ideas on intellectual property law

august/september 2006

in this issue

ROUTE TO

Sturm & Fix LLP

Patently untrue

Supreme Court rejects market power presumption

Proving that no legal precedent is untouchable, the U.S. Supreme Court has upended a presumption dating back almost 60 years and shifted the burden to plaintiffs in antitrust cases involving "tying" arrangements. The Court joined Congress, federal antitrust enforcement agencies and legal scholars in rejecting a presumption of market power where a business owns a patent. The decision could affect numerous industries that bundle their goods and services, from manufacturing to software to entertainment.

THE HANDS THAT TIE

The market power presumption arose in "tying" cases brought under the Sherman Antitrust Act. Tying occurs when the sale of the desirable or patented "tying" product is conditioned by the seller on the purchase of a second, less-desirable, "tied" product. To prevail in an antitrust case, a plaintiff must establish that the seller's market power in the tying product's market leaves buyers with no choice but to purchase both products from that seller.

In *Illinois Tool Works Inc. v. Independent Ink Inc.*, Illinois Tool Works (ITW) manufactured patented print heads and ink containers, and unpatented ink. ITW licensed its patented products to printer manufacturers as a package. The patent license agreement required the manufacturers to buy ink exclusively from ITW. Neither the printer manufacturers nor their customers could refill the patented containers with ink of any other kind. ITW competed with at least two companies in sales of print head systems.

Independent Ink sold ink with the same chemical composition as ITW's. It alleged that ITW was engaged in illegal tying and monopolization. But the district court rejected its argument that the patents created a presumption of market power. The Federal Circuit reluctantly reversed, noting an appellate court's duty to follow Supreme Court precedent — even when the precedent contains "infirmities" and rests on "wobbly moth-eaten foundations."

POWER TO THE PATENT

The Federal Circuit, citing the Supreme Court precedent, stated that, if the government grants the seller a patent, it's fair to presume that the inability to buy the product elsewhere gives the seller market power. But when *ITW* reached the Supreme Court, the Court noted that the presumption didn't originally arise in the antitrust context but as part of the patent misuse doctrine. Patent misuse takes place when a patentee uses its patent to effectively restrain competition with its sale of an unpatented product.

The Court's past patent misuse decisions didn't analyze actual market conditions, instead assuming that the requisite economic power over the tying product allowed the patentee to extend its economic control to unpatented products. But the presumption migrated from patent law to antitrust law.

The Supreme Court concluded that it would be inconsistent to preserve the market power presumption in the antitrust arena after Congress had eliminated its foundation in patent law.

The Court noted that Congress had amended the Patent Act to eliminate the market power presumption in patent misuse cases. The Court decided to review the *ITW* case to examine the history of judicial and legislative appraisals of tying arrangements. Ultimately, it had to decide whether the market power presumption should continue to survive in antitrust law.

PRESUMED INNOCENT

The Supreme Court conceded that it had earlier harbored animosity to tying arrangements, assuming they never served any purpose other than suppressing competition. But, while the Court had continued to rely on that presumption, Congress had been chipping away at it in the patent misuse context, culminating with the 1988 amendment.

Applied to the *ITW* case, the Court found the amendment "provides that without proof that [ITW] had market power in the relevant market, its conduct … was neither 'misuse' nor an 'illegal extension of the patent right.'" It acknowledged that the amendment doesn't expressly refer to antitrust laws but found it invited review of the rule. The Court concluded that it would be inconsistent to preserve the presumption in the antitrust arena after Congress had eliminated its foundation in patent law.

The Court ruled that while some tying arrangements with patented products remain unlawful — those that are products of true monopolies or marketwide conspiracy — the plaintiff must support such claims with proof of market power in the tying product.

ALTERNATIVE POWER SOURCES

Independent Ink alternatively urged the Supreme Court to endorse a rebuttable presumption that patentees possess market power when they condition the purchase of a patented product on agreement to purchase unpatented goods exclusively from the patentee. The company also proposed a narrower alternative.

This alternative would differentiate between tying arrangements involving the simultaneous purchase of two products that are arguably two components of a single product and those involving the purchase of unpatented goods over a period of time (also known as a requirements tie). Independent Ink claimed requirements ties should carry a presumption of market power because they permit patentees to charge large-volume purchasers a higher royalty for use of the patent, in turn providing strong evidence of market power.

