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NOVEMBER 2003 NEWSLETTER

MEGA BLOKS Blocks LEGO Blocks

Most of us are familiar with LEGO toy blocks or bricks and other construction elements, whose interfitting knobs and mating cavities enable the blocks and other LEGO elements to be assembled into a structure. Years ago, these elements were protected by patent, but the patent protection has long since expired. How should Interlego and its Canadian affiliates attempt to protect the LEGO blocks against competition now that the patents have expired? In Canada, the best chance seemed to be by distinguishing guise (essentially equivalent to what is sometimes termed “trade dress”). However, the Federal Court of Appeal has ruled that this ploy by the Lego group has failed.

A distinguishing guise is defined in the *Trade-marks Act* as

- (a) a shaping of wares or their containers, or
- (b) a mode of wrapping or packaging wares the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others.

Interlego characterized its alleged distinguishing guise as the shaping of the upper surface of the LEGO toy building block, having eight protuberances (“knobs”) on the surface. All or some of the knobs of one such LEGO piece may be connected to cavities formed in the underside of another LEGO piece. Friction between the knobs and the cavity walls holds the two pieces together. Interlego was able to show that the knobs of the LEGO brick have remained an unmodified prominent feature of all LEGO bricks since 1949. Since at least 1958, the trademark LEGO has been inscribed on the top surface of each knob. The knobs and their pattern were widely featured in LEGO Canada television advertisements, point-of-sale materials and packaging. None of the Lego companies had registered this alleged distinguishing guise as a registered trademark, although in some circumstances, registration of distinguishing guises is possible in Canada.

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“To be a valid trademark within the *Act*, the trademark cannot be primarily functional.” This holding applies to distinguishing guises such as product shapes.

The trademark law cannot be used to extend an exclusive right to a functional shape previously protected by patent.

Ritvik Holdings Inc. sold in Canada a similar line of toy blocks and interfitting construction elements under the trademark MEGA BLOKS, although the MEGA BLOKS product was directed to infants and very small children, and there was little friction between knobs and cavities in the MEGA BLOKS product, so as to enable infants to take the blocks apart easily. Two of the Lego companies in Canada sued Ritvik for passing off, contending that Ritvik’s blocks incorporated the Lego distinguishing guise.

The Federal Court of Appeal, affirming the Trial Division, held for Ritvik. The Court relied upon a series of previous rulings that a trademark (including a distinguishing guise) must not be functional, and that the court would look askance at any attempt by a patentee to extend its patent-type exclusive right after its patent had expired, by reliance upon an alleged distinguishing guise. The Court affirmed the principle that a mark that goes beyond distinguishing the wares of its owner and extends to the functional structure of the wares themselves transgresses the legitimate bounds of a trade-mark (including a distinguishing guise). “To be a valid trade-mark within the *Act*, the trade-mark cannot be primarily functional”. In this case, the Court concluded that the alleged distinguishing guise is functional in all respects save for the inscription of the word trademark LEGO on each knob, and that as that functionality relates primarily or essentially to the wares themselves, the Plaintiffs could not rely upon their alleged distinguishing guise. (Of course, the word LEGO did not appear on the Defendant’s blocks.) The Court commented on the underlying policy as follows:

The purpose or policy behind applying this doctrine of functionality is to ensure that no one indirectly achieves the status of patent holder through the guise of a trade-mark. If the mark has a primarily functional use and is granted trade-mark protection, which can be perpetual, then it is providing something which a patent for the same product could not provide because patent protection cannot be perpetual. The protection of function and design is what a patent does. It would be abusive and unfair to the public and to competitors to allow a person to gain the benefits of a patent and a monopoly when merely holding a trade-mark, especially when the person otherwise could not obtain a patent or when the person merely holds a patent that has expired.

...if LEGO was granted a declaration of ownership of an unregistered trade-mark and was successful in the passing-off action, then no competitor would be able to effectively distinguish its goods from that of LEGO's and LEGO would obtain, in effect, an exclusive use and monopoly over goods with this trade-mark, thus perpetuating their patent monopoly.

The Court noted that the fact that prior patent protection existed for the distinguishing guise (apart from the presence of the word LEGO) constitutes strong evidence of functionality and may properly incline a court to resist the contention that there is a valid distinguishing guise. The Court also noted that if a distinguishing guise or other trademark is peripherally functional in a way that does not relate to the wares themselves, such functionality is no bar to protection. For example, it was held in the 1989 case *Pizza Pizza v. Registrar* that a telephone number may be validly registered as a trademark for pizza; while the number serves a peripheral functional purpose, *viz* placing a telephone call, that functionality has no intrinsic relationship to pizza.

