

United States Court of Appeals For the First Circuit

Nos. 07-2730; 08-1410; 08-1411

VISIBLE SYSTEMS CORPORATION,
Plaintiff, Appellant/Cross-Appellee,

v.

UNISYS CORPORATION,
Defendant, Appellee/Cross-Appellant.

APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS

[Hon. Richard G. Stearns, U.S. District Judge]

Before

Lynch, Chief Judge,
Boudin and Stahl, Circuit Judges.

Stephen H. Galebach for appellant/cross-appellee.
William L. Boesch with whom Anthony M. Doniger and Sugarman,
Rogers, Barshak & Cohen, P.C. were on brief for appellee/cross-
appellant.

December 23, 2008

LYNCH, Chief Judge. A jury awarded Visible Systems Corporation ("VSC") trademark infringement damages of \$250,000 against Unisys Corporation on a reverse confusion claim. See 15 U.S.C. § 1125(a). The district court also issued a permanent injunction prohibiting Unisys from using the trademarks or service marks 3D VISIBLE ENTERPRISE, 3D-VE, or VISIBLE in the United States in the enterprise modeling or enterprise architecture fields.

VSC appeals, asserting it was entitled to more. Its primary argument is that the trial judge erred in not granting it a jury trial under both the Lanham Act and the Seventh Amendment on its claim for an accounting of Unisys' profits. This court has not considered before the question of whether there is a jury trial right on such a claim. VSC also argues the court erred in tailoring the injunction too narrowly and in denying VSC its attorneys' fees.

Unisys cross-appeals, arguing the evidence was insufficient to support both the jury's finding of infringement and the damages awarded.

We reject all of the challenges and affirm, leaving the parties where they were.

I.

Because the case presents sufficiency of the evidence arguments, we state the facts taking all inferences in favor of the

jury verdict. See Valentín-Almeyda v. Municipality of Aquadilla, 447 F.3d 85, 95-96 (1st Cir. 2006).

VSC is a small Massachusetts company with less than two dozen employees, founded in 1984, which primarily sells software products in the enterprise modeling and enterprise architecture field. "Enterprise modeling" and "enterprise architecture" involve the diagramming of an entity's business to demonstrate relationships between information flow and business processes and to allow decisionmakers to identify errors or redundancies. VSC provides its customers modeling tools, or software, that diagram their organizations and automatically generate productivity-improving software programs. VSC's modeling tools provide value by aiding clients' decisionmaking and by reducing the need to hand-code productivity-improving software, resulting in decreased costs and errors.

VSC sells its software products to private corporations and government agencies. Purchasing decisions are largely made by sophisticated IT professionals within those organizations. The company's primary marketing channels involve sales of modeling tools through downloads from its website, www.visible.com. VSC's modeling products, by the mid-1990s, were the second most widely used modeling tools in university IT-related courses.

VSC also provided staff-based consulting services from approximately 1985 to 2002. VSC moved in 2002 to using part-time

consultants and on-call, temporary subcontractors. Consulting is a much smaller part of VSC's business than the sale of software. Some 80 to 90% of VSC's revenue comes from software sales. Its consulting customers contract with VSC for mentoring and training; significantly, this is only done on VSC's modeling software. Representative clients include the Arizona state court system, which contracted with VSC to upgrade its information technology system.

In 1997, VSC acquired a company started by Clive Finkelstein, known as the father of information engineering. The products and services of his company took on the Visible name, and his association led to greater prominence for the name.

VSC registered the mark VISIBLE SYSTEMS in 1985 for its enterprise modeling software. It registered the additional trademark VISIBLE in 2001 for its software and registered the service mark VISIBLE for its training and consulting services, "namely providing advice in the field of information technology."

Unisys, the defendant, was formed in 1986 by the merger of two leading manufacturers of mainframe computers. Unisys is a much larger company than VSC, employing about 30,000 people worldwide. Since the mid-1990s, Unisys has focused on providing services, particularly consulting, rather than products. Unisys' customers include government organizations and private firms, such as airlines and telecommunications companies. Part of Unisys'

consulting methodology involves creating virtual models of clients' information systems to identify problems and solutions.