The Court rejected both alternatives. It held that "many tying arrangements, even those involving patents and requirements ties, are fully consistent with a free, competitive market."

POWERING DOWN

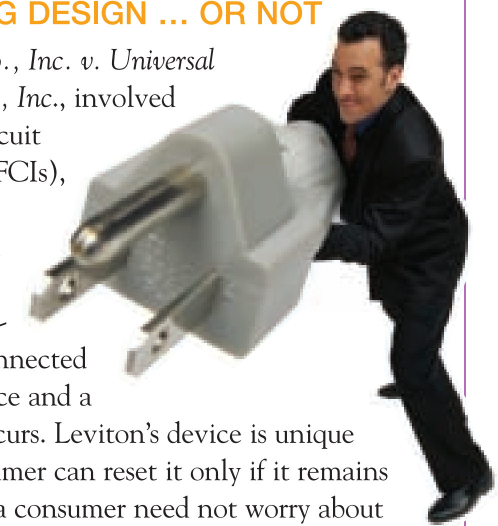
The Supreme Court sent the *ITW* case back to the lower courts, where ITW will not be subject to the presumption it has market power in its patented products. The decision gives companies with protected intellectual property greater flexibility in bundling their products. Courts must now recognize that such protection doesn't necessarily confer market power, and plaintiffs must demonstrate actual market power.

You can dress it up, but can you take it out?

Proving trade dress infringement

Federal trademark law protects registered trademarks, but owners of unregistered marks might find recourse under the Lanham Act's trade dress infringement provision. Trade dress is a product's total image and overall appearance, such as color, layout and shape. Two recent cases illustrate how a plaintiff can establish the defendant infringed its trade dress. In the first case, the plaintiff made it past the summary judgment phase; in the other, the plaintiff failed to present sufficient evidence to obtain a preliminary injunction.

A SHOCKING DESIGN … OR NOT



Leviton Mfg. Co., Inc. v. Universal Sec. Instruments, Inc., involved ground fault circuit interrupters (GFCIs), which protect consumers from electric shock when an electrical device is connected to a power source and a ground fault occurs. Leviton's device is unique because a consumer can reset it only if it remains operational — a consumer need not worry about unknowingly resetting a GFCI that actually is incapable of detecting a future ground fault.

Leviton brought a trade dress claim, among others, against Universal Security Instruments (USI) based on the color of its faceplates and the positions of the "test" and "reset" buttons. Leviton argued its GFCI appearance has acquired secondary meaning — meaning that consumers associate the device's appearance with the manufacturer. USI disagreed and also asserted that the device's colors and configuration were actually functional and therefore nonprotectable as trade dress.

FORM AND FUNCTION

The federal district court identified three components of a trade dress claim:

1. The purported trade dress is primarily nonfunctional,

2. The trade dress is either inherently distinctive or has acquired secondary meaning, and

3. The alleged infringement creates the likelihood of confusion.

The parties didn't dispute that Leviton put forth facts alleging confusion, so the court focused on the first and second elements.

A product feature is considered functional if it's essential to the product's use or purpose or affects its cost or quality. While the court found Leviton's buttons were functional, the specific configuration wasn't, as evidenced by competitors who used different configurations. And, just as the buttons' configuration is part of the trade dress, so is the color.

PRESUMPTION OF SECONDARY MEANING

Leviton then had to prove that its trade dress had "secondary meaning." The Supreme Court has held that, for a product to have protectable trade dress, it must have distinctiveness or acquired secondary meaning, such as the Nike "swoosh." Typically this is proven with evidence of long-term exclusive use. Direct evidence of copying — as in this case — also constitutes proof of secondary meaning.

A defendant is unlikely to rebut the secondary meaning unless it can show that, despite its efforts, it was unable to mimic the pre-existing trade dress. USI offered no evidence that it had failed in its copying efforts. So the court denied USI's motion for summary judgment for failing to overcome the presumption of secondary meaning.

