

Confirmed contract processing. This sub-process, flowcharted in FIG. **27**, operates continually throughout each operating day. Details of new matched/confirmed contracts are read from the file PORD CONF and are then time-stamped and written to the file INTREG as two records—one record pertaining to the contract ordering party and the other to the contract counterparty. The support data files, INFO, ADMIN, and HISTORY are appropriately updated in the process.

Information compilation and distribution. This sub-process, flowcharted in FIG. **28**, operates continually (beyond a defined operating day), drawing on the data-file INFO. As already described, INFO is updated continually as CONTRACT APP and other INVENTCO events occur, including pertinent AXSCO message information written in the first instance to HISTORY. All relevant INVENTCO stakeholders have access to preauthorised parts of INFO.

Information extraction from primary orders. This sub-process, flowcharted in FIG. **29**, is effected after the completion of the defined operating day. Essentially, it involves the single task of processing the data-file, HISTORY, to yield pertinent information for the data-file INFO. One of the most important items of information drawn from HISTORY is (confidential) information on all of the prior day's potential counterparty consideration bid parameters, in particular the data items termed "assessed probabilities of occurrence". This information yields "market" information for the subsequent contract valuation sub-process.

Contract valuation. This sub-process, flowcharted in FIG. **30**, draws principally upon the above-described "markets" information previously written to INFO. Pertinent data from this file is "applied against" all outstanding contracts maintained in INTREG, thereby yielding updated "future product value (FPV)", "expected value" and "distribution" value information for all contracts and, from this, revaluations of all future entitlement "expected values" and "distribution" values. All these revaluation figures are maintained in INTREG with applicable information also being written to INFO and HISTORY.

Contract collateralisation payments. This sub-process, flowcharted in FIG. **31**, draws principally on the data-file INTREG. Following the contract valuation process, this collateralisation process involves relevant INTREG records being read and, depending (amongst other things) on the precalculated "present value" of the expected future entitlement associated with each relevant contract, a calculated portion of the present value of the expected future consideration amount is debited or credited to the PAYACC SHADOW file of the applicable collateralisation trustee entity, and the product ordering party and/or counterparty as is applicable.

Generally, if the most recent precalculated "present value" of the expected future entitlement associated with each relevant contract indicates a negative contract value, and if this negative value exceeds the prior contract valuation figure, the applicable entity's trust account is credited with the funds difference, with the entity's own consideration/entitlement transfer entity account being debited correspondingly. If this negative value does not exceed the prior contract valuation figure, the applicable entity's trust account is debited with the funds difference, with the entity's own consideration/entitlement transfer entity account being credited correspondingly. On the other hand, if the most recent precalculated "present value" of the expected future entitlement associated with each relevant contract indicates a positive contract value, the only collateralisation payment adjustment called for is one in which all funds (if any) in the applicable entity's trust account are transferred to the entity's own consideration/entitlement transfer entity account. In each of the above-described cases, a record of all entries effected is written to the data-file, COLLAT, and a subset of this information is written to the data-files HISTORY and INFO.

System Access and usage fee determination and payments. This subprocess, flowcharted in FIG. **32**, deals with the determination and payment of system access and usage fees (as distinct from contract maturity date fee payments). The function draws principally on the data-files ADMIN, and HISTORY. Fee payment parameters are maintained in data-file ADMIN. These parameters are applied against the day's new records already written to HISTORY. Debits and credits for fees so determined are written to PAYACC SHADOW with summary information written to INFO and HISTORY.

Bilateral obligations netting. This subprocess, flowcharted in FIG. **33**, effectively maintains an up-to-date matrix of the present values of expected future entitlement (and other) obligations between pairs of participating ordering parties and counterparties (as well as other participating CONTRACT APP and INVENTCO stakeholders), continually adjusted on the basis of required current consideration, entitlement and other payments/receipts as they occur. As required, the function updates the above-described matrix in two stages. First, with the most recent contract revaluation figures contained within INTREG. And second, with the

end-of-day payment/receipt amounts contained within PAYACC SHADOW. Consideration/entitlement transfer entity transfers from/to applicable entities are determined (according to the application-promoter specified parameters for so doing) on the basis of whether or not any/all of the adjusted bilateral present value figures are in excess of their allowable limits. These entries are written to PAYACC SHADOW, with the data-files BILAT OBLIG NET, INTREG, HISTORY, and INFO being subsequently updated.

Multilateral obligations netting. This subprocess, flowcharted in FIG. **34**, is essentially the same as the bilateral netting function except that a specified "clearing/trustee" entity is effectively interposed between all bilateral counterparties and, as such, netted obligations are only between the specified "clearing house/trustee" entity and each participating entity.

Bilateral payments netting. This subprocess, flowcharted in FIG. **35**, is independent of the above-described bilateral and multilateral obligations netting subprocesses. The subprocess operates by producing a matrix of bilaterally netted payments/receipts based on records contained in the data-file, PAYACC SHADOW. Single netted payment/receipt figures are then rewritten to PAYACC SHADOW, with the data-files BILAT PYMTS NET, ADMIN, HISTORY and INFO being subsequently updated.

Multilateral payments netting. Like bilateral payments netting, this subprocess, flowcharted in FIG. **36**, is independent of the above-described bilateral and multilateral obligations netting subprocesses. The subprocess operates by producing a matrix of bilaterally netted payments/receipts to/from the applicable "clearing house/trustee" entity based on records contained in the data-file, PAYACC SHADOW. Single netted payment/receipt figures (to/from the "clearing house/trustee" entity) are then rewritten to PAYACC SHADOW, with the data-files MULTILAT PYMTS NET, ADMIN, HISTORY and INFO being subsequently updated.

"End-of-day" PAYACC management. This subprocess, flowcharted in FIG. **37**, involves a three-stage process. First, the preparation of inter-consideration/entitlement transfer entity "balancing" transactions. Second, the transfer of the final contents of the PAYACC SHADOW data-file to the data-file, PAYACC FINAL. And third, the electronic transmission of the contents of PAYACC FINAL to the applicable consideration/entitlement transfer entities (external to INVENTCO). In turn, the subsidiary data-files, ADMIN, HISTORY, and INFO are updated.

Process 7

Process 7 handles non-CONTRACT APP-related obligation transfers between applicable INVENTCO stakeholders, that is, the transfer of ownership title over "assets" registered by INVENTCO—typically matched/confirmed contracts (recorded as CONTRACT APP INTREG records) and consideration/entitlement transfer entity resources (recorded as PAYACC records). Both of the above-mentioned items have value to their holder. This process enables holders of these items to assign or lend any portion of their holdings to others at their will through initiating the appropriate transactions as NCAROT TRANS. The process accesses a relatively small number of data files (See FIG. **38**). NCAROT TRANS received result in appropriate updates to the primary data-files, PAYACC SHADOW and INTREG. In turn, the subsidiary data files, HISTORY, ADMIN and INFO are updated.

Process 8

Process 8 (flowcharted in FIG. **39**) handles CONTRACT APP (and other INVENTCO) stakeholder shared-access to specialist systems to assist them decide how best to interface with one or more aspects of INVENTCO. In the case of CONTRACT APP stakeholders, the most likely users of this process, one collection of such specialist systems are termed "decision support systems". The purpose of these systems is to guide a user-stakeholder as to how it should react to/deal with the continually changing circumstances within the CONTRACT APP with which they are dealing. Different clusters of systems are applicable for different CONTRACT APP stakeholders. These systems involve a hierarchy of potentially any number of value-added components.

An example of one such system, useful to primary product ordering parties, is a system which helps an ordering party determine which of its prespecified, but as yet un-matched, orders it should withdraw and which of its potential new product orders it should submit. This system is in the form of a "utility optimization" mechanism which seeks to identify the best possible composition of outstanding orders (and thus, which existing, unmatched orders should be withdrawn and which new orders should be submitted) based on two things. First, an objective function which seeks to minimize the difference between a weighted sum of actual and desired values of a series of attributes (involving single or multiple products, covering the ordering party's "real business exposure" to each product, the ordering party's portfolio of contracts which have been "matched" but are not yet confirmed, orders which have been submitted but not yet matched, and potential yet-to-be-submitted orders (collectively termed the "buyer's objective portfolio"), these attributes including, amongst other things: the "expected value" of the objective portfolio; the "standard deviation" of the objective portfolio; the "incremental cash outflow" attribute of the objective portfolio; the "maximum absolute loss" attribute of the objective portfolio; the "expected loss" attribute of the objective portfolio; the "implied minimum return on investment" of the objective portfolio; and the "implied expected return on investment" of the objective portfolio. And second, a series of constraints specifying, amongst other things: the required "minimum values" of each objective function attribute; and required minimum product-shares in the ordering party's overall product portfolio. The mathematical form of this "optimization" could take any of a number of alternative forms.

An optimization mechanism similar to the one described above can also aid potential counterparties in defining their pricing parameters for application against incoming product orders.

Effectively, systems of the above-described type are collectively maintained as a software "library" within the applicable CONTRACT APP (although they may also be loaned by VIRPRO-authorised entities independent of INVENTCO and/or acquired by VIRPRO-authorised parties whether they are INVENTCO stakeholders or not). CONTRACT APP (and other INVENTCO) stakeholder requests to make use of software within this library are received by way of records in the file, SSA TRANS. These requests result in the appropriate records in the file SSA being accessed and made available for use via AXSCO and the applicable entity's authorised electronic link to INVENTCO. Appropriate records of the utilization of SSA records are written to the data-files HISTORY, ADMIN and INFO.

Process 9

Process 9 (flowcharted in FIG. **40**) handles CONTRACT APP (and other INVENTCO) stakeholder shared-access to a range of INVENTCO-facilitated value added services. These services can include: accounting, reconciliation, and

information services; value added information reseller services; financial services of multiple types; and data processing and telecommunications services. Effectively, software relating to these services is maintained as a software "library" within the applicable CONTRACT APP (although they may also be loaned by VIRPRO-authorised entities independent of INVENTCO and/or acquired by VIRPRO-authorised parties whether they are INVENTCO stakeholders or not). CONTRACT APP (and other INVENTCO) stakeholder requests to make use of software within this library are received by way of records in the file, VAS TRANS. These requests result in the appropriate records in the file VAS being accessed and made available for use via AXSCO and the applicable entity's authorised electronic link with INVENTCO. Appropriate records of the utilization of VAS records are written to the data-files HISTORY, ADMIN and INFO.

RISK MANAGEMENT CONTRACTS

Risk management contracts is a term used to refer to one type of contractual obligation which can be, but does not need to be, traded/exchanged/transferred, and subsequently processed and settled, using an INVENTCO system. Risk management contracts consist of "primary" risk management contracts; "secondary" risk management contracts; "derivative-primary" risk management contracts; and "derivative-secondary" risk management contracts.

"Primary" risk management contracts can be "simple" and "complex" in nature ("simple" contracts being derivatives of "complex" contracts).

A "simple" primary risk management contract is a tradeable or untradeable contract conveying an obligation on an entity, upon that entity being granted a consideration by another entity (or accepting a pledge to be granted a consideration by the other entity), to make an entitlement to that other entity depending on the value of a defined phenomenon, determined at a defined time in the future.

A "complex" primary risk management contract is a tradeable or untradeable contract conveying an obligation on either or both of two entities, upon one entity [usually] being granted a consideration by the other entity (or accepting a pledge to be granted a consideration by the other entity), to make an entitlement to pay/receive an entitlement from one another, depending on the value of a defined phenomenon, determined at a defined time in the future. A "complex" contract may, in turn, be "basic" or "advanced" in nature: a "complex-basic" contract being one that does not involve ordering party and/or matched order counterparty "collateralisation payments" to a third-party trustee or clearing entity during the life of a contract; and a "complex-advanced" contract being one that does involve ordering party and/or matched order counterparty "collateralisation payments" to a third-party trustee or clearing entity during the life of a contract.

"Secondary" risk management contracts are pre-existing "primary" risk management contracts offered for trade (individually or as a portfolio) by a "risk-counterparty" stakeholder to the underlying contract.

"Derivative-primary" risk management contracts are options contracts, or futures contracts, or forward contracts, or forward rate agreements, or swaps, or like financial instruments based on specified, but yet-to-be-established, primary risk management contracts.

"Derivative-secondary" risk management contracts are options contracts, or futures contracts, or forward contracts, or forward rate agreements, or swaps, or like financial instruments based on pre-existing primary risk management contracts (which may have been traded since they were first established), including instruments based on: specified, but yet-to-be established, secondary risk management contracts; and the intended tertiary trading/exchange/transfer of specified, established, secondary risk management contracts.

PROCESS 2 VARIABLES AND DATA FILES

Listed below is the file name and description therefor.

Order Data Fields

OID Unique identification assigned by CONTRACT APP to every new order submitted.

BID Ordering party identification.

BREF Ordering party's own reference for this order.

PID Order field specifying the required product.

PMAT Product maturity date.

PC/ED Product consideration/entitlement denomination.

PCUR Product currency denomination.

PNCUR Product national currency denomination.

PPARAM Product specification parameters (e.g. minimum value (PMIN), maximum value (PMAX), and the step size (PSTEP)).

MAXCONSID Maximum consideration the ordering party will pay for this contract.

PAYFUNC Pay-off function type, contingent on one or more index variables.

PAYPARAM Parameters associated with the PAYFUNC.

ACC CONSID The ordering party account the consideration is to be paid from. Implied is the account consideration/entitlement, currency, national currency.

ACC ENTITL The ordering party account the contract entitlement is to be paid into. Implied is the account consideration/entitlement, currency, national currency.

RET LIM Retention time limit for the order, which sets an expiration time for the order whilst remaining un-matched.

OPRICE Price calculated and selected for this order (this value will be the matching price).

SPRICE Counterparty identification with which the order was matched.

PAY TRAN Payment transaction number.

DCID Defined circumstances identification.

OANON Anonymous flag, set by the ordering party when seeking to avoid manual authorisation requests by other stakeholders.

OMANUAL Manual authorisation request flag. If set, the ordering party requires manual authorisation before the matched order is fully confirmed.

DTID Deal type identification which codes a combination of miscellaneous flags such as collateralisation, bilateral and multilateral netting requirements.

Counterparty Short List Arrays

PRICEFUNC(SID) Pricing function: function type and associated parameters.

ELFUNC(SID) Expected loss determination function: function type and associated parameters.

EVFUNC(SID) Expected value determination function: function type and associated parameters.

CR(SID) Commission rate to be used for the current defined circumstances.

DR(SID) Discount rate to be used for the current defined circumstances.

PRICE(SID) Price calculated by each counterparty.

EL(SID) Expected loss calculated for the current order by each counterparty.

AL(SID) Absolute loss calculated for the current order by each counterparty.

EV(SID) Expected values determined for the current order by each counterparty.

MCC(SID) Maximum composition any contract (as an expected loss) can have of the entire portfolio.

MC(SID) Maximum composition the product (as an expected loss) can have of the entire portfolio.

ELL1(SID) Order expected loss limit.

ELL2(SID) Expected loss limits set by the counterparty for the product.

ELL3(SID) Expected loss limits set by the counterparty for equivalent maturity date products.

ELL4(SID) Expected loss limits set by the counterparty for same month maturity products.

ELL5(SID) Expected loss limits set by the counterparty for orders in all products.

CEL2(SID) Current accumulated expected losses for the product.

CEL3(SID) Current accumulated expected losses for equivalent maturity date products.

CEL4(SID) Current accumulated expected losses for same month maturity products.

CEL5(SID) Current accumulated expected losses for orders in all products.

ALL1(SID) Absolute loss limit function for each contract.

ALL2(SID) Absolute loss limit function set for the product.

CAL2(SID) Current absolute limit function accumulated for the product.

EVL1(SID) Expected value limit on each order.

C-C/EDXCHANG(SID) Counterparty consideration/entitlement denomination exchange rates which convert the ordering party's consideration denomination of ACC CONSID (and MAXCONSID) into the product's consideration denomination.

C-CXCHANG(SID) Counterparty currency exchange rates which covert the ordering party's currency of ACC CONSID (and MAXCONSID) into the product's denominated currency.

C-NCXCHANG(SID) Counterparty national currency exchange rates which convert the ordering party's national currency of ACC CONSID (and MAXCONSID) into the product's denominated national currency.

E-C/EDXCHANG(SID) Counterparty consideration/entitlement denomination exchange rates which convert the ordering party's consideration denomination of ACC ENTITLinto the product's consideration denomination.

E-CXCHANG(SID) Counterparty currency exchange rates which covert the ordering party's currency of ACC ENTITL into the product's denominated currency.

E-NCXCHANG(SID) Counterparty national currency exchange rates which convert the ordering party's national currency of ACC ENTITL into the product's denominated national currency.

Miscellaneous Variables

BPRICE Best price selected from the PRICE(SID) array.

SID The currently selected or viewed counterparty identification.

INDEX Index counter variable required for calculating order prices.

P1 Value calculated by a pricing function at an index point.

P2 Value calculated by a pay-off function at an index point.

Master Files

FILE DESCRIPTION/CONTENTS

PORD NEW Holds details of all new orders submitted by ordering parties:

BID Ordering party identification.

BREF Ordering party's own reference for this order.

PID Order field specifying the required product.

MAXCONSID Maximum consideration the ordering party will pay for this contract.

PAYFUNC Pay-off function type, contingent on one or more index variables.

PAYPARAM Parameters associated with the PAYFUNC.

ACC CONSID The ordering party account the consideration is to be paid from.

ACC C/ED The ordering party account consideration/entitlement.

ACC CUR The ordering party account currency.

ACC NCUR The ordering party account national currency.

ACC ENTITL The ordering party account the contract entitlement is to be paid into.

RET LIM Retention time limit for the order, which sets an expiration time for the order whilst remaining un-matched.

OANON Anonymous flag, set by the ordering party when seeking to avoid manual authorisation requests by other stakeholders.

OMANUAL Manual authorisation request flag. If set, the ordering party requires manual authorisation before the matched order is fully confirmed.

DTID Deal type identification which codes a combination of miscellaneous flags such as collateralisation, bilateral and multilateral netting requirements.

PORD QUEUE This master file holds details of orders which have already been authorised, and have attempted to match once before. Fields as in ORD NEW plus some additional fields:

OID Unique identification assigned by P-CONTRACT to every new order submitted.

PMAT Product maturity date.

C/ED Product consideration/entitlement denomination.

PCUR Product currency denomination.

PNCUR Product national currency denomination.

PPARAM Product specification parameters (e.g. minimum value (PMIN), maximum value (PMAX), and the step size (PSTEP)).

DCID Defined circumstances identification.

PORD REJ All rejected orders reside in this file. Fields as in ORD QUEUE plus some additional fields:

ERRCODE Error code indicating why the order was rejected.

PORD CONF When an order is matched and fully confirmed, full details are stored in this master file. Fields as in ORD QUEUE plus some additional fields:

OPRICE Price calculated and selected for this order. This value will be the matching price.

SPRICE Counterparty identification with which the order was matched.

PAY TRAN Payment transaction number.

PPRODUCT This master file holds information (definition details) about each product known to the system:

PID Product identification.

PMAT Product maturity date.

PC/ED Product consideration/entitlement denomination.

PCUR Product currency denomination.

PNCUR Product national currency denomination.

PPARAM Product specification parameters (e.g. minimum value (PMIN), maximum value (PMAX), and the step size (PSTEP)).

PDEAL LIST This file holds a list of the ordering party/product/counterparty tuples of allowable deals to occur. Thus by specifying an ordering party (BID) and product (PID), a list of counterparties who are prepared to enter into a deal with the ordering party/product combination, can be obtained:

BID Ordering party identification
PID Product identification
SID Counterparty identification
ANON All stakeholder identifications requiring anonymous confirmation.
MANUAL All stakeholder identifications requiring manual authorisation
PSEL DC This file allows counterparties to define identifications for sets of potential order parameters. Any order data field can be used to define an order. Each defined circumstance identification is then used to set unique pricing parameters:
DCID Defined circumstances identifications.
BID Ordering party identification
PAYFUNC Pay-off function type, contingent on one or more index variables.
PAYPARAM Parameters associated with the PAYFUNC.
ACC CONSID The ordering part account the consideration is to be paid from.
ACC ENTITL The ordering party account the contract entitlement is to be paid into.
DTID Deal type identification.
PC/ED Product consideration/entitlement denomination.
PCUR Product currency denomination.
PNCUR Product national currency denomination.
PSEL PRICE Contains all counterparty pricing parameters, including commission rates, discount rates and exchange rates:
SID Counterparty identification
PID Product identification
DCID Defined circumstances identification
PRICEFUNC Pricing function: function type and associated parameters.
CR Commission rate to be used for the current ordering party in the current product.
DR Discount rate to be used for the current ordering party in the current product.
C-C/EDXCHANG Counterparty consideration/entitlement denomination exchange rates which convert the ordering party's consideration denomination of ACC CONSID (and MAXCONSID) into the product's consideration denomination.
C-CXCHANG Counterparty currency exchange rates which covert the ordering party's currency of ACC CONSID (and MAXCONSID) into the product's denominated currency.
C-NCXCHANG Counterparty national currency exchange rates which convert the ordering party's national currency of ACC CONSID (and MAXCONSID) into the product's denominated national currency.
E-C/EDXCHANG Counterparty consideration/entitlement denomination exchange rates which convert the ordering party's consideration denomination of ACC ENTITL into the product's consideration denomination.
E-CXCHANG Counterparty currency exchange rates which covert the ordering party's currency of ACC ENTITL into the product's denominated currency.
E-NCXCHANG Counterparty national currency exchange rates which convert the ordering party's national currency of ACC ENTITL into the product's denominated national currency.
PSEL LIMIT Holds all counterparty portfolio limits and current accumulated exposures in the various mathematical forms allowed by the system:
SID Counterparty identification
PID Product identification
DATE Product maturity date.
MCC Maximum composition any contract (as an expected loss) can have of the entire portfolio.
MC Maximum composition the product (as an expected loss) can have of the entire portfolio.
ELL1 Order expected loss limit.
ELL2 Expected loss limits set by the counterparty for the product.
ELL3 Expected loss limits set by the counterparty for equivalent maturity date products.
ELL4 Expected loss limits set by the counterparty for same month maturity products.
ELL5 Expected loss limits set by the counterparty for orders in all products.
CEL2 Current accumulated expected losses for the product.
CEL3 Current accumulated expected losses for equivalent maturity date products.
CEL4 Current accumulated expected losses for same month maturity products.
CEL5 Current accumulated expected losses for orders in all products.
ALL1 Absolute loss limit function for each contract.
ALL2 Absolute loss limit function set for the product.
CAL2 Current absolute limit function accumulated for the product.
EVL1 Expected value limit on each order.
PAYACC Payment accounts for all registered stakeholders (inc. balances and previous SHADOWtransactions), are stored in this master file:
ID Stakeholder identification.
NO Account number.
ACC C/ED The ordering party account consideration/entitlement.
ACC CUR The ordering party account currency.
ACC NCUR The ordering party account national currency.
BALANCE Available funds.
GID Stakeholder identification guaranteeing the account.

I claim:

1. A computer-based data processing system to enable the formulation of customized multi-party risk management contracts having a future time of maturity, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a range of future outcomes, and said contract data specifying entitlements due at maturity for said range of future outcomes, and a consideration due to a counter-party stakeholder;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholder entering said contract data, as to a likelihood of each outcome in said range of future outcomes for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including calculating a counter-consideration derived from said likelihoods and said entitlements, and said matching including comparing said consideration and said counter-consideration to match an offered contract with at least one of said counter-party stakeholders.

2. The system as in claim 1, further comprising at least one other-stakeholder input means linked with the data storage means, and by which phenomena and associated range of outcomes can be input to be stored in the data storage means to be ones of said predetermined phenomena and said range of future outcomes therefor.

3. The system as in claim 2, wherein each other-stakeholder input means is configured so that each said predetermined phenomenon and associated range of future outcomes further include a predetermined time of maturity, and said contract data and said registering data are for the time of maturity.

4. The system as in claim 2 or claim 3, wherein said registering data for each outcome represents a probability of that outcome eventuating at the time of maturity, and said counter-consideration is calculated by elemental multiplication of entitlements and the respective likelihood, all summed over the range, and adjusted at least to calculate the present day value thereof.

5. The system as in claim 4, wherein the said other-stakeholder input means is configured to receive updating data as to a present day outcome of each of the phenomena, in turn to be passed to the data storage means for recordal.

6. The system as in claim 5, wherein, on maturity of the contract, the data processing means retrieves the updated present day outcome of the respective phenomenon from the data storage means, determines an entitlement due for that outcome, and passes the entitlement to output means of the data processing system for exchange of the entitlement between the matched stakeholders.

7. The system as in claim 6, wherein said output means is linked with data communications means to remote locations where stakeholder accounts reside, and the data processing means causes transaction of the entitlement between respective stakeholder accounts.

8. The system as in claim 4, wherein said other-stakeholder input means receives qualification data which places qualification on which of the counter-party registering data can be used to price and/or match an offered contract, the said qualification data being stored in the data storage means.

9. The system as in claim 8, wherein said qualification data is input to the input means by parties including stakeholder guarantors, and financial or institutional regulators.

10. The system as in claim 4, wherein the data processing means is configured so that a match of an offered contract is made on the basis only of a counter-consideration being less than or equal to the said consideration.

11. The system as in claim 10, wherein the data processing means is configured so that a match of an offered contract is made with a preferred one of a counter-consideration being less than or equal to the said consideration.

12. The system as in claim 4, further comprising a credit record and a debit record for each stakeholder held with an exchange Institution, the credit records and debit records for exchange of entitlements; and the data storage means of the data processing apparatus being configured to include a shadow credit record and a shadow debit record for each stakeholder, the data processing means being configured to obtain a start-of-day balance for each shadow credit record and shadow debit record, and for every transaction resulting in an exchange obligation, adjusting the respective shadow credit record or shadow debit record, allowing only those transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order, and the data processing means further being configured to, at the end-of-day, instruct ones of the exchange institutions to exchange transacted credits or debits to the credit record and debit record of the respective stakeholders in accordance with the adjustments of the said permitted transactions, the credits and debits be Irrevocable, time invariant obligations placed on the exchange institutions.

13. The system as in claim 1, wherein, on a match of an offered contract, the data processing means passes the matched contract to the data storage means for recordal.

14. The system as in claim 13, wherein the output means generates confirmatory documentation for each stakeholder to a matched contract.

15. The computer-based data processing system of claim 1, further includes a second counter party stakeholder input means by which a second counter-party stakeholder can input registering data.

16. A system to enable the formulation of customized multi-party risk management contracts, the system comprising:

a plurality of main data processing devices interconnected by at least one data communications link, each said data processing device running an operating system and applications software;

one or more data storage devices to which each data processing device has access;

a plurality of data input/output channels providing connection to a plurality of stakeholder locations, each said location having data processing means, and the system being programmed for:

regulating input of data, specifying a risk phenomenon, a range of outcomes for the phenomenon, and a time of maturity;

stakeholders inputting to a said data storage device by ones of the stakeholder data processing locations contract data for an offered contract, specifying an entitlement due at maturity for each outcome in the range of outcomes for a one of the predetermined phenomena, and an amount payable to a seller;

counter-party stakeholders inputting to a data storage device by ones of the stakeholder data processing locations registering data, independent of contract data entered by stakeholders, as to a likelihood of occurrence of each outcome in the range of outcomes for at least one of the predetermined phenomena;

pricing and matching a contract by the main data processing devices for at least one of the offered contracts from the seller registered data by: for an offered contract, selecting the registering data for the respective phenomenon and, in response to entitlements specified for each outcome in the range of outcomes for the phenomenon, calculating a counter-consideration, and, by comparison of the calculated counter-consideration with the consideration, matching an offered contract with at least one counter-party stakeholder.

17. The system as in claim 16, further comprising output means for each distributed data processing location whereby, on a match of a contract, confirmation is output in the form of data or documentation to respective output means for the matched stakeholders.

18. A method to enable the formulation of customized multi-party risk management contracts having a future time of maturity, the method comprising the steps of:

(a) inputting into data processing apparatus, by at least one ordering stakeholder input means thereof, contract data representing at least one offered contract in at least

one predetermined phenomenon having a range of future outcomes, and said contract data specifying entitlements due at maturity for the range of future outcomes, and consideration due to a counter-party stakeholder;

(b) inputting into said data processing apparatus, by at least one counter-party stakeholder input means thereof, counter-party registering data, independent of at least one ordering stakeholder entering contract data, as to a likelihood of each outcome in said range of future outcomes for one or more of said predetermined phenomena;

(c) storing, in a data storage means of said data processing apparatus linked with each said stakeholder input means and linked with each said counter-party stakeholder input means, said contract data and said registering data; and

(d) pricing and matching at least one of the offered contracts by data processing means of the data processing apparatus linked with said data storage means, said pricing and matching comprising the steps, for each offered contract, of:

(i) calculating a counter-consideration derived from said likelihoods and said entitlements;

(ii) comparing said consideration and said counter-consideration; and

(iii) matching a contract on the basis of said comparison.

19. The method as in claim **18**, comprising the further step, before step (a), of:

(aa) inputting into said data processing apparatus, by at least one other other-stakeholder Input means thereof, predetermining data of a said phenomenon and an associated range of outcomes.

20. The method as in claim **19**, wherein the step (at) further comprises inputting a predetermined time of maturity for each predetermined phenomenon and associated range of outcomes.

21. The method as in claim **20**, wherein the registering data for each outcome represents a likelihood of that outcome eventuating at the time of maturity, and the step (d)(i) is performed by

multiplying elemental entitlements for each outcome with the respective likelihood;

summing the products for the range of outcomes; and

adjusting the sum at least to calculate a present day value thereof to give the counter-party consideration.

22. The method as in claim **21**, comprising the further steps, following step (d), of:

(h) inputting, by the other-stakeholder input means, qualification data on which of the counter-party registering data can be used to price an offered contract.

23. The method as in claim **21**, wherein the step (d)(iii) is performed by considering those counter-considerations being only less than or equal to said consideration.

24. The method as in claim **23**, wherein the step (d)(iv) is performed by matching a preferred one of the counter-considerations being less than or equal to the said consideration.

25. The method as in claim **19**, comprising the further step following step (d) of:

(e) inputting, by the other-stakeholder input means, data representing a present day outcome of each phenomenon.

26. The method as in claim **25**, comprising the further steps, following step (e) of, at the time of maturity:

(f) calculating the entitlement for the updated present day outcome; and

(g) exchanging the entitlement between matched stakeholders.

27. The method as in claim **18** or claim **19** comprising the further step, following step (d), and before the time of maturity, of:

(m) a party to a matched contract offering a stake in the contract to other parties in exchange for a consideration, and, on acceptance of the stake and exchange of the consideration by another party, that other party becoming a stakeholder to the contract.

28. The method as in claim **18**, wherein each stakeholder holds a credit record and a debit record with an exchange institution, the credit record and debit record for exchange of entitlements, the method comprising the further steps, following step (d), of:

(i) creating a shadow credit record and a shadow debit record for each stakeholder to be held independently by the data processing apparatus from the exchange institutions;

(j) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

(k) for every translation resulting In an exchange obligation, the supervisory institution adjusting each respective shadow credit record or shadow debit record, allowing only those transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(l) at the end-of-day, the data processing apparatus instructing ones of the exchange institutions to exchange transacted credits or debits to the credit record and debit record of the respective stakeholders in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

29. The method as in claim **28**, wherein the end-of-day instructions represent credits and debits netted throughout the day for each stakeholder in respect of all the transactions of that day.

30. The method as in claim **18**, comprising the further step following step (d) of:

(n) passing matched contracts to the data storage means for recordal.

31. The method as in claim **30**, comprising the further step following step (n) of:

(o) generating confirmatory documentation for each stakeholder for each matched contract.

32. A method of making a computer system, the method comprising the steps of:

(a) interconnecting at least one stakeholder data input means and at least one counter-stakeholder data input means to data storage means;

(b) interconnecting the data storage means with data processing means;

(c) interconnecting the data processing means with output means; and

(d) programming the data processing means to:

(i) accept stakeholder input data of contract data representing at least one offered contract, each offered contract specifying a predetermined phenomenon,

each phenomenon having a range of future outcomes, and each said contract data having a future time of maturity, an entitlement due for each outcome in said range of outcomes, and a consideration payable to a counter-party stakeholder;

(ii) accept counter-stakeholder registering data, independent of said stakeholder input data being accepted, as to a likelihood of each outcome in said range of future outcomes for each one or more of said phenomena;

(iii) process the contract data and the registering data to price and match a contract, said pricing including: selecting the registering data corresponding to the time of maturity for each predetermined phenomenon, and calculating a counter-consideration derived from said entitlements and said likelihoods; and said matching including comparing said consideration and said counter-consideration to match an offered contract with at least one of said counter-party stakeholders; and

(iv) output confirmatory data or documentation for each matched contract.

33. A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;

(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order; and

(d) at the end-of-day, the supervisory institution instructing ones of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions.

34. The method as in claim **33**, wherein the end-of-day instructions represent credits and debits netted throughout the day for each party in respect of all the transactions of that day.

35. A data processing system to enable the formulation of customized multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a future outcome at a time of maturity, and said contract data specifying an entitlement due at maturity for each outcome in a range of future outcomes;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholders inputting said contract data, for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including calculating counter-considerations derived from said registering data relating to the phenomenon of the contract data, and said matching including comparing said counter-considerations to match an offered contract with at least one of said counter-party stakeholders.

36. A data processing system to enable the formulation of customized potential multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a future outcome at a time of maturity, and said contract data specifying an entitlement due at maturity for each outcome in a range of future outcomes;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholders inputting said contract data, for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each s aid counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing contracts from said contract data and said registering data, said pricing including calculating counter-considerations derived from said registering data relating to the phenomenon of the contract data.

37. A data-processing system to enable the formulation of customized multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a future outcome at a time of maturity, and said contract data specifying an entitlement due at maturity for each outcome in a range of future outcomes;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholders inputting said contract data, for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including calculating counter-considerations for each outcome in said range derived from said registering data relating to the phenomenon of the contract data, and said matching including comparing said counter-

considerations for each outcome in said range and over said range to match an offered contract with at least one of said counter-party stakeholders.

38. A data processing system to enable the formulation of customized multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a future outcome at a time of maturity, and said contract data specifying an entitlement due at maturity for each outcome in a range of future outcomes;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholders inputting said contract data, for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including dividing the entitlement into integer components, and, for each component, calculating counter-considerations derived from said registering data relating to the phenomenon of the contract data, and said matching including comparing each component said counter-considerations to match an offered contract with at least one of said counter-party stakeholders.

39. A data processing system to enable the formulation of customized multi-party risk management contracts, the system comprising:

at least one stakeholder input means by which ordering stakeholders can input contract data representing at least one offered contract in at least one predetermined phenomenon, each said phenomenon having a future outcome at a time of maturity, and said contract data specifying an entitlement due at maturity for each outcome in a range of future outcomes;

at least one counter-party stakeholder input means by which at least one counter-party stakeholder can input registering data, independent of said stakeholders inputting said contract data, for one or more of said predetermined phenomena;

a data storage means linked with each said stakeholder input means and linked with each said counter-party stakeholder input means to store said contract data and said registering data; and

data processing means, linked with the data storage means, for pricing and matching contracts from said contract data and said registering data, said pricing including calculating counter-considerations derived from said registering data relating to the phenomenon of the contract data, and said matching including comparing said counter-considerations to match an offered contract with at least one of said counter-party stakeholders, and further for periodically repricing the ordering data of matched contracts, said repricing including calculating counter-considerations derived from at least some of said registering data relating to the phenomenon of the contract.

* * * * *

UNITED STATES PATENT AND TRADEMARK OFFICE

CERTIFICATE OF CORRECTION

PATENT NO. : 5,970,479

DATED : October 19, 1999

INVENTOR(S) : Ian K. Shepherd

It is certified that error appears in the above-identified patent and that said Letters Patent is hereby corrected as shown below:

On the cover page, please replace "Assignees:" with --Assignee:-- and delete "Swychco Support Services Pty. Ltd., Sydney, Australia".

In column 10, line 66 and column 11, lines 4 and 13, please replace "second" with --section--.

In column 11, lines 55 and 62, and column 12, lines 19, 22 and 29, please delete "chart".

In column 22, line 62, please replace "Still, looking at the fifth stop In" with --Still looking at the fifth step in--.

In column 23, lines 22 and 37, please replace "Its" with --its--.

In column 23, line 37, please replace "Page G4" with --FIG. 60--.

In column 23, line 53, please replace "stop" with --step--.

In column 35, line 9, please replace "Processes 2 and 4—include:" with --Processes 2 and 4) include:--.

In column 35, line 48, please replace "Processes 3 and 5—include:" with --Processes 3 and 5) include:--.

In column 61, line 55, please replace "Institution" with --institution--.

UNITED STATES PATENT AND TRADEMARK OFFICE

CERTIFICATE OF CORRECTION

PATENT NO. : 5,970,479

DATED : October 19, 1999

INVENTOR(S) : Ian K. Shepherd

It is certified that error appears in the above-identified patent and that said Letters Patent is hereby corrected as shown below:

In column 62, line 5, please replace "Irrevocable" with --irrevocable--.

In column 63, line 32, please replace "Input" with --input--.

In column 63, line 35, please replace "(at)" with --(aa)--.

In column 64, line 26, please replace "In" with --in--.

In column 66, line 33, please replace "s aid" with --said--.

Signed and Sealed this

Twenty-second Day of May, 2001

Attest:

Nicholas P. Godici

NICHOLAS P. GODICI

Attesting Officer

Acting Director of the United States Patent and Trademark Office

US007346545B2

(12) **United States Patent**
Jones

(10) **Patent No.: US 7,346,545 B2**
(45) **Date of Patent: Mar. 18, 2008**

(54) **METHOD AND SYSTEM FOR PAYMENT OF INTELLECTUAL PROPERTY ROYALTIES BY INTERPOSED SPONSOR ON BEHALF OF CONSUMER OVER A TELECOMMUNICATIONS NETWORK**

(75) Inventor: **Dana Howard Jones**, Rancho Palos Verdes, CA (US)

(73) Assignee: **Ultramercial, Inc.**, Palo Verdes, CA (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 624 days.

(21) Appl. No.: **09/867,181**

(22) Filed: **May 29, 2001**

(65) **Prior Publication Data**

US 2001/0047338 A1 Nov. 29, 2001

Related U.S. Application Data

(60) Provisional application No. 60/207,941, filed on May 27, 2000.

(51) **Int. Cl.**
G06Q 30/00 (2006.01)

(52) **U.S. Cl.** **705/26**; 705/27

(58) **Field of Classification Search** 705/26–27
See application file for complete search history.

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Primary Examiner—Robert M. Pond
(74) *Attorney, Agent, or Firm*—Morrison & Foerster LLP

(57) **ABSTRACT**

The present invention is directed to a method and system for distributing or obtaining products covered by intellectual property over a telecommunications network whereby a consumer may, rather paying for the products, choose to receive such products after viewing and/or interacting with an interposed sponsor's or advertiser's message, wherein the interposed sponsor or advertiser may pay the owner or assignee of the underlying intellectual property associated with the product through an intermediary such as a facilitator.

16 Claims, 3 Drawing Sheets

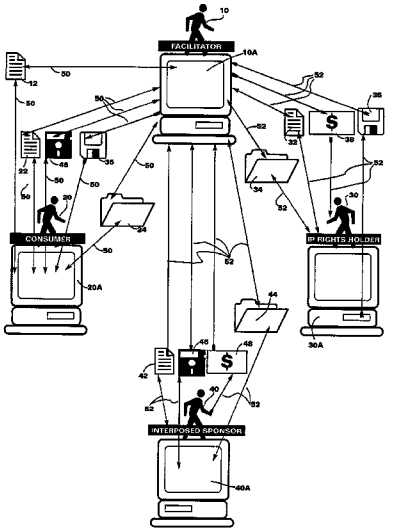

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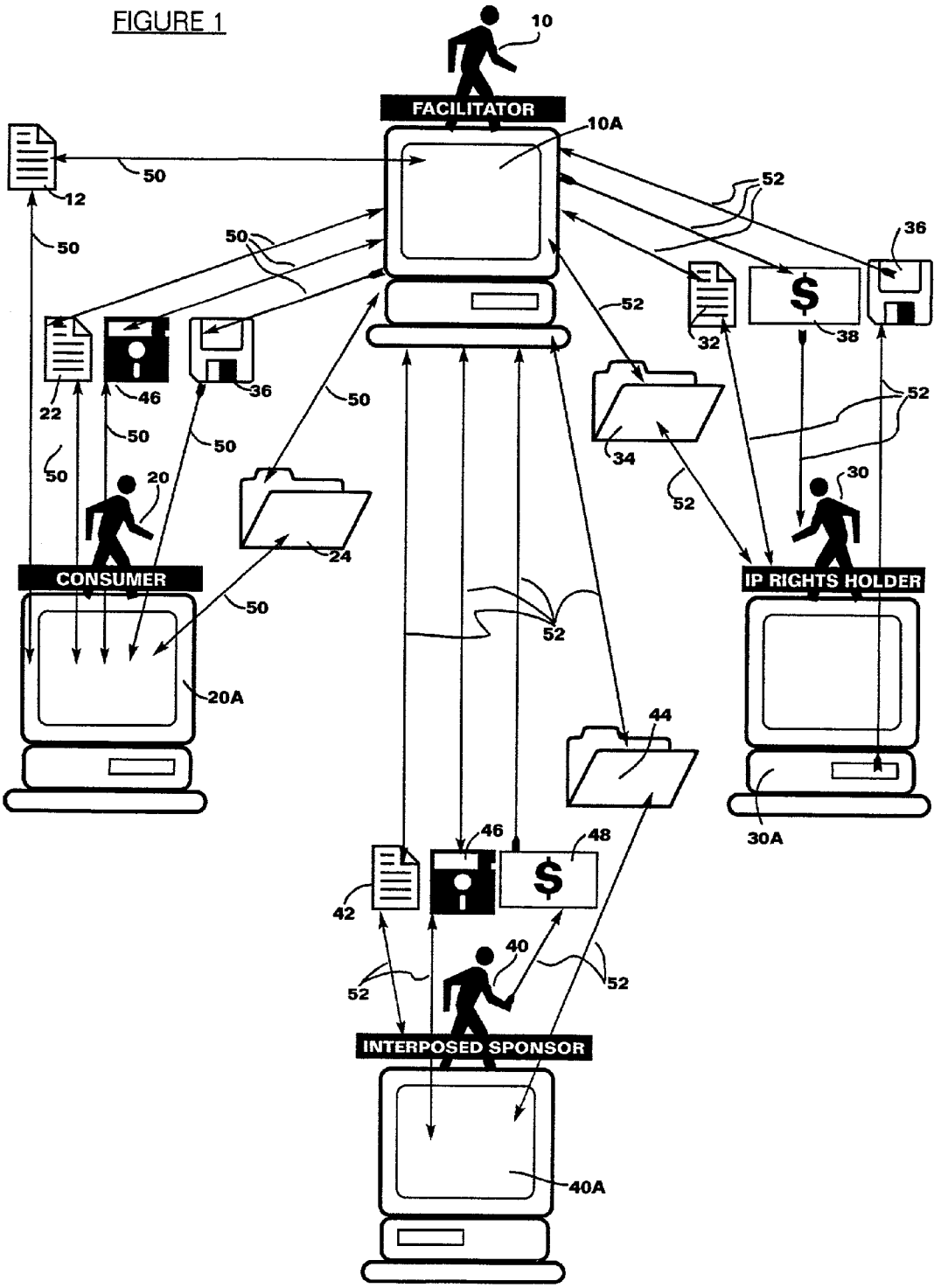
FIGURE 1


10
FACILITATOR
10A
12
50
52
36
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38
32
22
46
36
34
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CONSUMER
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IP RIGHTS HOLDER
30A
44
46
48
42
40
INTERPOSED SPONSOR
40A

FIGURE 2

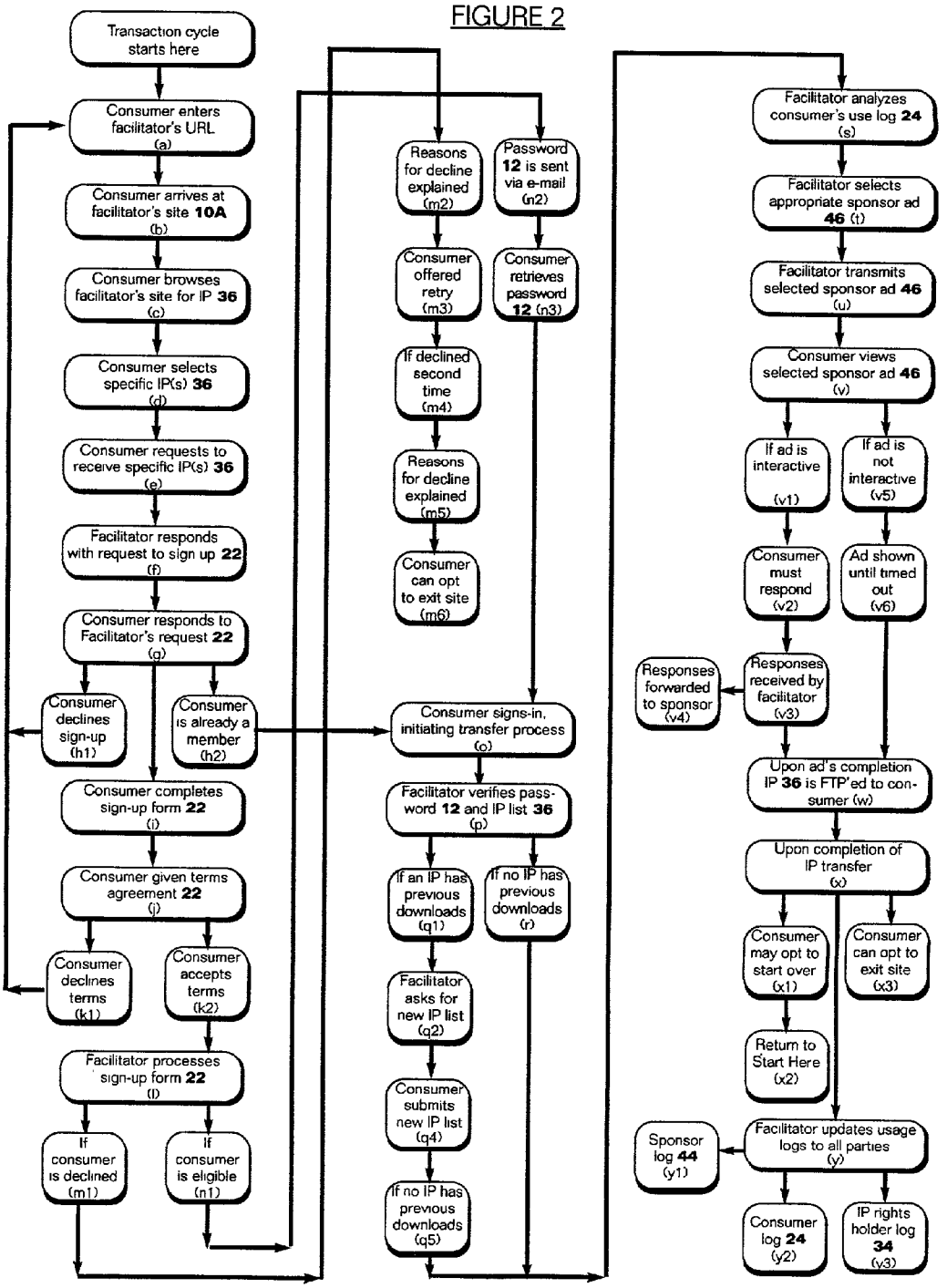

Transaction cycle starts here
Consumer enters facilitator's URL (a)
Consumer arrives at facilitator's site 10A (b)
Consumer browses facilitator's site for IP 36 (c)
Consumer selects specific IP(s) 36 (d)
Consumer requests to receive specific IP(s) 36 (e)
Facilitator responds with request to sign up 22 (f)
Consumer responds to Facilitator's request 22 (g)
Consumer declines sign-up (h1)
Consumer is already a member (h2)
Consumer completes sign-up form 22 (i)
Consumer given terms agreement 22 (j)
Consumer declines terms (k1)
Consumer accepts terms (k2)
Facilitator processes sign-up form 22 (l)
If consumer is declined (m1)
If consumer is eligible (n1)
Reasons for decline explained (m2)
Password 12 is sent via e-mail (n2)
Consumer offered retry (m3)
Consumer retrieves password 12 (n3)
If declined second time (m4)
Reasons for decline explained (m5)
Consumer can opt to exit site (m6)
Consumer signs-in, initiating transfer process (o)
Facilitator verifies password 12 and IP list 36 (p)
If an IP has previous downloads (q1)
If no IP has previous downloads (r)
Facilitator asks for new IP list (q2)
Consumer submits new IP list (q4)
If no IP has previous downloads (q5)
Facilitator analyzes consumer's use log 24 (s)
Facilitator selects appropriate sponsor ad 46 (t)
Facilitator transmits selected sponsor ad 46 (u)
Consumer views selected sponsor ad 46 (v)
If ad is interactive (v1)
If ad is not interactive (v5)
Consumer must respond (v2)
Ad shown until timed out (v6)
Responses forwarded to sponsor (v4)
Responses received by facilitator (v3)
Upon ad's completion IP 36 is FTP'ed to consumer (w)
Upon completion of IP transfer (x)
Consumer may opt to start over (x1)
Consumer can opt to exit site (x3)
Return to Start Here (x2)
Sponsor log 44 (y1)
Facilitator updates usage logs to all parties (y)
Consumer log 24 (y2)
IP rights holder log 34 (y3)

FIGURE 3

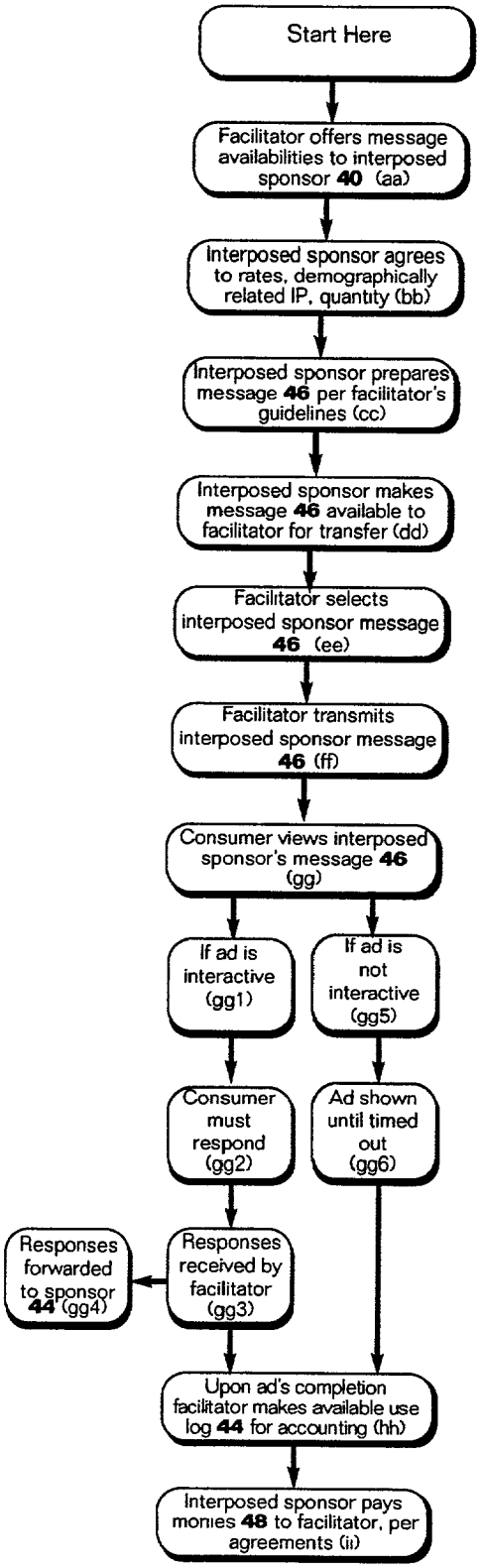
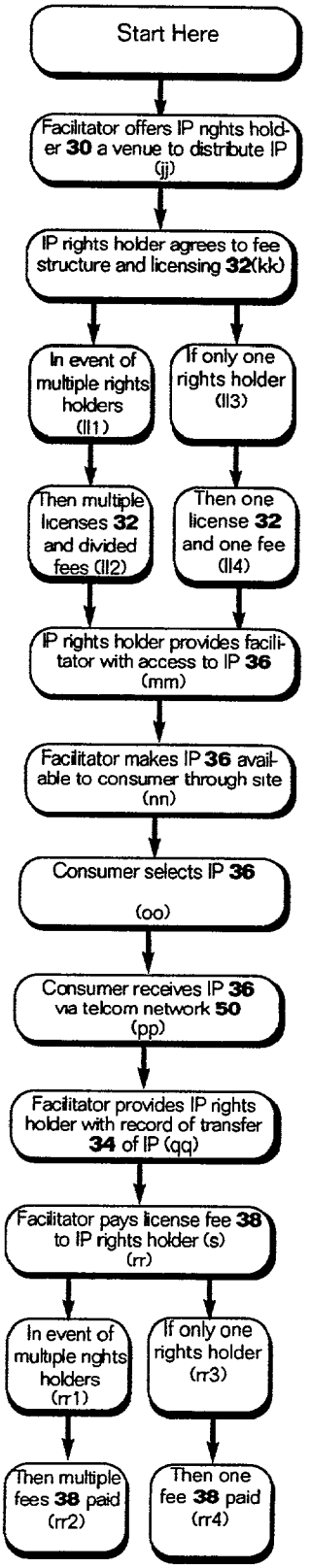


FIGURE 4



METHOD AND SYSTEM FOR PAYMENT OF INTELLECTUAL PROPERTY ROYALTIES BY INTERPOSED SPONSOR ON BEHALF OF CONSUMER OVER A TELECOMMUNICATIONS NETWORK

CLAIM OF PRIORITY

The present application claims the benefit of U.S. Provisional Application No. 60/207,941, titled "Method and System for Payment of Intellectual Property Royalties by Interposed Sponsor on Behalf of Consumer over A Telecommunications Network," and filed on May 27, 2000.

BACKGROUND OF THE INVENTION

1. Field of Invention

The present invention is directed to a method and system for distributing or obtaining intellectual property products through alternative payment of royalties by interposed sponsor on behalf of consumer via a telecommunications network.

2. Description of Related Art

Intellectual property, including music, literature, visual arts (painting, photography, etc) and motion pictures are protected under the Copyright Act. Certain statutory rights are given to the creators and their assigns, including the right to control the copying or distribution of their creative works.

The advent of the computer and its ability to digitize products protected by intellectual property rights, such as music or writings, have made it possible to make copies of originals without appreciable loss of quality. Recently, the widespread use of the Internet has made it possible to distribute and share intellectual property in its digital form, worldwide, beyond the control of the intellectual property rights holders.

The music industry is particularly affected by this turn of events. An open format for the digitizing of recorded music, MP3, compacts the file size of music to an acceptable size for transfer over a telecommunications network. This MP3 format has significantly changed the way in which popular music is being consumed. The MP3 freeware available today facilitates listening to personalized play lists of individual songs, as opposed to one continuous CD. This freeware allows consumers to transform once-copy-protected audio CD files into MP3 files. Major consumer electronics companies are providing various kinds of MP3 players that can easily download files from personal computers. In one stance, Napster, being totally free, becomes a very attractive site to illegally download copyrighted music.

Moreover, several factors encourage the growing violation of intellectual property using the Internet. First, many young people, typically under the age of 18, have access to the Internet, but do not have a way to pay for items they find on the Internet because they do not have credit or debit cards. At the time of filing the present application, Napster is trying to negotiate a fee-based subscription service with owners or assignees of intellectual property (such as record companies). If this should occur, those under 18 years of age, who cannot purchase easily online will be left out and would continue to seek other means by which to illegally download music or other kinds of product covered by intellectual property

Furthermore, people in college, 18 to 24 year olds, have high-speed Internet connections supplied by their schools, making the schools de facto accessories to piracy through the massive downloading of un-paid-for copyrighted music.

Young people are becoming accustomed to getting music for free and have shown little guilt about the fact that they are breaking the law. As a result, copyright holders are losing millions of dollars in royalties, while certain young people with limited cash, but unlimited Internet access and free time, are wrecking havoc on copyrighted intellectual property.

At the same time, advertisers today are facing very unpleasant realities in conventional advertising space. More specifically: 1) the proliferation of cable channels and attendant "channel surfing" during commercials breaks; 2) consumer habits of taping shows and then fast-forwarding through commercials during playback; 3) new hard-disk TV recorders that can scan out commercials. Further, Internet banner ads have hit new lows in responses. Once a 3% click-through rate, they are now, at the time of filing this application, as low as 2 click-throughs per 1,000 impressions. Advertisers are not reaching people as they have been in the past.

U.S. Pat. Nos. 5,675,734 and 5,191,573 disclose Internet downloading of sound files, paid for by credit cards or bank instruments, but does not include method for payment by a sponsor. Meanwhile, although U.S. Pat. No. 5,794,210 teaches "cyber coin" compensation for paying attention to online advertisements and the brokerage of attention, it does not offer a method where an advertiser pays directly for the intellectual property license on behalf of the consumer.

SUMMARY OF THE INVENTION

The preferred embodiments of the present invention offer people a legitimate and cashless way to obtain copyrighted music or other forms of intellectual property, while still delivering a royalty to the intellectual property rights holder.

In accordance with the preferred embodiments of the present invention, a consumer may choose to receive intellectual property products over a telecommunications network after viewing and/or interacting with an interposed sponsor's or advertiser's message, wherein the interposed sponsor or advertiser may pay the holder of the underlying intellectual property either directly or through an intermediary such as a facilitator.

More specifically, in accordance with one embodiment, upon logging on to an Internet web site where intellectual property products, such as musical composition or written articles, are for sale via download, a consumer may choose to obtain the right to download selected intellectual property products ("IP products") by viewing or participating in an advertiser's message or commercial, rather than by paying for the intellectual property products with cash or credit card. In one instance, a consumer may obtain the right to download a musical composition if he or she agrees to first view an advertisement presentation, such as a multimedia video commercial, by an automobile manufacturer, who thereafter pays the royalties to the holder of the intellectual property product on behalf of the consumer.

Several objects and advantages of the present invention include:

a) to provide a "money-less" way for young people (or anyone else) to legitimately obtain copyrighted intellectual property;

b) to provide a legitimate alternative to illegal and pirated practices of obtaining copyrighted intellectual property over a telecommunications network;

c) to provide copyright holders with a legitimate royalty source which is completely accountable;

d) to provide consumers with an assured quality copy of the original source;

e) to provide advertisers with a "captive audience," which may be of a certain demographic profile, for either a specified period of time or for a specified number of responses to advertisers' queries, yet respecting the privacy issues of the consumer;

f) to provide a more democratic business model for copyright holders who do not have major distribution outlets.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. **1** shows a schematic diagram of a method of obtaining/distributing intellectual property products in accordance with the preferred embodiment of the present invention;

FIG. **2** shows a flow chart of the method of obtaining intellectual property products of FIG. **1** from the consumer's perspective;

FIG. **3** shows a flow chart illustrating the method of obtaining/distributing intellectual property products of FIG. **1** from the interposed sponsor's perspective;

FIG. **4** shows a flow chart illustrating the method of distributing intellectual property products of FIG. **1** from the intellectual property rights holder's perspective;

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

The embodiments of the present invention shall be described in detail with references to FIGS. **1-4**. Although only the preferred embodiments of the present invention will be described hereinafter, it shall be understood that the detailed discussion of preferred embodiments is not intended to limit the present invention to those particular embodiments.

A preferred embodiment of the present invention is illustrated in FIG. **1**. In accordance with the preferred embodiment, four principals are preferably present: a facilitator **10**, a consumer **20**, an intellectual property (IP) rights holder **30**, and an interposed sponsor **40**. All of the principals preferably communicate over a telecommunications network **50** such as the Internet, using their respective computers: facilitator's computer **10**A, consumer's computer **20**A, IP rights holder's computer **30**A and interposed sponsor's computer **40**A. Three of the principals (facilitator, IP rights holder and interposed sponsor) may also communicate through a two-way communications path **52**, which may include telephony, facsimile, courier, mail or even person-to-person meetings.

In accordance with the preferred embodiment, facilitator preferably provides consumer with a sign-up agreement **22**, followed by a password **12**, both preferably over said telecommunications network **50**. Further, facilitator transmits to consumer an interposed sponsor message **46** and IP rights holder's IP **36**, both also preferably over said telecommunications network **50**. It is preferable that the facilitator maintains a consumer use log **24** of activity between facilitator and consumer, which consumer has access to over said telecommunications network **50**.

In accordance with the preferred embodiment, the IP rights holder has intellectual property products, such as recorded music, literature, visual arts or motion pictures. The IP rights holder preferably enters into a licensing and fee agreement **32** with facilitator. Facilitator maintains a use log **34** of activity between facilitator and IP rights holder, preferably made available to IP rights holder over said two-way communications path **52**. Facilitator preferably pays royalties **38** to IP rights holder.

In accordance with the preferred embodiment, interposed sponsor preferably provides facilitator with access to a message **46**, which will be subsequently exhibited to consumer if he or she chooses. In exchange, interposed sponsor pays a fee **48** to facilitator. An interposed sponsor use log **44** is preferably maintained by the facilitator and can be made available to interposed sponsor via two-way communications path **52**.

In accordance with the preferred embodiment, before consumer **20** initiates a transaction cycle (as shown in FIG. **2**), facilitator **10** preferably offers to intellectual property rights holder **30** its venue or site **10**A on a telecommunications network **50** to distribute IP rights holder's intellectual property **36**. Facilitator and IP rights holder preferably enter into a licensing agreement **32** specifying that royalties **38** will come from monies paid **48** from interposed sponsor **40**. Facilitator will then preferably maintain use logs **34** to keep accurate records of the number of transaction cycles a specified IP is a part of, and as to, the royalties due and subsequent payments. In accordance with the preferred embodiment, IP rights holder will be barred from playing the "consumer" in the transaction cycle, preventing IP rights holder from gaining profit at the expense of the interposed sponsor.

Upon completion of above agreement, the IP rights holder provides facilitator with access to the IP products, by either making it available on IP rights holder's computer **30**A connected to said telecommunications network, or by sending a copy to reside at facilitator's site **10**A. Quality control issues can be addressed at this time, where the best possible original source will be digitized in a manner most suited for distribution of the product over a telecommunications network.

In accordance with the preferred embodiment, facilitator offers to an interposed sponsor **40** a venue or site **10**A on a telecommunications network where interposed sponsor may exhibit a message **46** to consumer **20**. Facilitator and interposed sponsor enter into an agreement **42** specifying the fee **48** per exhibition of said message, which will be the source of the royalty **38** for the subsequently transferred IP **36** described above. This agreement **42** may also specify which specific IP **36** and the number of its transaction cycles the interposed sponsor will contract for. In this way, the interposed sponsor can "target" consumers most closely associated in demographic terms with said specific IP. Facilitator will provide a use log **44** to the interposed sponsor, accounting for each transaction cycle.

In accordance with the preferred embodiment, facilitator may provide certain safeguards against unwanted use of the transaction cycle: the barring of IP rights holders to use the transaction cycle to generate royalties for themselves; barring of multiple transactions from the same consumer for the same specific IP (preventing "spamming" and/or unwanted duplicate exhibitions of the same message to the same consumer).

Additional agreement specifics include guidelines for the content of the message itself: its compatibility to run on said telecommunications network; its dimensions in pixels; its file size; its duration; the number of queries that preferably require responses from the consumer; consumer privacy issues; community moral standards, review and approval prior to use by facilitator.

Upon completion of above agreement, the interposed sponsor preferably provides facilitator with access to the message, by either making it available on interposed spon-

sor's computer **40**A connected to said telecommunications network, or by sending a copy to reside at facilitator's site **10**A.

Consumer's sign-up agreement **22** specifies how consumer may use facilitator's venue/site **10**A. Consumer preferably provides facilitator with sufficient identification to satisfy facilitator that said consumer is unique to facilitator's site (protecting the interests of the interposed sponsor by preventing duplicate identities by the same consumer, therefore preventing the exhibition of the same message to the same consumer posing as two or more consumers; preventing IP rights holders from posing as consumer or multiple consumers to unjustly benefit from accumulating royalties through transaction cycles) and to provide country of residency as a further criteria for interposed sponsor. Additionally, consumer preferably accepts to use the obtained IP product in accordance with current copyright laws. Upon a positive determination of the above factors, facilitator issues a unique password **12** to consumer. As previously mentioned, facilitator will maintain a use log **24** for the consumer, accounting for each transaction cycle.

The last two consumer-related items, message **46** and IP **36**, are best described in FIG. **2** below, which illustrates the transaction cycle.

FIG. **2** illustrates the preferred embodiment of a complete consumer transaction cycle. In step (a) the consumer uses facilitator's Uniform Resource Locator (URL) within a telecommunications network **50** to reach (b) facilitator's site **10**A. In step (c) consumer is given the opportunity to browse though titles and descriptions of any of the intellectual properties **36** that have been licensed to the facilitator from various IP rights holders **30**. This process may include a brief sample of the IP to give the consumer an opportunity to evaluate a specific IP prior to selecting it.

In step (d), consumer preferably selects a specific IP, such as a musical composition or a news article, through a link at the facilitator's site. The consumer may make more than one selection at this time, and each selection's identifier can be temporarily stored in a queue for the consumer's ease of completing the transaction cycle.

The consumer then requests to receive the selected IP (e) from the facilitator. The facilitator's site preferably responds with a request (f) to complete a sign-up agreement **22**. The reason for placing this request at this point in the process is to insure that the consumer is already involved in the process, having browsed and found at least one IP, and would be less likely to back out of the process when asked for personal information. However, in other embodiments, this sign-up agreement portion could be moved to an earlier point in the complete transaction process.

The consumer responds to above prompt (g). If the consumer declines to complete a sign-up agreement (h**1**) consumer is then free to exit the site and is offered an opportunity to begin the transaction process anew. If the consumer has previously completed the sign-up agreement (h**2**) they need only enter their unique password **12** to continue on (see step (o) in FIG. **2**).

A consumer who elects to complete the sign-up agreement **22** does so in step (i). Consumer provides facilitator with sufficient identification to satisfy facilitator that said consumer is unique to facilitator's site. Additionally, consumer preferably chooses to accept or decline a use agreement stating that consumer will use IP in accordance with current copyright laws (j). If consumer declines to accept these terms (k**1**) they are routed back to the starting page (b) and offered another opportunity to begin a transaction cycle. If consumer accepts terms (k**2**), then facilitator processes consumer's data (l).

Upon a positive determination of the above factors (n**1**), a unique password **12** is issued by facilitator to consumer (n**2**). Consumer retrieves password (n**3**) and proceeds to step (o). If consumer is declined (m**1**), then reasons for decline are explained (m**2**) and consumer is offered a retry (m**3**). If declined a second time (m**4**), reasons for being declined are again explained (m**5**) at which time consumer can opt to exit site (m**6**).

Step (o) is consumer sign-in, where consumer preferably enters unique password **12**. Facilitator then verifies password and the titles of the selected IP product **36** (p). If none of the IP product titles have prior transactions with consumer (r), then consumer's transaction moves to step (s). If consumer's IP product has been previously transferred (q**1**) to same consumer (and if this is a negative stipulation on behalf of interposed sponsor or IP rights holder) then facilitator asks for a new IP or IP product list (q**2**). Consumer can then browse for new titles and submit new list (q**4**), and, provided new list has no previous transfers (q**5**), then consumer proceeds to step (s).

At step (s), facilitator analyzes consumer's use log **24** for a list of previously viewed interposed sponsor messages. After negotiating any possible sponsor prerequisites, facilitator may select appropriate sponsor message **46** (t). In accordance with other embodiments, a sponsor may select the appropriate message. Facilitator then transmits selected interposed sponsor's message to consumer (u). Consumer views selected message (v). If the message is interactive (v**1**) then consumer preferably responds to any and all prompts (v**2**). Since consumer privacy issues are paramount, the types of queries will not be personal in nature. However, consumer can decline to respond and can exit transaction cycle at this point (v**3**). Facilitator receives consumer's responses (v**4**), and forwards consumer's responses to interposed sponsor (v**5**) via telecommunications network. If message is not interactive (v**6**), then it runs until completion on its own or for a fixed duration of time.

Upon completion of sponsor's message, IP product **36** is preferably transferred to consumer via methods or means such as a File Transfer Protocol (FTP) system (w). This will insure that IP file does not begin "streaming" within consumer's browser application and thus not end up residing on consumer's computer hard drive. Upon completion of IP transfer (x), consumer can opt to start a new transaction cycle (x**1**) by returning to the start page (x**2**), or consumer can exit site (x**3**). Facilitator thereafter preferably updates all use logs for all parties (y): sponsor use log **44** (y**1**), consumer use log **24** (y**2**) and IP rights holder use log **34** (v**3**).

FIG. **3** describes the timeline for the interposed sponsor in accordance with the preferred embodiment of the present invention. At step (aa) facilitator offers message availability to interposed sponsor. At step (bb) facilitator and interposed sponsor enter into an agreement **42** specifying the fee **48** per exhibition of said message, which will be the source of the royalty **38** for the subsequently transferred IP **36**. This agreement **42** may also specify which specific IP **36** and the number of its transaction cycles the interposed sponsor will contract for. In this way, interposed sponsor can "target" consumers most closely associated in demographic terms with said specific IP.

In step (cc) interposed sponsor prepares message per guidelines for the content of the message itself: its compatibility to run on said telecommunications network; its dimensions in pixels; its file size; its duration; the number of

queries that preferably require responses from the consumer; consumer privacy issues; review and approval prior to use by facilitator. Interposed sponsor provides facilitator with access to the message (dd), by either making it available on interposed sponsor's computer **40**A connected to said telecommunications network, or by sending a copy to reside at facilitator's site **10**A.

At step (ee) facilitator matches up consumer's IP product choice with sponsor's message and transmits it to consumer. At (ff) through (gg**6**) consumer views sponsor's ad in same manner as described in FIG. **2**, steps (v) through (v**7**). At step (hh) facilitator submits sponsor's use log **44** to sponsor as verification of messages exhibited prior to certain IP transfers. Finally, sponsor pays monies **48** to facilitator (ii), per agreement reached at step (bb).

FIG. **4** illustrates the step-by-step process between facilitator and intellectual property rights holder. At step (jj) facilitator offers its site as a venue for the distribution of IP rights holder's IP product. Facilitator and IP rights holder enter into a licensing agreement (kk) **32** specifying that royalties **38** will come from monies paid **48** from interposed sponsor **40**. Facilitator will maintain use logs **34** to keep accurate records of the number of transaction cycles a specified IP product is a part of, the royalties due and subsequent payment. IP rights holder will be barred from playing the "consumer" in the transaction cycle, preventing IP rights holder from gaining profit at the expense of the interposed sponsor.

It is possible that one IP product has more than one rights holder. In recorded music, for instance, there can be the record company who claims copyright on the sound recording, and the songwriter and publisher who claim copyright on the composition. The songwriter and publisher are entitled to a statutory royalty enacted by Congress for each copy made from a mechanical license. Often the record company collects for all parties and distributes the funds per their own contracts between songwriter and publisher. Steps (ll**1**) through (ll**4**) address these issues.

At step (mm) IP rights holder provides facilitator access to IP products by either making it available on IP rights holder's computer **30**A connected to said telecommunications network, or by sending a copy to reside at facilitator's site **10**A. Quality control issues will be addressed at this time, where the best possible original source will be digitized in a manner most suited for distribution over a telecommunications network.

Facilitator then makes IP products available to consumer through listing at site (nn). Consumer selects IP products at step (oo), then preferably receives said IP through methods such as an FTP system (pp) (explained in greater detail back at FIG. **2**, step (w)).

At step (qq) facilitator provides IP rights holder with use log **34**, describing the number of times the IP product has been transferred. Facilitator then pays license fee **38** to IP rights holder (rr), (rr**3**) and (rr**4**); with special provisions for split payments to multiple rights holders if said IP has multiple rights holders (rr**1**) and (rr**2**).

While the above description contains many specific details, these should not be construed as limitations on the scope of the invention, but rather as an exemplification of one preferred embodiment thereof. Other variations are possible. For example, facilitator offers a "client application" to consumer, which acts as a browser, but with only one possible URL: that of the facilitator, ensuring better connectivity and possibly keeping consumer at facilitator's venue longer. Accordingly, the scope of the invention should be determined not by the preferred embodiment illustrated, but by the appended claims and their legal equivalents, as put forth hereinafter.

What I claim:

1. A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:

a first step of receiving, from a content provider, media products that are covered by intellectual-property rights protection and are available for purchase, wherein each said media product being comprised of at least one of text data, music data, and video data;

a second step of selecting a sponsor message to be associated with the media product, said sponsor message being selected from a plurality of sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;

a third step of providing the media product for sale at an Internet website;

a fourth step of restricting general public access to said media product;

a fifth step of offering to a consumer access to the media product without charge to the consumer on the precondition that the consumer views the sponsor message;

a sixth step of receiving from the consumer a request to view the sponsor message, wherein the consumer submits said request in response to being offered access to the media product;

a seventh step of, in response to receiving the request from the consumer, facilitating the display of a sponsor message to the consumer;

an eighth step of, if the sponsor message is not an interactive message, allowing said consumer access to said media product after said step of facilitating the display of said sponsor message;

a ninth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;

a tenth step of recording the transaction event to the activity log, said tenth step including updating the total number of times the sponsor message has been presented; and

an eleventh step of receiving payment from the sponsor of the sponsor message displayed.

2. The method for distribution of products of claim **1**, further comprising the step of paying royalties to the content provider.

3. The method for distribution of products of claim **1**, further comprising the step of entering into a license agreement with the owner of the intellectual property rights associated with said media product.

4. The method for distribution of products of claim **1**, further comprising the step of barring the content provider from pretending to be said consumer.

5. The method for distribution of products of claim **1**, further comprising the step of tendering payment to the content provider by said facilitator.

6. The method for distribution of products of claim **1**, further comprising the step of issuing to said consumer a password.

7. The method for distribution of products of claim **1**, further comprising the step of verifying a submitted password.

8. A method for distribution of products over the Internet via a facilitator, said method comprising the steps of:

a first step of providing a product list on an Internet website, wherein at least some of the products are media products covered by intellectual property rights protection and are available for purchase, said media products being provided by content providers, wherein each said media product is comprised of at least one of text data, sound data, and video data;

a second step of selecting a sponsor message to be associated with at least one of said media products, said sponsor message being selected from a plurality of sponsor messages, said second step including accessing an activity log to verify that the total number of times which the sponsor message has been previously presented is less than the number of transaction cycles contracted by the sponsor of the sponsor message;

a third step of restricting general public access to said media products;

a fourth step of offering to a consumer access to a requested media product available for purchase without charge to the consumer on the precondition that the consumer views the sponsor message;

a fifth step of receiving from the consumer a request to view a sponsor message in response to said step of offering;

a sixth step of facilitating the display of a sponsor message to the consumer in response to receiving the request;

a seventh step of, if the sponsor message is not an interactive message, allowing said consumer access to said requested media product after said step of facilitating the display of said sponsor message;

an eighth step of, if the sponsor message is an interactive message, presenting at least one query to the consumer and allowing said consumer access to said media product after receiving a response to said at least one query;

a ninth step of recording the transaction event to the activity log, said ninth step including updating the total number of times the sponsor message has been presented; and

a tenth step of receiving payment from the sponsor of the sponsor message displayed.

9. The method for distribution of products of claim **8**, further comprising the step of tendering payment to the content provider by said facilitator.

10. The method for distribution of products of claim **8**, further comprising the step of issuing to said consumer a password.

11. The method for distribution of products of claim **8**, further comprising the step of verifying a password submitted by said consumer.

12. The method for distribution of products of claim **8**, further comprising the step of licensing from a content provider the right to distribute said media products.

13. The method for distribution of products of claim **8**, further comprising the step of authoring a sponsor message.

14. The method for distribution of products of claim **8**, further comprising the step of offering an advertiser the option to exhibit an advertisement message on said Internet web site.

15. The method for distribution of products of claim **8**, further comprising the step of barring a content provider from pretending to be said consumer.

16. The method of claims **1** or **8**, wherein the media product accessed by the consumer is downloaded to a memory of a personal computer of the consumer.

* * * * *

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(12) **United States Patent**
Ross, Jr. et al.

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(45) **Date of Patent: Oct. 19, 2010**

(54) **METHODS OF EXPANDING COMMERCIAL OPPORTUNITIES FOR INTERNET WEBSITES THROUGH COORDINATED OFFSITE MARKETING**

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(51) **Int. Cl.**
G06F 15/16 (2006.01)

(52) **U.S. Cl.** **709/218**; 709/215

(58) **Field of Classification Search** ..... None
See application file for complete search history.

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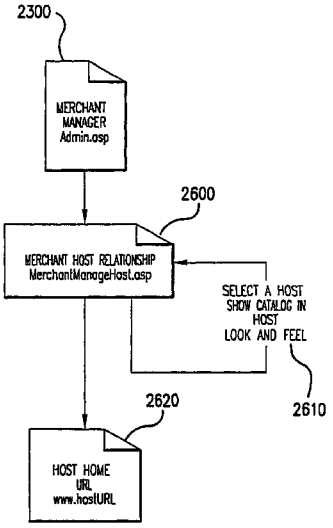
(57) **ABSTRACT**

An e-commerce outsourcing system and method provides hosts with transparent, context-sensitive e-commerce supported pages. A plurality of visually perceptible elements associated with and identifying a source of a host's web page are stored in the form of data in a computer database for future use. The host includes one or more links within a page on the host website that correlate with a selected commerce object, which may be contextually related to material in the page. The commerce object can be a buying opportunity for a product of a third-party merchant, a product category containing a plurality of products of third-party merchants, or a dynamic selection indicator of a merchant's product. A plurality of hosts may choose to link to the same commerce object. Upon activation of the link displayed by a particular host website, a visitor computer is served with a page displaying the visually perceptible elements associated with that specific host's website and information associated with the commerce object correlated to the link. Where the commerce object is a dynamic selection indicator, the content is selected at the time of activation based upon an analysis of the page containing the activated link.

