



NEWSLETTER

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Shareholder Liability under the U.S. Copyright Act

BY SCOTT J. SPOONER



Scott J. Spooner

I. Introduction

No principle is more firmly rooted in U.S. corporate law than limited shareholder liability.¹ Most state corporate statutes immunize shareholders from liability for the debts and acts of the corporation.² The limitation on shareholder liability arose from a public policy interest aimed at encouraging investment in corporate enterprise.³

Despite the statutory insulation of shareholders from liability for the debts and acts of a corporation, litigants routinely sue shareholders under the “piercing the corporate veil” doctrine.⁴ The “piercing the corporate veil” doctrine, however, is not the only viable legal theory upon which shareholder liability may be predicated.⁵ One area of the law in which shareholders are not shielded from liability for the acts of a corporation is copyright infringement under the U.S. Copyright Act.⁶ While it is well-settled that shareholders can be held liable under the U.S. Copyright Act,⁷ the test for determining shareholder liability is rather abstract, unsettled, and ill-defined. This article brings some clarity to this area by examining the circumstances under which a shareholder can be held liable for the acts of copyright infringement committed by a corporation.

II. Test for Establishing Vicarious Liability under the Copyright Act

A. *Shapiro* Test

The Second Circuit Court of Appeals in *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co., Inc.*,⁸ first established the two-part vicarious liability test for determining when third parties could be held liable under the U.S. Copyright Act.⁹ The court in *Shapiro* held that “[w]hen the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright monopoly is being

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impaired—the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.”¹⁰

The court’s decision in *Shapiro* cited no provision of the Copyright Act as a basis for its holding that vicarious liability can be imposed on a third party. In fact, neither the 1909 Copyright Act nor the 1976 Copyright Act contain any provision regarding contributory liability or vicarious liability.¹¹ Nevertheless, the Supreme Court and various circuit courts of appeals have followed *Shapiro* in permitting the imposition of vicarious liability on a third party if the third party maintained the right and ability to control the infringing conduct and had a direct and obvious financial interest in the exploitation of the copyrighted material.¹²

B. *Right and Ability to Control*

A litigant seeking to reach a shareholder for the copyright infringement committed by a corporation first must show that the shareholder had the right and ability to supervise the conduct of the infringing corporation. The Second Circuit in *Shapiro* placed principal emphasis on a party’s right to police the conduct of the primary infringer. The court stated that:

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From the Editors

Lisa A. Dunner



Nick Setty

This is the inaugural editors' column for *IPL Newsletter*. We decided to include this column to address important and timely cases (to the extent that they are not already included in the newsletter), encapsulate interviews with a leading practitioner or judge, or perhaps occasionally provide editorial commentary. This column, along with the new Corporate Counsel Column, is an entirely new genre for the newsletter. The opinions expressed here, however, are solely the opinions of the editors.

Nick Setty and I have different backgrounds; mine is in trademark, copyright, and e-commerce, and Nick's is in patent litigation, so the column's focus will alternate, respective to our backgrounds. I have the privilege of writing this first column and will focus on the recent Supreme Court decision in *Moseley v. V Secret Catalogue, Inc.*¹

In the *Victoria's Secret* case, the Supreme Court resolved, for better or worse, what had been a split among the circuit courts²—the proper standard of injury to be applied in dilution cases. Specifically, the Court unanimously held that the 1995 Federal Trademark Dilution Act (FTDA) requires a showing of actual injury, as opposed to a presumption of harm that arises from the "likelihood of confusion" standard.³

The case arose when *Victoria's Secret* learned that Victor and Cathy Moseley owned and operated a retail store in Kentucky named "Victor's Secret." The Moseleys sell lingerie and novelty items, and when they received *Victoria's Secret's* first cease-and-desist letter, they changed the name of their store to *Victor's Little Secret*. The change, however, did not satisfy *Victoria's Secret*, so it filed suit in federal district court. Its complaint included four separate claims for trademark infringement, unfair competition, federal dilution in violation of the FTDA, and common law trademark infringement and unfair competition.⁴

The district court, finding no evidence of actual confusion, entered summary judgment for the Moseleys on the infringement and unfair competition claims.⁵ *Victoria's Secret*, however, prevailed on the FTDA claim.⁶ On appeal, the Sixth Circuit affirmed the district court's grant of summary judgment in favor of *Victoria's Secret* and, in so doing, it expressly rejected the holding of the Fourth Circuit in *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Development*.⁷ The court in that case concluded that a showing of actual economic harm to the famous mark's economic value is necessary to prove dilution under the FTDA.⁸ Disagreeing with that standard, the Sixth Circuit here adopted the less stringent

standard enunciated in *Nabisco, Inc. v. PF Brands, Inc.*⁹—a "likelihood of dilution" standard.¹⁰

In a relatively short opinion written by Justice John Paul Stevens, the Court reversed the Sixth Circuit and found that *Victoria's Secret* did not prove that the value of its mark *VICTORIA'S SECRET* had been reduced or diminished by the Moseleys' use of *VICTOR'S LITTLE SECRET*.¹¹ The Court ruled that the FTDA requires actual harm or proof that there has been actual dilution of the distinctiveness of the famous mark.¹²

Focusing on the legislative history of the statute, as well as the differences between state and federal dilution statutes, the Court opined that, although the relevant text of the FTDA "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution,"¹³ "that does not mean that the consequences of dilution, such as an actual loss of sales or profits, must also be proved."¹⁴ Unfortunately, however, the Court never articulated what, exactly, an owner of a famous mark must prove to prevail on a claim under the FTDA. Although, the Court did state that "the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution."¹⁵

Justice Anthony Kennedy concurred and added that injunctive relief is still available in order to prevent harm caused by dilution.¹⁶ Specifically, Kennedy wrote that "a holder of a famous mark threatened with diminishment of the mark's capacity to serve its purpose should not be forced to wait until the damage is done."¹⁷

While many would certainly say that this decision has leveled the playing field between owners of famous marks and small businesses like the Moseleys', most seem sur-

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Shareholder Liability

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[f]or much the same reasons, the imposition of vicarious liability in the case before us cannot be deemed unduly harsh or unfair. Green has the power to police carefully the conduct of its concessionaire Jalen; our judgment will simply encourage it do so, thus placing responsibility where it can and should be effectively exercised. Green's burden will not be unlike that quite commonly imposed upon publishers, printers, and vendors of copyrighted materials.¹³

The "power to police," though easily articulable as a principle of law, has proven difficult in application. Many federal courts have struggled to apply coherently the right and ability to supervise element of the two-part vicarious liability test. Some courts hold that the actual exercise of control is not required and that all that is needed to establish liability is the legal right and ability to control and supervise the infringing conduct.¹⁴ Other federal courts place principal emphasis on whether the alleged vicarious infringer in fact exercised actual control and supervision of the infringing conduct.¹⁵

C. Direct Financial Interest

A plaintiff seeking to hold a shareholder vicariously liable for the copyright infringement of a corporation also must show that the shareholder possessed an obvious and direct financial interest in the exploitation of the copyrighted work allegedly infringed.¹⁶ Federal courts have not developed a bright-line test for determining when a party maintains a sufficiently direct financial interest in the infringing activity to warrant the imposition of vicarious liability.¹⁷ Most courts hold that stock ownership in the infringing corporation establishes a sufficiently direct financial interest in the infringing activity.¹⁸ Some courts even gloss over the direct financial interest prong and summarily conclude that the financial interest of certain parties is obvious.¹⁹ Other courts require evidence of a direct financial benefit.²⁰

D. Vicarious Liability in Other Contexts

The vicarious liability test applicable to copyright infringement claims differs in material respects from the vicarious liability test applicable to other causes of action.²¹ "The distinctive version of vicarious liability that has developed in the context of copyright omits the requirement, common elsewhere in the law of vicarious liability, that the right and ability to control extend to the manner and means of performance."²² The differential treatment accorded to copyright infringement claims stems in large part from the policy goals underlying copyright. As one court stated:

Modern decisions, when explaining policy justifications for vicarious liability rather than merely citing precedent, commonly refer to risk allocation. When an individual seeks to profit from an enterprise in which identifiable types of losses are expected to occur, it is ordinarily fair and reasonable to place responsibility for those losses on the person who profits, even if that person makes arrangements for others to perform the acts that foreseeably cause the losses. The law of vicarious liability treats the expected

losses as simply another cost of doing business. The enterprise and the person profiting from it are better able than either the innocent injured plaintiff or the other person whose act caused the loss to distribute the costs and to shift them to others who have profited from the enterprise. In addition, placing responsibility for the loss on the enterprise has the added benefit of creating a greater incentive for the enterprise to police its operations carefully to avoid unnecessary losses.²³

III. Liability of Shareholders

Because vicarious liability principles applicable to copyright infringement allow copyright owners to reach parties ordinarily shielded from liability, copyright owners frequently sue shareholders on the basis of a corporation's alleged copyright infringement. Such suits seek to hold shareholders of the infringing corporation jointly and severally liable for the infringements carried out by the corporation (the direct infringer).²⁴ The vast reach of copyright vicarious liability principles is particularly useful when the corporation is insolvent or is otherwise incapable of satisfying any judgment that might be rendered with regard to the copyright infringement claim. As discussed below, the legal test for determining whether a shareholder may be liable for the copyright infringement of a corporation will vary depending on whether the shareholder is an individual or a corporation.

A. Individuals as Shareholders

Very few, if any, reported decisions impose vicarious liability against an individual shareholder who was not an officer and/or director of the corporation.²⁵ Virtually every reported decision in which a court found an individual shareholder vicariously liable for the copyright infringement of a corporation involved a shareholder who also served as an officer and/or director of the corporation.²⁶ Moreover, courts imposing liability against an individual shareholder almost universally emphasize the individual's status as a shareholder only with regard to the financial interest prong of the *Shapiro* test while finding the requisite control through the individual's service as an officer and/or director of the corporation. For example, in *RCA/Ariola International, Inc. v. Thomas & Grayton Company*, the Eighth Circuit Court of Appeals held an individual vicariously liable for copyright infringement on the ground that he, as president of a corporation, supervised the infringing conduct and, as a fifty-percent shareholder, financially benefited from the infringements.²⁷ The court in *RCA/Ariola* stated that "[d]espite his claim that he had no right to supervise the retailers, McCann in fact did supervise them by writing letters instructing them on what uses of the copiers to permit. McCann's financial interest in the infringements follows directly from Metacom's, since McCann is a fifty percent shareholder in Metacom. Therefore, the district court's finding of liability was warranted."²⁸

The Eight Circuit followed *RCA/Ariola* in *Pinkham v. Sara Lee Corp.*²⁹ In *Pinkham*, the court stated that:

Benedetto was the president and sole shareholder of Camex. The record indicated that he personally approved

the sale of the Pinkham's books to Sara Lee (through the broker, Art Ryan). Benedetto also approved the price to be charged for the copies. While the record does not reveal whether Benedetto and Camex actually profited from this particular transaction, a reasonable inference can be made that Camex anticipated profits from the sale of Pinkham's books. Benedetto, as sole shareholder of Camex, had a financial interest in the sale of the books.³⁰

While other federal appellate courts have not addressed this issue squarely, a consensus appears to have emerged among the federal district courts that an individual's status as a shareholder is determinative only with respect to the financial interest prong of the *Shapiro* test and cannot by itself satisfy the supervision and control element of the vicarious liability test.³¹

B. Corporations as Shareholders

1. Substantial and Continuing Connection Standard

Federal courts also appear to be split regarding the test to be applied in determining when a parent corporation can be held liable for the infringing acts of its subsidiary. The leading case in this area is *Frank Music Corp. v. MGM, Inc.*³² *Frank Music II* came before the Ninth Circuit after a long procedural history in which the Ninth Circuit addressed many of the liability questions in *Frank Music I*, and then remanded the case back to the district court.³³ In *Frank Music I*, the Ninth Circuit held that "[a] parent corporation cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts."³⁴ The Ninth Circuit then remanded the case back to the district court for a determination as to whether there was a "substantial and continuing connection between MGM Grand and MGM, Inc."³⁵ On remand, the district court concluded that the plaintiff failed to establish a substantial and continuing connection between MGM Grand and MGM, Inc.³⁶

In *Frank Music II*, the Ninth Circuit Court of Appeals reiterated that a "parent corporation cannot be held liable for the infringing actions of its subsidiary unless there is a substantial and continuing connection between the two with respect to the infringing acts."³⁷ The Ninth Circuit then overruled the district court's finding that there was no showing of a substantial and continuing connection between the MGM parent and the MGM subsidiary.³⁸ The Ninth Circuit found that the following facts buttressed its holding that a substantial and continuing connection existed between the MGM parent and the MGM subsidiary: (1) MGM Grand was a wholly owned subsidiary of MGM, Inc.; (2) MGM, Inc.'s legal counsel responded to the plaintiff's allegations of infringement; (3) MGM, Inc. actually hired the MGM Grand employee who created the infringing works; and (4) the MGM Grand employee who created the infringing works maintained an office at MGM, Inc.³⁹ On the basis of these facts, the Ninth Circuit concluded that MGM, Inc. could be held vicariously liable for the copyright infringement committed by MGM Grand.⁴⁰

While most appellate courts have not addressed the parent-subsidiary liability issue, most district courts con-

fronting the issue have followed *Frank Music II* in adopting the substantial and continuing connection standard.⁴¹ In *Goes Lithography Co. v. Banta Corp.*,⁴² the district court repudiated a decision within the same district holding that "the relationship of parent and wholly-owned subsidiary automatically satisfies the *Shapiro* test."⁴³ The district court, in rejecting a per se liability rule for the infringing acts of wholly owned subsidiaries, held that the "[p]laintiff must allege facts which show a continuing connection between the parent and the subsidiary to the infringing activities to make out a case for vicarious liability."⁴⁴

Other district courts have endorsed an evidentiary standard analogous to, or co-extensive with, the substantial and continuing connection standard articulated in *Frank Music II*.⁴⁵ In *Banff, Ltd. v. Limited, Inc.*,⁴⁶ the district court examined in some detail the control/supervision element of the vicarious liability test and held that actual control and supervision, rather than merely the legal right to control and supervise, is required to hold a parent corporation vicariously liable for the infringing acts of a subsidiary. The court in *Banff* stated that "[g]iven that the actual exercise of control cannot be presumed from the mere power to control, it is logical to require evidence of actual control and supervision before holding the parent liable."⁴⁷

The court in *Banff* further highlighted the tension between an actual control test and a legal control test by illustrating some incongruities in corporate ownership. The court noted that "[a]s a practical matter, a presumption that a parent can control its subsidiary would be unworkable. The case is easiest when the parent wholly owns the subsidiary, but what of a parent that owns 51% of its subsidiary. Or perhaps 40% of the subsidiary, making it the largest shareholder. The need to determine whether actual control is exercised is inevitable."⁴⁸ Therefore, the district court in *Banff* held that the "plaintiff must show that the parent has a direct financial interest in the infringing activity, and that the parent has the right and ability to supervise the subsidiary, which is evidenced by some continuing connection between the two in regard to the infringing activity."⁴⁹

2. Per Se Rule of Parental Liability

One district court has held that, as a matter of law, a parent corporation is always liable for the infringing acts of its subsidiaries.⁵⁰ The court in *Broadcast Music, Inc. v. Hartmax Corp.*,⁵¹ held that:

We also find as a matter of law that the parent has the right and ability to supervise its subsidiaries—that is, to guard against or police the allegedly infringing activity. Our conclusion rests in part on the legal relationship between the parties . . . Thus, it is clear to us that the parent has the right to supervise its subsidiaries activities—down to a subsidiary's unlicensed use of copyrighted music—through its power to remove recalcitrant officers. It is the existence of the right to supervise, not whether the parent in fact chose to exercise that right, that is at issue.⁵²

The holding in *Broadcast Music* stands in sharp contrast to the decision in *Banff*. Whereas *Banff* held that actual control/supervision is necessary to establish the

vicarious liability of a parent corporation for the infringing acts of its subsidiaries, *Broadcast Music* emphasizes that the legal right to control is determinative. *Broadcast Music*, however, constitutes questionable authority for the proposition that a parent is per se liable for the infringing acts of its wholly owned subsidiaries. First, *Broadcast Music* appears to be the only reported decision standing for this proposition, while the majority of courts passing upon the question have endorsed the substantial and continuing connection standard or a close variation of such standard. Second, the force of the precedent established in *Broadcast Music* also lost much, if not all, of its strength when a different judge in the same district court strongly criticized the logical underpinning of the per se liability rule articulated in *Broadcast Music*.⁵³

C. Unsettled Questions

Federal courts still have not resolved the question of whether an individual shareholder not serving as an officer or director of a corporation may be held vicariously liable for the copyright infringement of a corporation. Those federal courts following a legal control standard of liability might impose vicarious liability against a majority shareholder on the ground that such shareholder possesses the theoretical right to control the conduct of the infringing corporation. Those federal courts following an actual control standard of liability likely would require direct and substantial evidence of an individual shareholder's involvement in the day-to-day operations of a corporation before imposing vicarious liability on such shareholder. While the law may not be settled in this area, both individual and corporate shareholders need to be mindful of their potential liability for copyright infringement committed by the corporation. Until the U.S. Supreme Court conclusively resolves the many questions surrounding vicarious liability principles under the Copyright Act, investors should proceed cautiously in deploying their capital, particularly where the target of the investment is in the business of exploiting the value of assets protected under U.S. intellectual property laws.

Endnotes

1. See Nina A. Mendelson, *A Control-Based Approach to Shareholder Liability for Corporate Torts*, 102 COLUM. L. REV. 1203, 1211 (2002) (noting that the overwhelming number of state corporate statutes contain express limitations on shareholder liability and provide that a shareholder is liable only for the consideration paid for the shares issued to the shareholder).

2. See *supra* note 1.

3. See *supra* note 1.

4. See *Bedford Affiliates v. Sills*, 156 F.3d 416 (2d Cir. 1998) (stating that, "[t]o pierce the corporate veil . . . the district court must find that . . . [the sole officer, director and shareholder] exercised domination and control over [the corporation]; and this control was used to cause a wrong"); *In re Kaiser*, 791 F.2d 73 (7th Cir. 1986) (stating that, "...courts have eschewed legalisms and allowed the corporate veil to be pierced, and the shareholder held personally liable, whenever limited liability would 'defeat some strong equitable claim'"); *Pepsi-Cola Metropolitan Bottling Co. v. Checkers, Inc.*, 754 F.2d 10 (1st Cir. 1985) (holding defendant's

sister corporations and owners liable because the owners so intermingled their personal affairs and the affairs of the corporate defendants that limiting the plaintiff's recovery to the assets of defendant corporation would be unjust).

5. See *Richmond Homes Management, Inc. v. Raintree, Inc.*, 862 F. Supp. 1517, 1528 (W.D. Va. 1994) (stating that "[t]o hold all three defendants liable for the infringing activity it is not necessary to pierce the corporate veil under principles of state law"), *aff'd*, 66 F.3d 316 (4th Cir. 1995); 103 F.3d 119 (4th Cir. 1996). One court has held that a state statute's insulation of shareholders from liability for the debts of a corporation has no application to an action for copyright infringement. See *Hideout Records and Distributors v. Angle Wing Music*, 601 F. Supp. 1048, 1052-53 (D. Del. 1984). Another court held that a state corporate statute could not be used as a sword to impose liability against an individual director for copyright infringement. See *Burdick v. Koerner*, 988 F. Supp. 1206, 1209 (E.D. Wis. 1998).

6. See *Shapiro, Bernstein & Co, Inc. v. H.L. Green Co., Inc.*, 316 F.2d 304, 307 (2d Cir. 1963) (holding that liability under the Copyright Act extends to any party who has a direct financial interest in the exploitation of the copyrighted material and maintains a right and ability to supervise the conduct of the infringing party).

7. See, e.g., *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 782 (8th Cir. 1988) (holding fifty-percent shareholder liable under the Copyright Act).

8. 316 F.2d 304 (2d Cir. 1963).

9. *Id.* *Shapiro* was not the first case to apply the doctrine of vicarious liability to a copyright infringement context. In fact, *Shapiro* built upon two lines of cases, the landlord-tenant cases and the dance-hall cases, in which courts grappled with the issue of when it was appropriate to impose third-party liability against one party for the copyright infringement of another party.

10. *Shapiro*, 316 F.2d at 307.

11. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434 (1984) (stating that the "Copyright Act does not expressly render anyone liable for infringement committed by another"); *Demetriades v. Kaufmann*, 690 F. Supp. 289, 291-92 (S.D.N.Y. 1988) (stating that "[f]ederal copyright law, unlike patent law, does not expressly create any form of derivative, third-

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party liability”); Charles S. Wright, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into the Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005, 1009–10 (July 2000).

12. See *Sony Corp.*, 464 U.S. at 435 (1984) (stating that “[t]he absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity”); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996) (noting that “[a]lthough the Copyright Act does not expressly impose liability on anyone other than direct infringers, courts have long recognized that in certain circumstances, vicarious or contributory liability will be imposed”).

13. *Shapiro*, 316 F.2d at 308.

14. See *Fonovisa*, 76 F.3d at 262 (holding that a swap meet operator possessed sufficient control over vendors through its power to exclude a vendor for any reason); *Arista Records, Inc. v. MP3Board, Inc.*, 2002 U.S. Dist. LEXIS 16165, **33 (S.D.N.Y. 2002) (holding that “[t]he facts have shown that MP3Board had the right and ability to police those who posted links to the site, as well as the ability to delete the links themselves from being displayed to users”); *Broadcast Music, Inc. v. Hartmax Corp.*, 1988 U.S. Dist. LEXIS 13298, ** 5 (N.D. Ill. 1988) (holding that a controlling shareholder “has the right to supervise its subsidiaries’ activities—down to a subsidiary’s unlicensed use of copyrighted music—through its power to remove recalcitrant officers”).

15. See *Banff, Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1109–10 (S.D.N.Y. 1994) (holding that plaintiff must show evidence of actual control and supervision before a parent can be held liable for the copyright infringement of its subsidiary); *Artists Music, Inc. v. Reed Publishing, Inc.*, 31 U.S.P.Q.2d 1623, 1627 (S.D.N.Y. 1994) (holding that “the mere fact that they could have policed the exhibitors at great expense is insufficient to impose vicarious liability”).

16. See *Shapiro*, 316 F.2d at 307.

17. See *Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1330 (D. Mass. 1994) (observing that courts have not developed an explicit test for determining when a defendant’s benefit is sufficiently direct to warrant the imposition of liability). Compare *Softel, Inc. v. Dragon Med. & Scientific Communications, Inc.*, 118 F.3d 955, 971 (2d Cir. 1997) (holding that the president of the infringing corporation was not liable as a vicarious infringer because “the evidence is too attenuated to establish a sufficiently direct financial interest in the exploitation of copyrighted materials”) with *Sailor Music v. Mai Kai of Concord, Inc.*, 640 F. Supp. 629 (D. N.H. 1986) (holding that the salary of the corporate officer was sufficient to establish a direct financial interest).

18. See *RCA/Ariola*, 845 F.2d at 782 (holding fifty-percent shareholder liable under the Copyright Act); *Burdick v. Koerner*, 998 F. Supp. 1206, 1211 (E.D. Wis. 1998).

19. See *All Nations Music v. Christian Family Network, Inc.*, 989 F. Supp. 863, 868–89 (W.D. Mich. 1997) (holding liable as a vicarious infringer the president of a corporation that operated a radio station that infringed plaintiff’s copyrights); *Dae Van Video Prod., Inc. v. San, Chun*, 1990 WL 265976, **7–8 (E.D. Va. 1990) (stating that “[e]ach of these individual defendants played primary roles in the operation of the corporate defendants and all had obvious financial interests in the infringing activities”).

20. See *Softel*, 118 F.3d at 97 (holding that the president of the infringing corporation was not a vicarious infringer because “the evidence is too attenuated to establish a sufficiently direct financial interest in the exploitation of copyrighted materials”).

21. See *Jobete Music Co., Inc. v. Media Broadcasting Corp.*, 713 F. Supp. 174, 177 (M.D. N.C. 1988) (noting that the typical respondeat superior test does not apply to copyright infringement actions).

22. *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1326 (D. Mass. 1994).

23. *Id.* at 1325.

24. See *RCA/Ariola*, 845 F.2d at 782 (holding fifty-percent shareholder liable under vicarious liability principles); *Playboy Enterprises, Inc. v. WebbWorld, Inc.*, 991 F. Supp. 543, 554 (N.D. Tex. 1997) (holding that sole shareholder of corporation was liable as a vicarious infringer because “[e]ven though he declined to exercise such authority, his right and ability to exercise it is sufficient for vicarious liability to attach”).

25. See, e.g., *United States v. The Washington Mint, L.L.C.*, 115 F. Supp. 2d 1089, 1106 (D. Minn. 2000) (holding that a party’s status as an investor, without more, is insufficient to impose liability under the Copyright Act); *Burdick v. Koerner*, 988 F. Supp. 1206, 1210 (E.D. Wis. 1998) (holding that board membership, standing alone, is insufficient to satisfy the control element of the vicarious liability test).

26. See *Playboy Enterprises, Inc. v. Starware Publ’g Corp.*, 900 F. Supp. 438, 441 (S.D. Fla. 1995) (holding vicariously liable an individual shareholder who also served as President of the corporation that infringed the copyrighted work); *Ford Motor Co. v. B&H Supply, Inc.*, 646 F. Supp. 975, 989–90 (D. Minn. 1986) (holding vicariously liable an individual who served as President and controlling shareholder of a corporation that committed copyright infringement).

27. *RCA/Ariola*, 845 F.2d at 782.

28. *Id.*

29. 983 F.2d 824 (8th Cir. 1992).

30. *Pinkham*, 983 F.2d at 834.

31. See *The Washington Mint*, 115 F. Supp. 2d at 1106 (holding that a party’s status as an investor, without more, is insufficient to impose liability under the Copyright Act); *Playboy Enterprises*, 900 F. Supp. at 44 (holding vicariously liable an individual shareholder who also served as President of the corporation that infringed the copyrighted work); *Ford Motor*, 646 F. Supp. at 989–90 (holding vicariously liable an individual who served as president and controlling shareholder of a corporation that committed copyright infringement).

32. 886 F.2d 1545, 1553 (9th Cir. 1989) (*Frank Music II*).

33. See *Frank Music Corp. v. MGM, Inc.*, 772 F.2d 505, 521 (9th Cir. 1985) (*Frank Music I*).

34. *Id.* at 519–20 (citing *Nimmer on Copyright* § 12.04).

35. *Id.* at 520.

36. *Frank Music*, 886 F.2d at 1553.

37. *Id.* (quoting *Frank Music I*).

38. *Id.* at 1553.

39. *Id.*

40. *Id.*

41. See *Goes Lithography Co. v. Banta Corp.*, 26 F. Supp.2d 1042, 1045 (N.D. Ill. 1998) (adopting the substantial and continuing connection standard).

42. 26 F. Supp.2d 1042, 1045 (N.D. Ill. 1998).

43. *Id.* at 1045 (criticizing *Broadcast Music, Inc. v. Hartmax Corp.*, 1988 U.S. Dist. LEXIS 13298 (N.D. Ill. 1988)).

44. *Id.* at 1045.

45. See *Banff, Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994).

46. 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994).

47. *Id.* at 1109–10.

48. *Id.* at 1110, n.6.

49. *Id.*

50. See *Broadcast Music, Inc. v. Hartmax Corp.*, 1988 U.S. Dist. LEXIS 13298 (N.D. Ill. 1988).

51. *Id.*

52. *Id.* at **6.

53. See *Goes Lithography*, 26 F. Supp. 2d at 1045.

Jurisdiction and the Internet

The Constitutionality of *In Rem* Jurisdiction and the Decline of Zippo

BY ULI WIDMAIER



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At the very moment one trademark-related jurisdictional issue is firmly laid to rest, another one, seemingly long resolved, is given a fresh look by the courts, causing a decrease in certainty and predictability. Questions persisted concerning the constitutionality of *in rem* jurisdiction over domain names pursuant to the Anti-Cybersquatting Consumer Protection Act (ACPA).¹ These questions have been resolved definitively by the Fourth and Second Circuits.² *In rem* jurisdiction under the ACPA, we now know, is constitutional—as long as the statutory requirements of the ACPA regarding the location of those domain names are observed scrupulously.³

In contrast, specific *in personam* jurisdiction over online infringers and tortfeasors appears to be shifting away from previously established doctrine, creating uncertainty in the process. Under the *Zippo* doctrine,⁴ which has long been the analytic mainstay for assessing specific jurisdiction in the Internet context, the propriety of asserting specific personal jurisdiction over a defendant is assessed by examining the degree of commercial interactivity of the defendant's website.⁵ Recent case law suggests that the somewhat formalistic sliding-scale approach of *Zippo*—which held that the propriety of asserting specific personal jurisdiction over a defendant is “*directly proportionate* to the nature and quality of commercial activity [the defendant] conducts over the Internet”⁶—is being replaced by a new emphasis on a substantive inquiry into whether the defendant purposefully and intentionally availed itself of the privilege of doing business in the forum state.⁷ The defendant's conduct vis-à-vis the forum state is what really matters, these cases suggest, regardless of how interactive the defendant's website is.⁸ Lawyers who consider filing suit against online infringers are therefore well advised to pay close attention both to the degree of interactivity of a defendant's website and to all facts that evidence a manifest intent of the defendant to do business in the forum state, keeping in mind that the latter requirement may well be the decisive one.

I. The Constitutionality of *In Rem* Jurisdiction over Domain Names

The ACPA, which was passed in November 1999,⁹ gives trademark owners a cause of action against cyber-

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squatters (i.e., persons who have a bad-faith intent to profit from a mark by registering, trafficking in, or using an Internet domain name that is identical, confusingly similar, or dilutive of that mark).¹⁰ It has often proved impossible to establish personal jurisdiction over cybersquatters in U.S. courts because the cybersquatters reside outside of the United States, or because it is impossible to locate them. Thus, in situations where the trademark owner is not able to obtain personal jurisdiction over the person who would have been the civil defendant, the ACPA provides for *in rem* jurisdiction over the domain name itself in the judicial district in which the domain name registrar, registry or other domain name authority that registered or assigned the domain name is located.¹¹

Until recently, the courts had not resolved the question whether the ACPA's *in rem* provisions were actually constitutional. Judicial and scholarly skepticism had been expressed repeatedly over whether these provisions would pass muster under the Due Process Clause of the Fifth Amendment.¹² Then, the Fourth Circuit dispelled all lingering doubts. In two companion cases, *Harrods Ltd. v. Sixty Internet Domain Names*¹³ and *Porsche Cars North America, Inc., v. porsche.net*,¹⁴ both decided on August 23, 2002, the court affirmatively held that the ACPA's *in rem* provisions are constitutional.¹⁵ Rejecting the defendant domain names' due process challenges to the exercise of *in rem* jurisdiction, the court ruled that domain names are property.¹⁶ The ACPA's *in rem* provisions necessarily implied that Congress meant to treat domain names as property for ACPA purposes.¹⁷ The court affirmed Congress's power to treat domain names in this way.¹⁸ “Congress may treat a domain name registration as property subject to *in rem* jurisdiction if it chooses, without violating the Constitution.”¹⁹ Moreover, the court found that the particular property at issue in *Harrods* and *Porsche* (i.e., the defendant domain names) were plainly related to the substance of the litigation for purposes of assessing the constitutionality of asserting *in rem* jurisdiction over that property.²⁰ This finding was crucial in meeting the constitutional requirement that the property at issue be the source of the controversy, rather than merely a basis for bringing the defendant into court.²¹

In sum, in both *Harrods* and *Porsche* the court flatly rejected the defendant domain names' constitutional challenge to the ACPA's *in rem* provisions. The *Porsche* court, moreover, forestalled a tactic by the registrants of the defendants domain names designed to utilize the *in rem* provisions to delay the lawsuit.²² Once the *in rem* suit had been instituted against the defendant domain names, the registrants of those domain names sought to derail the suit by voluntarily submitting to *in personam* jurisdiction in a

different district and arguing that their doing so destroyed the *in rem* jurisdiction over the domain names.²³ The court disagreed. “Nothing in the ACPA or its legislative history suggests that Congress intended to permit such manipulation.”²⁴ The court held, therefore, that the ACPA “does not require . . . that those conditions [which permitted *in rem* jurisdiction to attach in the first place] continue throughout the litigation.”²⁵

In *Mattel, Inc. v. Barbie-Club.com*,²⁶ the Second Circuit resoundingly, if indirectly, reaffirmed the principles announced in *Porsche* and *Harrods*. In that case, plaintiff Mattel attempted to vest the District Court for the Southern District of New York with *in rem* jurisdiction over the defendant domain names by having “‘registrar’s certificates’ for each of the domain names sent by their respective domain-name authorities and deposited with the district court.”²⁷ Neither the registrar nor the registry for the subject domain names was, however, located in the Southern District of New York.²⁸ Thus, plaintiff’s strategy ran afoul of the plain statutory language establishing the situs of domain names at the location of the registrar or registry.²⁹ *In rem* jurisdiction cannot be based on registrar’s certificates.³⁰ Domain names are property for ACPA purposes.³¹ The location of that property is therefore decisive under the Constitution for the proper exercise of *in rem* jurisdiction.³² The court reasoned: “Nowhere does the legislative history suggest that this nexus [for *in rem* jurisdiction under the ACPA] might be supplied by domain-name documentation alone. Rather, it is the presence of the domain name itself—the property [that] is the subject of the jurisdiction—in the judicial district in which the registry or registrar is located that anchors the *in rem* action and satisfies due process and international comity.”³³

In sum, the constitutionality of *in rem* jurisdiction under the ACPA has been put on a firm foundation. Likewise, it is now established that an *in rem* lawsuit against a domain name will not be thrown off track by a registrant’s submission to *in personam* jurisdiction after the *in rem* suit against the domain name is instituted. Finally, an *in rem* suit must be filed as the ACPA specifies, namely in the district where the domain name’s registry or registrar is located.

