

IDEAS ON INTELLECTUAL PROPERTY LAW



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Opinion of counsel matters (really!)

Everyone seems to love a good lawyer joke, but it turns out that failing to obtain an attorney's opinion is no laughing matter in some patent cases. The Federal Circuit Court of Appeals held in *Broadcom v. Qualcomm* that a defendant's failure to obtain a noninfringement opinion from counsel could indicate an intent to induce infringement by others.

Chipped argument

Broadcom brought suit against Qualcomm regarding patents for technology related to wireless voice and data communications over cell phone networks. A jury found that Qualcomm directly infringed and induced infringement of Broadcom's patents. It also found that Qualcomm had willfully infringed the patents.

Shortly after trial, the Federal Circuit released *In re Seagate Technology, LLC*, which held that the failure to obtain an opinion-of-counsel letter regarding noninfringement is insufficient on its own to show that infringement is willful. The district court in *Broadcom* subsequently vacated the jury's willfulness verdict because it was essentially based solely on Qualcomm's failure to obtain noninfringement letters. Broadcom's appeal questioned the relevance of opinion-of-counsel letters relating to induced infringement.

The court chips in

The Federal Circuit explained that inducement requires "evidence of culpable conduct, directed to encouraging another's infringement, not merely that the inducer had knowledge of the direct infringer's activities." The plaintiff must show that the defendant's actions induced infringing acts *and* that the defendant knew or should have known his or her actions would induce actual infringement.



As to whether Qualcomm knew or should have known its actions would induce infringement, the district court had instructed the jurors that they could consider whether Qualcomm had obtained legal advice.

On appeal, Qualcomm argued that, post-*Seagate*, opinion-of-counsel evidence is no longer relevant when determining the intent of an alleged infringer in the inducement context. Qualcomm contended that *Seagate* altered the standard for establishing the intent element of inducement to the extent that, if opinion-of-counsel evidence isn't relevant to willful intent, it's not relevant to specific intent to induce infringement. Broadcom countered that opinion-of-counsel letters remain relevant to the intent inquiry in the inducement context.

Specific intent to encourage another's infringement can be established through circumstantial evidence, including lack of opinion-of-counsel evidence.

The court held that *Seagate* didn't alter the state-of-mind requirement for inducement. A lack of culpability for willful infringement doesn't compel a finding of noninfringement under an inducement theory.

The Federal Circuit found that specific intent to encourage another's infringement can be established through circumstantial evidence, including lack of opinion-of-counsel evidence. Failure to procure an opinion may be probative of intent because the opinion may reflect whether the inducing infringer knew or should have known its activities would cause another to directly infringe.

Don't phone it in

While lack of an opinion letter is irrelevant to the question of defending against a charge of willfulness, the production of an opinion letter may be an important part of defending against a claim of inducement to infringe. The lack of an opinion letter isn't determinative to the question of willfulness but, if introduced in an inducement claim, it could signal willfulness to jurors. ○

Court declares appropriate test for design patent infringement

For decades, court opinions have required satisfaction of two different tests when assessing claims of design patent infringement, leading to understandable confusion. The Federal Circuit Court of Appeals has put an end to that confusion with its opinion in *Egyptian Goddess, Inc. v. Swisa*, which pitted the “ordinary observer” test against the “point of novelty” test.

The background file

Egyptian Goddess Inc. (EGI) sued Swisa for design patent infringement. The case involved EGI’s design patent for a four-sided nail buffer that features buffer surfaces on three sides. Swisa sold a four-sided buffer with buffer surfaces on all sides.

The district court held that the plaintiff in a design patent infringement case must prove that the accused device (Swisa’s buffer):

- Is “substantially similar” to the patented design (EGI’s buffer) under the ordinary observer test, and
- Contains “substantially the same points of novelty” that distinguished the patented design from previous designs (or the “prior art”).

It found that Swisa’s buffer didn’t incorporate the point of novelty in EGI’s patent, and a three-judge panel of the Federal Circuit affirmed the decision.

A real nail-biter

The entire Federal Circuit took up the case to address the appropriate legal standard to be used in assessing claims of design patent infringement. It began its discussion with the U.S. Supreme Court decision in *Gorham v. White*. In *Gorham*, the Supreme Court set forth the ordinary observer test:

... if, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

The Federal Circuit also cited *Litton Systems, Inc. v. Whirlpool Corp.* In *Litton Systems*, the Federal Circuit held that proof of similarity under the ordinary observer test is insufficient on its own to support a finding of design patent infringement. Rather, the accused design must also appropriate the patented design’s novelty. The similarity between the two designs must be attributable to the novelty that distinguishes the patented device from the prior art.

