

to create, publish and share information via the Internet or intranet. The website is created by a sponsor who then controls the website and decides who shall be permitted access. Content is placed on the website and edited by the sponsor and other contributors. The IBOOK system can support a shared identity IBOOK which is visible to all enrollees to the site or a private identity IBOOK which is visible only to the owner of the IBOOK. The IBOOK system includes several features to allow the user to perform enhanced tasks, **many of which require the purchase of additional software or hardware.** In summary, Family Systems' IBOOK software system is a very different product with a very different use than Apple's downloadable electronic book or e-book product.³

Because Family Systems never used its IBOOK mark for the distribution of existing books, it had no trademark rights in the IBOOK mark for that use. Also, since goodwill is based upon consumers' recognition or mental association of a mark with a single source, there can be no goodwill in a "mark" which was never used.

³ I have reviewed the January 31, 2012 deposition transcript of Richard Goldhor, Ph.D., who was a technical consultant to Family Systems from 1996 to 2003/2004. During that time, he was instrumental in the development of the IBOOK software which he described as "an architecture for allowing a community to create material, including text, but not limited to text, and to publish it using web technologies, but to also make it possible for multiple members of the community to edit that material, comment on it, to create their own versions of it, and so forth." Dr. Goldhor describes Family Systems' IBOOK system as having user-generated content similar to Wikipedia, which allows the contribution and editing of shared content. On cross-examination, Dr. Goldhor was asked whether Family Systems' IBOOK technology could be used by commercial publishers to make their books available to others. He stated that the next technology could be used in this manner, but noted that any such books would have been created by users of the Family Systems' software. The several questions regarding the publication of a book via this IBOOK system were all hypothetical in nature. The fact is that Family Systems did not design the IBOOK product for this use and did not intend for it to be used as a vehicle for the distribution of published books. Dr. Goldhor even indicated that it would require a *future* generation of technology to make such a use possible.... a generation that never came! Trademark rights, however, are based on actual use of a mark in commerce in the ordinary course of trade. (emphasis added)

7. ***FAMILY SYSTEMS' U.S. PATENT NO. 6,411,993:***

Apple Failed to Acquire the Underlying Patent for Family Systems' IBOOK Product.

I read the general description of the invention in Family Systems' U. S. Patent No. 6,411,993 entitled "Interactive web book system with attribution and derivation features", which reads as follows:

"An interactive Web book ("ibook") system is provided that allows material to be contributed to the World Wide Web. *An ibook is a self-extending, self-sustaining information-redistributing Web robot*, which is resident on a data network such as the Internet or an intranet. Users may enroll with an ibook as viewers or contributors. Viewers may view ibook material, such as text or multimedia content. Contributors may contribute original material to the ibook or may create derivations of existing ibook material. Attribution information that identifies the source of material in a derivation is automatically generated. Information concerning the derivation of each work and its characteristics can be used to help the user navigate through ibook material. The ibook system keeps track of how often users access each work within an ibook. Contributors may be automatically rewarded (e.g., by a monetary distribution) based on the extent to which their contributed material is viewed by the users." (emphasis added).

This same document explains the background of the invention in the following excerpt:

"This invention relates to the Internet, and more particularly, to techniques for creating and viewing material on the World Wide Web in the form of an interactive Web book.

The World Wide Web has made the Internet accessible to a broad range of people. One can search the Web and view a large amount of material using a Web browser. However, there is no satisfactory framework within the Web to encourage contributions of new material while rewarding contributors for their efforts. As a result, many people who might make meaningful contributions of entertaining or educational material to the World Wide Web do not make such contributions.

It is therefore an object of the present invention to provide a way in which to facilitate the contribution of material using a data network such as the World Wide Web and to compensate the contributors of such material."

This patent appears to cover the totality of Family Systems' IBOOK product and to be integral to the continuation of the Family Systems business. The fact that it was not acquired by Apple along with the IBOOK trademark raises questions regarding the transfer of goodwill and the

validity of the trademark assignment (*See* Section 8). According to the PTO Patent Assignment records, this patent is currently owned by FASM Network Services, LLC, which, based upon the acronym, appears to be related to Family Systems Limited.

8. THE ASSIGNMENT OF REGISTRATON NO. 2,446,634, TRADEMARK IBOOK, AND THE ROLE OF GOODWILL:

The Assignment of the IBOOK Mark to Apple was an Invalid Assignment in Gross.

On January 29, 2010, Family Systems Limited signed a document transferring and assigning to Apple Inc. “all right, title and interest in and to [Reg. No. 2,446,634], any other rights or registrations that Family Systems may have in the mark and trade name IBOOK, including without limitation any common law rights, and the goodwill of the business pertaining thereto.” Apple had known about this Family Systems’ mark for almost eleven years and had even discussed the similarity of the marks and negotiated a Letter of Consent with Family Systems in 1999 (*See* Para .13). Yet Apple did not purchase the Family Systems’ mark until the very day that plaintiff, John Colby, sent an e-mail to Mr. Dowling at Apple informing him of plaintiffs’ prior use of the iBooks mark. Mr. Colby’s e-mail to Apple and the assignment of the IBOOK mark are both dated January 29, 2010. This “coincidence” in timing can best be explained by the fact that Family Systems’ IBOOK registration had a priority date of October 8, 1996, the date on which it was filed in the PTO as an ITU application.

I have reviewed an internal Apple invoice stating that Apple paid Family Systems for the IBOOK trademark. *See* Exhibit G. After acquiring the mark, Apple made no effort to continue the business which had reportedly been using the mark since October, 2000. This leads to the question of why did Apple pay so much money for a trademark used in connection with a business which they abandoned? Once Apple received actual notice of plaintiffs’ earlier claim to the iBooks mark, there was an urgent need for them to acquire the

earlier priority date of Family Systems' registration. Based upon the timing of the purchase and the exorbitant amount paid, one is left with the clear impression that the sole motivation for Apple's acquisition of the IBOOK mark and registration was in an ill-fated attempt to acquire a priority to defeat plaintiffs' anticipated claim to the iBooks mark. While this may be a legitimate reason for acquiring a trademark, it calls into question whether the mark was properly assigned.