26 Claims, 24 Drawing Sheets



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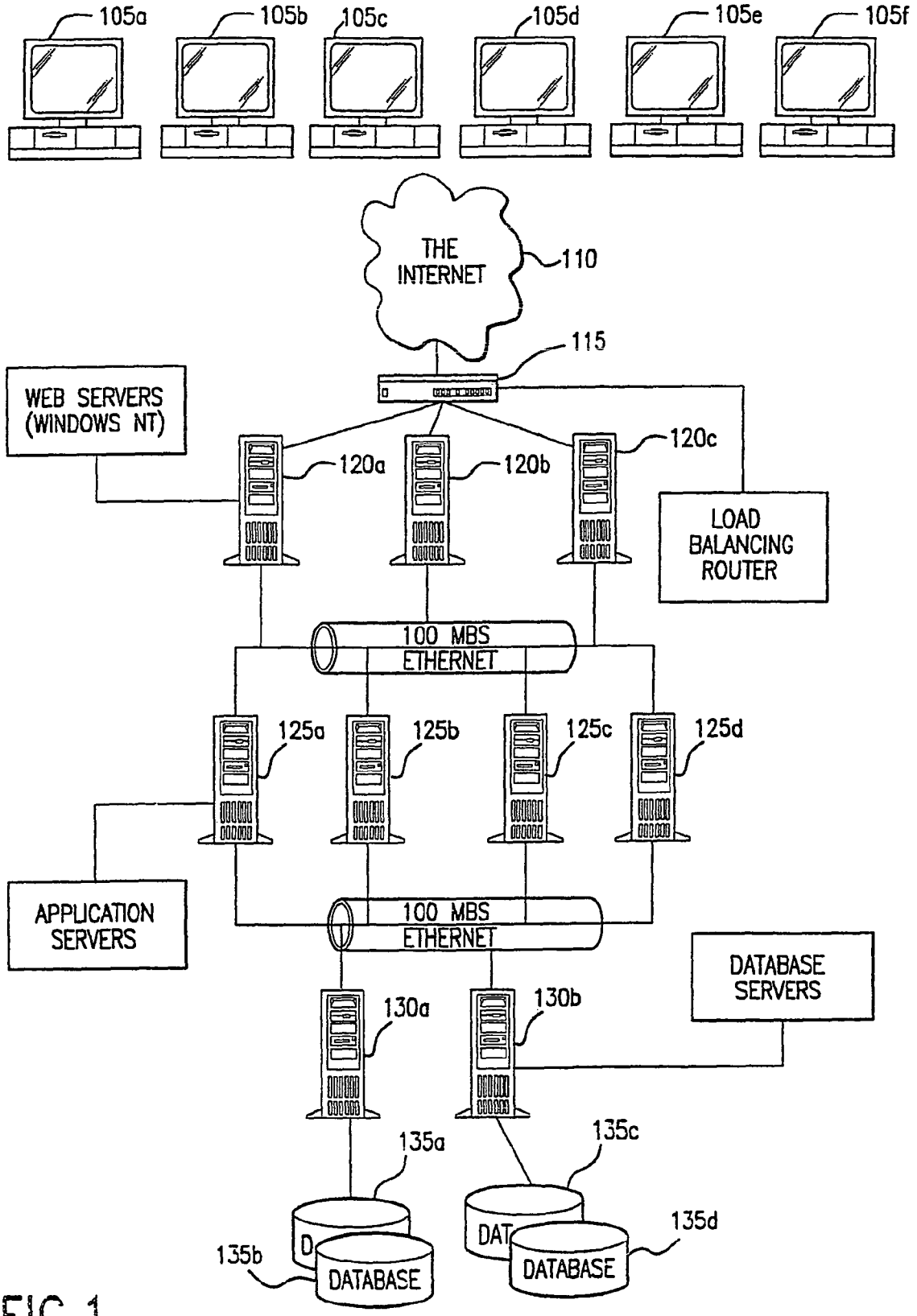

105a
105b
105c
105d
105e
105f
THE INTERNET
110
115
WEB SERVERS (WINDOWS NT)
120a
120b
120c
LOAD BALANCING ROUTER
100 MBS ETHERNET
125a
125b
125c
125d
APPLICATION SERVERS
100 MBS ETHERNET
DATABASE SERVERS
130a
130b
135a
135b
135c
135d
DATABASE
DATABASE

FIG. 1

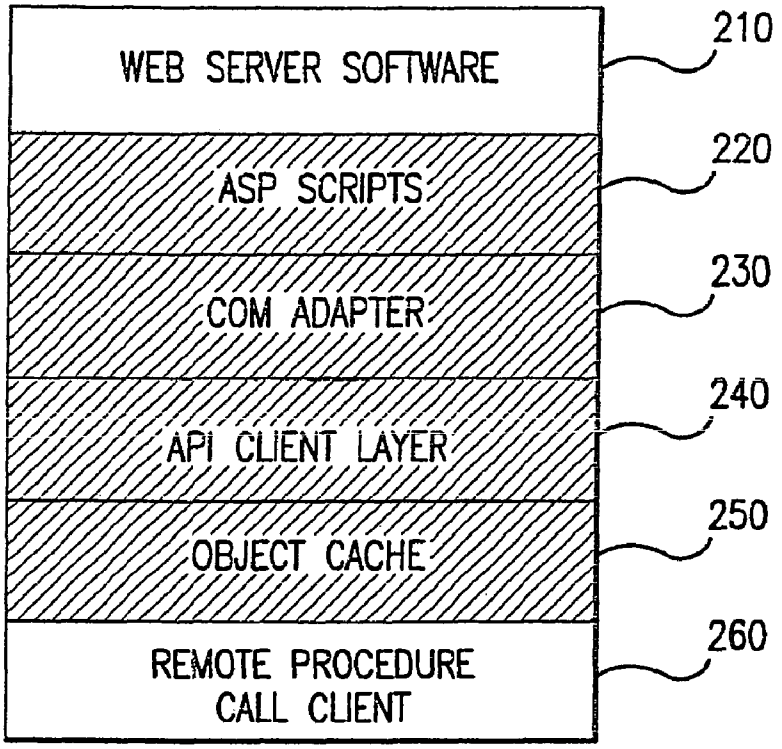

WEB SERVER SOFTWARE
210
ASP SCRIPTS
220
COM ADAPTER
230
API CLIENT LAYER
240
OBJECT CACHE
250
REMOTE PROCEDURE CALL CLIENT
260

FIG.2

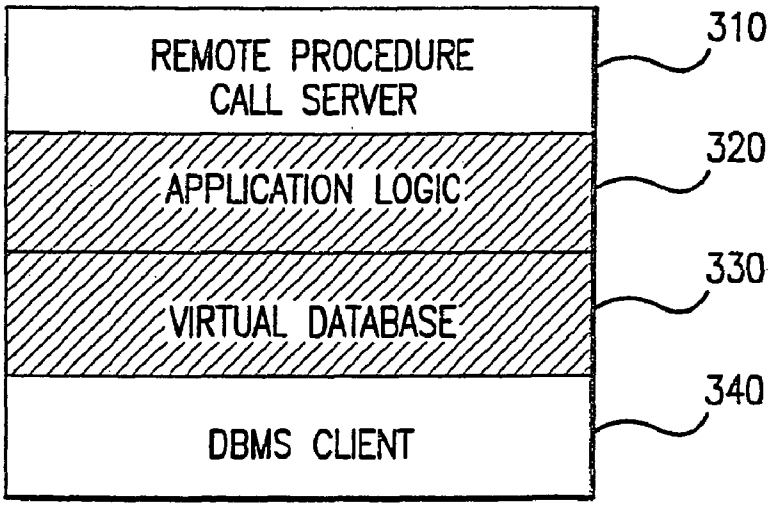

REMOTE PROCEDURE CALL SERVER
310
APPLICATION LOGIC
320
VIRTUAL DATABASE
330
DBMS CLIENT
340

FIG.3

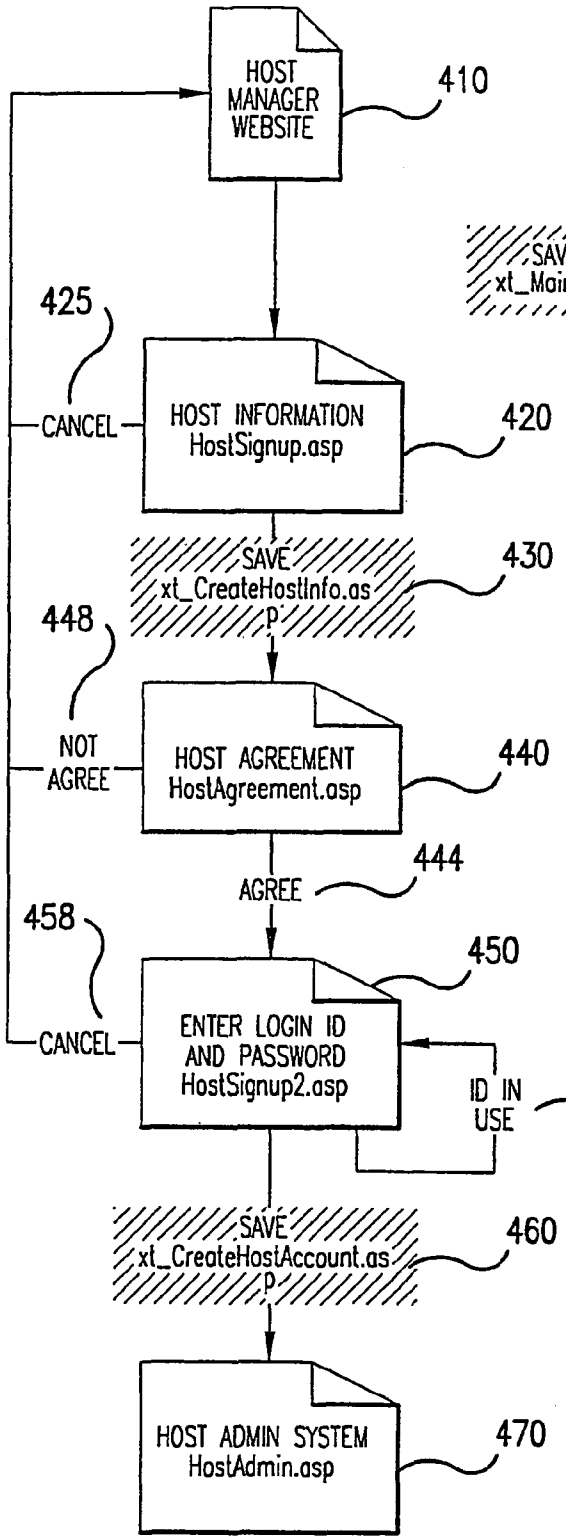

HOST MANAGER WEBSITE
410
425
CANCEL
HOST INFORMATION HostSignup.asp
420
SAVE xt_CreateHostInfo.asp
430
448
NOT AGREE
HOST AGREEMENT HostAgreement.asp
440
AGREE
444
458
CANCEL
ENTER LOGIN ID AND PASSWORD HostSignup2.asp
450
ID IN USE
454
SAVE xt_CreateHostAccount.asp
460
HOST ADMIN SYSTEM HostAdmin.asp
470

FIG.4

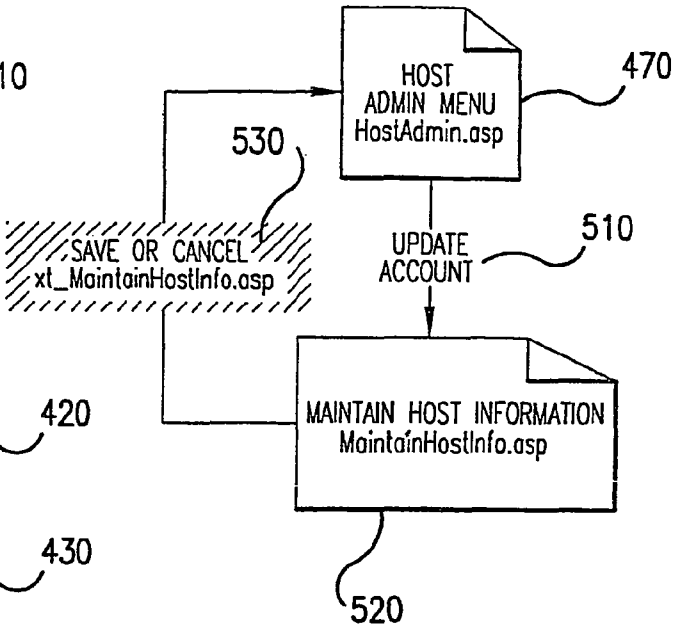

HOST ADMIN MENU HostAdmin.asp
470
530
SAVE OR CANCEL xt_MaintainHostInfo.asp
UPDATE ACCOUNT
510
MAINTAIN HOST INFORMATION MaintainHostInfo.asp
520

FIG.5

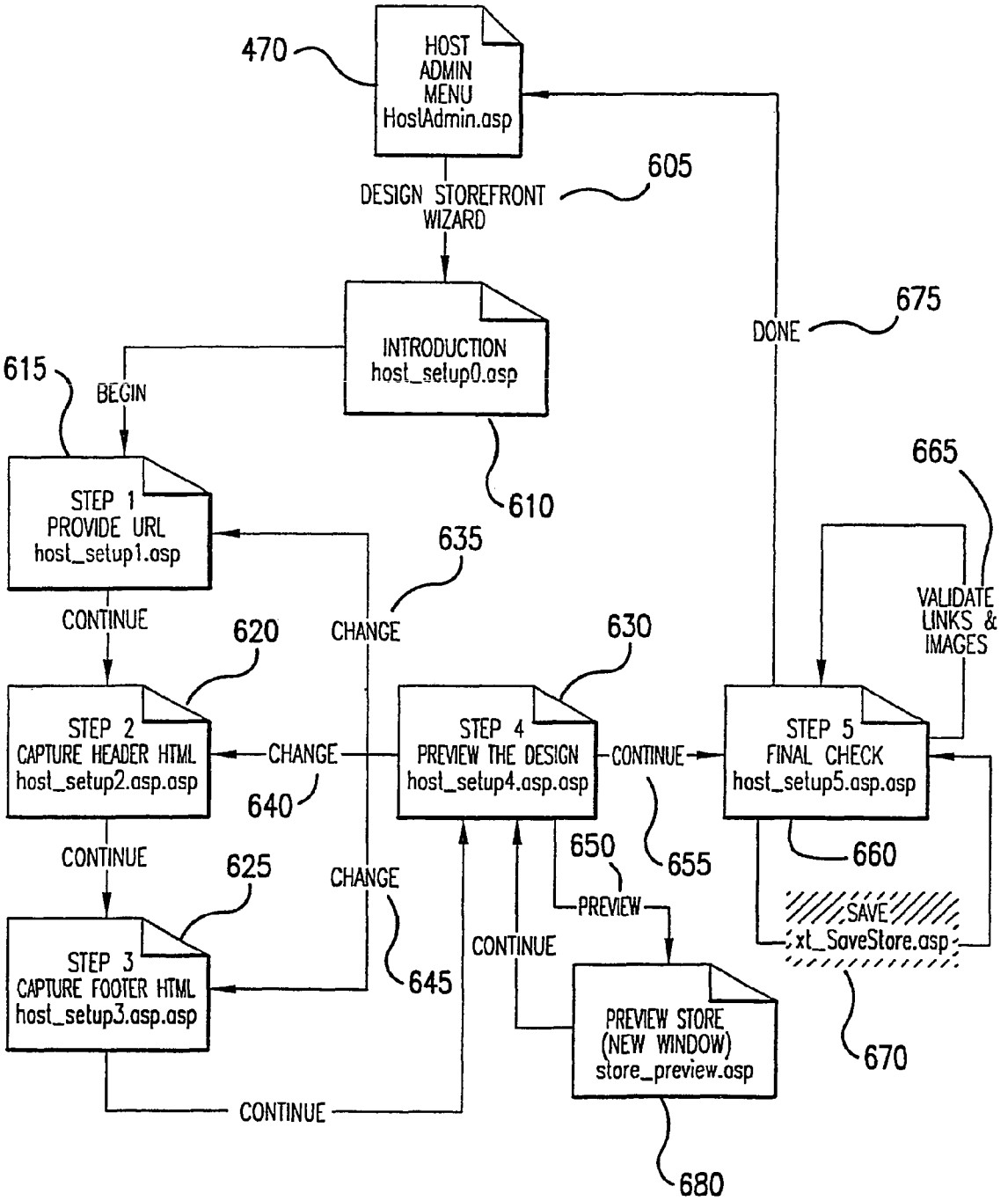

470
HOST ADMIN MENU HostAdmin.asp
DESIGN STOREFRONT WIZARD
605
INTRODUCTION host_setup0.asp
610
BEGIN
615
STEP 1 PROVIDE URL host_setup1.asp
CONTINUE
620
STEP 2 CAPTURE HEADER HTML host_setup2.asp.asp
CONTINUE
625
STEP 3 CAPTURE FOOTER HTML host_setup3.asp.asp
CONTINUE
CHANGE
635
CHANGE
640
CHANGE
645
STEP 4 PREVIEW THE DESIGN host_setup4.asp.asp
630
CONTINUE
655
650
PREVIEW
CONTINUE
PREVIEW STORE (NEW WINDOW) store_preview.asp
680
STEP 5 FINAL CHECK host_setup5.asp.asp
660
DONE
675
VALIDATE LINKS & IMAGES
665
SAVE
xt_SaveStore.asp
670

FIG.6

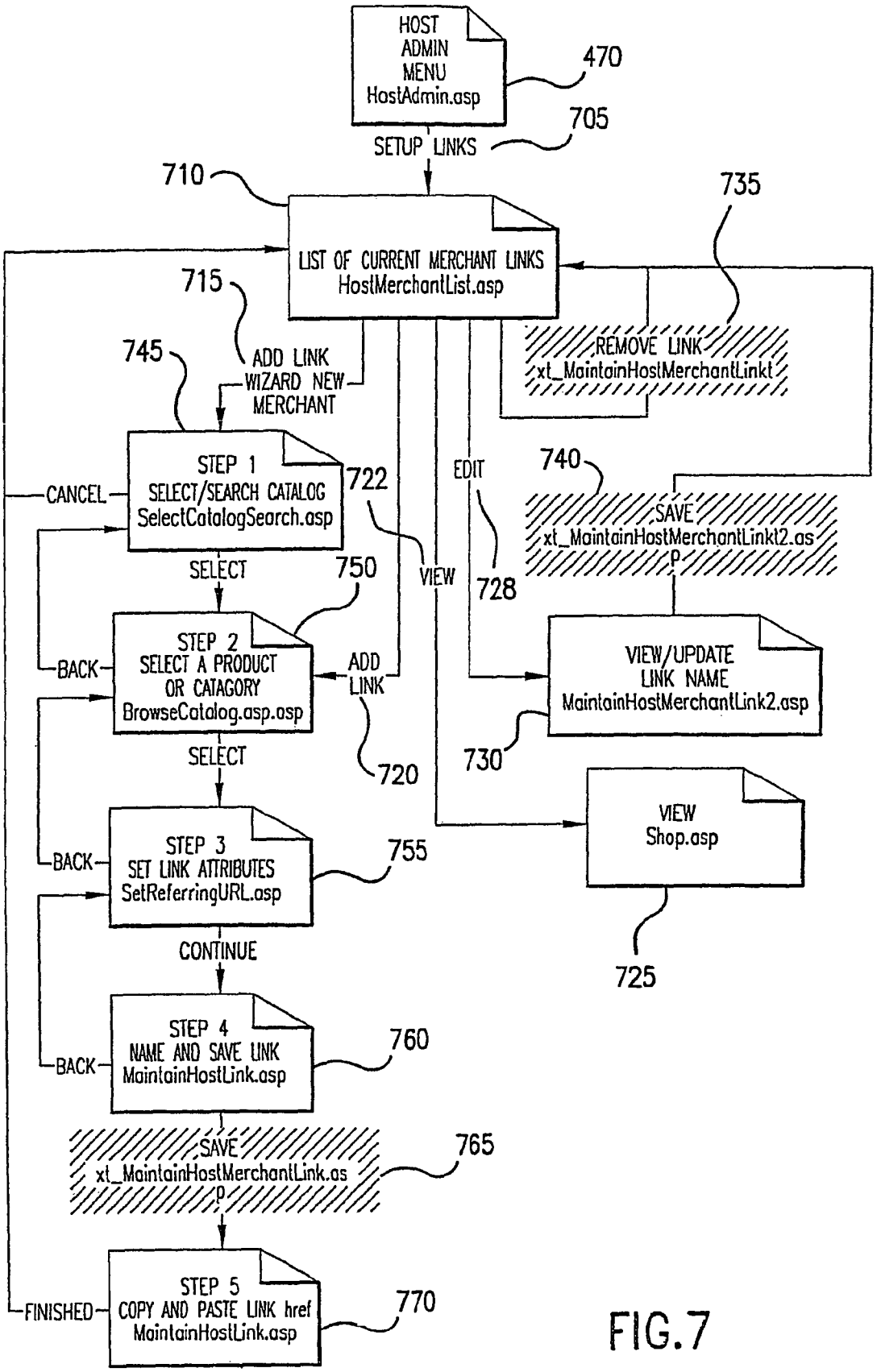

HOST ADMIN MENU HostAdmin.asp
470
SETUP LINKS
705
710
LIST OF CURRENT MERCHANT LINKS HostMerchantList.asp
735
715
ADD LINK WIZARD NEW MERCHANT
745
REMOVE LINK xt_MaintainHostMerchantLinkt
STEP 1 SELECT/SEARCH CATALOG SelectCatalogSearch.asp
CANCEL
722
EDIT
740
SAVE xt_MaintainHostMerchantLinkt2.asp
SELECT
750
VIEW
728
STEP 2 SELECT A PRODUCT OR CATAGORY BrowseCatalog.asp.asp
BACK
ADD LINK
VIEW/UPDATE LINK NAME MaintainHostMerchantLink2.asp
720
730
SELECT
VIEW Shop.asp
STEP 3 SET LINK ATTRIBUTES SetReferringURL.asp
BACK
755
CONTINUE
725
STEP 4 NAME AND SAVE LINK MaintainHostLink.asp
BACK
760
SAVE xt_MaintainHostMerchantLink.asp
765
STEP 5 COPY AND PASTE LINK href MaintainHostLink.asp
FINISHED
770

FIG.7

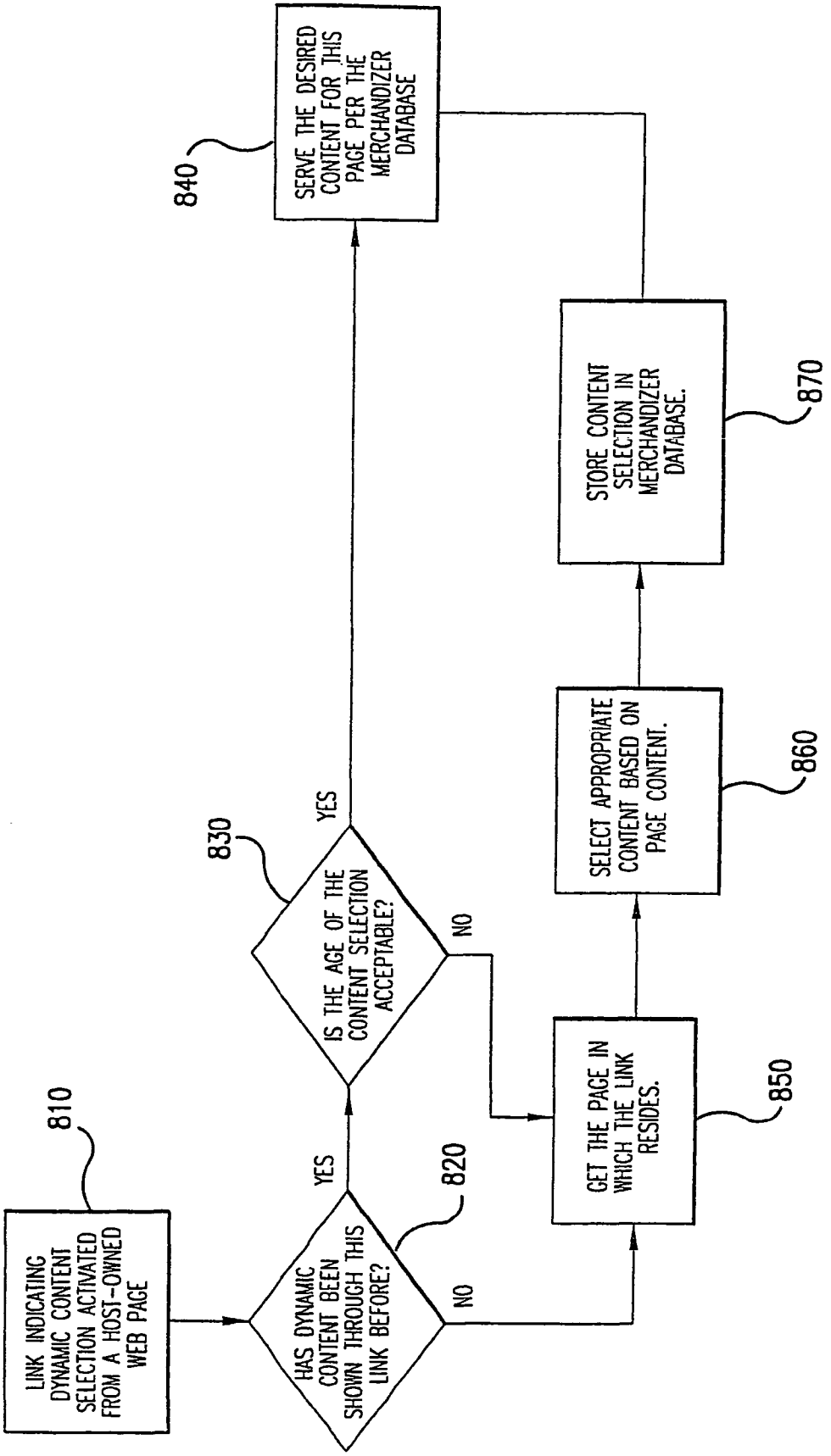

LINK INDICATING DYNAMIC CONTENT SELECTION ACTIVATED FROM A HOST-OWNED WEB PAGE
810
HAS DYNAMIC CONTENT BEEN SHOWN THROUGH THIS LINK BEFORE?
820
YES
NO
IS THE AGE OF THE CONTENT SELECTION ACCEPTABLE?
830
YES
NO
SERVE THE DESIRED CONTENT FOR THIS PAGE PER THE MERCHANDIZER DATABASE
840
GET THE PAGE IN WHICH THE LINK RESIDES.
850
SELECT APPROPRIATE CONTENT BASED ON PAGE CONTENT.
860
STORE CONTENT SELECTION IN MERCHANDIZER DATABASE.
870

FIG.8

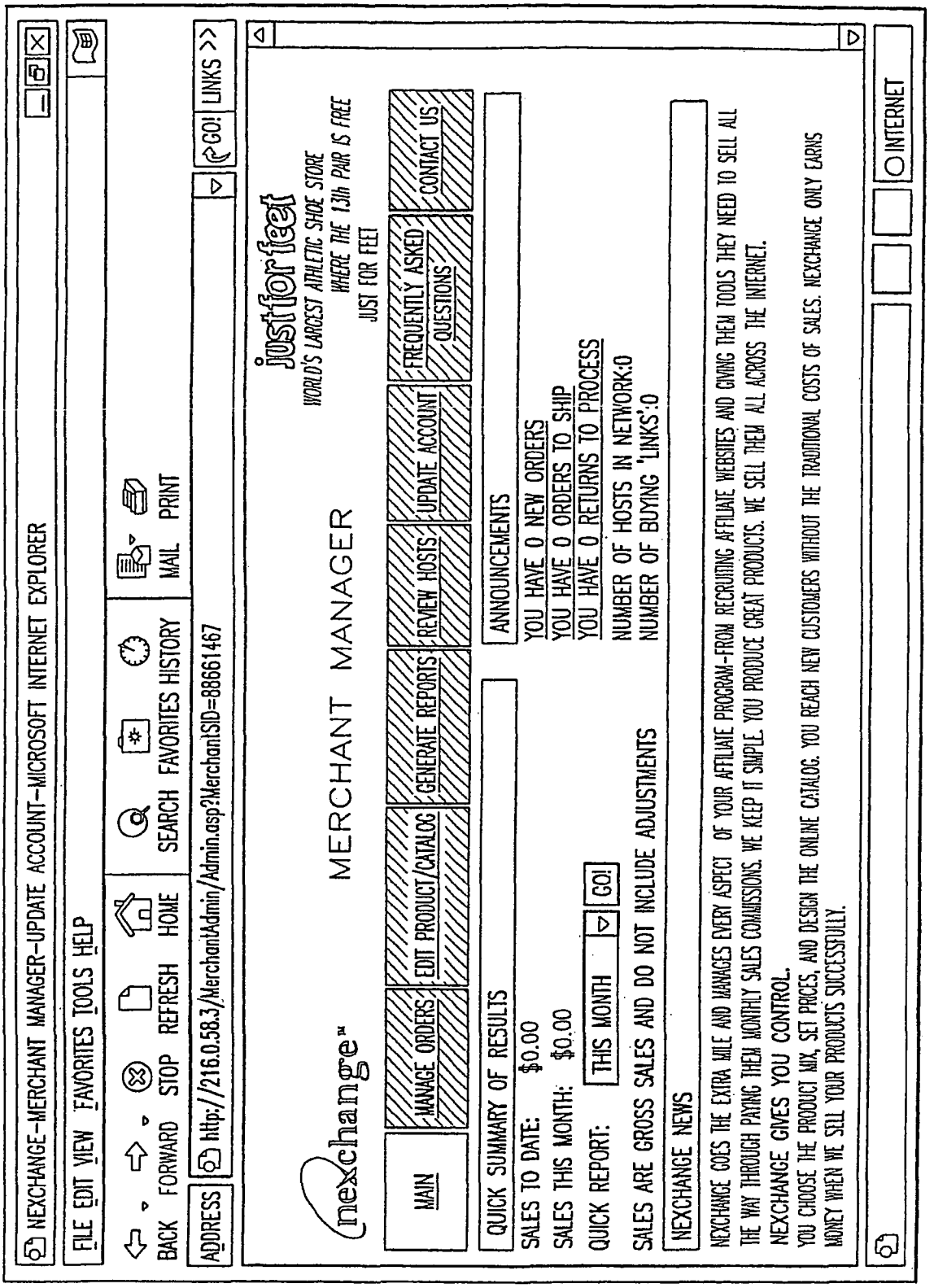

NEXCHANGE-MERCHANT MANAGER-UPDATE ACCOUNT-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
BACK FORWARD STOP REFRESH HOME SEARCH FAVORITES HISTORY MAIL PRINT
ADDRESS http://216.0.58.3/MerchantAdmin/Admin.asp?MerchantSID=88661467
GO! LINKS >>
justforfeet
WORLD'S LARGEST ATHLETIC SHOE STORE
WHERE THE 13th PAIR IS FREE
JUST FOR FEET
nexchange
MERCHANT MANAGER
MAIN
MANAGE ORDERS
EDIT PRODUCT/CATALOG
GENERATE REPORTS
REVIEW HOSTS
UPDATE ACCOUNT
FREQUENTLY ASKED QUESTIONS
CONTACT US
QUICK SUMMARY OF RESULTS
SALES TO DATE: $0.00
SALES THIS MONTH: $0.00
QUICK REPORT: THIS MONTH GO!
SALES ARE GROSS SALES AND DO NOT INCLUDE ADJUSTMENTS
ANNOUNCEMENTS
YOU HAVE 0 NEW ORDERS
YOU HAVE 0 ORDERS TO SHIP
YOU HAVE 0 RETURNS TO PROCESS
NUMBER OF HOSTS IN NETWORK:0
NUMBER OF BUYING 'LINKS':0
NEXCHANGE NEWS
NEXCHANGE GOES THE EXTRA MILE AND MANAGES EVERY ASPECT OF YOUR AFFILIATE PROGRAM-FROM RECRUITING AFFILIATE WEBSITES AND GIVING THEM TOOLS THEY NEED TO SELL ALL THE WAY THROUGH PAYING THEM MONTHLY SALES COMMISSIONS. WE KEEP IT SIMPLE. YOU PRODUCE GREAT PRODUCTS. WE SELL THEM ALL ACROSS THE INTERNET.
NEXCHANGE GIVES YOU CONTROL.
YOU CHOOSE THE PRODUCT MIX, SET PRICES, AND DESIGN THE ONLINE CATALOG. YOU REACH NEW CUSTOMERS WITHOUT THE TRADITIONAL COSTS OF SALES. NEXCHANGE ONLY EARNS MONEY WHEN WE SELL YOUR PRODUCTS SUCCESSFULLY.
INTERNET

FIG.9

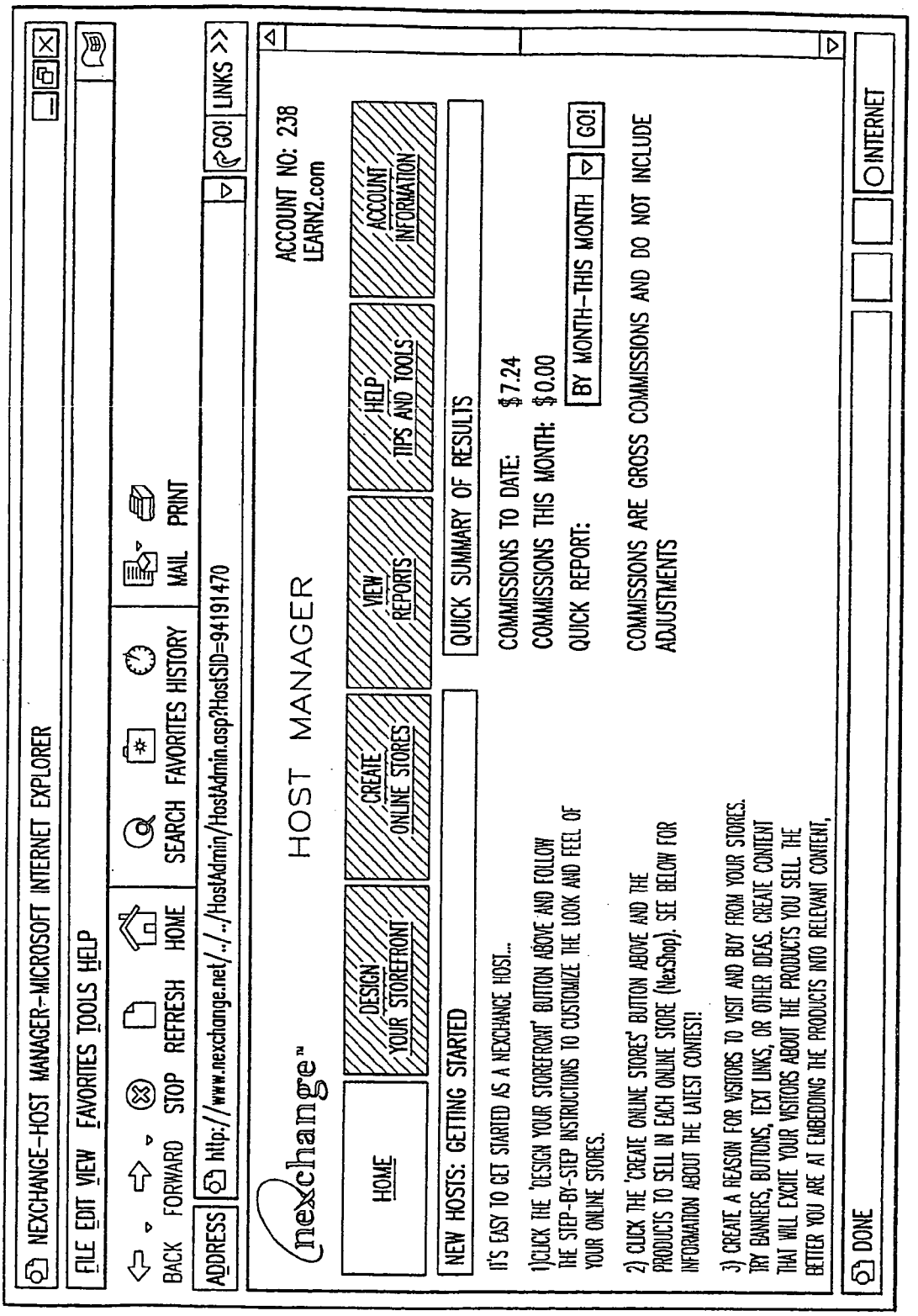

NEXCHANGE-HOST MANAGER-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
BACK FORWARD STOP REFRESH HOME SEARCH FAVORITES HISTORY MAIL PRINT
ADDRESS http://www.nexchange.net/../../HostAdmin/HostAdmin.asp?HostSID=94191470
GO! LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 238
LEARN2.com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
NEW HOSTS: GETTING STARTED
IT'S EASY TO GET STARTED AS A NEXCHANGE HOST...
1)CLICK THE 'DESIGN YOUR STOREFRONT' BUTTON ABOVE AND FOLLOW THE STEP-BY-STEP INSTRUCTIONS TO CUSTOMIZE THE LOOK AND FEEL OF YOUR ONLINE STORES.
2) CLICK THE 'CREATE ONLINE STORES' BUTTON ABOVE AND THE PRODUCTS TO SELL IN EACH ONLINE STORE (NexShop). SEE BELOW FOR INFORMATION ABOUT THE LATEST CONTEST!
3) CREATE A REASON FOR VISITORS TO VISIT AND BUY FROM YOUR STORES. TRY BANNERS, BUTTONS, TEXT LINKS, OR OTHER IDEAS. CREATE CONTENT THAT WILL EXCITE YOUR VISITORS ABOUT THE PRODUCTS YOU SELL. THE BETTER YOU ARE AT EMBEDDING THE PRODUCTS INTO RELEVANT CONTENT,
QUICK SUMMARY OF RESULTS
COMMISSIONS TO DATE: $7.24
COMMISSIONS THIS MONTH: $0.00
QUICK REPORT:
BY MONTH-THIS MONTH
GO!
COMMISSIONS ARE GROSS COMMISSIONS AND DO NOT INCLUDE ADJUSTMENTS
DONE
INTERNET

FIG.10

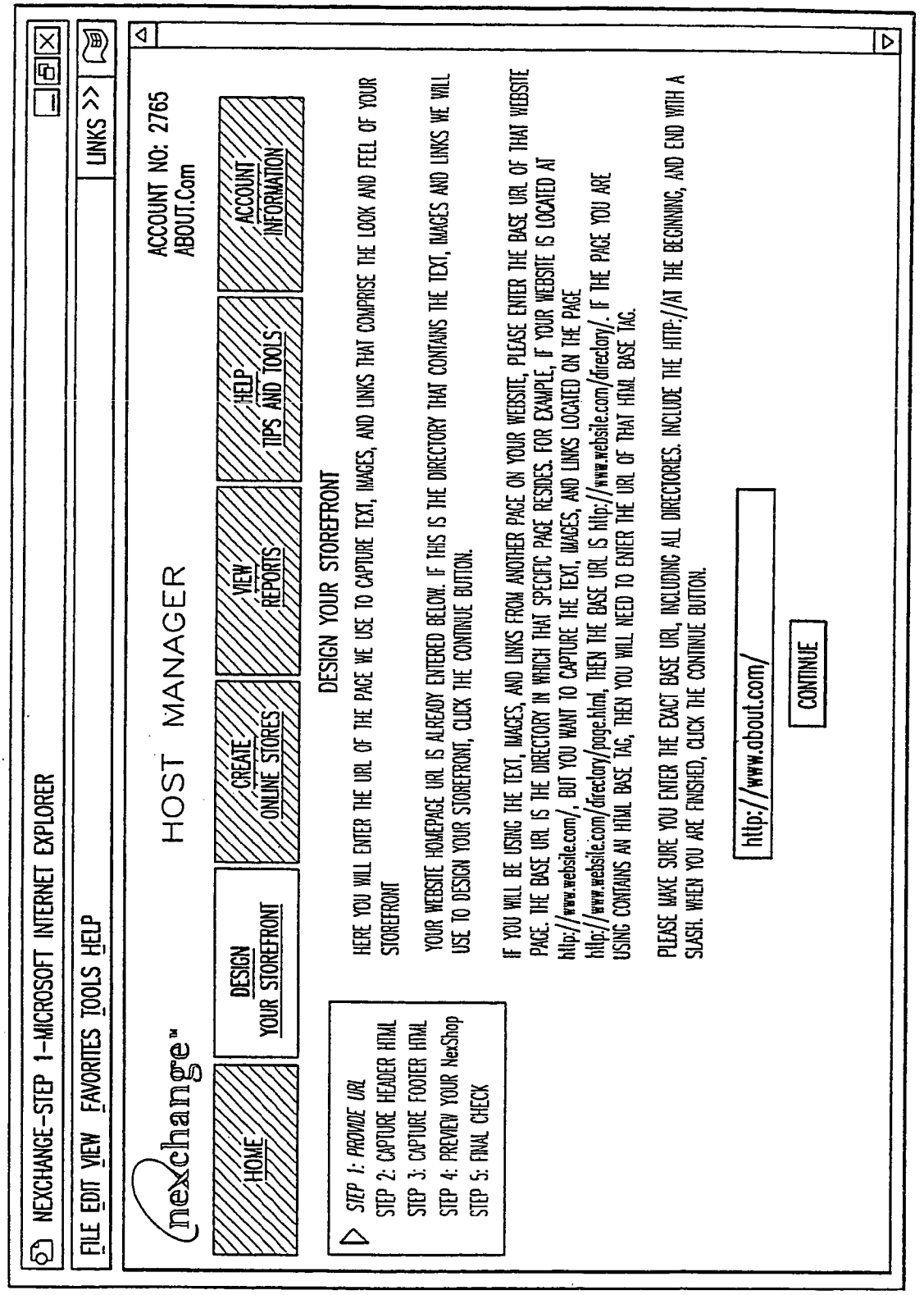

NEXCHANGE-STEP 1-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOME
DESIGN YOUR STOREFRONT
HOST MANAGER
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
ACCOUNT NO: 2765
ABOUT.Com
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
HERE YOU WILL ENTER THE URL OF THE PAGE WE USE TO CAPTURE TEXT, IMAGES, AND LINKS THAT COMPRISE THE LOOK AND FEEL OF YOUR STOREFRONT
YOUR WEBSITE HOMEPAGE URL IS ALREADY ENTERED BELOW. IF THIS IS THE DIRECTORY THAT CONTAINS THE TEXT, IMAGES AND LINKS WE WILL USE TO DESIGN YOUR STOREFRONT, CLICK THE CONTINUE BUTTON.
IF YOU WILL BE USING THE TEXT, IMAGES, AND LINKS FROM ANOTHER PAGE ON YOUR WEBSITE, PLEASE ENTER THE BASE URL OF THAT WEBSITE PAGE. THE BASE URL IS THE DIRECTORY IN WHICH THAT SPECIFIC PAGE RESIDES. FOR EXAMPLE, IF YOUR WEBSITE IS LOCATED AT http://www.website.com/, BUT YOU WANT TO CAPTURE THE TEXT, IMAGES, AND LINKS LOCATED ON THE PAGE http://www.website.com/directory/page.html, THEN THE BASE URL IS http://www.website.com/directory/. IF THE PAGE YOU ARE USING CONTAINS AN HTML BASE TAG, THEN YOU WILL NEED TO ENTER THE URL OF THAT HTML BASE TAG.
PLEASE MAKE SURE YOU ENTER THE EXACT BASE URL, INCLUDING ALL DIRECTORIES. INCLUDE THE HTTP://AT THE BEGINNING, AND END WITH A SLASH. WHEN YOU ARE FINISHED, CLICK THE CONTINUE BUTTON.
http://www.about.com/
CONTINUE

FIG. 11

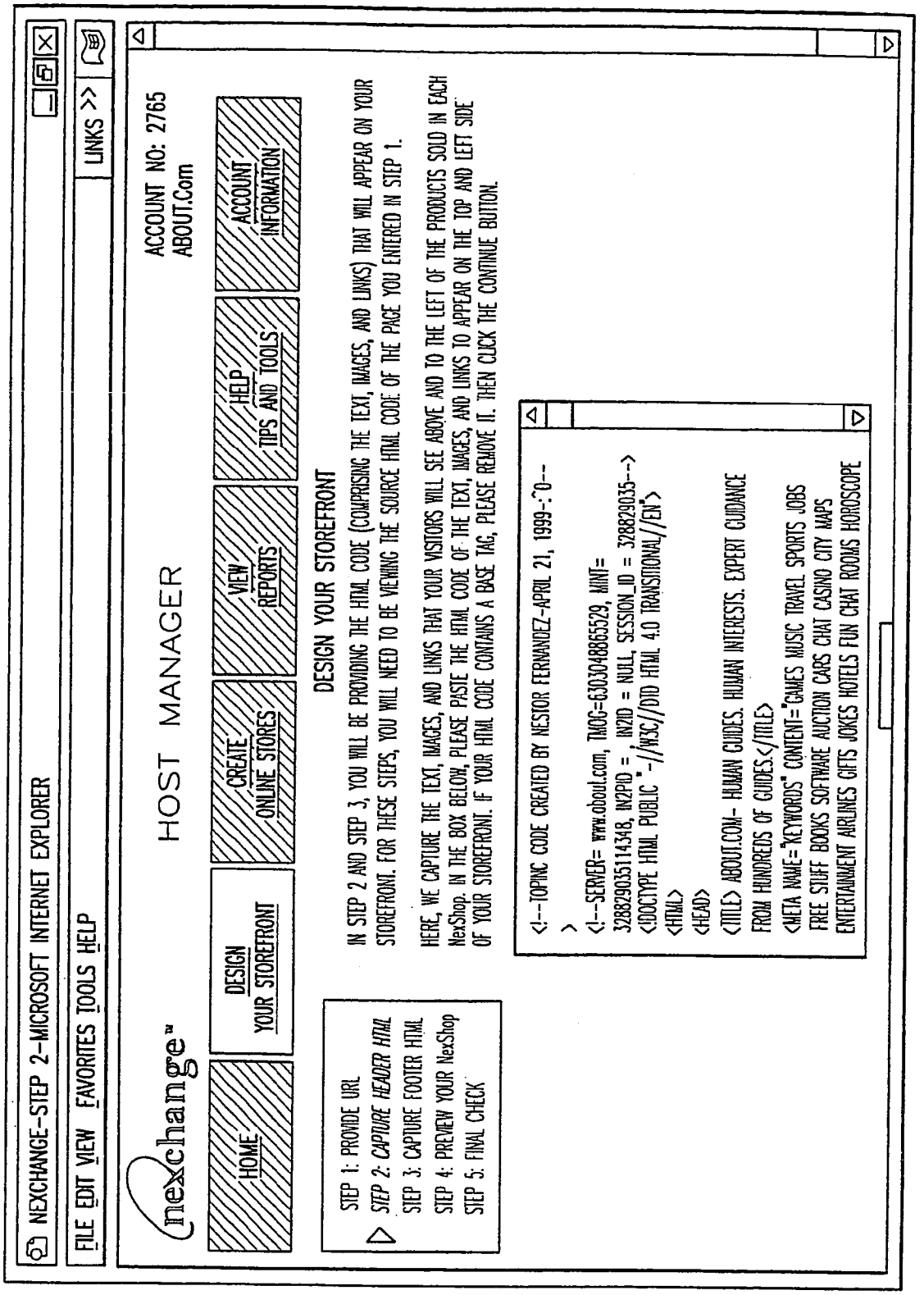
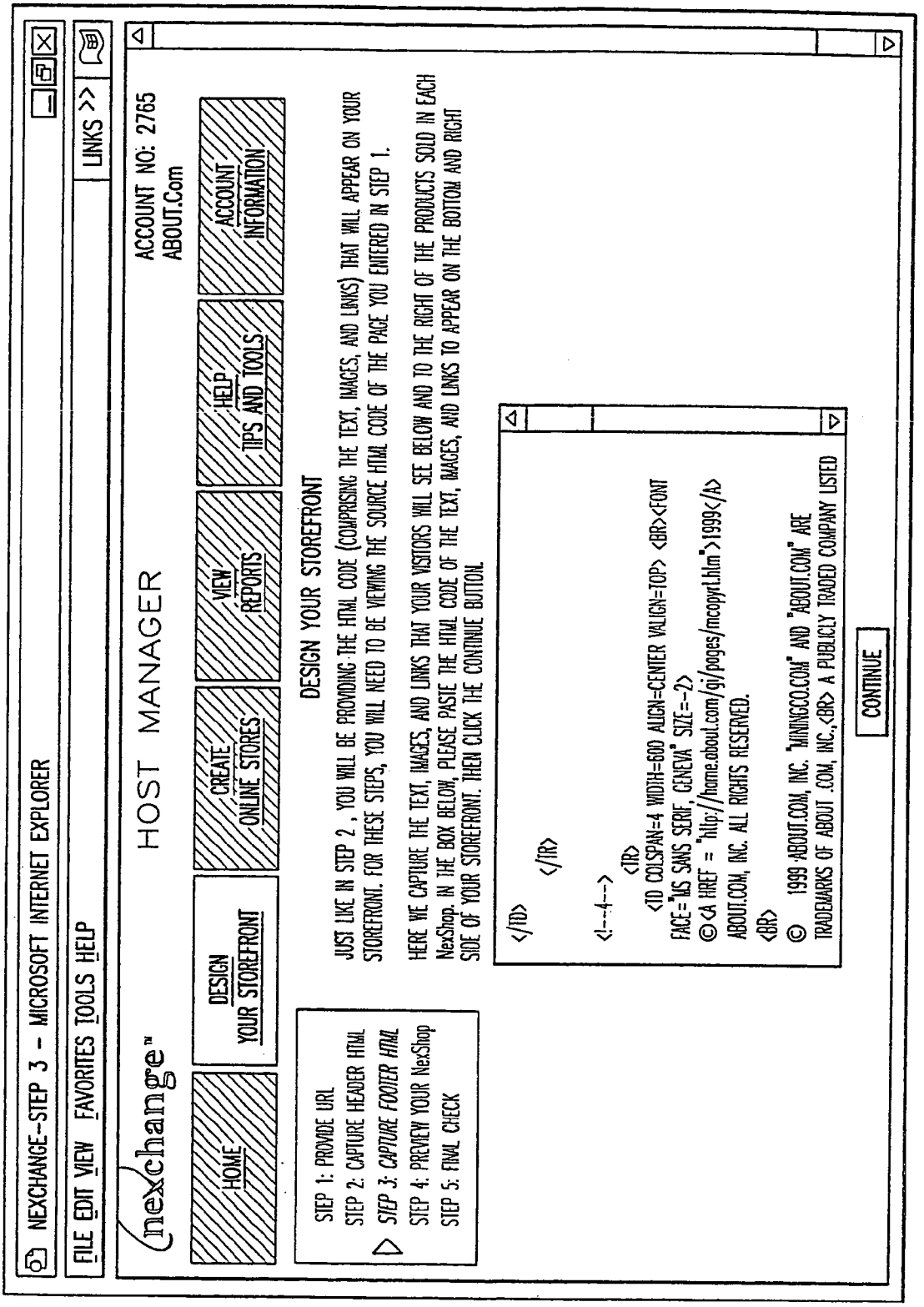

NEXCHANGE-STEP 2-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
IN STEP 2 AND STEP 3, YOU WILL BE PROVIDING THE HTML CODE (COMPRISING THE TEXT, IMAGES, AND LINKS) THAT WILL APPEAR ON YOUR STOREFRONT. FOR THESE STEPS, YOU WILL NEED TO BE VIEWING THE SOURCE HTML CODE OF THE PAGE YOU ENTERED IN STEP 1.
HERE, WE CAPTURE THE TEXT, IMAGES, AND LINKS THAT YOUR VISITORS WILL SEE ABOVE AND TO THE LEFT OF THE PRODUCTS SOLD IN EACH NexShop. IN THE BOX BELOW, PLEASE PASTE THE HTML CODE OF THE TEXT, IMAGES, AND LINKS TO APPEAR ON THE TOP AND LEFT SIDE OF YOUR STOREFRONT. IF YOUR HTML CODE CONTAINS A BASE TAG, PLEASE REMOVE IT. THEN CLICK THE CONTINUE BUTTON.
<!--TOPNC CODE CREATED BY NESTOR FERNANDEZ-APRIL 21, 1999-:^0--
>
<!--SERVER= www.about.com, TMOC=630304886529, MINT=
3288290351143 48, IN2PID = , IN2ID = NULL, SESSION_ID = 328829035-->
<!DOCTYPE HTML PUBLIC "-//W3C//DTD HTML 4.0 TRANSITIONAL//EN">
<HTML>
<HEAD>
<TITLE> ABOUT.COM- HUMAN GUIDES. HUMAN INTERESTS. EXPERT GUIDANCE
FROM HUNDREDS OF GUIDES.</TITLE>
<META NAME="KEYWORDS" CONTENT="GAMES MUSIC TRAVEL SPORTS JOBS
FREE STUFF BOOKS SOFTWARE AUCTION CARS CHAT CASINO CITY MAPS
ENTERTAINMENT AIRLINES GIFTS JOKES HOTELS FUN CHAT ROOMS HOROSCOPE

FIG. 12


NEXCHANGE-STEP 3 - MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
JUST LIKE IN STEP 2, YOU WILL BE PROVIDING THE HTML CODE (COMPRISING THE TEXT, IMAGES, AND LINKS) THAT WILL APPEAR ON YOUR STOREFRONT. FOR THESE STEPS, YOU WILL NEED TO BE VIEWING THE SOURCE HTML CODE OF THE PAGE YOU ENTERED IN STEP 1.
HERE WE CAPTURE THE TEXT, IMAGES, AND LINKS THAT YOUR VISITORS WILL SEE BELOW AND TO THE RIGHT OF THE PRODUCTS SOLD IN EACH NexShop. IN THE BOX BELOW, PLEASE PASTE THE HTML CODE OF THE TEXT, IMAGES, AND LINKS TO APPEAR ON THE BOTTOM AND RIGHT SIDE OF YOUR STOREFRONT. THEN CLICK THE CONTINUE BUTTON.
</TD>
</TR>
<!--4-->
<TR>
<TD COLSPAN=4 WIDTH=600 ALIGN=CENTER VALIGN=TOP>
<FONT FACE="MS SANS SERIF, GENEVA" SIZE=-2>
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 A PUBLICLY TRADED COMPANY LISTED
CONTINUE

FIG.13

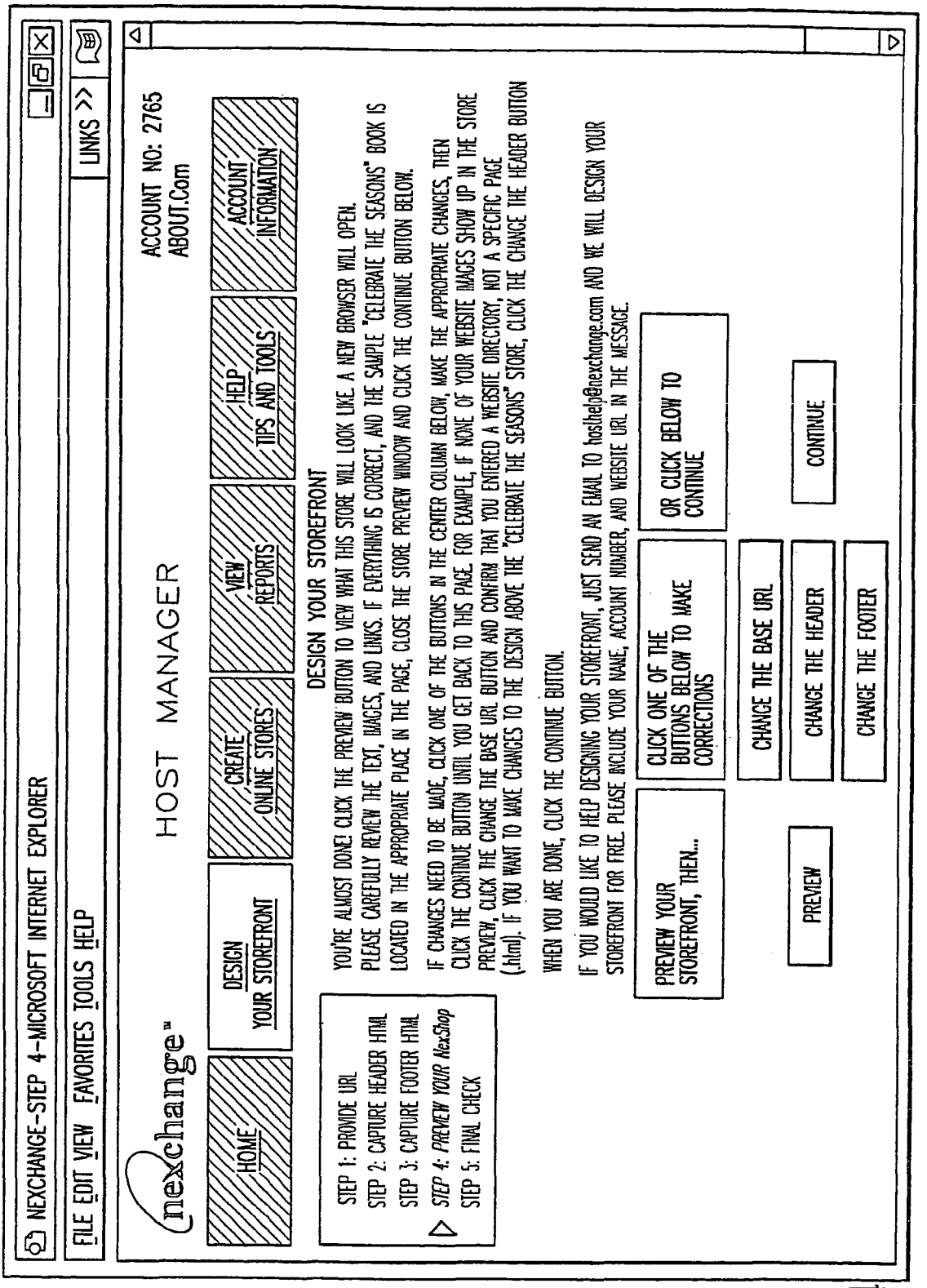
NEXCHANGE-STEP 4-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
YOU'RE ALMOST DONE! CLICK THE PREVIEW BUTTON TO VIEW WHAT THIS STORE WILL LOOK LIKE A NEW BROWSER WILL OPEN.
PLEASE CAREFULLY REVIEW THE TEXT, IMAGES, AND LINKS. IF EVERYTHING IS CORRECT, AND THE SAMPLE "CELEBRATE THE SEASONS" BOOK IS LOCATED IN THE APPROPRIATE PLACE IN THE PAGE, CLOSE THE STORE PREVIEW WINDOW AND CLICK THE CONTINUE BUTTON BELOW.
IF CHANGES NEED TO BE MADE, CLICK ONE OF THE BUTTONS IN THE CENTER COLUMN BELOW, MAKE THE APPROPRIATE CHANGES, THEN CLICK THE CONTINUE BUTTON UNTIL YOU GET BACK TO THIS PAGE. FOR EXAMPLE, IF NONE OF YOUR WEBSITE IMAGES SHOW UP IN THE STORE PREVIEW, CLICK THE CHANGE THE BASE URL BUTTON AND CONFIRM THAT YOU ENTERED A WEBSITE DIRECTORY, NOT A SPECIFIC PAGE (.html). IF YOU WANT TO MAKE CHANGES TO THE DESIGN ABOVE THE "CELEBRATE THE SEASONS" STORE, CLICK THE CHANGE THE HEADER BUTTON
WHEN YOU ARE DONE, CLICK THE CONTINUE BUTTON.
IF YOU WOULD LIKE TO HELP DESIGNING YOUR STOREFRONT, JUST SEND AN EMAIL TO hosthelp@nexchange.com AND WE WILL DESIGN YOUR STOREFRONT FOR FREE. PLEASE INCLUDE YOUR NAME, ACCOUNT NUMBER, AND WEBSITE URL IN THE MESSAGE.
PREVIEW YOUR STOREFRONT, THEN...
PREVIEW
CLICK ONE OF THE BUTTONS BELOW TO MAKE CORRECTIONS
CHANGE THE BASE URL
CHANGE THE HEADER
CHANGE THE FOOTER
OR CLICK BELOW TO CONTINUE
CONTINUE

FIG. 14

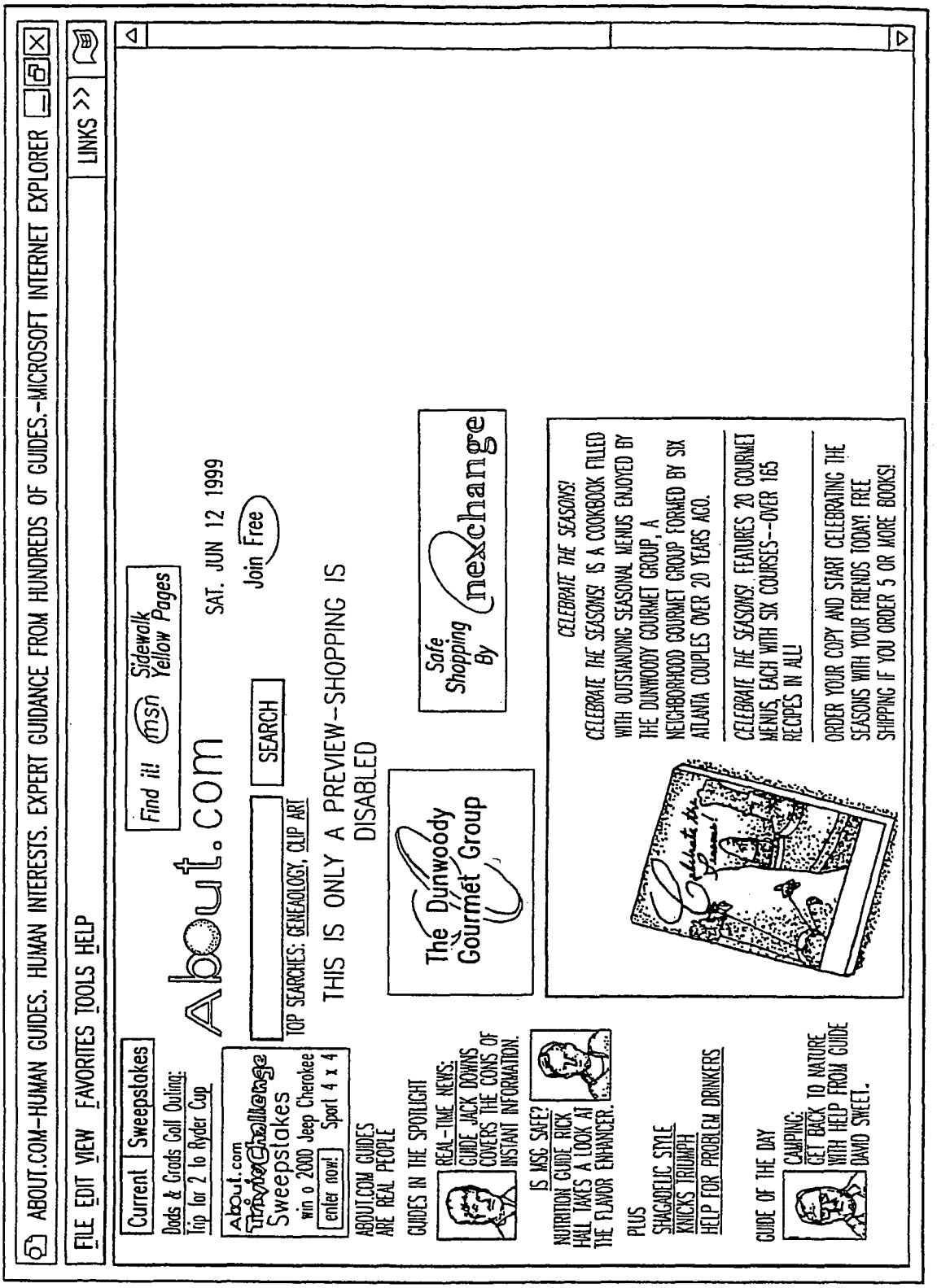
ABOUT.COM-HUMAN GUIDES. HUMAN INTERESTS. EXPERT GUIDANCE FROM HUNDREDS OF GUIDES.-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
Current
Sweepstakes
Dads & Grads Golf Outing:
Trip for 2 to Ryder Cup
About.com
Travel Challenge
Sweepstakes
win a 2000 Jeep Cherokee
Enter now!
Sport 4 x 4
ABOUT.COM GUIDES
ARE REAL PEOPLE
GUIDES IN THE SPOTLIGHT
REAL-TIME NEWS:
GUIDE JACK DOWNS
COVERS THE CONS OF
INSTANT INFORMATION.
NUTRITION GUIDE RICK
HALL TAKES A LOOK AT
THE FLAVOR ENHANCER.
IS MSG SAFE?
PLUS
SHAGADELIC STYLE
KNICKS TRIUMPH
HELP FOR PROBLEM DRINKERS
GUIDE OF THE DAY
CAMPING:
GET BACK TO NATURE
WITH HELP FROM GUIDE
DAVID SWEET.
About.com
Find it!
msn
Sidewalk
Yellow Pages
SEARCH
TOP SEARCHES: GENEALOGY, CLIP ART
SAT. JUN 12 1999
Join Free
THIS IS ONLY A PREVIEW-SHOPPING IS
DISABLED
The Dunwoody
Gourmet Group
Safe
Shopping
By
nexchange
CELEBRATE THE SEASONS!
CELEBRATE THE SEASONS! IS A COOKBOOK FILLED
WITH OUTSTANDING SEASONAL MENUS ENJOYED BY
THE DUNWOODY GOURMET GROUP, A
NEIGHBORHOOD GOURMET GROUP FORMED BY SIX
ATLANTA COUPLES OVER 20 YEARS AGO.
CELEBRATE THE SEASONS! FEATURES 20 GOURMET
MENUS, EACH WITH SIX COURSES--OVER 165
RECIPES IN ALL!
ORDER YOUR COPY AND START CELEBRATING THE
SEASONS WITH YOUR FRIENDS TODAY! FREE
SHIPPING IF YOU ORDER 5 OR MORE BOOKS!

FIG.15

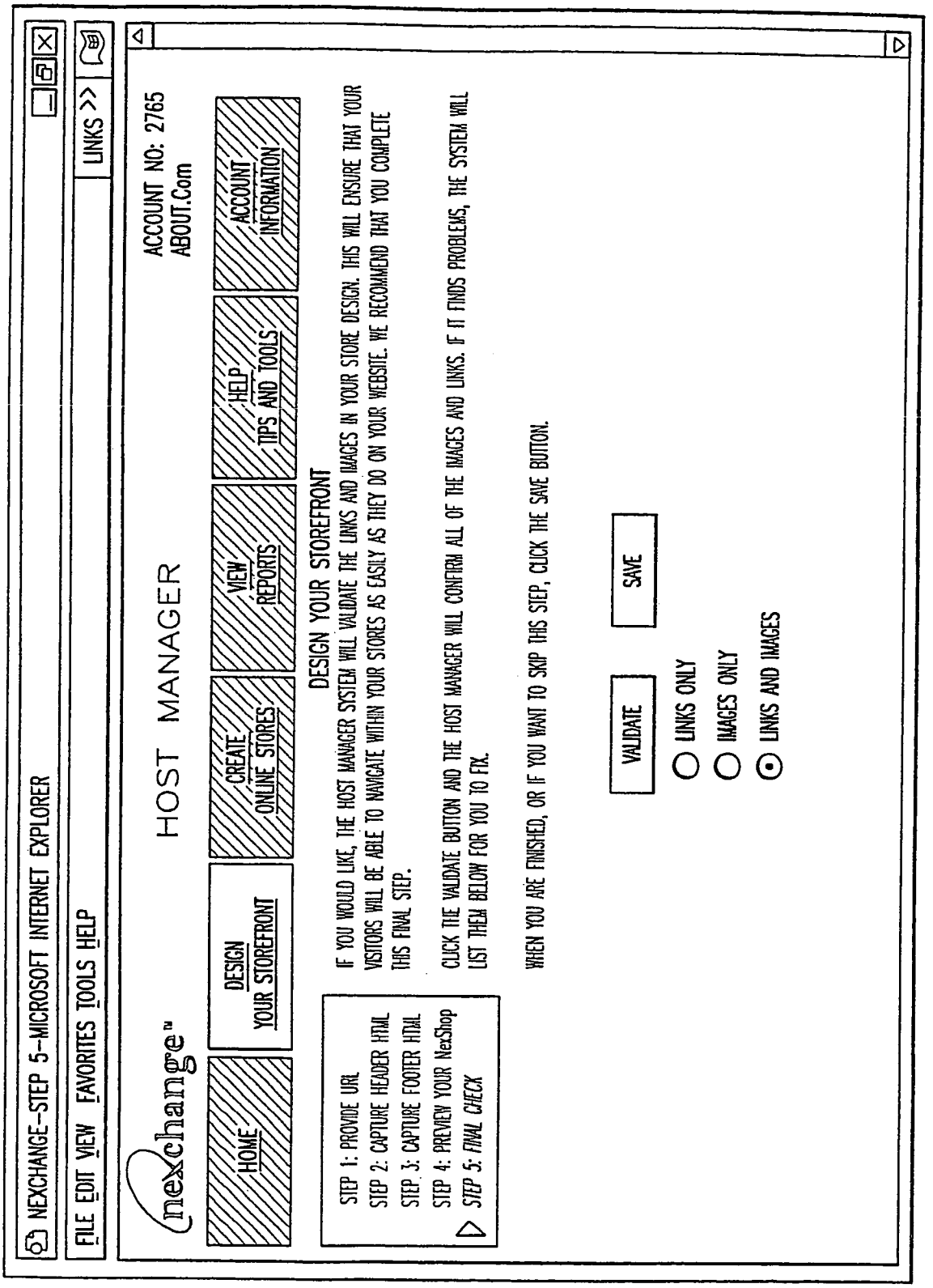
NEXCHANGE-STEP 5-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
IF YOU WOULD LIKE, THE HOST MANAGER SYSTEM WILL VALIDATE THE LINKS AND IMAGES IN YOUR STORE DESIGN. THIS WILL ENSURE THAT YOUR VISITORS WILL BE ABLE TO NAVIGATE WITHIN YOUR STORES AS EASILY AS THEY DO ON YOUR WEBSITE. WE RECOMMEND THAT YOU COMPLETE THIS FINAL STEP.
CLICK THE VALIDATE BUTTON AND THE HOST MANAGER WILL CONFIRM ALL OF THE IMAGES AND LINKS. IF IT FINDS PROBLEMS, THE SYSTEM WILL LIST THEM BELOW FOR YOU TO FIX.
WHEN YOU ARE FINISHED, OR IF YOU WANT TO SKIP THIS STEP, CLICK THE SAVE BUTTON.
VALIDATE
SAVE
LINKS ONLY
IMAGES ONLY
LINKS AND IMAGES

FIG.16

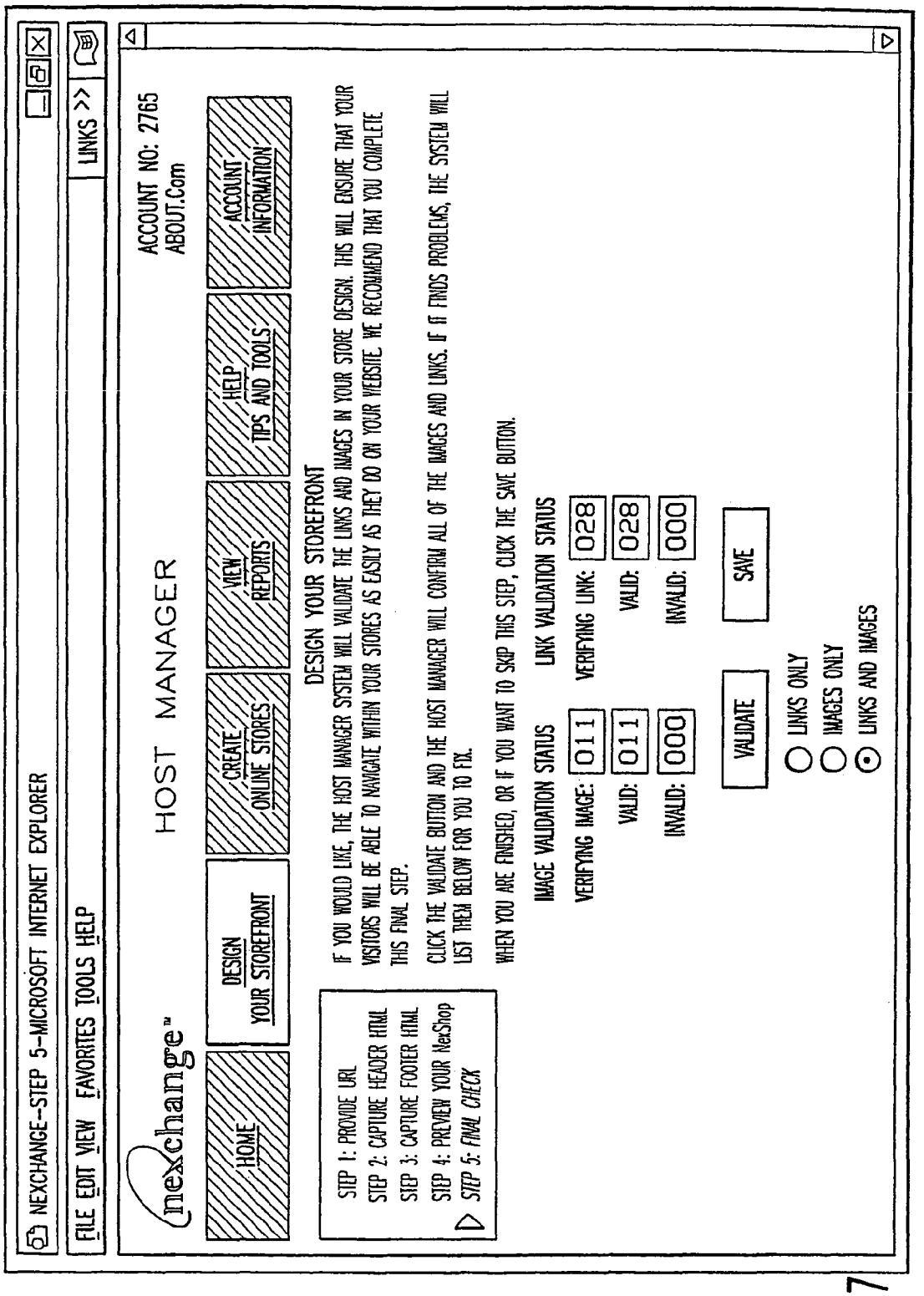
NEXCHANGE-STEP 5-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
STEP 1: PROVIDE URL
STEP 2: CAPTURE HEADER HTML
STEP 3: CAPTURE FOOTER HTML
STEP 4: PREVIEW YOUR NexShop
STEP 5: FINAL CHECK
DESIGN YOUR STOREFRONT
IF YOU WOULD LIKE, THE HOST MANAGER SYSTEM WILL VALIDATE THE LINKS AND IMAGES IN YOUR STORE DESIGN. THIS WILL ENSURE THAT YOUR VISITORS WILL BE ABLE TO NAVIGATE WITHIN YOUR STORES AS EASILY AS THEY DO ON YOUR WEBSITE. WE RECOMMEND THAT YOU COMPLETE THIS FINAL STEP.
CLICK THE VALIDATE BUTTON AND THE HOST MANAGER WILL CONFIRM ALL OF THE IMAGES AND LINKS. IF IT FINDS PROBLEMS, THE SYSTEM WILL LIST THEM BELOW FOR YOU TO FIX.
WHEN YOU ARE FINISHED, OR IF YOU WANT TO SKIP THIS STEP, CLICK THE SAVE BUTTON.
IMAGE VALIDATION STATUS
VERIFYING IMAGE: 011
VALID: 011
INVALID: 000
LINK VALIDATION STATUS
VERIFYING LINK: 028
VALID: 028
INVALID: 000
VALIDATE
SAVE
LINKS ONLY
IMAGES ONLY
LINKS AND IMAGES

FIG.17

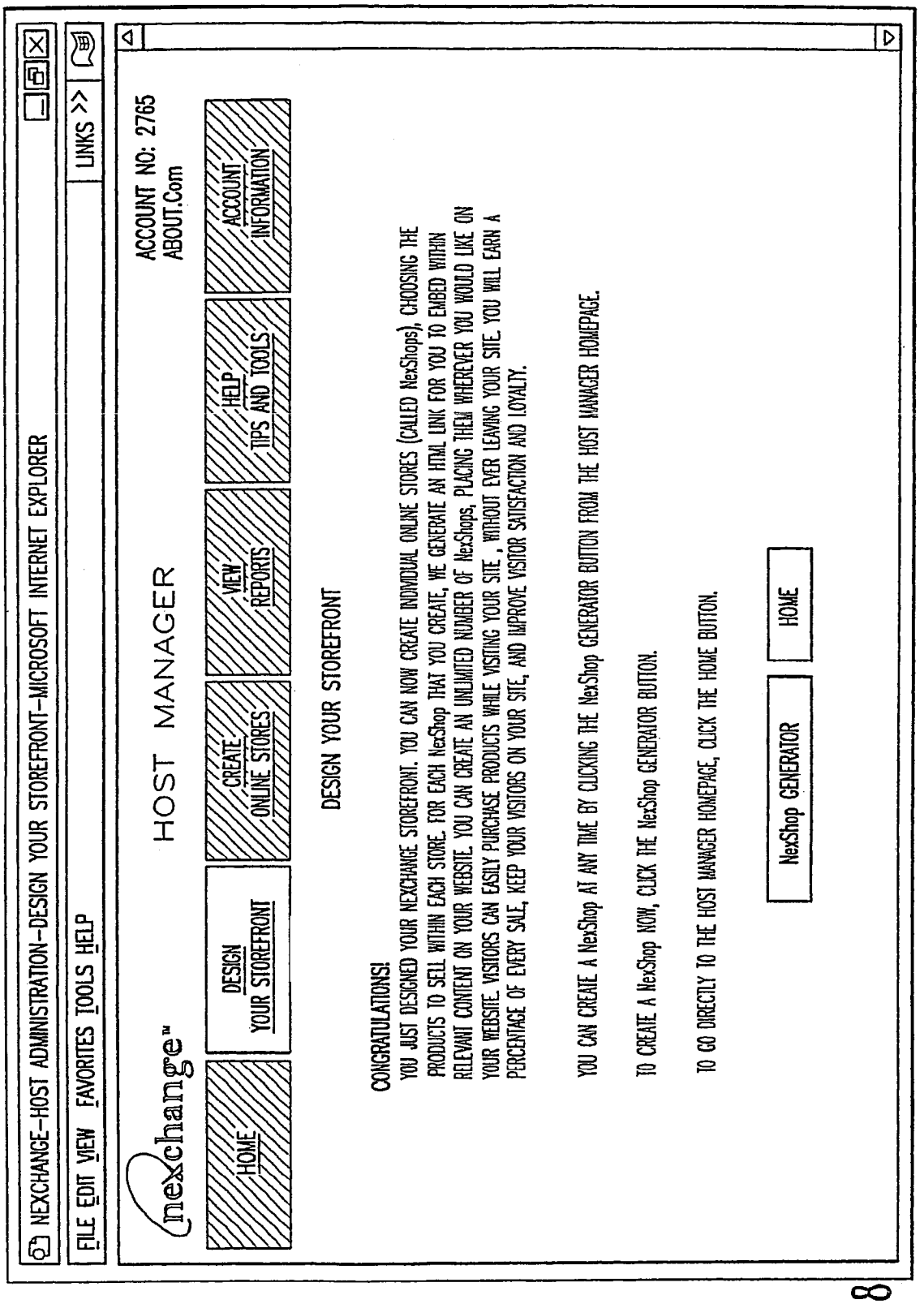
NEXCHANGE-HOST ADMINISTRATION-DESIGN YOUR STOREFRONT-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
nexchange™
HOST MANAGER
ACCOUNT NO: 2765
ABOUT.Com
HOME
DESIGN YOUR STOREFRONT
CREATE ONLINE STORES
VIEW REPORTS
HELP TIPS AND TOOLS
ACCOUNT INFORMATION
DESIGN YOUR STOREFRONT
CONGRATULATIONS!
YOU JUST DESIGNED YOUR NEXCHANGE STOREFRONT. YOU CAN NOW CREATE INDIVIDUAL ONLINE STORES (CALLED NexShops), CHOOSING THE PRODUCTS TO SELL WITHIN EACH STORE. FOR EACH NexShop THAT YOU CREATE, WE GENERATE AN HTML LINK FOR YOU TO EMBED WITHIN RELEVANT CONTENT ON YOUR WEBSITE. YOU CAN CREATE AN UNLIMITED NUMBER OF NexShops, PLACING THEM WHEREVER YOU WOULD LIKE ON YOUR WEBSITE. VISITORS CAN EASILY PURCHASE PRODUCTS WHILE VISITING YOUR SITE , WITHOUT EVER LEAVING YOUR SITE. YOU WILL EARN A PERCENTAGE OF EVERY SALE, KEEP YOUR VISITORS ON YOUR SITE, AND IMPROVE VISITOR SATISFACTION AND LOYALTY.
YOU CAN CREATE A NexShop AT ANY TIME BY CLICKING THE NexShop GENERATOR BUTTON FROM THE HOST MANAGER HOMEPAGE.
TO CREATE A NexShop NOW, CLICK THE NexShop GENERATOR BUTTON.
TO GO DIRECTLY TO THE HOST MANAGER HOMEPAGE, CLICK THE HOME BUTTON.
NexShop GENERATOR
HOME

FIG.18

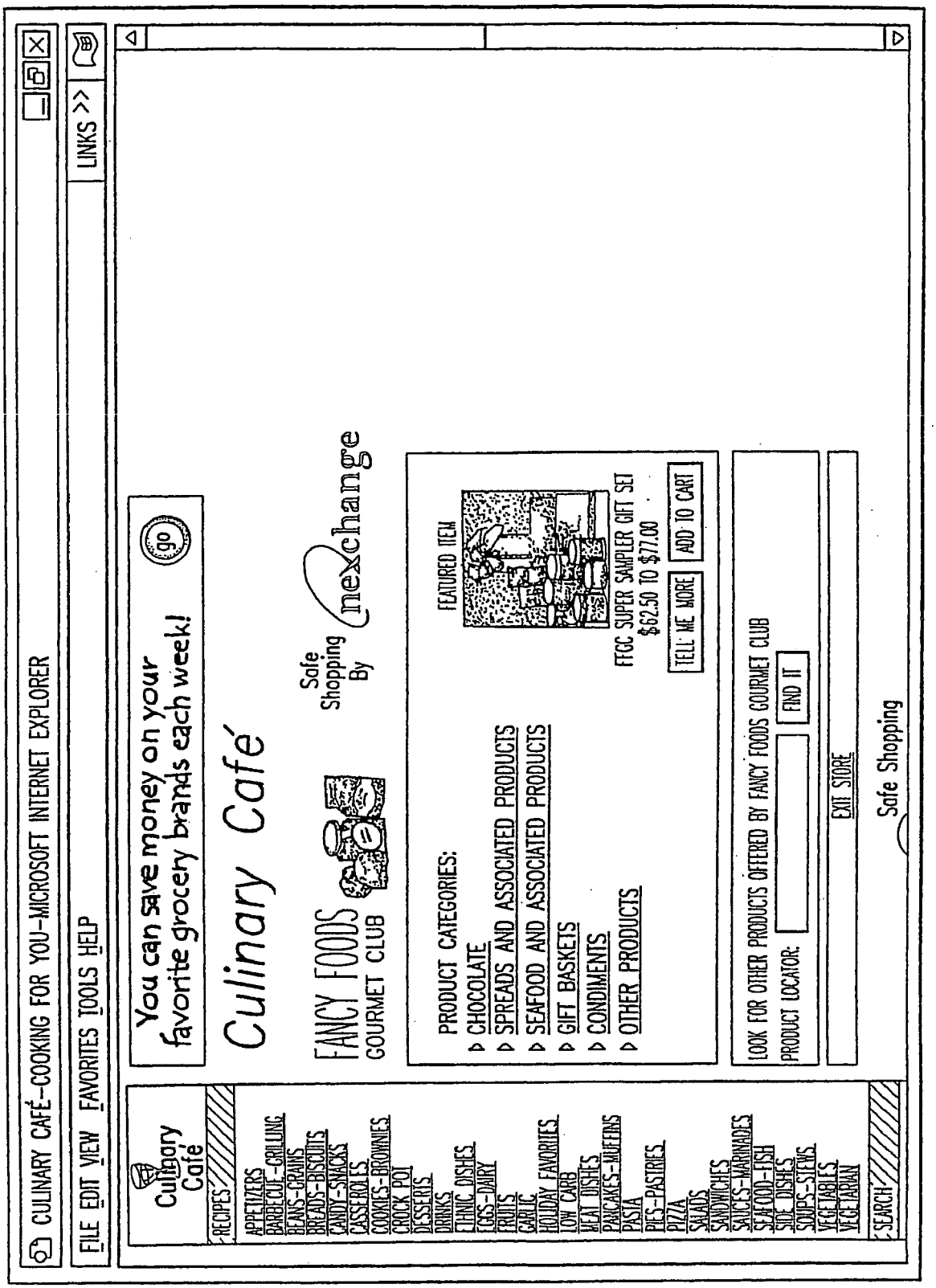
CULINARY CAFÉ-COOKING FOR YOU-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
LINKS >>
Culinary Café
RECIPES
APPETIZERS
BARBECUE-GRILLING
BEANS-GRAINS
BREADS-BISCUITS
CANDY-SNACKS
CASSEROLES
COOKIES-BROWNIES
CROCK POT
DESSERTS
DRINKS
ETHNIC DISHES
EGGS-DAIRY
FRUITS
GARLIC
HOLIDAY FAVORITES
LOW CARB
MEAT DISHES
PANCAKES-MUFFINS
PASTA
PIES-PASTRIES
PIZZA
SALADS
SANDWICHES
SAUCES-MARINADES
SEAFOOD-FISH
SIDE DISHES
SOUPS-STEWS
VEGETABLES
VEGETARIAN
SEARCH
You can save money on your favorite grocery brands each week!
go
Culinary Café
FANCY FOODS
GOURMET CLUB
Safe Shopping By
nexchange
PRODUCT CATEGORIES:
CHOCOLATE
SPREADS AND ASSOCIATED PRODUCTS
SEAFOOD AND ASSOCIATED PRODUCTS
GIFT BASKETS
CONDIMENTS
OTHER PRODUCTS
FEATURED ITEM
FFGC SUPER SAMPLER GIFT SET
$62.50 TO $77.00
TELL ME MORE
ADD TO CART
LOOK FOR OTHER PRODUCTS OFFERED BY FANCY FOODS GOURMET CLUB
PRODUCT LOCATOR:
FIND IT
EXIT STORE
Safe Shopping

FIG.19

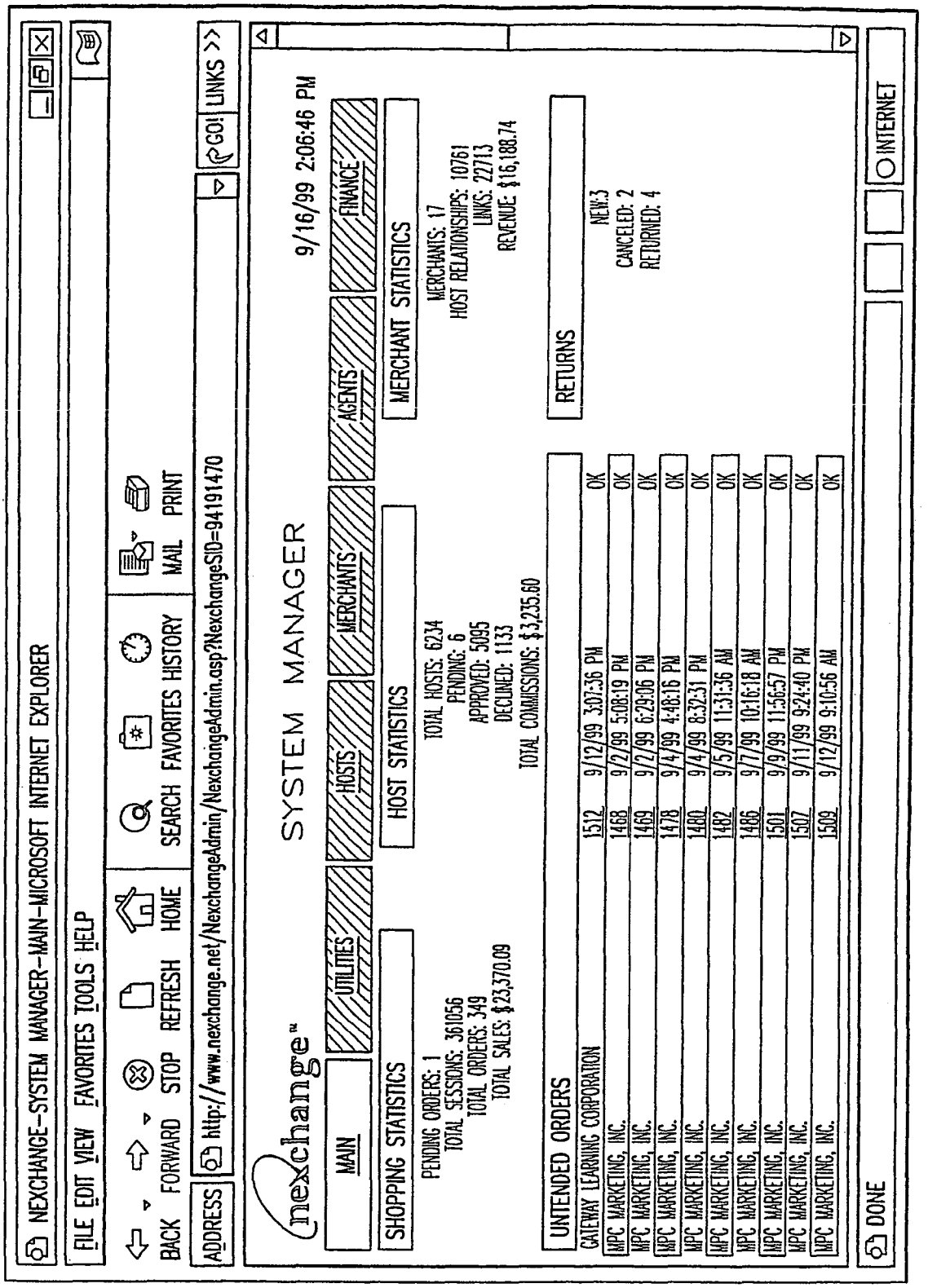
NEXCHANGE-SYSTEM MANAGER-MAIN-MICROSOFT INTERNET EXPLORER
FILE EDIT VIEW FAVORITES TOOLS HELP
BACK FORWARD STOP REFRESH HOME SEARCH FAVORITES HISTORY MAIL PRINT
ADDRESS http://www.nexchange.net/NexchangeAdmin/NexchangeAdmin.asp?NexchangeSID=94191470
GO! LINKS >>
nexchange™
SYSTEM MANAGER
9/16/99 2:06:46 PM
MAIN
UTILITIES
HOSTS
MERCHANTS
AGENTS
FINANCE
SHOPPING STATISTICS
PENDING ORDERS: 1
TOTAL SESSIONS: 361056
TOTAL ORDERS: 349
TOTAL SALES: $23,370.09
HOST STATISTICS
TOTAL HOSTS: 6234
PENDING: 6
APPROVED: 5095
DECLINED: 1133
TOTAL COMMISSIONS: $3,235.60
MERCHANT STATISTICS
MERCHANTS: 17
HOST RELATIONSHIPS: 10761
LINKS: 22713
REVENUE: $16,188.74
UNTENDED ORDERS
GATEWAY LEARNING CORPORATION 1512 9/12/99 3:07:36 PM OK
MPC MARKETING, INC. 1468 9/2/99 5:08:19 PM OK
MPC MARKETING, INC. 1469 9/2/99 6:29:06 PM OK
MPC MARKETING, INC. 1478 9/4/99 4:48:16 PM OK
MPC MARKETING, INC. 1480 9/4/99 8:32:31 PM OK
MPC MARKETING, INC. 1482 9/5/99 11:31:36 AM OK
MPC MARKETING, INC. 1486 9/7/99 10:16:18 AM OK
MPC MARKETING, INC. 1501 9/9/99 11:56:57 PM OK
MPC MARKETING, INC. 1507 9/11/99 9:24:40 PM OK
MPC MARKETING, INC. 1509 9/12/99 9:10:56 AM OK
RETURNS
NEW:3
CANCELED: 2
RETURNED: 4
DONE
INTERNET