The court in *Egyptian Goddess* conceded that the extent to which the point of novelty test has been a separate test hasn’t always been clear. Therefore, the case would serve as a vehicle for reconsidering the place of the point of novelty test in design patent law.

The court nails it down

EGI argued that the point of novelty test shouldn’t be recognized as the second part of the test for design patent infringement. The Federal Circuit agreed, holding that the point of novelty test as a separate test or second requirement for proof of infringement is inconsistent with the test outlined in *Gorham* as well as another case, *Smith v. Whitman Saddle Co.*



In *Whitman*, the Supreme Court interpreted the ordinary observer test as requiring that the hypothetical ordinary observer’s perspective “be informed by a comparison of the patented design and the accused design in light of the prior art.” The Supreme Court in *Whitman* theorized that this would enable the fact-finder to determine whether the accused design had appropriated the patented design’s inventiveness.

The Federal Circuit observed that the Supreme Court's *Whitman* opinion didn't suggest that it was fashioning a separate point of novelty test for infringement. The point was that infringement couldn't be found where the accused design includes no features that would make it distinctively similar to the patented design, as opposed to numerous prior art designs.

The Federal Circuit held that the ordinary observer test should be the sole test for determining whether a design patent has been infringed.

The Federal Circuit determined that its previous readings of *Litton Systems* as supporting a separate point of novelty test were incorrect. Instead, *Litton* should be read

as applying a different version of the ordinary observer test in which the ordinary observer views the differences between the patented design and the accused product in the context of the prior art.

In cases with many examples of similar prior art designs, the ordinary observer with knowledge of the prior art will give more significance to differences between the patented and accused designs that others might not notice. Thus, the Federal Circuit held that the ordinary observer test should be the sole test for determining whether a design patent has been infringed.

The plaintiff is rebuffed

Although EGI prevailed on its argument regarding the appropriate test, it lost in the end. The court held that the similarity of the prior art to the Swisa buffer would preclude a finding that an ordinary observer would believe the design to be the same as EGI's. Satisfying the ordinary observer test, it seems, will not necessarily be easy. ○

The importance of association

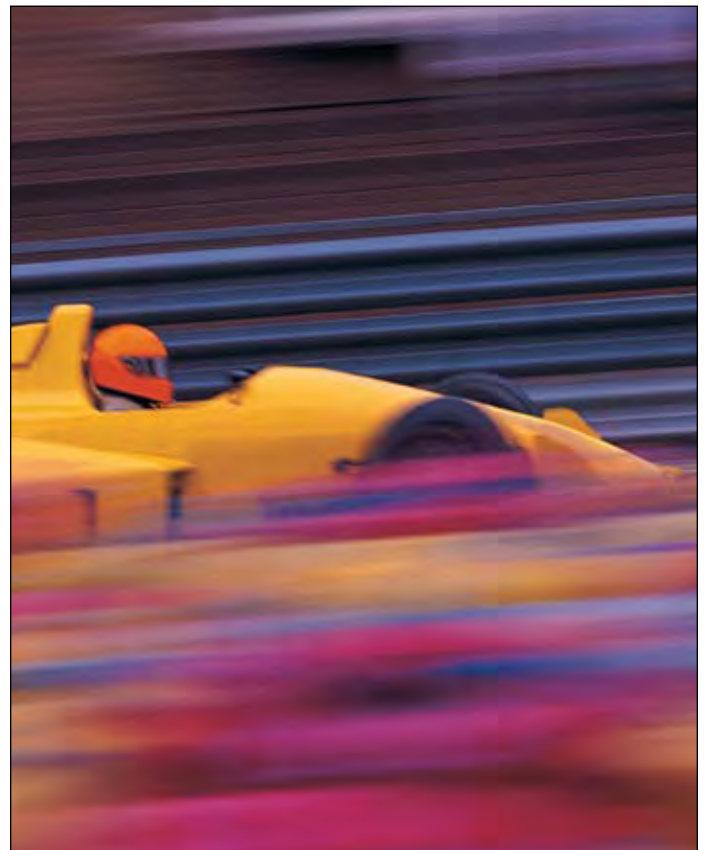
Automotive trademark faces likelihood of confusion test

The likelihood of confusion test is a critical component in trademark infringement cases. But can mere confusion between marks support a finding of infringement? In *AutoZone, Inc. v. Strick*, the Seventh Circuit Court of Appeals re-emphasized that the test turns not only on whether consumers will confuse the marks, but also on whether consumers are likely to *associate* the accused mark's products or services with the holder of the protected mark.