II. Personal Jurisdiction and Website Interactivity

This picture of reliability and predictability contrasts favorably with situations where specific personal jurisdiction one seeks to establish based on a defendant’s Internet activity. The leading case in this area is the 1997 decision in *Zippo Manuf. Co. v. Zippo Dot Com, Inc.*³⁴ The issue in *Zippo* was the legitimacy of asserting personal jurisdiction over an out-of-state defendant whose website was accessible in the forum state.³⁵ *Zippo* held that the propriety of exercising specific personal jurisdiction over an out-of-state defendant based upon that defendant’s Internet presence is based on a “sliding scale”³⁶—it “is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet.”³⁷ Elaborating on its sliding scale, the court established its famous tri-level approach to Internet jurisdiction:

At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet. . . . At the opposite end are situations where a defendant has simply posted information on an Internet Website which is accessible to users in foreign jurisdictions. A passive website that does little more than make information available to those who are interested in it is not grounds for the exercise of personal jurisdiction. The middle ground is occupied by interactive Websites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Website.³⁸

The *Zippo* doctrine, announced early in the U.S. courts’ foray into the complexities of the World Wide Web, has proved remarkably resilient. Two recent decisions on specific personal jurisdiction in the Internet context, *Toys ‘r’ Us v. Step Two, S.A.*³⁹ and *Bird v. Parsons*,⁴⁰ insist on its continued vitality. But in reality, these cases show that the *Zippo* doctrine has lost much of its predictive power and is being superseded by the courts’ fresh insistence and focus on the traditional “purposeful availment” test required under the Constitution.⁴¹ As demonstrated below, that test functions separate and apart from *Zippo*’s analytic structure. The judicially created *Zippo* doctrine is becoming irrelevant.

Toys ‘r’ Us demonstrates in detail how the *Zippo* doctrine is being deprived of its relevance and usefulness. In that case, the defendant maintained a fully commercially interactive website.⁴² In addition, the defendant had engaged in two documented sales of goods into the forum state.⁴³ Nevertheless, the district court declined to assert specific personal jurisdiction over the defendant and denied plaintiff leave to conduct jurisdictional discovery.⁴⁴ The court of appeals affirmed the jurisdictional holding because there was insufficient evidence showing that the defendant purposefully availed itself of doing business in the forum state.⁴⁵ The court remanded for limited jurisdictional discovery based on certain indications of non-Internet contacts of the defendant with the forum state.⁴⁶ In its analysis, the court cited extensively to *Zippo*, characterizing it as “a seminal authority regarding personal jurisdiction based upon the operation of an Internet website.”⁴⁷ In actuality, however, the court paid very little heed to *Zippo*’s sliding-scale approach and instead focused most of its attention on whether the defendant intentionally conducted activity in the forum state.

[T]he mere operation of a commercially interactive website should not subject the operator to jurisdiction anywhere in the world. Rather, there must be evidence that the defendant “purposefully availed” itself of conducting activity in the forum state, by directly targeting its website to the state, knowingly interacting with residents of the forum state via its website, or through sufficient other related contacts.⁴⁸

Under the court’s analysis, then, the formal framework of *Zippo*—assessing the propriety of personal jurisdiction based on whether a website is (1) fully commercially inter-

active, (2) merely a conduit for the exchange of limited information, or (3) purely informational and noninteractive⁴⁹—becomes largely irrelevant. What really matters, the court held, is not the degree of interactivity of the defendant's website as such, but rather the defendant's "intentional interaction with the forum state."⁵⁰ In other words, the court effectively replaced *Zippo's* sliding-scale approach with an "intentionality requirement [that applies] when fashioning a test for personal jurisdiction in the context of the Internet."⁵¹ The court also carefully traced the rise of the intentionality requirement in precedents from various circuits.⁵²

Bird likewise weakens the *Zippo* doctrine. In that case, the court found it had specific personal jurisdiction over Dotster, the well-known domain name registrar, based on the court's assumption that Dotster sold 4,666 domain names in the forum state via its highly interactive website.⁵³ Dotster conceded that it sold a total of 333,333 domain names, about 70 percent in the United States.⁵⁴ Plaintiff thus multiplied 333,333 by .7 and divided the resulting number by 50 (the number of states in the Union), to arrive at 4,666, the number of domain names Dotster had allegedly sold in Ohio, the state in question.⁵⁵ The court found that this putative sale of 4,666 domain names in Ohio was sufficient purposeful business activity directed at Ohio to give Ohio courts specific personal jurisdiction:

Although the Dotster defendants might face a burden in having to defend a lawsuit in Ohio, they cannot reasonably object to this burden given that Dotster has allegedly transacted business with 4,666 Ohio residents. Ohio has a legitimate interest in protecting the business interests of its citizens. . . .⁵⁶

Importantly for the question of *Zippo's* continued viability, the court's jurisdictional holding had virtually nothing to do with the fact that Dotster maintained a highly interactive website. Instead, the holding was centrally based on the court's determination that (allegedly) selling thousands of domain names in the forum state meant that Dotster "regularly chooses to do business with Ohio residents."⁵⁷ *Bird* weakens the *Zippo* doctrine because its holding, while paying lip service to *Zippo*, implicitly rejects the doctrine and posits that even the most highly interactive website does not, by itself, suffice to establish specific personal jurisdiction over the owner or operator of that website. Instead, additional facts showing purposeful availment of doing business in the forum state must be shown.

Thus, *Zippo's* sliding-scale doctrine has largely ceased to be a reliable guide to assessing issues concerning personal jurisdiction. Courts continue to pay lip service to *Zippo*, but in reality the degree of interactivity of a defendant's website cannot be relied upon as a reliable indicator for determining the propriety of exercising specific personal jurisdiction over a given defendant. Instead, courts are increasingly sidestepping the formalism of *Zippo* in favor of a substantive analysis under the traditional "purposeful availment" test.

III. Conclusion

What guidance do these developments offer to lawyers seeking to protect their clients' intellectual property from

online infringement? With regard to *in rem* jurisdiction, the lesson is clear. The ACPA *in rem* provisions are constitutional. *In rem* suits against domain names under the ACPA are proper and shielded from constitutional attack, but they must be brought, as the ACPA states, in the district where the defendant domain name's registrar or registry is located. Moreover, the registrant of a domain name subject to an *in rem* suit cannot derail that suit by later deliberately submitting to personal jurisdiction.

With regard to specific personal jurisdiction, it is becoming increasingly apparent that relying on *Zippo's* sliding-scale approach alone is no longer safe. Therefore, litigants should pay the closest attention to additional facts beyond merely the interactivity of the defendant's website. The real test is whether the defendant intentionally interacted with the forum state—via its website or otherwise.

Endnotes

1. 15 U.S.C. § 1125(d).
2. See *Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214 (4th Cir. 2002); *Porsche Cars North America, Inc., v. porsche.net*, 302 F.3d 248 (4th Cir. 2002); *Mattel, Inc., v. Barbie-Club.com*, 310 F.3d 293 (2d Cir. 2002).
3. See *Mattel*, 310 F.3d at 306.
4. See *Zippo Manuf. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997).
5. See *id.*
6. *Id.* (emphasis added).
7. See *Toys 'r' Us v. Step Two, S.A.*, 318 F.3d 446 (3d Cir. 2003); *Bird v. Parsons*, 289 F.3d 865 (6th Cir. 2002).
8. See, e.g., *Toys 'r' Us*, 318 F.3d at 452.
9. See Pub. L. 106-113 (Nov. 29, 1999).
10. 15 U.S.C. § 1115 (d)(1)(A).
11. 15 U.S.C. § 1115 (d)(2)(A) and (C).
12. See, e.g., Comment, *Asserting In Personam Jurisdiction over Cybersquatters*, 69 U. CHI. L. REV. 4, 1837-65 (Fall 2002) and cases cited therein.
13. 302 F.3d 214 (4th Cir. 2002).
14. *Id.* at 248.
15. *Harrods*, 302 F.3d at 224-25; *Porsche*, 302 F.3d at 259-60.
16. *Porsche*, 302 F.3d at 260.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.* See also *Harrods*, 302 F.3d at 224-25.
21. See *Harrods*, 302 F.3d at 224-25, quoting *Shaffer v. Heitner*, 433 U.S. 186, 207, 209 (1977).
22. See 203 F.3d at 254-58.
23. *Id.*
24. *Id.* at 258.
25. *Id.* at 255.
26. 310 F.3d 293 (2d Cir. 2002).
27. *Id.* at 296.
28. *Id.*
29. *Id.* at 306, citing 15 U.S.C. § 1125 (d)(2)(A), (C) and (D).
30. *Id.* at 305-06.
31. *Id.* at 300 n.7 (citing *Porsche*, 302 F.3d at 260).
32. *Id.* at 302-03, 306.
33. *Id.* at 302 (citation and quotation marks omitted).
34. 952 F. Supp. 1119 (W.D. Pa. 1997).
35. *Id.* at 1121-22.
36. *Id.* at 1124.
37. *Id.*
38. *Id.*
39. 318 F.3d 446 (3d Cir. 2003).

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Willful Patent Infringement and Enhanced Damages: Recent Decisions

BY KIRSTIN L. STOLL-DEBELL, JOHN C. TODARO, JOHN E. SCHNEIDER, AND ROBERT W. GLATZ



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In the past two years, the U.S. Court of Appeals for the Federal Circuit and U.S. district courts have generated many decisions relating to various aspects of the law of willful patent infringement and the courts' discretion to grant enhanced damages for willful patent infringement under 35 U.S.C. § 285. While the law remains generally unchanged, the following opinions clarify some of the more uncertain issues relating to willful infringement and thus may help potential infringers avoid a finding of willful infringement and a corresponding award of enhanced damages. For example, two opinions make clear that companies should avoid using the same law firm as opinion counsel and trial counsel.¹

Another court noted that opinions of in-house counsel are "disfavored."² Further, the courts are split regarding the scope of waiver of attorney-client privilege and work product that result from a decision to rely on an opinion of counsel to defend against a charge of willful infringement.³ Finally, three Federal Circuit decisions make clear that a finding of willful infringement does not require an award of enhanced damages.⁴ These opinions and others are organized into topics summarized below:

1. Evidence Sufficient to Support a Finding of Willful Infringement

In *Nikken USA, Inc. v. Robinsons-May, Inc.*,⁵ a case relating to patents for therapeutic magnets, the Federal Circuit reversed the district court's judgment as a matter of law vacating the jury's willful infringement verdict because it found that there was evidence sufficient to sup-

port the jury's willfulness finding as to one of the patents-in-suit. This evidence included the following: (1) defendant HoMedics had knowledge of the '111 patent, (2) defendant had obtained samples of plaintiff's magnetic insole products, (3) the magnetization patterns of defendant's insoles were nearly identical to those claimed in the '111 patent, and (4) defendant's opinion letter regarding the patent-in-suit was prepared more than a year after plaintiff filed suit against defendant.

In *Tanashin Denki Co., Ltd. v. Thomson Multimedia, Inc.*,⁶ an Indiana district court entered a final judgment that defendant Thomson had willfully infringed plaintiff Tanashin's patents by selling knock-off audiocassette tape drives and ordered defendant to pay double damages, attorneys' fees, and interest.

The court determined that defendant willfully infringed the plaintiff's patents, given evidence showing that: (1) defendant knew that it was purchasing a copy of the plaintiff's tape drive; (2) plaintiff wrote to defendant about the infringement but defendant failed to respond; (3) defendant made no effort to obtain an opinion of independent, competent counsel before suit was filed; (4) opinions obtained by defendant after suit was filed contained inaccurate information and defendant should have known that the information was inaccurate; (5) defendant engaged in litigation misconduct including failing and refusing to respond to discovery requests for two years; and (6) defendant continued to infringe even after the jury returned a verdict for plaintiff.

The court only enhanced plaintiff's damages twofold because after defendant obtained new counsel, it ceased all litigation misconduct.

2. Infringement Not Willful Despite Decision Not to Waive Privilege with Respect to Opinion of Counsel

In *Wesley Jessen Corp. v. Bausch & Lomb, Inc.*,⁷ the Delaware district court concluded that the infringement was not willful despite the fact that defendant Bausch decided not to waive privilege with respect to its opinion of counsel. The court reasoned that when the defendant became aware of the patent and evaluated its own project,



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it reasonably believed it had designed around the material claimed in the patent. In finding that defendant did not willfully infringe plaintiff's patents, the court relied on the following: (1) defendant's position on claim construction and throughout the case was that the patent-in-suit was limited to acrylics and excluded vinyl carbamate, and while the court ultimately disagreed with this construction, it was not a position that was "unreasonable;" (2) an employee of defendant testified that defendant did not believe that its materials infringed the patent-in-suit for the same reasons that defendant asserted in its claim construction briefing and noninfringement case; (3) defendant spent \$60 million to develop its infringing product line, which corroborated the employee's testimony that defendant believed it had designed a material that was outside the scope of the patent-in-suit; and (4) there was no evidence that defendant deliberately copied the invention of the patent-in-suit.

In sum, the court stated: "In light of this evidence, the court finds it is more likely that when Bausch & Lomb became aware of the '943 patent and evaluated its own project, it reasonably believed it had designed around the material claimed in the '943 patent. While in the end, this belief was incorrect, that belief was reasonable enough to merit a conclusion that its infringement was not willful."⁸

3. Reliance on Opinion of Counsel

In *Chiron Corp. v. Genentech, Inc.*,⁹ a California district court denied defendant Genentech's motion for summary judgment that it did not willfully infringe plaintiff Chiron's patent. Defendant had obtained two oral opinions from in-house counsel and a written opinion from outside counsel. The court found that while the evidence suggested that one in-house counsel may have formed a well-reasoned opinion, there was no evidence that her opinion was communicated to the executive committee who made the decision on whether to accept a license under plaintiff's patent. With respect to the second oral opinion, while there was evidence that the executive committee had considered that opinion, there was no evidence as to the substance of the opinion. The court noted that oral opinions, especially those of in-house counsel are disfavored. The court concluded that it could not say as a matter of law that defendant had a good-faith belief that it did not infringe.

Turning to the written opinion prepared by outside counsel, the court discounted the written opinion, in part, because defendant allegedly provided its outside counsel misleading information about a possibly anticipatory reference. This suggested that defendant sought the opinion in bad faith and that defendant's infringement was willful. The court also discounted the written opinion because the opinion was sought *after* the decision was made to proceed with the allegedly infringing activities and could not have been relied upon when the decision was made to proceed.

4. Timing of Opinion of Counsel

In *Vulcan Eng'g v. FATA Aluminum, Inc.*,¹⁰ the Federal Circuit upheld a finding of no willfulness in a case where

the defendant obtained an opinion of counsel shortly after being charged with infringement.

Both parties appealed a district court decision awarding damages for infringement of a patent owned by the plaintiff Vulcan, covering an online continuous system for the production of cast metal shapes using a "lost foam" process. Defendant FATA submitted a bid in response to a solicitation by General Motors for nine metal casting lines and obtained a contract from General Motors. Plaintiff sued, asserting that defendant's process for General Motors infringed its patent. The court found infringement and awarded damages to plaintiff.¹¹

Defendant appealed the district court's decision determining that defendant's infringement was not willful and denying enhanced damages. The Federal Circuit affirmed the district court's decision denying willfulness. In evaluating defendant's infringement, the court noted that "the rules of patent infringement are rules of business ethics, and require prudent commercial actions in accordance with the law."¹² The court characterized willful infringement as a tort that arises "upon deliberate disregard for the property rights of the patentee."¹³ The court stated that "[t]he focus is generally on whether the infringer exercised due care to avoid infringement, usually by seeking the advice of competent and objective counsel, and receiving exculpatory advice."¹⁴ The court stated that "[w]hen it is found that the infringer acted without a reasonable belief that its actions would avoid infringement, the patentee has established willful infringement, which may be accompanied by enhanced damages."¹⁵ Here, the court determined that defendant had obtained legal advice after learning of the possible infringement. Plaintiff argued that defendant had already submitted an offer for the technology prior to obtaining an opinion of counsel, and that therefore defendant "knew that a lost foam casting system meeting the General Motors specifications would or could reasonably infringe plaintiff's patent, and that defendant took no steps to obtain the advice of counsel until it was notified of infringement."¹⁶ However, the court stated that while the question was close, there was no clear error in the district court's decision of no willfulness. The court stated that "[a]lthough defendant did not show that it obtained legal advice before submitting its bid, it acted promptly upon receiving notice of infringement, at a time when its bid had been accepted but no other infringing activity was shown."¹⁷

5. Competency of Opinion

In *Atmel Corp. v. Silicon Storage Tech., Inc.*,¹⁸ a California district court affirmed the jury's determination of willful infringement and awarded plaintiff Atmel enhanced damages. The court found that while defendant Silicon Storage had obtained an opinion from its lawyer, it was an oral opinion that necessarily carried less weight. In addition, the court found that at the time that the lawyer rendered the opinion he did not have all the information needed to render an opinion (e.g., the prosecution history), and thus the competency of the opinion was questionable.

These factors weighed against defendant Silicon Storage.

In *Tate Access Floors, Inc. v. Interface Architectural Resources, Inc.*,¹⁹ the Maryland district court denied plaintiff Tate's motion for summary judgment on willful infringement because while the defendant Interface's executive's infringement investigation was flawed and its counsel's opinion of noninfringement was brief, it was for a jury to determine whether the infringement was willful. Specifically, the noninfringement opinion was flawed in the following ways: it was less than a page in length, did not mention a previous court decision relating to another infringer of plaintiff's patents, and did not have a claim-by-claim comparison of the accused product. Further, the executive's investigation was flawed for a number of reasons including that he did not consider the previous court decision and had questionable credentials to interpret patents.

6. Failure to Obtain Opinion of Counsel

In *Smith Engineering Co., Inc. v. Eisenmann Corp.*,²⁰ the Federal Circuit commented that defendant Eisenmann's failure to obtain an opinion of counsel and instead rely on an "opinion" of noninfringement by its engineering department presented "a text book example of willful infringement."

Defendant Eisenmann appealed from the district court's denial of its post-trial motions after judgment on a jury verdict of willful infringement of plaintiff Smith Engineering's patent covering a rotary valve for a regenerative thermal reactor. Defendant appealed the district court's decision granting enhanced damages.

The Federal Circuit affirmed. The court noted that an officer of defendant had learned of the patent in 1994 and "forwarded the patent to the engineering department, which made the determination that the Eisenmann [product] did not infringe."²¹ The court noted that there was no evidence of opinion of counsel at trial, and commented that "[t]his presents a textbook example of willful infringement, and a [sic] instructive lesson on the need to consult legal counsel in evaluating the risk of patent infringement."²² The court commented that the jury's determination of willfulness and the court's decision to award enhanced damages were "clearly supported by the record."²³

In *Biotec Bio. Nat. & Co. v. Biocorp, Inc.*,²⁴ the Federal Circuit declined to reverse a finding that defendant Biocorp did not willfully infringe plaintiff Biotec's patent despite defendant's failure to obtain an opinion of counsel. In lieu of obtaining an opinion of counsel, defendant's CEO relied upon the advice of a renowned technical expert that defendant did not infringe plaintiff's patent. The Federal Circuit held that a determination of willfulness is based on the totality of the circumstances and that a failure to obtain an opinion of counsel "does not automatically require a finding of willful infringement." The court found reasonable the jury's verdict of no willfulness and sustained the verdict.

In *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*,²⁵ the Federal Circuit affirmed

a finding that defendant Tritech willfully infringed plaintiff's patents relating to analog-to-digital converter technology. Defendant did not obtain an opinion of counsel, but rather relied on its "not frivolous" defenses at trial to defend against plaintiff's allegation of willful infringement. In finding that the willful determination was not clearly erroneous, the Federal Circuit, in an opinion by Judge Rader, stated that "defenses prepared for a trial are not equivalent to the competent legal opinion of noninfringement or invalidity which qualify as 'due care' before undertaking any potentially infringing activity."²⁶ The Federal Circuit noted that Tritech had known of the patents in suit for several years before trial without seeking advice of counsel.

In *Golight, Inc. v. Wal-Mart Stores, Inc.*,²⁷ the Colorado district court found that defendant Wal-Mart willfully infringed plaintiff's patent relating to a remote-controlled searchlight, but did not order enhanced damages. The court based its willfulness finding in large part on the fact that defendant did not obtain an opinion of counsel after receiving a cease-and-desist letter from plaintiff. Instead, the only source that defendant contacted was its Hong Kong manufacturer, who responded in a one-page letter (apparently in broken English) "we are not making any product infringe anyone's patent."²⁸ The court stated:

However, it is undisputed that Wal-Mart took no action to curtail sales of the accused light after receiving the cease and desist letter, and produced no evidence that it obtained a legal opinion from anyone other than the manufacturer of the accused light. Wal-Mart apparently accepted this crudely drafted, cursory one-page letter from Innovative as all the assurance that it needed that it was not infringing.²⁹

The court declined to enhance damages because it was unable to determine that defendant's conduct was so egregious as to warrant enhanced damages.

7. Opinions of Counsel for Nonasserted, but Related Patents

In *Advanced Cardiovascular Sys. Inc. v. Medtronic, Inc.*,³⁰ the Federal Circuit upheld the district court's decision to exclude evidence of opinions of counsel obtained by defendant relating to several of plaintiff's patents that were not asserted at trial. While plaintiff originally asserted several patents against defendant, at trial plaintiff limited its infringement case to a single claim of a single patent. At trial, defendant chose not to waive privilege as to its opinion relating to the only patent remaining at issue, but sought to rely on its opinions relating to the two patents that plaintiff had withdrawn from the suit. The Federal Circuit upheld the district court's exclusion of these opinions and noted that "[a]dmitting the evidence in question, however, would potentially have allowed Medtronic, in addition to asserting privilege, to establish an inference that it acted in a legally reasonable manner with respect to the '233 patent. This would have prejudiced ACS."³¹ The Federal Circuit also affirmed the district court's authority to consider evidence not available to the jury in determining whether to enhance damages.

8. Scope of Waiver for Reliance on Opinions of Counsel

In *Novartis Pharmaceuticals Corp. v. Eon Labs Manufacturing, Inc.*,³² after defendant Eon decided to waive privilege to defend against plaintiff Novartis' charge of willful infringement, the Delaware district court granted plaintiff's motion to compel defendant to produce work-product materials that were utilized by defendant's lawyer for his opinion, but not communicated to defendant. Specifically, the court held that where a party has relied on the advice of counsel defense to a charge of willful infringement, that party has expressly waived its privilege with respect to attorney-client communications and work-product documentation. This waiver includes everything with respect to the subject matter of counsel's advice. "The Court recognizes that an alleged infringer could incur undue prejudice as a result of the scope of discovery required. Accordingly, in the future, the Court will consider separating the issues of willfulness and damages from the other patent issues."³³ The court further stated: "Specifically, by focusing on the waiver as the gateway for permissible discovery, the defense will most likely only be invoked by infringers who prudently and sincerely sought competent advice from competent counsel. Moreover, focusing on the infringer's waiver rather than state of mind may reduce the chances of legal gamesmanship creeping into the practice of rendering infringement and validity opinions."³⁴

Additionally, the court held that the infringer should have been compelled to produce all legal advice it received from any member of the counsel's law firm with regard to the subject matter of counsel's opinion. The court reasoned:

Eon has not only elected to engage in the unconventional and risky arrangement of having opinion and trial counsel from the same law firm, but Eon's opinion counsel, Mr. Pontani, has actually entered an appearance in this matter. Because the Court cannot differentiate between opinion and trial counsel, the Court will grant Novartis' Motion To Compel to the extent it seeks the production of all legal advice Eon received from the Cohen, Pontani law firm relating to the subject matter of Mr. Pontani's opinion.³⁵

In *Allergan Inc. v. Pharmacia Corp.*,³⁶ the Delaware district court granted patentee's motion to compel production of documents and testimony relating to all opinions the alleged infringer had relating to the patent in suit and not just the opinions the infringer chose to rely upon. The court found that information relating to all opinions was relevant to the issue of the reasonableness of the alleged infringer's reliance on the opinions.

In *Motorola, Inc. v. Vosi Tech., Inc.*,³⁷ an Illinois district court ordered discovery relating to opinions other than the specific opinion relied upon by defendant Vosi to the extent that the opinions involved construction of the same or related patents. The construction of the same patent in other opinions was relevant to the reasonableness of the infringer's reliance on the opinions. The court denied discovery relating to post-suit opinions rendered by trial counsel. The issue of willfulness is dependent on the advice the infringer received before litigation commenced, not on its post-litigation activities.

In *Solaia Technology LLC. v. Jefferson Smurfit Corp.*,³⁸ an Illinois district court denied plaintiff Solaia's motion to compel defendant Smurfit to indicate whether it intended to rely on opinions of counsel to defend against plaintiff's claim of willful infringement, and if so, to produce those opinions. The parties essentially agreed that defendant did not have knowledge of the patents prior to filing the complaint. Thus defendant indicated that it would not rely on advice of counsel for pre-complaint willfulness. Instead it intended to argue that it did not have knowledge of the patents. The motion to compel related to opinions of counsel obtained by defendant after filing the complaint. With respect to these opinions, the court stated: "we believe that it is premature to order Smurfit to produce any post-complaint attorney opinions, since we are not convinced they are relevant to the case. If Smurfit's post-complaint conduct becomes relevant in the future, we may revisit the issue."³⁹

In *Vlt, Inc. v. Artesyn Technologies, Inc.*,⁴⁰ in granting a motion to compel documents relating to advice of counsel defense, the Massachusetts district court ruled that plaintiff Vlt was entitled to: (1) production of all documents that defendant Artesyn provided to the authors of the opinion letters and all documents that the authors of the opinion letters furnished to defendant, at least up until the time each opinion letter was written; and (2) all documents in the custody, control, and/or possession of defendant that were either documents generated by defendant or documents received by defendant up to the date the last opinion letter was authored, that in any way related to whether the patent was valid or invalid, and whether defendant infringed the patent. However, the court held that defendant did not need to produce any documents generated by defendant's present trial counsel and disclosed to defendant if: (1) those documents contain the "mental impressions, conclusions, opinions or legal theories" of defendant's present trial counsel and (2) those "mental impressions, conclusions, opinions or legal theories" of present trial counsel are consistent with the opinion letter[s] and do not, in any respect, contradict the opinion letter or recite facts which cast doubt on the opinion letter and/or the bases of the opinions contained in the opinion letter.

In *Michlin v. Canon, Inc.*,⁴¹ a Michigan district court granted plaintiff Michlin's motion to compel discovery from defendant Canon's trial counsel of facts relating to opinions of counsel relied on by defendant in defense of a claim of willful infringement. The defendant used the same firm as opinion counsel and trial counsel and obtained an opinion after suit was filed. The defendant also engaged in obstructive discovery practices, first denying the existence of any relevant documents and then producing a redacted opinion memo after the close of discovery. The court noted that its analysis of what work product documents would need to be produced would have been simplified if trial counsel were not opinion counsel. The court held that, in addition to documents communicated to the client, the defendant had to produce "internal memoranda related to the preparation of the opinion letter, drafts of the opinion letter, and documents dealing with validity of the patents, and discussions with the

client with respect to these issues, and all documents relating to the opinions upon which defendants intend to rely.”⁴²

The court also commented on defendant’s efforts to use a lawyer at the same firm different from the trial counsel as opinion counsel, stating:

[n]either can counsel play cute by carefully circumscribing information given to the lawyer in the firm who wrote the opinion, and funneling the information given him through other lawyers in the firm to avoid the concept of ‘communications between the client and attorney.’ If a draft opinion is prepared and given to Mr. Klock or Mr. O’Brien who reviews in light of trial strategy before it is given to the client and then sends it back for redrafting if it is a little weak or inconsistent with the trial strategy, plaintiffs have a right to know this. It bears on the independence, competence, analysis, credibility, and value of the opinion.⁴³

9. Courts’ Discretion to Award Enhanced Damages

In *Riles v. Shell Exploration and Production Co.*,⁴⁴ the Federal Circuit affirmed the district court’s decision to deny enhanced damages in a case in which a jury found willful infringement.

Defendant Shell appealed a jury verdict in favor of plaintiff Riles for infringement of a patent covering the construction and installation of fixed offshore platforms for oil drilling. The jury found willful infringement by defendant, but the district court denied enhanced damages.

On appeal, the Federal Circuit upheld the infringement decision, and stated that “a finding of willfulness does not mandate enhanced damages.”⁴⁵ The court stated that “[d]espite record evidence that Shell copied the ‘918 patent, the district court found that the issues of infringement, damages, and willfulness were close questions.”⁴⁶ The court stated that “after balancing all of the factors, enhanced damages was not proper.”⁴⁷ The Federal Circuit also considered Shell’s “litigation behavior,” and concluded that the district court had not abused its discretion in denying enhanced damages.

In *Transclean Corp. v. Bridgewood Services, Inc.*,⁴⁸ the Federal Circuit affirmed the district court’s decision to deny enhanced damages in a case in which a jury found willful infringement.

Plaintiff Transclean appealed a judgment of the district court reversing entry of a damages award for infringement of its patent covering an automatic transmission fluid changing apparatus, and denying its motion for enhanced damages. The jury determined that defendant Bridgewood had willfully infringed the patent. Plaintiff established at trial that defendant was aware of the patent and did not obtain an opinion of counsel nor did it cease manufacture or sale of the infringing machines. In response, defendant argued that “it obtained its own patent on an automatic transmission fluid changing machine demonstrating a good faith belief that it was not an infringer.”⁴⁹ Defendant argued that “when it received advice from its patent attorney concerning the patentability of its invention over the ‘080 patent, it received an implicit opinion of noninfringement.”

The Federal Circuit determined on appeal that the district court had acted within its discretion in denying enhanced

damages. The court noted that there are various factors relevant to determining whether enhanced damages should be awarded, including: “(1) deliberate copying; (2) infringer’s investigation and good faith belief in validity or non-infringement; (3) litigation conduct; (4) infringer’s size and financial condition; (5) closeness of the case; (6) duration of the misconduct; (7) remedial action by the infringer; (8) infringer’s motivation for harm; and (9) concealment.”⁵⁰ The Federal Circuit found no abuse of discretion by the district court. The Federal Circuit stated that “[i]n this case, the court considered the pertinent . . . factors carefully, . . . and although we may or may not have reached a different conclusion if we had been in the district court’s shoes, we wear our own shoes.”⁵¹

In *Electro Scientific Indus., Inc. v. General Scanning, Inc.*,⁵² the Federal Circuit held that the district court’s denial of enhanced damages after the jury found willful infringement was not an abuse of discretion. At trial, defendant introduced evidence of reliance on an oral opinion of counsel and a later written opinion of counsel that the patent relating to a method for making semiconductor substrates was invalid. In response, plaintiff put forth evidence, in the form of testimony from defendant’s CEO and patent counsel, that defendant did not rely on the opinions of counsel. In support of its decision not to enhance damages, the district court found these statements open to more innocent, less egregious interpretations than those offered by plaintiff. In affirming this decision, the Federal Circuit stated: “[a]lthough substantial evidence supports the jury verdict of willfulness, the district court retained authority to reweigh the competency of General Scanning’s opinion of counsel and General Scanning’s reliance on that opinion.”⁵³

Conclusion

The case law discussed above demonstrates the wide range of discretion held by the district trial courts in deciding whether to grant enhanced damages for willful infringement. However, the case law also provides some guidance to alleged infringers on how to take steps to avoid willful patent infringement. Patent lawyers are encouraged to monitor the case law so that they can take effective measures to protect their clients from enhanced damages for patent infringement.

Endnotes

1. *See* *Novartis Pharm. Corp. v. Eon Labs Mfg., Inc.*, 206 F.R.D. 396 (D. Del. 2002); *see also* *Michlin v. Canon, Inc.*, 208 F.R.D. 172 (E.D. Mich. 2002).

2. *Chiron Corp. v. Genentech, Inc.*, 2002 U.S. Dist. LEXIS 19,185 (E.D. Cal. 2002).

3. *See supra* *Novartis Pharmaceuticals Corp.*, 206 F.R.D. 396 (broad waiver); *but see* *Vlt, Inc. v. Artesyn Tech., Inc.*, 198 F. Supp. 2d 56 (D. Mass. 2002) (more narrow waiver).

4. *Riles v. Shell Exploration and Prod. Co.*, 298 F.3d 1302, 63 U.S.P.Q.2d 1819 (Fed. Cir. 2002); *Transclean Corp. v. Bridgewood Serv., Inc.*, 290 F. 3d 1364, 62 U.S.P.Q.2d 1865 (Fed. Cir. 2002); *Electro Scientific Indus., Inc. v. General Scanning, Inc.*, 247 F.3d 1341 (Fed. Cir. 2001).

5. *Nikken USA, Inc. v. Robinsons-May, Inc.*, 2002 U.S. App. LEXIS 23,884, 65 U.S.P.Q.2D (BNA) 1611 (Fed. Cir. 2002) (unpublished opinion).

6. *Tanashin Denki Co., Ltd. v. Thomson Multimedia, Inc.*, 2002

U.S. Dist. LEXIS 14,598 (S.D. Ind. 2002).

7. Wesley Jessen Corp. v. Bausch & Lomb, Inc., 209 F. Supp. 2d 348 (D. Del. 2002), *aff'd*, 2003 U.S. App. LEXIS 4126 (Fed. Cir. 2003).

8. *Id.* at 391.

9. Chiron Corp. v. Genentech, Inc., 2002 U.S. Dist. LEXIS 19185 (E.D. Cal. 2002).

10. Vulcan Eng'g v. FATA Aluminum, Inc., 278 F. 3d 1366, 61 U.S.P.Q.2d 1545 (Fed Cir. 2002).

11. *See id.* at 1370–71, 61 U.S.P.Q.2d at 1546–47.

12. *Id.* at 1378, 61 U.S.P.Q.2d at 1553.

13. *Id.*

14. *Id.*

15. *Id.*

16. *Id.* at 1379, 61 U.S.P.Q.2d at 1553.