FIG.20

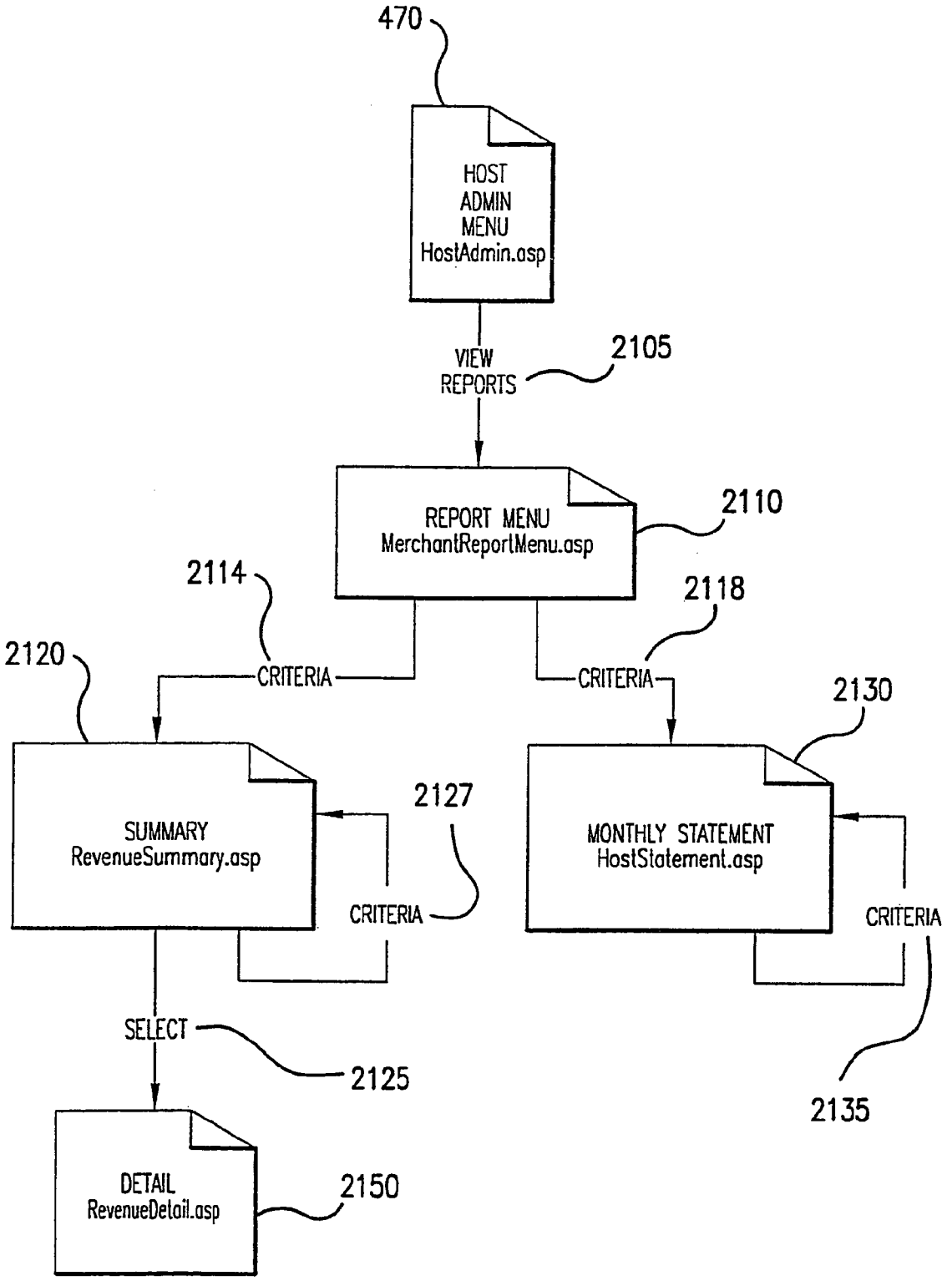
470
HOST
ADMIN
MENU
HostAdmin.asp
VIEW
REPORTS
2105
REPORT MENU
MerchantReportMenu.asp
2110
2114
2118
2120
CRITERIA
CRITERIA
2130
SUMMARY
RevenueSummary.asp
2127
MONTHLY STATEMENT
HostStatement.asp
CRITERIA
CRITERIA
SELECT
2125
2135
DETAIL
RevenueDetail.asp
2150

FIG.21

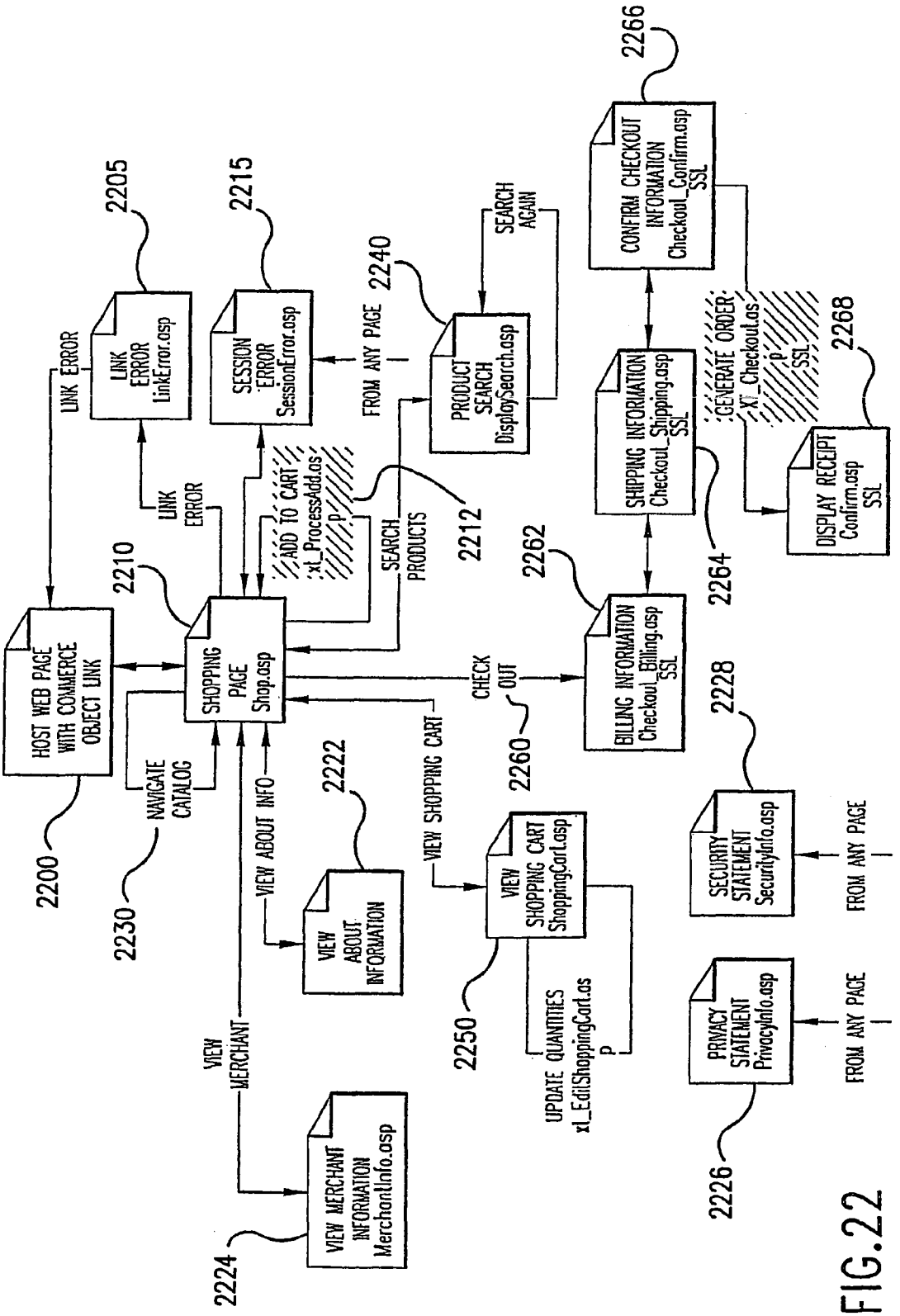
2200
HOST WEB PAGE WITH COMMERCE OBJECT LINK
2205
LINK ERROR LinkError.asp
LINK ERROR
2210
SHOPPING PAGE Shop.asp
2215
SESSION ERROR SessionError.asp
FROM ANY PAGE
2240
PRODUCT SEARCH DisplaySearch.asp
SEARCH AGAIN
ADD TO CART
xt_ProcessAdd.as
p
SEARCH PRODUCTS
2212
2230
NAVIGATE CATALOG
VIEW ABOUT INFO
2222
VIEW ABOUT INFORMATION
VIEW MERCHANT
2224
VIEW MERCHANT INFORMATION MerchantInfo.asp
VIEW SHOPPING CART
2250
VIEW SHOPPING CART ShoppingCart.asp
UPDATE QUANTITIES
xt_EditShoppingCart.as
p
CHECK OUT
2260
2262
BILLING INFORMATION Checkout_Billing.asp SSL
2264
SHIPPING INFORMATION Checkout_Shipping.asp SSL
2266
CONFIRM CHECKOUT INFORMATION Checkout_Confirm.asp SSL
GENERATE ORDER
XT_Checkout.as
p
SSL
2268
DISPLAY RECEIPT Confirm.asp SSL
2226
PRIVACY STATEMENT PrivacyInfo.asp
FROM ANY PAGE
2228
SECURITY STATEMENT SecurityInfo.asp
FROM ANY PAGE

FIG.22

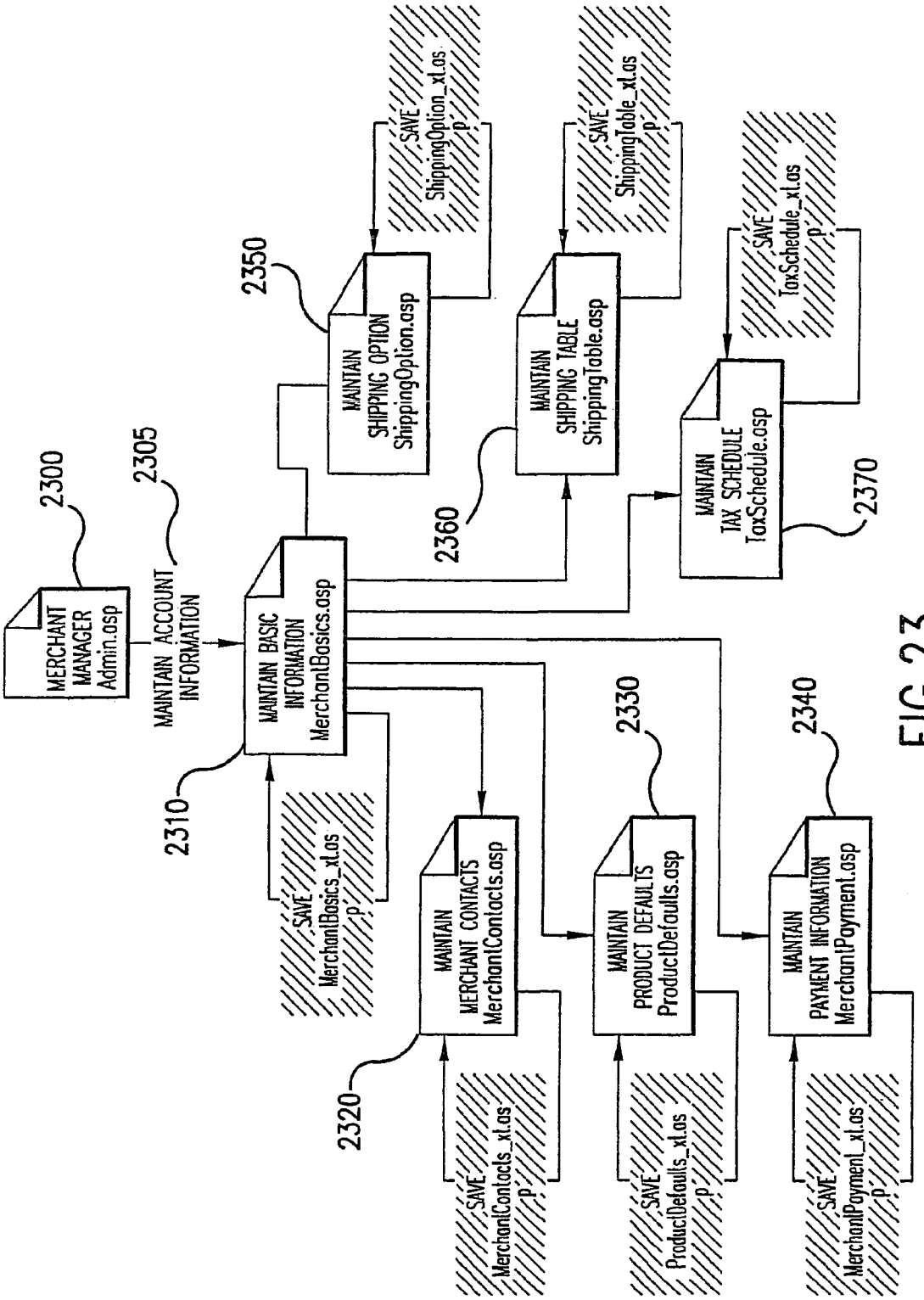
2300
MERCHANT MANAGER Admin.asp
2305
MAINTAIN ACCOUNT INFORMATION
2310
MAINTAIN BASIC INFORMATION MerchantBasics.asp
SAVE MerchantBasics_xl.as p
2320
MAINTAIN MERCHANT CONTACTS MerchantContacts.asp
SAVE MerchantContacts_xl.as p
2330
MAINTAIN PRODUCT DEFAULTS ProductDefaults.asp
SAVE ProductDefaults_xl.as p
2340
MAINTAIN PAYMENT INFORMATION MerchantPayment.asp
SAVE MerchantPayment_xl.as p
2350
MAINTAIN SHIPPING OPTION ShippingOption.asp
SAVE ShippingOption_xl.as p
2360
MAINTAIN SHIPPING TABLE ShippingTable.asp
SAVE ShippingTable_xl.as p
2370
MAINTAIN TAX SCHEDULE TaxSchedule.asp
SAVE TaxSchedule_xl.as p

FIG. 23

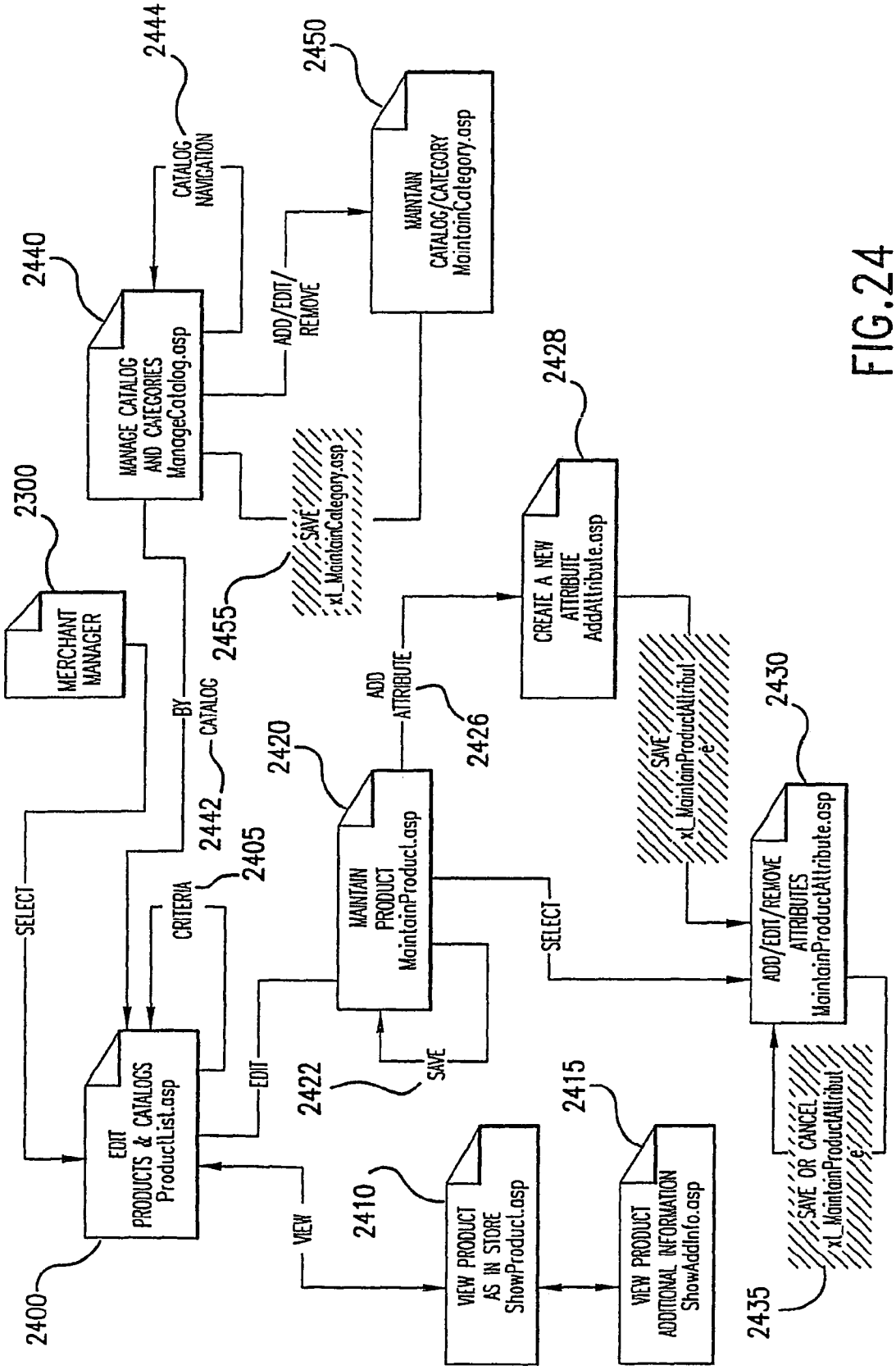
2300
MERCHANT MANAGER
2440
MANAGE CATALOG AND CATEGORIES ManageCatalog.asp
2444
CATALOG NAVIGATION
2450
MAINTAIN CATALOG/CATEGORY MaintainCategory.asp
ADD/EDIT/ REMOVE
SAVE
xl_MaintainCategory.asp
2455
2428
CREATE A NEW ATTRIBUTE AddAttribute.asp
ADD ATTRIBUTE
2426
2420
MAINTAIN PRODUCT MaintainProduct.asp
SAVE
xl_MaintainProductAttribute
2430
ADD/EDIT/REMOVE ATTRIBUTES MaintainProductAttribute.asp
SAVE OR CANCEL
xl_MaintainProductAttribute
2435
SELECT
BY CATALOG
2442
2405
CRITERIA
SELECT
EDIT
2422
SAVE
2415
2410
VIEW
2400
EDIT PRODUCTS & CATALOGS ProductList.asp
VIEW PRODUCT AS IN STORE ShowProduct.asp
VIEW PRODUCT ADDITIONAL INFORMATION ShowAddInfo.asp

FIG.24

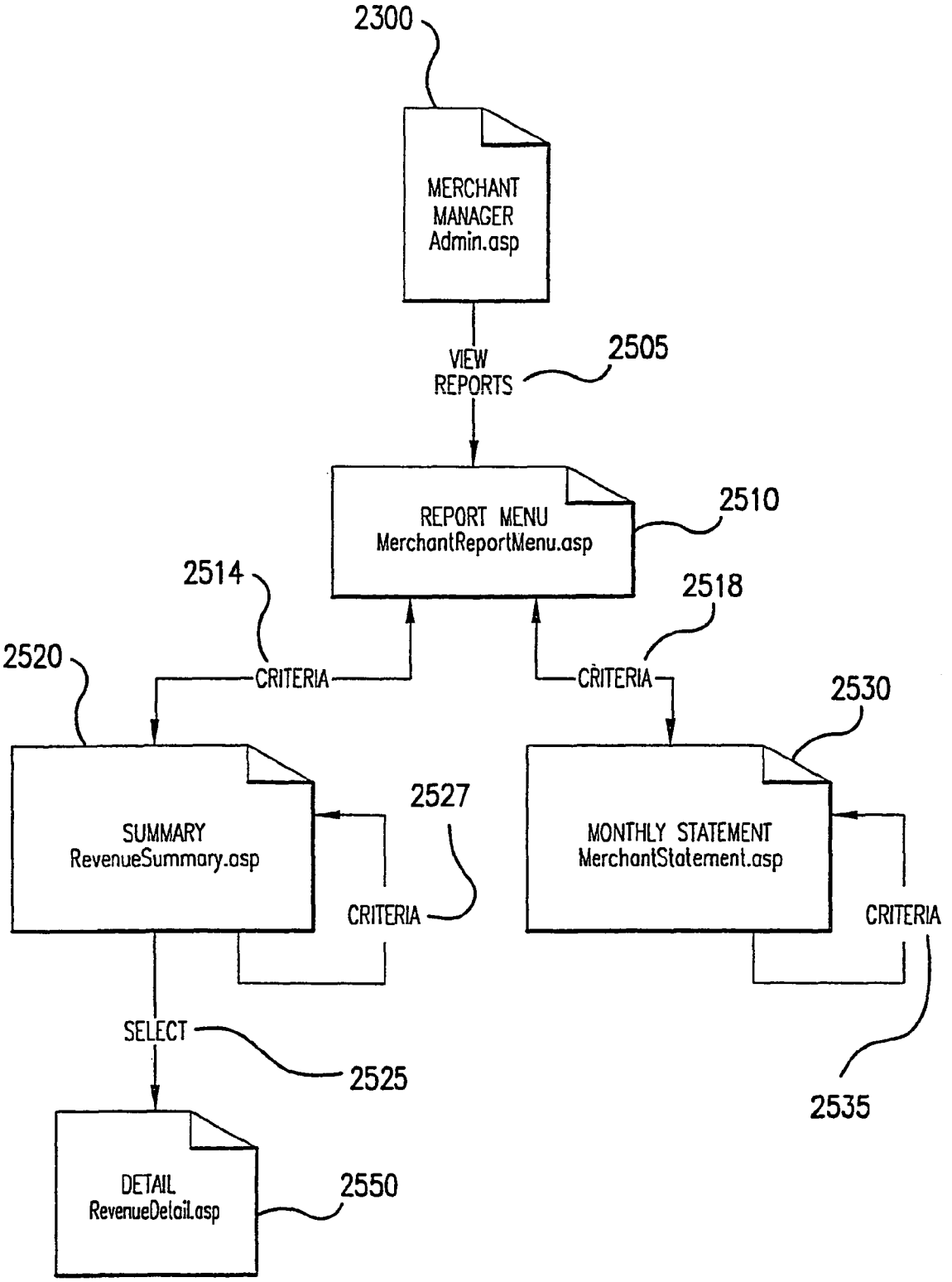
2300
MERCHANT MANAGER Admin.asp
VIEW REPORTS
2505
REPORT MENU MerchantReportMenu.asp
2510
2514
2518
2520
CRITERIA
CRITERIA
2530
SUMMARY RevenueSummary.asp
2527
CRITERIA
MONTHLY STATEMENT MerchantStatement.asp
CRITERIA
SELECT
2525
2535
DETAIL RevenueDetail.asp
2550

FIG.25

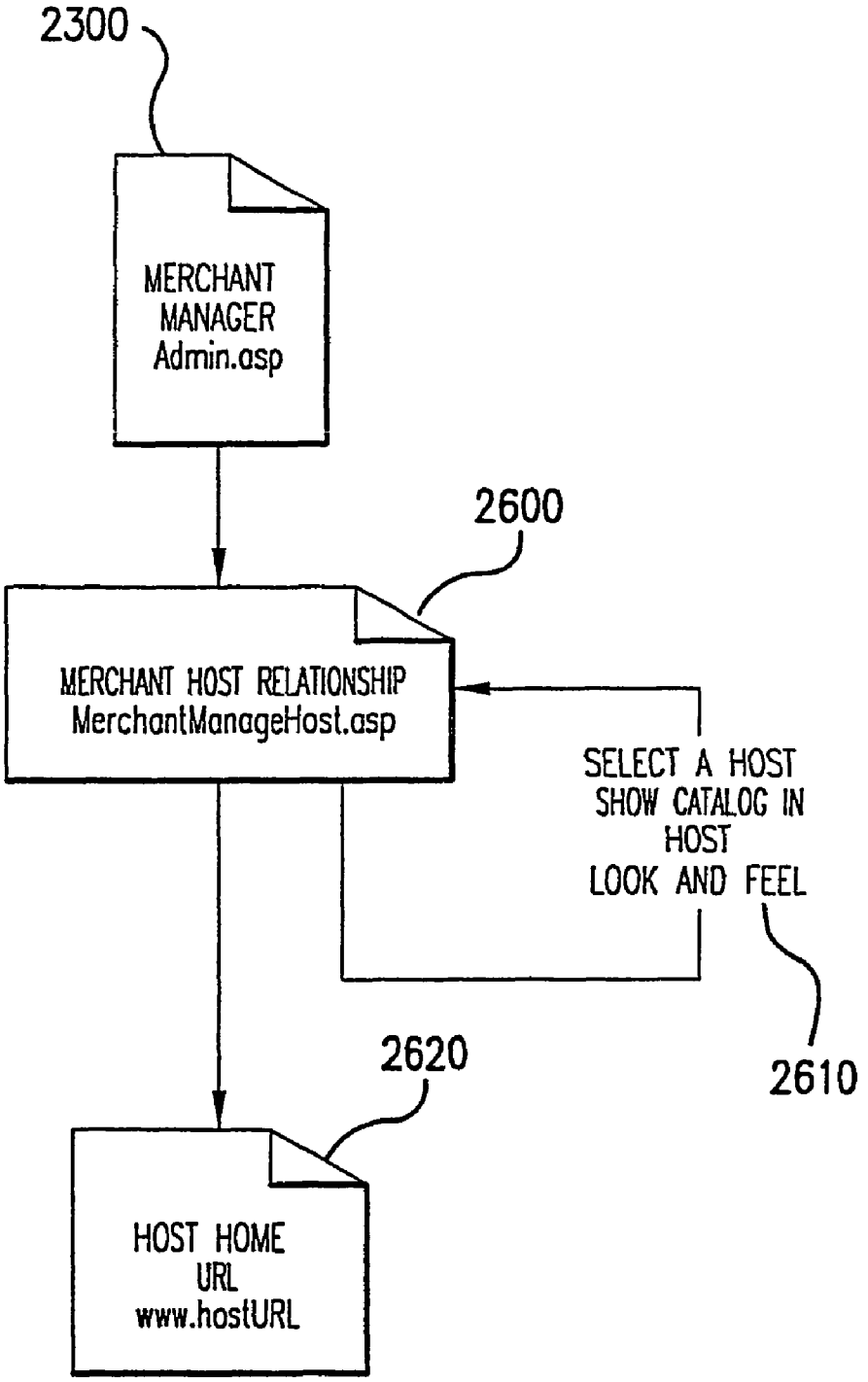
2300
MERCHANT
MANAGER
Admin.asp
2600
MERCHANT HOST RELATIONSHIP
MerchantManageHost.asp
SELECT A HOST
SHOW CATALOG IN
HOST
LOOK AND FEEL
2610
2620
HOST HOME
URL
www.hostURL

FIG.26

METHODS OF EXPANDING COMMERCIAL OPPORTUNITIES FOR INTERNET WEBSITES THROUGH COORDINATED OFFSITE MARKETING

CROSS-REFERENCE TO RELATED APPLICATIONS

This is a continuation of application Ser. No. 10/461,997, filed Jun. 11, 2003, now U.S. Pat. No. 6,993,572, which is a continuation of application Ser. No. 09/398,268, filed Sep. 17, 1999, now U.S. Pat. No. 6,629,135, which claims the benefit of application Ser. No. 60/100,697, filed Sep. 17, 1998, which applications are hereby incorporated by reference.

BACKGROUND OF INVENTION

1. Field of Invention

The invention relates to a system and method supporting commerce syndication. More specifically, the invention relates to a system and method for computer based information providers to receive outsourced electronic commerce facilities in a context sensitive, transparent manner.

2. Description of Prior Art

The World Wide Web began as a simple interface to the Internet using HTML (hypertext markup language) as a means of linking documents together. This allowed a researcher, for example, to embed "active" references in his or her documents that, if selected, would enable the reader to review the source of the reference first-hand. Programmers quickly capitalized on this technology, creating "web sites" which reflected less staid purposes, laying the groundwork for the literal "web" of content and interactive applications that exists today. In the early stages, website programmers increased visitor traffic by placing "links" within their websites to other websites, usually related in content or function, in exchange for a reciprocal link. Additionally, directories of websites, such as Yahoo, and search engines, such as WebCrawler, began to appear in an attempt to organize the content of the Internet so that its users could create "custom links pages" related to specific topics.

In these early days, the Web was mostly trafficked by programmers and "techies," and a commune-type "share and share alike" mindset prevailed. As a result, people were happy to litter their sites with links, knowing that, odds were, others would do the same for them and the traffic gain/loss would probably balance out. So, despite the fact that by including and promoting a "links" page, website operators were effectively encouraging people to leave their website, link sharing developed into a standard practice.

Then, entrepreneurs and other business-oriented individuals came along and introduced capitalism to the Internet. Profit-oriented website operators began to seek visitors wherever they could find them, and opportunistic owners of popular sites began to realize that they had an increasingly scarce resource—visitors. Such website owners began to sell the links they had previously offered for free in the form of paid advertisements. Search engines and directories became increasingly popular for two main reasons. First, the number of websites was growing astronomically, so it was becoming harder for users to find what they wanted. Second, since reciprocal links were either going away or were being replaced by links exclusively to non-competing websites, search engines and directories were the only way to find multiple resources for a single topic.

Amid frantic efforts on the part of corporate websites to get noticed, the sale of banner ads blossomed into a large industry called Internet advertising. Thousands of websites created space for banner ads and called the space "inventory." At first, they priced ads as a print ad might be priced: by CPM, or cost per thousand "impressions" each ad made on website visitors. Over time this pricing model gave way to arrangements more favorable to advertisers such as Cost Per Click-through and Cost Per Inquiry (meaning the advertiser only needs to pay when a visitor sees a banner ad and clicks on it and completes an information request form on the advertiser's site).

Some of the most successful Internet commerce websites, led by online bookseller Amazon.com, have begun to take an even more results-driven approach to the purchase of banner ads. They have offered to pay only for ads that, when clicked, result in a product sale. To provide a stronger incentive than a simple banner ad, these companies let third-party website owners list a subset of their goods (e.g., 10 of Amazon.com's millions of books, selected by the website owner) and promote them as they choose within their websites. Initiatives such as these have come to be described as "affiliate programs", "associate programs" or "commission based advertising programs".

The benefits of affiliate programs are significant. To the website owner, they constitute revenue-generating web content without requiring an investment in product inventory or additional infrastructure. They also create new revenues without necessarily reducing the website's available ad inventory. However, the greater benefit almost always accrues not to the affiliate, but to Amazon.com and other online stores. Not only do these sites benefit from the marketing resources of the affiliate operators, they are also able to lure the visitor traffic away from the affiliate. Once a visitor clicks on an affiliate ad and enters an online store, that visitor has left the affiliate's site and is gone. At best, affiliates are able to use "frames" to keep a shell of their own website around the vendor's site, but this is only a marginally effective solution. No alternatives have been able to address a fundamental drawback of the affiliate programs—the loss of the visitor to the vendor. At best, some Internet affiliate sales vendors have begun placing "return to referring website" links on their order confirmation screens, an approach that is largely ineffective. This limitation of an affiliate program restricts participation to less trafficked websites that are unconcerned about losing visitors. Meanwhile, search engines and directories continue to increase in their usefulness and popularity, while banner ads and old-style links continue their rapid loss of effectiveness and popular usage.

The present invention overcomes these limitation of present affiliate commerce systems and provides other benefits as will become clearer to those skilled in the art from the foregoing description.

SUMMARY OF THE INVENTION

The affiliate commerce system and method of the present invention represents a new paradigm of co-marketing on the Internet. Not only does the present invention provide its Hosts with the added value and incremental revenues of traditional affiliate programs, but the company also enables Hosts to control the customer experience before, during, and after the purchase transaction. At the same time, Merchants receive the same benefits as with older affiliate programs, i.e., increased marketing potential, incremental sales, and new customer relationships, but without the restrictive limitations of affiliate programs—the loss of hard-won visitor traffic.

Additionally, the present invention can actually obviate the need for some merchants to invest in their own unique Internet presence. By using the present invention as their primary online sales channel, these Merchants can focus on product development, production, and order fulfillment and leave the exploration of the Internet to experts. The resulting ongoing cost savings and operational efficiencies magnify the potential benefits of the Internet while reducing the initial costs.

According to the present invention the look and feel of each participating Host is captured and stored. Hosts may include links to selected products or product categories within pages residing on the Hosts' website. Upon actuation of such a link by a visitor of the Host website, a page is presented to the visitor incorporating a replica of the Host's look and feel directed to the sale of the selected products or product categories.

The look and feel of a host is captured and stored by receiving an identification of an example page of a target host. The identified page is retrieved. The look and feel elements of the page are identified, and these elements are stored for future use in generating outsourced transparent pages, pages served by a server other than the host but with the host's look and feel. Such pages give the viewer of the page the impression that she is viewing pages served by the host.

The links included by the host directed to the outsource provider need not be statically linked to a particular product or product category. Such links may direct the outsource provider to dynamically select content to serve within the host's look and feel. This content may be selected based upon a contextual analysis of the page which includes the link. Further, the dynamic content need not be limited to products or product categories but may include any content within the system's data store that is amenable to contextual correlation with content in the page containing the link.

A cost effective, scalable architecture may be used to serve dynamically constructed pages such as those served by the e-commerce outsource provider. This architecture includes three levels: a Web server layer, an application server layer and a database server layer.

The Web server layer provides a front end presentation layer for interacting with end users. This layer may consist of one or more interchangeable low cost server systems. Any request from an end user may be fielded by any system within the layer. The selected system can contact any application server within the application layer to provide processed data for use in responding to the end user request.

The application layer supports interacting with the database server level to acquire needed data and processing it prior to presentation by the Web server layer. As with the Web server layer, this layer may consist of one or more interchangeable low cost server systems. Any Web server system may submit a request to any application server. The application server includes processing functionality suitable for the types of pages to be dynamically constructed.

The database server layer supports low level management of data used in dynamic page construction. The data store across the one or more low cost server systems is seamlessly viewed as an integrated whole. As a consequence, any database server within the layer can field any request for data submitted by an application server.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. **1** depicts a typical hardware architecture implementing the present invention.

FIG. **2** illustrates the software architecture of the Web server layer.

FIG. **3** illustrates the software architecture of the application server layer.

FIG. **4** is a flow chart of the pages and procedures in the host signup process.

FIG. **5** is a flow chart of the pages and procedures in the host account information maintenance process.

FIG. **6** is a flow chart of the pages and procedures in the host look and fee capture process.

FIG. **7** is a flow chart of the pages and procedures in the host link generation process.

FIG. **8** is a flow chart of the dynamic content selection and presentation process.

FIG. **9** is a screen capture of a Merchant Manager page in a preferred embodiment.

FIG. **10** is a screen capture of a Host Manager page in a preferred embodiment.

FIGS. **11-18** are screen captures of the page in a preferred embodiment of a look and feel capture process.

FIG. **19** is a screen capture of a typical e-commerce supported page served in a preferred embodiment.

FIG. **20** is a screen capture of a System Manager page in a preferred embodiment.

FIG. **21** is a flow chart of the pages and procedures in the host view reports process.

FIG. **22** is a flow chart of the pages and procedures in the shopping process.

FIG. **23** is a flow chart of the pages and procedures in the merchant account maintenance process.

FIG. **24** is a flow chart of the pages and procedures in the merchant catalog maintenance process.

FIG. **25** is a flow chart of the pages and procedures in the merchant view reports process.

FIG. **26** is a flow chart of the pages and procedures in the merchant view hosts process.

DETAILED DESCRIPTION OF THE INVENTION

A preferred embodiment of the invention is now described in detail. Referring to the drawings, like numbers indicate like parts throughout the views. As used in the description herein and throughout the claims that follow, the meaning of "a," "an," and "the" includes plural reference unless the context clearly dictates otherwise. Also, as used in the description herein and throughout the claims that follow, the meaning of "in" includes "in" and "on" unless the context clearly dictates otherwise.

A typical embodiment of the present invention will include a data store including a look and feel description associated with a host website, a communications link to a visitor computer, and a processor. The processor performs the tasks of capturing a look and feel description associated with a host website, storing the captured look and feel description in the data store, providing the host website with a link that link correlates the host website with a commerce object for inclusion within a page on the host website and which, when activated, causes the processor to serve an e-commerce supported page via the communication link with a look and feel corresponding to the captured look and feel description of the host website associated with the provided link and with content based on the commerce object associated with the provided link. The Internet serves as the communication link to visitor computers.

In a preferred embodiment as exhibited by FIG. **1**, the duties of the processor are split among several computer systems **120***a*-**120***c*, **125***a*-**125***d*, **130***a*-**130***b*. The data store may be implemented through a database system **130***a*-**130***b*, **135***a*-**135***d*. The Internet **110** serves as the communication

link to visitor computers **105***a*-**105***f*. In this preferred embodiment, the system utilizes multiple inexpensive computer systems at every level of the architecture. Routing between levels will automatically distribute the load amongst the functioning computers. Increasing throughput becomes a matter of adding more computers, not scaling up the existing ones. This arrangement also provides fault tolerance since the failure of one server will not incapacitate the system as long as another server providing the same service is alive. This approach also permits the distribution of servers geographically. A router **115** may also provide further load balancing.

The tasks performed by the processor may utilize a variety of underlying software technology. In a preferred embodiment, the software architecture can be divided into 3 tiers: web server, application-server and database-server. Each tier is comprised of a number of software layers.

Web Server Tier

The Web Server tier accesses application functionality by calling a single "Request" Application Programming Interface (API). The API will take a Document Object Model (DOM) (as specified by W3C in http://www.w3.org/TR/REC-DOM-Level-1, which is expressly incorporated herein by reference in its entirety) object as a parameter and return a DOM object as the response. The request will be relayed to the application server tier where a dispatching method will unpack the request object, inspect it, invoke the desired method, and send back the response object. This approach means that new functionality becomes available as soon as the application server is upgraded. It is not necessary to develop a set of "stubs" that mirror the new API call. This is a major advantage because new functionality in the application tier can be exploited immediately simply by modifying the Active Server Page (ASP) scripts. No web server resident Dynamic Link Libraries (DLLs) need to be upgraded so the server does not need to be shut down. The web server tier will typically run on server computers **120***a*-**120***c* having a multitasking operating system such as Windows NT from Microsoft or other suitable operating system software. The Web Server tier contains the following layers as illustrated in FIG. **2**:

- Web Server Software **210**. In a preferred embodiment, IIS by Microsoft is the server software. It supports serving side scripting using the VBScript scripting language.
- ASP Scripts **220**. All HTML content is rendered by ASP server scripts. The ASP scripting environment can interact with software modules written to Microsoft's COM specification.
- COM Adapters **230**. A set of COM wrappers provides the bridge between the ASP scripts and other elements of the system. The wrappers provide the necessary data conversions but do not contain any substantial functionality. The wrappers are not application specific.
- API Client Layer **240**. The API Client Layer consists of the very thin "request" API described above. This layer cooperates with the Object Cache layer. For example, before retrieving a catalog from the application layer, this layer may check to see if the requested catalog is already in the object cache.
- Object Cache **250**. The object cache contains the responses to previously submitted requests. All items in the cache are marked with an expiration time that is set at the time they are originally retrieved. The purpose of this layer is to reduce the load on the application tier.
- Remote Procedure Call Client **260**. The Remote Procedure Call Client provides connectivity to the application tier. It also provides request routing. In the event of application server failure, this client will automatically reconnect to a working server. This piece of software is not application dependent. In a preferred embodiment, the DBMS Component Server Client is the Objectstore Component Server Client (OCSC).

In a preferred embodiment, the Web server layer supports the following four Web interface modules. In a preferred embodiment, these modules are encoded with ASP to generate appropriate HTML and Javascript. The four modules are as follows:

1. Merchant Manager

The Merchant Manager is the "Control Center" for Merchants. This module allows the merchant to maintain their products, catalogs, contact information, track orders, process returns, run reports, etc.

A merchant representative must login before performing any system activities. Any valid merchant user will be able to perform all possible actions on the merchant to which it is related. Only registered merchants will have a valid account. An account for a merchant is established when the merchant registers with the system. A merchant representative may initiate registration via a web interface. The signup process must collect basic merchant information, including the information necessary to pay the merchant, and a password, which will be used to create a user account for the merchant. Once the merchant is approved (this may be automatic), the merchant will be sent an email containing a unique user id which can be used to login to the system.

When a representative logs in, she is taken directly to the Merchant Manager as seen in FIG. **9** and assigned a Merchant Session ID (Merchant SID). All pages within the merchant system must retrieve the MerchantSID from the HTTP request and validate it. If the session does not validate, the representative is taken back to the Login screen.

This module contains the following submodules:

Account Information

A merchant representative will be able to maintain the basic merchant profile, which includes the information needed to pay the merchant, the merchant's password, and the merchant's shipping policy information. FIG. **23** depicts the pages and procedures in a typical merchant account maintenance process. The representative selects to maintain account information **2305** from the Merchant Manager page **2300** leading to the display of the a basic information modification page **2310**. Each modifiable information type could be altered through a designated page available through the basic information page **2310**. Each such page could provide functionality to save any changes made to the particular page.

This sub-module allows a merchant to maintain the following types of information:

- Basic information **2310**—name, description, address, logo
- Contacts **2320**—for admin, finance, returns, support, order notification
- Product Defaults **2330**—price labels, unit of weight, display options
- Payment info **2340**—check or ACH, payee info, bank info
- Shipping Option **2350**—by price, items, weight, other or NA
- Shipping Table **2360**—maintain shipping methods and prices
- Tax Schedule **2370**—set tax rate for states in which taxes are collected. This may be automated in the future.

Products and Catalogs

Here the merchant can both maintain products and arrange them into catalogs. Example product attributes include:

name

description

attributes—such as size, color, etc.

price(s)—normal, sale, competitor's and the price can be set or changed by an attribute

small image—used in most places

large image—used for zoom-in in shopping

The merchant can also maintain their catalogs and categories. A catalog is the top level category. A merchant can have one or more catalogs. Each catalog will be presented to Hosts as a separate entity. However, it is still tied back to the merchant. The merchant logo can be assigned to the catalog or a different image selected.

A catalog is considered a commerce object. Further, a catalog is populated with product or product category commerce objects. An indicator for dynamic selection of a product or product category may also be considered a commerce objects; however, such objects would not appear in a catalog.

Categories are then placed in the catalog(s). Categories can also be placed into other categories. A catalog or category can contain an infinite number of categories but really should be kept to less than 10 at any given level for presentation purposes. The bottom level categories contain products. The product node is actually a pointer to the product in the inventory table. This allows for a product to be placed into multiple categories.

A catalog, category or a product can be set to be inactive. If it is set as inactive, it will not be available to the hosts to browse or sell. It will also not be available to customers in the shopping area. If a catalog or category is set as inactive, then every item beneath it (categories or products) is also inactive.

A product also has a flag to indicate it is out of stock. When a product is no longer going to be sold by the merchant, it should be set to inactive. If the product is simply out of stock, thus temporarily unavailable, the out of stock flag should be used.

If a host has an existing link that points to an inactive or out of stock product or an inactive catalog or category, the customer will be taken to the first level above that is active. For example, if a customer clicks on a Link that points to coffee pot A, and coffee pot A has been set to inactive, the shopping page will display the entire coffee pot category (all the active coffee pots). If the coffee pot category was set to inactive, then the shopping page would go to the next level up (such as Kitchen Appliances). In this case the shopper will be given a message indicating the selected product or category is not available. If a host has a link associated with a dynamic selection indicator commerce object, the triggering of such a link will cause the dynamic selection of a product or product category.

FIG. **24** depicts pages and procedures used in a merchant catalog and product maintenance process. When a merchant representative logs into the system, she is presented with the merchant manager page **2300**. From this page, she may choose to proceed to the edit products and catalogs page **2400**. On this page, she may elect to search for a product through entering criteria **2405**. She may elect to preview a particular product **2410** and, from the preview, view additional information associated with the particular product **2415**.

From the edit products and catalogs page **2400**, she may also choose to edit a particular product **2420** or edit by catalog or category **2442**. In editing a particular product **2420**, she may elect to save the information associated with the product **2422**, select a current attribute to edit **2424** leading to the attribute edit page **2430** or create a new attribute associated with the product **2426**. An attribute includes a collection of options such as sizes or colors. If she selects to add a new attribute **2426**, a new attribute creation page is presented **2428**. Upon creation of the new attribute, the new attribute is saved, and the representative proceeds to the attribute edit page **2430**. From this page, she may choose to save or cancel the current attribute edit **2435**.

If the representative chooses to edit by catalog or category **2442**, she is presented a page allowing selection of catalogs or categories **2440** through navigating the catalog/category hierarchies **2444**. Once a particular catalog or category is identified, she may edit it via a catalog/category edit page **2450**. After editing, the alterations are saved **2455** returning her to the catalog or category selection page **2440**.

Reports

A merchant representative may request on-demand reports. Such reports include an account statement that details all payments to the merchant, and statistics about catalog visits and sales. Statistics can be correlated to hosts, links, products and time periods.

As illustrated in FIG. **25**, a merchant representative begins at the Merchant Manager page **2300**. She selects the view reports option **2505** to view the report menu page **2510**. From the reports menu page **2510**, she may enter criteria **2514**, **2518** leading respectively to a revenue summary page **2520** or a monthly statement page **2530**. From the monthly statement page **2530**, she may change criteria **2535** to view a revised monthly statement **2530** or return to the report menu **2510**. From the revenue summary page **2520**, she may select a specific item **2525** for receiving a detailed revenue page **2550**, alter the criteria **2527** to receive a revised revenue summary **2520**, or return to the reports menu page **2510**. From the detailed revenue page **2550**, she may return to the revenue summary page **2520**.

The following reports are available for the merchants to track their results:

Revenue Summary by Month

This report provides sales and traffic information summarized by month. Data includes number of sessions, number of orders, gross and net sales, etc. Summarizes at the month level and allows 'Drill Down' to daily information.

Revenue Summary by Host

This report provides sales and traffic information summarized by host. Data includes number of sessions, number of orders, gross and net sales, etc.

Revenue Summary by Product

This report provides sales and traffic information summarized by Product. Data includes number of sessions, quantity in shopping cart and gross order amount.

All reports can be run as quick reports (this month, last month, this year, last year, all sales) or by inputting a specific date range.

Order Tracking

A merchant representative can access a web interface that allows her to report the status of orders. This includes: reporting when the order was shipped, along with tracking information, and the status of all returned items.

The order tracking sub-module allows the merchant to manage all areas of an order. An order can have the following status:

new—the order has been received and credit card information validated

pending—the merchant has acknowledged the order, it is waiting to be shipped

shipped—the merchant has shipped the order

An order can be shipped in multiple shipments. The merchant is credited for sales on shipped items.

The customer may also return part of an order or the entire order. The customer will obtain an RMA number (see the Shopping sub-module). All the merchant needs to do is acknowledge they have received the product back from the customer.

Review Hosts

The Merchant Manager also allows the merchant to review which hosts have built links to that merchant's products. The merchant can also view the host web page containing such links.

A merchant representative will be able to review the list of hosts with which the merchant has a relationship. The merchant will have access to some basic information about the host, including at least one of the host's links, so that the host's look and feel can be evaluated.

In a preferred embodiment, a representative may review hosts through pages and procedures as depicted in FIG. **26**. She begins at the Merchant Manager page **2300**. She selects the review hosts option to view the merchant-host relationship page **2600**. From this page, she may elect to view one of her products in the host's look and feel **2610** or view a list of links with the selected host that are directed to her commerce objects **2620**.

Automated interfaces can be introduced for merchants wishing to integrate their business systems with the functionality supported by the present inventions. Merchants can update their online catalogs, retrieve information on orders placed, and send order status updates back via automated interfaces. This integration is accomplished through the establishment and use of a standardized communication protocol.

In a preferred embodiment, merchants integrate by exchanging specially formatted XML documents over secure HTTP connections (i.e. HTTP over SSL). If the request is a query, the HTTP response will contain an XML document with the query results. Likewise, if the request is a command, the response will be an XML document containing the success or failure of the command.

Automated requests and responses are XML documents as described by the W3C's XML 1.0 specification, which may be found at http://www.w3.org/TR/REC-xml and which is expressly incorporated herein by reference in its entirety. The XML specification only describes the syntax of an XML document, it does not place any restrictions on the content of the document. The content of requests and responses is described using a formal notation known as DCD (for Document Content Description). DCD's are described in a note that was submitted to the W3C by Microsoft and IBM. The DCD note can be viewed online at: http://www.w3.org/TR/NOTE-dcd and which is expressly incorporated herein by reference in its entirety. A specific DCD describes the format of a request or response in the same way that the SMTP specification describes the format of an email. Typical DCDs for Automated Interfaces may be accessed at the following URLS: http://automation.nexchange.net/dcd/ManageInventory.01.02.dcd.xml and http://automation.nexchange.net/dcd/ManageCatalog.01.02.dcd.xml, both documents are expressly incorporated herein by reference in their entirety.

All interfaces have the same basic structure. The table below illustrates the basic structure of Automated Interface requests and responses.

```
<ManageOrders
specification='http://www.nexchange.net/automated/xml/ManageOrders.
01.01.dcd'>
                                HEADER
  <RequestHeader
Response
    <Authentication
      username='xxx'
      password='xxx'
      scope='xxx'
    />
    <Instructions OnFail='HALT'/>
    <Receipt Processor='xxx'Date='xxx' Number='xxx'/>
    <ResponseSummary Status='SUCCESS'>
      Error Message Here
    </ResponseSummary>
  </RequestHeader>
                                BODY
  <RequestBody>
Query
    <Command status='SUCCESS'>
      <QueryNewOrders/>
query
      <QueryNewOrdersResponse>
        Query Results Here
      </QueryNewOrdersResponse>
    </Command>
Operation
    <Command status='SUCCESS'>
      <AcknowledgeOrder order_id='xxx'
item_price_total='xxx'/>
    </Command>
  </RequestBody>
</ManageOrders>
```

All responses contain the original request with status information and query results appended. The table above shows a response to a Manage Orders request. The response is divided into a header and a body section ("RequestHeader" & "RequestBody" respectively).

The RequestHeader element contains authentication information and global instructions. When the request is returned, the request header will also contain a receipt and a response summary. The authentication element carries the information needed to identify and authenticate the requesting party. The global instruction element contains instruction on how the request is to processed if an error is received. The remainder of the commands in the request can be processed or the request can be discontinued. In a response, the receipt element is added to the request header. Information in the receipt can be used to recover the response. The response summary element contains a status code, which will be set to "SUCCESS" if all commands were completed successfully.

The RequestBody element contains one or more command elements. The exact content of a command element depends on the interface being used. When a command is submitted, its status attribute will always be "REQUESTED". When the command has been processed, the response will echo back the command with the status changed to "SUCCESS", "FAILURE" or "SKIP". In the case of a query command, the response will contain a query response in addition to the status.

If the request conforms to the DCD, the response will contain the original request with the status and query

results embedded. The command status codes must be inspected to determine what has been done.

If the request did not conform to the specification, two possible error types can occur:

XML Parsing Error

DCD Validating Error

Errors are returned as NexError node. If a NexError is returned, the XML document has not been processed. The returned XML should always be examined for a NexError.

If the request document is not valid XML, an XML Parsing Error will be returned. A NexError node will be added around the entire document. It will look similar to the following:

```
<NexError Msg="XML Parsing Error" . . . >
  <XMLParseError errorcode=" " reason=" " line=" " linepos=" ">
  offending section of document
  </XMLParseError>
</NexError>
```

The errorcode, reason, line and linepos will contain information explaining what the error is and the location in the file.

If the request document is valid XML but does not match the published Interface DCD, a DCD Validating Error will be returned. A NexError node will be added around the entire document. A DCDError node will be embedded in the document at the location of the error. It will look similar to the following:

```
<NexError Msg="XML Validating Error" . . . >
  <XMLValidateError msg="Find the DCDError Node in the document for detailed error information."/>
  . . . Valid Portion of document . . . .
  <DCDError message=" ">
    offending section of document
  </DCDError>
  . . . Valid Portion of document . . .
  </XMLValidateError>
</NexError>
```

The following is an example request attempt to add one new product and to update the price of an existing product.

```
<ManageInventory
specification='http://automation.nexchange.net/dcd/Manage
Inventory.01.02.dcd.xml'>
  <RequestHeader>
    <Authentication username='xxxxx'
  password='xxxx' scope='MNNN'/>
    <Instructions onfail='CONTINUE'/>
  </RequestHeader>
  <RequestBody>
    <Command status='REQUESTED'>
      <AddProductDef updateifexists='1'>
        <ProductDef
          id='saw'
          skumask='saw'
          name='saw'
      description='A Circular Saw From Festo'
      shortdescription='Festo Circular Saw'
          info='no comment'
    image='http://216.0.58.242/rmtools/fw132saw.jpg'
  largeimage='http://216.0.58.242/rmtools/fw132saw.jpg'
          usualprice='145.00'
          saleprice='135.00'
          compareprice='215.00'
          salelabel='HOT PRICE'
```

-continued

```
          instock='1'
          commplan='default'
        >
          <AttributeDefList/>
          <KeywordList/>
        </ProductDef>
      </AddProductDef>
    </Command>
    <Command status='REQUESTED'>
      <UpdateProductDef
        id='saw'
    image='http://216.0.58.242/rmtools/fw132saw.jpg'
      />
    </Command>
  </RequestBody>
</ManageInventory>
```

2. Host Manager

The Host Manager is the "Control Center" for Hosts. Here, a Host can track sales, design their store front, generate links to merchant products, get traffic/order reports, update account information, etc

For a host to gain access to the host manager system, the host must be registered. FIG. **4** depicts a flow chart for a typical registration process. A host representative may initiate contact **410** with the system via a web interface. The signup process must collect basic host information **420**, including the information necessary to pay the host a commission for purchases through his site, which is saved by the system **430**. Optionally, a click agreement containing terms of use **440** may be presented requiring agreement **444** to proceed. If at some point the representative elects to cancel **425**, **458** or reject the use agreement **448**, he or she is returned to her point of entry **410**. The system may then request the representative to select a user identification and a password **450**. If the selected user identification is already in use **454**, the representative may be prompted to select a user identification **450**. The information associated with the host is stored **460**, and the representative may proceed to the host manager system page **470**.

When a host logs in, they are taken directly to the Host Manager, as seen in FIG. **10**, and assigned a Host Session ID (Host SID). All pages within the host system must request the Host Sid and call the ValidateHostSessionID function. If the session does not validate, the user is taken back to the Login screen.

This module contains the following submodules:

Account Information

This sub-module allows a host to maintain the following types of information:

Administrative Contact—name, address, phone

Payee Contact—name, address, phone, SSN

Site Information—site name, URL, description

Site Demographics—# of visitors, type of visitors, comments

A host representative will be able to maintain basic host information, including the information needed to pay the host, and the host's password. FIG. **5** depicts a flow chart of the pages and actions in a typical maintenance process. The representative has previously logged into the system to reach the host manager system page **470**. From the host manager system, the representative selects to update her account **510** leading to a host information maintenance page **520**. The representative can modify host information and, then choose to save or

cancel the modification **530**. In either case, the representative is returned to the host manger system page **470**.

Store Front Design

The store front design is where the host's look and feel is captured. The look and feel is captured by selecting an example page the host, retrieving the sample page from the host, identifying the look and feel elements from the sample page and saving the identified look and feel elements. "Look and feel elements" include logos, colors, page layout, navigation systems, frames, 'mouse-over' effects, or other elements that are consistent through some or all of a Host's website. A typical system for accomplishing this task would include a data store for storing look and feel descriptions, a communication channel to the host whose look and feel is to be captured and a processor for executing the capture.

When a customer clicks on a host buying opportunity (link), the next page loaded will be a shopping page. However, this shopping page should retain the host's look and feel. This is accomplished by capturing the HTML text and images that comprise their look and feel and embed within it the shopping HTML content. Any relative URLs in the host look and feel may be changed to absolute URLs back to the host system.

In a preferred embodiment, there are five steps to a process capturing the host's look and feel, converting relative URLs to absolute URLs and validation of links.

A host representative will be able to capture host look and feel information and to update host look and feel information through recapture. FIG. **6** depicts a flow chart of the pages and actions in a typical look and feel capture process. The representative has previously logged into the system to reach the host manager system page **470**. From this page, the representative selects to initiate host look and feel capture through a design storefront wizard **605**. An introduction page is presented explaining the process **610** from which the representative proceeds in the following manner:

Base URL **615**—the URL used to convert relative links to absolute links, as seen in FIG. **11**

header **620**—the HTML to be rendered BEFORE the shopping html. Selection may be made by code, as seen in FIG. **12**, by graphical point and click selection or other suitable selection method.

footer **625**—the HTML to be rendered AFTER the shopping html. Selection may be made by code, as seen in FIG. **13**, by graphical point and click selection or other suitable selection method.

preview **630**—shows what the shopping page will look like (nothing has been captured yet). From this preview page **630**, as seen in FIG. **14**, the representative may elect to return to earlier stage to perform a change **635**, **640** or **645** of base URL, header or footer respectively. The user may also have access to a preview **650** with example content included to demonstrate a typical page with both content and look and feel **680**, as seen in FIG. **15**. From the generic preview page **630**, the representative may choose to continue **655** with finalizing the look and feel **660**.

final check **660**—finalize the captured look and feel, as seen in FIG. **16**, this page may allow validation of links and images and offer to save the captured look and feel. Once validation, if any has been performed, and the look and feel has been saved, the process completes **675**.

validation **665**—validate the link and image URLs in the header and footer HTML. FIG. **17** displays the screen capture of page that could be used to display validation progress.

save **670**—Actually captures, processes and saves the storefront information. A completion page such as seen in FIG. **18** may be displayed.

For security reasons, javascript is accepted but applets are stripped out in the preferred embodiment.

Link Generator

The Link Generator allows host to create and maintain the shopping opportunities that they can then place on their site. Each Link is assigned a unique Link ID. The Link ID identifies who the host is, who the merchant is, and what commerce object (catalog, category, product or dynamic selection) is linked to.

The first time a host builds a Link to a merchant's product, category or catalog, an approval of that host for that merchant may be made. Until the host is approved, they cannot see the Link ID that has been assigned to the newly created Link.

The code the host embeds on their web site is as follows:

```
<!—BEGIN NEXCHANGE LINK—>
<!—For more information go to http://www.nexchange.com—>
<!—The following 2 lines MUST NOT BE CHANGED to ensure proper crediting—>
<IMG BORDER='0' SRC='http://www.nexchange.net/img.asp?LinkID=xxxx'>
<a href='http://www.nexchange.net/route.asp?LinkID=xxxx'>
<!—Substitute your own text or image below—>
**YOUR TEXT OR IMAGE HERE**</a>
<!—END NEXCHANGE LINK—>
```

There are several points to note here:

The image src (img.asp) is actually an ASP program that returns a single transparent pixel. This is used to track impressions (how many times the link was displayed on the host site).

The route.asp page is a page that routes the customer to the shopping page. As additional servers are added, this will become very important for load balancing.

The 'xxxx' for the LinkID='xxxx' is the Link ID assigned to the Link in the Link Generator.

A host representative will be able to generate links to commerce objects. FIG. **7** depicts a flow chart of the pages and actions in a typical link generation process. The representative has previously logged into the system to reach the host manager system page **470**. From this page, the representative selects to generate links **705**, which transfers her to a page containing a list of all previously generated links for that host **710**.

From this page, the representative may choose among several options: view an existing link **722**, remove an existing link **735**, edit an existing link **728** or add a new link to either a merchant with whom a link already exists **720** or a merchant without an existing link **715**. In viewing an existing link **722**, the page containing the link may optionally displayed in a separate window **725**; as a consequence, the representative could continue to interact with the list of available links page **710** in the primary window. The representative could select a link for removal **735** and, upon removal, return to the list of links

page **710**. The representative may choose to edit an existing link **728** leading to a link modification page **730**. After modifying the link, the new link information would be saved **740**, and the representative would return to the list of available links **710**.

In adding a new link, a distinction may be made whether a link is made to a merchant to whom the host has previously linked **720** or to a merchant to whom a previous link does not exist **715**. In the latter case, an extra optional step may be involved to approve the host with respect to the new merchant as part of the catalog selection process **745**. In other embodiments, such a distinction need not be made. In linking to a merchant to whom a previous link does exist **720**, a catalog may implicitly be selected. In either situation, the creation process continues by allowing the representative to choose a commerce object to associate with the link **750**. Such a commerce object will be a product, a product category, a catalog or an indication that a product, product category or catalog should be chosen dynamically. From this page, the representative may go back to the catalog selection page **745** or proceed with setting link attributes **755** such as the destination upon return from the link (e.g. the point of departure into the e-commerce page or a destination designated by the representative). From this page **755**, the representative can return to the commerce object selection page **750** or continue forward with naming and saving the new link **760**. Upon completion of naming and saving page **760**, the link is saved to the system database **765**, and the representative is provided with a link to include within a page on the host website **770**. After cancellation at any time, or upon completion, the representative is returned to the list of available links page **710**.

Where a host representative chooses a dynamic indicator as the commerce object, the specific content will be chosen contextually based upon the content of the page that includes the link. In a preferred embodiment, keywords in the page are cross-reference with available catalogs, product categories and products to choose the appropriate content for the destination page associated with the link. FIG. **8** is a flow chart of the selection process in such a preferred embodiment.

A visitor is viewing the host page including a link associated with a dynamic selection commerce object **810**. The visitor activates the link. Receiving the activation, a determination is made as to whether content has previously been dynamically selected for the activated link **820**. If yes, a second determination is made as to whether the previously dynamically selected content is current **830**. If this is answered in the affirmative, a page is constructed with the previously dynamically selected content along with the look and feel associated with the host from which the link originated **840**.

If either determination is negative, the host page including the link is retrieved **850**. The page content is analyzed, and based upon the analysis, content for the link destination is selected **860**. The selected content is cached for potential future use **870**. Finally, a page is constructed with the dynamically selected content along with the look and feel associated with the host from which the link originated **840**. The analysis in **860** may take a variety of forms including, in a preferred embodiment, identification of marked keywords. In another embodiment, keywords may be dynamically determined using word count statistics.

In a more elaborate system, the retrieval process might encompass not only the page containing the link but also other pages linked to the page of link origin. Keywords or word count analysis could be used to determine context based upon the aggregation of pages retrieved. In a further embodiment, differing weights could be given based upon the source of the keyword identified; keywords from the page of origin would have a greater weight than keywords derived from pages one link away.

Reports

A valid host representative will have on-demand access to a report showing visits to their links and sales. The report will be scoped by date range. Visits can be summarized by merchant and by link. Sales can be summarized by merchant and by link.

As illustrated in FIG. **21**, a host representative begins at the Host Manager page **470**. She selects the view reports option **2105** to view the report menu page **2110**. From the reports menu page **2110**, she may enter criteria **2114**, **2118** leading respectively to a revenue summary page **2120** or a monthly statement page **2130**. From the monthly statement page **2130**, she may change criteria **2135** to view a revised monthly statement **2130** or return to the report menu **2110**. From the revenue summary page **2120**, she may select a specific item **2125** for receiving a detailed revenue page **2150**, alter the criteria **2127** to receive a revised revenue summary **2120**, or return to the reports menu page **2110**. From the detailed revenue page **2150**, she may return to the revenue summary page **2120**.

The following reports are available for the hosts to track their results:

Revenue Summary by Month

This report provides sales and traffic information summarized by month. Data includes number of sessions, number of orders, gross and net sales, etc. Allows 'Drill Down' to daily totals.

Revenue Summary by Merchant

This report provides sales and traffic information summarized by merchant. Data includes number of sessions, number of orders, gross and net sales, etc.

Revenue Summary by Link

This report provides sales and traffic information summarized by Link. Data includes number of sessions, number of orders, gross and net sales, etc.

3. Shopping

The shopping module is the part of the application that allows customers to find, search, select and buy a product. There is also a return product section accessible to the customer after the order has been placed.

Shopping is the part of the application that the general public will encounter. FIG. **19** displays a screen capture of a typical shopping page in a preferred embodiment. FIG. **22** depicts pages and procedures in a shopping process as implemented in a preferred embodiment.

The customer was on a host site and saw a link to buy something created via the Link generator **2200**. When he or she clicks on the link, he or she is taken to the shopping page parameterized with the Link ID **2210**. If an error occurs during this transition, the visitor is routed to a link error page **2205**.

A variety of generic information may be available from any shopping page within the system. Such information could include information about the e-commerce outsource provider **2222**, information about the merchant offering the cur-

rent commerce object **2224**, information about an involved party's privacy policy **2226**, or information about an involved party's security policy **2228**.

Customers will be able to browse a merchant's catalogue and place items in their shopping cart **2212**. When the customer is ready to checkout **2260**, the system will acquire payment information **2262** and shipping information **2264** from the user, confirm this information **2266**, and execute the transaction. The receipt including a URL that can be used to track the order status (e.g. —it could be bookmarked) will be displayed to the customer **2268**. By visiting the URL provided upon checkout from the shopping experience, the customer can check the status of their order, initiate returns, and check on their return status.

This module contains the following submodules:

Session

Each time a new shopping session is started, a customer session is created for the shopper. This Customer Session is assigned a Session ID (SID). All pages within the shopping system must request the SID and call the ValidateSessionID function. At any time if a session error occurs, a session error page **2215** may be presented.

Unlike the merchant and host sessions, the shopping session is persistent. The session information retained is what the customer has placed in the cart and if they have checked out. The SID is also written back to the customers browser as a cookie. If a customer returns to the Shopping page an attempt will be made to use the last session they had. It will only be reused if the ALL of the following are true:

The host the customer is coming from now is the same host as in the previous session

The merchant for the current link is the same as the merchant in the previous session

The previous session was not "Checked Out"

The session is not older than a certain age.

Product Search and Selection

The main shopping page begins at the entry point that the host used to build the Link. This can be to a specific product, a category of products, a category of sub-categories, a complete catalog or a dynamically selected destination. However, no matter what entry point was chosen, the customer can navigate to every item contained in the merchant catalog used for the Link serving as the customer's entry point to the shopping. The customer may browse the catalog **2230** or search for a specific product or product category **2240**.

Shopping Cart

The Shopping Cart is the main information saved in a customer session. As a customer places products in the shopping cart, we retain information such as:

name of the product

price of the product

any attributes (size, color, etc)

host commission rate

merchant revenue percent

This information must be stored redundantly in the shopping cart because the price, name, etc may change later and the values at the time of purchase need to be retained. The shopping cart interface also allows the shopper to remove a product and/or change the quantity through a view shopping cart page **2250**.

Check Out

The check out process is separated into two distinct pieces.

Order Capture

Credit Validation

Order capture is the process of obtaining the customers billing and shipping information and creating a pending order. The credit card information is checked to make sure it is a valid number for the card type but it is not actually processed with a credit card authorization service (i.e. CyberCash). The order is accepted, assigned an order id and the customer is given an on screen and email confirmation. The pending order has a status of new.

The credit validation process happens sometime after the order capture has occurred. The customer's billing information is sent to the authorization service. The pending order now has the status of authorized.

If the card is validated, the order is accepted and placed into the TheOrder table. The pending order has a status of accepted. If the billing information fails validation, the pending order status is set to rejected and an email is sent to the customer informing that the credit card information could not be validated.

4. System Manager

The System Manager is the "Control Center" for administrators. The administrator can monitor the day-to-day activities and status of the system. When an administrator logs in, he or she is taken directly to the System Manager and assigned a Nexchange Session ID (NexchangeSID). All pages within the System Manager system must request the NexchangeSID and call the ValidateNexchangeSessionID function. If the session does not validate, the user is taken back to the Login screen. Access to administration functions will require authentication using the name and password for a valid administration account.

The home/main page of the System Manager provides a quick summary of the current system status; a screen capture of a typical main page in a preferred embodiment is seen in FIG. **20**. This summary includes pending orders, orders, host statistics, merchant statistics and an unattended orders list.

An administrator will be able to configure a hosts or merchant's payment policy. This includes specifications for any holdbacks, and a method for calculating commission/payment. At the request of a merchant, an administrator will be able to configure the system to reject all shopping traffic from a particular host-merchant arrangement. The host and merchant contacts will be notified via email. An administrator will also be able to activate or deactivate a host. The system will reject shopping traffic from inactive hosts. When a host's status is changed, the host contact will be notified via email. An administrator will configure the system to enforce system-wide policies. System-wide policies include the number of days allowed for returns.

The system will periodically run an audit process and report on situations of concern. For example, an audit could search for orders that have not been serviced for a certain period of time. The system may also report on possible security situations such as an inordinate number of account lockout incidents.

This module contains the following submodules:

Utilities

The following utilities are available:

List Pending Orders

List Orders

List Rejected Orders

List Returns

Host

The following actions are available:

List Promos

List Hosts

Maintain Host Tiers

Host with Pending Merchants

Merchant

The following actions are available:

List Merchants

Copy a Category

Find Category Links

Add a New Merchant

Maintain Brands

Application Server Tier

The business functionality is provided via "application servers". An application server will consist of one or more of the business modules, wrapped with an appropriate middleware adapter. This arrangement allows delivery of services via many different mechanisms. For example, if it becomes desirable to serve some functions to a Java client, a Java Remote Method Invocation (RMI) version of an application server could be built. The new server could be developed rapidly because only an RMI "wrapper" would need to be developed, while the application logic would be reused. In a preferred embodiment, this layer consists of a set of core C++ software modules that encapsulate business functions.

The Application Server tier may run on one or more application server computers. The application servers are stateless. This means that, for two application servers serving the same functionality, "one is as good as another". In the event of failure, a client's requests may be handled by a different server than before the failure. Since it does not matter which server services a request, routing is greatly simplified. The stateless server approach also provides excellent fault tolerance since all application servers can back each other up. Use of a combination of "sticky routing" and caching to significantly ameliorate any detrimental performance implications of the stateless approach, while preserving most of the benefit. Once a client begins using a particular service, the system will show a preference for routing future requests from that client to the same server. The servers maintain a cache recently used data and will only access the database if the desired item cannot be used in cache. Since the routing is sticky, the client's data will often be in cache, and in many cases, no database access will be required. Should the client be routed to a new server, the session data can be retrieved from the database as occurs in the "vanilla" stateless model. In a preferred embodiment, the functionality of this layer utilizes one or more low cost server systems **125***a*-**125***d* running a suitable operating system such as Microsoft Windows NT. This tier is also composed of several software layers as illustrated in FIG. **3**:

- Remote Procedure Call Server **310**. This software provides connectivity to the Web Server layer and is not application dependent. In a preferred embodiment, this software layer is the Objectstore Component Server.
- Application Logic **320**. This software encapsulates the business functionality. The design of this software layer and the various application servers is more fully described below.
- Virtual Database **330**. The virtual database layer allows the application data to be distributed across multiple Database servers while insulating the application layer from the physical storage configuration. The virtual database contains a table that maps object types to physical databases. All database objects or records of a given type are distributed across the permissible databases. Databases can be added while the system is live to permit expansion onto new servers. Overburdened databases can be closed to prevent assignment of new data to them. Databases can be moved to different physical servers. All stored objects are referenced by a handle which is unaffected by the physical location of the referenced data. The virtual database layer also permits a collection of objects distributed across multiple servers to be indexed and searched.
- DBMS Client **340**. This software provides access to data stored in the databases. In a preferred embodiment, the DBMS client is Object Design's Objectstore client. All Objectstore clients contain a cache of recently used database pages. An optimistic locking scheme is used to ensure cache consistency. The caching scheme is very effective in the present invention because it is optimized for many readers and few writers.

In a preferred embodiment, the application server layer includes the following eight application servers:

1. Cashier—Collects Checkout Information: Billing Info, Shipping Preferences, Etc.

The Cashier server is analogous to a cashier in a "bricks and mortar" store. The cashier's responsibilities are listed below:

- Collecting Information Necessary To Complete a Sale. This information will include billing information, shipping address(s) and preferred shipping methods. In some cases, the information to be collected may depend on the contents of the order. The cashier will also access the appropriate merchant policy information to assist in determining what data should be collected.
- Providing an Itemized Account of the Total. Upon receiving the necessary data, the cashier will compute the applicable taxes, shipping charges, etc, and provide an itemized account of the order total.
- Execute the Sale. Upon request, the cashier will execute the sale. A copy of the relevant information will be sent to the credit processor. When the credit processor approves the orders, the cashier will break the customer's order into individual merchant orders and forward them to the Merchants' Order Tracking server. The cashier will also post a record to the Ledger at this time.

2. Catalog—Houses Product Hierarchies. Conducts Product Searches.

The catalog is an arrangement of product information. The catalog server supports a hierarchical browsing mode and various searching functions. Its responsibilities are listed below:

- Retrieve a catalog upon request. The catalog will include all content for a shopping experience. For products, the information will include the product description, price and options.
- Retrieve a list of products matching a query. This will initially support simple keyword searching, but may be expanded to more sophisticated searching techniques.

3. Credit Processor—Conducts Card Validation and Fraud Screening.

The credit processor takes a candidate order and performs card authorization and fraud screening. The card processor cooperates with the order tracker to keep the status of the order updated.

- Perform Credit Card Authorization. Contact the card processing vendor and authorize the card. Retrieve the Address Verification System (AVS) code for to use in fraud screening.
- Perform Fraud Screening. The system performs a fraud screening analysis based on the following factors: dollar amount of the order, AVS code, whether the billing and shipping address match, and whether the email address given is a free e-mail account.

4. Notifier—Sends Messages.

The Notifier keeps track of who wants to be notified of what and how they should be notified. The notifier receives notification of various system events and takes the appropriate course of action. The appropriate course of action will depend upon the event and the party to be notified. For example, a merchant that does a high volume of sales and is

already integrated with the system may not wish to receive email notification of every order.

5. Ledger—Records and Reports on all Financial Events.

The Ledger is a record of all financial events. The ledger contains interfaces for posting events and interfaces querying and inspecting the ledger. Responsibilities include:

- Post an Order Event. The order event happens when the shopper confirms an order.
- Post a Sale Event. The sale event occurs when a merchant marks the last item in an order shipped.
- Post an Return Merchandise Authorization (RMA) Open Event/Post an RMA Completed Event/Post an RMA Canceled Event
- Post a Journal Entry. This interface will be used to record non-standard events. The posted ledger entries must collectively have an equal number of debits and credits.

6. Order Tracker—Records and Reports on Order Status.

This is the repository of order information. The order tracker includes a cashier's interface for creating a new order, a Merchant's interface for keeping the order status updated, and a Customer Service interface for checking on the status of the order and making relevant annotations.

- Query Order Status. This method is used by purchaser to check on the status of a pending order.
- Ship Order. This method is used by a merchant to document the parceling of an order into shipments.

7. Shopping Cart—Holds Products that have been Selected for Purchase.

The shopping cart is simply a collection of Inventory Reservation documents that represent the items that have been selected by the shopper. The shopping cart includes methods for adding and removing Inventory Reservations and for inspecting the contents of the cart.

8. Warehouse—Inventory Availability Information. Product Configuration Interfaces.

The Warehouse represents a collection of physical items that are in stock. Responsibilities of the Warehouse are listed below:

- Provide Information on Stock Levels of a Particular Item/Order Items Having Low Inventory Levels. This is an advanced capability by which inventory may be dynamically reserved from a merchant, based on the current inventory levels.
- Provide Information on Product Configuration Options. The warehouse will provide a blank Inventory Reservation document that will specify all of the product's configuration options.
- Issue Reservations Against Inventory. A shopper will fill out an Inventory Reservation (which includes all configuration options) and submit it to the warehouse. If the item, as configured, is available, the reservation will be issued. This will serve to reserve the inventory for a fixed period of time.

Database Server Tier

Finally, the Database server tier is composed of a single software layer. This layer is responsible for low level manipulation of the data in the one or more databases. This tier may consist of multiple database servers. Using multiple servers is a major advantage for obvious reasons. The system's database chores can be distributed to many different servers. In a preferred embodiment, the database server is Object Design's Objectstore server. Objectstore supports a "warm failover" mode which allows a backup server to take over automatically if the primary should fail. An Microsoft SQL server is also used in the preferred embodiment to maintain financial records although properly configured another DBMS such as Objectstore or a commercially available accounting package could provide capability suitable for financial record keeping.

The foregoing discussion describes the primary actors interacting with a system according to the present invention. After identifying these actors, typical transaction flows through the system are presented.

There are three main parties in the outsourced e-commerce relationship, excluding the end consumer. These parties include Merchants, Hosts, and the e-commerce outsource provider. This folds into two parties where one party plays the dual role of Host and Merchant.

Merchants

Merchants are the producers, distributors, or resellers of the goods to be sold through the outsource provider. The primary responsibilities of a Merchant are to:

- Maintain an up-to-date catalog within the system including all products that are available for sale in storefronts served by the outsource provider
- Create approval standards for passively recruited Host applicants based upon website profiles and target audience characteristics
- Fulfill all orders received from the e-commerce outsource provider
- Provide assistance to outsource provider regarding promotional strategies. This can be accomplished by supplying marketing literature and materials, as well as any sales incentives. The Merchant owns the marketing literature and materials, and may access and modify these items as necessary.
- Provide service and support to customers generated via the outsource e-commerce provider
- Maintain internal records of orders filled through the outsource provider and process payments from the outsource provider for these orders
- Inform the e-commerce outsource provider of any backlogs, fulfillment delays, product changes, or other significant situations

Hosts

A Host is the operator of a website that engages in Internet commerce by incorporating one or more link to the e-commerce outsource provider into its web content. The responsibilities of a Host are to:

- Use the outsource provider Host Manager service bureau to select the Merchants and products that will be offered from the Host's website
- Promote transactions through the e-commerce outsource provider hosted by the website
- Regularly review the Merchant offerings for which they have been approved in order to take advantage of new products and to review sales and promotional strategies made available to them by the Merchant

E-Commerce Outsource Provider

The role of outsource provider is to:

- Develop and maintain the outsource provider service bureau—the systems and software which provide the platform for e-commerce support services
- Identify and recruit target Host websites and monitor/manage these relationships

Create customer-transparent Host processing "pages" on a secure server to receive order and payment information

Create, maintain, and update the "look & feel capture" process through which consumers are able to shop in a Merchant-controlled storefront within the design and navigational context of the Host website, preserving the ownership of the visit experience by the Host

Authorize credit card transactions (in most cases)

Process credit card payments for orders received (in most cases)

Pay periodic commissions to Hosts for orders shipped during a prior period

Transmit orders to Merchants

Pay Merchants for orders filled

Manage the commission structure for Merchant-Host relationships to maximize sales and revenues

Screen and approve Host applications

Support and monitor the merchandise return/refund process and other customer service functions

This following describes the order entry and settlement process from the initial promotion on a Host website all the way through to fulfillment, payment processing, commission payment, and Merchant payment.

Order Placement, Fulfillment, and Settlement Overview

The overall transaction process is very straightforward. The following is a list of the steps involved in receiving and processing an order request.

a) A customer visits a Host website and, through contextually relevant content, becomes interested in a product offered.

b) The customer selects the item(s) that she wishes to purchase by clicking a product image, banner-style link, or text link, or other offer format taking her to a dynamically generated web pages which retain the look and feel of the referring Host and are served by the e-commerce outsource provider.

c) The customer browses through the products offered, indicating which items are to be purchased and in what quantities via forms on-screen. Selected items appear within the shopping cart at the top of the shopping interface. The user remains on the product screen without ever being involuntarily removed to a detailed shopping cart-only screen, representing a significant enhancement over most shopping cart technology in place today. When all desired products are selected, the customer initiates the checkout procedure, never leaving the Host website.

d) The secure checkout interface appears, still consistent in look and feel with the Host's referring website. The customer completes the order form, provides all billing and shipping information required, confirms the items selected for purchase, and remits credit card information for payment processing.

e) Assuming the payment method is authorized, the customer is returned to another section of the Host's website, possibly just returning to the page in which the offer was placed, as determined by the Host.

f) The e-commerce outsource provider passes the order to the Merchant in real time. The credit card may be charged at this point or upon confirmation of shipment.

g) The Merchant receives and logs the order.

h) The Merchant then assembles and ships the order to the customer, keeping the outsource provider apprised of the order status.

i) Periodically, the outsource provider will remit payment to the Merchant for that period's filled orders.

j) Periodically, the outsource provider will remit payment to Hosts for all commissions earned in the prior period.

