



ideas on intellectual property law

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Whose line is it, anyway?

Consumer confusion and trademark's fair use defense

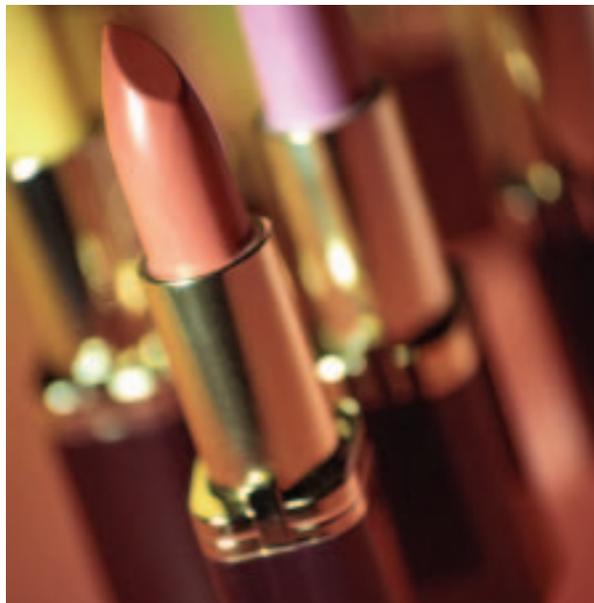
The U.S. Supreme Court has weighed in on the scope of trademark protection for marks composed of descriptive words, and the results aren't good for the holders of such marks. In *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, the Court explored the role of likely consumer confusion when a defendant asserts the affirmative defense of fair use to an infringement claim.

MAKING UP IS HARD TO DO

All of the parties in *KP Permanent Make-Up* use the term “micro color” to market permanent cosmetic makeup. The plaintiff, KP, began using the single-word version on bottles and flyers in the early 1990s. Lasting Impression registered a trademark with the words “Micro Colors” (in white letters separated by a green bar within a black square) in 1992. The registration became incontestable in 1999.

That same year, KP produced a 10-page brochure using “microcolor” in a large, stylized typeface. The defendants demanded that KP stop using the term. KP responded by filing suit against the defendants, seeking declaratory relief. The defendants counter-claimed, alleging, among other things, that KP infringed their trademark. KP sought summary judgment of the infringement claim based on the affirmative defense of fair use.

The Lanham Act makes the fair use defense available to a party who uses a competitor's descriptive trademark fairly and in good faith to describe the goods or services of another, or their geographic origin. The defendants conceded that KP used the term “microcolor” only descriptively and not as a mark, and the district court held that KP had acted fairly and in good faith. KP had, after all, been using the term continuously since before the defendants adopted the two-word, plural variation. The trial court didn't make a determination as to whether this practice was likely to cause confusion.



But the Ninth Circuit Court of Appeals ruled that the district court erred by failing to examine the issue of possible consumer confusion over the origin of KP's products. The appellate court found that fair use was impossible where any consumer confusion was probable, and it appeared to place the burden on KP to show the *absence* of consumer confusion.

THAT'S NOT MY JOB

Several federal appellate courts have split on the issue of the defendant's burden of proof in a fair use defense. Must the defendant negate the possibility of consumer confusion to succeed with the defense? The 9th, 5th, and 6th Circuits have said yes, while the 2nd, 4th, and 7th Circuits have disagreed.

The Supreme Court came down against imposing such a burden on defendants. It observed that Congress had made no mention of likelihood of confusion in drafting the Lanham Act's fair use defense provision. The Court also said that it was incoherent to place a burden to demonstrate non-confusion on a defendant in the typical course of infringement litigation. All the defendant needs to do is persuade the judge or jury that the plaintiff hasn't carried its own burden on that point.

FAIR USE AND CONFUSION TOGETHER

The Supreme Court didn't stop there in limiting a trademark holder's rights. Having found that the defendant has no free-standing need to prove that confusion is unlikely, it reasoned that some possibility of consumer confusion is actually compatible with fair use of descriptive terms. In other words, fair use can coexist with some degree of confusion.