The starting line

AutoZone operates approximately 3,500 stores nationwide. Its primary business is the sale of automotive products, but it also provides some related services, such as diagnostic advice and free battery testing. AutoZone stores have no service bays for repairs and don't offer car washes or oil changes, though they do sell products related to those activities.

AutoZone first began using its federally registered trademark in November 1987 and has used it in Illinois since the early 1990s. The company engaged in heavy marketing in the Chicago area, with sponsorship of local professional sports



teams; advertising on local and national cable television; direct mail campaigns; outdoor advertising; and advertising on local radio and in magazines, local newspapers and the Yellow Pages.

Michael Strick opened two businesses in the Chicago suburbs that provided services such as car washes and oil changes. He began using the “Oil Zone” mark in 1996 and “Wash Zone” in 1998. AutoZone sued, alleging service mark and trademark infringement. The district court dismissed the plaintiff’s case and AutoZone appealed.

7 rules of the road

The Seventh Circuit explained that likelihood of confusion between the two marks is a necessary element under both the state and federal infringement and unfair competition claims. The court typically analyzes seven factors to determine whether consumers are likely to be confused:

1. The similarity between the marks in appearance and suggestion,
2. The similarity of the products,
3. The area and manner of concurrent use,
4. The degree of care likely to be exercised by consumers,
5. The strength of the plaintiff’s mark,
6. Any actual confusion, and
7. The intent of the defendant to “palm off” the product as that of another.

No single factor is dispositive; courts may weigh the factors according to the facts presented in a particular case. In *AutoZone*, the court devoted much of its analysis to the first two factors.

Where the rubber meets the road

To determine whether two marks are similar, the court views the marks as a whole. The marks aren’t simply compared side by side, but rather the court considers marketplace realities.

The test isn’t whether consumers would confuse the *marks*, but whether consumers are likely to associate the product or service with which the mark is used with the source of products or services of another mark. Courts consider

Local notoriety: Making the case for intent

One of the seven factors considered by courts in a likelihood of confusion case is the intent of the defendant to “palm off” the product as that of another. In *AutoZone, Inc. v. Strick* (see main article), the Seventh Circuit Court of Appeals closely examined the intent factor, despite the defendant’s testimony that he was unaware of the AutoZone mark when he created the Oil Zone mark.

The court observed that the AutoZone mark was extensively marketed in the Chicago area at the time Strick adopted the Oil Zone mark. As the court put it, Strick would have had a hard time missing the mark — especially as Strick had worked in the same industry as AutoZone before he began using the Oil Zone mark. The court found that, in some circumstances, intent to confuse may be reasonably inferred if the marketing and business presence of the senior mark is nearly ubiquitous in the geographic area where the challenged mark competes.

whether a consumer would mistakenly believe that the trademark owner had sponsored, endorsed or was otherwise affiliated with the accused mark’s product.

In *AutoZone*, both parties’ marks are composed of two words, with “Zone” as the second word. They use the same font and are slanted in the same direction. The first letters of both words in the marks are larger than the other letters, and both marks feature bar designs that suggest movement or speed. Therefore, the first factor favored AutoZone.

As to the products’ similarity, the question isn’t whether the products are interchangeable but whether they’re the kind that the public might attribute to the same source. Likelihood of confusion may exist even if the parties aren’t in direct competition, or their products and services aren’t identical. This factor, too, favored AutoZone — the automotive services provided by Strick’s businesses are related to the products AutoZone sells in its stores.

Putting on the brakes

In the final analysis, the court determined that the other five factors also favored AutoZone. It concluded that consumers may be led to believe that AutoZone’s and Strick’s businesses are affiliated, meaning consumers are likely to be confused as to the source of the goods or services. So the Seventh Circuit reversed the district court’s opinion and remanded the case for further proceedings. ○

Can an implied license defeat a copyright claim?

Businesses commonly employ independent contractors for any number of reasons. Yet the independent contractor/employer relationship can be complicated when intellectual property is involved — especially when that relationship comes to an end.

