

IDEAS ON INTELLECTUAL PROPERTY LAW



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Patent, Trademark, Copyright, Internet & Related Causes

Picking up the pieces

Court weighs in on liability for patent-infringing components

When it comes to patent infringement liability, an original whole can't always cover up for some of its not-so-original parts. Or so says the U.S. Court of Appeals for the Federal Circuit.

In *Ricoh Co. Ltd. v. Quanta Computer Inc.*, it held that bundling an infringing component in a product with substantial noninfringing use won't protect a manufacturer from patent infringement liability. The court also limited the circumstances under which software can be found to directly infringe a patented method.

Booting up the case

Ricoh is a diversified office automation equipment and electronics provider. Quanta manufactures optical disc drives as an "original equipment manufacturer," meaning it sells its products to other companies for retail marketing instead of selling directly to consumers.



The case arose when Ricoh sued Quanta, accusing it of directly and contributorily infringing Ricoh's patents for various aspects of optical disc drive technology. Ricoh claimed that Quanta contributorily infringed its patents by selling optical disc drives adapted to perform the patented methods for writing and recording data on a disc.

The district court found that, while Quanta's drives might be capable of being used to infringe the patented process, no liability for contributory infringement arose because the drives were also capable of "substantial noninfringing use." Citing Section 271(c) of the Patent Act, which imposes liability for contributory infringement, the district court granted summary judgment in Quanta's favor, dismissing all of Ricoh's claims.

Unbundling the liability

On appeal, the Federal Circuit recognized that the case presented "an important, and previously unresolved," question about the scope of liability for contributory infringement.

The court noted that Sec. 271(c) reflects the core notion that one who sells a component designed for use in a patented invention may be liable as a contributory infringer if the component isn't a staple article of commerce suitable for substantial noninfringing use — in other words, if it's "good for nothing else" but infringement of the patented process.

Quanta would clearly be liable under Sec. 271(c) if it imported into or sold within the United States a bare component with no use other than practicing the patented methods. It follows, the court reasoned, that Quanta shouldn't be allowed to escape liability simply by embedding that component in a larger product with an additional, separable feature before importing it or selling it.

If the court held otherwise, it explained, contributory liability would never exist as long as the larger product has a substantial noninfringing use based solely on the additional feature, despite the inclusion of a component that, if sold alone, plainly would result in liability. Further, "no Sec. 271(c) liability could ever be found

where an infringing component is both manufactured and assembled into something else by the same person.”

The only remedy left under such a ruling might be against end users of the product, and it could prove impossible to effectively enforce rights in the product against all such direct infringers. And leaving only such a remedy would undermine a fundamental purpose of contributory liability — allowing the rights-holder to pursue the distributor of the component for liability.

Citing the U.S. Supreme Court’s decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, the Federal Circuit noted that the “substantial noninfringing use” exception is intended to permit the determination of circumstances in which the intent to infringe can be presumed based on the distribution of a product with an unlawful use.

Thus, “it is entirely appropriate to presume that one who sells a product containing a component that has no substantial noninfringing use in that product does so with the intent that the component will be used to infringe.”

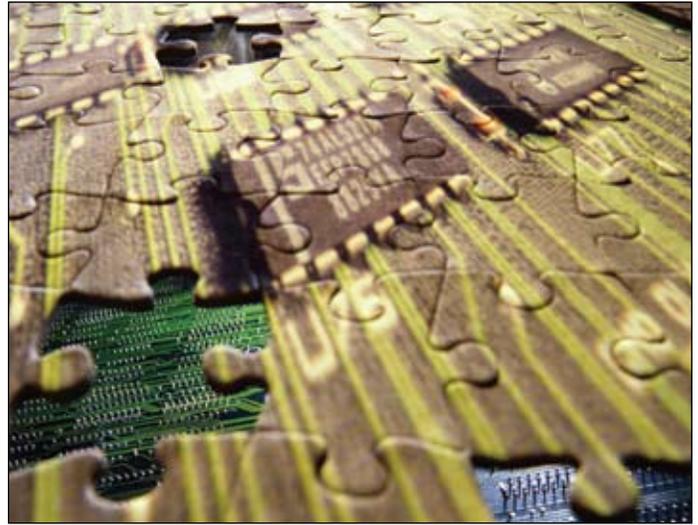
Rereading the instructions

Ricoh also argued that Quanta had directly infringed the patents “through the sale or offer for sale of software that causes the accused drives to perform the claimed methods.”

