



NEWSLETTER

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***Figueroa v. United States:* Does the Constitution Require Patent Fees to Stay with the Patent Office?**

BY DAVID L. COHEN



David L. Cohen

I. Introduction

What does the Constitution mean when it empowers Congress with the ability “To promote the Progress of Science and the Useful Arts,” and, more importantly, does it make a difference what the answer is? The recent Supreme Court opinion, in *Eldred v. Ashcroft*,¹ which found the Copyright Term Extension Act (CTEA)² constitutional, instead of resolving the issue, has arguably opened the field for more litigation.³ This uncertainty results in good measure from the lack of resolution of two arguments advanced in the commentaries of the so-called IP Restrictors⁴ regarding Congress’ powers under what is usually called the Intellectual Property or Patent and Copyright Clause of the U.S. Constitution. Art. I, § 8, Cl. 8 (Progress Clause):⁵ First, whether the preamble to the Progress Clause (Preamble)⁶ limits Congress’ power in any way, and second, whether Congress can enact legislation related to the ends of the Patents Clause under a different enumerated power, such as the Commerce Clause.⁷

The Supreme Court in *Eldred*, noted that the Progress Clause “empowers Congress to determine the intellectual property regimes that, overall, in that body’s judgment, will serve the ends of the Clause.”⁸ The Supreme Court then proceeded to determine whether there was any rational relation between the CTEA and “ends of the Clause” (i.e., the Preamble).⁹ Because, however, the *Eldred* Court did not examine in any depth how the ends of the Clause act as a limitation on Congress’ power, and because it ultimately found the CTEA constitutional, the Supreme Court failed to clearly resolve the extent to which the Preamble limits Congress’ powers. Moreover, neither the parties, nor the Court¹⁰ addressed whether

Congress, when legislating regarding the “ends of the Clause,” can only act under the Progress Clause.¹¹

Prior to *Eldred* there seemed to be a split of authority as to whether the Preamble limits Congress’ power in any way.¹² Interestingly, the Preamble was seen by the courts to limit the powers of Congress to grant patents, but not clearly seen to limit the power to grant copyrights.¹³ Additionally, prior to *Eldred* it was unclear whether Congress could legislate regarding patents or copyrights under its other powers.¹⁴ Most academics have argued that Congress is required to act under the Progress Clause.¹⁵ The courts that have considered the issue, however, have held that Congress was not required to legislate under the Progress Clause when legislating for copyrights and patents, so long as the legislation did not violate the “fundamental purposes” of the Progress Clause.¹⁶

By acknowledging that the Preamble imposes some sort of limit, albeit one determined by Congress and examined under the rational basis standard,¹⁷ and failing to provide any guidance as to what that limit might look

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Keeping Current with the Chair

ROBERT W. SACOFF

As the calendar turns from 2003 to 2004, we are about a third of the way into our Section year, which culminates in the ABA Annual Meeting in Atlanta next August 5–11. Our Section’s major meetings have been organized, thanks to the hard work of the Section’s committees, leadership, and staff, and are about to commence: ABA Copyright Office Day in Washington, D.C. on January 12; the Section Midwinter leadership meeting in Palm Springs on January 24–28; ABA Trademark Office Day in Washington D.C. in early March; our Annual Spring Intellectual Property Law Conference in Washington, D.C. on April 1–2 (Cherry Blossom time); our Summer IPL Conference in Toronto on June 16–20; and our Annual Meeting in Atlanta. In addition to these upcoming meetings, recall that we already co-produced a program in New York City in the fall on Foreign IP Trials. We welcome attendance by all. All of these CLE programs are cutting-edge, and the speakers top notch. Full details are available on the Section website, and I will be happy to answer any other questions you may still have.

At this mid-stream point in our year, our Section already has accomplished a lot, and has many additional projects and advocacy initiatives in the works. Speaking with the voice of the full ABA, on November 3 we filed an *amicus curiae* brief in the U.S. Court of Appeals for the Federal Circuit in the *Knorr-Bremse* case. On November 21, we filed written comments on the USPTO’s Notice of Proposed Rulemaking to implement its “21st Century Strategic Plan,” which were prepared with the able leadership of Donna Meuth, Co-Chair, Committee #103—Patent and Trademark Office Affairs-Patents. On November 25, we submitted joint comments along with several other ABA Sections on the European Union’s proposed regulations on technology transfer agreements (thanks largely to the hard work of Ed Filardi, Chair, Committee #409—Antitrust). We are working, through Committee #102—International Patent Treaties and Laws, on analysis of and comments on the EU Software Patent Directive, which is discussed by that committee’s Chair Sam Helfgott in more detail in this newsletter.

On top of the extensive committee work that is ongoing, I have also appointed a number of task forces to deal with issues requiring action more urgent than possible under the standard committee time-line, or transcending our normal committee structure. Carol Langford, Chair, Committee #502—Ethics and Professional Responsibility, and Ron Myrick, Co-Chair, Committee #103—Patent and Trademark Office Affairs-Patents, for example, are leading the large and important task of reviewing the recent USPTO Notice of Proposed Rulemaking proposing to amend the Code of

Professional Responsibility applicable to persons practicing before the USPTO, which also, for the first time, would impose mandatory CLE requirements on patent practitioners. We plan to discuss and formalize written comments at our Council meeting in January, for submission to the USPTO within its February 10 response deadline.

Our Chair-Elect Bill LaFuze is heading the Task Force on Patent Improvement and Harmonization, coordinating IPL Section committees and resolutions to make sure that our Section and the ABA have positions on all the necessary issues to participate fully in the global patent harmonization efforts that are reaching a critical stage. Our Vice-Chair Tony Figg is heading the Task Force on Strategic Plan Implementation, to develop and execute action points based on the strategic planning retreat held in Chicago on September 13–14. Adriana Luedke, Chair, Division VIII—Meetings & Resolutions, is leading a task force to explore the desirability and feasibility of more extensive “informal CLE” opportunities in addition to our more structured meetings. Elizabeth Chien-Hale, Chair, Committee #109—Cooperation with Foreign Patent Offices, is leading a task force to explore a possible Section trip to China to discuss intellectual property issues with pertinent Chinese authorities.

In another project notable for the hard and fast work it required, Chris Steinhardt, Chair, Committee #1004—Chemical Practice, led a special committee initiative to study and recommend Section policy on the “Weldon Amendment” to the current appropriations bill, which states, “None of the funds appropriated or otherwise

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Lisa A. Dunner

From the Editors

Knorr-Bremse:

Step One Toward Overhaul

One learns about a patent, perhaps through a letter from a competitor, perhaps by chance. Once aware of a patent that potentially applies to one's business, a reasonably prudent businessperson must take seriously the possibility that the patent may be asserted someday. With that premise in mind, one may seek an opinion from competent counsel that the product or process at issue does not infringe any claim in the patent or that the claims are invalid. That is the basis for the "advice of counsel" defense to a claim of willful infringement.

Businesses seek such opinions of counsel routinely for several reasons: for genuine advice on how to modify or alter the course of a particular product, but also to avoid a finding of willfulness, which is the drum major in the parade of horrors that patent litigation can bring to bear. Increasingly, the desire to preserve an advice of counsel defense far outweighs the need for real advice on product design or redesign, thus transforming into legal fiction the entire opinion process. But businesses can be ruined by a finding of willful infringement. Damages can be trebled and attorneys' fees awarded. Willfulness cannot be taken lightly.

As such, every day, businesses across this country walk through the steps of this familiar dance—notice letter, opinion letter, cross your fingers. Like the prom, this dance can be expensive. Opinion letters run from \$20,000 to more than \$100,000 per patent and often into seven figures when large patent portfolios are asserted *in toto*.¹ Yet, corporate practice in 2004 often is to obtain the opinion regardless of the associated cost because of the downsides otherwise possible. That is because the end-game here is simple—preserving an advice of counsel defense to the inevitable claim of willful infringement. But at what cost?² To what end?

There is also a good deal of complexity in practice. Although ensuring the availability of the defense may seem straightforward legally, invoking the defense is fraught with complications. One has to waive the privilege associated with the opinion on which the advice of counsel defense is based, without triggering a broader waiver. For a clean waiver, opinion counsel typically should be different from litigation counsel. Although dependent on the jurisdiction, opinion counsel should typically be from a different firm and should not have received substantive input from litigation counsel. Again, depending on jurisdiction, the existence of



Nick Setty

substantive cross-pollination between opinion counsel and litigation counsel becomes fodder for complicated and protracted motion practice on the scope of the waiver.

To avoid the nuance inherent in this process, a patent infringement defendant may choose not to waive the privilege associated with its opinion counsel and to roll the dice on willfulness or to avoid getting an opinion altogether. *Wham*. Along comes *Underwater Devices*,³ with its inference of willfulness based on a defendant's failure to obtain an opinion. Then comes *Kloster Speedsteel*,⁴ impugning silence on the opinion issue and allowing one to infer from silence that no opinion exists or was negative. Next comes *Fromson*,⁵ which supports a complete inference of willfulness from the failure to disclose a defensive opinion.

The Federal Circuit's positions on opinions and willfulness thus illuminate the path of least resistance. A business with knowledge of a patent rationally should obtain an opinion and preserve the advice of counsel defense. One should generally choose counsel who will make a good witness and obtain a clean and severable opinion for the ultimate waiver. But the clarity of that path does not make the underlying rationale correct. The fact that an advice of counsel defense may work in litigation does not justify a framework that rewards one's waiver of the otherwise sacred attorney-client privilege.⁶

With that backdrop, the upcoming *en banc* ruling in the *Knorr-Bremse*⁷ case presents a step in the right direction. That is, the Federal Circuit is inspecting the history surrounding the *Underwater Devices/Kloster/Fromson* negative inference and reconsidering the central role the attorney-client privilege plays in our jurisprudence. Nowhere else in law is the privilege at greater risk, in as tangible a way, as in the willfulness context.

In *Knorr-Bremse*, the *en banc* Federal Circuit will review a decision from Judge T. S. Ellis, III of the Eastern District of Virginia, in which the court found infringement to be willful based on defendant's decision not to waive the privilege. Having inferred willfulness, Judge Ellis found the case exceptional and awarded plaintiff's attorneys fees, as there were no damages to multiply. Although Judge Ellis relied on firm and consistent precedent, on appeal the Federal Circuit issued an *en banc* order *sua sponte* to allow a thorough review of the inference cases.

So, what will the Federal Circuit do? Will it ratify the importance of the privilege and eliminate the *Fromson* inference? Will it take the easy road and affirm based on *stare decisis*? We cannot know until the Federal Circuit renders its decision, but, as intellectual property advisors, we will all come out ahead regardless. That is because any attention this issue receives serves to highlight a willfulness construct badly in need of overhaul. Any inquiry is better than the slippery ride from *Underwater Devices* to the present.

Regardless of the direction the Federal Circuit takes on *Knorr-Bremse*, one thing is certain. Even if the negative inferences are undone, there will still be vast uncertainty surrounding the advice of counsel defense. We still suffer under the district courts' court-by-court, jurisdiction-

by-jurisdiction, whim-by-whim analysis of issues such as the scope of the waiver and the degree to which opinion counsel's file will be publicized and memories explored.⁸

These uncertainties require a new uniformity that *Knorr-Bremse* cannot provide—the *en banc* court is focused primarily on the case and controversy presented.⁹ Yet, the case is still a step in the right direction and, from this author's perspective, an opportunity to respect the privilege and to tighten the reigns on inferences depending from the decision to preserve the privilege. After this step, however, the Federal Circuit should accept future opportunities to clarify through *en banc* review all of the procedures surrounding the advice of counsel, without violating the regional Circuits' hold on procedural issues. Through a comprehensive and intentional review of willfulness issues, the Federal Circuit may evolve toward a complete overhaul. But that is another battle for another day.

Nagendra Setty

Endnotes

1. See *Hobson's Choice Revisited*, CORP. COUNSEL (Jan. 1, 2003) (reporting cost estimates and opining as to the minimal value of the opinions).

2. See generally David A. Nelson, *Attorney-Client Privilege and Procedural Safeguards: Are They Worth the Costs?*, NW. U. L. REV. 368 (1992).

3. *Underwater Devices Inc. v. Morrison Knudsen Co.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) (finding failure "to seek and obtain competent legal advice from counsel" a basis for willfulness).

4. *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1580 (Fed. Cir. 1986) (reasoning that silence "would warrant the conclusion that it either obtained no advice of counsel or did so and was advised" that it had a problem).

5. *Fromson v. Western Litho & Plate & Supply Co.*, 853 F.2d 1568, 1472-73 (Fed. Cir. 1988) (finding silence a basis for a negative inference of willfulness).

6. See *Upjohn Co. v. United States*, 449 U.S. 383, 389, 101 S. Ct. 677, 682 (1981) (reasoning that the privilege promotes "broader public interests in the observance of law and administration of justice . . . sound legal advice or advocacy serves public ends and . . . such advice or advocacy depends upon the lawyer's being informed by the client.").

7. *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 133 F. Supp. 2d 843 (E.D. Va. 2001).

8. See, e.g., *Novartis Pharma. Corp. v. Eon Labs. Mfg., Inc.*, 206 F.R.D. 396, 398 (D. Del. 2002) (finding a broad waiver of privilege including attorney-client communications and work product of litigation counsel as same firm as opinion counsel); *Thorn EMI North Am., Inc. v. Micron Technology, Inc.*, 837 F. Supp. 616, 621 (D. Del. 1993) (finding a narrow waiver of privilege).

9. The September 26, 2003, *sua sponte* order required briefing on four specific issues limited to the inference issues and not reaching scope of waiver issues.

To the Editors

Re: *Negotiation Ethics: Not an Oxymoron*, by Lisa A. Dolak, *IPL Newsletter*, Fall 2003, at 16-20.

Reading the aforementioned newsletter, I was shocked that the article by Lisa A. Dolak suggests, "a lawyer representing a client in a negotiation may affirmatively misrepresent the client's bottom-line." This section of the article further states that "a rule that did not permit lying about what one's client is willing to pay or accept would be unworkable in the context of negotiations." This is unconscionable.

While it may be strategic to withhold what one's client is willing to pay or accept or the client's "bottom line" as client confidence, this does not justify lying or misrepresentation concerning this fact. The lawyer's only choice is to negotiate without revealing this fact. If this information is requested, the lawyer must state that this information is confidential and will not be revealed. It is nothing short of scandalous that this article suggests otherwise. The IP section and the ABA deserve a retraction and clarification of this unfortunate set of statements.

Very truly yours,
Roger J. French
Attorney at Law
Chicago, IL

Lisa Dolak responds:

The purpose of the article was to help counsel understand the limits set by the rules of ethics on negotiation activities. As the article points out, the Model Rules do not treat statements concerning "a party's intentions as to an acceptable settlement of a claim" or "estimates of price or value to be placed on a transaction" as statements of fact subject to ethical sanctions. The article describes the various justifications offered by commentators for such treatment, including the recognition that in the give and take of the negotiation process, a party's "bottom line" often changes as it learns more about the other party's position. Consequently, Mr. French's view—the lawyer's only choice is to negotiate without revealing this fact" (i.e., its bottom line)—is not consistent with, or required by, the Model Rules.

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Figueroa v. United States

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like, the Supreme Court held out the tantalizing possibility of a future *Lopez*¹⁸ for the Progress Clause. That is, a case that finds the rational, outer limit of Congress' power under the Progress Clause.¹⁹ The ideal case would have to concern a congressional power that falls squarely under the Progress Clause as well as an alleged misuse of that power which cannot be reasonably excused under some other congressional power, such as the Commerce Clause. Of the various pending litigation trying out for that honor,²⁰ *Figueroa v. United States*,²¹ may prove to be the most fertile.

II. Background of Figueroa

By statute, the United States Patent and Trademark Office (USPTO) is authorized to grant a patent when an applicant satisfies certain requirements, including the payment of appropriate fees.²² Additionally, throughout the life of the patent, the USPTO requires the patent holder periodically pay a maintenance fee.²³ Pursuant to the Omnibus Budget Reconciliation Act of 1990 (OBRA)²⁴ Congress legislated increased surcharges to the fees charged by the PTO to patent applicants and holders. These surcharges remained in effect until the conclusion of fiscal year 1998. In the USPTO Reauthorization Act of 1999,²⁵ Congress discontinued the surcharges, but enacted increased patent fees approximately equivalent to the previous patent fees plus the surcharge.²⁶ As a result of the patent fee increases, the USPTO generated an annual surplus of funds.²⁷

III. The Suit

Michael Figueroa (Figueroa) is the lead plaintiff in a Tucker Act²⁸ class action brought by Patent Law Offices of Heath W. Hoglund challenging the increased fees and what was termed the "diversion" of patent fees. Plaintiffs in their complaint dated August 6, 2001 and filed in the U.S. Court of Federal Claims, allege that beginning in fiscal year 1992, a gradually increasing amount of patent fees collected in any one fiscal year was not appropriated for the USPTO's use in the same fiscal year.²⁹ Plaintiffs contended that Congress withheld appropriating the collected funds to the USPTO in a given fiscal year in order to be able to spend an amount equivalent to the amount not appropriated to the USPTO on unrelated government programs. Plaintiffs did not allege any specific programs to which the funds were appropriated.

The U.S. denied plaintiff's allegations and answered that Congress simply decided not to appropriate every dollar available to the USPTO in the same year it was collected. Plaintiffs argued that the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999,³⁰ rebuts the U.S.'s response. Plaintiffs allege that under the Act, authority to spend the excess USPTO funds was exhausted during annual appropriations and that the funds are therefore no longer available to the USPTO because they have been diverted

to unrelated government programs.³¹ The plaintiffs' lawsuit challenges this rescission of fees. They contend that around 10% of all patent fees collected by the USPTO were diverted or rescinded and paid into the general treasury.³²

While the U.S. concedes that rescissions have occurred,³³ it argues that they constitute an immaterial amount that has been more than offset by funding of USPTO obligations from the general treasury.³⁴ The plaintiffs counter that the rescinded fees are no longer available to the USPTO. More importantly, the plaintiffs allege that Congress' increases, diversions and rescissions of patent fees exceeded Congress' authority under the Progress Clause and the Direct Tax Clause³⁵ since Congress' actions do not promote the progress of the useful arts as they are not "limited to that which is necessary and 'essential to the effective working of the patent system.'"³⁶ Accordingly, the plaintiffs allege Congress has made uncompensated taking in violation of the Fifth Amendment.³⁷

The U.S. moved to dismiss the complaint for lack of subject matter jurisdiction, or in the alternative, for failure to state a claim. In its motion the U.S. contended that the Court of Federal Claims lacked jurisdiction over Figueroa's Progress Clause claim because the Progress Clause is not a substantive limit on Congress' power, does not confer a substantive right, and the clause cannot be interpreted as money mandating. Immediately after the date scheduled for oral argument on the motions, the court stayed the proceedings until the Supreme Court issued its opinion in *Eldred*. Once the *Eldred* opinion issued, the court requested and received briefing on the impact it may have.

IV. The Court of Claims Opinion

On August 15, 2003 the Court of Federal Claims issued its opinion declining to dismiss the case. The court held that it had subject matter jurisdiction because plaintiffs sought the return of money paid over to the government in contravention of the Constitution.³⁸ However, the court ruled that some of plaintiffs' claims were barred by the six-year statute of limitation under the Tucker Act,³⁹ because plaintiffs failed to prove by a preponderance of the evidence that the 1999 rescission included any patent fees from fiscal years prior to August 8, 1995.⁴⁰

The court also ruled that the plaintiffs had standing as they pled an actual economic injury that can be fairly traced to Congress' actions that could be redressed by a decision that Congress exceeded its constitutional authority.⁴¹ In light of statute of limitations ruling, however, the court held that anyone on the plaintiffs' list of proposed additional plaintiffs who had not paid patent fees since August 8, 1995 had no standing. Finally, the court rejected the defendant's argument that the plaintiffs failed to plead an illegal exaction, a necessary pleading under the Tucker Act, because the plaintiffs pled that the patent fees were in excess of their constitutional limitations.⁴²

Regarding the merits, the court held that the plaintiffs failed to state a claim for wrongful exaction based on the Direct Tax Clause. While the court acknowledged that a patent and a patent application are considered property,⁴³ proprietary interest in a patent accrues only after one has satisfied all mandatory conditions.⁴⁴ Prior to that point, an applicant does not have a recognizable property interest that can be taxed.⁴⁵ As far as the plaintiffs' contention that the USPTO's maintenance fees are a wrongful exaction, the court agreed with the U.S. that payment of maintenance fees are a condition upon which the patent privilege is granted and therefore are not a property that is taxed.⁴⁶ The court also dismissed the plaintiffs' takings claims on the same basis as the wrongful exaction claim,⁴⁷ refusing to adopt the plaintiffs' novel argument that the maintenance fees are held in trust on behalf of patentees and thus the alleged diversion and rescission independently constitutes a taking.⁴⁸

In what could prove to be its most interesting ruling the court declined to dismiss the plaintiffs' Progress Clause claim. Preliminarily, the court found the fact that the USPTO was an agency of the executive branch irrelevant. The court is permitted to review Congress' management of the USPTO to determine if there has been a clear breach of Congress' constitutional power.⁴⁹ Then, taking its cue from the Supreme Court's decision in *Eldred*, the court dismissed the U.S.'s argument based on *Tape Indus. Ass'n of Am. v. Younger*,⁵⁰ that plaintiffs' claim must fail because the Progress Clause does not confer any sort of substantive right.⁵¹ The court reasoned that while it ultimately did not hold the CTEA to be unconstitutional, the Supreme Court in *Eldred* considered the Progress Clause to act as a limit on congressional power, and thus grant a substantive right.⁵²

V. The Progress Clause Ruling

Noting the diverse range of opinions regarding the Progress Clause's proper construction,⁵³ the court held that "Congress' power in the area of patents derives from the very language the founding fathers incorporated into the text of the Patent Clause."⁵⁴ The court further stated that "as with any enumerated power, this grant of power is not limitless; rather, even at its broadest construct, there is a necessity that some 'outer limit' be imposed."⁵⁵

The court was mindful, however, of the split in authority as to whether the Preamble in any way limits Congress' power.⁵⁶ Because *Eldred* did not "expressly address whether Congress' power is independently limited by the phrase "to promote the Progress of . . . useful Arts," the D.C. Circuit's holding in *Eldred* that the Preamble does not inform the interpretation of Congress' power under the Progress Clause is "undisturbed."⁵⁷ Since the Court of Claims is bound by Federal Circuit precedent, however, the court turned to *Stiftung v. Renishaw*,⁵⁸ which held that the "'usefulness requirement [for patents] derives directly from the clause's 'preamble.'"⁵⁹ Indeed, the court argued that the Supreme Court's substantive analysis, reviewing whether there was a rational relation between the CTEA and promoting the progress of science, indicates that the Preamble does provide a substantive limitation on Congress' authority.⁶⁰

Because "[w]hen Congress enacts legislation that "increases, diverts, or rescinds" patent fees, it purports to exercise its power under the Necessary and Proper Clause,⁶¹ any analysis of whether the patent fees are necessary and proper within the limitations of the Progress Clause requires the court to review Congress' actions with substantial deference.⁶² In sum, the court concluded that its role in the *Figueroa* litigation would "be limited to discerning if Congress' legislation 'increasing, diverting, and rescinding' patent fees was necessary and proper to achieving its constitutional end of 'promot[ing] the Progress of . . . useful Arts.'"⁶³

VI. What Next?

Assuming plaintiffs' factual allegations are correct, the court in *Figueroa* will have to determine whether Congress' "increasing, diverting, and rescinding' patent fees" was rationally related to the progress of the useful arts, and if not, whether Congress was entitled to act under a different power.⁶⁴ If Congress was entitled to act under a different power, the court will then have to determine whether the various diversions of funds is "fundamentally inconsistent" the Progress Clause.⁶⁵

In order to determine the standard a court should use to uncover whether a rational basis exists between Congress' actions and the Patent Clause, the Court will very likely look to Commerce Clause jurisprudence.⁶⁶ In *Lopez* the key finding the Supreme Court had to make to determine the relevant statute's constitutionality under the Commerce Clause was whether the statute regulated an activity that "substantially affects" interstate commerce.⁶⁷ Here, the court will examine whether the surplus from fees, lawfully collected, and partially appropriated in a lawful manner for the USPTO, can be lawfully appropriated for all other federal activities. Were it to adopt the analogy to *Lopez*, the court would then examine whether the government's placement of excess patent fees into the general treasury "substantially affects" the progress of the useful arts and sciences. If the answer is no, the court would then have to determine whether there are any *specific* government expenditures the funding of which by patent fees will "substantially affect" the progress of the useful arts and sciences.

If the court finds the Progress Clause prohibits some or all of the diversions or rescissions, it will have to determine whether the patent fees were collected and appropriated under the Commerce Clause. Two factors will force the court to make this determination. First, the relevant constitutional analysis under the Commerce Clause is much more liberal than under the Progress Clause. It will be relatively easy for plaintiffs to prove that there is no rational basis under the Patent Clause empowering Congress to collect fees on patents and spend the funds on defense or social security payments.⁶⁸ It will be much harder, on the other hand, for plaintiffs to argue, under Commerce Clause analysis, that spending the money collected from patent fees on defense or social security is somehow "fundamentally inconsistent" with promoting progress in the useful arts.⁶⁹

Second, the court in *Mohadam* held that it could find a statute valid under the Commerce Clause even though Congress thought it was acting under the Patent Clause and only made findings relevant to the Patent Clause.⁷⁰

If the court holds that since the fees were collected under the Commerce Clause, they can be disbursed under the Commerce Clause, in addition to make the case eminently appealable,⁷¹ the Court will face a dearth of case law regarding whether any particular disbursement is “fundamentally inconsistent” with the requirements of the Progress Clause.⁷² There appears to be only one case, *Constant v. Advanced Micro-Devices, Inc.*,⁷³ examining how the Progress Clause relates to activity by the federal government that does not strictly concern patents or copyrights.⁷⁴ *Constant*, which held that Congress may promote the progress of useful arts through means other than the Patent Clause,⁷⁵ is not much use here, as it left unresolved the question of what legislation promotes the progress of the useful arts.⁷⁶ In any event, *Constant* is arguably contradicted⁷⁷ by the Supreme Court’s holding in *Goldstein v. California*,⁷⁸ that held the Progress Clause “describes both the objective which Congress may seek and the means to achieve it.”⁷⁹

What makes *Figueroa* so interesting is that it appears to provide the perfect vehicle to test the IP-Restrictor’s theories: that there is a limit on congressional action imposed by the Progress Clause and that congressional action with regard to patents and copyrights can only be undertaken by the powers enumerated in the Progress Clause. If, on the other hand, recent commentary that *Eldred* represents the beginning of a movement toward great deference to economic legislation regardless of the constitutional clause under which it is enacted,⁸⁰ then plaintiffs’ arguments might in the end get them nowhere.