Although Unisys does not develop software, its consultants use modeling tool software in many of their engagements. Unisys consultants use software from third-party providers, such as IBM and Proforma, and are "tool agnostic," meaning that Unisys' consultants use the software the client desires if the client expresses a preference. Unisys also occasionally sells software products to its consulting clients or to purchasers of its mainframes. These are mainly not Unisys-developed products.

On June 17, 2004, Unisys launched a marketing campaign under the mark 3D VISIBLE ENTERPRISE with an advertisement in the Wall Street Journal. Unisys filed for registration in April 2004. Its attempt to register the mark was put on hold pending resolution of this case. Under the 3D VISIBLE ENTERPRISE mark, Unisys sold consulting services to assist clients with enterprise modeling. The campaign also included sales of third-party modeling software to Unisys' consulting clients as part of its consulting services. In addition to using the term "visible" in its formal 3D VISIBLE ENTERPRISE mark, Unisys used the term in marketing communications that included phrases such as "Visible Breakthrough," "Visible Commerce," and "Visible Advantage."

VSC sued Unisys in federal district court on May 3, 2005, under the Lanham Act and state law, seeking damages, an accounting of Unisys' profits, and injunctive relief.¹ Unisys continued to use marks such as VISIBLE ADVANTAGE after suit was filed.

Before trial, the court denied Unisys' motion for summary judgment. The court then held that there was no evidence that Unisys adopted its mark in bad faith; it later granted Unisys' motion in limine to preclude evidence and argument on the issue of bad faith. At the charge conference after the close of VSC's evidence and just before the end of trial, VSC sought a jury instruction that the jury consider the remedy of an accounting of defendant's profits. The court refused, noting that VSC had "had the option of taking that route, but . . . didn't." The court held the issue was for the court and said that in any event, the evidence was insufficient to support such a remedy. The court stated "if [the jury] ever came back with a verdict, I would have to throw it out."

At trial, VSC opted to present its case to the jury on a reverse confusion theory of recovery. VSC's theory was that Unisys had saturated the market with a mark substantially similar to VSC's trademarks, leading potential customers to believe that Unisys had

¹ No claim is made in this case of dilution in violation of the Federal Trademark Dilution Act, codified at 15 U.S.C. § 1125(c), or of cybersquatting under the Anticybersquatting Consumer Protection Act, codified at 15 U.S.C. § 1125(d) (1) (B) (i) (I)-(IX).

acquired VSC. This confusion resulted in lost sales to VSC of software and services. VSC also presented some damages evidence that the parties competed in the sale of consulting services, and that Unisys' appropriation of the VISIBLE mark for its own services caused VSC harm in the consulting portion of VSC's business. However, a VSC witness testified that while VSC's software sales had declined after Unisys' infringement, VSC's consulting sales had increased.

With no objection from VSC, the court instructed the jury that VSC claimed Unisys had "advertised and promoted the 3D Visible Enterprise name in a way that has so saturated the market that potential customers are likely to be misled into thinking that Visible Systems' goods, in fact, originate from Unisys." The special questions to the jury specifically included VSC's "products and/or services."

Unisys moved for judgment as a matter of law at the close of VSC's case, arguing that the evidence was insufficient to conclude that VSC had a protectable right to use the mark VISIBLE, that there was a likelihood of confusion between Unisys' and VSC's marks, or that VSC was entitled to an accounting of Unisys' profits as a remedy. See Fed. R. Civ. P. 50, 52. The court reserved its ruling.

The jury found in favor of VSC on special questions that:

[1.] Visible Systems Corporation established a right to a trademark in the word VISIBLE[;]

[2.] . . . [T]he Unisys 3D VISIBLE ENTERPRISE mark is substantially similar to Visible Systems VISIBLE mark[;]

[3.] Visible Systems established the likelihood that potential customers have been or will be confused into mistakenly believing that Unisys Corporation is the source or sponsor of Visible Systems' products and/or services; . . .[; and]

[4.] Unisys Corporation's infringement of Visible Systems' mark [was] willful.

The jury awarded VSC \$250,000 in damages.

