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Intellectual Property Litigation

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On Disclosing Patent Positions, Standard-Setting Process

Every sophisticated electronic and mechanical device—cell phones, cars, computers—includes hundreds of hardware and software components that must interact with each other and with components outside the device. The interoperability of these parts depends upon a vital system of industry standards that prescribe the shape, size and capabilities of components and define protocols for communication and interaction.

The process by which competitors in a given industry establish such standards, however, raises significant antitrust issues, particularly where a standard mandates the use of intellectual property owned by a competitor that participates in the standard setting proceedings.

Standards Development Organization

In an Oct. 30, 2006 business review letter, the Antitrust Division of the United States Department of Justice approved the policy of the VMEbus International Trade Association (VITA), a standards development organization (SDO), requiring participants in standard-setting activities to disclose their patent positions and announce in advance the terms on which they are willing to license those patents.

The VITA business review letter appears against the background of the Federal Trade Commission's recent decision in *In re Rambus Inc.*, 2006 WL 2330117 (FTC Aug. 2, 2006). The commission found that Rambus, a developer of computer memory technologies, engaged in monopolization in violation of §2 of the Sherman Act and §5 of the FTC Act by refusing to disclose its patents and patent applications during a standard-setting process, misleading other participants in the process to believe that Rambus was not seeking patents, using information obtained in the process to amend patent applications to cover forthcoming products using the standards under development and ultimately suing those who practiced the standards for patent infringement.

The commission recognized the procompetitive benefits of standard-setting, which makes products "more valuable to consumers, and stimulates output." But it condemned Rambus' deceptive conduct: "We cannot stress too strongly the importance we place on the fact that the challenged conduct occurred in the context of a standard-setting process in which members expected each other to act cooperatively."

VITA, a non-profit SDO composed of developers and users of systems employing VMEbus computer architecture, promulgates standards for physical connectors and logical protocols that allow development of VME-compatible components. VITA historically incorporated patented technology in its standards only when the patent holder agreed to grant licenses on reasonable and nondiscriminatory terms. To guard against liability for price fixing or other antitrust violations, VITA (like many SDOs) prohibits joint negotiation and discussion of patent licensing terms at standard-setting meetings.

On several occasions, however, VITA encountered significant problems when firms claimed to have patents essential to the use of a standard and demanded royalties much higher than expected. It therefore proposed an additional policy, requiring every member of a standard-setting working group to identify all patents and patent applications the member believes may become essential to use of a future standard, and then declare the maximum royalty rates and most restrictive nonroyalty terms it will request for those patents. Working group members are expected to consider the proposed licensing terms in deciding on a standard, but are forbidden to discuss or negotiate the terms at meetings.

Although it warned that any effort to "reduce competition by using the declaration process as a cover to fix downstream prices of VME products" would be a per se antitrust violation, the department approved the policy. While business review letters may be cited as authority in private litigation, they have no binding precedential effect, and the department reserves the right to bring enforcement action in the future "if the actual operation of the proposed conduct proves to be anticompetitive in purpose or effect."

Nevertheless, the VITA letter is likely to be influential. Procedures like VITA's are likely to create healthy pressure on patent holders to keep royalties down to encourage incorporation of their intellectual property in industry standards. On the other hand, the requirement that patents—as well as unpublished applications—be disclosed, and maximum royalty terms declared, long before products appear on the market, may inhibit participation in standard-setting activities. And even where the procedure is adopted and followed, discussions about proposed licensing terms among competitors before a standard is promulgated will continue to raise significant antitrust concerns.

Copyright

Considering interoperability antitrust issues in a copyright context, the U.S. Court of Appeals for the Seventh Circuit in *Wallace v. International Business Machines Corp.*, 2006 WL 3231415 (7th Cir. Nov. 9, 2006), rejected an antitrust challenge to the GNU General Purpose License that governs the use and development of free, open-source software. Under the license—which governs the popular Linux operating system—anyone may use the software for free, but must allow copying and the use of any derivative work without charge. As the court noted, the license "propagates from user to user and revision to revision," so that copyright law, "usually the basis of limiting reproduction,

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in order to collect a fee, ensures that open-source software remains free," because any attempt to sell a derivative work would violate the license and therefore itself be copyright infringement. In a crisp opinion, Judge Easterbrook rejected plaintiff's claims that providing the software for free amounted to predatory pricing, preventing him from marketing his own commercial operating system.

That claim failed because plaintiff could not show any threat of monopoly pricing in the future—the license "keeps [the] price low forever." Nor did the license constitute price fixing, because its restriction on the maximum price was lawful under the antitrust rule of reason.

Blanch v. Koons, 2006 WL 3040666 (2d Cir. Oct. 26, 2006), found that artist Jeff Koons' use of plaintiff's fashion photograph as part of a collage work constituted fair use. Mr. Koons is known for "appropriation art," which incorporates "objects and images taken from popular media and consumer advertising" into artwork. His collage, entitled "Niagara," consists of images of the lower half of women's legs dangling over depictions of desserts, against the backdrop of Niagara Falls.

Mr. Koons created one of the pairs of legs using plaintiff's photograph, which he copied from a fashion magazine, altering it by removing the backdrop and filling in portions of the image. The court found his use of the photograph was transformative because he altered the image to create a distinctive work for a different purpose from that of the original artist—his goal was to comment "on the social and aesthetic consequences of mass media." Judge Katzmann's concurrence distinguished the case from *Rogers v. Koons*, 960 F2d 301 (2d Cir. 1992), where the court rejected Mr. Koons' fair use defense. In *Rogers*, Mr. Koons had "slavishly recreated a copyrighted work in a different medium without any objective indicia of transforming it or commenting on the copyrighted work."