Trademarks are a type of property and, as such, they may be bought and sold. However, because of the unique nature of trademarks, there are specific rules which must be followed in order for an assignment to be valid and effective. The most important of these rules is the requirement that the goodwill associated with the mark be included in the assignment. While the assignment language quoted in the above paragraph refers to "the goodwill of the business pertaining thereto", we must look beyond the document itself to see whether this requirement was in fact met. If not, the assignment is invalid and Apple's attempt to acquire priority will fail.

What is goodwill? Unlike most property, a trademark has no physical existence except as it may be printed on labels and packaging or as it appears in advertisements, promotional materials and the like. It is a symbol of the source, quality and reputation of the product on which it is used. When a trademark is effectively transferred from one owner to another, it is not only the symbol or trademark which is being transferred, but also the consumer recognition and drawing power represented by that symbol. To illustrate the identifying role of a trademark, we need only imagine entering a grocery store intending to buy ketchup and being faced with shelf after shelf of ketchup made by several different companies... how do we know which ketchup to buy? Fortunately, all of the ketchup bottles bear a trademark which allows the consumer to make an informed decision. This decision is made upon seeing the Heinz label, the Hunts label,

the Del Monte label, the store brand label or some other brand which identifies the product and informs the consumer of the nature and quality of the product. The consumer may choose the Heinz ketchup simply because they have always used it and prefer this brand, they may select the Hunt's brand because it is what their mother always bought, or they may buy the Del Monte brand because they like its flavor. Whatever the reason, the purchasing decision is made upon seeing the trademark. It allows the consumer to make an informed decision which would not be possible without this identifying symbol. The mental association or recognition created by the trademark in the mind of the consumer is called "goodwill". It is this recognition and brand loyalty which makes a trademark so valuable. A leading commentator on trademark law, Professor Thomas McCarthy, explains goodwill as follows:

"a trademark is merely a symbol of goodwill. But it is not easy to give a simple, sweeping definition of what goodwill is. 'Goodwill' is not a tangible, physical object that can be seen, felt and tasted. Its real existence is in the minds of the buying public."

McCarthy on Trademarks and Unfair Competition, 4th ed., Section 2:17.

Any assignment of a trademark *must* include the accompanying goodwill. Again quoting Prof.

McCarthy:

"Goodwill and its symbol, a trademark, are inseparable. A trademark has no independent significance apart from the goodwill it symbolizes. If there is no business and no goodwill, a trademark symbolizes nothing. For this reason, a trademark cannot be sold or assigned apart from the goodwill it symbolizes."

McCarthy on Trademarks and Unfair Competition, 4th ed., Section 2:20.

If goodwill is an intangible asset, how can we determine whether it has been assigned with the mark? We have to look at the totality of the assignment to see whether any other assets, such as patents, trade secrets, customer lists, specialized equipment and physical inventory, were transferred with the mark. The reason that we look to these types of assets is because they are often essential for the purchaser to continue the stream of business identified by

the mark. Upon reviewing the June 29, 2010 assignment document, it appears that only the trademark, without the requisite *accompanying* goodwill, was assigned to Apple. Apple acquired no other assets that would allow it to continue the business that had been identified by Family Systems' IBOOK mark for many years. Perhaps the most glaring omission was U.S. Patent No. 6,411,993, which was discussed in Section 7. This patent protects the manufacture, distribution and sale of the IBOOK interactive Web book system. That this patent was not assigned is powerful evidence that Apple never intended to use the IBOOK mark on the same goods or in the same business as its predecessor. Apple did the very thing that Prof. McCarthy warned against.... it separated the IBOOK mark from its goodwill. A trademark assignment without the accompanying goodwill in the mark -- an "assignment in gross" -- is an invalid assignment which fails to transfer any rights in the mark to the buyer, including a priority of use.

Another way of determining whether the requisite goodwill remains with the mark is to examine the assignee's use of the mark post-transfer. As previously noted, Family Systems used the IBOOK mark in connection with an interactive Web book system designed to allow material to be created and shared on the Internet. It is a sophisticated system consisting of software and several components which allows users to contribute and/or view material on the World Wide Web. The content on the Family Systems' IBOOK product is created and managed by the user, it is not sold as part of the product. The purchaser is in effect buying a blank online diary or journal onto which they can enter their own content to share with others via the Internet. The benefit to the user is that he/she can write whatever they want via the IBOOK software and then manage it and share it with others. The Family Systems' IBOOK product is not, and never was, a book or a vehicle to purchase finished books published by others.

One of the SAEGIS searches disclosed registrations for Family Systems' IBOOK mark in the European Union (covering the 27 EU member countries) and Japan. *See* Exhibit H. Even though Apple is a multinational corporation with extensive worldwide distribution and sales of its products, it appears to have made no attempt to purchase Family Systems' IBOOK registrations in these jurisdictions. This is yet another indication that Apple had no intention of ever using the IBOOKS mark to continue Family Systems' IBOOK business. Rather it once again appears that the only reason Apple purchased the mark was in an attempt to defeat plaintiffs' earlier rights in the mark. This failure to continue Family Systems' use of the IBOOK mark, but instead to use it on a significantly different product, is further evidence of an assignment in gross.

Apple, on the other hand, uses the IBOOKS and IBOOKSTORE marks to identify a means of distributing previously published books in electronic form. Most everyone is familiar with Apple's IBOOKS and IBOOKSTORE products from its widespread advertising and promotion. These products are described as "A novel way to buy and read books....Download the iBooks app from the App Store. Load up on books from the iBookstore. Take them to more places than you'd ever take a regular book." Apple's IBOOKS and IBOOKSTORE products allow the user to select from a library of over 700,000 existing books and transform those books into a more mobile, more flexible and more convenient form. While Apple's IBOOK is a remarkable product and has met with tremendous commercial success, it is simply another method of marketing and distributing existing books.

A comparison of Family Systems' use of its IBOOK mark and Apple's use of the IBOOKS and IBOOKSTORE marks, shows them to be very different products, with very different uses. McCarthy on Trademarks and Unfair Competition, 4th ed., Section 18:24 states:

“when the purported assignee does not make products of the same quality and nature as those made by the assignor, then the assignment is in gross and not effective to achieve priority. “

It should also be noted that Apple not only changed the product on which they used the mark, but they also amended the mark as well (from IBOOK to IBOOKS; *see* Section 9) to better fit the “library” concept of the product.