The court emphasized the undesirability of allowing anyone to have a monopoly on a descriptive term's use simply by grabbing it first. The court found that the Lanham Act wasn't meant to deprive commercial speakers of the ordinary use of descriptive words. The plaintiff accepted the risk of confusion when it decided to identify its product with a descriptive mark. Descriptive terms only qualify for trademark registration after

they take on secondary meaning apart from the applicant's goods, as in the case, for example, of Philadelphia Cream Cheese, Coppertone or Best Buy. Even then, the trademark holder has an exclusive right not in the original, descriptive meaning but in the secondary meaning associated with its goods.

A CONFOUNDING CONCLUSION ON CONFUSION

Yet, the Supreme Court declined to offer any guidance on just how much consumer confusion must be likely before the fair use defense becomes compromised. It states only that it doesn't rule out the relevance of the degree of consumer confusion in determining whether a defendant's use is indeed fair. Nonetheless, with this decision, the Court strengthens the case against using generic, descriptive terms in a trademark. 💡

The wide world of PTO information requests

Yes, they can ask for that

The Patent and Trademark Office (PTO) regulations give examiners the power to require submission of "such information as may be reasonably necessary to properly examine or treat the matter." But just how far can an examiner go with a "requirement for information"? The U.S. Court of Appeals for the Federal Circuit — which decides all patent-related appeals — issued a broad interpretation of an examiner's power in the recent case *Star Fruits S.N.C. v. United States*.

STAR FRUITS' QUEST

Star Fruits filed a patent application for a variety of peach tree. The PTO sent the company a request for information seeking "any information available regarding the sale or other public distribution of the claimed plant variety anywhere in the world" and "copies of the application, published proposed denomination and published Breeder's Right



grant.” The request stated that to the extent Star Fruits lacked or couldn’t readily obtain the information, a statement to that effect would be accepted as a complete response.

In its response, Star Fruits didn’t state that it didn’t have or couldn’t provide the required information. Instead, Star Fruits declined to provide the requested information on the grounds it wasn’t “material to patentability” of the new tree variety. The company’s response made clear that Star Fruits anticipated rejection of its application if it complied with the request — a rejection it regarded as contrary to law. Its refusal to supply the information was an attempt to prevent the rejection.

The PTO viewed the refusal as a deliberate omission and not a bona fide attempt at a complete response and issued a notice of abandonment. Star Fruits petitioned the PTO director to require the examiner to accept the company’s response as complete and was denied. The director stated that the threshold for requesting information from applicants is that the information be reasonably necessary to treat a matter in an application; the matter may or may not be related to patentability. In this case, the director found the information sought was necessary for the examiner to make a reasoned judgment of patentability. Star Fruits requested reconsideration, the request for relief was again denied, and the application was deemed abandoned.

Star Fruits then brought suit in federal district court claiming the PTO abused its discretion in denying its petition challenging the requirement for information because the information sought couldn’t properly be used to reject its patent application. The district court ruled against Star Fruits, finding it abandoned its application by failing to provide the information.

THE PEACH CAN FALL FAR FROM THE TREE

On appeal, Star Fruits argued the Director abused his discretion in requiring compliance with the request. It argued that it didn’t need to comply with requirements seeking information that isn’t material to patentability. Star Fruits defined “material to patentability” as information that directly supports an application’s rejection.

The Federal Circuit wasted no time shooting down Star Fruits’ claim. The court noted that the PTO can require information that doesn’t directly support a rejection and that “such information as may be reasonably necessary to properly examine or treat the matter” contemplates information relevant to examination either procedurally or substantively. This includes information beyond that defined by federal regulations as material to patentability, and beyond that which is directly useful to support a rejection or conclusively decide the issue of patentability.

The court gave several reasons to support this conclusion. First, the existing regulations include a duty of candor requiring patent applicants to disclose information material to patentability. It makes no sense that the PTO would bother issuing a new rule empowering it to require the submission of information the applicant must already disclose.

Second, the new regulation doesn’t define the required information as that information “material to patentability.” And lastly, the regulation’s plain language contemplates requirements for information that go beyond information material to patentability.