Host Process Flow

The process flow for a prospect to become a Host and be fully able to endorse/promote/offer Merchant products is as follows:

a) Hosts are recruited from three sources: direct recruiting, in which the Host prospect is identified by and approached by an e-commerce outsource provider representative; passive recruiting, in which the Host has been referred to the outsource provider by other Hosts, relevant meta-sites (sites that contain lists of and links to other sites/services), or other sources; and Host Agent recruits, in which a specialized third party Agent identifies and approaches Host prospects. In many cases, the use of online signup forms and brochures may be a factor in recruitment.

b) Prospect completes the Host application form (except where preapproved), providing information about the type of website(s) operated by the Host, some traffic statistics about these websites and general visitor demographics, and complete contact information. The prospect also selects an outsource provider system user ID and password which will later be used to access the system, retrieve important Hosting information and programming, and modify the custom materials in the outsource provider transaction processing engine.

c) The application is received and the information therein is reviewed, and the application is either approved or rejected (unless this is a preapproved Host). If approved, the Host's ID and password are activated, and an automated message is sent to the new Host informing them of their approval. This message will also contain instructions for accessing the e-commerce outsource provider system, setting up their links to the outsource provider, and inserting outsource provider data into their website(s). Preapproved Hosts will be immediately able to access this system upon submission of their application.

d) Host accesses e-commerce outsource provider system to begin the step-by-step setup process. The Host first identifies a page from their own website which will provide the look and feel to be replicated. Following this, the Host configures product selections for each of its approved Merchants and downloads product images, text, and CGI/HTML code for their own website. Host then completes changes to website and activates new content. Hosts are free to promote their use of the outsource provider as they feel is suitable to the product at any time and with any frequency, subject to reasonable limitations.

e) Hosts will be able to access real-time reports about transaction volume including number of users, average purchase amount per user, number of purchases on specified days or within specified date ranges. Hosts can create customized reports to determine conversion rates, top selling products, commissions earned, paid, and due, and other pertinent information. This information can be leveraged by the e-commerce outsource provider and the Host to improve the efficacy of targeted marketing efforts on the Host's website.

Internal System Transaction Flow

The e-commerce outsource provider system acts as a clearinghouse for all orders. The system maintains a real-time interface with a credit card authorization and processing service and a robust database engine which is able to process transactions, record all transaction activities, generate reports used for commission payments and auditing of Merchant invoices, and track order status. The transaction flow for the outsource provider service bureau is directly related to the structure of the underlying database.

This flow can be described as follows:

a) Customer, visiting Host, activates link to commerce object within context of Host's website. This activation is typically accomplished by clicking on a hyperlink of some kind within a webpage of the Host's website.

b) The e-commerce outsource provider launches new storefront featuring specific products or product category for Merchant, as determined by Host, with the look and feel of the Host's site. The user is not made aware of the fact that this shopping experience is taking place on an outsourced server.

c) As customer browses through featured items in the Merchant's catalog, the outsource provider serves additional pages while maintaining the look and feel of the Host. The system maintains a dynamic record of customers activities including products reviewed, items selected for purchase (placed into shopping cart), and time spent shopping. The e-commerce outsource provider uses a highly reliable and accurate tracking technology throughout the shopping experience.

d) Upon checkout, the system processes customer billing, shipping, and order information via secure (encrypted) data transmission (unless the consumer opts for non-encrypted transmission). This process includes an order confirmation process and a process by which a non-approved credit card transaction may be corrected and resubmitted.

e) Upon approval, the outsource provider performs several simultaneous functions:

Thank you screen is displayed to customer

Customer is prompted to "continue" browsing Host's website.

E-mail confirmation is sent to customer detailing order information, fulfillment process, customer service terms and procedures, and other relevant information.

Order is transmitted to the Merchant electronically, via e-mail or direct link to order entry system.

Order is logged into transaction database and logged by system in conjunction with Host referral information.

Host is notified that a sale has been made and commission dollars have been earned.

The second part of the e-commerce outsource provider service bureau transaction process pertains to reconciliation and settlement with the Merchants.

a) Orders are transmitted to each Merchant as received and are logged into the system for future reference and reporting.

b) Periodically, the outsource provider will pay each Merchant for orders processed during the prior period. Payment will be driven by shipped orders as recorded within the system. Merchants can view their accumulated sales within the system at any time during the period, and historical information will be available as well.

The final part of the e-commerce outsource provider Service Bureau transaction process pertains to the payment of commissions to Hosts.

c) Periodically, the e-commerce outsource provider will calculate the accumulated commissions due to each Host from the prior period's results. Hosts will be able to review their earnings on a real-time basis at any point during a period.

d) The outsource provider will then pay each Host the appropriate commission amount via electronic payment or check along with a copy of the transactions and total report for the period being settled.

Merchant Transaction Flow

Each Merchant will be required to fulfill every order received through the e-commerce outsource provider within a designated time frame. Merchants must also be able to track certain information regularly and accurately. Merchants will be monitored to ensure timely fulfillment in order to provide the best quality customer service.

The steps of the Merchants transaction flow after they have been established within the system are as follows:

a) The designated recipient of orders within the Merchant organization will check for new orders at least on a daily basis, if not more frequently. Orders are received by the Merchant via e-mail or other electronic notification, including automated direct input to legacy order management systems owned or operated by the Merchant. These orders include all pertinent customer data required for fulfillment of each order. Merchants may also view all orders online, sorted by date, status (new/viewed), or other criteria, and download orders in bulk form directly from the outsource provider.

b) After receiving the order, the Merchant will ship the order to the Customer within a reasonable time period for the type of merchandise ordered. Merchant will have the ability to modify the shipping status of the orders within the system. Merchants are obligated to provide timely shipping of their products. If any item ordered is out of stock or discontinued, the Merchant must update their catalog on the e-commerce outsource provider immediately and notify any affected customers immediately via e-mail or regular mail. Orders should be processed according to whatever internal process flow has been established by the Merchant.

c) Upon receipt of payment for the prior month's orders, the Merchant is responsible for reconciling the amount remitted with their own fulfillment records. Any disputes should be addressed by accessing the Merchant interface and querying/updating records.

The embodiments described above are given as illustrative examples only. It will be readily appreciated that many deviations may be made from the specific embodiment disclosed in this specification without departing from the invention. Accordingly, the scope of the invention is to be determined by the claims below rather than being limited to the specifically described embodiment above.

The invention claimed is:

1. A method of an outsource provider serving web pages offering commercial opportunities, the method comprising:

(a) automatically at a server of the outsource provider, in response to activation, by a web browser of a computer user, of a link displayed by one of a plurality of first web pages, recognizing as the source page the one of the first web pages on which the link has been activated;

(i) wherein each of the first web pages belongs to one of a plurality of web page owners;

(ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and

(iii) wherein the selected merchant, the outsource provider, and the owner of the first web page are each third parties with respect to one other;

(b) automatically retrieving from a storage coupled to the server pre-stored data associated with the source page; and then

(c) automatically with the server computer-generating and transmitting to the web browser a second web page that includes:

(i) information associated with the commerce object associated with the link that has been activated, and

(ii) a plurality of visually perceptible elements derived from the retrieved pre-stored data and visually corresponding to the source page.

2. The method of claim **1** wherein the commerce object associated with the link that has been activated is a dynamic selection indicator.

3. The method of claim **1** wherein at least one of the plurality of visually perceptible elements includes a set of navigational links on the source page.

4. The method of claim **1** wherein at least one of the plurality of visually perceptible elements includes the appearance of the top and left side of the source page.

5. The method of claim **1** wherein at least one of the plurality of visually perceptible elements includes the appearance of the header and footer of the source page.

6. The method of claim **1** wherein at least one of the plurality of visually perceptible elements includes a logo associated with the owner of the source page.

7. The method of claim **1** wherein the commerce object associated with the link that has been activated comprises information defining an electronic catalog having a multitude of merchant offerings, and wherein the second web page contains one or more selectable navigation links connecting a hierarchical set of additional second web pages, each pertaining to a subset of the offerings in the catalog.

8. The method of claim **1** wherein the second web page is generated dynamically.

9. The method of claim **1** wherein the owner of the source page is party to a contract providing for receipt of a commission as a result of a transaction involving the commerce object displayed on the source page.

10. The method of claim **9** further comprising computer-facilitating automatic payment to the owner of the source page, once the transaction is completed.

11. The method of claim **1**, wherein the second web page appears to the computer user to be generated by a server associated with the source page.

12. The method of claim **1**, wherein the link activated by the web browser is stored in a database associated with the source page.

13. The method of claim **1**, wherein the second web page contains a further link associated with the information associated with the commerce object associated with the link that has been activated, which link, when activated by the web browser, places data representing the commerce object into a virtual shopping cart.

14. The method of claim **13**, wherein the second web page contains a checkout link which, when activated by the web browser, facilitates completion of a transaction associated with the commerce object in the shopping cart.

15. The method of claim **14**, further comprising after the transaction is completed, computer-facilitating payment from the computer user to the merchant associated with the activated link.

16. The method of claim **14**, further comprising after the transaction is completed, computer-facilitating payment of a commission to the owner of the source page.

17. The method of claim **13**, further comprising displaying the second web page again, after the commerce object is placed into the shopping cart.

18. The method of claim **1**, wherein the visually perceptible elements displayed on the second web page are retrieved from a database storing data associated with visually perceptible elements for each of the first web pages.

19. A system useful in an outsource provider serving web pages offering commercial opportunities, the system comprising:

(a) a computer store containing data, for each of a plurality of first web pages, defining a plurality of visually perceptible elements, which visually perceptible elements correspond to the plurality of first web pages;

(i) wherein each of the first web pages belongs to one of a plurality of web page owners;

(ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and

(iii) wherein the selected merchant, the outsource provider, and the owner of the first web page displaying the associated link are each third parties with respect to one other;

(b) a computer server at the outsource provider, which computer server is coupled to the computer store and programmed to:

(i) receive from the web browser of a computer user a signal indicating activation of one of the links displayed by one of the first web pages;

(ii) automatically identify as the source page the one of the first web pages on which the link has been activated;

(iii) in response to identification of the source page, automatically retrieve the stored data corresponding to the source page; and

(iv) using the data retrieved, automatically generate and transmit to the web browser a second web page that displays: (A) information associated with the commerce object associated with the link that has been activated, and (B) the plurality of visually perceptible elements visually corresponding to the source page.

20. A computer-readable memory adapted for use by an outsource provider in serving web pages offering commercial opportunities, the computer-readable memory used to direct a computer of the outsource provider to perform the steps of:

(a) in response to activation, by a web browser of a computer user, of a link displayed by one of a plurality of first web pages, automatically recognizing as the source page the one of the first web pages on which the link has been activated;

(i) wherein each of the first web pages belongs to one of a plurality of web page owners;

(ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and

(iii) wherein the selected merchant, the outsource provider, and the owner of the first web page are each third parties with respect to one another;

(b) automatically retrieving from a storage coupled to the computer of the outsource provider pre-stored data associated with the source page; and then

(c) automatically computer-generating and transmitting to the web browser a second web page that includes:

(i) information associated with the commerce object associated with the link that has been activated, and

(ii) a plurality of visually perceptible elements derived from the retrieved pre-stored data and visually corresponding to the source page.

21. The computer-readable memory of claim **20** wherein the commerce object associated with the link that has been activated is a dynamic selection indicator.

22. The computer-readable memory of claim **20** wherein the commerce object associated with the link that has been activated comprises information defining an electronic catalog having a multitude of merchant offerings, and wherein the

second web page contains one or more selectable navigation links connecting a hierarchical set of additional second web pages, each pertaining to a subset of the offerings in the catalog.

23. The computer-readable memory of claim **20** wherein the computer-readable memory is used to direct the computer of the outsource provider to perform the further step of computer-facilitating automatic payment to the owner of the source page, once the transaction is completed.

24. The computer-readable memory of claim **20**, (i) wherein the second web page contains a further link associated with the information associated with the commerce object, which, when activated by the web browser, places data representing the commerce object into a virtual shopping cart, and a checkout link which, when activated by the web browser, facilitates completion of a transaction associated with the commerce object in the shopping cart; and (ii) wherein the computer-readable memory is used to direct the computer of the outsource provider to perform the further steps of, after the transaction is completed, computer-facilitating payment from the computer user to the merchant associated with the activated link and computer-facilitating payment of a commission to the owner of the source page.

25. The computer-readable memory of claim **20**, wherein the visually perceptible elements displayed on the second web page are retrieved from a database storing data associated with visually perceptible elements for each of the first web pages.

26. A computerized system for an outsource provider serving web pages offering commercial opportunities, the system comprising:

(a) means, at a server of the outsource provider, in response to activation, by a web browser of a computer user, of a link displayed by one of a plurality of first web pages, for automatically recognizing as the source page the one of the first web pages on which the link has been activated;

(i) wherein each of the first web pages belongs to one of a plurality of web page owners;

(ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and

(iii) wherein the selected merchant, the outsource provider, and the owner of the first web page are each third parties with respect to one another;

(c) means for automatically retrieving from a storage coupled to the server pre-stored data associated with the source page; and

(d) server means for then automatically computer-generating and transmitting to the web browser a second web page that includes:

(i) information associated with the commerce object associated with the link that has been activated, and

(ii) a plurality of visually perceptible elements derived from the retrieved pre-stored data and visually corresponding to the source page.

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AIPLA NEWSSTAND

"Software Patents are Dead! Long Live Software Patents!"

Hawley Troxell

USA | October 9 2015

I never understood that expression, "The King is dead! Long live the King!" until I started watching Game of Thrones. So when horrible King Joffrey Baratheon was poisoned and the assembled onlookers turned to his younger brother and shouted those words, I got it: we acknowledge that King Joffrey is dead, but his younger brother Tommen is the new king automatically by virtue of the doctrine of primogeniture and so we wish him, the new king, long life by that expression. (Most of you likely understood this long before I did.)

Because of a recent U. S. Supreme Court decision called *Alice Corp. v. CLS Bank International*, 573 U.S. __, 134 S. Ct. 2347 (2014), many people have been lamenting the death of software patents. But in fact, the correct expression now should be a modification of the "king" declaration above: "Software Patents are Dead! Long Live Software Patents!"PhiAllAll

The full and somewhat tortured history of software patents (a subcategory within the more accurate general term "business method patents") is beyond the scope of this article, but suffice it to say that before the *Alice* case, a skilled patent practitioner would be able in many cases to obtain patent protection on (a) a non-software business method, (b) the functionality described by software running on a computer to implement the business method, or (c) both. As a result there are many thousands of issued patents in the United States on business methods, many of which also cover the software functionality needed to implement that business method (and thus, they are called "software patents"). But in *Alice,* the Supreme Court held that the "software patents" at issue were invalid because the claims were drawn to an abstract idea, and implementing those claims on a computer was not enough to transform that idea into patentable subject matter. By United States law, you cannot get a patent on an "abstract idea."

The post-*Alice* fallout has been interesting to watch, with some commentators calling it the death-knell for software patents. But in reality, the case calls to mind the death of King Joffrey while (new) King Tommen waits in the wings. It is certainly true that pure business method patents (e.g., a new process for advertising real estate that does not need a computer or software) are much more difficult to obtain in a post-*Alice* world. It is also undeniable that some software patents (e.g., the server software that runs the aforementioned advertising method) are more difficult to obtain in a post-*Alice* world. Nonetheless, the *Alice* opinion itself and subsequent guidance from the United States Patent and Trademark Office teach that obtaining patents on software is still possible—but must be correctly approached.

Probably the most significant long-term change that will result from the *Alice* decision is the universal recognition that software patents require the skill of an experienced software patent practitioner. Prior to *Alice*, non-software specialized patent attorneys routinely took on software work and then treated the applications like any other business method patent application; if anything is clear from the *Alice* decision, those days are over. In the post-*Alice*world, just as an informed inventor would not go to a patent attorney whose experience was limited to integrated circuit design to prepare a patent for a cancer medication, the well-informed inventor will not take her software-related invention to a patent practitioner whose experience is limited to mechanical devices or hardware systems. In short, post-*Alice*, if you are seeking a software-related patent, you must have a software-qualified patent attorney on your side.

So, what do you do if you have an idea for a new invention that involves, or is implemented, in software? Here is a list of suggested best practices:

1. Make no public disclosures about your software invention, or any invention, without a signed non-disclosure agreement in place or a patent application on file.
2. Do not publically use your software invention, or any invention, before filing your patent application. This applies whether the public can actually see the invention or even realize that it is in use, e.g., just because the software is doing its thing on the backend, or is otherwise not visible, you may still encounter a public-use problem, so long as the software was deployed the way the software would normally be deployed.
3. Do not offer to sell the software invention, even if not fully developed or implemented, without a signed non-disclosure agreement in place or a patent application on file.
4. Remember that in the United States, if you made an unprotected public disclosure or public use of the invention more than one year ago, you cannot get a patent on the functionality or system that was disclosed. To make matters worse, in most foreign countries, you cannot get a patent at all if there has been any public disclosure or public use before an effective patent application filing date.
5. Before hiring her, ask your patent attorney how many software patents she has prosecuted to ISSUANCE, and particularly how many since July of 2014, the date of the *Alice* decision.
6. Remember that obtaining a patent on business methods alone, without a showing of something more that adds to a technical field, or solves a stated specific technical problem, in a novel way is very difficult, if not impossible. Please remember this as you are engineering your new business method inventions.
7. Investors and buyers who are performing due diligence on your company and your invention are going to want to see copies of your patent applications, so care should be taken to choose a path that results in the highest odds of the application issuing as a patent.

So the next time you hear or read that software patents are dead because of *Alice*, think of young King Tommen and remember that a good experienced software patent attorney can still do much to obtain patent protection for your software-based inventions.

Hawley Troxell - Allison Parker, Philip McKay and Bradlee R. Frazer

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.,* 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

ALICE CORPORATION PTY. LTD. *v.* CLS BANK INTERNATIONAL ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 13–298. Argued March 31, 2014—Decided June 19, 2014

Petitioner Alice Corporation is the assignee of several patents that disclose a scheme for mitigating "settlement risk," *i.e.,* the risk that only one party to an agreed-upon financial exchange will satisfy its obligation. In particular, the patent claims are designed to facilitate the exchange of financial obligations between two parties by using a computer system as a third-party intermediary. The patents in suit claim (1) a method for exchanging financial obligations, (2) a computer system configured to carry out the method for exchanging obligations, and (3) a computer-readable medium containing program code for performing the method of exchanging obligations.

Respondents (together, CLS Bank), who operate a global network that facilitates currency transactions, filed suit against petitioner, arguing that the patent claims at issue are invalid, unenforceable, or not infringed. Petitioner counterclaimed, alleging infringement. After *Bilski* v. *Kappos*, 561 U. S. 593, was decided, the District Court held that all of the claims were ineligible for patent protection under 35 U. S. C. §101 because they are directed to an abstract idea. The en banc Federal Circuit affirmed.

Held: Because the claims are drawn to a patent-ineligible abstract idea, they are not patent eligible under §101. Pp. 5–17.

(a) The Court has long held that §101, which defines the subject matter eligible for patent protection, contains an implicit exception for '"[l]aws of nature, natural phenomena, and abstract ideas.'" *Association for Molecular Pathology* v. *Myriad Genetics, Inc.*, 569 U. S. ___, ___. In applying the §101 exception, this Court must distinguish patents that claim the " 'buildin[g] block[s]' " of human ingenuity, which are ineligible for patent protection, from those that integrate

the building blocks into something more, see *Mayo Collaborative Services* v. *Prometheus Laboratories, Inc.*, 566 U. S. ___, ___, thereby "transform[ing]" them into a patent-eligible invention, *id.,* at ___. Pp. 5–6.

(b) Using this framework, the Court must first determine whether the claims at issue are directed to a patent-ineligible concept. 566 U. S., at ___. If so, the Court then asks whether the claim's elements, considered both individually and "as an ordered combination," "transform the nature of the claim" into a patent-eligible application. *Id.,* at ___. Pp. 7–17.

(1) The claims at issue are directed to a patent-ineligible concept: the abstract idea of intermediated settlement. Under "the longstanding rule that '[a]n idea of itself is not patentable,' " *Gottschalk* v. *Benson*, 409 U. S. 63, 67, this Court has found ineligible patent claims involving an algorithm for converting binary-coded decimal numerals into pure binary form, *id.,* at 71–72; a mathematical formula for computing "alarm limits" in a catalytic conversion process, *Parker* v. *Flook*, 437 U. S. 584, 594–595; and, most recently, a method for hedging against the financial risk of price fluctuations, *Bilski*, 561 U. S, at 599. It follows from these cases, and *Bilski* in particular, that the claims at issue are directed to an abstract idea. On their face, they are drawn to the concept of intermediated settlement, *i.e.,* the use of a third party to mitigate settlement risk. Like the risk hedging in *Bilski*, the concept of intermediated settlement is " 'a fundamental economic practice long prevalent in our system of commerce,' " *ibid.*, and the use of a third-party intermediary (or "clearing house") is a building block of the modern economy. Thus, intermediated settlement, like hedging, is an "abstract idea" beyond §101's scope. Pp. 7–10.

(2) Turning to the second step of *Mayo*'s framework: The method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention. Pp. 10–16.

(i) "Simply appending conventional steps, specified at a high level of generality," to a method already "well known in the art" is not "*enough*" to supply the " 'inventive concept' " needed to make this transformation. *Mayo, supra,* at ___, ___. The introduction of a computer into the claims does not alter the analysis. Neither stating an abstract idea "while adding the words 'apply it,' " *Mayo*, *supra,* at ___, nor limiting the use of an abstract idea " 'to a particular technological environment,' " *Bilski*, *supra,* at 610–611, is enough for patent eligibility. Stating an abstract idea while adding the words "apply it with a computer" simply combines those two steps, with the same deficient result. Wholly generic computer implementation is not generally the

sort of "additional featur[e]" that provides any "practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself." *Mayo*, *supra,* at ___. Pp. 11–14.

(ii) Here, the representative method claim does no more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer. Taking the claim elements separately, the function performed by the computer at each step—creating and maintaining "shadow" accounts, obtaining data, adjusting account balances, and issuing automated instructions—is "[p]urely 'conventional. ' " *Mayo*, 566 U. S., at ___. Considered "as an ordered combination," these computer components "ad[d] nothing . . . that is not already present when the steps are considered separately." *Id.,* at ___. Viewed as a whole, these method claims simply recite the concept of intermediated settlement as performed by a generic computer. They do not, for example, purport to improve the functioning of the computer itself or effect an improvement in any other technology or technical field. An instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer is not "*enough*" to transform the abstract idea into a patent-eligible invention. *Id.,* at ___. Pp. 14–16.

(3) Because petitioner's system and media claims add nothing of substance to the underlying abstract idea, they too are patent ineligible under §101. Petitioner conceded below that its media claims rise or fall with its method claims. And the system claims are no different in substance from the method claims. The method claims recite the abstract idea implemented on a generic computer; the system claims recite a handful of generic computer components configured to implement the same idea. This Court has long "warn[ed] . . . against" interpreting §101 "in ways that make patent eligibility 'depend simply on the draftsman's art.' " *Mayo*, *supra,* at ___. Holding that the system claims are patent eligible would have exactly that result. Pp. 16–17.

717 F. 3d 1269, affirmed.

THOMAS, J., delivered the opinion for a unanimous Court. SOTOMAYOR, J., filed a concurring opinion, in which GINSBURG and BREYER, JJ., joined.

SUPREME COURT OF THE UNITED STATES

No. 13–298

ALICE CORPORATION PTY. LTD, PETITIONER *v.* CLS BANK INTERNATIONAL ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[June 19, 2014]

JUSTICE THOMAS delivered the opinion of the Court.

The patents at issue in this case disclose a computer-implemented scheme for mitigating "settlement risk" (*i.e.,* the risk that only one party to a financial transaction will pay what it owes) by using a third-party intermediary. The question presented is whether these claims are patent eligible under 35 U. S. C. §101, or are instead drawn to a patent-ineligible abstract idea. We hold that the claims at issue are drawn to the abstract idea of intermediated settlement, and that merely requiring generic computer implementation fails to transform that abstract idea into a patent-eligible invention. We therefore affirm the judgment of the United States Court of Appeals for the Federal Circuit.

I

A

Petitioner Alice Corporation is the assignee of several patents that disclose schemes to manage certain forms of financial risk.[1] According to the specification largely

[1] The patents at issue are United States Patent Nos. 5,970,479 (the

shared by the patents, the invention "enabl[es] the management of risk relating to specified, yet unknown, future events." App. 248. The specification further explains that the "invention relates to methods and apparatus, including electrical computers and data processing systems applied to financial matters and risk management." *Id.,* at 243.

The claims at issue relate to a computerized scheme for mitigating "settlement risk"—*i.e.,* the risk that only one party to an agreed-upon financial exchange will satisfy its obligation. In particular, the claims are designed to facilitate the exchange of financial obligations between two parties by using a computer system as a third-party intermediary. *Id.*, at 383–384.[2] The intermediary creates "shadow" credit and debit records (*i.e.,* account ledgers)

'479 patent), 6,912,510, 7,149,720, and 7,725,375.

[2] The parties agree that claim 33 of the '479 patent is representative of the method claims. Claim 33 recites:

"A method of exchanging obligations as between parties, each party holding a credit record and a debit record with an exchange institution, the credit records and debit records for exchange of predetermined obligations, the method comprising the steps of:

"(a) creating a shadow credit record and a shadow debit record for each stakeholder party to be held independently by a supervisory institution from the exchange institutions;

"(b) obtaining from each exchange institution a start-of-day balance for each shadow credit record and shadow debit record;

"(c) for every transaction resulting in an exchange obligation, the supervisory institution adjusting each respective party's shadow credit record or shadow debit record, allowing only these transactions that do not result in the value of the shadow debit record being less than the value of the shadow credit record at any time, each said adjustment taking place in chronological order, and

"(d) at the end-of-day, the supervisory institution instructing on[e] of the exchange institutions to exchange credits or debits to the credit record and debit record of the respective parties in accordance with the adjustments of the said permitted transactions, the credits and debits being irrevocable, time invariant obligations placed on the exchange institutions." App. 383–384.

that mirror the balances in the parties' real-world accounts at "exchange institutions" (*e.g.,* banks). The intermediary updates the shadow records in real time as transactions are entered, allowing "only those transactions for which the parties' updated shadow records indicate sufficient resources to satisfy their mutual obligations." 717 F. 3d 1269, 1285 (CA Fed. 2013) (Lourie, J., concurring). At the end of the day, the intermediary instructs the relevant financial institutions to carry out the "permitted" transactions in accordance with the updated shadow records, *ibid.*, thus mitigating the risk that only one party will perform the agreed-upon exchange.

In sum, the patents in suit claim (1) the foregoing method for exchanging obligations (the method claims), (2) a computer system configured to carry out the method for exchanging obligations (the system claims), and (3) a computer-readable medium containing program code for performing the method of exchanging obligations (the media claims). All of the claims are implemented using a computer; the system and media claims expressly recite a computer, and the parties have stipulated that the method claims require a computer as well.

B

Respondents CLS Bank International and CLS Services Ltd. (together, CLS Bank) operate a global network that facilitates currency transactions. In 2007, CLS Bank filed suit against petitioner, seeking a declaratory judgment that the claims at issue are invalid, unenforceable, or not infringed. Petitioner counterclaimed, alleging infringement. Following this Court's decision in *Bilski* v. *Kappos*, 561 U. S. 593 (2010), the parties filed cross-motions for summary judgment on whether the asserted claims are eligible for patent protection under 35 U. S. C. §101. The District Court held that all of the claims are patent ineligible because they are directed to the abstract idea of

"employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk." 768 F. Supp. 2d 221, 252 (DC 2011).

A divided panel of the United States Court of Appeals for the Federal Circuit reversed, holding that it was not "manifestly evident" that petitioner's claims are directed to an abstract idea. 685 F. 3d 1341, 1352, 1356 (2012). The Federal Circuit granted rehearing en banc, vacated the panel opinion, and affirmed the judgment of the District Court in a one-paragraph *per curiam* opinion. 717 F. 3d, at 1273. Seven of the ten participating judges agreed that petitioner's method and media claims are patent ineligible. See *id.,* at 1274 (Lourie, J., concurring); *id.,* at 1312–1313 (Rader, C. J., concurring in part and dissenting in part). With respect to petitioner's system claims, the en banc Federal Circuit affirmed the District Court's judgment by an equally divided vote. *Id.,* at 1273.

Writing for a five-member plurality, Judge Lourie concluded that all of the claims at issue are patent ineligible. In the plurality's view, under this Court's decision in *Mayo Collaborative Services* v. *Prometheus Laboratories, Inc.*, 566 U. S. ___ (2012), a court must first "identif[y] the abstract idea represented in the claim," and then determine "whether the balance of the claim adds 'significantly more.'" 717 F. 3d, at 1286. The plurality concluded that petitioner's claims "draw on the abstract idea of reducing settlement risk by effecting trades through a third-party intermediary," and that the use of a computer to maintain, adjust, and reconcile shadow accounts added nothing of substance to that abstract idea. *Ibid.*

Chief Judge Rader concurred in part and dissented in part. In a part of the opinion joined only by Judge Moore, Chief Judge Rader agreed with the plurality that petitioner's method and media claims are drawn to an abstract idea. *Id.,* at 1312–1313. In a part of the opinion joined by Judges Linn, Moore, and O'Malley, Chief Judge Rader

would have held that the system claims are patent eligible because they involve computer "hardware" that is "specifically programmed to solve a complex problem." *Id.,* at 1307. Judge Moore wrote a separate opinion dissenting in part, arguing that the system claims are patent eligible. *Id.,* at 1313–1314. Judge Newman filed an opinion concurring in part and dissenting in part, arguing that all of petitioner's claims are patent eligible. *Id.,* at 1327. Judges Linn and O'Malley filed a separate dissenting opinion reaching that same conclusion. *Ibid.*

We granted certiorari, 571 U. S. ___ (2013), and now affirm.

II

Section 101 of the Patent Act defines the subject matter eligible for patent protection. It 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." 35 U. S. C. §101.

"We have long held that this provision contains an important implicit exception: Laws of nature, natural phenomena, and abstract ideas are not patentable." *Association for Molecular Pathology* v. *Myriad Genetics, Inc.*, 569 U. S. ___, ___ (2013) (slip op., at 11) (internal quotation marks and brackets omitted). We have interpreted §101 and its predecessors in light of this exception for more than 150 years. *Bilski*, *supra,* at 601–602; see also *O'Reilly* v. *Morse*, 15 How. 62, 112–120 (1854); *Le Roy* v. *Tatham*, 14 How. 156, 174–175 (1853).

We have described the concern that drives this exclusionary principle as one of pre-emption. See, *e.g., Bilski*, *supra,* at 611–612 (upholding the patent "would pre-empt use of this approach in all fields, and would effectively

grant a monopoly over an abstract idea"). Laws of nature, natural phenomena, and abstract ideas are "'"the basic tools of scientific and technological work."'" *Myriad*, *supra,* at ___ (slip op., at 11). "[M]onopolization of those tools through the grant of a patent might tend to impede innovation more than it would tend to promote it," thereby thwarting the primary object of the patent laws. *Mayo*, *supra*, at ___ (slip op., at 2); see U. S. Const., Art. I, §8, cl. 8 (Congress "shall have Power . . . To promote the Progress of Science and useful Arts"). We have "repeatedly emphasized this . . . concern that patent law not inhibit further discovery by improperly tying up the future use of" these building blocks of human ingenuity. *Mayo*, *supra,* at ___ (slip op., at 16) (citing *Morse, supra*, at 113).

At the same time, we tread carefully in construing this exclusionary principle lest it swallow all of patent law. *Mayo*, 566 U. S., at ___ (slip op., at 2). At some level, "all inventions . . . embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas." *Id.,* at ___ (slip op., at 2). Thus, an invention is not rendered ineligible for patent simply because it involves an abstract concept. See *Diamond* v. *Diehr*, 450 U. S. 175, 187 (1981). "[A]pplication[s]" of such concepts "'to a new and useful end,'" we have said, remain eligible for patent protection. *Gottschalk* v. *Benson*, 409 U. S. 63, 67 (1972).

Accordingly, in applying the §101 exception, we must distinguish between patents that claim the "'buildin[g] block[s]'" of human ingenuity and those that integrate the building blocks into something more, *Mayo*, 566 U. S., at ___ (slip op., at 20), thereby "transform[ing]" them into a patent-eligible invention, *id.,* at ___ (slip op., at 3). The former "would risk disproportionately tying up the use of the underlying" ideas, *id.,* at ___ (slip op., at 4), and are therefore ineligible for patent protection. The latter pose no comparable risk of pre-emption, and therefore remain eligible for the monopoly granted under our patent laws.

III

In *Mayo Collaborative Services* v. *Prometheus Laboratories, Inc.*, 566 U. S. ___ (2012), we set forth a framework for distinguishing patents that claim laws of nature, natural phenomena, and abstract ideas from those that claim patent-eligible applications of those concepts. First, we determine whether the claims at issue are directed to one of those patent-ineligible concepts. *Id.,* at ___ (slip op., at 8). If so, we then ask, "[w]hat else is there in the claims before us?" *Id.,* at ___ (slip op., at 9). To answer that question, we consider the elements of each claim both individually and "as an ordered combination" to determine whether the additional elements "transform the nature of the claim" into a patent-eligible application. *Id.,* at ___ (slip op., at 10, 9). We have described step two of this analysis as a search for an "'inventive concept'"—*i.e.,* an element or combination of elements that is "sufficient to ensure that the patent in practice amounts to significantly more than a patent upon the [ineligible concept] itself." *Id.,* at ___ (slip op., at 3).[3]

A

We must first determine whether the claims at issue are directed to a patent-ineligible concept. We conclude that they are: These claims are drawn to the abstract idea of intermediated settlement.

The "abstract ideas" category embodies "the longstanding rule that '[a]n idea of itself is not patentable.'" *Benson*, *supra,* at 67 (quoting *Rubber-Tip Pencil Co.* v. *Howard*, 20 Wall. 498, 507 (1874)); see also *Le Roy*, *supra*, at

[3] Because the approach we made explicit in *Mayo* considers all claim elements, both individually and in combination, it is consistent with the general rule that patent claims "must be considered as a whole." *Diamond* v. *Diehr*, 450 U. S. 175, 188 (1981); see *Parker* v. *Flook*, 437 U. S. 584, 594 (1978) ("Our approach . . . is . . . not at all inconsistent with the view that a patent claim must be considered as a whole").

175 ("A principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right"). In *Benson*, for example, this Court rejected as ineligible patent claims involving an algorithm for converting binary-coded decimal numerals into pure binary form, holding that the claimed patent was "in practical effect . . . a patent on the algorithm itself." 409 U. S., at 71–72. And in *Parker* v. *Flook*, 437 U. S. 584, 594–595 (1978), we held that a mathematical formula for computing "alarm limits" in a catalytic conversion process was also a patent-ineligible abstract idea.

We most recently addressed the category of abstract ideas in *Bilski* v. *Kappos*, 561 U. S. 593 (2010). The claims at issue in *Bilski* described a method for hedging against the financial risk of price fluctuations. Claim 1 recited a series of steps for hedging risk, including: (1) initiating a series of financial transactions between providers and consumers of a commodity; (2) identifying market participants that have a counterrisk for the same commodity; and (3) initiating a series of transactions between those market participants and the commodity provider to balance the risk position of the first series of consumer transactions. *Id.,* at 599. Claim 4 "pu[t] the concept articulated in claim 1 into a simple mathematical formula." *Ibid.* The remaining claims were drawn to examples of hedging in commodities and energy markets.

"[A]ll members of the Court agree[d]" that the patent at issue in *Bilski* claimed an "abstract idea." *Id.,* at 609; see also *id.,* at 619 (Stevens, J., concurring in judgment). Specifically, the claims described "the basic concept of hedging, or protecting against risk." *Id.,* at 611. The Court explained that "'[h]edging is a fundamental economic practice long prevalent in our system of commerce and taught in any introductory finance class.'" *Ibid.* "The concept of hedging" as recited by the claims in suit was

therefore a patent-ineligible "abstract idea, just like the algorithms at issue in *Benson* and *Flook*." *Ibid.*

It follows from our prior cases, and *Bilski* in particular, that the claims at issue here are directed to an abstract idea. Petitioner's claims involve a method of exchanging financial obligations between two parties using a third-party intermediary to mitigate settlement risk. The intermediary creates and updates "shadow" records to reflect the value of each party's actual accounts held at "exchange institutions," thereby permitting only those transactions for which the parties have sufficient resources. At the end of each day, the intermediary issues irrevocable instructions to the exchange institutions to carry out the permitted transactions.

On their face, the claims before us are drawn to the concept of intermediated settlement, *i.e.,* the use of a third party to mitigate settlement risk. Like the risk hedging in *Bilski*, the concept of intermediated settlement is "'a fundamental economic practice long prevalent in our system of commerce.'" *Ibid.*; see, *e.g.,* Emery, Speculation on the Stock and Produce Exchanges of the United States, in 7 Studies in History, Economics and Public Law 283, 346–356 (1896) (discussing the use of a "clearing-house" as an intermediary to reduce settlement risk). The use of a third-party intermediary (or "clearing house") is also a building block of the modern economy. See, *e.g.*, Yadav, The Problematic Case of Clearinghouses in Complex Markets, 101 Geo. L. J. 387, 406–412 (2013); J. Hull, Risk Management and Financial Institutions 103–104 (3d ed. 2012). Thus, intermediated settlement, like hedging, is an "abstract idea" beyond the scope of §101.

Petitioner acknowledges that its claims describe intermediated settlement, see Brief for Petitioner 4, but rejects the conclusion that its claims recite an "abstract idea." Drawing on the presence of mathematical formulas in some of our abstract-ideas precedents, petitioner contends

that the abstract-ideas category is confined to "preexisting, fundamental truth[s]" that "'exis[t] in principle apart from any human action.'" *Id.,* at 23, 26 (quoting *Mayo*, 566 U. S., at ___ (slip op., at 8)).

Bilski belies petitioner's assertion. The concept of risk hedging we identified as an abstract idea in that case cannot be described as a "preexisting, fundamental truth." The patent in *Bilski* simply involved a "series of steps instructing how to hedge risk." 561 U. S., at 599. Although hedging is a longstanding commercial practice, *id.,* at 599, it is a method of organizing human activity, not a "truth" about the natural world "'that has always existed,'" Brief for Petitioner 22 (quoting *Flook*, *supra,* at 593, n. 15). One of the claims in *Bilski* reduced hedging to a mathematical formula, but the Court did not assign any special significance to that fact, much less the sort of talismanic significance petitioner claims. Instead, the Court grounded its conclusion that all of the claims at issue were abstract ideas in the understanding that risk hedging was a "'fundamental economic practice.'" 561 U. S., at 611.

In any event, we need not labor to delimit the precise contours of the "abstract ideas" category in this case. It is enough to recognize that there is no meaningful distinction between the concept of risk hedging in *Bilski* and the concept of intermediated settlement at issue here. Both are squarely within the realm of "abstract ideas" as we have used that term.

B

Because the claims at issue are directed to the abstract idea of intermediated settlement, we turn to the second step in *Mayo*'s framework. We conclude that the method claims, which merely require generic computer implementation, fail to transform that abstract idea into a patent-eligible invention.

1

At *Mayo* step two, we must examine the elements of the claim to determine whether it contains an "'inventive concept'" sufficient to "transform" the claimed abstract idea into a patent-eligible application. 566 U. S., at ___, ___ (slip op., at 3, 11). A claim that recites an abstract idea must include "additional features" to ensure "that the [claim] is more than a drafting effort designed to monopolize the [abstract idea]." *Id.,* at ___ (slip op., at 8–9). *Mayo* made clear that transformation into a patent-eligible application requires "more than simply stat[ing] the [abstract idea] while adding the words 'apply it.'" *Id.*, at ___ (slip op., at 3).

Mayo itself is instructive. The patents at issue in *Mayo* claimed a method for measuring metabolites in the bloodstream in order to calibrate the appropriate dosage of thiopurine drugs in the treatment of autoimmune diseases. *Id.,* at ___ (slip op., at 4–6). The respondent in that case contended that the claimed method was a patent-eligible application of natural laws that describe the relationship between the concentration of certain metabolites and the likelihood that the drug dosage will be harmful or ineffective. But methods for determining metabolite levels were already "well known in the art," and the process at issue amounted to "nothing significantly more than an instruction to doctors to apply the applicable laws when treating their patients." *Id.,* at ___ (slip op., at 10). "Simply appending conventional steps, specified at a high level of generality," was not "*enough*" to supply an "'inventive concept.'" *Id.,* at ___, ___, ___ (slip op., at 14, 8, 3).

The introduction of a computer into the claims does not alter the analysis at *Mayo* step two. In *Benson*, for example, we considered a patent that claimed an algorithm implemented on "a general-purpose digital computer." 409 U. S., at 64. Because the algorithm was an abstract idea, see *supra,* at 8, the claim had to supply a "'new and use-

ful'" application of the idea in order to be patent eligible. 409 U. S., at 67. But the computer implementation did not supply the necessary inventive concept; the process could be "carried out in existing computers long in use." *Ibid.* We accordingly "held that simply implementing a mathematical principle on a physical machine, namely a computer, [i]s not a patentable application of that principle." *Mayo*, *supra*, at ___ (slip op., at 16) (citing *Benson*, *supra,* at 64).

Flook is to the same effect. There, we examined a computerized method for using a mathematical formula to adjust alarm limits for certain operating conditions (*e.g.,* temperature and pressure) that could signal inefficiency or danger in a catalytic conversion process. 437 U. S., at 585–586. Once again, the formula itself was an abstract idea, see *supra,* at 8, and the computer implementation was purely conventional. 437 U. S., at 594 (noting that the "use of computers for 'automatic monitoring-alarming'" was "well known"). In holding that the process was patent ineligible, we rejected the argument that "implement[ing] a principle in some specific fashion" will "automatically fal[l] within the patentable subject matter of §101." *Id.,* at 593. Thus, "*Flook* stands for the proposition that the prohibition against patenting abstract ideas cannot be circumvented by attempting to limit the use of [the idea] to a particular technological environment." *Bilski*, 561 U. S., at 610–611 (internal quotation marks omitted).

In *Diehr*, 450 U. S. 175, by contrast, we held that a computer-implemented process for curing rubber was patent eligible, but not because it involved a computer. The claim employed a "well-known" mathematical equation, but it used that equation in a process designed to solve a technological problem in "conventional industry practice." *Id.,* at 177, 178. The invention in *Diehr* used a "thermocouple" to record constant temperature measure-

ments inside the rubber mold—something "the industry ha[d] not been able to obtain." *Id.,* at 178, and n. 3. The temperature measurements were then fed into a computer, which repeatedly recalculated the remaining cure time by using the mathematical equation. *Id.,* at 178–179. These additional steps, we recently explained, "transformed the process into an inventive application of the formula." *Mayo*, *supra*, at ___ (slip op., at 12). In other words, the claims in *Diehr* were patent eligible because they improved an existing technological process, not because they were implemented on a computer.

These cases demonstrate that the mere recitation of a generic computer cannot transform a patent-ineligible abstract idea into a patent-eligible invention. Stating an abstract idea "while adding the words 'apply it'" is not enough for patent eligibility. *Mayo*, *supra,* at ___ (slip op., at 3). Nor is limiting the use of an abstract idea "'to a particular technological environment.'" *Bilski*, *supra,* at 610–611. Stating an abstract idea while adding the words "apply it with a computer" simply combines those two steps, with the same deficient result. Thus, if a patent's recitation of a computer amounts to a mere instruction to "implemen[t]" an abstract idea "on . . . a computer," *Mayo*, *supra,* at ___ (slip op., at 16), that addition cannot impart patent eligibility. This conclusion accords with the preemption concern that undergirds our §101 jurisprudence. Given the ubiquity of computers, see 717 F. 3d, at 1286 (Lourie, J., concurring), wholly generic computer implementation is not generally the sort of "additional featur[e]" that provides any "practical assurance that the process is more than a drafting effort designed to monopolize the [abstract idea] itself." *Mayo*, 566 U. S., at ___ (slip op., at 8–9).

The fact that a computer "necessarily exist[s] in the physical, rather than purely conceptual, realm," Brief for Petitioner 39, is beside the point. There is no dispute that

a computer is a tangible system (in §101 terms, a "machine"), or that many computer-implemented claims are formally addressed to patent-eligible subject matter. But if that were the end of the §101 inquiry, an applicant could claim any principle of the physical or social sciences by reciting a computer system configured to implement the relevant concept. Such a result would make the determination of patent eligibility "depend simply on the draftsman's art," *Flook*, *supra,* at 593, thereby eviscerating the rule that "'[l]aws of nature, natural phenomena, and abstract ideas are not patentable,'" *Myriad*, 569 U. S., at ___ (slip op., at 11).

2

The representative method claim in this case recites the following steps: (1) "creating" shadow records for each counterparty to a transaction; (2) "obtaining" start-of-day balances based on the parties' real-world accounts at exchange institutions; (3) "adjusting" the shadow records as transactions are entered, allowing only those transactions for which the parties have sufficient resources; and (4) issuing irrevocable end-of-day instructions to the exchange institutions to carry out the permitted transactions. See n. 2, *supra*. Petitioner principally contends that the claims are patent eligible because these steps "require a substantial and meaningful role for the computer." Brief for Petitioner 48. As stipulated, the claimed method requires the use of a computer to create electronic records, track multiple transactions, and issue simultaneous instructions; in other words, "[t]he computer is itself the intermediary." *Ibid.* (emphasis deleted).

In light of the foregoing, see *supra,* at 11–14, the relevant question is whether the claims here do more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer. They do not.

Taking the claim elements separately, the function performed by the computer at each step of the process is "[p]urely conventional." *Mayo*, *supra,* at ___ (slip op., at 10) (internal quotation marks omitted). Using a computer to create and maintain "shadow" accounts amounts to electronic recordkeeping—one of the most basic functions of a computer. See, *e.g., Benson*, 409 U. S., at 65 (noting that a computer "operates . . . upon both new and previously stored data"). The same is true with respect to the use of a computer to obtain data, adjust account balances, and issue automated instructions; all of these computer functions are "well-understood, routine, conventional activit[ies]" previously known to the industry. *Mayo*, 566 U. S., at ___ (slip op., at 4). In short, each step does no more than require a generic computer to perform generic computer functions.

Considered "as an ordered combination," the computer components of petitioner's method "ad[d] nothing . . . that is not already present when the steps are considered separately." *Id.,* at ___ (slip op., at 10). Viewed as a whole, petitioner's method claims simply recite the concept of intermediated settlement as performed by a generic computer. See 717 F. 3d, at 1286 (Lourie, J., concurring) (noting that the representative method claim "lacks *any* express language to define the computer's participation"). The method claims do not, for example, purport to improve the functioning of the computer itself. See *ibid.* ("There is no specific or limiting recitation of . . . improved computer technology . . . "); Brief for United States as *Amicus Curiae* 28–30. Nor do they effect an improvement in any other technology or technical field. See, *e.g.*, *Diehr*, 450 U. S., at 177–178. Instead, the claims at issue amount to "nothing significantly more" than an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer. *Mayo,* 566 U. S., at ___ (slip op., at 10). Under our precedents, that is not "*enough*" to

transform an abstract idea into a patent-eligible invention. *Id.,* at ___ (slip op., at 8).

C

Petitioner's claims to a computer system and a computer-readable medium fail for substantially the same reasons. Petitioner conceded below that its media claims rise or fall with its method claims. En Banc Response Brief for Defendant-Appellant in No. 11–1301 (CA Fed.) p. 50, n. 3. As to its system claims, petitioner emphasizes that those claims recite "specific hardware" configured to perform "specific computerized functions." Brief for Petitioner 53. But what petitioner characterizes as specific hardware—a "data processing system" with a "communications controller" and "data storage unit," for example, see App. 954, 958, 1257—is purely functional and generic. Nearly every computer will include a "communications controller" and "data storage unit" capable of performing the basic calculation, storage, and transmission functions required by the method claims. See 717 F. 3d, at 1290 (Lourie, J., concurring). As a result, none of the hardware recited by the system claims "offers a meaningful limitation beyond generally linking 'the use of the [method] to a particular technological environment,' that is, implementation via computers." *Id.,* at 1291 (quoting *Bilski*, 561 U. S., at 610–611).

Put another way, the system claims are no different from the method claims in substance. The method claims recite the abstract idea implemented on a generic computer; the system claims recite a handful of generic computer components configured to implement the same idea. This Court has long "warn[ed] . . . against" interpreting §101 "in ways that make patent eligibility 'depend simply on the draftsman's art.'" *Mayo*, *supra,* at ___ (slip op., at 3) (quoting *Flook*, 437 U. S., at 593); see *id.*, at 590 ("The concept of patentable subject matter under §101 is not

'like a nose of wax which may be turned and twisted in any direction . . . '"). Holding that the system claims are patent eligible would have exactly that result.

Because petitioner's system and media claims add nothing of substance to the underlying abstract idea, we hold that they too are patent ineligible under §101.

* * *

For the foregoing reasons, the judgment of the Court of Appeals for the Federal Circuit is affirmed.

It is so ordered.

SUPREME COURT OF THE UNITED STATES

No. 13–298

ALICE CORPORATION PTY. LTD, PETITIONER *v.* CLS BANK INTERNATIONAL ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

[June 19, 2014]

JUSTICE SOTOMAYOR, with whom JUSTICE GINSBURG and JUSTICE BREYER join, concurring.

I adhere to the view that any "claim that merely describes a method of doing business does not qualify as a 'process' under §101." *Bilski* v. *Kappos*, 561 U. S. 593, 614 (2010) (Stevens, J., concurring in judgment); see also *In re Bilski*, 545 F. 3d 943, 972 (CA Fed. 2008) (Dyk, J., concurring) ("There is no suggestion in any of th[e] early [English] consideration of process patents that processes for organizing human activity were or ever had been patentable"). As in *Bilski*, however, I further believe that the method claims at issue are drawn to an abstract idea. Cf. 561 U. S., at 619 (opinion of Stevens, J.). I therefore join the opinion of the Court.

United States Court of Appeals for the Federal Circuit

DDR HOLDINGS, LLC,
Plaintiff-Appellee,

v.

HOTELS.COM, L.P., CENDANT TRAVEL DISTRIBUTION SERVICES GROUP, INC., EXPEDIA, INC., TRAVELOCITY.COM, L.P., SITE59.COM, LLC, INTERNATIONAL CRUISE & EXCURSION GALLERY, INC., OURVACATIONSTORE, INC., INTERNETWORK PUBLISHING CORPORATION, AND ORBITZ WORLDWIDE, LLC,
Defendants,

AND

NATIONAL LEISURE GROUP, INC. AND WORLD TRAVEL HOLDINGS, INC.,
Defendants-Appellants,

AND

DIGITAL RIVER, INC.,
Defendant.

2013-1505

Appeal from the United States District Court for the Eastern District of Texas in No. 06-CV-0042, Judge J. Rodney Gilstrap.

Decided: December 5, 2014

LOUIS J. HOFFMAN, Hoffman Patent Firm, of Scottsdale, Arizona, argued for plaintiff-appellee. On the brief was IAN B. CROSBY, Susman Godfrey LLP, of Seattle, Washington.

NORMAN H. ZIVIN, Cooper & Dunham LLP, of New York, New York, argued for defendants-appellants, National Leisure Group, Inc., et al. With him on the brief was TONIA A. SAYOUR.

Before WALLACH, MAYER, and CHEN, *Circuit Judges*.

Opinion for the court filed by *Circuit Judge* CHEN. Dissenting opinion filed by *Circuit Judge* MAYER.

CHEN, *Circuit Judge*.

Defendants-Appellants National Leisure Group, Inc. and World Travel Holdings, Inc. (collectively, NLG) appeal from a final judgment of the United States District Court for the Eastern District of Texas entered in favor of Plaintiff-Appellee DDR Holdings, LLC (DDR). Following trial, a jury found that NLG infringes the asserted claims of U.S. Patent Nos. 6,993,572 (the '572 patent) and 7,818,399 (the '399 patent). The jury also found the asserted claims of the '572 and '399 patents are not invalid. The district court denied NLG's renewed motion for judgment as a matter of law (JMOL) on, *inter alia*, noninfringement and invalidity of the asserted patents. The district court subsequently entered a final judgment

consistent with the jury's findings on infringement, validity, and damages, and awarded DDR pre- and post-judgment interest and costs. We affirm the district court's denial of NLG's motions for JMOL of noninfringement and invalidity of the '399 patent. Because we conclude that the '572 patent is anticipated as a matter of law, we reverse the district court's denial of JMOL on the validity of the '572 patent, and remand to the district court for further proceedings consistent with our decision.

I. BACKGROUND

DDR is the assignee of the '572 and '399 patents. The '572 and '399 patents are both continuations of U.S. Patent No. 6,629,135 (the '135 patent), which has a priority date of September 17, 1998. Each of these patents is directed to systems and methods of generating a composite web page that combines certain visual elements of a "host" website with content of a third-party merchant. For example, the generated composite web page may combine the logo, background color, and fonts of the host website with product information from the merchant. '135 patent, 12:46–50.

The common specification of the patents-in-suit explains that prior art systems allowed third-party merchants to "lure the [host website's] visitor traffic away" from the host website because visitors would be taken to the third-party merchant's website when they clicked on the merchant's advertisement on the host site. *Id.* at 2:26–30. The patents-in-suit disclose a system that provides a solution to this problem (for the host) by creating a new web page that permits a website visitor, in a sense, to be in two places at the same time. On activation of a hyperlink on a host website—such as an advertisement for a third-party merchant—instead of taking the visitor to the merchant's website, the system generates and directs the visitor to a composite web page that displays product information from the third-party mer-

chant, but retains the host website's "look and feel." *Id.* at 3:9–21. Thus, the host website can display a third-party merchant's products, but retain its visitor traffic by displaying this product information from within a generated web page that "gives the viewer of the page the impression that she is viewing pages served by the host" website. *Id.* at 2:56–63, 3:20–22.

Representative claim 13 of the '572 patent recites:

> 13. An e-commerce outsourcing system comprising:
>
> a) a data store including a look and feel description associated with a host web page having a link correlated with a commerce object; and
>
> b) a computer processor coupled to the data store and in communication through the Internet with the host web page and programmed, upon receiving an indication that the link has been activated by a visitor computer in Internet communication with the host web page, to serve a composite web page to the visitor computer wit[h] a look and feel based on the look and feel description in the data store and with content based on the commerce object associated wit[h] the link.

System claim 13 requires that the recited system provide the host website with a "link" that "correlate[s]" the host website with a "commerce object." The "commerce object" is the product or product catalog of the merchant. '135 patent, 3:7–13. After recognizing that a website visitor has activated the link, the system retrieves data from a "data store" that describes the "look and feel" of the host web page, which can include visual elements such as logos, colors, fonts, and page frames. *Id.* at 12:46–50. The claimed system then constructs a composite web page comprising a "look and feel" based on the look and

feel description in the data store along with content based on product information from the associated merchant's product catalog.

The '399 patent is directed to a similar system with a greater emphasis on a "scalable [computer] architecture" to serve "dynamically constructed [web] pages" associated with multiple host website and merchant pairs. '135 patent, 3:32–36. Representative claim 19 of the '399 patent recites:

> 19. A system useful in an outsource provider serving web pages offering commercial opportunities, the system comprising:
>
> (a) a computer store containing data, for each of a plurality of first web pages, defining a plurality of visually perceptible elements, which visually perceptible elements correspond to the plurality of first web pages;
>
> (i) wherein each of the first web pages belongs to one of a plurality of web page owners;
>
> (ii) wherein each of the first web pages displays at least one active link associated with a commerce object associated with a buying opportunity of a selected one of a plurality of merchants; and
>
> (iii) wherein the selected merchant, the outsource provider, and the owner of the first web page displaying the associated link are each third parties with respect to one other;
>
> (b) a computer server at the outsource provider, which computer server is coupled to the computer store and programmed to:
>
> (i) receive from the web browser of a computer user a signal indicating activation of one of

the links displayed by one of the first web pages;

(ii) automatically identify as the source page the one of the first web pages on which the link has been activated;

(iii) in response to identification of the source page, automatically retrieve the stored data corresponding to the source page; and

(iv) using the data retrieved, automatically generate and transmit to the web browser a second web page that displays: (A) information associated with the commerce object associated with the link that has been activated, and (B) the plurality of visually perceptible elements visually corresponding to the source page.

Similar to claim 13 of the '572 patent, system claim 19 of the '399 patent requires that a "data store" hold "visually perceptible elements" (or "'look and feel' elements") that "visually . . . correspond" to a host web page. The host web page must include a link associated with a "buying opportunity" with a merchant. Once a visitor activates this link, the claimed system generates and transmits to the website visitor's web browser a composite web page that includes product information of the merchant and the "look and feel" of the host website (i.e., "the plurality of visually perceptible elements visually corresponding to the [host web] page").

Claim 19 further requires that the data store must store "look and feel" descriptions for multiple hosts and that each link must be associated with a particular merchant's product catalog. Claim 19 also requires that the merchant, system operator, and host website be "third parties with respect to one another." When a website visitor activates a link associated with a merchant's

product catalog, the claimed system identifies the host web page and then transmits a composite web page using the proper "look and feel" elements of the host website in the data store and the product information from the associated merchant.

The '572 patent issued on January 31, 2006. On the same day, DDR filed suit against NLG, Digital River, Inc. (Digital River), and nine other defendants, asserting infringement of various claims of the '135 and '572 patents. NLG is a travel agency that sells cruises in partnership with travel-oriented websites and major cruise lines through the Internet. DDR's suit accused NLG of infringing the '135 and '572 patents by providing a system for cruise-oriented (host) websites that allows visitors to book cruises on major cruise lines (merchants). Joint Appendix (J.A.) 261. In particular, when a visitor on one of these cruise-oriented (host) websites clicks on an advertisement for a cruise, NLG's system generates and directs the visitor to a composite web page that incorporates "look and feel" elements from the host website and product information from the cruise line (merchant).

DDR's suit was stayed during the pendency of an *ex parte* reexamination of the '135 and '572 patents requested by DDR that was based on prior art identified by the defendants. Shortly after the U.S. Patent and Trademark Office confirmed the validity of the '135 and '572 patents and the stay was lifted, the '399 patent issued on October 19, 2010. DDR subsequently amended its complaint to assert infringement of this patent by several of the defendants, including NLG.

During *Markman* proceedings, the parties stipulated to a construction of several terms, including "look and feel," which appears in each of the asserted claims of the '572 patent, and "visually perceptible elements," which appears in each of the asserted claims of the '399 patent. J.A. 542. For "look and feel," the parties agreed to a

construction of: "A set of elements related to visual appearance and user interface conveying an overall appearance identifying a website; such elements include logos, colors, page layout, navigation systems, frames, 'mouse-over' effects, or others elements consistent through some or all of the website." *Id.* For "visually perceptible elements," the parties agreed to a construction of: "look and feel elements that can be seen." *Id.* The defendants, however, expressly reserved their rights to argue that both the "look and feel" and "visually perceptible elements" terms are indefinite, but offered the stipulated constructions "in the alternative." *Id.*

Between June 2012 and January 2013, DDR settled with all defendants except for NLG and Digital River. The case eventually proceeded to a jury trial in October 2012. At trial, DDR accused NLG and Digital River of direct and willful infringement of claims 13, 17, and 20 of the '572 patent, and accused NLG—but not Digital River—of direct and willful infringement of claims 1, 3, and 19 of the '399 patent. DDR also accused NLG and Digital River of inducing infringement of claim 17 of the '572 patent.

The jury found that NLG and Digital River directly infringed the asserted claims of the '572 patent and that NLG directly infringed the asserted claims of the '399 patent, but that NLG and Digital River's infringement was not willful. The jury found that NLG and Digital River did not induce infringement of claim 17 of the '572 patent. The jury also found that the asserted claims were not invalid. The jury determined DDR was entitled to $750,000 in damages from both NLG and Digital River for infringing DDR's patents.

At the conclusion of trial, NLG and Digital River renewed motions for JMOL pursuant to Rule 50(b) of the Federal Rules of Civil Procedure (FRCP) on several grounds. NLG contended the asserted claims of the '572

and '399 patents are invalid under 35 U.S.C. § 101 because the claims are directed to patent-ineligible subject matter and invalid under 35 U.S.C. § 112 ¶ 2[1] because the terms "look and feel" and "visually perceptible elements" are indefinite. NLG also contended that neither the jury's finding of infringement nor its award of damages was supported by substantial evidence. NLG also alleged the district court made several unfair and prejudicial evidentiary rulings.

Digital River contended that the asserted claims of the '572 patent are invalid as either anticipated under 35 U.S.C. § 102, obvious under 35 U.S.C. § 103, or indefinite under 35 U.S.C. § 112 ¶ 2. Digital River also contended that the jury's finding of infringement was not supported by substantial evidence. Digital River moved for a new trial pursuant to FRCP 59.

The district court denied NLG and Digital River's motions for JMOL and Digital River's FRCP 59 motion for a new trial. Over the defendants' objections, the district court awarded DDR an additional $284,404 in prejudgment interest pursuant to 35 U.S.C. § 284. The district court entered a final judgment in favor of DDR, and NLG and Digital River timely appealed. NLG and Digital River's appeals were consolidated and fully briefed. Prior to oral argument, DDR and Digital River settled, and we granted Digital River's motion to terminate its appeal. D.I. 65, 68. NLG's appeal continued. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

[1] Paragraph 2 of 35 U.S.C. § 112 was replaced with newly designated § 112(b) when § 4(c) of the America Invents Act (AIA), Pub. L. No. 112-29, took effect on September 16, 2012. Because the applications resulting in the patents at issue in this case were filed before that date, we will refer to the pre-AIA version of § 112.

II. DISCUSSION

Since the denial of a motion for JMOL is not patent law-specific, regional circuit law applies. The Fifth Circuit reviews the denial of a JMOL motion *de novo*. *See, e.g.*, *Harris Corp. v. Ericsson Inc.*, 417 F.3d 1241, 1248 (Fed. Cir. 2005). In the Fifth Circuit, JMOL is appropriate if "the facts and inferences point so strongly and overwhelmingly in favor of one party that the court concludes that reasonable jurors could not arrive at a contrary verdict." *Id.* The Court "must presume that the jury resolved all factual disputes in the [prevailing party's] favor." *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling USA, Inc.*, 699 F.3d 1340, 1347 (Fed. Cir. 2012) (applying Fifth Circuit law to the review of a district court's grant of JMOL).

A. Anticipation

We turn first to the district court's denial of Digital River's motion for JMOL of invalidity of the '572 patent based on 35 U.S.C. § 102(a). A patent claim is anticipated if a single prior art reference expressly or inherently discloses every limitation of the claim. *See, e.g.*, *Orion IP, LLC v. Hyundai Motor Am.*, 605 F.3d 967, 975 (Fed. Cir. 2010). Anticipation challenges under § 102 must focus only on the limitations actually recited in the claims. *See Constant v. Adv. Micro-Devices, Inc.*, 848 F.2d 1560, 1570–71 (Fed. Cir. 1988) (finding "limitations [] not found anywhere in the claims" to be irrelevant to an anticipation challenge). Whether a reference discloses a limitation is a question of fact, and a jury's findings on questions of fact are reviewed for substantial evidence. *See, e.g.*, *Dawn Equip. Co. v. Ky. Farms Inc.*, 140 F.3d 1009, 1014 (Fed. Cir. 1998). Invalidity by anticipation must be proven by clear and convincing evidence. *See Microsoft Corp. v. i4i L.P.*, 131 S. Ct. 2238, 2242 (2011).

On appeal, the parties only dispute whether Digital River's prior art Secure Sales System (SSS) satisfies the

"look and feel" limitation; DDR does not dispute that the SSS satisfies every other limitation of the '572 patent's asserted claims. NLG, which adopted Digital River's anticipation challenge to the '572 patent,[2] argues that no evidence supports the jury's finding that the SSS does not disclose the "look and feel" limitation, since it showed the jury multiple examples of composite web pages generated by the SSS with a "look and feel" based on a set of "look and feel" elements from the corresponding host website.

DDR contends that, as the district court determined, "it is up to the trier of fact to determine whether the combination of elements making up the overall appear-

[2] Even though Digital River terminated its appeal prior to oral argument, it did not do so until after the parties had fully completed their briefing. In its own briefs, although only in footnotes, NLG incorporated by reference Digital River's arguments on anticipation. Appellant's Br. 43 n.23; Appellant's Reply Br. 9 n.5. In a consolidated case such as here, Rule 28(i) of the Federal Rules of Appellate Procedure (FRAP) permits "any party [to] adopt by reference a part of another's brief." *See, e.g.*, *Pozen Inc. v. Par Pharm. Inc.*, 696 F.3d 1151, 1159 n.3 (Fed. Cir. 2012); *Aventis Pharma Deutschland GmbH v. Lupin, Ltd.*, 499 F.3d 1293, 1294 n.1 (Fed. Cir. 2007). *Compare Microsoft Corp. v. DataTern, Inc.*, 755 F.3d 899, 910 (Fed. Cir. 2014) (co-parties in non-consolidated appeals cannot use incorporation pursuant to FRAP 28(i) to exceed word count limits prescribed by FRAP 32(a)(7)). DDR implicitly *concedes* that NLG has adequately adopted Digital River's anticipation defense as to the '572 patent, acknowledging that "[NLG] did not adopt Digital River's anticipation defense or seek to extend it to prove anticipation *of the '399 patent*, which has claims containing extra elements not found in the asserted claims of the '572 patent." Appellee's Br. 44 n.10 (emphasis added).

ance of a website has a similar 'look and feel' as compared to another website." *DDR Holdings, LLC v. Hotels.com, L.P.*, 954 F. Supp. 2d 509, 517 (E.D. Tex. 2013). DDR contends that the jury reviewed substantial evidence that Digital River's SSS did not replicate the host website's "look and feel" in terms of "overall appearance" and that the web pages generated by the SSS did not show "correspondence of overall appearance." In particular, DDR argues that the SSS did not satisfy this limitation since it did not replicate a sufficient number of "look and feel" elements from the host web page. Appellee's Br. 45–46.

We find that the record allows only one reasonable finding: clear and convincing evidence establishes that Digital River's prior art SSS anticipates the asserted claims of the '572 patent. The record lacks substantial evidence to support the jury's finding that the asserted claims of the '572 patent are not anticipated. Therefore, the district court erred by denying the defendants' motion for JMOL of invalidity of the '572 patent under 35 U.S.C. § 102(a).

Digital River's prior art SSS was operational and sold to its first customer by August 12, 1996. J.A. 6618–23. By August 1997, more than a year before the filing date of the provisional application for the '135 patent, Digital River's SSS had attracted its 500th customer. J.A. 6257. Digital River advertised its SSS as a system for generating web pages that allowed website visitors to "purchase and download the digital products of their choice," but still "retain[ed] the *look and feel* of [the host's] site." J.A. 6202 (emphasis added). The SSS was activated when visitors on a host's website clicked a "web site 'buy' button" hyperlink. J.A. 6320. Digital River's advertisements explained that "[w]hen [website visitor] customers want to purchase, they push the 'buy' button and are transferred immediately and transparently to the Digital River Central Commerce Server." J.A. 6202. This component of the SSS then generated and served composite web pages to

website visitors that incorporated "look and feel" elements of the host website and product information associated with the host website's "web store" in a manner that "replicate[d] the *look and feel* of the [host's] Web site." J.A. 6320 (emphasis added). These "look and feel" elements and this product information content were stored by Digital River in a data warehouse and retrieved for incorporation into the generated composite web page based on a correlation with the "buy" button hyperlink on the host website. *See id.* In this way, Digital River's SSS would allow "transaction[s to] take[] place in the selling environment [the host website had] created, surrounded by the *look and feel* of [the host website's] identity. . . . There [would be] no sensation [for a website visitor] of being suddenly hustled off to another location." J.A. 6123 (emphasis added).

During trial, a Digital River witness testified at length on how the SSS generated composite web pages with "look and feel" elements from host websites, and operated the SSS for the jury. Digital River also showed the jury several composite web pages generated by the SSS for host websites before the earliest priority date of the '572 patent, including a composite web page that incorporated several elements identified in DDR's patents or by DDR's expert at trial as "look and feel elements": the host website's logo, background color, and prominent circular icons. J.A. 8856–57 (composite web page), 7502 (host website); *see also* J.A. 8858–61 (composite web page incorporating host website logo, colors, fonts), 6122 (example web page from host website).

The parties' stipulated construction of "look and feel" requires the generated composite web page to include a set of elements from the host website, each of these elements being a "look and feel element" described in the specification that "convey[s] an overall appearance identifying a website." J.A. 542. Consistent with the specification, the stipulated construction defines these "look and

feel elements" that "convey an overall appearance identifying a website" to "include logos, colors, page layout, navigation systems, frames, 'mouse-over' effects, or other elements that are consistent through some or all of a Host's website." *Id.*; *see also* '572 patent, 14:11–14. Digital River's SSS clearly satisfies this limitation. For example, Digital River showed the jury a host website that included a stylized logo, a particular background color, and prominent circular icons. J.A. 7502. The SSS generated a prior art composite web page that incorporated each of these "look and feel" elements. J.A. 8856–57; *see also* J.A. 6172 (host website) and 6171 (SSS-generated prior art composite web page incorporating logo, navigational menu, and color "look and feel" elements). And as explained above, the SSS was consistently promoted and advertised as creating a composite web page that retained the "look and feel" of the host website. *E.g.*, J.A. 6123, 6202, 6320.

Both the district court and DDR introduced a limitation found neither in the '572 patent's claims nor the parties' stipulated construction. In particular, the district court introduced a requirement that the generated composite web page have an "overall match" in appearance with the host website, beyond what is expressly recited by the claims. *DDR Holdings*, 954 F. Supp. 2d at 517; *see also* Appellee's Br. 47. There is nothing, however, in the parties' stipulated construction of "look and feel," the claim language, or the specification that requires the generated composite web page to match the host website or to incorporate a specific number, proportion, or selection of the identified "look and feel" elements on a host website.

In order to satisfy this limitation, it is sufficient that "look and feel" elements identifying the host website are transferred to and displayed on the generated composite webpage. For example, independent claim 13 of the '572 patent merely requires that the generated composite web

page have a "look and feel based on the look and feel description in the data store and content based on the commerce object associated wit[h] the link." Independent claim 17 requires only that the generated composite web page have a "look and feel corresponding to the stored look and feel description" of the host website. There is no claim language requiring an "overall match" or a specific number of "look and feel" elements.

Further, the common specification explains that "[t]he look and feel is captured by selecting an example page [from] the host, retrieving the sample page from the host, identifying the look and feel elements from the sample page, and saving the identified look and feel elements." '572 patent, 14:7–10. Nothing in the common specification suggests that satisfaction of the "look and feel" limitation requires more than mechanically identifying "look and feel elements" from a web page on the host website, storing these elements in a data store, and using these stored "look and feel elements" to create the "look and feel" of the generated composite web page.

The jury's determination that the SSS does not anticipate claims 13, 17, and 20 of the '572 patent is not supported by substantial evidence. Therefore, the district court erred by denying the defendants' motion for JMOL of invalidity of the '572 patent under 35 U.S.C. § 102(a).[3]

B. Patent-eligible subject matter

NLG also contends that the district court erred by denying its motion for JMOL that the asserted claims of

[3] Neither Digital River nor NLG ever argued that the '399 patent is invalid as anticipated by or obvious over prior art. We decline to speculate whether Digital River's prior art SSS, either alone or in combination with other prior art, invalidates the '399 patent under 35 U.S.C. §§ 102 or 103.

the ’572 and ’399 patents are invalid under 35 U.S.C. § 101. Since the ’572 patent is invalid as anticipated under 35 U.S.C. § 102(a), we focus on NLG’s § 101 challenge to claims 1, 3, and 19 of the ’399 patent. We conclude, as did the district court, that the asserted claims of the ’399 patent clear the § 101 hurdle.

We review the district court’s determination of patent eligibility under 35 U.S.C. § 101 *de novo*. *Dealertrack, Inc. v. Huber*, 674 F.3d 1315, 1333 (Fed. Cir. 2012). In *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012), the Supreme Court set forth an analytical framework under § 101 to distinguish patents that claim patent-ineligible laws of nature, natural phenomena, and abstract ideas—or add too little to such underlying ineligible subject matter—from those that claim patent-eligible applications of those concepts. First, given the nature of the invention in this case, we determine whether the claims at issue are directed to a patent-ineligible abstract idea. *Alice Corp. v. CLS Bank Int’l*, 134 S. Ct. 2347, 2355 (2014). If so, we then consider the elements of each claim—both individually and as an ordered combination—to determine whether the additional elements transform the nature of the claim into a patent-eligible application of that abstract idea. *Id.* This second step is the search for an “inventive concept,” or some element or combination of elements sufficient to ensure that the claim in practice amounts to “significantly more” than a patent on an ineligible concept. *Id.*

Distinguishing between claims that recite a patent-eligible invention and claims that add too little to a patent-ineligible abstract concept can be difficult, as the line separating the two is not always clear. At one time, a computer-implemented invention was considered patent-eligible so long as it produced a “useful, concrete and tangible result.” *State St. Bank & Trust Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998) (finding a machine that transformed data by a series of

mathematical calculations to a final share price to be patent-eligible); *see also In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc). This understanding rested, in large part, on the view that such inventions crossed the eligibility threshold by virtue of being in the technological realm, the historical arena for patented inventions. *See, e.g.*, *In re Bilski*, 545 F.3d 943, 952, 954–56 (Fed. Cir. 2008) (en banc) (concluding that a patent-eligible process must either be "tied to a particular machine or apparatus" or transformed into a different state or thing, i.e., the "machine-or-transformation test").

While the Supreme Court in *Bilski v. Kappos* noted that the machine-or-transformation test is a "useful and important clue" for determining patent eligibility, 130 S. Ct. 3218, 3227 (2010), it is clear today that not all machine implementations are created equal. For example, in *Mayo*, the Supreme Court emphasized that satisfying the machine-or-transformation test, by itself, is not sufficient to render a claim patent-eligible, as not all transformations or machine implementations infuse an otherwise ineligible claim with an "inventive concept." *See* 132 S. Ct. at 1301 ("[S]imply implementing a mathematical principle on a physical machine, namely a computer, [i]s not a patentable application of that principle.") (describing *Gottschalk v. Benson*, 409 U.S. 63, 64 (1972)). And after *Alice*, there can remain no doubt: recitation of generic computer limitations does not make an otherwise ineligible claim patent-eligible. 134 S. Ct. at 2358. The bare fact that a computer exists in the physical rather than purely conceptual realm "is beside the point." *Id.*

Although the Supreme Court did not "delimit the precise contours of the 'abstract ideas' category" in resolving *Alice*, 134 S. Ct. at 2356–57, over the course of several cases the Court has provided some important principles. We know that mathematical algorithms, including those executed on a generic computer, are abstract ideas. *See Benson*, 409 U.S. at 64. We know that some fundamental

economic and conventional business practices are also abstract ideas. *See Bilski*, 130 S. Ct. at 3231 (finding the "fundamental economic practice" of hedging to be patent ineligible); *Alice*, 134 S. Ct. at 2356 (same for intermediated settlement).

In some instances, patent-ineligible abstract ideas are plainly identifiable and divisible from the generic computer limitations recited by the remainder of the claim. For example, the Supreme Court in *Alice* determined that the claims at issue "simply instruct[ed] the practitioner to implement the abstract idea of intermediated settlement on a generic computer." 134 S. Ct. at 2359. In *Ultramercial, Inc. v. Hulu, LLC*, ___ F.3d ___, 2014 WL 5904902, at *5 (Fed. Cir. Nov. 14, 2014), the claims merely recited the abstract idea of using advertising as a currency as applied to the particular technological environment of the Internet. In *buySAFE, Inc. v. Google, Inc.*, 765 F.3d 1350, 1355 (Fed. Cir. 2014), the claims recited no more than using a computer to send and receive information over a network in order to implement the abstract idea of creating a "transaction performance guaranty." In *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1344–45 (Fed. Cir. 2013), the claims merely recited "generalized software components arranged to implement an abstract concept [of generating insurance-policy-related tasks based on rules to be completed upon the occurrence of an event] on a computer." And in *Bancorp Servs., L.L.C. v. Sun Life Assur. Co. of Canada (U.S.)*, 687 F.3d 1266, 1278 (Fed. Cir. 2012), the claims recited no more than the use of a computer "employed only for its most basic function, the performance of repetitive calculations," to implement the abstract idea of managing a stable-value protected life insurance policy. Under Supreme Court precedent, the above claims were recited too broadly and generically to be considered sufficiently specific and meaningful applications of their underlying abstract ideas. Although many of the claims recited various com-

puter hardware elements, these claims in substance were directed to nothing more than the performance of an abstract business practice on the Internet or using a conventional computer. Such claims are not patent-eligible.

Against this background, we turn to the '399 patent's asserted claims. We begin our § 101 analysis at *Mayo*/*Alice* step one: determining whether the computer-implemented claims at issue here are "directed to" a patent-ineligible abstract idea.[4] Here, we note that the '399 patent's asserted claims do not recite a mathematical algorithm. Nor do they recite a fundamental economic or longstanding commercial practice. Although the claims address a business challenge (retaining website visitors), it is a challenge particular to the Internet.

Indeed, identifying the precise nature of the abstract idea is not as straightforward as in *Alice* or some of our other recent abstract idea cases. NLG's own varying formulations of the underlying abstract idea illustrate this difficulty. NLG characterizes the allegedly abstract idea in numerous ways, including "making two web pages look the same," "syndicated commerce on the computer using the Internet," and "making two e-commerce web pages look alike by using licensed trademarks, logos, color schemes and layouts." *See, e.g.*, Appellant's Br. 18–20. The dissent characterizes DDR's patents as describing the entrepreneurial goal "that an online merchant's sales can be increased if two web pages have the same 'look and feel.'" Dissenting Op. 2. But as discussed below, under

[4] The parties do not dispute that the asserted system and method claims of the '399 patent, for the purposes of § 101, are no different in substance. *See* Appellee Br. 63; Appellant Br. 24. Thus, the form of the asserted claims (system or method) does not affect our analysis of their patent eligibility. *See Alice*, 134 S. Ct. at 2360.

any of these characterizations of the abstract idea, the '399 patent's claims satisfy *Mayo*/*Alice* step two.

As an initial matter, it is true that the claims here are similar to the claims in the cases discussed above in the sense that the claims involve both a computer and the Internet. But these claims stand apart because they do not merely recite the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet. Instead, the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.

In particular, the '399 patent's claims address the problem of retaining website visitors that, if adhering to the routine, conventional functioning of Internet hyperlink protocol, would be instantly transported away from a host's website after "clicking" on an advertisement and activating a hyperlink. For example, asserted claim 19 recites a system that, among other things, 1) stores "visually perceptible elements" corresponding to numerous host websites in a database, with each of the host websites displaying at least one link associated with a product or service of a third-party merchant, 2) on activation of this link by a website visitor, automatically identifies the host, and 3) instructs an Internet web server of an "outsource provider" to construct and serve to the visitor a new, hybrid web page that merges content associated with the products of the third-party merchant with the stored "visually perceptible elements" from the identified host website. *See supra* 5.

In more plain language, upon the click of an advertisement for a third-party product displayed on a host's website, the visitor is no longer transported to the third party's website. Instead, the patent claims call for an "outsource provider" having a web server which directs the visitor to an automatically-generated hybrid web page

that combines visual "look and feel" elements from the host website and product information from the third-party merchant's website related to the clicked advertisement.[5] In this way, rather than instantly losing visitors to the third-party's website, the host website can instead send its visitors to a web page on the outsource provider's server that 1) incorporates "look and feel" elements from the host website, and 2) provides visitors with the opportunity to purchase products from the third-party merchant without actually entering that merchant's website.

The dissent suggests that the "store within a store" concept, such as a warehouse store that contains a kiosk for selling a third-party partner's cruise vacation packages, is the pre-Internet analog of the '399 patent's asserted claims. Dissenting Op. 4. While that concept may have been well-known by the relevant timeframe, that practice did not have to account for the ephemeral nature of an Internet "location" or the near-instantaneous transport between these locations made possible by standard Internet communication protocols, which introduces a problem that does not arise in the "brick and mortar" context. In particular, once a customer enters a physical warehouse store, that customer may encounter a kiosk selling third-

[5] On a fundamental level, the creation of new compositions and products based on combining elements from different sources has long been a basis for patentable inventions. *See, e.g.*, *Parks v. Booth*, 102 U.S. 96, 102 (1880) ("Modern inventions very often consist merely of a new combination of old elements or devices, where nothing is or can be claimed except the new combination."); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 418–19 (2007) ("[I]nventions in most, if not all, instances rely upon building blocks long since uncovered, and claimed discoveries almost of necessity will be combinations of what, in some sense, is already known.").

party cruise vacation packages. There is, however, no possibility that by walking up to this kiosk, the customer will be suddenly and completely transported outside the warehouse store and relocated to a separate physical venue associated with the third-party—the analog of what ordinarily occurs in "cyberspace" after the simple click of a hyperlink—where that customer could purchase a cruise package without any indication that they were previously browsing the aisles of the warehouse store, and without any need to "return" to the aisles of the store after completing the purchase. It is this challenge of retaining control over the attention of the customer in the context of the Internet that the '399 patent's claims address.

We caution, however, that not all claims purporting to address Internet-centric challenges are eligible for patent. For example, in our recently-decided *Ultramercial* opinion, the patentee argued that its claims were "directed to a specific method of advertising and content distribution that was previously unknown and never employed on the Internet before." 2014 WL 5904902, at *3. But this alone could not render its claims patent-eligible. In particular, we found the claims to merely recite the abstract idea of "offering media content in exchange for viewing an advertisement," along with "routine additional steps such as updating an activity log, requiring a request from the consumer to view the ad, restrictions on public access, and use of the Internet." *Id.* at *5.

The '399 patent's claims are different enough in substance from those in *Ultramercial* because they do not broadly and generically claim "use of the Internet" to perform an abstract business practice (with insignificant added activity). Unlike the claims in *Ultramercial*, the claims at issue here specify how interactions with the Internet are manipulated to yield a desired result—a result that overrides the routine and conventional sequence of events ordinarily triggered by the click of a hyperlink. Instead of the computer network operating in

its normal, expected manner by sending the website visitor to the third-party website that appears to be connected with the clicked advertisement, the claimed system generates and directs the visitor to the above-described hybrid web page that presents product information from the third-party and visual "look and feel" elements from the host website. When the limitations of the '399 patent's asserted claims are taken together as an ordered combination, the claims recite an invention that is not merely the routine or conventional use of the Internet.

It is also clear that the claims at issue do not attempt to preempt every application of the idea of increasing sales by making two web pages look the same, or of any other variant suggested by NLG. Rather, they recite a specific way to automate the creation of a composite web page by an "outsource provider" that incorporates elements from multiple sources in order to solve a problem faced by websites on the Internet. As a result, the '399 patent's claims include "additional features" that ensure the claims are "more than a drafting effort designed to monopolize the [abstract idea]." *Alice*, 134 S. Ct. at 2357. In short, the claimed solution amounts to an inventive concept for resolving this particular Internet-centric problem, rendering the claims patent-eligible.

In sum, the '399 patent's claims are unlike the claims in *Alice*, *Ultramercial*, *buySAFE*, *Accenture*, and *Bancorp* that were found to be "directed to" little more than an abstract concept. To be sure, the '399 patent's claims do not recite an invention as technologically complex as an improved, particularized method of digital data compression. But nor do they recite a commonplace business method aimed at processing business information, applying a known business process to the particular technological environment of the Internet, or creating or altering contractual relations using generic computer functions and conventional network operations, such as the claims

in *Alice*, *Ultramercial*, *buySAFE*, *Accenture*, and *Bancorp*. The claimed system, though used by businesses, is patent-eligible under § 101.[6] The district court did not err in denying NLG's motion for JMOL of invalidity under 35 U.S.C. § 101 as to these claims.

C. Indefiniteness

In its motion for JMOL of invalidity, NLG also sought to invalidate the asserted claims of the '572 and '399 patents on the ground that the terms "look and feel" and "visually perceptible elements" render the claims indefinite because they are impermissibly subjective and fail to notify the public of the bounds of the claimed invention.[7] On appeal, NLG contends that the district court erred by denying its motion. We disagree.

Since the '572 patent's asserted claims are invalid under 35 U.S.C. § 102(a), we need not decide NLG's indefiniteness challenge to the patent based on the term "look and feel." We thus focus our analysis on the term "visually perceptible elements" in the '399 patent's asserted claims. The parties stipulated to a construction of the

[6] Of course, patent-eligible does not mean patent*able* under, *e.g.*, 35 U.S.C. §§ 102 and 103. As discussed in footnote 3 *supra*, the patent*ability* of the '399 patent's asserted claims is not before us.