Endnotes

1. 123 S. Ct. 769 (2003).
2. Pub.L. 105-298 § 102(b) and (d), 112 Stat. 2827–2828 (amending 17 U.S.C. §§ 302, 304).
3. Paul M. Schwartz & William Michael Treanor, 112 YALE L.J. 2331, 2360–62 (2003) (noting, among other “instabil[ities],” *Eldred*’s apparent inconsistency with *United States v. Lopez*, 514 U.S. 549 (1995), and outlining various litigation aimed at determining the limits of Congress’ patent and copyright powers).
4. Schwartz and Treanor define the term as those who favor aggressive judicial review of the constitutionality of congressional legislation of patents and copyrights. *Id.* at 2332. They list Yochai Benkler, Paul Heald, Lawrence Lessig, Jessica Litman, Robert Merger, Glenn Reynolds, William Patry, and Suzanna Sherry as IP-Restrictors. *Id.*
5. “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”. Art. I, § 8, Cl. 8. One of the most prolific historians of early American patent law, has argued, that despite early congressional skepticism, “the clause was intended not so much to restrict the Congress to a particular mode of promoting science and the useful arts as it was to assure that the Congress would in fact have authority to exercise the particular mode (i.e., ‘the grant of a limited term exclusive right more commonly known as a monopoly, to authors and inventors’”). EDWARD C. WALTERSCHEID, TO PROMOTE THE PROGRESS OF USEFUL ARTS: AMERICAN PATENT LAW AND ADMINISTRATION, 1798-1836 79 n.83 (1998). Accordingly, in

deference to the unresolved question of whether Congress is limited under this clause solely to legislation granting patents and copyrights, *see* note 74 *infra*, we have chosen to label the clause the “Progress Clause,” not the Patent and Copyright or Intellectual Property clause.

6. It is not clear that the Preamble, “To promote the Progress of Science and the useful Arts . . .” “is a preamble, let alone the extent of its legal effect. *See*, comment, Andrew M. Hetherington, Constitutional Purpose and Inter-Clause Conflict: The Constraints Imposed on Congress by the Copyright Clause, 9 MICH. TELECOMM. & TECH. L. REV. 457, 461 (2003) (“Although the [Progress] Clause is often described, by both the courts and legal scholars, [] as having a preamble, many commentators are unsure if the [] preamble is a ‘real’ or ‘full-fledged’ preamble of the type beginning the Second Amendment or the Constitution as a whole.”)

7. Art. I, § 8, Cl. 3.

8. 123 S. Ct. at 790.

9. *Id.* at 781, 785.

10. Interestingly, none of the “Silent Five” (Justices Thomas, Kennedy, Scalia, Renquist, and O’Connor), *see* Lawrence Lessig, *The Silent Five* (Jan. 16, 2003), at http://cyberlaw.stanford.edu/lessig/blog/archives/2003_01.shtml# (visited Sept. 10, 2003) (naming the *Lopez* majority the “Silent Five”), especially Justice Thomas, commented on whether the Progress Clause was limiting in the same manner as the Commerce Clause. *See Lopez*, 514 U.S. at 588 (Thomas, J. concurring) (“After all, if Congress may regulate all matters that substantially affect commerce, there is no need for the Constitution to specify that Congress may . . . grant patents and copyrights . . .”). *See also* Richard A. Epstein, *The “Necessary” History of Property and Liberty*, 6 CHAP. L. REV. 1, 27 (2003)

11. *See* Schwartz, 112 YALE L.J. at 2361, n.194–95 (recognizing that *Eldred* did not address the question as to whether the Progress Clause preempts the other rights enumerated to Congress, under, for example, the Commerce Clause). This is the inverse of the constitutional question raised in note 6, *supra*.

12. For patents *see* *Graham v. John Deer Co. of Kansas City*, 383 U.S. 1, 5 (1966) (“The [Progress] clause is both a grant of power and a limitation . . . Congress in the exercise of the patent power may not overreach the restraints imposed by the stated [in the Preamble] constitutional purpose.”); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (noting the Progress Clause contains both a grant and limitation of power; the limitation being framed by the purpose of the Preamble); *Stiftung v. Reinshaw*, 945 F.2d 1173, 1180 (Fed. Cir. 1991) (noting the utility requirement has its origins in the relation between the Preamble and rest of the Progress Clause). For copyrights *see* *Eldred v. Reno*, 239 F.3d 372, 378 (D.C. Cir. 2001) (holding that the preamble does not inform the interpretation of the substantive grant of Power to Congress by the Progress Clause); *Hutchinson Telephone Co. v. Frontier Directory Co. of Minnesota, Inc.*, 770 F.2d 128, 130 (8th Cir. 1985) (“We agree with Professor Nimmer that although the promotion of artistic and scientific creativity and the benefits flowing therefrom to the public are the purposes of the Copyright Clause, those purposes do not limit Congress’s power to legislate in the field of copyright.”); *Schnapper v. Foley*, 667 F.2d 102, 112 (D.C. Cir. 1981) (“we cannot accept appellants’ argument that the introductory language of the Copyright Clause constitutes a limit on congressional power”). *But see* *Pacific and Southern Co., Inc. v. Duncan*, 744 F.2d 1490, 1498 (11th Cir. 1984) (“We agree [with the argument based on the Preamble] that the Constitution allows Congress to create copyright laws only if they benefit society as a whole rather than authors alone.”).

13. J.A. Lorengo, *What’s Good for the Goose is Good For the Gander: An Argument for the Consistent Interpretation of the Patent and Copyright Clause*, 85 J. PAT. & TRADEMARK OFF. SOC’Y 51, 69–70 (2003) (noting how courts treat the Preamble differently for copyright than for patents).

14. This controversy goes back to John Churchman's attempts in 1789 and 1791 to get federal funding for his scientific expedition to Baffin's Bay. WALTERSCHEID 77-79 (1989). Until 1796 there was no consensus on this question. Indeed, Alexander Hamilton in the Report on the Subject of Manufactures argued that Congress could promote the progress of the useful arts by granting bounties to inventors under the general welfare clause. *Id.* at 77. James Madison (who along with Charles Pinckney was the author of the proposals that was transformed by the Committee of Eleven into the Progress Clause, *id.* at 49-50) was in favor of funding Churchman's expedition, but it was not clear under what enumerated power he thought Congress could appropriate the relevant funds. In 1796 congressional committee opined that the Progress Clause was the only source for congressional power to promote the progress of the useful arts, and determined that "that application to Congress for pecuniary encouragement of important discoveries, or of useful arts, cannot be complied with, as the constitution of the United States appears to have limited the powers of Congress to granting patents only." *Id.* at 79 (quoting IV DOCUMENTARY HISTORY OF THE FIRST FEDERAL CONGRESS OF THE UNITED STATES OF AMERICA, LEGISLATIVE HISTORIES at 530-31 (L.G. De Pauw et al. eds., 1977)).

15. Paul J. Heald & Suzanna Sherry, *Implied Limits on the Legislative Power: The Intellectual Property Clause as an Absolute Constraint on Congress*, 2000 U. ILL. L. REV. 1119, 1120 n.7 (2000) (listing articles contending Congress may only enact intellectual property legislation under the Progress Clause and cannot do so under another enumerated power). For more articles making the same point see note, Joseph C. Mersman, *Anchoring Copyright Laws in the Copyright Clause: Halting the Commerce Clause End Run Around Limits on Congress' Copyright Power*, 34 CONN. L. REV. 661 (2002); Robert Patrick Merges & Glenn Harlan Reynolds, 37 HARV. J. ON LEGIS. 45, 63-64 (2000); William Patry, *The Enumerated Powers Doctrine and Intellectual Property: An Imminent Constitutional Collision*, 67 GEO. WASH. L. REV. 359, 370, 376 (1999); Malla Pollack, *Unconstitutional Incontestability? The Intersection of the Intellectual Property and Commerce Clauses of the Constitution: Beyond a Critique of Shakespeare Co. v. Silstar Corp.*, 18 SEATTLE U. L. REV. 259, 288-96 (1995). *But Cf.* William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, U. CHI. L. REV. 471, 473 (2003) (raising the possibility that Congress can legislate for copyrights under the commerce clause, but noting that such a possibility is "unlikely").

16. *United States v. Mohadam*, 175 F.3d 1269, 1272 (11th Cir. 1999) (even assuming *arguendo* the presence of a constitutional fixation requirement limiting Congress' power under the Progress Clause, Congress had ample authority to enact the anti-bootlegging statute pursuant to the Commerce Clause); *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1140 (N.D. Cal. 2002) (if a law that could have been promulgated under the Progress Clause was promulgated under the Commerce Clause and the law is not fundamentally inconsistent with the purpose of the Progress Clause, the law is constitutionally permitted; finding the Digital Millennium Copyright Act, 17 U.S.C. §§ 1201(b)(1)(A) and (C), constitutionally enacted under the Commerce Clause).

17. 123 S. Ct. at 781, 785

18. In *United States v. Lopez*, 514 U.S. 549, 557, 567 (1995) the Supreme Court found Congress' passage of the Gun-Free School Zones Act, 18 U.S.C. § 922 (q)(1)(A) (1988 ed., Supp. V), to be an unconstitutional exercise of its authority under the Commerce Clause because it determined that there is no "rational basis" to conclude that "possession of a gun in a local school zone is in [any] sense an economic activity that might, through repetition elsewhere, substantially affect any sort of interstate commerce."

19. The literature on *Lopez* is enormous and varied. See Jesse H. Choper, *Taming Congress' Power Under the Commerce Clause: What Does the Near Future Portend?*, 55 ARK. L. REV. 731, 732 n.8, n.9 (2003). What seems clear, however, is that the current majority of Supreme Court justices, as evidenced in *Lopez* and in

United States v. Morrison, 529 U.S. 598 (2000) (finding the private civil remedy provision under the Violence Against Women Act, 42 U.S.C. § 13981 (1994) to be unsustainable under either the Commerce Clause or Section 5 of the Fourteenth Amendment), "is really serious about the existence of true limits on Congress' power under the Commerce Clause, and the justices' capacity to enforce them." Choper, 55 ARK. L. REV. at 731.

20. For example, *Golan v. Ashcroft*, discussed in Schwartz & Treanor, 112 YALE L.J. at 2361, argues that the Progress Clause, notwithstanding the Treaty Clause (Art. II, § 2, Co. 2) prohibits the federal government from protecting foreign works that fell into the public domain.

21. 01-457C, 2003 WL 22011412 at *1 (Fed. Cl. Aug. 15, 2003).

22. 37 C.F.R. §§ 1.16-1.19 (2002).

23. 37 C.F.R. § 1.20(e)-(i) (2002).

24. Pub. L. No. 101-508, § 10101, reprinted in 1990 U.S.C.C.A.N. (104 Stat.) 1388-91 (1990).

25. Pub. L. No. 105-358, 112 Stat. 3272 (1998).

26. *Figueroa*, 2003 WL 22011412 at *1.

27. *Id.*

28. 28 U.S.C. §§ 1441-1509 (waiving sovereign immunity in disputes with the United States regarding certain contracts, the U.S. Constitution, and certain acts of Congress).

29. *Figueroa*, 2003 WL 22011412 at *2.

30. Which states in relevant part "of the unobligated balances available under this heading from prior year appropriations, fees collected in this fiscal year, and balances of prior years \$71,000,000 are rescinded". Pub. L. No. 105-277, 112 Stat. 2861 (1998).

31. *Figueroa*, 2003 WL 22011412 at *2.

32. *Figueroa* Complaint ¶ 23 (available at: <http://www.hhoglund.com/FeeComplaint.htm>) (last visited September 15, 2003).

33. *Figueroa*, 2003 WL 22011412 at *2.

34. *Id.*

35. Art. I, § 9, cl. 4 states: "No Capitation, or other direct, Tax, shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken." The Direct Tax Clause only concerns congressional taxation of property. See *Eisner v. Macomber*, 252 U.S. 189, 193 (1920).

36. *Figueroa*, 2003 WL 22011412 at *12 (quoting *Boyden v. Comm'r of Patents*, 441 F.2d 1041, 1044 (D.C. Cir. 1971)).

37. *Id.*

38. *Figueroa*, 2003 WL 22011412 at *3.

39. 28 U.S.C. § 2501 (1994).

40. *Figueroa*, 2003 WL 22011412 at *4.

41. The court also rejected defendant's argument that because plaintiffs were a small entity its fees could not have been contributed to any surplus that was rescinded. The defendant provided no proof that small entities fees were kept separately. *Id.* at *5.

42. *Id.* at *7.

43. See, e.g., 37 C.F.R. § 1.21 (2002).

44. *Figueroa*, 2003 WL 2201142 at *15.

45. *Id.*

46. *Id.*

47. *Id.* at 16.

48. *Id.* at 17. As the fees were neither in control of plaintiffs or his representatives, and were not available to plaintiff upon demand, plaintiff did not have any rights traditionally associated with ownership. *Id.* at *17.

49. *Id.* at *11.

50. 316 F. Supp. 340, 346 (C.D. Cal. 1970).

51. *Figueroa*, 2003 WL 22011412 at *10.

52. *Id.* at *10.

53. *Id.*

54. *Id.* (citing *Aalmuhammed v. Lee*, 202 F.3d 1297, 1235 (9th Cir. 2000); *Greenberg v. Nat'l Geographic Soc'y*, 244 F.3d 1267, 1271 (11th Cir. 2001)).

55. *Id.* (citing *Eldred*, 239 F.3d at 381 and *United States v. Lopez*, 514 US 549, 556-57 (1995)).

56. *Id.* at *11.

57. *Id.*

58. 945 F.2d 1173, 1180 (Fed. Cir. 1991).

59. *Figueroa*, 2003 WL 22011412 at *11.

60. *Id.* at *12.

61. "To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof." Art. I, § 8, cl. 18

62. *Figueroa*, 2003 WL 22011412 at *13 (citing *Eldred*, 123 S. Ct. at 783).

63. *Figueroa*, 2003 WL 22011412 at *14.

64. *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1140 (N.D. Cal. 2002).

65. *Id.*

66. *Cf. Lopez*, 514 U.S. at 588 (Thomas, J. concurring) (analogizing the Commerce Clause to the Patent Clause); Pollack, 18 SEATTLE U. L. REV. at 288 (noting that a number of courts and legal commentators "alluded to the possible reinforcement of the Intellectual Property Clause with the Commerce Clause").

67. 514 U.S. at 558.

68. To argue that there is a rational basis for the proposition that, for example, defense spending and social security spending promotes the progress of the useful arts would require the Court "to pile inference upon inference" that would convert the Progress Clause into a general spending power of the sort retained by the States. *Lopez*, 514 U.S. at 567. *But cf.* Epstein, 6 CHAP. L. REV. at 3 (noting that the "so-called 'rational basis' test is the death knell of serious constitutional review").

69. *Mohadam*, 175 F.3d at 1272; *Elcom Ltd.*, 203 F. Supp. 2d at 1139. A sound defense and an able-bodied population are arguably very consistent with the promotion of useful arts as many of the recent century's most pioneering patents emerged from defense work a biotechnology. If older citizens cannot afford medical payments and are destitute, what will be come of the ultimate source of incentive to innovate?

70. *Mohadam*, 175 F.3d at 1275.

71. Any holding by the court that Congress collects patent fees under the Commerce Clause power, will, if it makes it that far, very likely, ignite the ire of the so-called "silent five" of *Eldred* for doing violence to the structure of the Constitution.

72. Another possible power under which Congress could be found to have acted when collecting patent fees is the Taxing Power. Art. I, § 8, cl.1 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises . . ."). The court will likely first turn to the Commerce Clause, as around eighty years ago the Supreme Court held that Congress could not use its taxing powers to achieve results forbidden under the Commerce Clause. *Baily v. Drexel Furniture Co.*, 529 U.S. 20, 40 (1922). This principle was applied again only once to invalidate a federal tax in *United States v. Constatine*, 296 U.S. 287 (1935). Since the post-1937 expansion of federal powers under the New Deal, the Supreme Court has consistently refused to reject a federal tax as an attempt to circumvent a limitation imposed on Congress by another enumerated power. *Choper*, 55 Ark. L. Rev. at 769. Accordingly, it is a distinct possibility that the Court may turn to this power should it not be satisfied with Congress' ability to act under the Commerce Clause or other powers.

73. 848 F.2d 1560, 1565 (Fed. Cir. 1988).

74. Edward C. Walterscheid in, *Conforming the General Welfare Clause and the Intellectual Property Clause*, 13 HARVARD J.L. & TECH. 87, (1999), notes that there is little commentary concerning the Progress Clause's reach beyond the grant of patents and copyrights, and that which exists appears concerned with whether the Progress Clause could be interpreted to preclude federal funding to promote the progress of science and the useful arts outside the context of copyrights and patents. *Id.* at 120. The dearth of commentary is also reflected in the dearth of case law. According to Walterscheid, the only legal challenge to federal

funding to promote the progress of science and the useful arts outside the context of copyrights and patents occurred in 1988 in *Constant v. Advanced Micro-Devices, Inc.*, 848 F.2d 1560 (Fed. Cir. 1988). While he criticizes the Federal Circuit's reasoning as overbroad, Walterscheid agrees with the Federal Circuit's general conclusion, arguing that the Progress Clause provides a "generic grant of power" to Congress, which includes the right to grant patents and copyrights. 13 HARVARD J.L. & TECH. at 124. Nevertheless, Walterscheid notes that "during the first decades of its existence, the intellectual property clause was interpreted as a constitutional barrier to federal R&D funding." *Id.* at 123.

75. In *Constant* the patent holder sued a large group of high technology companies for infringements of his patents. One of the patent holder's allegations was that defendants' research which led to the prior art reference proffered by defendants against the patent in suit was funded through unconstitutional government sponsorship (and thus, presumably, although it is unclear, invalid prior art). 848 F.2d at 1564-65.

76. It would seem, at least, that the authors of the Constitution believed that exclusive rights for authors and inventors for an unlimited time *does not* promote the progress of science and the useful arts. Some modern scholars are not so sure that the Constitution is right, *see Landes & Posner*, 70 U. CHI. L. REV. at 518 (arguing that a system of indefinitely renewable copyright may indeed promote a net progress in science and the useful arts), raising the interesting possibility of somehow showing that the ends of the Progress Clause contradicts the means, exclusive rights for a limited time.

77. *See Walterscheid*, 13 HARVARD J. L. & TECH. at 121-22.

78. 412 U.S. 546 (1973).

79. *Id.* at 555 (emphasis added).

80. *Schwartz & Treanor*, 112 YALE L.J. at 2414. Analogizing *Eldred* to *Lochner v. New York*, 198 U.S. 45 (1905), the authors argue that the Supreme Court was wise not to constitutionalize the IP Restrictor's policy vision. 112 YALE L.J. at 2414. Nevertheless, they recognize that the decision did not follow what they consider a long-standing pattern in legislation responding to dramatic economic change. *Id.* at 2395. In response to change legislatures first pass legislation. In the second stage, courts employ new constitutional doctrine to aggressively review the legislation. In the final stage, the courts retreat from their prior stance and embrace a deferential review of economic legislation. *Id.* If *Schwartz and Treanor's* reading of history is correct, then the success of the *Figueroa* plaintiffs will depend in large measure on whether *Eldred's* deferential stance fits the previous pattern or is an escape from that pattern.

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Responding to Audit Inquiry Letters after the Sarbanes-Oxley Act

BY DEAN F. HANLEY



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It is a common occurrence. Soon after the end of its fiscal year, your client sends you a form letter, obviously written by your client's independent auditor, asking for information in connection with the audit of your client's financial statements. If you are the client's primary contact at your firm, your job is to put together the response and send it back. As an IP lawyer, you may have a limited relationship with the client, and the letter may find its way to you because you are handling litigation, or some other dispute, dealing with the client's intellectual property. In that case, the client's general counsel or the auditor may have asked you to provide a paragraph (or two or three) describing the matter you are working on.

So what do you do?

Audit inquiry letters typically ask the same questions, year after year.¹ The first question asks you to list and describe all litigation, claims and assessments, excluding unasserted ones, above some stated threshold of materiality. Most auditors also expressly ask for an evaluation of the likelihood and magnitude of an unfavorable outcome.

The second question asks you to list all *unasserted* claims and assessments considered to be probable of assertion that, if asserted, have a reasonable possibility of an unfavorable outcome. Now, this is tricky. An unasserted claim may not even be known, at least not yet, to the potential claimant. Your client hardly wants to put a footnote into its financial statements that calls attention to an unasserted claim. In fact, your client may be so paranoid about the possible unasserted claim that he or she does not even want you to mention it to the auditor. After all, if the claimant never becomes aware of the claim, he might never assert it. Remember, too, that there is no auditor-client privilege like the one clients enjoy with their lawyers. And finally, as you think about your response, bear in mind that third parties will be reading the auditor's report on the financial statements and will rely upon it, just as the auditor wishes to rely upon you.

In 1975, the American Institute of Certified Public Accountants (AICPA) and the American Bar Association (ABA) got together to work out a way for auditors to ask, and for lawyers to answer, these types of questions. They developed the "Statement of Policy Regarding Lawyers' Responses to Auditors' Requests or Information" (often referred to as the ABA-AICPA Treaty).² It is a difficult, but workable, document, and every lawyer who is called upon to prepare an answer to an audit inquiry letter should

be familiar with it. The Treaty applies in every case, whether the client is public or private.

In 2002 Congress passed the Sarbanes-Oxley Act (SOXA),³ which by its terms is applicable to public, not private, companies. However, it is not very likely that the revolution in standards of behavior that SOXA was intended to bring about will be limited to public companies. Conduct that Congress has endorsed will probably become—some say it is already becoming—the *de facto* standard of good conduct and best practices for lawyers and auditors, particularly if a judge or jury is asked to evaluate the lawyer's or accountant's behavior.

And Congress did have something to say about how lawyers, and others, deal with auditors.

Section 303 of SOXA⁴ makes it unlawful for any person "acting under the direction" of a public company to "take any action to fraudulently influence, coerce, manipulate, or mislead" an auditor for the purpose of rendering the company's financial statements materially misleading. The Securities and Exchange Commission has enacted rules in furtherance of Section 303 and has made it clear that, at least in SEC's view, the word "fraudulently" modifies "influence" but does not modify any of the other actions listed in Section 303.⁵ When SEC adopted its new rules, it said specifically that one may "mislead" an auditor by providing an "inaccurate or misleading legal analysis."⁶ It appears that SEC intends that the standard of care be a negligence standard. It will not be surprising if this standard begins to pervade private company practice, as well.

Therefore, if your client sends you a letter asking you to respond to its auditor on these types of matters, you not only have to comply with the Treaty, but for public companies you should also worry about Section 303 of SOXA and be sure not to "mislead" the auditor in any material way. As you draft your description of the litigation that you have been working on, you have a narrow path to follow. While your first responsibility is to your client, who may be very concerned about the effect of your disclosures on its financial statements—it often happens that your draft paragraph ends up as a footnote in the financial statements—you cannot mislead the auditor in such a way as to materially affect the client's financial statements.

Here is a guide to proceeding down this narrow path.

Some Basic Concepts

What is the basic idea?

Lawyers may properly respond to an auditor's request for information concerning loss contingencies, as provided in the ABA-AICPA Treaty. The Treaty seeks to balance the auditor's need to know (hence the accuracy of financial statements) with the client's entitlement to the

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attorney-client privilege. The basic tradeoff is that the lawyer reveals what he or she can, and, with respect to unasserted claims that the lawyer must keep confidential, the lawyer agrees to consult with the client about the application of relevant accounting literature to the determination of whether the unasserted matter calls for disclosure as a loss contingency. Loss contingencies include, but are not limited to, overtly threatened and pending litigation.⁷

What can and should a lawyer say? To the extent appropriate, a lawyer can:

- identify the proceedings or matter,
- the stage of the proceedings,
- the claim(s) asserted, and
- the position taken by the client.

A lawyer normally should refrain from expressing judgments as to the outcome of the case or proceeding except in those relatively few clear cases where it appears to the lawyer that an unfavorable outcome is either probable or remote.⁸ The standard this imposes is difficult to meet. For example, while no percentage threshold is specified in the Treaty or its official commentary, practitioners believe that “probable” means something like “more than 90% to 95% likely,” with the implication that “remote” means that an unfavorable outcome is “less than 5% to 10% likely.” That is, in very few cases will the likelihood of an unfavorable outcome be probable or remote, and so in the vast majority of cases a lawyer should refrain from expressing a judgment as to outcome.

What if it appears that an unfavorable outcome IS probable or remote?

The rare case. If a lawyer can conclude in the exercise of his or her professional judgment that an unfavorable outcome is either probable or remote, the lawyer may communicate that view to the auditor. However, this should be done only after discussing with the client the potential legal consequences of the evaluation.

What if it appears that an unfavorable outcome is not probable or remote?

The usual case. Where a lawyer does not conclude that an unfavorable outcome is either probable or remote, the lawyer need not and should not express a view.

What about saying “We have not formed an opinion”?

Lawyers should be *very* careful about saying to an auditor that they “have not” or “cannot” form an opinion as to the likely outcome of litigation. *Such a statement might be characterized as misleading if the lawyer has in fact provided the client with a recent evaluation of the case.* Appropriate language for the audit letter might say that because the lawyer has not formed an opinion that an unfavorable outcome is either probable or remote, the lawyer “declines to express an opinion” or simply “expresses no opinion” as to the likely outcome.

What about saying “The case is in its early stages”?

Many lawyers addressing litigation matters in an audit response letter like to explain that they are unable to form an opinion about the case because discovery is still in its early stages. *That comment is unnecessary under the Treaty, and*

potentially troublesome. The early stage of discovery is not a reason to be silent in the rare case where the lawyer has determined that an unfavorable outcome is either “probable” or “remote.” Similarly, the fact that substantial discovery has been undertaken does not suggest that a lawyer should express a judgment, unless the judgment is that an unfavorable outcome is either “probable” or “remote.”

What if the lawyer is asked about the amount of damages?

If the lawyer is asked to estimate the potential amount or range of loss in the event that an unfavorable outcome is not viewed to be remote, the lawyer may do so only if he or she believes that the probability of inaccuracy of the estimate of the amount or range of potential loss is slight (i.e., it is extremely unlikely that the estimate is incorrect). *In the vast majority of cases, the lawyer will not be able to meet this standard and should not express a view.*

What if the lawyer is asked to speak to the auditor directly?