The Federal Circuit recognized that this case presented “an important, and previously unresolved,” question about the scope of liability for contributory infringement.

Under Sec. 271(a) of the Patent Act, the unauthorized offer to sell or sale of “any patented invention” constitutes direct infringement of the patent. Here the district court found that, because “the claims asserted [in the patents] disclose methods for writing and recording rather [than] an actual device, to prove direct infringement, it is not enough for plaintiff to show a sale or offer to sell of an accused device.”

Nonetheless, on appeal, Ricoh argued that the sale of a method was distinguishable from the sale of an optical drive practicing the method because the software



instructions that control the drive can be separated from the hardware that carries out the instructions. It asserted that the issue at hand was whether the term “any patented invention” in Sec. 271(a) includes “process,” so that a party that sells or offers to sell a patented process infringes the patent.

The Federal Circuit, however, concluded that it didn’t need to definitively answer that question because Quanta didn’t sell or offer to sell the invention covered by Ricoh’s method claims. It explained that Ricoh “mistakenly confused software with a process.”

A process is nothing more than the sequence of actions that make up the process. Software, however, isn’t a sequence of actions but rather a set of instructions that directs hardware to perform a sequence of actions. It’s the carrying out of the instructions that constitutes a process under Sec. 271(a).

Because the allegedly infringing sale in this case was the sale of software — and, therefore, not the sale of the performance of the process itself — the court wasn’t required to determine whether a process may ever be sold, giving rise to liability under Sec. 271(a). Instead, it held that a party that sells or offers to sell software containing instructions to perform a patented method doesn’t directly infringe the patent.

Splitting the decision

If the Federal Circuit’s decision in *Ricoh* on component manufacturer contributory liability stands, it may make it more difficult to build a defense in cases involving alleged indirect infringement of method claims. But the case also provides greater protection to software accused of directly infringing a patented method. ○

Pencils down!

Federal Circuit adopts definitive test for method patentability

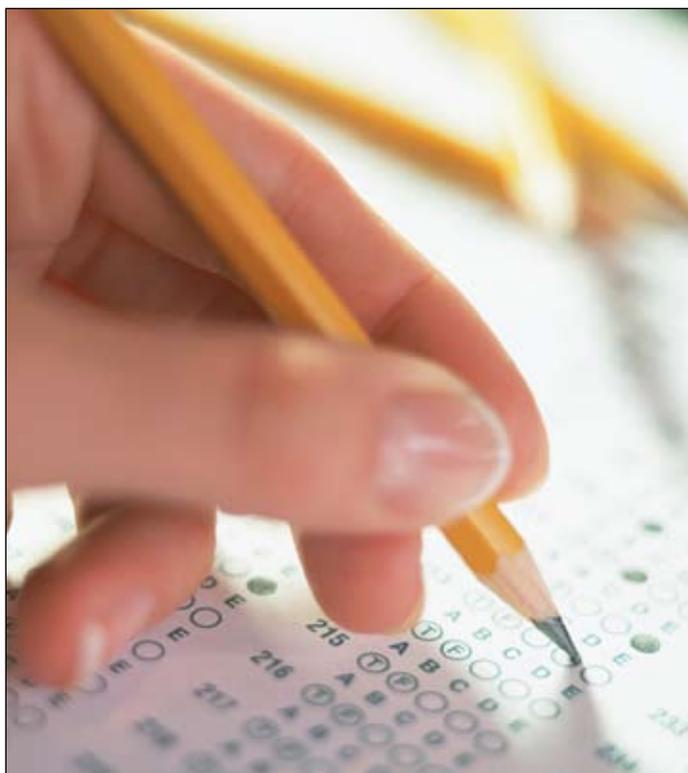
Is patent law stuck in the days of the Industrial Revolution? Some might think so after the decision of the U.S. Court of Appeals for the Federal Circuit in *In re Bilski*.

The Federal Circuit both declared a definitive test for determining the patentability of methods and specifically rejected tests previously articulated by the U.S. Supreme Court and the Federal Circuit itself. In so doing, the court may have made it more difficult to obtain a patent for business methods and computer-based processes.

Standardized testing

The case arose when the plaintiffs filed a patent application for a method of hedging risk in the field of commodities trading. According to the Federal Circuit, the claimed process centered on a mental and mathematical means of identifying transactions that would hedge risk.

