McCarthy Tétrault

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IP THINKING

The second issue of *IP Thinking* continues where the first one left off, with articles focused on diverse areas within intellectual property. Included in this edition are articles discussing business method patents, fraud in a trade-mark application, the doctrine of sound prediction for patents, global copyright protection, policing intellectual property on the Internet, and protecting brands using Business Corporations Acts.

We are particularly pleased that the contributions for this issue reflect the national scope of McCarthy Tétrault LLP, with articles submitted from Vancouver (Lisa Martz), Calgary (Timothy S. Ellam and Kara L. Smyth), Toronto (Steven Mason, Robert Nakano, David Tait, and James Gannon) and Montréal (Véronique Wattiez Larose).

As always, if you have any ideas or suggestions that would make our Newsletter more interesting and useful for you, please let us know.

Steven Mason and Steven Tanner (Editors)

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McCarthy Tétrault

Canadian Patent Office Rules on Requirements for an "Invention" for a Patent

By Robert Nakano and David Tait (Toronto)

The Canadian Patent Appeal Board recently rejected Amazon.com Inc.'s patent application relating to its "one-click" online order-processing method. The decision provides guidance as to how the Patent Office views the scope of the term "invention" as provided in Section 2 of the *Patent Act*.

To provide some history: Amazon filed a Canadian patent application in 1998 for its single-action order-processing method. The application described a method and system that allows customers to complete an order over the Internet with only one click of their mouse. A unique identifier is stored on the customer's computer, which is associated with customer-specific account information already stored on the vendor's servers from a previous visit. When the customer clicks on the button to purchase an item, the vendor's servers receive the request, retrieve the customer's account information using the identifier, and combine the retrieved information to generate the order. This way, the customer avoids having to re-enter information for additional orders and can skip some of the usual steps in the checkout process.

In completing the prosecution phase, in 2004, the Patent Office Examiner rejected all claims of the application for being obvious and for not falling within the requirements of an "invention" as defined in Section 2 of the *Patent Act*.

On appeal of the Examiner's final rejection to the Patent Appeal Board, the Board found that the claims were not obvious, but affirmed that the claims did not fall within the definition of an "invention." As such, the Board determined that the order-processing system could not be patented.

A key point in the Board's analysis was the tests it applied to assess whether the claims of an application are an "invention." The Board considered the form and substance of the claims and applied three legal conditions:

1. The subject matter of the claim needs to fit the definition of "invention" of Section 2 (namely it must fall within one of the defined categories of invention: art, process, machine, manufacture or composition of matter).
2. The subject matter could not be excluded subject matter.
3. The subject matter must be "technological."

Regarding form, the Board found that some claims of Amazon's application were business method claims, while the others were machine claims. The Board considered Canadian and foreign jurisprudence and found that "business method" claims do not fall within the subject matter of an "invention" — so are not patentable in Canada. As such, the Board determined that the application's business method claims were not an "invention," while the machine claims passed this first condition.

However, when considering the substance of the claims, the Board found none of the claims were an "invention." In its lengthy analysis, the Board found that all claims were the same in substance, namely a set of rules for executing an online order. In assessing the substance of the claims, the Board indicated that a claim could not be an "invention" if it did not provide any technological innovation. The Board found that the claims did not present any technological innovation, and affirmed the Examiner's rejection of the claims on that basis.

As such, all claims of Amazon's "one-click" patent are currently rejected. The decision of the Board may be appealed to the Federal Court.

McCarthy Tétrault Notes:

This decision is noteworthy because the Board's stance on business method patents is likely a reflection of current internal views of the Patent Office on such patent applications.

The reasoning appears to regress from statements in the current *CIPO Manual of Patent Office Practice*. The Manual currently states that "Business methods are not automatically excluded from patentability, since there is no authority in the *Patent Act* or Rules or in the jurisprudence to sanction or preclude patentability based on their inclusion in this category." The Canadian Intellectual Property Office (CIPO) may be revising this section in an updated Manual.

It has been generally regarded that Canadian jurisprudence does not expressly exclude business methods from being an "invention." Notably, the decisions in Shell Oil, Progressive Games and Calgon Carbon appear to provide a broad interpretation on the statutory term "art," which arguably capture new and useful business methods so long as they have a practical application and are commercially useful.