This is a dangerous thing to do, especially in light of Sarbanes-Oxley’s express prohibitions against misleading auditors. *There are no different rules applicable to oral communications with the auditor, and for that reason such communications, to the extent that they would be covered by the Treaty if they were in writing, are to be particularly avoided.* Oral communications with the auditor are hard to control. They present a real danger of loss of the attorney-client privilege, and they make it very difficult for the lawyer to argue, as he or she will want to do, that what is said is governed by the rules of the Treaty. Indeed, that is why the audit response procedure is so formal.

Slightly Harder Concepts

By the way, what exactly is a “loss contingency”?

As noted above, *loss contingencies* as to which a lawyer may be asked to provide information to an auditor are not limited to overtly threatened and pending litigation. Here is a more formal definition:

Loss contingencies—When properly requested by the client, it is appropriate for the lawyer to furnish to the auditor information concerning the following matters if the lawyer has been engaged by the client to represent or advise the client professionally with respect thereto and has devoted substantive attention to them in the form of legal representation or consultation:

- (a) overtly threatened or pending litigation, whether or not specified by the client;
- (b) a contractually assumed obligation which the client has specifically identified and upon which the client has specifically requested, in the inquiry letter or a supplement thereto, comment to the auditor;
- (c) an unasserted possible claim or assessment which the client has specifically identified and upon which the client has specifically requested, in the inquiry letter or a supplement thereto, comment to the auditor.⁹

What is “overtly threatened” litigation?

With respect to clause (a), *overtly threatened* litigation means that a potential claimant has manifested to

the client an awareness of and present intention to assert a possible claim or assessment unless the likelihood of litigation (or of settlement when litigation would normally be avoided) is considered remote.

When should the lawyer expect the client to “specifically identify” an unasserted possible claim?

With respect to clause (c), where there has been *no manifestation by a potential claimant of an awareness of and present intention to assert a possible claim or assessment*, the client should request that the lawyer furnish the information to the auditor *ONLY IF the client has determined that it is probable that a possible claim will be asserted, that there is a reasonable possibility that the outcome (assuming such assertion) will be unfavorable, and that the resulting liability would be material to the financial condition of the client.*

Possible examples:

(1) a catastrophe, accident or similar physical occurrence in which the client’s involvement is open and notorious;

(2) an investigation by a government agency where enforcement proceedings have been instituted or where the likelihood that they will not be instituted is remote, under circumstances where assertion of one or more private claims for redress would normally be expected, or

(3) a public disclosure by the client acknowledging (and thus focusing attention upon) the existence of one or more probable claims arising out of an event or circumstance. Assertion of a possible claim would be considered probable only when the prospects of its being asserted seem reasonably certain (i.e., supported by extrinsic evidence strong enough to support a presumption that it will happen) and the prospects of nonassertion seem slight.

What If the auditor (through the client) asks about ALL unasserted possible claims?

Bad auditor. It is not proper for the auditor to ask the lawyer to furnish information in response to an inquiry letter or supplement thereto if it appears that (a) the client has been required to specify unasserted possible claims *without regard to the standard suggested above*, or (b) *the client has been required to specify all or substantially all unasserted possible claims* as to which legal advice may have been obtained, since, in either case, such a request would be in substance a general inquiry and would be inconsistent with the intent to the Treaty.

The following are examples of statements in audit request letters that should set off an alarm:

We have represented to our auditors that there have been disclosed by Management to them all unasserted possible claims that you have advised are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 in the financial statements currently under examination.

or

We have represented to our auditors that there are no unasserted possible claims that you have advised are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 in the financial statements currently under examination.

Due to the risk that a responsive answer to an inquiry letter that employs this particular language would constitute a waiver of the attorney-client privilege in this area, the lawyer’s response might state as follows:

Please be advised that pursuant to clauses (b) and (c) of Paragraph 5 of the ABA Statement of Policy and related Commentary referred to in the last paragraph of this letter, it would be inappropriate for this firm to respond to a general inquiry relating to the existence of unasserted possible claims or assessments involving the company. We can only furnish information concerning those unasserted possible claims or assessments upon which the company has specifically requested, in writing, that we comment nor can we comment upon the adequacy of the company’s listing, if any, of unasserted possible claims or assessments or its assertions concerning the advice, if any, about the need to disclose same.

Reasonable people disagree about whether it is necessary to answer the implied question in the two examples above. Some say that so long as the Treaty is generally invoked, it should not be necessary for the lawyer specifically to reject such questions, whether express or implied. This writer prefers to point out to the auditor that he or she has stepped over the line, in the hopes that next time, the audit request letter will be limited to permissible questions under the Treaty.

Conclusion

Even if you have a relatively limited relationship with your IP client — representing the client in connection with, for example, patent litigation, or a license dispute — both the Treaty and SOXA play an important, and growing, role in determining how you can properly respond to audit inquiry letters. Your answers to such letters should be carefully considered and presented. You should be diligent about not misleading the auditor, even as you are diligent about not revealing confidential information of your client that is not required to be reported to the auditor under the terms of the Treaty. If your client is public, a badly drafted response letter or an incautious discussion with the auditors may violate federal law.

Endnotes

1. Sometimes, auditors also ask questions that are not appropriate under the applicable standards. One such question is described later in this article.

2. American Bar Association, *Statement of Policy Regarding Lawyers’ Response to Auditors’ Inquiry Letter*, 31 BUS. LAW. 1709 (1976).

3. Sarbanes-Oxley Act of 2002, Pub. L. 107-204, 116 Stat. 745 (2002).

4. Section 303, 116 Stat. at 745.

5. Improper Influence on Conduct of Audits, Exchange Act Release No. 47890, Investment Company Act Release No. 26050, Financial Reporting Release No. 71 [2003 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 86,921 at ¶ 87,660 (May 20, 2003).

6. Improper Influence on Conduct of Audits, Exchange Act Release No. 47890, Investment Company Act Release No. 26050, Financial Reporting Release No. 71 [2003 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 86,921 at ¶ 87,661 (May 20, 2003).

7. Loss contingencies are further discussed later in this article.

(continued on page 28)

The Myths of Genericide

BY ROSE A. HAGAN



Rose A. Hagan

As Bill Watterson noted in the comic strip *Calvin and Hobbes*, “verbing weirds language.” It certainly weirds out trademark owners. Conventional wisdom holds that a trademark should never be used as a verb or a noun, because such use can result in “genericide,” where a trademark becomes generic. In other words,

the trademark becomes the name for the *class* of products or services and fails to perform the statutory function of identifying the particular *source* of those products or services. To avoid genericide, trademark lawyers typically advise their clients to do the following:

- always use a trademark as an adjective, defining a generic noun;
- never use a trademark as a verb;
- never use a trademark as a noun; and
- never pluralize or make possessive a trademark.

Contrary to this conventional wisdom, more and more people—both trademark owners themselves and the general public—seem to be using trademarks as verbs, but in a way that makes clear that they are talking about the trademark owner’s products or services and not a general category. Examples include “Stop Cleaning, Start Swiffering” “Do you Yahoo!?” “Shepardize it” and “I Googled him.” Does this usage really put the marks at risk, or is the conventional wisdom wrong and a mark could be used as a verb and *not* become generic? Is genericide inevitable if a mark is used as a verb? A brief look at the statutory framework and the case law surrounding genericide suggests that the conventional wisdom of strictly prohibiting the use of a mark as a verb may go too far.

Statutory Framework

The Lanham Act¹ defines a trademark as including:

any word, name, symbol, or device, or any combination thereof—

- (1) used by a person, or
- (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this Act, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.²

Importantly, this statutory definition does not require that the trademark be an adjective, merely that the mark serve a source-identifying function. Neither the remainder of the Lanham Act nor the Trademark Manual of Examining Procedure (TMEP) includes any requirement that a trademark be an adjective. Neither the Lanham Act

nor the TMEP prohibits registration of nouns or verbs as trademarks. In fact, the United States Patent and Trademark Office has allowed registration of marks that use the trademarks as nouns or verbs. Some examples include “DO YOU YAHOO!?”³ “DON’T WORRY, THERE’S A FEDEX FOR THAT”⁴ and “SHEPARDIZE.”⁵

Case Law

Turning to the case law, the test used to determine whether a trademark has become generic is the “primary significance” test. This test originated with Judge Learned Hand in *Bayer Co. v. United Drug Co.*,⁶ a case regarding the genericide of the mark “ASPIRIN.” In this case, Judge Hand wrote:

The single question, as I view it, in all these cases, is merely one of fact: What do the buyers understand by the word for whose use the parties are contending? If they understand by it only the kind of goods sold, then, I take it, it makes no difference whatever what efforts the plaintiff has made to get them to understand more. He has failed . . .⁷

Courts therefore look to the primary significance of the trademark in the minds of the relevant consuming public (i.e., Does the public think of the term as a term to identify the source of the goods or as the name of the category of goods?).

While the key determination of genericide remains the primary significance of the mark in the mind of the public, later courts have also considered whether the public necessarily uses the trademark term to refer to the product category because no generic term exists, and whether the trademark owner or third parties have used the trademark in a generic sense. For example, many of the cases in which marks have been found to be generic involved marks used for patented products, where the trademark owner/patent holder had exclusivity in the marketplace for years, and therefore, no competitive product existed.⁸ As such, over the period of exclusivity, the trademark and product class became equated in the public’s mind. The trademark owner’s own use of the trademark as a noun in many of these cases contributed to the public equating the trademark with the product itself and not the source of the product. Examples of such patented products whose marks suffered from genericide include thermos and aspirin.⁹ All of these products enjoyed exclusivity in the marketplace due to patent protection, and all of these products became generic because the public did not have a common generic term for the product apart from the trademark. However, absent such exclusivity in the marketplace, equating a trademark with the product class becomes more difficult due to the competitive products in the marketplace.

A review of the case law failed to yield a single case where a court held that use of a trademark as a verb alone caused the trademark to become generic. In fact,

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in *BellSouth Corp. v. Planum Technology Corp.*,¹⁰ the Trademark Trial and Appeal Board held that the mark “PHONE FORWARD” was suggestive, in spite of the fact that “applicant in its promotional literature has used its trademark (perhaps unwisely) as a verb (‘Why miss important calls when you can Phone Forward® them!’).”¹¹ Similarly, in *Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc.*,¹² the court refused to find the mark “METALOCK” generic for a type of cold metal repair, despite testimony of representatives of several local industries who referred to the type of repair as “Metalocking.”

A couple of cases discuss the use of terms as a verb or noun and hold the terms generic or otherwise unenforceable as trademarks. However, these cases do not involve established trademarks that are used later as verbs, but rather terms that were generic from the beginning. In *America Online, Inc. v. AT&T Corp.*,¹³ the district court found “IM” to be generic, finding “IM” to be an initialism for “instant message.” The district court noted that, despite management’s admonitions against using “IM” as a noun or a verb, AOL employees used “IM” as a noun or verb in lieu of “instant message.” It also pointed to books, dictionaries, and glossaries defining “instant message” with the “IM” designation. On appeal, the Fourth Circuit stopped short of holding “IM” generic, while denying AOL enforcement of “IM” as its trademark.¹⁴ Another example of a generic term unsuited for use as a trademark is found in *In re Lativ Systems, Inc.*,¹⁵ where the Trademark Trial and Appeal Board held that VINYLIZING—the verb form of the generic term “vinyl”—was a generic name for a process of applying a vinyl compound to auto bodies. In these cases the courts did not hold that the terms were generic *due to* use as a verb, but instead that the terms were not protectable trademarks because they were not used to refer solely to the trademark owner’s products.

Conclusion

The primary significance of a trademark—not its part of speech—should determine whether that trademark is protectable or whether the mark has become generic. The primary significance test makes sense, given that the key attribute of a trademark is that the mark identifies the *source* of products or services in order to distinguish the particular products or services from those from other sources. If the primary significance of a trademark in the minds of consumers identifies the class of goods or services rather than the source of those goods or services, the trademark is no longer serving its statutory source-identifying function. This basic premise holds true whether the trademark is used as an adjective, noun, or verb. The mere fact that a trademark is used as a noun or a verb does not in and of itself change the significance of the trademark in the minds of consumers. However, if the use of the mark does not make clear the source-identifying function of the trademark, a risk exists that consumers may begin to identify the

trademark more and more with the product category instead of a particular source.

Perhaps the conventional wisdom should change. Instead of advising trademark owners and the public to always use a trademark as an adjective, trademark lawyers should be cautioning their clients to make sure they use their trademark in a way that makes clear it represents their goods and services rather than those of their competitor. Trademark lawyers should encourage steps that make the primary significance of the trademark as trademark clear, such as the use of slogans that clearly distinguish that verb from the name of the category (e.g., “Stop Cleaning. Start Swiffering”). Clients should be encouraged to police against use in the media and in dictionaries that would indicate that the primary significance is as the name of the category of the goods and not an identification of the source of the particular product. The bottom line is that lawyers and clients can and should rid themselves of the knee-jerk reaction that trademarks can never be used as a verb.

Endnotes

1. Trademark Act of 1946, 15 U.S.C. §§ 1051 *et seq.*
2. 15 U.S.C. § 1127.
3. Reg. No. 2490998 and others.
4. Reg. No. 2675700.
5. Reg. No. 1743711.
6. *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921).
7. *Id.* at 509.
8. *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169, 16 S. Ct. 1002, 41 L. Ed. 118 (1896) (holding that where, during the period of exclusive manufacture provided by a patent, the name of a patented product becomes the generic designation of the product, either through the manufacturer’s express decision or through the public’s adoption of the name as the generic name, the name passes into the public domain along with the patented device itself upon termination of the patent).
9. *King-Seeley Thermos Co. v. Aladdin Industries, Inc.*, 321 F.2d 577 (2d Cir. 1963) (“thermos” held generic); *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921) (“aspirin” held generic).
10. *BellSouth Corp. v. Planum Technology Corp.*, 14 U.S.P.Q.2d 1555 (TTAB 1990).
11. *Id.* at 1556.
12. *Engineered Mechanical Services, Inc. v. Applied Mechanical Technology, Inc.*, 584 F. Supp. 1149 (M.D. La. 1984).
13. *America Online, Inc. v. AT&T Corp.*, 64 F. Supp. 2d 549 (E.D. Va. 1999), *aff’d in part, vacated in part, and remanded*, 243 F.3d 812 (4th Cir. 2001).
14. *America Online, Inc. v. AT&T Corp.*, 243 F.3d 812, 823 (4th Cir. 2001).
15. *In re Lativ Systems, Inc.*, 223 U.S.P.Q. 1037 (TTAB 1984).

The New Test for Claim Construction and Patent Infringement in Canada

BY DINO P. CLARIZIO



Dino P. Clarizio

Despite many similarities between the patent systems of the United States and Canada, there are significant differences in the way the courts will interpret the claims and determine whether they are infringed. These differences have recently become even more pronounced because of various court decisions on both sides of the border.

Until December 2000, claim construction and infringement in Canada followed two distinct lines of reasoning: was there “literal” infringement and if not, was there “substantive” infringement? Literal infringement is self-explanatory; substantive infringement, on the other hand, was not well-defined and the cases on the issue were generally not consistent or helpful. On December 15, 2000, all this changed when the Supreme Court of Canada delivered a pair of judgments on patent claim construction and infringement. These companion judgments, *Whirlpool*¹ and *Free World Trust*,² were the first decisions from the Supreme Court in almost twenty years on the issues of claim construction and infringement. The Supreme Court dealt with claim construction in both cases, while the court laid down the test for determining infringement in *Free World Trust*.

In the three years since, there have been a number of decisions from the trial and appellate levels dealing with and applying the *Whirlpool* and *Free World Trust* decisions. There is no doubt that these are the two main decisions now cited in any patent case in Canada. These cases not only have implication in patent litigation, but also affect how patent applications ought to be drafted and prosecuted. A recent trial judge went so far as to describe the *Free World Trust* case as “a virtual course on patent law.”³

What follows is a summary of these two decisions and how trial and appellate courts have applied them. I have not attempted to contrast claim construction and infringement in Canada with the law in the United States, however, I hope that the differences will become apparent.

I. The Whirlpool and Free World Trust Cases

In the *Whirlpool* case, the plaintiff alleged infringement of two patents relating to agitators for automatic washing machines. The first patent claimed a “dual action” agitator with “outwardly extending substantially vertically oriented

vanes.” The second patent also claimed a dual action agitator, but with the vanes specified to be flexible.

Justice Binnie, who wrote the reasons on behalf of the Supreme Court, described the inventions as:

an advance in clothes washing technology which the trial judge described as “entirely new.” The nub of the improvement was to replace the traditional one-piece “agitator” in the wash tub with a two-piece agitator consisting of a lower oscillating spindle with a rotating “auger” attached to the top. By all accounts the two-piece “dual action” agitator produced a more effective wash (“uniform scrubbing”).⁴

The issue before the Supreme Court was whether the claims of the first patent also covered flexible vanes; if so, then the second patent would be invalid under the doctrine of double patenting. The lower courts had held that the claims of the first patent were restricted to rigid vanes only, and that the use of flexible vanes on a dual action agitator was inventive. The Supreme Court agreed and held that the phrase “outwardly extending substantially vertically oriented vanes” did not, in its opinion, encompass flexible vanes. The use of flexible vanes on such an agitator was considered inventive; hence there was no double patenting.

The *Free World Trust* case also dealt with two patents. Justice Binnie (who again wrote the reasons for the court) described the inventions as follows:

The patents relate to an apparatus that bombards different parts of the human body with low frequency electro-magnetic waves. Electro-magnetotherapy is not new, but the appellant persuaded the Commissioner of Patents that it had discovered a new method of controlling the amplitude and frequency of the electromagnetic waves by “circuit means” with desirable and beneficial effects.⁵

At trial in the Quebec Superior Court, the patents were invalidated as being anticipated by a prior publication. The Quebec Court of Appeal reversed this finding of invalidity, but held the claims were not infringed because there were sufficient differences to distinguish the defendants’ device. The Supreme Court affirmed the appellate decision.

II. Fundamentals of Claim Construction

In *Whirlpool* and *Free World Trust*, Justice Binnie reviewed the principles of claim construction in Canada. Throughout his reasons in both cases, Justice Binnie set out a number of principles that are to be used in construing patent claims.

Justice Binnie began by noting that the Patent Act requires that the claims must state distinctly and in explicit terms the things or combinations that the patentee regards as new and in which he claims an exclusive

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property or privilege. The court reaffirmed the usual rule that what is not claimed is considered disclaimed.⁶

He also made clear that the first step in any patent suit is to construe the claims. Claim construction is a question of law and it is antecedent to a consideration of both the validity and infringement issues.⁷ The Alberta Court of Appeal recently applied this reasoning as follows:

It is only when one has clearly construed the scope and breadth of the claims in a patent that other linked issues, such as anticipation, obviousness, and prior use, not to mention infringement are capable of being properly and adequately assessed. Claim construction is therefore a necessary forerunner to a correct consideration of both validity and infringement issues.⁸

Justice Binnie further stated that a patent should not be construed with an eye on the allegedly infringing device, or as he more aptly put it: “claims construction cannot be allowed to become a results-oriented interpretation.”⁹ Thus, it is a fundamental rule of claim construction that the claims receive one and the same interpretation for all purposes (validity and infringement).¹⁰

The dilemma facing Justice Binnie in *Whirlpool* and *Free World Trust* was to craft a test for claim construction that would be a balance between predictability and fairness. He reasoned that predictability is achieved by tying the patentee to its claims, whereas fairness is achieved by interpreting those claims in an informed and purposive way.¹¹

III. Purposive Construction

In Justice Binnie’s view, this balancing could be achieved in part by using the concept of purposive construction. He accepted as law in Canada the decision of the British House of Lords in the *Catnic*¹² case that the claims of a patent must be given a “purposive construction,” rather than a literal or a contextual interpretation. Justice Binnie emphasized in both *Whirlpool* and *Free World Trust* that the words of the claims must be interpreted in the context of the patent specification as a whole, and must be given this purposive construction. When construing the claims, the court “must look to the whole of the disclosure and the claims to ascertain the nature of the invention and methods of its performance.”¹³ The patent must be read with a mind willing to understand, not by a mind desirous of misunderstanding. This reading of the claims requires that the court pay close attention to the purpose and intent of the inventor, as expressed in the patent itself.¹⁴ Another way to put it is that patent claims are to be given an interpretation that “best ensures the attainment of its objects.”¹⁵

Purposive construction means that the claims should be interpreted so as to further the object or purpose of the invention. It is necessary, when reading the patent, to try to determine what was the intention of the inventor when the invention was made. This determination is to be made by reading that patent only; that is, the intention of the inventor is to be found in the words and drawings of the patent specification only and not in other evidence.¹⁶ The actual intention of the inventor at the time

the invention was made is irrelevant. For example, the fact that the initial intention of an inventor was to deliberately avoid infringement of another patent has no relevance in construing the claims. There is no need to inquire into the actual state of mind of the inventor, thus no adverse inference will be drawn for failing to call the inventor as a witness.¹⁷

When interpreting the claims, it is permissible for the court to look at the rest of the specification, including the drawings, to understand what is meant by a word or phrase used in the claims. However, the court cannot enlarge or contract the scope of the claim as written and understood by a person skilled in the art.¹⁸ The patent monopoly is limited by the language of the claims, and may not be expanded by borrowing gloss from the disclosure.¹⁹ Under the law existing before December 2000, some courts had determined that “substantive infringement” meant the taking of the invention disclosed in the specification rather than claimed. This kind of claim interpretation necessarily led to uncertainty, which Justice Binnie sought to avoid in formulating his new test.

Although Justice Binnie imported the concept of purposive claim construction from the British *Catnic* case, its actual application appears to stem from recent law in Canada on how legislative statutes and regulations should be interpreted. In *Whirlpool*, Justice Binnie said that an issued patent is an enactment falling within the definition of a “regulation” in subsection 2(1) of the *Interpretation Act*. A patent therefore is subject to the provisions of the Interpretation Act and must, consequently, be interpreted according to Section 12 of that Act, which provides: “Every enactment is deemed remedial, and shall be given such fair, large and liberal construction and interpretation as best ensures the attainment of its objects.”

Justice Binnie placed emphasis on the phrase “as best ensures the attainment of its objects.” He said:

A patent must therefore be given such interpretation according to s. 12 of the Interpretation Act “as best ensures the attainment of its objects”. Intention is manifested in words, whose meaning should be respected, but words themselves occur in a context that generally provides clues to their interpretation and a safeguard against their misinterpretation. P.-A. Côté, in *The Interpretation of Legislation in Canada* (3rd ed. 2000), puts the matter succinctly when he writes, at p. 387, “Meaning flows at least partly from context, of which the statute’s purpose is an integral element” . . . These principles apply to claims construction by virtue of the Interpretation Act.²⁰

Thus, the words of a patent claim must be put in the context in which they are used, and the purpose of the invention is an important element of this context.²¹ Justice Binnie’s decision that patent claims are to be given a purposive construction, and his reference to the interpretative principles of Section 12 of the Interpretation Act, appears to have overruled the previous law set out in *Beecham v. Procter & Gamble*²². In *Beecham* the court of appeal had held that

in construing the claims in a patent, recourse to the remainder of the specification is (a) permissible only to assist in

understanding terms used in the claims; (b) unnecessary where the words of the claim are plain and unambiguous; and (c) improper to vary the scope or ambit of the claims.

With purposive construction, the court must always look to the whole specification, and must interpret the claims in a way that “best ensures the attainment of its objects”. The interpretation given to the claims must ensure, as best as possible, that the purpose of the invention is furthered.

Up to this point, one would think that purposive construction is a test that is more beneficial to the patentee in that the inventor’s intention as expressed in the rest of the specification is to be given effect in the claims. This appears to suggest that the court should give a broad, generous interpretation that is sympathetic to accomplishing the inventor’s purpose, expressed or implicit in the text of the claims. However, Justice Binnie then moved on to the second part of the balance he was trying to achieve: predictability. He cautioned that if the inventor has misspoken or otherwise created an unnecessary troublesome limitation in the claims, it is a “self-inflicted wound.” The public is entitled to rely on the words used in the claims, provided those words are interpreted fairly and knowledgeably.²³

IV. Essential and Nonessential Elements

Justice Binnie’s attempt at balancing predictability and fairness culminated in the introduction of a new concept in Canadian patent law: essentiality. He postulated that the key to purposive construction is the identification by the court, with the assistance of the skilled worker, of the particular words or phrases in the claims that describe what the inventor considered to be the “essential” elements of the invention.²⁴ That is, an important part of claim construction is to differentiate the essential elements of the claim from the unessential elements. This is to be done based on a knowledgeable reading of the whole specification through the eyes of the person skilled in the art rather than on the basis of “the kind of meticulous verbal analysis in which lawyers are too often tempted by their training to indulge.”²⁵

In *Free World Trust*, he expanded on this concept and noted that in some cases, the words and phrases used in a claim are essential to the working of the invention, and in other cases, they are not essential and variants can easily be used or substituted without making any material difference to the working of the invention. The task of the court in interpreting claims is to separate the one from the other in order to distinguish the essential elements from the nonessential.²⁶ This distinction between essential and nonessential elements is important when applying the test for infringement, which is discussed in detail below.

The onus is on the patentee to establish that an element is not essential. In other words, all elements claimed are considered essential unless they are proven by the patentee to be nonessential. Recall Justice Binnie’s caution about self-inflicted wounds. Basically, an element is not essential if the patentee can show that it would have been obvious to a person skilled in the art that the element was not necessary and could be omitted

or substituted. If the patentee cannot discharge that onus, then the element will be considered essential, unless the “claims language otherwise dictates.”²⁷

V. The Test for Patent Infringement

The main issue decided in the *Free World Trust* case was the test for infringement. Justice Binnie held that the test turns on determining what are the essential and nonessential elements of the patent claims. This proposition was subsequently applied in the *Norac Systems* case: “the question of substantial infringement is now a question of essential and non-essential elements of the claims.”²⁸ In formulating the infringement test, he was mindful of achieving fairness to both the inventor and the public. At the very beginning of his reasons in *Free World Trust*, Justice Binnie acknowledged the importance of expressing a test that achieves this balance:

The appeal thus raises important questions about the scope and ambit of a patent owner’s monopoly. Too much elasticity in the interpretation of the scope of the claims creates uncertainty and stifles competition. Too little protection robs inventors of the benefit they were promised in exchange for making a full and complete disclosure of the fruits of their ingenuity.²⁹

Justice Binnie expanded on this later in the reasons when he began formulating the test:

It is obviously an important public policy to control the scope of “substantive infringement”. A purely literal application of the text of the claims would allow a person skilled in the art to make minor and inconsequential variations in the device and thereby to appropriate the substance of the invention with a copycat device while staying just outside the monopoly. A broader interpretation, on the other hand, risks conferring on the patentee the benefit of inventions that he had not in fact made but which could be deemed with hindsight to be “equivalent” to what in fact was invented. This would be unfair to the public and unfair to competitors. It is important that the patent system be fair as well as predictable in its operation.³⁰

He then provided the following “propositions” relating to the infringement test:

- (a) The Patent Act promotes adherence to the language of the claims.
- (b) Adherence to the language of the claims in turn promotes both fairness and predictability.
- (c) The claim language must, however, be read in an informed and purposive way.
- (d) The language of the claims thus construed defines the monopoly. There is no recourse to such vague notions as the “spirit of the invention” to expand it further.
- (e) The claims language will, on a purposive construction, show that some elements of the claimed invention are essential while others are non-essential. The identification of elements as essential or non-essential is made:
 - (i) on the basis of the common knowledge of the worker skilled in the art to which the patent relates;
 - (ii) as of the date the patent is published;
 - (iii) having regard to whether or not it was obvious to the skilled reader at the time the patent was published that a

variant of a particular element would not make a difference to the way in which the invention works; or

(iv) according to the intent of the inventor, expressed or inferred from the claims, that a particular element is essential irrespective of its practical effect;

(v) without, however, resort to extrinsic evidence of the inventor's intention.