[7] Though NLG contended that the term "look and feel" is indefinite before the district court, on appeal NLG shifts its focus to "look and feel *description*." "Look and feel" and "look and feel description," while related, are recited as separate terms within the asserted claims. *E.g.*, '572 patent, claim 13 (". . . a *look and feel* based on the *look and feel description* in the data store . . ."). NLG provides no explanation or justification for its shift in focus. As does DDR in its briefing, we focus our analysis on the term "look and feel."

term as "'look and feel' elements that can be seen." J.A. 542. NLG argues that the term "is effectively the same as 'look and feel description,'" and therefore lacks definiteness for the same reasons. Appellant's Br. 30 n.12.

Indefiniteness is a question of law we review *de novo*. *Wellman, Inc. v. Eastman Chem. Co.*, 642 F.3d 1355, 1365–66 (Fed. Cir. 2011). The definiteness requirement is set forth in 35 U.S.C. § 112 ¶ 2, which states that "[t]he specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention." The definiteness requirement focuses on whether "a patent's claims, viewed in light of the specification and prosecution history, inform those skilled in the art about the scope of the invention with reasonable certainty." *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2129 (2014). The inquiry "trains on the understanding of a skilled artisan at the time of the patent application." *Id.* at 2130.

When a claim term "depend[s] solely on the unrestrained, subjective opinion of a particular individual purportedly practicing the invention," without sufficient guidance in the specification to provide objective direction to one of skill in the art, the term is indefinite. *Datamize, LLC v. Plumtree Software, Inc.*, 417 F.3d 1342, 1350 (Fed. Cir. 2005) (finding "aesthetically pleasing" to be indefinite because the specification lacked any objective definition of the term). For some facially subjective terms, the definiteness requirement is not satisfied by merely offering examples that satisfy the term within the specification. *See Interval Licensing LLC v. AOL, Inc.*, 764 F.3d 1364, 1371–73 (Fed. Cir. 2014) (finding a single example of the term "unobtrusive manner" in the specification did not outline the claims to a skilled artisan with reasonable certainty). For other terms like, for example, terms of degree, specific and unequivocal examples may be sufficient to provide a skilled artisan with clear notice of what

is claimed. *See Enzo Biochem, Inc. v. Applera Corp.*, 599 F.3d 1325, 1334–35 (Fed. Cir. 2010) (finding the phrase "not interfering substantially" to be definite where intrinsic evidence provided multiple examples that would allow a skilled artisan to determine whether a particular chemical bond linkage group would "interfer[e] substantially" with hybridization).

Here, though NLG attempts to characterize "look and feel" as purely subjective, the evidence demonstrates that "look and feel" had an established, sufficiently objective meaning in the art, and that the '399 patent used the term consistent with that meaning. The specification explains that "the look and feel is captured by selecting an example page [from] the host, retrieving the sample page from the host, identifying the look and feel elements from the sample page and saving the identified look and feel elements." '399 patent, 13:5–9. "Look and feel elements" are described as "includ[ing] logos, colors, page layout, navigation systems, frames, 'mouse-over' effects, or other elements that are consistent through some or all of a Host's website." *Id.* at 13:9–12. DDR's expert on infringement testified that a skilled artisan would interpret these "other elements" as elements such as headers, footers, fonts, and images. J.A. 3584.

These examples are consistent with the established meaning of the term "look and feel" in the art, as demonstrated by Digital River's own evidence at trial. For example, as discussed in Section II. A., Digital River advertised its prior art SSS as generating composite web pages that displayed third-party merchandise but also replicated the "'look and feel' of the [host website's] identity." J.A. 6123. Digital River also explained that the composite web pages generated by its SSS "retain[ed] the look and feel of the [host's web]site." J.A. 6202. At trial, Digital River conceded that it understood the meaning of "look and feel." J.A. 4146–47 ("Q. And Digital River understood what it meant when it said: we'll match your

look and feel, right? A. Yes, sir.”). Digital River also admitted that its *customers* understood the meaning of “look and feel.” J.A. 4199 (“Q. . . . [S]omebody who is reading Digital River’s [advertising] document should understand what Digital River means when it says matching look and feel, right? . . . A. Yes, sir.”).

In sum, “look and feel” is not a facially subjective term like “unobtrusive manner” in *Interval* or “aesthetically pleasing” in *Datamize*. Rather, as demonstrated by Digital River’s own advertisements for its prior art SSS and its admissions at trial, the term had an established meaning in the art by the relevant timeframe. The examples of “look and feel” elements disclosed in the specification are consistent with the term’s established meaning. In short, the term “visually perceptible elements,” or “‘look and feel’ elements that can be seen,” viewed in light of the specification and prosecution history, informed those skilled in the art about the scope of the ’399 patent’s claims with reasonable certainty. The district court did not err by denying NLG’s motion for JMOL of invalidity of the ’399 patent under 35 U.S.C. § 112 ¶ 2.

D. Infringement

NLG also contends that the district court erred by denying its motion for JMOL of noninfringement as to both the ’572 and ’399 patents. Since the ’572 patent is invalid under 35 U.S.C. § 102(a), we address only NLG’s noninfringement appeal of the ’399 patent. We find, as did the district court, that the jury was presented with substantial evidence on which to base its finding that NLG infringes the asserted claims of the ’399 patent.

NLG argues that the jury’s finding that NLG’s accused websites satisfy the “visually perceptible elements” limitation of the asserted claims is unsupported. NLG further argues that DDR failed to introduce evidence that NLG’s accused system automatically identifies or recognizes the source web page as required by claims 1 and 19

of the ’399 patent. NLG also argues that DDR only showed the jury screenshot images of the accused websites running NLG’s e-commerce system on a single day, and thus did not provide evidence of NLG’s alleged infringement throughout the entire damages period.

The record tells a different tale. For the “visually perceptible elements” limitation, the jury viewed screenshot images from nine NLG-partner host websites and their corresponding accused NLG-operated composite web pages. DDR’s expert on infringement also presented the jury with lists of the “look and feel elements” from each host website allegedly incorporated in a corresponding NLG-generated composite web page and opined that the accused composite web pages satisfied the limitation. The jury was free to use this proffered evidence and testimony to form its own conclusions as to whether NLG’s accused composite web pages satisfied the “visually perceptible elements” limitation of the asserted claims.

As for the other contested limitations of the ’399 patent’s asserted claims, DDR’s expert on infringement testified that on activation of a link on an NLG-partner host website corresponding to an NLG-generated composite web page, a keyword identifier is sent to NLG’s e-commerce web server (*e.g.*, “OBWEB” for Orbitz’s host website), and a processor therein determines the location and identity of the host website (*e.g.*, Orbitz). The jury was free to credit this testimony as evidence that NLG’s accused e-commerce system “automatically . . . recogniz[es]” or “automatically identif[ies]” the source page “on which the link has been activated.”

NLG’s argument that DDR provided the jury with screenshot images of NLG’s accused composite web pages—and thus evidence of infringement—for only one day appears to be more relevant to damages than to infringement. Regardless, NLG’s contention is without merit. DDR’s expert testified that he had examined NLG’s

accused system throughout the entire period of alleged infringement, including any changes in its software source code, deposition testimony on its operation, and, via the Internet Archive, prior versions of accused composite web pages. Based on his review, DDR's expert testified that nothing about NLG's accused system "had changed in any substantial way" during this period. J.A. 3751–52. Substantial evidence supports the jury's finding that NLG's accused system infringes the '399 patent, and thus the district court did not err in denying NLG's motion for JMOL of noninfringement.

E. Damages

DDR sought $6.04 million in damages for NLG's infringement of the '572 and '399 patents; NLG countered with $375,000. The parties agreed on a verdict form that instructed the jury to award a single sum to compensate DDR for NLG's infringement of the asserted claims found to be infringed and not invalid. J.A. 3080. The jury awarded DDR $750,000 in damages for NLG's infringement, without specifying how this award was apportioned between the '572 and the '399 patents.

Because we find the '572 patent invalid as anticipated, we vacate the damages award. This could warrant a new trial on damages. *See Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295, 1310 (Fed. Cir. 2007). NLG did not, however, move for a new trial under FRCP 59 and may not have preserved its recourse to this option. *DDR Holdings*, 954 F. Supp. 2d at 522 ("Interestingly however, NLG does not move for a new trial pursuant to Rule 59."). We remand to the district court to determine the effect—if any—of our invalidation of the '572 patent on the jury's damages award.[8]

[8] We note that NLG's contention that the jury's damages award was "grossly excessive" because its ac-

F. Prejudgment Interest

The district court also awarded DDR prejudgment interest. NLG contends that DDR should not be entitled to any prejudgment interest because it is a non-practicing entity and at a minimum, DDR should not be entitled to any prejudgment interest during a four-year stay in litigation since the stay was the result of DDR's request for *ex parte* reexamination of the '135 and '572 patents.

We review the district court's award of prejudgment interest for an abuse of discretion. *See Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 612 F.3d 1365, 1377 (Fed. Cir. 2010); *see also Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 657 (1983) ("[A] decision to award prejudgment interest will only be set aside if it constitutes an abuse of discretion."). Under 35 U.S.C. § 284, after a finding of infringement, the court "*shall award* . . . damages . . . together with *interest* and costs." (emphases added). Prejudgment interest should ordinarily be awarded absent some justification for withholding such an award. *Gen. Motors*, 461 U.S. at 657; *see also Energy Transp. Grp., Inc. v. William Demant Holding A/S*, 697 F.3d 1342, 1358 (Fed. Cir. 2012) ("The award of pre-judgment interest is the rule, not the exception.") (quotation and citation omitted).

NLG cites no case law suggesting that prevailing non-practicing entities are *not* entitled to prejudgment interest. We decline to create such a statutory exception. *See Energy Transp.*, 697 F.3d at 1358 ("The district court did

cused websites infringed for only one day is based on a flawed premise and is without merit. As the district court explained, NLG cannot attempt to "reverse engineer the jury's math . . . and use its substituted, and purely speculative, analysis to call the award excessive." *DDR Holdings*, 954 F. Supp. 2d at 530.

not abuse its discretion in this case by following the standard rule of awarding pre-judgment interest."). However, since the '572 patent is invalid, the district court must recalculate its award of prejudgment interest so that it is tied solely to NLG's infringement of the '399 patent, which issued in 2010, more than four years after issuance of the '572 patent. *Nickson Indus., Inc. v. Rol Mfg. Co.*, 847 F.2d 795, 800 (Fed. Cir. 1988) ("Generally, prejudgment interest should be awarded from the date of infringement to the date of judgment."). Since the '399 patent did not issue until after the stay was lifted in 2010, we need not determine whether DDR is entitled to prejudgment interest during the pendency of the contested stay.

We have considered the parties' remaining arguments and find them unpersuasive.

III. CONCLUSION

In large part, we affirm the district court. The asserted claims of the '572 patent, however, are anticipated by Digital River's prior art Secure Sales System under 35 U.S.C. § 102(a), and no substantial evidence supports the jury's contrary finding. As such, the district court erred in denying defendants' motion for JMOL of invalidity as to the '572 patent. We vacate the award of damages and prejudgment interest to DDR based on NLG's infringement of the '572 and '399 patents and remand to the district court in order to determine the damages and prejudgment interest attributable solely to NLG's infringement of the '399 patent.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED

COSTS

No costs.

United States Court of Appeals for the Federal Circuit

DDR HOLDINGS, LLC,
Plaintiff-Appellee,

v.

HOTELS.COM, L.P., CENDANT TRAVEL DISTRIBUTION SERVICES GROUP, INC., EXPEDIA, INC., TRAVELOCITY.COM, L.P., SITE59.COM, LLC, INTERNATIONAL CRUISE & EXCURSION GALLERY, INC., OURVACATIONSTORE, INC., INTERNETWORK PUBLISHING CORPORATION, AND ORBITZ WORLDWIDE, LLC,
Defendants,

AND

NATIONAL LEISURE GROUP, INC. AND WORLD TRAVEL HOLDINGS, INC.,
Defendants-Appellants,

AND

DIGITAL RIVER, INC.,
Defendant.

2013-1505

MAYER, *Circuit Judge*, dissenting.

I respectfully dissent. The claims asserted by DDR Holdings, LLC ("DDR") fall outside 35 U.S.C. § 101 because they simply describe an abstract concept—that an online merchant's sales can be increased if two web pages have the same "look and feel"—and apply that concept using a generic computer.

I.

The common specification of DDR's patents notes that an online merchant will often lose customers when those customers click on an advertisement from a third-party vendor that has been displayed on the original merchant's web page. *See* U.S. Patent No. 6,993,572 (the "'572 patent") col.2 ll.30–33. The specification explains, however, that the original merchant could potentially avoid "the loss of hard-won visitor traffic," *id.* col.2 ll.64–65, if he were able to dupe customers into believing that they were still on the merchant's web page even when they were actually viewing goods from a third-party vendor, *id.* col.2 ll.26–65. Notably, though, DDR's patents are very vague as to how this duping is to occur, indicating only that the web page of the original merchant and that of the third-party vendor should be made to look alike using "visually perceptible elements." *See* U.S. Patent No. 7,818,399 (the "'399 patent") col.28 ll.31–32 (requiring the use of a "plurality of visually perceptible elements visually corresponding to the [original merchant's web] page"). DDR's patents fail to meet the demands of section 101 because they describe a goal—confusing consumers by making two web pages look alike—but disclose no new technology, or "inventive concept," *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012), for achieving that goal. *See O'Reilly v. Morse*, 56 U.S. (15 How.) 62, 120 (1854) (rejecting a claim which covered "an effect produced by the use of electro-magnetism distinct from the process or machinery necessary to produce it"); *In re*

Brooks, 90 F.2d 106, 107–08 (CCPA 1937) ("It is for the discovery or invention of some practicable method or means of producing a beneficial result or effect, that a patent is granted, and *not for the result or effect itself*." (emphasis added) (citations and internal quotation marks omitted)).

DDR's patents are long on obfuscation but short on substance. Indeed, much of what they disclose is so rudimentary that it borders on the comical. For example, the patents explain that two web pages are likely to look alike if they are the same color, have the same page layout, and display the same logos. *See* '572 patent col.14 ll.5–18. The recited computer limitations, moreover, are merely generic. The claims describe use of a "data store," a "web page having a link," and a "computer processor," *id.* col.29 ll.1–13, all conventional elements long-used in e-commerce. Because DDR's claims, like those at issue in *Alice Corporation v. CLS Bank International*, "simply instruct the practitioner to implement [an] abstract idea . . . on a generic computer," they do not meet section 101. 134 S. Ct. 2347, 2359 (2014); *see id.* at 2360 (rejecting claims requiring a "data processing system'" with a "communications controller" and a "data storage unit" as "purely functional and generic" (citations and internal quotation marks omitted)); *Accenture Global Servs., GmbH v. Guidewire Software, Inc.*, 728 F.3d 1336, 1344 (Fed. Cir. 2013) (rejecting claims requiring "a combination of computer components including an insurance transaction database, a task library database, a client component, and a server component, which include[d] an event processor, a task engine, and a task assistant").

II.

The court concludes that the asserted claims of DDR's '399 patent fall within section 101 because "they do not merely recite the performance of some business practice known from the pre-Internet world along with the

requirement to perform it on the Internet." *Ante* at 20. This is incorrect. DDR's claims do, in fact, simply take a well-known and widely-applied business practice and apply it using a generic computer and the Internet. The idea of having a "store within a store" was in widespread use well before the dawn of e-commerce. For example, National Leisure Group, Inc. ("NLG"), one of the defendants here, previously "sold vacations at . . . BJ's Wholesale Clubs through point of purchase displays in the 45 BJ's Clubs along the Eastern Seaboard." Br. of Defendants-Appellants National Leisure Group, Inc. and World Travel Holdings, Inc. at 4. DDR's patents are directed to the same concept. Just as visitors to BJ's Wholesale Clubs could purchase travel products from NLG without leaving the BJ's warehouse, the claimed system permits a person to purchase goods from a third-party vendor, but still have the visual "impression that she is viewing pages served by the [original host merchant]." '399 patent col.3 ll.23–24; *see ante* at 3 (explaining that DDR's claimed system "permits a website visitor, in a sense, to be in two places at the same time"). Indeed, any doubt as to whether the claimed system is merely an Internet iteration of an established business practice is laid to rest by the fact that one of the named inventors acknowledged that the innovative aspect of his claimed invention was "[t]aking something that worked in the real world and doing it on the Internet." J.A. 03208.

Alice articulated a technological arts test for patent eligibility. 134 S. Ct. at 2359 (explaining that the claimed method fell outside section 101 because it did not "improve the functioning of the computer itself" or "effect an improvement in any other technology or technical field"). Here, the court correctly recognizes *Alice's* technological arts standard, but applies it in a deficient manner. According to the court, DDR's claims fall within section 101 because the "solution" they offer "is *necessarily rooted in computer technology* in order to overcome a problem

specifically arising in the realm of computer networks." *Ante* at 20 (emphasis added). The solution offered by DDR's claims, however, is not rooted in any new computer technology. Its patents address the problem of preventing online merchants from losing "hard-won visitor traffic," '572 patent col.2 ll.64–65, and the solution they offer is an entrepreneurial, rather than a technological, one. DDR has admitted that it did not invent any of the generic computer elements disclosed in its claims. J.A. 3311–16. There is no dispute, moreover, that at the time of the claimed invention the use of hyperlinks to divert consumers to particular web pages was a well-understood and widely-used technique. *See* '399 patent col.1 ll.29–52. While DDR's patents describe the potential advantages of making two web pages look alike, they do not disclose any non-conventional technology for capturing the "look and feel" of a host website or for giving two web pages a similar appearance. *See Alice*, 134 S. Ct. at 2360 ("[W]hat petitioner characterizes as specific hardware . . . is purely functional and generic."); *Accenture*, 728 F.3d at 1345 (rejecting claims that contained no "detailed software implementation guidelines"). DDR's patents fall outside section 101 because they simply "tak[e] existing information"—the visual appearance of a host merchant's website—and use conventional technology to "organiz[e] this information into a new form." *Digitech Image Techs., LLC v. Elecs. for Imaging, Inc.*, 758 F.3d 1344, 1351 (Fed. Cir. 2014); *see Mayo*, 132 S. Ct. at 1298 (emphasizing that reciting "well-understood, routine, [or] conventional activity" does not impart patent eligibility).

In concluding that DDR's claims meet the demands of section 101, the court focuses on the fact that "they recite a *specific* way to automate the creation of a composite web page . . . ." *Ante* at 23 (emphasis added). The Supreme Court, however, has emphatically rejected the idea that claims become patent eligible simply because they disclose a specific solution to a particular problem. *See*

Bilski v. Kappos, 561 U.S. 593, 599–601 (2010) (concluding that claims fell outside section 101 notwithstanding the fact that they disclosed a very specific method of hedging against price increases); *Parker v. Flook*, 437 U.S. 584, 593 (1978) (rejecting the argument "that if a process application implements a principle in some specific fashion, it automatically falls within the patentable subject matter of § 101"). Indeed, although the claims at issue in *Alice* described a very specific method for conducting intermediated settlement, the Court nonetheless unanimously concluded that they fell outside section 101. 134 S. Ct. at 2358–60.

Nor is the fact that the claims address an "Internetcentric problem," *ante* at 23, sufficient to render them patent eligible. The Supreme Court has repeatedly made clear that "limiting the use of an abstract idea to a particular technological environment" is insufficient to confer patent eligibility. *Alice*, 134 S. Ct. at 2360 (citations and internal quotation marks omitted); *see also Mayo*, 132 S. Ct. at 1294; *Bilski*, 561 U.S. at 610. Accordingly, the fact that DDR's system operates "in the context of the Internet," *ante* at 22, does not bring it within patentable subject matter.

The potential scope of DDR's patents is staggering, arguably covering vast swaths of Internet commerce. DDR has already brought infringement actions against ten defendants, including Digital River, Inc., Expedia, Inc., Travelocity.com, L.P., and Orbitz Worldwide, LLC. *See* J.A. 255–63; *ante* at 7. DDR's claims are patent ineligible because their broad and sweeping reach is vastly disproportionate to their minimal technological disclosure. *See Mayo*, 132 S. Ct. at 1303 (In assessing patent eligibility, "the underlying functional concern . . . is a *relative* one: how much future innovation is foreclosed relative to the contribution of the inventor.").

Alice made clear that claims untethered to any advance in science or technology do not pass muster under section 101. 134 S. Ct. at 2359. Viewed as a whole, DDR's claims contain no more than an abstract idea for increasing sales implemented via "some unspecified, generic computer," *id.* at 2360. The inventive concept, if any, embedded in DDR's claims is an idea for "retaining control over the attention of the customer," *ante* at 22. Because this purported inventive concept is an entrepreneurial rather than a technological one, DDR's claims are not patentable.

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Copyright Update

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Nevada Bar Intellectual Property Law Section
Intellectual Property Law Conference
October 23, 2015

1. **Statistical Update**
2. **Significant Copyright Decisions in the Last Year**
3. **Pending Legislation**
4. **Pending Initiatives of the U.S. Copyright Office**
5. **International Developments**

1. **Statistical Update**
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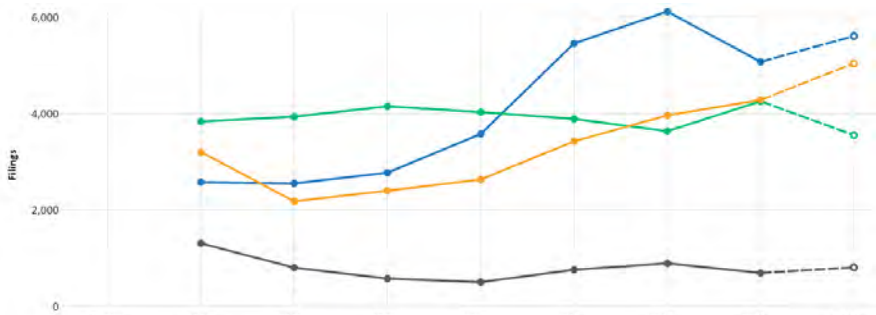
1. Statistical Update

Graph and table by Lex Machina, https://lexmachina.com/

Patent, Trademark, Copyright, and Antitrust Cases Filed in all U.S. District Courts in 2008 – 2015*



	<2008	2008	2009	2010	2011	2012	2013	2014	2015*
Patent	20,682	2573	2547	2769	3575	5454	6115	5071	4404
Trademark	30,312	3834	3933	4148	4028	3887	3633	4253	2672
Copyright	26,781	3197	2178	2396	2629	3422	3961	4280	4128
Antitrust	6850	1306	798	572	499	755	888	689	636

* Prediction for 2015 based on data as of October 2015.

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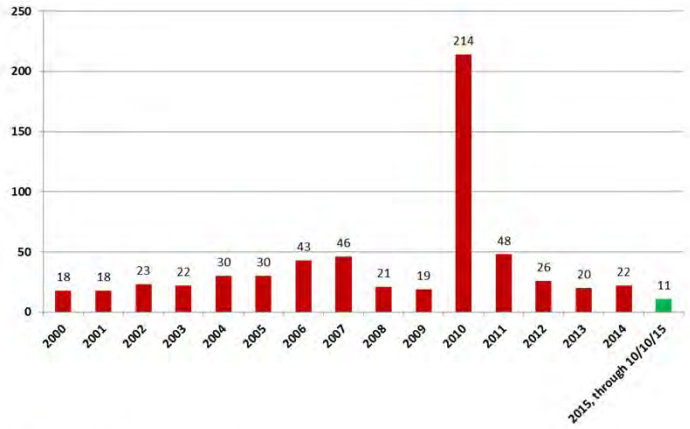
1. Statistical Update

Copyright Cases Filed in the U.S. District Court for the District of Nevada January 1, 2000 – October 10, 2015



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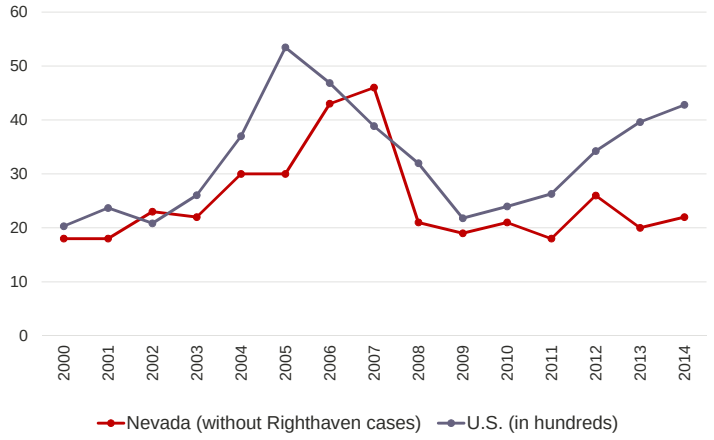
1. Statistical Update

Copyright Cases Filed in all U.S. District Courts and the U.S. District Court for the District of Nevada (without Righthaven) January 1, 2000 – December 31, 2014



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1. Statistical Update
2. **Significant Copyright Decisions in the Last Year**
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2. Significant Copyright Decisions in the Last Year

Oracle America, Inc. v. Google, Inc., 750 F.3d 1339 (Fed. Cir. 2014)

- Oracle's Java in Google's Android
- Analysis of copyrightability v. analysis of infringement
  - In the Ninth Circuit:
    - Originality – copyrightability
    - Merger and scenes a faire – infringement
- For protectiblity, assessment of the merger and scenes a faire must be conducted at the stage of development of the original work, not at the stage of the development of the allegedly infringing work
- Remanded for further proceedings on fair use
- **cert. denied in June 2015**

2. Significant Copyright Decisions in the Last Year

Bikram's Yoga College of India v. Evolation Yoga, … (9th Cir. 2015)

- Copyrightability of a yoga routine
- The sequence was not copyrightable because of the idea/expression dichotomy.
- The sequence was not copyrightable as a compilation.
- The sequence was not copyrightable as a choreography.

2. Significant Copyright Decisions in the Last Year

DC Comics v. Towle, … (9th Cir. 2015)

- Batmobile
- An especially distinctive character entitled to copyright protection
- The publisher owns copyright to Batmobile character
- The publisher retained rights to the Batmobile character
- Production and sale of Batmobile replicas infringed copyright

2. Significant Copyright Decisions in the Last Year

Garcia v. Google, 786 F.3d 733 (9th Cir. 2015) *en banc*

- Performance in the video *Innocence of Muslims*
- The Copyright Office refused to register the performance
- No performer's right in the fixed performance of a short duration embedded in the motion picture that the performer did not fix herself
- Irreparable harm: "Garcia's harms are too attenuated from the purpose of copyright."
- J. Watford's concurrence:
  - The court should have focused only on the irreparable harm prong
- J. Kozinski's dissent:
  - "[T]he court robs performers and other creative talent of rights Congress gave them."
  - Question of compatibility with the 2012 WIPO Beijing Treaty on Audiovisual Performances

2. Significant Copyright Decisions in the Last Year

The Authors' Guild v. Google, …. (9th Cir. 2015)

- Google's *Library Project* and *Google Books* (scanning, search, and snippets displays)
- The copying is transformative
- The copying does not offer the public a meaningful substitute for original works
- Fair use

2. Significant Copyright Decisions in the Last Year

Lenz v. Universal, 2015 WL 5315388 (9th Cir. 2015)

- The "dancing baby" case
- The DMCA requires that a copyright holder consider fair use before sending a takedown notice
- Good faith belief to be assessed based on actual knowledge
- "[T]he willful blindness may be used to determine whether a copyright holder knowingly materially misrepresented that it held a good faith belief that the offending activity was not a fair use."
- "[The plaintiff] did not show that the defendants subjectively believed there was a high probability that the video constituted fair use."

2. Significant Copyright Decisions in the Last Year

Corbello v. DeVito, 777 Fed.3d 1058 (9th Cir. 2015)

- An unpublished autobiography used to create the Broadway musical *Jersey Boys*
- The author transferred ownership of his right to create derivative works
- A genuine issue of material fact existed as to whether the transfer was later terminated
- No implied license to use the autobiography

2. Significant Copyright Decisions in the Last Year

Spanski Enterprises v. Telewizja Polska

- A long running dispute involving multiple issues; some of them have been decided
- Ongoing dispute regarding a geoblocking issue: Spanski Enterprises, Inc. v. Telewizja Polska, S.A., D.D.C., 1:12-cv-00957-TSC

1. Statistical Update
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3. Pending Legislation

- American Royalties Too Act of 2015, H.R. 1881, 114th Cong. (2015).
- American Royalties Too Act of 2015, S. 977, 114th Cong. (2015).

- Songwriter Equity Act of 2015, H.R. 1283, 114th Cong. (2015).
- Songwriter Equity Act of 2015, S. 662, 114th Cong. (2015).

- Fair Play Fair Pay Act of 2015, H.R. 1733, 114th Cong. (2015).

- Allocation for Music Producers Act, H.R. 1457, 114th Cong. (2015).

- You Own Devices Act, H.R. 862, 114th Cong. (2015)

- Unlocking Technology Act of 2015, H.R.1587, 114th Cong. (2015).

- Copyright and Marriage Equality Act, H.R. 238, 114th Cong. (2015)
- Copyright and Marriage Equality Act, S. 23, 114th Cong. (2015)

- Breaking Down Barriers to Innovation Act of 2015, H.R. 1883, 114th Cong. (2015).
- Breaking Down Barriers to Innovation Act of 2015, S. 990, 114th Cong. (2015).

- Affordable College Textbook Act, H.R. 3721, 114th Cong. (2015).

- O PACK Act of 2015, H.R. 3496, 114th Cong. (2015).

1. Statistical Update
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5. International Developments

4. Pending Initiatives of the U.S. Copyright Office

- **Ongoing Congressional Copyright Review:**
  - Since 2013 a total of 20 hearings
- **Eight Policy Issues that the Register of Copyright Has Identified as "Ready for Legislative Development:"**
  - Copyright Office Modernization
  - Music Licensing
  - Small Claims
  - Felony Streaming
  - Section 108
  - Orphan Works
  - Resale Royalty
  - Improvements for Persons with Print Disabilities
  - Section 1201 – Regulatory Presumption
- **Copyright Office Reports in 2014 and 2015:**
  - Document Recordation
  - Compendium of Copyright Office Practices
  - Technical Upgrades
  - Fair Use Index
  - Music Licensing
  - Orphan Works and Mass Digitization

1. Statistical Update
2. Significant Copyright Decisions in the Last Year
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5. International Developments

- **WIPO**
  - Niue's accession to the WIPO
  - 2012 Beijing Treaty on Audiovisual Performances
  - 2013 Marrakesh Treaty to Facilitate Access to Published Works for Persons Who are Blind, Visually Impaired or Otherwise Print Disabled
  - Discussed proposals:
    - Revision of the 1961 Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (the U.S. not a party)
    - Exceptions for libraries and archives, and for people with other disabilities
    - Protection of folklore
- **European Union**
  - 2014 Directive on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use (implementation date April 10, 2016)
  - Single Digital Market for Europe
  - Copyright review
- **Trans-Pacific Partnership**
  - Copyright provisions
- **Draft Trade in Services Agreement**
  - Server location but possible exception for copyright

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Copyright Update

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Nevada Bar Intellectual Property Law Section
Intellectual Property Law Conference
October 23, 2015

Trademarks Year in Review 2015

Mary LaFrance
IGT Professor of Intellectual Property Law
William S. Boyd School of Law, UNLV
October 23, 2015

Again

Disparaging Marks

- *Pro-Football, Inc. v. Blackhorse, 2*015 WL 4096277 (E.D.Va. 2015), appeal pending in 4th Cir.
- Upheld TTAB cancellation of REDSKINS mark.
- Federal trademark registration is government speech exempt from First Amendment.
- Cancellation did not burden team's ability to use the trademark at common law.
- Statutory phrase "may disparage" is not void for vagueness either facially or as applied.

Disparaging Marks

- *In re Tam,* 2015 WL 1883279 (Fed. Cir. 2015).
- Federal Circuit ordered rehearing en banc and vacated Judge Moore's panel opinion holding that § 2(a) is not unconstitutionally vague.
- Briefing limited to one issue: Whether § 2(a) violates First Amendment.
- Oral argument held Oct. 2.
- Vacated opinion had troubling language stating that § 43(a) does not protect marks ineligible for registration.

Judge Moore, *In re Tam* (vacated)

"Not only is a disparaging trademark denied federal registration, but it cannot be protected by its owner by virtue of a § 43(a) unfair competition claim. . . . . § 43(a) protection is only available for unregistered trademarks *that could have qualified for federal registration. Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992) ('the general principles qualifying a mark for registration under § 2 of the Lanham Act are for the most part applicable in determining whether an unregistered mark is entitled to protection under § 43(a)'). Thus, no federal cause of action is available to protect a trademark deemed disparaging, regardless of its use in commerce."

Genericness

- *Princeton Vanguard v. Frito-Lay,* 783 F.3d 960 (Fed. Cir. 2015), *rehearing en banc denied* July 2015.
- In opposition proceeding, TTAB held that PRETZEL CRISPS was generic.
- TTAB erred by not considering the mark as a whole.
- Combination of two generic terms isn't always generic.

Opposing an ITU

- *M.Z. Berger & Co., Inc. v. Swatch AG*, 787 F.3d 1368 (Fed. Cir. 2015).
- Lack of bona fide intent to use a mark in commerce is valid ground for opposing ITU application before TTAB.
- Validates longstanding position of TTAB.
- D.C. Circuit reached same conclusion in 2008.
- Bona fide intent is objective inquiry based on totality of circumstances, subject to substantial evidence review.

"Use in Commerce"

- *Couture v. Playdom, Inc.*, 778 F.3d 1379 (Fed. Cir. 2015)
- To be registered, service mark must be used in sale or advertising of services, and services must actually be *provided* (in interstate or foreign commerce).
- 2d, 4th and 8th Circuits agree.
- Cert. denied Oct. 5, 2015.

Fee shifting under § 1071

- *Shammas v. Focarino* (4th Cir. 2015)
- Applicant that received adverse TTAB decision sought de novo review in district court under § 1071 but lost on summary judgment.
- Court ordered him to pay PTO's attorney fees under § 1071(b)(3), which requires party filing the action to pay all "expenses," win or lose; 4th Cir. affirmed this interpretation of "expenses".
- First time in history PTO has sought attorneys fees under § 1071.
- A good reason to appeal to Federal Circuit rather than use § 1071.

Tacking: Question of Fact

- *Hana Financial, Inc. v. Hana Bank,* 135 S.Ct. 907 (2015)
- Resolving circuit split: In infringement dispute raising priority issue, whether old and new marks create "same, continuous commercial impression" is question of fact.
- Note: Similar circuit split on whether LOC is question of law or fact.

Applying *Hana* to Abandonment

- *Jack Wolfskin Ausrustung Fur Draussen GmbH v. New Millenium Sports, S.L.U.,* 797 F.3d 1363 (Fed Cir. 2015)
- Same test applies to tacking in priority and abandonment contexts: "same, continuous commercial impression"
- *Hana* applies to abandonment context: Question of fact.
- Affirms TTAB ruling under "substantial evidence" standard of review.

Issue Preclusion

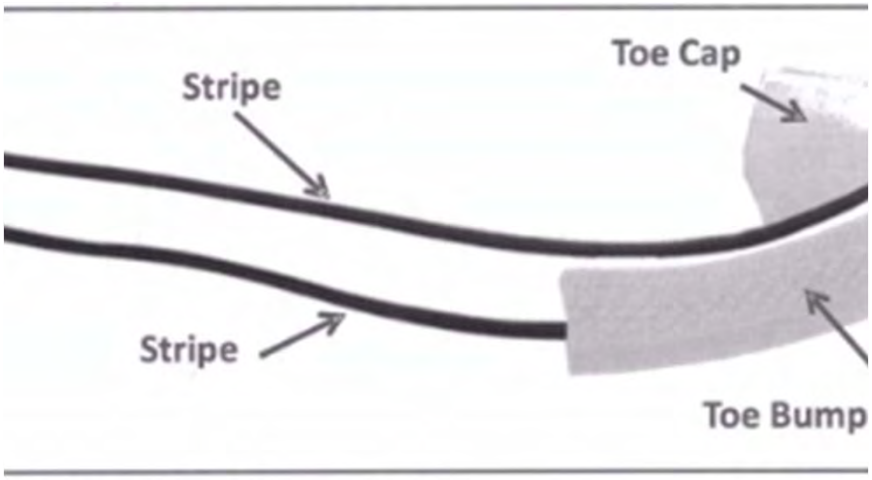
- *B&B Hardware, Inc. v. Hargis Indus., Inc.,* 135 S.Ct. 1293 (2015)
- TTAB applied *DuPont* factors to hold SEALTITE could not be registered due to § 2(d) LOC with registered SEALTIGHT mark.
- Held: In infringement action between same parties over same marks, issue preclusion applies if ordinary elements of issue preclusion are met, and usages are materially the same.
- Jury had found no LOC (question of fact in 8th Cir.); 8th Cir. uses different LOC factors; applicant could have obtained de novo review of TTAB in district court but did not seek it.
- Ginsburg concurrence emphasized the limited reach of the decision because often the actual usage of the marks will differ from the usage stated in the application to register

Chuck Taylor All-Star Sneaker

- Converse (Nike) filed trade dress infringement suit against Wal-Mart (and 30 other companies) at ITC: *Certain Footwear Products Investigation No. 337-TA-936.*
- Many defendants settled (including Ralph Lauren, Zulily and Tory Burch).
- Also filed infringement claims in E.D.N.Y.
- Wal-Mart argues that toe caps, toe bumpers and black stripes are "actually or aesthetically functional."
- E.D.N.Y. has stayed the litigation pending ITC decision.

Chuck Taylor All-Star (since 1917)

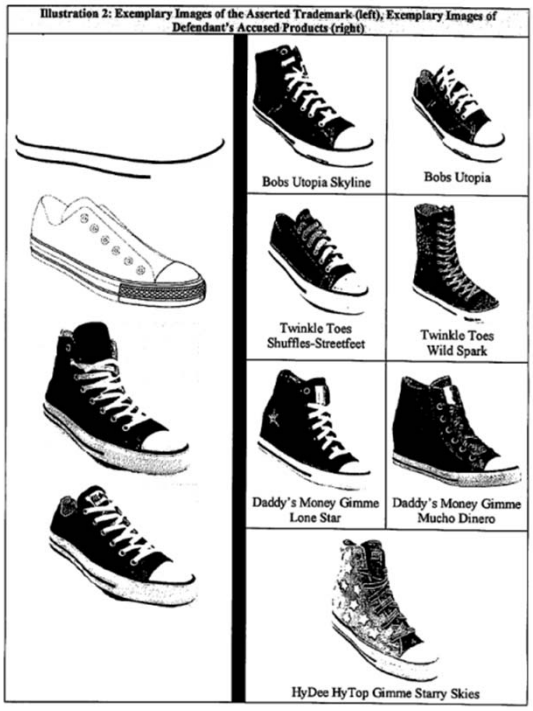
Trade Dress?



Chuck v. Bobs v. Fila

Chuck v. Bobs v. Fila

Faded Glory



1892 Colchester Rubber Co. sneaker on left
Converse Chuck Taylor sneaker on right

Fee-Shifting in Litigation

- *Slep-Tone Ent't Corp. v. Karaoke Kandy Store, Inc.*, 782 F.3d 712 (6th Cir. 2015)
- 6th Cir. says *Octane Fitness* (S.Ct. 2014) rule for fee shifting in patent cases may apply to Lanham Act: Case may be "exceptional" even if losing party's position was not "objectively baseless" and in bad faith.
- Fee shifting language in Patent Act (§ 285) and Lanham Act (§ 1117(a)) is the same.
- 3d Cir. Has reached same conclusion: *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303 (3rd Cir. 2014).

Foreign Marks

- *Belmora LLC v. Bayer Consumer Care AG*, 84 F.Supp.3d 490 (E.D.Va. 2015)
- Overturning TTAB cancellation of Belmora's Flanax registration, and rejecting Bayer's § 43(a) claim .
- Although Bayer uses Flanax as brand name for Aleve in Mexico, and Belmora copied the name and trade dress, D.Ct. said Bayer lacked standing to bring § 43(a) claim because it had not used FLANAX mark in U.S. commerce.
- Applies *Lexmark* "zone of interests" standing test.
- § 44 does not incorporate Art. 6bis of Paris Convention ("famous marks" doctrine).
- On appeal to 4th Cir.; oral arg. Oct. 27.
- USPTO's intervenor brief supports Bayer.

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INTELLECTUAL PROPERTY LAW CONFERENCE
STATE BAR OF NEVADA, LAS VEGAS

So Many Obligations, So Little Time

An Ethics Update For IP Lawyers

Douglas R. Nemec
October 23, 2015

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About the Presenter

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Douglas R. Nemec concentrates on intellectual property litigation and related counseling, including providing intellectual property advice in connection with corporate transactions. Mr. Nemec has litigated numerous cases in a wide range of technologies, from pharmaceuticals and other chemicals to IT and electronics. He has particular experience in life sciences matters, including patent litigation under the Hatch-Waxman Act. Mr. Nemec also is registered to practice before the U.S. Patent and Trademark office, where he represents clients in patent interference proceedings and other matters. He is a member of the Skadden group recognized by The National Law Journal as one of the country's leading IP practices in its 2013 "IP Hot List."

Selected engagements in which Mr. Nemec has served a lead role include:

- defending one of the nation's largest banks in a patent infringement suit brought by a nonpracticing entity;
- defending an active pharmaceutical ingredient manufacturer in a Hatch-Waxman litigation concerning a blockbuster drug;
- representing a leading flavor and fragrance company in a trade secret misappropriation action concerning chemical and process engineering technology;
- representing the world's leading manufacturer of intelligent lighting products in multiple matters asserting and defending against claims of patent infringement involving complex optical devices and digital communication systems; and
- advising a major pharmaceutical company in formulating licensing strategies for developmental compounds and diagnostic tools.

Overview

Skadden

I. Myriad Misconduct at the PTO

II. The Duty of Candor

III. ESI Preservation Pitfalls

IV. The Snare of *Octane Fitness*

V. Lawyers – and Clients – Behaving Badly

Skadden

MYRIAD MISCONDUCT AT THE PTO

A REVIEW OF MISCONDUCT – BIG AND SMALL – THAT RESULTED IN SANCTIONS AT THE USPTO

MYRIAD MISCONDUCT AT THE PTO
Beyond Rule 56

Skadden

- Ethics at the PTO means more than Rule 56
  - 37 C.F.R. § 1.56 – Duty to disclose information material to patentability
- PTO Rules of Professional Conduct generally track ABA Model Rules of Professional Conduct
  - 37 C.F.R. § 11.101-901
  - Comments and annotations to ABA rules may be persuasive, but are not binding

MYRIAD MISCONDUCT AT THE PTO
Forms of Discipline from OED

Skadden

- Formal Discipline ~ Public Shaming
- Roughly 50% of disciplinary actions end with warnings
  - Warnings are not public
  - But, warnings may require disclosure for *Pro Hac Vice*
- Reciprocal discipline
  - See, e.g., D2015-25.

MYRIAD MISCONDUCT AT THE PTO
Forms of Discipline from OED

Skadden

- Factors considered in levying punishment:
  - Seriousness of offense
  - Cooperation
  - Remorse
  - Prior bad acts

MYRIAD MISCONDUCT AT THE PTO
Conduct Worthy of Exclusion

Skadden

- Stealing from a non-profit organization (D2012-19)
- Charging clients for work you did not do (D2014-10)
- Pretending to be a lawyer (D2014-11)
- In-house counsel charging client for work done by phantom law firm (D2015-19)
- Pattern of conduct including non-payment of fees, misrepresentations in applications, neglect in prosecution, comingling of funds (D2014-41)

MYRIAD MISCONDUCT AT THE PTO
Things That Might Give You Pause

Skadden

- Reprimand and probation for sending overly official-looking trademark renewal notices (D2015-15)
- Suspension/probation for inadequate supervision and allowing assistant to sign papers (D2014-13)
- Public reprimand for *ex parte* contact with PTAB judge (D2014-2)
- Sloppy docket management and client communications leading to missed dates and abandoned applications
  - Five year suspension (D2012-30)
  - Public reprimand (D2012-4)
- Representing inventors with conflicting interests (D2014-29)

MYRIAD MISCONDUCT AT THE PTO
Contrition Counts

Skadden

- Compare:
  - **Exclusion** for allowing five applications to go abandoned against client wishes (D2015-22)

To:

  - **Six month suspension** for lying to clients about the status of applications, neglect leading to abandonment of other applications, unauthorized practice of law (D2015-23)

MYRIAD MISCONDUCT AT THE PTO
New Rules in PTAB Proceedings

Skadden

- Ethical Rules Applicable to PTAB Proceedings:
  - 37 C.F.R. § 42.11: "Parties and individuals involved in the proceeding have **a duty of candor and good faith** to the [PTO] during the course of a proceeding."
  - 37 C.F.R. § 42.31: Requiring parties to **disclose "relevant information that is inconsistent** with a position advanced" in the proceeding.
- Beware: Lawyers admitted PHV in PTAB proceedings are subject to discipline/sanction by PTAB and OED

MYRIAD MISCONDUCT AT THE PTO

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KEY POINTS:

- Attorneys at the PTAB have a Duty of Candor and a Duty to Disclose Inconsistent Information.
- Accepting responsibility and cooperating with OED may influence the consequences of wrongdoing.

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THE DUTY OF CANDOR

BALANCING STRATEGY AT THE PTAB WITH DISCLOSURE OBLIGATIONS IN DISTRICT COURT

THE DUTY OF CANDOR
ABA Model Rule 3.3

Skadden

- **Rule 3.3 Candor Toward The Tribunal**

  (a) A lawyer shall not knowingly:

  - (1) **make a false statement** of fact or law to a tribunal or fail to correct a false statement of material fact or law previously made to the tribunal by the lawyer;
  - (2) **fail to disclose to the tribunal legal authority** in the controlling jurisdiction known to the lawyer to be directly adverse to the position of the client and not disclosed by opposing counsel; or
  - (3) **offer evidence that the lawyer knows to be false**. If a lawyer, the lawyer's client, or a witness called by the lawyer, has offered material evidence and the lawyer comes to know of its falsity, the lawyer shall take reasonable remedial measures, including, if necessary, disclosure to the tribunal. A lawyer may refuse to offer evidence, other than the testimony of a defendant in a criminal matter, that the lawyer reasonably believes is false.

THE DUTY OF CANDOR
ABA Model Rule 3.3

Skadden

- **Rule 3.3 Candor Toward The Tribunal**

(b) A lawyer who represents a client in an adjudicative proceeding and who knows that a person intends to engage, is engaging or has engaged in criminal or fraudulent conduct related to the proceeding **shall take reasonable remedial measures**, including, if necessary, disclosure to the tribunal.

(c) The **duties stated in paragraphs (a) and (b) continue to the conclusion** of the proceeding, and apply even if compliance requires disclosure of information otherwise protected by Rule 1.6.

(d) In an **ex parte proceeding**, a lawyer shall inform the tribunal of **all material facts known to the lawyer** that will enable the tribunal to make an informed decision, whether or not the facts are adverse.

THE DUTY OF CANDOR
The *Renssalaer* Case

Skadden

- **Renssalaer Polytechnic Inst. v. Apple, Inc.,**
  2014 US Dist. LEXIS 5186, *16-17 (N.D.N.Y. 2014)
  - Denying request for a Stay without prejudice, finding Deft. tactically delayed filing the petition and requesting a stay.
  - Court calls out Apple's counsel for its "lack of candor" in failing to inform the court of the pending IPR petition.
    - "Apple did not offer a particularly persuasive reason **for its lack of candor** with the court and plaintiffs during the telephone conference regarding the fact that it filed an IPR petition."
    - "I conclude that Apple's failure to notify the court and plaintiffs of the filing of its IPR petition in a telephone conference in which scheduling was discussed was **calculated to secure tactical advantage** by obtaining desired discovery while rebuffing plaintiffs' efforts to obtain reciprocal discovery until the stay motion could be interposed."

THE DUTY OF CANDOR
The *Virginia Innovation* Case

Skadden

- **Va. Innovation Scis., Inc. v. Samsung Elecs. Co.**
  983 F.Supp. 2d 713 (E.D.Va. 2014)
  - Reconsideration of Summary Judgment ruling denied.
  - Both parties failed to inform the Court the Deft. filed an IPR Petition for six months.
  - Order includes lengthy exposition on the ethical duty to inform the Court of concurrent proceedings that may impact the case.
    - "That said, the issuance of this Opinion is more than sufficient to **place all patent practitioners on notice** that future failures to disclose to the Court any concurrent inter partes review proceedings will be met with far sharper consequences."

THE DUTY OF CANDOR

Skadden

KEY POINTS:

- PTO proceedings are "related matters" to District Court proceedings.
- As soon as a PTAB petition is filed, consider notifying the district court.
- Think hard before asking both tribunals to concurrently decide the same issues.

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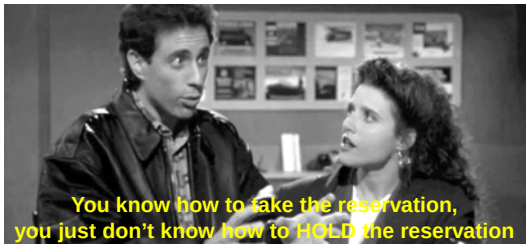

ESI PRESERVATION PITFALLS

THE ETHICAL OBLIGATION TO HOLD RELEVANT ESI AND THE CHANGING CONSEQUENCES FOR FAILURE TO DO SO

ESI PRESERVATION
Evolution of the Obligation to Hold

Skadden

- Zubulake v. UBS Warburg LLC
  229 F.R.D. 422 (S.D.N.Y. 2004)
  - Setting the bar for what constitutes ESI spoliation
- Pension Comm. of the Univ. of Montreal Pension Plan v. Banc of Am. Sec. LLC
  685 F.Supp.2d 456 (S.D.N.Y. 2010)
  - Reinforcing the bar
- Chin v. Port Authority of NY & NJ
  685 F.3d 135 (2d Cir. 2012)
  - Arguably raising the bar
  - Seen as a sign that courts appreciate the burdens of ESI preservation

ESI PRESERVATION
Common ESI Preservation Pitfalls

Skadden

- Scope of materials to preserve
- Overlooked repositories
- Hold notice:
  - delay
  - failure to update
  - failure to issue
- Omitted custodians
- Departing employees
- Failure to implement/enforce the hold
- Misuse of search terms

ESI PRESERVATION
Case Study in ESI Pitfalls

Skadden

- **Brown v. Tellermate Holdings Ltd.**
  No. 2:11-cv-1122, 2013 WL 1363738 (S.D. Ohio 2013)
  - Counsel failed to "examine critically" the info provided by their client re ESI
  - Counsel took too narrow a view of "possession, custody or control"
  - Counsel failed to provide a timely and adequate privilege log
  - Search terms were not tailored to capture information relevant to claims and defenses
  - Court issued severe evidentiary sanctions and awarded fees to moving party for expense of motions to compel
  - Court relied upon Rule 39(b)(2) for sanction authority

ESI PRESERVATION
The Case For Change: Rule 37(e)

Skadden

- Loose pleading requirements present litigants with the over preservation vs. spoliation dilemma
- Existing case law is inconsistent both in terms of what rises to the level of spoliation and what sanctions are appropriate
- A clearer distinction is necessary between the consequences of innocent ESI destruction and intentional destruction of evidence

ESI PRESERVATION
Text of Proposed Rule 37(e)

Skadden

- **Fed. R. Civ. P. 37(e)** [NEW VERSION]
  Failure to Preserve Electronically Stored Information

> If electronically stored information that should have been preserved in the anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court:
>
> (1) upon finding prejudice to another party from loss of the information, may order measures **no greater than necessary to cure** the prejudice; **or**
>
> . . .

ESI PRESERVATION
Text of Proposed Rule 37(e), cont.

Skadden

- **Fed. R. Civ. P. 37(e)** [NEW VERSION]
  Failure to Preserve Electronically Stored Information

  . . .

  (2) only upon finding that the party acted with the intent to deprive another party of the information's use in the litigation, may:

  (A) presume that the lost information was unfavorable to the party;

  (B) instruct the jury that it may or must presume the information was unfavorable to the party; or

  (C) dismiss the action or enter a default judgment.

ESI PRESERVATION
Benefits of the New Rule

Skadden

- Resolves uncertainty over when the most severe sanctions may be levied
- Intended to foreclose reliance on state law or inherent authority
- **Negligence** and **gross negligence** no longer trigger the most severe sanctions
- "Reasonable efforts" safe harbor

ESI PRESERVATION
Many Questions Remain

Skadden

- **What** should be preserved and **when**?
- What are "**reasonable** steps"?
- How does one establish **prejudice** and whose **burden** is it?
- What sort of measures can be used to **cure** prejudice?
- Can "**intent to deprive**" be inferred?

ESI PRESERVATION

Skadden

KEY POINTS:

- Remember the duty to preserve extends beyond issuing hold letters and lasts throughout the litigation.
- Severe sanctions may be levied for failure to identify and preserve relevant ESI early in litigation.
- New Rule 37(e) may create a safe harbor for attorneys who take "reasonable efforts" to protect ESI, but does not offer complete protection.

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THE SNARE OF *OCTANE FITNESS*

IS THE STANDARD FOR REASONABLE BASIS GOVERNED BY RULE 11 OR SECTION 285?

THE SNARE OF OCTANE FITNESS
Ethical Duties Implicated

Skadden

- Advocate:
  - Duty to bring "non frivolous" claims and contentions.
    Model Rules of Prof'l Conduct R. 3.1 (2007) ("A lawyer shall not . . . assert or controvert an issue . . . unless there is a basis in law and fact for doing so that is not frivolous. . . .").
- Counselor:
  - Duty to render "candid advice."
    Id. R. 2.1 ("In representing a client, a lawyer shall exercise independent professional judgment and render candid advice. In rendering advice, a lawyer may refer not only to law but to other considerations such as moral, economic, social and political factors, that may be relevant to the client's situation.").
- Lawyer:
  - Duty to communicate the "fee[s] and expenses for which the client will be responsible . . . ."
    Id. R. 1.5(b).

THE SNARE OF OCTANE FITNESS
The *Octane Fitness* Decision

Skadden

- **Octane Fitness, LLC v. ICON Health & Fitness, LLC,**
  134 S. Ct. 1749 (2014)
  - The Patent Act provides for attorneys' fees shifting in "**exceptional cases**."
    35 U.S.C. § 285 (2013)
  - Prior to Octane Fitness, the Federal Circuit required that either:
    1. "the litigation [was] brought in **subjective bad faith**" **or**
    2. "the litigation [was] **objectively baseless**."
  - After Octane Fitness, the Supreme Court clarified:
    - An exceptional case is "**simply one that stands out from others** with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."
      See 134 S. Ct. 1749 at 1756-57.

THE SNARE OF OCTANE FITNESS
The *Octane Fitness* Decision

Skadden

- **Octane Fitness, LLC v. ICON Health & Fitness, LLC,**
  134 S. Ct. 1749 (2014)
  - To determine exceptionality, the Supreme Court suggested that district courts look to a nonexclusive list of factors including:
    - frivolousness,
    - motivation,
    - objective unreasonableness, and
    - the need in particular circumstances to advance considerations of compensation and deterrence.
      Id. at 1756 n.6.

THE SNARE OF OCTANE FITNESS
The *Octane Fitness* Decision

Skadden

- **Octane Fitness, LLC v. ICON Health & Fitness, LLC**, 134 S. Ct. 1749 (2014)
  - The exceptionality determination is to be made on a case-by-case basis considering the totality of the circumstances.
  - Two circumstances where exceptionality may be found:
    - Where "a party's **unreasonable conduct**—while **not necessarily independently sanctionable**—is nonetheless so 'exceptional' as to justify an award of fees."
    - A case "presenting **either subjective bad faith or exceptionally meritless claims** may sufficiently set itself apart from mine-run cases to warrant a few award."

THE SNARE OF OCTANE FITNESS
The *Highmark* Decision

Skadden

- **Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.**, 134 S. Ct. 1744, 1748 (2014)
  - Companion Case to Octane Fitness
  - The Federal Circuit should apply an "**abuse-of-discretion**" standard when reviewing fee shifting determinations
  - The determination of exceptionality is **within the discretion** of the district court.

THE SNARE OF OCTANE FITNESS
Defining "Exceptionality"

Skadden

- **Federal Circuit Resists Relaxation of the Exceptionality Standard**
  - Courts have discretion to deny fee awards in exceptional cases
    - Icon Health & Fitness, Inc. v. Octane Fitness, LLC, 576 F. App'x 1002, 1005 (Fed. Cir. 2014) ("The Supreme Court's decision in *Octane* did not, however, revoke the discretion of a district court to deny fee awards even in exceptional cases.").
  - Federal Circuit continues to reverse district court's discretion
    - Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc., 790 F.3d 1369, 1376-77 (Fed. Cir. 2015) (reviewing and reversing the district court's discretionary finding that the movant's conduct during litigation was sufficiently egregious to bar recovery of attorneys' fees).

THE SNARE OF OCTANE FITNESS
Defining "Exceptionality"

Skadden

- **Uncertain "Exceptionality" Standard Impacts Ethical Obligations**
  - Communicating Risks to Client: How can attorneys reliably advise clients given that the standard for granting attorneys' fees was left to a case-by-case discretionary judgment by each district court?
  - Evaluating a Case: How do attorneys separate informed legal judgment about the outcome of the case from their "best guess" on how a court will view their claim?
  - Rule 11 vs. Section 285: Is there now an ethical obligation under Model Rule 3.1 not to file certain claims which would lead to attorneys' fees shifting under § 285 even though they meet the Rule 11 standard?
  - New Ethical Standard?: Is it an ethical violation to run afoul of § 285?

THE SNARE OF OCTANE FITNESS

Skadden

KEY POINTS:

- Analyze strength of claims and contentions throughout litigation under both Rule 11 and Section 285.
- Advise client that risk of "exceptional case" finding is uncertain, but generally increasing.

Skadden

LAWYERS – AND CLIENTS – BEHAVING BADLY

THREE CASE STUDIES IN CURBING ENTHUSIASM

LAWYERS AND CLIENTS BEHAVING BADLY – Three Case Studies

Skadden

1. The Lawyer Who Couldn't Resist
   - *Where should you draw the line in self-promotion?*
2. Shipley's Ethical Dilemma
   - *What do you do if your client insists on submitting a bad brief?*
3. The *Pi-Net v. JPMC* Saga
   - *Can "doing the right thing" come back to haunt you?*

Skadden

1. THE LAWYER WHO COULDN'T RESIST

LAWYERS – AND CLIENTS – BEHAVING BADLY

THE LAWYER WHO COULDN'T RESIST: Maintaining the Integrity of the Profession

Skadden

- **Rule 8.4 Misconduct**
  It is professional misconduct for a lawyer to:

  . . .

  – (e) **state or imply an ability to influence** improperly a government agency or official or to achieve results by means that violate the Rules of Professional Conduct or other law; . . . .

United States Court of Appeals
for the Federal Circuit

IN RE EDWARD R. REINES,
Respondent.

14-MA004 (14-4)

Before PROST, *Chief Judge*, NEWMAN, LOURIE, DYK, MOORE, O'MALLEY, REYNA, WALLACH, TARANTO, CHEN, and HUGHES *Circuit Judges*.

PER CURIAM.

ORDER

THE LAWYER WHO COULDN'T RESIST: The Email from Chief Judge Rader

Skadden

Subject: Congratulations

"You were alone and IMPRESSIVE in every way."

"I, of course, pointed out that I had taught you everything you know in our recent class at Berkeley together . . ."

Attachment A

From: "Chief Judge Rader, Randall R." <RR@cafc.uscourts.gov>
Date: March 5, 2014 at 3:24:12 PM EST
To: Edward Reines <edward.reines@weil.com>
Subject: Congratulations

Ed,

On Wednesday, as you know, the judges meet for a strictly social lunch. We usually discuss politics and pay raises. Today, in the midst of the general banter, one of my female colleagues interrupted and addressed herself to me. She said that she was vastly impressed with the advocacy of "my friend, Ed." She said that you had handled two very complex cases, back to back. In one case, you were opposed by Seth Waxman. She said Seth had a whole battery of assistants passing him notes and keeping him on track. You were alone and IMPRESSIVE in every way. In both cases, you knew the record cold and handled every question with confidence and grace. She said that she was really impressed with your performance. Two of my other colleagues immediately echoed her enthusiasm over your performance.

I, of course, pointed out that I had taught you everything you know in our recent class at Berkeley together . . . NOT! I added the little enhancement that you can do the same thing with almost any

1

THE LAWYER WHO COULDN'T RESIST: The Email from Chief Judge Rader

Skadden

*"And actually I not only do not mind, but **encourage you** to let others see this message.*
***Your friend for life, rrr**"*

topic of policy: mastering the facts and law without the slightest hesitation or pause!

In sum, I was really proud to be your friend today! You bring great credit on yourself and all associated with you!

And actually I not only do not mind, but encourage you to let others see this message.

Your friend for life, rrr

The information contained in this email message is intended only for use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by email, postmaster@weil.com, and destroy the original message. Thank you.

THE LAWYER WHO COULDN'T RESIST: Maintaining the Integrity of the Profession

Skadden

- **The Public Reprimand from the Federal Circuit**
  - Concluded that disseminating the email constituted a violation of Rule 8.4(e) because:

1. **Implied a special relationship**
2. **Recipients viewed message as implying a special relationship**
3. **Lawyer's message to clients suggested they should consider this special relationship**
4. **Lawyer sought to use the special relationship to win business**
5. **Both the lawyer's message and the email suggested the Court would look favorably on clients represented by this lawyer**

Skadden

2. HOWARD N. SHIPLEY'S ETHICAL DILEMMA

LAWYERS – AND CLIENTS – BEHAVING BADLY

SHIPLEY'S ETHICAL DILEMMA: The Offending Brief

Skadden

- **Oct. 6, 2014:**
  Counsel of Record, Howard N. Shipley, submits "unorthodox" Cert. Petition challenging claim construction rulings at the Federal Circuit

In the
Supreme Court of the United States

SIGRAM SCHINDLER BETEILIGUNGSGESELLSCHAFT MBH,
Petitioner,

v.

MICHELLE K. LEE, Deputy Under Secretary of Commerce for Intellectual Property and Acting Director, Patent and Trademark Office,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

Howard N. Shipley
Counsel of Record

26

III. AN ANEW, EXTREMELY DANGEROUS ATTACK ON THE COURT'S DECISIONS

The self-healing process of overcoming the ET divide between this Court and especially the CAFC, questioned earlier [113,121], is anew put at stake by a voice of very high public profile, hence being extremely dangerous. Namely: While •) the CAFC and PTO since these 3 decisions only made a tiny move towards the framework underlying them, •) the former chief CAFC Judge Michel – just having been a key speaker at a PTO event [77] – took on, in a recent interview [129], a hardliner position and fiercely attacked the decisions of this Court, warning that the recent decisions (*Bilski/Mayo/Myriad/Alice*) will result in "chaos" – and alleging that *Alice*, in particular, "will create total chaos."

SHIPLEY'S ETHICAL DILEMMA: The Offending Brief

Skadden

- Footnote credits the client for contributions to the petition:

> [30] Prof. Sigram Schindler, the primary inventor of the '453 patent, should be recognized for significant contributions to this Petition.

- Mr. Shipley later defended the footnote as a "mitigating measure" to "explain to the Federal Circuit in a transparent and truthful manner why the briefs were written in an unconventional style."

SHIPLEY'S ETHICAL DILEMMA: The Order to Show Cause

Skadden

- **Dec. 8, 2014:**
  Supreme Court orders Shipley to show cause why he should not be sanctioned (D-2827):

ATTORNEY DISCIPLINE

D-2827 IN THE MATTER OF DISCIPLINE OF HOWARD NEIL SHIPLEY

Howard Neil Shipley, of Washington, D.C., is ordered to show cause, within 40 days, why he should not be sanctioned for his conduct as a member of the Bar of this Court in connection with the petition for a writ of certiorari in No. 14-424, *Sigram Schindler Beteiligungsgesellschaft MBH* v. *Lee*.

SHIPLEY'S ETHICAL DILEMMA: Shipley's Dilemma Defense

Skadden

- "As a result of this unique set of circumstances, Mr. Shipley was faced with **a difficult choice between two alternatives**, each of which raised potential ethical issues: (1) **submit** an unorthodox certiorari petition as directed by Dr. Schindler, while taking steps to ensure the petition complied with this Court's Rules; **or** (2) **withdraw** from the representation."
  (Shipley Discipline Response, at 20-21.)

- "The relevant professional standards [] make clear that an attorney's foremost obligation is to serve the interests of the client. Lawyers are agents, not principals . . ."
  (Shipley Discipline Response, at 21.)

SHIPLEY'S ETHICAL DILEMMA: The Warning for All Lawyers

Skadden

- U.S. Supreme Court discharged the order to show cause, but cautioned all Members of the Bar not to delegate counsel duties to clients:
  - "A response having been filed, the Order to Show Cause, dated December 8, 2014, is discharged. **All Members of the Bar are reminded**, however, that they are responsible—as Officers of the Court—for compliance with the requirement of Supreme Court Rule 14.3 that petitions for certiorari be stated "in plain terms," and **may not delegate that responsibility to the client**."
    (In re Shipley, 135 S.Ct. 1589, 1589-90 (2015))

Skadden

3. *PI-NET v. JPMC*

LAWYERS – AND CLIENTS – BEHAVING BADLY

Pi-Net v. JPMC: Background Events

Skadden

- **Pi-Net** was a failed internet start-up from the mid-1990s
  - **Dr. A** was the sole proprietor of Pi-Net and named inventor.
- **Pi-Net** asserted patents against a large number of defendants with online businesses, including JPMC.
- All asserted claims were **invalidated** on at least three grounds in summary judgment against JPMC.
- Following summary judgment, **Dr. A attempted to take control** over the litigation by attacking her previous counsel and the presiding Judges.

Pi-Net v. JPMC: Client Lashes Out Against Counsel

Skadden

- **Dr. A (not Pi-Net) attempts to file a notice terminating counsel, accusing counsel of misconduct.**
  - **Dr. A's accusations against Counsel:**
    - "**drinking when he brashly filed the Appeal** in the CAFC very quickly after the Markman Ruling, against client instruction"
    - "**blackmail**, coercion, duress, harassment, threats"
    - "He consistently used **sexually profane language** in conversation with Pi-Net's CEO. She is an older, single, ethnic female and he took advantage of her. He stymied her, **coerced her, subjected her to duress**, bullied her and consistently lied to her."
- **Pi-Net's counsel withdraws**, citing "irreconcilable differences"
- **Pi-Net refiles the accusations on the public docket**

Pi-Net v. JPMC: Client Lashes Out Against the Court

Skadden

- **Dr. A accuses Court of Bias and Fraud**
  - **Dr. A** files motion to **Vacate for Fraud on the Court**
  - **Dr. A** files motion to **Transfer to an Impartial Tribunal**
  - **Dr. A** files **Motion to Recuse** Judge Robinson and Chief Judge Stark
  - **Dr. A** files **Reply to Motion to Vacate** based on Rader/Reines Conspiracy
- **Dr. A's frivolous accusations:**
  (1) Judge Andrew's transfer of the case to Judge Robinson evidenced judicial conspiracy
    - *"Judge Andrews, after presiding over the case for over 2 years, inexplicably transferred the case, less than a week before the Markman Hearing, to Judge Sue L. Robinson, who had no familiarity with the case, and yet ruled in less than a month after the Hearing nonetheless. The judge bias is evident to a reasonable person."*

  (2) Judges' holdings of mutual funds that were partially invested in JPMC evidences financial bias.

  (3) Submission of "incorrect" claim construction brief by allegedly rogue counsel.
    - *"Plaintiff's attorney had received written instruction from the inventor that by doing so, against the instruction of the client, he would be committing malpractice."*

Pi-Net v. JPMC: Misconduct in PTAB Proceedings

Skadden

- **Dr. A files unauthorized motions in PTAB proceedings:**
  - **Dr. A** files **unauthorized paper/motion** accusing Judge McNamara of misconduct; PTAB seals the filing.
  - **Pi-Net** files **second unauthorized paper/motion**, entitled "Patent Owner's Notice to PTAB About Denial of Due Process to Patent Owner and Motion to Recuse PTAB Judges."
  - **Dr. A** allegedly **leaks** **sealed filing** to Americans for Innovation Blog.


JUDICIAL PATENT THEFT SYNDICATE EXPOSED

Dead fish are washing up everywhere (this is a metaphor folks). Two days ago, patent judge **BRIAN J. MCNAMARA** was caught censoring dockets in six "patent reexaminations" in Dr. Lakshmi Arunachalam's *Pi-Net v. JPMorgan/SAP* cases. Yes that's right, a patent property right is a joke in this post "America Invents Act" era. Deep-pockets can tie your patent up for decades with new AIA legal harassment tricks. Dr. Arunachalam's filing (**click here**) exposed McNamara's financial holdings in JPMorgan, SAP, Citigroup, Bank of America, etc.—the banks Dr. Arunachalam is suing. Earlier she showed that Delaware district court judges **LEONARD P. STARK**

NEWS FLASH: After encouraging Dr. Arunachalam to investigate his financial holdings "to your heart's content," Patent Judge **BRIAN J. MCNAMARA** didn't like the results. He just sanctioned Dr. Arunchalam and threatened to invalidate her patents if she pursues her complaints about his JPMorgan financial conflicts of interest. He expunged the filings.

Pi-Net v. JPMC: Misconduct in PTAB Proceedings

Skadden

- **In response, the PTAB issued its first ever sanctions:**

  "Attempts to intimidate Judge McNamara, or any of the other persons identified on the Web site, are unacceptable."

  - **Dr. A** is **prohibited from e-filing** documents with the PTAB.
  - PTAB threatened penalties for future violations.

Pi-Net v. JPMC: Fed. Circ. Appeal – False Certification

Skadden

- **Pi-Net secures new appellate counsel**.
- **Pi-Net appeals** the summary judgment decision invaliding its patents.
- Pi-Net files an **untimely** brief with a **false certification** re: word count.
  - Pi-Net artificially achieved its word count by deleting spaces between words.
  - True word count is over 15,259 (limit is 14,000).
- Pi-Net amends and **refiles** the brief, but **repeats the false certification**.

Pi-Net v. JPMC: Fed. Circ. Appeal – The Word Count

Skadden

Examples of Improper Compound Words, Phrases or Citations in Appellant's Brief (Dkt. No. 56)	
Compound Word	**Page No. in Brief**
"Webbrowser"	2
"Webtransactions"	2
"(A-71,73,'492:1:33-2:45;5:40-54)"	3
"*Thorner.v.SonyComputerEntm'tAm.LLC*,669F3d1362,1365(Fed.Cir.2012)"	3
"capabilities...from...Webbrowser...one-way"	3
"*OmegaEnggInc.v.RaytekCorp*334F3d1314,1334(Fed.Cir.2003)"	5
"*HalliburtonEnergyServs.*,514F3d,1255-56,85USPQ2d,1663"	9
"LLC,474F.3d1361,1370(Fed.Cir.2007)('Even . . ."	17 n.1
"(A-72,74'492:8:8-39;7:10-23;8:8-9:33;4:58-5:27)"	24
"(A-17-19'500:6:66-7:12; 9:1-16;Exchange 6:7-65;Fig.5B,VANswitch A-18-19,8:33-9:16;7:64-8:4;8:19-31;'500filehistory,)"	37
"*ChicagoBd.OptionsExch.,Inc.v.Int'l Sec.Exch.*, LLC,748 F.3d1134,1141-42(Fed.Cir.2014)"	43
"'178/'500filehistories"	53

Pi-Net v. JPMC: Fed. Circ. Appeal – JPMC's Solution

Skadden

- **JPMC notifies** Pi-Net's appellate counsel regarding the word count.
- Pi-Net's appellate counsel **does not remedy** the word count certification.
- **JPMC files motion** requesting an extension to the page limit for the Response, **highlighting Pi-Net's false certification** and other bad acts.
- Federal Circuit issues **order to show cause** why the appeal should not be dismissed.

Pi-Net v. JPMC: Fed. Circ. Appeal – Pi-Net's Defense

Skadden

- **Pi-Net responds** to the Order to Show Cause.
- But, rather than seek forgiveness, Pi-Net:
  - **Goes on the offensive**: "JPMC incorrectly accuses Pi-Net's counsel . . . of false certification. This is the pot calling the kettle black."
  - **Re-argues the merits of the case**: "The inventions in these patents are not about 'back-office systems.'"
  - **Rehashes conspiracy theories**: "Relationship conflicts of interest are in question."
  - **Claims a medical emergency**: "Working 22 hours a day was killing [Dr. A], and she got quite limp and weak . . ."

Pi-Net v. JPMC: Federal Circuit Appeal – Dismissed!

Skadden

- **Federal Circuit dismisses appeal with prejudice**.
  - Pi-Net appellate counsel withdraws.
  - Dr. A's motion for reconsideration denied.
  - Dr. A's *en banc* petition denied.
- Petition for Certiorari at the Supreme Court due Nov. 22, 2015

LAWYERS – AND CLIENTS – BEHAVING BADLY

Skadden

KEY POINTS:

- If taking over from previous counsel, check if the *client* was the problem.
- As an Officer of the Court, some duties cannot be delegated.
  - Do not give clients complete control over briefs.
- If a client has violated a rule – any rule – take corrective action.
  - Consider withdrawing sooner rather than later if client insists on breaking or ignoring rules – even if the rules seem minor or procedural.
- Do not forward emails from judges that praise your accomplishments.

Skadden

Thank You For Listening.

If you have questions or comments about this presentation, please feel free to contact me.

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ABA Model Rules of Professional Conduct	USPTO Rules of Professional Conduct
Rule 1.0 Terminology (a) "Belief" or "believes" denotes that the person involved actually supposed the fact in question to be true. A person's belief may be inferred from circumstances.	**[Currently in 37 CFR § 11.1.]** *Belief* or *believes* means that the person involved actually supposed the fact in question to be true. A person's belief may be inferred from circumstances.
(b) "Confirmed in writing," when used in reference to the informed consent of a person, denotes informed consent that is given in writing by the person or a writing that a lawyer promptly transmits to the person confirming an oral informed consent. ~~See paragraph (e) for the definition of "informed consent."~~ If it is not feasible to obtain or transmit the writing at the time the person gives informed consent, then the lawyer must obtain or transmit it within a reasonable time thereafter.	**[Added to 37 CFR § 11.1 by this rule package.]** *Confirmed in writing*, when used in reference to the informed consent of a person, means informed consent that is given in writing by the person or a writing that a practitioner promptly transmits to the person confirming an oral informed consent. If it is not feasible to obtain or transmit the writing at the time the person gives informed consent, then the practitioner must obtain or transmit it within a reasonable time thereafter.
(c) "Firm" or "law firm" denotes a lawyer or lawyers in a law partnership, professional corporation, sole proprietorship or other association authorized to practice law; or lawyers employed in a legal services organization or the legal department of a corporation or other organization.	**[Added to 37 CFR § 11.1 by this rule package.]** *Firm* or *law firm* means a practitioner or practitioners in a law partnership, professional corporation, sole proprietorship or other association authorized to practice law; or practitioners employed in a legal services organization or the legal department of a corporation or other organization.
(d) ~~"Fraud" or "fraudulent" denotes conduct that is fraudulent under the substantive or procedural law of the applicable jurisdiction and has a purpose to deceive.~~	**[Added to 37 CFR § 11.1 by this rule package, replacing previous definition.]** *Fraud* or *fraudulent* means conduct that involves a misrepresentation of material fact made with intent to deceive or a state of mind so reckless respecting consequences as to be the equivalent of intent, where there is justifiable reliance on the misrepresentation by the party deceived, inducing the party to act thereon, and where there is injury to the party deceived resulting from reliance on the misrepresentation. Fraud also may be established by a purposeful omission or failure to state a material fact, which omission or

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	failure to state makes other statements misleading, and where the other elements of justifiable reliance and injury are established.
(e) "Informed consent" denotes the agreement by a person to a proposed course of conduct after the lawyer has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct.	**[Added to 37 CFR § 11.1 by this rule package.]** *Informed consent* means the agreement by a person to a proposed course of conduct after the practitioner has communicated adequate information and explanation about the material risks of and reasonably available alternatives to the proposed course of conduct.
(f) "Knowingly," "known," or "knows" denotes actual knowledge of the fact in question. A person's knowledge may be inferred from circumstances.	**[Currently in 37 CFR § 11.1]** *Knowingly*, *known*, or *knows* means actual knowledge of the fact in question. A person's knowledge may be inferred from circumstances.
[Drawn from ABA Model Rule of Professional Conduct 5.7(b)]	**[Added to 37 CFR § 11.1 by this rule package.]** *Law-related services* means services that might reasonably be performed in conjunction with and in substance are related to the provision of legal services, and that are not prohibited as unauthorized practice of law when provided by a non-lawyer.
(g) "Partner" denotes a member of a partnership, a shareholder in a law firm organized as a professional corporation, or a member of an association authorized to practice law.	**[Added to 37 CFR § 11.1 by this rule package.]** *Partner* means a member of a partnership, a shareholder in a law firm organized as a professional corporation, or a member of an association authorized to practice law.
	[Added to 37 CFR § 11.1 by this rule package.] *Person* means an individual, a corporation, an association, a trust, a partnership, and any other organization or legal entity.
(h) "Reasonable" or "reasonably" when used in	**[Currently in 37 CFR § 11.1.]** *Reasonable* or *reasonably* when used in

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relation to conduct by a lawyer denotes the conduct of a reasonably prudent and competent lawyer.	relation to conduct by a practitioner means the conduct of a reasonably prudent and competent practitioner.
(i) "Reasonable belief" or "reasonably believes" when used in reference to a lawyer denotes that the lawyer believes the matter in question and that the circumstances are such that the belief is reasonable.	**[Added to 37 CFR § 11.1 by this rule package.]** *Reasonable belief* or *reasonably believes* when used in reference to a practitioner means that the practitioner believes the matter in question and that the circumstances are such that the belief is reasonable.
(j) "Reasonably should know" when used in reference to a lawyer denotes that a lawyer of reasonable prudence and competence would ascertain the matter in question.	**[Added to 37 CFR § 11.1 by this rule package.]** *Reasonably should know* when used in reference to a practitioner means that a practitioner of reasonable prudence and competence would ascertain the matter in question.
(k) "Screened" denotes the isolation of a lawyer from any participation in a matter through the timely imposition of procedures within a firm that are reasonably adequate under the circumstances to protect information that the isolated lawyer is obligated to protect under these Rules or other law.	**[Added to 37 CFR § 11.1 by this rule package.]** *Screened* means the isolation of a practitioner from any participation in a matter through the timely imposition of procedures within a firm that are reasonably adequate under the circumstances to protect information that the isolated practitioner is obligated to protect under these USPTO Rules of Professional Conduct or other law.
(l) "Substantial" when used in reference to degree or extent denotes a material matter of clear and weighty importance.	**[Currently in 37 CFR § 11.1.]** *Substantial* when used in reference to degree or extent means a material matter of clear and weighty importance.
(m) "Tribunal" denotes a court, an arbitrator in a binding arbitration proceeding or a legislative body, administrative agency or other body acting in an adjudicative capacity. A legislative body, administrative agency or other body acts in an adjudicative capacity when a neutral	**[Added to 37 CFR § 11.1 by this rule package.]** *Tribunal* means the Office, a court, an arbitrator in a binding arbitration proceeding or a legislative body, administrative agency or other body acting in an adjudicative capacity. A legislative body, administrative agency or other body acts in an adjudicative capacity

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official, after the presentation of evidence or legal argument by a party or parties, will render a binding legal judgment directly affecting a party's interests in a particular matter. (n) "Writing" or "written" denotes a tangible or electronic record of a communication or representation, including handwriting, typewriting, printing, photostating, photography, audio or video recording and electronic communications. A "signed" writing includes an electronic sound, symbol or process attached to or logically associated with a writing and executed or adopted by a person with the intent to sign the writing.	when a neutral official, after the presentation of evidence or legal argument by a party or parties, will render a binding legal judgment directly affecting a party's interests in a particular matter. **[Added to 37 CFR § 11.1 by this rule package.]** *Writing* or *written* means a tangible or electronic record of a communication or representation, including handwriting, typewriting, printing, photostating, photography, audio or video recording and electronic communications. A "signed" writing includes an electronic sound, symbol or process attached to or logically associated with a writing and executed or adopted by a person with the intent to sign the writing.
Rule 1.1 Competence A lawyer shall provide competent representation to a client. Competent representation requires the legal knowledge, skill, thoroughness and preparation reasonably necessary for the representation.	**§ 11.101 Competence.** A practitioner shall provide competent representation to a client. Competent representation requires the legal, scientific, and technical knowledge, skill, thoroughness and preparation reasonably necessary for the representation.
Rule 1.2 Scope Of Representation And Allocation Of Authority Between Client And Lawyer (a) Subject to paragraphs (c) and (d), a lawyer shall abide by a client's decisions concerning the objectives of representation and, as required by Rule 1.4, shall consult with the client as to the means by which they are to be pursued. A lawyer may take such action on behalf of the client as is impliedly authorized to carry out the representation. A lawyer shall abide by a client's decision whether to settle a matter. ~~In a criminal case, the lawyer shall abide by the client's decision, after consultation with the lawyer, as to a plea to be~~	**§ 11.102 Scope of representation and allocation of authority between client and practitioner.** (a) Subject to paragraphs (c) and (d) of this section, a practitioner shall abide by a client's decisions concerning the objectives of representation and, as required by § 11.104, shall consult with the client as to the means by which they are to be pursued. A practitioner may take such action on behalf of the client as is impliedly authorized to carry out the representation. A practitioner shall abide by a client's decision whether to settle a matter.

