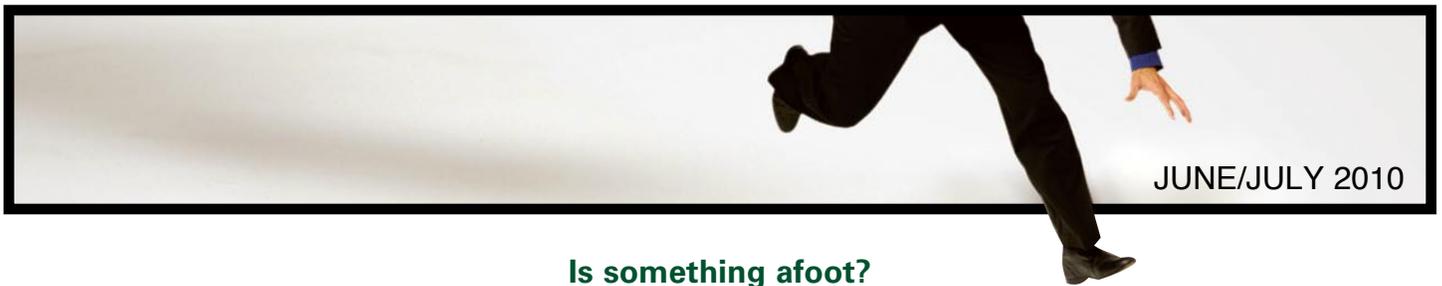




IDEAS ON INTELLECTUAL PROPERTY LAW



JUNE/JULY 2010

Is something afoot?

"Ordinary observer" test used to determine design patent anticipation

Coffee break: Court lowers bar for dilution claims

A game of confusion

Court addresses "likelihood" vs. "absence of actual"

Federal Circuit clarifies penalty for false patent marking

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Is something afoot?

“Ordinary observer” test used to determine design patent anticipation

Design patents can be declared invalid if a court finds that the design wasn't new and original — that, in the patent vernacular, the design was “anticipated.” But how can you tell whether a design was, in fact, anticipated?

In *International Seaway Trading Corp. v. Walgreens Corp.*, a case involving the design of footwear, the Federal Circuit Court of Appeals looked specifically to the “ordinary observer” test to determine whether the design patent in question was invalid based on anticipation.

Sole of the matter

Seaway owns three patents for substantially similar designs for the casual, lightweight footwear commonly referred to as clogs. In February 2008, Seaway sued Walgreens, claiming the retailer infringed the patents by selling allegedly infringing shoes. Walgreens moved for summary judgment, arguing that Seaway's patents were invalid because the designs were anticipated by two models of clogs sold and patented by Crocs Inc.

The district court granted summary judgment, finding that the Seaway patent designs were anticipated by Crocs' patent and, therefore, invalid. On appeal,

Seaway contended that the court erred by basing its determination only on the ordinary observer test and failing to apply the point of novelty test.

Citing the U.S. Supreme Court, the Federal Circuit observed, “It has been well established for over a century that the same test must be used for both infringement and anticipation.”

In an earlier decision, *Egyptian Goddess, Inc. v. Swisa, Inc.*, the Federal Circuit changed the test for design patent infringement. It held that the point of novelty test should no longer be used. Rather, the ordinary observer test should be the sole test for determining whether a design patent has been infringed. Until *International Seaway*, however, the court hadn't ruled on whether the *Egyptian Goddess* holding required a similar change in the test for patent anticipation.



Court tracks its footprints

The Federal Circuit acknowledged that it had previously applied a “dual test for anticipation identical to the then-applicable test for infringement, namely the ordinary observer and point of novelty tests.” It explained, though, that applying the tests in the context of infringement and anticipation was necessarily different.

Generally, under the ordinary observer test for infringement, the court compared the patented design with the accused design to determine whether an ordinary observer would consider the two designs substantially similar. When applying the test for anticipation, the court compared the patented design with the alleged anticipatory reference — in this case, the Crocs designs.

Under the point of novelty test for infringement, the court looked at whether the accused design appropriated the points of novelty of the patented design by comparing the patented design to the designs of prior art or prior inventions. Similar appearance, the court pointed out, isn’t sufficient to establish infringement under the point of novelty test.

When applying the test for anticipation, the court compared the patented design with the alleged anticipatory reference to determine whether it appropriated the points of novelty of the prior art reference as determined by looking at earlier prior art.