The decision establishes a new and lower watermark for how business method patents will likely be treated by the Patent Office in Canada. If the Board's decision is appealed to the Federal Court, judicial guidance as to the correctness and boundaries of this decision will likely be provided.

Canadian Federal Court rejects US doctrine of fraud for material misstatements in declarations of use

By Véronique Wattiez Larose (Montréal)

In *Parfums de Coeur, Ltd.* v. *Asta*,[1] the Federal Court confirmed the Canadian treatment of "inadvertently" false declarations of use, — innocent misstatements will not be sufficient to make a mark unregistrable. In adopting this position, the court distanced itself from the United States Patent and Trademark Office (USPTO), which takes the view that a material misstatement in the trade-mark process renders the resulting registration void.

Mr. Asta had filed a proposed use application for the trade-mark BOD in association with several wares relating to hair care, skin care, cosmetics and body care. In his declaration of use, he declared having commenced use, either by himself or through a licensee, of the trade-mark in Canada in association with the wares listed in the application. Registration of the trade-mark ensued in due course.

Parfums de Coeur, Ltd. (PDC), an American distributor of body mists bearing the trade-mark BOD MAN, contacted Mr. Asta to inform him of its intent to seek cancellation of the BOD registration. Mr. Asta then filed an amendment to his registration to reflect his actual use of the BOD trade-mark, i.e., with shampoo and conditioner. Notwithstanding this amendment, PDC sought the cancellation of the amended registration on the basis that Asta made a material misstatement, as the Trade-Marks Office deemed Asta's registration to preclude PDC from obtaining a registration for the BOD MAN trade-mark in association with perfume for men.

Mr. Asta declared that he thought that so long as he had used the trade-mark BOD in association with one of the wares listed in the application, he could file a declaration of use covering all of them. The court found that although the declaration of use had certainly been made erroneously, such a mistake was either the result of a good faith mistake or of negligence. He reiterated the previously[2] stated rule that invalidity of a registration could result from two types of false declarations: (i) fraudulent, intentional misstatements; and (ii) innocent misstatements that are material in the sense that without them the Section 12 barriers to registration would have been insurmountable.

As the application by PDC for cancellation of the trade-mark registration was filed at a date when the original trade-mark registration has already been amended, and there was evidence that Mr. Asta has used the mark with shampoo and conditioner before filing the declaration of use, the court found that although "clearly wrong," it was an innocent misstatement not sufficient to make the mark unregistrable in relation to shampoo and conditioner.

McCarthy Tétrault Notes:

Whether it is at the time of preparing a trade-mark application or filing a declaration of use, conveying the subtle nuances between the lay meaning of what constitutes "use" and its interpretation under the *Trade-Marks Act* is not an easy task. Although the Federal Court has rejected denying the monopoly granted by a trade-mark registration in the presence of a material misstatement in the trade-mark process, the specific facts of this case should serve as an additional reminder that both clients and their trade-mark agents must carefully undertake this important analysis.

[1] 2009 FC 21.

[2] *General Motors of Canada* v. *Moteurs Décarie Inc.*, [2001] 1 F.C. 665 (F.C.A.).

The Federal Court of Appeal recently released an important decision on the doctrine of sound prediction (*Eli Lilly Canada Inc.* v. *Apotex Inc. 2009 FCA 97*)

By Steven Mason and David Tait (Toronto)

Facts

Eli Lilly's '356 patent claims raloxifene and other benzothiophenes for use in treating or preventing osteoporosis or bone loss, particularly in post-menopausal females, and particularly without eliciting significant estrogenic responses in primary sex tissues.

For a patent to be valid in Canada, a patent must have "utility." The inventor must be in a position to establish utility as of the date the patent is applied for, based on either demonstrated utility or a sound prediction.

Not surprisingly, at the time Eli Lilly filed its patent, it did not yet have data demonstrating the utility of the claimed use. Rather (and as the court observed), the invention was based on a prediction.