IMAGE IS EVERYTHING

In *eAcceleration Corp. v. Trend Micro, Inc.*, the court focused on computer security software and the use of a stop-sign image. eAcceleration held an unregistered mark in a graphic image consisting of a red octagon with white trim and the word "STOP" in the center. Trend incorporated a picture of an actual stop sign on the packaging for its antivirus product. eAcceleration sued Trend for, among other claims, trade dress infringement and sought an injunction to stop Trend's use of the stop-sign picture.

A trade dress infringement claim requires a plaintiff to satisfy the same elements as a trademark infringement claim with one additional requirement: The trade dress must be nonfunctional. Trend didn't contend that eAcceleration's use of the trade dress image was functional, so the court focused its analysis on the image's validity and likelihood of confusion. Trend argued that eAcceleration's image wasn't protectable because it wasn't distinctive. It cited 28 examples of stop-sign imagery on computer security software packaging to support its position that the image was merely descriptive.

eAcceleration countered that its image was suggestive and the court agreed that its use on antivirus software wasn't sufficiently widespread. It held that eAcceleration's image was suggestive, making the secondary meaning analysis inapplicable.

The court then turned its focus to determine the likelihood of confusion between the images. In a likelihood of confusion analysis, the court considers:

1. The mark's strength,
2. The similarity of the marks,
3. The proximity or relatedness of the goods or services,
4. The defendant's intent in selecting its mark,
5. Evidence of actual confusion,
6. The marketing channels used,
7. The likelihood of expansion into other markets, and
8. The degree of care purchasers are likely to use.

The court found the factors didn't overwhelmingly favor eAcceleration. The plaintiff "appeared to have the stronger case" but didn't "establish" the likelihood of confusion.

Generally, if a plaintiff can establish such likelihood, it's entitled to a presumption of the irreparable harm necessary to gain a

What's fair is fair

In *eAcceleration Corp. v. Trend Micro, Inc.*, Trend also fought the preliminary injunction by offering the affirmative defense of fair use. The fair use defense allows others to use protected marks in descriptive ways — but not as marks identifying their own products. For example, an auto repair shop can use the Volkswagen mark when listing the types of cars it services, as long as it doesn't suggest an affiliation with VW.

Trend argued its placement of the stop-sign image was simply descriptive of the product's function: stopping viruses. It pointed out that it uses similar images on other products, such as a padlock on its Internet security product. And at least 28 other computer security products use some form of a red octagon in their advertising or packaging.

The court observed that fair use isn't a clear-cut issue and requires a factual determination as to descriptiveness. Trend's use of the stop-sign image on its packaging was prominent, but it related to the product's function. And, when combined with Trend's trademarks, the image doesn't identify itself as a trademark. So the court found a "substantial probability" that Trend could prevail on its fair use defense.

preliminary injunction. But the court found eAcceleration's case didn't warrant the presumption. And it noted that eAcceleration didn't bring its motion until almost a year after Trend's packaging went into broad circulation. The court therefore denied eAcceleration's request for injunctive relief.

DRESS UP THE CASE

These cases describe the critical components of a successful trade dress infringement claim: nonfunctionality, either inherent distinctiveness or secondary meaning, and, for liability, a likelihood of confusion. Additionally, *eAcceleration* seems to indicate that trade dress and trademark owners should pursue relief as early as possible after learning of potential infringement.

Taking the broad view

Federal Circuit upholds finding of willful patent infringement

With the ever increasing multimedia and electronic data storage choices in recent years, it's not surprising that a patenting battle would emerge. The Federal Circuit has weighed in on one such case, *nCube v. SeaChange*, affirming the trial court's broad construction of a claim term from a patent involving multimedia entertainment.

BEHIND THE SCENES

nCube's '804 patent claims "Method and Apparatus for Scalable, High Bandwidth Storage Retrieval and Transportation of Multimedia Data on a Network." A key component in the invention is the "upstream manager." The customer communicates a request for a particular service — interactive shopping, news, games and movies — to the system through its at-home device. The upstream manager accepts the request and routes it to the media server service, which will supply the requested service. The downstream manager sends the requested service to the customer's device.

Additional elements of the invention obtain and associate the client's and the appropriate media server's addresses; the addresses can be located on different types of networks. The connection service described in the patent specification accommodates different networks by assigning a "logical" address to the client's physical address.

The parties agreed on the construction of the term "upstream manager" as a computer system component that:

- Accepts messages from a client bound for services on its server,
- Routes those messages to services on a server, and
- Is distinct from the download manager.