Kicked to the curb

As the Federal Circuit observed, “It has been well established for over a century that the same test must be used for both infringement and anticipation.” The court cited the U.S. Supreme Court, which proclaimed in 1889 that “that which infringes, if later, would anticipate, if earlier.” In light of the *Egyptian Goddess* holding that the ordinary observer test is the sole test for infringement, the Federal Circuit concluded that it must logically be the sole test for anticipation as well.

Walgreens is tripped up

Despite the finding in *International Seaway Trading Corp. v. Walgreens Corp.* regarding the proper test for patent anticipation (see main article), Walgreens didn’t land a complete victory. The Federal Circuit found fault with the district court’s application of the ordinary observer test.

The district court concluded that a comparison of the shoes’ insoles wasn’t required, as the insoles can’t be seen while the shoes are worn — or during “normal use.” But the appellate court explained that “normal use” in the design patent context extends from the completion of manufacture or assembly until the article’s ultimate destruction, loss or disappearance.

The Federal Circuit found the point of sale in the case of a clog “clearly occurs during its normal use lifetime.” And, at the point of sale, potential purchasers can see the insole when the clog is displayed or picked up for examination. Similarly, removing a clog from a wearer’s foot, which would expose the insole, falls squarely within the clog’s normal use lifetime.

The Federal Circuit, therefore, remanded the case for a determination of whether the differences between the insoles at issue barred a finding of anticipation.

The court noted several problems inherent in the point of novelty test in both the infringement and anticipation contexts. For starters, the test is difficult to apply and encourages a focus on minor differences between the allegedly anticipatory reference and the patented design.

Further, the point of novelty test creates the need to canvass the entire prior art to identify the points of novelty. Finally, eliminating the point of novelty test for anticipation would avoid the debate over the extent to which a combination of old design features can serve as a point of novelty.

Question resolved

The Federal Circuit’s ruling in *International Seaway* resolves a crucial question: whether the *Egyptian Goddess* holding abandoning the point of novelty test for design patent infringement also required a change in the standard for anticipation. As in the past, the same test will be used for both infringement and anticipation. ○

Coffee break: Court lowers bar for dilution claims

The Second Circuit Court of Appeals has made it significantly easier for owners of famous marks to obtain injunctions against similar marks. Its interpretation of the Trademark Dilution Revision Act of 2006 (TDRA) came in a trademark case, *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, that has been grinding through the courts for almost a decade.



Trouble brewing

Wolfe's Borough Coffee, operating as Black Bear Micro Roastery, manufactures and sells roasted coffee beans and related goods online and via mail order as well as at a limited number of New England supermarkets. In April 1997, the family-owned business began selling a coffee called "Charbucks Blend" and later "Mister Charbucks."

In August 1997, Starbucks demanded that Black Bear cease using the Charbucks marks. Starbucks eventually

filed suit, alleging, among other claims, trademark dilution by blurring. After a trial, the district court dismissed Starbucks' complaint.

While Starbucks' appeal was pending, Congress passed TDRA. The Second Circuit remanded the case to the district court for reconsideration in light of the statute, and the district court again found for Black Bear.

District court roasted

TDRA defines "dilution by blurring" as "an association arising from the similarity between a mark ... and a famous mark that impairs the distinctiveness of the famous mark." The district court found that the Charbucks marks didn't blur Starbucks' marks, largely because the marks weren't substantially similar.

The Second Circuit agreed with the lower court that the marks were only "minimally similar" but didn't agree that the dissimilarity alone was sufficient to defeat Starbucks' blurring claim. The appellate court held that the district court erred to the degree that it required "substantial similarity."

6 nonexclusive factors

Specifically, the court noted that the statute doesn't use the word "substantial" and, instead, lists the degree of similarity between the marks as just one of six nonexclusive factors for evaluating blurring claims under TDRA. These factors are:

1. The degree of similarity between the mark or trade name and the famous mark,
2. The degree of inherent or acquired distinctiveness of the famous mark,
3. The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark,
4. The degree of recognition of the famous mark,

5. Whether the user of the mark or trade name intended to create an association with the famous mark, and
6. Any actual association between the mark or trade name and the famous mark.

Because the second, third and fourth factors favored Starbucks and weren't appealed, the Second Circuit went on to assess the fifth and sixth factors.

It held that where, as here, the allegedly diluting mark was created with an intent to associate with

the famous mark, this factor favors a finding of a likelihood of dilution — regardless of whether the defendant acted in bad faith. The court also held that the absence of actual or even a likelihood of confusion doesn't undermine evidence of trademark dilution.