Patents

In *KSR International, Inc. v. Teleflex Co.*, No. 04-1350, the U.S. Supreme Court took cert to consider a line of U.S. Court of Appeals for the Federal Circuit cases establishing the "motivation-suggestion-teaching" doctrine. Under that doctrine, to establish that a patent is an obvious combination of previously known features, a defendant in an infringement suit must clearly explain the motivation, suggestion or teaching that would have led someone skilled in the art to combine those features and create the patented invention.

Affirming a judgment of invalidity for obviousness, the Federal Circuit in *Alza Corp. v. Mylan Laboratories, Inc.*, 464 F3d 1286 (Fed. Cir. 2006), took the opportunity to mount a vigorous defense of the doctrine. The Federal Circuit argued that the doctrine permits that court "to continue to address an issue of law not readily amenable to bright-line rules, as we recall and are guided by the wisdom of" the Supreme Court's seminal obviousness decision in *Graham v. John Deere Co.*, 383 US 1 (1966), which announced a "practical test of patentability." The doctrine, the Court of Appeals wrote, "rests on the unremarkable premise that legal determinations of obviousness, as with such determinations generally, should be based on evidence rather than on mere speculation or conjecture." The court also stressed the doctrine's "flexibility," noting that a motivation to combine may be found "implicitly" in the prior art, even in the absence of an "actual teaching." We're likely to know in the next few months whether the Supreme Court is persuaded.

Since *Cybor Corp. v. FAS Technologies, Inc.*, 138 F3d 1448 (Fed. Cir. 1998) (en banc), the construction of patent claims—typically a crucial issue in the overwhelming majority of patent cases—has been considered a purely legal issue, subject to de novo review on appeal to the Federal Circuit. The *Cybor* rule, however, has generated increasing controversy.

In *Amgen, Inc. v. Hoechst Marion Roussel, Inc*, 2006 WL 3378475 (Fed. Cir. Nov. 22, 2006) (en banc), where the full court denied en banc rehearing in a claim construction case, seven of the 12 active Federal Circuit judges indicated a desire to reconsider *Cybor*. Chief Judge Paul Michel's dissent from denial of rehearing summarized the major criticisms of *Cybor*:

(1) de novo review generates a high reversal rate;

(2) appellate outcomes are unpredictable, confusing trial judges and inhibiting settlement;

(3) courts and litigants lose the benefit of the work of district judges, who often spend more time considering claim construction issues than the appellate court; and

(4) the Federal Circuit is forced to deal with "the minutia of construing numerous disputed claim terms…in nearly every patent case."

Four judges (including Chief Judge Michel) would have granted en banc review in *Amgen* to reconsider the *Cybor* rule. Three others said that they would reconsider in an "appropriate" situation, such as the "atypical case" in which the a district court found it necessary to consider "conflicting expert evidence" in order to construe claim terms. A significant modification of the *Cybor* rule would be a revolution in patent litigation. Based on the views expressed in *Amgen*, that may well happen.

Trademark

Tillamook Country Smoker, Inc. v. Tillamook County Creamery Association, 465 F3d 1102 (9th Cir. 2006), held that Tillamook County Creamery, a dairy cooperative and maker of Tillamook cheese, was barred by laches from pursuing infringement claims against Tillamook Country Smoker, a processed meat company.

In 1975, Smoker informed Creamery of its plans to sell meat using the Tillamook name. Creamery did not object, and over time began selling Smoker's products in its stores and catalogues, failing to object to Smoker's efforts to register marks employing the Tillamook name.

Nonetheless, in 2000, after Smoker expanded sales into grocery stores, Creamery objected, prompting Smoker to sue for a declaratory judgment, arguing that Creamery's claims were barred by laches. Creamery attempted to excuse its delay under the progressive encroachment doctrine, under a trademark owner need not sue to block de minimis infringement, but may wait until the junior user of the mark moves into direct competition, typically by expanding into different regions or different markets. Creamery argued that Smoker first became a direct competitor when it expanded into grocery stores. The court found, however, that Smoker's efforts represented "normal business growth," rather than expansion into new markets. Had Smoker expanded by selling cheese, rather than meat, in grocery stores, however, that would have been "a different story." *Tillamook* illustrates the risks faced by trademark owners who rely on the progressive encroachment doctrine.

Rescuecom Corporation v. Google, Inc., 2006 WL 2811711 (NDNY Sept. 28, 2006), rejected an infringement claim challenging Google's sale of plaintiff's "Rescuecom" trademark to plaintiff's competitors as a search term that triggers links to the competitors' Web sites. Following *1-800 Contacts v. When U.com, Inc.*, 414 F.3d 400, 406-07 (2d Cir. 2005), the court observed that plaintiff was required to make a threshold showing of "trademark use"—use indicating source or origin. Rescuecom argued that it had established use by pleading that Google's use of its trademark lures searchers away from Rescuecom's Web site, alters the search results displayed, and leads to the appearance of its competitors ads.

The court rejected these arguments, concluding that they tended to demonstrate likelihood of confusion, but not trademark use. The court stressed that plaintiff's trademark did not appear in its competitor's advertisements or otherwise was displayed by Google. In *Buying for the Home, LLC v. Humble Abode, LLC*, 2006 WL 3000459 (DNJ Oct. 20, 2006), a New Jersey court ruled otherwise on the same issue. That court found that the defendant-competitor's purchase of plaintiff's trademark as a search term constituted trademark use in part because "the mark was used to provide… direct access to Defendants' Web site." This issue, of great importance to Internet marketers, has split the district courts—the *Rescue.com* opinion lists a number of inconsistent decisions—and will continue to do so until appellate courts begin to rule.