In hearing the case, the court was faced with the question of which test should govern the determination of whether such a claimed process is patentable under Section 101 of the Patent Act. It began its analysis by reviewing U.S. Supreme Court precedent.



In *Diamond v. Diehr*, the Court held that a process isn't eligible for a patent if it claims laws of nature, natural phenomena or abstract ideas. The Court noted that a mathematical algorithm alone is unpatentable because mathematical relationships are akin to laws of nature.

But the inventors in *Diehr* weren't seeking to patent a mathematical formula; rather, they sought to protect a process that used a well-known equation. Ultimately, the process was patentable because it didn't attempt to preempt use of that equation, or fundamental principle, altogether.

By contrast, in *Gottschalk v. Benson*, the process at issue was unpatentable because the mathematical formula involved had no substantial practical application outside of the claimed process. Patenting the process would have wholly preempted the formula and effectively been a patent on the formula itself.

Although the *Bilski* court noted that such cases have limited usefulness in today's world, it cited both cases in concluding that "[t]he Supreme Court, however, has enunciated a definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle rather than to preempt the principle itself."

Under this "machine-or-transformation" test, a process is patentable if it is tied to a particular machine or apparatus or it transforms a particular article into a different state or thing.

Failed tests

In *Bilski*, the Federal Circuit expressly rejected "several other purported articulations" of tests for patentability under Sec. 101. For example, the *Freeman-Walter-Abele* test determines:

1. Whether the claim recites an "algorithm" within the meaning of *Gottschalk*, and
2. Whether that algorithm is applied in any manner to physical elements or process steps.

Different answers lie in dissenting opinions

The decision in *In re Bilski* (see main article) was far from unanimous. Three judges filed lengthy dissenting opinions.

Judge Newman was the lone judge on the court to find that the claimed method was indeed patentable. Newman supported a broad definition of patentability and criticized the majority for excluding “many of the kinds of inventions that apply today’s electronic and photonic technologies, as well as other processes that handle data and information in novel ways.” The judge also emphasized the uncertainty created by the majority, which in turn creates a “disincentive to innovation-based commerce.”

Judge Mayer, on the other hand, argued that innovation is discouraged by allowing the patenting of business methods. In his view, “[a]ffording patent protection to business methods lacks constitutional and statutory support, serves to hinder rather than promote innovation and usurps that which rightfully belongs in the public domain.”

Judge Rader observed that the majority could have replaced its laborious explanation with a single sentence: “Because Bilski claims merely an abstract idea, this court affirms the [Patent] Board’s rejection.” He also faulted the majority for linking patent eligibility “to the age of iron and steel at a time of subatomic particles and terabytes.”

The *Bilski* court deemed the two-part test inadequate, finding that a claim that failed the test may nonetheless be eligible for a patent.

In formulating the *State Street* test, the Federal Circuit previously had held that the transformation of data by a machine through a series of mathematical calculations constituted a patentable invention because it produced a “useful, concrete and tangible result.”

In *Bilski*, though, the court concluded that, “while looking for a ‘useful, concrete and tangible result’ may in many instances provide useful indications of whether a claim is drawn to a fundamental principle or a practical application of such a principle, that inquiry is insufficient to determine whether a claim is patent-eligible.”

The court also rejected the so-called technological arts test. It found that the contours of such a test “would be unclear because the meanings of the terms ‘technological arts’ and ‘technology’ are both ambiguous and ever-changing.”

The answer key

The patent applicants in *Bilski* admitted that the language of their claim didn’t limit any process step to any specific machine or apparatus. Thus, after applying the second prong of the machine-or-transformation test to the process, the court held that the process didn’t transform any article to a different state or thing.

More specifically, the court found that transformations or manipulations of public or private legal obligations or relationships, business risks or similar abstractions don’t qualify as the requisite transformation. A claimed process must transform physical objects or substances, or items such as electronic signals that are representative of a physical object or substance.

The court was faced with the question of which test should govern the determination of whether a claimed process is patentable under Section 101 of the Patent Act.

The process in question involved only the exchange of commodities options, or legal rights, so it wasn’t patentable under the machine-or-transformation test.