(f) There is no infringement if an essential element is different or omitted. There may still be infringement, however, if non-essential elements are substituted or omitted.³¹

The first, and overriding, proposition in the infringement analysis is the "adherence to the claims language," or also described as "primacy of the language of the claims."³² He has done away with any law that suggested there could be infringement of the "substance" of the invention, even if it was outside the boundaries of the invention actually claimed.³³ The claims language alone, given a purposive construction, governs whether there is infringement.

The test in *Free World Trust* requires a determination of which elements of the claim are essential and which are not. This is a matter of claim construction for the court. There will be infringement if the defendant's device includes all the essential elements of the claim, even though one or more nonessential elements are omitted or substituted. There will not be infringement, however, if an essential element is omitted or substituted.

How is the court to determine whether elements are essential or not? Justice Binnie does not provide a succinct summary of the test. I have, however, attempted to do so. With the "primacy of the language of the claims" as the overriding principle, that the test to determine if an element is essential or not requires answering two questions, although not necessarily in this order:

1. Is it the intention of the inventor as expressed or implied in the claims language that the element be essential? If yes, then the element is essential.³⁴

2. If no, then:

(a) Has the patentee shown on a purposive construction of the words of the claim that the element was *clearly* not intended to be essential? *or*

(b) Would the skilled worker have appreciated that the element could be substituted without affecting the working of the invention?³⁵

The element is not essential to the invention claimed if the answer to either (a) or (b) is yes. If the answer is no to (a) and (b), then the element is essential.

The onus is on the patentee to show that question 2(b) should be answered in the affirmative. If the patentee cannot discharge that onus, the element is considered essential, "unless the context of the claims language otherwise *dictates*." In other words, if the claims language does not "dictate" or "clearly" show that the element is nonessential, then the court should consider part (b) of question 2. But there is no need to get to question 2(b) if the claims language expresses or infers that the element is essential (question 1) or if the claim language makes it clear the element is nonessential (question 2(a)).

As mentioned, these two questions do not necessarily have to be asked and answered in the order presented above. Indeed, Justice Binnie in his reasons discussed question 2 before discussing question 1. If the order of the questions is inverted, they become:

1. (a) Has the patentee shown on a purposive construction of the words of the claim that the element was *clearly* not intended to be essential? *or*

(b) Would the skilled worker have appreciated that the element could be substituted without affecting the working of the invention?

If the answer is no to (a) and (b), then the element is essential. If it is yes to either (a) or (b), then the element is not essential, unless the answer to 2 is yes.

2. Is it the intention of the inventor as expressed or implied in the claims language that the element be essential? If yes, then the element is essential.

Whichever way the test is formulated, the primacy of the claims language is always the starting point. It will be difficult to show that an element of the claim is not essential considering the particular wording used by Justice Binnie. An element is essential if it is "expressed or inferred" from the claims language that the inventor intended it to be essential. Thus, it is sufficient for the claims to *imply* that the element is essential. In contrast, for an element to be nonessential, the claims language must show that it was "*clearly*" not intended to be essential.

In *Dana Canada*, the court restated the test as: "The question for the court in applying purposive construction is: Would a person with practical knowledge and experience of the kind of work in which the invention was intended, understand that strict compliance with a particular descriptive word or phrase was intended to be an essential requirement of the invention? And is it such that any variant would fall outside the monopoly claimed, even though it could have no material effect upon the way the invention worked?"³⁶

The court rejected the notion that there are two approaches to infringement, literal and substantive. Rather, infringement is a "single cause of action" approach in that the claims are construed purposively, and then the court determines whether the defendant's activity takes all the essential elements of the claim.³⁷

Purposive construction does away with the first step of purely literal interpretation, but disciplines the scope of substantive claims construction in the interest of fairness to both the patentee and the public.³⁸

It is easy to see that one of the main issues in patent cases in Canada will be determining whether a particular element of the claim is essential or not. Justice Binnie tried to give some guidance on how this determination is to be made. He used the patent in *Free World Trust* as an example of a claim expressly making an element essential:

Claim 1 of the '156 patent stipulates the 'said magnetization coil being stationary' during treatment. Whether the magnetization coil is stationary may or may not affect the way the device works, but the inventor has explicitly so stipulated.³⁹

Also at issue in the *Free World Trust* case was whether the “circuit means” recited in the claims was essential. Justice Binnie held this was an essential element because the patentee:

failed to establish that a skilled reader would have understood in 1981 and 1983, when these patents were published, that (i) the inventions as contemplated were intended to include departures (or variants) from the specified circuit technology, (ii) that it would have been obvious to such a skilled reader that substituting variants for the specified “circuit means” would perform substantially the same function in substantially the same way to produce substantially the same result, and (iii) that when the inventor specified “circuit means” he didn’t really mean the description to be taken literally. Had the appellant been able to establish these points, its patents would probably have been declared invalid. . . .⁴⁰

Since the defendant’s device did not use “circuit means,” there was no infringement.

In *Whirlpool*, Justice Binnie said that where one claim differs from another in only a single feature, it would be difficult to argue that the differing feature is not essential to that claim.⁴¹

The cases decided since *Whirlpool* and *Free World Trust* also provide some hints on what constitutes an essential element. For example, where the patent specification provides specific and detailed descriptions of a claimed element, then that element is essential.⁴² Thus, the degree of particularity in which a claim element is described is one indication of an essential element. “Where an inventor reaches within a class of devices to stipulate one subset of the class, then one can assume that the inventor considered that degree of specificity was required.”⁴³

One trial judge also suggested that the prior art might be relevant in determining whether an element is essential.

Since a patent, by definition, concerns a novel and useful device, a purposive construction of a patent must identify the functional elements which make the device novel and inventive. Since it is the means by which a result is obtained which is protected by the patent, rather than the result itself, a purposive construction of a patent should identify those functional elements which produce a useful result in a novel and inventive way.⁴⁴

In other words, essential elements are those elements whose absence will result in the device ceasing to be inventive.

VI. Claim Construction Before Trial

The practice in Canada has been to construe patent claims at trial at the same time as the court hears evidence on the issues of infringement and validity. In a recent decision, the Federal Court of Canada had, for the first time, ordered a special hearing to interpret the claims of a patent before trial.⁴⁵ The order required the parties to proceed with a separate determination of claim construction prior to trial. This order was granted because the *Whirlpool* and *Free World Trust* cases make clear that claim construction is a question of law that precedes other issues and that claim construction is to be

based on the patent alone and resort to extrinsic evidence is not permitted for the purpose of claim construction.

On January 9, 2004, the Federal Court of Appeal reversed and set aside the earlier order.⁴⁶ The court of appeal did not completely rule out the possibility of a Markman-type hearing in Canada, but held on the facts of this case that such an order was not justified. Under the rules of the court, issues can be separated if it would provide “the just, most expeditious and least expensive determination” of the proceeding. The court of appeal held that the evidence before it did not show that this would be the case.

VII. The Relevant Date For Claim Construction

Justice Binnie in *Whirlpool* and *Free World Trust* held that the claims of a patent are to be construed as of the date of publication of the patent. This is a change from the previous cases where patents were interpreted as of the priority date. In Canada, “publication of the patent” can mean two different things. For patents issued under the old Patent Act (which applies to patents issued based on applications filed before October 1, 1989), the patent was only published upon issuance, thus the claims will be interpreted as of the issue date of the patent. For patents issued under the new Patent Act (applications filed after October 1, 1989), the relevant date for claim construction is the publication date of the application, which normally will be about 18 months from the first priority date.⁴⁷

Therefore, in a typical patent infringement action where validity of the patent is contested, two different dates are now relevant. When interpreting the claims, the relevant date is the date of publication, but when assessing novelty or obviousness, the relevant date is the “claim date.” Claim date is defined in the *Patent Act* as either the filing date of the application in Canada, or the priority date if the priority application supports the subject matter of the claim. Thus, in any proceedings to invalidate a patent, the parties will have to seriously consider introducing expert evidence regarding the state of the art as of the claim date and also expert evidence on the meaning of the claim language as of the publication date.

Another interesting effect of the Supreme Court’s decision on the relevant date for construction is that information that becomes public knowledge between the priority date and the publication date can, presumably, be used to interpret the claims. For example, under the old Patent Act, it was not uncommon for a patent to issue many years after its priority date, especially if the application was the subject of conflict proceedings (akin to interferences). Thus, any information that became publicly available in those intervening years is now relevant to the issue of interpreting the claims of the patent.⁴⁸

VIII. The Person Skilled in the Art

Patents are directed to persons skilled in the art, not to ordinary people. Because of the new “essentiality” concept, it is important in many cases to determine who is the person skilled in the art. In *Whirlpool*, Justice

Binnie accepted a statement that Justice Dickson had made in the *Consolboard*⁴⁹ case that “the persons to whom the specification is addressed are ‘ordinary workmen,’ ordinarily skilled in the art to which the invention relates and possessing the ordinary amount of knowledge incidental to that particular trade. The true interpretation of the patent is to be arrived at by considering what a competent workman reading the specification at its date would have understood it to have disclosed and claimed. ‘Ordinariness’ will, of course, vary with the subject matter of the patent.”⁵⁰

In *Whirlpool*, a colleague of one of the inventors testified at trial as an expert as to his knowledge of the state of the art. Justice Binnie held that it was wrong to accept the evidence of this long time employee of the patentee as a proxy for the ordinary person skilled in the art. The witness was too directly connected with the patentee and he was burdened with “inside information” relating to the patentee’s research activities.⁵¹ Similarly, “the general rule is that extrinsic evidence is inadmissible for the purpose of construing a patent specification and this must necessarily extend to the testimony of the inventor pertaining to the proper construction of the specification.”⁵²

A recent decision emphasizes, “the purpose or intention of a patent as set out in the language of the claims is ascertained through “a worker skilled in the art”, and not through ordinary members of the public.”⁵³

IX. The File Wrapper Is Not Admissible to Construe the Claims

It was argued in the *Free World Trust* case by the intervenor Procter & Gamble that the court should have regard to the file wrapper to determine the inventor’s intention in the infringement test. The Supreme Court unequivocally decided that the inventor’s intention as to whether an element is essential or nonessential is to be deciphered from a reading of the patent specification *only*. References to the inventor’s intention in the infringement test are to an objective manifestation of the intent in the patent claims, as interpreted by a person skilled in the art, and do not contemplate extrinsic evidence such as statements or admissions made in the course of patent prosecution. Justice Binnie wrote that to allow such extrinsic evidence for the purpose of defining the monopoly would undermine the public notice function of the claims and increase uncertainty. Thus, the emphasis on purposive construction of the claims keeps the focus on the language of the claims, interpreted in light of the patent specification only, but does not include file wrapper estoppel.⁵⁴

The prosecution history of a corresponding U.S. patent is likewise not to be used to determine what are the essential elements of the invention, or for any other purpose relating to claim construction. To put it succinctly, “file wrapper estoppel does not apply in Canada.”⁵⁵

However, since the *Whirlpool* and *Free World Trust* decisions, file wrappers have been admitted where they are used “to clarify the facts, and not for the purpose of interpretation.”⁵⁶ That is, the file wrapper may be

relevant to other issues in the lawsuit, but it is clearly not relevant for claim construction.

X. The Role of Experts

Justice Binnie emphasized several times that patents must be read through the eyes of the ordinary skilled worker. It was already accepted in Canada that expert evidence could be adduced at trial to determine what the common general knowledge and the state of the art was at the relevant time. As well, expert evidence may be presented as to what is the meaning of words used in the claims.⁵⁷ The technical vocabulary of a person skilled in the art may also be used by the court to assist in construing the claims.⁵⁸

One would think, therefore, that the role of experts in patent cases is fairly settled. Unfortunately, the cases since *Whirlpool* and *Free World Trust* have been inconsistent regarding the role of experts. For example, a trial judge held that it is inappropriate to make a ruling on claim construction and infringement at a summary hearing before trial. He wrote that claim construction requires expert evidence and should be conducted at a full trial with a judge making the determination on the merits.⁵⁹ This is especially so where there was no expert evidence on the summary hearing.⁶⁰ Other courts have in contrast minimized to some extent the role of experts. For example, familiar every day words should be given their ordinary meanings and specific terms that are defined in the patent should be interpreted accordingly. Courts do not need expert evidence to construe these words.⁶¹ Furthermore, if such expert evidence is introduced, judges are not bound by it where the term being construed is not a term of art.⁶²

As can be seen, it is difficult to get a judge to construe the claims prior to trial. The court of appeal has held that on a motion for summary judgment where there is conflicting expert evidence, a judge should not attempt to construe the claims in the absence of *viva voce* evidence.⁶³ In *AB Hassle*, the court held “it is not possible to assess conflicting expert evidence in terms of credibility without the benefit of *viva voce* evidence in this case.”⁶⁴

It is advisable not to rely on the evidence of a person connected to the patentee in construing the claims. In *Whirlpool*, the evidence of a colleague of one of the inventors was given little weight. In *SmithKline Beecham*, the trial judge said that witnesses who are not independent, such as employees, might be tainted by their personal interest, in which case their interpretation of the claims will be accorded little weight.⁶⁵

XI. Conclusion

Whirlpool and *Free World Trust* have already had a great impact on patent litigation in Canada, and no doubt they will continue to do so. The tests for claim construction and infringement in Canada are, as I understand U.S. law, quite different. This is significant for anyone advising clients in the era of free trade because noninfringement of a U.S. patent does not necessarily mean noninfringement of the corresponding Canadian patent.

Endnotes

1. *Whirlpool v. Camco* [2000] 2 SCR 1067. *Whirlpool v. Maytag* [2000] 2 SCR 1116 is a companion case released at the same time—the reasons refer to those in *Whirlpool v. Camco*.
2. *Free World Trust v. Electro Sante* [2000] 2 SCR 1024
3. *Dana Canada Inc. v. Lubrizol Corp. et al.* (2001), 16 C.P.R. (4th) 129 at para 12 (Ont. Sup. Ct.)
4. *Whirlpool* at para. 1.
5. *Whirlpool* at para. 4
6. *Whirlpool* at para. 42
7. *Whirlpool* at para. 43
8. *Polansky Electronics Ltd. v. AGT Ltd.* (2001), 11 C.P.R. (4th) 7 Alb. C.A. at para 6.
9. *Whirlpool* at para. 49(a)
10. *Whirlpool* at para. 49(b)
11. *Free World Trust* at para 43.
12. *Catnic Components Ltd. v. Hill & Smith Ltd.*, [1982] R.P.C. 183
13. *Whirlpool* at para. 49(f) and (g), quoting from *Noranda Mines Limited v. Minerals Separation North American Corporation*, [1950] S.C.R. 36
14. *Whirlpool* at para. 49(c), quoting from *Lister v. Norton Brothers and Co.* (1886), 3 R.P.C. 199 at p. 203
15. *Whirlpool* at para. 49(e)
16. *Whirlpool* at para. 49(e)
17. *Illinois Tool Works Inc. v. Cobra Anchors Co.*, 2002 FCT 829 at para 14 and 17.
18. *Whirlpool* at para. 52
19. *Almecon Industries Ltd. v. Anchartek Ltd.* (2001), 17 C.P.R. (4th) 74 (F.C. T.D.)
20. *Whirlpool* at para. 49(e)
21. *Whirlpool* at para. 49(e)
22. 61 CPR (2d) 1 at 11 (F.C.A.)
23. *Free World Trust* at para 51.
24. *Whirlpool* at para. 45
25. *Whirlpool* at para. 48, quoting from *Catnic* at p. 243
26. *Free World Trust* at para 15.
27. *Free World Trust* at para 57.
28. *Norac Systems International Inc. v. Prairie Systems and Equipment Ltd.* (2002), 19 C.P.R. (4th) 360 (F.C. T.D.) at para 12.
29. *Free World Trust* at para 3.
30. *Free World Trust* at para 29.
31. *Free World Trust* at para 31.
32. *Free World Trust* at paras 39 and 40.
33. For example, *McPhar Engineering v. Sharpe Instruments* (1960), 35 CPR 105, and cases that have followed it.
34. Question 1 is set out in paras. 31 and 58-61.
35. Questions 2(a) and (b) come from paras 55 and 57.
36. *Dana Canada* at para 27.
37. *Free World Trust* at para 50.
38. *Free World Trust* at para 50.
39. *Free World Trust* at para 60.
40. *Free World Trust* at para 72
41. *Whirlpool* at para. 79
42. *Illinois Tool Works* at para 84.
43. *Norac Systems* at para 61
44. *Norac Systems* at para 16.
45. *Realsearch Inc. et al. v. Valon Kone Brunette et al.*, 2003 FCT 669, appeal pending.
46. *Realsearch Inc. et al. v. Valon Kone Brunette et al.*, A-260-03, January 9, 2004.
47. *Whirlpool* at para. 54-56 and *Free World Trust* at paras 31(e) and 52-54.
48. In the *Whirlpool* case, the respondents brought a motion for a rehearing arguing that the fact *Whirlpool* had its dual action agitator with flexible vanes on the market for 4 years prior to the patent issuing meant that a person skilled in the art would know that flexible vanes could be used on such an agitator. Therefore, the word “vanes” in the patent claims should be construed to

include flexible vanes. On February 22, 2001, the Court dismissed the motion for a rehearing.

49. *Consolboard Inc. v. MacMillan Bloedel (Sask.) Ltd.*, [1981] 1 S.C.R. 504
50. *Whirlpool* at para 70 and 71.
51. *Whirlpool* at para 70.
52. *Les Équipements LaPierre Inc. v. Echochem International Inc.*, 2002 FCT 617
53. *Dana Canada* at para 22
54. *Free World Trust* at paras. 62–66.
55. *Dana Canada* at para 32.
56. *Novartis AG v. Apotex* (2001), 15 C.P.R. (4th) 417 at para 86.
57. *Xerox of Canada Ltd. v. IBM Canada Ltd.* (1977) 33 CPR (2d) 24 at 85 (F.C.T.D.)
58. *Lubrizol Corp. v. Imperial Oil Ltd.* (1990) 33 CPR (3d) 1 (F.C.T.D.) affirmed (1992), 45 CPR (3d) 449 (F.C.A.)
59. *AB Hassle et al. v. Apotex Inc. et al.* (2001), 12 C.P.R. (4th) 289 at para. 69 (F.C. T.D.)
60. *Urea Casale S.A. v. Stamicarbon B.V.* (2002), 17 C.P.R. (4th) 377 (F.C.A.) where the Court of Appeal held that it is inappropriate to attempt to construe the claims on a motion for summary judgment without expert evidence. A judge on a summary judgment motion is not in a position to know whether a particular word has a special meaning or connotation within its applicable art apart from its ordinary meaning.
61. *Illinois Tool Works* at para 53
62. *Norac Systems* at para 69.
63. *Suntec Environmental Inc. v. Trojan Technologies Inc.*, 2003 FCA 309 at para 7.
64. *AB Hassle Astrazeneca AB v. Apotex*, 2002 FCT 931 at para 51.
65. *SmithKline Beecham Pharma Inc. v. Apotex Inc.* (2001), 14 C.P.R. (4th) 76 (F.C. T.D.)

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A Brief Overview of Open Source in Government Outside the USA

By DON MCGOWAN



Don McGowan

The future of software lies somewhere in a yet to be explored synergy between the clashing cultures of the freeware and commercial worlds . . .¹

I. Introduction

For lawyers working in the IP and IT fields, it is becoming more and more difficult to go through a workday without coming across the words “open source.” Since all the focus on open source in large part has been created by the current Linux-related litigation between SCO and IBM, American lawyers would be forgiven for thinking that the most significant developments in open source are occurring on these shores. In truth, and while open-source software has received some attention from American government and business, it is increasingly talked about outside of the USA. In particular, many governments have started to analyze open source and consider whether it might meet perceived needs and policy objectives in those countries.

This article is not intended to provide a systematic overview of what is and is not open source, nor do its goals include an in-depth analysis of the policy issues arising from use of open source in government.² It will provide an overview of the use and development of open-source software at the government level outside of the USA and contrast this with a program developed by Microsoft that has allowed certain limited access to source code for restricted-source software.

II. Overview: Open-Source Software Use by Governments

A. Nongovernmental Organizations and Conferences

At the organizational level, conferences promoting the use of open-source software by governments and the private sector in developing countries have been held in recent years in Malaysia (to promote open-source use in

Afghanistan),³ Trinidad and Tobago,⁴ the Dominican Republic,⁵ the Middle East (Bahrain, Kuwait, and Oman),⁶ and Vietnam.⁷

Some governments have gone a step further than conferences. MIMOS Berhad, an advisor to the Malaysian government, launched the Asian Open Source Centre, or AsiaOSC, a centralized registry of information about open source activities in Asia. Their website provides an excellent resource to identify groups and projects ongoing in the region, country by country.⁸

In addition, nongovernmental organizations (NGOs) in many countries have partnered with universities to investigate and promote open source, including in Argentina,⁹ Australia,¹⁰ Bolivia,¹¹ and Uganda.¹² On a regional scale, some NGOs unite efforts in many countries or even continentwide, including the Free and Open Source Foundation for Africa (FOSSFA),¹³ the Open Source Foundation for Africa.¹⁴ In November 2003, the Center for Open Source and Government in conjunction with George Washington University and the University of Maastricht planned a conference at UNESCO on the use of open source in government.¹⁵ And of course there are Linux and open source users’ groups in nearly every country.

B. Africa

Africa’s use of open-source software, or any software at all, typically is concentrated in the larger metropolitan areas, and use and adoption of open-source solutions is in many ways contingent upon development of a reasonable communications and information technology infrastructure. However, there are several projects ongoing in various countries.¹⁶ Bridges.org, a nonprofit organization based in Cape Town, South Africa, began a study in 2002 comparing the use of open-source and restricted-source software in Africa that should be complete by late 2004.¹⁷

The most significant government adoption of open source in Africa has been by South Africa, and secondarily Nigeria.¹⁸ In May 2003, the South African cabinet of ministers approved the Government Open Source Software strategy, adopted with an eye to cost savings, which recommends that the government implement open source software in cases where it is an appropriate option and proposes that open-source policies be integrated more widely with e-government policy, IT strategies, and the communications sector.¹⁹ In addition, the South African Government Information Technology Officers Council has set a policy to prefer open source applications when proprietary alternatives do not offer a compelling advantage.²⁰

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The information in this article is current as of September 17, 2003. All Internet links referenced in this article were live as of January 16, 2004, unless otherwise noted.

C. The Americas

For a time and perhaps in response to reports that it would owe about US\$30 million to acquire licenses for all of its illegally obtained restricted-source software,²¹ Peru was considering a law that would have made it one of the vanguard states in adopting open source. Under this law, government agencies would have been required (not “encouraged” or “recommended”) to use open-source software. While this bill did not pass, it does represent one of the strongest legislative positions in favor of open source that has ever been proposed.

The GNOME project, originally conceived in Mexico, provides a user-friendly desktop and set of tools in developing GUI applications, both for the GNU/Linux operating system. A project entitled *Red Escolar Libre* did not fare as well, designed to provide low-cost support to Mexican schools; today the project is essentially dead due to unforeseen implementation and support costs.²²

Brazil presently has a number of open-source software projects and initiatives ongoing, and, after Mexico, is the most active country in Latin America, though almost none has been exported (perhaps because Brazil is the only Portuguese-speaking country in the area). However, the most significant open-source development in Brazil and possibly in all of the Americas would be the decision in June 2003 by the Brazilian government that it would migrate 80% of all computers used in state institutions and state-owned businesses from Microsoft to the Linux operating system.²³ This, plus Brazil’s legislation requiring the use of open source in municipal governments, would make Brazil one of the most aggressive proponents of open source.²⁴

Perhaps not surprisingly, given its status as subject to U.S. export control laws, Cuba has also been active in adopting open source. For example, Cuba uses Linux as the operating system for INFOMED, a telemedicine network of the Ministry of Public Health developed in 1992, and was the world’s first to offer nationwide coverage and use the Linux operating system.²⁵

Although one of the most significant software-developing countries in the world, Canada has not adopted open source at the government level in any significant or noteworthy way.²⁶

D. Asia

In 2000, 97% of all software used in Vietnam was used in violation of copyright and patent laws; this was the highest percentage in the world, followed by 94% for the People’s Republic of China.²⁷ Perhaps in part because of this rampant illegal use of restricted-source software, many governments in Asia have begun to consider open-source alternatives.