The court noted that the '356 patent disclosed that:

1. raloxifene is a known compound having certain known medical uses in estrogen treatment, and it is known how to make it;
2. studies on rats with raloxifene showed that bone loss is prevented with minimal increases in uterine weight; and
3. studies on post-menopausal women were contemplated and expected to show that raloxifene is effective in inhibiting bone loss.

The rat studies were positive, but the claim that raloxifene could have the same effect on women — in particular, estrogen-deficient, post-menopausal women who suffered from bone loss — was necessarily based on a prediction.

Eli Lilly conceded that the basis for the soundness of the prediction was a study it had conducted on 251 post-menopausal women in Hong Kong; this study showed that raloxifene held promise as a skeletal anti-resorptive.

The Test for Sound Prediction

The court referred to the decision of the Supreme Court of Canada in *Apotex Inc.* v. *Wellcome Foundation Ltd* [2002] SCC 77, which provided a three-fold test for the requirement of sound prediction:

1. There must be a factual basis for the prediction.
2. The inventor must have, at the date of the patent application, an articulable and sound line of reasoning from which the derived result can be inferred from the factual basis.
3. There must be proper disclosure.

The Court of Appeal held that when a patent is based on sound prediction, *the disclosure must include* the underlying factual basis for the prediction *and* the sound line of reasoning that grounded the inventors' prediction. Because the prediction in this case was made sound by Eli Lilly's "Hong Kong Study," the court held that the results of this study should have been disclosed in the patent itself for there to have been sufficient disclosure. Eli Lilly's failure to do so was fatal to its patent.

McCarthy Tétrault Analysis

This is a watershed decision that is particularly relevant to the filing of patent applications henceforth.

It is not unusual for claimed utility to be based not on demonstrated utility but rather prediction. This decision now requires, for the first time, that all data and studies that constitute the factual basis upon which the prediction is made should be disclosed clearly in the patent specification itself. In addition to including this data, patent applications should also articulate the science, logic and reasoning behind the prediction as it relates to the data disclosed.

Without both items being clearly set out in the patent application (i.e., the disclosure and prediction), the patentee is at risk of having its patent found invalid.

Global Copyright Protection: 2009 USTR Report

By Steven Mason and James Gannon

On April 30, the Office of the United States Trade Representative (USTR) released its 2009 Special 301 Report, which is an annual review of the global state of intellectual property rights (IPR) protection and enforcement. The big surprise contained in the 2009 edition of the Report was the inclusion of Canada on the "Priority Watch" list when it had previously been included only on the lower "Watch" list. In so doing, the USTR cited "growing concerns" in Canada.

While the USTR made note of the traditional high level of cooperation between the Canadian and American governments on many IPR initiatives, the Report expressed concern with Canada's delay in the implementation of copyright reforms, as the Canadian government has previously committed to enact in 2007 and 2008. Without explicitly referring to Bill C-61, *An Act to amend the Copyright Act*, which died on the order paper in September 2008, the Report made note of Canada's "failure to accede to and implement the WIPO Internet Treaties, which Canada signed in 1997." The Report further urged Canada to take more effective action against trade in counterfeit and pirated products within Canada, and in particular with respect to border enforcement measures.

Inclusion on the Priority Watch list is a wake-up call and will increase pressure on the government to align Canada's intellectual property laws with international obligations. The government has signalled that it will be working on copyright reforms over the summer. It is expected that revisions to the *Copyright Act* will be tabled this year.

Other points of interest in the Special 301 Report included a discussion on the growth of Internet and digital piracy. The Report noted that "Internet piracy is rapidly supplanting physical piracy in many markets around the world," and urged signatory countries to the WIPO Internet Treaties to expedite ratification and implementation of the treaties. The Report also commented on the WTO Dispute Settlement Body decision, which ruled largely in the United States's favor against China, stating that "the United States looks forward to working with China to implement the Dispute Settlement Body's recommendations and rulings in this dispute."