17. *Id.*

18. Atmel Corp. v. Silicon Storage Tech., Inc., 202 F. Supp. 2d 1096 (N.D. Cal 2002).

19. Tate Access Floors, Inc. v. Interface Architectural Res., Inc., 185 F. Supp. 2d 588 (D. Md. 2002).

20. Smith Eng'g Co., Inc. v. Eisenmann Corp., 2002 U.S. App. LEXIS 905 (Fed. Cir. 2002) (unpublished opinion).

21. *Id.* at 2.

22. *Id.*

23. *Id.*

24. Biotech Bio. Nat. & Co. v. Biocorp, Inc., 249 F.3d 1341 (Fed. Cir. 2001).

25. Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc., 246 F.3d 1336 (Fed. Cir. 2001).

26. *Id.* at 1352.

27. Golight, Inc. v. Wal-Mart Stores, Inc., 216 F. Supp. 2d 1175 (D. Colo. 2002).

28. *Id.* at 1185.

29. *Id.*

30. Advanced Cardiovascular Sys. Inc. v. Medtronic, Inc., 265 F.3d 1294 (Fed. Cir. 2001).

31. *Id.* at 1309.

32. Novartis Pharm. Corp v. Eon Labs Mfg., Inc., 206 F.R.D. 396 (D. Del. 2002).

33. *Id.* at 398 n.2.

34. *Id.* at 399.

35. *Id.*

36. Allergan Inc. v. Pharmacia Corp., 2002 U.S. Dist. LEXIS 19811 (D. Del. 2002).

37. Motorola, Inc. v. Vosi Tech., Inc., 2002 U.S. Dist. LEXIS 15655 (N.D. Ill. 2002).

38. Solaia Tech. LLC v. Jefferson Smurfit Corp., 2002 U.S. Dist. LEXIS 14562 (N.D. Ill. 2002).

39. *Id.* at *8.

40. Vlt, Inc. v. Artesyn Tech., Inc., 198 F. Supp. 2d 56 (D. Mass. 2002).

41. Michlin v. Canon, Inc., 208 F.R.D. 172 (E.D. Mich. 2002).

42. *Id.* at 174.

43. *Id.*

44. Riles v. Shell Exploration and Prod. Co., 298 F.3d 1302, 63 U.S.P.Q.2d 1819 (Fed. Cir. 2002).

45. *Id.* at 1314, 63 U.S.P.Q. 2d at 1827

46. *Id.*

47. *Id.*

48. Transclean Corp. v. Bridgewood Services, Inc., 290 F. 3d 1364, 62 U.S.P.Q.2d 1865 (Fed. Cir. 2002).

49. *Id.* at 1377, 62 U.S.P.Q.2d at 1874.

50. *Id.* at 1377–78, 62 U.S.P.Q.2d at 1875.

51. *Id.* at 1378, 62 U.S.P.Q.2d at 1875.

52. Electro Scientific Indus., Inc. v. General Scanning, Inc., 247 F.3d 1341 (Fed. Cir. 2001).

53. *Id.* at 1354.

From the Editors

(continued from page 2)

prised by the outcome of this case—especially in view of the fact that the Court left us with little guidance as to how to prove dilution under the FTDA. Instead, the Court has simply left owners of famous marks with a higher burden of proof, whatever that might be.

Lisa A. Dunner

Endnotes

1. *Moseley v. V Secret Catalogue, Inc.*, No. 01-1015, slip op. (Mar. 4, 2003).

2. The Fourth Circuit concluded that the plaintiff must suffer and show “actual present injury” from dilution. *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Dev.*, 170 F.3d 449 (4th Cir. 1999); The Fifth Circuit followed the Fourth Circuit, and the Second and Seventh Circuits concluded that a “likelihood of injury” standard was more appropriate. *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999); *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456 (7th Cir. 2000).

3. *Moseley*, slip op. at 14.

4. *Moseley v. V Secret Catalogue, Inc.*, No. 3:98CV-395-S (W.D. Ky. Feb. 9, 2000), App. to Pet. for Cert. 28a, 37a.

5. *Id.*

6. *Id.*

7. *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464 (6th Cir. 2000); *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev.*, 170 F.3d 449 (1999).

8. *Ringling*, 170 F.3d at 461.

9. *Nabisco*, 191 F.3d at 208.

10. *V Secret*, 259 F.3d at 477.

11. *Moseley*, slip op. at 14.

12. *Id.*

13. *Id.*

14. *Id.*

15. *Moseley*, slip op. at 15.

16. *Moseley*, slip op. at 2 (Kennedy, J., concurring).

17. *Id.*

Troublesome Issues Facing Prosecuting Litigators and Their Firms

BY DAVID HRICIK



David Hricik

I. Introduction

Clients of patent practitioners face a tremendous challenge because they have needs that often require an intricate knowledge of a narrow area of technology. A client does not want to pay to educate more than one lawyer on its technologies unless necessary.

But using one lawyer to do two jobs creates risks—for the client, as well as the lawyer. A lawyer who litigates patents he has prosecuted, for example, can be disqualified by the lawyer-as-witness rule. A lawyer who prosecutes patents also can be faced with efforts by the accused infringer to prevent the lawyer from having access to “trade secrets” disclosed by the infringer—ostensibly to prevent the lawyer from misusing those secrets to the benefit of the lawyer’s client’s prosecution activities. Even the act of a lawyer negotiating a license on a patent that he has obtained may implicate ethical rules, according to some.

This article addresses these and other conflicts that arise when patent practitioners wear more than one hat.

II. Choice of Law

The Federal Circuit has created a distinction where regional circuit law applies to “procedural” issues, but Federal Circuit law applies to “patent” issues. As noted more fully below, some of the issues presented here implicate this choice of law issue.

The Federal Circuit applies regional circuit law to procedural matters “that are not unique to patent issues.”¹ However, procedural matters that “are related to patent issues” are governed by Federal Circuit law.² A procedural issue is related to patent issues where it (1) is itself a “substantive patent law” issue; (2) “pertain[s] to patent law;” (3) “bear[s] an essential relationship to matters committed to [the Federal Circuit’s] exclusive control by statute;” or (4) “clearly implicate[s] the jurisprudential responsibilities of [the Federal Circuit] in a field within its exclusive jurisdiction.”³

III. Prosecuting Litigators

A practitioner who litigates patent infringement suits as well as prosecutes applications faces at least these possibilities: (1) being accused of using trade secrets of the accused infringer to obtain a patent for his client; (2) being precluded from having access to critical information dis-

closed by the accused infringer during litigation on the basis that the lawyer might inevitably disclose the information while prosecuting patents for his client; (3) being precluded from prosecuting applications for a period of time as a result of having access to information disclosed by another party during litigation; (4) being accused of failing to represent adequately his client where his conduct before the Patent Office is in issue as a result of an allegation of inequitable conduct; and (5) being disqualified by the lawyer-witness rule, at least in the limited circumstance of where the practitioner is litigating a patent he prosecuted.

The first three are related, as are the last two, and so they are grouped together below.

A. *Misusing Trade Secrets and “Preventing” That Accusation*

A prosecuting litigator may be accused of having used information disclosed during discovery to obtain a patent on behalf of his client. If a lawyer is prosecuting applications in a highly specialized area of technology on behalf of his client and obtaining proprietary information from a third-party as a result of infringement litigation involving it, the third party may either later accuse the lawyer of using the information to inappropriately obtain a patent for his client, or will seek to prevent that from happening by seeking a protective order that prevents the lawyer from having access to that information in the first place. Or, the party may seek to “enjoin” the practitioner from prosecuting patents in the field during the litigation and for one year afterward.⁴

There is a noticeable split in the courts as to how to approach the issue of whether a litigator should be precluded from having access to information, or barred from prosecuting for a time, because of his prosecution activities.

It is settled that in-house counsel who are engaged in “competitive decision-making” can be denied access to certain discovery. The split grows from whether courts should treat outside patent counsel as if they are involved in “competitive decision-making” by reason of their prosecution activities.⁵

The issue in the context of prosecution also implicates the inevitable disclosure doctrine.⁶

Putting aside for the moment the question of what standards govern whether lawyers should be denied access to information during discovery, the prosecutor takes the risk that if he gains access, he will be accused of having used the information for the benefit of this client.

This issue, in the context of pure-prosecution practice, has already resulted in substantial liability. Professor Lisa Dolak reports on two recent cases:

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In June, 2001, ASAT Holdings, Ltd. (“ASAT”), a Hong Kong corporation with a U.S. subsidiary, filed an action asserting negligence and breach of fiduciary duty claims against Skjerven Morrill MacPherson LLP (“SMM”), based on SMM’s alleged simultaneous representation of ASAT and Amkor Tech., Inc. (“Amkor”) - ASAT’s ‘direct competitor’ in patent prosecution matters relating to ‘virtually the same invention.’ Specifically, ASAT alleges that: (1) from 1994 until September 2000, it was represented by SMM in prosecuting patent applications relating to integrated circuit packages; (2) ‘(c)oncurrent with its representation of ASAT, SMM also represented ASAT’s direct competitor, Amkor, with regard to the filing of patent applications,’ in particular, an Amkor patent application that issued in November 2000 (“the Amkor patent”); (3) ‘SMM’s representation of Amkor in the prosecution of (the Amkor patent) began after it was already representing ASAT in connection with a patent application directed to an invention virtually identical to claims in (the Amkor patent);’ and (4) prior to the issue date of the Amkor patent, ‘ASAT was unaware of SMM’s representation of Amkor in connection with patent rights relating to integrated circuit package technology.’ ASAT contends that by representing Amkor in the circumstances described, SMM ‘created a risk of disclosure and misuse of ASAT’s confidential information’ and ‘took positions in the prosecution of (the Amkor patent) adverse to the interests of ASAT.’ ASAT further accuses SMM of ‘fail(ing) to implement sufficient conflict-avoidance procedures,’ and alleges that ASAT’s marketing efforts, market position, and sales have been hampered as a result of SMM’s conduct.

In another recent case, a California attorney and firm were sued for trade secret misappropriation, in addition to breach of duty, based on their representation of competitors in patent matters. Caliper Technologies Corp. (“Caliper”) alleged that it sought advice from attorney Bertram Rowland (“Rowland”) and his firm, Flehr, Hohbach, Test, Albritton & Herbert (“Flehr, Hohbach”), on patent and other intellectual property matters in late 1995 and early 1996. It further alleged that “pursuant to the attorney-client relationship, and in order to accomplish the purposes for which the attorneys had been retained, Caliper provided its trade secrets” to Rowland and Flehr, Hohbach, including ‘sensitive and highly confidential information about Caliper’s products, technology, markets, intellectual property, and strategies.’ Over two years later, according to Caliper, it learned of a patent (the “‘015 patent”) that had recently been issued to a third party, Aclara Biosciences, Inc. (“Aclara”), in which the ‘015 patent application was prepared by Rowland and Flehr, Hohbach and filed in March, 1996, ‘shortly after Caliper’s trade secrets . . . were provided to Rowland and Flehr, Hohbach,’ and that ‘(e)lements of the ‘015 patent are similar to features of Caliper technology and other trade secrets which were disclosed in confidence to Rowland and Flehr, Hohbach as part of their legal representation.’ Caliper alleged that the defendants were liable for breaching their duty of confidentiality because the defendants disclosed Caliper’s confidences, thereby violating Rule 3-310(E) of the Rules of Professional Conduct of the State Bar of California, which provides that ‘(a) member shall not, without the informed written consent of the client or former client, accept employment adverse to the client or former client where, by reason of the representation of the client or former client, the member has obtained confidential information material to the employment.’ Furthermore, Caliper specifically accused the defendants of using Caliper’s trade secrets ‘in the preparation and submission of’ Aclara’s patent application.

Rowland and Flehr, Hohbach reportedly settled Caliper’s claims for \$12 million. A jury found Aclara liable and awarded damages to Caliper based upon its finding that Aclara had misappropriated Caliper’s trade secrets. The court subsequently enjoined Aclara from asserting the ‘015 patent against Caliper, but refused Caliper’s request that the court impose a constructive trust and transfer ownership of the ‘015 patent to Caliper, finding that ‘(n)o particular invention or specific trade secret of Caliper’s has been shown to have been incorporated into any claim in the patent’⁷

Obviously, these cases arose in the context of firms prosecuting applications for competitors, not litigating-prosecutors. However, the potential for the same sort of liability ostensibly exists for prosecuting litigators who acquire competitors’ proprietary information while conducting discovery.

If the prosecuting litigator is willing to accept the risk of gaining third-party secrets during litigation while prosecuting applications in related fields, his opponent may still be able to prevent the prosecuting litigator from doing so. The courts split on exactly when, however, a prosecuting litigator should be denied access to trade secret or other proprietary information of a competitor during federal court litigation.

On the one hand, the Federal Circuit in an unpublished decision denied a petition for mandamus where a district court had refused to enter a protective order denying outside patent counsel access to discovery provided by a competitor in an infringement suit.⁸ In that case, the patent-in-suit involved cell surface receptors and protein and assay methods. The prosecuting litigator testified that he prosecuted patents in that area for fifty other clients, and that he filed applications “after market decisions” had already been made by his client.

The district court refused to enter a protective order precluding the prosecuting litigator from having access to the competitor’s most sensitive discovery responses. The Federal Circuit refused to grant a petition for mandamus. In doing so, it stated that the issue was one that implicated the inevitable disclosure doctrine, and to determine whether denial of access was appropriate, “the factual circumstances surrounding each counsel’s activities, association, and relationship with a party, whether counsel be in-house or retained, must govern any concern for inadvertent or accidental disclosure.” Hence, activity in the client’s “competitive decision-making” was a basis for denying access.

The court, as a result, rejected denying access merely because the litigator prosecuted patents, stating instead that the “facts, not the category, must inform the result.” Patent prosecution does not by itself require denial of access to information—it does not mean the prosecuting attorney is a “competitive decision-maker.” The court denied the petition for mandamus because there was no evidence that counsel was involved in pricing or product design and because denying access would result in substantial hardship to the prosecuting litigator’s client.

Other courts have agreed with the Federal Circuit’s observation that prosecuting patents does not a competitive decision-maker make.⁹

The court in *Nazomi* was perhaps the sternest, reasoning that if it entered a protective order prohibiting misuse of information disclosed during litigation, that was sufficient. Otherwise, it would “presume that attorneys are unable to abide by both the terms of the protective order and the Rules of Professional Conduct.”¹⁰

But other district courts have either entered protective orders restricting access to information or enjoined (in so many words) the litigator from prosecuting applications in “related” areas for a period of time. These courts often appeared to find prosecution to be enough to warrant such relief.¹¹

The correct resolution of this issue may depend on whose law controls. If the Federal Circuit’s law controls, then (though it is obviously not binding) *Sibia* suggests that unless outside counsel is involved in pricing or product design, counsel is not involved in “competitive decision-making.” If regional law applies, then whether a prosecuting litigator can be disqualified turns, apparently, on state trade secret law concerning the inevitable disclosure doctrine.

B. The Lawyer-as-Witness Rule and the Prosecuting Litigator

Normally, a prosecuting lawyer need not be a witness in a patent case. However, where an accused infringer makes a charge of inequitable conduct, and perhaps in other circumstances, it may be necessary for the lawyer to testify.

District courts have reasoned that assertions of inequitable conduct can be used to disqualify counsel, believing that if the lawyers representing the party accused of inequitable conduct are the same lawyers who represented the client in the patent prosecution, then the party asserting inequitable conduct will often move to disqualify those attorneys.¹²

State rules governing the lawyer-as-witness rule do vary. However, in jurisdictions following the majority interpretation of the ABA Model Rules of Professional Responsibility, disqualification should result in few cases.

First, even if the prosecuting lawyers were witnesses at trial, only the attorneys who personally prosecuted the patent would be disqualified—not other members of their firm.¹³ Only if there is a conflict of Model Rules 1.7 or 1.9 are members of the testifying lawyer’s firm disqualified.¹⁴ Due to specialization of lawyers, it will be seldom be the case that a lawyer who prosecuted the patent-in-suit also serves as trial counsel. In my experience, that has never occurred.

Second, even those lawyers who were disqualified because of personal involvement in prosecution are disqualified only from actually appearing before the jury at trial. When Model Rule 3.7(a) disqualifies a lawyer-witness, it does so only from “act[ing] as an advocate at trial.”¹⁵ The only disqualification that most courts now impose on lawyers who are disqualified under the lawyer-witness rule is that such lawyers may not serve as trial counsel, and then the proscription exists only where trial is to the jury. Accordingly, even a disqualified lawyer would arguably be free to conduct discovery, argue dispositive motions, control and direct the lawsuit, and handle any appeal.

Further, assuming participation at trial by a lawyer who

had prosecuted the patent was critical, inequitable conduct presents no jury issues.¹⁶ Under those circumstances, a separate trial to the judge alone—where the lawyer-witness may ethically testify—may be used to obviate any ethical issues.¹⁷

Finally, even in those few cases where the prosecuting attorney is also trial counsel and separate trials are not possible, the fact is that it is extremely unlikely that the lawyer will ever testify in court. Like all civil cases, the vast majority of patent cases settle prior to trial.¹⁸ It is very unlikely that the lawyer-witness rule will ever require disqualification at trial.

IV. Conclusion

A lawyer who wears multiple hats for a client no doubt does so because the client perceives that the lawyer has knowledge, expertise, or experience that makes the lawyer’s performance of multiple tasks cost-effective. However, the client may not understand the risks attendant to the performance of multiple tasks. Clients need to be informed, at the appropriate time, about the potential downsides of performing multiple tasks.

Endnotes

1. *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574–75 (Fed. Cir. 1984).

2. *Id.* at 1575 n.14.

3. *Bose Corp. v. JBL, Inc.*, 274 F.3d 1354, 1360 (Fed. Cir. 2001). See *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360 (Fed. Cir. 1999).

4. See, e.g., *Nazomi Communications, Inc. v. U.S. Dist. Court for the Northern District of Cal.*, 2002 U.S. Dist. LEXIS 21400 (Oct. 11, 2002) (also seeking to prevent lawyers from negotiating licenses in the field).

5. See generally Julia S. Ferguson, Charles F. Haisch, Alan H. Macpherson, *Conflicts in Intellectual Property Law: A Brief Survey*, 616 PLI/Pat 539, 580–83 (2000); Lisa Dolak, *As if You Didn’t Have Enough to Worry About: Current Ethics Issues for Intellectual Property Practitioners*, 82 J. PAT. & TRADEMARK OFF. SOC’Y 235, 255 (2000).

6. See *U.S. Steel Corp. v. United States*, 730 F.2d 1465, 1468 (Fed. Cir. 1984).

7. Lisa Dolak, *Recognizing and Resolving Conflicts of Interest in Intellectual Property Practice*, 42 IDEA 453, 468–71 (2002) (footnotes omitted).

8. *In re Sibia Neurosciences, Inc.*, 1997 U.S. App. LEXIS 31828 (Fed. Cir. Oct. 22, 1997).

9. E.g., *Nazomi Communications, Inc. v. U.S. Dist. Court for the Northern District of Cal.*, 2002 U.S. Dist. LEXIS 21400 (Oct. 11, 2002); *Interactive Coupon Marketing Group, Inc. v. H.O.T.! Coupons, Inc.*, 1999 WL 409990 (N.D. Ill. June 7, 1999) (“The court is not persuaded that it is appropriate to disqualify patent prosecution counsel from an active role in its client’s litigation as a matter of course.”), *mod.*, 1999 WL 618969 (N.D. Ill. Aug. 9, 1999). See also *In re Certain Magnetic Switches for Coaxial Transmission Lines and Products Containing Same*, 1993 ITC LEXIS 143 (Int’l Trade Comm’n Mar. 2, 1993) (“it is not required that counsel cease involvement in patent prosecutions, even in areas of related subject matter, in order to gain access to confidential business information.”).

10. *Nazomi*, 2002 U.S. Dist. LEXIS 21400 at *8.

11. E.g., *In re Papst Licensing, GmbH, Patent Litig.*, 2000 U.S. Dist. LEXIS 6374 (E.D. La. 2000) (enjoining prosecution of patents related to patent-in-suit); *Medtronic, Inc. v. Guidant Corp.*, 2001 U.S. Dist. LEXIS 22805 (D. Minn. Dec. 19, 2002) (“prosecuting

patents is distinct from other legal duties and presents unique opportunities for inadvertent disclosure”); *Motorola, Inc. v. Interdigital Tech. Corp.*, 1994 U.S. Dist. LEXIS 20714 (D. Del. 1994) (in entering injunction against prosecuting related applications until one year after suit ended, court rejected attorneys’ arguments that, though “theoretically possible for them to abuse the confidential information received, . . . they understand their ethical duty and will act in conformance with it.”).

12. *Chiron Corp. v. Abbott Labs.*, 31 U.S.P.Q.2d 219 (N.D. Cal. 1994). See *Sun Microsystems, Inc. v. Dataram Corp.*, 1997 WL 50272, *4 (N.D. Cal. Feb. 4, 1997) (citing “inherent dangers” of inequitable conduct defense as including “attorney disqualification”).

13. ABA Model Rule 3.7(b).

14. See generally *Kubin v. Miller*, 801 F. Supp. 1101 (S.D.N.Y. 1992) (firmwide disqualification is “extremely harsh” and should be limited); RESTATEMENT (THIRD) LAW GOVERNING LAWYERS § 108, cmt. i (a lawyer affiliated with the disqualified lawyer “may serve as advocate...so long as the representation would not involve a conflict of interest...”).

15. See ABA Comm. on Ethics and Professional Responsibility Informal Op. 89-1529 (1989) (lawyer may conduct pre-trial proceedings). See also ABA Comm. on Ethics and Professional Responsibility Informal Op. 83-1503 (1983) (lawyer may handle appeal).

16. *Gardco Mfg., Inc. v. Herst Lighting Co.*, 820 F.2d 1209 (Fed. Cir. 1987) (holding there is no right to jury trial on any aspect of inequitable conduct).

17. See generally *id.* (noting availability of separate trials).

18. See Edward G. Poplawski, *Selection and Use of Experts in Patent Cases*, 27 AM. INTELL. PROP. L.Q.J. 1, 3 (1999) (noting that more than 90% settle).

Jurisdiction and the Internet

(continued from page 9)

40. 289 F.3d 865 (6th Cir. 2002).

41. The “purposeful availment” test for specific personal jurisdiction is a means of demonstrating “minimum contacts” with the forum state (i.e., “some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its laws.”). *Asahi Metal Indus. Co. v. Superior Court of California*, 480 U.S. 102, 109 (1987).

42. 318 F.3d at 450.

43. *Id.* at 454–55.

44. *Id.* at 448.

45. *Id.* at 455.

46. *Id.* at 448, 456.

47. *Id.* at 452.

48. *Id.* at 454.

49. See *Zippo*, 952 F. Supp. at 1124.

50. *Toys ‘r’ Us*, 318 F.3d at 451–52.

51. *Id.* at 453 (emphasis added).

52. See *id.* at 452–53 (summarizing case law from various circuits “expressly incorporat[ing]” the intentionality requirement).

53. See 289 F.3d at 872.

54. *Id.*

55. *Id.*

56. *Id.* at 875.

57. *Id.*

Procedures to Protect Intellectual Property Assets and Reduce Litigation Risk

BY JOSEPH D. YAO AND ROBERT F. REILLY



Joseph D. Yao



Robert F. Reilly

Introduction

For many companies, intellectual property (IP) assets have grown to be a significant portion of a company's value. This growth has spurred companies to look for ways to protect their IP. This article provides specific procedures that can be used to reduce the client's exposure to IP litigation risk and increase the probability of a successful outcome if IP litigation does occur.

This discussion focuses on how these procedures can improve the internal control regarding IP and the probability of a successful outcome in the event of IP controversies.

For this discussion, the term "IP" means the intangible assets of (1) copyrights; (2) trademarks; (3) patents; and (4) trade secrets, including patent applications, trade dress, engineering drawings and technical documentation, computer software, and all of the contractual rights related to IP exploitation. The term "IP owner" includes owners, developers, inventors, licensors, joint venturers, and others with a direct or indirect ownership interest in IP.

IP owners are subject to numerous controversies that often evolve into litigation, such as infringement matters, contract disputes, license disputes, breach of noncompete/confidentiality agreements, taxation claims, eminent domain/expropriation issues, bankruptcy matters, and others. The following procedures are intended to decrease the probability that IP controversies result in litigation and increase the probability that the IP owner will be successful if litigation cannot be avoided.

Practical Procedures to Protect Intellectual Property

Procedure One. IP owners should document the existence of all of their intellectual property. The first step is to inventory all IP, which involves (1) listing all IP, (2) describing each IP asset on the listing, and (3) recording all IP registration information. Registration information should include: country/agency of registration, registration number, and original/renewal/expiration registration date. This listing should include both domestic and international registrations.

The second step in this inventory procedure is to document

the development process for each IP asset. To the extent that the data are available, this documentation should include: (1) dates of the initial development phase, (2) individuals/departments responsible for development, and (3) information regarding development expenditures (both internal and external).

The inventory procedure should document both developed IP and IP currently under development. This procedure should document all owned IP and, to the extent possible, all licensed IP (both inbound and outbound licensed). Software databases for IP inventory are available.

Procedure Two. IP owners should centralize both the inventory and the ownership of all IP. The first step in this procedure is to centralize all IP documents (i.e., registrations, licenses, important correspondence, etc.) in one location. This centralized location could be the corporate accounting department or legal department; it could also be a plant engineering department or the field marketing department. The point is that all important IP documentation should be centralized in one place.

The second step is to centralize all IP ownership in one country (or at least a few select countries). Ownership of all domestic IP should be centralized in one state. The IP owner should investigate forming a single (typically corporate) entity to hold all of the IP. Many IP owners form a wholly owned holding company to own and control all of its current and future IP. This structure typically requires separate license agreements between the holding company and the operating companies for the use of the subject IP. While drafting these intercompany licenses involves some effort, this procedure actually helps to document the existence and economic validity of the IP.

Procedure Three. IP owners should make one person ultimately responsible for all IP. This person could be a research and development director, the intellectual property counsel, the company controller, and others. Obviously, other employees who are familiar with the IP development, registration, commercialization, and licensing work can be selected. The selected responsible person does not need to be located in the same location as the above-described IP inventory. However, this employee should be personally responsible for omniscience about the IP and protection of the IP. This responsible person should be known to all individuals involved with IP activities within the organization.

Procedure Four. IP owners should identify the person who is directly responsible for the development/maintenance of each IP asset. For each IP asset, the company should identify one person who is directly responsible for its technical development, physical safekeeping (of documentation, etc.), and commercial exploitation. There likely will be many individuals who are involved with the development/commercialization

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of each IP asset. Of these many individuals, however, the IP owner should select one person to be the responsible party for each IP asset. And, in a large organization with many IP assets, there could be dozens (or hundreds) of employees designated as “the” responsible person for one or more of them.

The IP owner should create and widely distribute the list of the responsible persons that is organized by IP. Based on this list, the manager with ultimate responsibility for all IP will know who is the “go to” employee related to each IP. Perhaps more importantly, every person in the organization will know who is the “go to” employee for questions/problems/opportunities related to each IP.

Procedure Five. The IP owner should promote the importance of the organization’s IP in its relevant marketplace. This procedure is important for nonprofit and for-profit organizations, manufacturing companies, service firms, and organizations operating in virtually any industry. This procedure is relevant (albeit in different ways) for publicly traded companies and for closely held companies.

To implement this procedure, the organization’s CEO (or corresponding position) should “talk up” the IP in nonconfidential disclosures at shareholder meetings, security analyst meetings, press meetings, and at any other public forum. Likewise, managers/executives should “talk up” the IP in nonconfidential disclosures at industry conferences, trade association meetings, employee meetings, and other public forums. And, company marketing managers/salespersons should “talk up” the IP in nonconfidential disclosures at sales presentations, client/customer meetings, etc. This procedure indicates that the IP owner believes that its IP is valuable enough to promote in the marketplace.

Procedure Six. The IP owner should promote the importance of the organization’s IP in nonconfidential written and other communications. This procedure encompasses both internal and external communications. To implement this procedure, the IP owner should mention the IP in letters/newsletters to employees. The IP owner should mention the IP in external communications with investors/regulators/etc. in stockholder letters, annual reports, and documents filed with the SEC and other regulatory agencies. The IP owner should mention the existence and importance of IP in print/radio/television advertisements, other promotional media, product/marketing brochures, etc.

This procedure allows the IP owner to recognize publicly the prominence and eminence of its IP. It may be difficult to force others (competitors, infringers, etc.) to recognize the subject IP if the owner does not have a demonstrated history of recognizing the importance of its own IP.

Procedure Seven. The IP owner should register its IP in all relevant jurisdictions. Admittedly, this may be time-consuming and expensive—assuming that the IP is used in various countries and jurisdictions. However, within the constraints of time and money, the IP should register all relevant IP in all commercially reasonable countries/jurisdictions.

The second step in this procedure is to renew all international registrations before they expire. The IP owner should include the registration and use of the subject IP in all countries/jurisdictions in the IP inventory.

Procedure Eight. The IP owner should conduct periodic appraisals of all IP. Based on considerations of cost and staff availability, the IP owner can use internal analysts or independent experts to conduct the appraisals. The purposes of the appraisals are to document: (1) the IP existence, (2) the IP value, (3) the IP remaining useful life, and (4) the IP reasonable royalty rate/transfer price.

These periodic appraisals are useful for management information purposes. They can help establish transfer prices for the intercompany transfer/use of IP and intangible asset values to assess insurance requirements, to analyze property tax assessments/exemptions, and to estimate an overall organizational value. Second, the periodic appraisals are useful to prove/defend economic damages claims or royalty/license claims.

Procedure Nine. The IP owner should evaluate immediately any and every possible threat to their IP. The IP owner should respond—in writing—to any possible infringement, unauthorized use, contract/license dispute, etc. after such evaluation. This correspondence should explain the IP’s importance to the organization, that the IP will be rigorously protected, and that IP violators will be prosecuted without exception. The correspondence should also demand some action (i.e., a written response, the immediate cessation of the problem action, payment of economic damages, etc.).

Regarding any possible threat to an IP asset, the IP owner should begin a thorough investigation immediately, and should announce publicly its intention to defend even the most minor threats to its IP. Obviously, the objective of this procedure is to discourage strongly all current and future threats to the subject IP.

Legal counsel will communicate with the wrongful party, stating its demands and attempting to negotiate an equitable settlement. If a settlement is not forthcoming, legal counsel may decide to pursue alternative dispute resolution procedures. If the dispute is not resolved, the IP owner should be prepared to pursue the protection of its IP through litigation, if necessary. If the above-listed IP protection procedures have been implemented, the IP owner should be in a much better position to realize a successful (and cost-effective) conclusion to the litigation.

Conclusion

IP owners face periodic threats and challenges to their IP. IP owners should document, control, and protect their IP—just as they would any other valuable asset of the organization. IP owners should implement practical procedures to protect their IP.

As with any organizational procedures, the IP owner should analyze cost/benefit considerations with regard to any IP protection procedures. Not all of the procedures described above can be effectively/efficiently implemented in every IP organization. Nonetheless, the IP owner should recognize that these procedures do not only protect the organization’s IP, they also help support economic damages and other claims when the IP is threatened. And the procedures can help achieve the most favorable possible outcome if litigation cannot be avoided.

Trends in Patent Infringement Damages

BY JENNIFER L. KNABB AND MICHAEL J. JEFFORDS



Jennifer L. Knabb



Michael J. Jeffords

Introduction¹

More than twenty years ago, Congress passed the Federal Courts Improvement Act, resulting in the creation of the Court of Appeals for the Federal Circuit in 1982. Pursuant to this act, the landscape of patent infringement litigation has changed over time. Prior to 1982, patent infringement actions often were shopped from venue to venue in search of favorable judges who often found for noninfringement or invalidity, or, when the defendant was found to have infringed, awarded minimal damages. In the subsequent years, more than \$3.73 billion in damages has been awarded and reported in patent infringement matters in vari-

ous forums ranging from district courts to the Court of Appeals for the Federal Circuit to the United States Claims Court.

Clearly, companies or individuals heading to trial in patent infringement cases face the potential of significant damages awards. In addition, some patent infringement cases involve technology critical to the company's core product, elevating the overall importance of the case. As a result of such high stakes in these cases, monetary and otherwise, shareholders and board members are raising their awareness regarding the company's patents and related patent infringement litigation.

In addition to assisting companies in such suits by providing litigation support and expert testimony to patent infringement litigators, KPMG personnel have compiled and maintained a proprietary database of patent infringement decisions (database) composed primarily of damages remedies reported in the *United States Patent Quarterly* (USPQ) and Lexis/Nexis. This database currently includes all Federal Circuit decisions related to patent infringement damages reported from 1982 through December 31, 2002.²

In this article we discuss many of the trends observed from detailed analyses of the data included in the database. Unless otherwise noted, all facts and figures related to trends in patent damages result from calculations based on the data in this database. In some instances, we

will compare these trends across time periods, which we have defined as: the 1980s (1982 to 1989), the 1990s (1990 to 1999), and the 2000s (2000 to 2002).

Number of Damages Decisions and Patent Litigation Cases

The average annual number of patent infringement cases including a damages decision (hereafter, referred to as decision) has grown consistently from 1982 to 2002. From the 1980s to the 1990s, the annual number of decisions increased a modest 1%. This compares to a growth in the average number of decisions per year of more than 21% from the 1990s to the 2000s. In fact, 2001 set an historic high with thirty-one decisions handed down in a single year. Interestingly, the number of decisions in 2002 surpassed the thirty-one in 2001, with a total of thirty-nine decisions, which compares with only two standing decisions in 2000.

These decision trends are consistent with the overall increasing number of patent infringement cases filed annually. In fact, the *Judicial Business of the United States Courts* indicates an increase of almost 74% in the number of patent cases commenced in U.S. district courts from 1993 to 2002.