Some commentators have predicted that 2003 is likely to see a significant increase in open-source software projects and usage throughout Asia.²⁸ At the operating system²⁹ and software development levels,³⁰ some Asian countries have taken steps toward implementations of open-source software that go beyond trial runs. In addition, some countries, most significantly China and

Japan, have made significant private-sector investments in open source,³¹ possibly in order to develop an industry that could use the size of the Asian market to wrest overall control of the software sector from Microsoft and other American companies.³²

Perhaps surprisingly, Malaysia claims to be ahead of all other Asian countries aside from Japan in the number of GNU/Linux server shipments, having committed itself to open source in November 2002.³³ The People’s Republic of China has taken many significant steps toward a home-grown software industry based upon open-source software, the most recent of which would be the recent announcement of the State Council of the People’s Republic of China that, at the time of the next systems upgrade for all government ministries, the government will purchase only hardware preinstalled with domestic operating systems and applications.³⁴ In addition, there have been significant steps made toward development of Chinese open-source-based software, including public-private partnerships with American- and other foreign-owned companies.³⁵

The governments of the Republic of China (Taiwan),³⁶ India,³⁷ and Pakistan³⁸ have started programs to promote and even subsidize the use of open source in government systems, and as noted the government of South Korea bought 120,000 copies of Hancore Linux; this would be sufficient to convert 23% of its installed base of Microsoft Windows users.³⁹ In Singapore, companies using Linux receive tax breaks.⁴⁰

However, not all Asian countries have adopted open-source solutions, and even some countries without many other options have not looked to open source as a way to implement information technology. Both Chinas (the People’s Republic⁴¹ and Taiwan⁴²) are also part of Microsoft’s Government Security Program. The government of Iran has not shown any signs of wanting to implement open-source software; since Iran is subject to export control laws, open source would provide one way for the country to build a software developer infrastructure, but it has apparently declined to follow this lead.⁴³

E. Australia and New Zealand

Australia is relatively active in the use and adoption of open-source software and the government is actively creating legislation to promote open-source usage. On September 17, 2003, the opposition Democratic party served notice of an intention to introduce a private member’s bill dealing with “open standards” and requiring that the government “consider the procurement” of open source and avoid the purchase of a proprietary system.⁴⁴

The Government of Australia made it clear in 2002 that it supported the trial and implementation of open-source software as long as it met the “fit-for-purpose and value-for-money” criteria.⁴⁵ A bill on the use of open-source software was put before the house in 2003 that outlined the benefits of open-source software and contrasted them with perceived disadvantages to restricted-source software; the Initiative for Software Choice (ISC) urged the government to drop the bill on the grounds that

the bill would limit software choices for Australia's government.⁴⁶ Perhaps in response to this, an open-source bill has been proposed for the state of South Australia, New South Wales, and the Australian Capital Territory.⁴⁷

F. Europe

At the EU level, open-source software is an actively considered option. In 2002, the European Commission awarded 250,000 to a consulting firm to develop guidelines and define EU strategy with the adoption and use of open-source software for desktop computing.⁴⁸ The EU has also undertaken several initiatives and studies to evaluate and plan for the use of open-source software.⁴⁹

In almost every country in the EU, the use of open-source software is on the government agenda, but the most active country would have to be Germany. For example, in Germany, 12% of all public-sector desktops use open-source software,⁵⁰ and the Bundestag has mandated that all public administration servers run Linux.⁵¹ Its federal Ministry of the Interior has produced a publication entitled *Standards and Architectures for e-Government Applications*,⁵² which details the standards that should be considered by German government ministries in implementing e-government. Aimed at decision-makers in organization and information technology in German administrations, SAGA provides heuristics to aid government in deciding what technological standards to adopt. These heuristics are based upon three criteria: acceptable programs primarily use a browser as their front end, they forego active content as much as possible so that users are not required to reduce their security settings, and they do not store program parts or data on the user's computer in order to preserve privacy and security (e.g., they do not rely upon permanent cookies).⁵³ SAGA also provides a list of standards in certain areas of information technology. The standards are either "mandatory" (when the standard is tried and tested and represents a preferred solution, and there can be competing mandatory standards if they have clearly different functionalities or core applications); "recommended" (when they are tried and tested but consensus to adopt them has not been reached); or "under observation" (when they are in line with current trends but not yet mature or of unproven value).⁵⁴

While SAGA is obviously not a full solution for open source,⁵⁵ it is instructive to note that its criteria when applied are source-neutral. For text documents, SAGA authorizes four file types as "mandatory": ASCII text (.txt), HTML, MIME, and PDF version 4; with XML "recommended," and PDF version 5 "under observation."⁵⁶ PDF documents are created for use with Adobe Acrobat Reader, a restricted-source technology,⁵⁷ HTML documents can be created by any text editor and read using restricted-source or open-source software, and ASCII text documents can be created and read in any environment. Similarly, spreadsheets have two "mandatory" file types: comma-separated value (.csv) and PDF version 4; with PDF version 5 "under observation."⁵⁸

Other European governments using open-source software in government and promoting its use both inside

and outside government include France,⁵⁹ the Netherlands,⁶⁰ and Italy. Italy and France have also discussed legislation mandating open source.⁶¹ In public and parapublic institutions, open-source software is also readily available and used. In Denmark, Sun Microsystems has made a deal to provide StarOffice software to all school pupils and teachers.⁶² In addition, many European governments have committed funding to the development of open-source software, with Germany again in the lead.⁶³

Outside the EU, open source is just as actively used: as befits the home of Linus Torvalds, the creator of the Linux kernel, the Finnish State Administration is considering the replacement of Windows with Linux on 147,000 computers.⁶⁴

Again, not all countries in Europe have adopted open source, and some seem to have decided to cast their lot with Microsoft and Shared Source. For example, Russia has very little open-source activity underway, and it is a member of Microsoft's Government Security Program.⁶⁵ And in the UK each agency chooses its own software, although the Cabinet Office has provided a policy allowing use of open source.⁶⁶

III. An Alternate Perspective: Shared Source

Using open-source software is not the only way for governments to have access to source code. Far and away the largest restricted-source software company in the world, Microsoft has given options to governments that wish to have access to source code to verify whether the software in question is secure and meets their needs.

Under its "Shared Source" program, first announced on May 3, 2001,⁶⁷ Microsoft agreed to make the source code for many of its Windows operating systems available to various communities. As of July 2003, fourteen different shared source license packages provide access to the source code for up to nine different Microsoft programs, including some of the most widely used Microsoft commercial software.⁶⁸ All fourteen of these license packages provide the licensee with the right to access the source code, with most providing the right to debug, and some providing the right to modify the source code for personal use, distribute the modified source code, and even commercialize that modified code.⁶⁹ One of these licenses, the Government Security program, is targeted directly at governments and their need to "evaluate the security" of Microsoft software.⁷⁰

At first glance, a license providing the right to access source code, modify it, and commercialize those modifications would meet if not exceed the minimalist definition of "open source," namely that the source code be open to review by users of the software. But neither Microsoft⁷¹ nor the open-source movement⁷² sees shared source as in any way the same as open source. To give only one example, and unlike open-source software which is distributed on an unrestricted basis, shared-source licenses are limited by country. Shared source licenses are not offered at all to "Cuba, Iran, Iraq, Libya,

North Korea, Sudan, and Syria, which are subject to U.S. trade embargoes.⁷³ Moreover, certain of the shared source licenses are only made available in specific countries.⁷⁴

Shared source is therefore substantively different from open source. However, for many governments it may be an attractive option.

V. Conclusion

As this overview has shown, governments outside the United States are in many cases much further along in analyzing open source and whether it provides them with the answers to their software needs. Some governments almost seem to be as strong open-source advocates as open-source programmers and lobby groups. Others have opted for restricted-source solutions and do not appear to have questioned this decision. Still others have sought a middle ground, using open source where it seems to provide an answer but not limiting themselves to that answer where restricted-source alternatives may respond equally to the question. IP and IT lawyers working with clients in software development will need to stay abreast of this fast-changing landscape in order to assist their clients in exploiting the opportunities, or avoiding the problems, that open source can create.

Endnotes

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4. Taran Rampersad, *The Trinidad and Tobago Linux Users Group and the FLOS Caribbean Conference*, *LINUX J.* (June 26, 2003), www.linuxjournal.com.

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16. NICO COETZEE, *FREE AND OPEN SOURCE SOFTWARE IN AFRICA* (2002), www.maailma.kaapeli.fi/africa.html.

17. Philipp Schmidt and Shafika Isaacs, *Comparison of Open Source and Proprietary Software in Africa 2002*, www.techsoup.org/pop_printer_news.cfm?newsid=1149 (last visited Sept. 1, 2003).

18. John Yarney, *South Africa, Nigeria move on Linux adoption*

INFOWORLD (July 8, 2003) www.infoworld.com/article/03/07/08/Hnafrlinux_1.html (last visited Sept. 1, 2003).

19. *Id.* For commentary on this strategy, see the Center of Open Source and Government, *The Center of Open Source & Government Endorses South African Open Source Strategy and Provides Policy Guidelines*, www.egovos.org/southafricanstrategy.html (last visited Sept. 1, 2003). For a report from the government perspective, see National Advisory Council on Innovation, *Open Software & Open Standards in South Africa: A Critical Issue for addressing the Digital Divide 2002*, www.naci.org.za/docs/opensource.html (last visited Sept. 1, 2003).

20. Paul Festa, *South Africa considers open source*, *CNET* (Feb. 5, 2003), news.com.com/2100-1001-983315.html.

21. Craig Mauro, *Opening doors for open-source*, *SILICON VALLEY.COM* (June 25, 2002) www.siliconvalley.com.

22. BROD, *supra* note 5.

23. Gonzalo Porcel, *The Brazilian Public Sector to Choose Free Software*, *PCLINUXONLINE* (June 7, n.y.), www.pclinuxonline.com/modules.php?name=News&file=article&sid=6879.

24. Stefano Comino and Fabio M. Manenti, *Open Source vs Closed Source Software: Public Policies in the Software Market* (2003) at 6, econwpa.wustl.edu/eps/io/papers/0306/0306001.pdf.

25. BROD, *supra* note 5.

26. See, e.g., Dee-Ann LeBlanc, *Linux in Canada: Are We Going Open Source Yet?*, *LINUXPLANET*, n.d., www.linuxplanet.com/linuxplanet/reports/4325/1/.

27. RAJANI, NIRANJAN. *FREE AS IN EDUCATION: SIGNIFICANCE OF THE FREE/LIBRE AND OPEN SOURCE SOFTWARE FOR DEVELOPING COUNTRIES* (2003), www.maailma.kaapeli.fi/FLOSSReport1.0.html. For this reason, any figure stating the penetration of Microsoft Windows into a country should be suspect, unless it is clearly noted as stating only the penetration of licensed, purchased copies; similarly, figures indicating Linux installations will often not account for multiple installations, which are of course legal. David Wheeler, *Why Open Source Software / Free Software (OSS/FS)? Look at the Numbers!*, 2003, www.dwheeler.com/oss_fs_why.html.

28. Robin Miller, *2003: the year of Asian Linux* *THE REGISTER* (Dec. 27, 2002), theregister.co.uk/content/4/28689.html.

29. For example, South Korea's HancamLinux signed a contract with Korea's Central Procurement Office to supply the government with 120,000 copies of its Linux desktop office productivity software. FREDERICK NORONHA, *LIBERATION TECHNOLOGY FOR THE LANDS OF DIVERSITY? FREE SOFTWARE IN ASIA* (2003), www.maailma.kaapeli.fi/asia.html.

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31. Michael Singer, *Transmeta Bolsters Overseas Connections*, *INTERNETNEWS.COM* (June 13, 2003) www.internetnews.com/infra/print.php/2222101; RedFlag-Linux Staff, *Oracle and Red Flag Software Company have established a strategic cooperative relationship in China* (May 7, 2003), www.redflaglinux.com/jujiao/enews_view.php?id=1000000016. See also NORONHA, *supra* note 29. While private sector developments would be beyond the scope of this paper and ordinarily would not draw comment here, they are noteworthy in this context so as not to understate the commitment of the Japanese and other Asian economies (which can often be proxies for their governments) to open source.

32. Rob Enderle, *Japan Strikes Against Microsoft with Open Source* *TECHNEWSWORLD* (Sept. 8, 2003), www.technewsworld.com/perl/story/31522.html.

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35. Michael Singer, *Transmeta Bolsters Overseas Connections*, *INTERNETNEWS.COM* (June 13, 2003), www.internetnews.com/infra

print.php/2222101; RedFlag-Linux Staff, *Oracle and Red Flag Software Company have established a strategic cooperative relationship in China* (May 7, 2003), www.redflag-linux.com/jujiao/enews_view.php?id=100000016.

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37. David Becker, *India Leader Advocates Open Source*, CNET (May 29, 2003), news.com.com/2100-1016_3-1011255.html.

38. NORONHA, *supra* note 29.

39. Wheeler, *supra* note 27.

40. Comino and Manenti, *supra* note 24.

41. Inquirer Staff, *supra*.

42. Winston Chai, *Taiwan: Open-source pressure won MS price cut*, CNET (Mar. 3, 2003) news.zdnet.co.uk/story/0,,t269-s2131322,00.html.

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44. Simon Hayes, *Democrats move open source bill*, AUSTRALIANIT (Sept. 17, 2003), <http://australianit.news.com.au/articles/0,7204,7293078%5E15319%5E%5E%5E%5E15306,00.html>.

45. ZDNet Staff, *Australian govt green-lights open source*, ZDNET (Nov. 11, 2002), www.zdnet.com.au/newstech/os/story/0,2000048630,20269838,00.htm.

46. Sam Varghese, *South Australia urged to drop bill on Open Source software*, THE AGE (June 16, 2003), www.theage.com.au/articles/2003/06/16/1055615720403.html.

47. Hayes, *supra* note 44. See also Simon Hayes, *Open source laws likely for SA*, AUSTRALIANIT (June 25, 2003), australianit.news.com.au.

48. John Leydan, *Brussels to spend 250k on Linux migration study*, THE REGISTER (Oct. 30, 2002) www.theregister.co.uk/content/archive/27853.html.

49. See, e.g., International Institute of Infonomics (University of Maastricht) and Berlecon Research, *Free/Libre and Open Source Software: Survey and Study* (June 2002) www.floss.infonomics.nl/report/index.htm. See also RAJANI, *supra* note 27.

50. Patrick Thibideau, *EU embraces open source*, COMPUTERWORLD (Mar. 2003), www.computerworld.com/print-this/2003/0,4814,79361,00.html.

51. Comino and Manenti, *supra* note 24 at 6.

52. Bundesministerium des Innern, SAGA (Standards and Architectures for e-Government Applications) (2003), [www.kbst.bund.de/Anlage302807/SAGA+Version+1.1++English+\(445.kB\).pdf](http://www.kbst.bund.de/Anlage302807/SAGA+Version+1.1++English+(445.kB).pdf).

53. *Id.* at p8.

54. *Id.* at p17.

55. For example, SAGA is silent as to the operating system and basic office applications suite that should be used on government computers.

56. *Id.* at p32.

57. Although PDF file creation is available outside the Adobe Acrobat suite: OpenOffice 1.1 (on which portions of this paper were written) has a feature allowing for the creation of PDF files.

58. *Id.* at p33.

59. RAJANI, *supra* note 27.

60. IT Analysis, *Linux in Europe*, THE REGISTER (June 16, 2003), www.theregister.co.uk/content/4/31207.html.

61. Camino and Manenti, *supra* note 24 at 6. See also Register staff, *Linux in Europe*, THE REGISTER, (June 16, 2003), www.theregister.co.uk/content/4/31207.html.

62. RAJANI, *supra* note 27.

63. Stephen Shankland, *Germany-Funded Linux software arriving*, CNET (Jan. 30, 2003) www.news.com/2100-1001-982816.html.

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UK Government: Version 1 (2002), www.e-envoy.gov.uk/assetRoot/04/00/21/60/04002160.rtf.

67. Craig Mundie, *The Commercial Software Model*, www.microsoft.com/resources/sharedsource/Initiative/speeches/mundie.mspix.

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69. More information about the various rights provided by the various Shared Source licenses is available at Microsoft, *Shared Source Licensing Programs*, www.microsoft.com/resources/sharedsource/Licensing/default.mspix, with a table distinguishing their essential elements at Microsoft, *supra* note 68.

70. Microsoft, *supra* note 69.

71. See, e.g., Mundie, *supra* note 67: “Shared Source is not Open Source.”

72. Wheeler, *supra* note 27.

73. Microsoft, *Shared Source Licensing Programs Availability by Country*, www.microsoft.com/resources/sharedsource/Licensing/Availability.mspix.

74. For example, the Enterprise and Systems Integrator Source Licensing Programs, and the Windows CE Shared Source Premium Derivatives and Windows CE Shared Source Premium Derivatives Distribution Licensing Programs were as of July 2003 only available in Australia, Austria, Belgium, Brazil, Bulgaria, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States. See Microsoft, *supra* note 73.

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Warning to In-House Counsel, Litigators, and License Drafters Patentee Subjected to Arbitration under Parent Company's Settlement Agreement

BY GORDON T. ARNOLD



Gordon Arnold

Patentees like to have some confidence that they know where they will be before they start a dispute. They may want to be in a rocket docket, such as in Texas, and they may not be pleased to end up in Delaware or in arbitration, instead. That is just what happened recently to a patentee. Whether the plaintiff took a chance and lost or was caught

by surprise is not the point of this article. The point is that few contract drafters realize that much “boiler plate” language they use may cause such a result; fewer patent licensing drafters realize the potential effect of their language, and still fewer general litigators realize the effect of their language when drafting settlement agreements that include licenses and arbitration clauses. This case is instructive.

In *Medtronic Ave., Inc. v. Cordis Corporation*, 280 F. Supp. 2d 339, 2003 U.S. Dist. LEXIS 15725 (D. Del. 2003), Judge Sue Robinson reviewed a settlement and license agreement. The issue was whether the arbitration clause of that agreement, entered into by Johnson & Johnson and Cordis Corporation and Medtronic, Inc. was binding on plaintiff Medtronic AVE, Inc. (Medtronic AVE), a wholly owned subsidiary of Medtronic. Normally, the answer would not be of much note. However, although the agreement was entered into in 1997, Medtronic, Inc., who was a party to the agreement, did not acquire plaintiff Medtronic AVE until 1999. Applying the concept that the patentee had not been a party to the contract to arbitrate (and, therefore, there was not a meeting of the minds between the plaintiff and the defendant), Medtronic had expected that the court would not require arbitration. However, Judge Robinson held that the after-acquired subsidiary was bound by the agreement to arbitrate.

The court noted that the Supreme Court¹ had earlier stated four principles to be used in determining whether arbitration should occur:

(a) arbitration is a matter of contract and a party cannot be required to submit to arbitration any dispute which he has not agreed so to submit,

(b) the question of arbitrability—whether an . . . agreement creates a duty for the parties to arbitrate the particular grievance—is undeniably an issue for judicial determination

(c) in deciding whether the parties have agreed to submit a particular grievance to arbitration, a court is not to rule on the potential merits of the underlying claims; and

(d) where the contract contains an arbitration clause, there is a presumption of arbitrability in the sense that ‘an order to arbitrate the particular grievance should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage.

Note the last factor. It will control.

The plaintiff Medtronic AVE had brought the patent infringement suit against Cordis, who defended by asserting a license it had entered into with Medtronic AVE’s parent before Medtronic AVE had been acquired. That agreement had fairly standard terms, such as: “this Agreement shall be binding upon and inure to the benefit of Medtronic, J&J and their respective Affiliates.” Remember, Medtronic is the parent company who had entered into the license and later acquired the plaintiff in the case, Medtronic AVE.

The license also said, “Medtronic grants (and will cause its Affiliates to grant) to J&J and its Affiliates a nonexclusive, irrevocable, worldwide license or sublicense, as the case may be, without the right to sublicense, under all Licensed Patents of Medtronic (and its Affiliates). . . .” Note the verb tense—“will cause.”

“Licensed Patents” was defined as “any and all patents . . . filed on or before the Effective Date . . . , and that are either (i) owned by Medtronic or its Affiliates . . . on the Effective Date, or (ii) licensed to Medtronic or its Affiliates . . . on the Effective Date”

There was also a brief provision that disputes related to patent matters “shall be submitted to binding arbitration. . . .”

There does not appear to be a clause in the contract that distinguished between patents owned by a company who was not an affiliate on the effective date but later became an affiliate. The term “Affiliate” had been defined as, “any entity that is controlled by such party, on the Effective Date or . . . becomes controlled by such party, after the Effective Date.”

The court said:

Clearly the Agreement contemplated that after-acquired Affiliates would be subject to the terms of the Agreement. Given that the whole point of the Agreement was to exchange licenses under patents owned by the parties and their affiliates, the court cannot say with positive assurance that the Agreement is not susceptible of an interpretation that

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binds an after-acquired Affiliate to honor the arbitration provision of the Agreement. Because doubts should be resolved in favor of arbitration, the court concludes that plaintiff is subject to the arbitration clause. (emphasis added).

Note the standard the court applied in determining whether the after-acquired affiliate had to arbitrate. The court did not analyze the contract language to determine the intent of the parties. The court determined whether the language was “not susceptible of an interpretation” in favor of arbitration.

Remember this case and this unique standard that is applied to arbitration provisions. Don't let yourself be caught by surprise.

Endnote

1. *AT&T Techs., Inc. v. Communications Workers of America*, 475 U.S. 643, 648, 89 L. Ed. 2d 648, 106 S. Ct. 1415 (1986) (quoting *Steelworkers v. Warrior & Gulf Navigation Co.*, 363 U.S. 574, 582, 4 L. Ed. 2d 1409, 80 S. Ct. 1347 (1960)).

From the Chair

(continued from page 2)

made available under this Act may be used to issue patents on claims directed to or encompassing a human organism.” The special committee identified significant concerns with this provision and reported to Council, which after extensive debate and discussion adopted the following two resolutions:

RESOLVED, that the Section of Intellectual Property Law opposes in principle any restriction or limitation on the use of funds otherwise lawfully appropriated by Congress if that restriction or limitation has or may have the effect of imposing any subject matter limitation on the patents which the Patent and Trademark Office may issue, in addition to the limitations on the statutory scope of patentable subject matter set forth in 35 U.S.C. § 101; and Specifically, the Section opposes the enactment of section 634 of Division B of the Conference Report on H.R. 2673, Consolidated Appropriations Act, 2004 (the “Weldon Amendment”) or similar legislation.

and

RESOLVED, that the Section of Intellectual Property Law opposes in principle any restriction or limitation on the scope of patentable subject matter imposed for the purpose of discouraging or prohibiting any activity that may be regarded as objectionable – because a patent (a) merely gives the patent owner the right to exclude others from practicing the patented invention, see 35 U.S.C. § 154(a)(1), and (b) does not give the patent owner (or anyone else) any right to practice the patented invention; and Specifically, the Section opposes the enactment of section 634 of Division B of the Conference Report on H.R. 2673, Consolidated Appropriations Act, 2004 (the “Weldon Amendment”) or similar legislation.

On December 31, 2003, our Section submitted a Request for Blanket Authority to be circulated to other

ABA Sections and entities, seeking authorization to communicate these positions to Congress.

Against this considerable background of Section work to date, I commend the substantive articles in this newsletter to your attention, covering a breadth of IP developments as diverse as the Section's activities themselves, and thank the authors for their respective contributions.

Audit Inquiry Letters

(continued from page 12)

8. *Statement of Policy Regarding Lawyers' Response to Auditors' Inquiry Letter*, 31 BUS. LAW. at 1713, defines these terms as follows:

Probable—An unfavorable outcome is normally “probable” if, but only if, investigation, preparation (including development of the factual data and legal research) and progress of the matter have reached a stage where a judgment can be made, taking all relevant factors into account which may affect the outcome, that *it is extremely doubtful that the client will prevail*.

Remote—The prospect for an unfavorable outcome appears, at the time, to be slight, i.e., *it is extremely doubtful that the client will not prevail*. Normally, this would entail the ability to make an unqualified judgment, taking into account all relevant factors which may affect the outcome, that the client may confidently expect to prevail on a motion for summary judgment on all issues due to the clarity of the facts and the law.

9. *Statement of Policy Regarding Lawyers' Response to Auditors' Inquiry Letter*, 31 BUS. LAW. at 1712.

IN MEMORIAM

Charlotte H. Fiorito, wife of former Section Chair Edward G. Fiorito, passed away on February 3, 2004, from injuries sustained in a car accident. In addition to Ed, her husband of more than 45 years, Charlotte is survived by her five children—Dr. Jeanne Weisenburger of Pemberville, OH; Mrs. Kathryn Baumgratz of Fairview, TX; Mrs. Lynn Watts of Gambrills, MD; Mrs. Patricia Williams of Plano, TX; and Thomas Fiorito of Bonita Springs, FL—and 19 grandchildren. Charlotte was blessed with many talents, which she used with her family and church—All Saints Parrish in Dallas. She was also awarded Mother of the Year by the Cardinal Mindszenty Foundation. Services were held in Dallas on February 8 and 9. In lieu of flowers, donations may be made to the White Rose Crisis Pregnancy Center, 4313 North Central, Dallas, TX 75205. Ed can be contacted at 6925 Spanky Branch Drive, Dallas, TX 75248.

Corporate Counsel Column



Laura Covington

Continuing with interviews of leading corporate counsel for this column, IPL Newsletter interviewed Laura Covington, associate general counsel of Yahoo!, whose practice focuses on trademark, copyright and related intellectual property issues. In the last one to two years, Yahoo!

has acquired numerous Internet-related entities, including Inktomi (a leading search company) and Overture (a leading Internet advertising and pay-for-placement company). In this interview, IPL Newsletter inquires about those acquisitions and the impact on corporate counsel, and addresses numerous topics pertaining to the practice of law within Yahoo!

IPL Newsletter: Laura, IPL Newsletter very much appreciates that you agreed to be interviewed. Given that Yahoo! has evolved significantly over the last twelve to twenty-four months, could you give our readers a high-level description of what Yahoo! now does in addition to its core portal activities?

Laura Covington: Yahoo! offers a huge array of different services. We are a global Internet communications, commerce, and media company. We offer a branded network of searching, directory information, communication, shopping services, and advertising services. Our acquisitions over the last year or so have bolstered and expanded the technology and range of services we offer in some of those same categories.

IPL Newsletter: Based on that description of your company's business, how have the intellectual property issues changed with the acquisitions?

Covington: Many intellectual property issues have remained the same, they just crop up in different places. We must "play both offense and defense," which in the brand context involves not only protecting the Yahoo! brand, but also, because we offer many services that give our users a good bit of freedom, encouraging and depending on our users not to misuse other brands.

IPL Newsletter: How many attorneys within Yahoo! focus primarily on the company's trademark and copyright issues?

Covington: Well, there are two attorneys and one paralegal here at Yahoo! who are the primary contacts for the day-in, day-out trademark work. At one of our subsidiaries, we also have three paralegals and one litigator who are involved primarily in trademark work. There are a number of people who are involved regularly with various copyright issues. Certainly all of our deal

lawyers have experience with and knowledge of intellectual property issues. We also have several lawyers on our compliance team who deal with copyright issues, particularly concerning the Digital Millennium Copyright Act.

IPL Newsletter: Since your primary area of responsibility is in brand management, can you give one example of a trademark issue that has affected Yahoo! across its business units?

Covington: One of the biggest ongoing problems for us is the huge volume of infringement. With Yahoo!'s heavy focus on web services, it is very common for people to infringe our brands with objectionable domain name registrations or by forging e-mail headers to use the brands in connection with spam or other objectionable activities. The volume of infringement and dilution never seems to go down, despite our countermeasures.