Finally, the Report commented on some positive developments in intellectual property rights enforcement around the world. It noted that due to the South Korean Government's continuing improvement of its IPR regime, the country would be removed from the Watch list for the first time. The Report also praised Taiwan for implementing its "Ministry of Education Action Plan for Protecting IPR on School Campuses," for enacting new laws with respect to ISP liability, and for key prosecutions of P2P network operators. And the Report praised China for its IPR enforcement during the Beijing Olympics: "This experience shows that when the Chinese Government chooses to exercise its political will to deal with an IPR problem, it can yield results."

CAN THEY DO THAT?

Policing your intellectual property on the Internet

By Lisa Martz (Vancouver)

As more and more commerce is conducted online, it has become increasingly important to monitor the Internet for activities that infringe a company's intellectually property rights. In fact, the ease with which electronic material can be copied, coupled with an attitude of indifference amongst many online operators regarding the legality of their activities, makes the Internet a zone that is particularly ripe for infringement.

Once a brand is recognized to have value, it is inevitable that unauthorized third parties will do what they can to make money from it on the Internet. By now, most companies have registered for themselves an Internet address (referred to as a "URL" or domain name") that has as its dominant or only element their key brand or trade-mark (e.g., www.mccarthy.ca), and are using this address to post a website that promotes their business. However, brand owners need to be aware that the more successful their online presence, the more likely it is that someone is seeking to trade on the Internet traffic looking for the brand owner's site.

Cyber-squatting is the term used to describe the registration of a domain name that incorporates the trade-mark of another. Although many Internet users rely on search engines (such as Google and Yahoo) to locate a website, studies show that a significant number of Internet users look for a website by way of "direct navigation," i.e., by guessing at the Internet address and typing it into their web browser. Where a brand allows for multiple logical formulations of a website address (e.g., www.mccarthy.ca, www.mccarthys.ca, or www.mccarthytetrault.ca), the potential for exploitation by unauthorized parties abounds. The typos that inevitably occur when Internet users attempt to type a brand name into their browser (e.g., www.mcarthy.ca) provide another opportunity for brand exploitation (sometimes referred to as "typo-squatting").

The incentive for third parties to register domain names based on trade-marks they do not own arises from the huge dollars now being spent on online advertising. Owning a website that can be a platform for online advertising can generate significant revenue. This is because each time an Internet user, temporarily lost or distracted from his or her intended destination, clicks on a link posted on a website he or she has arrived at unintentionally, the owner of that website (or someone down the increasingly complex chain of syndication that now characterizes the world of online advertising), earns a fee. Typically, each "click" is worth an amount well below one dollar. However, enough clicks to a website that receives a high volume of traffic, or owning enough websites that each receive a lower volume of traffic, can add up to significant revenue.

Sometimes, this kind of cyber-squatting is viewed as nothing more than a nuisance. If the "pay per click" website has a very different "look and feel" (appearance and functionality) from the brand owner's website, Internet users are unlikely to be confused into thinking they have arrived at the brand owner's website. Even if Internet users pause to click on a few links at the pirate site, they may well persevere in their hunt for the brand owner's site. In such a case, a brand owner may conclude that no enforcement action is warranted. However, if the links on the pirate site lead to sites where Internet users can purchase a competitor's products or services, then the cyber-squatter's activities may end up depriving the brand owner of sales. In that circumstance, a failure to go after the pirate site can have a direct impact on the brand owner's bottom line.

Another, less common, circumstance that causes brand owners to take action is where the pirate site displays content that is offensive or could have the effect of depreciating their brand in the minds of consumers (e.g., pornographic or suggestive material).

The solution for a brand owner is first, to act preventively, and register the key domain names that Internet users are likely to assume to be the location of your website. If others have gotten there first, however, mechanisms are available to recover what should rightfully be yours. Although traditional remedies via a court action for trade-mark infringement may be available in some cases, most domain names (e.g., those using ".com," ".ca," and other major country codes) are subject to mandatory dispute resolution policies that bind domain name registrars (the companies that sell and administer registrations for domain names).