Everyone must take it

Although the decision may significantly restrict the range of patentable business methods, the court did leave the door open to future refinement or retirement of the machine-or-transformation test by the Federal Circuit or the Supreme Court to accommodate emerging technologies. For now, however, the court saw no need for such a departure. ○

How do team colors hold up in a trademark dispute?

Team colors do more than provide fodder for face-painters and other rabid sports fans. Sometimes they can spark trademark disputes that wind up in court. Such was the case in *Bd. of Supervisors for Louisiana State University Agricultural and Mechanical College v. Smack Apparel Co.*

The pregame

Four universities brought a trademark infringement claim against an apparel company, Smack, that sold T-shirts with the schools' color schemes and other identifying indicia that referenced the big games of the schools' football teams. Each of the schools has adopted a two-color scheme as its school colors. Louisiana State University, for example, uses a combination of purple and gold.

The schools have employed the combinations for more than 100 years, and the colors are immediately recognizable to people familiar with the universities. The schools use the combinations in many areas associated with university life, including on-campus signs and buildings, brochures, and publications, as well as in conjunction with their athletic programs.

The schools also grant licenses for the retail sales of products, such as T-shirts with the university colors and trademarks. Although the team names and initials are subject to federal trademark registrations, the schools hadn't federally registered the color schemes as trademarks.

Smack has manufactured shirts targeted at fans of college sports teams since 1998. The shirts are often sold alongside officially licensed shirts. The universities alleged that Smack's shirts infringed their unregistered trademarks by combining the marks with other indicia suggestive of the schools.

The defensive line

The case went through a district court but was subsequently appealed. On that appeal, Smack argued that the unregistered marks weren't legally protectable because they were merely descriptive.

The Fifth Circuit Court of Appeals specifically considered whether the marks at issue were protectable as descriptive

marks. Marks that merely describe a product aren't inherently distinctive because they don't identify the source of that product. To be protected, a descriptive mark must have acquired secondary meaning.

The schools didn't assert that every use of their color schemes violated their trademarks. Rather, they argued that their claimed trademarks were in the colors when included on merchandise that combines other identifying indicia referring to the schools. For this reason, the court explained, it was appropriate to "consider not only the color, but also the entire context in which the color and other indicia are presented on the T-shirts at issue."

A decoy play

A mark acquires secondary meaning when, in the minds of the public, its primary significance is to identify the source of the related product, rather than the product itself. The question is whether the public associates the mark with the mark holder.

The Fifth Circuit applies a seven-factor test to determine whether a mark has acquired secondary meaning. The test considers:

1. The length and manner of use of the mark or trade dress,
2. The volume of sales,
3. The amount and manner of advertising,
4. The nature of use of the mark or trade dress in newspapers and magazines,
5. Consumer-survey evidence,
6. Direct consumer testimony, and
7. The defendant's intent in copying the trade dress.



The court concluded that, in the minds of consumers, the color marks identify the schools as the source of the products. The schools' long-term use of the color marks, the marks' prominent display on merchandise, the well-known nature of the colors as shorthand for the schools, and Smack's intentional use all indicated the marks had acquired secondary meaning in the context of apparel.

The playbook going forward

The court went on to find that Smack's shirts were likely to cause consumer confusion as to their source. But not every color scheme will function as a trademark. A

purported trademark holder must demonstrate that its color scheme is distinctive and used to identify the source of the product or service. The colors also may not serve a functional purpose.

For example, in *Brunswick Corp. v. British Seagull Ltd.*, the court held that the color black serves a functional purpose when used on outboard boat motors because black is compatible with many other boat colors and also makes the motor appear smaller. These functions provided a competitive advantage. ○

IP in brief: *Societe Civile Succession Richard Guino v. Renoir*

Sold sculptures prompt copyright claim

U.S. copyright law holds that works created before 1923 are in the public domain. So how could a federal court in *Societe Civile Succession Richard Guino v. Renoir* find that the copyright on sculptures created between 1913 and 1917 was infringed in 2003?

Our mystery begins when the famed impressionist artist Pierre-Auguste Renoir and his assistant Richard Guino created several sculptures between 1913 and 1917. The sculptures were first published, or made available to the public, in France no later than 1917. Before 1978, when the Copyright Act of 1976 took effect, the works had not been published in the United States or with an American-style copyright notice.