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~~entered, whether to waive jury trial and whether the client will testify.~~ ~~(b) A lawyer's representation of a client, including representation by appointment, does not constitute an endorsement of the client's political, economic, social or moral views or activities.~~ (c) A lawyer may limit the scope of the representation if the limitation is reasonable under the circumstances and the client gives informed consent. (d) A lawyer shall not counsel a client to engage, or assist a client, in conduct that the lawyer knows is criminal or fraudulent, but a lawyer may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good faith effort to determine the validity, scope, meaning or application of the law.	(b) [Reserved]. (c) A practitioner may limit the scope of the representation if the limitation is reasonable under the circumstances and the client gives informed consent. (d) A practitioner shall not counsel a client to engage, or assist a client, in conduct that the practitioner knows is criminal or fraudulent, but a practitioner may discuss the legal consequences of any proposed course of conduct with a client and may counsel or assist a client to make a good-faith effort to determine the validity, scope, meaning or application of the law.
Rule 1.3 Diligence A lawyer shall act with reasonable diligence and promptness in representing a client.	**§ 11.103 Diligence.** A practitioner shall act with reasonable diligence and promptness in representing a client.
Rule 1.4 Communication (a) A lawyer shall: (1) promptly inform the client of any decision or circumstance with respect to which the client's informed consent~~, as defined in Rule 1.0(e),~~ is required by these Rules; (2) reasonably consult with the client about the means by which the client's objectives are to be accomplished; (3) keep the client reasonably informed about	**§ 11.104 Communication.** (a) A practitioner shall: (1) Promptly inform the client of any decision or circumstance with respect to which the client's informed consent is required by the USPTO Rules of Professional Conduct; (2) Reasonably consult with the client about the means by which the client's objectives are to be accomplished; (3) Keep the client reasonably informed about

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the status of the matter; (4) promptly comply with reasonable requests for information; and (5) consult with the client about any relevant limitation on the lawyer's conduct when the lawyer knows that the client expects assistance not permitted by the Rules of Professional Conduct or other law. (b) A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.	the status of the matter; (4) Promptly comply with reasonable requests for information from the client; and (5) Consult with the client about any relevant limitation on the practitioner's conduct when the practitioner knows that the client expects assistance not permitted by the USPTO Rules of Professional Conduct or other law. (b) A practitioner shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation.
Rule 1.5 Fees (a) A lawyer shall not make an agreement for, charge, or collect an unreasonable fee or an unreasonable amount for expenses. The factors to be considered in determining the reasonableness of a fee include the following: (1) the time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly; (2) the likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the lawyer; (3) the fee customarily charged in the locality for similar legal services; (4) the amount involved and the results obtained; (5) the time limitations imposed by the client or by the circumstances; (6) the nature and length of the professional	**§ 11.105 Fees.** (a) A practitioner shall not make an agreement for, charge, or collect an unreasonable fee or an unreasonable amount for expenses. The factors to be considered in determining the reasonableness of a fee include the following: (1) The time and labor required, the novelty and difficulty of the questions involved, and the skill requisite to perform the legal service properly; (2) The likelihood, if apparent to the client, that the acceptance of the particular employment will preclude other employment by the practitioner; (3) The fee customarily charged in the locality for similar legal services; (4) The amount involved and the results obtained; (5) The time limitations imposed by the client or by the circumstances; (6) The nature and length of the professional

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relationship with the client; (7) the experience, reputation, and ability of the lawyer or lawyers performing the services; and (8) whether the fee is fixed or contingent. (b) The scope of the representation and the basis or rate of the fee and expenses for which the client will be responsible shall be communicated to the client, preferably in writing, before or within a reasonable time after commencing the representation, except when the lawyer will charge a regularly represented client on the same basis or rate. Any changes in the basis or rate of the fee or expenses shall also be communicated to the client. (c) A fee may be contingent on the outcome of the matter for which the service is rendered, except in a matter in which a contingent fee is prohibited by ~~paragraph (d) or other~~ law. A contingent fee agreement shall be in a writing signed by the client and shall state the method by which the fee is to be determined, including the percentage or percentages that shall accrue to the lawyer in the event of settlement, trial or appeal; litigation and other expenses to be deducted from the recovery; and whether such expenses are to be deducted before or after the contingent fee is calculated. The agreement must clearly notify the client of any expenses for which the client will be liable whether or not the client is the prevailing party. Upon conclusion of a contingent fee matter, the lawyer shall provide the client with a written statement stating the outcome of the matter and, if there is a recovery, showing the remittance to the client and the method of its determination. ~~(d) A lawyer shall not enter into an~~	relationship with the client; (7) The experience, reputation, and ability of the practitioner or practitioners performing the services; and (8) Whether the fee is fixed or contingent. (b) The scope of the representation and the basis or rate of the fee and expenses for which the client will be responsible shall be communicated to the client, preferably in writing, before or within a reasonable time after commencing the representation, except when the practitioner will charge a regularly represented client on the same basis or rate. Any changes in the basis or rate of the fee or expenses shall also be communicated to the client. (c) A fee may be contingent on the outcome of the matter for which the service is rendered, except in a matter in which a contingent fee is prohibited by law. A contingent fee agreement shall be in a writing signed by the client and shall state the method by which the fee is to be determined, including the percentage or percentages that shall accrue to the practitioner in the event of settlement, trial or appeal; litigation and other expenses to be deducted from the recovery; and whether such expenses are to be deducted before or after the contingent fee is calculated. The agreement must clearly notify the client of any expenses for which the client will be liable whether or not the client is the prevailing party. Upon conclusion of a contingent fee matter, the practitioner shall provide the client with a written statement stating the outcome of the matter and, if there is a recovery, showing the remittance to the client and the method of its determination. (d) [Reserved].

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~~arrangement for, charge, or collect:~~ ~~(1) any fee in a domestic relations matter, the payment or amount of which is contingent upon the securing of a divorce or upon the amount of alimony or support, or property settlement in lieu thereof; or~~ ~~(2) a contingent fee for representing a defendant in a criminal case.~~ (e) A division of a fee between lawyers who are not in the same firm may be made only if: (1) the division is in proportion to the services performed by each lawyer or each lawyer assumes joint responsibility for the representation; (2) the client agrees to the arrangement, including the share each lawyer will receive, and the agreement is confirmed in writing; and (3) the total fee is reasonable.	(e) A division of a fee between practitioners who are not in the same firm may be made only if: (1) The division is in proportion to the services performed by each practitioner or each practitioner assumes joint responsibility for the representation; (2) The client agrees to the arrangement, including the share each practitioner will receive, and the agreement is confirmed in writing; and (3) The total fee is reasonable.
Rule 1.6 Confidentiality Of Information (a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b). (b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary: (1) to prevent reasonably certain death or	**§ 11.106 Confidentiality of information.** (a) A practitioner shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation, the disclosure is permitted by paragraph (b) of this section, or the disclosure is required by paragraph (c) of this section. (b) A practitioner may reveal information relating to the representation of a client to the extent the practitioner reasonably believes necessary: (1) To prevent reasonably certain death or

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substantial bodily harm; (2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services; (3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services; (4) to secure legal advice about the lawyer's compliance with these Rules; (5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client; or (6) to comply with other law or a court order.	substantial bodily harm; (2) To prevent the client from engaging in inequitable conduct before the Office or from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the practitioner's services; (3) To prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime, fraud, or inequitable conduct before the Office in furtherance of which the client has used the practitioner's services; (4) To secure legal advice about the practitioner's compliance with the USPTO Rules of Professional Conduct; (5) To establish a claim or defense on behalf of the practitioner in a controversy between the practitioner and the client, to establish a defense to a criminal charge or civil claim against the practitioner based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the practitioner's representation of the client; or (6) To comply with other law or a court order. (c) A practitioner shall disclose to the Office information necessary to comply with applicable duty of disclosure provisions.
Rule 1.7 Conflict Of Interest: Current Clients (a) Except as provided in paragraph (b), a lawyer shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent conflict of interest exists	**§ 11.107 Conflict of interest; Current clients.** (a) Except as provided in paragraph (b) of this section, a practitioner shall not represent a client if the representation involves a concurrent conflict of interest. A concurrent

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if: (1) the representation of one client will be directly adverse to another client; or (2) there is a significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client, a former client or a third person or by a personal interest of the lawyer. (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a), a lawyer may represent a client if: (1) the lawyer reasonably believes that the lawyer will be able to provide competent and diligent representation to each affected client; (2) the representation is not prohibited by law; (3) the representation does not involve the assertion of a claim by one client against another client represented by the lawyer in the same litigation or other proceeding before a tribunal; and (4) each affected client gives informed consent, confirmed in writing.	conflict of interest exists if: (1) The representation of one client will be directly adverse to another client; or (2) There is a significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client, a former client or a third person or by a personal interest of the practitioner. (b) Notwithstanding the existence of a concurrent conflict of interest under paragraph (a) of this section, a practitioner may represent a client if: (1) The practitioner reasonably believes that the practitioner will be able to provide competent and diligent representation to each affected client; (2) The representation is not prohibited by law; (3) The representation does not involve the assertion of a claim by one client against another client represented by the practitioner in the same litigation or other proceeding before a tribunal; and (4) Each affected client gives informed consent, confirmed in writing.
Rule 1.8 Conflict Of Interest: Current Clients: Specific Rules (a) A lawyer shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to a client unless: (1) the transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed	**§ 11.108 Conflict of interest; Current clients: Specific rules.** (a) A practitioner shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest adverse to a client unless: (1) The transaction and terms on which the practitioner acquires the interest are fair and reasonable to the client and are fully disclosed

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and transmitted in writing in a manner that can be reasonably understood by the client; (2) the client is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel on the transaction; and (3) the client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the lawyer's role in the transaction, including whether the lawyer is representing the client in the transaction.	and transmitted in writing in a manner that can be reasonably understood by the client; (2) The client is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel in the transaction; and (3) The client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the practitioner's role in the transaction, including whether the practitioner is representing the client in the transaction.
(b) A lawyer shall not use information relating to representation of a client to the disadvantage of the client unless the client gives informed consent, except as permitted or required by these Rules.	(b) A practitioner shall not use information relating to representation of a client to the disadvantage of the client unless the client gives informed consent, except as permitted or required by the USPTO Rules of Professional Conduct.
(c) A lawyer shall not solicit any substantial gift from a client, including a testamentary gift, or prepare on behalf of a client an instrument giving the lawyer or a person related to the lawyer any substantial gift unless the lawyer or other recipient of the gift is related to the client. For purposes of this paragraph, related persons include a spouse, child, grandchild, parent, grandparent or other relative or individual with whom the lawyer or the client maintains a close, familial relationship.	(c) A practitioner shall not solicit any substantial gift from a client, including a testamentary gift, or prepare on behalf of a client an instrument giving the practitioner or a person related to the practitioner any substantial gift unless the practitioner or other recipient of the gift is related to the client. For purposes of this paragraph, related persons include a spouse, child, grandchild, parent, grandparent or other relative or individual with whom the practitioner or the client maintains a close, familial relationship.
(d) Prior to the conclusion of representation of a client, a lawyer shall not make or negotiate an agreement giving the lawyer literary or media rights to a portrayal or account based in substantial part on information relating to the representation.	(d) Prior to the conclusion of representation of a client, a practitioner shall not make or negotiate an agreement giving the practitioner literary or media rights to a portrayal or account based in substantial part on information relating to the representation.
(e) A lawyer shall not provide financial	(e) A practitioner shall not provide financial

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assistance to a client in connection with pending or contemplated litigation, except that: (1) a lawyer may advance court costs and expenses of litigation, the repayment of which may be contingent on the outcome of the matter; and (2) a lawyer representing an indigent client may pay court costs and expenses of litigation on behalf of the client.	assistance to a client in connection with pending or contemplated litigation or a proceeding before the Office, except that: (1) A practitioner may advance court costs and expenses of litigation, the repayment of which may be contingent on the outcome of the matter; (2) A practitioner representing an indigent client may pay court costs and expenses of litigation or a proceeding before the Office on behalf of the client; (3) A practitioner may advance costs and expenses in connection with a proceeding before the Office provided the client remains ultimately liable for such costs and expenses; and (4) A practitioner may also advance any fee required to prevent or remedy an abandonment of a client's application by reason of an act or omission attributable to the practitioner and not to the client, whether or not the client is ultimately liable for such fee.
(f) A lawyer shall not accept compensation for representing a client from one other than the client unless: (1) the client gives informed consent; (2) there is no interference with the lawyer's independence of professional judgment or with the client-lawyer relationship; and (3) information relating to representation of a client is protected as required by Rule 1.6.	(f) A practitioner shall not accept compensation for representing a client from one other than the client unless: (1) The client gives informed consent; (2) There is no interference with the practitioner's independence of professional judgment or with the client-practitioner relationship; and (3) Information relating to representation of a client is protected as required by § 11.106.
(g) A lawyer who represents two or more clients shall not participate in making an aggregate settlement of the claims of or against	(g) A practitioner who represents two or more clients shall not participate in making an aggregate settlement of the claims of or against

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the clients, ~~or in a criminal case an aggregated agreement as to guilty or nolo contendere pleas,~~ unless each client gives informed consent, in a writing signed by the client. The lawyer's disclosure shall include the existence and nature of all the claims ~~or pleas~~ involved and of the participation of each person in the settlement.	the clients, unless each client gives informed consent, in a writing signed by the client. The practitioner's disclosure shall include the existence and nature of all the claims involved and of the participation of each person in the settlement.
(h) A lawyer shall not:	(h) A practitioner shall not:
(1) make an agreement prospectively limiting the lawyer's liability to a client for malpractice unless the client is independently represented in making the agreement; or	(1) Make an agreement prospectively limiting the practitioner's liability to a client for malpractice unless the client is independently represented in making the agreement; or
(2) settle a claim or potential claim for such liability with an unrepresented client or former client unless that person is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel in connection therewith.	(2) Settle a claim or potential claim for such liability with an unrepresented client or former client unless that person is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel in connection therewith.
(i) A lawyer shall not acquire a proprietary interest in the cause of action or subject matter of litigation the lawyer is conducting for a client, except that the lawyer may:	(i) A practitioner shall not acquire a proprietary interest in the cause of action, subject matter of litigation, or a proceeding before the Office which the practitioner is conducting for a client, except that the practitioner may, subject to the other provisions in this section:
(1) acquire a lien authorized by law to secure the lawyer's fee or expenses; and	(1) Acquire a lien authorized by law to secure the practitioner's fee or expenses;
(2) contract with a client for a reasonable contingent fee in a civil case.	(2) Contract with a client for a reasonable contingent fee in a civil case; and
	(3) In a patent case or a proceeding before the Office, take an interest in the patent or patent application as part or all of his or her fee.
~~(j) A lawyer shall not have sexual relations with a client unless a consensual sexual relationship existed between them when the~~	(j) [Reserved].

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~~client-lawyer relationship commenced.~~ (k) While lawyers are associated in a firm, a prohibition in the foregoing paragraphs (a) through (i) that applies to any one of them shall apply to all of them.	(k) While practitioners are associated in a firm, a prohibition in paragraphs (a) through (i) of this section that applies to any one of them shall apply to all of them.
Rule 1.9 Duties To Former Clients (a) A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing. (b) A lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client (1) whose interests are materially adverse to that person; and (2) about whom the lawyer had acquired information protected by Rules 1.6 and 1.9(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing. (c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter: (1) use information relating to the representation to the disadvantage of the former client except as these Rules would permit or require with respect to a client, or when the information has become generally	**§ 11.109 Duties to former clients.** (a) A practitioner who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing. (b) A practitioner shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the practitioner formerly was associated had previously represented a client: (1) Whose interests are materially adverse to that person; and (2) About whom the practitioner had acquired information protected by §§ 11.106 and 11.109(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing. (c) A practitioner who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter: (1) Use information relating to the representation to the disadvantage of the former client except as the USPTO Rules of Professional Conduct would permit or require with respect to a client, or when the

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known; or (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.	information has become generally known; or (2) Reveal information relating to the representation except as the USPTO Rules of Professional Conduct would permit or require with respect to a client.
Rule 1.10 Imputation Of Conflicts Of Interest: General Rule (a) While lawyers are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by Rules 1.7 or 1.9, unless (1) the prohibition is based on a personal interest of the disqualified lawyer and does not present a significant risk of materially limiting the representation of the client by the remaining lawyers in the firm; or (2) the prohibition is based upon Rule 1.9(a) or (b), and arises out of the disqualified lawyer's association with a prior firm, and (i) the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; (ii) written notice is promptly given to any affected former client to enable the former client to ascertain compliance with the provisions of this Rule, which shall include a description of the screening procedures employed; a statement of the firm's and of the screened lawyer's compliance with these Rules; a statement that review may be available before a tribunal; and an agreement by the firm to respond promptly to any written inquiries or objections by the former client about the screening procedures; and	**§ 11.110 Imputation of conflicts of interest; General rule.** (a) While practitioners are associated in a firm, none of them shall knowingly represent a client when any one of them practicing alone would be prohibited from doing so by §§ 11.107 or 11.109, unless: (1) The prohibition is based on a personal interest of the disqualified practitioner and does not present a significant risk of materially limiting the representation of the client by the remaining practitioners in the firm; or (2) The prohibition is based upon § 11.109(a) or (b), and arises out of the disqualified practitioner's association with a prior firm, and (i) The disqualified practitioner is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and (ii) Written notice is promptly given to any affected former client to enable the former client to ascertain compliance with the provisions of this section, which shall include a description of the screening procedures employed; a statement of the firm's and of the screened practitioner's compliance with the USPTO Rules of Professional Conduct; a statement that review may be available before a tribunal; and an agreement by the firm to respond promptly to any written inquiries or objections by the former client about the screening procedures.

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~~(iii) certifications of compliance with these Rules and with the screening procedures are provided to the former client by the screened lawyer and by a partner of the firm, at reasonable intervals upon the former client's written request and upon termination of the screening procedures.~~	
(b) When a lawyer has terminated an association with a firm, the firm is not prohibited from thereafter representing a person with interests materially adverse to those of a client represented by the formerly associated lawyer and not currently represented by the firm, unless: (1) the matter is the same or substantially related to that in which the formerly associated lawyer represented the client; and (2) any lawyer remaining in the firm has information protected by Rules 1.6 and 1.9(c) that is material to the matter. (c) A disqualification prescribed by this rule may be waived by the affected client under the conditions stated in Rule 1.7. (d) The disqualification of lawyers associated in a firm with former or current government lawyers is governed by Rule 1.11.	(b) When a practitioner has terminated an association with a firm, the firm is not prohibited from thereafter representing a person with interests materially adverse to those of a client represented by the formerly associated practitioner and not currently represented by the firm, unless: (1) The matter is the same or substantially related to that in which the formerly associated practitioner represented the client; and (2) Any practitioner remaining in the firm has information protected by §§ 11.106 and 11.109(c) that is material to the matter. (c) A disqualification prescribed by this section may be waived by the affected client under the conditions stated in § 11.107. (d) The disqualification of practitioners associated in a firm with former or current Federal government lawyers is governed by § 11.111.
~~Rule 1.11 Special Conflicts Of Interest For Former And Current Government Officers And Employees~~ ~~(a) Except as law may otherwise expressly permit, a lawyer who has formerly served as a public officer or employee of the government:~~ ~~(1) is subject to Rule 1.9(c); and~~	**§ 11.111 Former or Current Federal government employees.** A practitioner who is a former or current Federal government employee shall not engage in any conduct which is contrary to applicable Federal ethics law, including conflict of interest statutes and regulations of the department, agency or commission formerly or

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~~(2) shall not otherwise represent a client in connection with a matter in which the lawyer participated personally and substantially as a public officer or employee, unless the appropriate government agency gives its informed consent, confirmed in writing, to the representation.~~ ~~(b) When a lawyer is disqualified from representation under paragraph (a), no lawyer in a firm with which that lawyer is associated may knowingly undertake or continue representation in such a matter unless:~~ ~~(1) the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and~~ ~~(2) written notice is promptly given to the appropriate government agency to enable it to ascertain compliance with the provisions of this rule.~~ ~~(c) Except as law may otherwise expressly permit, a lawyer having information that the lawyer knows is confidential government information about a person acquired when the lawyer was a public officer or employee, may not represent a private client whose interests are adverse to that person in a matter in which the information could be used to the material disadvantage of that person. As used in this Rule, the term "confidential government information" means information that has been obtained under governmental authority and which, at the time this Rule is applied, the government is prohibited by law from disclosing to the public or has a legal privilege not to disclose and which is not otherwise available to the public. A firm with which that lawyer is associated may undertake or continue representation in the matter only if the disqualified lawyer is timely screened from any participation in the matter and is apportioned~~	currently employing said practitioner.

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~~no part of the fee therefrom.~~ ~~(d) Except as law may otherwise expressly permit, a lawyer currently serving as a public officer or employee:~~ ~~(1) is subject to Rules 1.7 and 1.9; and~~ ~~(2) shall not:~~ ~~(i) participate in a matter in which the lawyer participated personally and substantially while in private practice or nongovernmental employment, unless the appropriate government agency gives its informed consent, confirmed in writing; or~~ ~~(ii) negotiate for private employment with any person who is involved as a party or as lawyer for a party in a matter in which the lawyer is participating personally and substantially, except that a lawyer serving as a law clerk to a judge, other adjudicative officer or arbitrator may negotiate for private employment as permitted by Rule 1.12(b) and subject to the conditions stated in Rule 1.12(b).~~ ~~(e) As used in this Rule, the term "matter" includes:~~ ~~(1) any judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, investigation, charge, accusation, arrest or other particular matter involving a specific party or parties, and~~ ~~(2) any other matter covered by the conflict of interest rules of the appropriate government agency.~~	
Rule 1.12 Former Judge, Arbitrator, Mediator Or Other Third-Party Neutral	**§ 11.112 Former judge, arbitrator, mediator or other third-party neutral.**

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(a) Except as stated in paragraph (d), a lawyer shall not represent anyone in connection with a matter in which the lawyer participated personally and substantially as a judge or other adjudicative officer or law clerk to such a person or as an arbitrator, mediator or other third-party neutral, unless all parties to the proceeding give informed consent, confirmed in writing.	(a) Except as stated in paragraph (d) of this section, a practitioner shall not represent anyone in connection with a matter in which the practitioner participated personally and substantially as a judge or other adjudicative officer or law clerk to such a person or as an arbitrator, mediator or other third-party neutral, unless all parties to the proceeding give informed consent, confirmed in writing.
(b) A lawyer shall not negotiate for employment with any person who is involved as a party or as lawyer for a party in a matter in which the lawyer is participating personally and substantially as a judge or other adjudicative officer or as an arbitrator, mediator or other third-party neutral. A lawyer serving as a law clerk to a judge or other adjudicative officer may negotiate for employment with a party or lawyer involved in a matter in which the clerk is participating personally and substantially, but only after the lawyer has notified the judge, or other adjudicative officer.	(b) A practitioner shall not negotiate for employment with any person who is involved as a party or as practitioner for a party in a matter in which the practitioner is participating personally and substantially as a judge or other adjudicative officer or as an arbitrator, mediator or other third-party neutral. A practitioner serving as a law clerk to a judge or other adjudicative officer may negotiate for employment with a party or practitioner involved in a matter in which the clerk is participating personally and substantially, but only after the practitioner has notified the judge, or other adjudicative officer.
(c) If a lawyer is disqualified by paragraph (a), no lawyer in a firm with which that lawyer is associated may knowingly undertake or continue representation in the matter unless:	(c) If a practitioner is disqualified by paragraph (a) of this section, no practitioner in a firm with which that practitioner is associated may knowingly undertake or continue representation in the matter unless:
(1) the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and	(1) The disqualified practitioner is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and
(2) written notice is promptly given to the parties and any appropriate tribunal to enable them to ascertain compliance with the provisions of this rule.	(2) Written notice is promptly given to the parties and any appropriate tribunal to enable them to ascertain compliance with the provisions of this section.
(d) An arbitrator selected as a partisan of a party in a multimember arbitration panel is not prohibited from subsequently representing that	(d) An arbitrator selected as a partisan of a party in a multimember arbitration panel is not prohibited from subsequently representing that

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party.	party.
Rule 1.13 Organization As Client (a) A lawyer employed or retained by an organization represents the organization acting through its duly authorized constituents. (b) If a lawyer for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the lawyer shall proceed as is reasonably necessary in the best interest of the organization. Unless the lawyer reasonably believes that it is not necessary in the best interest of the organization to do so, the lawyer shall refer the matter to higher authority in the organization, including, if warranted by the circumstances, to the highest authority that can act on behalf of the organization as determined by applicable law. (c) Except as provided in paragraph (d), if (1) despite the lawyer's efforts in accordance with paragraph (b) the highest authority that can act on behalf of the organization insists upon or fails to address in a timely and appropriate manner an action, or a refusal to act, that is clearly a violation of law, and (2) the lawyer reasonably believes that the violation is reasonably certain to result in substantial injury to the organization, then the lawyer may reveal information relating to the	**§ 11.113 Organization as client.** (a) A practitioner employed or retained by an organization represents the organization acting through its duly authorized constituents. (b) If a practitioner for an organization knows that an officer, employee or other person associated with the organization is engaged in action, intends to act or refuses to act in a matter related to the representation that is a violation of a legal obligation to the organization, or a violation of law that reasonably might be imputed to the organization, and that is likely to result in substantial injury to the organization, then the practitioner shall proceed as is reasonably necessary in the best interest of the organization. Unless the practitioner reasonably believes that it is not necessary in the best interest of the organization to do so, the practitioner shall refer the matter to higher authority in the organization, including, if warranted by the circumstances, to the highest authority that can act on behalf of the organization as determined by applicable law. (c) Except as provided in paragraph (d) of this section, if (1) Despite the practitioner's efforts in accordance with paragraph (b) of this section the highest authority that can act on behalf of the organization insists upon or fails to address in a timely and appropriate manner an action, or a refusal to act, that is clearly a violation of law, and (2) The practitioner reasonably believes that the violation is reasonably certain to result in substantial injury to the organization, then the practitioner may reveal information relating to

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representation whether or not Rule 1.6 permits such disclosure, but only if and to the extent the lawyer reasonably believes necessary to prevent substantial injury to the organization.	the representation whether or not § 11.106 permits such disclosure, but only if and to the extent the practitioner reasonably believes necessary to prevent substantial injury to the organization.
(d) Paragraph (c) shall not apply with respect to information relating to a lawyer's representation of an organization to investigate an alleged violation of law, or to defend the organization or an officer, employee or other constituent associated with the organization against a claim arising out of an alleged violation of law.	(d) Paragraph (c) of this section shall not apply with respect to information relating to a practitioner's representation of an organization to investigate an alleged violation of law, or to defend the organization or an officer, employee or other constituent associated with the organization against a claim arising out of an alleged violation of law.
(e) A lawyer who reasonably believes that he or she has been discharged because of the lawyer's actions taken pursuant to paragraphs (b) or (c), or who withdraws under circumstances that require or permit the lawyer to take action under either of those paragraphs, shall proceed as the lawyer reasonably believes necessary to assure that the organization's highest authority is informed of the lawyer's discharge or withdrawal.	(e) A practitioner who reasonably believes that he or she has been discharged because of the practitioner's actions taken pursuant to paragraphs (b) or (c) of this section, or who withdraws under circumstances that require or permit the practitioner to take action under either of those paragraphs, shall proceed as the practitioner reasonably believes necessary to assure that the organization's highest authority is informed of the practitioner's discharge or withdrawal.
(f) In dealing with an organization's directors, officers, employees, members, shareholders or other constituents, a lawyer shall explain the identity of the client when the lawyer knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing.	(f) In dealing with an organization's directors, officers, employees, members, shareholders, or other constituents, a practitioner shall explain the identity of the client when the practitioner knows or reasonably should know that the organization's interests are adverse to those of the constituents with whom the practitioner is dealing.
(g) A lawyer representing an organization may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the provisions of Rule 1.7. If the organization's consent to the dual representation is required by Rule 1.7, the consent shall be given by an appropriate official of the organization other than the	(g) A practitioner representing an organization may also represent any of its directors, officers, employees, members, shareholders or other constituents, subject to the provisions of § 11.107. If the organization's consent to the dual representation is required by § 11.107, the consent shall be given by an appropriate official of the organization other than the

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individual who is to be represented, or by the shareholders.	individual who is to be represented, or by the shareholders.
Rule 1.14 Client With Diminished Capacity (a) When a client's capacity to make adequately considered decisions in connection with a representation is diminished, whether because of minority, mental impairment or for some other reason, the lawyer shall, as far as reasonably possible, maintain a normal client-lawyer relationship with the client. (b) When the lawyer reasonably believes that the client has diminished capacity, is at risk of substantial physical, financial or other harm unless action is taken and cannot adequately act in the client's own interest, the lawyer may take reasonably necessary protective action, including consulting with individuals or entities that have the ability to take action to protect the client and, in appropriate cases, seeking the appointment of a guardian ad litem, conservator or guardian. (c) Information relating to the representation of a client with diminished capacity is protected by Rule 1.6. When taking protective action pursuant to paragraph (b), the lawyer is impliedly authorized under Rule 1.6(a) to reveal information about the client, but only to the extent reasonably necessary to protect the client's interests.	**§ 11.114 Client with diminished capacity.** (a) When a client's capacity to make adequately considered decisions in connection with a representation is diminished, whether because of minority, mental impairment or for some other reason, the practitioner shall, as far as reasonably possible, maintain a normal client-practitioner relationship with the client. (b) When the practitioner reasonably believes that the client has diminished capacity, is at risk of substantial physical, financial or other harm unless action is taken and cannot adequately act in the client's own interest, the practitioner may take reasonably necessary protective action, including consulting with individuals or entities that have the ability to take action to protect the client and, in appropriate cases, seeking the appointment of a guardian ad litem, conservator or guardian. (c) Information relating to the representation of a client with diminished capacity is protected under § 11.106. When taking protective action pursuant to paragraph (b) of this section, the practitioner is impliedly authorized under § 11.106(a) to reveal information about the client, but only to the extent reasonably necessary to protect the client's interests.
Rule 1.15 Safekeeping Property (a) A lawyer shall hold property of clients or third persons that is in a lawyer's possession in connection with a representation separate from the lawyer's own property. Funds shall be kept in a separate account maintained in the state where the lawyer's office is situated, or elsewhere with the consent of the client or third person. Other property shall be identified as	**§ 11.115 Safekeeping property.** (a) A practitioner shall hold property of clients or third persons that is in a practitioner's possession in connection with a representation separate from the practitioner's own property. Funds shall be kept in a separate account maintained in the state where the practitioner's office is situated, or elsewhere with the consent of the client or third person. Where the

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such and appropriately safeguarded. Complete records of such account funds and other property shall be kept by the lawyer and shall be preserved for a period of [five years] after termination of the representation.	practitioner's office is situated in a foreign country, funds shall be kept in a separate account maintained in that foreign country or elsewhere with the consent of the client or third person. Other property shall be identified as such and appropriately safeguarded. Complete records of such account funds and other property shall be kept by the practitioner and shall be preserved for a period of five years after termination of the representation.
(b) A lawyer may deposit the lawyer's own funds in a client trust account for the sole purpose of paying bank service charges on that account, but only in an amount necessary for that purpose.	(b) A practitioner may deposit the practitioner's own funds in a client trust account for the sole purpose of paying bank service charges on that account, but only in an amount necessary for that purpose.
(c) A lawyer shall deposit into a client trust account legal fees and expenses that have been paid in advance, to be withdrawn by the lawyer only as fees are earned or expenses incurred.	(c) A practitioner shall deposit into a client trust account legal fees and expenses that have been paid in advance, to be withdrawn by the practitioner only as fees are earned or expenses incurred.
(d) Upon receiving funds or other property in which a client or third person has an interest, a lawyer shall promptly notify the client or third person. Except as stated in this rule or otherwise permitted by law or by agreement with the client, a lawyer shall promptly deliver to the client or third person any funds or other property that the client or third person is entitled to receive and, upon request by the client or third person, shall promptly render a full accounting regarding such property.	(d) Upon receiving funds or other property in which a client or third person has an interest, a practitioner shall promptly notify the client or third person. Except as stated in this section or otherwise permitted by law or by agreement with the client, a practitioner shall promptly deliver to the client or third person any funds or other property that the client or third person is entitled to receive and, upon request by the client or third person, shall promptly render a full accounting regarding such property.
(e) When in the course of representation a lawyer is in possession of property in which two or more persons (one of whom may be the lawyer) claim interests, the property shall be kept separate by the lawyer until the dispute is resolved. The lawyer shall promptly distribute all portions of the property as to which the interests are not in dispute.	(e) When in the course of representation a practitioner is in possession of property in which two or more persons (one of whom may be the practitioner) claim interests, the property shall be kept separate by the practitioner until the dispute is resolved. The practitioner shall promptly distribute all portions of the property as to which the interests are not in dispute.

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ABA Model Rules for Client Trust Account Records Rule 1: Recordkeeping Generally	
~~A lawyer who practices in this jurisdiction shall maintain current financial records as provided in these Rules and required by [Rule 1.15 of the Model Rules of Professional Conduct], and shall retain the following records for a period of [five years] after termination of the representation:~~	(f) All separate accounts for clients or third persons kept by a practitioner must also comply with the following provisions: (1) Required Records. The records to be kept include:
(a) receipt and disbursement journals containing a record of deposits to and withdrawals from client trust accounts, specifically identifying the date, source, and description of each item deposited, as well as the date, payee and purpose of each disbursement;	(i) Receipt and disbursement journals containing a record of deposits to and withdrawals from client trust accounts, specifically identifying the date, source, and description of each item deposited, as well as the date, payee and purpose of each disbursement;
(b) ledger records for all client trust accounts showing, for each separate trust client or beneficiary, the source of all funds deposited, the names of all persons for whom the funds are or were held, the amount of such funds, the descriptions and amounts of charges or withdrawals, and the names of all persons or entities to whom such funds were disbursed;	(ii) Ledger records for all client trust accounts showing, for each separate trust client or beneficiary, the source of all funds deposited, the names of all persons for whom the funds are or were held, the amount of such funds, the descriptions and amounts of charges or withdrawals, and the names of all persons or entities to whom such funds were disbursed;
(c) copies of retainer and compensation agreements with clients ~~[as required by Rule 1.5 of the Model Rules of Professional Conduct]~~;	(iii) Copies of retainer and compensation agreements with clients;
(d) copies of accountings to clients or third persons showing the disbursement of funds to them or on their behalf;	(iv) Copies of accountings to clients or third persons showing the disbursement of funds to them or on their behalf;
(e) copies of bills for legal fees and expenses rendered to clients;	(v) Copies of bills for legal fees and expenses rendered to clients;
(f) copies of records showing disbursements on behalf of clients;	(vi) Copies of records showing disbursements on behalf of clients;

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(g) the physical or electronic equivalents of all checkbook registers, bank statements, records of deposit, pre-numbered canceled checks, and substitute checks provided by a financial institution;	(vii) The physical or electronic equivalents of all checkbook registers, bank statements, records of deposit, pre-numbered canceled checks, and substitute checks provided by a financial institution;
(h) records of all electronic transfers from client trust accounts, including the name of the person authorizing transfer, the date of transfer, the name of the recipient and confirmation from the financial institution of the trust account number from which money was withdrawn and the date and the time the transfer was completed;	(viii) Records of all electronic transfers from client trust accounts, including the name of the person authorizing transfer, the date of transfer, the name of the recipient and confirmation from the financial institution of the trust account number from which money was withdrawn and the date and the time the transfer was completed;
(i) copies of [monthly] trial balances and [quarterly] reconciliations of the client trust accounts maintained by the lawyer; and	(ix) Copies of monthly trial balances and quarterly reconciliations of the client trust accounts maintained by the practitioner; and
(j) copies of those portions of client files that are reasonably related to client trust account transactions.	(x) Copies of those portions of client files that are reasonably related to client trust account transactions.
ABA Model Rules for Client Trust Account Records Rule 2: Client Trust Account Safeguards	
With respect to client trust accounts required by [Rule 1.15 of the Model Rules of Professional Conduct]:	(2) Client Trust Account Safeguards. With respect to client trust accounts required by paragraphs (a) through (e) of this section:
(a) only a lawyer admitted to practice law in this jurisdiction or a person under the direct supervision of the lawyer shall be an authorized signatory or authorize transfers from a client trust account;	(i) Only a practitioner or a person under the direct supervision of the practitioner shall be an authorized signatory or authorize transfers from a client trust account;
(b) receipts shall be deposited intact and records of deposit should be sufficiently detailed to identify each item; and	(ii) Receipts shall be deposited intact and records of deposit should be sufficiently detailed to identify each item; and
(c) withdrawals shall be made only by check	(iii) Withdrawals shall be made only by check

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payable to a named payee and not to cash, or by authorized electronic transfer. *ABA Model Rules for Client Trust Account Records Rule 3: Availability of Records* Records required by Rule 1 may be maintained by electronic, photographic, or other media provided that they otherwise comply with these Rules and that printed copies can be produced. These records shall be readily accessible to the lawyer.	payable to a named payee and not to cash, or by authorized electronic transfer. (3) Availability of Records. Records required by paragraph (f)(1) of this section may be maintained by electronic, photographic, or other media provided that they otherwise comply with paragraphs (f)(1) and (f)(2) of this section and that printed copies can be produced. These records shall be readily accessible to the practitioner. (4) Lawyers. The records kept by a lawyer are deemed to be in compliance with this section if the types of records that are maintained meet the recordkeeping requirements of a state in which the lawyer is licensed and in good standing, the recordkeeping requirements of the state where the lawyer's principal place of business is located, or the recordkeeping requirements of this section. (5) Patent agents and persons granted limited recognition who are employed in the United States by a law firm. The records kept by a law firm employing one or more registered patent agents or persons granted limited recognition under § 11.9 are deemed to be in compliance with this section if the types of records that are maintained meet the recordkeeping requirements of the state where at least one practitioner of the law firm is licensed and in good standing, the recordkeeping requirements of the state where the law firm's principal place of business is located, or the recordkeeping requirements of this section.
Rule 1.16 Declining Or Terminating Representation	**§ 11.116 Declining or terminating representation.**

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(a) Except as stated in paragraph (c), a lawyer shall not represent a client or, where representation has commenced, shall withdraw from the representation of a client if:	(a) Except as stated in paragraph (c) of this section, a practitioner shall not represent a client, or where representation has commenced, shall withdraw from the representation of a client if:
(1) the representation will result in violation of the Rules of Professional Conduct or other law;	(1) The representation will result in violation of the USPTO Rules of Professional Conduct or other law;
(2) the lawyer's physical or mental condition materially impairs the lawyer's ability to represent the client; or	(2) The practitioner's physical or mental condition materially impairs the practitioner's ability to represent the client; or
(3) the lawyer is discharged.	(3) The practitioner is discharged.
(b) Except as stated in paragraph (c), a lawyer may withdraw from representing a client if:	(b) Except as stated in paragraph (c) of this section, a practitioner may withdraw from representing a client if:
(1) withdrawal can be accomplished without material adverse effect on the interests of the client;	(1) Withdrawal can be accomplished without material adverse effect on the interests of the client;
(2) the client persists in a course of action involving the lawyer's services that the lawyer reasonably believes is criminal or fraudulent;	(2) The client persists in a course of action involving the practitioner's services that the practitioner reasonably believes is criminal or fraudulent;
(3) the client has used the lawyer's services to perpetrate a crime or fraud;	(3) The client has used the practitioner's services to perpetrate a crime or fraud;
(4) the client insists upon taking action that the lawyer considers repugnant or with which the lawyer has a fundamental disagreement;	(4) A client insists upon taking action that the practitioner considers repugnant or with which the practitioner has a fundamental disagreement;
(5) the client fails substantially to fulfill an obligation to the lawyer regarding the lawyer's services and has been given reasonable warning that the lawyer will withdraw unless the obligation is fulfilled;	(5) The client fails substantially to fulfill an obligation to the practitioner regarding the practitioner's services and has been given reasonable warning that the practitioner will withdraw unless the obligation is fulfilled;
(6) the representation will result in an	(6) The representation will result in an

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unreasonable financial burden on the lawyer or has been rendered unreasonably difficult by the client; or (7) other good cause for withdrawal exists. (c) A lawyer must comply with applicable law requiring notice to or permission of a tribunal when terminating a representation. When ordered to do so by a tribunal, a lawyer shall continue representation notwithstanding good cause for terminating the representation. (d) Upon termination of representation, a lawyer shall take steps to the extent reasonably practicable to protect a client's interests, such as giving reasonable notice to the client, allowing time for employment of other counsel, surrendering papers and property to which the client is entitled and refunding any advance payment of fee or expense that has not been earned or incurred. The lawyer may retain papers relating to the client to the extent permitted by other law.	unreasonable financial burden on the practitioner or has been rendered unreasonably difficult by the client; or (7) Other good cause for withdrawal exists. (c) A practitioner must comply with applicable law requiring notice to or permission of a tribunal when terminating a representation. When ordered to do so by a tribunal, a practitioner shall continue representation notwithstanding good cause for terminating the representation. (d) Upon termination of representation, a practitioner shall take steps to the extent reasonably practicable to protect a client's interests, such as giving reasonable notice to the client, allowing time for employment of other counsel, surrendering papers and property to which the client is entitled and refunding any advance payment of fee or expense that has not been earned or incurred. The practitioner may retain papers relating to the client to the extent permitted by other law.
Rule 1.17 Sale Of Law Practice A lawyer or a law firm may sell or purchase a law practice, or an area of law practice, including good will, if the following conditions are satisfied: (a) The seller ceases to engage in the private practice of law, or in the area of practice that has been sold, **[in the geographic area] [in the jurisdiction] (a jurisdiction may elect either version)** in which the practice has been conducted; (b) The entire practice, or the entire area of practice, is sold to one or more lawyers or law firms;	**§ 11.117 Sale of law practice.** A practitioner or a law firm may sell or purchase a law practice, or an area of law practice, including good will, if the following conditions are satisfied: (a) The seller ceases to engage in the private practice of law, or in the area of practice that has been sold, in a geographic area in which the practice has been conducted; (b) (1) Except as provided in paragraph (b)(2) of this section, the entire practice, or the entire area of practice, is sold to one or more lawyers or law firms;

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	(2) To the extent the practice or the area of practice involves patent proceedings before the Office, that practice or area of practice may be sold only to one or more registered practitioners or law firms that include at least one registered practitioner;
(c) The seller gives written notice to each of the seller's clients regarding: (1) the proposed sale; (2) the client's right to retain other counsel or to take possession of the file; and (3) the fact that the client's consent to the transfer of the client's files will be presumed if the client does not take any action or does not otherwise object within ninety (90) days of receipt of the notice. If a client cannot be given notice, the representation of that client may be transferred to the purchaser only upon entry of an order so authorizing by a court having jurisdiction. The seller may disclose to the court in camera information relating to the representation only to the extent necessary to obtain an order authorizing the transfer of a file. (d) The fees charged clients shall not be increased by reason of the sale.	(c)(1) The seller gives written notice to each of the seller's clients regarding: (i) The proposed sale; (ii) The client's right to retain other counsel or to take possession of the file; and (iii) The fact that the client's consent to the transfer of the client's files will be presumed if the client does not take any action or does not otherwise object within ninety (90) days after receipt of the notice. (2) If a client cannot be given notice, the representation of that client may be transferred to the purchaser only upon entry of an order so authorizing by a court having jurisdiction. The seller may disclose to the court in camera information relating to the representation only to the extent necessary to obtain an order authorizing the transfer of a file; and (d) The fees charged clients shall not be increased by reason of the sale.
Rule 1.18 Duties To Prospective Client (a) A person who discusses with a lawyer the possibility of forming a client-lawyer relationship with respect to a matter is a prospective client. (b) Even when no client-lawyer relationship ensues, a lawyer who has had discussions with a prospective client shall not use or reveal	**§ 11.118 Duties to prospective client.** (a) A person who discusses with a practitioner the possibility of forming a client-practitioner relationship with respect to a matter is a prospective client. (b) Even when no client-practitioner relationship ensues, a practitioner who has had discussions with the prospective client shall

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information learned in the consultation, except as Rule 1.9 would permit with respect to information of a former client. (c) A lawyer subject to paragraph (b) shall not represent a client with interests materially adverse to those of a prospective client in the same or a substantially related matter if the lawyer received information from the prospective client that could be significantly harmful to that person in the matter, except as provided in paragraph (d). If a lawyer is disqualified from representation under this paragraph, no lawyer in a firm with which that lawyer is associated may knowingly undertake or continue representation in such a matter, except as provided in paragraph (d). (d) When the lawyer has received disqualifying information as defined in paragraph (c), representation is permissible if: (1) both the affected client and the prospective client have given informed consent, confirmed in writing, or: (2) the lawyer who received the information took reasonable measures to avoid exposure to more disqualifying information than was reasonably necessary to determine whether to represent the prospective client; and (i) the disqualified lawyer is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and (ii) written notice is promptly given to the prospective client.	not use or reveal information learned in the consultation, except as § 11.109 would permit with respect to information of a former client. (c) A practitioner subject to paragraph (b) of this section shall not represent a client with interests materially adverse to those of a prospective client in the same or a substantially related matter if the practitioner received information from the prospective client that could be significantly harmful to that person in the matter, except as provided in paragraph (d) of this section. If a practitioner is disqualified from representation under this paragraph, no practitioner in a firm with which that practitioner is associated may knowingly undertake or continue representation in such a matter, except as provided in paragraph (d) of this section. (d) When the practitioner has received disqualifying information as defined in paragraph (c) of this section, representation is permissible if: (1) Both the affected client and the prospective client have given informed consent, confirmed in writing; or (2) The practitioner who received the information took reasonable measures to avoid exposure to more disqualifying information than was reasonably necessary to determine whether to represent the prospective client; and (i) The disqualified practitioner is timely screened from any participation in the matter and is apportioned no part of the fee therefrom; and (ii) Written notice is promptly given to the prospective client.
Rule 2.1 Advisor	**§ 11.201 Advisor.**

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In representing a client, a lawyer shall exercise independent professional judgment and render candid advice. In rendering advice, a lawyer may refer not only to law but to other considerations such as moral, economic, social and political factors, that may be relevant to the client's situation.	In representing a client, a practitioner shall exercise independent professional judgment and render candid advice. In rendering advice, a practitioner may refer not only to law but to other considerations such as moral, economic, social and political factors, that may be relevant to the client's situation.
Rule 2.2 [Deleted]	**§ 11.202 [Reserved]**
Rule 2.3 Evaluation For Use By Third Persons (a) A lawyer may provide an evaluation of a matter affecting a client for the use of someone other than the client if the lawyer reasonably believes that making the evaluation is compatible with other aspects of the lawyer's relationship with the client. (b) When the lawyer knows or reasonably should know that the evaluation is likely to affect the client's interests materially and adversely, the lawyer shall not provide the evaluation unless the client gives informed consent. (c) Except as disclosure is authorized in connection with a report of an evaluation, information relating to the evaluation is otherwise protected by Rule 1.6.	**§ 11.203 Evaluation for use by third persons.** (a) A practitioner may provide an evaluation of a matter affecting a client for the use of someone other than the client if the practitioner reasonably believes that making the evaluation is compatible with other aspects of the practitioner's relationship with the client. (b) When the practitioner knows or reasonably should know that the evaluation is likely to affect the client's interests materially and adversely, the practitioner shall not provide the evaluation unless the client gives informed consent. (c) Except as disclosure is authorized in connection with a report of an evaluation, information relating to the evaluation is otherwise protected by § 11.106.
Rule 2.4 Lawyer Serving As Third-Party Neutral (a) A lawyer serves as a third-party neutral when the lawyer assists two or more persons who are not clients of the lawyer to reach a resolution of a dispute or other matter that has arisen between them. Service as a third-party neutral may include service as an arbitrator, a mediator or in such other capacity as will enable the lawyer to assist the parties to resolve	**§ 11.204 Practitioner serving as third-party neutral.** (a) A practitioner serves as a third-party neutral when the practitioner assists two or more persons who are not clients of the practitioner to reach a resolution of a dispute or other matter that has arisen between them. Service as a third-party neutral may include service as an arbitrator, a mediator or in such other capacity as will enable the practitioner to assist

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the matter. (b) A lawyer serving as a third-party neutral shall inform unrepresented parties that the lawyer is not representing them. When the lawyer knows or reasonably should know that a party does not understand the lawyer's role in the matter, the lawyer shall explain the difference between the lawyer's role as a third-party neutral and a lawyer's role as one who represents a client.	the parties to resolve the matter. (b) A practitioner serving as a third-party neutral shall inform unrepresented parties that the practitioner is not representing them. When the practitioner knows or reasonably should know that a party does not understand the practitioner's role in the matter, the practitioner shall explain the difference between the practitioner's role as a third-party neutral and a practitioner's role as one who represents a client.
Rule 3.1 Meritorious Claims And Contentions A lawyer shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis in law and fact for doing so that is not frivolous, which includes a good faith argument for an extension, modification or reversal of existing law. ~~A lawyer for the defendant in a criminal proceeding, or the respondent in a proceeding that could result in incarceration, may nevertheless so defend the proceeding as to require that every element of the case be established.~~	**§ 11.301 Meritorious claims and contentions.** A practitioner shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis in law and fact for doing so that is not frivolous, which includes a good-faith argument for an extension, modification or reversal of existing law.
Rule 3.2 Expediting ~~Litigation~~ A lawyer shall make reasonable efforts to expedite ~~litigation~~ consistent with the interests of the client.	**§ 11.302 Expediting proceedings.** A practitioner shall make reasonable efforts to expedite proceedings before a tribunal consistent with the interests of the client.
Rule 3.3 Candor Toward The Tribunal (a) A lawyer shall not knowingly: (1) make a false statement of fact or law to a tribunal or fail to correct a false statement of material fact or law previously made to the tribunal by the lawyer;	**§ 11.303 Candor toward the tribunal.** (a) A practitioner shall not knowingly: (1) Make a false statement of fact or law to a tribunal or fail to correct a false statement of material fact or law previously made to the tribunal by the practitioner;

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(2) fail to disclose to the tribunal legal authority in the controlling jurisdiction known to the lawyer to be directly adverse to the position of the client and not disclosed by opposing counsel; or	(2) Fail to disclose to the tribunal legal authority in the controlling jurisdiction known to the practitioner to be directly adverse to the position of the client and not disclosed by opposing counsel in an *inter partes* proceeding, or fail to disclose such authority in an *ex parte* proceeding before the Office if such authority is not otherwise disclosed; or
(3) offer evidence that the lawyer knows to be false. If a lawyer, the lawyer's client, or a witness called by the lawyer, has offered material evidence and the lawyer comes to know of its falsity, the lawyer shall take reasonable remedial measures, including, if necessary, disclosure to the tribunal. A lawyer may refuse to offer evidence~~, other than the testimony of a defendant in a criminal matter,~~ that the lawyer reasonably believes is false.	(3) Offer evidence that the practitioner knows to be false. If a practitioner, the practitioner's client, or a witness called by the practitioner, has offered material evidence and the practitioner comes to know of its falsity, the practitioner shall take reasonable remedial measures, including, if necessary, disclosure to the tribunal. A practitioner may refuse to offer evidence that the practitioner reasonably believes is false.
(b) A lawyer who represents a client in ~~an adjudicative~~ proceeding and who knows that a person intends to engage, is engaging or has engaged in criminal or fraudulent conduct related to the proceeding shall take reasonable remedial measures, including, if necessary, disclosure to the tribunal.	(b) A practitioner who represents a client in a proceeding before a tribunal and who knows that a person intends to engage, is engaging or has engaged in criminal or fraudulent conduct related to the proceeding shall take reasonable remedial measures, including, if necessary, disclosure to the tribunal.
(c) The duties stated in paragraphs (a) and (b) continue to the conclusion of the proceeding, and apply even if compliance requires disclosure of information otherwise protected by Rule 1.6.	(c) The duties stated in paragraphs (a) and (b) of this section continue to the conclusion of the proceeding, and apply even if compliance requires disclosure of information otherwise protected by § 11.106.
(d) In an ex parte proceeding, a lawyer shall inform the tribunal of all material facts known to the lawyer that will enable the tribunal to make an informed decision, whether or not the facts are adverse.	(d) In an *ex parte* proceeding, a practitioner shall inform the tribunal of all material facts known to the practitioner that will enable the tribunal to make an informed decision, whether or not the facts are adverse.
	(e) In a proceeding before the Office, a practitioner shall disclose to the Office information necessary to comply with applicable duty of disclosure provisions.

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Rule 3.4 Fairness To Opposing Party And Counsel A lawyer shall not: (a) unlawfully obstruct another party's access to evidence or unlawfully alter, destroy or conceal a document or other material having potential evidentiary value. A lawyer shall not counsel or assist another person to do any such act; (b) falsify evidence, counsel or assist a witness to testify falsely, or offer an inducement to a witness that is prohibited by law; (c) knowingly disobey an obligation under the rules of a tribunal except for an open refusal based on an assertion that no valid obligation exists; (d) ~~in pretrial procedure,~~ make a frivolous discovery request or fail to make reasonably diligent effort to comply with a legally proper discovery request by an opposing party; (e) in ~~trial~~, allude to any matter that the lawyer does not reasonably believe is relevant or that will not be supported by admissible evidence, assert personal knowledge of facts in issue except when testifying as a witness, or state a personal opinion as to the justness of a cause, the credibility of a witness, the culpability of a civil litigant or the guilt or innocence of an accused; or (f) request a person other than a client to refrain from voluntarily giving relevant information to another party unless: (1) the person is a relative or an employee or other agent of a client; and	**§ 11.304 Fairness to opposing party and counsel.** A practitioner shall not: (a) Unlawfully obstruct another party's access to evidence or unlawfully alter, destroy or conceal a document or other material having potential evidentiary value. A practitioner shall not counsel or assist another person to do any such act; (b) Falsify evidence, counsel or assist a witness to testify falsely, or offer an inducement to a witness that is prohibited by law; (c) Knowingly disobey an obligation under the rules of a tribunal except for an open refusal based on an assertion that no valid obligation exists; (d) Make a frivolous discovery request or fail to make a reasonably diligent effort to comply with a legally proper discovery request by an opposing party; (e) In a proceeding before a tribunal, allude to any matter that the practitioner does not reasonably believe is relevant or that will not be supported by admissible evidence, assert personal knowledge of facts in issue except when testifying as a witness, or state a personal opinion as to the justness of a cause, the credibility of a witness, the culpability of a civil litigant or the guilt or innocence of an accused; or (f) Request a person other than a client to refrain from voluntarily giving relevant information to another party unless: (1) The person is a relative or an employee or other agent of a client; and

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(2) the lawyer reasonably believes that the person's interests will not be adversely affected by refraining from giving such information.	(2) The practitioner reasonably believes that the person's interests will not be adversely affected by refraining from giving such information.
Rule 3.5 Impartiality And Decorum Of The Tribunal A lawyer shall not: (a) seek to influence a judge, juror, prospective juror or other official by means prohibited by law; (b) communicate ex parte with such a person during the proceeding unless authorized to do so by law or court order; (c) ~~communicate with a juror or prospective juror after discharge of the jury if:~~ ~~(1) the communication is prohibited by law or court order;~~ ~~(2) the juror has made known to the lawyer a desire not to communicate; or~~ ~~(3) the communication involves misrepresentation, coercion, duress or harassment;~~ or (d) engage in conduct intended to disrupt a tribunal.	**§ 11.305 Impartiality and decorum of the tribunal.** A practitioner shall not: (a) Seek to influence a judge, hearing officer, administrative law judge, administrative patent judge, administrative trademark judge, juror, prospective juror, employee or officer of the Office, or other official by means prohibited by law; (b) Communicate *ex parte* with such a person during the proceeding unless authorized to do so by law, rule or court order; or (c) [Reserved] (d) Engage in conduct intended to disrupt any proceeding before a tribunal.
Rule 3.6 Trial Publicity (a) A lawyer who is participating or has participated in the investigation or litigation of a matter shall not make an extrajudicial statement that the lawyer knows or reasonably	**§ 11.306 Trial Publicity** (a) A practitioner who is participating or has participated in the investigation or litigation of a matter shall not make an extrajudicial statement that the practitioner knows or

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should know will be disseminated by means of public communication and will have a substantial likelihood of materially prejudicing an adjudicative proceeding in the matter. (b) Notwithstanding paragraph (a), a lawyer may state: (1) the claim, offense or defense involved and, except when prohibited by law, the identity of the persons involved; (2) information contained in a public record; (3) that an investigation of a matter is in progress; (4) the scheduling or result of any step in litigation; (5) a request for assistance in obtaining evidence and information necessary thereto; (6) a warning of danger concerning the behavior of a person involved, when there is reason to believe that there exists the likelihood of substantial harm to an individual or to the public interest; ~~and~~ ~~(7) in a criminal case, in addition to subparagraphs (1) through (6):~~ ~~(i) the identity, residence, occupation and family status of the accused;~~ ~~(ii) if the accused has not been apprehended, information necessary to aid in apprehension of that person;~~ ~~(iii) the fact, time and place of arrest; and~~ ~~(iv) the identity of investigating and arresting officers or agencies and the length of the investigation.~~	reasonably should know will be disseminated by means of public communication and will have a substantial likelihood of materially prejudicing an adjudicative proceeding in the matter. (b) Notwithstanding paragraph (a) of this section, a practitioner may state: (1) The claim, offense or defense involved and, except when prohibited by law, the identity of the persons involved; (2) Information contained in a public record; (3) That an investigation of a matter is in progress; (4) The scheduling or result of any step in litigation; (5) A request for assistance in obtaining evidence and information necessary thereto; and (6) A warning of danger concerning the behavior of a person involved, when there is reason to believe that there exists the likelihood of substantial harm to an individual or to the public interest.

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(c) Notwithstanding paragraph (a), a lawyer may make a statement that a reasonable lawyer would believe is required to protect a client from the substantial undue prejudicial effect of recent publicity not initiated by the lawyer or the lawyer's client. A statement made pursuant to this paragraph shall be limited to such information as is necessary to mitigate the recent adverse publicity. (d) No lawyer associated in a firm or government agency with a lawyer subject to paragraph (a) shall make a statement prohibited by paragraph (a).	(c) Notwithstanding paragraph (a) of this section, a practitioner may make a statement that a reasonable practitioner would believe is required to protect a client from the substantial undue prejudicial effect of recent publicity not initiated by the practitioner or the practitioner's client. A statement made pursuant to this paragraph shall be limited to such information as is necessary to mitigate the recent adverse publicity. (d) No practitioner associated in a firm or government agency with a practitioner subject to paragraph (a) of this section shall make a statement prohibited by paragraph (a).
Rule 3.7 Lawyer As Witness (a) A lawyer shall not act as advocate at a ~~trial~~ in which the lawyer is likely to be a necessary witness unless: (1) the testimony relates to an uncontested issue; (2) the testimony relates to the nature and value of legal services rendered in the case; or (3) disqualification of the lawyer would work substantial hardship on the client. (b) A lawyer may act as advocate in a ~~trial~~ in which another lawyer in the lawyer's firm is likely to be called as a witness unless precluded from doing so by Rule 1.7 or Rule 1.9.	**§ 11.307 Practitioner as witness.** (a) A practitioner shall not act as advocate at a proceeding before a tribunal in which the practitioner is likely to be a necessary witness unless: (1) The testimony relates to an uncontested issue; (2) The testimony relates to the nature and value of legal services rendered in the case; or (3) Disqualification of the practitioner would work substantial hardship on the client. (b) A practitioner may act as advocate in a proceeding before a tribunal in which another practitioner in the practitioner's firm is likely to be called as a witness unless precluded from doing so by §§ 11.107 or 11.109.
~~**Rule 3.8 Special Responsibilities Of A Prosecutor**~~ ~~The prosecutor in a criminal case shall:~~	**§ 11.308 [Reserved]**

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~~(a) refrain from prosecuting a charge that the prosecutor knows is not supported by probable cause;~~ ~~(b) make reasonable efforts to assure that the accused has been advised of the right to, and the procedure for obtaining, counsel and has been given reasonable opportunity to obtain counsel;~~ ~~(c) not seek to obtain from an unrepresented accused a waiver of important pretrial rights, such as the right to a preliminary hearing;~~ ~~(d) make timely disclosure to the defense of all evidence or information known to the prosecutor that tends to negate the guilt of the accused or mitigates the offense, and, in connection with sentencing, disclose to the defense and to the tribunal all unprivileged mitigating information known to the prosecutor, except when the prosecutor is relieved of this responsibility by a protective order of the tribunal;~~ ~~(e) not subpoena a lawyer in a grand jury or other criminal proceeding to present evidence about a past or present client unless the prosecutor reasonably believes:~~ ~~(1) the information sought is not protected from disclosure by any applicable privilege;~~ ~~(2) the evidence sought is essential to the successful completion of an ongoing investigation or prosecution; and~~ ~~(3) there is no other feasible alternative to obtain the information;~~ ~~(f) except for statements that are necessary to inform the public of the nature and extent of the prosecutor's action and that serve a~~	

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~~legitimate law enforcement purpose, refrain from making extrajudicial comments that have a substantial likelihood of heightening public condemnation of the accused and exercise reasonable care to prevent investigators, law enforcement personnel, employees or other persons assisting or associated with the prosecutor in a criminal case from making an extrajudicial statement that the prosecutor would be prohibited from making under Rule 3.6 or this Rule.~~ ~~(g) When a prosecutor knows of new, credible and material evidence creating a reasonable likelihood that a convicted defendant did not commit an offense of which the defendant was convicted, the prosecutor shall:~~ ~~(1) promptly disclose that evidence to an appropriate court or authority, and~~ ~~(2) if the conviction was obtained in the prosecutor's jurisdiction,~~ ~~(i) promptly disclose that evidence to the defendant unless a court authorizes delay, and~~ ~~(ii) undertake further investigation, or make reasonable efforts to cause an investigation, to determine whether the defendant was convicted of an offense that the defendant did not commit.~~ ~~(h) When a prosecutor knows of clear and convincing evidence establishing that a defendant in the prosecutor's jurisdiction was convicted of an offense that the defendant did not commit, the prosecutor shall seek to remedy the conviction.~~	
Rule 3.9 Advocate In Nonadjudicative Proceedings A lawyer representing a client before a	**§ 11.309 Advocate in nonadjudicative proceedings.** A practitioner representing a client before a

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legislative body or administrative agency in a nonadjudicative proceeding shall disclose that the appearance is in a representative capacity and shall conform to the provisions of Rules 3.3(a) through (c), 3.4(a) through (c), and 3.5.	legislative body or administrative agency in a nonadjudicative proceeding shall disclose that the appearance is in a representative capacity and shall conform to the provisions of §§ 11.303(a) through (c), 11.304(a) through (c), and 11.305.
Rule 4.1 Truthfulness In Statements To Others In the course of representing a client a lawyer shall not knowingly: (a) make a false statement of material fact or law to a third person; or (b) fail to disclose a material fact to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by Rule 1.6.	**§ 11.401 Truthfulness in statements to others.** In the course of representing a client, a practitioner shall not knowingly: (a) Make a false statement of material fact or law to a third person; or (b) Fail to disclose a material fact to a third person when disclosure is necessary to avoid assisting a criminal or fraudulent act by a client, unless disclosure is prohibited by § 11.106.
Rule 4.2 Communication With Person Represented By Counsel In representing a client, a lawyer shall not communicate about the subject of the representation with a person the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized to do so by law or a court order.	**§ 11.402 Communication with person represented by a practitioner.** (a) In representing a client, a practitioner shall not communicate about the subject of the representation with a person the practitioner knows to be represented by another practitioner in the matter, unless the practitioner has the consent of the other practitioner or is authorized to do so by law, rule, or a court order. (b) This section does not prohibit communication by a practitioner with government officials who are otherwise represented by counsel and who have the authority to redress the grievances of the practitioner's client, provided that, if the communication relates to a matter for which the government official is represented, then prior to the communication the practitioner must disclose to such government official both

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	the practitioner's identity and the fact that the practitioner represents a party with a claim against the government.
Rule 4.3 Dealing With Unrepresented Person In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding. The lawyer shall not give legal advice to an unrepresented person, other than the advice to secure counsel, if the lawyer knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.	**§ 11.403 Dealing with unrepresented person.** In dealing on behalf of a client with a person who is not represented by a practitioner, a practitioner shall not state or imply that the practitioner is disinterested. When the practitioner knows or reasonably should know that the unrepresented person misunderstands the practitioner's role in the matter, the practitioner shall make reasonable efforts to correct the misunderstanding. The practitioner shall not give legal advice to an unrepresented person, other than the advice to secure counsel, if the practitioner knows or reasonably should know that the interests of such a person are or have a reasonable possibility of being in conflict with the interests of the client.
Rule 4.4 Respect For Rights Of Third Persons (a) In representing a client, a lawyer shall not use means that have no substantial purpose other than to embarrass, delay, or burden a third person, or use methods of obtaining evidence that violate the legal rights of such a person. (b) A lawyer who receives a document or electronically stored information relating to the representation of the lawyer's client and knows or reasonably should know that the document or electronically stored information was inadvertently sent shall promptly notify the sender.	**§ 11.404 Respect for rights of third persons.** (a) In representing a client, a practitioner shall not use means that have no substantial purpose other than to embarrass, delay, or burden a third person, or use methods of obtaining evidence that violate the legal rights of such a person. (b) A practitioner who receives a document or electronically stored information relating to the representation of the practitioner's client and knows or reasonably should know that the document or electronically stored information was inadvertently sent shall promptly notify the sender.
Rule 5.1 Responsibilities Of Partners, Managers, And Supervisory Lawyers	**§ 11.501 Responsibilities of partners, managers, and supervisory practitioners.**

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(a) A partner in a law firm, and a lawyer who individually or together with other lawyers possesses comparable managerial authority in a law firm, shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that all lawyers in the firm conform to the Rules of Professional Conduct. (b) A lawyer having direct supervisory authority over another lawyer shall make reasonable efforts to ensure that the other lawyer conforms to the Rules of Professional Conduct. (c) A lawyer shall be responsible for another lawyer's violation of the Rules of Professional Conduct if: (1) the lawyer orders or, with knowledge of the specific conduct, ratifies the conduct involved; or (2) the lawyer is a partner or has comparable managerial authority in the law firm in which the other lawyer practices, or has direct supervisory authority over the other lawyer, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.	(a) A practitioner who is a partner in a law firm, and a practitioner who individually or together with other practitioners possesses comparable managerial authority in a law firm, shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that all practitioners in the firm conform to the USPTO Rules of Professional Conduct. (b) A practitioner having direct supervisory authority over another practitioner shall make reasonable efforts to ensure that the other practitioner conforms to the USPTO Rules of Professional Conduct. (c) A practitioner shall be responsible for another practitioner's violation of the USPTO Rules of Professional Conduct if: (1) The practitioner orders or, with knowledge of the specific conduct, ratifies the conduct involved; or (2) The practitioner is a partner or has comparable managerial authority in the law firm in which the other practitioner practices, or has direct supervisory authority over the other practitioner, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.
Rule 5.2 Responsibilities Of A Subordinate Lawyer (a) A lawyer is bound by the Rules of Professional Conduct notwithstanding that the lawyer acted at the direction of another person. (b) A subordinate lawyer does not violate the Rules of Professional Conduct if that lawyer acts in accordance with a supervisory lawyer's	**§ 11.502 Responsibilities of a subordinate practitioner.** (a) A practitioner is bound by the USPTO Rules of Professional Conduct notwithstanding that the practitioner acted at the direction of another person. (b) A subordinate practitioner does not violate the USPTO Rules of Professional Conduct if that practitioner acts in accordance with a

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reasonable resolution of an arguable question of professional duty.	supervisory practitioner's reasonable resolution of an arguable question of professional duty.
Rule 5.3 Responsibilities Regarding Nonlawyer Assistance With respect to a nonlawyer employed or retained by or associated with a lawyer: (a) a partner, and a lawyer who individually or together with other lawyers possesses comparable managerial authority in a law firm shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that the person's conduct is compatible with the professional obligations of the lawyer; (b) a lawyer having direct supervisory authority over the nonlawyer shall make reasonable efforts to ensure that the person's conduct is compatible with the professional obligations of the lawyer; and (c) a lawyer shall be responsible for conduct of such a person that would be a violation of the Rules of Professional Conduct if engaged in by a lawyer if: (1) the lawyer orders or, with the knowledge of the specific conduct, ratifies the conduct involved; or (2) the lawyer is a partner or has comparable managerial authority in the law firm in which the person is employed, or has direct supervisory authority over the person, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.	**§ 11.503 Responsibilities regarding non-practitioner assistance.** With respect to a non-practitioner assistant employed or retained by or associated with a practitioner: (a) A practitioner who is a partner, and a practitioner who individually or together with other practitioners possesses comparable managerial authority in a law firm shall make reasonable efforts to ensure that the firm has in effect measures giving reasonable assurance that the person's conduct is compatible with the professional obligations of the practitioner; (b) A practitioner having direct supervisory authority over the non-practitioner assistant shall make reasonable efforts to ensure that the person's conduct is compatible with the professional obligations of the practitioner; and (c) A practitioner shall be responsible for conduct of such a person that would be a violation of the USPTO Rules of Professional Conduct if engaged in by a practitioner if: (1) The practitioner orders or, with the knowledge of the specific conduct, ratifies the conduct involved; or (2) The practitioner is a partner or has comparable managerial authority in the law firm in which the person is employed, or has direct supervisory authority over the person, and knows of the conduct at a time when its consequences can be avoided or mitigated but fails to take reasonable remedial action.
Rule 5.4 Professional Independence Of A Lawyer	**§ 11.504 Professional independence of a practitioner.**

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(a) A lawyer or law firm shall not share legal fees with a nonlawyer, except that:	(a) A practitioner or law firm shall not share legal fees with a non-practitioner, except that:
(1) an agreement by a lawyer with the lawyer's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the lawyer's death, to the lawyer's estate or to one or more specified persons;	(1) An agreement by a practitioner with the practitioner's firm, partner, or associate may provide for the payment of money, over a reasonable period of time after the practitioner's death, to the practitioner's estate or to one or more specified persons;
(2) a lawyer who purchases the practice of a deceased, disabled, or disappeared lawyer may, pursuant to the provisions of Rule 1.17, pay to the estate or other representative of that lawyer the agreed-upon purchase price;	(2) A practitioner who purchases the practice of a deceased, disabled, or disappeared practitioner may, pursuant to the provisions of § 11.117, pay to the estate or other representative of that practitioner the agreed-upon purchase price;
(3) a lawyer or law firm may include nonlawyer employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit-sharing arrangement; and	(3) A practitioner or law firm may include non-practitioner employees in a compensation or retirement plan, even though the plan is based in whole or in part on a profit-sharing arrangement; and
(4) a lawyer may share ~~court-awarded~~ legal fees with a nonprofit organization that employed, retained or recommended employment of the lawyer in the matter.	(4) A practitioner may share legal fees, whether awarded by a tribunal or received in settlement of a matter, with a nonprofit organization that employed, retained or recommended employment of the practitioner in the matter and that qualifies under Section 501(c)(3) of the Internal Revenue Code.
(b) A lawyer shall not form a partnership with a nonlawyer if any of the activities of the partnership consist of the practice of law.	(b) A practitioner shall not form a partnership with a non-practitioner if any of the activities of the partnership consist of the practice of law.
(c) A lawyer shall not permit a person who recommends, employs, or pays the lawyer to render legal services for another to direct or regulate the lawyer's professional judgment in rendering such legal services.	(c) A practitioner shall not permit a person who recommends, employs, or pays the practitioner to render legal services for another to direct or regulate the practitioner's professional judgment in rendering such legal services.
(d) A lawyer shall not practice with or in the	(d) A practitioner shall not practice with or in

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form of a professional corporation or association authorized to practice law for a profit, if: (1) a nonlawyer owns any interest therein, except that a fiduciary representative of the estate of a lawyer may hold the stock or interest of the lawyer for a reasonable time during administration; (2) a nonlawyer is a corporate director or officer thereof or occupies the position of similar responsibility in any form of association other than a corporation; or (3) a nonlawyer has the right to direct or control the professional judgment of a lawyer.	the form of a professional corporation or association authorized to practice law for a profit, if: (1) A non-practitioner owns any interest therein, except that a fiduciary representative of the estate of a practitioner may hold the stock or interest of the practitioner for a reasonable time during administration; (2) A non-practitioner is a corporate director or officer thereof or occupies the position of similar responsibility in any form of association other than a corporation; or (3) A non-practitioner has the right to direct or control the professional judgment of a practitioner.
Rule 5.5 Unauthorized Practice Of Law~~;~~ ~~Multijurisdictional Practice Of Law~~ (a) A lawyer shall not practice law in a jurisdiction in violation of the regulation of the legal profession in that jurisdiction, or assist another in doing so. ~~(b) A lawyer who is not admitted to practice in this jurisdiction shall not:~~ ~~(1) except as authorized by these Rules or other law, establish an office or other systematic and continuous presence in this jurisdiction for the practice of law; or~~ ~~(2) hold out to the public or otherwise represent that the lawyer is admitted to practice law in this jurisdiction.~~ ~~(c) A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services on a temporary basis in this jurisdiction that:~~	**§ 11.505 Unauthorized practice of law.** A practitioner shall not practice law in a jurisdiction in violation of the regulation of the legal profession in that jurisdiction, or assist another in doing so.

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~~(1) are undertaken in association with a lawyer who is admitted to practice in this jurisdiction and who actively participates in the matter;~~ ~~(2) are in or reasonably related to a pending or potential proceeding before a tribunal in this or another jurisdiction, if the lawyer, or a person the lawyer is assisting, is authorized by law or order to appear in such proceeding or reasonably expects to be so authorized;~~ ~~(3) are in or reasonably related to a pending or potential arbitration, mediation, or other alternative dispute resolution proceeding in this or another jurisdiction, if the services arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice and are not services for which the forum requires pro hac vice admission; or~~ ~~(4) are not within paragraphs (c)(2) or (c)(3) and arise out of or are reasonably related to the lawyer's practice in a jurisdiction in which the lawyer is admitted to practice.~~ ~~(d) A lawyer admitted in another United States jurisdiction, and not disbarred or suspended from practice in any jurisdiction, may provide legal services in this jurisdiction that:~~ ~~(1) are provided to the lawyer's employer or its organizational affiliates and are not services for which the forum requires pro hac vice admission; or~~ ~~(2) are services that the lawyer is authorized to provide by federal law or other law of this jurisdiction.~~	
Rule 5.6 Restrictions On Right To Practice A lawyer shall not participate in offering or	**§ 11.506 Restrictions on right to practice.** A practitioner shall not participate in offering

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making: (a) a partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of a lawyer to practice after termination of the relationship, except an agreement concerning benefits upon retirement; or (b) an agreement in which a restriction on the lawyer's right to practice is part of the settlement of a client controversy.	or making: (a) A partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of a practitioner to practice after termination of the relationship, except an agreement concerning benefits upon retirement; or (b) An agreement in which a restriction on the practitioner's right to practice is part of the settlement of a client controversy.
Rule 5.7 Responsibilities Regarding Law-Related Services (a) A lawyer shall be subject to the Rules of Professional Conduct with respect to the provision of law-related services~~, as defined in paragraph (b),~~ if the law-related services are provided: (1) by the lawyer in circumstances that are not distinct from the lawyer's provision of legal services to clients; or (2) in other circumstances by an entity controlled by the lawyer individually or with others if the lawyer fails to take reasonable measures to assure that a person obtaining the law-related services knows that the services are not legal services and that the protections of the client-lawyer relationship do not exist. ~~(b) The term "law-related services" denotes services that might reasonably be performed in conjunction with and in substance are related to the provision of legal services, and that are not prohibited as unauthorized practice of law when provided by a nonlawyer.~~	**§ 11.507 Responsibilities regarding law-related services.** A practitioner shall be subject to the USPTO Rules of Professional Conduct with respect to the provision of law-related services if the law-related services are provided: (a) By the practitioner in circumstances that are not distinct from the practitioner's provision of legal services to clients; or (b) In other circumstances by an entity controlled by the practitioner individually or with others if the practitioner fails to take reasonable measures to assure that a person obtaining the law-related services knows that the services are not legal services and that the protections of the client-practitioner relationship do not exist. **[The term "law-related services" was added to the definitions in 37 CFR 11.1]**
~~**Rule 6.1 Voluntary Pro Bono Publico Service**~~	**11.601 [Reserved]**

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~~Every lawyer has a professional responsibility to provide legal services to those unable to pay. A lawyer should aspire to render at least (50) hours of pro bono publico legal services per year. In fulfilling this responsibility, the lawyer should:~~ ~~(a) provide a substantial majority of the (50) hours of legal services without fee or expectation of fee to:~~ ~~(1) persons of limited means or~~ ~~(2) charitable, religious, civic, community, governmental and educational organizations in matters that are designed primarily to address the needs of persons of limited means; and~~ ~~(b) provide any additional services through:~~ ~~(1) delivery of legal services at no fee or substantially reduced fee to individuals, groups or organizations seeking to secure or protect civil rights, civil liberties or public rights, or charitable, religious, civic, community, governmental and educational organizations in matters in furtherance of their organizational purposes, where the payment of standard legal fees would significantly deplete the organization's economic resources or would be otherwise inappropriate;~~ ~~(2) delivery of legal services at a substantially reduced fee to persons of limited means; or~~ ~~(3) participation in activities for improving the law, the legal system or the legal profession. In addition, a lawyer should voluntarily contribute financial support to organizations that provide legal services to persons of limited means.~~	
~~**Rule 6.2 Accepting Appointments**~~	**11.602 [Reserved]**

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~~A lawyer shall not seek to avoid appointment by a tribunal to represent a person except for good cause, such as:~~ ~~(a) representing the client is likely to result in violation of the Rules of Professional Conduct or other law;~~ ~~(b) representing the client is likely to result in an unreasonable financial burden on the lawyer; or~~ ~~(c) the client or the cause is so repugnant to the lawyer as to be likely to impair the client-lawyer relationship or the lawyer's ability to represent the client.~~	
~~**Rule 6.3 Membership In Legal Services Organization**~~ ~~A lawyer may serve as a director, officer or member of a legal services organization, apart from the law firm in which the lawyer practices, notwithstanding that the organization serves persons having interests adverse to a client of the lawyer. The lawyer shall not knowingly participate in a decision or action of the organization:~~ ~~(a) if participating in the decision or action would be incompatible with the lawyer's obligations to a client under Rule 1.7; or~~ ~~(b) where the decision or action could have a material adverse effect on the representation of a client of the organization whose interests are adverse to a client of the lawyer.~~	**11.603 [Reserved]**
~~**Rule 6.4 Law Reform Activities Affecting Client Interests**~~ ~~A lawyer may serve as a director, officer or member of an organization involved in reform~~	**11.604 [Reserved]**

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~~of the law or its administration notwithstanding that the reform may affect the interests of a client of the lawyer. When the lawyer knows that the interests of a client may be materially benefitted by a decision in which the lawyer participates, the lawyer shall disclose that fact but need not identify the client.~~	
~~**Rule 6.5 Nonprofit And Court-Annexed Limited Legal Services Programs**~~ ~~(a) A lawyer who, under the auspices of a program sponsored by a nonprofit organization or court, provides short-term limited legal services to a client without expectation by either the lawyer or the client that the lawyer will provide continuing representation in the matter:~~ ~~(1) is subject to Rules 1.7 and 1.9(a) only if the lawyer knows that the representation of the client involves a conflict of interest; and~~ ~~(2) is subject to Rule 1.10 only if the lawyer knows that another lawyer associated with the lawyer in a law firm is disqualified by Rule 1.7 or 1.9(a) with respect to the matter.~~ ~~(b) Except as provided in paragraph (a)(2), Rule 1.10 is inapplicable to a representation governed by this Rule.~~	**11.605 [Reserved]**
Rule 7.1 Communications Concerning A Lawyer's Services A lawyer shall not make a false or misleading communication about the lawyer or the lawyer's services. A communication is false or misleading if it contains a material misrepresentation of fact or law, or omits a fact necessary to make the statement considered as a whole not materially misleading.	**§ 11.701 Communications concerning a practitioner's services.** A practitioner shall not make a false or misleading communication about the practitioner or the practitioner's services. A communication is false or misleading if it contains a material misrepresentation of fact or law, or omits a fact necessary to make the statement considered as a whole not materially misleading.

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Rule 7.2 Advertising (a) Subject to the requirements of Rules 7.1 and 7.3, a lawyer may advertise services through written, recorded or electronic communication, including public media. (b) A lawyer shall not give anything of value to a person for recommending the lawyer's services except that a lawyer may (1) pay the reasonable costs of advertisements or communications permitted by this Rule; ~~(2) pay the usual charges of a legal service plan or a not-for-profit or qualified lawyer referral service. A qualified lawyer referral service is a lawyer referral service that has been approved by an appropriate regulatory authority;~~ (3) pay for a law practice in accordance with Rule 1.17; and (4) refer clients to another lawyer or a nonlawyer professional pursuant to an agreement not otherwise prohibited under these Rules that provides for the other person to refer clients or customers to the lawyer, if (i) the reciprocal referral agreement is not exclusive, and (ii) the client is informed of the existence and nature of the agreement. (c) Any communication made pursuant to this rule shall include the name and office address of at least one lawyer or law firm responsible for its content.	**§ 11.702 Advertising.** (a) Subject to the requirements of §§ 11.701 and 11.703, a practitioner may advertise services through written, recorded or electronic communication, including public media. (b) A practitioner shall not give anything of value to a person for recommending the practitioner's services except that a practitioner may: (1) Pay the reasonable costs of advertisements or communications permitted by this section; (2) [Reserved]; (3) Pay for a law practice in accordance with § 11.117; and (4) Refer clients to another practitioner or a non-practitioner professional pursuant to an agreement not otherwise prohibited under the USPTO Rules of Professional Conduct that provides for the other person to refer clients or customers to the practitioner, if: (i) The reciprocal referral agreement is not exclusive, and (ii) The client is informed of the existence and nature of the agreement. (c) Any communication made pursuant to this section shall include the name and office address of at least one practitioner or law firm responsible for its content.
Rule 7.3 Direct Contact With Prospective Clients	**§ 11.703 Direct contact with prospective clients.**

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(a) A lawyer shall not by in-person, live telephone or real-time electronic contact solicit professional employment from a prospective client when a significant motive for the lawyer's doing so is the lawyer's pecuniary gain, unless the person contacted: (1) is a lawyer; or (2) has a family, close personal, or prior professional relationship with the lawyer.	(a) A practitioner shall not by in-person, live telephone or real-time electronic contact solicit professional employment from a prospective client when a significant motive for the practitioner's doing so is the practitioner's pecuniary gain, unless the person contacted: (1) Is a practitioner; or (2) Has a family, close personal, or prior professional relationship with the practitioner.
(b) A lawyer shall not solicit professional employment from a prospective client by written, recorded or electronic communication or by in-person, telephone or real-time electronic contact even when not otherwise prohibited by paragraph (a), if: (1) the prospective client has made known to the lawyer a desire not to be solicited by the lawyer; or (2) the solicitation involves coercion, duress or harassment.	(b) A practitioner shall not solicit professional employment from a prospective client by written, recorded or electronic communication or by in-person, telephone or real-time electronic contact even when not otherwise prohibited by paragraph (a) of this section, if: (1) The prospective client has made known to the practitioner a desire not to be solicited by the practitioner; or (2) The solicitation involves coercion, duress or harassment.
(c) Every written, recorded or electronic communication from a lawyer soliciting professional employment from a prospective client known to be in need of legal services in a particular matter shall include the words "Advertising Material" on the outside envelope, if any, and at the beginning and ending of any recorded or electronic communication, unless the recipient of the communication is a person specified in paragraphs (a)(1) or (a)(2).	(c) Every written, recorded or electronic communication from a practitioner soliciting professional employment from a prospective client known to be in need of legal services in a particular matter shall include the words "Advertising Material" on the outside envelope, if any, and at the beginning and ending of any recorded or electronic communication, unless the recipient of the communication is a person specified in paragraphs (a)(1) or (a)(2) of this section.
(d) Notwithstanding the prohibitions in paragraph (a), a lawyer may participate with a prepaid or group legal service plan operated by an organization not owned or directed by the lawyer that uses in-person or telephone contact	(d) Notwithstanding the prohibitions in paragraph (a) of this section, a practitioner may participate with a prepaid or group legal service plan operated by an organization not owned or directed by the practitioner that uses

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to solicit memberships or subscriptions for the plan from persons who are not known to need legal services in a particular matter covered by the plan.	in-person or telephone contact to solicit memberships or subscriptions for the plan from persons who are not known to need legal services in a particular matter covered by the plan.
Rule 7.4 Communication of Fields of Practice and Specialization (a) A lawyer may communicate the fact that the lawyer does or does not practice in particular fields of law. ~~(b) A lawyer admitted to engage in patent practice before the United States Patent and Trademark Office may use the designation "Patent Attorney" or a substantially similar designation.~~ ~~(c) A lawyer engaged in Admiralty practice may use the designation "Admiralty," "Proctor in Admiralty" or a substantially similar designation.~~ (d) A lawyer shall not state or imply that a lawyer is certified as a specialist in a particular field of law, unless: (1) the lawyer has been certified as a specialist by an organization that has been approved by an appropriate state authority or that has been accredited by the American Bar Association; and (2) the name of the certifying organization is clearly identified in the communication.	**§ 11.704 Communication of fields of practice and specialization.** (a) A practitioner may communicate the fact that the practitioner does or does not practice in particular fields of law. (b) A registered practitioner who is an attorney may use the designation "Patents," "Patent Attorney," "Patent Lawyer," "Registered Patent Attorney," or a substantially similar designation. A registered practitioner who is not an attorney may use the designation "Patents," "Patent Agent," "Registered Patent Agent," or a substantially similar designation. Unless authorized by § 11.14(b), a registered patent agent shall not hold himself or herself out as being qualified or authorized to practice before the Office in trademark matters or before a court. (c) [Reserved]. (d) A practitioner shall not state or imply that a practitioner is certified as a specialist in a particular field of law, unless: (1) The practitioner has been certified as a specialist by an organization that has been approved by an appropriate state authority or that has been accredited by the American Bar Association; and (2) The name of the certifying organization is clearly identified in the communication.