Under these processes, a complainant who claims that the domain name registered by another infringes their rights can file, with one of the approved dispute resolution forums, a written submission and supporting evidence that asserts the required test has been met for unlawful registration of a domain name. The elements required generally include proof of similarity to the brand owner's trade-mark, the lack of a legitimate claim to use the trade-mark on the part of the party who registered the domain name, and registration in bad faith (as defined in the policies). The respondent has the opportunity to file submissions and evidence to refute these claims. An arbitrator is appointed to review the materials (no oral hearings occur), and a decision is rendered within a few months. Where the domain name is found to be infringing, a mandatory order is issued to the registrar who maintains the domain name, directing it to transfer the domain name registration to the successful complainant.

In addition to the registration of domain names that incorporate the trade-mark of another, third parties may take advantage of well-known trade-marks in other ways. In the United States, the purchase and sale of key words that consist of another party's trade-mark in order to generate "sponsored" (or paid) links on the results page of a Google search when an Internet user types that trade-mark into Google's search engine, is the subject of ongoing litigation. The key question in these cases is whether such "hidden" use of a trade-mark (where the trade-mark itself is not displayed on the sponsored link or on the website that it leads to) constitutes "use" of the trade-mark so as to satisfy this required element for a claim of trade-mark infringement. The incorporation of another's trade-marks in the "meta-tags" for a website (the key words coded into the hidden text on a website), so that the website appears in the list of "organic" results generated by a search engine (i.e., those generated by operation of the search engine's own algorithms), is another form of unauthorized use of a trade-mark online. Whether such activities are unlawful remains largely unconsidered by Canadian courts.

In addition to protecting their trade-marks, companies should be vigilant in watching for breach of copyright through the unauthorized reproduction of material they have posted on their websites. Copyright law protects the rights of the owner of an original work, regardless of the form in which it appears. Content posted on a website in electronic form cannot therefore be reproduced without the permission of the owner of copyright for that material. However, the ease with which electronic information can be copied online facilitates copyright infringement, and "screen-scraping" (the copying of all or part of a web page) is rampant in the online world. Additional concerns arise where the infringing material is being used in a way that has the potential to harm the reputation or goodwill associated with the rights holder's own business. In some cases, this practice stems from ignorance of copyright law. In other cases, the violation of rights is deliberate and is carried out in the belief that the Internet is, or should be, beyond the control of rights holders. In either case, the rights holder can take steps to bring the infringement to an end. Although no expedited process for online copyright infringement has been developed, traditional remedies through court action remain available.

The Internet poses new challenges for intellectual property rights holders. However, remedies are available to protect against infringement. Being vigilant in watching for unauthorized use of your intellectual property — and, where justified, taking steps to enforce your rights, can send an important message of deterrence to those who seek to profit online from what is rightfully yours.

Remedies Under a *Business Corporations Act* to Protect an Existing Brand or Mark

By Timothy S. Ellam and Kara L. Smyth (Calgary)

The corporate name of an entity is typically an important asset of the company. It is a valuable brand and frequently subject to trademark protection.

There have been a number of incidents where other entities have attempted to obtain the benefit of an existing brand or mark by incorporating an entity with a similar name. If the existing corporate entity's name has been properly registered and protected by trade-mark or otherwise, the usual practice is to advise the new entity of the potential for confusion or infringement and, if no satisfactory resolution is reached, to bring proceedings in the appropriate court for injunctive or other relief.

One alternative to this approach is to rely on the provisions of either the *Canada Business Corporations Act* or a provincial *Business Corporations Act* to address deceptively misdescriptive, confusing or misleading corporate names. In some situations, simply providing notice to the Corporate Registrar of a new corporation's confusing or infringing name may compel that new entity to effect a corporate name change.[3]

For example, the *Alberta Business Corporations Act* [4] *(ABCA)* prohibits names that are similar to, or confusing or misleading of, existing bodies corporate. Pursuant to s.13(2) of the *ABCA*, the Registrar on its own initiative or at the request of any person who feels "aggrieved" that the name is confusing or misleading can direct a corporation to change its name.

The process is initiated by sending a letter to the Registrar, who will then notify the other entity of the complaint, set out the relevant provisions of the *ABCA* and Regulations, and inquire whether any resolution can be reached between the two entities. If no such resolution is reached, the Registrar will provide a period of time for the other entity to respond (usually 45 days) and then allow a further period after that response is received for sur-rebuttal. The Registrar will investigate the issue and make a direction under the *ABCA* as to whether a name change is required or not. The decision of the Registrar can be appealed to the Court of Queen's Bench of Alberta.