IPL Newsletter: Given the number of different options available to Yahoo! to address domain name disputes, have you focused on a particular forum or venue for resolving those issues?

Covington: Yahoo! has successfully relied very heavily on the UDRP process and has been very happy with the results. We have recovered several hundred domain names through more than forty different proceedings, and we are regularly filing new UDRP complaints. We do like to try to contact people beforehand and work with them when we come across infringement, but given the volume we have to address and the fact that some people are just not inclined to respect our rights, the UDRP procedure has become our method of choice for getting back domain names. Litigation is also an option, and if the activity in question is too objectionable, too problematic, or damaging to our brand, our users, and the public, we have on occasion resorted to litigation. But we really prefer to avoid litigation if we can. The arbitration process typically is just so much faster, more cost-effective, straightforward, and easy.

IPL Newsletter: Stepping back to the broader brand issues for which you are responsible, how does Yahoo! use outside counsel, versus inside counsel, in addressing brand issues?

Covington: It really depends on our resources and bandwidth at any given time. We rely heavily on outside counsel who have taken good care of the Yahoo! brand from the beginning, before there were any in-house trademark lawyers. Currently, our outside counsel manages our prosecution efforts, our portfolio, and works with the different international counsel and trademark

offices around the world. We typically take the “first stab” at enforcement and infringement work inside, including much of the UDRP drafting and the like. We also manage the merchandise licensing, advertising and marketing review, and new product review/risk analysis internally. Inside counsel works with our marketing and community affairs people on special events, such as co-branded promotions and partnerships with other companies or with non-profits.

IPL Newsletter: I understand that Yahoo! has been involved in a number of anti-spam litigation cases over the last year. Would you describe Yahoo!’s experience with that type of litigation?

Covington: It has had its good and bad sides. It is important to us to make clear that Yahoo! objects to spam and similar behaviors. For purposes of any communications Yahoo! makes with the public, we always try to ensure that we are in keeping with applicable laws concerning such communications. But when people combine abuse of one of our marks or copyrighted materials with spam, then we take exception to that. We have resorted to litigation in cases where people have infringed our intellectual property and falsely promised in Yahoo!’s name some financial or other reward, or sought personal information, particularly where the abuses were blatant or widespread and we were unable to stop the activity in any other way. The downside and an unfortunate reality of such litigation has proven to be the difficulty we have in tracking down the responsible parties and therefore in getting any really satisfactory results. We recently had a very good experience where the Federal Trade Commission took an interest in one matter and was able to track down some infringers whom we had been unable to locate — but all too often it is the exception rather than the rule that we have been able to discover (with or without litigation) who is responsible for this sort of activity.

IPL Newsletter: What is the biggest lesson you have learned through this litigation process?

Covington: As with our cybersquatting experiences, it appears there are too many people with too much time on their hands. We are extremely careful in choosing the cases we think warrant litigation, simply because results are difficult to obtain and the process is so open-ended. Where appropriate based on the facts, the UDRP procedures work for Yahoo! far better than litigation.

IPL Newsletter: Turning to a topic of more general interest, please share with our readers some “best practices” from outside counsel that have impressed you, either in terms of litigation or Yahoo!’s brand development program, and that have caused Yahoo! to invite such counsel back for future representations?

Covington: The main thing I want is counsel who can put themselves in our shoes, who can assume an in-house

perspective. That requires that counsel think as much like a business person as a lawyer. I have encountered counsel along the way, who say, “no, you can’t do that.” I prefer being told, “that’s really risky,” along with suggestions on how to minimize risk and to allow us to proceed. Obviously there will be times when there is simply no way to do something without running afoul of the law, in which case Yahoo! would not proceed. But I appreciate most a lawyer who is able to wear both lawyer and business counsel hats and “think like a Yahoo!.”

IPL Newsletter: Let’s flip that around. What are some “worst practices” that outside counsel have exhibited that would cause Yahoo! not to invite them back for a particular future representation?

Covington: Obviously, I believe one who cannot wear the business hat cannot take into account the range of material issues which are important to us. But I also want people who will be responsive. If somebody is very busy, I certainly appreciate and understand that. I have been in a law firm, I know how it can be when you are juggling a multitude of clients and you get a desperate call on Friday afternoon at 4 o’clock. But if I call you at Friday at 4, it is because I need you. I will not go back to somebody who cannot at least call me and say, “look, I’m buried. Can I call you next week?” I want to know when I am going to hear from counsel. And another thing that probably does not even need saying, but I have on a few rare occasions been given advice that was simply wrong. That certainly forecloses getting any future work.

IPL Newsletter: As associate general counsel of Yahoo!, what is the biggest reward you have found in your work?

Covington: It will sound corny, but it is the people. The people with whom I work are just outstanding. It is a stellar group. Not just the Yahoo! law department as a whole, although they are a great bunch, but I really am lucky to have some of the best and brightest working specifically with me—people who are just incredibly capable, very smart, very business savvy, just outstanding business and legal partners. They make it a lot of fun. They are reliable. I know I can count on them and that makes all the difference in the world.

IPL Newsletter: What is the single biggest challenge you face in your role as associate general counsel of Yahoo!?

Covington: It is hard to say because I feel in many ways as though I hit the jackpot as a trademark lawyer. I protect and manage Yahoo!, one of the premier brands globally. With the fame of the Yahoo! mark comes, as I mentioned before, a huge volume of people willing to try to ride off that good will. So I try to stay on top of the volume of infringement and to not let that drag us under, which is probably the hardest part of my job. Given the resources we have, I only have so much time

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BY SAMSON HELFGOTT, INTERNATIONAL REPORTER



Samson Heffgott

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.

Roundtable of NGO's on Patent Law Harmonization

An NGO Roundtable was held in London on November 10 and 11 at The Stationers' Hall. Twenty-four NGOs and a delegation from WIPO attended. The purpose was to discuss whether it might be possible to agree upon giving priority to a more limited subset of topics in the SPLT discussions under way in WIPO as a way to give new energy to those discussions. Presentations were given at the beginning of the meeting on "First-to-File" by the Chartered Institute of Patent Agents; "Grace Period" by La Fédération Internationale des Conseils en Propriété Industrielle; "Prior Art" by the Intellectual Property Owners Association; and the "Applicability of Pending Applications as Prior Art" by the Patentanwaltskammer and by the American Intellectual Property Law Association. Following these presentations, each NGO presented its views on the four topics and Francis Gurry, assistant director general of WIPO, offered his observations on the preceding days' deliberations.

At the conclusion of the discussions, there appeared to be a consensus among the participating NGOs that the four topics might constitute an acceptable package of topics to give priority to in the WIPO harmonization discussions. The four topics that were discussed are as follows:

I. First-to-Invent/First-to-File

The NGOs believed, in principle, that between a first-to-invent and a first-to-file system of priority, a first-to-file system was preferable. The NGOs were acutely aware, however, that the United States would encounter political difficulties in adopting a first-to-file system and that its prospects for overcoming these difficulties would be enhanced by progress on other issues.

II. International Grace Period

While a few NGOs expressed opposition to any kind of international grace period, others expressed strong support, and the majority indicated flexibility on the question. Various details such as the length of the grace period and whether a declaration claiming its benefit should be made were raised by some NGOs, while others found no issues with a twelve-month period and disagreed with any requirement to make a declaration.

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III. Prior Art

Most NGOs believed that no geographic limitations should be imposed on where the prior art could originate. Some favored an absolute novelty standard in the sense that if patent-defeating information could be accessed, it was "available to the public" and therefore should constitute prior art. Others expressed a preference for a standard that would define "available to the public" to mean information that was reasonably and effectively accessible to persons skilled in the art; that is, accessible without undue or extreme efforts to locate it.

IV. Pending Applications as Prior Art

Most NGOs expressed the view that the date on which a published patent application or patent should become prior art is its global priority date or Paris Convention date, not its filing date in the country where it is being cited as a reference against a later-filed patent application. Some NGOs, however, preferred a different rule for international applications under the PCT, one where the effective date as prior art of an international application or resulting patent in a given country would be the date of entry of the international application into the national stage in that country.

A majority of NGOs believed that published pending applications should only be available as prior art for novelty purposes until publication. However, a number of NGOs believed that such applications should be prior art for both novelty and inventive step as of their global priority dates.

On the question of double patenting, those NGOs favoring the novelty-and-inventive-step approach believed that, where an applicant filed a second application with claims that were obvious in view of that applicant's earlier application, double patenting should be prevented by requiring the applicant to terminally disclaim the term of the second patent. The NGOs favoring the novelty-only approach, however, believed that, if the claims in the second application were not identically disclosed or claimed in a first application, double patenting was not a problem, even where the claims in the later application were obvious variations of the invention disclosed and claimed in the earlier application. Most of the NGOs preferring this approach, however, stated that they were, to greater or lesser degrees, flexible on this point.

It was agreed that the NGOs would go back to their respective governing organs to determine whether the tentative consensus represented an approach that could be supported and suggested to WIPO at the next SPLT meeting scheduled for May 2004.

Another NGO Roundtable meeting is being scheduled for Geneva at the end of January 2004.

Working Group on PCT Reform

The Fifth Session of the Working Group on Reform of the Patent Cooperation Treaty (PCT) met in Geneva from November 17–21, 2003. Most of the topics for discussion related to items previously discussed and tabled for further consideration. Generally, the topics concerned procedural issues. The group agreed on a proposal to permit an applicant to protest any examiner's indication that there is a lack of unity of invention with a simplified protest procedure that will be put in place.

In connection with the restoration of the right of priority, the general approach taken was to address the restoration upon entry into the PCT itself if the date of entry into the PCT was missed by up to two months. The proposal provides that the applicant will have the possibility of requesting the receiving office to restore the right of priority during the international phase. The receiving office, when deciding on a request for restoration would be free to apply either the stricter criterion of "due care" or the less strict criterion of "unintentionality." It was understood that a receiving office, could, if it wished, apply both criteria and leave the choice to the applicant which criterion is to be applied in a specific case. Furthermore, a receiving office would also be free to apply, upon request of the applicant, first the "due care" criterion and, if the receiving office finds that the criterion was not complied with, the "unintentionality" criterion.

A decision by the receiving office to restore a right of priority based on the criterion of "due care" would be effective in all designated states. A decision by the receiving office to restore a right of priority based on the criterion of unintentionality would be effective only in those designated states whose applicable national law provided for restoration of the right of priority based on that criterion.

To the extent that the applicant has not requested restoration during the international phase, it can then do so individually in each of the designated offices by meeting the necessary standard applied in each of those designated offices. However, in all situations the priority date will be utilized for the purpose of International Search and examination and for computation of time limits.

Some discussion took place concerning the references that would be taken into consideration during the search and examination phase and those were referred to the next meeting of international authorities.

Certain items were again tabled for further discussion at the next meeting, including the issue of publication of translation furnished by the applicant in a language other than the language of filing. Likewise, the possibility of having an international form for entry into the national phase. Some discussion took place on duplication of formalities requiring checking by both the receiving office and the international bureau. Additionally, the issue of a late furnishing fee for late submission of sequence listings was likewise put off for further discussion, as was the issue of a central electronic deposit system for sequence listings.

On the issue of missing part requirements, it was generally agreed to follow the procedures contained in the

PLT and permit reliance upon a priority document for any part of an application that was accidentally not included in the actual filing.

A considerable amount of discussion took place on various options for future development of international search and examination in order to make greater use of international reports. A number of delegations were concerned about the possibility of having separate protocols. Other delegations were concerned that this entire area would impinge upon their national rights. However, users were interested in increasing the quality of international search and examination by providing further options including multiple or top-up search searches and additional possibilities for amendment and further examination in the international phase in order to bring the international application to a point where it could achieve a positive international preliminary report on patentability.

However, there was clearly a divergence of views whether, and to what extent, the issues considered should be taken forward by the working group. It was therefore suggested that the director general should understate consultations before the next session to ensure a successful outcome of the next session of the working group. These consultations would relate to matters necessary for him to determine whether further documents should be put forward and, if so, what subject should be covered.

On the issue of including a declaration of the source of genetic resources and traditional knowledge in patent applications, it was generally agreed that as this subject was being discussed in other fora, that perhaps the working group should wait until the results of these other fora have been concluded before further discussions of this topic.

Concerning the possibility of divisional applications, it was felt that this would further complicate the international process. It was also agreed that generally the ability to pay for additional searches and examinations already exists and therefore it was agreed that this proposal should not proceed any further.

The next working group session will take place in May 2004.

New Indian Law on Trademarks

A new trademark law has come into force in India beginning September 15, 2003. The new Act made substantial changes in the national law. Most of its provisions are aimed at integrating the national law with international developments in trademark law and practice.

By way of example, service marks are now registrable, as are collective marks. Marks can be registered if they are defined to include shape of goods, packaging or combination of colors. Well-known marks are recognized.

The law also provides for an expedited search through the filing of a request. A report will then be issued within seven days from the date of the request. However, a considerable fee greater than the ordinary fee will be charged for such expedited search.

In accordance with the new law, an application for registration for trademark can also make a request for expedited examination. This must be filed along with a

declaration stating the reason for such request. Again the expedited examination fee is considerably high. In the event an applicant files a request for expedited examination, the examination report will issue within three months of the date of the request.

Multiclass filing is permitted but the official fee must be paid for each additional class. The term of registration is extended from seven to ten years. An Intellectual Property Appellate Board has been set up to hear appeals from the Trademark Office. This Board will also receive appeals relating to patents and registration of geographical indications. It will be possible to obtain a company name conflict search by making a request to the registrar. A certificate to the effect that no trademark identical to the name of a company has yet been registered or is pending will then be issued by the registrar.

KIPO Reports More Than One Million IP Applications Have Been Filed Electronically

According to a recent report by the Korean Intellectual Property Office (KIPO), the number of intellectual property applications filed electronically with the KIPO exceeded 1 million on July 1, 2003, roughly four years and six months after the electronic filing system was introduced on January 2, 1999. This is indicative of Korea's emergence as one of the leading IT-savvy countries in the world, particularly in the field of intellectual property protection.

A small-sized Korean company had the honor of filing the electronic patent application that pushed the total number of electronic applications filed over one million. The company's invention related to a hand-held apparatus having a three-dimensional image display function.

Since the KIPO began accepting electronically filed applications in January 1999, it has witnessed a rapid increase in the rate and number of applications being filed electronically. This phenomenon is attributable to a number of factors including the quality of the IT infrastructure already in place, the efforts of the KIPO to improve the electronic filing system, the large percentage of users already utilizing the Internet, and the benefits of the lower costs of electronic filing.

Intellectual Property Lawsuits to be Closed to Public in Japan

The Japanese government now plans to make intellectual property lawsuits closed to the public. Since current procedures do not allow for such lawsuits to be closed, it has led some companies to not participate in suits in order to prevent their technology from being made public.

The proposal under consideration would allow certain cases to be closed to the public, in addition to allowing courts to order that secrecy be maintained—the latter “gag order” would be a first under the current Japanese court system.

The government plan is part of the pro-patent thrust; a bill to amend the relevant laws during the regular session of the Japanese national legislature next year is being drafted at this time.

The government has reportedly placed as the draft's pillar the granting of powers to judges enabling them to clear the gallery for cases that clearly require the submission of trade secret and other such information in order to prove a case, with the making public of secrets, technology and the like obviously leading to an adverse situation for the rightful owner of such information.

The “gag order” provision would be enforced with punishments for violation thereof being set at up to three years' incarceration and a fine of up to three million yen.

METI to Set Up Insurance Scheme for Nonpayment of IP-Related Payments by Foreign Firms

The Japanese Ministry of Economy, Trade and Industry (METI) will set up an insurance scheme for Japanese companies to cover payments that cannot be made by foreign firms using their intellectual property licenses due to such reasons as bankruptcy.

METI aims to have Japanese license usage expand abroad by allaying fears of Japanese firms upon letting foreign firms gain use of their IP portfolios. A trade insurance organization affiliated with METI will handle the actual coverage procedures, with a maximum coverage for the start-up year being about twenty billion yen. This figure is expected to increase tenfold in the future.

Coverage will be offered to Japanese firms' industrial property rights such as patents, in addition to copyrights for games and the like. About 27,000 yen will cover the insurance payment under this scheme for a license contract valued at a billion.

Specifically, the payment default situations to be covered would be where payment is not made despite a contract being inked, but would not cover cases where Japanese IP-related products are “pirated.”

European Union Software Patent Directive

The Parliament of the European Union (EU), in plenary session on September 23–24, 2003, considered the Final Report from the Parliament's Committee on Legal Affairs and the Internal Market on the proposed directive on the patentability of computer-implemented inventions. The rapporteur's Final Report was heavily amended, and the text finally adopted by the Parliament now includes, for example, very restricted definitions of “technical” and “industrial,” and provisions excluding data and information processing, handling and presentation from patentability, as well as exceptions from infringement for any act involving these procedures. The amendments to Articles 2, 3, 4 and 5 are believed to completely prevent most software patents in Europe. Article 6(a) appears to make unenforceable many existing European software patents.

Some believe that this amended directive, not only violates the intent of the proposed directive to harmonize, and clarify, the existing laws of the EPO among the member states of the EU, but also violates existing worldwide treaty obligations regarding the patentability of inventions, as well as completely precludes the patenting of software-related inventions in Europe. It has also been suggested that the

West LegalEdcenter Online CLE Easy and Convenient from Initial Sign-up to Completion

BY STEPHANA PATTON



Stephana Patton

At first, I had some difficulty signing in, but one quick call to the friendly and efficient technical support personnel solved the problem. Once signed in, I found a well-organized listing of interesting courses. For each course, there was a description of the content and listings of the speakers and the accrediting states.

I enrolled in the ABA Summer Intellectual Property Law Conference: Patent Prosecution and Licensing course, which consisted of on-demand audio, course materials, and a discussion forum. After enrolling, I was given access to the course for 180 days. That is, at any time during the 180 days I was able to go back and listen to any portion of the course. To take the course, I only had to signify whether or not I was taking the course for CLE credit, and if so, for which state I was seeking credit. After that I was a mere click away from the on-demand audio and the course materials.

The on-demand audio was of good quality (even listened to through the speaker on my laptop) and was simple to navigate. I especially liked the ability to bookmark my place in the presentation. For example, I listened to parts of the program during lunch and other parts during periods of downtime. This flexibility, as well as the 180 days from

purchase that I was given access to the program, increased my already positive opinion of the experience.

The course materials were available for downloading or printing before listening and were available to view online while listening to the on-demand audio. The materials consisted of the original Power Point presentations. Being able to view the Power Point presentations during listening made the experience much more engaging.

As for the discussion forum, I did not find any comments posted, either substantive or otherwise. I would have found the availability of the discussion forum useful were I guaranteed a response from one of the speakers or the moderator.

Overall, I found the experience of West LegalEdcenter Online CLE to be positive. West LegalEdcenter Online CLE was very convenient, the navigation through the site was intuitive, the on-demand audio and the materials were very high quality, and the technical support friendly and efficient. For the busy professional wishing to keep abreast of the latest trends, it provides a valuable service.

Editors' Note: The ABA Section of Intellectual Property Law is a West LegalEdcenter content partner. Available programs from this Section include *Patent Practice: Hot Topics*, *Legal Ethics for Trademark Practitioners*, *Corporate Counsel Issues in Intellectual Property* and more. West LegalEdcenter (www.westlegaledcenter.com) is the online continuing legal education service from West.

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directive proposal as amended by the EU Parliament suffers from lack of clarity more than ever before.

Others assert that the TRIPS agreement does not mandate patent protection for computer programs per se or for business methods, and therefore the perceived need for worldwide patent law harmonization should not require the European patent system to follow U.S. developments automatically.

Proponents of the actions taken by the Parliament point out that no hard empirical data exists today to support conclusions in favor or against software and business method patenting. Moreover, they assert, that it has not been demonstrated that software patents contribute to innovation.

These proponents also argue that business method

patents constitute a departure from basic European patent system principles, whereby there is strong opposition to such patents in Europe as well as perceived doubts in the United States.

As the subject of these amendments were not discussed by the EU Council at the November 2003 Competitive Council, there appears to be no opportunity for the EU Council to adopt a common position and transmit it to the Parliament in January 2004 for consideration before the election of the new Parliament. Therefore, it is believed that the next opportunity for the transmission to the Parliament will not take place until the beginning of September as it is believed that the Council would probably actually adopt its own position by June 2004.

Recent Developments in Intellectual Property Law

BY JOHN C. GATZ, REPORTER



John C. Gatz

Patents

Appellate Jurisdiction

Ultra-Precision Mfg. Ltd. v. Ford Motor Co., 67 U.S.P.Q.2d 1790 (Fed. Cir. 2003). Generally, in a case involving more than one claim, there is no final decision until a judgment is entered adjudicating all of the claims.

There are, however, exceptions to this rule. For example, Rule 54(b) provides for appeal of a single adjudicated claim while other claims remain unadjudicated and pending. Additionally, 28 U.S.C. § 1292(b) and (c)(1) provide for interlocutory appeal of issues within a claim that itself has not been finally adjudicated and, therefore, is not otherwise appealable. A judgment is not final for purposes of Rule 54(b) unless it is an ultimate disposition of an individual claim entered in the course of a multiple claims action. Jurisdiction pursuant to Section 1292(b) and (c)(1) requires a separate and distinct certification, namely, a certification that the order involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation. In this case, the parties and the district court framed the appeal as an appeal of the grant of motions *in limine* relating to an unjust enrichment claim in a multiple claim action. Subsequent to those rulings, the district court entered judgment with respect to the unjust enrichment claim, then certified that judgment pursuant to Rule 54(b). The Federal Circuit found that the certification was improper and that it lacked jurisdiction to hear the appeal. The Federal Circuit found that the grant or denial of a motion *in limine* is not an ultimate disposition of an individual claim entered in the course of a multiple claims action. A motion *in limine* is a preliminary ruling that is not certifiable pursuant to Rule 54(b) and therefore is not appealable. Section 1292(b) more appropriately addresses the appeal of the present issues within a claim.

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Nystrom v. TREX Co. Inc., 68 U.S.P.Q.2d 1858 (Fed. Cir. 2003). Based on the district court's claim construction ruling, the patentee Nystrom conceded that he could not prove his infringement case against TREX. Therefore, Nystrom asked the district court to enter judgment of non-infringement in favor of TREX and to dismiss TREX's invalidity and unenforceability counterclaim without prejudice. The district court entered judgment of noninfringement of all claims and deferred its ruling on the outstanding motion for summary judgment of invalidity of claims. The district court then granted TREX's motion for summary judgment of invalidity of claims 18–20, but did not address the validity and enforceability of claims 1–17 on the merits. The district court entered a final judgment with respect to claims 18–20 and ruled that “[t]he remainder of the Defendants’ Counterclaim seeking declaratory judgment of invalidity and unenforceability of the ‘831 patent is hereby STAYED pending appeal.”

Federal appellate courts have an obligation to satisfy itself of its own jurisdiction even though the parties are prepared to concede it. Thus, even though the parties raised no objection to our jurisdiction over this appeal, the Federal Circuit must consider whether there is a final judgment of the district court, or a basis for jurisdiction over an interlocutory order. The Federal Circuit applied its own law to this jurisdiction issue.

Under the “final judgment rule,” parties may only appeal a “final decision of a district court.” In the present case, the parties correctly identified for the district court three possible avenues of appeal as a matter of right. First, the district court could have considered proceeding to trial with the remaining invalidity and unenforceability counterclaim or otherwise disposing of the issue on the merits. Second, the district court could have dismissed the counterclaim without prejudice (either with or without a finding that the counterclaim was moot) following the grant of summary judgment of noninfringement. Third, the district court could have considered whether there was a proper basis to make “an express determination that there is no just reason for delay” and then to expressly direct the entry of final judgment on fewer than all of the claims under Federal Rule of Civil Procedure 54(b). The district court chose none of these approaches by keeping the invalidity and unenforceability counterclaim as to claims 1–17 in the case pending appeal, expressly reserving the counterclaim as a stayed claim. Stay orders generally are not final for purposes of 28 U.S.C. § 1295. Without finality at the district court, the Federal Circuit declined to entertain the present appeal. Accordingly, the Federal Circuit dismissed the appeal for lack of jurisdiction.

Attorneys' Fees

Forest Lab. Inc. v. Abbott Lab., 67 U.S.P.Q.2d 1682 (Fed. Cir. 2003). The Federal Circuit reversed the district court's finding that this was an "exceptional" case allowing for attorneys' fees to be awarded under Section 285. The Federal Circuit has identified exceptional cases as those involving inequitable conduct before the PTO; litigation misconduct; vexatious, unjustified, and bad-faith litigation; a frivolous suit; or willful infringement. None of those reasons was present in this case. In this case, the defendant's (patentee's) pre-trial, bad-faith conduct led to a holding of equitable estoppel. The Federal Circuit refused to extend the finding of exceptionality based on the patentee's bad-faith business conduct toward an accused infringer prior to litigation. Also, the Federal Circuit held that the claim of equitable estoppel was not a slam-dunk for the alleged infringers because the district court had to make an inference from a misleading statement. The Federal Circuit stated that if the equitable estoppel issue had reached them on appeal, they could not say that they would have upheld it. Therefore, the patentee's case was not baseless, and attorneys' fees should not be awarded.

McNeil-PPC Inc. v. L. Perrigo Co., 67 U.S.P.Q.2d 1649 (Fed. Cir. 2003). The Federal Circuit upheld the district court's findings of invalidity, but reversed the district court's awarding of attorneys' fees. The patent was directed to a compound for combating both diarrhea and the flatulence that may accompany it. The Federal Circuit noted that the concurrence of diarrhea and flatulence had been discussed in several prior art articles and publications; that a dose of loperamide was known to be a commercially successful antidiarrheal; and that simethicone was an antiflatulent sold in more than twenty-five different products. Due to this and a lack of reproducibility of the patentee's studies showing nonobvious, the Federal Circuit upheld the finding of invalidity. Regarding the awarding of attorneys' fees, however, the Federal Circuit held that this case was not exceptional. The patentee did not engage in bad-faith litigation or inequitable conduct. The Federal Circuit has failed to extend the awarding of attorneys' fees even if the patent is invalid, absent clear and convincing evidence of inequitable conduct or misconduct during litigation.