Magnitude of Damages Decisions

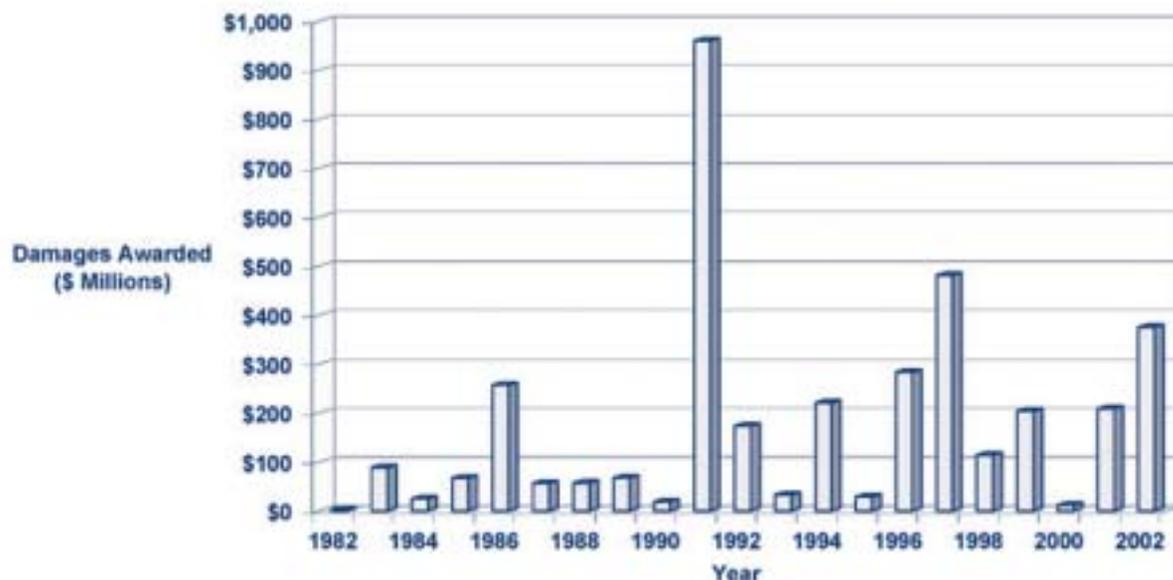
Of the more than \$3.73 billion in patent damages awarded since 1982, more than 83% of that amount has been awarded since 1990. In December 2000, two different juries awarded two Johnson & Johnson companies a combined total of almost \$600 million in damages for two companies' infringements of patented stent technology.³ While each of these decisions was subsequently overturned for other reasons, sizable awards have been a recent trend in patent damages decisions.

In many years the largest single award makes up a significant portion of the total damages awarded for the year. For example, in 1996, Steelcase was awarded more than \$211 million of the approximately \$284 million in damages awarded that year.⁴ Similarly, in 1986, Smith International was awarded almost \$205 million of the total \$256 million awarded that year.⁵

Recently, the amount of total damages awarded annually has continued to increase. See Figure 1 on page 23. Prior to 1994, total damages awarded in a single year surpassed \$200 million only once—in 1986 (excluding the *Polaroid Corp.* award discussed later in this article).⁶ This was largely a result of the *Smith* decision. Comparatively, from 1994 to 2002, total damages awarded were greater than \$200 million in six of nine years. When excluding the largest single award in each year, the yearly totals still follow the similar trend of increasing damages. For example, until 1994, annual total dam-

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Total Patent Damages Awarded For the Period 1982 - 2002



ages excluding the largest single award did not reach \$70 million. From 1994 to 2002, \$70 million was surpassed in seven of nine years.

Aside from these large awards, which are frequently noted and publicized patent damages decisions, a notable number of decisions include awards under \$10 million. In each of the 1980s, 1990s, and 2000s, at least 68% of cases included decisions with damages below \$10 million. However, the data indicate that the frequency of sub-\$10 million decisions is decreasing over time. Specifically, nearly 84% of cases in the 1980s resulted in awards of less than \$10 million. During the 1990s, this fell to approximately 71% and from 2000 to 2002, 68% of cases included damages of less than \$10 million. Overall, from 1982 to 2002, approximately 75% of decisions have patent infringement damages awards less than \$10 million. During that same time, 95% of the decisions included damages below \$50 million. Only 2% of the decisions, or six cases, since 1982 included damages of more than \$100 million.

Such large awards reflect the value of patents to their owners as well as the high cost associated with infringement. Certainly, owners perceive their patents to be more valuable than in the past, which has caused many companies to maintain and expand their patent portfolios. Some evidence of this lies in the increased number of patents granted by the United States Patent and Trademark Office (USPTO). According to the April 2002 *Technology Assessment and Forecast Special Report* filed by the USPTO, the number of granted patents has increased over 85% from 1990 to 2001.

As well known, the 1991 *Polaroid* case caused many companies to rethink patent litigation strategy and

served to “open the floodgates” of patent litigation. In this case, Polaroid was awarded more than \$873 million in damages. To date, this award remains a multiple of more than four times the next largest standing award of just more than \$211 million in the *Haworth, Inc. v. Steelworth, Inc.* matter.

Of the top ten damages awards, nine were awarded since 1990. Overall, the top ten cases account for approximately 55% of the total patent damages awarded since 1982. The technologies covered by these cases include products like instant photography, pre-wired panels and desk components, diaper cuffs, films, MRI equipment, and casting material.

Recently, decisions incorporating large damages awards have been handed down in various courts throughout the country. In 2002, the courts awarded BJ Services Company \$98.1 million for Halliburton’s infringement relating to a technique for increasing the yield of oil wells.⁷ Also in 2002, the decision from *Harris Corporation v. L.M. Ericsson Telephone Company*⁸ awarded Harris \$61 million for infringement of technology related to cell phones and cell phone towers. Finally, in the *Honeywell* decision,⁹ a Delaware jury awarded Honeywell more than \$46 million in damages for the infringement of aircraft APUs. See Figure 2 on page 24 for a current listing of the top ten damages awards to date.

Interestingly, since 2000, the courts have reversed or remanded cases that would have added more than \$1 billion in total damages. Several of these decisions would have ranked among the top ten patent infringement damages awards. Of these cases, the *Viskase* decision¹⁰ included total damages of \$165 million, composed par-

tially of a \$20 million award for increased damages due to willful infringement on the part of American Can, as well as an award for more than \$36 million in prejudgment interest.¹¹ The *Scimed Life Systems* matter was the largest award in 2000, which has since been overturned by the courts. In this matter, Boston Scientific was granted a new trial after previously having been found liable for \$324 million in damages. Similarly, in *Cordis Corporation v. Medtronic Ave, Inc.*, the court granted a new damages trial after previously awarding \$271 million in patent infringement damages.

Components of Damages¹²

In addition to these large damages decisions' trends, various notable tendencies also exist within the calculations underlying the awards. These components of patent infringement damages can be determined in a number of manners including lost profits and reasonable royalty calculations, damages due to price erosion, increased damages, prejudgment interest, and awards of attorneys' fees. Most frequently, damages are awarded based on a reasonable royalty calculation. Overall, at least 53% of cases include damages awards based, at least in part, on a reasonable royalty calculation. This compares with at least 33% of cases that include lost profits as a component of its damages calculation. No discernable trend exists when comparing reasonable royalty and lost profit damages awards across time periods.

However, when considering damages that consist of known components, 36% of the damages awarded by the jury and 31% of the damages awarded by the bench were awarded as part of reasonable royalty calculations. This compares to awards based on lost profits calculations that make up 25% of bench decisions and 26% of jury decisions. This trend, whereby both the bench and jury

have awarded more damages based on reasonable royalty calculations than lost profit calculations, generally holds true when comparing the 1980s, 1990s, and 2000s. The lone exception to this trend occurred in bench decisions in the 1990s. From 1990 to 1999, 29% of bench awards were based on lost profit calculations, which compares with 24% based on reasonable royalty calculations.

Certain trends do exist when examining the frequency of price erosion damages, increased damages, prejudgment interest, and attorneys fees. From 1982 to 2002, damages based on the theory of price erosion have increased steadily in frequency. During the 1980s, price erosion damages were awarded in less than 2% of cases. This percentage increased to almost 6% during the 1990s and almost 9% during the 2000s.

Increased damages, prejudgment interest, and attorneys fees have each become less prevalent through the passage of time. Increased damages were awarded in 41% of cases during the 1980s. This frequency declined to 34% during the 1990s and fell further to being awarded in 27% of cases in the 2000s. Similarly, the frequency of prejudgment interest awards fell steadily from 65% of cases in the 1980s to 55% of cases in the 1990s and 49% of cases in the 2000s. Further, awards of attorneys' fees declined from 42% of cases in the 1980s to 32% of cases in the 1990s and 18% of cases in the 2000s. See Figure 3 on page 25.

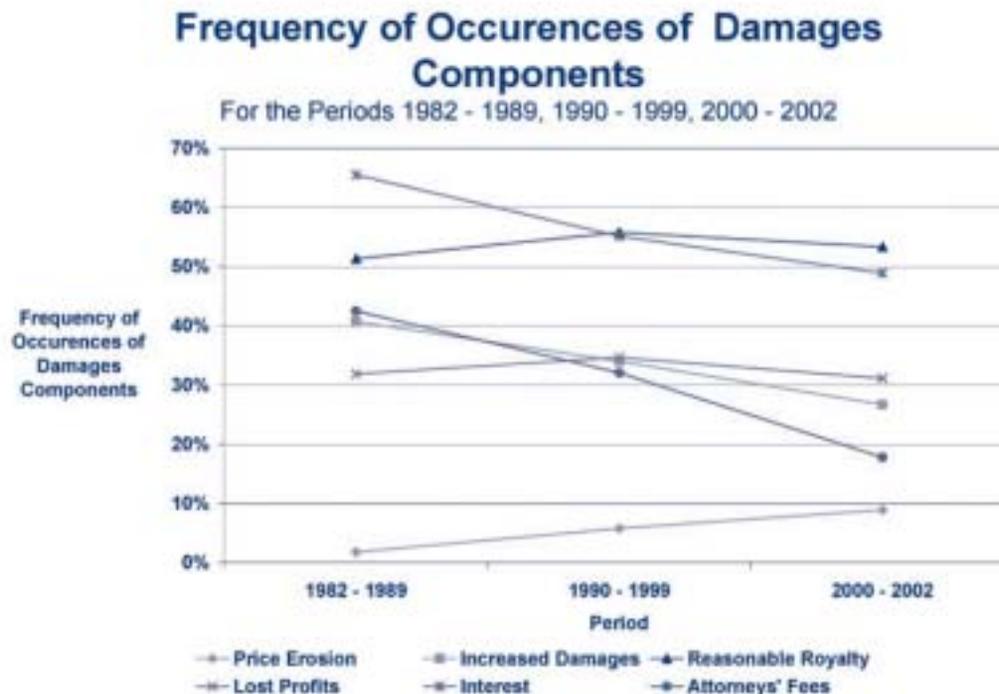
While specific trends can be identified for the frequency of certain types of damages awards components, these trends do not hold true for the amount of damages related to each category of award component. However, these components provide a substantial basis for the total dollar amounts of damages awarded, as follows:

- Interest—17% of the total dollars awarded (7% if the *Polaroid* award is excluded from the total)

Figure 2

Top 10 Patent Damages Awards For the Period 1982 - 2002

Case	Bench/Jury	Decision Year	Damages Awards
<i>Polaroid Corporation v. Eastman Kodak Company</i>	Bench	1991	\$873,158,971
<i>Haworth Inc v. Steelcase Inc.</i>	Bench	1996	\$211,499,731
<i>Smith International, Inc. v. Hughes Tool Co.</i>	Bench	1986	\$204,809,349
<i>The Procter & Gamble Company v. Paragon Trade Brands, Inc.</i>	Bench	1997	\$178,000,000
<i>Fonar Corporation and Dr. Raymond V. Damadian v. General Electric Co.</i>	Jury	1997	\$128,700,000
<i>3M v. Johnson & Johnson Orthopaedics</i>	Jury	1992	\$116,797,696
<i>BJ Services Company v. Halliburton Energy Services Company</i>	Jury	2002	\$98,100,000
<i>Mobil Oil Corporation v. Amoco Chemicals Corporation</i>	Bench	1994	\$85,000,000
<i>Stryker Corporation and Osteonics Corp. v. Intermedics Orthopaedics et al</i>	Bench	1997	\$72,750,704
<i>Odetics Inc. v. Storage Technology Corp.</i>	Jury	1999	\$70,600,000



- Increased Damages—9% of the total dollars awarded (11% if the *Polaroid* award is excluded from the total)
- Price Erosion—3% of the total dollars awarded (4% if the *Polaroid* award is excluded from the total)
- Attorney's Fees—1% of the total dollars awarded (2% if the *Polaroid* award is excluded from the total)

As indicated above, the inclusion or exclusion of the components of the *Polaroid* award impacts the data. This decision has particular influence in this discussion of damages components due to the extended period of time over which it was litigated. As a result of its long damages period, \$400 million in interest damages was awarded in the *Polaroid* case.

Bench versus Jury

In addition to data regarding the components of damages awards, the data has shown trends in bench and jury verdicts, including a change from a greater number of bench decisions in a given time period to a greater number of jury decisions. Overall, from 1982 to 2002, the mix of bench and jury decisions is balanced with the bench deciding 53% of the cases and juries deciding 47% of the cases. From 1982 to 1989, the bench decided approximately 82% of cases. In the 1990s, bench trials accounted for 51% of decisions. This trend continues in the 2000s with only 14% of reported decisions originating from the bench. See Figure 4 on page 26.

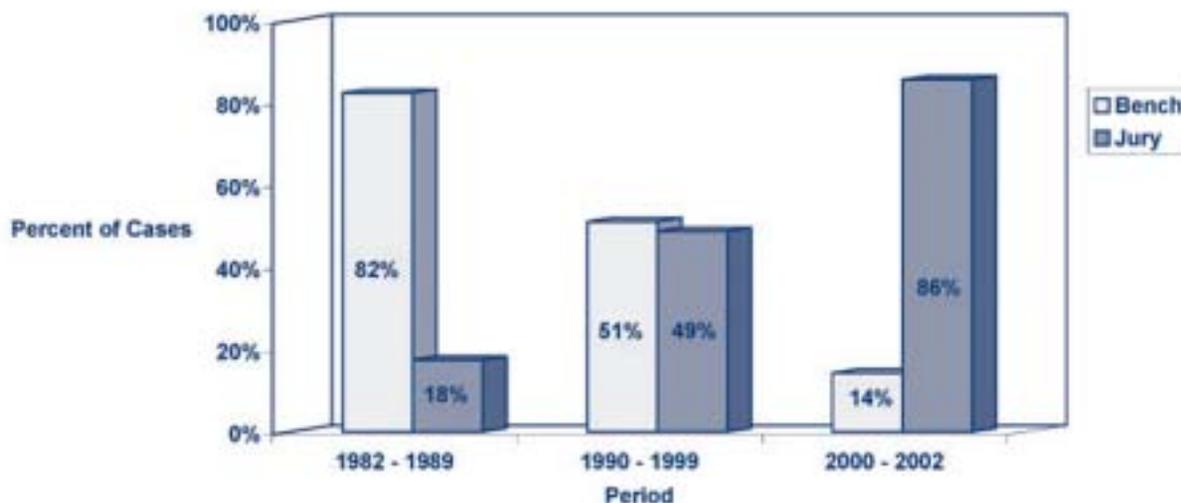
This trend toward an increasing number of jury trials begins in 1996. Although there is little reason to think this trend is linked to it, the *Markman v. Westview Instr., Inc.* decision was handed down in 1996.¹³ In this deci-

sion, the U.S. Court of Appeals for the Federal Circuit decided that the construction of patent claims is to be determined by the courts, and the U.S. Supreme Court agreed. When considering all cases decided between 1982 and 1995, the bench decided approximately 70% of the cases. From 1996 to 2002, the bench has decided approximately 28% of the cases.

As one might expect, comparing the amount of damages awarded by the bench with the amount of damages awarded by a jury results in trends similar to those for the number of cases decided by each. Overall, approximately 60% of the damages amounts awarded, or approximately \$2.27 billion in damages, were from bench trials. Approximately 40% of damages amounts awarded, or approximately \$1.46 billion, were from jury trials. During the 1980s, the bench awarded approximately 82% of total damages. In the 1990s, the bench awarded approximately 69% of damages. This declining trend continues in the 2000s, with only 5% of damages being awarded by the bench.

In addition to trends in the number of decisions and the aggregate damages awarded, certain trends are also evident when comparing the size of single decisions by the bench to those by the jury. Overall, the awards by the bench tend toward a lower range. In particular, awards handed down by the bench most frequently fall in the \$0 to \$1 million range, while the majority of jury awards tend to be greater than \$3 million. Interestingly, while this trend generally holds true for the 1980s and 1990s, it does not hold true for the 2000s. For the period from 2000 to 2002, at least 50% of both bench awards

**Patent Damages Decisions
Bench and Jury Frequency**
For the Periods 1982 - 1989, 1990 - 1999 and 2000 - 2002



and jury awards have been greater than \$4 million.

Similar to the tendency toward higher single jury awards, when excluding the effects of the *Polaroid* decision, the average amount awarded by juries is 28% more than the average amount awarded by the bench. More specifically, since 1982, on average, the jury has awarded approximately \$12 million compared to the bench's average award of approximately \$9.5 million. Interestingly, when comparing across decades, the 1980s and 1990s saw marginally higher average awards by the bench. However, for the period from 2000 to 2002, the average bench award has been approximately \$5 million while the average jury award has been 300% more—approximately \$15 million.

Damages by Circuit

Overall, the Third¹⁴ and Ninth⁵ Circuits had the largest number of decisions with damages awards handed down from 1982 to 2002. These two circuits also were the most active during the 1980s and 1990s. However, the Third and the Fifth⁵ Circuits were the most active from 2000 to 2002.

When examining the total damages awarded in a particular circuit, no one circuit stands out as consistently awarding notable damages awards. Although many decisions are handed down from the Ninth Circuit, single large decisions are not consistently seen from any circuit. That said, for the period 1982 to 2002, the First,⁵ Third, and Ninth Circuits awarded the most total damages. Specifically, the First Circuit awarded 24% of total damages, while the Third and Ninth Circuits awarded 16% and 13% of total damages, respectively.

More specifically, during the 1980s, the Ninth and Third Circuits awarded the most damages, with the

Ninth Circuit awarding 58% of total damages, including \$200 million from the *Smith* decision, and the Third Circuit awarding 12% of total damages.

However, in the 1990s, the First Circuit awarded 36% of total damages, while the Third Circuit awarded 15% of total damages. In fact, during this time, the Ninth Circuit awarded less than 3% of total damages. Nearly all of the damages awarded in the First Circuit during the 1990s resulted from the \$873 million *Polaroid* decision.

From 2000 to 2002, the Fifth and Third Circuits awarded the most damages, with awards by the Fifth Circuit totaling 29% of total damages and awards by the Third Circuit totaling 24% of total damages. The 29% of damages awarded by the Fifth Circuit was largely a result of the damages awarded in two cases, *BJ Services Company v. Halliburton Energy Service Company* (\$98.1 million) and *Harris Corporation v. L.M. Ericsson Telephone Company* (\$61 million).

In addition to these trends in damages awards across circuits, trends also exist in the average awards. Overall, from 1982 through 2002, the average amount of damages awarded by each circuit ranges from less than \$500,000 in the Eleventh⁵ Circuit to more than \$150 million in damages in the First Circuit. The effects of the *Polaroid* decision in the First Circuit result in an artificially high average award. When excluding the *Polaroid* decision, the highest average amount of damages occurs in the Sixth⁵ Circuit, with an average decision of approximately \$23 million.

No clear trend exists when comparing average damages awards by circuit across the three decades. From

1982 to 1989, the average damages awards range from less than \$10,000 in the Eleventh Circuit to \$24 million in the Ninth Circuit. During the 1990s (excluding the effects of the *Polaroid* decision), the range shifted upward, from less than \$700,000 in the Eleventh Circuit to \$56 million in the Sixth Circuit. The 2000s have seen that range shift down, from less than \$1 million in the Tenth⁵ Circuit to more than \$28 million in the Second⁶ Circuit.

Industry

Clearly, from 1982 through 2002, the manufacturing industry was awarded the most patent damages. Overall, approximately \$3.59 billion in damages were awarded to companies in the manufacturing Standard Industry Classification (SIC) codes. This represents more than 96% of the total damages awarded and translates to damages of almost \$620 million during the 1980s, over \$2.5 billion during the 1990s, and \$595 million during the 2000s. All other industries were awarded a total of less than \$150 million in damages from 1982 to 2002.

Within the manufacturing industry, certain segments included more awards than other segments. More specifically, from 1982 through 2002, the following manufacturing SIC code segments included the majority of the awards:

- Electronic and Other Electrical Equipment (Major Group 36)—\$1.18 billion in overall awarded patent damages,
- Measuring, Analyzing and Controlling Instruments (Major Group 38)—\$786 million in overall awarded patent damages, and
- Industrial and Commercial Machinery and Computer Equipment (Major Group 35)—\$647 million in overall awarded patent damages.

In the Electronic and Other Electrical Equipment group, examples of products for which patent damages were awarded include cellular phones, liquid crystal displays, and loudspeaker enclosures. Likewise, example products in the Measuring, Analyzing and Controlling Instruments group include flow meters, thermometers, and radar detectors. Finally, example products in the Industrial and Commercial Machinery and Computer Equipment group include water purifiers, conveyor belts, and paper trimmers.

This trend generally holds true when comparing across decades as well. Major Groups 35 and 38 are consistently in the top three subcategories in each of the 1980s, 1990s, and 2000s. Major Group 36 is in the top three subcategories for the 1990s and 2000s. However, during the 1980s, Major Group 28—Chemicals and Petroleum Refining, containing products like thermo-plastically processable starch, gelatin coated capsules, and fire-retardant coatings, surfaced among the top three subcategories.

After the majority of the awards in the manufacturing SIC codes during the 1980s, the second greatest amount of awards fall in the wholesale trade SIC codes, including products related to businesses that sell products to

retailers. A total of \$57 million in damages was awarded in these SIC codes. Over time, the services SIC codes, including services provided to customers, have seen more damages awarded within it. Compared to the \$3.59 billion in damages awarded in the manufacturing SIC codes since 1982, the services SIC codes have included \$27 million of awarded damages. During this period, the transportation and public utilities and wholesale trade were the only other industries to capture greater than 1% of the total damages.

Reasonable Royalty Rates

In addition to industry-related trends, certain tendencies also exist among the awarded reasonable royalty rates. However, unlike increasing trends in total damages amounts, no significant recent trends exist in the awards of reasonable royalty rates. The average rate, along with the number of cases in each range, has remained relatively constant over time.

Overall, of the cases in which a reasonable royalty was awarded, approximately 60% had reasonable royalty rates in the range of 5% to 19.9%. The remaining 40% of the cases were split evenly between reasonable royalty rates less than 5% and reasonable royalty rates greater than or equal to 20%.

Patent law prescribes that the plaintiff is entitled to “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.”¹⁵ Certainly, various sources and methodologies have been and are used in patent infringement cases to determine the appropriate reasonable royalty rate. While only selected information exists regarding the sources relied upon to determine a reasonable royalty rate, historically, the two sources most frequently relied upon include the royalty rates charged by the plaintiff on its existing licenses and the defendant’s profit percentage. Use of the defendant’s profit percentage in determining the most appropriate reasonable royalty rate includes consideration of additional factors as well.

Of the more than one hundred cases disclosing a reasonable royalty rate award,¹⁶ approximately 20% of those cases included rates of 20% of net sales or greater. Six of these twenty cases were decided in the 1980s, including the 1986 decision with the largest royalty rate award of 70%, *Hartness International Inc.*¹⁷ Of the other fourteen cases with reasonable royalty rates greater than or equal to 20%, thirteen were decided in the 1990s, and only one has been decided since 2000. See Figure 5 on page 28 for a current listing of the top ten reasonable royalty rates to date.

Notably, the royalty rate awarded in certain decisions has exceeded prior royalty rates negotiated between the parties. In particular, in *Polaroid*, the court set the royalty rate at 10% despite prior royalties of no higher than 2.5% between the parties and an average royalty rate of licenses including *Polaroid* of 4.9%.¹⁸ In addition, in *Bio-Rad Laboratories*¹⁹ it was decided that the “industry royalty rate runs from three to ten percent of sales while the royalty awarded by the jury approaches one-third of the selling price.”

Top 10 Reasonable Royalty Rates For the Period 1982 - 2002

Case	Bench/ Jury	Decision Year	Reasonable Royalty Rate
<i>Hartness International v. Simplmatic Engineering</i>	Bench	1987	70.00%
<i>Williams v. Skid Recycling Inc.</i>	Jury	1994	35.00%
<i>General Surgical Innovations, Inc. v. Origin Medsystems, Inc.</i>	Jury	1999	30.00%
<i>TP Orthodontics v. Professional Positioners</i>	Bench	1992	30.00%
<i>Trans-World Manufacturing Co., Inc. v. Dura Corp. and Kiddie, Inc.</i>	Bench	1986	30.00%
<i>Additive Controls & Measurement Systems Inc. v. Flowdata Inc.</i>	Bench	1993	25.00%
<i>Joy Technologies Inc. v. Fiat Inc.</i>	Bench	1996	25.00%
<i>Pentech International Inc. v. Leon Haydychok, All-mark Corporation, Inc. and Paradise Creations Inc.</i>	Bench	1996	25.00%
<i>Smithline Diagnostics v. Helena Laboratories</i>	Bench	1991	25.00%
<i>Bandag, Inc. v. AJ Bolser Tire Stores, Inc.</i>	Bench	1985	23.75%

Prejudgment Interest Rates

As illustrated in the *Polaroid* decision, prejudgment interest can prove to be a significant component of damages. Overall, approximately 58% of damages awards include a prejudgment interest component. However, the frequency of decisions with prejudgment interest has trended down across decades. During the 1980s and 1990s, prejudgment interest was awarded in 65% and 55% of the cases, respectively. From 2000 to 2002, this downward trend has continued, with only 49% of cases during this time period including damages resulting from prejudgment interest.

When prejudgment interest is awarded, the interest rate is typically determined based on one of several well-known rates: prime rate, Treasury bill rates, commercial paper, or statutory rates. In the *Polaroid* decision, the prejudgment interest award was based on changing Treasury bill rates. Overall, the prime rate has been most often used when granting prejudgment interest. Of the cases where an award for prejudgment interest was granted and identified, approximately 27% of the cases used the prime rate. The prevailing Treasury bill rate was the second most utilized interest rate. Specifically, of the cases in which prejudgment interest was awarded and identified, the Treasury bill rate was relied upon in approximately 23% of the total cases.

Increased Damages

If the court finds a defendant's infringement willful, the court can award an increase of the original damages amount. This increase could be a multiple of the original

damages amount, or based on some other factor. Since 1982, approximately 35% of the cases include an increased damages component. However, increased damages have been awarded with less frequency across decades. In the 1980s, 41% of damages awards included an increased damages component. In the 1990s, this fell to 34%. Only 27% of damages awards have included an increased damages component in the 2000s.

Although the amount of the multiple can be awarded at the court's discretion, since 1982, the most often selected multiple was a trebling, followed by a doubling, of the original damages award. This trend generally holds true across decades as well. Both the 1980s and 1990s saw trebling as the most utilized factor for increased damages. However, 42% of the cases that include increased damages during the 2000s have relied on some other factor for determining the amount of increased damages.

Conclusion

Given the continuously changing business and litigation landscapes, we cannot offer future expectations of damages trends. Rather, we hope the discussions and comparisons provided above offer sufficient specific historical trending data to allow you to make your own predictions of where the patent damages trends may be going in the new millennium.

Endnotes

1. The factual summaries provided here are of a general nature and have been included for illustrative purposes only. They are not intended to address the specific circumstances of any individ-

ual or entity. Each case is different, and should be evaluated in light of its own facts. In specific circumstances, the services of a professional should be sought. The views and opinions are those of the authors and do not reflect any opinions of KPMG LLP or its clients as to the proper measure of damages. The factual summaries compiled from this proprietary database have been published from time to time by various KPMG personnel, as well as other individuals with express permission. Because of the required brevity of this article, many nuances have been omitted and only a few cases have been cited. Other important decisions and issues have not been addressed due to space limitations. Note that settlements are not captured in our database and, thus, have not been included in the information discussed in this article. If included, we expect settlements would represent a large amount of "patent damages." Alissa Schnerre assisted the authors

2. KPMG personnel maintain a proprietary database of patent infringement damages awards. This database, which originated in 1990, primarily includes damages decisions with the following characteristics:

1. involved a patent infringement action;
2. were decided since 1982, corresponding to the creation of the Federal Circuit to hear patent appeals;
3. were published/reported in either the *United States Patent Quarterly* (USPQ) or Lexis/Nexis through December 31, 2002, and
4. have stood on appeal, or remain to be heard by the Federal Circuit.

While we have captured all cases that involve a patent damages decision, those that were remanded, reversed, or vacated on appeal for issues related or unrelated to damages are excluded from our analysis. The database is updated annually to include decisions published recently. Because many of the published decisions do not contain sufficient detail to include in the complete analysis, we attempt to gather additional facts from published articles and/or the trial attorneys.

3. *Scimed Life Systems, Inc. v. Boston Scientific*, No. Civ. A. 99-904-SLR, 2001 WL 935623 (D. Del. Aug. 15, 2001); *Cordis Corp. v. Medtronic Ave, Inc.*, No. Civ. A. 97-550-SLR, 2000 WL 1,364,390 (D. Del. Sept. 7, 2000).

4. *Haworth v. Steelcase*, No. Civ. A. K-85-526-CA, 1996 U.S. Dist. LEXIS 21344.

5. *Smith Int'l, Inc. v. Hughes Tool Co.*, No. Civ. A. 72-1231-HLH, 1986 U.S. Dist. LEXIS 28247 (Smith).

6. *Polaroid Corp. v. Eastman Kodak Co.*, No. Civ. A. 76-1634-MA, 1991 U.S. Dist. LEXIS 344 (Polaroid).

7. *BJ Services Co. v. Halliburton Energy Serv. Co.*, No. H-00-0948 (S.D. Tex.).

8. *Harris Corp. v. L.M. Ericsson Tel. Co.*, No. 98 CV-2903 (N.D. Tex.).

9. *Honeywell Int'l Inc. v. Hamilton Sundstrand*, 166 F. Supp. 2d 1008 (D. Del. 2001).

10. *Viskase Corp. v. American Nat'l Can Co.*, 261 F.3d 1316 (Fed. Cir. 2001).

11. The Federal Circuit affirmed in part, reversed in part, and remanded for further proceedings this case. The case has since settled for an undisclosed amount.

12. Because many of the cases do not disclose the components of the awards, this information is based upon those awards, including relevant detailed information.

13. *Markman v. Westview Instr., Inc.*, 517 U.S. 370 (1996) (*Markman*).

14. The First Circuit includes courts in the states and territories of Maine, Massachusetts, New Hampshire, Puerto Rico, and Rhode Island. The Second Circuit includes courts in the states of Connecticut, New York and Vermont. The Third Circuit includes courts in the states and territories of Delaware, New Jersey, Pennsylvania, and the Virgin Islands. The Fifth Circuit includes courts in the states of Louisiana, Mississippi, and Texas. The Sixth Circuit includes courts in the states of Kentucky, Michigan, Ohio, and Tennessee. The Ninth Circuit includes courts in the states and territories of Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Northern Mariana Islands, Oregon, and Washington. The Tenth Circuit includes courts in the states of Colorado, Kansas, New Mexico, Oklahoma, Utah, and Wyoming. The Eleventh Circuit includes courts in the states of Alabama, Florida, and Georgia.

15. 35 U.S.C. § 284.

16. These are all cases that awarded a running royalty rate as a percentage of sales. Royalty rates awarded based upon another method, such as lump sum or per unit, are not included in this analysis and are minimal.

17. *Hartness Int'l Inc. v. Simplimatic Eng'g*, 819 F.2d 1100, 2 U.S.P.Q.2d 1826 (Fed. Cir. 1986).

18. *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d 1481, 1534-35 (D. Mass. 1990).

19. *Bio-Rad Labs, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604 (Fed. Cir. 1994), *cert. denied*, 469 U.S. 1038 (1994).



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Corporate Counsel Column



Judith Margolin



Donna Suchy

This Corporate Counsel Column is a new feature of IPL Newsletter. We plan to share "best practices" from some of the country's most sophisticated legal departments.

In this inaugural column, we feature an interview with Section member Judith Margolin, Assistant General Counsel, Time Inc., who serves as Sports Illustrated's in-house counsel. Judith is interviewed by Douglas Masters, co-chair of Committee 553, Special Committee on Corporate Practice. Following Judith's interview is a report from Donna Suchy, co-chair of Committee 959, Special Committee on Management of Intellectual Property Assets.

IPL Newsletter: Judith, I know your practice requires you to address a broad range of intellectual property issues for *Sports Illustrated*, ranging from licensing to copyright to rights of publicity. Let's start with trademark protection. How do you decide what marks to register and where to register them?

Judith Margolin: Of course, we concentrate on our major marks—the trade names of our magazines. Then we use our judgment in filing to protect additional names, for example, as headers of particular sections of the magazine, but we are pretty sparing about that. We are an editorial magazine, and because we want to operate freely within the First Amendment, we try not to go too overboard and register everything.

IPL: So you err on the side of not claiming marks as proprietary if they are in the gray area?

Margolin: Most of the time the marks that we are registering are our primary marks like *People Magazine* or *Sports Illustrated* or *Entertainment Weekly*. When we have done a related magazine like *Sports Illustrated For Women*, we decided to register *Sports Illustrated For Women*, even though we already felt we had pretty strong protection given the fact that SPORTS ILLUSTRATED itself was trademarked. However, with our primary marks, we are very aggressive. We register them in licensing-related categories like t-shirts or videos. As you know, there is time and cost involved in the trademark process. Therefore, we try not to spend all of our lawyer time registering and monitoring marks. We have approximately 126 magazines around the world, and if we were to register a lot of subsidiary marks for each of those magazines, we would be doing nothing but trademark registration all day long.

IPL: How do you decide in what countries to file?

Margolin: We try to register in all the countries in which we operate.

IPL: How do you divide responsibilities for trademark clearance, maintenance, and other things between in-house and outside counsel?