After the verdict, VSC moved for, among other things, a permanent injunction, attorneys' fees, and a supplementary jury trial to determine an award of Unisys' profits or in the alternative an award of \$100 million of Unisys' profits. Unisys filed a renewed motion for judgment as a matter of law, arguing that the evidence was insufficient to support the jury's finding of infringement, its award of damages, or its finding of willfulness. The court denied Unisys' motion. Unisys also filed a memorandum asking the court to adopt injunctive relief which was more limited than VSC's request. The court issued an injunction similar in scope to Unisys' proposal. The court denied VSC's request for attorneys' fees, concluding that the case was not an "exceptional case" within the meaning of the Lanham Act. The court again declined VSC's request for an accounting of Unisys' profits, saying it considered that the issue was for the court and that, in any event, the evidence was insufficient to support such an award.

II.

UNISYS' APPEAL FROM THE VERDICT AND FROM THE DAMAGES AWARD

A. Sufficiency of Evidence to Support the Jury Infringement Finding

Unisys argues that the facts did not support the jury finding that Unisys had infringed VSC's marks. Importantly, there is no challenge to the jury instructions on infringement or to the jury findings of VSC's right to a trademark and of substantial similarity.

Unisys contests only the finding of likelihood of confusion. Our review of the denial of Unisys' renewed motion for judgment as a matter of law under Fed. R. Civ. P. 50(b) is de novo. See Valentín-Almeyda, 447 F.3d at 95. The underlying standard for grant of a Rule 50(b) motion is much more deferential to the verdict. See id. at 95-96. A motion for judgment as a matter of law may be granted only if a reasonable person, on the evidence presented, could not reach the conclusion that the jury reached. See Attrezzi, LLC v. Maytag Corp., 436 F.3d 32, 37 (1st Cir. 2006).

VSC chose to present this case to the jury as a reverse confusion case. Under the classic "forward confusion" theory, a trademark holder alleges customers will purchase goods from the infringing junior user (here, Unisys) under the mistaken belief that they are purchasing from the senior user (here, VSC). See 4 J. McCarthy, McCarthy on Trademarks and Unfair Competition

§ 23:10, at 23-46 (4th Ed. 2006); see also Boston Duck Tours, LP v. Super Duck Tours, LLC, 531 F.3d 1, 12 (1st Cir. 2008).

By contrast, under a reverse confusion theory, customers purchase the senior user's goods under the "misimpression that the junior user is the source of the senior user's goods. . . . [C]onsumers may consider [the senior user] the unauthorized infringer, and [the junior user's] use of the mark may in that way injure [the senior user's] reputation and impair its goodwill." 4 McCarthy, supra, §23:10, at 23-47 (alterations and omission in original) (quoting Banff, Ltd. v. Federated Dep't Stores, Inc., 841 F.2d 486, 490 (2d Cir. 1988)) (internal quotation mark omitted); see also Attrezzi, 436 F.3d at 38-39; Pignons S.A. de Mecanique de Precision v. Polaroid Corp., 657 F.2d 482, 492 n.4 (1st Cir. 1981). Harm from the reverse confusion may occur because the junior user "saturates the market" and overwhelms the senior user, causing harm to the value of the trademark and the senior user's business.² Attrezzi, 436 F.3d at 39. "A reverse confusion case is proven only if the evidence shows that the junior user was able to swamp the reputation of the senior user with a relatively much larger advertising campaign." 4 McCarthy, supra, § 23:10, at 23-47 to -48. There is no actionable reverse confusion in the absence of a showing of likely confusion as to source or sponsorship. See

² VSC did not advance an argument that Unisys offered inferior products, an alternate theory of harm from reverse confusion. Attrezzi, 436 F.3d at 39.

DeCosta v. Viacom Int'l, Inc., 981 F.2d 602, 609 (1st Cir. 1992). A trademark holder must show a likelihood of confusion; it need not show actual confusion, but actual confusion will strengthen the holder's infringement claim. Borinquen Biscuit Corp. v. M.V. Trading Corp., 443 F.3d 112, 120 (1st Cir. 2006).

On the evidence, VSC's strongest case for likelihood of confusion was as follows. VSC was a small company, firmly entrenched in what was once, in 1985, the new field of enterprise modeling. Indeed, VSC became associated with the academic progenitor in the field, Clive Finkelstein, who founded a company which VSC acquired and who served as VSC's Chief Scientist. The term "VISIBLE" was VSC's mark, and it was used to denote VSC's various software products. For many years, VSC's competitors in the enterprise modeling field were other small companies. That changed, starting in about 2000, when VSC's small competitors were acquired by large companies such as IBM, Microsoft, CA, and Telelogic. Through the use by the large companies of the name and marks of the small acquired companies, the identities and distinctness of the acquired former competitors merged into that of the larger acquirers. Substantially all of the modeling tool names from the 1990s used by VSC's competitors were acquired and rebranded, or disappeared altogether.