Claim Construction

Jansen v. Rexall Sundown Inc., 68 U.S.P.Q.2d 1154 (Fed. Cir. 2003). The claim construction issue involved whether the phrase "treating or preventing macrocytic-megaloblastic anemia" requires the human subject of the claimed method to take the compound with the intent of treating or preventing such anemia. The patentee Jansen argued that the district court's construction improperly added an intent element to the method claim, which is contrary to the law and the ordinary meaning of the claim language. Jansen argued that the phrase "a human in need thereof" in the preamble encompasses a person who does not know that his or her serum levels of folic acid and vitamin B₁₂ are adequate. The Federal Circuit stated that the preambles set forth the objective of the method, and the

body of the claim directs that the method be performed on someone "in need." The claims' recitation of a patient or a human "in need" gives life and meaning to the purpose of the preambles. The "treating or preventing macrocytic-megaloblastic anemia" phrase and the "to a human in need thereof" phrase were added to gain allowance of the claims after almost twenty years of prosecution. Because both phrases were added simultaneously to overcome the same rejection, they should be read together. Thus, the meaning of the word "thereof" in the phrase "to a human in need thereof" should be construed to refer to treating or preventing macrocytic-megaloblastic anemia. The Federal Circuit held that the district court correctly construed the patent claims and properly determined that Jansen did not present sufficient evidence to create a genuine issue of material fact relating to infringement by the accused infringer.

Medical Instrumentation and Diagnostic Corp. v. Elekta AB, 68 U.S.P.Q.2d 1263 (Fed. Cir. 2003). The Federal Circuit concluded that the district court correctly construed the function of "means for converting" to be converting the acquired images into a particular selected format. The district court also correctly found both the framegrabber and the CVP to be corresponding structures because the specification clearly links these structures with the function of converting the acquired images into a selected format. The district court, however, erred by identifying software as an additional corresponding structure for this limitation. There is nothing in the specification or prosecution history that clearly links or associates software with the function of converting images into a selected format. The patentee has a duty to clearly link or associate structure with the claimed function to express the claims in terms of function under 35 U.S.C. § 112, ¶ 6. If the specification is not clear as to the structure that the patentee intends to correspond to the claimed function, then the patentee is impermissibly attempting to claim in functional terms unbounded by any reference to structure in the specification. The district court acknowledged that the link between software and the converting function was not completely clear. Nevertheless, the district court concluded that because techniques for performing those conversions were known to those of skill in the art at the time the application was filed, a person of skill in the art would understand software to be a corresponding structure for the converting function. However, that is not the correct inquiry. The correct inquiry is to look at the disclosure of the patent and determine if one of skill in the art would have understood that disclosure to encompass software for the conversion function and been able to implement such a program, not simply whether one of skill in the art would have been able to write such a software program. Indeed, the requirement of looking to the disclosure to find the corresponding structure comes from Section 112, ¶ 6 itself. It is not proper to look to the knowledge of one skilled in the art apart from and unconnected to the disclosure of the patent.

AK Steel Corp. v. Sollac, 68 U.S.P.Q.2d 1280 (Fed. Cir. 2003). The phrase "consisting essentially of" in a patent claim represents a middle ground between the open-ended

term “comprising” and the close-ended phrase “consisting of.” In view of the ambiguous nature of the phrase, it has been understood to permit inclusion of components not listed in the claim, provided that they do not materially affect the basic and novel properties of the invention. As such, the claim construction issue involves whether an amount of silicon in excess of 0.5% by weight in the aluminum coating materially affects the basic and novel properties of the invention. To determine those properties, the Federal Circuit looked at the patent specification, which states that good wetting is the goal of the invention as well as what distinguishes it from the prior art. Furthermore, the specification identifies the exact percentage of silicon that the inventors consider to be too much when it states, “silicon contents in the coating metal should not exceed about 0.5 % by weight.” On the basis of that statement, the Federal Circuit concluded that that silicon in excess of 0.5% by weight would materially alter the basic and novel properties of the invention, and that the claims of the patent must therefore be interpreted to permit no more than 0.5% silicon by weight in the aluminum coating.

Glaxo Wellcome Inc. v. Andrx Pharm. Inc., 68 U.S.P.Q.2d 1302 (Fed. Cir. 2003). The district court erred in holding that adding the release rate limitations to the claim limited the claim to the grade of the controlled release agent in the example. Neither the applicant nor the examiner stated that a particular grade was critical. The amendment stated the parameters of the claimed release, not a particular grade of the controlled release agent in the specific example. When a claim term has an accepted scientific meaning, that meaning is generally not subject to restriction to the specific examples in the specification. In this case, the use of a particular controlled release agent was well known. The examination record showed that patentability turned on the ratio of the controlled release agent to bupropion, the shelf life, the rate of release, the duration of release, and the plasma levels. The controlled release agent used in admixture with the bupropion is not limited to the grade and molecular weight of the controlled release agent in the specific examples, but the properly construed claims require that the controlled release agent be present in the stated amount, and that the product have the release rate and duration, the plasma levels, and other properties set forth in the claims.

SunRace Roots Enterprise Co. v. SRAM Corp., 67 U.S.P.Q.2d 1438 (Fed. Cir. 2003). The claim construction issue involved whether the term “shift actuator” in the method claims should be construed to include a cam. During reexamination, the method claims were amended to specify the location of the shift actuator to the bicycle’s handlebars. The term shift actuator was not explicitly defined in the specification and the ordinary meaning of the term was agreed by the parties to mean “a mechanism that controls the changing of gears.” The parties also agreed that the method claim can be practiced without using a cam.

The doctrine of claim differentiation supports the ordinary meaning of the term shift actuator to not including a cam. The presumption that each claim in a patent has a different scope is especially strong when the limitation in dispute is the only meaningful difference between an independent and a dependent claim. Here, the dependent claim recites: “wherein said shift actuator comprises cam means rotatably mounted on the bicycle handlebar generally coaxially of the handlebar.” Because the independent claim already provides that the shift actuator must be rotatably mounted on the handlebar generally coaxially of the handlebar, the dependent claim only adds the structural limitation of cam means.

The Federal Circuit stated that the district court erred in relying on various statements in the written description to conclude that the term shift actuator should be limited to a device containing the cam structure of the preferred embodiment. These statements do not sufficiently evidence an intention to depart from the ordinary meaning of “shift actuator.” The written description of the patent does not state that the cam is the actual invention itself, but rather that it is one of the preferred embodiments. The cam was not described in the written description as being critical, which would suggest that the relevant structure in the claims should be narrowly construed to include that feature. The prosecution history portions relied on by the district court did not clearly disclaim coverage of the shift actuators to a cam. Thus, the Federal Circuit reversed the district court’s claim construction of the term “shift actuator” and remanded the case to the district court.

Resonate Inc. v. Alteon Websystems Inc., 67 U.S.P.Q.2d 1771 (Fed. Cir. 2003). The disputed language in the claim—“transmitting the requested resource to the client”—does not specify the transmission path over which the requested data must be sent. It merely requires the requested resource to be transmitted from the assigned node to the client that initiated the request. The limitation contains no language regarding the load balancing involvement in the transmission of the requested resource to the client. The limitation fails to specify whether data must pass through or bypass the load balancer. Thus, based on the plain language of the disputed limitation, any transmission path from the selected server to the client appears to be within the scope of the claim. The question then becomes whether there is sufficient reason—in the other language contained in the claim, in the written description, or in the prosecution history—to read into the claim the further limitation that the data must bypass the load balancer on its return to the client. The district court based its claim construction on its observation that every other step in the claim is described in detail, including every interaction between the client, load balancer, and assigned server. From this, the district court inferred that if the requested data passed through the load balancer on its way to the client, that step would have been detailed in the claim. Because the limitation simply requires the server to transmit the requested resource to the client, the district court held that the language implies that the load

balancer is bypassed. However, patentees are not required to claim each part of an invention with the same amount of detail. Courts may not rewrite claim language based on what has been omitted from a claim, and the district court's attempt to do so was legal error.

Claim Construction and Infringement

Alloc Inc. v. ITC, 68 U.S.P.Q.2d 1161 (Fed. Cir. 2003). The Federal Circuit affirmed the ITC's finding of noninfringement under Section 337. The Federal Circuit reviews decisions by the ITC without deference. In determining claim construction, the Federal Circuit stated that a term may be used by the patentee more or less broadly than the general usage of such a term, which would expand or lessen the scope of the claims. The patent specification requires play in the joints to allow displacement and to permit disassembly and reassembly without damaging the flooring panels. All of the figures and embodiments include joints having play. While the Federal Circuit warns against impermissibly importing limitations from the specification. The Federal Circuit also states that when the specification, read as a whole, suggests that the very character of the invention requires the limitation, the limitation needs to be included in every claim. In this case, the specification requires that every embodiment must include play in the joints. Such a requirement is also supported by the prosecution history. During the prosecution, the patentee argued that play is important because it enables the disassembly of connected flooring panels. For all of these reasons, the patentee cannot now contend that the patent includes a system that does not have play in the joints. Using this construction, the Federal Circuit upheld the decision finding that the accused systems do not include play in the joints.

Cordis Corp. v. Medtronic AVE Inc., 67 U.S.P.Q.2d 1876 (Fed. Cir. 2003). The Federal Circuit reversed the district court's holdings of noninfringement and held that the district court improperly construed the claim limitations. The district court construed the phrase "a plurality of slots formed therein" to require that the slots be manufactured by removing material from a preexisting wall surface. Slots can also be formed by constructing a wall with openings built therein. The Federal Circuit looked to the claim phrase and found that nothing in the phrase described the manufacturing method. Turning to the patent specification, the Federal Circuit rejected the alleged infringer's contention that by calling the slot an opening in the specification, the patentee defined it as having to be removed from pre-existing material. Instead, the Federal Circuit stated that an opening can also be created by leaving a gap. The specification further recites that the slots are "preferably" formed by removing material, but this language makes clear that the language is defining a preferred embodiment, and not the invention as a whole. A parent application to the present patent included a figure that illustrated slots that were not formed by removing material. The accused infringer argued that by omitting this figure from the present specification, the patentee was disclaiming this type of slot. The Federal Circuit

disagreed, finding that there were probably other reasons related to other claim limitations as to why the patentee chose not to include that figure. The Federal Circuit also found no clear disclaimer in the prosecution history. The Federal Circuit next turned to the construction of the term "substantially uniform thickness." The district court construed this limitation to require that the thickness could not vary by more than 0.0001 inch. The Federal Circuit stated that there is nothing in the claim, the patent language, or the prosecution history that justifies placing this numerical value on the claim term. The accused infringer then contended that its devices have a variable thickness because they have a round or ellipto-rectangular cross-section. The Federal Circuit found that round struts can be considered to have substantially uniform thickness as long as the round struts have substantially the same diameter. The Federal Circuit held that the district court correctly refused to overturn the jury's verdict that the written description supported the construction of the term "plurality of slots."

E-Pass Technologies Inc. v. 3Com Corp., 67 U.S.P.Q.2d 1947 (Fed. Cir. 2003). The Federal Circuit vacated the district court's grant of summary judgment of noninfringement. The sole issue was whether the district court's construction of the term "electronic multifunction card" is correct. The district court construed the limitation to require that the card must meet specific industry-standard size dimensions. The Federal Circuit first looked at dictionary definitions of the term card to determine its ordinary meaning. Nothing in the dictionary definitions provided specific dimensions for the term. The district court, in its claim construction, relied on the credit card industry standards to determine that a size limitation was required. The Federal Circuit, however, found that there is no suggestion in the standards that they apply outside the area of credit cards. The patent specification referred to cards that normally have a standard size, and the Federal Circuit found that the use of the term "normally" meant that the card size could vary. In the "Object of the Invention" section of the specification, the patentee referred to a "single-purpose" card. According to the district court, for it to be single purpose, it must be able to fit in slots designed for credit cards. The Federal Circuit found that this claim construction was incorrect. The patent specification describes a device that has no magnetic strip and instead uses different structures to communicate with machines. The Federal Circuit found that because of this, it was clear that the cards would act differently than credit cards and, therefore, could interface in different ways (other than being put into a slot). The Federal Circuit also stated that the court's task "is not to limit claim language to exclude particular devices because they do not serve a perceived 'purpose' of the invention." Instead, the court is to construe the terms using their ordinary meaning unless the patentee has imparted special meaning in the specification or disclaimed a meaning during the prosecution history.

Dow Chemical Co. v. Mee Industries Inc., 68 U.S.P.Q.2d 1176 (Fed. Cir. 2003). The Federal Circuit (1) upheld some of the district court's findings of invalidity,

(2) reversed some of the district court's findings of invalidity, (3) affirmed the judgment of no direct infringement, and (4) vacated and remanded for further proceedings regarding contributory and induced infringement. Regarding claims 14 of the '977 patent and 30 of the '990 patent, the Federal Circuit upheld the finding of invalidity. These claims did not require that a specific volume of water be used, and without such a requirement, the patentee conceded that the claims would be invalid. Claim 15 of the '977 patent, which required the introduction of a minimum volume of water, was invalid because it was taught by the prior art. Claim 23 of the '977 patent was found to be valid. Claim 23 required a range of a certain percentage of liquid water and that this range had to be kept up for a minimum of four hours. The prior art taught that the lower end of the range was the maximum. The Federal Circuit found that the prior art did not teach leaving the maximum amount of liquid water for such a long time and found the testimony of the alleged infringer's expert as vague and unpersuasive.

The Federal Circuit found that even if the allegedly infringing system performed all the elements of the claim, even if for a different reason than stated in the claim, the system still infringes. A statement in a method claim that the method is intended to serve a different purpose at most requires that this result be met. Regarding damages, the Federal Circuit found that although Dow Chemical did not present an expert on the issue of damages, damages could still be awarded. If the patentee proves infringement, then the court should consider the *Georgia-Pacific* factors, and a reasonable royalty should be awarded.

Arlington Indus. Inc. v. Bridgeport Fittings Inc., 68 U.S.P.Q.2d 1439 (Fed. Cir. 2003). The Federal Circuit upheld the district court's issuance of an amended permanent injunction. The district court construed the phrase "capable of flexing" to mean a combination of cantilever bending and bowing about the general area of the base or base end. The alleged infringer argued that the construction should be limited to mean a bending of a rigid wing or side solely about its base end without other bending or bowing. The alleged infringers argued that the written description only taught cantilever bending. The Federal Circuit, however, refused to restrict the meaning of the phrase to the description of the preferred embodiments. Furthermore, the Federal Circuit stated that arguments made by the patentee in the prosecution history and its reexamination request did not limit the claim construction. There is no indication that either of the references listed in the reexamination request were designed to flex or yield. The alleged infringers also argued that the patent was invalid based on the broad construction of "capable of flexing." The Federal Circuit, however, found that the prior art references did not teach the "capable of flexing" limitation as used in the claim.

Collateral Estoppel

Dana v. E.S. Originals Inc., 68 U.S.P.Q.2d 1138 (Fed. Cir. 2003). The plaintiff Alfred Dana (Dana) filed a complaint alleging infringement against several defen-

dants seeking damages during the time period when he owned the patent. Dana argued that the defendants were collaterally estopped from denying infringement or challenging the validity of the patent because of a prior action with L.A. Gear, Inc. in California. L.A. Gear, Inc. purchased the patent from Dana. In the prior California action, the district court held that (1) the patent was enforceable, (2) the asserted claims of the patent were not invalid, and (3) the defendants had infringed the patent under the doctrine of equivalents. The district court found that (1) the issues of validity and infringement in the two cases were identical, (2) those issues had been fully litigated in the L.A. Gear action, and (3) the orders of the California court were sufficiently final to justify applying collateral estoppel.

To apply collateral estoppel the following must be established: (1) the issue is identical to the one involved in the prior action; (2) the issue was actually litigated in the prior action; (3) the determination of the issue in the prior litigation must have been "a critical and necessary part" of the judgment; and (4) the party against whom collateral estoppel is asserted must have had a full and fair opportunity to litigate the issue in the prior action. The Federal Circuit applied the law of the Eleventh Circuit to determine if collateral estoppel was appropriate. The Federal Circuit found that the defendants had a full and fair opportunity to litigate the issues because the California district court conducted hearings addressing motions for partial summary judgment on both infringement and validity. Additionally, the parties, based on inclusion of language in the consent decree, were aware of the potential future application of collateral estoppel.

The Federal Circuit held that the legal prerequisites for applying collateral estoppel were satisfied. The Federal Circuit also considered whether equitable factors weighing against the offensive use of collateral estoppel were present such that applying collateral estoppel would be an abuse of discretion. Offensive collateral estoppel carries with it the danger that, in cases involving multiple potential plaintiffs, the plaintiffs will not all join in a single lawsuit, but instead some plaintiffs will postpone filing their actions to await the outcome of other plaintiffs' efforts. The general rule is that where a plaintiff could easily have joined in the earlier action or where applying offensive estoppel would be unfair to a defendant, a district court judge should not allow the use of offensive collateral estoppel. Because the district court did not make a finding as to whether Dana could easily have joined the earlier action, the Federal Circuit vacated the decision and remanded for further inquiry on this issue.

Federal Preemption/Inventorship

University of Colorado Found. Inc. v. American Cyanamid Co., 68 U.S.P.Q.2d 1120 (Fed. Cir. 2003). Drs. Robert Allen and Paul Seligman (collectively, the doctors), who were employed by the University of Colorado, were asked by American Cyanamid (Cyanamid) to perform a study to compare iron absorption

in women who used two different products. After this initial study, the doctors on their own conducted additional studies and determined that large amounts of calcium carbonate and magnesium oxide in the product were inhibiting iron absorption. The test subjects for the additional studies were paid by the University of Colorado. Based on these additional studies, the doctors developed an idea to reformulate a prenatal multivitamin/mineral supplement. The doctors described their idea in a confidential manuscript to Cyanamid's Chief of Nutritional Science, Dr. Leon Ellenbogen. Cyanamid filed a patent application on the reformulated prenatal supplement and copied parts of the doctor's confidential manuscript in its patent application. Cyanamid claimed exclusive rights to the reformulation and named Dr. Ellenbogen as its sole inventor. Cyanamid did not inform the doctors or the University of Colorado about the patent application.

The doctors claimed unjust enrichment to remedy the breach of a contract implied in law for disclosing their confidential manuscript in exchange for a promise not to disseminate the idea without their consent. Cyanamid argued that federal patent law precludes any state law unjust enrichment award because the doctors did not protect their ideas either as trade secrets or patents. Federal preemption takes three basic forms: (1) Congress may explicitly preempt state law; (2) a federal scheme may occupy a given field and thus preempt state law in that field; and (3) when compliance with both state and federal law is impossible, the conflicting state law is preempted. The Federal Circuit concluded that the doctors' claim of unjust enrichment did not undermine the purposes of the federal patent scheme. The Federal Circuit affirmed the district court's decision that awarded damages for unjust enrichment to the doctors.

Indefiniteness

Honeywell Int'l. Inc. v. International Trade Comm'n, 68 U.S.P.Q.2d 1023 (Fed. Cir. 2003). In construing claims, the analytical focus begins and remains centered on the language of the claims themselves, for it is that language that the patentee chose to point out and distinctly claim the invention. The terms used in the claims bear a 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. If the court determines that a claim is not amenable to construction, then the claim is invalid as indefinite under 35 U.S.C. § 112, ¶ 2. Because a claim is presumed valid, a claim is indefinite only if the claim is insolubly ambiguous, and no narrowing construction can properly be adopted. The claim construction dispute focused on whether the claims require any particular sample preparation method when determining the "melting point elevation" or MPE. The written description expressly defines MPE as "the difference between the specimen melting point (M.P.) and the melting point (M.P.Q.) of a specimen after subsequent rapid liquid nitrogen quenching of an encapsulated [differ-

ential scanning calorimeter] sample from the melt." The claims, the written description, and the prosecution history do not reference any of the four sample preparation methods that can be used to measure the MPE. The commission's final determination includes a finding of fact that the choice of sample preparation method is critical to discerning whether a particular product is made by a process that infringes the patent claims. The patentee did not challenge that finding on appeal. Without any reference to a sample preparation method, there are at least two possible constructions of the term—the "any one method" construction and the "all methods" construction—as well as a third construction where the MPE is determined using the unpublished "ball method." After reviewing the entire record regarding claim construction, the Federal Circuit held the claims insolubly ambiguous, and hence indefinite, with respect to the required sample preparation method. The claims, the written description, and the prosecution history fail to give the court any guidance as to how one of ordinary skill in the art would interpret the claim. Moreover, because the sample preparation method is critical to discerning whether a product has been produced by the claimed process, knowing the proper sample preparation method is necessary to practice the invention. Additionally, with regard to the ball method construction, the ball method, while perhaps known to some in the art, is only documented in proprietary documents. Adopting the ball method construction would require the court to import a limitation that is not only outside the bounds of the claims, the written description, and the prosecution history, but is also outside the scope of any written publication.

Interferences

Taskett v. Dentlinger, 68 U.S.P.Q.2d 1472 (Fed. Cir. 2003). The Federal Circuit upheld the Board of Patent Appeals and Interferences' (Board) decision that Dentlinger is the senior party in the hearing. The Federal Circuit reviewed the Board's legal conclusions without deference. Taskett argued that Dentlinger's reduction to practice, a test in October 1994, did not perform all the steps of the count. Specifically, Taskett argued that the test did not seek financial authorization from a third party, but rather received the authorization based on a dummy checking account. The Federal Circuit held that the count did not require that the term "financial authorization" get authorization from a third party. Taskett argued that the specification required that the financial authorization be performed by a third party. The Federal Circuit, however, found that portions of the specification that refer to the authorization as being from a third party are directed to a preferred embodiment. The Federal Circuit concluded that although the test was just a test, and that the funds were not real, the financial authorization provided during the test was real. Taskett next argued that the test was not a reduction to practice because there was no proof that the inventor concluded that the invention would work for its intended

purpose. The Federal Circuit stated that the test need not occur under the circumstances of commercial use. Although just a test, it was sufficient to prove that the invention would work for its intended purpose.

Invalidity

TorPharm Inc. v. Ranbaxy Pharm. Inc., 67 U.S.P.Q.2d 1511 (Fed. Cir. 2003). The Federal Circuit reversed and remanded the district court's decision invalidating process claims based on the proven invalidity of the same patent's product claims. The appeal concerned a process patent for making a drug ranitidine. A divisional of the process patent included a product claim for Form 1 ranitidine, the specific drug made from the process of the original patent. The product claim of the divisional was invalidated for lack of novelty due to a prior sale of the Form 1 ranitidine. The Federal Circuit concluded that there was no evidence of what process was used to manufacture the prior art Form 1 ranitidine. During the prosecution of the process claims, the patentee argued that the product was novel and, therefore, the process had to be novel. The Federal Circuit held that this was not estoppel. In the case where an examiner's decision to allow a claim has been undermined, the court's responsibility is to independently assess the claim validity. It is not up to the court to determine if the argument would have swayed that particular examiner.

BJ Serv. Co. v. Halliburton Energy Serv. Inc., 67 USPQ.2d 1692 (Fed. Cir. 2003). The Federal Circuit affirmed the district court's decision to deny the defendant's motions for judgment as a matter of law and for a new trial after a jury found infringement and awarded damages in the amount of \$98 million. The accused infringer argued on appeal that the patent was invalid because it did not instruct what method and under what conditions a certain parameter (C*) should be measured. The patentee presented expert testimony and excerpts of a textbook demonstrating that one of ordinary skill in the art would have known how to make the measurement. The accused infringer also argued that the use of the term "about" in the claim rendered the claim indefinite. The patentee presented expert testimony regarding the definition of the term "about" in this context and included experiments showing a range around the claimed amount. The expert test of the accused infringer varied substantially, but this was rebutted by evidence that the expert had tampered with his data. The Federal Circuit held that substantial evidence supported the jury's verdict that the patent was not invalid for indefiniteness or lack of enablement. The accused infringer also argued that the patent was anticipated by the prior art. This prior art, however, did not disclose the C* value. The accused infringer measured the C* value of the prior art, which was a little above the claimed range. The Federal Circuit found that there was substantial evidence to support the jury's decision that the prior art C* value did not fall within the range of the claim term.

Schering Corp. v. Geneva Pharm. Inc., 67 U.S.P.Q.2d 1664 (Fed. Cir. 2003). The Federal Circuit affirmed the

district court's finding of invalidity. The Federal Circuit stated that inherent anticipation does not require that one of ordinary skill in the art at the time would have recognized the inherent disclosure. The Federal Circuit held that the prior art metabolite inherently disclosed DCL and, thus, the claims were invalid. The prior art metabolite inherently disclosed this because a patient ingesting the product would necessarily metabolize that compound into DCL, which would invalidate the claims. The Federal Circuit then stated that this case did not preclude patent protection for metabolites of known drugs. These metabolites may not receive protection of their compounds (since those are known). The metabolite may be able to be claimed in its pure and isolated form. The Federal Circuit then evaluated the district court's finding that there was no genuine issue that the consumption of a certain product necessarily resulted in producing of the DCL metabolite. The evidence conclusively supported the district court's findings. There were thirteen reports supporting this conclusion, and none that did not. The Federal Circuit stated that there was no support in the record to show that a genuine factual dispute existed.

Akamai Technologies Inc. v. Cable & Wireless Internet Serv. Inc., 68 U.S.P.Q.2d 1186 (Fed. Cir. 2003). The Federal Circuit reversed the district court's finding that claims 1 and 3 were valid and upheld the district court's finding that claims 5 and 9 were valid. The Federal Circuit looked to whether the claims were correctly construed by the district court. Claims 1 and 3 do not expressly require a load-balancing feature. The written description contemplates the preferred location for load balancing, but claims 1 and 3 do not expressly recite this feature. The Federal Circuit held that the patentee did not specifically define another claim term as having this feature. Although the patentee introduced extrinsic evidence that showed that the term could include load balancing, the Federal Circuit held that this was not unequivocal evidence. Since claims 1 and 3 did not require a location for load balancing, the prior art taught all of the features, which resulted in claims 1 and 3 being invalid. The Federal Circuit found that there was no suggestion or motivation to combine the references to find claims 5 and 9 invalid, and upheld the jury's verdict. Because the Federal Circuit found that the dispute over infringement relied on the weight and credibility of a witness, the Federal Circuit gave deference to the jury's decision of infringement.

JMOL

Hewlett-Packard Co. v. Mustek Sys. Inc., 67 U.S.P.Q.2d 1825 (Fed. Cir. 2003). The Federal Circuit reversed the jury verdict of literal infringement of the '878 patent because it was not supported by substantial evidence and held that JMOL should have been granted in favor of the accused infringer.