Margolin: We do not use outside counsel except for litigation. We have an in-house attorney who is responsible for all trademark filings and maintenance, even for foreign filings. He works across the board with all of the AOL Time Warner properties.

IPL: Do you have any patent issues?

Margolin: Minimal. At Time Inc. we do think sometimes about filing business method patents, and I think we have done that once or twice, although it is not something that is a big part of our practice. That of course is becoming a bigger issue. A lot of us [in house counsel] are struggling with whether we should get in there and file before somebody else files, for defensive reasons more than anything else.

IPL: What types of problems do you face online?

Margolin: The biggest problem I have is copyright infringement. There are a lot of websites, mostly amateur sites, that take our photos and use them. Recently, I had one situation where a college student had taken a screen grab of our entire website and inserted what he thought were satirical articles so people who visited his site saw something that looked like the real CNN.com, but it included lewd articles rather than our typical articles.

IPL: Do you have a protocol when you learn that somebody has infringed copyrighted material?

Margolin: The only protocol that I have is to immediately write them a letter insisting that they cease and desist. In most cases they do. I try to gear the letter to the level of the infringer. When it is clear that it is a college student or a similar noncommercial user, I try not to make the letter excessively threatening. I try to avoid making threats that are out of proportion to the problem, and also we try to protect our public image by not creating negativity toward *Sports Illustrated*. And for the most part, people do not understand copyrights. Several of the infringers that we have approached have long "legal" explanations on their site in which they claim that because our photos are available on the Internet, they are in the "public domain." In most cases, I promptly receive a response. We try to monitor the sites for compliance.

IPL: What is the next step you take if somebody does not respond or respond favorably?

Margolin: The next step we take is to consult with our in-house Web people, and we try to track down the infringer's identifying information and follow up. This has not come up much, but depending on how onerous the infringement is, we would then follow up with the ISP and have them take the infringing site or material down. This has come up occasionally on Ebay, where we discovered that people were taking our magazine covers and making them into plaques, or taking old Swimsuit Issue photos and blow-

ing them up and selling them as posters. Ebay has a fairly successful process for removing infringing materials from the site. We try to use our judgment. Otherwise, we could spend all of our time chasing down minor copyright infringement on the Web.

IPL: In-house counsel are always interested in the roles they can play in helping their clients maximize the value from intellectual property rights. At what level do you get involved in these deals?

Margolin: Well, unfortunately, what often happens is that the business people get somewhat down the road with their business partners and the licensee before they get me involved. However, that really depends on the particular client. We are on average, I think, pretty well integrated with the business people. But, invariably, what happens is that the business people will get to what they think is fairly down the road in a deal and then they will come back and say, "Ok. Here are the terms. Please write us a contract." Then, I point out to them 15 to 50 issues that they never thought about. Some of the issues are trademark protection issues. Some of them are business issues. I think that a lot of business people do not really think about the effect of the agreement on the business and our intellectual property.

IPL: What resources do you look to, to formulate how best to structure the arrangement?

Margolin: I am very fortunate. We have a very active licensing division. I have a lot of forms that we have developed over the years that form the structure of the type of relationship we would want to have. When we are licensing somebody the right to use our name, we try to be very careful about oversight and control issues. We are also selective about the people with whom we do business.

IPL: Are there particular licensing issues that are most challenging to deal with?

Margolin: The areas that I have found the most difficult to manage, which are not trademark issues, but are intellectual property issues, are in software agreements. Some software development companies are *so* arrogant about the kind of indemnities they are going to give, and the kind of representations they are going to make. When we license content to another company, we stand behind it, and we take responsibility for the copyright and ensure that it does not libel anybody. But, what I always find shocking is the software companies that have these unbelievable limitations on liability and refuse to give representations or warranties for patent infringement.

IPL: Have you found the dynamic with the software companies changing as their market has gotten softer?

Margolin: You would think so, but no; I have not really. The only thing that has changed is that we are using them less because our own websites are undergoing such dramatic changes. Our websites are being relocated onto AOL and are available exclusively on that service, except, of course, to subscribers. And so we are doing a little less than we were 5 years ago or even 3 years ago, when we were doing all sorts of redesigns, etc.

IPL: Do you get involved in selecting and managing outside counsel?

Margolin: We have a pretty healthy situation with our

outside counsel. We are not linked or in any way committed to a particular law firm. On the other hand, we have various firms throughout the country who help us on particular matters. We probably have a core of ten lawyers at a variety of firms in New York City and elsewhere who we rely upon for advice for antitrust or ERISA or similar specialty areas. But, if I feel like I have a particular problem and I know somebody who has a particular area of expertise, I am free, subject to the general counsel's blessing, to go to the person I feel is most qualified. In terms of litigation, we try to manage and actually operate our litigation in-house to the greatest degree possible, but, without question, if we are sued in California or Texas or Seattle, we cannot be on the ground there. Then, we rely upon the recommendations of the lawyers whom we work with if we ourselves do not know of anyone.

For the most part, we have tried to become as self-sufficient a legal department as we can. We have a tremendous amount of expertise within this legal department. We have people who are full-time litigators. We have people who are full-time consumer marketing lawyers. We have people who are full-time corporate and M & A lawyers. We have people who are extremely well-versed in intellectual property issues and libel issues.

IPL: So, it sounds like selection of outside counsel is based upon personal relationships and reputation as opposed to institutional relationships.

Margolin: Yes.

IPL: Do you get involved in alternative billing arrangements or is your outside counsel work almost exclusively done on an hourly rate basis?

Margolin: To my knowledge, we have worked exclusively on an hourly basis, although we insist on a favorable discount.

IPL: What is the single biggest challenge you face as in-house counsel?

Margolin: One of the biggest challenges I have is how to encourage my clients to take advantage of the services that I can offer them. It is hard for me sometimes to teach my clients that they should and can get me involved very early in the process. Often could save themselves a lot of aggravation down the road, if they got me involved a little bit earlier. In some ways, I think it is much harder in-house than being a law firm attorney. You are constantly being pushed by your clients and you feel the pressure of trying to help them get what they want—the pressure of giving them the green light to do what they want to do—and yet also operating within the guidelines that you feel are appropriate. It can be a little frustrating as an in-house lawyer because you know you are giving your clients advice that is more practical and, perhaps, less conservative than they would get if they paid somebody \$500 an hour, and yet, you know that they are somewhat less likely to listen to you because they know you and they are not paying you \$500 an hour.

Taking It to the Next Step

Managing and Valuing Intellectual Capital

BY DONNA SUCHY

A patent system added the fuel of interest to the fire of a genius.

Abraham Lincoln

Now it is up to us, as corporate and intellectual property attorneys, to help translate that system into value. The landscape of corporate valuation is changing, and now, more than ever, benchmarking and quantifying the value of intellectual capital is essential.

There are different kinds of capital. Generally, intellectual capital consists of human-based capital, which includes employee knowledge. Process-based capital includes the value of business processes. Relationship-based capital includes customer–inventor relations. Finally, innovation-based capital is the ability to generate and protect intellectual property.

It is often said that intellectual capital is the currency of the new millennium. By definition, intellectual capital, and especially intellectual property (IP), is largely intangible.

This article is the first in a series of articles that will address how a corporation can manage, capture, protect, and eventually, quantify this undervalued intangible asset. Some of the more common methods used to evaluate IP assets, including patents, trademarks, copyrights, and trade secrets are discussed here.

Although the management of IP assets has been the domain of corporate managers, the valuation of IP assets historically has been an accounting issue. IP asset accounting was not a subject that the accounting industry paid much attention to before the 1970s. This has changed in recent years because more and more of the world's companies derive their wealth from their intangible, rather than their tangible, assets. Therefore, the method for recording intangible assets has become more and more important to a company.¹ I am not an accountant and will not attempt to review the accounting techniques used to value IP. Instead, I will provide an overview of what is available.

Currently, there is disagreement as to how IP assets should be accounted for and recognized. This means that a company's balance sheet looks different under different jurisdictions or countries because accounting rules vary. In fact, no country's accounting rules reflect the true picture, because no country allows a company to place a value on its internally generated intangible assets. Instead, the current accounting rules only allow companies to recognize the

value of acquired IP when it changes hands, for instance, through company acquisitions or mergers. The excess paid for the acquired tangible assets historically has been described as good will.² There have been efforts since 1970, by the United States and other countries, to change these rules so that a company may separately value its IP and other intangible assets.

In summer 2001, the U.S. Financial Accounting Standards Board (FASB) issued new standards 141 and 142 dealing with the recording of assets acquired in a business acquisition.³ These rules made the accounting for intellectual intangible assets more uniform and more comprehensive. Specifically, FAS141 requires that the purchase price of the business be allocated across the fair value of all of the acquired assets and liabilities, including all the intangible assets that meet specific criteria.⁴ These criteria also apply to trademarks and patents. In connection with this new rule, FAS142 states that good will no longer is deemed to have a finite life, and therefore, it is not amortized.⁵ Instead, it is treated as having an indefinite life and must be reviewed for any decrease in value at least once a year and more often if there is reason to believe that any change has occurred (please refer to the actual rules for details).⁶

These rules require that most intangible assets, other than good will, will be amortized over their expected useful life. Thus, it becomes important for company management to determine the expected useful life of each of the acquired assets. This takes the whole “company-village” to successfully accomplish because corporate employees in the “trenches” are typically the most aware of the impact intellectual knowledge has in their area of business.

Valuation Methods

Most tangible assets are valued by quantifying an increase in revenues or reduction of costs. The three principal (and traditional) methods of valuation of IP assets are based upon income, market, and cost. They include Income Excess Operating Profits Method,⁷ Income Premium Pricing Method,⁸ Cost Savings Method,⁹ Income Royalty Savings Method,¹⁰ Market Approach,¹¹ and Cost Approach.¹² More recent methods developed specifically for IP valuation include the use of statistical,¹³ industry standards, ranking surrogate methods, disaggregation, Monte Carlo, and competitive advantage approaches.¹⁴

All of these methods need to factor in risk. Dealing with the risk associated with IP asset valuation is one of the more difficult decisions of company management. There is a wide range of risks associated with various types of IP assets. Many companies have a wide range of IP types, and thus, have to calculate the risks associated with each asset. For example, the risk of continued use of a brand name on different products could be a lot lower than the risk associated with the development of a pharmaceutical drug. Techniques have been developed that use probability to quantify these risks. This is the practice recommended by the American Institute of Certified Public Accountants, which issued a practice aid specifying the approach to be used for evaluating process research and development in

various sectors. This practice aid is now being treated as the best practice for all intangible asset valuations in all sectors. It uses a traditional discounted cash flow technique derived by using decision analysis techniques and probability analysis. The resulting cash flow may be discounted by a rate that approximates the interest rate for the cost of capital, since the risks are dealt with in the probability analysis. But, additional risk factors also can be applied to allow for risks that were not appropriately considered in the probability analysis.

There are a number of new companies that specialize in management and valuation of IP. An important consideration when working with one of these companies is the need to incorporate in-depth industry knowledge and understanding of short- and long-term objectives. The incorporation of intellectual capital is essential to accurately evaluate the IP of a company. It is also very important for the company to be closely involved with, if not the initiator of, these processes. Key engineering and manufacturing individuals working for the company must be involved, including those who work on the front lines—from the assembly line to the sales force. It is essential that all members of a company understand the categories of IP so that it can be captured and capitalized. The value and risk analysis of IP assets must involve the whole “company-village” to be truly successful. Without an understanding of the company’s intellectual properties, it is nearly impossible to have a reasonable sense of their value and the risks attached to that value over time.

Accordingly, it is important to educate all employees of a company, from the person working on the assembly line to vice presidents, as to what IP is and how it can be captured. Not only does educating all members of a company help to identify IP and capture it as discussed above, but it also helps to capture the risks associated with that IP’s value now and in the future. For example, a company cannot determine the products that are the most dependent upon their IP rights without first educating those who work with that asset on all levels.¹⁵ The value of IP, such as trade secrets, is only as good as those who work with it on a daily basis. It is equally as important to educate employees in areas such as research and development related to potential new products or methods; manufacturing and business process know-how; sales force components with key technical knowledge and/or customer contacts; and information technology assistance supporting the company’s business. A good start is to develop a strategy and determine the scope of the company’s IP asset protection plan, including which assets should be protected. As with any plan, there is a need to first determine the objectives, then follow through with due diligence, including developing critical questions and picking IP due diligence teams in all areas. A company should have an IP asset inventory and review of their IP capture system. Such a system should give guidelines and a forum for the team members to transfer key information. Also, there should be an analysis and response portion of the plan that allows for important changes. These steps will help prevent situations where the value of IP assets is unknown until they are sold and ready to be valued by the new company, at which time it is too late to have that value recognized by the current owner and get value for it in the ordinary course of business.

BY SAMSON HELFGOTT, INTERNATIONAL ACTIVITIES COORDINATOR



Samson Helfgott

A number of interesting items have come up with respect to the I²P Group (International Intellectual Property Group), which are of interest to the entire membership.

European Union Finalize Plans for a Community Patent

After years of political wrangling, ministers from the fifteen EU member states reached an agreement that will lead to the creation of a single patent across the Union.

Working with proposals put forward by the Greek presidency, the Competitive Council managed to achieve a compromise accord that will deliver the patent in a few years.

In essence, the Community Patent will allow businesses to protect their intellectual property throughout the EU by filing a single application and obtaining one patent. In contrast to the existing European Patent, prosecuted to grant as a single patent but then validated in the selected countries of interest to the patentee, this new Community Patent will cover all of the EU countries.

The language regime for the Community Patent will be, up to grant, the same as the one provided for in the European Patent Convention. This means that the applicant has to present a complete application document in one of the three official languages of the EPO (English, French or German) as well as, at the time of grant of the patent, a translation of the claims into the two other EPO languages. Then, after grant and within a "reasonable period" (to be defined) the claims and only the claims must be translated, at the applicant's cost, into every current EU language, except if a member state renounces the translation into its official language. At present, this will mean eleven different versions of the legal scope of the patent, rising to nineteen if all ten candidate countries join the EU in 2004.

In spite of the heavy translation costs compared with selecting a few key EU countries, the intended advantages of such a system include reduced renewal fees, increased ease of portfolio administration, and EU-wide licensing arrangements.

The European Court of Justice will have exclusive jurisdiction with regard to a granted Community Patent in actions and claims of invalidity or infringement proceedings; of actions of a declaration of noninfringement; of proceedings relating to the use of the patent or to the right based on prior use of the patent, or requests for

limitation; counterclaims for invalidity or applications for declaration of lapse, including requests for provisional measures. The first instance Community Patent Court essentially will be a panel affiliated with the Court of First Instance and will sit in Luxembourg, or may hold hearings in member states other than that in which its seat is located. Those close to the agreement suggest that there will be six judges initially, and the judges will hear cases in groups of three. Any appeal shall lie with the Court of First Instance of the European Communities (CFI). The compromise is that the Community Patent Court will not be empowered to deal with patent disputes until 2010. In the interim, national courts will retain competence in this area.

This compromise was reached mainly because Germany dropped its opposition to a central patent court. A large amount of the work of German courts is in patent cases, partly because of the presence of the European Patent Office in Munich, but also because judges are specialized and cases are straightforward, with no discovery or cross-examination. This makes litigation cheaper and quicker than in many other countries. The German government was therefore reluctant to adopt a system that would undermine this success and also potentially remove a source of revenue from the state government.

The new system is expected to be up and running soon with the first Community Patents issued within five years. The EPO will be handling the examination and grant of these, although the national offices may carry out searches.

In the meantime, national governments are faced with the task of transposing the Community Patent Regulation into domestic law. Additionally, there is work to be done to clarify the scope of the Community Patent court's jurisdiction, as well as regulations on fees. A diplomatic conference also will be necessary to revise the European Patent Convention.

The Community Patent is not replacing the existing option of protecting inventions in Europe using the European Patent or national patents. It will be another choice for the applicant.

Industry organizations, however, were concerned with both cost and implementation, and felt that starting out, the new system would be better with a central court without having to wait a number of years before achieving a central jurisdiction and consistency in interpretation of patent coverage. Furthermore, permitting all patent claims to be translated in all of the languages was considered to increase greatly the cost of a patent. Nevertheless, organizations felt that using the Community Patent would still cost less than present European costs. At the moment, it is estimated that cov-

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ering eight European countries costs about five times as much as the U.S. or Japan. With the Community Patent it would cut the costs in half. While costs still would be significantly greater than the U.S. or Japan, it would be an improvement.

Changes Proposed in the Japanese Patent System

The Japanese government has issued an *Interim Report on Ideal System for Optimizing Patent Examination*, which was produced by the Patent System Subcommittee of the Industrial Structure Council in January 2003. It reviewed the status of patents in Japan and in the rest of the world, indicating that improvements were needed in the Japanese system to expedite examination and to promote Japanese creativity.

Some of the proposed changes and improvements in the Japanese system include:

1. Increasing the number of patent examiners.
2. Upgrading outsourcing of search and classification of patents. In addition to using the IPCC for outsourcing of searches, consideration will be given to outsource such activities to others. Furthermore, they are planning to modify such outsourcing activity into a dialogue system where the searcher will hold interviews with the examiner for better communication between the examiner and the searcher.
3. Utilizing assistant examiners. Using ex-examiners and science/engineering doctors who have expert knowledge to help reduce the burden of patent examiners by having these individuals conduct prior art searches, prepare written opinions, and provide patent examiners technical explanations in the state of the art technical fields.

The Japanese Patent Office also plans to review various matters within the Japanese patent law including:

1. Examination standards concerning amendment limitations. As a result of a number of complaints that the Japanese examiners are excessively limiting the amendment practice, the JPO is planning to issue guidelines providing a more flexible practice. Specifically, they are going to clarify the type of amendments permitted by flexibly interpreting the standard of being able to derive the amendment "directly and unambiguously" from the features originally disclosed.
2. JPO will consider whether to introduce a CIP application system in Japan.
3. Review of the unity requirement. Because the Japanese unity of invention rule differs from the PCT system, a revision is planned of the unity rule in the JPO. At present under JPO practice, they determine whether the relationship between the claims provides related inventions under various regulations. However, under the PCT standard it is determined whether there is a single inventive concept throughout all of the claims.
4. The JPO will clarify the description requirement. Under the Japanese system there is no clear provision for a written description requirement and these will now be introduced into the Japanese system.
5. Early examination. Through continued encourage-

ment of accelerated examination, especially in high-tech fields, the JPO will try to provide search reports as quickly as possible so that these can be used to guide applicants filing in other countries outside of Japan.

6. Trilateral exchange of examiners. In January 2003, a trial project of mutually sharing search results started between JPO and USPTO. There also will be a bilateral exchange of examiners between the two patent offices. (USPTO and JPO).

7. A new fee structure system to readjust fees. Filing fees will be reduced slightly. However, requests for search and examination fees will be doubled. Such large increases, however, will be compensated for by dramatic reductions in maintenance fees. Thus, over the life of a patent, the total costs will actually be reduced.

8. Introduction of a small entity fee that would be available for both Japanese and foreign enterprises.

9. Introduction of a partial refund of examination fee for applications on which a request for search and examination took place but the application is withdrawn before the actual examination occurs.

Canadian Court Disallows Patenting of Higher Life Forms

In a 5 to 4 split decision, the Supreme Court of Canada overturned a Federal Court of Appeal ruling that patenting higher life forms is permissible under the Canadian Patent Act.

With the Supreme Court's decision, it appears unlikely that any higher life form, plant or animal, is patentable under Canadian law. In this regard, Canadian law has now fallen out of step with a number of other jurisdictions, including the United States, Europe, and Japan. For example, Harvard College already had been issued a patent in the United States for their "oncomouse" in 1988, and a European patent in 1991.

As no further appeal is possible, the only remaining avenue for the patenting of higher life forms in Canada is for Parliament to amend the Patent Act to expressly provide for their patentability.

The reasons of the majority are based on the conclusion that higher life forms do not fit within the definitions of "manufacture" or "composition of matter." The majority commented that the phrase "composition of matter" "does not fit well with common understandings of human and animal life" and that "patenting higher life forms would involve a radical departure from the traditional patent regime."

Although the decision means that higher life forms are not patentable, the majority accepts that unicellular life forms and cell cultures are patentable and expressly declines to attempt to locate the line between patentable lower life forms and unpatentable higher life forms.

The majority repeatedly observes that this topic should be left to Parliament, stating that "If higher life forms are to be patentable, it must be under the clear and unequivocal direction of Parliament." The majority reasons can be read as a clear invitation for Parliament to take up the subject.

Enlargement of European Community and Its Effect on the European Community Trademark

In a speech, Paul Maier, director of OHIM Designs and Enlargement Division, spoke about the consequences of the accession of the ten new countries to the European Community. The main results of the enlargement are:

1. The European Community will increase from fifteen to twenty-five countries and up to ten new languages will be added to the present eleven official languages of the Union.

2. The ten new countries, which will be part of the European Community, are: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia. These countries will therefore be covered by Community Trademarks.

3. The date of accession will be in 2004.

4. All existing CTM registrations and applications will automatically be extended to the new countries. It will *not* therefore be necessary to pay extra fees or apply for extension.

5. An extended CTM will not be cancelled because of descriptiveness in the language of a new country. In this case the new member state will only prohibit the use of such CTM in their country and the CTM will still be valid.

6. An extended CTM will not be cancelled because of a prior national trademark in one of the new member states (for example, because there is an identity of trademarks).

New Japanese Decision Regarding Employees' Inventions

The controversy regarding the employee's invention system and patent remuneration system in Japan is currently increasing, and suits continue to be filed by former employees for payment of compensation. In the midst of this, a new decision regarding employees' inventions handed down by the Tokyo District Court on November 29, 2002, has drawn considerable attention.

In this suit, a former employee of Hitachi, Ltd. demanded payment of 970 million yen as additional remuneration stating that the remuneration received for an employee's invention in the field of optical disks was insufficient.

Attention was drawn to the fact that license agreements were made with a large number of businesses and that large sums of royalties were obtained for the basic patent. On the other hand, the defendant, Hitachi, is said to have a patent management system and a patent remuneration system that exceed the standard held by Japanese businesses. The Tokyo District Court judged that the appropriate value of the invention made by the former employee is 35 million yen, and ordered the payment of the outstanding amount determined by subtracting the amount already received from the defendant (determined as being approximately 200,000 yen) from the judged value. This is the highest amount for an employee's invention set by a court.

In this decision, the profits of the defendant obtained in connection with the many license agreements were calculated as being approximately 250 million yen. Although the detailed basis for the calculation was not clarified in the computation of the profits of the defendant, this decision is of great interest because of the assertion that the profits that should have been received by the defendant should incorporate the unpaid working costs related to cross-license agreements that the other parties did not receive in accordance with the content of the agreements. The above value was computed in consideration of the influence that the degree of service by the defendant and the degree of contribution by cooperating inventors had on the amount of profits.

Demands regarding overseas patent rights were also at issue in this suit. Based on the territorial principle that a patent right is only effective in the country where the patent is issued, this decision concluded that "regarding cases which apply to employees' inventions in Japan, whether a patent right obtained in a foreign country reverts to the employer or the employee, . . . and whether or not there is an obligation to pay the value, should be determined using the patent laws of each country as the governing laws" and that "Japanese Patent Law, Article 35, only applies to a patent right in Japan, and is not applicable nor analogously applicable to a patent right in a foreign country." Therefore, the demand for compensation for a foreign patent based on Japanese Patent Law, Article 35, Paragraph 3 was not accepted. This decision may have a significant affect on other suits relating to disputes for employees' inventions that are currently being pursued in the courts.

Both parties may consider appealing this decision.

Foreign Information Available on Line

1. Irish Online Database for Patents, Trademarks and Designs

The Irish Patent Office has announced the launch of its online register and database search system for patents, trademarks, and industrial designs. The registers and databases are available at www.patentoffice.ie/eRegister/default.asp.

2. Hong Kong Online Trademark Database

Since January 20, 2003, the general public is able to search for trademarks registered in Hong Kong on the Internet. The new online system contains all registered trademarks and trademark applications in force on the Hong Kong Register of Trademarks. The new facility is provided to the public free of charge at www.ipsearch.ipd.gov.hk.

Recent Developments in Intellectual Property Law

BY JOHN C. GATZ, REPORTER



John C. Gatz

Patents

ANDA Filing

Warner-Lambert Co. v. Apotex Corp., 65 U.S.P.Q.2d 1481 (Fed. Cir. 2003). The central issue was whether it is an act of infringement under 35 U.S.C. § 271(e)(2)(A) to submit an Abbreviated New Drug Application (ANDA) seeking approval to make, use, or sell a drug for an approved use if any other use of the drug is claimed in a patent or if it is only an act of infringement to submit an ANDA seeking approval to make, use, or sell a drug if the drug or the use for which FDA approval is sought is claimed in a patent. The Federal Circuit concluded that it is not an act of infringement to submit an ANDA for approval to market a drug for use when neither the drug nor that use is covered by an existing patent, and the patent at issue is for a use not approved under the ANDA. It is abundantly clear that the statute does not make the filing of an ANDA prior to patent expiration an act of infringement unless the ANDA seeks approval to manufacture, use, or sell the drug prior to the expiration of a patent that would otherwise be infringed by such manufacture, use, or sale apart from the provisions of Section 271(e)(2). Because Apotex is not submitting an application to sell a drug for treatment of neurodegenerative diseases, which is the only use covered by the patent involved in this case, the Federal Circuit concluded that Apotex is entitled to summary judgment of noninfringement.

Board of Patent Appeals and Interferences

Singh v. Brake, 65 U.S.P.Q.2d 1641 (Fed. Cir. 2003). The Federal Circuit affirmed the decision of the Board of Patent Appeals and Interferences (Board) awarding judgment to senior party. The Federal Circuit concluded that junior party attempted to raise matters in post-preliminary motion briefs that could have been but were not raised at the outset of the interference and that the Board acted properly in returning junior party's briefs. The Federal Circuit also concluded that the Board correctly held that junior party failed to prove his claim of prior conception of the claimed DNA construct. No

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evidence in junior party's notebook corroborated his testimony that three entries in question were meant to be read together and his notebook entries, at best, stated a goal that he hoped to achieve rather than a protocol for the procedure necessary to obtain the claimed DNA construct. The Federal Circuit disagreed with junior party's contention that senior party should not be entitled benefit of its earlier-filed application simply because senior party's earlier-filed application disclosed a large genus encompassing some 9,000 species of which the count was directed to only two. The Federal Circuit also disagreed with junior party's contention that senior party's earlier-filed application did not provide an enabling disclosure of the invention of the count, indicating that junior party confused the standards for demonstrating nonobviousness with those for demonstrating enablement.

Claim Construction

Schumer v. Laboratory Computer Systems Inc., 64 U.S.P.Q.2d 1832 (Fed. Cir. 2002). The preamble of the method claim at issue describes a coordinate system of a digitizer and recites "which coordinate system has a point of origin and has an angle of rotation with respect to the digitizer and has a scale." This language describes features that necessarily exist in any coordinate system for a digitizer. The preamble does not specify how the device operates with respect to those features. The language of the body of the claim sets forth the complete invention in that it provides in detail the functional attributes of the device that performs the method. As such, the language of the preamble is superfluous and not a claim limitation.

Texas Digital Systems Inc. v. Telegenix Inc., 64 U.S.P.Q.2d 1812 (Fed. Cir. 2002). In construing claims, the analytical focus must begin and remain centered on the language of the claims themselves. The terms used in the claims bear a heavy presumption that they mean what they say and have the ordinary meaning that would be attributed to those words by persons skilled in the art. It has long been recognized that dictionaries, encyclopedias, and treatises are particularly useful resources to assist the court in determining the ordinary and customary meanings of claim terms. Dictionaries, encyclopedias, and treatises, publicly available at the time the patent issued, are objective resources that serve as reliable sources of information on the established meanings of the claim terms. As resources and references to inform the courts in the understanding of technology and terminology, it is proper for both trial and appellate judges to consult these materials at any stage in the litigation, regardless of whether they have been offered by a party as evidence. Thus, to categorize them as extrinsic evidence or even a special form of extrinsic evidence is misplaced. The intrinsic record must always be consulted to determine

which of the different possible dictionary meanings of the claim terms at issue is most consistent with the use of the words by the inventor. If more than one dictionary definition is consistent with the use of the words in the intrinsic record, the claim terms may be construed to encompass all such consistent meanings. The intrinsic record also must be examined to determine whether the presumption of ordinary and customary meaning is rebutted. The intrinsic record may show that the specification uses the words in a manner completely inconsistent with the ordinary meaning reflected in a dictionary definition. In such a case, the dictionary definition must be rejected.

Verve LLC v. Crane Cams Inc., 65 U.S.P.Q.2d 1051 (Fed. Cir. 2002). The Federal Circuit concluded that the district court erred by requiring that the intrinsic evidence of the specification and prosecution history is the sole source of meaning for words that are used in a technological context. While reference to intrinsic evidence is primary in interpreting claims, the criterion is the meaning of words as they would be understood by persons in the field of the invention. The patentee is not required to include in the specification information readily understood by practitioners. Thus, resolution of any ambiguity arising from the claims and specification may be aided by extrinsic evidence of usage and meaning of a term in the context of the invention. The issue involves how the claim phrase would be understood by person of skill in the art.

Claim Construction and Infringement

Amgen Inc. v. Hoechst Marion Roussel Inc., 65 U.S.P.Q.2d 1385 (Fed. Cir. 2003). Following a Markman hearing and a bench trial, the district court construed the claims at issue, and held some claims of five patents-in-suit to be not invalid and infringed and found others to be invalid and/or not infringed. The Federal Circuit affirmed in part and vacated in part because the district court committed errors of law in certain of its validity and infringement determinations. Specifically, the Federal Circuit affirmed the district court's claim construction. The Federal Circuit concluded that claims directed to the production of recombinant erythropoietin are not limited to use of exogenous DNA based on their plain meaning. The Federal Circuit also concluded that the terms "non-naturally occurring," "vertebrate cells," and "mammalian cells" were properly construed to include human cells because of the heavy presumption that claim terms carry their ordinary and customary meaning and because the prosecution history cannot be used to infer intentional narrowing of claim scope without clear disavowal of claim coverage. The Federal Circuit further concluded that certain claims directed to producing recombinant erythropoietin were properly construed as "pure" product claims because the prosecution history contained persuasive evidence that both the patentee and the examiner viewed the claims as lacking a process component.

The Federal Circuit also affirmed some of the district court's determinations including that the patents-in-suit were not unenforceable for inequitable conduct, that one of the patents-in-suit was invalid under Section 112, ¶ 1;

that some of the patents-in-suit were not anticipated; and that some of the claims of the patents-in-suit were not infringed. Because the district court misapplied the law, the Federal Circuit vacated numerous determinations of the district court including that one of the patents-in-suit was not infringed; that one of the patents-in-suit was infringed under the doctrine of equivalents; that several of the patents-in-suit were not invalid; and that the asserted method claims of two of the patents-in-suit were not infringed. On remand, the Federal Circuit directed the district court to construe the claim term "therapeutically effective" and reconsider validity under Sections 102 and 103 in view of a prior art reference; reconsider validity of all asserted claims under Section 103 and one claim of one of the patents-in-suit under Section 102 in view of another reference; reassess infringement of the accused method by comparing it solely to the limitations of each of the asserted method claims; and reevaluate its finding of infringement under the doctrine of equivalents, focusing on the application of prosecution history estoppel.

Claim Construction/Invalidity

All Dental Prodx LLC v. Advantage Dental Products Inc., 64 U.S.P.Q.2d 1945 (Fed. Cir. 2002). The accused infringer, All Dental, argued that the phrase "original unidentified mass" fails to meet the written description requirement of 35 U.S.C. § 112, ¶ 1. Advantage Dental contended that, while the phrase "original unidentified mass" does not literally appear in the specification, one skilled in the art would recognize and know how to practice the claimed invention using "an original unidentified mass" by reading the specification. There is no mention of the starting material's shape or form in the patent specification. The invention involves heating a mass of thermoplastic material that lacks an identifiable form. It is clear that the invention does not involve heating a thermoplastic mass having an identifiable form or shape.

To determine the definiteness requirement of 35 U.S.C. § 112, ¶ 2, the claim must be construed. Claim construction includes considering the claim language itself and other intrinsic evidence, such as the patent specification and prosecution history. The prosecution history aids in clarifying the meaning of the phrase "original unidentified mass." Considering the prosecution history and the specification's clear indication of the nature of the invention, the Federal Circuit concluded that the phrase means exactly what the district court said it means: "a mass that does not have a specific preformed size and shape."

Damages

Micro Chem. Inc. v. Lextron Inc., 65 U.S.P.Q.2d 1695 (Fed. Cir. 2003). The Federal Circuit considered only the damages aspect of this case involving weighing, dispensing, and delivering microingredients into livestock feed. Because defendant Lextron's Type 5 machine was not an available substitute, the district court erred in holding on summary judgment that Micro was not entitled to lost profits. The Federal Circuit also vacated the district court's reasonable royalty determination.

The district court found that plaintiff Micro could not satisfy two of the four *Panduit* factors: absence of available, noninfringing substitutes and demand for the patented product. The district court found that Lextron's Type 5 machine was an available, noninfringing substitute for its infringing Type 2 machine and that there was no demand for Micro's patented weigh machines. The Federal Circuit stated that the record shows that Lextron did not have the necessary equipment, know-how, and experience to make its design around Type 5 machine at the time of infringement, citing Lextron's 984 hours required to design and 330 hours needed to test the Type 5 machine. Thus, the Federal Circuit concluded that the district court erred in granting summary judgment on the availability of the Type 5 machine at the time of infringement.

The Federal Circuit also concluded that the record lacked a basis for the district court's granting of summary judgment on the *Panduit* demand factor. Although the parties provided the patented weigh machines to feedlots at no cost, the record indicates that these machines had benefits over other methods, that the number of weigh machines in commercial use increased during the infringement period, and that both parties made profits on placement of their machines. Drawing all reasonable inferences in Micro's favor, the Federal Circuit determined that the record raises a genuine issue of material fact concerning demand.