WHEN THE APPLICANT DISAGREES

The Federal Circuit identified the case’s real issue as whether the PTO can compel disclosure of information the examiner considers pertinent to



Dissent says court needs to see the forest for the trees

One judge disagreed with his colleagues who ruled that Star Fruits had no choice but to comply with the request for information and pursue full examination to final rejection. According to the dissent, judicial review under the Administrative Procedure Act (APA) is intended to test agency compliance with statute and precedent. An agency change of law, particularly a change that wasn't subjected to notice-and-comment rulemaking before its implementation, isn't immune from APA review. In the opinion of the dissenting judge, the majority's rule that an applicant's only recourse is to comply with the patent agency's request for information and undergo full examination to final rejection, with appeal available only through the Patent and Trademark Office Board of Appeals, bypassed APA procedures. Because the PTO made a major and far-reaching change in law — ruling that foreign sales and foreign knowledge may bar patentability in the United States — the entire administrative process need not be forced to proceed on the incorrect law, a process that may consume years, to challenge the change in law. The dissent could find no reason for denying to the invention community the full scope of APA procedures.

The dissent also rejected the finding that an examiner can request information that can't lead to a rejection. In fact, he points out that the court didn't even need to rule on this issue, as the PTO didn't make this argument itself. The PTO had argued that the request was acceptable because information on foreign sales and knowledge could indeed result in rejection.

So instead of focusing its review on whether the PTO action was arbitrary or capricious, the court should have decided whether the PTO's theory of law — that foreign sales and foreign knowledge may prove relevant to patentability — was correct. To do otherwise was an incorrect application of judicial review under the APA. To the dissent, this case wasn't about examiner discretion, but instead was a major change of law.

patentability even when the applicant reads the law differently. Its answer — not surprisingly — was “Yes.”

The court said the PTO is clearly entitled to seek information it deems relevant to patentability.

As long as the request isn't arbitrary or capricious, an applicant can't refuse to comply with a request that stems from the examiner's view of the law. Applied here, Star Fruits was required to comply, despite its belief that the information wasn't relevant because it couldn't legally be used as a basis for rejection.

The court restricted Star Fruits' remedies further in outlining the proper procedure to follow when an applicant believes the PTO is abusing its discretion with a request for information. It chastised Star Fruits for withholding the information as a means to challenge an anticipated rejection. The court directed Star Fruits to await an actual rejection and then litigate its propriety before the proper agency forums, rather than proceeding directly to federal court.

DON'T LET THE PEACHES FALL WHERE THEY MAY

Although it acknowledged that recourse in the courts may become available to an applicant, the court thought it unlikely that



many requests for information would be unreasonable or beyond the regulation's scope. Patent applicants would be wise to comply with the PTO's requirements for information to avoid the risk of a finding of abandonment. 💡

Proving actual dilution of famous trademarks

In the 2003 case *Moseley v. Victoria's Secret Catalogue*, the U.S. Supreme Court held that a claimant under the Federal Trademark Dilution Act (FTDA) must unambiguously show actual dilution of its mark, rather than just the likelihood of dilution, by objective proof of actual injury to the economic value of the mark. The ruling left some scratching their heads as to how to establish actual dilution. Now, in *Savin Corp. v. Savin Group*, the U.S. Court of Appeals for the Second Circuit — in the first appellate decision interpreting *Moseley* — explained how holders of famous trademarks can prove actual dilution with circumstantial evidence.

A CASE OF MISTAKEN IDENTITY

Max Lowe founded Savin Corp. in 1959, naming it after his brother-in-law, Robert Savin. The company markets, sells and distributes photocopying, printing, faxing and similar technology, and also offers consulting and support services. It markets its products and services nationwide and spent more than \$20 million on advertising in 2002. The company's Web site address, www.savin.com, is prominently featured in many of its ads.

In 1987, Dr. Rengachari Srinivasaragahavan, who had been nicknamed "Nivas" since his college days, founded several corporations using the name Savin (Nivas spelled backwards). His companies provided professional engineering consulting services, maintained offices in New York State, and registered the



domain names www.thesavingroup.com and www.savinengineers.com. The Web sites represented the companies' only advertising efforts.