In 1984, a trust representing Guino's family obtained U.S. copyright protection for the sculptures. (Legally speaking, one person or entity can own a copyright while another owns the work itself.) In 2003, Renoir's great-grandson sold some of the sculptures, and the trust filed a copyright infringement claim against him. The great-grandson argued that the sculptures were in the public domain.

Under the Copyright Act of 1976, a work enters the public domain when published in the United

States without copyright protection. As the court noted, the question of whether a work is published without copyright protection is affected by where the work is published. Publication without a copyright notice in a foreign country doesn't put the work in the U.S. public domain.

The court, therefore, found that the sculptures weren't in the public domain. They were published in France as Renoir works in 1917 and as Renoir-Guino works in 1974 in a Paris exhibition — in both cases without a copyright notice.

Further, because they were never published with a copyright notice, the sculptures also weren't yet protected by copyright under the Copyright Act of 1909, which was in effect until 1978 and conferred protection on a published work only if it had a copyright notice. The sculptures weren't copyrighted until the 1984 registration by the trust.



Because the sculptures were neither in the public domain nor copyrighted before 1978, they were entitled to protection under the 1976 Copyright Act for a term of 70 years after the death of the last surviving author, which occurred in 1973. Renoir's grandson was, therefore, liable for infringement.

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MAINTAINING IP STRATEGIES IN A RECESSION

by Tye Biasco

With the U.S. and remainder of the world going through the deepest economic downturn in three decades, some companies are cutting costs at the expense of their intellectual property portfolios. History has shown, however, that recessions are when companies should be most diligent in maintaining their IP strategies.

History of IP During Recessions

Innovation has historically been the driving force that pulls companies out of recessions before their competitors. Patent filings and IP litigation have spiked during each of the last three U.S. recessions, with the largest jump of patent filings occurring at the peak of the Great Depression. Some of the most successful innovations occurred during severe economic slumps, for instance La-Z-Boy began production of its famous recliner at the beginning of the Great Depression and saw people bartering crops, coal, and livestock just to get their hands on the new chair. The personal computing revolution began during the deep recession of the early 1980's and the Apple iPod was introduced in the last economic slump in 2001. Finally, Japan revitalized its economy from the "Lost Decade" of the 1990's by moving from the production of goods and products to a focus on innovation.

Benefits of Maintaining IP Strategies

The numerous benefits of maintaining IP strategies during a recession far outweigh any cost saving that may be had by ignoring your IP. First, continued monitoring of your competitors is necessary to prevent theft of your company's ideas. Continuing to enforce your existing IP provides additional revenue to make up for revenue that is lost in declining sales. Enforcement also protects your company from loss of future enforcement rights via laches and additional income can be generated by licensing non-core patents. Most importantly, innovation allows your company to increase margins and maintain its market presence during periods of slow sales.

Some companies may not have the financial ability to maintain all of their current intellectual property. A portfolio review and management program will allow your company to direct its budget to the most beneficial patents and trademarks, and eliminate non-productive IP by either allowing it to lapse or selling it. Further, your company's IP portfolio can be used to secure financing for growth or expansion when coming out of a recession. This is even more important today with property values dropping precipitously, resulting in decreased collateral for loans. Understanding the limits of your competitors' IP allows you to reduce the risk of investing in new technologies that are being pursued by others.

Potential Pitfalls to Ignoring Your IP Portfolio

There are numerous negative consequences to putting your IP portfolio on the back burner. Haphazardly cutting IP budgets will prevent your company from maximizing its growth out of the recession. Because IP has a relatively long life, a company's failure to maintain and grow its portfolio can significantly impede the company not only coming out of a recession, but even well after the end of the recession. If a company is not proactive (monitoring, avoiding by designing around) against a competitor's IP, it can make the company a litigation target and the resources that are then dedicated to the litigation are no longer available for innovation. Further, failure to enforce your IP portfolio will allow your competitors to undercut your prices and add features, which will result in lost market share for your company.

While most companies are struggling in the current economy, companies that are focused on innovation have thrived. Apple posted record revenues in the fourth quarter of 2008. Other innovation companies such as Microsoft and Electronic Arts have made public statements that they will continue to generate and protect new IP that will allow them to beat their competition out of the recession. While some companies may see ignoring their IP portfolio as a means of cost savings, history has shown that doing so does more harm than good.

If you have questions about this article or would like to speak to an attorney about your current IP strategies, call (612) 349-5740 or contact Tye Biasco at biasco@ptslaw.com.

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