The Federal Circuit also concluded that the district court erred in holding that Micro could not resort to the "two-supplier market" test to show its entitlement to an award of lost profits. The Federal Circuit determined that the district court erroneously construed the relevant market for lost profits as the market for microingredients, which has many suppliers, and that defining the relevant market in this manner improperly excluded the patented invention. The Federal Circuit noted the invention includes the microingredient weigh machine and that the relevant market is for machines that dispense microingredients by weight. Due to its decision on lost profits, the Federal Circuit vacated the district court's reasonable royalty determination to the extent Micro proves its lost profits.

Design Patent/Invalidity under Sections 102(e) and 102(g)(2)

Rosco Inc. v. Mirror Lite Co., 64 U.S.P.Q. 2d 1676 (Fed. Cir. 2002). Rosco, Inc. (Rosco) is the owner of a design patent and filed a complaint against Mirror Lite Company (Mirror Lite). Mirror Lite filed a counterclaim that included asserting a utility patent against Rosco. The Rosco design patent is directed to an oval, highly convex, cross-view mirror with a black, flat backing. The Federal Circuit applies a stringent standard for invalidating a design patent on grounds of functionality: the design of a useful article is deemed functional where "the appearance of the claimed design is 'dictated by' the use or purpose of the article." The design must not be governed solely by function. In other words, that this is not the only possible form of the article that could perform its function. When there are several ways to achieve the function of an article,

the design of the article is more likely to serve a primarily ornamental purpose.

The mere fact that the invention claimed in the design patent exhibited a superior field of view over one predecessor mirror did not establish that the design was dictated by functional considerations. The record reflected that other mirrors with non-oval shapes offer that particular field of view. Mirror Lite did not show by clear and convincing evidence that there are no designs other than the one shown in Rosco's design patent that have the same functional capabilities as Rosco's oval mirror. The Federal Circuit reversed the district court and held that the design patent was not invalid on functionality grounds. The Federal Circuit also noted that because the district court failed to make the necessary findings as to obviousness, the Federal Circuit remanded for compliance with Rule 52. If the district court finds that the Rosco patent is not invalid, then the issue of whether that patent was infringed needs to be addressed.

The Federal Circuit also reversed the district court's decision that the claims of Mirror Lite's utility patent were invalid under 35 U.S.C. §§ 102(e) and 102(g)(2). The district court found that a prior art patent (Rosco's '357 patent) inherently disclosed the limitations of Mirror Lite's utility patent. The Federal Circuit disagreed and stated that there was no evidence in the record to support such a finding. Rosco's vice-president's testimony attempted to establish that mirrors manufactured using the vacuum thermoforming process yield a varying radius of curvature along the major axis, but did not attempt to establish that the mirror of the prior art patent can only be manufactured by that particular process. Rosco's counsel could not identify any evidence that one skilled in the art would read the prior art patent as inherently disclosing a mirror with varying radius of curvature along the major axis. The Federal Circuit reversed the district court's conclusion that the Mirror Lite patent is invalid under 35 U.S.C. § 102(e).

To invalidate a claimed invention under 35 U.S.C. § 102(g)(2) by a prior invention, there must be a contemporaneous recognition and appreciation of the invention. The question was whether Rosco actually recognized and appreciated a mirror with varying radius of curvature along the major axis. Rosco could not provide any evidence that this feature of the invention was recognized and appreciated. Rosco intended to design a mirror with constant curvature along the major axis to prevent distortion of the image in the mirror lens. The testimony of Rosco's vice-president that "[t]he varying curvature, in my mind, was automatic because this is the process of producing these lenses which has to have, by nature, a various [sic] curvature" was considered by the Federal Circuit as self-interested and lacking corroboration. The Federal Circuit affirmed in part, reversed in part, vacated in part, and remanded to the district court.

Doctrine of Equivalents

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 64 U.S.P.Q.2d 1699 (Fed. Cir. 2002). The Federal Circuit

upon remand from the Supreme Court ordered the parties to submit briefs on the following issues before being heard *en banc*:

(1) Whether rebuttal of the presumption of surrender, including issues of foreseeability, tangentialness, or reasonable expectations of those skilled in the art, is a question of law or one of fact; and what role a jury should play in determining whether a patent owner can rebut the presumption.

(2) What factors are encompassed by the criteria set forth by the Supreme Court.

(3) If a rebuttal determination requires factual findings, then whether, in this case, remand to the district court is necessary to determine whether Festo can rebut the presumption that any narrowing amendment surrendered the equivalent now asserted, or whether the record as it now stands is sufficient to make those determinations.

(4) If remand to the district court is not necessary, then whether Festo can rebut the presumption that any narrowing amendment surrendered the equivalent now asserted.

Enablement and Claim Construction

Plant Genetic Sys. N.V. v. DeKalb Genetics Corp., 65 U.S.P.Q.2d 1452 (Fed. Cir. 2003). The Federal Circuit affirmed the district court's conclusion that certain claims of Plant Genetic's patent were invalid for lack of enablement. The Federal Circuit rejected as unsupported by precedents Plant Genetic's argument that its patent-in-suit was entitled to a lowered standard for meeting the enablement requirement because it was a "pioneering" invention. The Federal Circuit also rejected Plant Genetic's argument that the district court failed to consider all relevant evidence before concluding the asserted claims were invalid for lack of enablement. The Federal Circuit noted that a district court need not recite every item of evidence in its opinion to show it considered evidence, the record showed no indication that the district court failed to consider certain allegedly ignored documents, and the district court was entitled to afford more weight to certain evidence.

The Federal Circuit also affirmed the district court's conclusion that certain claims of Plant Genetic's patent were not infringed. The Federal Circuit concluded that the district court properly construed the limitation "susceptible to infection and transformation by Agrobacterium and capable of regeneration" of the plant and seed claims to exclude monocot plants and their seeds. This limitation was added to overcome a nonenablement rejection as to monocots, and the specification did not disclose any method or working examples for transforming monocot plants or cells. Based on the prosecution history alone, the Federal Circuit concluded that the claims at issue could not cover corn or any other monocots.

Erroneous Claim Construction

Electro Scientific Indus. Inc. v. Dynamic Details Inc., 65 U.S.P.Q.2d 1781 (Fed. Cir. 2003). The Federal Circuit vacated the district court's grant of summary judgment that Dynamic Details and GSI did not infringe Electro's

patent. The Federal Circuit concluded that the district court applied an erroneous claim construction. The district court construed the claims at issue to require simultaneous processing of "multiple, separated workpieces [but to] not claim a system for processing a single workpiece" and determined that the claims required separate "circuit boards" rather than a single workpiece that could be separated after processing. The Federal Circuit focused on the meaning of the term "circuit boards." The Federal Circuit concluded that the specification and the common understanding of those in the field of electrical component fabrication supported the interpretation that the term "circuit boards" does not require separated workpieces. The Federal Circuit rejected GSI's contentions that the preamble and specification modified the customary meaning of "workpiece" to require physical separateness and that the preferred embodiment of the patent-in-suit showed physically separate workpieces. The Federal Circuit, therefore, concluded that the claims at issue did not require physically separate circuit boards and remanded for reconsideration in view of the properly construed claims.

Expert Witness

Micro Chemical Inc. v. Lextron Inc., 65 U.S.P.Q.2d 1532 (Fed. Cir. 2003). Expert testimony must be based upon sufficient facts and data by Federal Rule of Evidence 702. The parties disputed many of the facts relevant in determining a reasonable royalty, the foremost being whether the defendants' modified systems would have been available at the time of a hypothetical royalty negotiation and whether the defendants promoted sales of their other products by distributing their infringing systems to feedlots free of charge or at a loss. When the parties' experts rely on conflicting sets of facts, it is not the role of the trial court to evaluate the correctness of facts underlying one expert's testimony. Thus, the trial court properly did not rule inadmissible the damages testimony simply because it was based on the plaintiff's version of the contested facts.

Interferences (Conception/Due Diligence)

In re Jolley, 64 U.S.P.Q.2d 1901 (Fed. Cir. 2002). The count involved a particular ester lubricant composition compatible with chlorine-free HFC refrigerants. The interference involved two parties (Jolley and McGraw) of which Jolley appealed the decision of the Board of Patent Appeals and Interferences (Board) granting priority to McGraw based on an earlier conception and diligence toward a later reduction to practice.

Jolley established conception of the invention no earlier than June 2, 1988. The Board, however, awarded priority to McGraw, based on an alleged May 20, 1988, prior conception coupled with diligence extending to a reduction to practice in September or October of 1988. Jolley contested the Board's (a) conclusion that McGraw's evidence suffices to show conception of the subject matter of the count, (b) determination that McGraw's inventive activity during the critical time period should be credited toward reduction to practice of the invention as conceived,

and (c) determination that the Williamitis patent provides a complete and enabling disclosure of subject matter encompassed by Jolley's claims.

Whether a party to an interference has demonstrated conception of the invention of the count is a legal conclusion, based on subsidiary factual findings. The Federal Circuit reviews the Board's legal conclusions without deference, but must affirm its factual findings if supported by substantial evidence. Substantial evidence "means such relevant evidence as a reasonable mind might accept as adequate to support a conclusion." McGraw's initial conception was not of a pure ester lubricant as defined by the count, but rather a lubricant mixture including both an ester and a separate polyhydric alcohol component. The count uses "comprising" language that permits additional ingredients (such as a polyhydric alcohol lubricant) to be present in the composition defined in the count. The Board concluded that McGraw could claim the benefit of its documented conception of and diligence toward a "three-component" system: a refrigerant, an ester, and a polyhydric alcohol (also called a polyol or polyglycol). Jolley argued that McGraw's evidence of conception on its face was too generalized to serve as a conception of the subject matter of the count. Conception must be proven by evidence showing what the inventor has disclosed to others and what that disclosure means to one of ordinary skill in the art. The Board relied on an e-mail sent by one of the co-inventors (Ward) to McGraw and several other employees on May 20, 1988. The "esters" in this e-mail referred to those disclosed in prior patents, of which some (but not all) are within the scope of the count.

The issue was whether a generalized disclosure corresponds with sufficient particularity to the chemical genus defined by the interference count. The conception inquiry is fact-intensive and the Board found that only the exercise of ordinary skill, rather than extensive experimentation, would be required to reduce to practice the conception documented by Ward's e-mail. The Board's opinion sets forth corroborating testimony. Rhett Davis, McGraw's supervisor, testified that Dow's Industrial Polyglycols division was manufacturing a polyol/ester lubricant which had as its ester component a product purchased from Mobil named P51. Mobil's P51 ester was a blend with an HFC refrigerant, within the scope of the count. Thus, Davis testified that she expected that blends of polyols and pentaerythritol esters would be among the first esters to be evaluated in the program proposed in Ward's e-mail. The Ward e-mail discloses a group of esters including those in the count and there is ample testimony from the inventors concerning their particular interest in pentaerythritol esters. Davis's testimony corroborates the inventor's own testimony that Dow Chemical was in the business of producing a product that contains pentaerythritol ester which is within the count. The inventors did not engage in extensive experimentation with those esters that were encompassed by the face of Ward's e-mail but were not within the scope of the count. The conception inquiry, however, asks whether the inventors embraced the invention in their minds as of the date

alleged. Whether subsequent testing succeeded or failed, or even took place, does not determine whether conception was complete as of that date.

McGraw documented various activities on the part of inventors Ward and McGraw from May 1988 through October 1988 in pursuit of reducing the three-component system to practice. The Board found that any gaps of inactivity were excusable by reasonable everyday problems and substantiated employment limitations like the inventors' other duties, and Jolley does not contest these findings on appeal. Jolley argued that McGraw did not perform any tests on ester solubility until September 21, 1988. The Board responded to Jolley's arguments by reminding Jolley that three-component systems comprising polyglycols are within the scope of the count, since the count is open to additional ingredients in the refrigerator/ester composition. According to the Board, it was a reasonable course for McGraw and Ward to fully explore the properties of simpler systems—polyglycol/R134a and ester/R134a compositions—before combining both lubricants into a three-component system.

The Federal Circuit found no error in the Board's determination that McGraw first conceived of the invention defined by the interference count, and that McGraw exercised reasonable diligence in reducing the invention to practice during a period extending from just prior to Jolley's later conception through McGraw's own reduction to practice. Therefore, the Federal Court affirmed the Board's award of priority of invention to McGraw.

Interfering Patents under Section 291

Slip Track Systems Inc. v. Metal-Lite Inc., 64 U.S.P.Q.2d 1423 (Fed. Cir. 2002). Slip Track Systems Inc. (Slip Track) and Metal-Lite Inc. (Metal Lite) own interfering patents. Slip Track filed a complaint to institute an interference under 35 U.S.C. § 291. Priority, conception, and reduction to practice are questions of law based on subsidiary factual findings. The Federal Circuit reviews the issues of conception and reduction to practice *de novo*. Conception must include every feature or limitation of the claimed invention. Corroboration, while necessary when inventor testimony is relied on for conception, is not required when a physical exhibit is presented as evidence of conception.

The dispute between the parties focused on defining the actual interfering subject matter. The Federal Circuit had not previously determined whether district courts handling interfering patent suits under Section 291 must define the interfering subject matter in a way similar to a count. The Federal Circuit held that given interfering patents, a single description of the interfering subject matter is necessary to determine priority. The description of the interfering subject matter must be broad so as to encompass the common subject matter of the claims in both patents. Because the claims of Slip Track do not include a wallboard, this cannot be an element of the interfering subject matter. The Federal Circuit found that Slip Track was entitled to a September 1989 conception date.

To establish actual reduction to practice, the inventor must prove that an embodiment was constructed or a process was performed that met all the limitations of the claim, and that the invention would work for its intended purpose. Slip Track alleged that its two prototypes constituted a reduction to practice and that there was uncontroverted testimony that the invention would work for its intended purpose. Therefore, Slip Track argued that it was improper to grant summary judgment that neither of its two prototypes was a reduction to practice. The Federal Circuit remanded and stated that the district court should consider the absence of testing and whether such testing was needed to determine if the invention was suitable for its intended purposes. The Federal Circuit also stated that the deviation in materials between the first prototype and the claimed embodiment should be considered in determining whether the invention would work for its intended purpose. The district court should also consider whether (1) the features of the second prototype whose dates have been corroborated meet the limitations of the interfering subject matter, and (2) there is sufficient evidence that the second prototype would be suitable for its intended purpose to withstand summary judgment. The Federal Circuit vacated the grant of summary judgment priority to Metal Lite and remanded for further proceedings not inconsistent with this opinion.

Inventorship

Thompson v. Haynes, 64 U.S.P.Q.2d 1650 (Fed. Cir. 2002). The issue of inventorship arose between Messrs. Thompson and Haynes. The inventorship issue was properly before the Federal Circuit because the court's conclusion on inventorship was addressed in its partial findings of fact and conclusions of law and final judgment was entered on the inventorship claims by the Rule 54(b) judgment. Accordingly, the inventorship issue was properly before the Federal Circuit. There is a presumption that the inventors named on an issued patent are correct, so misjoinder of inventors must be proven by clear and convincing evidence. The burden on each party was to show facts supported by clear and convincing evidence that the other named inventor had not in fact contributed to the inventive concept. The district court also found that neither party had presented any evidence that supported the conclusion that the other should be removed as a joint inventor of the patent. Thus, the Federal Circuit affirmed that Messrs. Thompson and Haynes were joint inventors.

Judicial Review

In re Huston, 64 U.S.P.Q.2d 1801 (Fed. Cir. 2002). To establish obviousness, the Board of Patents Appeals and Interferences (Board) must show objective teaching in the prior art or that knowledge was generally available to one of ordinary skill in the art that would lead the individual to combine the relevant teachings of the references. The appellants complain that the Board did not specifically find a suggestion or motivation to combine the references in the prior art, except through its reliance on common knowledge and common sense. Despite the Board's reference to "common knowledge and common sense," the

Federal Circuit found that the Board had not relied on its own general knowledge. Rather, the Federal Circuit found that the Board found the motivation to combine the references in the prior art references themselves. The Federal Circuit found that although the Board's conclusions are cryptic, they are supported by the record. While the Federal Circuit acknowledged that it cannot supply a reasoned basis for the Board's action that the Board itself has not given, the Federal Circuit concluded that it could reasonably discern the Board's path. Thus, the Federal Circuit found that substantial evidence supports the Board's determination that there is a sufficient motivation to combine the references.

Jurisdiction

Golan v. Pingel Enterprise Inc., 64 U.S.P.Q.2d 1911 (Fed. Cir. 2002). The Supreme Court in *Vornado Air Circulation* held that 28 U.S.C. § 1295(a)(1) authorizes the Federal Circuit to exercise appellate jurisdiction over only those appeals in which the complaint authorized the district court to exercise jurisdiction pursuant to 28 U.S.C. § 1338. After *Vornado*, the Federal Circuit cannot rely solely on counterclaims arising under the patent laws to establish appellate jurisdiction. *Golan*, in its complaint, sought declarations of patent noninfringement. When a complaint seeks a declaration of noninfringement, the action threatened by the declaratory defendant (*Pingel Enterprise Inc. (Pingel)*) would be an action for patent infringement. Such an action arises under the patent laws. The fact that *Pingel* actually counterclaimed for patent infringement is irrelevant to jurisdiction. Thus, the Federal Circuit had jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

Means Plus Function/Indefiniteness

Creo Products Inc. v. Presstek Inc., 64 U.S.P.Q.2d 1385 (Fed. Cir. 2002). *Creo Products Inc. (Creo)* filed a declaratory judgment action claiming that two patents of *Presstek, Inc. (Presstek)* were invalid, unenforceable, and that the *Creo* imaging system does not infringe the claims of either patent. The *Presstek* patents were previously reexamined and issued in an amended form. The Federal Circuit affirmed the district court's holding that the *Presstek* patents are not invalid and the *Creo* imaging system does not infringe either of the patents.

Creo argued for invalidity based on broadening the scope of the claims during reexamination and the indefiniteness of the claims. A patentee is not permitted to enlarge the scope of a patent claim during reexamination. Whether amendments made during reexamination enlarge the scope of a claim is a matter of claim construction, which the Federal Circuit reviews *de novo*. A reexamined claim that is broader in any respect is considered to be broader than the original claim even though it may be narrower in other respects. *Creo* argued that the structure corresponding to the "means for offsetting" limitation in original claim 1 of the first *Presstek* patent is a computer programmed to correct for all four types of errors. According to *Creo*, *Presstek's* amendments during reex-

amination broadened claim 1 to require that its claimed imaging system is capable of correcting two types of errors. The Federal Circuit noted several flaws in Creo's argument in that Creo first attempted to redefine the function of the "means for offsetting" limitation by adopting a function different from that explicitly recited in original claim 1. The function of a means-plus-function limitation, however, must come from the claim language itself. Second, Creo's interpretation of original claim 1 ignores the doctrine of claim differentiation.

Creo asserted that claim 1 of the second Presstek patent is invalid for indefiniteness because the specification does not adequately disclose sufficient structure corresponding to the "means for rotating each cylinder" limitation. Where the specification discloses alternative embodiments, the claim is valid even if only one embodiment discloses corresponding structure. When interpreting limitations under § 112, ¶ 6, knowledge of one skilled in the art may be called upon to explain a particular structural reference in the specification to satisfy the statutory requirement of definiteness. Thus, in addressing the question whether a means-plus-function limitation satisfies the definiteness requirement, the Federal Circuit focuses on whether one skilled in the art would have understood that the specification disclosed structure capable of performing the function recited in the claim limitation.

Prosecution Laches

In re Bogese, 64 U.S.P.Q.2d 1448 (Fed. Cir. 2002). The Federal Circuit held that the patent applicant (Bogese) forfeited his right to a patent because he failed to advance prosecution of his application for an unreasonably long time. Bogese filed twelve continuation applications over an eight-year period and did not substantively advance prosecution of his application when required by the Examiner and given the opportunity to do so. Specifically, Bogese's pattern was to file a patent application without making claim changes or offering any argument addressing the pending rejection of the claims and then waiting the maximum time of about six months before filing another continuation application. This was repeated at least nine times by Bogese and did not include the time involved in appealing twice to the Board of Patent Appeals and Interferences.

Reexamination

In re Bass, 65 U.S.P.Q.2d 1156 (Fed. Cir. 2002). Bass is the owner of a patent directed to a fishing boat. A third party requested a reexamination based on a design patent to Cargile (Cargile), several Cargile brochures, and a scaled engineering drawing in an article by Lucander (Lucander). The patent examiner initially found claims 1 to 8 of the patent allowable and issued a Notice of Intent to Issue Reexamination Certificate (NIRC). Before the reexamination certificate issued, the same third party requested a second reexamination submitting the same references; six "Closet publications;" and a declaration by Mr. Robert Schofield, a boat designer, that contained an illustration of a view of a boat based entirely on the draw-

ing in Lucander. The examiner granted the second request for reexamination, stating that Lucander raised a substantial new question as to patentability, and merged the two reexamination proceedings. The examiner then rejected claims 1 to 4 based on Cargile and Lucander. The Board of Patent Appeals and Interferences (Board) affirmed the rejection finding that Lucander alone taught all of the limitations of claims 1 to 4.

Bass argued that the PTO was not permitted to consider any of the references discussed in the first reexamination, either in granting the second reexamination or in evaluating the merits of the merged proceeding. Because an NIRC had issued, Bass argued that Lucander was previously considered prior art which the PTO could not reconsider in either the second reexamination or the merged proceeding. The Federal Circuit stated that until a matter has been completed, the PTO may reconsider an earlier action. The NIRC merely notifies the applicant of the PTO's intent to issue a certificate. An NIRC does not preclude further review of the matter by the PTO. Because no prior completed proceeding had reviewed the Lucander and Cargile references, the PTO was free to reconsider and ultimately base a rejection on them. The Federal Circuit stated that there is substantial evidence that supports the Board's finding that Lucander discloses a low-profile motorized sports boat as defined in the specification. Accordingly, the decision of the PTO and the Board was affirmed.

Standing

Paradise Creations Inc. v. UV Sales Inc., 65 U.S.P.Q.2d 1293 (Fed. Cir. 2003). Whether a party has standing to assert the jurisdiction of a federal court is a question of federal law and is to be determined as of the commencement of the suit. Accordingly, the Federal Circuit determined that to assert standing for patent infringement, the plaintiff must show that it held enforceable title to the patent at the inception of the lawsuit. The accused infringer argued that the plaintiff did not have enforceable patent rights during the period of its administrative dissolution and, therefore, did not hold such rights to the patent at the time it filed suit. The Federal Circuit found that the plaintiff cannot rely on the state corporate revival statute to retroactively claim enforceable patent rights at the time the complaint was filed. Accordingly, the Federal Circuit held that the case was properly dismissed for lack of standing.

Subject Matter Jurisdiction

Toxgon Corp. v. BNFL, Inc., 65 U.S.P.Q.2d 1146 (Fed. Cir. 2002). BNFL, Inc. (BNFL) entered into a contract with the Department of Energy, which included a designated subcontractor (GTS Duratek ("Duratek")). Toxgon Corporation accused BNFL and Duratek of infringing one of its patents. In response, BNFL and Duratek moved to dismiss the case for lack of subject matter jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(1). BNFL and Duratek asserted that any alleged infringement occurred "under the authority of and for the sole benefit of

the United States,” requiring that the litigation proceed in the Court of Federal Claims under 28 U.S.C. § 1498(a). The Federal Circuit reviews a dismissal for lack of subject matter jurisdiction according to regional circuit law (Ninth Circuit) because it is a procedural question not unique to patent law. Supreme Court precedent holds that 28 U.S.C. § 1498(a) acts as a codification of a defense and not as a jurisdictional statute. In other words, Section 1498(a) is an affirmative defense rather than a jurisdictional bar, and thus the district court cannot dismiss this action under Federal Rule of Civil Procedure 12(b)(1). If appropriate, a defense arising under Section 1498(a) should be resolved by summary judgment under Rule 56 rather than a Rule 12 motion to dismiss. Unlike a Rule 12(b)(6) motion, a Rule 12(b)(1) motion cannot be converted into a motion for summary judgment. Consequently, the Federal Circuit vacated the district court’s dismissal for lack of subject matter jurisdiction and remanded to the district court for proceedings consistent with this opinion.

Summary Judgment of Noninfringement

Schwing GMBH v. Putzmeister Aktiengesellschaft, 64 U.S.P.Q. 2d 1641 (Fed. Cir. 2002). Schwing GMBH (Schwing) is the owner of the ‘657 reissue patent which was asserted against two types of concrete pump manufactured by Putzmeister, Inc. and Putzmeister Aktiengesellschaft (collectively, Putzmeister). The district court first granted summary judgment in favor of Putzmeister that its first pump does not literally infringe the ‘657 patent. The district court then granted summary judgment in favor of Putzmeister that its second pump does not literally infringe the ‘657 patent and that neither pump infringes the ‘657 patent under the doctrine of equivalents. Schwing appealed only the second summary judgment order entered by the district court.

Schwing’s arguments focused on its claim construction, which differed from that found by the district court. Schwing stated that the “annular extension” limitation in its claims did not require that the annular extensions inhibit radial expansion of the sealing ring. The term annular extension was defined in the claims by purely structural terms. When a claim uses clear structural language, it is generally improper to interpret it as having functional requirements. The Federal Circuit found nothing in the claim language itself that requires the annular extensions to perform the function of inhibiting radial expansion of the sealing ring. Although some embodiments disclosed in the written description inhibit radial expansion of the sealing ring, the Federal Circuit found nothing in the ‘657 patent that suggests that the function of “inhibiting radial expansion of the sealing ring” is a necessary limitation of the annular extensions recited in claim 1. The Federal Circuit stated that the prosecution history, viewed as a whole, did not support the district court’s adoption of the functional limitation of “inhibiting radial expansion of the sealing ring.” Although the Federal Circuit disagreed with the district court’s claim construction, it concluded that Schwing had not demonstrated that there is a genuine issue of material fact as to

whether the second concrete pump literally infringes the properly construed claims of the ‘657 patent.

In attempting to show a genuine dispute of material fact as to that issue, Schwing relies primarily on the following excerpt from a declaration by its expert, Mr. Hunter:

[W]hen the seal ring is assembled with a pre-load against the wear ring, the annular extensions in the shutter mechanism leave an impression of their shape in the material of the seal ring. This indicates to me that when the valve is assembled in operation and the seal ring is compressed between the wear ring and the shutter mechanism, the downstream end of the seal ring is extruded into the grooves formed by the annular extensions. The annular grooves in the shutter mechanism thus overlap an end portion of the seal ring from its inner circumferential surface to its outer circumferential surface so as to retain the seal ring in its seating when the pump is operated in a reverse, suction mode.

The declaration of Schwing’s expert did not create a genuine dispute of material fact because Schwing’s evidence is that claim 1 requires an annular extension of the shutter mechanism to overlap the “second side” of the spring means, not the “second end” as urged by Mr. Hunter. The phrase “from its inner circumferential surface” does no more than define the boundaries of the second end. The only other evidence on which Schwing relies is the single sentence in Mr. Hunter’s expert report stating that “each and every feature of the claims are literally found in the modified valve design.” Without further support, that conclusory statement is insufficient to raise a genuine evidentiary dispute for trial.

The Federal Circuit found that the first concrete ring of Putzmeister was not considered equivalent to the required annular extension. The ‘657 patent specifically identifies and criticizes the use of embedded metal rings in the prior art. Schwing was aware of the possibility of holding the flexible ring in place with an embedded metal ring, but Schwing dismissed such an approach and instead expressly described and claimed a pump with spring means held in place by an annular extension on the shutter mechanism. Schwing cannot now overlook that deliberate decision and reclaim that subject matter through the doctrine of equivalents. The Federal Circuit vacated the grant of summary judgment to the second concrete ring and remanded the case to determine whether that device infringes the ‘657 patent under the doctrine of equivalents, including determining whether Schwing has rebutted the presumption that the amendment to the annular extension limitations bars Schwing from asserting equivalence as to those limitations.

Summary Judgment of Noninfringement/Claim Construction

Middleton Inc. v. Minnesota Mining and Manufacturing Co., 64 U.S.P.Q.2d 1138 (Fed. Cir. 2002). Middleton owns a patent directed to an improved material for finishing the top surface of a floor. One of the limitations in the patent is “at least one elongated sheet including a uniform flexible film. . . .” This dispute previously reached the Federal Circuit from Minnesota Mining and Manufacturing Co.’s motion for summary judgment of

noninfringement without reaching the “uniform” limitation. On that appeal, the Federal Circuit found that the district court erred in its claim construction of the phrase “material for finishing” and reversed the summary judgment of noninfringement.

The district court recognized that the Federal Circuit did not adjudicate the meaning of the term “uniform flexible film” during the prior appeal. The district court defined uniform flexible film as a flexible film having a uniform thickness, and excluded material that varied in thickness. The term “uniform flexible film” does not appear to convey any special technical meanings. Floor coverings do not place any particular limitations on the concept of uniformity. The written description of the patent does not suggest that the inventor provided a special meaning or definition of “uniform.” The Federal Circuit stated that the prosecution history does not show a clear and unambiguous disclaimer that uniform flexible film does not include any variations of thickness. The Federal Circuit stated that the term “uniform flexible film” includes uniformity of thickness as well as uniformity in irregularity. The district court erred by limiting the scope of “uniform” to thickness uniformity. Rather, the term is defined as a structure that is the same in form even when that same form includes consistent non-uniform thickness or other “uniform” irregularities. The Federal Circuit reversed and remanded the summary judgment of noninfringement.

Inverness Medical Switzerland GmbH v. Princeton Biomeditech Corp., 64 U.S.P.Q.2d 1926 (Fed. Cir. 2002). The issue was construing the phrase “mobility of said labeled reagent within said test strip is facilitated by . . . a material comprising a sugar, in an amount effective to reduce interaction between said test strip and said labelled reagent.” The alleged infringer argued that the mobility in this phrase must be facilitated at the time of release of the reagent. The patentee argued that mobility is facilitated either at the time of release or during the subsequent transit of the reagent.

The Federal Circuit vacated the judgment of noninfringement based on an incorrect claim construction and remanded for further proceedings consistent with the opinion. The Federal Circuit stated that the claim language relied on by the district court does not restrict the meaning of “mobility” to the point of release. In fact, the language appears to contemplate mobility after release. The phrase “release of the labelled reagent into mobile form” does not render the phrase “mobility . . . is facilitated” ambiguous. The dependent claims further weaken the alleged infringer’s claim construction because a claim term used in multiple claims should be construed consistently. Construing the term “mobility” used in other claims in the manner suggested by the district court and the accused infringer would require the recited polyvinyl alcohol or protein to block excess binding sites at the point of release. The express language of the claims, however, requires the facilitation of mobility *within* the test strip. The accused infringer relied on the statement “[t]he use of sugar in the invention to facilitate mobility of the

labelled reagent is advantageous over conventional methodology within the art *in part* because the sugar allows rapid and effective release of the water-insoluble particulate direct label from the porous carrier when liquid is applied.” The cited passage, however, states only that the improvement is “in part . . . rapid and effective release.” This is not a clear and unambiguous disclaimer of a claim scope that would cover mobility after release so as to deviate from the ordinary meaning of the claim recitation.

Inverness Medical Switzerland GmbH v. Warner Lambert Co., 64 U.S.P.Q.2d 1933 (Fed. Cir. 2002). There were two issues of claim construction. The first issue was decided in *Inverness Medical Switzerland GmbH v. Princeton Biomeditech Corp.* with the mobility phrase being given its plain meaning and, thus, not being limited to the time of the release of the reagent. The second issue involved the phrases “said labelled reagent is dry on said test strip” and “drying said labelled reagent onto a portion of said test strip.” The claim construction of the district court required disposition “in contact with the top or outer surface of said test strip.” The parties do not argue that the terms “on” and “onto” have established specialized meanings, in which the Federal Circuit agreed. Where there are several common meanings for a claim term, the patent disclosure serves to point away from the improper meanings and toward the proper meanings. The term “on” is defined in the dictionary as (a) a function word to indicate position over and in contact with that which supports from beneath; and (b) encompassing internal positioning. In such situations, a word’s ordinary meaning encompassing two relevant alternatives may be construed to encompass both alternatives. Before such a conclusion, the Federal Circuit must determine whether the specification or prosecution history clearly demonstrates that only one of the multiple meanings was intended. The surface layer disposition is disclosed as a preferred embodiment of the invention, but it is not the only embodiment disclosed. Impregnation within the thickness of the test strip is also disclosed. It is improper to limit the claim based on a preferred embodiment of the invention. The Federal Circuit vacated the judgment of noninfringement and remanded for further proceedings consistent with the opinion.

University Issues

Madey v. Duke Univ., 65 U.S.P.Q.2d 1737 (Fed. Cir. 2003). The Federal Circuit concluded that the district court erred in its partial dismissal of patent infringement claims asserted against defendant Duke University. Duke had moved to dismiss the infringement claims under Federal Rule of Civil Procedure 12(b)(1). The district court granted the motion in part and plaintiff Madey appealed that partial dismissal. In determining whether the dismissal was proper, the district court relied on 28 U.S.C. § 1498(a). The district court reasoned that under Section 1498(a), Madey must sue in the Court of Federal Claims for any use in furtherance of the government Office of Naval Research grant. The Federal Circuit stated that the district court improperly relied on the doctrine of “juris-

dictional facts” when, as between private parties, Section 1498(a) is not jurisdictional. The Federal Circuit also stated that the district court failed to demonstrate how the Office of Naval Research grant authorized the government’s consent to suit or authorized Duke to use or manufacture the patented articles for the government.

The Federal Circuit concluded that the district court erred in applying the experimental use defense. The district court improperly shifted the burden to Madey by requiring him to show, as part of his initial infringement claim, that Duke’s use of the patented articles was not experimental. Duke’s activities did not qualify for the very narrow and strictly limited defense of experimental use. The Federal Circuit noted that regardless of whether a particular entity is engaged in an endeavor for commercial gain, if an act is in furtherance of an alleged infringer’s legitimate business and is not solely for amusement, to satisfy idle curiosity or strictly for philosophical inquiry, that act does not qualify for the very narrow and strictly limited experimental use defense. Here, the district court attached too great a weight to the nonprofit, educational status of Duke and too little weight to the fact that Duke is in the business of developing technology for commercial applications.