Starbucks gets another shot

The Second Circuit remanded the case for reconsideration of the dilution-by-blurring claim. In the meantime, its decision encourages owners of famous marks to pursue dilution claims where an infringement claim might fail. ○

A game of confusion

Court addresses "likelihood" vs. "absence of actual"

Trademark disputes typically turn on whether a likelihood of confusion exists between two marks, so you might think an absence of actual confusion would settle the issue. In *University of South Carolina v. University of Southern California*, the Federal Circuit Court of Appeals held that a lack of evidence of actual confusion isn't necessarily the final word on the likelihood-of-confusion issue.

The warmups

South Carolina filed a trademark application to register its baseball logo — an interlocking S and C — for use on clothing. Southern California opposed registration, arguing (among other things) that the South Carolina mark would create a likelihood of confusion with two of its own marks (one for "SC" in standard character form and one for an interlocking S and C).

The Trademark Trial and Appeal Board (TTAB) refused registration of South Carolina's mark, finding it would create a likelihood of confusion with the Southern California marks.

USC's at-bat

On appeal, South Carolina challenged the TTAB's decision regarding three factors relevant to whether a likelihood of confusion exists: 1) the similarity of



trade channels, 2) the care consumers employ when purchasing the goods, and 3) the absence of evidence of actual confusion. Here's how the university fared in this particular at-bat:

Strike one! The TTAB found that South Carolina's and Southern California's marks would appear on the

same classes of goods in the same channels of trade. It therefore concluded that the channels-of-trade factor weighed in favor of finding a likelihood of confusion. The Federal Circuit agreed.

The TTAB found that the absence of evidence of actual confusion weighed only slightly in South Carolina's favor.

Strike two! As to the care consumers would use when purchasing the goods, the TTAB found that the goods would be subject to purchase by three types of consumers: The first category comprised those with a loyalty to and affinity for a particular school; such consumers would exercise a degree of care in making their purchases. But the TTAB found the other two groups — those purchasing the goods as gifts and “new or casual fans” — would exercise less care and, thus, be susceptible to confusion.

The Federal Circuit agreed with South Carolina that the TTAB's conclusions regarding the latter groups were speculative and not supported by substantial evidence. But it held that the error was harmless

because the TTAB had already found that the marks were legally identical and would appear on the same classes of goods in the same trade channels. These factors supported a finding of likelihood of confusion on their own.

Strike three! The TTAB found that the absence of evidence of actual confusion weighed only slightly in South Carolina's favor. It gave the factor little weight because the schools were located on different coasts and participated in different athletic conferences, precluding any significant opportunity for actual confusion to have occurred.

South Carolina argued that the absence of evidence of actual confusion created a strong inference that there was no likelihood of confusion. The Federal Circuit, however, held that the conditions under which no actual confusion had occurred rendered the absence largely insignificant to the analysis.

An exhibition

The court affirmed the TTAB's refusal of registration. While the decision was deemed not precedential, we are reminded that merely showing an absence of actual confusion won't clinch the likelihood-of-confusion analysis. ○

Federal Circuit clarifies penalty for false patent marking

Claiming a product is patented to help boost sales may seem like a relatively foolproof idea. After all, who's going to check?

Yet, if the scheme is discovered, federal patent law takes a dim view of falsely marking an item as patented and can levy a penalty of up to \$500 for the offense. In the recent case of *The Forest Group v. Bon Tool Co.*, the Federal Circuit Court of Appeals made clear just how costly the offense could prove.

Stilted language

Forest owns a patent for “an improved spring-loaded parallelogram stilt” often used in construction projects. The patent specifically requires inclusion in the stilt of a “resiliently lined yoke.” Forest marked its stilts with the patent number.

Bon Tool sold an identical stilt manufactured without a license from Forest. When Forest sued Bon Tool for infringement, Bon Tool counterclaimed,

alleging false marking because Forest's stilts lacked the resiliently lined yoke.

The district court found that Forest had falsely marked its stilts with a patent number with the intent to deceive the public and fined Forest \$500 for a single offense of false marking. Bon Tool appealed, arguing that the court erred in assessing only \$500 in penalties.

Boosted penalty

The federal false marking statute calls for fines of "not more than \$500 for every such offense." The Federal Circuit found that the plain language of the statute requires the penalty to be imposed on a per-article basis. It held that "each article that is falsely marked with intent to deceive constitutes an offense." Imposing a single \$500 fine per continuous act of marking would be insufficient deterrence and render the statute "completely ineffective."