Freedom of competition is a paramount principle of Canadian law; intellectual property rights are accordingly limited in scope and time, and in extreme cases may be unenforceable if used to further an illegal anticompetitive practice. Functionality may be protected only by the patent law; the *LEGO* case makes clear that the courts will not tolerate perpetuation of an exclusive right to a functional attribute of a product by means of the trademark law.

A Canadian *MARKMAN* Hearing for Construing Patent Claims?

Most of our readers will be familiar with *Markman* hearings in U.S. patent litigation. A *Markman* hearing is a non-jury preliminary hearing directed to construing the claims of a patent in suit and ascertaining their scope. It derives from the 1996 decision of the U.S. Supreme Court in *Markman v. Westview Instruments*, which affirmed that the interpretation of patent claims is a question of law for the court and not a question of fact for the jury.

Although under Canadian law the construction of patent claims is a question of law for the court, no *Markman*-type hearings had ever been held in Canada until very recently. No doubt one reason for this is the unavailability in Canada of jury trials for patent infringement.

In the recent case *Realsearch v. Valone Kone Brunette*, the Federal Court of Canada, referring to the U.S. *Markman* jurisprudence, ordered that a preliminary hearing in the nature of a “trial of an issue” be held to determine the scope of the claims in the patent in suit. The Court noted that claim construction is antecedent to inquiries into validity and infringement and, further, that it is incorrect to construe a patent in the course of considering the impugned article while deciding the question of infringement. On that rationale, a separate proceeding for the determination of claim construction will prevent a judge from construing a patent with an eye on the allegedly infringing device. In order to justify an order for the trial of an issue, the Court has to be satisfied that severance of the issue from the main trial is more likely than not to result in the just, expeditious and least expensive determination of the lawsuit on its merits.

Some problems remain to be resolved. It is well established that expert evidence can be received on the question of what the patent means to an expert, and on what terms in the claims may be understood by an expert to have special meanings. The patent claims are to be construed purposively; that is, the purpose of a given claim limitation is examined, and the question then asked whether an expansive interpretation of the limitation is to be given, having regard to the patentee’s intention as understood from a reading of the patent, or whether instead the patentee intended the limitation to be given a strict literal interpretation. Further, unless the court is informed of the structure and operation of the impugned device, the court may not be able to focus attention on the critical points of construction that matter to the disposition of the lawsuit.

It is not clear from the *Realsearch* case what evidence, either expert or non-expert, can be received in the trial of the issue of claim construction. Nor is it clear that if expert evidence is considered necessary, it can be efficiently given in two successive proceedings rather than just once, *viz* comprehensively at the trial of the action. And the *Realsearch* court suggested that this trial of an issue should precede examination for discovery, yet discovery might elicit facts or admissions that could affect the court's thinking on claim construction.

We undoubtedly have not heard the last word on this type of hearing. Look forward to further news.

Rolling *Anton Piller* Order

An *Anton Piller* order is a form of exceptional interim injunction, usually obtained *ex parte*, not infrequently granted in intellectual property infringement cases. The order operates *in personam*, directing the party against whom the order is made to permit the applicant for the order to enter that party's premises and search for and remove documents or other allegedly infringing material, with the assistance of a bailiff or police officer if need be.

An applicant for an *Anton Piller* order must meet three essential pre-conditions for the grant of such order: (1) there must be an extremely strong *prima facie* case; (2) the damages, potential or actual, must be very serious for the applicant; (3) there must be clear evidence that the defendants have in their possession incriminating documents or things, and that there is a real possibility that the defendants may destroy such material before any application *inter partes* can be made. In addition, the applicant must make the fullest disclosure of material facts both helpful and unhelpful to the applicant's case on the merits and for the order.

A "rolling *Anton Piller* order" — an *Anton Piller* order operating against anonymous defendants — is recognized as a permissible form of such order in Canada. After a rolling *Anton Piller* order is executed against an (initially) anonymous defendant, the applicant must have the execution order reviewed by the court, must apply to have the interim injunction against the defendants (enjoining them, say, from further dealing in counterfeit goods) converted to an interlocutory injunction, and must add the now known names of the defendants to the Schedule of Defendants to the Statement of Claim issued by the applicant (plaintiff). A defendant may appear at the review motion to contest the lawfulness of the execution order and/or the conversion of the interim injunction (which is normally set to expire as of the hearing date of the review motion) to an interlocutory injunction (which is normally set to expire as of the trial of the action).

An
"Anton Piller order"
is a preliminary order
permitting entry into
defendants' premises,
inspection and removal
of evidence therefrom,
etc. It is available in
Canada in many i.p.
enforcement
situations.

A "rolling
Anton Piller order"
is frequently available
in Canada against a
series of anonymous
defendants, if there is
a serious risk that
the defendants will
suppress or destroy
evidence.

In the recent case *Ragdoll Productions (UK) Ltd. v. Doe*, the defendants did not appear at the review motion to contest the lawfulness of the execution order. Nor did the defendants file a Statement of Defence. Instead, the defendants appeared at the plaintiffs' motion for default judgment and argued that the plaintiffs' materials in support of the motion were insufficient.