The Federal Circuit concluded that the district court properly granted summary judgment that Duke did not infringe because it did not own or control the allegedly infringing microwave gun test stand. Even though the equipment was located on Duke’s property, a third-party university owned the test stand, a representative of the third party controlled the device’s key switch, and no Duke faculty member or employee used the device during the relevant time period. The Federal Circuit noted that this evidence was sufficient to shift the summary judgment burden to Madey.

Copyrights

Contract Claim Is Not Preempted by Copyright Act

Bowers v. Baystate Technologies, Inc., 2003 WL 262300 (Fed. Cir. 2003). The Federal Circuit held that the Copyright Act does not preempt a shrink wrap license agreement that prohibited reverse engineering of the licensed software. Baystate, the seller of a template designated to improve computer-aided design software, sued Bowers, a competitor, for a declaratory judgment that Baystate’s products did not infringe Bowers’s patent. Bowers countersued for copyright infringement, patent infringement, and breach of contract. At trial in the Massachusetts district court, a jury awarded Bowers damages on all three claims. Baystate appealed the district court’s denial of its motion for judgment as a matter of law, arguing that the contract claim was preempted by the Copyright Act, and thus, that Bowers was not entitled to recover under both the copyright and the contract claims.

For the nonpatent claims, the Federal Circuit applied the law of the First Circuit, under which a state cause of action is not preempted by the Copyright Act so long as it requires an “extra element” beyond mere copying, prepa-

ration of derivative works, performance, distribution or display. The First Circuit never specifically addressed whether the Copyright Act preempts a state law contract claim that restrains copying. However, its preemption decisions in other contexts focused on whether the presence of additional elements of proof made the state law claims qualitatively different from a copyright claim. The Federal Circuit determined that the rationale of these decisions would lead to a judgment that the contract action was not preempted, which was in keeping with the decisions of the majority of other courts to consider the issue.

Copyrights and Taxes

Microsoft Corp. v. Commissioner of Internal Revenue, 311 F.3d 1178 (9th Cir. 2002). Microsoft formed a Virgin Islands foreign sales corporation in 1984 to take advantage of foreign sales tax laws. Microsoft paid commissions to the Virgin Islands company based on royalties earned by the Virgin Islands company for its sales and licensing of software masters to foreign countries. Microsoft claimed tax deductions for the commissions, classifying them as expenses for the export of software.

The IRS disallowed the deductions, and the United States Tax Court affirmed the disallowance based on tax code provisions stating that copyrights are not to be treated as export property.

The Ninth Circuit reversed the Tax Court’s decision, noting that the tax code had an exception for certain types of media and reasoning that the software masters sold by the Virgin Islands company satisfied the media definition.

Introduction of Copyrighted Work Is Fair Use

Bond v. Blum, 317 F.3d 385 (4th Cir. 2003). Bond brought an action for copyright infringement for the copying of Bond’s manuscript for introduction as evidence in a state court child custody hearing. At the child custody hearing, the child’s father introduced Bond’s manuscript entitled *Self-Portrait of a Patricide: How I got Away with Murder* as evidence of Bond’s character. The manuscript horrifically detailed how Bond, as a juvenile, murdered his father. The district court denied Bond’s motion for a preliminary injunction to prevent introduction of the manuscript at the child custody hearing reasoning that its introduction was a fair use. The appellate court agreed that the introduction of the manuscript as evidence was a fair use authorized by Section 107 of the Copyright Act.

Prayers Answered: Prayerbook Copyrightable

Merkos L’Inyonei Chinuch Inc. v. Otsar Sifrei Lubavitch Inc., 312 F.3d 94 (2d Cir. 2002). The Second Circuit ruled that the translation of a prayerbook commonly used within a movement of Hasidic Judaism is sufficiently creative to attain copyright protection.

Merkos owns the copyright in an English translation of the Siddur Tehillat Hashem, a prayerbook used within the Lubavitch movement of Hasidic Judaism. Otsar produced a new version of the book copying Merkos’s translation verbatim, and Merkos sued for copyright infringement. The district court granted Merkos an injunction. Otsar

appealed, claiming the translation lacked the necessary amount of creativity to warrant copyright protection.

The Second Circuit determined that the translation met the “minimal degree of creativity” requirement for protection, citing the professional judgement required by the translator as evidence of creativity. The Second Circuit also addressed fair use, merger doctrine, and copyright ownership defenses before affirming the preliminary injunction.

Question of “Writing” within the Meaning of the Copyright Act Conveys Federal Court Jurisdiction

Jasper v. Bovina Music, Inc., 314 F.3d 42 (2d Cir. 2002). The fact that a case concerns a copyright does not necessarily invoke federal district court jurisdiction. Typically, if a case concerns a dispute as to ownership of a copyright and the issue of ownership turns on the interpretation of a contract, the case presents only a state law contract issue. Unless a complaint asserts a remedy expressly granted by the Copyright Act, federal jurisdiction is lacking (in the absence of diversity jurisdiction).

Section 204(a) of the Copyright Act provides that a valid assignment of a copyright requires a writing executed by the assignor. The Second Circuit found that federal court jurisdiction was proper in this case—the rare contract interpretation case that does present a substantial issue as to whether the contract qualifies as a Section 204(a) writing. Not all of the assignors had signed the original agreement assigning copyrighted works. The remaining assignors assigned via a subsequently executed addendum to the agreement. The Second Circuit found this addendum to be a writing within the meaning of Section 204(a).

Registration Required to File Suit

Strategy Source Inc. v. Lee, 233 F. Supp. 2d 1 (D. D.C. 2002). The U.S. District Court for the District of Columbia ruled that a registration certificate is required for subject matter jurisdiction in a copyright infringement suit.

Strategy Source sued Roger Lee for infringement of its copyrights in advertising materials. Strategy Source had applied for copyright registration for the materials, but had not received the certificate of registration, with the delay being due to security measures caused by concerns over anthrax distribution through the mails.

The court acknowledged a split in authority on whether a registration is necessary for subject matter jurisdiction. Some courts find jurisdiction upon proof of filing of registration application papers. But the court determined that the plain language of the Copyright Act requires registration and not mere application to give courts subject matter jurisdiction. The court dismissed Strategy Source’s complaint without prejudice.

Retail Price Should Be Considered in Determining Royalty Rate

United States v. Broadcast Music, Inc., 316 F.3d 189 (2d Cir. 2003). Under a consent decree established in 1966, the U.S. District Court for the Southern District of

New York continues to function as a rate-setting court for fixing the royalty rate paid to Broadcast Music by Music Choice for Music Choice’s distribution of Broadcast Music’s music over cable and satellite television and via Music Choice’s website. In the present case, the district court determined a royalty rate based on its perception that the fair market value of the music was best expressed by the wholesale price (the price at which Music Choice sold to the cable and satellite operators), not by the retail price (the price paid for the music by the retail customers). The district court reasoned that the retail price did not reflect the fair market value of the music to the extent that it covered costs associated with the delivery of the music and other services not provided by the authors of the music. Unsatisfied with the royalty rate set by the district court, Broadcast Music appealed.

The Second Circuit determined that the district court had erred in using the wholesale price of the music, and not the retail price, in setting Broadcast Music’s royalty rate. Rather, the Second Circuit instructed that the price that the retail consumers pay to receive the product or service in question is an excellent indicator of the product’s or service’s fair market value.

Scènes À Faire Doctrine Not Applicable to Christmas Wreaths

Taylor Corp. v. Four Seasons Greetings, LLC, 315 F.3d 1039 (8th Cir. 2003).

Taylor obtained a preliminary injunction against Four Seasons to prevent further infringement of its copyright in six greeting cards. A couple of the greeting cards in question depicted Christmas wreaths. Four Seasons complained that the grant of the preliminary injunction was improper because the *scènes à faire* doctrine should apply to the Christmas wreaths of the greeting cards. More superficially, Four Seasons contended that the wreaths amounted to stock elements found in all depictions of Christmas wreaths. The Ninth Circuit disagreed, expostulating “the devil is in the details” as there are numerous ways to depict a Christmas wreath.

Software Infringement and the DMCA

Lexmark Int’l v. Static Control Components Inc., Case No. 02-571-KSF (E.D. Ky. 2003). Lexmark, a manufacturer of laser printers and toner cartridges, offered a “prebate” program giving purchasers of prebate cartridges a discount if the purchasers agreed to return the cartridges to Lexmark for remanufacture after use. The prebate cartridges include chips allowing the cartridges to work in Lexmark printers only when software on the chips interacts with software in Lexmark printers.

Static Control Components (SCC) manufactures microchips for use with refilled toner cartridges. SCC manufactured and sold a chip for the Lexmark printers that incorporated an exact copy of Lexmark’s toner cartridge software. Lexmark sued SCC for copyright infringement and for violating the anticircumvention provisions of the Digital Millennium Copyright Act.

Entering a preliminary injunction against SCC, the

U.S. District Court for the Eastern District of Kentucky determined that SCC was not merely circumventing a lock-out code, but copying Lexmark's program in its entirety for commercial purposes. The court rejected SCC's fair use defense, along with a copyright misuse defense and SCC's claim that it was merely copying formulas or constants. The court further determined that SCC's activities violated the anticircumvention portion of the DMCA.

Supreme Court Upholds Copyright Term Extension Act

Eldred v. Ashcroft, 123 S. Ct. 769 (2003). The United States Supreme Court upheld the constitutionality of the Copyright Term Extension Act (CTEA). In 1998, Congress established a basic copyright term of life of the author plus seventy years, thereby extending the duration of existing and future copyrights by twenty years and harmonizing the U.S. copyright term with that of the European Union. The constitutionality of the CTEA was challenged by a group of individuals and businesses whose products or services build on copyrighted works in the public domain. The petitioners argued that by extending the duration of copyrights in works already in existence at the time of its passage, the act violated both the Copyright Clause and the First Amendment. The Court rejected these arguments and held that in placing existing and future copyrights in parity, as it had done with previous amendments to the Copyright Act, Congress acted within its authority and did not violate First Amendment limitations.

With respect to the Copyright Clause, the Court first dismissed arguments advanced by the petitioners that extending the duration of existing copyrights goes beyond Congress' authority under the Copyright Clause to provide for copyright protection "for limited Times." The Court rejected the interpretation of "limited" as meaning that a time prescription, once established, becomes forever fixed or inalterable, and concluded that the basic term under the CTEA of life plus seventy years qualified as a "limited time." The Court also concluded that the act was a rational exercise by Congress of the legislative authority conferred by the Copyright Clause. In support of this conclusion, the Court cited a 1993 European Union directive which instructed member nations to establish a copyright term of life plus seventy years and to deny this longer term to the works of any non-EU country whose laws did not provide the same term. The Court was unwilling to substitute its own judgment for Congress' determination that the extension was necessary in order to ensure that American authors would receive the same copyright protection as their European counterparts.

The Court also rejected attacks on the CTEA that were based on what it called several novel readings of the Copyright Clause. For example, it rejected the notion that allowing Congress to extend existing copyrights allows it to evade the "limited Times" restraint by creating effectively perpetual copyrights. The Court emphasized that the petitioners had failed to establish how the CTEA

crossed a constitutionally significant threshold with respect to the "limited Times" restriction that prior amendments did not cross. The Court also rejected the argument that the CTEA did not promote the "Progress of Science" because it does not stimulate the creation of new works but rather adds value to existing works, concluding "that it is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause's objectives." Finally, the Court rejected the idea that the extension violates the so-called *quid pro quo* requirement of copyright law. Petitioners argued that the author of an original work receives an exclusive right for a limited time in exchange for a dedication to the public thereafter, and that extending the right without requiring additional consideration bestows an unpaid-for benefit on copyright holders and their heirs. However, the Court pointed out that given the consistent placement of existing copyright holders in parity with future holders in previous amendments, the author of a work would reasonably comprehend that in exchange for the eventual dedication to the public, the rights obtained would include any renewal or extension legislated during the time of the copyright received.

With regard to the First Amendment challenge, the Court rejected the petitioners' argument that the CTEA is a content-neutral regulation of speech that warrants heightened judicial review. The Court found that such "uncommonly strict scrutiny" was not appropriate because the very purpose of the Copyright Clause is to promote the creation and publication of free expression and because the copyright law contains built-in First Amendment accommodations. Specifically, copyright law distinguishes between ideas and expression and makes only the latter eligible for copyright protection, and the fair use defense allows the public to use the protected expression itself in certain circumstances. In addition, the Court cited the fact that these protections are further supplemented by CTEA provisions, which exempt qualifying libraries, archives, and small businesses from certain requirements.

Trademarks

Accounting of Profits

Quick Technologies Inc. v. Sage Group plc, 65 U.S.P.Q.2d 1130 (5th Cir. 2002). In this action, Quick Technologies Inc. (QTI) appealed the district court's decision denying its request for an accounting of profits.

In 1992, QTI formed its business of providing online information about distributors in the promotional products industry. QTI began using the mark SAGE INFORMATION SYSTEMS in January 1992 and has been using a variety of marks that incorporate the term SAGE since that time.

Sage Group plc (Sage Group), an English company, manufactures and sells software for accounting and business management purposes. Beginning in 1991, Sage Group acquired several American companies that developed and sold accounting and business management software. In 1997, Sage Group filed an intent-to-use applica-

tion for the mark SAGE with the U.S. PTO. It began using, through its American subsidiaries, the mark SAGE in the United States in 1998.

Later that year, QTI filed suit against Sage Group and its subsidiaries, asserting trademark infringement. Following a jury trial, the jury returned a verdict for QTI on most of its infringement claims but did not find that Sage Group and its subsidiaries' conduct was willful. The jury therefore did not award an accounting of profits.

On appeal, QTI argued that the district court erred by conditioning an award of profits upon a finding of willful infringement. QTI contended that a willfulness requirement was contrary to the plain language of Section 1117(a) and that such a requirement was not consistent with Fifth Circuit precedent.

The Fifth Circuit acknowledged that the Second, Third, Seventh, Eighth, Ninth, Tenth and Eleventh Circuits have required a finding of willfulness as a prerequisite to an award of profits. The Fifth Circuit stated that its precedent that willful infringement is an important factor that must be considered in determining whether to award profits is appropriate. Nevertheless, the Fifth Circuit refused to adopt a bright line rule that requires a showing of willful infringement as a prerequisite to an award of profits. The Fifth Circuit, however, also determined that the district court did not abuse its discretion in declining to award profits to QTI.

Acquiescence and Progressive Encroachment

Pro Fitness Physical Therapy Center v. Pro-Fit Orthopedic & Sports Physical Therapy, P.C., 65 U.S.P.Q.2d 1195 (2d Cir. 2002). This case involves a trademark dispute between two physical therapy clinics over the use of PRO-FIT.

In 1986, Pro Fitness Physical Therapy Center (Pro Fitness) began offering physical therapy services in New York City under the designation PRO FITNESS. It acquired a federal registration for PRO FITNESS in 1990. In January 1999, Pro-Fit Orthopedic and Sports Therapy, P.C. (Pro-Fit) started to offer physical therapy services under the designation PRO FIT PHYSICAL THERAPY, P.C. in New York City as well.

In June 1999, Pro Fitness sent Pro-Fit a cease-and-desist letter. In response, Pro-Fit disputed Pro Fitness' allegation of infringement but advised Pro Fitness that it decided to change its corporate identify to "ProFit Orthopedic and Sports Physical Therapy." Pro-Fit's letter was met with silence. Shortly thereafter, Pro-Fit sent a follow-up letter advising Pro Fitness that it had mistakenly omitted a hyphen within "Pro-Fit" in its proposed new name and confirmed its plan to change its name. Pro-Fit received no response from Pro Fitness and changed its name thereafter.

In January 2001, Pro Fitness filed suit against Pro-Fit asserting Lanham Act and related state law claims. Pro-Fit moved for summary judgment, asserting the equitable defenses of estoppel by acquiescence and laches. The district court granted Pro-Fit's motion for summary judgment, noting that Pro Fitness failed to respond to Pro-Fit's proposed name change and rejecting Pro Fitness' progressive

encroachment argument. However, the district court ordered both parties to include disclaimers in their advertising that indicated that the two businesses were not affiliated.

The Second Circuit vacated the district court's decision and order. The Second Circuit determined that Pro-Fit may have exceeded the scope of the potential acquiescence by using its mark in a different manner and in a new geographic area, thereby potentially allowing Pro Fitness to prevail on its argument under the progressive encroachment theory. The Second Circuit stated that the district court failed to properly consider issues related to the likelihood of confusion factors and remanded the case for further proceedings.

Federal Trademark Dilution Act and Fair Use

Ty Inc. v. Perryman, 64 U.S.P.Q.2d 1689 (7th Cir. 2002). Ty Inc. (Ty), the maker of BEANIE BABIES beanbag stuffed animal toys, brought suit based on the Federal Trademark Dilution Act ("FTDA") against Ruth Perryman (Perryman), who sold second-hand beanbag stuff animals through a website located at the domain name bargainbeanies.com. The district court granted Ty's motion for summary judgment and entered an injunction forbidding Perryman from using BEANIE or BEANIES within any business name, Internet domain name, or trademark, or in connection with any non-Ty products. Perryman appealed.

The Seventh Circuit opinion began by noting that BEANIE BABIES was a famous trademark "in the ordinary sense of the term." Applying the doctrines of blurring and tarnishment, the Seventh Circuit found that Perryman's use of Ty's trademarks did not violate the FTDA and vacated the district court's judgment.

The Seventh Circuit analogized the case to the situation where a used car dealer truthfully advertises that it sells TOYOTA cars or a muffler manufacturer truthfully advertises that it specializes in making mufflers for TOYOTA cars. The circuit court reasoned that Ty had created the very secondary market in which Perryman sells her beanbag stuffed animals and held that Perryman's use of Ty's trademarks does not violate the FTDA, noting that a seller cannot "sell a branded product without using the brand name, that is, its trademark."

In vacating the district court's judgment, the Seventh Circuit noted that Perryman did sell some beanbag stuffed animals that were not manufactured by Ty and instructed the district court to modify the injunction, limiting it only to enjoining Perryman from using BEANIE or BEANIES in connection with non-Ty products.

In rem Jurisdiction over Domain Names

Mattel Inc. v. barbie-club.com, 64 U.S.P.Q.2d 1879 (2d Cir. 2002). Mattel Inc. (Mattel) brought an *in rem* action under the Anticybersquatting Consumer Product Act (ACPA) against fifty-seven Internet domain names (the Domain Names) in the U.S. District Court for the Southern District of New York. Mattel alleged it could not obtain personal jurisdiction over the registrants of the Domain Names and invoked 15 U.S.C. § 1125(d)(2),

which permits the owner of a federally registered mark to bring suit directly against a domain name. The district court dismissed Mattel's claims against the Domain Names for lack of *in rem* jurisdiction. Mattel appealed.

Shortly after filing suit, Mattel arranged to have the "registrar's certificates" for each of the Domain Names to be deposited by their respective domain name registrars with the district court. Under the ACPA, depositing a registrar's certificate signifies the registrar's disinterested surrender of the disputed property to the adjudicative authority of the court.

During the preliminary conference before the district court, captainbarbie.com, registrant of one of the Domain Names, questioned the court's jurisdiction, arguing that Mattel's interpretation of Section 1125(d) was overbroad. Mattel argued that Section 1125(d) provided two means of acquiring *in rem* jurisdiction. The first was under subsection (d)(2)(A), which provides that an *in rem* action may be filed "in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located." The second means of acquiring *in rem* jurisdiction, according to Mattel, is found in subsection (d)(2)(C), which states that the "situs" of a domain name in an *in rem* action is "in the judicial district in which documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court." Therefore, according to Mattel, by transferring the registrar's certificates to the district court, the court had *in rem* jurisdiction under Section 1125(d)(2)(C).

The district court disagreed and the Second Circuit affirmed. The Second Circuit stated that the plain meaning of Section 1125(d)(2) suggests that an *in rem* action may be brought only in the juridical district in which the domain name registrar, domain name registry or other authority that registered or assigned the domain name is located. The Second Circuit held that the ACPA's basic *in rem* jurisdictional grant is contained in subsection (d)(2)(A) of Section 1125 and that subsection (d)(2)(C) does not provide additional grounds for jurisdiction.

Niche Market Fame

Thane International Inc. v. Trek Bicycle Corp., 64 U.S.P.Q.2d 1564 (9th Cir. 2002). Thane International Inc. (Thane), a California-based "direct response marketer," began marketing its ORBITREK "dual directional elliptical glider stationary exercise machine" through thirty-minute infomercials in December 1997. Trek Bicycle Corp. (Trek) has manufactured bicycles under the name TREK since 1977 and owns numerous federal registrations for TREK.

In October 1997, Thane filed a U.S. trademark application for ORBITREK for stationary exercise machines. Trek opposed that application. In response, Thane filed a complaint in federal district court seeking declaratory judgment that it was not violating any trademark laws. The district court granted Thane's motion for summary judgment. Trek appealed.

The Ninth Circuit reversed the district court with respect to claims that turn on a likelihood of confusion. The Ninth Circuit noted that Trek had presented survey evidence of actual confusion. The circuit court concluded that the survey provided evidence from which a reasonable jury could conclude that consumers would be confused about the origin of the ORBITREK exercise machine.

The Ninth Circuit then reviewed Trek's claims of dilution. The Ninth Circuit noted that the district court had granted Thane's motion for summary judgment based on the premise that there was no likelihood of confusion. The circuit court stated that likelihood of confusion was not the proper standard for determining dilution. The circuit court relied on *Avery Dennison Corp. v. Sumpton*, 189 F.3d 868, 877 (9th Cir. 1999), which held that a mark that is famous in a specialized market segment could be famous for the purposes of the federal antidilution statute. Applying *Avery Dennison*, the court stated that, even though Thane and Trek may operate in the same market segment, a "reasonable factfinder could not conclude that mobile bicycles and elliptical orbit machines operate in the same narrow market segment for the purposes of the niche fame concept." Thus, while TREK may be famous in the market segment frequented by bicycle enthusiasts, it is not famous in the sporting goods market, the smallest market segment that bicycles and elliptical orbit machines share. The Ninth Circuit therefore affirmed the district court's refusal to grant summary judgment in favor of Trek on its dilution claim.

Progressive Encroachment Not Relevant to Dilution Claim

AM General Corp. v. DaimlerChrysler Corp., 65 U.S.P.Q.2d 1001 (7th Cir. 2002). AM General and General Motors Corporation (collectively, AM General) brought a declaratory judgment action against DaimlerChrysler Corporation (DaimlerChrysler) in the U.S. District Court for the District of Indiana alleging that the grille design of its HUMVEE and HUMMER HZ sport utility vehicles did not infringe or dilute the trade dress of DaimlerChrysler's grille design for its JEEP



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brand of sport utility vehicles. DaimlerChrysler then brought counterclaims for trademark infringement and dilution and moved for a preliminary injunction. The district court denied DaimlerChrysler's motion for preliminary injunction and the Seventh Circuit affirmed the decision. DaimlerChrysler alleged that it has owned trademark rights in the design of its JEEP grilles since approximately 1945. AM General began manufacturing its HUMVEE vehicles in 1985 and its HUMMER HZ vehicle in 2001. AM General argued that the HUMVEE and HUMMER HZ grille designs are not any more similar to the JEEP grilles now than the HUMVEE grille design was in 1985.

At issue in the case was AM General's laches defense. DaimlerChrysler argued that it was justified in not bringing suit for infringement or dilution until AM General announced its plans to bring the HUMMER HZ into the market in which DaimlerChrysler sells its JEEP vehicles. The Seventh Circuit disagreed and held that the district court did not err in concluding that a progressive encroachment argument is not applicable to a claim for dilution. The Seventh Circuit reasoned that dilution claims can be brought regardless of whether the parties are in direct competition and, therefore, a claim for dilution should have been brought when the federal dilution act was adopted.

Use in Commerce

DaimlerChrysler AG v. Bloom, 65 U.S.P.Q.2d 1359 (8th Cir. 2003). This case involved a dispute about the toll-free telephone number 1-800-637-2333, one possible alphanumeric translation of which is 1-800-MERCEDES. In the mid-1980s, Donald Bloom (Bloom) acquired the telephone number 1-800-637-2333 in connection with his ownership of a Mercedes-Benz dealership. DaimlerChrysler AG (DaimlerChrysler) is the registered owner of the marks MERCEDES and MERCEDES-BENZ, which are exclusively licensed to Mercedes-Benz USA.

In 1994, Bloom formed MBZ Communications (MBZ), an independent telecommunications company, to manage shared use of 1-800-637-2333 with other Mercedes dealers through license agreements. Through the use of routing technology, any call made to 1-800-637-2333 is rerouted to the appropriate dealership. Bloom does not promote or advertise 1-800-637-2333.

In 1997, DaimlerChrysler terminated its dealer agreements with Bloom and filed suit against Bloom and MBZ in 2000, asserting that MBZ's licensing plan violates the Lanham Act.

Following cross-motions for summary judgment, the district court granted MBZ's motion on the ground that MBZ did not "use" DaimlerChrysler's marks within the meaning of the Lanham Act. The Eighth Circuit affirmed the district court's decision. The Eighth Circuit rejected DaimlerChrysler's argument that MBZ's licensees' advertising and promotion of 1-800-637-2333 should be imputed to MBZ. The circuit court also rejected DaimlerChrysler's argument that use of 1-800-637-2333

was the equivalent of 1-800-MERCEDES because 1-800-367-2333 is only one possible alphanumeric translation of 1-800-MERCEDES.

Corporate Counsel

(continued from page 33)

Endnotes

1. David Raymond, *How to Find True Value in Companies* (June 24, 2003), available at http://forbes.com/asap/2002/0624/064_print.html.

2. Gordon Petrash, *New Pressures on Valuing Acquired Intangibles*, *MERGERS & ACQUISITIONS J.* (May 01, 2002), available at www.delphion.com/news_stories/news-petrash_article.

3. Financial Accounting Standards Board, *Summaries and Status of all FASB Statements*, available at www.fasb.org/st/ (last visited Mar. 24, 2003).

4. Financial Accounting Standards Board, *Summary of Statement No. 141*, available at www.fasb.org/st/summary/stsum141.shtml (last visited Mar. 24, 2003).

5. Financial Accounting Standards Board, *Summary of Statement No. 142*, available at www.fasb.org/st/summary/stsum142.shtml (last visited Mar. 24, 2003).

6. Caroline Woodward, *Accounting for Intellectual Property*, available at www.buildingipvalue.com/c_finance/woodward.html (last visited Jan. 30, 2003) (on file with the author).

7. Excess Operating Profits Method determines the value of IP by capitalizing the additional profits generated by the business owning the property over and above those generated by similar businesses.

8. Premium Pricing Method is a variation on the excess profits method used to value brands in the consumer products sector where it is common that a branded product is more expensive than an unbranded equivalent. This is becoming less and less possible because it is difficult to find any product that is not affected by standing.

9. Cost Savings Method calculates the present value of the cost savings a business expects to make as a result of owning the asset. This is often used for valuing trade secrets or the efficiencies gained from a utility patent.

10. Royalty Savings Method is based on the principal that if the business did not own the asset, it would have had to license it to earn its returns. The value of the asset under this method is calculated based on the present value of the royalty stream that the business is saving by owning the asset. The difficulty of this method is determining the appropriate royalty rate for this asset. This is usually used for utility patents and design patents.

11. Market Approach values the asset based on a comparison with the sale of similar assets. This is the preferred approach of many of the accounting standard setters because it is easy to apply. It usually uses a market multiple and applies that to the asset.

12. Cost Approach values an intangible asset by accumulating the cost that would currently be required to replace the asset.

13. J. Barney, *A Study of Patent Mortality Rates Using Statistical Survival Analysis to Rate and Value Patent Assets*, 30 *AIPLA Q. J.* 317 (2002).

14. H. Hagelin, *New Method to Value IP*, 30 *AIPLA Q. J.* 353 (2002)

15. Jay Fisbruck, *Credit Analysis of Patent and Trademark Royalty Securities: A Rating Agency Perspective*, www.buildingipvalue.com/intro/moodeys.html (last visited Jan. 30, 2003) (on file with the author).



American Bar Association SECTION OF INTELLECTUAL PROPERTY LAW

JUNE 18–22, 2003

SUMMER IPL CONFERENCE

SAN DIEGO, CALIFORNIA

Dear Colleague:

You are warmly invited to the 10th Annual Summer IPL Conference of the American Bar Association Section of Intellectual Property Law, which will be held June 18–22 at the Loews Coronado Bay Resort in San Diego.

San Diego is a great place for you and your family to visit, and the Section is planning a wide variety of social events and tours that take advantage of the unique and varied museums, historic sites and parks in and around the Coronado and San Diego area. The mixture will include programs for conferences attendees, their spouses and guests, and their children. From exciting evening events, featuring an evening at Sea World, to lower-priced half-day tours, to longer excursions outside the city limits, including a tour which goes into Mexico, there will be something of interest to everyone.

The educational programs will feature the latest developments in IP law presented by leading authorities in the field. The Business Session will include reports from the Section's substantive committees for analysis, debate and adoption of resolutions that will be the foundation of Section and ABA positions.

Congressional testimony, and statements to the PTO and international IP bodies on intellectual property law issues for years to come. CLE credit will be available for both the educational programs and the Business Session.

The Conference will also provide social events, exhibits, committee meetings, sporting tournaments and other networking and small-group educational opportunities.

This year we are welcoming the participation of the following organizations:

San Diego Intellectual Property Law Association
San Diego County Bar Association Intellectual Property Section

Intellectual Property Section of the State Bar of California
Orange County Patent Law Association and Intellectual Property and Entertainment Committee of the International Bar Association Section of Business Law

Members of these organizations may register for the conference for the same registration fee as ABA Intellectual Property Law Section members.

San Diego promises to be a popular location. As our Summer IPL Conference continues to grow, we expect this meeting to attract a larger share of the Section's 21,000 members than any previous conference. We urge you to mark your calendars, register early, and make your airline and hotel reservations now.

Kathie and I look forward to seeing all of you in San Diego June 18–22!

Mark T. Banner
Section Chair

Experience San Diego and Coronado

The Summer IPL Conference will be based in Coronado, across San Diego Bay and the spectacular Coronado Bay Bridge. Although connected to the mainland by a strip of land, Coronado is considered by many to be an island offering a different tempo and culture from the city across the bay. The city of Coronado is a picturesque seaside village featuring interesting shops and homes. The "island" features miles of beaches, bike trails and recreation areas. Coronado is also home to the North Island Naval Air Station, the U.S. Navy's West Coast aircraft carrier fleet, and Navy Seals headquarters, just down the highway from the Loews Coronado Bay Resort.

San Diego, a land of sun, sand and surf, typifies the laid-back southern California lifestyle, but it is also burgeoning with wonderfully varied geography and culturally diverse neighborhoods—each offering unique attractions and history.

From the authentic Mexican folklore, music, and dancers in Old Town, to the San Diego Opera, from local artists at the San Diego Art Institute, to interactive hands-on exhibits at the Rubeen H. Fleet Science Center, the arts thrive in the warm San Diego sunshine.

Referred to as the "Smithsonian of the West," Balboa Park is

the nation's largest cultural park and home to 85 cultural attractions, including 15 unique museums and the world-famous San Diego Zoo.

San Diego's historic region, Old Town, is the first European settlement on the West Coast and provides a glimpse of early California life and the Spanish and Mexican influence on San Diego.

Nearby Mission Valley is home to Mission San Diego de Alcalá established in 1769—the first Spanish mission in California. Mission Valley is also home to Qualcomm Stadium, home of the San Diego Padres for at least one more year until the new Petco Stadium is completed. In addition, Mission Valley is home to Sea World San Diego, featuring killer whales, dolphins, penguins, and other creatures in a hands-on interactive environment.

A quick trolley ride from downtown San Diego takes visitors to the Mexican border and the city of Tijuana with its bustling streets and shops.

To the north of San Diego is La Jolla, one of the most scenic locales in California, with palm-lined streets filled with upscale dining and sophisticated shopping, galleries, and boutiques. Attractions in La Jolla also include the Scripps Institute of Oceanography and its Stephen Birch Aquarium, the Torrey Pines State Reserve, and the Museum of Contemporary Art. In nearby Carlsbad, one finds Legoland California, an imaginative and

playful amusement park featuring the popular building blocks assembled in fantastic miniatures of buildings, monuments and entire villages.

San Diego promises to be a most enticing and attractive location for this year's Summer IPL Conference, and Coronado a most congenial host.

The Loews Coronado Bay Resort

This year's Summer IPL Conference is at the Loews Coronado Bay Resort. Situated on a private peninsula bordered by the Pacific Ocean and the San Diego Bay, the Loews Coronado Bay Resort affords spectacular panoramic water views in a seaside setting. There are fifteen acres upon which countless unique activities are designed for guests' relaxation and enjoyment. Bicycling paths run the length of Coronado's main highway. The Pacific Ocean's Silver Strand Beach is within easy access. Across the bay from Coronado, nearby San Diego offers a wealth of culture and attractions.

A special group rate of \$239 single/double occupancy has been set for the conference. For hotel reservations, call the Loews Coronado Bay Resort directly at 619/424-4000 or 800/81-LOEWS. Ask for the ABA Section of Intellectual Property Law 2003 Summer IPL Conference to receive the special rate. The room block fills up fast, so make your reservations well in advance of the May 19 cutoff date.