This was the case in *Asset Marketing Systems, Inc. v. Gagnon*, heard by the Ninth Circuit Court of Appeals, where an independent contractor brought copyright and trade secret claims against a former client.



Developing story

During the course of a four-year relationship, independent contractor Kevin Gagnon developed six custom software programs for Asset Marketing Systems (AMS). The parties executed only one contract, a one-year Technical Services Agreement (TSA) that made no reference to a license. The parties' relationship continued after the TSA expired.

Over the four years, AMS paid Gagnon more than \$2 million, including \$250,000 for custom software development and

computer classes. After its relationship with Gagnon ended, AMS continued using the software programs and modified the source code. Gagnon brought claims against AMS for copyright infringement and misappropriation of trade secrets in the source code.

Defying logic

AMS asserted that it possessed an implied license for the programs. The Ninth Circuit has previously held that an implied license is granted when:

1. A person (the licensee) requests the creation of a work,
2. The creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and
3. The licensor intends that the licensee copy and distribute the work.

In *Asset Marketing Systems*, the court found Gagnon hadn't created the programs on his own initiative but, rather, in response to AMS' requests. He created the programs specifically for AMS and was paid for drafting them. He delivered the programs when he installed them on AMS computers and stored the source code on-site at AMS.

The Technical Services Agreement (TSA) didn't address whether Gagnon intended to prohibit use of the software after the TSA's termination.

While the first two prongs of the implied license analysis were satisfied, the intent prong required more analysis. The court noted that the TSA didn't address whether Gagnon intended to prohibit use of the software after the TSA's termination, and acknowledged that Gagnon was well paid for his services. The court didn't believe that AMS would have paid Gagnon for his programming services if AMS couldn't have used the programs without further payment pursuant to a separate licensing arrangement.

Further, the parties didn't discuss a licensing agreement until their relationship was ending. And Gagnon had delivered the software without limiting AMS' use of the programs. Thus the court couldn't find that Gagnon had intended to limit his license to AMS.

License to override

The court concluded that Gagnon had granted AMS an unlimited, nonexclusive license to retain, use and modify the software, thus precluding claims of copyright

infringement. As the license was nonexclusive, it could be granted orally or, as here, by implication. Because the license included access to any trade secrets in the source code, Gagnon's misappropriation of trade secrets claim also failed.

This case illustrates the importance of addressing ownership rights using written agreements when developing intellectual property. A written agreement may have avoided this entire dispute and lawsuit. ○

Congress enacts additional IP protections

Last fall, Congress enacted legislation granting new federal protections to intellectual property (IP), in particular trademarks and copyright. The Prioritizing Resources and Organization for Intellectual Property (PRO-IP) Act brings a variety of changes to IP oversight. Major changes include:

Damages in counterfeiting cases. PRO-IP imposes stronger penalties on parties accused of engaging in counterfeiting activities. If a trademark owner elects statutory damages, it can obtain an award of \$1,000 to \$200,000 per counterfeit mark, doubling the previous amount. In cases of willful counterfeiting, the court may award up to \$2 million per counterfeit mark.

Before the adoption of PRO-IP, plaintiffs could only receive treble damages from defendants who intentionally used a counterfeit mark. Now, the law extends treble damages to include those who provide goods or services necessary to intentional use of a counterfeit mark and intend such use by the recipient.

Federal authority. PRO-IP grants the federal government broad authority to seize any records relating to infringement investigations. Previously only infringing items and things related to manufacture of the infringing items could be impounded. Additionally, it provides for the criminal and civil

forfeiture of any property used or intended to be used to commit or facilitate the commission of a criminal offense involving copyrighted works.

Clarification on registration. The law clarifies that registration isn't a prerequisite for a criminal copyright prosecution. It also provides that copyright holders can bring a civil infringement action regardless of minor errors in registration, unless those errors were made knowingly. And the law makes it unlawful to export unauthorized copies of protected works and counterfeit goods from the United States.

A new governmental position. PRO-IP allocates additional funding for infringement investigations and creates the position of intellectual property enforcement coordinator. The coordinator serves as a principal advisor to the president on domestic and international IP enforcement policy and is charged with developing and implementing a joint strategic plan against counterfeiting and piracy.



An advisory committee composed of representatives from various agencies — including the FBI and the U.S. Patent and Trademark Office — will support the coordinator.



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