Why is the transfer of the goodwill so important? Professor McCarthy provides the answer:

“If one obtains a trademark through an assignment in gross, divorced from the goodwill of the assignor, the assignee obtains the symbol, but not the reality. Any subsequent use of the mark by the assignee may be in connection with a different business, a different goodwill and a different type of product. The continuity of the thing symbolized by the mark is broken. Use of the mark by the assignee in connection with a different goodwill and different product may result in a fraud on the purchasing public, who reasonably assume that the mark signifies the same nature and quality of goods or services, whether used by one person or another. The law’s requirement that goodwill always go with the trademark is a way of insuring that the assignee’s use of the mark will not be deceptive, and will not break the continuity of the thing symbolized by the assigned mark.”

McCarthy on Trademark and Unfair Competition, 4th ed., Section 18.3.

Given (i) the initial failure to transfer the goodwill associated with the mark as part of the assignment and (ii) the significant change in the nature and use from the original product, the transfer of the IBOOK mark to Apple was an assignment in gross. As such, it was an invalid assignment which failed to transfer both the mark and the priority to Apple.

9. *APPLE’S AMENDMENT AND RENEWAL OF REGISTRATION NO. 2,446,634, IBOOKS (AS AMENDED):*

Apple’s Statements in the Declaration of Use Constituted Fraud on the PTO.

Following the recordal of the assignment of the IBOOK registration in the PTO and the appointment of Apple’s in-house counsel as the new attorney of record, Apple filed a request to

amend the mark from IBOOK to IBOOKS on May 17, 2010. In making this request, Apple's attorney stated that:

“The proposed amendment to the mark does not materially alter the character of the mark in the registration and does not render it sufficiently different to require republication. The new form of the mark has the same meaning as, and contains the essence of, the original mark. The addition of “S” - changing the mark from IBOOK to IBOOKS – creates the impression of being essentially the same mark, so that consumers readily understand the mark to be the same.”

The PTO accepted this amendment to the mark so that the mark shown in Registration No. 2,446,634 now reads as IBOOKS. No other changes were made to the subject registration at that time. It is noted that Apple's attorney specifically stated that “consumers readily understand the mark to be the same” as the original IBOOK mark as used by Family Systems. Unfortunately, however, Apple not only changed the mark, but, as discussed in Section 6, contrary to counsel's representation to a government agency, it significantly changed the nature and use of the goods on which the mark had been used by Family Systems.

In order to maintain a registration, the registrant must file a Declaration of Continued Use and/or Excusable Nonuse under Section 8 of the Trademark Law and an Application for Renewal under Section 9 of the Trademark Law during the twelve month period prior to each ten year anniversary of the issuance of the registration. These two documents are often filed together in a Combined Declaration. The purpose of the Section 8 filing is to remove those registered marks which are no longer being used, sometimes referred to as “deadwood”, from the Trademark Register. If these documents are not timely filed and accepted by the PTO, the registration will be cancelled pursuant to Section 8 or expire pursuant to Section 9. In this case, Apple timely filed the Combined Declaration of Use and/or Excusable Nonuse/Application for Renewal of Registration of a Mark under Sections 8 & 9 on June 7, 2010.

In the Section 8 Declaration of Use, Apple stated that “the mark is in use in commerce on or in connection with **all** goods or services listed in the existing registration” (emphasis in the original). This statement of continued use of the mark is the essence of the Section 8 filing. The list of goods in the subject registration reads: “Computer software used to support and create interactive, user-modifiable electronic books.” The problem is that Apple was not using, and never did use, the IBOOKS mark in connection with the goods recited in the registration. As discussed in Section 6, Apple’s use of the IBOOKS mark on downloadable books and the electronic transmission of streamed and downloadable books is a very different product/service from that recited in the subject registration.

Because of these differences, Apple’s use cannot possibly support its statement of continued use of the IBOOKS mark in Reg. No. 2,446,634. Cognizant of the differences between the respective products, Apple still signed an official document and filed it in the PTO stating that the IBOOKS mark was in use in connection with “computer software used to support and create interactive, user-modifiable electronic books.” To support this statement, Apple submitted a screenshot of its online IBOOKS bookstore. The problem with this specimen, however, is that it shows the IBOOKS mark being used in connection with Apple’s library of published books, not with the computer software used for creating user-modifiable books recited in the registration. It does not support the use claimed in the Section 8 Declaration of Use.

These statements were made on June 7, 2010, pursuant to a declaration under the federal False Claims Act and signed by Apple’s in-house attorney stating that:

“The undersigned being warned that willful false statements and the like are punishable by fine or imprisonment, or both, under 18 U.S.C. Section 1001, and that such willful false statements and the like may jeopardize the validity of this document, declares that he/she is properly authorized to execute this document on behalf of the Owner; and all statements made of his/her own knowledge are true and that all statements made on information and belief are believed to be true.”

These false statements raise the question of whether they were knowingly made with the intent to deceive the PTO into maintaining this IBOOKS registration in full force and effect so that Apple could claim priority of use of the IBOOKS mark in defense of this lawsuit. If so, this fraud on the PTO should result in the cancellation of Registration No. 2,446,634.

10. TRADEMARK DISTINCTIVENESS / DESCRIPTIVENESS:

Plaintiffs' iBooks Mark is Suggestive and Inherently Distinctive.

In selecting a new trademark, one must consider not only the availability of the mark, but also the strength of the mark. One must determine whether the mark has any descriptive meaning in relation to the goods on which it will be used. The strength of the mark and how it is treated depends upon where it fits on the following spectrum (from the strongest marks to the weakest marks):

(a) *Fanciful or arbitrary marks.* Fanciful marks consist of those marks which are made up or invented words, such as EXXON, KODAK and GOOGLE, and which are created for the exclusive purpose of functioning as trademarks. Arbitrary marks consist of existing words in the common language, but which have no relationship to the goods on which they are used. They do not describe or even suggest any characteristics, i.e., nature, quality, use, etc., of the goods. Examples of arbitrary marks include SHELL for gasoline, APPLE for computers, YAHOO for computer services and AMAZON for online retail services. Fanciful and arbitrary marks are inherently distinctive and can function as trademarks immediately upon adoption and use in commerce. These are the strongest and easiest marks to protect.

(b) *Suggestive marks.* As the name says, these marks consist of words which suggest one or more characteristics of the goods on which they are used. Examples of suggestive marks include MOBIL for gasoline, IVORY for white bar soap and IGLOO for coolers. These marks

evoke, but do not actually describe, a feature or use of the goods. Suggestive marks are also inherently distinctive and begin to serve as trademarks immediately upon adoption and use.