But SeaChange sought to further limit this construction. It contended the upstream manager also must receive and route *all* messages from clients that are "bound for" services, and must do so using only logical, not physical, addresses of both sender and receiver. The district court declined to apply these limitations, and a jury found that SeaChange's cable TV systems included a component that functioned as an upstream manager, thus willfully infringing nCube's '804 patent. SeaChange appealed the decision to the Federal Circuit.

COURT REJECTS LIMITATIONS

The Federal Circuit also dismissed SeaChange's additional limitations. Although the claims require the upstream manager to receive messages from the customer, and the downstream manager to send data to the customer, they didn't make those the exclusive functions of the units. According to the court, the specification described only one embodiment of the invention, and the specification encompassed divergence from that embodiment with its statement that "it may be the case that some server process, under the direction of an external network control node, actually establishes contact with the client."

The court also found that the upstream manager may route messages using either logical or physical addresses. The patent's specification described an embodiment in which "all routing is accomplished based on logical addresses, not physical addresses." But Claim 1 of the patent didn't describe an upstream manager that requires routing using only logical addresses. The court held that reading the logical address requirement into Claim 1 would impermissibly read a limitation of Claim 2 into Claim 1, making the claims redundant.

But one judge disagreed with the panel majority. She wrote that the restrictive language used in the specification should indeed limit the scope of patent protection. At the same time, though, the judge recognized that, just because a patent describes only a single embodiment, it doesn't mean the court must construe the patent's claims as limited to that embodiment.

BROAD CONSTRUCTION UPHELD

The Federal Circuit upheld the jury's finding of willful infringement and subsequent award of damages and attorneys' fees. And it chided SeaChange for relying on an opinion letter attesting to noninfringement, even though it had held back at least one important technical document from its own opinion counsel.

Lessons in licensing

In *LGS Architects, Inc. v. Concordia Homes of Nevada*, the Ninth Circuit Court of Appeals granted injunctive relief to an architectural firm whose licensee exceeded the scope of its agreement for copyrighted architectural plans. The case demonstrates the importance of following the blueprint of your licensing agreements.

LGS and Concordia entered into a licensing agreement authorizing Concordia to use four of LGS's architectural plans to construct a master-planned community. All of the plans were registered with the U.S. Copyright Office. The agreement required Concordia to obtain written authorization and pay a reuse fee before making any other use of the plans.

Nonetheless, Concordia built another community based on the plans without written approval or payment of the reuse fee. LGS sought a preliminary injunction prohibiting Concordia from constructing and selling houses based on the plans; prohibiting Concordia from reproducing, distributing or publicly displaying those plans; and ordering Concordia to return the plans.

The district court denied the injunction, but the Ninth Circuit disagreed. First, the court found the request for an injunction wasn't moot — even though Concordia had already built and sold the homes in the second community — because it wasn't absolutely clear that Concordia had permanently ceased all infringing activity. In copyright infringement cases, a showing of a reasonable likelihood of success on the merits raises a presumption of the required irreparable harm for preliminary injunctive relief. The appeals court found such a presumption, observing that a licensee who exceeds the license's scope is liable for infringement and Concordia plainly exceeded the scope of the license with its second housing community.

Concordia had argued that LGS's appeal of the district court's denial of an injunction was moot based on its own representation that it wouldn't make future use of the plans. The appeals court explained that a defendant's voluntary termination of allegedly wrongful activity would render an appeal moot only if it's absolutely clear the behavior couldn't reasonably be expected to recur. Such was not the case here.

So the court granted a preliminary injunction prohibiting Concordia from reproducing, distributing, publicly displaying or creating derivative works based on the architectural plans. It did, however, deny a mandatory injunction requiring the return of the plans.

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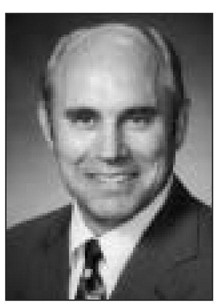

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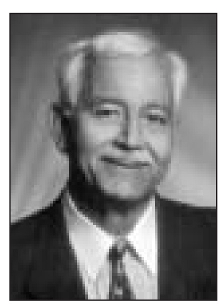

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