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INTELLECTUAL PROPERTY LITIGATION

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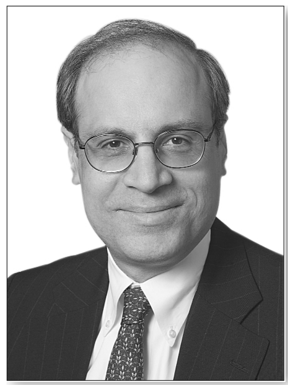
Patents: 'Market Power' or Controlling Price, Ousting Competition

In a typical year, the U.S. Patent Office issues over 150,000 patents. Some will prove to be pioneering inventions and others merely small improvements. Some will have little or no economic value. How many of them will confer upon their owners "market power" within the meaning of the antitrust laws — meaning the ability to control price and exclude competition?



'Rebuttable Presumption'

In *Independent Ink, Inc. v. Illinois Tool Works, Inc.*, 2005 WL 147399 (Fed. Cir. Jan. 25, 2005), the court held that, for purposes of a tying claim under §1 of the Sherman Act, a "rebuttable presumption" of market power arises whenever defendant holds a patent covering a tying product. In so doing, it refused to join those courts that have rejected older precedent and concluded that modern antitrust law attaches little market significance to mere possession of a patent.

Defendant in *Independent Ink* held a patent covering printers used to place bar codes on shipping cartons. Defendant's standard licensing agreement allowed use of the patented printers only in combination with defendant's ink and ink supply systems. Conditioning the sale of one product (the tying product) on the purchase of another (the tied product) may be a per se illegal tying arrangement under §1 of the Sherman Act when the seller has "appreciable economic power" in the tying product market and the arrangement affects a substantial volume of commerce in the tied market. *Eastman Kodak Co. v. Image Tech. Servs., Inc.*, 504 US 451, 462 (1992). A California district court dismissed a per se tying claim on the ground that plaintiff had failed to come forward with evidence of defendant's market power.

Reversing, the Federal Circuit held that Supreme Court precedent in tying cases involving intellectual property — such as *International Salt Co. v. United States*, 332 US 392 (1947) and *United States v. Loew's, Inc.*, 371 US 38 (1962) — established a rule that "where the tying product is patented or copyrighted, market power may be presumed rather than proven." It therefore remanded to give defendant an opportunity to introduce evidence to rebut the presumption.

The Court of Appeals turned aside arguments that the holdings of these cases have not stood the test of time. While there is dictum to support a market power presumption in the majority opinion in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 US 2 (1984), several lower courts, and influential commentators, have concluded that no presumption should attach to the ownership of intellectual property. See, Areeda, Elhauge and Hovenkamp, Antitrust Law ¶1737c (2d Ed. 2004).

In addition, the Department of Justice and the Federal Trade Commission do not recognize a presumption. The 1995 Antitrust Guidelines for the Licensing of Intellectual Property published by those agencies states that they "will not presume that a patent, copyright or trade secret necessarily confers market power upon its owner" because "there will often be sufficient actual or potential close substitutes ... to prevent the exercise of market power."

Nor was the Federal Circuit persuaded by the fact that, under §271(d)(5) of the Patent Act, proof of actual market power is required to establish a patent

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misuse defense based on patent tying. Here, the Court of Appeals noted that Congress did not amend the Patent Act to abolish a presumption for affirmative antitrust claims. Thus, defendant's mere ownership will support a treble damages tying claim, but not a patent misuse defense.

Under *Independent Ink,* a market power presumption will be applied in cases within the jurisdiction of the Federal Circuit — which includes all actions in which the complaint alleges claims based on the patent laws. (In *Independent Ink,* the original complaint sought a declaratory judgment of invalidity and non-infringement of defendant's patent.) In other cases, defendants will be free to argue that no presumption should apply.

Trademarks

Resolving a split among the Courts of Appeals, the Supreme Court held that a party invoking the fair use defense established by the Lanham Act has no burden to negate likelihood of confusion resulting from its use of the plaintiff's mark. *KP Permanent Make-Up, Inc., v. Lasting Impression I, Inc.,* 125 SCt 542 (2004). Section 1115(b)(4) of the Lanham Act provides an affirmative defense where a "descriptive" term or device is used "fairly and in good faith only to describe the goods or services of" the defendant. Defendant had used the term "micro color," later registered as plaintiff's trademark, to describe its permanent makeup product. The Supreme Court noted that the text of §1115(b)(4) says nothing about likelihood of confusion, focusing instead on fairness and good faith. The Court also noted that requiring a defendant to negate confusion would make the defense illusory, because all trademark plaintiffs must affirmatively show confusion. The Lanham Act, the Supreme Court found, tolerates a "certain degree of confusion" where "an originally descriptive term" is chosen as a trademark. While defendant need not disprove confusion, the Supreme Court did not rule out the possibility that confusion could be considered "in assessing whether a defendant's use is objectively fair."

In *Moseley v. V. Secret Catalogue, Inc.,* 537 US 418 (2003), the Supreme Court held that a claimant under the Federal Trademark Dilution Act (FTDA) must establish actual dilution, rather than the mere likelihood of confusion. Relying on dictum from *Moseley,* the U.S. Court of Appeals for the Second Circuit, in *Savin Corp. v. Savin Group,* 391 F3d 439 (2d Cir. 2004), where a dilution plaintiff can show that the defendant is using an identical mark, held that that alone constitutes "circumstantial evidence" of actual dilution, allowing an FTDA claim to proceed. The Court of Appeals stressed, however, that identity — not merely "close similarity" — is required to invoke this rule. *Moseley* itself remains a controversial holding, and legislation was introduced in the House on Feb. 9 (H.R. 683) that would overturn it and allow suits based on the likelihood of dilution.