(c) *Descriptive marks.* Unlike suggestive marks, these marks are merely descriptive of a characteristic or feature of the goods on which they are used. These characteristics may include the purpose, use or function of the goods, the ingredients of the goods, the intended users of the goods, or the nature or quality of the goods. It is often difficult to determine whether a mark falls into the suggestive or descriptive category. For a mark to be descriptive, it must *clearly* and *directly* describe a characteristic of the goods. If imagination and thought is required in order to make a connection to the product, the mark will be deemed to be suggestive. The distinction between descriptive and suggestive marks is important because suggestive marks are, as noted above, inherently distinctive and can function as trademarks immediately upon adoption and use, whereas descriptive marks must pass another “test” in order to be recognized and protected as trademarks. Descriptive marks must have acquired distinctiveness or “secondary meaning” before they can function as trademarks.

What is “secondary meaning” and how is it acquired? Consumers are accustomed to seeing descriptive terms freely used in the marketplace by a variety of companies. However, if one of those companies should begin to use, advertise and promote that term as a trademark over an extended period of time, consumers may come to associate that term with a particular product. This consumer association or recognition of the word as a source identifier is called “secondary meaning”. While the original descriptive meaning of the word remains, there is now a new or “secondary meaning” of the word. When a descriptive term has acquired secondary meaning, it will be recognized and protected as a proprietary trademark. Rather than being just a descriptive term, the mark now creates a mental association with a particular product from a single source.

It is not necessary that the consumer know the identity of that source or the company behind the product, only that the consumer recognizes the word as an identifying trademark. Secondary meaning is acquired via use, advertising and promotion of the mark usually over a period of years. While there is no specific length of time of use required, in the case of a massive new product launch and advertising campaign, it may be acquired in days, but in most cases it is a gradual process over several years. A good indicator of what is generally required is set forth in Section 2(f) of the Lanham Act and used by the PTO when they encounter an application to register a descriptive mark, which states that:

“The Director may accept as prima facie evidence that the mark has become distinctive, as used on or in connection with the applicant’s goods in commerce, proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce for the five years before the date on which the claim of distinctiveness is made.”(emphasis added).

(d) *Generic terms.* These terms consist of the actual name of the goods. For example, terms such as “e-book” for electronic books, “auto” for a car , “mart” for a supermarket or “guide” for a how-to book, can never function as trademarks. They must remain in the “public domain” for everyone to use.

Where does plaintiffs’ iBooks mark fit into this spectrum of distinctiveness? Since the generic name for plaintiffs’ goods is “e-book”, iBooks is not a generic term. Also, the fact that the PTO has on more than one occasion granted a registration for the IBOOKS mark is further evidence that it is not the generic name for the product.

Having determined that iBooks is not a generic term, one must turn to the question of whether it is a suggestive or a descriptive mark. Plaintiffs’ iBooks mark does not convey an immediate, direct and unequivocal description of the goods or of any characteristic of the goods. It is unclear as to what “ibooks” means..... does it refer to “interactive” books, “internet” books, “intelligent” books, “independent” books, “information” books, “imagination” books or some

other type of “i” book? It is not immediately clear as to what the mark means. Because of this lack of clarity, imagination, thought and perception is required in order to establish any direct descriptive reference to the goods. This need for “mental gymnastics” means that the mark is not merely descriptive, but suggestive and inherently distinctive.

The PTO file history of plaintiffs’ predecessor’s application to register the mark iBooks, which was filed on August 27, 1999 (App. No. 75/786,491, see Section 12 below) provides support for the conclusion that iBooks is not descriptive. In that application, the Trademark Examiner refused registration on the grounds, among others, that the mark iBooks was misdescriptive (emphasis added). If the Trademark Examiner believed the mark to be misdescriptive, which it is not, it cannot possibly be descriptive.⁴

Even if plaintiffs’ iBooks mark were to be classified as merely descriptive -- which it is not -- it has acquired secondary meaning based upon thirteen years of substantially exclusive and continuous use. Between 1999 when the mark was first used and June, 2002, plaintiff had iBooks sales of more than \$5,000,000, and spent more than \$250,000 in advertising and promoting the iBooks product. (See Office Action Response to the above-noted PTO refusal of the iBooks application). Total iBooks sales to distributors for the years 2003 – 2011 exceeded \$20,000,000. See Dep. of John T. Colby, dated July 18, 2012, at 161 – 169; 186 – 190. While sales of plaintiffs’ iBooks titles decreased following Byron Preiss’ unexpected death, sales have been continuous since 1999, and John Colby’s company has been using the mark consistently, selling hundreds of copies of books from the iBooks back catalog and also launching and selling several new iBooks titles every year. *Id.* at 170. These numbers do not approach the massive

⁴ In any event, the application was abandoned before this issue could be finally resolved.

sales and overwhelming advertising and promotional expenditures of Apple's IBOOKS product, but they are more than sufficient to support a finding of secondary meaning.

11. *PLAINTIFFS' ACQUISITION OF THE iBooks TRADEMARK AND BUSINESS:*

Plaintiffs' Properly Acquired the iBooks Trademark Out of Bankruptcy.

As previously noted, the founder of the iBooks, Inc. business, Byron Preiss, died unexpectedly in July, 2005, and despite its best efforts, the iBooks business could not financially weather this loss and declared bankruptcy on February 22, 2006 under Chapter 7. Upon the conclusion of the bidding and auction process, plaintiff, J. Boyleston & Company, Publishers, LLC, purchased all of the assets of iBooks, Inc. on December 13, 2006. The "Amended Terms and Conditions Relating to the Purchase and Sale of the Assets of Byron Preiss Visual and Ibooks" listed all of the assets purchased by plaintiffs including, but not limited to, "Trademarks, imprints, service marks, trade dress, logos, trade names, corporate names, and source identifiers" belonging to Byron Preiss Visual and Ibooks. *See* Exhibit I.