In *Ragdoll*, the Court ruled that the absence of a Statement of Defence means that none of the allegations is admitted, so all must be taken as denied. As a result, a plaintiff must establish its entitlement to the relief claimed by affidavit evidence; verifiable evidence of infringement is required. The test is whether the judge, having considered the evidence before the court, is satisfied that, on a balance of probabilities, infringement has occurred. The Court held that the review order is a judicial determination that infringement has occurred and, in the absence of evidence to the contrary, is conclusive of that issue. The Court in *Ragdoll* also ruled that once the plaintiffs have proven infringement and that damages have occurred, they are entitled to the court's best estimate of those damages; recovery is not necessarily limited to nominal damages.

In the absence of business records, the quantity of infringing goods seized is unreliable as an indicator of the level of a defendant's infringing business activity. The Court in *Ragdoll* confirmed that where a defendant's business methods and failure to defend a claim have made the calculation of damages impossible, the grant of arbitrary awards is fair and appropriate. In such cases, it is appropriate to use the scale of damage awards that has been in use by the Federal Court since at least 1995 and reviewed in the 2000 case *Oakley Inc. v. Jane Doe*. In uncontested cases, and in default of any other evidence of the extent of damage, plaintiffs have been arbitrarily awarded damages of \$3,000 in the case of street vendors and flea-market operators, \$6,000 in the case of sales from fixed retail premises, and \$24,000 in the case of manufacturers and distributors.

2003 Patent Practice Update - Maintenance Fee Payments in Canada

Recent Federal Court of Appeal authority holds that the eligibility of Canadian patent applicants to claim small entity status is to be determined only once, at the time of filing of a Canadian application. An applicant's eligibility is thereafter set for the duration of the application and any ensuing patent, regardless of whether the applicant (or any subsequent owner) maintains or loses eligibility to claim small entity status after the filing date. It is accordingly critically important to properly assess the eligibility of Canadian patent applicants to claim small entity status on filing a Canadian patent application. The former practice of assessing small entity status each time an official fee is paid no longer applies.

If an *Anton Piller* order has been obtained and a defendant does not timely file a Statement of Defence, the plaintiff may obtain default judgment for an injunction and an arbitrary award of damages.

It is critically important to determine the eligibility of an applicant for a Canadian patent to claim small-entity status when filing a Canadian patent application.

Examination for Discovery of a U.S. Inventor in a Canadian Lawsuit

The general rule in the Federal Court of Canada is that a party may examine for discovery any adverse party. An extension of the general rule is that where an assignee is a party to an action, the assignor may also be examined for discovery (although the assignor's answers are not binding on the assignee). If an inventor assignor remains employed by the plaintiff in a patent infringement action, an order will usually be granted requiring the plaintiff to make the inventor available for examination. Problems arise if the inventor is not employed by or under the control of a party to the action, or if the inventor is outside the personal jurisdiction of the Court. And until the decision reported below, there was some doubt as to whether an "assignor" under the Federal Court rule included an inventor who had completely assigned his rights before a patent application was filed.

The Federal Court in *Faurecia Automotive Seating v. Lear Corporation* ordered that the plaintiff, a U.S. company, produce the inventor resident in the U.S. for examination for discovery, even though the inventor had assigned his interest in the patented invention to the plaintiff before a patent application for the invention was filed. The Court ruled that the timing of the assignment relative to the patent application filing date was irrelevant. The Court was prepared to make the order against the U.S. plaintiff, notwithstanding that the Court had no personal jurisdiction over the inventor, who was not a party and who was outside the personal jurisdiction of the Canadian Court.

The defendant in the *Faurecia Automotive Seating* case need not have troubled the Canadian court. Pursuant to 18 U.S.C. §1782, the U.S. District Court of the district in which a person resides may order that person to testify or to produce a document, etc. for use in a proceeding in a foreign (e.g., Canadian) or international tribunal. The Federal Court of Canada will not interfere with an examination for discovery of a U.S. inventor ordered under 18 U.S.C. §1782: *Sternson Ltd. v. CC Chemicals Ltd.* (1982), 58 C.P.R. (2d) 145. The U.S. law specifically applies to a foreign litigant and requires no determination as to whether the individual examined is an assignor of any property right.

New Patent Agents at Barrigar Intellectual Property Law

We are pleased to announce that our lawyers Nousheen H. Huq of our Vancouver office and Michael D. Cooper of our Victoria office recently qualified as Canadian Patent Agents. Congratulations Nousheen and Michael!

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A U.S. District Court may order a U.S. resident to testify in a proceeding in a foreign or international tribunal. This may enable a Canadian litigant to examine, for example, a U.S. inventor named in a Canadian patent.

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