Section 15 of the Alberta Regulations sets out the Registrar's powers in determining whether a name contravenes the *ABCA* as follows:

(a) the distinctiveness of the name or any element of it and the extent to which the name has become known;

(b) the length of time the name has been in use;

(c) the nature of the business carried on under or associated with the name, including the likelihood of any competition among businesses using such a name;

(d) the nature of the trade with which a name is associated, including the nature of the goods or services and the means by which they are offered or distributed;

[3] *Business Corporations Act*, R.S.A. 2000, c. B-9, s.12(1) and *Business Corporations Regulations*, A/R118/2000.

[4] Some jurisdictions have enacted amendments to their *Corporations Acts* to deal with opportunistic registration against existing company names. For example, the United Kingdom has recently amended the *Companies Act 2006* to address name disputes through the Company Names Tribunal, which is part of the Intellectual Property Office. The Company Names Tribunal provides a more formal approach to the procedures in the *CBCA* and *ABCA*.

(e) the degree of similarity between the name and another name in appearance or sound;

(f) the geographic area in Alberta in which the name is likely to be used.

Notice to the Registrar should be made by a detailed submission addressing each of the foregoing points. If appropriate, statutory declarations or other sworn documents can be used to support the submission, especially as it relates to actual evidence of confusion amongst the public. If the corporate name has been protected by trade-mark, providing a copy of that registration is also helpful.

Similar laws exist in other provinces.[5]

There are a number of advantages to proceeding by way of complaint to the Registrar such as:

1. The process is relatively cost-efficient.
2. If the new entity has not had time to establish a corporate presence by way of a website or other marketing, such entity may be more inclined to respond to a notice from the Registrar and agree to a name change.
3. Even if the matter is appealed to the Court, the foundation has been laid for one's case.

Some of the disadvantages to proceeding in this fashion include the following:

1. There is no ability to cross-examine or test or challenge any of the evidence that might be submitted by the new entity (although one has the right to file sur-rebuttal).
2. If the new entity has already established a strong corporate presence, it is likely the issue will end up in litigation in any event.
3. Actual incidents of confusion by the public appear to have some weight with the Registrar. Absent any actual incidents of confusion, one might be better advised to proceed in some other fashion (e.g., a passing-off or infringement action).
4. The process can be time-consuming, often extending four to six months. There will be instances when one will want to obtain more immediate relief (e.g., injunctive relief in an action where preventing brand erosion is critical).

Utilizing the provisions of a *Business Corporations Act* to effect a name change of a new entity is likely only appropriate when that new entity has not yet established a presence in the market or has just started to carry on business. If a new entity has already carried on business for some time and has established a presence, the benefits of this process are lessened, particularly if there have been few incidents of actual confusion between the two corporate names.

From a practical perspective, it is prudent for officers and directors of companies seeking to protect their brands and mark to routinely conduct corporate searches to identify any potential new corporations that have registered names that may be misleading or confusing to the existing brand. If the identification of new entities with confusing or misleading names is discovered before the new entity has obtained much of a corporate presence, the provisions of a *Business Corporations Act* allowing the Registrar to effect a name change may be a valuable and relatively cost-effective tool to stop infringement.

[5] See, for example, *Ontario Business Corporations Act,* RSO 1990 c. B16 s. 9, 12; *Business Names Act,* RSO 1990 c. B17; BCCA: SBC 2002 c.57 s.29, *Act respecting the legal publicity of sole proprietorships, partnerships and legal persons* (Québec), R.S.Q.c. P-45, s. 83.

Intellectual Property Group Key Contacts

Vancouver

Lisa Martz	604-643-7126	lmartz@mccarthy.ca

Calgary

Timothy St. J. Ellam	403-260-3533	tellam@mccarthy.ca

Toronto

Steven Mason	416-601-7703	smason@mccarthy.ca

Montréal

Véronique Wattiez Larose	514-397-4249	vwlarose@mccarthy.ca

Québec City

Philippe Boivin	418-521-3014	pboivin@mccarthy.ca

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