In addition to the trademarks, plaintiffs purchased all of the assets necessary to continue the iBooks business as it had been conducted prior to Mr. Preiss' death. In fact, plaintiffs have continued to publish many of the same works, plus new titles, under the iBooks trademark since acquiring the business. *As plaintiffs' purchased the entire iBooks business and continued to publish under the iBooks trademark post-acquisition, the mark and the associated goodwill remained intact and were successfully transferred to the plaintiffs.*

Consistent with the purchase of all of the iBooks assets, J. Boyleston & Company, Publishers, LLC immediately filed an assumed name certificate for the name "iBooks" with the New York Department of State. *See* Exhibit J. Unlike Apple, plaintiffs' had every intention of continuing the iBooks business as it had been conducted by Byron Preiss since 1999, and the prompt recordal of the iBooks name is confirmation of this business plan..

12. ***iBooks Inc. 's TRADEMARKS iBooks (APPLICATION NO. 75/786,491) AND iBookstore.com (APPLICATION NO. 75/786,490):***

Although Both Applications Were Abandoned, Plaintiffs Continued to Use the iBooks Mark.

On August 27, 1999, iBooks, Inc., filed an ITU application in the PTO to register the mark iBooks for "books" (App. No. 75/786,491). The application was signed by Byron Preiss, President of iBooks, Inc. The application was subsequently amended to cover "books, namely, a series of fiction books; non-fiction books in the field of science." Upon examination of the application, the Trademark Examiner refused registration on the grounds that the mark is (i) confusingly similar to two prior registered IBOOK and IBOOKS marks and (ii) misdescriptive as used in connection with the goods recited in the application. iBooks, Inc.'s attorneys at the time filed a response to the PTO Action, but the Trademark Examiner continued to refuse registration and the application was abandoned in due course.

iBooks, Inc. filed a second ITU application on the same day to register the mark iBooksinc.com for "computerized on-line ordering services in the field of printed publications" and "providing a website on global computer networks featuring information on the field of printed publications". This application was also signed by Byron Preiss. The Trademark Examiner again refused registration claiming confusingly similarity with the same IBOOK and IBOOKS marks noted above. A second basis for refusal claimed that this mark was descriptive of the recited Internet website services. Much the same response was filed, but it too was rejected and the application was abandoned. Even though iBooks, Inc. failed in its attempt to register these trademarks, plaintiff continued to use the iBooks mark and the iBooks, Inc. name in the ordinary course of trade (*See Section 5*).

Wanting to see if these two marks would be found in a preliminary search, I ran a search of the PTO's Trademark Electronic Search System (TESS). The TESS search system was

created by the PTO to assist trademark attorneys and others in “clearing” new or expanded trademarks. It is available for all to use, free of charge, and it (or a similar commercial database) should be the first place to look when trying to determine whether a proposed mark is available. After entering the TESS website at <http://tess2.uspto>, selecting the search option “Word and/or Design Mark Search (Free Form)” and typing in the search query “ibook”, the search disclosed twelve trademark records, four of which belonged to Apple. iBooks, Inc.’s iBooks and iBooksinc.com marks were numbers 9 and 10 on the list, even though the applications had been abandoned. These eight non-Apple owned marks should have triggered a further investigation. Unfortunately, Apple apparently chose to disregard the preliminary search results and failed to take the appropriate next step in clearing the IBOOKS mark.

13. *APPLE’S TRADEMARK IBOOK (REGISTRATION NO. 2,470,147):*

Apple’s Original IBOOK Registration is Limited to Computer Hardware and Required Family Systems Consent to Register.

On November 6, 1998, Apple Computer, Inc. filed an Intent to Use application (App. No. 75/584,233) in the PTO to register the trademark IBOOK for “computers, computer hardware, computer peripherals and users manuals sold therewith.” The Trademark Examiner reviewed the application for the mandatory information and conducted a search of the federal Trademark Register and of pending applications for any confusingly similar marks. While the search did not disclose any similar registered marks, it did locate an earlier filed pending application (App. No. 75/182,820) for the mark IBOOK for “computer hardware and software used to support and create interactive, user-modifiable electronic books”, filed by Family Systems Limited.

Believing Apple’s IBOOK and Family Systems’ IBOOK marks to be potentially confusingly similar when used on the goods recited in their respective applications, the Trademark Examiner issued an Office Action dated June 23, 1999, suspending action on Apple’s

application pending the disposition of Family Systems' IBOOK mark. The Trademark Examiner stated that if, and when, registration is granted to the earlier filed mark, it may be cited against Apple's IBOOK application as a bar to registration.

In its response to the Office Action, Apple drew a distinction between Apple's IBOOK mark for computers and Family Systems' IBOOK mark for computer hardware and software used to support and create interactive, user-modifiable electronic books. In support of this acknowledgment, Apple submitted a Consent Agreement from Family Systems Limited which recited the differences between the trade channels, stylizations and uses of the respective marks. The Consent Agreement, for which Apple paid (see Goldhor deposition transcript, pages 69-70), stated, in part:

“The parties agree that their respective products and services, as defined in Paragraphs 1 (Apple's “notebook computers”) and 2 (Family Systems' “computer hardware and software used to support and create interactive, user-modifiable electronic books”) of this Agreement are distinctively different and, if used in accordance with this Agreement, the parties' use of their respective IBOOK marks are not likely to create a likelihood of confusion...”

“APPLE shall further limit its use of the mark to products and services that come within the description in Paragraph 1 above (“notebook computers”) and will specifically not use or attempt to register the mark IBOOK, or any mark similar thereto, on any of the products or services coming within the description in Paragraph 2 above (“computer hardware and software used to support and create interactive, user-modifiable electronic books”). APPLE shall limit its registration of the IBOOK mark or any mark similar thereto to notebook computers and related computer hardware and peripherals used in connection with the notebook computers and users manuals sold therewith.”

The Trademark Examiner accepted Apple's argument and specifically relied on the statements made in the supporting Consent Agreement and removed the application from suspension and approved the mark for publication in the Official Gazette (“OG”). A company called Softbook Press, Inc. requested an extension of time to oppose the IBOOK mark, but ultimately elected not to file a Notice of Opposition.

Accordingly, since registration of the mark was not opposed, the PTO issued a Notice of Allowance on February 6, 2001, giving Apple six months to begin bona fide use of the IBOOK mark in interstate commerce on “computers, computer hardware, computer peripherals and user manuals sold therewith.” In this instance, Apple was able to file the Statement of Use on February 21, 2001, claiming interstate use of the IBOOK mark on the recited goods beginning as of July 21, 1999. As a specimen, Apple filed a printout of its online store where a consumer can purchase an iBook computer. The Trademark Examiner reviewed the Statement of Use and the accompanying specimen showing use of the mark and approved Apple’s IBOOK mark for registration, which was granted on July 17, 2001, as Reg. No. 2,470,147.