The federal false marking statute calls for fines of "not more than \$500 for every such offense," and the Federal Circuit found that the plain language of the statute requires the penalty to be imposed on a per-article basis.

The court, however, emphasized that district courts have the discretion to assess the per-article fine at any amount up to \$500. In the case of inexpensive mass-produced articles, it noted, a court can



determine that a fraction of a penny per article is the appropriate penalty.

A potentially new market

The Federal Circuit conceded that its ruling could unleash "a new cottage industry" of false marking litigation by plaintiffs who have not suffered any direct harm. To perhaps counter this, the amended Patent Reform Act (S. 515), which is (as of this writing) under consideration in Congress, contains a provision that would limit damages for false marking to only the damages adequate to compensate the person filing suit for an injury arising from false marking.

In light of this notable developing litigation threat, patent holders would be wise to avoid such "marking trolls" by reviewing their markings to ensure the patents remain valid and apply to the marked articles. If there are any doubts regarding a mark's or patent's validity, the patent holder should contact an intellectual property attorney to clarify the matter. ○

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IP in Modern Day China

A look at the evolving patent landscape

By Jay Erstling and John Fonder

China's patent system is barely 25 years old. While the development of the system has not always been smooth, its progress has been unparalleled. China's patent office (SIPO) is now among the largest in the world, the country's patent legislation is modern and in line with world standards, and its record of spotty enforcement is steadily improving.

What seems to have made the difference in China's approach to patents is an attitude shift within the Chinese government. China has now recognized the role that patent rights can play in the continued development of the country's socialist market economy, and in recent months the government has adopted a number of significant legislative acts and judicial decisions that strengthen patent protection. Although the stated objective of the strengthened system is to foster domestic inventiveness and build an innovation-oriented China, the systematic improvements also provide improved protection for foreign companies.

On October 1, 2009, the Third Amendment to the Chinese Patent Law took effect, followed on February 1, 2010, with the entry into force of detailed Implementing Regulations. Unlike the previous amendments to the Chinese Patent Law that were arguably products of external pressure from the United States, other industrialized countries, and the World Trade Organization, the Third Amendment appears motivated solely by internal forces—no foreign request or international treaty prompted the amendment—making it all the more significant.

The Third Amendment has changed patent law in China considerably. Some of the more notable modifications include the adoption of an absolute novelty requirement that is more rigorous than the requirement found in the US Patent Act, an increase to RMB 1,000,000 (about \$146,000) in the amount of statutory damages for patent infringement, regulation of co-ownership similar to US law, and an opening up of the profession of patent agent.

These developments are not only reflective of a government that has begun to emphasize intellectual property, but also motivated by the growth and increased experience of Chinese companies. For example, in 2009, SIPO received over 976,000 patent applications. More than 877,000, or nearly 90%, were from Chinese applicants. Those numbers have skyrocketed up from 573,000 and 470,000 applications, respectively, in 2006 (82%) and 694,000 and 586,000, respectively, in 2007 (84%). Moreover, Chinese applicants are now the fifth most frequent filers of PCT (international) applications, following only behind applicants from the U.S., Japan, Germany, and Korea, and it is expected that Chinese applicants will overtake those from Korea by the end of 2010.

What is more, Chinese companies have been increasingly willing to bring actions to protect their patent rights as well as to defend themselves more assertively in infringement cases. One result is that some Chinese courts have begun to grant damages for patent infringement that exceed the statutory amount. Examples include an award of \$48.5 million—the largest ever—issued by the Wenzhou Intermediate People's Court in *Chint v. Schneider Electric* (the case ultimately settled for \$23 million), a more recent award of \$7.4 million by the Hangzhou Intermediate People's Court in a case brought by Holley Communications against Samsung Electronics, and a lawsuit recently filed by Yi Du & Masep Medical Technology Division against Concord Medical Services Holding Ltd in the Shenzhen City Intermediate People's Court seeking damages of \$25.7 million. A Judicial Interpretation by the Chinese Supreme People's Court concerning the trial of patent infringement cases, which became effective on January 1, 2010, should help streamline and foster consistency in patent litigation throughout the country, in particular, concerning the calculation of damages.

China has come a long way since it first embraced intellectual property protection. It is now a serious player on the world's intellectual property scene, and one that must be taken seriously in any company's determination of where to seek intellectual property protection. Put simply, China should no longer be ignored.

For more information on the changing face of IP law in China, visit www.ptslaw.com and download an extended version of this article, or contact Jay Erstling (612.349.5740/erstling@ptslaw.com) or John Fonder (612.252.1557/fonder@ptslaw.com).

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