Thus, when Unisys started using a mark (3D VISIBLE ENTERPRISE) substantially similar to VSC's VISIBLE mark, that use

posed the risk that potential customers of VSC would assume VSC had likewise been acquired by Unisys. This problem was exacerbated because both companies had extensive websites. A customer searching for "Visible" and "enterprise modeling" could be led to Unisys. Given Unisys' large online presence, the use of the term "Visible" by the junior user, Unisys, threatened to overwhelm the mark of the senior user, VSC. The risk was that VSC would be thought to have disappeared into Unisys, to the detriment of VSC's sales. The question is whether a rational jury could conclude that there was a likelihood of this sort of reverse confusion.

Our caselaw has long had a non-exclusive list of factors against which a finding of a likelihood of confusion is assessed. See Beacon Mut. Ins. Co. v. OneBeacon Ins. Group, 376 F.3d 8, 15 (1st Cir. 2004). In Attrezzi we described one such representative list, and applied the analysis to a reverse confusion case:

In assessing confusion, this circuit has resorted to the consultation of a series of factors . . . [that] includes: (1) the similarity of the marks; (2) the similarity of the goods (or, in a service mark case, the services); (3) the relationship between the parties' channels of trade; (4) the juxtaposition of their advertising; (5) the classes of prospective purchasers; (6) the evidence of actual confusion; (7) the defendant's intent in adopting its allegedly infringing mark; and (8) the strength of the plaintiff's mark.

Attrezzi, 436 F.3d at 39 (quoting Int'l Ass'n of Machinists v. Winship Green Nursing Ctr., 103 F.3d 196, 201 (1st Cir. 1996)); see

also Venture Tape Corp. v. McGills Glass Warehouse, 540 F.3d 56, 60-61 (1st Cir. 2008). The district court expressly incorporated these factors³ into its instructions to the jury. It cautioned the jury not to consider any one factor as conclusive.

Using such a list as a check against jury irrationality, the application of these factors to the facts of record in this case rationally support a finding of likelihood of reverse confusion. The jury found the parties' marks were "substantially similar." Unisys argues they were not so similar as to support a likelihood of reverse confusion. Both Unisys and VSC use the word "Visible," even though Unisys used the word primarily as part of the phrase "3D Visible Enterprise." Unisys argues that the two marks have different typefaces, backgrounds, and visual cues. Even so, the dissimilarities are not so great as to render irrational the finding of likelihood of reverse confusion.

Unisys argues that the two companies have dissimilar offerings and "are in fundamentally different businesses." While VSC primarily sells goods, in the form of software, Unisys sells services, in the form of consulting. A rational finding of reverse confusion, was possible, even so. Dr. Malcolm Lane, an expert witness for the plaintiff, testified that Unisys' and VSC's

³ The court did not instruct the jury on the question of the defendant's intent as a separate factor but rather, instructed the jury to consider Unisys' intent in deciding whether Unisys acted willfully, an issue the jury was to address only if it found infringement. There was no objection.

offerings were "very similar and have very similar outputs and results for clients." A jury could conclude that in the field of enterprise modeling through computer applications, there was a realistic likelihood of reverse confusion. This is not a case in which the two companies' offerings are so dissimilar as to make confusion highly unlikely. See Attrezzi, 436 F.3d at 39.

Similarities between channels of trade, advertising, and prospective customers are related factors, are often considered together, see id. at 39-40, and support the jury verdict. Unisys argues that the two companies differ greatly: (1) while VSC's product sales occur primarily through downloads from its website, Unisys' consulting engagements result from longstanding client relationships; (2) VSC primarily markets through its website, while Unisys advertises in general business publications, though both companies market extensively on the internet. Still, the jury heard testimony that both parties targeted many of the same customers. In addition, there was evidence of overlap between the parties' channels of trade. For example, the jury heard testimony that VSC's clients, such as the Arizona court system, signed ongoing consulting contracts of the kind Unisys identifies as its own primary channel of trade.

While VSC presented no evidence of actual confusion at trial, the jury could have inferred actual reverse confusion from the company's decline in revenues from the sales of its software