As noted in Section 6(a), following the grant of a registration, the registrant is required to file a Declaration of Use between the fifth and sixth anniversary of the registration date or, in this case, between July 17, 2006 and July 17, 2007, in order to maintain the registration. The Declaration of Use must include a statement that the registered mark is still in use on the goods recited in the registration and a specimen showing how the mark is currently being used. Apple, Inc. (by change of name from Apple Computer, Inc., dated January 9, 2007) filed the required Declaration and supporting specimen on July 20, 2006. The specimen submitted with Apple’s Declaration of Use shows the mark printed on the display bezel of an IBOOK notebook computer.

In addition to the filing of the Declaration of Use, the owner of the registration must file a Combined Declaration of Use and Application for Renewal of the registration at each ten year anniversary of the registration. Failure to do so will result in the expiration of the registration. Apple filed the requisite documents on January 17, 2012. In doing so, the goods listed in the registration were amended by deleting the items “computers, computer peripherals and users

manuals sold therewith”. The registration now covers only “computer hardware.” As of the date of this report, Apple’s federal registration for the IBOOK mark, limited to computer hardware only, remains in full force and effect.

14. *APPLE’S IBOOKS (APPLICATION NO. 85/008,412), IBOOKSTORE (APPLICATION NO. 85/008,432) AND OTHER PREFIX “i” MARKS:*

Apple’s Prefix “i” Marks are Famous Marks That are Immediately Associated with Apple.

In April, 2010, in anticipation of its introduction of the iPad and the IBOOKS e-book library, Apple filed ITU applications in the PTO to register the marks IBOOKS and IBOOKSTORE for a wide variety of goods and services connected to books, including “downloadable electronic publications in the nature of books...” (Class 9); “printed matter; printed publications; periodicals; *books...*” (Class 16); “retail store services in the field of *books...*” (Class 35); “electronic transmission of streamed and downloadable electronic publications for browsing over computer networks, namely *books*, magazines, periodicals...” (Class 38); and “educational and entertainment services; providing electronic *books...*” (emphasis added) (As noted in Section 5, the IBOOKS application was subsequently amended to delete Classes 16, 38 and 42 while the IBOOKSTORE application continues to seek registration in all six of the original Classes.) It is evident from the listing of “books” throughout these applications that Apple intends to use the IBOOKS mark in connection with books.

In reviewing the two applications, the Trademark Examiner refused registration of both marks on the grounds that they “merely describe features and functions of applicant’s goods and services.” In response to these refusals, Apple argued that consumers will see the IBOOKS and IBOOKSTORE marks as members of “Apple’s family of famous marks that begin with the prefix ‘i’” and that they will not perceive the prefix “i” as an abbreviation for “Internet.” Apple also argued that these marks should be allowed based upon its earlier IBOOK (Reg. No.

2,470,147; *see* Section 14) and IBOOKS (Reg. No. 2,446,634; *see* Sections 6 and 9) registrations both of which were found to be inherently distinctive.

The bulk of the response stressed the fame of Apple's many "i" prefix marks, with Apple arguing that because these brands are so widely recognized by the public, consumers will immediately associate the IBOOKS and IBOOKSTORE marks with Apple. Apple made the following statement:

"The IBOOK laptop, the IPOD media player, the ITUNES software and iTunes Store service, and the IPHONE digital mobile device were all particularly influential in *cementing the public perception that the 'i'-prefix brand is synonymous with Apple*. Each of them ranks as a landmark product offering, and the IBOOKS mark follows in their footsteps...."

Office Action Response dated December 29, 2010 (emphasis added).

In an attempt to convince the Trademark Examiner of the fame and breadth of their family of prefix-i marks, Apple submitted more than 400 pages of "evidence" (which in my experience is an exceptionally large submission). These materials consist of copies of approximately 60 active federal registrations and pending applications of Apple's prefix-i marks, several articles touting the tremendous success of its iPod, iTunes, and iPhone products/services, and other articles noting that:

"Apple's 'i'-branding is so widely recognized that the public has come to expect each new Apple product to follow that nomenclature."

"in light of Apple's longtime identification with the IBOOK mark, and its use of the other famous 'i'-prefix brands, consumers immediately recognize IBOOKS as a member of Apple's family of marks."

An almost identical response was filed in connection with the co-pending IBOOKSTORE application. Despite Apple's arguments and submissions to the contrary, the Trademark Examiner maintained and continued the descriptiveness refusals under Section

2(e)(1) and issued a Final refusal of the IBOOKSTORE application. Apple has until October, 2012 to respond to both PTO Office Actions.

In order to show the extent of Apple's trademark portfolio, I have prepared and attached a Schedule of Apple, Inc.'s Prefix "i" Trademark/Service Mark Registrations and Pending Applications as Exhibit K.

15. OTHER INFRINGEMENT CLAIMS INVOLVING APPLE'S PREFIX "i" MARKS:

Apple has been Accused of Trademark Infringement on Numerous Occasions.

In preparing the above-referenced schedule of Apple's prefix "i" trademarks, I reviewed the status/history of several well-known Apple trademarks, including, iAd, iPad, iPhone and iCloud (plus the subject of this litigation, the IBOOKS mark) and found that all of the above-listed marks have at one time or another been the subject of trademark infringement claims against Apple. Specifically:

(i) In January, 2007, Cisco Systems, Inc. filed a trademark infringement lawsuit against Apple in the U.S. District Court for the Northern District of California, claiming that Apple's iPhone mark infringed Cisco's IPHONE mark;

(ii) In January, 2010, Fujitsu Frontech North America, Inc. challenged Apple's use of the iPad mark, claiming that it conflicted with Fujitsu Frontech's earlier iPad mark;

(iii) In June, 2010, Innovate Media Group LLC filed a trademark infringement lawsuit against Apple in the U.S. District Court for the Central District of California, claiming that Apple's iAd mark infringed Innovate Media's iAds mark; and

(iv) In June, 2011, iCloud Communications, LLC filed a trademark infringement lawsuit against Apple in the U.S. District Court for Arizona, claiming that Apple's iCloud mark infringed iCloud Communications' iCloud mark.