PROGRAM AT A GLANCE

Tuesday, June 17, 2003

8:45 a.m.–5:00 p.m. One-Day CLE Program: Practical Tips on Enforcing and Defending Patents (*Separate registration required*)

Wednesday, June 18, 2003

10:00 a.m.–5:00 p.m. Registration opens in Expo Hall
 11:45 a.m.–1:15 p.m. Spouse/Guest Luncheon with Animal Trainer Presentation
 12:00 noon–5:00 p.m. Exhibits open in Expo Hall
 12:00 noon–1:30 p.m. Council Luncheon
 1:30p.m.–5:00 p.m. Half-day Section Tour— San Diego Zoo with "Behind the Scenes" Tour
 1:30 p.m.–5:00 p.m. Council Meeting
 1:45 p.m.–5:00 p.m. CLE Program: Focus on Global Intellectual Property Law
 6:30 p.m.–9:00 p.m. Welcome Reception/Buffer Dinner

Thursday, June 19, 2003

7:30 a.m.–5:00 p.m. Registration/Hospitality in Expo Hall
 7:30 a.m.–9:30 a.m. Continental Breakfast in Expo Hall (exhibits open)
 8:30 a.m.–11:45 a.m. Section Business Session (*CLE credit available*)
 9:00 a.m.–1:00 p.m. Half-day Section Tour—Scenic San Diego by Land and Sea
 9:30 a.m.–3:30 p.m. Full-day Section Tour with lunch— La Jolla sightseeing and shopping, Birch Aquarium Tour, Lunch at George's at the Cove
 12:00 noon–1:30 p.m. Section Luncheon, ticketed event
 1:45 p.m.–5:00 p.m. CLE Program: Patent Litigation
 1:45 p.m.–5:00 p.m. CLE Program: Trademark Law
 5:00 p.m.–6:00 p.m. Reception hosted by the Committee on Minorities and Women in the Profession
 6:00 p.m.–10:30 p.m. An Evening at Sea World (*ticketed dinner event*)

Friday, June 20, 2003

7:30 a.m.–5:00 p.m. Registration/Hospitality in Expo Hall
 7:30 a.m.–9:30 a.m. Continental Breakfast in Expo Hall (exhibits open)
 8:30 a.m.–11:45 a.m. CLE Program: Intellectual Property in the eBusiness Environment
 8:30 a.m.–11:45 a.m. CLE Program: Patent Prosecution and Licensing
 9:00 a.m.–4:00 p.m. Full-day Section Tour with lunch. Foxploration—Fox Studios Baja, Mexico, Lunch at Calafia Ocean Resort (*see notes on Mexico border crossing in tour description*)
 12:00 noon–1:30 p.m. Section Luncheon—Speaker: Hon. Kenneth W. Starr (*ticketed event*)
 1:30 p.m.–4:30 p.m. Half-day Section Tour—Scenic and Historic Coronado Walking Tour with Sightseeing and Shopping
 1:45 p.m.–5:00 p.m. CLE Program: Copyright Law
 1:45 p.m.–5:00 p.m. CLE Program: Current Ethics Issues (*ethics CLE credit available*)
 5:30 p.m.–11:00 p.m. Baseball under the Stars: Seattle Mariners at the San Diego Padres, preceded by tailgate party dinner (*limited ticket availability —first come, first serve*)

FREE EVENING FOR EVERYONE ELSE

Saturday, June 21, 2003

7:30 a.m.–12:00 noon Registration/Hospitality in Expo Hall
 7:30 a.m.–9:30 a.m. Continental Breakfast in Expo Hall (exhibits open)
 8:00 a.m.–11:00 a.m. Incoming Committee and Division Breakfast Meeting
 8:30 a.m.–11:45 a.m. CLE Program: Hot Topics in Intellectual Property Law
 9:00 a.m.–2:00 p.m. Section Tour—Passport to Balboa Park

11:00 a.m.–4:00 p.m. Section Safari—Wild Animal Park Photo Caravan (*limited availability*)
 11:00 a.m.–6:00 p.m. Golf Tournament with box lunch at Riverwalk Golf Course (*Tee off at 12:00 noon*)
 1:30 p.m.–4:30 p.m. Tennis Tournament (*Resort Courts*)
 1:00 p.m.–5:00 p.m. On your own—with your family, friends and colleagues—Section Recreational Activities (*rentals at the resort recreation center*)
 6:30 p.m.–8:00 p.m. Closing Night Cocktail Reception
 8:00 p.m.–10:30 p.m. Council Dinner at Candelas
 FREE EVENING FOR EVERYONE ELSE

Sunday, June 22, 2003

8:00 a.m.–9:00 a.m. Buffet Breakfast

CONFERENCE ADJOURNS—SEE YOU NEXT YEAR AT THE FOUR SEASONS HOTEL IN TORONTO—JUNE 21–25, 2004!

Watch the IPL Section website at www.abanet.org/intelprop for updates.

SOCIAL EVENTS

casual attire for the entire conference (Buses for all off-property events, tours and tournaments will board 15 minutes prior to the listed departure time, and depart at the time listed below.)

Continental Breakfast

(included in registration fee)
 Continental Breakfast for all conference attendees and their guests will be available in the Commodore Ballroom, Lobby Level, from 7:30 a.m.–9:00 a.m. on Thursday, Friday, and Saturday.

Guest Luncheon

(tickets required - \$35)
 Guests of conference attendees are invited to attend this special buffet luncheon on Wednesday, June 18 in the Britannia Room, 2nd Floor. A presentation by an animal trainer from the San Diego Zoo will highlight the luncheon. The animal trainer will bring along several “guest animals” to educate and delight those in attendance.

Welcome Reception and Dinner

(included in registration fee)
 On Wednesday, June 18, we will have a very special Welcome Reception/Dinner around the poolside terrace at the resort. A variety of buffet food stations will be situated around the pool deck. Guests will enjoy music, cocktails and a sumptuous spread of cuisine. This is an opportunity for the younger and newer members of the Section who may be looking to increase their participation in Section activities to meet and greet the leadership of the Section. The Welcome Reception also offers seasoned participants the opportunity to get reacquainted with colleagues and to meet new participants.

Registrants’ Luncheons

(tickets required - \$45)
 On Thursday, June 19, between our Business Session in the morning and the CLE programs in the afternoon, we will have a ticketed Section luncheon, featuring a guest speaker. On Friday, June 20, Hon. Kenneth W. Starr, Kirkland & Ellis, PC, former U.S. Solicitor General and former U.S. Appeals Court Judge, will be the guest speaker.

Reception hosted by the Committee on Minorities and Women in the Profession

(included in registration fee)
 Thursday evening, June 19, after the CLE programming of the

day, the Committee on Minorities and Women in the Profession invite all attendees and guests to a cocktail reception preceding the evening events. Attendees will be able to meet members of the committee and other conference attendees, learn about committee activities and enjoy a quick social event at the resort before coaches depart for the evening at Sea World event.

An Evening at Sea World

(tickets required - \$100)
 On Thursday evening, June 19, attendees and their guests will have the opportunity to enjoy a special evening at Sea World. Summertime at Sea World has a magic all its own as they enter the park into the Nautilus Pavilion where a spectacular dinner awaits. Following dinner, participants will be able to visit the over 20 shows, exhibits and attractions including Wild Arctic featuring Polar bears and a simulated helicopter adventure; ride the rapids at Shipwreck; get as close as possible to sharks without getting wet; experience a pirate adventure and *Mystique de la Mer*; plus much more! Sea World will be open to the general public by this time in June, so all the attractions will be open and available to all attendees, who will have the freedom to move from attraction to attraction at their own pace. And of course, no visit to Sea World would be complete without seeing the exciting Shamu Show. Don’t miss this opportunity to see the orcas perform amazing feats on their own and with their trainers. After an evening of taking in the attractions, participants will reunite in the pavilion for coffee and dessert before boarding the coaches for the return trip to the resort.

San Diego Padres Baseball Game with Tailgate Party

(tickets required - \$50 – limited availability)
 On Friday, June 20, the Section invites you to a special Major League Baseball game and tailgate party. You will first enjoy a traditional tailgate party dinner outside Qualcomm Stadium, before proceeding into the stadium to watch the San Diego Padres take on the Seattle Mariners. The 2003 baseball season will be the final year for Padres Baseball in Qualcomm Stadium. Constructed in 1967, the stadium has been the home for the Padres since their inaugural season in 1969.

Closing Night Cocktail Reception

(included in registration fee)
 On Saturday, June 21, all registrants and their guests are invited to the Closing Night Cocktail Reception in the Britannia Room, 2nd Floor. Cocktails and light hors d’oeuvres will be offered. Following the reception, the members of the Section Council will depart for the Council Dinner, and all other attendees will have a free evening for dinner at the location of their choice.

Council Dinner at Candelas

(by invitation)
 After the Closing Evening Cocktail Reception, members of the Section Council, Honorary Council, Special Guests, and their spouses and guests will depart for the Council Dinner at Candelas Restaurant adjacent to the Gaslamp District of downtown San Diego. Candelas features a unique fusion of “new” Mexican Cuisine that combines French techniques and Latin ingredients, all in an elegant setting of old world décor that creates a rich and warm ambience.

Buffet Breakfast

(included in registration fee)
 On Sunday, June 22, there will be a special buffet breakfast for conference attendees. The conference officially adjourns at the end of breakfast, allowing attendees time for relaxation at the resort and eastbound attendees time to depart for the airport for their trip home.

Join fellow attendees for the Section Luncheons on Thursday and Friday from 12:00 noon–1:30 p.m. Special guest speakers will address the participants at each of the luncheons.

(Tickets required – \$45)

On Friday, June 20, Hon. Kenneth W. Starr will be the guest luncheon speaker. A partner with Kirkland & Ellis, PC, specializing in appellate work, Judge Starr was U.S. Solicitor General from 1989–1993, and a U.S. Circuit Judge with the U.S. Court of Appeals for the District of Columbia Circuit from 1983–1989. He recently published his first book: *First Among Equals: The Supreme Court in American Life*. He served as counselor to U.S. Attorney General William French Smith from 1981–1983 and as law clerk to Chief Justice Warren E. Burger from 1975–1977 and U.S. 5th Circuit Judge David W. Dyer from 1973–1974. He served as Independent Counsel for five investigations, including Whitewater, from 1994–1999. Judge Starr teaches Constitutional Law as an adjunct professor at New York University School of Law and as a distinguished visiting professor at George Mason University School of Law.

TOURS AND TOURNAMENTS

All attendees and their guests are invited to participate in an assortment of memorable and enjoyable tours and tournaments.

Half-Day Tours

San Diego Zoo—Behind the Scenes Tour

Wednesday, June 18, 1:30 p.m. – 5:00 p.m.

Ticket price: \$60.

Following the animal presentation at the Guest Luncheon, those who choose may tour the world famous San Diego Zoo with its more than 4,000 animals housed in enclosures that closely simulate their natural environments. The Zoo is one of only two locations in the nation where you can see adorable but endangered Giant Pandas. Experience a special two-hour “behind the scenes” look at the Zoo and its operations and animal care.

Scenic San Diego by Land and Sea Tour

Thursday, June 19, 9:00 a.m. – 1:00 p.m.

Ticket price: \$40.

Tour participants will be escorted on a special guided tour of San Diego. The tour will encompass Old Town, the site of the city's original settlement where many of the old adobes and frame houses are still standing and have been completely restored; Balboa Park's 1,400 acres of museums and gardens, and San Diego's downtown areas including the Gaslamp District and Horton Plaza; Seaport Village and the Embarcadero nestled on the site of the old Coronado Ferry Landing on San Diego Bay. After touring the city by land, participants will board a Coast Guard certified yacht to cruise the calm waters of the San Diego Bay and experience the city from a completely different perspective. Professional guides will narrate points of interest such as the Coronado Bay Bridge, the Navy shipyards and aircraft carriers, Shelter Island, Harbor Island and North Island.

Historic and Scenic Coronado Walking Tour with Shopping and Sightseeing

Friday, June 20, 1:30 p.m. – 4:30 p.m.

Ticket price: \$30.

Participants will be shuttled the three brief miles from the Resort, past the Navy SEALs training center, to downtown Coronado, where they will embark on a leisurely walk through quaint Coronado. The tour will begin with an overview of the island's history as you visit the magnificent Hotel del Coronado—the filming site for the legendary film *Some Like It Hot* with Marilyn Monroe. You will also visit the cottage of the Duchess of Windsor and the home of L. Frank Baum, where the Wizard of Oz was created. You will also experience the beautiful white sand beach-

es and vistas of Coronado. Time will be allowed for shopping or sight-seeing downtown before shuttles depart for the return trip to the Resort.

Passport to Balboa Park

Saturday, June 21,

9:00 a.m. – 2:00 p.m.

Ticket price: \$65.

San Diego's picturesque Balboa Park is one of the world's great urban parks. It is more than 130 years old, the locale having been reserved for a park by San Diego city leaders in 1868. The park, containing 1,200 acres in central San Diego, has been the site of two world expositions, and today is home to the San Diego Zoo, Old Globe Theatre, 15 museums, recreational and cultural facilities, and distinctive buildings. It is often referred to as the “Smithsonian of the West”. Upon arrival, you will receive a “passport” to Balboa Park, an admission book which allows guests access to all of the park's museums and attractions. You will have the option to embark on a leisurely walking tour through the park with a tour guide or enjoy the park entirely on your own.

Full Day Tours with Lunch

La Jolla Sightseeing and Shopping Tour, including Birch Aquarium and Lunch at George's at the Cove

Thursday, June 19, 9:00 a.m. – 4:00 p.m.

Ticket price: \$85.

La Jolla, referred to as the Jewel of San Diego, has the tantalizing charm of a Mediterranean Isle, unique shops and breathtaking views of the Pacific. Participants will be transported to La Jolla, with a stop for a brief tour of the Stephen Birch Aquarium on the way. The Birch Aquarium features fascinating displays, which include shark tanks, fish aquariums and other local marine life habitats. Next, you will be whisked to the heart of the shopping district in La Jolla where you will have free time to explore, shop, and relax on your own. Downtown La Jolla boasts dozens of shops, art galleries, and specialty boutiques, or you may opt to take a guided Coast Walk with a trained naturalist. Participants will then gather at the renowned George's at the Cove Restaurant for luncheon. Following lunch, you will be free to visit the art galleries and owner-operated designer boutiques of La Jolla before boarding the coach for the return trip to the Resort.

Foxploration Mexico Tour, including Lunch at Calafia

Friday, June 20, 9:00 a.m. – 4:00 p.m.

Ticket price: \$80.

Take an excursion South of the Border . . . Foxploration is the Fox Studios movie facility in Mexico, located 45 minutes from downtown San Diego on Baja California's Pacific Coast—about 20 miles south of Tijuana. Fox Studios Baja was conceived to offer the public an opportunity to go behind the scenes at a real working movie studio. Originally built for James Cameron's epic number one box office film of all time, *Titanic*, Fox Studios has rapidly become a popular spot for movie filming. Since opening in 1996, seven movies and many television shows, commercials and video productions have been made here, including the blockbuster *Pearl Harbor* and the James Bond film *Tomorrow Never Dies*. After touring the Fox facility, guests will head for an authentic Mexican lunch at world famous Calafia. Calafia Ocean Resort delights in a rich and spectacular panoramic view of the Pacific Ocean. Participants can view more authentic props from the film *Titanic* located within the resort. **Note:** U.S. citizens can enter Mexico for 72 hours or less without a passport or visa. Naturalized citizens are required to have proper documentation showing proof of citizenship. Foreign visitors need current Visa and I-94 forms (Multiple-Entry Visa). Visitors are allowed to bring back \$400.00 worth of goods duty free and one litre of liquor per person. Border waits on the return to the USA trip can range from 1/2 hour to 2 hours.

Tournaments and Activities **Wild Animal Park Photo Caravan**

Saturday, June 21, 11:00 a.m. – 4:00 p.m.

Ticket price: \$160.

San Diego's Wild Animal Park is a 2,200-acre wildlife preserve which offers a setting similar to an actual big game reserve in Africa or Asia. It is home to 4,000 animals. You travel in safari-style trucks through the preserves where the wildlife roam free. Giraffes walk right up to the truck to get food. The truck also cruises among rhinoceroses, water buffalo, and an assortment of gazelles and deer. Guides will accompany each caravan to help identify wildlife subjects and to point out interesting animal habits and natural behaviors. Short of going to Africa or Asia on a big game excursion, this is the closest you will come to experiencing these animals in such a natural habitat. Don't forget to bring your cameras. Participants will have free time to explore the public areas of the park and eat at one of the lunch stands in the park. Note: Children under 8 years of age are not permitted aboard the Photo Caravan Vehicles. Children 8-15 years of age must be accompanied by an adult (one adult per two children). Participants are advised to wear hats and clothing that will protect them from the sun. Sunglasses and sunscreen lotion are advised.

Golf Tournament with box lunch—Riverwalk Golf Course

Saturday, June 21, 11:00 a.m. – 6:00 p.m.

Ticket price: \$160.

The traditional and much-heralded Summer IPL Conference Golf Tournament will tee off this year at Riverwalk Golf Course in San Diego. Riverwalk is a Ted Robinson design featuring undulating fairways, waterfalls, and well-protected bent grass greens. Water comes into play on 13 of the 27 holes. Tournament participants will be transported by motorcoach to Riverwalk, 40 minutes from the Resort. The tournament bus will board at the Resort at 10:45 a.m., with departure for Riverwalk at 11:00 a.m. sharp. Tee-off will be at 12:00 noon. Tournament entry fee includes box luncheon, non-alcoholic beverages, round trip motorcoach transportation, green fees, cart rental, tournament scoring and prizes. Club rentals must be indicated at time of registration. Dress: Shirts with collar, tailored Bermuda length shorts, no denim or cutoffs, soft-spike golf shoes required.

Tennis Tournament **(Resort courts)**

Saturday, June 21, 1:30 – 4:30 p.m.

Ticket price: \$35.

As with the Golf Tournament, this Summer IPL Conference Tennis Tournament tradition is a must for all tennis aficionados. Tournament entrants will rendezvous at the courts at 1:30 p.m. for warmups prior to the start of the tournament. The tournament promises to be both fun and competitive for tennis players of all levels. Tournament entry fee includes court fees, beverages and prizes. Players should eat lunch on their own prior to the tournament.

CLE HIGHLIGHTS

Continuing Legal Education accreditation will be available for all of the following sessions. All sessions will have a 15-minute break near the midpoint. Coffee and refreshments will be available in the Expo Hall.

Watch our website at www.abanet.org/intelprop/summer2003 for CLE program schedule updates and speakers.

Wednesday, June 18

1:45 p.m.–3:15 p.m.

CURRENT DESIGN PROTECTION IN THE U.S. AND EUROPE

3:30 p.m.–5:00 p.m.

ELECTRONIC BUSINESS WITH THE USPTO AND WIPO: ARE YOU READY?

Thursday, June 19

8:30 a.m.–11:45 a.m.

SECTION BUSINESS SESSION

The annual business session of the Section features debate on the resolutions presented by the Section's Committees, and discussion of important topics of interest to the IP law field. Presentations both for and against each resolution will be presented, and discussion on the merits of the resolutions will be entertained from the floor before a vote is taken on whether to adopt the resolution.

1:45 p.m.–5:00 p.m.

INTELLECTUAL PROPERTY LAW IN 2003:

VIEWS FROM THE BENCH, BAR AND ACADEMIA

Federal Court Judges, academics and experienced practitioners discuss and debate developments in recent cases involving patent and trademark law.

1:45 p.m.–3:15 p.m.

DEVELOPMENTS IN COPYRIGHT LAW

Copyright Protection

Off the Wall—Protection and Destruction of Murals and Public Art

Entertainment Copyright Law

3:30 p.m.–5:00 p.m.

DEVELOPMENTS IN PATENT LAW

Inequitable Conduct

Friday, June 20

8:30 a.m.–11:45 a.m.

THE SUPREME COURT IN IP LAW:

THREE RECENT CASES

Dastar Corp. v. 20th Century Fox Film

The case against Term Extensions

The case for Term Extensions

8:30 a.m.–11:45 a.m.

PATENT LAW

Issues Related to Enforcement

A view from the higher bench

The Orange Book, the FTC Improvements and Antitrust—A Roundtable

Restriction Practice in the U.S. vs. Unity of Invention Elsewhere

1:45 p.m.–5:00 p.m.

TRADEMARK PRACTICE AND

LITIGATION: TRADE DRESS; DILUTION;

INTERNET UPDATE

Demonstration: Uniform Domain Name

Dispute Resolution

What you need to know about Madrid Protocol

European developments on trademark dilution

1:45 p.m.–5:00 p.m.
ETHICS ISSUES IN IP LAW

Identifying and avoiding conflicts of interest; Who is your client—the inventor or her employer?; Is it ethical to comment on issued patents of one client in an opinion prepared for a different client?; A private practitioner's practical suggestions for complying with your ethical obligations; Avoiding malpractice liability through good ethical practices.

Saturday, June 21

8:30 a.m.–11:45 a.m.

RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

Internet Update: Internet Aspects of Patents, Trademarks and Copyrights

GENERAL INFORMATION

Registration Fee

The registration fee includes admission to all CLE programs and the Business Session, course materials, continental breakfast (for the conference registrant) on Thursday, Friday and Saturday, and buffet breakfast on Sunday, one admission to the Wednesday evening Welcome Reception, the Thursday evening Committee on Minorities and Women in the Profession Reception, and the Saturday evening Closing Night Cocktail Reception.

The spouse/guest registration fee includes continental breakfast (for one) on Thursday, Friday and Saturday, and buffet breakfast on Sunday, one admission to the Wednesday evening Welcome Reception, the Thursday evening Committee on Minorities and Women in the Profession Reception, and the Saturday evening Closing Night Cocktail Reception.

There will be no charge for children under 16 years of age to attend the Conference activities, but please indicate on the registration form the names and ages of children who will accompany you.

Cancellation Policy

Registrants who are unable to attend the Summer IPL Conference will receive a refund less a \$50 administrative fee if a written cancellation request is received by June 4, 2003. Cancellation requests should be faxed to the ABA-IPL Section at 312/988-5628, attn: "2003 Summer IPL Conference." No refunds will be granted after June 4, 2003. Substitutions are acceptable. The ABA reserves the right to cancel any program and assumes no responsibility for personal expenses. Course materials will be sent to all those unable to attend but who cancel beyond the refundable cancellation deadline of June 4, 2003.

Continuing Legal Education Credit

CLE accreditation has been requested for this program from every state with mandatory continuing legal education requirements for lawyers. Each state granting such credit makes its own determination as to the number of hours of credit to be awarded for attendance. Attendees requesting credit for the program must follow the instructions for CLE provided on site at the registration area CLE table. Certificates of attendance will be available at the CLE table, as well as Texas CLE Cards. New York and Delaware attorneys must sign in and sign out each time they enter or leave the room. New York attorneys must complete the special New York certificate of attendance at the end of each session and have it signed by authorized ABA personnel. For questions relating to the number of credit hours granted by each state, please contact the ABA Center for CLE at 312/988-6217.

Section Business Session

The Business Session at the Summer IPL Conference will be held on Thursday, June 19, 2003, from 8:30 a.m.–1:45 a.m. CLE credit will be available for those attending the Business Session.

The Council of the Section of Intellectual Property Law is scheduled to meet April 28, 2003 to classify proposed resolutions submitted for consideration at the 2003 Summer IPL Conference. Following the April meeting, a listing of the full texts of all resolutions—along with their Council classification—will be sent to all Section members. The complete committee reports, supporting the resolutions, will be sent to those who register for the Summer IPL Conference.

The Business Session will be conducted using Roberts Rules of Order, newly revised, 1990, published by Scott Foresman and Company, available in both hardcover and paperback.

Hotel Information and Reservations

Most of the Section meetings and social events will take place at the Loews Coronado Bay Resort, 4000 Coronado Bay Road, Coronado, California. A block of rooms has been reserved at the Loews Coronado Bay Resort at the discounted rate of \$239 single/double occupancy, plus an 8% room tax. The cut-off date for room reservations at the discounted rate is Monday, May 19, 2003. After that date, rooms can be reserved at the special rate on a space available basis only. To reserve a room, call the Loews Coronado Bay Resort directly at 619/424-4000 or 800/81-LOEWS. Be sure to mention the ABA Section of Intellectual Property Law 2003 Summer IPL Conference to receive the special rate.

Section Registration, Computer Center and Hospitality Area

The Section will maintain a Registration, Computer Center and Hospitality area from Wednesday, June 18 through Saturday, June 21 in the Commodore Ballroom. Section Staff on site at the registration desk will handle questions you may have about the Conference, the Section or the ABA. Messages may be left with Section Staff for meeting registrants during meeting hours. Messages will be posted on a bulletin board as they are received. Please remember to check the board as we are unable to page attendees or interrupt meetings and program sessions.

New this year, the Section will maintain a small computer center with several computer stations, Internet access and high-speed printers for those wishing to print out portions of the course materials onsite.

Registration/Hospitality Hours

Wednesday, June 18	10:00 a.m. –5:00 p.m.
Thursday, June 19	7:30 a.m. –5:00 p.m.
Friday, June 20	7:30 a.m. –5:00 p.m.
Saturday, June 21	7:30 a.m. –12:00 noon

2003 IPL Expo

For the tenth consecutive year, the Summer IPL Conference is featuring a special trade show exhibition by vendors who provide valuable legal products and services to the IP law practitioner. Do not miss the opportunity to stop by and visit the exhibits in the Commodore Ballroom. This is your opportunity to meet with the vendors and discover the latest products and technology available to aid you in your practice.

Exhibitors signed up to date include:

CONSOR
Denmeyer & Co.
DSI Escrow Services
Thomson Derwent
Thomson–West

We urge all meeting attendees to visit our exhibitors during open hours and help ensure the success of this popular feature at our conference.

Weather and Dress

San Diego's climate is temperate year-round. In June the average daily high temperature is 71 degrees and the average low is 61 degrees. Coastal fog can roll in during the early evening and cool the temperatures quickly. The skies can be cloudy up to 40% of the time, however there is little chance of rain. Short sleeve shirts and lightweight pants are generally sufficient during the daytime, and a light jacket is recommended, particularly in the evening. The Section Chair has declared that casual attire is the dress code for the entire conference.

Transportation

The ABA offers a discounted travel program. You may call the airlines directly and refer to the appropriate account number: American Airlines, 800/433-1790, Star File #15794; Delta Airlines, 800/241-6760, Acct. #189408A; or USAirways, 877/874-7687, Acct. #36632473. For more information, please contact Tower Travel Management, the official ABA travel agent, at 800/921-9190, or visit their website at www.towertravel.com.

The Loews Coronado Bay Resort is on Coronado, across San Diego Bay from San Diego. A taxi ride is about 25 minutes from the airport and costs approximately \$35 including the tip.

Babysitting Services

If special arrangements are needed for baby-sitting services during the conference, please contact the Loews Coronado Bay Resort concierge desk at 619/424-4000.

Services for the Disabled/Special Considerations

If special arrangements are required for an individual with a disability to attend this meeting, please contact the Section Staff at 312/988-5598 no later than June 4, 2003. If special menus are required, due to dietary considerations, for the Thursday and Friday luncheons, the Wednesday Welcome Reception, or any off-property meal events, please call 312/988-5598 before June 4, 2003 or indicate these on your registration form.

Additional Information

For additional information regarding the Summer IPL Conference, or to register online, visit our website at www.abanet.org/intelprop. Send e-mail inquiries to intelprop@abanet.org or fax inquiries to 312/988-5628. To speak directly with Section Staff, please call 312/988-5598.

Special One-Day CLE Program: Practical Tips on Enforcing and Defending Patents

A special one-day CLE program entitled Practical Tips on Enforcing and Defending Patents will precede the Summer IPL Conference on Tuesday, June 17, from 8:45 a.m. to 5:00 p.m. This one-day CLE program is sponsored by the Section's Young Lawyers Committee, in cooperation with local IP organizations, and will also take place at the Loews Coronado Bay Resort. Separate registration is required for this one-day program and detailed information and a registration form can be obtained by visiting the Section website at www.abanet.org/intelprop or by sending an email request to intelprop@abanet.org.

Special Tuition Assistance

A limited number of registration fee reductions are available for government employees, academics, law students, and public interest lawyers employed with non-profit organizations. No full tuition waivers are available. The one-time only fee-reductions will be determined on a case-by-case, first come first serve basis. To apply, send a letter outlining the basis for your request of a fee waiver to Betsi Roach, Section Director, ABA Section of Intellectual Property Law, 750 N. Lake Shore Drive, Chicago, IL 60611. Deadline for receipt: May 24, 2003. No cases will be

considered after the deadline, and all standard registration fee rates will apply after May 24, 2003.

ABA Section of Intellectual Property Law Officers 2002-2003

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2003 Summer IPL Conference Program

Co-Chairs:
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Local Host Committee:
Chris Steinhardt
San Diego, CA

**(advance registration
deadline June 4, 2003)**

**To register via the Internet,
visit [www.abanet.org/
intelprop/summer2003](http://www.abanet.org/intelprop/summer2003)**

YES, please register me for the 10th Annual Summer IPL Conference, June 18–22, 2003.

NO, I cannot attend this program. Please send me the CLE course materials on CD-ROM, available after this meeting at the price of \$75, which includes postage and handling. I understand that in order to receive the materials, payment must accompany this form. *(Please allow 4-6 weeks from date of program for receipt of course materials).*

Registrant Information

Name: _____
 Company/Firm: _____
 Address: _____
 City: _____ State: _____ Zip: _____
 Telephone: () _____ FAX: () _____
 E-mail: _____

ABA Membership ID No. _____

Check here if this is your First Summer IPL Conference
 State(s) registered to practice in:
 State _____ State Bar ID # _____
 State _____ State Bar ID # _____
 State _____ State Bar ID # _____

A. Registration Fee:

advance after 6/4
 \$400 \$450 IPL Section Members
 \$400 \$450 Not an ABA IPL Section member, but a member of one or more of the co-sponsoring associations (listed on the first page of the brochure) (Name of association: _____)
 \$450 \$500 ABA member, but not an IPL Section member, nor a member of any of the co-sponsoring associations (includes \$35 IPL Section dues)
 \$600 \$650 Not an ABA member, nor a member of one of the supporting associations

B. Printed Course Materials Option:

\$75 Please reserve for me (in addition to the CD-ROM), a printed set of course materials. Orders for printed materials must be received by June 4, 2003. Printed course materials will be available onsite for pickup upon check-in at the Conference registration desk.

C. Spouse/Guest Registration Fee:

\$175 \$225 For each spouse/guest (16 years or older accompanying registrant).
 Spouse/guest(s) full name(s) for name badge:

Accompanying Children:

Name: _____ Age: _____
 Name: _____ Age: _____
 Name: _____ Age: _____

Questions? Please e-mail intelprop@abanet.org or call 312/988-5598.

If any special arrangements are required for a disabled individual to attend this program, or any special dietary menus are required for meal functions, please note them below:

D. Meal Events

Number Amount

Please indicate which of the following tours/events you plan to attend (please include the events covered in the registration fee, even though there is no ticket price – it helps us with planning):

6/18 Spouse/Guest Luncheon with Animal Trainer @ \$35 _____ \$ _____
 6/18 Pool Deck Welcome Reception/Dinner _____ no fee
 6/19 Thursday Section Luncheon –Guest Speaker, @ \$45 _____ \$ _____

6/19 An Evening at Sea World/ Dinner @ \$100 _____ \$ _____
 6/20 Friday Section Luncheon – Guest Speaker, Hon. Kenneth W. Starr, @ \$45 _____ \$ _____
 6/20 San Diego Padres Baseball Game with Tailgate Party Dinner @ \$50 _____ \$ _____
 6/21 Closing Night Cocktail Reception _____ no fee
 6/22 Buffet Breakfast _____ no fee
 Total Meal Event Fees: _____ \$ _____

E. Optional Events Number Amount

Please indicate which of the following tours/events you plan to attend:
 6/18 Half-Day Tour – San Diego Zoo @ \$60 _____ \$ _____
 6/19 Half-Day Tour – Scenic San Diego by Land and Sea @ \$40 _____ \$ _____
 6/19 Full Day Tour with lunch – La Jolla, Birch Aquarium @ \$85 _____ \$ _____
 6/20 Full Day Tour with lunch – Foxploration Mexico @ \$80 _____ \$ _____
 6/20 Half-Day Tour – Coronado Walking Tour @ \$30 _____ \$ _____
 6/21 Half-Day Tour – Passport to Balboa Park @ \$65 _____ \$ _____
 6/21 Wild Animal Park Photo Caravan @ \$160 _____ \$ _____
 6/21 Golf Tournament w/box lunch @ \$160 _____ \$ _____
 6/21 Tennis Tournament @ \$35 _____ \$ _____
 Total Tour/Event Fees: _____ \$ _____

Business/CLE Events

Please indicate which of the following business and Continuing Legal Education programs you plan to attend:

- 6/18 CLE Program: Focus on Global IP
- 6/19 Section Business Session (CLE credit available)
- 6/19 CLE Program: Patent Litigation
- 6/19 CLE Program: Trademark Law
- 6/20 CLE Program: Intellectual Property in the eBusiness Environment
- 6/20 CLE Program: Patent Prosecution and Licensing
- 6/20 CLE Program: Copyright Law
- 6/20 CLE Program: Current Ethics Issues
- 6/21 CLE Program: Hot Topics in Intellectual Property Law

TOTAL OF ALL FEES:

A. Registration Subtotal: \$ _____
 B. Printed Course Materials Option Subtotal: \$ _____
 C. Spouse/Guest Fees Subtotal: \$ _____
 D. Meal events Subtotal: \$ _____
 E. Optional events Subtotal: \$ _____
 TOTAL (A – E): \$ _____

Course Materials on CD-ROM (non-registrants only) \$ _____

PAYMENT:

Credit Card: VISA MasterCard American Express
 Card no. _____
 exp. date: _____
 Signature: _____

Print name as it appears on card: _____

Check enclosed. Payable to the AMERICAN BAR ASSOCIATION for program registration fee and optional events in the amount of \$ _____.
 Purchase Order No. _____
(government employees only)

CONFIRMATION:

Thank you for your registration. A confirmation will be sent to you via e-mail. If you prefer your confirmation by fax or U.S. Mail, please indicate below:
 Fax U.S. Mail

Return this form to:
 Section of Intellectual Property Law, M/S 10.5
 Attn: Summer IPL Conference
 American Bar Association
 750 N. Lake Shore Drive
 Chicago, IL 60611
 Fax: 312/988-5628





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