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	(e) An individual granted limited recognition under § 11.9 may use the designation "Limited Recognition."
Rule 7.5 Firm Names And Letterheads (a) A lawyer shall not use a firm name, letterhead or other professional designation that violates Rule 7.1. A trade name may be used by a lawyer in private practice if it does not imply a connection with a government agency or with a public or charitable legal services organization and is not otherwise in violation of Rule 7.1. ~~(b) A law firm with offices in more than one jurisdiction may use the same name or other professional designation in each jurisdiction, but identification of the lawyers in an office of the firm shall indicate the jurisdictional limitations on those not licensed to practice in the jurisdiction where the office is located.~~ (c) The name of a lawyer holding a public office shall not be used in the name of a law firm, or in communications on its behalf, during any substantial period in which the lawyer is not actively and regularly practicing with the firm. ~~(d) Lawyers may state or imply that they practice in a partnership or other organization only when that is the fact.~~	**§ 11.705 Firm names and letterheads.** (a) A practitioner shall not use a firm name, letterhead or other professional designation that violates § 11.701. A trade name may be used by a practitioner in private practice if it does not imply a connection with a government agency or with a public or charitable legal services organization and is not otherwise in violation of § 11.701. (b) [Reserved]. (c) The name of a practitioner holding a public office shall not be used in the name of a law firm, or in communications on its behalf, during any substantial period in which the practitioner is not actively and regularly practicing with the firm.
~~**Rule 7.6 Political Contributions To Obtain Legal Engagements Or Appointments By Judges**~~ ~~A lawyer or law firm shall not accept a government legal engagement or an appointment by a judge if the lawyer or law firm makes a political contribution or solicits~~	**§ 11.706 [Reserved]**

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~~political contributions for the purpose of obtaining or being considered for that type of legal engagement or appointment.~~	
Rule 8.1 Bar Admission And Disciplinary Matters An applicant for ~~admission to the bar~~, or a lawyer in connection with ~~a bar admission~~ application or in connection with a disciplinary matter, shall not: (a) knowingly make a false statement of material fact; or (b) fail to disclose a fact necessary to correct a misapprehension known by the person to have arisen in the matter, or knowingly fail to respond to a lawful demand for information from an admissions or disciplinary authority, except that this rule does not require disclosure of information otherwise protected by Rule 1.6.	**§ 11.801 Registration, recognition and disciplinary matters.** An applicant for registration or recognition to practice before the Office, or a practitioner in connection with an application for registration or recognition, or a practitioner in connection with a disciplinary or reinstatement matter, shall not: (a) Knowingly make a false statement of material fact; or (b) Fail to disclose a fact necessary to correct a misapprehension known by the person to have arisen in the matter, fail to cooperate with the Office of Enrollment and Discipline in an investigation of any matter before it, or knowingly fail to respond to a lawful demand or request for information from an admissions or disciplinary authority, except that the provisions of this section do not require disclosure of information otherwise protected by § 11.106.
Rule 8.2 Judicial And Legal Officials (a) A lawyer shall not make a statement that the lawyer knows to be false or with reckless disregard as to its truth or falsity concerning the qualifications or integrity of a judge, adjudicatory officer or public legal officer, or of a candidate for election or appointment to judicial or legal office. (b) A lawyer who is a candidate for judicial office shall comply with the applicable provisions of the Code of Judicial Conduct.	**§ 11.802 Judicial and legal officials.** (a) A practitioner shall not make a statement that the practitioner knows to be false or with reckless disregard as to its truth or falsity concerning the qualifications or integrity of a judge, adjudicatory officer or public legal officer, or of a candidate for election or appointment to judicial or legal office. (b) A practitioner who is a candidate for judicial office shall comply with the applicable provisions of the Code of Judicial Conduct.

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Rule 8.3 Reporting Professional Misconduct (a) A lawyer who knows that another lawyer has committed a violation of the Rules of Professional Conduct that raises a substantial question as to that lawyer's honesty, trustworthiness or fitness as a lawyer in other respects, shall inform the appropriate professional authority. (b) A lawyer who knows that a judge has committed a violation of applicable rules of judicial conduct that raises a substantial question as to the judge's fitness for office shall inform the appropriate authority. (c) This Rule does not require disclosure of information otherwise protected by Rule 1.6 or information gained ~~by a lawyer or judge~~ while participating in an approved lawyers assistance program.	**§ 11.803 Reporting professional misconduct.** (a) A practitioner who knows that another practitioner has committed a violation of the USPTO Rules of Professional Conduct that raises a substantial question as to that practitioner's honesty, trustworthiness or fitness as a practitioner in other respects, shall inform the OED Director and any other appropriate professional authority. (b) A practitioner who knows that a judge, hearing officer, administrative law judge, administrative patent judge, or administrative trademark judge has committed a violation of applicable rules of judicial conduct that raises a substantial question as to the individual's fitness for office shall inform the appropriate authority. (c) The provisions of this section do not require disclosure of information otherwise protected by § 11.106 or information gained while participating in an approved lawyers assistance program.
Rule 8.4 Misconduct It is professional misconduct for a lawyer to: (a) violate or attempt to violate the Rules of Professional Conduct, knowingly assist or induce another to do so, or do so through the acts of another; (b) commit a criminal act that reflects adversely on the lawyer's honesty, trustworthiness or fitness as a lawyer in other respects; (c) engage in conduct involving dishonesty, fraud, deceit or misrepresentation;	**§ 11.804 Misconduct.** It is professional misconduct for a practitioner to: (a) Violate or attempt to violate the USPTO Rules of Professional Conduct, knowingly assist or induce another to do so, or do so through the acts of another; (b) Commit a criminal act that reflects adversely on the practitioner's honesty, trustworthiness or fitness as a practitioner in other respects; (c) Engage in conduct involving dishonesty, fraud, deceit or misrepresentation;

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(d) engage in conduct that is prejudicial to the administration of justice; (e) state or imply an ability to influence improperly a government agency or official or to achieve results by means that violate the Rules of Professional Conduct or other law; ~~or~~ (f) knowingly assist a judge or judicial officer in conduct that is a violation of applicable rules of judicial conduct or other law.	(d) Engage in conduct that is prejudicial to the administration of justice; (e) State or imply an ability to influence improperly a government agency or official or to achieve results by means that violate the USPTO Rules of Professional Conduct or other law; (f) Knowingly assist a judge, hearing officer, administrative law judge, administrative patent judge, administrative trademark judge, or judicial officer in conduct that is a violation of applicable rules of judicial conduct or other law; (g) Knowingly assist an officer or employee of the Office in conduct that is a violation of applicable rules of conduct or other law; (h) Be publicly disciplined on ethical or professional misconduct grounds by any duly constituted authority of (1) a State, (2) the United States, or (3) the country in which the practitioner resides; or (i) Engage in other conduct that adversely reflects on the practitioner's fitness to practice before the Office.
~~Rule 8.5 Disciplinary Authority; Choice Of Law~~ ~~(a) Disciplinary Authority. A lawyer admitted to practice in this jurisdiction is subject to the disciplinary authority of this jurisdiction, regardless of where the lawyer's conduct occurs. A lawyer not admitted in this jurisdiction is also subject to the disciplinary authority of this jurisdiction if the lawyer provides or offers to provide any legal services in this jurisdiction. A lawyer may be subject to the disciplinary authority of both this jurisdiction and another jurisdiction for the~~	**§§ 11.805 [Reserved]**

ABA Model Rules of Professional Conduct	USPTO Rules of Professional Conduct
~~same conduct.~~ ~~(b) Choice of Law. In any exercise of the disciplinary authority of this jurisdiction, the rules of professional conduct to be applied shall be as follows:~~ ~~(1) for conduct in connection with a matter pending before a tribunal, the rules of the jurisdiction in which the tribunal sits, unless the rules of the tribunal provide otherwise; and~~ ~~(2) for any other conduct, the rules of the jurisdiction in which the lawyer's conduct occurred, or, if the predominant effect of the conduct is in a different jurisdiction, the rules of that jurisdiction shall be applied to the conduct. A lawyer shall not be subject to discipline if the lawyer's conduct conforms to the rules of a jurisdiction in which the lawyer reasonably believes the predominant effect of the lawyer's conduct will occur.~~	
	§ 11.901 Savings clause (a) A disciplinary proceeding based on conduct engaged in prior to the effective date of these regulations may be instituted subsequent to such effective date, if such conduct would continue to justify disciplinary sanctions under the provisions of this part. (b) No practitioner shall be subject to a disciplinary proceeding under this part based on conduct engaged in before the effective date hereof if such conduct would not have been subject to disciplinary action before such effective date.

Rensselaer Polytechnic Inst. v. Apple Inc.

United States District Court for the Northern District of New York

January 15, 2014, Decided; January 15, 2014, Filed

Civil Action No. 1:13-CV-0633 (DEP)

Reporter
2014 U.S. Dist. LEXIS 5186; 2014 WL 201965

RENSSELAER POLYTECHNIC INSTITUTE, et al., Plaintiffs, v. APPLE INC., Defendant.

Subsequent History: Motion denied by Rensselaer Polytechnic Inst. v. Apple Inc., 2014 U.S. Dist. LEXIS 63413 (N.D.N.Y, May 8, 2014)

Counsel: **[*1]** FOR PLAINTIFFS: PAUL J. SKIERMONT, ESQ., AMY E. LaVALLE, ESQ., DONALD E. TILLER, ESQ., LENNY HUANG, ESQ., ALEXANDER E. GASSER, ESQ., SKIERMONT PUCKETT LLP, Dallas, TX; NICHOLAS MESITI, ESQ., HESLIN ROTHENBERG FARLEY & MESITI P.C., Albany, NY; JAMES R. MULDOON, ESQ., STEVEN P. NONKES, ESQ., HARRIS BEACH PLLC, Syracuse, NY.

FOR DEFENDANT: TERESA M. CORBIN, ESQ., HECTOR J. RIBERA, ESQ., RYAN J. MARTON, ESQ., DAVID M. LACY KUSTERS, ESQ., WILLIAM A. MOSELEY, JR., ESQ., FENWICK & WEST LLP, San Francisco, CA; MITCHELL J. KATZ, ESQ., MENTER, RUDIN & TRIVELPIECE, P.C., Syracuse, NY.

Judges: David E. Peebles, U.S. Magistrate Judge.

Opinion by: David E. Peebles

Opinion

DECISION AND ORDER

Plaintiffs Rensselaer Polytechnic Institute (″RPI″) and Dynamic Advances, LLC (″Dynamic″), have brought this action against defendant Apple Inc. (″Apple″) alleging patent infringement.[1] Plaintiffs claim that, through its Siri personal assistant, available on certain Apple iPhones, iPads, and iPods, defendant has infringed United States Patent No. 7,177,798 (″'798 Patent″), entitled ″Natural Language Interface Using Constrained Intermediate Dictionary of Results,″ which was issued to Cheng Hsu and Veera Boonjing, and assigned to RPI. Apple has **[*2]** answered plaintiffs' complaint, denying infringement, asserting various affirmative defenses, and counterclaiming seeking declarations of non-infringement and patent invalidity. A scheduling order has been issued in the case, discovery is underway, and the parties are working toward a claim construction hearing, which the court contemplates holding in the coming months.

In October 2013, Apple petitioned the United States Patent and Trademark Office (″PTO″), requesting *inter partes* review (″IPR″) of all claims contained within the '798 Patent. Currently pending before the court is Apple's request to stay this action during the pendency of IPR. For the reasons set forth below, after examining the relevant factors, I conclude that the motion should be denied, without prejudice to renewal once the PTO has decided whether to accept the matter for review.

I. BACKGROUND

[1] This matter is before me on consent of the parties, pursuant to 28 U.S.C. § 636(c). Dkt. No. 32. 2

The roots of this action can be traced to a complaint filed in a separate suit initiated by Dynamic against Apple on October 19, 2012. *Dynamic Advances, LLC v. Apple, Inc.* (″*Dynamic I*″), No. 12-CV-1579 (N.D.N.Y. filed Oct. 19, 2012). **[*3]** After questions arose concerning Dynamic's standing to sue for infringement of the '798 Patent, this action was commenced by Dynamic and RPI on June 3, 2013. Dkt. No. 1. *Dynamic I* was subsequently dismissed on stipulation of the parties, without prejudice to the right of plaintiffs to pursue, in this action, the infringement claims that were originally asserted in that case by Dynamic alone. *See Dynamic I*, No. 12-CV-1579, Dkt. No. 68 at 1-2 (″[RPI], [Dynamic], and Apple Inc. jointly request the Court to coordinate Civil Action No. 1:12-cv-1579-DNH-DEP with Civil Action No. 1:13-cv-633-DNH-DEP under Rule 42 of the Federal Rules of Civil Procedure as follows: . . . Civil Action No. 1:12-cv-1579-DNH-DEP is dismissed without prejudice and the parties will proceed to litigate their claims and defenses in Civil Action No. 1:13-cv-633-DNH-DEP.″).

In accordance with a case management scheduling order issued in *Dynamic I* and made applicable to this action with certain modifications, the case has proceeded in accordance with this court's local patent rules, and the parties have commenced fact discovery principally addressed to claim construction. *See, e.g.*, Text Minute Entry Dated Oct. 22, 2013; **[*4]** Dkt. No. 35. Under the current schedule, opening claim construction briefs must be filed on January 17, 2014, and opposing claim construction briefs are due by February 17, 2014. Dkt. No. 27. While no claim construction hearing has yet been scheduled, the court contemplates conducting one in late March or early April of this year. Text Minute Entry Dated Oct. 22, 2013.

On October 21, 2013, Apple filed an IPR petition with the PTO requesting review of all twenty-one claims of the '798 Patent.[2] Dkt. No. 39-6 at 2. That petition seeks review of all of the '798 Patent claims under the expedited procedure prescribed by the Leahy-Smith America Invents Act (″AIA″), Pub. L. No. 112-29, 125 Stat. 284 (2011), codified at 35 U.S.C. §§ 311-319. No action has yet been taken by the PTO with regard to Apple's IPR petition, to which an answer from plaintiffs is currently due later this month.

The IPR process set out in the AIA represents a ″new, more streamlined adjudicative proceeding″ intended to replace the more cumbersome and time-consuming *inter partes* reexamination that could take upwards of three years to conclude. *Ultratec, Inc. v. Sorenson Commc'ns, Inc.*, No. 13-CV-346, 2013 U.S. Dist. LEXIS 162459, 2013 WL 6044407, at *1 (W.D. Wisc. Nov. 14, 2013); *see also Abbott Labs. v. Cordis Corp.*, 710 F.3d 1318, 1326 (Fed. Cir. 2013) (″The purpose of this reform was to convert inter partes reexamination from an examinational to an adjudicative proceeding[.]″). Under the procedures governing IPR, which became effective on September 16, 2012, a request for review must be filed by the petitioner within one year of being served with a complaint alleging infringement of the patent in issue. 35 U.S.C. § 315(b); *see Evolutionary Intelligence LLC v. Yelp Inc.*, No. 13-CV-3587, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *2 (N.D. Cal. Dec. 18, 2013). Significantly, a petitioner may challenge the validity of a patent claim in an IPR petition only on grounds that could be raised under 35 U.S.C. §§ 102 (anticipation) or 103 (obviousness), and then only ″on the basis of prior art consisting of patents **[*6]** or printed publication.″ 35 U.S.C. § 311(b); *see Automatic Mfg. Sys., Inc. v. Primera Tech., Inc.* (″*Automatic Mfg. Sys., Inc. II*″), No. 12-CV-1727, 2013 U.S. Dist. LEXIS 165692,

[2] Apple's reply papers disclose the filing of two additional IPR petitions pertaining to the '798 Patent on January 3, 2014. Dkt. Nos. 43-1, 43-2, 43-3. At oral argument regarding the pending motion to stay, held on January 9, 2014, plaintiffs informed the court of their intention to object to the filing of the **[*5]** most recent IPR petitions as untimely.

2013 WL 6133763, at *2 (M.D. Fla. Nov. 21, 2013);[3] *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *2. Once an IPR petition is filed, the patent owner may submit a preliminary response within three months, or may instead expedite the process by waiving the right to submit a preliminary response.[4] 35 U.S.C. § 313; 37 C.F.R. § 42.107(b); *see Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *2.

An IPR trial may be initiated by the PTO if the petitioner demonstrates a reasonable likelihood of prevailing with respect to at least one challenged claim. 35 U.S.C. § 314(a); *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *3. The PTO must decide whether to institute an IPR within three months of the filing of a response by the patentee, or, if none is submitted, within three months of the date upon which one was due. 35 U.S.C. § 314(b); *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *2; *Ultratec, Inc.*, 2013 U.S. Dist. LEXIS 162459, 2013 WL 6044407, at *1.

Unlike the prior *inter partes* reexamination proceeding, which was accomplished largely through submissions before a PTO examiner, IPR under the AIA is conducted before a panel of three of the technically-trained **[*8]** administrative judges comprising the Patent Trial and Appeal Board (″PTAB″). 35 U.S.C. § 6(a), (c). In the event IPR is initiated, the PTAB must issue a final determination within one year after commencement, although that period may be extended, for good cause, to eighteen months. 35 U.S.C. § 316(a)(11); 37 C.F.R. § 42.100(c); *see Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *2. A party dissatisfied with the PTAB's final decision may appeal the determination to the Federal Circuit. 35 U.S.C. § 141; *see Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *3. Given this timeframe, IPR can take two years before the PTO, and an appeal to the Federal Circuit can extend that timeline further.

Because the new IPR procedures implemented under the AIA are in their relative infancy, empirical data concerning the PTO's response to such petitions is relatively sparse. As of November 7, 2013, for the fiscal year 2013, out of 203 decisions issued by the PTO regarding institution, trial was instituted in approximately eighty-seven percent of the cases.[5] Patent Trial and Appeal Board, AIA Progress,http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics (last visited Jan. 15, 2014). **[*9]** For the fiscal year 2014, the percentage of petitions that were instituted dropped slightly to eighty-three percent. *Id*. Since the IPR provisions of the AIA took effect in September 2012, the PTAB has issued only three final written decisions — two in fiscal year 2013, and one in fiscal year 2014. *Id*.

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[3] In *Automatic Mfg. Sys., Inc.*, the Middle District of Florida entertained two motions to stay by the defendant. The first was filed on March 21, 2013, before the PTO decided whether to institute IPR; that motion was addressed in a written decision issued on May 13, 2013. *Automatic Mfg. Sys., Inc. v. Primera Tech., Inc.* (″*Automatic Mfg. Sys., Inc. I*″), No. 12-CV-1727, 2013 U.S. Dist. LEXIS 67790, 2013 WL 1969247 (M.D. Fla. May 13, 2013). The second motion to stay was filed by the defendants after the PTO instituted an IPR trial, and the court issued its decision on that motion on November 21, 2013. *Automatic Mfg. Sys, Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763.

[4] In this case, plaintiffs have until **[*7]** January 21, 2014, to respond to Apple's first IPR petition. As to the second and third IPR petitions filed by Apple, which were filed on January 3, 2014, it is unclear when plaintiffs' response may be due in light of (1) plaintiffs' representation to the court during oral argument that they intend to challenge the timeliness of those petitions; and (2) Apple's request to the PTO that it consolidate its second and third petitions with its first.

[5] This calculation includes ten cases that were joined with existing proceedings, which the court has construed as an institution of a petition. Patent Trial and Appeal Board, AIA Progress, http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_11_07_2013.pdf (last visited Jan. 15, 2014).

On December 23, 2013, after the depositions were taken of co-inventor Dr. Hsu and Apple employee Didier Guzzoni, and the parties exchanged a significant volume of written documents, Apple moved to stay this action pending a determination by the PTO in connection with its IPR petitions. Dkt. No. 39. Plaintiffs oppose the request, arguing that the relevant factors to be considered when deciding whether to grant such relief, particularly in advance of an initial determination by the PTO regarding whether to accept the matter for review, weigh against the issuance of a stay. Dkt. No. 41.

II. DISCUSSION

A. Governing **[*10]** Legal Standard

″[T]he power to stay proceedings is incidental to the power inherent in every court to control the disposition of the cases on its docket with economy of time and effort for itself, for counsel, and for litigants.″ *Landis v. N. Am., Co.*, 299 U.S. 248, 254, 57 S. Ct. 163, 81 L. Ed. 153 (1936); *accord, Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 848-49 (Fed. Cir. 2008). ″How this can best be done calls for the exercise of judgment, which must weigh competing interests and maintain an even balance.″ *Landis*, 299 U.S. at 254-55. As the party seeking a stay, Apple bears the burden to demonstrate that such relief is warranted. *Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763, at *1 (citing *Landis*, 299 U.S. at 255).

When a party moves to stay patent infringement litigation during the pendency of PTO proceedings concerning the validity of patents in suit, courts consider three factors, including ″(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set.″ *Xerox Corp. v. 3Com Corp.*, 69 F. Supp. 2d 404, 406-07 (W.D.N.Y. 1999); **[*11]** *see also Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763, at *2; *Internet Patents Corp. v. eBags, Inc.*, No. 12-CV-3385, 2013 U.S. Dist. LEXIS 122868, 2013 WL 4609533, at *2 (N.D. Cal. Aug. 28, 2013). These factors are not exclusive, however, and in the end, an overarching consideration of the circumstances in their totality governs. *Universal Elecs., Inc. v. Universal Remote Control, Inc.*, 943 F. Supp. 2d 1028, 1030-31 (C.D. Cal. 2013); *accord, Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763, at *2.

B. Undue Prejudice or Clear Tactical Disadvantage

The question of undue prejudice or clear tactical advantage is informed by four sub-factors, including ″(1) the timing of the review request; (2) the timing of the request for stay; (3) the status of the review proceedings; and (4) the relationship of the parties.″ *Davol, Inc. v. Atrium Med. Corp.*, No. 12-CV-0958, 2013 U.S. Dist. LEXIS 84533, 2013 WL 3013343, at *2 (D. Del. June 17, 2013). It should be noted that ″[m]ere delay in the litigation does not establish undue prejudice.″ *Universal Elecs., Inc.*, 943 F. Supp. 2d at 1033; *see also Internet Patents Corp.*, 2013 U.S. Dist. LEXIS 122868, 2013 WL 4609533, at *4 (″[C]ourts have refused to find undue prejudice based solely on delay caused by the reexamination process.″)

1. Timing of **[*12]** the Review Request

A review of the court's records reveals that the summons and complaint in *Dynamic I* were served upon Apple on October 23, 2012. *See Dynamic I*, No. 12-CV-1579, Dkt. No. 7. Accordingly, under the AIA procedures, Apple's IPR petition was due on October 23, 2013. As was previously noted, Apple filed its petition two days before that deadline, on October 21, 2013. The fact that an accused infringer waits until one year after being served with a complaint in an infringement action to submit its IPR petition ″at least raises the

possibility that [it] was a dilatory tactic." *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *9.

The justification offered by Apple for consuming nearly the full allotted one-year time period before requesting IPR is not particularly persuasive. It argues that it was unable to meaningfully evaluate whether to petition for IPR before receiving plaintiff's infringement contentions. Those initial infringement contentions, however, were served by plaintiffs in March of 2013.[6] While Apple maintains that they were not particularly enlightening, plaintiffs served revised infringement contentions upon the defendant, which Apple concedes were more comprehensive, **[*13]** in June 2013. In any event, Apple has failed to explain how infringement contentions would bear upon issues to be presented to the PTAB in an IPR proceeding, which examines validity based upon anticipation and obviousness.

Moreover, I find unpersuasive Apple's argument that, after plaintiffs initiated this lawsuit in October 2012, delay was occasioned because it "focused its efforts on transferring the case to the Northern District of California," as well as "evaluating and challenging standing." Dkt. No. 43-1 at 2. Similarly, Apple contends that it used the full one-year timeframe to strengthen its IPR petition. Dkt. No. 43 at 11. These arguments, and particularly the way Apple frames them in its motion papers, suggest that it was not possible for Apple to adequately evaluate venue, standing, and its IPR petition **[*14]** simultaneously, thus rendering necessary the use of the full statutory period to accomplish each task separately and timely file its IPR petition. *See* Dkt. No. 43 at 10-11 ("Dynamic Advances initiated this suit in October 2012 . . . . For the next several months Apple focused its efforts on transferring the case . . . and evaluating and challenging standing . . . . Apple received plaintiffs' infringement contentions in March 2013 and served its invalidity contentions in April 2013 . . . . Apple then worked diligently to narrow issues to strengthen its IPR petition and filed its petition in October 2013."). This contention, however, is belied by the nature of the tasks described, as well as the size of Apple and its access to resources that would seemingly enable it to efficiently address each of those tasks in parallel. By way of example, although the court is not in a position to suggest how long a party spends on certain tasks, I am aware that this particular patent action is not the first, nor the last, in which Apple has argued in support of or opposition to a motion to transfer venue to the Northern District of California. *See, e.g., In re Apple Inc.*, 456 F. App'x 907, 908 (Fed. Cir. 2012) **[*15]** (requesting writ of mandamus seeking transfer of venue); *Emblaze Ltd. v. Apple, Inc.*, No. 10-CV-5713, 2011 U.S. Dist. LEXIS 60878, 2011 WL 2419802, at *1 (S.D.N.Y. June 3, 2011) (seeking transfer of venue); *Apple Inc. v. High Tech Computer Corp.*, No. 10-CV-0544, 2011 U.S. Dist. LEXIS 4278, 2011 WL 143909, at *1 (D. Del. Jan. 18, 2011) (opposing a motion to transfer venue). Accordingly, I find that it is reasonable to infer that arguing for or against a motion to transfer venue is a task that, although likely not without merit or substance, is routine for Apple, and does not require "several months" worth of focus.[7]

In light of the timing of Apple's IPR petition and its failure to offer a plausible explanation for delaying the filing of the petition until two days before the expiration of the deadline under the AIA, I conclude that this sub-factor weighs against a stay. *Compare Semiconductor Energy Lab. Co.,*

[6] Under the schedule implemented in *Dynamic I*, and carried over in relevant part to this action, plaintiff's infringement contentions were due to be served on March 5, 2013. *See Dynamic I*, No. 12-CV-1579, Dkt. No. 45-1. While that schedule was subsequently altered, the modifications did not affect the exchange of infringement and non-infringement contentions. *Id.*, Dkt. No. 52 at 2.

[7] I note, moreover, that Apple does not contend the choice of venue choice dictates whether IPR would be sought to test validity of the '798 Patent.

Ltd. v. Chimei Innolux Corp., No. 12-CV-0021, 2012 U.S. Dist. LEXIS 186322 (C.D. Cal. Dec. 19, 2012) (finding that the ten-month delay in filing the IPR petition was justified where the plaintiffs' claim ″contentions identified **[*16]** 100 claims from the six contested patents and provided claim charts and exhibits totaling more than 35,000 pages″).

2. Timing of the Request for the Stay

While Apple filed its IPR petition on October 21, 2013, it was not until December 9, 2013, that it requested permission to bring the instant motion, which was filed on December 23, 2013. Dkt. Nos. 36, 39. In the interim, Apple participated in a telephone conference with the court, held in connection with this action on October 22, 2013, to discuss the status of discovery in the case. Text Minute Entry Dated Oct. 22, 2013. During that conference, Apple neglected to inform the court and plaintiffs that it had submitted an IPR petition to the PTO. Instead, the parties discussed the briefing schedule in advance of the claim construction hearing, and Apple pressed to take the deposition of co-inventor Dr. Hsu, an event which would (and did, upon completion) trigger that schedule. Dkt. No. 35. At the motion hearing regarding the pending motion to stay, Apple did not offer a particularly persuasive reason for its lack of candor with the court and plaintiffs during the telephone conference regarding the fact that it filed an IPR petition. More **[*17]** specifically, Apple argued that it would have been ″premature″ to mention the filing because Apple had not yet received, from the PTO, a ″filing date″ of its petition. In contrast to that position, however, Apple repeats throughout its motion papers that it filed its IPR petition on October 21, 2013. Dkt. No. 39-1 at 13; Dkt. No. 39-2 at 3; Dkt. No. 43-4 at 1.

In light of the foregoing, I conclude that Apple's failure to notify the court and plaintiffs of the filing of its IPR petition in a telephone conference in which scheduling was discussed was calculated to secure tactical advantage by obtaining desired discovery while rebuffing plaintiffs' efforts to obtain reciprocal discovery until the stay motion could be interposed. For that reason, I find that this sub-factor also weighs against the granting of a stay.

3. Status of the Review Proceedings

Courts are divided on whether to grant a stay while an IPR petition undergoes initial review by the PTO, or wait until the PTO decides the scope of an IPR trial, if any. Several courts have concluded that the factors relevant to a stay analysis cannot be meaningfully addressed until the PTO determines whether to institute an IPR. In *Automatic* **[*18]** *Mfg. Sys., Inc. I*, for example, the court reasoned that a patent owner should be able to prosecute its claims at least until the PTO has decided it will review any challenged claims ″because a petition does not shed much light on the potential scope of an [IPR], and because a stay could delay [the district court] proceedings for at least six months with little to show.[]″ *Automatic Mfg. Sys., Inc. I*, 2013 U.S. Dist. LEXIS 67790, 2013 WL 1969247, at *3; *see also Ultratec, Inc.*, 2013 U.S. Dist. LEXIS 162459, 2013 WL 6044407, at *3 (denying the defendants' motion to stay because, *inter alia*, ″the fact that the [PTO] has not yet granted the petitions to review the nine patents [at issue] adds an additional layer of doubt whether the [IPR] will even occur″); *Davol*, 2013 U.S. Dist. LEXIS 84533, 2013 WL 3013343, at *2 (finding that, where the status of the defendant's IPR was at its ″earliest stage[]″ (*i.e.*, the PTO had yet to determine whether to institute an IPR), such status weighs against granting a stay). Other courts, on the other hand, have concluded that the plaintiff risks only a modest delay where the court stays pending litigation while awaiting the PTO's initial response to an IPR petition, and that risk of delay is, on balance, prudent in light of the prospect of **[*19]** benefiting from the PTO's unique expertise on a highly complex topic. *See*

Evolutionary Intelligence LLC, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *7 (″On the other hand, if the PTAB rejects the IPR request, the stay will be relatively short.″); *Capriola Corp. v. LaRose Indus.*, No. 12-CV-2346, 2013 U.S. Dist. LEXIS 65754, 2013 WL 1868344, at *3 (M.D. Fla. Mar. 11, 2013) (granting the defendants' motion to stay, citing, as two of its justifications, the fact that (1) ″the PTO . . . will not consume much time unless [it] perceives an important patent issue within the PTO's particular expertise″; and (2) ″an important issue that appears in the litigation also appears to fall within the PTO's province and particular expertise, prudence″).

As was briefly mentioned above, the timetable associated with Apple's IPR three pending petitions is anything but clear. Although Apple filed its first IPR petition on October 21, 2013, rendering plaintiffs' response due by January 21, 2013, and the PTO's decision regarding whether to institute trial due thereafter by April 21, 2013, it has filed two additional IPR petitions on January 3, 2014. Those new petitions potentially extend the date on which to anticipate an initial PTO determination regarding **[*20]** all three IPR petitions to July 3, 2014.[8] It is only once the PTO makes its preliminary decision on IPR institution that the parties and court will know whether the issues in this case will, as defendants contend, be narrowed by a final IPR determination.

Because the PTO has yet to make even an initial determination of the pending IPR petitions, and neither plaintiffs nor Apple can be certain of when the PTO may issue that decision, I conclude that this factor weighs against granting a stay. While sensitive to the expense associated with litigating a patent infringement **[*21]** case, I am unable to conclude that there is a sound basis to place this case on hold during the pendency of the IPR petition and preclude the parties from continuing to engage in pretrial discovery. Until the PTO acts on the pending petition, the court is unable to assess with precision the extent, if at all, to which a decision on the petitions may serve to simplify the issues of this case.[9]

4. Relationship of the Parties

This fourth sub-factor, which examines the relationship between the litigants, is an important consideration when the parties to the infringement litigation are direct competitors. In those cases, ″there is a reasonable chance that delay in adjudicating the alleged infringement will have outsized consequences . . ., including the potential loss of market share and an erosion of goodwill.″ *Davol*, 2013 U.S. Dist. LEXIS 84533, 2013 WL 3013343, at *3 (quotations marks omitted); *see*

[8] That date could be extended even further in light of Apple's argument to the PTO that the dismissal of *Dynamic I* without prejudice rendered that action a nullity for purposes of the AIA procedural scheme. In that potential scenario, according to Apple, it has until June 6, 2014, to file its IPR petitions, rendering all three pending IPR petitions before the PTO timely. Although Apple has represented to the court that it does not intend to file any further IPR petitions, if the PTO agrees with Apple's analysis of the effect of the dismissal of *Dynamic I*, it has the potential to extend the entire IPR timeline by several months.

[9] Additionally, as at least one court has recognized, because the IPR procedures demand the PTO undertake a more strict review of the petitions at the outset than its *inter partes* reexamination predecessor, there is a likelihood that the number of petitions it institutes will be lower. *See Capriola Corp.*, 2013 U.S. Dist. LEXIS 65754, 2013 WL 1868344, at *2 (″Thus, the rate at which the PTAB will grant the [IPR] is likely lower.″). Although not determinative by any means, this theory is supported with the latest statistics from the PTO regarding IPR. Between fiscal years 2013 and 2014, the number of IPR petitions instituted by the PTO decreased by approximately four percent from eighty-seven to eighty-three percent. Patent Trial and Appeal Board, AIA Progress, http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_11_07_2013.pdf **[*22]** (last visited Jan. 15, 2014). Moreover, as plaintiffs argued during the motion hearing regarding the pending motion to stay, it seems only likely that the PTO will continue to decrease the number of IPR petitions it accepts as its caseload grows and the IPR procedures become more familiar to those practicing in this field. To be sure, however, in light of the novelty of the still relatively new IPR procedures, the court is left to speculate regarding the likelihood (or not) of whether a petition will be instituted, and thus I have not afforded this consideration great weight.

also Evolutionary Intelligence LLC, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *8 (″If the parties are not competitors . . ., the plaintiff does not risk irreparable **[*23]** harm by the defendant's continued use of the accused technology and can be fully restored to the *status quo ante* with monetary relief.″). Where, as here, the parties are not direct competitors, as neither RPI nor Dynamic practices the '798 Patent, there is little risk that the plaintiff will suffer irreparable harm through the continued use of accused technology that cannot be compensated through monetary relief. *See Semiconductor Energy Lab. Co. Ltd*., 2012 U.S. Dist. LEXIS 186322, 2012 WL 7170593, at *3 (finding that the plaintiff would not suffer damage to its revenues because it is not a direct competitor of the defendants); *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *8 (finding no risk that the plaintiff would suffer harm in the marketplace, where the record before the court did not support a finding that it practiced the patents at issue). Accordingly, this sub-factor weighs in favor of granting Apple's motion. On balance, however, the four sub-factors comprising the larger prejudice inquiry informing a stay analysis weigh in favor of denying defendant's motion.

C. Simplification of Issues

At first blush, in light of the PTO's recognized technical expertise, the specter that a decision by the PTO will **[*24]** simplify issues in this case during the IPR process is appealing. *See, e.g., e-Watch Inc. v. Avigilon Corp*., No. 13-CV-0347, 2013 U.S. Dist. LEXIS 176807, 2013 WL 6633936, at *2 (S.D. Tex. Dec. 17, 2013) (″The Court finds that it is advantageous for the IPR issues to be addressed first by the PTAB and based on its expertise.″). Also appealing is that, by statute, once an IPR decision has been issued by the PTAB, the petitioner is estopped from challenging the validity of any patent claim in an infringement action on the grounds that it either raised or reasonably could have raised during the course of that review. 35 U.S.C. § 315(e)(2). This, then, suggests that the issues to be addressed in this case will be narrowed by the PTAB's actions.

As enticing as this estoppel rule appears, however, the scope of the IPR process necessarily limits its effect. Even assuming that the PTO institutes IPR on some or all of the '798 Patent claims, the review is limited to invalidity arguments based on anticipation and obviousness, and then only based on prior art consisting of patents or printed publications. 35 U.S. C. § 311(b); *Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763, at *2. Thus, barring a cancellation of all of the claims **[*25]** challenged by Apple,[10] the PTAB's IPR decision will serve to enlighten the parties and the court on a limited number of matters, and estoppel will attach only to the claims Apple asserted or could have reasonably asserted before the PTO.[11]

Moreover, as was noted above, in light of the posture of Apple's IPR petitions, it is not at all clear whether the process will, in fact, simplify any of the issues in this action. The PTO has yet to issue an initial determination regarding whether to institute an IPR trial. The standard for granting review is more exacting than under the prior *inter partes* reexamination procedure. *Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 WL 6133763, at *2; *Capriola Corp*., 2013 U.S. Dist. LEXIS 65754, 2013 WL 1868344, at *2. **[*26]** Accordingly, if review is granted, it follows that there is a strong likelihood that the PTAB's decision will simplify the issues, but only in

[10] Of course, if the PTO accepts the IPR petition in full, thus choosing to reexamine all of the twenty-one claims of the '798 Patent, and the PTAB concludes those claims are invalid, then the issues in this case would not only be simplified, plaintiffs' claims in their entirety would be rendered moot. *Evolutionary Intelligence LLC*, 2013 U.S. Dist. LEXIS 178547, 2013 WL 6672451, at *6.

[11] For example, Apple's invalidity claim under 35 U.S.C. § 112 cannot be adjudicated by the PTAB, and thus would remain for trial regardless of the outcome of IPR.

connection with invalidity defenses based on anticipation and obviousness. Of course, on the other hand, this elevated standard for granting IPR may result in a smaller percentage of trials instituted, than was the case under the former regime. *Universal Elecs., Inc.*, 943 F. Supp. 2d at 1033; *Capriola Corp.*, 2013 U.S. Dist. LEXIS 65754, 2013 1868344, at *2; *accord, Automatic Mfg. Sys., Inc. II*, 2013 U.S. Dist. LEXIS 165692, 2013 6133763, at *2. Once again, the court is reminded that plaintiff's prediction that the number of IPR petitions accepted for trial will decrease over time is supported by the currently available statistics regarding IPR petitions. In fiscal year 2014, the PTO instituted approximately four percent less IPR trials than it did for the previous year. Patent Trial and Appeal Board, AIA Progress, http://www.uspto.gov/ip/boards/bpai/stats/aia_statistics_11_07_2013.pdf (last visited Jan. 15, 2014).

The plaintiffs have invited the court to evaluate the merits of Apple's invalidity contentions and predict that, applying the more strict standard for review under the AIA, the PTO will reject **[*27]** Apple's IPR petitions for trial. Plaintiffs have submitted an expert declaration in support of their position that the PTO will likely deny the petitions outright. Dkt. No. 41-2. I have found no authority, however, to suggest that a court, lacking the expertise of the PTO, should examine the strength of a petitioner's claims of invalidity asserted in an IPR petition when addressing a motion to stay. Accordingly, I decline to make any determination regarding the likelihood that the IPR petitions may be instituted, other than to acknowledge the statistics made available by the PTO, which, at least for now, suggest that it is more likely than not that IPR will be instituted.

In summary, I find that whether any issues attendant to this litigation may simplified through the IPR process is speculative primarily in light of the fact the PTO has yet to accept or deny Apple's petitions for further review. *See Ultratec, Inc.*, 2013 U.S. Dist. LEXIS 162459, 2013 WL 6044407, at *4 (″[T]he fact that the [PTO] has not yet granted the petitions to review the nine patents adds an additional layer of doubt whether the [IPR] will even occur, let alone whether it will simplify the issues or reduce the burden of litigation for the parties **[*28]** or the court.″); *Automatic Mfg. Sys., Inc. I*, 2013 U.S. Dist. LEXIS 67790, 2013 WL 1969247, at *3 (″[I]t seems clear that a stay of a patent infringement action is not warranted when based on nothing more than the fact that a petition for [IPR] was filed in the [PTO].″). Accordingly, I find that this second factor informing the stay analysis weighs in favor of denying defendant's motion at this time.

D. Status of This Action

The last relevant factor for consideration by the court when deciding a party's motion to stay focuses on the stage of the litigation proceedings, and whether discovery is complete and a trial date has been set. *Xerox Corp.*, 69 F. Supp. at 406-07. The clear import of this factor is the need to ensure that proceedings in the context of the litigation are not meaningless. The court, however, is charged with the duty to control its docket and to satisfy its obligation to ″secure the just, speedy, and inexpensive determination of every action.″ Fed. R. Civ. P. 1; *see also Comcast Cable Commc'ns Corp., LLC v. Finisar Corp.*, No. 06-CV-4206, 2007 U.S. Dist. LEXIS 28994, 2007 WL 1052883, at *1 (N.D. Cal. Apr. 5, 2007) (″If litigation were stayed every time a claim in suit undergoes reexamination, federal infringement actions would **[*29]** be dogged by fits and starts.″); *accord, Universal Electronics, Inc.*, 943 F. Supp. 2d at 1035. The plaintiffs, like any other litigant, are entitled to the benefit of this rule. I am, of course, sensitive to the economics accompanying patent litigation, as well as the need to avoid wasteful litigation and conserve party and court resources.

This action has been pending for more than a year when considering the relation-back to the filing of

its predecessor action, *Dynamic I*. The parties are winding their way through fact discovery and the claim construction process. Apple has failed to provide justification for halting the claim construction process, at least prior to determination of whether IPR will be granted. The focus of the PTAB in such a proceeding is upon validity; even if an IPR is conducted, that administrative body will not engage in claim construction. In making its determination, the PTAB is mandated to accord claim terms their broadest possible construction. 37 C.F.R. § 42.100(b). In the event that communications between the parties and the PTAB, or the PTAB, in any final decision, provides insights into claim construction, the court may take them into account even after **[*30]** a claim construction ruling because it retains the power to modify its claim constructions in an infringement action up until the time a jury renders its verdict. *Pfizer, Inc. v. Teva Pharms., USA, Inc.*, 429 F.3d 1364, 1377 (Fed. Cir. 2005). In light of the fact that the disputed terms now raised for construction by the court go to the heart of the claims in this case, with nine of ten being found in one or both of the two independent claims in the ’798 Patent, *Dynamic I*, No. 12-CV-1579, Dkt. No. 58, unless the petition is granted and all twenty-one claims are invalidated, it does not appear that the claim construction exercise will be a waste of time and resources. Accordingly, all things considered, the current posture of this case is a neutral factor, weighing neither in favor of nor against granting defendant’s motion.

IV. SUMMARY AND ORDER

Applying the relevant factors, and in consideration of the totality of the circumstances, I find that Apple has failed to carry its burden of establishing that a stay should be granted at this juncture, prior to a decision by the PTO on whether to accept the matter for IPR. Accordingly, it is hereby

ORDERED that defendant’s motion for a stay of **[*31]** this action (Dkt. No. 39) is DENIED, without prejudice to renewal after the PTO has acted upon the pending petitions for *inter partes* review.

Dated: January 15, 2014

Syracuse, New York

/s/ David E. Peebles

DAVID E. PEEBLES

U.S. MAGISTRATE JUDGE

Va. Innovation Scis., Inc. v. Samsung Elecs. Co.

United States District Court for the Eastern District of Virginia, Norfolk Division

May 2, 2014, Decided; May 2, 2014, Filed

Case No.: 2:12cv548

Reporter
983 F. Supp. 2d 713; 2014 U.S. Dist. LEXIS 62640; 2014 WL 1775573

VIRGINIA INNOVATION SCIENCES, INC., Plaintiff, v. SAMSUNG ELECTRONICS CO., LTD., ET AL., Defendants.

Prior History: Va. Innovation Scis., Inc. v. Samsung Elecs. Co., 983 F. Supp. 2d 713, 2014 U.S. Dist. LEXIS 14984 (E.D. Va., 2014)

Case Summary

Overview

HOLDINGS: [1]-Reconsideration of a summary judgment ruling as to the validity of certain patents on the basis of partially different preliminary decisions regarding the same patents subsequently issued by the Patent Trial and Appeal Board (PTAB) during an inter partes review was not warranted because the PTAB's decision was not binding as it was a threshold ruling and not the result of a trial, the PTAB used different claim construction and other legal standards, and there was no showing that the court's summary judgment ruling was clearly erroneous or that it would work a manifest injustice if not revised; [2]-Even if the court reconsidered its ruling in light of the PTAB's decisions, the court would have reached the same conclusions, and the fact that the PTAB arrived at a different conclusion when using a different claim construction did not show that the court was erroneous.

Outcome

Motion denied.

Counsel: **[**1]** For Virginia Innovation Sciences, Inc., Plaintiff: Aaron Ward Purser, Timothy E. Grochocinski, LEAD ATTORNEYS, PRO HAC VICE, Joseph Paul Oldaker, PRO HAC VICE, InnovaLaw, P. C., Orland Park, IL; W. Ryan Snow, LEAD ATTORNEY, David Caldwell Hartnett, Crenshaw Ware & Martin PLC, Norfolk, VA; Anthony Michael Vecchione, Edward E Casto , Jr, Edward R Nelson , III, Jonathan Hart Rastegar, Thomas C Cecil, PRO HAC VICE, Nelson Bumgardner Casto, P. C., Fort Worth, TX; Claire Abernathy Henry, Thomas John Ward , Jr, PRO HAC VICE, Ward & Smith Law Firm, Longview, TX.

For Samsung Electronics Co., LTD., Samsung Electronics America, Inc., Samsung Telecommunications America, LLC., Defendants: Brett Johnston Williamson, Cameron William Westin, Sanjeev B Mehta, PRO HAC VICE, O'Melveny & Meyers LLP, Newport Beach, CA; Brian Berliner, Marc M. Breverman, PRO HAC VICE, O'Melveny & Myers LLP, Los Angeles, CA; Eric Samuel Namrow, PRO HAC VICE, O'Melveny & Myers LLP (DC-NA), Washington, DC; Robert William McFarland, Sarah Kate McConaughy, McGuireWoods LLP (Norfolk), Norfolk, VA; Susan van Keulen, PRO HAC VICE, O'Melveny & Myers LLP, Menlo Park, CA.

For Samsung Electronics America, Inc., Samsung Electronics Co., **[**2]** LTD., Samsung Telecommunications America, LLC., Counter Claimants, Counter Defendants: Robert William

McFarland, Sarah Kate McConaughy, McGuireWoods LLP (Norfolk), Norfolk, VA.

For Samsung Electronics Co., LTD., Counter Claimant: Brett Johnston Williamson, Cameron William Westin, O'Melveny & Meyers LLP, Newport Beach, CA; Brian Berliner, Marc M. Breverman, O'Melveny & Myers LLP, Los Angeles, CA; Eric Samuel Namrow, O'Melveny & Myers LLP (DC-NA), Washington, DC; Sanjeev B Mehta, PRO HAC VICE, O'Melveny & Meyers LLP, Newport Beach, CA; Sarah Kate McConaughy, McGuireWoods LLP (Norfolk), Norfolk, VA; Susan van Keulen, O'Melveny & Myers LLP, Menlo Park, CA.

For Virginia Innovation Sciences, Inc., Counter Defendant:Aaron Ward Purser, Timothy E. Grochocinski, LEAD ATTORNEYS, Joseph Paul Oldaker, PRO HAC VICE, InnovaLaw, P. C., Orland Park, IL; W. Ryan Snow, LEAD ATTORNEY, David Caldwell Hartnett, Crenshaw Ware & Martin PLC, Norfolk, VA; Anthony Michael Vecchione, Edward E Casto , Jr, Edward R Nelson , III, Jonathan Hart Rastegar, Thomas C Cecil, Nelson Bumgardner Casto, P. C., Fort Worth, TX; Claire Abernathy Henry, Thomas John Ward , Jr, PRO HAC VICE, Ward & Smith Law Firm, Longview, TX.

Judges: Mark S. Davis **[**3]** , UNITED STATES DISTRICT JUDGE.

Opinion by: Mark S. Davis

Opinion

[*749] **OPINION AND ORDER**

Plaintiff, Virginia Innovation Sciences, Inc. (″Plaintiff″ or ″VIS″), asks this Court to reconsider its January 8, 2014 summary judgment Order granting, in part, the summary judgment motion of invalidity filed by defendants, Samsung Electronics Co., Ltd., Samsung Electronics America, Inc., and Samsung Telecommunications America, LLC (collectively ″Samsung″ or ″Defendants″). ECF No. 416. Plaintiff asserts that new evidence justifies reconsideration of the summary judgment Order because, during the course of an *inter partes* review (″IPR″) proceeding, the United States Patent and Trademark Office's (″PTO″) Patent Trial and Appeal Board (″PTAB″) issued preliminary decisions regarding institution of IPR on the patents-in-suit, with conclusions that are partially different from this Court's summary judgment Order. The motion has been fully briefed and is therefore ripe for decision.[1]

I. FACTUAL AND PROCEDURAL BACKGROUND

A. General Background

At issue in this case are five [2] patents: U.S. Patent No. 7,899,492 (″the '492 patent″), U.S. Patent No. 8,050,711 (″the '711 patent″), U.S. Patent No. 8,145,268 (″the '268 patent″), U.S. Patent No. 8,224,381 (″the '381 patent″), and U.S. Patent No. 8,135,398 (″the '398 patent″). All of the patents-in-suit are continuations or continuations-in-part of the '492 patent, titled ″Methods, Systems and Apparatus for Displaying the Multimedia Information from **[*750]** Wireless Communication Networks.″ The patents-in-suit address the conversion of mobile terminal multimedia signals into a format for use by an alternative display, and each of the patents-in-suit describes inventions intended to resolve the inconvenience and impracticability of viewing

[1] On April 10, 2014, the Court held a hearing on the motion for reconsideration, but the hearing focused more on issues relating to the *inter partes* review, and its effect on pending district court proceedings, than the substance of the motion **[**4]** to reconsider. Hr'g Tr., ECF NO. 554.

[2] Previously, there were six patents at issue in this case. However, U.S. Patent No. 7,957,733 (″the '733 patent″) is no longer asserted as infringed. Agreed Dismissal Order, ECF No. 408.

multimedia content on the small screens of mobile terminals.

In the instant patent infringement action, filed on October 4, 2012, 2:12cv548 (hereinafter ″VIS I″), Plaintiff alleges **[**5]** that Defendants have directly, indirectly, and willfully infringed the patents-in-suit by making, using, offering for sale, selling, and/or importing a wide range of accused products, including smartphones, tablets, Blu-ray players, and hubs. Pl.'s Am. Compl., ECF No. 121. Samsung denies VIS's claims of infringement and asserts several affirmative defenses, including invalidity or unenforceability of all patents-in-suit, prosecution history estoppel, and other equitable doctrines. Additionally, Samsung asserts counterclaims seeking declarations of non-infringement, invalidity, and unenforceability for each of the patents-in-suit.

On June 14, 2013, three days after the Court conducted a Markman hearing, Plaintiff filed a second patent infringement action, 2:13cv332 (hereinafter ″VIS II″), alleging essentially the same causes of action as in VIS I, but with respect to Defendants' newly released products. Case No. 2:13cv332, ECF No. 1. In response, Samsung asserted essentially the same defenses and counterclaims as in VIS I. By Order of October 25, 2013, the Court joined for trial VIS I and VIS II, as the matters involve the same parties and the same patents-in-suit. ECF. No. 353. The **[**6]** Court then issued a new scheduling Order for the joined cases, and rescheduled the November 12, 2013 trial to April 21, 2014. Case No. 2:13cv332, ECF No. 63. Pursuant to that scheduling Order, the parties narrowed the issues for trial and Plaintiff made its final election of claims it would assert at trial, none of which is the subject of Plaintiff's motion for reconsideration. The April 21, 2014 trial of the two joined cases has been continued to May 27, 2014.

B. Summary Judgment and IPR

On August 13, 2013, Defendants filed a motion for summary judgment in this Court, seeking, among other things, a ruling of invalidity as to the patents-in-suit. On January 8, 2014, the Court ruled on Defendants' summary judgment motion in VIS I; granting, in part, and denying, in part, such motion. ECF No. 413. The Court found no willful infringement of any claims, and also found claims 21, 22, 25, 28, and 29 of the '268 patent, and claims 15, 60, 61 and 62 of the '398 patent, invalid as anticipated or obvious. Id. It is these findings of invalidity that Plaintiff asks the Court to reconsider, particularly the invalidity finding of claim 21 of the '268 patent as anticipated by prior art reference ″Palin.″

On **[**7]** September 5, 2013, at the same time VIS I and VIS II were proceeding before this Court, and while Defendant's summary judgment motion seeking a ruling of invalidity was pending, Defendants began parallel proceedings before the PTO directly challenging the validity of the patents-in-suit. Shortly thereafter, on September 16, 2013, Defendants submitted to the PTO corrected petitions seeking IPR of 37 claims from the five patents-in-suit. Because the Director of the PTO has delegated the authority to institute IPR to the PTAB, the IPR petitions were submitted to the PTAB for consideration. Each of the claims that Defendants asked this Court to find invalid in their August 13, 2013 summary judgment motion of invalidity were included in the 37 claims that Defendants asked the three judge panel of **[*751]** the PTAB to find invalid in Defendants' September 16, 2013 IPR petitions.

Although the parties to this litigation notified the PTAB of the August 13, 2013 summary judgment motion pending before this Court, neither party advised this Court of the concurrent IPR petitions or requested a stay of Court proceedings pending a decision from the PTAB. Thus, on January 8, 2014, this Court issued its 72 page **[**8]** Opinion and Order ruling on the validity of the patents-in-suit without any knowledge that the exact same issues were the subject of an IPR petition pending before a three judge panel of the PTAB.

On March 6, 2014, the PTAB rendered its decisions regarding whether to instate IPR review of the five patents-in-suit, granting the request to review three of the patents ('268, '381, and '398), and denying the request to review two of the patents ('492 and '711). Pl.'s Reconsideration Mem., Exs. 1-5, ECF No. 417. Approximately one week later, the Court was finally apprised of the IPR proceedings when Plaintiff filed its motion for reconsideration of the Court's summary judgment ruling. ECF. No. 416. Plaintiff's brief in support of its motion highlights the substantive analysis included within the PTAB's decisions and argues that such rulings constitute ″new evidence that was not available prior to this Court's Summary Judgment Order.″ Pl.'s Reconsideration Mem. 2, ECF No. 417. Moreover, Plaintiff argues that the PTAB's decisions should be afforded deference based on the PTAB's specialized knowledge and expertise. Id. at 4.

II. IPR AND THE DUTY OF CANDOR

Before addressing the motion to reconsider, **[**9]** the Court must address the IPR provisions of the Leahy-Smith America Invents Act (″AIA″), Pub. L. No. 112-29, 125 Stat. 284 (2011), codified at 35 U.S.C. §§ 311-319, and the impact of the IPR proceedings on the district court proceedings.

A. The IPR Procedure

The IPR procedure enacted by Congress in 2011 allows third parties to challenge a patent's validity by seeking IPR. ″The IPR process set out in the AIA represents a 'new, more streamlined adjudicative proceeding' intended to replace the more cumbersome and time-consuming *inter-partes* reexamination that could take upwards of three years to conclude.″ Rensselaer Polytechnic Institute v. Apple Inc., No. 1:13cv633, 2014 U.S. Dist. LEXIS 5186, at *5 (N.D.N.Y. Jan. 15, 2014) (hereinafter ″Rensselaer″) (quoting Ultratec, Inc. v. Sorenson Commc'ns, Inc., No. 13-CV-346, 2013 U.S. Dist. LEXIS 162459, at *3 (W.D. Wisc. Nov. 14, 2013)); see Abbott Labs. v. Cordis Corp., 710 F.3d 1318, 1326 (Fed. Cir. 2013) (recognizing that the AIA changed the PTO's review process from ″an examinational to an adjudicative proceeding″) (emphasis added). IPR ″is designed to improve upon the previous *inter partes* re-examination process by '(1) . . . reduc[ing] **[**10]** to 12 months the time the PTO spends reviewing validity, from the previous reexamination average of 36.2 months; (2) . . . minimiz[ing] duplicative efforts by increasing coordination between district court litigation and *inter partes* review; and (3) . . . allow[ing] limited discovery in the review proceedings.'″ Automatic Mfg. Sys., Inc. v. Primera Technology, Inc., No. 6:12cv1727, 2013 U.S Dist. LEXIS 165692, at *5 (M.D. Fla. November 21, 2013) (quoting Universal Elecs., Inc. v. Universal Remote Control, Inc., 943 F. Supp. 2d 1028, 1029-30 **[*752]** (C.D. Cal. 2013))[3] (alteration in original).

″Under the procedures governing IPR, which became effective on September 16, 2012, a request for review must be filed by the petitioner within one year of being served with a complaint alleging infringement of the patent in issue.″ Rensselaer, 2014 U.S. Dist. LEXIS 5186, at *5 **[**11]** (citing 35 U.S.C. § 315(b)). ″On *inter partes review*, a petitioner can challenge the validity of a patent only on grounds that could be raised under 35 U.S.C. § 102 (prior art) or 35 U.S.C. § 103 (obviousness), and only then 'on the basis of prior art consisting of patents or printed publications.'″ Automatic Mfg. Sys., 2013 U.S. Dist. LEXIS 165692, at *5-6 (quoting 35 U.S.C. § 311(b)). ″Once an IPR petition is filed, the patent owner may submit a preliminary response within three months, or may instead expedite the process by waiving the right to submit a preliminary

[3] In Universal Electronics, the Court's summary of the improvements resulting from the new IPR procedure relied on Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48,680 (Aug. 14, 2012) (codified at 37 C.F.R. §§ 42.100 et seq.).

response." Rensselaer, 2014 U.S. Dist. LEXIS 5186, at *6 (citing 35 U.S.C. § 313; 37 C.F.R. § 42.107(b)). "An IPR trial may be initiated by the PTO if the petitioner demonstrates a reasonable likelihood of prevailing with respect to at least one challenged claim." 2014 U.S. Dist. LEXIS 5186, [WL] at *7 (citing 35 U.S.C. § 314(a)). "The PTO must decide whether to institute IPR within three months of the filing of the preliminary response, or, if no response is filed, [within three months of] [] the last date on which a response may be filed." Evolutionary Intelligence LLC v. Yelp Inc., No. 13-CV-3587, 2013 U.S. Dist. LEXIS 178547, at *7 (N.D. Cal. Dec. 18, 2013) **[**12]** (citing 35 U.S.C. § 314(b)). "The Director [of the PTO], by regulation, has delegated to the [PTAB] the authority under section 314 to decide whether to institute an *inter partes* review." St. Jude Medical, Cardiology Div., Inc. v. Volcano Corp., No. 2014-1183, 749 F.3d 1373, 2014 U.S. App. LEXIS 7731, at *4 n.1 (Fed. Cir. Apr. 24, 2014) (citing 37 C.F.R. §§ 42.4 & 42.108). Accordingly, when the PTAB makes "the review-instituting decision, it is exercising the Director's section 314 authority." Id.

As the Rensselaer court noted, "[u]nlike the prior *inter partes* reexamination proceeding, which was accomplished largely through submissions before a PTO examiner, IPR under the AIA is conducted before a panel of three of the technically-trained administrative judges comprising the Patent Trial and Appeal Board ('PTAB')." Rensselaer, 2014 U.S. Dist. LEXIS 5186, at *7-8 (citing 35 U.S.C. § 6(a), (c)). "On review, [this PTAB three judge panel of] the PTO can invalidate any claim before it, and the petitioner is collaterally estopped from later asserting in a civil action 'that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that *inter partes* review.'" Automatic Mfg. Sys., 2013 U.S. Dist. LEXIS 165692, at *6 **[**13]** (citing 35 U.S.C. § 315(e)(2)). If the "IPR is initiated, the PTAB must issue a final determination within one year after commencement, although that period may be extended, for good cause, to eighteen months." Rensselaer, 2014 U.S. Dist. LEXIS 5186, at *8 (citing 35 U.S.C. § 316(a)(11)). Any "party dissatisfied with the PTAB's final decision may appeal the determination to the Federal Circuit." Id. (citing 35 U.S.C. § 141). **[*753]** "Given this timeframe, IPR can take [up to] two years before the PTO, and an appeal to the Federal Circuit can extend that timeline further." Id. Of course, IPR can also take less than two years under these timeframes, and the preclusive effect of a PTAB final determination is triggered when the PTAB issues its final written decision - regardless of whether an appeal is taken to the Federal Circuit. Compare 35 U.S.C. §§ 315(e), 318, and 319 (triggering estoppel upon issuance of PTAB final determination on IPR), with Bettcher Indus., Inc. v. Bunzl USA Inc., 661 F.3d 629, 642-47 (Fed. Cir. 2011) (triggering estoppel when all court review of *inter partes* reexamination determination has been exhausted).

The impact of the new IPR procedure is only beginning to be experienced. **[**14]** Empirical data as of April 17, 2014 reflect that, in fiscal year 2013, there were 203 decisions issued by the PTAB regarding institution of *inter partes* review. Patent Trial and Appeal Board, AIA Progress, http://www.uspto.gov/ip/boards/bpai/stats/041714_aia_stat_graph.pdf. Of the 203, trials were instituted in 167, 10 were joined with existing proceedings, and 26 were denied - meaning that trial was instituted in approximately 87% of the cases. Id. Thus far in fiscal year 2014, there were 335 decisions issued by the PTAB regarding institution of *inter partes* review. Id. Of the 335, trials were instituted in 267, 1 was joined with an existing proceeding, and 67 were denied - meaning that the percentage of trials instituted dropped somewhat to approximately 80%. Id.

B. Impact of IPR on District Court Litigation

A party simultaneously litigating a patent infringement case in federal court and an IPR

proceeding before the PTAB must consider the impact of each proceeding on the other. For example, the AIA provides that ″[i]f the petitioner or real party in interest files a civil action challenging the validity of a claim of the patent on or after the date on which the petitioner files a **[**15]** petition for inter partes review of the patent, that civil action will be automatically stayed until either the patent owner moves the court to lift the stay, the patent owner files a civil action or counterclaim alleging that the petitioner or real party in interest has infringed the patent, or the petitioner or real party in interest moves the court to dismiss the civil action.″ 60 Am. Jur. 2d Patents § 411 (2014) (citing 35 U.S.C. § 315(a)(2)). However, ″[a] counterclaim challenging the validity of a claim of a patent does not constitute a civil action challenging the validity of a claim of a patent″ within the meaning of 35 U.S.C. § 315(a)(2). Id. (citing 35 U.S.C. § 315(a)(3)). Therefore, when an IPR petition is filed by a party to district court patent infringement litigation involving invalidity counterclaims, the AIA does not contain a mandatory provision requiring a stay of the district court patent infringement proceedings.[4] Accordingly, the decision **[*754]** of whether to stay the district court proceedings in such a scenario is left to the district court's discretion - that is, if the district court knows about the IPR proceeding. See Proctor & Gamble Co. v. Kraft Foods Global, Inc., 549 F.3d 842, 848-49 (Fed. Cir. 2008) **[**16]** (″The Supreme Court has long recognized that district courts have broad discretion to manage their dockets, including the power to grant a stay of proceedings.″).

Here, it seems obvious to this Court that VIS and Samsung should have notified the Court that IPR petitions were filed in **[**18]** September 2013, and that such IPR petitions addressed the same assertions of invalidity that were then being considered by the Court. However, because counsel for both parties assert that it never occurred to them that they had a duty to notify this Court, it is necessary to review such duty and remind counsel of their obligation to the Court with respect to such duty.[5]

1. Duty of Candor and Good Faith

[4] When the AIA was introduced as H.R. 1249 in the House of Representatives, it contained a section 320, describing criteria a district court should use in deciding whether to grant a stay of such litigation. However, section 320 was later omitted by amendment before the AIA was adopted. Section 320 provided that: ″If a party seeks a stay of a civil action alleging infringement of a patent under section 281, or a proceeding before the International Trade Commission under sectionk 337 of the Tariff Act of 1930, relating to an inter partes review under this chapter, the court shall decide whether to enter a stay based on (1) whether a stay, or the denial thereof, will simplify the issues in question, and streamline the trial; (2) whether discovery is complete and whether a trial date has been set; (3) whether a stay, or the denial thereof, would unduly prejudice the non-moving party or present a clear tactical advantage for the moving party; and (4) whether a stay, or the denial thereof, will reduce the burden of litigation on **[**17]** the parties and on the court.″ H.R. Doc. No. 112-35 at 16 (2011). The omission of such provision from the final version of the statute means that a district court remains free to use its own discretion, and appropriate factors, in exercising its inherent power to grant or deny a stay. See Proctor & Gamble Co. v. Kraft Foods Global, Inc., 549 F.3d 842, 849 (Fed. Cir. 2008) (explaining that former 35 U.S.C. § 318 involving reexamination only supplemented the ″inherent power of the district courts to grant a stay pending reexamination of a patent″); see also Cherokee Nation of Oklahoma v. United States, 124 F.3d 1413, 1416 (Fed. Cir. 1997) (describing balancing test for staying action); Peschke Map Techs., LLC v. J.J. Gumberg Co., Civ. Nos. 12-1525, 1527, 1528, 1530, 1572 & 1574, 2014 U.S. Dist. LEXIS 57113, at *5 (D. Del. Apr. 24, 2014) (granting stay pending PTAB *inter partes* review); ePlus, Inc. v. Lawson Software, Inc., No. 3:09cv620, 2010 U.S. Dist. LEXIS 31322, *5 (E.D. Va. Mar. 31, 2010) (applying stay standard in patent case involving patent reexamination).

[5] During the April 10, 2014 hearing before this Court, Plaintiff stated that the failure to advise this Court of the pending PTAB proceeding was not intentional, and that counsel had never even discussed or considered whether they should advise the Court of the concurrent PTAB proceeding. Hr'g Tr. 7-8, ECF No. 554. In a post-hearing brief, VIS later stated that ″Samsung raised its intention to file IPR requests when the parties met with Magistrate Judge Miller on August 29, 2013 for a settlement conference in VIS I.″ ECF No. 558. The Court takes the parties at their word regarding their assertions that they did not intend to conceal such PTAB proceedings when they failed to advise this Court of the IPR. However, it must be noted that the discussions that occur during settlement conferences are confidential. In order to **[**19]** encourage the parties to enter into candid and fulsome discussions, the district judge and magistrate judge

This Court has adopted a local rule regarding the ethical standards applicable to cases before the Court. It provides that ″[t]he ethical standards relating to the practice of law in civil cases in this Court shall be Section II of Part Six of the Rules of the Virginia Supreme Court as it may be amended or superseded from time to time.″ E.D. Va. Loc. Civ. R. 83.1. Rule 3.3 of those Rules of **[**20]** Professional Conduct is entitled ″Candor Toward The Tribunal.″ Va. Rule Prof'l Conduct 3.3. Subsection (a)(2) of that Rule provides that ″[a] lawyer **[*755]** shall not knowingly . . . fail to disclose a fact to a tribunal when disclosure is necessary to avoid assisting a criminal or fraudulent act by the client.″ Id. Comment 1 to the Rule observes that ″[t]he advocate's task is to present the client's case with persuasive force. Performance of that duty while maintaining confidences of the client is qualified by the advocate's duty of candor to the tribunal.″ Id. Comment 3 to the Rule, entitled ″Representations by a Lawyer,″ further provides that ″[t]here are circumstances where failure to make a disclosure is the equivalent of an affirmative misrepresentation.″ Id. In addition to the Rule 3.3 duty of candor, there is also a broader general duty of candor and good faith that encompasses an attorney's duty to advise a district court of any development that may affect the outcome of the litigation. United States v. Shaffer Equip. Co., 11 F.3d 450, 457-59 (4th Cir. 1993). These general principles, and the relationship between this general duty to advise and the Rule 3.3 duty of candor, have been **[**21]** discussed at length by the United States Court of Appeals for the Fourth Circuit.

In the following passage from Shaffer Equipment,[6] the Fourth Circuit explained how these two duties apply:

> It appears that the district court, in finding that the government's attorneys violated a duty of candor to the court, applied the general duty of candor imposed on all attorneys as officers of the court, as well as the duty of candor defined by Rule 3.3. Although the court referred to Rule 3.3, it also described the duty of candor more broadly as that duty attendant to the attorney's role as an officer of the court with a ″continuing duty to inform the Court of any development which may conceivably affect the outcome of litigation.″ [United States v. Shaffer Equip. Co., 796 F. Supp. 938, 950 (S.D. W. Va. 1992).] It concluded, ″Thus, attorneys are expected to bring directly before the Court all those conditions and circumstances which are relevant in a given case.″ Id. In its brief, the government did not address the existence, nature, and scope of any general duty of candor and whether its attorneys violated that duty. Nevertheless, we are confident that a general duty of candor to the court exists **[**22]** in connection with an attorney's role as an officer of the court.
>
> Our adversary system for the resolution of disputes rests on the unshakable foundation that truth is the object of the system's process which is designed for the purpose of dispensing justice. However, because no one has an exclusive insight into truth, the process depends on the adversarial presentation of evidence, precedent and custom, and argument

co-assigned to cases do not discuss the substance of such settlement conferences. This policy is reflected in the Settlement Conference Order entered by Judge Miller on July 24, 2013, which provides that ″[t]he undersigned will not disclose the information received during the settlement conference to anyone without the permission of the party providing the information.″ ECF No. 118. Moreover, E.D. Va. Loc. Civ. Rule 83.6(E) describes the rules governing mediation, including settlement conferences, and provides that ″[t]he substance of communications in the mediation process shall not be disclosed to any person other than participants in the mediation process.″

[6] In Shaffer Equipment, the district court found that government attorneys breached their duty of candor in their efforts to recover the EPA's costs of cleaning up a hazardous waste site. The EPA on-site coordinator misrepresented his academic achievements and credentials and the government's attorneys wrongfully obstructed the defendants' efforts to ″root out the discrepancies and failed to reveal them once they learned of them.″ 11 F.3d 450, 452.

to reasoned conclusions—all directed with unwavering effort to what, in good faith, is believed to be true on matters material to the disposition. Even the slightest accommodation of deceit or a lack of candor in any material respect quickly erodes the validity of the process. As soon as the process falters in that respect, the people are then justified in abandoning support for the system in favor of one where honesty is preeminent.

While no one would want to disagree with these generalities about the obvious, **[*756]** it is important to reaffirm, on a general basis, the principle that lawyers, who serve as officers of the court, have the first line task of assuring the integrity of the process. Each lawyer undoubtedly has an important duty of confidentiality to his client and must **[**23]** surely advocate his client's position vigorously, but only if it is truth which the client seeks to advance. The system can provide no harbor for clever devices to divert the search, mislead opposing counsel or the court, or cover up that which is necessary for justice in the end. It is without note, therefore, that we recognize that the lawyer's duties to maintain the confidences of a client and advocate vigorously are trumped ultimately by a duty to guard against the corruption that justice will be dispensed on an act of deceit. See 1 Geoffrey C. Hazard, Jr. and W. William Hodes, The Law of Lawyering 575-76 (1990) (″Where there is danger that the tribunal will be misled, a litigating lawyer must forsake his client's immediate and narrow interests in favor of the interests of the administration of justice itself.″).

While Rule 3.3 articulates the duty of candor to the tribunal as a necessary protection of the decision-making process, see Hazard at 575, and Rule 3.4 articulates an analogous duty to opposing lawyers, neither of these rules nor the entire Code of Professional Responsibility displaces the broader general duty of candor and good faith required to protect the integrity of **[**24]** the entire judicial process. The Supreme Court addressed this issue most recently in Chambers v. NASCO, Inc., 501 U.S. 32, 115 L. Ed. 2d 27, 111 S. Ct. 2123 (1991). There, an attorney had taken steps to place certain property at issue beyond the jurisdiction of the district court and had filed numerous motions in bad faith, simply to delay the judicial process. The district court, the court of appeals, and the Supreme Court all agreed that neither Federal Rule of Civil Procedure 11 (subjecting to sanction anyone who signs a pleading in violation of the standards imposed by the rule) nor 28 U.S.C. § 1927 (subjecting to sanction anyone who ″multiplies the proceedings . . . unreasonably and vexatiously″) could reach the conduct. However, the Supreme Court accepted the district court's reliance on the inherent power to impose sanctions, rejecting arguments that Rule 11 and § 1927 reflect a legislative intent to displace a court's power to vacate a judgment upon proof that a fraud has been perpetrated upon the court:

> We discern no basis for holding that the sanctioning scheme of the statute [28 U.S.C. § 1927] and the rules displaces the inherent power to impose sanctions for the bad faith **[**25]** conduct described above. These other mechanisms, taken alone or together, are not substitutes for the inherent power, for that power is both broader and narrower than other means of imposing sanctions. First, whereas each of the other mechanisms reaches only certain individuals or conduct, the inherent power extends to a full range of litigation abuses. At the very least, the inherent power must continue to exist to fill in the interstices.

[Chambers,] 501 U.S. at [46,] 111 S. Ct. at 2134 (emphasis added).

The general duty of candor and truth thus takes its shape from the larger object of

preserving the integrity of the judicial system. For example, in Tiverton Board of License Commissioners v. Pastore, 469 U.S. 238, 83 L. Ed. 2d 618, 105 S. Ct. 685 (1985), counsel failed to apprise the Supreme Court that during the appeal process, one of the respondents, **[*757]** a liquor store challenging the admission of evidence at a Rhode Island liquor license revocation proceeding, had gone out of business, rendering the case moot. Rebuking counsel for failing to comply with a duty of candor broader than Rule 3.3, the Supreme Court stated, ″It is appropriate to remind counsel that they have a 'continuing **[**26]** duty to inform the Court of any development which may conceivably affect the outcome' of the litigation.″ Id. at 240 (quoting Fusari v. Steinberg, 419 U.S. 379, 391, 42 L. Ed. 2d 521, 95 S. Ct. 533 (1975) (Burger, C.J. concurring)) (emphasis added).

The general duty to preserve the integrity of the judicial process was similarly identified in Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238, 88 L. Ed. 1250, 64 S. Ct. 997, 1944 Dec. Comm'r Pat. 675 (1944). Without the support of any rule, the Court opened up a longstanding judgment because one of the litigants had introduced a document at trial which was later discovered to be fraudulent. The Supreme Court stated,

> It is a wrong against the institutions set up to protect and safeguard the public, institutions in which fraud cannot complacently be tolerated consistently with the good order of society. Surely it cannot be that preservation of the integrity of the judicial process must always wait upon the diligence of litigants. The public welfare demands that the agencies of public justice be not so impotent that they must always be mute and helpless victims of deception and fraud.

Id. at 246 (emphasis added).

Shaffer Equip., Co., 11 F.3d at 457-59; see also **[**27]** Aptix Corp. v. Quickturn Design Sys., Inc., 269 F.3d 1369, 1379 (Fed. Cir. 2001) (″The duty of candor to the court is entitled to at least as much honor as that to the PTO.″) (Mayer, C.J., dissenting).

2. Duty of Candor - Related Proceedings

This general and rule-based duty of candor finds application, among other places, in cases where two related matters are being adjudicated without counsel notifying each adjudicator of the related matter. A patent infringement suit with an invalidity counterclaim, and an IPR proceeding involving the validity of the same patent claims, fit into that category of related matters requiring notification to the respective adjudicative tribunals. At least one other court has found the duty of candor applicable **[**28]** in such circumstances. Rensselaer, 2014 U.S. Dist. LEXIS 5186, at *16. In Rensselaer, the district court explained that ″[w]hile Apple filed its IPR petition on October 21, 2013, it was not until December 9, 2013, that it requested permission to bring the instant motion [to stay], which was filed on December 23, 2013.″ Id. The court noted that in the interim, Apple had participated in a telephone conference with the court and ″neglected to inform the court and plaintiffs that it had submitted an IPR petition to the PTO.″ Id. The Rensselaer court also noted that, during a hearing on the motion to stay, ″Apple did not offer a particularly persuasive reason for its lack of candor with the court and plaintiffs during the telephone conference regarding the fact that it had filed an IPR petition.″ Id. (emphasis added).

In addition to such directly analogous case, federal courts in non-patent cases have long-recognized the existence of a duty of candor when related cases are simultaneously pending in different courts. In Cleveland Hair Clinic, Inc. v. Puig, 200 F.3d 1063, 1067-68 (7th Cir. 2000), an attorney appearing before a federal district court failed to disclose a state lawsuit he **[*758]** had

[29]** prepared and was having simultaneously filed. Noting the Supreme Court's admonition that counsel have a continuing duty to inform the Court of any development which may conceivably affect the outcome of the litigation, Pastore, 469 U.S. at 240, and the Illinois Rule 3.3 duty of candor, the Seventh Circuit observed that ″[t]he goal of the state lawsuit was to cut off the federal court at the pass, a development that surely could have affected the outcome of the litigation pending in federal court.″ Cleveland Hair Clinic, 200 F.3d at 1067-68.

In another case involving related litigation, Calleros v. FSI Int'l, Inc., 892 F. Supp. 2d 1163, 1165 (D. Minn. 2012), the plaintiff shareholder filed a suit in federal district court alleging that the defendant corporation, its officers, and directors, violated the Securities Exchange Act and their fiduciary duties by mailing incomplete and misleading disclosures in connection with a proposed tender offer by another company. However, the plaintiff shareholder failed to advise the district court that another shareholder had filed a class-action suit in state court alleging that the same corporation's officers and directors violated their fiduciary **[**30]** duties by making incomplete and misleading disclosures in connection with the proposed transaction, and that two other similar state court class actions had also been filed. Id. at 1166. The district court noted that ″[t]ellingly absent from [plaintiff's] Motion papers is any reference to the state-court cases raising nearly identical issues to the instant action.″ Id. at 1167. In deciding to stay its proceedings in favor of the related state court litigation, the district court observed that it was ″troubled by the failure to mention the related state-court litigation,″ since ″'[a]ttorneys, as officers of the court, have the responsibility to present the record with accuracy and candor.'″ Id. at 1168 n.6 (quoting Pinkham v. Sara Lee Corp., 983 F.2d 824, 826 (8th Cir. 1992)). The district court concluded that ″[i]t seems fairly apparent that counsel have flouted that obligation here.″ Id.; see also Perez v. Sanford-Orlando Kennel Club, Inc., 518 F.3d 1302, 1303 (11th Cir. 2008) (admonishing an attorney who failed to advise court of potentially jurisdiction-stripping events taking place before oral argument and then asking court to vacate opinion after losing his case).

This duty has **[**31]** also been applied in a non-patent context where there were federal district court proceedings and related administrative proceedings pending at the same time. In U.S. Commodity Futures Trading Comm'n v. Lake Shore Asset Mgmt. Ltd., 540 F. Supp. 2d 994 (N.D. Ill. 2008) (hereinafter ″Lake Shore″), the district court was faced with a situation involving a simultaneous administrative proceeding of which it was not informed. The district court, in a futures trading matter, had granted plaintiff's request for a statutory restraining order freezing defendant's assets, which order was later vacated by the Seventh Circuit's mandate. Id. at 996-97. ″During this time period, unbeknownst to the court, the National Futures Association (″NFA″), which is not a party to this action, was working to freeze Lake Shore Ltd.'s assets via a completely different route by filing a member responsibility action (″MRA″).″ Id. at 997. Shortly after the Seventh Circuit vacated the district court's order, the NFA issued an asset freeze, which the district court learned of the same day when Lake Shore Ltd. filed an ″emergency motion to enforce mandate.″ Id. The motion alleged that the federal statutorily-established **[**32]** NFA administrative action, which Lake Shore Ltd. had never previously mentioned to the district court or the Seventh Circuit, had been issued in violation of the Seventh **[*759]** Circuit's mandate and opinion. Id. The district court's opinion summarizing these events relied on both Cleveland Hair Clinic and Pastore in noting that it was ″unclear why none of the lawyers in this case told the court about the NFA member responsibility action prior to the issuance of the NFA asset freeze order, given that the preliminary injunction sought to freeze the very same assets at issue in the NFA action.″ Id. at 997 n.1.

3. Application of Duty of Candor to this Case

The context in which this Court learned of the related IPR litigation was slightly different from that in Rensselaer, and similar to that in Lake Shore, in that both VIS and Samsung knew of the September 2013 filing of the IPR petition, but neither of them informed the Court for six months. It was not until the PTAB ruled on institution, and VIS filed its motion to reconsider, that the Court was made aware of such concurrent proceeding. Of course, at the same time that Defendants were petitioning the PTAB for an adjudication of the validity of **[**33]** the patents at issue in this case, and Plaintiff was actively opposing such petitions, Defendants were also asking this Court to adjudicate the validity of the same patents and Plaintiff was actively opposing such efforts.

At the April 10, 2014 hearing before this Court on the motion to reconsider, the Court raised the issue of the parties' failure to notify the Court that they had begun the IPR proceeding. Hr'g Tr., ECF. No. 554. Counsel for each of the parties responded that it never occurred to them that they should advise this Court of such parallel proceeding. Even after the Court noted that the AIA provides that, after a final written decision by the PTAB, a petitioner is collaterally estopped from later asserting in a civil action that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during the *inter partes* review, Defendants seemed to suggest that they did not think to notify this Court of the IPR proceeding because this Court's docket moved so quickly. Hr'g Tr. 13, ECF No. 554.

The existence of such a parallel proceeding normally comes to the attention of the Court through one of the parties filing a motion to stay court proceedings **[**34]** in light the request for institution of IPR. See Universal Elecs., Inc., 943 F. Supp. 2d at 1030 (considering such a stay motion). However, that did not take place here. Had the parties promptly notified this Court of the pending petition, then the Court at least could have considered for itself what impact such related proceeding might have on the scheduling of matters,[7] as well as whether it wished to stay the proceedings and its then-ongoing consideration of Defendants' summary judgment motion of invalidity. After all, "[a] stay is particularly appropriate, and within the court's 'sound discretion,' where the outcome of another case may 'substantially affect' or 'be dispositive of the issues' in a case pending before a district court." MEI, Inc. v. JCM Am. Corp., Civ. No. 09-351, 2009 U.S. Dist. LEXIS 96266, at *12-13 (D.N.J. Oct. 15, 2009) (quoting Bechtel Corp. v. Local 215, Laborers' Int'l Union of North America, 544 F.2d 1207, 1215 (3rd Cir. 1976)); see Brixham Solutions Ltd. v. Juniper Networks, Inc., Civ. No. 13-cv-616-JCS, 2014 U.S. Dist. LEXIS 58770, at *3-7 (N.D. Cal. April 28, **[*760]** 2014) (granting motion to stay patent infringement suit involving non-practicing entity pending **[**35]** *inter partes* review); see also Gould v. Control Laser Corp., 705 F.2d 1340, 1341 (Fed. Cir. 1983) (discussing trial court stay of patent infringement litigation during reexamination proceedings). Moreover, such stays may be initiated sua sponte. See Crown Cent. Petroleum Corp. v. Dep't of Energy, 102 F.R.D. 95, 98 (D. Md. 1984) ("A federal court has inherent power to stay, sua sponte, an action before it.") (citing Landis v. North Am. Co., 299 U.S. 248, 254-55, 57 S. Ct. 163, 81 L. Ed. 153 (1936)). And while, as Plaintiff has frequently noted, it is true that trials resolve cases, it is also true that a "final written decision" from the PTAB has preclusive effect and should therefore resolve cases. See 35 U.S.C. §§ 315(e), 318, and 319. By failing to advise this Court of the existence of the IPR proceedings, VIS and Samsung in effect had two bites at the apple regarding the validity of the disputed claims. Moreover, they deprived this

[7] Had the Court known of the pending IPR proceeding on October 25, 2013, when it rescheduled the trial from November 12, 2013 to April 21, 2014, it could have factored such knowledge into its scheduling decision.

Court of the opportunity to inquire of the parties and decide for itself **[**36]** whether to await a ruling from the PTAB on that issue. As the PTO noted in issuing its new rules of practice implementing the AIA, it was ″anticipated that the rules will minimize duplication of efforts. . . . By requiring the filing of an *inter-partes* review petition earlier than a request for *inter-partes* reexamination, and by providing shorter timelines for *inter-partes* review compared with reexamination, it is anticipated that the current high level of duplication between litigation and reexamination will be reduced.″ 77 Fed. Reg. 48680, 48721. Needless to say, the practice adopted by the parties does not lend itself to promoting judicial efficiency or accomplishing some of the purposes Congress obviously intended with enactment of the AIA. Moreover, such practice may work a hardship on an entire district that seeks to expeditiously resolve its docket.