In addition to the “i” trademark claims listed above, Apple has encountered challenges to its use of such other marks as Apple and Mighty Mouse. This recurrence of adverse trademark claims is highly unusual and has been widely reported in the media with such comments as:

“Apple sued for trademark infringement, again.”
(www.macgasm.net/2011/6/10/apple...)

“Apple seems to have a pretty simple philosophy when it comes to announcing new products-announce today, worry about the legalities tomorrow.”
(www.macgasm.net/2011/06/10/apple...)

“Apple has a history of naming its products first, and worrying about trademark infringement later.” (PCWorld at www.pcworld.com/article/188137/ipad.....)

“Trampling the rights of others’ again.” (The register, posted June 14, 2010
www.theregister.co.uk/2010/06/14/innovate_media...)

“for the most part, Apple’s announce now and deal with the legal ramifications later approach has landed them in some hot water from time to time.”
(www.macgasm.net/2011/06/10/apple-sued;

“iPad: Just the latest Apple Trademark Dispute”
(www.pcworld.com/article/188137/ipad...).

Apple’s pattern of adopting new trademarks and, after the fact, repeatedly encountering conflicting claims can only be the result of either shoddy clearance procedures, corporate arrogance or a blatant disregard for the trademark rights of others’.

16. *OPINIONS.*

For the reasons set forth above, it is my opinion that:

(i) Apple failed to conduct an appropriate clearance search of the IBOOKS mark prior to its use in connection with downloadable books and the electronic transmission of streamed and ownloadable books and thereby disregarded the trademark rights of others.

(ii) Family Systems’ assignment of the IBOOK mark and Reg. No. 2,446,634 to Apple was an invalid assignment in gross and failed to give Apple any priority of use.

(iii) Apple's post-acquisition use of the IBOOKS mark was entirely different than Family Systems' use of its IBOOK mark, thus making the transfer an invalid assignment in gross.

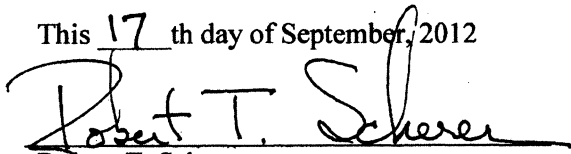
(iv) In the Declaration of Use filed in Reg. No. 2,446,634, Apple appears to have knowingly made false statements with the intent to deceive the PTO, which misled the PTO and which should result in the cancellation of said registration.

(v) The iBooks trademark is a suggestive and inherently distinctive mark as applied to plaintiffs' goods.

(vi) The assignment of the iBooks mark in bankruptcy to plaintiffs was a valid transfer of the mark and the goodwill associated therewith.

I understand that Apple employees and others will be providing testimony and may be producing additional documents regarding the subject matter of this report. Therefore, I reserve the right to amend or supplement this report following their testimony or the production of additional documents.

This 17th day of September, 2012


Robert T. Scherer

J.T. COLBY & COMPANY, INC. d/b/a
BRICK TOWER PRESS, J. BOYLESTON &
COMPANY, PUBLISHERS LLC and
IPICTUREBOOKS LLC.,

Plaintiffs,

-against-

APPLE, INC.,

Defendants.

Case No. 11-cv-4060 (DLC)

EXPERT REBUTTAL REPORT OF ROBERT T. SCHERER

I am the same Robert T. Scherer who previously submitted a report in this matter (“my report”); the only additional document I considered in connection with this Rebuttal Report is the Expert Report of Siegrun D. Kane, dated September 17, 2012 (the “Kane Report” or “Report”).

This Rebuttal Report responds to the Kane Report:

1. THE ASSIGNMENT OF REGISTRATION NO. 2,446,634, TRADEMARK IBOOK:

~~The Assignment of the IBOOK Mark to Apple was an Invalid Assignment in Gross. Ms. Kane erroneously states that Apple obtained rights to the 634 Registration, along with any common law rights and the goodwill of the business pertaining thereto, from Family Systems. (Paragraph 18; see Paragraphs 19 and 63.) Despite any claim to the contrary, the transfer of the IBOOK mark and Registration No. 2,446,634 to Apple was an invalid assignment in gross because (i) it failed to include the goodwill associated with the mark and (ii) Apple used the mark on a product which was significantly different from the Family Systems IBOOK product; see Paragraph 8 of my report. As a result, Apple's attempted purchase of Family Systems IBOOK mark was null and void and failed to give Apple the sought-after priority date.~~

2. RECORDAL OF THE ASSIGNMENT WITH THE PTO:

Acceptance of the Recordal is Not a Determination of Validity.

Ms. Kane refers several times in her Report to the recordal of the trademark assignment with the United States Patent and Trademark Office (“PTO”). (Paragraphs 39 – 40 and 64.) It should be noted that the recordal with the PTO’s Assignment Services Branch of the assignment of the IBOOK mark and Reg. No. 2,446,634 from Family Systems to Apple does not mean that the assignment was valid or effective. The Trademark Manual of Examining Procedure (the “TMEP”) specifically emphasizes that:

“The recording of a document pursuant to Section 3.11 (of the Trademark Rules of Practice, 37 C.F.R. Section 3.11) is not a

determination by the Office of the validity of the document or to the effect that the document has on the title to an application, a patent or a registration....” Section 503.01.

“ The Assignment Services Branch does not examine the substance of documents submitted for recording. The act of recording a document is a ministerial act, and not a determination of the document’s validity or of its effect on title to an application or registration....” Section 503.01(c).

Any determination of the validity or effectiveness of a purported assignment will be decided by the Court. The fact that the assignment was accepted for recordal in the PTO has no relevance to the issue of whether or not the assignment was valid.

3. APPLE’S RENEWAL OF REGISTRATION NO. 2,446,634, IBOOKS (AS AMENDED):

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] In her Report, Ms. Kane maintains that Apple filed (i) a specimen consisting of a “Screenshot of Registrant’s online store offering IBOOKS software for sale” and (ii) a supporting declaration and thereby complied with all of the statutory requirements for renewing the IBOOKS registration (Paragraphs 87 and 88). This conclusion presumes, of course, that all of the statements made in the supporting declaration are true.¹ However, the

¹ In reviewing the renewal documents, the Trademark Examiner must rely on the Combined Declaration and the accompanying specimen evidencing current use of the mark. And, because the Combined Declaration includes an acknowledgment under penalty of perjury that “all statements made of his/her own knowledge are true”, the Trademark Examiner routinely accepts the trademark owners statements at face value. Also, the Trademark Examiner has neither the means, the time nor the authority to investigate beyond the four corners of the Combined Declaration. As a result, registrations are sometimes renewed in error even though the subject mark is not being used on the goods listed in the registration. As the need arises, any

reality is that Apple's current use does not support the statements made in the Combined Declaration.