If a famous mark's owner can show commercial use of an identical junior mark, it presents sufficient circumstantial evidence of actual dilution.

After discovering those Web sites in July 2002, Savin Corp. sent the defendants two cease-and-desist letters, which were promptly ignored. Almost a year later, a Savin Corp. executive was mistaken for an employee of Savin Engineers at a chamber of commerce meeting. Savin Corp. brought suit, claiming, among other things, violations of the FTDA. A federal district court dismissed all the claims. In particular, it found Savin Corp. failed to produce any evidence of actual dilution other than that the defendants had used a junior mark that was identical to the plaintiff's established "senior" mark.

Was the district court correct in finding the plaintiff's evidence insufficient? Not according to the Second Circuit.

YOU SAY "POTATO"

In *Moseley*, the Supreme Court made clear that actual dilution is a prerequisite for an FTDA claim. But direct evidence isn't necessary if circumstantial evidence can reliably prove actual dilution. The obvious case is one where the junior and senior marks are identical.

This language has led to conflicting results among district courts. Did *Moseley* mean that plaintiffs can establish an FTDA claim just by showing commercial use of an identical junior mark? In the Second

Circuit's view, that's exactly what the Supreme Court meant — but only for *famous* senior marks.

The court ruled that if a famous mark's owner can show commercial use of an identical junior mark, it presents sufficient circumstantial evidence of actual dilution. The court emphasized that the marks must be truly identical — a close similarity isn't enough. Whether the marks are identical is context- and/or media-specific and factually intensive. For example, the fact that marks are

textually identical but pronounced differently could prove relevant.

“ALMOST FAMOUS” DOESN'T CUT IT

So the Second Circuit sent the case back to the district court for specific findings on whether the Savin marks were identical. The court also noted that detailed analysis of the famousness of a mark would more quickly determine if dilution exists. If Savin Corp.'s senior mark doesn't qualify as “famous,” the identity factor becomes irrelevant. 

Disclose it or lose it Patent rights for federal contractors

Since 1980, the federal regulations implementing the Bayh-Dole Act have given the federal government the right to claim title to inventions if a federal government contractor fails to disclose the invention to the federal government on a specific form within two months of disclosing the invention's technical aspects to contractor personnel responsible for patent matters. It took more than 20 years for this regulation to come before a court, but the U.S. Court of Appeals for the Federal Circuit made clear that federal contractors who choose to ignore the law risk losing their patent rights.

Campbell Plastics Engineering & Mfg., Inc. v. Brownlee involved a new type of gas mask developed under a contract with the Army. A clause in the contract obligated Campbell Plastics to disclose any “subject invention” developed under the contract. But Campbell never disclosed the new gas mask on the required form, notifying the Army only after a patent was issued. In fact, the contractor repeatedly submitted forms indicating it hadn't developed any subject inventions.

When the Army eventually learned of the invention, it determined Campbell had forfeited title by failing to comply with the disclosure requirements. While the regulations give the Army some discretion in specifying when the government “may” obtain title to an invention, the Armed Services Board of Contract Appeals found that the Army hadn't abused its discretion. Campbell Plastics appealed the Board's decision to the federal courts.

Campbell contended that its failure to comply was a failure in form only — although it hadn't used the required form, it had adequately disclosed the gas mask by continually disclosing the mask's features throughout the contract period using drawings and progress reports. It also argued that the law doesn't favor forfeiture, especially where the government suffered no genuine harm.

The Federal Circuit rejected this argument, holding that Campbell's “piecemeal submissions” didn't adequately disclose the subject invention under the contract. It found the requirement of a single, easily identified disclosure form sound and deserving of strict enforcement. Accepting Campbell's position would mean methods of disclosure could vary widely, making it difficult for the government to discern just which documents or statements should be deciphered into an overall invention disclosure.

So federal contractors have to play by the government's rules. Failure to understand the federal regulations that govern federal contracts may allow the government to step in and seize the patent rights for itself.

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