The parties should have notified this Court of the IPR petition as soon as it was filed, and the failure to do so appears, at least to the undersigned Judge, to have been a glaring omission. By not notifying the Court, counsel have, at the very least, failed to comply with their general duty of candor and good faith to this Court **[**37]** because the IPR proceeding was clearly a ″development which may conceivably affect the outcome of the litigation″ - a fact best demonstrated by Plaintiff's filing of the motion for reconsideration. Pastore, 469 U.S. at 240.[8] However, in light of the undeveloped state of the law on this relatively new PTO review procedure, this Court's admonition of all counsel involved in this case falls short of a formal reprimand of any of the individual lawyers.[9] That said, the issuance of this Opinion is more than sufficient to place all patent practitioners on notice that future failures to disclose to the Court any concurrent **[*761]** *inter partes* review proceedings will be met with far sharper consequences.

Like the Lake Shore court, this Court ″takes its obligation to promote civility and collegiality between the bench and bar very seriously,″ and only ″prepared this opinion after a great deal of reflection.″ Lake Shore, 540 F. Supp. 2d at 996. However, the Court ″cannot turn a blind eye to conduct that negatively impacts its ability to promote the orderly administration of justice and resolve disputes fairly.″ Id. It is this Court's hope that shining light on this issue will remind counsel in this case, and others, of their continuing duty to inform the Court of any development which may conceivably affect the outcome of the litigation. Pastore, 469 U.S. at 240. The Court now moves on to address the standard applicable to the motion to reconsider, as well as the substance of such motion.

III. STANDARD [**39] OF REVIEW - RECONSIDERATION

Because the motion for reconsideration is a procedural matter not unique to patent law, when considering such a motion, this Court looks to controlling Fourth Circuit precedent, rather than Federal Circuit precedent. Bowling v. Hasbro, 403 F.3d 1373, 1375 (Fed. Cir. 2005); Pennington Seed, Inc. v. Produce Exchange No. 299, 457 F.3d 1334, 1340 n.2 (Fed. Cir. 2006). Controlling Fourth Circuit law clearly provides that a summary judgment order, like the January 8, 2014 summary

[8] In light of the Court's conclusion regarding the general duty of candor, it is not necessary for this Court to engage in further analysis regarding the Rule 3.3 duty of candor.

[9] Although the replacement of *inter partes* reexamination by *inter partes* review effected a transformation from an examinational to an adjudicative proceeding, thus making the existence of concurrent PTO review proceedings more similar to the concurrent litigation cases discussed above, the prior reexamination process was still **[**38]** a related administrative proceeding that could ″conceivably affect the outcome of the litigation.″ Pastore, 469 U.S. at 240. Accordingly, although the question is not squarely before this Court, there is a strong argument that even under the old *inter partes* reexamination process, the general duty of candor required parties to notify the Court of the filing of a petition for reexamination.

judgment Order at issue, ″which did not resolve all claims against all parties, was interlocutory and thus subject to revision at any time.″ Saint Annes Dev. Co., Inc. v. Trabich, 443 F. App'x 829, 832 (4th Cir. 2011) (citing Fed. R. Civ. P. 54(b)). While final orders trigger heightened standards for reconsideration, see Fed. R. Civ. P. 59(e) and 60(b), interlocutory orders, such as orders of partial summary judgment, are not subject to those strict standards because ″'[a] district court retains the power to reconsider and modify its interlocutory judgments, including partial summary judgments, at any time prior to final judgment when such is warranted.'″ Saint Annes Dev. Co., 443 F. App'x at 832 **[**40]** (quoting American Canoe Ass'n v. Murphy Farms, Inc., 326 F.3d 505, 514-15 (4th Cir. 2003)); see Fed. R. Civ. P. 54(b) (providing that interlocutory orders that resolve fewer than all claims are ″subject to revision at any time before the entry of [final] judgment″); Fayetteville Investors v. Commercial Builders, Inc., 936 F.2d 1462, 1469 (4th Cir. 1991) (same). The differing standards for interlocutory versus final orders are understandable, as significant time and resources are often invested in arriving at a final judgment. American Canoe Ass'n, 326 F.3d at 514.

The power to reconsider an interlocutory ruling ″is committed to the discretion of the district court, . . . and doctrines such as law of the case . . . have evolved as a means of guiding that discretion.″ Id. at 515 (citing Moses H. Cone Mem. Hosp. v. Mercury Const. Corp., 460 U.S. 1, 12, 103 S. Ct. 927, 74 L. Ed. 2d 765 (1983), Sejman v. Warner-Lambert Co., Inc., 845 F.2d 66, 69 (4th Cir. 1988)). A court's earlier decisions become law of the case and must generally be followed unless: ″(1) a subsequent trial produces substantially different evidence, (2) controlling authority has since made a contrary decision of law applicable to the issue, or (3) the prior **[**41]** decision was clearly erroneous and would work manifest injustice.″ Sejman, 845 F.2d at 69 (internal quotation marks omitted); see American Canoe Ass'n, 326 F.3d at 515 (explaining that although it is the ″ultimate responsibility of [all levels of] the federal courts . . . to **[*762]** reach the correct judgment under law, . . . that obligation may be tempered at times by concerns of finality and judicial economy″).

The law of the case doctrine, which guides this Court's reconsideration decision, ″is not an 'inexorable command' but rather a prudent judicial response to the public policy favoring an end to litigation.″ Sejman, 845 F.2d at 68-69 (citations omitted). ″As most commonly defined, the doctrine of the law of the case posits that when a court decides upon a rule of law, that decision should continue to govern the same issues in subsequent stages in the same case.″ Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 815-16, 108 S. Ct. 2166, 100 L. Ed. 2d 811 (1988) (internal citation and quotation marks omitted). The doctrine is ″basically [a] simple principle of disciplined self-consistency″ based on principles of finality and comity, as opposed to a lack of authority.[10] 18B Wright, Miller & Cooper, Federal Practice **[**42]** and Procedure: Jurisdiction § 4478 (2d ed. 2002). Stated differently, ″[l]aw-of-the-case principles . . . are a matter of practice that rests on good sense and the desire to protect both court and parties against the burdens of repeated reargument by indefatigable diehards.″ Id.; see Christianson, 486 U.S. at 816 n.5 (″Perpetual litigation of any issue . . . delays, and therefore threatens to deny, justice.″). It is a simple but unavoidable reality that district courts could not effectively and efficiently satisfy their

[10] ″The force of law-of-the-case doctrine is affected by the nature of the first ruling and by the nature of the issues involved. If the ruling is avowedly tentative or the issues especially important, it may be said that law-of-the-case principles do not apply. Different parties in separate proceedings likewise may fall outside law-of-the-case constraints . . . . Matters of fact, on the other hand, are unlikely candidates for reconsideration after the first full effort.″ 18B Wright, Miller & Cooper, Federal Practice and Procedure: Jurisdiction § 4478.5 (2d ed. 2002).

responsibilities if every ruling were open to reconsideration based on better crafted legal argument. See Hilb Rogal & Hobbs Co. v. Rick Strategy Partners, Inc., No. 3:05cv355, 2006 U.S. Dist. LEXIS 96056, 2006 WL 5908727, at *8 (E.D. Va. Feb. 10, 2006) (″Courts will not typically reconsider an interlocutory order where the motion to reconsider simply seeks ’to present a better and more compelling argument that the party could have presented in the original briefs.’″ (quoting Madison River Mgmt. Co. v. Business Mgmt. Software Corp., 402 F. Supp. 2d 617, 619 (M.D.N.C. 2005))); 18B Wright, Miller & Cooper, Federal Practice and Procedure: Jurisdiction § 4478.1 (2d ed. 2002) (″A trial court could not **[**43]** operate if it were to yield to every request to reconsider each of the multitude of rulings that may be made between filing and final judgment.″); see also Sejman, 845 F.2d at 69 (″Clearly, courts could not perform their duties ’satisfactorily and efficiently . . . if a question once considered and decided . . . were to be litigated anew’″ in subsequent appeals. (quoting Great Western Tel. Co. v. Burnham, 162 U.S. 339, 344, 16 S. Ct. 850, 40 L. Ed. 991 (1896))).

Of course, ″[a] court has the power to revisit prior decisions of its own or of a coordinate court in any circumstance, although as a rule courts should be loathe to do so in the absence of extraordinary **[**44]** circumstances such as where the initial decision ’was clearly erroneous and would work a manifest injustice.’″ Christianson, 486 U.S. at 817 (quoting Arizona v. California, 460 U.S. 605, 618 n.8, 103 S. Ct. 1382, 75 L. Ed. 2d 318 (1983)). In line with Christianson, the Fourth Circuit has expressly recognized that a court may ″depart[] from the law of **[*763]** the case when [a] previous decision [i]s ’clearly erroneous and would work manifest injustice.’″ TFWS, Inc. v. Franchot, 572 F.3d 186, 192 (4th Cir. 2009) (quoting United States v. Aramony, 166 F.3d 655, 661 (4th Cir. 1999)). In applying such exception to the law of the case doctrine, the Fourth Circuit explained that ″[a] prior decision does not qualify for this . . . exception by being just maybe or probably wrong; it must strike us as wrong with the force of a five-week-old, unrefrigerated dead fish.″ Id. at 194 (internal citations and quotation marks omitted). In other words, ″[i]t must be ’dead wrong.’″ Id. (citations omitted).

Accordingly, having determined that the above-described discretionary standard for reconsideration is the correct standard in the instant circumstances, the Court turns to the substantive analysis of the issues raised in the parties’ briefs.

IV. [**45] DISCUSSION

Plaintiff’s motion seeking reconsideration asserts that this Court should consider the recent PTAB decisions regarding institution to be ″new evidence″ and should give deference to the PTAB’s findings due to the specialized knowledge and expertise of the PTO. Pl.’s Reconsideration Mem. 4, ECF No. 417 (citing PowerOasis, Inc. v. T-Mobile USA, Inc., 522 F.3d 1299, 1304 (Fed. Cir. 2008). Defendants respond by arguing that the Court need not accord the decisions by the PTAB deference because ″a decision by the USPTO that claims are valid over prior art is ’never binding on the court.’″ Defs.’ Opp. Mem. 7, ECF No. 465 (quoting Interconnect Planning Corp. v. Feil, 774 F.2d 1132, 1139 (Fed. Cir. 1985) (emphasis added by Defendants). Defendants further assert that no deference should be accorded the PTAB’s decisions because they are only decisions regarding whether to institute IPR, not final decisions after PTAB adjudication. Moreover, Samsung argues that even these preliminary decisions to institute IPR, or not to institute IPR, are initial rulings subject to rehearing. Id. at 7-8. VIS replies by asserting that its position is not that the PTAB rulings are binding on this **[**46]** Court, but that they should be afforded deference as a matter of law. Pl’s Rebuttal Mem. 2, ECF No. 475 (citing Am. Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d

1350, 1359 (Fed. Cir. 1986) abrogated on other grounds by Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276, 1288-90 (Fed. Cir. 2011) (en banc)).

These assertions by Plaintiff seem to rely on the first two Sejman factors that our Court of Appeals directs district courts to utilize in deciding whether to reconsider an interlocutory ruling. Sejman, 845 F.2d at 69. However, the first of the three Sejman factors described above is not present in this case because no ″subsequent trial produce[d] substantially different evidence″ such that this Court should not follow its earlier decision. Id. No trial has taken place in this case. See Lincoln Nat'l Life Ins. Co. v. Roosth, 306 F.2d 110, 113 (5th Cir. 1962) (clearly referencing subsequent trial in same case as original decision in describing factor Sejman adopted). Therefore, there is no different evidence produced by ″a trial″ in this case. Moreover, even if the Court were to broadly construe the submission to the Court of the PTAB decisions as falling within the ambit **[**47]** of the first Sejman factor, such PTAB decisions still do not satisfy the first factor. As discussed more fully below, a decision on IPR institution is merely a threshold determination as to whether, using the broadest reasonable interpretation of the claim terms, the petitioner has demonstrated that there is a reasonable likelihood of the patent claims being found invalid by a preponderance of the evidence. **[*764]** 37 C.F.R. § 42.100(b); 35 U.S.C. § 314(a); 35 U.S.C. § 316. As such, it is not a ″trial″ producing ″evidence.″

A. Deference Owed to PTAB's Decisions

Having determined that there is no subsequent trial producing substantially different evidence, the Court moves on to the second Sejman factor, and asks whether controlling authority has since made a contrary decision of law applicable to the issue at hand, such that the Court should not follow its earlier decision. Sejman, 845 F.2d at 69. PTO decisions regarding patentability can have a direct effect on pending litigation because the power to grant a patent is not one afforded to the courts, but is strictly within the domain of the PTO. See Patlex Corp. v. Mossinghoff, 758 F.2d 594, 604 on reh'g, 771 F.2d 480 (Fed. Cir. 1985) (″Validity **[**48]** often is brought into question in disputes between private parties, but the threshold question usually is whether the PTO, under the authority assigned to it by Congress, properly granted the patent. At issue is a right that can only be conferred by the government.″ (citing Crowell v. Benson, 285 U.S. 22, 50, 52 S. Ct. 285, 76 L. Ed. 598 (1932))). The Court therefore generally gives deference to final PTO decisions, based in part on the PTO's specialized knowledge and expertise. See PowerOasis, Inc., 522 F.3d at 1304 (indicating that when the validity of an issued patent is challenged, and ″'no prior art other than that which was [originally] considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job, which includes one or more examiners who are assumed to have some expertise in interpreting the references and to be familiar from their work with the level of skill in the art and whose duty it is to issue only valid patents.'″ (quoting Am. Hoist & Derrick Co., 725 F.2d at 1359-60)). Moreover, the Court is required to give a certain level of deference to the PTO based on 35 U.S.C. § 282, **[**49]** which provides that a duly issued patent is presumed valid, and the Federal Circuit has recognized that such ″statutory presumption derives in part from recognition of the technological expertise of the patent examiners.″ Interconnect Planning Corp., 774 F.2d at 1139.

Notwithstanding such presumption and the associated deference, when the validity of a patent is challenged in federal court, a district court has ″the obligation . . . to reach an independent conclusion,″ regarding validity, and a prior decision by a patent examiner, whether it be on an original patent application or a reissue application,

″'is never binding on the court.'″ Id. (quoting Fromson v. Advance Offset Plate, Inc., 755 F.2d 1549, 1555 (Fed. Cir. 1985)). Rather, the examiner's decision is merely ″'evidence the court must consider in determining whether the party asserting invalidity has met its statutory burden by clear and convincing evidence.'″ Id. (quoting Fromson, 755 F.2d at 1555).

In light of the fact that prior final PTO decisions affirming patentability are not controlling in a subsequent validity challenge in this Court, a decision by the PTO regarding whether to institute IPR certainly does not have binding **[**50]** effect on the Court. Moreover, even if the Court assumes that a prior final PTAB decision as to patentability, could somehow be binding on a district court, such rule surely would not make subsequent non-final PTAB decisions to institute, or not to institute IPR proceedings, retroactively binding on a district court. Accordingly, while the Court has the discretion to consider the recent **[*765]** PTAB rulings, they are not ″controlling authority″ reaching a decision contrary to this Court's decision, Sejman, 845 F.2d at 69, and the Court is therefore certainly not required to overturn its prior decision based on the analysis in a decision by the PTAB granting or denying institution of IPR.

B. Impact of Differing Standards at PTAB and the Court

The Court now moves on to consider the third and final Sejman factor, asking whether its ″prior decision was clearly erroneous and would work manifest injustice.″ Sejman, 845 F.2d at 69. Any deference this Court might decide to accord PTAB analysis in determining whether the Court's prior decision was clearly erroneous and would work manifest injustice, such that it required reconsideration of the summary judgment Order, is tempered by the contrast between **[**51]** the claim constructions and other legal standards used by the PTAB and those used by this Court. In determining whether to institute IPR, the PTAB must determine whether, using the broadest reasonable interpretation of the claim terms, the petitioner has demonstrated that there is a reasonable likelihood of the patent claims being found invalid by a preponderance of the evidence. 37 C.F.R. § 42.100(b); 35 U.S.C. § 314(a); 35 U.S.C. § 316. In contrast, when construing a disputed patent's claim terms, the Court adopts a construction based on what a person having ordinary skill in the relevant art would understand the claims to mean as of the time of invention. Phillips v. AWH Corp., 415 F.3d 1303, 1313 (Fed. Cir. 2005). Once the claim terms have been construed, the Court determines whether the claims have been proven invalid by clear and convincing evidence. Microsoft Corp. v. i4i Ltd. P'ship, 131 S. Ct. 2238, 2246, 180 L. Ed. 2d 131 (2011).

Indeed, the PTAB recognized these differing standards when it granted VIS's motion to submit to the PTAB this Court's January 8, 2014 summary judgment Order. The PTAB stated that ″[a]lthough the district court's order may be informative, the Board applies a claim construction **[**52]** standard that may not be the same as that adopted by a district court, and the Board may reach a different result.″ Feb. 12, 2014 PTAB Order, Paper No. 12, Case Nos. IPR2013-00569, IPR2013-00570, IPR2013-00571; February 12, 2014 Order by PTAB, Paper No. 13, Case Nos. IPR2013-00572, IPR2013-00573. Thus, it is not surprising that in construing the specific claim term, ″converted video signal,″ the term upon which VIS rests its entire argument for reconsideration, the PTAB reached a claim construction meaningfully different from the construction adopted by this Court in its Markman Opinion. Markman Opinion 52, ECF No. 198 (giving the term ″converted video signal″ its plain and ordinary meaning, which is ″a video signal that has been changed.″); Summary Judgment Order 17, ECF No. 413 (reaffirming the Court's construction of the term in its Markman Opinion); cf. Pl's Reconsideration Mem. Ex. 1 at 15, ECF No. 417-2 (reflecting the

PTAB's definition of "convert" as "to change the representation of data from one form to another").[11]

[*766] As the PTAB applied a different claim construction standard, and different standards of law, to reach its differing decision as to whether a specific prior art reference would likely disclose the claim limitation of a "converted video signal," VIS has failed to show that this Court's prior ruling on summary judgment was clearly erroneous or that it would work a manifest injustice if it is not revised. Sejman, 845 F.2d at 69; Franchot, 572 F.3d at 192 (quoting Aramony, 166 F.3d at 661).

Moreover, **[**54]** Plaintiff's attempt to get a second bite at the apple of invalidity, by arguing that this Court's earlier decision was clearly erroneous, undermines the principles of finality and comity on which the law of the case doctrine is grounded. The arguments and evidence presented to the PTAB, which were different than the arguments and evidence presented to this Court, necessarily informed the PTAB analysis and the conclusions which Plaintiff argues the Court should now adopt. However, the Court may not adopt the record presented to a separate tribunal for the facts therein. See United States v. Jones, 29 F.3d 1549, 1553 (11th Cir. 1994) (recognizing that a "'court may take judicial notice of a document filed in another court not for the truth of the matters asserted in the other litigation, but rather to establish the fact of such litigation and related filings.'" (quoting Liberty Mut. Ins. Co. v. Rotches Pork Packers, Inc., 969 F.2d 1384, 1388 (2d Cir. 1992)); United States v. Rosga, 864 F. Supp. 2d 439, 447 (E.D. Va. 2012) ("Thus, for example, a court may 'notic[e] the content of court records,' Colonial Penn Ins. Co. v. Coil, 887 F.2d 1236, 1239 (4th Cir. 1989), but 'only for the limited **[**55]** purpose of recognizing the "judicial act" that the order represents or the subject matter of the litigation.'" Jones, 29 F.3d at 1553). Additionally, Plaintiff does not assert that the evidence presented to the PTAB by the parties to this litigation was unavailable at the time VIS filed its briefs on summary judgment regarding validity. Rather, Plaintiff only asserts that the PTAB had not yet rendered a decision favorable to VIS at the time it submitted its summary judgment briefs in this case. Pl's Reconsideration Mem. 2, ECF No. 417.

To allow reconsideration of an interlocutory order based upon the subsequent decision of another adjudicative tribunal - which was driven by a different claim construction, different arguments by the parties, different evidence, and a different legal standard - would remove all considerations of finality and consistency by allowing parties to challenge a court's ruling whenever that party identifies, in hindsight, an improved legal argument. See Hilb Rogal & Hobbs Co., 2006 U.S. Dist. LEXIS 96056, 2006 WL 5908727, at *8 ("Courts will not typically reconsider an interlocutory order where the motion to reconsider simply seeks 'to present a better and more compelling argument that the **[**56]** party could have presented in the original briefs.'" (quoting Madison River Mgmt. Co., 402 F. Supp. 2d at 619)); 18B Wright, Miller & Cooper, Federal Practice and Procedure: Jurisdiction § 4478.1 (2d ed. 2002) ("A trial court could not operate if it were to yield to every request to reconsider each of the multitude of rulings that may be made between filing and final judgment."); see also

[11] Furthermore, VIS's attempt to argue that the claim constructions reached by the PTAB and the Court are consistent, Pl's Rebuttal Mem. 4, ECF No. 475, when they **[**53]** clearly are not, is merely an argument for a new claim construction in this case different from the construction which VIS argued for during the Markman process and which the Court subsequently adopted in its Markman Opinion. It is well-settled that "one cannot interpret a patent one way for the validity analysis and a different way for the infringement analysis." A. G. Design & Assocs. LLC v. Trainman Lantern Co., Inc., 271 F. App'x 995, 999 n.4 (Fed. Cir. 2008); see Amazon.com, Inc. v. Barnesandnoble.com, Inc., 239 F.3d 1343, 1351 (Fed. Cir. 2001) ("A patent may not, like a "nose of wax," be twisted one way to avoid anticipation and another to find infringement.") (quotation marks and citation omitted).

Sejman, 845 F.2d at 69 (″Clearly, courts could not perform their duties 'satisfactorily **[*767]** and efficiently . . . if a question once considered and decided . . . were to be litigated anew'″ in subsequent appeals. (quoting Great Western Tel. Co., 162 U.S. at 344)).

Finally, even if the Court reconsidered its prior summary judgment order in light of the PTAB's decisions regarding institution of IPR, the Court would arrive at the same conclusions. In its Markman Opinion, the Court adopted the construction of the term ″converted video signal″ proposed by VIS, and, based on what a person having ordinary skill in the art would understand the claims to mean at the time of invention, gave the term its ordinary and plain meaning - ″a video signal that has been changed.″ Markman Opinion at 44 & 52, ECF No. 198. **[**57]** Therefore, when analyzing the asserted claims of the '268 patent for validity in light of the prior art reference ″Palin,″ the Court used this construction of the term ″converted video signal.″ In contrast to this Court's claim construction, the PTAB applied the ″broadest reasonable interpretation″ standard to the differing evidence and argument before it and adopted a construction of the term ″converted video signal″ which defined ″convert″ as ″to change the representation of data from one form to another, for example to change numerical data from binary to decimal or from cards to tape.″ Pl.'s Reconsideration Mem., Ex. 1 at 15, ECF No. 417-1. Applying the construction adopted by this Court, and not the contrary construction adopted by the PTAB, the Court is confident that its decision in the original summary judgment Order was the correct one. The prior art reference ″Palin″ discloses a video signal which has been changed and, thus, anticipates the claim term of a ″converted video signal.″ See **[**58]** Summary Judgment Order at 29-30, ECF No. 413. That the PTAB arrived at a different conclusion when using a different claim construction does not serve to prove the Court's conclusion erroneous.[12]

For the reasons stated above, although this Court plainly has authority to reconsider the summary judgment Order, it declines to do so, based on considerations of finality, consistency, and comity, as well as the procedural posture of this case. Accordingly, Plaintiff's motion for reconsideration of the Court's summary judgment Order, ECF No. 416, is **DENIED.**

V. CONCLUSION

For the reasons stated above, Plaintiff's Motion for Reconsideration is **DENIED.** The Court reiterates for the benefit of counsel in this case, and counsel in all future patent cases, that a lawyer's general duty of candor to the Court requires counsel to timely notify the Court of requests to the PTO for institution of *inter partes* review when such request has the potential to affect the outcome of the concurrent litigation.

[*768] The Clerk is **DIRECTED** to send a copy of this Opinion and Order to all counsel of record.

IT IS SO ORDERED.

/s/ MSD

Mark S. Davis

UNITED STATES DISTRICT JUDGE

Norfolk, Virginia

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[12] The Court notes that Defendants separately opposed the motion for reconsideration through arguing that the motion was moot because none of the patent claims potentially affected by the PTAB's rulings are among those claims Plaintiff elected to assert at trial. Defs.' Opp. Mem. 13-14, ECF No. 465. While this is factually a true statement, it misses the potential indirect, but no less significant, impact that the instant motion could have on the trial, because some of the claims elected by VIS are dependent claims that rely on claims that were previously invalidated by this Court. Accordingly, as VIS correctly asserts, the reversal of such invalidation would necessarily impact the trial evidence Samsung would have to introduce in order to prove the invalidity of the dependent claim elected by VIS. Pl's Rebuttal Mem. 5, ECF No. 475. Thus, as the motion for reconsideration has the potential to impact the litigation of at least one of the claims Plaintiff has elected to assert at trial, the motion **[**59]** is not moot.

May 2, 2014

PROPOSED AMENDMENTS TO THE FEDERAL RULES OF CIVIL PROCEDURE*

1 **Rule 1. Scope and Purpose**

2 These rules govern the procedure in all civil actions
3 and proceedings in the United States district courts, except
4 as stated in Rule 81. They should be construed, ~~and~~
5 administered, and employed by the court and the parties to
6 secure the just, speedy, and inexpensive determination of
7 every action and proceeding.

Committee Note

Rule 1 is amended to emphasize that just as the court should construe and administer these rules to secure the just, speedy, and inexpensive determination of every action, so the parties share the responsibility to employ the rules in the same way. Most lawyers and parties cooperate to achieve these ends. But discussions of ways to improve the administration of civil justice regularly include pleas to discourage over-use, misuse, and abuse of procedural tools that increase cost and result in delay. Effective advocacy is

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* New material is underlined; matter to be omitted is lined through.

consistent with — and indeed depends upon — cooperative and proportional use of procedure.

This amendment does not create a new or independent source of sanctions. Neither does it abridge the scope of any other of these rules.

1 **Rule 4. Summons**

2 * * * * *

3 **(m) Time Limit for Service.** If a defendant is not served
4 within ~~120~~90 days after the complaint is filed, the
5 court — on motion or on its own after notice to the
6 plaintiff — must dismiss the action without prejudice
7 against that defendant or order that service be made
8 within a specified time. But if the plaintiff shows
9 good cause for the failure, the court must extend the
10 time for service for an appropriate period. This
11 subdivision (m) does not apply to service in a foreign
12 country under Rule 4(f) or 4(j)(1) or to service of a
13 notice under Rule 71.1(d)(3)(A).

14 * * * * *

Committee Note

Subdivision (m). The presumptive time for serving a defendant is reduced from 120 days to 90 days. This

change, together with the shortened times for issuing a scheduling order set by amended Rule 16(b)(2), will reduce delay at the beginning of litigation.

Shortening the presumptive time for service will increase the frequency of occasions to extend the time ~~for good cause~~. More time may be needed, for example, when a request to waive service fails, a defendant is difficult to serve, or a marshal is to make service in an in forma pauperis action.

The final sentence is amended to make it clear that the reference to Rule 4 in Rule 71.1(d)(3)(A) does not include Rule 4(m). Dismissal under Rule 4(m) for failure to make timely service would be inconsistent with the limits on dismissal established by Rule 71.1(i)(1)(C).

Shortening the time to serve under Rule 4(m) means that the time of the notice required by Rule 15(c)(1)(C) for relation back is also shortened.

1 **Rule 16. Pretrial Conferences; Scheduling; Management**

2 * * * * *

3 **(b) Scheduling.**

4 **(1)** ***Scheduling Order.*** Except in categories of
5 actions exempted by local rule, the district judge
6 — or a magistrate judge when authorized by
7 local rule — must issue a scheduling order:

8 **(A)** after receiving the parties' report under
9 Rule 26(f); or

10 **(B)** after consulting with the parties' attorneys
11 and any unrepresented parties at a
12 scheduling conference~~ by telephone, mail,~~
13 ~~or other means~~.

14 **(2)** ***Time to Issue.*** The judge must issue the
15 scheduling order as soon as practicable, but ~~in~~
16 ~~any event~~unless the judge finds good cause for

17 delay, the judge must issue it within the earlier
18 of ~~120~~90 days after any defendant has been
19 served with the complaint or ~~90~~60 days after any
20 defendant has appeared.
21 **(3)** ***Contents of the Order.***
22 * * * * *
23 **(B)** *Permitted Contents.* The scheduling order
24 may:
25 * * * * *
26 **(iii)** provide for disclosure, ~~or~~discovery,
27 or preservation of electronically
28 stored information;
29 **(iv)** include any agreements the parties
30 reach for asserting claims of
31 privilege or of protection as trial-
32 preparation material after

33 information is produced, including
34 agreements reached under Federal
35 Rule of Evidence 502;
36 (v) direct that before moving for an
37 order relating to discovery, the
38 movant must request a conference
39 with the court;
40 (~~v~~vi) set dates for pretrial conferences and
41 for trial; and
42 (~~vi~~vii) include other appropriate matters.
43 * * * * *

Committee Note

The provision for consulting at a scheduling conference by "telephone, mail, or other means" is deleted. A scheduling conference is more effective if the court and parties engage in direct simultaneous communication. The conference may be held in person, by telephone, or by more sophisticated electronic means.

The time to issue the scheduling order is reduced to the earlier of 90 days (not 120 days) after any defendant has been served, or 60 days (not 90 days) after any defendant has appeared. This change, together with the shortened time for making service under Rule 4(m), will reduce delay at the beginning of litigation. At the same time, a new provision recognizes that the court may find good cause to extend the time to issue the scheduling order. In some cases it may be that the parties cannot prepare adequately for a meaningful Rule 26(f) conference and then a scheduling conference in the time allowed. Litigation involving complex issues, multiple parties, and large organizations, public or private, may be more likely to need extra time to establish meaningful collaboration between counsel and the people who can supply the information needed to participate in a useful way. Because the time for the Rule 26(f) conference is geared to the time for the scheduling conference or order, an order extending the time for the scheduling conference will also extend the time for the Rule 26(f) conference. But in most cases it will be desirable to hold at least a first scheduling conference in the time set by the rule.

Three items are added to the list of permitted contents in Rule 16(b)(3)(B).

The order may provide for preservation of electronically stored information, a topic also added to the provisions of a discovery plan under Rule 26(f)(3)(C). Parallel amendments of Rule 37(e) recognize that a duty to preserve discoverable information may arise before an action is filed.

The order also may include agreements incorporated in a court order under Evidence Rule 502 controlling the effects of disclosure of information covered by attorney-client privilege or work-product protection, a topic also added to the provisions of a discovery plan under Rule 26(f)(3)(D).

Finally, the order may direct that before filing a motion for an order relating to discovery the movant must request a conference with the court. Many judges who hold such conferences find them an efficient way to resolve most discovery disputes without the delay and burdens attending a formal motion, but the decision whether to require such conferences is left to the discretion of the judge in each case.

1 **Rule 26. Duty to Disclose; General Provisions**
2 **Governing Discovery**

3 * * * * *

4 **(b) Discovery Scope and Limits.**

5 **(1)** ***Scope in General.*** Unless otherwise limited by
6 court order, the scope of discovery is as follows:
7 Parties may obtain discovery regarding any
8 nonprivileged matter that is relevant to any
9 party's claim or defense and proportional to the
10 needs of the case, considering the importance of
11 the issues at stake in the action, the amount in
12 controversy, the parties' relative access to
13 relevant information, the parties' resources, the
14 importance of the discovery in resolving the
15 issues, and whether the burden or expense of the
16 proposed discovery outweighs its likely benefit.
17 Information within this scope of discovery need

18 not be admissible in evidence to be
19 discoverable. ~~including the existence,~~
20 ~~description, nature, custody, condition, and~~
21 ~~location of any documents or other tangible~~
22 ~~things and the identity and location of persons~~
23 ~~who know of any discoverable matter. For good~~
24 ~~cause, the court may order discovery of any~~
25 ~~matter relevant to the subject matter involved in~~
26 ~~the action. Relevant information need not be~~
27 ~~admissible at the trial if the discovery appears~~
28 ~~reasonably calculated to lead to the discovery of~~
29 ~~admissible evidence. All discovery is subject to~~
30 ~~the limitations imposed by Rule 26(b)(2)(C).~~
31 **(2)** ***Limitations on Frequency and Extent.***
32 * * * * *

33 **(C)** *When Required.* On motion or on its own,
34 the court must limit the frequency or extent
35 of discovery otherwise allowed by these
36 rules or by local rule if it determines that:
37 * * * * *
38 **(iii)** the ~~burden or expense of the~~ proposed
39 discovery is outside the scope
40 permitted by Rule 26(b)(1)~~outweighs~~
41 ~~its likely benefit, considering the~~
42 ~~needs of the case, the amount in~~
43 ~~controversy, the parties' resources, the~~
44 ~~importance of the issues at stake in the~~
45 ~~action, and the importance of the~~
46 ~~discovery in resolving the issues~~.
47 * * * * *

48 **(c) Protective Orders.**

49 **(1)** ***In General.*** A party or any person from whom
50 discovery is sought may move for a protective
51 order in the court where the action is pending —
52 or as an alternative on matters relating to a
53 deposition, in the court for the district where the
54 deposition will be taken. The motion must
55 include a certification that the movant has in
56 good faith conferred or attempted to confer with
57 other affected parties in an effort to resolve the
58 dispute without court action. The court may, for
59 good cause, issue an order to protect a party or
60 person from annoyance, embarrassment,
61 oppression, or undue burden or expense,
62 including one or more of the following:

63 * * * * *

64 **(B)** specifying terms, including time and
65 place or the allocation of expenses, for the
66 disclosure or discovery;
67 * * * * *
68 **(d) Timing and Sequence of Discovery.**
69 * * * * *
70 **(2) *Early Rule 34 Requests.***
71 **(A)** *Time to Deliver.* More than 21 days after
72 the summons and complaint are served on a
73 party, a request under Rule 34 may be
74 delivered:
75 **(i)** to that party by any other party, and
76 **(ii)** by that party to any plaintiff or to any
77 other party that has been served.

78 (B) *When Considered Served.* The request is
79 considered to have been served at the first
80 Rule 26(f) conference.
81 (~~2~~3) ***Sequence.*** Unless~~, on motion,~~ the parties
82 stipulate or the court orders otherwise for the
83 parties' and witnesses' convenience and in the
84 interests of justice:
85 **(A)** methods of discovery may be used in any
86 sequence; and
87 **(B)** discovery by one party does not require any
88 other party to delay its discovery.
89 * * * * *
90 **(f) Conference of the Parties; Planning for Discovery.**
91 * * * * *
92 **(3)** ***Discovery Plan.*** A discovery plan must state the
93 parties' views and proposals on:

94 * * * * *

95 (C) any issues about disclosure, ~~or~~discovery, or
96 preservation of electronically stored
97 information, including the form or forms in
98 which it should be produced;

99 (D) any issues about claims of privilege or of
100 protection as trial-preparation materials,
101 including — if the parties agree on a
102 procedure to assert these claims after
103 production — whether to ask the court to
104 include their agreement in an order under
105 Federal Rule of Evidence 502;

106 * * * * *

Committee Note

Rule 26(b)(1) is changed in several ways.

Information is discoverable under revised Rule 26(b)(1) if it is relevant to any party's claim or defense and is proportional to the needs of the case. The considerations that bear on proportionality are moved from present Rule 26(b)(2)(C)(iii), slightly rearranged and with one addition.

Most of what now appears in Rule 26(b)(2)(C)(iii) was first adopted in 1983. The 1983 provision was explicitly adopted as part of the scope of discovery defined by Rule 26(b)(1). Rule 26(b)(1) directed the court to limit the frequency or extent of use of discovery if it determined that "the discovery is unduly burdensome or expensive, taking into account the needs of the case, the amount in controversy, limitations on the parties' resources, and the importance of the issues at stake in the litigation." At the same time, Rule 26(g) was added. Rule 26(g) provided that signing a discovery request, response, or objection certified that the request, response, or objection was "not unreasonable or unduly burdensome or expensive, given the needs of the case, the discovery already had in the case, the amount in controversy, and the importance of the issues at stake in the litigation." The parties thus shared the responsibility to honor these limits on the scope of discovery.

The 1983 Committee Note stated that the new provisions were added "to deal with the problem of over-discovery. The objective is to guard against redundant or disproportionate discovery by giving the court authority to reduce the amount of discovery that may be directed to matters that are otherwise proper subjects of inquiry. The

new sentence is intended to encourage judges to be more aggressive in identifying and discouraging discovery overuse. The grounds mentioned in the amended rule for limiting discovery reflect the existing practice of many courts in issuing protective orders under Rule 26(c). . . . On the whole, however, district judges have been reluctant to limit the use of the discovery devices."

The clear focus of the 1983 provisions may have been softened, although inadvertently, by the amendments made in 1993. The 1993 Committee Note explained: "[F]ormer paragraph (b)(1) [was] subdivided into two paragraphs for ease of reference and to avoid renumbering of paragraphs (3) and (4)." Subdividing the paragraphs, however, was done in a way that could be read to separate the proportionality provisions as "limitations," no longer an integral part of the (b)(1) scope provisions. That appearance was immediately offset by the next statement in the Note: "Textual changes are then made in new paragraph (2) to enable the court to keep tighter rein on the extent of discovery."

The 1993 amendments added two factors to the considerations that bear on limiting discovery: whether "the burden or expense of the proposed discovery outweighs its likely benefit," and "the importance of the proposed discovery in resolving the issues." Addressing these and other limitations added by the 1993 discovery amendments, the Committee Note stated that "[t]he revisions in Rule 26(b)(2) are intended to provide the court with broader discretion to impose additional restrictions on the scope and extent of discovery . . . ."

The relationship between Rule 26(b)(1) and (2) was further addressed by an amendment made in 2000 that added a new sentence at the end of (b)(1): "All discovery is subject to the limitations imposed by Rule 26(b)(2)(i), (ii), and (iii)[now Rule 26(b)(2)(C)]." The Committee Note recognized that "[t]hese limitations apply to discovery that is otherwise within the scope of subdivision (b)(1)." It explained that the Committee had been told repeatedly that courts were not using these limitations as originally intended. "This otherwise redundant cross-reference has been added to emphasize the need for active judicial use of subdivision (b)(2) to control excessive discovery."

The present amendment restores the proportionality factors to their original place in defining the scope of discovery. This change reinforces the Rule 26(g) obligation of the parties to consider these factors in making discovery requests, responses, or objections.

Restoring the proportionality calculation to Rule 26(b)(1) does not change the existing responsibilities of the court and the parties to consider proportionality, and the change does not place on the party seeking discovery the burden of addressing all proportionality considerations.

Nor is the change intended to permit the opposing party to refuse discovery simply by making a boilerplate objection that it is not proportional. The parties and the court have a collective responsibility to consider the proportionality of all discovery and consider it in resolving discovery disputes.

The parties may begin discovery without a full appreciation of the factors that bear on proportionality. A party requesting discovery, for example, may have little information about the burden or expense of responding. A party requested to provide discovery may have little information about the importance of the discovery in resolving the issues as understood by the requesting party. Many of these uncertainties should be addressed and reduced in the parties' Rule 26(f) conference and in scheduling and pretrial conferences with the court. But if the parties continue to disagree, the discovery dispute could be brought before the court and the parties' responsibilities would remain as they have been since 1983. A party claiming undue burden or expense ordinarily has far better information — perhaps the only information — with respect to that part of the determination. A party claiming that a request is important to resolve the issues should be able to explain the ways in which the underlying information bears on the issues as that party understands them. The court's responsibility, using all the information provided by the parties, is to consider these and all the other factors in reaching a case-specific determination of the appropriate scope of discovery.

The direction to consider the parties' relative access to relevant information adds new text to provide explicit focus on considerations already implicit in present Rule 26(b)(2)(C)(iii). Some cases involve what often is called "information asymmetry." One party — often an individual plaintiff — may have very little discoverable information. The other party may have vast amounts of information, including information that can be readily

retrieved and information that is more difficult to retrieve. In practice these circumstances often mean that the burden of responding to discovery lies heavier on the party who has more information, and properly so.

Restoring proportionality as an express component of the scope of discovery warrants repetition of parts of the 1983 and 1993 Committee Notes that must not be lost from sight. The 1983 Committee Note explained that "[t]he rule contemplates greater judicial involvement in the discovery process and thus acknowledges the reality that it cannot always operate on a self-regulating basis." The 1993 Committee Note further observed that "[t]he information explosion of recent decades has greatly increased both the potential cost of wide-ranging discovery and the potential for discovery to be used as an instrument for delay or oppression." What seemed an explosion in 1993 has been exacerbated by the advent of e-discovery. The present amendment again reflects the need for continuing and close judicial involvement in the cases that do not yield readily to the ideal of effective party management. It is expected that discovery will be effectively managed by the parties in many cases. But there will be important occasions for judicial management, both when the parties are legitimately unable to resolve important differences and when the parties fall short of effective, cooperative management on their own.

It also is important to repeat the caution that the monetary stakes are only one factor, to be balanced against other factors. The 1983 Committee Note recognized "the significance of the substantive issues, as measured in

philosophic, social, or institutional terms. Thus the rule recognizes that many cases in public policy spheres, such as employment practices, free speech, and other matters, may have importance far beyond the monetary amount involved." Many other substantive areas also may involve litigation that seeks relatively small amounts of money, or no money at all, but that seeks to vindicate vitally important personal or public values.

So too, consideration of the parties' resources does not foreclose discovery requests addressed to an impecunious party, nor justify unlimited discovery requests addressed to a wealthy party. The 1983 Committee Note cautioned that "[t]he court must apply the standards in an even-handed manner that will prevent use of discovery to wage a war of attrition or as a device to coerce a party, whether financially weak or affluent."

The burden or expense of proposed discovery should be determined in a realistic way. This includes the burden or expense of producing electronically stored information. Computer-based methods of searching such information continue to develop, particularly for cases involving large volumes of electronically stored information. Courts and parties should be willing to consider the opportunities for reducing the burden or expense of discovery as reliable means of searching electronically stored information become available.

A portion of present Rule 26(b)(1) is omitted from the proposed revision. After allowing discovery of any matter relevant to any party's claim or defense, the present rule

adds: "including the existence, description, nature, custody, condition, and location of any documents or other tangible things and the identity and location of persons who know of any discoverable matter." Discovery of such matters is so deeply entrenched in practice that it is no longer necessary to clutter the long text of Rule 26 with these examples. The discovery identified in these examples should still be permitted under the revised rule when relevant and proportional to the needs of the case. Framing intelligent requests for electronically stored information, for example, may require detailed information about another party's information systems and other information resources.

The amendment deletes the former provision authorizing the court, for good cause, to order discovery of any matter relevant to the subject matter involved in the action. The Committee has been informed that this language is rarely invoked. Proportional discovery relevant to any party's claim or defense suffices, given a proper understanding of what is relevant to a claim or defense. The distinction between matter relevant to a claim or defense and matter relevant to the subject matter was introduced in 2000. The 2000 Note offered three examples of information that, suitably focused, would be relevant to the parties' claims or defenses. The examples were "other incidents of the same type, or involving the same product"; "information about organizational arrangements or filing systems"; and "information that could be used to impeach a likely witness." Such discovery is not foreclosed by the amendments. Discovery that is relevant to the parties' claims or defenses may also support amendment of the

pleadings to add a new claim or defense that affects the scope of discovery.

The former provision for discovery of relevant but inadmissible information that appears "reasonably calculated to lead to the discovery of admissible evidence" is also deleted. The phrase has been used by some, incorrectly, to define the scope of discovery. As the Committee Note to the 2000 amendments observed, use of the "reasonably calculated" phrase to define the scope of discovery "might swallow any other limitation on the scope of discovery." The 2000 amendments sought to prevent such misuse by adding the word "Relevant" at the beginning of the sentence, making clear that "'relevant' means within the scope of discovery as defined in this subdivision . . . ." The "reasonably calculated" phrase has continued to create problems, however, and is removed by these amendments. It is replaced by the direct statement that "Information within this scope of discovery need not be admissible in evidence to be discoverable." Discovery of nonprivileged information not admissible in evidence remains available so long as it is otherwise within the scope of discovery.

Rule 26(b)(2)(C)(iii) is amended to reflect the transfer of the considerations that bear on proportionality to Rule 26(b)(1). The court still must limit the frequency or extent of proposed discovery, on motion or on its own, if it is outside the scope permitted by Rule 26(b)(1).

Rule 26(c)(1)(B) is amended to include an express recognition of protective orders that allocate expenses for

disclosure or discovery. Authority to enter such orders is included in the present rule, and courts already exercise this authority. Explicit recognition will forestall the temptation some parties may feel to contest this authority. Recognizing the authority does not imply that cost-shifting should become a common practice. Courts and parties should continue to assume that a responding party ordinarily bears the costs of responding.

Rule 26(d)(2) is added to allow a party to deliver Rule 34 requests to another party more than 21 days after that party has been served even though the parties have not yet had a required Rule 26(f) conference. Delivery may be made by any party to the party that has been served, and by that party to any plaintiff and any other party that has been served. Delivery does not count as service; the requests are considered to be served at the first Rule 26(f) conference. Under Rule 34(b)(2)(A) the time to respond runs from service. This relaxation of the discovery moratorium is designed to facilitate focused discussion during the Rule 26(f) conference. Discussion at the conference may produce changes in the requests. The opportunity for advance scrutiny of requests delivered before the Rule 26(f) conference should not affect a decision whether to allow additional time to respond.

Rule 26(d)(3) is renumbered and amended to recognize that the parties may stipulate to case-specific sequences of discovery.

Rule 26(f)(3) is amended in parallel with Rule 16(b)(3) to add two items to the discovery plan —

issues about preserving electronically stored information and court orders under Evidence Rule 502.

1 **Rule 30. Depositions by Oral Examination**

2 **(a) When a Deposition May Be Taken.**

3 * * * * *

4 (2) ***With Leave.*** A party must obtain leave of court,

5 and the court must grant leave to the extent

6 consistent with Rule 26(b)(1) and (2):

7 * * * * *

8 **(d) Duration; Sanction; Motion to Terminate or Limit.**

9 (1) ***Duration.*** Unless otherwise stipulated or

10 ordered by the court, a deposition is limited to

11 one day of 7 hours. The court must allow

12 additional time consistent with Rule 26(b)(1) and

13 (2) if needed to fairly examine the deponent or if

14 the deponent, another person, or any other

15 circumstance impedes or delays the examination.

16 * * * * *

Committee Note

Rule 30 is amended in parallel with Rules 31 and 33 to reflect the recognition of proportionality in Rule 26(b)(1).

1 **Rule 31. Depositions by Written Questions**

2 **(a) When a Deposition May Be Taken.**

3 * * * * *

4 **(2)** ***With Leave.*** A party must obtain leave of court,

5 and the court must grant leave to the extent

6 consistent with Rule 26(b)(1) and (2):

7 * * * * *

Committee Note

Rule 31 is amended in parallel with Rules 30 and 33 to reflect the recognition of proportionality in Rule 26(b)(1).

1 **Rule 33. Interrogatories to Parties**

2 **(a) In General.**

3 **(1)** ***Number.*** Unless otherwise stipulated or ordered
4 by the court, a party may serve on any other
5 party no more than 25 written interrogatories,
6 including all discrete subparts. Leave to serve
7 additional interrogatories may be granted to the
8 extent consistent with Rule 26(b)(1) and (2).

9 * * * * *

Committee Note

Rule 33 is amended in parallel with Rules 30 and 31 to reflect the recognition of proportionality in Rule 26(b)(1).

1 **Rule 34. Producing Documents, Electronically Stored**
2 **Information, and Tangible Things, or**
3 **Entering onto Land, for Inspection and**
4 **Other Purposes**

5 * * * * *

6 **(b) Procedure.**

7 * * * * *

8 **(2)** ***Responses and Objections.***

9 **(A)** *Time to Respond.* The party to whom the
10 request is directed must respond in writing
11 within 30 days after being served or — if
12 the request was delivered under
13 Rule 26(d)(2) — within 30 days after the
14 parties' first Rule 26(f) conference. A
15 shorter or longer time may be stipulated to
16 under Rule 29 or be ordered by the court.

17 **(B)** *Responding to Each Item.* For each item or
18 category, the response must either state that

19 inspection and related activities will be
20 permitted as requested or state ~~an~~
21 ~~objection~~ with specificity the grounds for
22 objecting to the request, including the
23 reasons. The responding party may state
24 that it will produce copies of documents or
25 of electronically stored information instead
26 of permitting inspection. The production
27 must then be completed no later than the
28 time for inspection specified in the request
29 or another reasonable time specified in the
30 response.
31 **(C)** *Objections.* An objection must state
32 whether any responsive materials are being
33 withheld on the basis of that objection. An

34 objection to part of a request must specify

35 the part and permit inspection of the rest.

36 * * * * *

Committee Note

Several amendments are made in Rule 34, aimed at reducing the potential to impose unreasonable burdens by objections to requests to produce.

Rule 34(b)(2)(A) is amended to fit with new Rule 26(d)(2). The time to respond to a Rule 34 request delivered before the parties' Rule 26(f) conference is 30 days after the first Rule 26(f) conference.

Rule 34(b)(2)(B) is amended to require that objections to Rule 34 requests be stated with specificity. This provision adopts the language of Rule 33(b)(4), eliminating any doubt that less specific objections might be suitable under Rule 34. The specificity of the objection ties to the new provision in Rule 34(b)(2)(C) directing that an objection must state whether any responsive materials are being withheld on the basis of that objection. An objection may state that a request is overbroad, but if the objection recognizes that some part of the request is appropriate the objection should state the scope that is not overbroad. Examples would be a statement that the responding party will limit the search to documents or electronically stored information created within a given period of time prior to

the events in suit, or to specified sources. When there is such an objection, the statement of what has been withheld can properly identify as matters "withheld" anything beyond the scope of the search specified in the objection.

Rule 34(b)(2)(B) is further amended to reflect the common practice of producing copies of documents or electronically stored information rather than simply permitting inspection. The response to the request must state that copies will be produced. The production must be completed either by the time for inspection specified in the request or by another reasonable time specifically identified in the response. When it is necessary to make the production in stages the response should specify the beginning and end dates of the production.

Rule 34(b)(2)(C) is amended to provide that an objection to a Rule 34 request must state whether anything is being withheld on the basis of the objection. This amendment should end the confusion that frequently arises when a producing party states several objections and still produces information, leaving the requesting party uncertain whether any relevant and responsive information has been withheld on the basis of the objections. The producing party does not need to provide a detailed description or log of all documents withheld, but does need to alert other parties to the fact that documents have been withheld and thereby facilitate an informed discussion of the objection. An objection that states the limits that have controlled the search for responsive and relevant materials qualifies as a statement that the materials have been "withheld."

1 **Rule 37. Failure to Make Disclosures or to Cooperate**
2 **in Discovery; Sanctions**

3 **(a) Motion for an Order Compelling Disclosure or**
4 **Discovery.**

5 * * * * *

6 **(3)** ***Specific Motions.***

7 * * * * *

8 **(B)** *To Compel a Discovery Response.* A party
9 seeking discovery may move for an order
10 compelling an answer, designation,
11 production, or inspection. This motion may
12 be made if:

13 * * * * *

14 **(iv)** a party <u>fails to produce documents or</u>
15 fails to respond that inspection will be
16 permitted — or fails to permit

17 inspection — as requested under
18 Rule 34.
19 * * * * *
20 **(e) Failure to ~~Provide~~Preserve Electronically Stored**
21 **Information.** ~~Absent exceptional circumstances, a~~
22 ~~court may not impose sanctions under these rules on a~~
23 ~~party for failing to provide electronically stored~~
24 ~~information lost as a result of the routine, good-faith~~
25 ~~operation of an electronic information system.~~If
26 electronically stored information that should have
27 been preserved in the anticipation or conduct of
28 litigation is lost because a party failed to take
29 reasonable steps to preserve it, and it cannot be
30 restored or replaced through additional discovery, the
31 court:

32 (1) upon finding prejudice to another party from loss
33 of the information, may order measures no
34 greater than necessary to cure the prejudice; or
35 (2) only upon finding that the party acted with the
36 intent to deprive another party of the
37 information's use in the litigation may:
38 (A) presume that the lost information was
39 unfavorable to the party;
40 (B) instruct the jury that it may or must
41 presume the information was unfavorable to
42 the party; or
43 (C) dismiss the action or enter a default
44 judgment.
45 * * * * *

Committee Note

Subdivision (a). Rule 37(a)(3)(B)(iv) is amended to reflect the common practice of producing copies of documents or electronically stored information rather than simply permitting inspection. This change brings item (iv) into line with paragraph (B), which provides a motion for an order compelling "production, or inspection."

Subdivision (e). Present Rule 37(e), adopted in 2006, provides: "Absent exceptional circumstances, a court may not impose sanctions under these rules on a party for failing to provide electronically stored information lost as a result of the routine, good-faith operation of an electronic information system." This limited rule has not adequately addressed the serious problems resulting from the continued exponential growth in the volume of such information. Federal circuits have established significantly different standards for imposing sanctions or curative measures on parties who fail to preserve electronically stored information. These developments have caused litigants to expend excessive effort and money on preservation in order to avoid the risk of severe sanctions if a court finds they did not do enough.

New Rule 37(e) replaces the 2006 rule. It authorizes and specifies measures a court may employ if information that should have been preserved is lost, and specifies the findings necessary to justify these measures. It therefore forecloses reliance on inherent authority or state law to determine when certain measures should be used. The rule does not affect the validity of an independent tort claim for

spoliation if state law applies in a case and authorizes the claim.

The new rule applies only to electronically stored information, also the focus of the 2006 rule. It applies only when such information is lost. Because electronically stored information often exists in multiple locations, loss from one source may often be harmless when substitute information can be found elsewhere.

The new rule applies only if the lost information should have been preserved in the anticipation or conduct of litigation and the party failed to take reasonable steps to preserve it. Many court decisions hold that potential litigants have a duty to preserve relevant information when litigation is reasonably foreseeable. Rule 37(e) is based on this common-law duty; it does not attempt to create a new duty to preserve. The rule does not apply when information is lost before a duty to preserve arises.

In applying the rule, a court may need to decide whether and when a duty to preserve arose. Courts should consider the extent to which a party was on notice that litigation was likely and that the information would be relevant. A variety of events may alert a party to the prospect of litigation. Often these events provide only limited information about that prospective litigation, however, so that the scope of information that should be preserved may remain uncertain. It is important not to be blinded to this reality by hindsight arising from familiarity with an action as it is actually filed.

Although the rule focuses on the common-law obligation to preserve in the anticipation or conduct of litigation, courts may sometimes consider whether there was an independent requirement that the lost information be preserved. Such requirements arise from many sources — statutes, administrative regulations, an order in another case, or a party's own information-retention protocols. The court should be sensitive, however, to the fact that such independent preservation requirements may be addressed to a wide variety of concerns unrelated to the current litigation. The fact that a party had an independent obligation to preserve information does not necessarily mean that it had such a duty with respect to the litigation, and the fact that the party failed to observe some other preservation obligation does not itself prove that its efforts to preserve were not reasonable with respect to a particular case.

The duty to preserve may in some instances be triggered or clarified by a court order in the case. Preservation orders may become more common, in part because Rules 16(b)(3)(B)(iii) and 26(f)(3)(C) are amended to encourage discovery plans and orders that address preservation. Once litigation has commenced, if the parties cannot reach agreement about preservation issues, promptly seeking judicial guidance about the extent of reasonable preservation may be important.

The rule applies only if the information was lost because the party failed to take reasonable steps to preserve the information. Due to the ever-increasing volume of electronically stored information and the multitude of

devices that generate such information, perfection in preserving all relevant electronically stored information is often impossible. As under the current rule, the routine, good-faith operation of an electronic information system would be a relevant factor for the court to consider in evaluating whether a party failed to take reasonable steps to preserve lost information, although the prospect of litigation may call for reasonable steps to preserve information by intervening in that routine operation. This rule recognizes that "reasonable steps" to preserve suffice; it does not call for perfection. The court should be sensitive to the party's sophistication with regard to litigation in evaluating preservation efforts; some litigants, particularly individual litigants, may be less familiar with preservation obligations than others who have considerable experience in litigation.

Because the rule calls only for reasonable steps to preserve, it is inapplicable when the loss of information occurs despite the party's reasonable steps to preserve. For example, the information may not be in the party's control. Or information the party has preserved may be destroyed by events outside the party's control — the computer room may be flooded, a "cloud" service may fail, a malign software attack may disrupt a storage system, and so on. Courts may, however, need to assess the extent to which a party knew of and protected against such risks.

Another factor in evaluating the reasonableness of preservation efforts is proportionality. The court should be sensitive to party resources; aggressive preservation efforts can be extremely costly, and parties (including

governmental parties) may have limited staff and resources to devote to those efforts. A party may act reasonably by choosing a less costly form of information preservation, if it is substantially as effective as more costly forms. It is important that counsel become familiar with their clients' information systems and digital data — including social media — to address these issues. A party urging that preservation requests are disproportionate may need to provide specifics about these matters in order to enable meaningful discussion of the appropriate preservation regime.

When a party fails to take reasonable steps to preserve electronically stored information that should have been preserved in the anticipation or conduct of litigation, and the information is lost as a result, Rule 37(e) directs that the initial focus should be on whether the lost information can be restored or replaced through additional discovery. Nothing in the rule limits the court's powers under Rules 16 and 26 to authorize additional discovery. Orders under Rule 26(b)(2)(B) regarding discovery from sources that would ordinarily be considered inaccessible or under Rule 26(c)(1)(B) on allocation of expenses may be pertinent to solving such problems. If the information is restored or replaced, no further measures should be taken. At the same time, it is important to emphasize that efforts to restore or replace lost information through discovery should be proportional to the apparent importance of the lost information to claims or defenses in the litigation. For example, substantial measures should not be employed to restore or replace information that is marginally relevant or duplicative.

Subdivision (e)(1). This subdivision applies only if information should have been preserved in the anticipation or conduct of litigation, a party failed to take reasonable steps to preserve the information, information was lost as a result, and the information could not be restored or replaced by additional discovery. In addition, a court may resort to (e)(1) measures only "upon finding prejudice to another party from loss of the information." An evaluation of prejudice from the loss of information necessarily includes an evaluation of the information's importance in the litigation.

The rule does not place a burden of proving or disproving prejudice on one party or the other. Determining the content of lost information may be a difficult task in some cases, and placing the burden of proving prejudice on the party that did not lose the information may be unfair. In other situations, however, the content of the lost information may be fairly evident, the information may appear to be unimportant, or the abundance of preserved information may appear sufficient to meet the needs of all parties. Requiring the party seeking curative measures to prove prejudice may be reasonable in such situations. The rule leaves judges with discretion to determine how best to assess prejudice in particular cases.

Once a finding of prejudice is made, the court is authorized to employ measures "no greater than necessary to cure the prejudice." The range of such measures is quite broad if they are necessary for this purpose. There is no all-purpose hierarchy of the severity of various measures;

the severity of given measures must be calibrated in terms of their effect on the particular case. But authority to order measures no greater than necessary to cure prejudice does not require the court to adopt measures to cure every possible prejudicial effect. Much is entrusted to the court's discretion.

In an appropriate case, it may be that serious measures are necessary to cure prejudice found by the court, such as forbidding the party that failed to preserve information from putting on certain evidence, permitting the parties to present evidence and argument to the jury regarding the loss of information, or giving the jury instructions to assist in its evaluation of such evidence or argument, other than instructions to which subdivision (e)(2) applies. Care must be taken, however, to ensure that curative measures under subdivision (e)(1) do not have the effect of measures that are permitted under subdivision (e)(2) only on a finding of intent to deprive another party of the lost information's use in the litigation. An example of an inappropriate (e)(1) measure might be an order striking pleadings related to, or precluding a party from offering any evidence in support of, the central or only claim or defense in the case. On the other hand, it may be appropriate to exclude a specific item of evidence to offset prejudice caused by failure to preserve other evidence that might contradict the excluded item of evidence.

Subdivision (e)(2). This subdivision authorizes courts to use specified and very severe measures to address or deter failures to preserve electronically stored information, but only on finding that the party that lost the

information acted with the intent to deprive another party of the information's use in the litigation. It is designed to provide a uniform standard in federal court for use of these serious measures when addressing failure to preserve electronically stored information. It rejects cases such as *Residential Funding Corp. v. DeGeorge Financial Corp.*, 306 F.3d 99 (2d Cir. 2002), that authorize the giving of adverse-inference instructions on a finding of negligence or gross negligence.

Adverse-inference instructions were developed on the premise that a party's intentional loss or destruction of evidence to prevent its use in litigation gives rise to a reasonable inference that the evidence was unfavorable to the party responsible for loss or destruction of the evidence. Negligent or even grossly negligent behavior does not logically support that inference. Information lost through negligence may have been favorable to either party, including the party that lost it, and inferring that it was unfavorable to that party may tip the balance at trial in ways the lost information never would have. The better rule for the negligent or grossly negligent loss of electronically stored information is to preserve a broad range of measures to cure prejudice caused by its loss, but to limit the most severe measures to instances of intentional loss or destruction.

Similar reasons apply to limiting the court's authority to presume or infer that the lost information was unfavorable to the party who lost it when ruling on a pretrial motion or presiding at a bench trial. Subdivision (e)(2) limits the ability of courts to draw

adverse inferences based on the loss of information in these circumstances, permitting them only when a court finds that the information was lost with the intent to prevent its use in litigation.

Subdivision (e)(2) applies to jury instructions that permit or require the jury to presume or infer that lost information was unfavorable to the party that lost it. Thus, it covers any instruction that directs or permits the jury to infer from the loss of information that it was in fact unfavorable to the party that lost it. The subdivision does not apply to jury instructions that do not involve such an inference. For example, subdivision (e)(2) would not prohibit a court from allowing the parties to present evidence to the jury concerning the loss and likely relevance of information and instructing the jury that it may consider that evidence, along with all the other evidence in the case, in making its decision. These measures, which would not involve instructing a jury it may draw an adverse inference from loss of information, would be available under subdivision (e)(1) if no greater than necessary to cure prejudice. In addition, subdivision (e)(2) does not limit the discretion of courts to give traditional missing evidence instructions based on a party's failure to present evidence it has in its possession at the time of trial.

Subdivision (e)(2) requires a finding that the party acted with the intent to deprive another party of the information's use in the litigation. This finding may be made by the court when ruling on a pretrial motion, when presiding at a bench trial, or when deciding whether to give an adverse inference instruction at trial. If a court were to

conclude that the intent finding should be made by a jury, the court's instruction should make clear that the jury may infer from the loss of the information that it was unfavorable to the party that lost it only if the jury first finds that the party acted with the intent to deprive another party of the information's use in the litigation. If the jury does not make this finding, it may not infer from the loss that the information was unfavorable to the party that lost it.

Subdivision (e)(2) does not include a requirement that the court find prejudice to the party deprived of the information. This is because the finding of intent required by the subdivision can support not only an inference that the lost information was unfavorable to the party that intentionally destroyed it, but also an inference that the opposing party was prejudiced by the loss of information that would have favored its position. Subdivision (e)(2) does not require any further finding of prejudice.

Courts should exercise caution, however, in using the measures specified in (e)(2). Finding an intent to deprive another party of the lost information's use in the litigation does not require a court to adopt any of the measures listed in subdivision (e)(2). The remedy should fit the wrong, and the severe measures authorized by this subdivision should not be used when the information lost was relatively unimportant or lesser measures such as those specified in subdivision (e)(1) would be sufficient to redress the loss.

1 **Rule 55. Default; Default Judgment**

2 * * * * *

3 **(c) Setting Aside a Default or a Default Judgment.**

4 The court may set aside an entry of default for good

5 cause, and it may set aside a final default judgment

6 under Rule 60(b).

7 * * * * *

Committee Note

Rule 55(c) is amended to make plain the interplay between Rules 54(b), 55(c), and 60(b). A default judgment that does not dispose of all of the claims among all parties is not a final judgment unless the court directs entry of final judgment under Rule 54(b). Until final judgment is entered, Rule 54(b) allows revision of the default judgment at any time. The demanding standards set by Rule 60(b) apply only in seeking relief from a final judgment.

1 **Rule 84. Forms**

2 **[Abrogated (Apr. __, 2015, eff. Dec. 1, 2015).]**

3 ~~The forms in the Appendix suffice under these rules~~

4 ~~and illustrate the simplicity and brevity that these rules~~

5 ~~contemplate.~~

Committee Note

Rule 84 was adopted when the Civil Rules were established in 1938 "to indicate, subject to the provisions of these rules, the simplicity and brevity of statement which the rules contemplate." The purpose of providing illustrations for the rules, although useful when the rules were adopted, has been fulfilled. Accordingly, recognizing that there are many ~~excellent~~ alternative sources for forms, including the website of the Administrative Office of the United States Courts, the websites of many district courts, and local law libraries that contain many commercially published forms. Rule 84 and the Appendix of Forms are no longer necessary and have been abrogated. The abrogation of Rule 84 does not alter existing pleading standards or otherwise change the requirements of Civil Rule 8.

1 **APPENDIX OF FORMS**

2 **[Abrogated (Apr. __, 2015, eff. Dec. 1, 2015).]**

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PROVING IRREPARABLE HARM IN TRADEMARK CASES

October 23, 2015: Intellectual Property Law Conference, State Bar of Nevada

Thomas H. Zellerbach,
Orrick, Herrington & Sutcliffe LLP

Historical Standard for Granting Injunctive Relief

Historical Standard for Granting Injunctive Relief

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In order to obtain permanent injunctive relief, federal courts applied a long-established four-factor test, under which the movant must show that:

1) It has suffered an irreparable injury;
2) Legal remedies are inadequate;
3) Considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;
4) An injunction would not be against public interest.

See, e.g., Weinberger v. Romero-Barcelo, 456 U.S. 305, 312-13 (U.S. 1982)

Historical Standard for Granting Injunctive Relief

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In order to obtain temporary injunctive relief, federal courts applied a similar four-factor test, under which the movant was required to show that:

1) It has a likelihood of success on the merits;
2) It is likely to suffer an irreparable injury;
3) Considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted;
4) An injunction is in the public interest.

See, e.g., Canal Auth. of Fla. v. Callaway, 489 F.2d 567, 572 (5th Cir. 1974)

Historical Standard for Granting Injunctive Relief in IP Cases

Historical Standard for Granting Injunctive Relief in IP Cases

ORRICK

Federal Courts had traditionally applied a more lenient standard when granting injunctions in patent, trademark, and copyright cases:

- Once a plaintiff showed that it had a valid mark, copyright, or patent that was infringed—or a likelihood of success on the merits—irreparable harm was *presumed.* *See Brookfield Communs., Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1066 (9th Cir. 1999) (noting application of presumption in trademark cases).

Historical Standard for Granting Injunctive Relief in IP Cases

ORRICK

The presumption of irreparable harm in trademark cases was long-standing and developed, at least in part, from Judge Learned Hand's pronouncement in *Yale Electric Corp. v. Robertson*, 26 F.2d 972, 973 (2d Cir. 1928), where he declared the following regarding infringement and loss of control of goodwill when granting an injunction:

- "This is an injury, even though the borrower does not tarnish [the mark], or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask."

Historical Standard for Granting Injunctive Relief in IP Cases

ORRICK

Irreparable harm was presumed in trademark cases because:

- Likelihood of confusion puts a trademark owner's business and goodwill at risk.
- This type of injury is difficult to quantify.
- Monetary relief is considered inadequate to compensate for loss of control of reputation.

The Landscape of Irreparable Harm Changes

The Landscape of Irreparable Harm Changes

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- In 2006, the Supreme Court held that the presumption of irreparable harm was no longer appropriate in cases brought under the Patent Act.
- The Supreme Court made no pronouncements regarding the continued validity of the presumption of irreparable harm in cases brought under the Lanham Act.

eBay Inc. v. MercExchange, L.L.C, 547 U.S. 388 (2006)

The Landscape of Irreparable Harm Changes

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- In 2008, the Supreme Court held that a preliminary injunction cannot be based on the mere possibility of irreparable harm.
- Irreparable harm must be likely.

Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7, 22-23 (2008)

Circuit Split After *eBay*

Circuit Split After eBay

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- The current holder of the THE PLATTERS trademark sued a promoter using the mark in connection with its own musical group. The district court found infringement and granted preliminary injunction based on a presumption of irreparable harm.
- In December 2013, the 9th Circuit became the first court of appeals to rule that *eBay* applies to cases brought under the Lanham Act, thereby eliminating the presumption of irreparable harm.
- The Court gave no explicit guidance on what might constitute a sufficient showing of irreparable harm, opining that evidence of loss of control over business reputation and damage to goodwill could constitute irreparable harm.

Herb Reed Enters. v. Florida Entertainment Mgmt., 736 F.3d 1239 (9th Cir. 2013), *cert. denied*, 134 S. Ct. 88, 187 L.Ed. 2d 254 (2013)

Circuit Split After eBay

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- Evidence of past confusion is not sufficient evidence of irreparable harm.
- A trademark owner must show a likelihood that there will be future irreparable harm.
- The Supreme Court denied certiorari in October 2014.

Herb Reed Enters. v. Florida Entertainment Mgmt., 736 F.3d 1239 (9th Cir. 2013) (cont'd)

Circuit Split After eBay

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- In the same year that the 9th Circuit ruled in *Herb Reed*, the 5th Circuit, while citing *eBay*, continued to apply the presumption of irreparable harm to a trademark infringement case. *Abraham v. Alpha Chi Omega*, 708 F.3d 614 (5th Cir. 2013) ("All that must be proven to establish liability and the need for an injunction against infringement is the likelihood of confusion—injury is presumed.").
- In 2014, the 3rd Circuit ruled in *Ferring Pharm., Inc. v. Watson Pharm., Inc.,* 765 F.3d 205 (3rd Cir. 2014) that *eBay* applied to trademark cases and the presumption of irreparable harm was no longer appropriate.
- Following the Supreme Court's denial of certiorari in *Herb Reed*, the presumption has been eradicated in western courts.
- The remainder of the Circuits have not ruled on the issue explicitly and there remains some confusion in district courts.

Circuit Split After eBay

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CIRCUIT SPLIT SUMMARY

- The 9th and 3rd Circuits have explicitly ruled that *eBay* applies to trademark cases
- The 2nd Circuit affirmed at least one district court case applying *eBay* to trademark cases and most district courts refuse to apply the presumption
- The 1st Circuit has not ruled on the matter directly, but has indicated in dicta an inclination to apply *eBay* to trademark cases and not apply the presumption
- Most district courts in the 5th Circuit have continued to apply the presumption per *Abraham*, but some have acknowledged uncertainty
- The 4th and 6th Circuits have not ruled on the matter directly, but many district courts continue to apply the presumption
- The 7th, 8th, 10th, and 11th Circuits have not ruled and the district courts appear to be divided

Proving Irreparable Harm in the 9th Circuit After *Herb Reed*

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- The Court of Appeals reversed an award of permanent injunction against a food producer found to infringe the mark MAGNOLIA.
- The Court of Appeals noted that irreparable injury requires that "a trademark owner do more than merely demonstrate that a trademark has been infringed or that consumers have been confused."
- Evidence of infringer's business growth did not correlate to harm for the trademark owner.
- The trademark owner submitted evidence of actual confusion, but none of it indicated a loss of goodwill or damage to reputation.

San Miguel Pure Foods Co. v. Ramar Int'l Corp., 2015 U.S. App. LEXIS 15145 (9th Cir. Aug. 27, 2015) (reversing permanent injunction against San Miguel's use of MAGNOLIA for butter, margarine, and cheese where the use was found to infringe Ramar's rights in MAGNOLIA for ice cream).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- The Court of Appeals affirmed a grant of preliminary injunction where a medical alert service was employing telemarketers to solicit sales with deceptive scripts using a competitor's slogans and trademarks.
- The Court found a likelihood of irreparable harm because the trademark owner submitted evidence of numerous consumer complaints via email and through social media posts.

Life Alert Emergency Response, Inc. v. LifeWatch, Inc., 2015 U.S. App. LEXIS 1760 (9th Cir. Feb. 4, 2015) (affirming grant of preliminary injunction against LifeWatch's use of Life Alert trademarks and slogans, including "Help, I've Fallen and I Can't Get Up").

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- The Court of Appeals reversed the district court's grant of a preliminary injunction where plaintiff complained its marks were being used in connection with a website specifically catering to marijuana growers.
- The allegation of irreparable harm was merely speculative, because there was no evidence that plaintiff's customers knew of the website, that the customers would associate the website with marijuana, or that an association with marijuana growers would harm sales.

Titaness Light Shop, LLC v. Sunlight Supply, Inc., 585 Fed. Appx. 390 (9th Cir. 2014) (Vacating preliminary injunction against party using TITANESS in connection with indoor grow lighting systems through a website associated with marijuana growth).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- Irreparable harm found likely where trademark owner maintained careful control over distribution of products by limiting sales to authorized resellers who were prohibited from selling goods online, while infringer sold its goods over the Internet.
- The trademark owner's relationships with its authorized resellers were therefore likely to be harmed.
- Evidence also demonstrated that the infringer took steps to hide its identity so that monetary damages might not be recoverable.

Hand & Nail Harmony, Inc. v. Int'l Nail Co., 2015 U.S. Dist. LEXIS 67421 (C.D. Cal. May 22, 2015) (awarding preliminary injunction against defendant's use of GELISH mark for nail polish).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- Irreparable harm found not likely even though the Court agreed there was a strong possibility of confusion from defendant's use of the MGM mark.
- Plaintiff failed to carry its burden because it did not provide evidence of actual confusion or evidence showing that any such confusion would result in reputational harm.

MGM Resorts, Int'l v. Unknown Registrant, 2014 U.S. Dist. LEXIS 167326 (D. Nev. Dec. 3, 2014) (Refusing to enjoin defendant's unauthorized use of the MGM mark in connection with online casino services).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- "Broad or vague" claims of damage to reputation or goodwill were insufficient.
- Delay in taking legal action for over a year weighed against a showing of irreparable harm.
- Evidence of "many" negative reviews of defendant's products were insufficient to show irreparable harm where:
  - » (1) There was no evidence that the amount of negative reviews was significant;
  - » (2) There was no evidence that customers would likely be confused;
  - » (3) There was no evidence of loss of sales or likely loss of sales.

Cutting Edge Solutions, LLC v. Sustainable Low Maintenance Grass, LLC, 2014 U.S. Dist. LEXIS 149575 (N.D. Cal. Oct. 20, 2014) (denying a producer of hydroponic products injunctive relief for defendant's use of CUTTING EDGE in connection with grass seeds for use outdoors).

Proving Irreparable Harm in the 9th Circuit After Herb Reed

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- Claims of irreparable harm due to defendant's shoddily manufactured shorts using the disputed trademark were insufficient to demonstrate a likelihood of irreparable harm.
- Plaintiffs were required to produce actual evidence of inferior manufacturing.
- Absent actual evidence, a claim of irreparable harm due to shoddy manufacturing is merely speculative.

Purdum v. Wolfe, 2014 U.S. Dist. LEXIS 5480 (N.D. Ca. Jan. 15, 2014) (denying request for injunctive relief in trademark ownership dispute between clothing manufacturers where the defendant was alleged to make inferior quality items).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- Citing *Herb Reed*, the Court found "[i]t is well established that damage to goodwill or loss of control over business reputation can constitute irreparable harm."
- The Court granted a preliminary injunction because the plaintiff was able to demonstrate irreparable harm by showing:
  - » (1) evidence of lost sales;
  - » (2) evidence of consumers who opted to do business with defendant instead, many of whom pointed to the false advertising on defendant's website as the motivation for their choice; and
  - » (3) the false and deceptive advertising was ongoing.

Am. Bullion, Inc. v. Regal Assets, LLC, 2014 U.S. Dist. LEXIS 161082 (C.D. Cal. Nov. 17, 2014) (business offering services of adding gold and precious metals to retirement accounts preliminarily enjoined from using plaintiff's mark while disparaging plaintiff's business through third party websites).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- Irreparable harm found where:
  - » (1) the defendant sold counterfeit products bearing the Starbucks marks in places where Starbucks prohibited sales;
  - » (2) there was evidence of poor business practices, inferior products, consumer complaints, and evidence that consumers were misled;
  - » (3) the defendant's products competed with Starbucks' products;
  - » (4) Starbucks suffered a loss of control, goodwill, and reputation.

Starbucks Corp. v. Heller, 2014 U.S. Dist. LEXIS 165801 (C.D. Cal. Nov. 26, 2014) (granting preliminary injunction against manufacturer of counterfeit goods bearing the STARBUCKS marks).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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- Evidence of loss of prospective customers, goodwill, or reputation may be sufficient.
- Here, several trial witnesses testified regarding loss of reputation and goodwill resulting from actual confusion.

Treemo, Inc. v. Flipboard, Inc., 2014 U.S. Dist. LEXIS 147162 (W.D. Wash. Oct. 15, 2014) (granting permanent injunction against FLOWBOARD for a mobile app for creating a portfolio of user-generated multimedia content because of likelihood of confusion with FLIPBOARD for a mobile app for collecting and reporting news).

Proving Irreparable Harm In the 9th Circuit After Herb Reed

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TAKEAWAY POINTS FROM THE 9TH CIRCUIT

- Courts will not accept broad or vague allegations of harm to goodwill or reputation.
- Plaintiffs are generally required to put forth some evidence of actual or likely harm, such as customer testimonials or evidence of lost sales.
- Courts may be less inclined to grant preliminary injunctions where defendants provide assurances to stop infringing or deceptive conduct.
- Evidence of actual confusion supports a finding of irreparable harm.
- Delay in seeking relief weighs against a finding of irreparable harm.

Proving Irreparable Harm in Other Circuits After *Herb Reed*

Proving Irreparable Harm In Other Circuits After Herb Reed

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- The Court explicitly agreed with the holding of *Herb Reed* and found that *eBay* applies with equal force to trademark cases.
- The Court of Appeals affirmed the district court's refusal of injunctive relief where the evidence showed the misrepresentations regarding plaintiff's products were taken down and the defendants certified not to make any further misrepresentations in the future.
- It was not error for the district court to credit the statements of defendant when denying the preliminary injunction.

Ferring Pharm., Inc. v. Watson Pharm., Inc., 765 F.3d 205 (3rd Cir. 2014) (affirming denial of preliminary injunction where doctors made allegedly false and misleading statements about FDA approved estrogen supplements for women).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Affirmed district court finding of irreparable harm based on:
  - » Substantial investments in advertising and promotion;
  - » Direct competition between the parties' products, which were often sold side by side;
  - » Testimony that the claims of defendant were literally false and identified plaintiff's product by name;
  - » Defendant's product was sold at a lower price.
- The Court noted that it was "not connecting these facts using a veiled presumption of irreparable harm." Courts may still draw inferences from the facts.

Group SEB US, Inc. v. Euro-Pro Operating, LLC, 774 F.3d 192 (3d Cir. 2014) (affirming grant of preliminary injunction against manufacturer of irons making comparative advertising claims using a competitor's mark).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Without deciding whether *eBay* applies to trademark cases, the court found sufficient evidence of irreparable harm, with or without the presumption.
- Several witnesses testified to instances of ongoing actual confusion.
- Without a permanent injunction, there would be loss of control of goodwill and reputation.
- Plaintiff would be forced to file additional lawsuits in the future.

165 Park Row, Inc. v. JHR Dev., LLC, 2014 U.S. Dist. LEXIS 13575 (D. Me. Feb. 4, 2014) (granting permanent injunctive relief against defendant's use of the mark THE INN AT BRUNSWICK STATION where it was likely to be confused with the plaintiff's earlier use of the mark BRUNSWICK INN, which had acquired distinctiveness at the time defendant adopted its mark).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Without deciding whether the presumption still applies, the court found irreparable harm where:
  - » (1) there was a likelihood of confusion and evidence of actual confusion;
  - » (2) the use of a mark that was likely infringing compromised the trademark owner's control over its reputation and goodwill;
  - » (4) the trademark owner would likely have had a harder time marketing its own products as a result of the infringement.

JL Powell Clothing LLC v. Powell, 2014 U.S. Dist. LEXIS 169094 (D. Me. Nov. 24, 2014) (granting preliminary injunction against clothing designer from using his name in connection with a clothing magazine, where clothing designer had previously granted JL Powell Clothing LLC the exclusive right to use his name and endorsement in connection with another competing clothing magazine).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- The Court refused to determine whether *eBay* applies to trademark infringement, but found irreparable harm based on a "strong" likelihood of confusion.
- The Court found it compelling that the trademark owner exercised strict control over the quality and design of the products bearing the CONTESSA marks.

Barefoot Contessa Pantry, LLC v. Aqua Star (USA) Co., 2015 U.S. Dist. LEXIS 24013 (S.D.N.Y. Feb. 26, 2015) (granting preliminary injunctive relief against defendant using CONTESSA marks for frozen food products).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- The Court acknowledged that the presumption of irreparable harm is no longer available, but found evidence of likely irreparable harm where there were "no assurances in the record against Defendant's continued infringement" and where there was a "likelihood that customers will draw an erroneous connection between the Mark and Defendant's trade name."

Sola Franchise Corp. v. Solo Salon Studios, Inc., 2015 U.S. Dist. LEXIS 38490 (E.D.N.Y. Feb. 9, 2015) (granting permanent injunction against defendant from using SOLO SALON STUDIOS in connection with beauty salon services).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- The Court explicitly adopted *eBay*, but found irreparable harm based only on a likelihood of confusion and resulting loss of the trademark owner's control of its goodwill and reputation.

Balady, Inc. v. Elhindi, 2014 U.S. Dist. LEXIS 177166 (E.D.N.Y. Dec. 3, 2014), adopted by 2014 U.S. Dist. LEXIS 176845 (E.D.N.Y. Dec. 19, 2014) (Middle Eastern food market enjoined from using the mark BALADY WA BALADAK, which was found likely to be confused with BALADY for the same services).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Irreparable harm found where counterfeit goods were sold with identical or nearly identical marks.
- The court indicated that irreparable harm is likely in instances of counterfeiting.

Mitchell Group USA, LLC v. Nkem Udeh, 2015 U.S. Dist. LEXIS 18801 (E.D.N.Y., Feb. 17, 2015) (granting preliminary injunction where defendant produced counterfeit creams and gels bearing the plaintiff's trademarks).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Injury must be "certain and great."
- A former franchisee's continued, unauthorized use of a trademark poses a substantial likelihood of irreparable harm to the trademark owner.
- The court noted that there is usually a substantial risk of irreparable harm in cases of infringement by former franchisees.

IHOP Franchising, LLC v. Tabel, 2014 U.S. Dist. LEXIS 60028 (D. Kan. Apr. 15, 2014) (granting preliminary injunction against franchisee of IHOP who continued use of the IHOP mark for pancake houses after assigning the franchise and failing to honor IHOP's right of first refusal contrary to the franchise agreement).

Proving Irreparable Harm In Other Circuits After Herb Reed

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- Although the presumption "has been called into question," the court found a "sufficiently strong showing of likelihood of confusion" may be sufficient for a showing of irreparable harm.

TracFone Wireless, Inc. v. Clear Choice Connections, Inc., 2015 U.S. Dist. LEXIS 58959 (S.D. Fla. April 27, 2015), *citing McDonald's Corp. v. Robertson*, 147 F.3d 1301, 1310 (11th Cir. 1998) (granting preliminary injunctive relief against Clear Choice Connections' use of the TRACFONE marks).

Proving Irreparable Harm In Other Circuits After Herb Reed

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TAKEAWAY POINTS OUTSIDE THE 9TH CIRCUIT

- The application of the presumption will depend on the circuit and district court hearing the case.
- Even where courts claimed not to apply the presumption, they frequently found irreparable harm based on vague claims of loss of control of goodwill or reputation. Courts outside of the 9th Circuit appear to continue to conflate the analyses for likelihood of confusion and irreparable harm.
- Many courts have not required solid evidence of likely harm. Even if the presumption is not applied, courts may still infer irreparable harm from the facts.

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PROVING IRREPARABLE HARM IN TRADEMARK CASES

October 23, 2015: Intellectual Property Law Conference,
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