Why is Apple's statement that "the mark is in use in commerce on or in connection with **all** goods or services listed in the existing registration" false? In Paragraph 6 of my report, I devoted considerable time comparing Family Systems' use of the IBOOK mark in connection with "computer software used to support and create interactive, user-modifiable electronic books" with Apple's current use of the IBOOKS mark in connection with downloadable books and the electronic transmission of downloadable books. Family Systems' IBOOK software is a web content publishing tool that allows users to create their own content, modify that content and share that content among a community of users via the Internet or intranet. The "electronic books" referenced in the registration do not consist of an existing published work. They are created by the user of the software.

As noted in Paragraph 7 of my report, Family Systems' U.S. Patent No. 6,411,993, *see Exhibit L* hereto, describes its own IBOOK product as "a self-extending, self-sustaining information-redistributing Web robot". Does this sound like an e-book reader? Apple's IBOOKS mark is used in connection with an e-book reader which allows for the electronic transmission and downloading of 1,500,000+ existing published works. The nature and use of the respective products is distinctly different in that Family Systems' software allows the *user to create and modify* content whereas Apple's app is used to *distribute existing books* electronically. Family Systems' use is the equivalent of providing the user with a blank diary or

investigations would be left to others. This is one of those instances. In this case, it was left to the plaintiffs to compare the use of the mark as recited in Registration No. 2,446,634 with Apple's current use of the same mark (as amended), and it was found that Apple's present use does not align with the statements made in the Combined Declaration.

journal on which to write and share one's information, thoughts and comments via the Internet or intranet, while Apple's use is an electronic library or bookstore.

Given these significant differences in the nature and purpose of Family Systems' IBOOK product and the nature and purpose of Apple's IBOOKS product, it is a material misrepresentation to claim that Apple is using the mark "in commerce on or in connection with **all** goods and services listed in the existing registration." Further, for the sake of clarity, I would note that (i) there are no "services" listed in the subject registration and (ii) in Paragraph 25 of her Report, Ms. Kane states that the PTO is required to consider whether the mark was being used for *at least some of the goods* identified in the '634 Registration..." [emphasis added]. In this case, since Apple stated that it is using the mark in connection with **all** goods... listed in the registration, the PTO is required to look at the entire list of goods as well as the nature and use of those goods.

Why is this a misrepresentation of a *material* fact? The primary purpose of the Section 8 Declaration of Use (whether filed between the 5th and 6th year after registration or as part of a Combined Declaration in connection with a ten year renewal) is to clear those registered marks which are no longer being used (a/k/a "deadwood") from the Federal Trademark Register and to allow those registered marks which are still in use to continue to enjoy the benefits of registration on the Principal Register. Given this mission, a false statement of continued use of the mark, which resulted in the renewal of a federal registration which should not have been renewed, is a material misrepresentation that defeats both the letter and the spirit of the Section 8 Declaration of Use.

In gathering and reviewing the information for the Combined Declaration, it should have been immediately apparent that Apple was not using the IBOOKS mark on or in connection with

the “computer software used to support and create interactive, user-modifiable electronic books” listed in the registration. And, the specimen filed in support of the renewal, which Apple described as a “Screenshot of Registrant’s online store offering IBOOKS software for sale” and which shows a bookshelf with several published books from well-known authors as well as a description of the IBOOKS product itself, further highlighted the distinct differences between the goods listed in the registration and the goods on which Apple was currently using the mark. Despite these obvious differences, Apple’s representative declared that the IBOOKS mark was in use in connection with **all** of the goods listed in Registration No. 2,446,634. [REDACTED]

What purpose would be served by making a material false statement in an official document filed with the PTO? For the answer, we must look to the reason why Apple purchased Family Systems’ IBOOK registration in the first instance. Since the 1999 Consent Agreement between Apple and Family Systems (*see* Paragraph 13 of my report and the file wrapper for Reg. No. 2,470,147, Exhibit M hereto) precluded Family Systems from suing Apple for trademark infringement, Apple had no need to acquire Family Systems’ IBOOK mark to ward off a potential lawsuit. Rather, Apple purchased the IBOOK mark in an attempt to claim the benefit of the October 8, 1996 priority date (the date on which Family Systems filed the ITU application which eventually matured into Registration No. 2,446,634; *see* the file wrapper for Reg. No. 2,446,634, Exhibit N hereto).

If the purchase of Family Systems’ U.S. registration proved successful, this priority would allow Apple to claim use of the IBOOKS mark dating back to 1996, three years prior to plaintiffs’ use of its iBooks mark and then perhaps, as Apple hoped, defeat plaintiffs’ infringement claim. Because of the importance of this priority to its defense, Apple paid

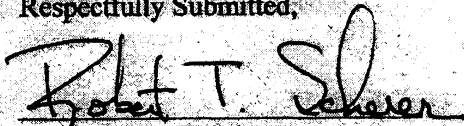
for Family Systems' registered trademark (*see* Exhibit G to my report). Apple could not risk the cancellation/expiration of this registration, which would, of course, eliminate its strongest defense to plaintiffs' infringement claim and have been a significant waste of money. Therefore, it was imperative that Apple keep Registration No. 2,446,634 in full force and effect.

The PTO relied on the statements made in Apple's Combined Declaration because, as noted above, the Trademark Examiner took Apple's statements at face value and had no independent way of checking the accuracy of those statements. As a result, the PTO renewed Registration No. 2,446,634 and gave Apple the opportunity to improperly claim the benefits of a federal registration, to plaintiffs' detriment.

I understand that others may provide additional testimony or produce additional documents regarding the subject matter of this Rebuttal Report. Therefore, I reserve the right to amend or further supplement this report following any subsequent testimony or production of documents.

This 26th day of October, 2012

Respectfully Submitted,


Robert T. Scherer