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interState Net Bank v. NETB@NK, Inc., 348 FSupp2d 340 (D.N.J. 2004), illustrates the rule that trademarks cannot be assigned "in gross" — that is, transferred separately from the goodwill of an ongoing business. NETB@NK, a provider of Internet banking services, attempted to claim priority based on a trademark it had purchased from Software Agents, which had operated a transactional payment service for small internet transactions. NETB@NK, unlike Software Agents, offered a full range of traditional banking services, including checking accounts and a bill paying system. The court found that NETB@NK's business was not "substantially similar" to that of Software Agents, and that NETB@NK, which did not continue to operate the Software Agents business, had not made any attempt to benefit from Software Agents' goodwill. Finding that "the record suggests that [NETB@NK's] only interest in Software Agents' business was in purchasing" the trademark, the court held the assignment invalid and cancelled NETB@NK's registration.

Copyright

Thirteen judges of the Third Circuit Court of Appeals convened en banc to consider the copyrightability of serial numbers assigned to rivets, latches, fasteners and similar products sold by plaintiff Southco. *Southco, Inc. v. Kanebridge Corp.,* 390 F.3d 276 (3d Cir. 2004) (en banc). The numbers are determined according to a system that assigns particular digits to describe particular characteristics of the products (length, materials used, thread size) so that customers can quickly understand the characteristics of each product and use the system to describe products they wish to order.

Reversing a panel decision, a majority of the en banc court held the numbers uncopyrightable because they lack sufficient originality, and because they are "analogous" to "short phrases" or titles of works, which the Copyright Office has long considered unprotectable. Two dissenters found the numbers to be protectable as one of "many possible expressions" of a numbering system.

A divided U.S. Court of Appeals for the Eighth Circuit panel held that §512(h) of the Digital Millennium Copyright Act (DMCA) does not permit copyright owners to obtain subpoenas directing Internet service providers (ISPs) to disclose personal information about ISP subscribers who are believed to have infringed copyrights through the use of "peer to peer" services. *In re Charter Communications, Inc. Subpoena Enforcement Matter,* 393 F3d 771 (8th Cir. 2004). Following the reasoning of *Recording Industry Association of America v. Verizon Internet Services, Inc.*, 351 F3d 1229 (D.C. Cir. 2003), the panel majority held that the DMCA does not authorize issuance of subpoenas where the ISP acts solely as a conduit for the copyrighted material (which is the case with peer-to-peer software such as Grokster). A dissenting judge argued that the language and underlying purpose of the statute require that all ISPs be obligated to respond to §512(h) subpoenas.

Brilliance Audio, Inc. v. Haights Cross Communications, Inc., 2004 WL 3132255 (W.D. Mich. Dec. 30, 2004), held that defendant's rental to consumers of audio books produced by plaintiff was protected by the first sale doctrine in §109(a) of the Copyright Act, which permits the lawful owner of a copy of a copyrighted work to "sell or otherwise dispose of" that copy. The court rejected plaintiff's argument that the Record Rental Amendment Act, embodied in §109(b) of the statute, which prohibits the unauthorized rental of sound recordings, pertains to recordings of literary works. The court found that §109(b) is limited to recordings embodying "musical works."

Patents

In *Lisle Corp. v. A.J. Manufacturing Co.*, 2005 WL 326634 (Fed. Cir. Feb. 11, 2005), the U.S. Court of Appeals for the Federal Circuit considered the nature of evidence necessary to support a jury finding of experimental use. A patent is invalid if the claimed invention is in public use in the United States more than a year prior to filing of the application. Experimental use, however, will not invoke this bar. In *Lisle*, the patentee had given samples of its invention — a tool used in servicing automobile steering systems — to mechanics at four automobile repair shops more than a year before it applied for its patent. The mechanics were not required to enter into a confidentiality agreement, and were not subject to any restrictions on use of the tools. Taking a generous view of the doctrine, the Court of Appeals sustained a verdict finding experimental use, on the basis of evidence that the patentee regularly solicited feedback from the mechanics and modified the design based on the comments received, and because the patentee believed the mechanics knew the tool was given to them for experimental purposes.

Three opinions illustrate the Federal Circuit's approach to §285 of the Patent Act, which allows attorney's fees awards in "exceptional" cases. A case is exceptional when a party has engaged in inappropriate conduct related to the patent or the litigation, including willful infringement, fraud or inequitable conduct in procuring the patent, or litigation misconduct. In *Bruno Independent Living Aids, Inc. v. Acorn Mobility Services, Ltd.*, 394 F1348 (Fed. Cir. 2005), the court sustained a fee award, finding clear and convincing evidence that material prior art was intentionally withheld from the Patent Office during prosecution. In *Brooks Furniture Manufacturing, Inc. v. Dutilier International, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the court vacated a fee award, finding that the patentee had relied on reasonable opinions of counsel and experts in bringing suit, and that the district court had improperly taken into the account the fact that the plaintiff was a relatively large competitor that had sued several smaller competitors for patent infringement, and had written a "harsh" cease and desist letter to the defendant. An award was also vacated in *Stephens v. Tech International, Inc.*, 393 F3d 1269 (Fed. Cir. 2004), where the court found the plaintiff had a plausible basis to bring suit, and the district court improperly relied on the fact that plaintiff had ordered a background investigation of the defendant that had "no legitimate litigation interest."