The Federal Circuit noted that the parties cannot reserve issues of claim construction for post-trial motions. When issues of claim construction have not been properly

raised in connection with the jury instructions, it is improper for the district court to adopt a new or more detailed claim construction in connection with the JMOL motion. The Federal Circuit held that the verdict was contrary to the undisputed facts and unsupported by substantial evidence because the accused devices do not, as required by the jury instruction, include “a scan speed selector which, based on the user’s selection, generates a scan speed signal that indicates a selected one of different scan speeds,” wherein the scan speed signal is “an electrical signal indicative of the user’s selected scan speed.” The undisputed evidence is that the user does not select scan speed in the accused devices, but rather the user selects a resolution. The selection of a resolution in the accused devices does not share a one-to-one correspondence with scan speed. By conceding that it is the resolution and not scan speed that is selected by the user, Hewlett-Packard (Hewlett) conceded that the accused devices do not perform the required function as defined in the jury instruction and, thus, the accused devices do not literally infringe the asserted claims.

The jury did not reach the question of infringement of the ‘878 patent under the doctrine of equivalents. In response to post-trial motions for JMOL, the district court granted JMOL of infringement under the doctrine of equivalents. This was improper because no timely motion was made for JMOL of infringement under the doctrine of equivalents. Thus, it was improper for the district court to expand Hewlett’s opposition to the accused infringer’s motion for JMOL of noninfringement to grant JMOL of infringement under the doctrine of equivalents in favor of Hewlett. A new trial is also not appropriate because Hewlett did not make a sufficient record with respect to the equivalents claim. Hewlett’s argument of infringement under the doctrine of equivalents through its expert Dr. Stevenson fell far short of the evidentiary requirements for proof of infringement under the doctrine of equivalents because Hewlett did not provide evidence “on a limitation-by-limitation basis.” A new trial on the issue of infringement under the doctrine of equivalents as to the ‘878 patent is unwarranted because failure to present evidence at trial is not grounds for a new trial.

The Federal Circuit also held that there was no basis for setting aside the verdicts of claim 1 of the ‘635 patent as being anticipated and claims 2-8 of the ‘635 patent as being obviousness over the prior art.

On-Sale Bar

Minton v. National Ass’n of Securities Dealers Inc., 67 U.S.P.Q.2d 1614 (Fed. Cir. 2003). Prior to the critical date of the patent, the patentee leased a computer program and telecommunications network that performed similarly to what is claimed in the patent. The Federal Circuit considered whether the leasing of the computer program and telecommunications network was “on sale” within the meaning of 35 U.S.C. § 102(b). Subject matter that is “on sale” includes that which is (1) subject to a

commercial offer for sale, and (2) ready for patenting at the time of the offer for sale. The patentee contended that the lease did not satisfy the first prong, likening the lease to the agreement of *In re Kollar*, 286 F.3d 1326 (Fed. Cir. 2002). In *Kollar*, the Federal Circuit concluded that an agreement amounted only to a transfer of technical information about the claimed process and a license under future patents to practice the process and sell the resulting products. The transfer of know-how regarding a claimed process is not a “sale” of the process within the meaning of 35 U.S.C. § 102(b) because a know-how agreement under which development of the claimed process would have to occur before the process is successfully commercialized is not a sale. In the present case, however, the patentee conveyed a fully operational computer program implementing and, thus, embodying the claimed method. Thus, the Federal Circuit held that the patentee’s lease, thereby enabling the invention to be practiced, was an offer for sale within the meaning of the on-sale bar.

Patent Infringement

Bayer AG v. Housey Pharm., 68 U.S.P.Q.2d 1001 (Fed. Cir. 2003). The case presents questions concerning the interpretation of 35 U.S.C. § 271(g), which provides liability for patent infringement to “[w]hoever without authority imports into the United States or offers to sell, sells or uses within the United States a product which is made by a process patented. . . .” The Federal Circuit was concerned whether the phrase “a product which is made by a patented process” encompasses information produced using the patented process. When interpreting statutory language, words of the statute are given their ordinary and common meaning absent an indication Congress intended them to mean something else. To resolve any ambiguity in the statutory language, the Federal Circuit looked to other provisions of the statute and found indications that the statute is concerned exclusively with products that are physical goods produced by a manufacturing process. The Federal Circuit also found that the legislative history showed that Congress was concerned solely with physical goods that had undergone manufacture. In the face of silence in the legislative history, courts are reluctant to broadly interpret the legislation. In this case, the legislative history’s silence suggests that Congress did not intend to expand coverage beyond manufactured articles to cover mere information.

Personal Jurisdiction

Electronics for Imaging Inc. v. Coyle, 67 U.S.P.Q.2d 1940 (Fed. Cir. 2003). The Federal Circuit reversed and remanded the district court’s determinations regarding jurisdiction. The Federal Circuit ruled that Federal Circuit law should be applied to the patent law claim and that Ninth Circuit law should be applied for the non-misappropriation of trade secrets and nonbreach of contract claims. The Federal Circuit turned to whether specific jurisdiction was shown. For the patent invalidity claim, courts look at whether “(1) the defendant purposefully directed its activities at residents

of the forum state, (2) the claim arises out of or relates to the defendant's activities with the forum state, and (3) assertion of personal jurisdiction is reasonable and fair." The Federal Circuit found that the patentee's contacts were purposefully directed at California. The patentee repeatedly called the alleged infringer, who was in California, threatening to sue. Also, during the patent prosecution, the patentee hired an attorney located in California and also communicated frequently with the alleged infringer as to the progress of the patent, including two visits to the alleged infringer's facility to demonstrate technology related to the patent. The contacts with the state arise out of or relate to the present claim of patent invalidity for the reasons stated above. The patentee must then demonstrate that it would be unfair to litigate in the forum state. The patentee could not meet this burden. The patentee is located in Nevada; California has an interest in protecting its citizens from unwarranted patent infringement claims; the alleged infringer has an interest in protecting itself from patent infringement; a concurrent Nevada case regarding patent infringement can be consolidated with this case; and there is no conflict between the two states in furthering their own laws, because federal patent law would control.

The Federal Circuit, using Ninth Circuit law, found that there was jurisdiction for the trade secret and contract claims.

Anchor Wall Sys. Inc. v. Rockwood Retaining Walls Inc., 67 U.S.P.Q.2 1865 (Fed. Cir. 2003). The Federal Circuit reversed and remanded the district court's decisions on claim construction, and vacated and remanded the district court's determination of a complete bar to the application of the doctrine of equivalents. In claim construction, the district court construed the term "back surface" to require a back surface that spans the full width of the block. The Federal Circuit looked to the ordinary meaning and the written description. A dictionary definition stated that it meant the surface at the back of the block. The written description did not compel a different construction other than the ordinary meaning. Thus, the Federal Circuit held that the proper construction was "a surface at the back of the block." The next claim term to be construed was "protrusion." The district court construed the term to require a central narrow portion. The Federal Circuit found that the ordinary meaning of protrusion is something that protrudes. The written description included a preferred embodiment, but the claim term should not be limited to the preferred embodiment. The term "mate" was construed by the district court to require three limitations. The Federal Circuit held that the first two limitations are erroneous in that they exceed the ordinary meaning, and that there is nothing in the written description or the prosecution history to warrant a special definition. The district court construed the term "generally parallel" to mean "parallel." The Federal Circuit, however, found that the term "generally parallel" envisions some amount of deviation from exactly parallel. The Federal Circuit next applied the claims to the accused products. Because the district

court erred in its claim construction, the Federal Circuit could not evaluate its literal infringement findings. The Federal Circuit also remanded the district court's findings on infringement based on the doctrine of equivalents as the district court's decision relied on the Federal Circuit's decision in *Festo*.

Summary Judgment of Noninfringement/Invalidity

Intellectual Property Development v. UA-Columbia Cablevision, 67 U.S.P.Q.2d 1385 (Fed. Cir. 2003). The issue of infringement turned solely on the claim construction of the term "high frequency" in the context of television signals. The district court noted two dictionary definitions that defined "high frequency" as covering frequencies between 3 MHz to 30 MHz. The Federal Circuit has stated that dictionaries, encyclopedias, and treatises, publicly available at the time the patent issued, are objective resources that serve as reliable sources of information on the meanings to those of ordinary skill in the art. The district court noted that the patent specification does not define "high frequency" in a way that varies with the ordinary meaning of 3 MHz to 30 MHz. The patent specification, if anything, supports the ordinary meaning of "high frequency" as being 3 MHz to 30 MHz because it provides a definition for very high frequency (VHF) as 40 MHz to 300 MHz. Under these circumstances, the Federal Circuit concluded that since the patentee defined a range for VHF, it could have defined a range for high frequency and because it did not, high frequency should be given its ordinary and customary meaning of 3 MHz to 30 MHz. Using this claim construction, the Federal Circuit affirmed the district court's judgment of noninfringement. The Federal Circuit, however, concluded that the district court erred in finding claim 1 to be indefinite under 35 U.S.C. § 112, ¶ 2.

Copyrights

Beastie Boys Rhyming, Not Stealing

Newton v. Diamond, 349 F.3d 591 (9th Cir. 2003). The Beastie Boys, popular musicians, incorporated into their song "Pass the Mic" a six-second clip of a flute performance by jazz flutist James W. Newton. The Beastie Boys obtained a license to use the sound recording of the flute sample, but did not receive a license to the underlying composition, the rights to which were still held by Newton. Newton sued for copyright infringement, and the U.S. District Court for the Central District of California ruled in favor of the Beastie Boys. The district court determined that the notes in the sampled flute segment—C-D flat-C, held over a C note—were insufficiently original to acquire copyright protection. The district court also held that regardless of the originality of the sampled portion, the Beastie Boys' use of the sample was *de minimis*.

The U.S. Court of Appeals for the Ninth Circuit affirmed the district court's decision on the grounds that the Beastie Boys' use was *de minimis*, assuming that the sampled composition was sufficiently original for copyright protection.

The court of appeals noted that even Newton's experts highlighted the performance aspects of the flute piece rather than the compositional aspects as being the key to the sampled piece. This weighed against Newton because the Beastie Boys were authorized to use the sound recording. Following a determination that the average audience listening to "Pass the Mic" would not notice Newton's work in composing the piece as separate from his performance of the piece, the court of appeals found the Beastie Boys' use of the composition *de minimis*.

Judge Graber dissented, stating that Newton's experts had presented sufficient evidence that the composition of the flute piece—as opposed to the sound recording—is distinctive and recognizable.

Carpet Copyright Looms over Moomjy

Tufenkian Import/Export Ventures, Inc. v. Einsten Moomjy, Inc., 338 F.3d 127 (2d Cir. 2003). The plaintiff, a manufacturer of Tibetan-style carpets, created a carpet design by scanning into a computer two public domain carpet images. A portion of one of the carpets was selected and modified by stretching and culling elements from the first public-domain design to form an asymmetrical pattern. This design was then combined with the major border of the second public domain carpet design. The defendant did not challenge that some copying occurred, but asserted that the copied elements were in the public domain. The defendant further asserted that other substantial changes and original work had been made in their carpet, including keeping elements not included in the copyrighted design, adding new elements, and making the design symmetrical. Under the "total concept and feel" test, the district court held that the copyright did not infringe due to the originality found in the defendant's design and its different overall aesthetics due to the differences in symmetry.

The Second Circuit overturned the lower court's ruling, noting that the "total concept and feel" test is not a *sine qua non* for infringement, but simply acts as a reminder that although the infringement analysis starts by dissecting the copyrighted work into its component parts to identify that which is original, the infringement analysis includes more than ascertaining similarity between components viewed in isolation. The Second Circuit found that the original elements of excerpting, modifying and arranging public domain elements, together with creation of wholly new motifs and the use of texture and color, are entitled to some limited protection. The plaintiff's selective elimination of numerous design motifs and selection of particular carpet design elements to utilize in the copyrighted design were precisely copied by the defendant in an overwhelming fashion.

Combination of Existing Elements Not Worthy of Copyright Protection

Lamps Plus, Inc. v. Settle Lighting Fixture Co., 345 F.3d 1140 (9th Cir. 2003). Lamps Plus constructed its Victorian Tiffany Lamps of four lamp-component parts that were preexisting works of others. Lamps Plus regis-

tered its copyright in its lamp with the Copyright Office. In a subsequent infringement action, the Ninth Circuit invalidated Lamp Plus's copyright in its lamp. In doing so, the Ninth Circuit considered the lamp a sculpture and reasoned that the lamp did not contain sufficient originality to qualify for copyright protection. Copyright protection can only arise from an assembly of preexisting works where the components are numerous enough and their selection and arrangement are original enough to constitute an original work of authorship.

Denial of Damages Award Unsupported

The Traditional Cat Ass'n, Inc. v. Gilbreath, 340 F.3d 829 (9th Cir. 2003). The plaintiffs, the Traditional Cat Association and Diana Fineran, sued the defendants for copyright infringement, conversion, trademark violations, unfair competition, and breach of trust with respect to the name "Traditional Cat Association" and a number of cat-related documents. The defendants responded with several counterclaims, including invalidation of copyrights. At the conclusion of the trial, the U.S. District Court for the Southern District of California entered judgment in favor of the defendants on the copyright infringement claims. All other claims were otherwise disposed.

The defendants filed a motion for attorneys' fees under 17 U.S.C. § 505, and also filed a court-requested accounting of their requested fees. The defendants requested reimbursement for all attorney fees because, they argued, all claims in the case were related to the copyright claims. Alternatively, the defendants requested reimbursement for 80% of the attorneys' fees based on their attorneys' declarations that they spent approximately 80% of their time on the copyright claims. The plaintiffs argued that the claims were not related and that the copyright claims were not particularly significant to the lawsuit. They suggested that 25% reimbursement would be appropriate. The district court awarded no attorneys' fees, stating that defense counsel did not adequately explain why 80% of their time was spent on copyright claims. In explaining its decision, the district court did not comment on the relatedness of the non-copyright claims to the copyright claims.

On appeal, the defendants argued that the district court's decision was flawed because the district court failed to determine whether the claims were related for the purpose of determining the fee award. The defendants also argued that even if the claims were not related, denial of their claims for attorneys' fees for lack of documentation was an abuse of discretion. The U.S. Court of Appeals for the Ninth Circuit found in favor of the defendants on both arguments and reversed the district court's judgment. The Ninth Circuit noted that because the district court did not state whether relatedness of the claims was examined, it is impossible to tell whether the district court determined that the claims were not related or whether the court did not understand that fees for related claims are recoverable. The Ninth Circuit also noted that the defendants provided a

“significant amount of information” supporting the alternative 80% fee request, and stated that the difficulty of determining a proper fee amount—even in light of the evidence presented—did not relieve the district court of its task.

Foreign Acts of Infringement Do Not Give Rise to Actual Damages

Los Angeles News Serv. v. Reuters Television Int’l. Ltd., 340 F.3d 926 (9th Cir. 2003). Los Angeles News Service produced and copyrighted video and audio recordings of events during the 1992 Los Angeles riots. NBC, a licensee of LANS, transmitted its broadcast of the recordings to Visnews International, a joint venture of Reuters, the BBC, and NBC. Visnews copied the work in New York and transmitted the broadcast via satellite to subscribers in Europe and Africa, and also to the New York office of another affiliate, EBU. EBU, in turn, copied the works and transmitted the copy to Reuters in London, which distributed the works to Reuters’ subscribers. LANS sued Reuters and Visnews for copyright infringement, and the U.S. District Court for the Central District of California granted partial summary judgment for Reuters and Visnews, holding that no liability for copyright infringement attaches for acts of infringement outside of the United States.

The district court held that Visnews’s copying of the works in New York was infringing, found LANS not to have suffered domestic actual damages, and awarded LANS \$60,000 in statutory damages. On a previous appeal, the U.S. Court of Appeals for the Ninth Circuit determined that actual damages were available to LANS because the domestic infringement act “enabled further exploitation abroad.” On remand from the previous appeal, the district court determined that the appellate ruling limited LANS to recovering damages in the amount of foreign profits made by the infringers, but no other actual damages. LANS appealed once again, arguing that it should be awarded actual damages for the foreign activities.

In an opinion reviewing Congress’ intent in restraining copyright law to U.S. territory, the court of appeals determined that profits alone—and not “actual damages” under the copyright statute—could be awarded to LANS. Judge Silverman dissented, stating that on the previous appeal the court of appeals had explicitly stated that LANS was authorized to prove actual damages before the district court.

Previews Not Fair Use of Movie Trailers; Copyright Misuse Recognized

Video Pipeline, Inc. v. Buena Vista Home Ent., Inc., 342 F.3d 191 (3d Cir. 2003). The declaratory judgment plaintiff compiles movie trailers for home video retailers under agreements with various companies, including Disney. Disney requires that its movie trailers not be used on websites that are derogatory to or critical of the entertainment industry or of Disney. In 1997, the plaintiff took its business online, selling movie trailers to retail websites selling home videos. Disney requested that the plaintiff remove certain trailers from its website

because the agreement did not permit such use. The plaintiff replaced some of the Disney trailers with its own clip previews created by displaying the title of the movie with the Miramax or Disney trademark and then one or two scenes from the first half of the movie. The clip previews used none of the marketing techniques found in the movie trailers, such as voice-over, narration, editing, and additional music that are employed to entice sales.

Fair use doctrine requires the evaluation of four factors, namely (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the work copied, and (4) the effect on the potential market or value of the copyrighted work. The Third Circuit found that the plaintiff’s clip previews were commercial in nature, and were not “transformative” because they possessed the same information, promotional character, and purpose of the movie trailers and were likely to serve as substitutes for the derivative trailers of the copyrighted movies. The Disney movies were paradigms of creative expression and entitled to strong protection. In evaluating the effect of the market, the Third Circuit stated that the effect on the value of the copyrighted work must also be considered, and this included the derivative movie trailers that were likely to be replaced by the clip previews. Although the plaintiff only copied a very small portion of the copyrighted movies, this factor in its favor was insufficient to outweigh the other factors against fair use.

For the first time, the Third Circuit recognized the copyright misuse doctrine, which other courts of appeals have imported from the well-established patent misuse doctrine. The misuse doctrine extends from the equitable principle that enforcement of a right may be precluded where the right is asserted contrary to the public interest, such as by some form of anticompetitive behavior or stifling artistic creativity. The Third Circuit held that the restrictions imposed by Disney on the use of its movie trailers on the Internet did not interfere with creative expression to such a degree as to decrease the public store of creative activity. The restrictions did not interfere with one’s opportunity to express such criticism on other websites or elsewhere, and there was no evidence that it was more difficult for the public to obtain criticism of Disney.

Ravens’ Revenues Not Relevant to Infringement

Bouchat v. Baltimore Ravens Football Club, Inc., 346 F.3d 415 (4th Cir. 2003). On learning of the Cleveland Brown’s relocation to Baltimore, plaintiff Bouchat, a Baltimore resident who took an interest in the new team, began sketching logos based on the various names the team was considering. The new team—now named the Baltimore Ravens—developed a logo that resembled one of Bouchat’s designs, which he registered. Bouchat sued, the jury found that the Ravens had infringed Bouchat’s copyright, and the Fourth Circuit affirmed. Regarding damages, Bouchat contented that some portion of all the defendant’s revenues was attributable to the infringing use

of Bouchat's work. The district court granted summary judgment limiting damages to revenues from: (1) sales of merchandise bearing the infringing logo; and (2) royalties obtained from licensees who sold such merchandise. The Fourth Circuit affirmed the district court's ruling. Once the copyright owner has established the amount of the infringer's gross revenues, the burden shifts to the infringer to prove either that part or all of those revenues are not profits, or that they are attributable to factors other than the copyrighted work. The Fourth Circuit reasoned that no connection existed between the Ravens' revenues other than in the two categories and the infringed copyright.

Streaming Webcasts of Radio Programs are Covered by the DMCA

Bonneville Int'l Corp. v. Peters, 347 F.3d 485 (3d Cir. 2003). The DMCA provides the owner of a copyright sound recording the exclusive right to publicly perform the work by means of a digital audio transmission, but exempts "non-subscription broadcast transmissions" from this performance right. The Recording Industry Association of America (RIAA), along with an association of radio stations, petitioned the Copyright Office for clarification as to whether AM/FM webcasting was exempt from the performance right provided by the DMCA. The Copyright Office ruled that AM/FM radio webcasts do not qualify for an exemption from the performance right provided by the DMCA.

The district court and the Third Circuit affirmed the Copyright Office's interpretation. The Third Circuit reasoned that AM/FM webcasting comprises a digital audio transmission, and that a public digital audio transmission is exempt from the performance right if the transmission is: (1) noninteractive; (2) nonsubscription; and (3) broadcast. The only disagreement between the parties was whether a radio webcasting was a broadcast transmission. The Third Circuit interpreted "broadcast transmission" as being an over-the-air radio transmission by a radio station facility operating pursuant to an FCC license. AM/FM webcasting does not meet the definition of a "nonsubscription broadcast transmission" under the DMCA and is not, therefore, excluded from the digital audio transmission performance copyright.

Tarzan Creator Still King of the Jungle

The Estate of Burne Hogarth v. Edgar Rice Burroughs, Inc., 342 F.3d 149 (2d Cir. 2003). Edgar Rice Burroughs created twenty-six Tarzan novels, the first of which was published in 1912. Burne Hogarth was hired to illustrate the syndicated comic strip *Tarzan* and in 1970 was commissioned to create two high-quality editions of Tarzan novels in graphic form (i.e. graphic novels). The defendant manages the creations of Burroughs and in 1994 licensed Disney the right to use the character and stories in movies and television programs. The plaintiff asserted that the renewal right under the 1909 Copyright Act was owned by the plaintiff, entitling the plaintiff to ownership of the copyrights. The defendant countered that the illustrations were works made for hire, and hence the defendant was the

author and owner of the illustrations. The district court held in favor of the defendant, applying the "instance and expense" test for works for hire under the 1909 Act, developed over sixty years and creating an almost irrebuttable presumption that any person who paid another to create a work was the author and owner of the copyright.

The Second Circuit affirmed the lower court's holding under the clear precedent on the work for hire doctrine, but was given pause by the Supreme Court's language in *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989) (CCNV). In recounting the history of the work for hire doctrine, the Supreme Court cited early Second Circuit cases for the proposition that commissioned works give rise to a presumption that the hired party impliedly agreed to convey the copyright, thereby divesting the commissioning party of the renewal term if the creator dies before the term vests. The Second Circuit, however, found that the language in CCNV was dictum of a weak variety, if dictum at all, and provided an insufficient basis to overturn two clear holdings of the Court.

Use of Elvis Materials in Documentary Is Not Fair Use

Elvis Presley Enterprises, Inc. v. Passport Video, 349 F.3d 622 (9th Cir. 2003). The defendants produced and sold a sixteen-hour Elvis Presley documentary that incorporated the plaintiffs' copyrighted materials featuring Elvis, including photographs, video footage, and audio recordings. The documentary incorporated the works in a number of ways, including adding voice-overs during video clips and photograph displays and simply showing the copyrighted works for significant periods. The plaintiffs sued for copyright infringement, and the defendants' fair use defense failed before the U.S. District Court for the Central District of California (which enjoined the defendants from producing or distributing their documentary) before failing once again before the U.S. Court of Appeals for the Ninth Circuit.

The court of appeals examined the fair use factors outlined in 17 U.S.C. § 107. The court of appeals found no abuse of discretion in the district court's determination that the "purpose and character" of the use in the biography weighed against a finding of fair use. The court of appeals noted that the biography is commercial in nature and—more importantly—focused on the defendants' advertising, which touted the extent of the copyrighted materials included in the biography as a selling point. The nature of the plaintiffs' copyrighted works, most of which were creative, also weighed against a finding of fair use. The amount and substantiality of the works incorporated into the documentary also were found to weigh against fair use, because in most cases the "heart of the work" was featured. The court of appeals was not as convinced as the district court that the use of the works in the documentary would affect the market for the original works, but on balance the court of appeals determined that the denial of the fair use defense was not an abuse of discretion.

Judge Noonan dissented, arguing that the district court failed to properly consider the transformative nature of the documentary, particularly the documentary's use of voice-overs. Judge Noonan also criticized the district court's reliance on the plaintiff's statement of facts and statement of law and questioned the district court's failure to take into account the effect of an injunction on the public.

Trademarks

Beer and Restaurant Services Are Not Related

In re Coors Brewing Co., 68 U.S.P.Q.2d 1059 (Fed. Cir. 2003). Coors Brewing Co. (Coors) sought registration of the mark BLUE MOON & Design for beer. The examining attorney refused registration of Coors' mark under Section 2(d) of the Lanham Act, asserting that the proposed mark would be likely to cause confusion with the mark BLUE MOON & Design registered for restaurant services, as well as likely to cause confusion with other registered marks.

The Trademark Trial and Appeal Board (TTAB) affirmed the examining attorney's refusal, concluding that the respective marks conveyed a similar commercial impression and that beer and restaurant services are related based on evidence offered by the examining attorney that: (1) many brewpubs are also restaurants, (2) some non-brewpub restaurants sell their own brand of beer, and (3) some businesses have obtained registrations for both beer and restaurants under the same mark.

The Federal Circuit upheld the TTAB's determination that the marks were similar, but the circuit court disagreed with the TTAB's conclusion that beer and restaurant services are related. The Federal Circuit did not find the examining attorney's evidence as persuasive as the TTAB found such evidence. Instead, the Federal Circuit relied on evidence offered by Coors that there were only about 1,400 brewpubs and microbreweries in the U.S. compared to more than 800,000 restaurants, thus at most only about one in 500 restaurants is also a brewpub. The Federal Circuit also considered the number of dual registrations for beer and restaurant services as *de minimis* evidence of overlap between such goods and services. The Federal Circuit reversed the TTAB's decision and remanded the case.

Burden of Proof Regarding Distinctiveness of Trade Dress

In re Pacer Technology, 67 U.S.P.Q.2d 1629 (Fed. Cir. 2003). Pacer Technology (Pacer) appealed a decision by the Trademark Trial and Appeal Board affirming the refusal to register a design of an adhesive container cap on the ground that it was not inherently distinctive.

Pacer filed a use-based trademark application to register a design of a cap for an adhesive container, which consisted of a pointed crown with four equally spaced flat wings ("cap design"). The examining attorney found that the cap design was not inherently distinctive and refused registration, citing eleven design patents for adhesive container caps all having a crown and several with wings of

the sort identified in Pacer's application. Pacer's rebuttal evidence consisted of five affidavits signed by individuals who asserted that Pacer's cap design served as a source identifier. The TTAB affirmed the refusal, relying on the design patent evidence and noting that several of the patents were assigned to Pacer's competitors.

On appeal, the PTO took the position that the design patents constituted sufficient *prima facie* evidence that Pacer's cap design was not inherently distinctive in the relevant field. Pacer argued that the burden should be on the PTO to show that the cap designs depicted in the patents were actually in use in the marketplace and that the public would not find Pacer's design unique. The Federal Circuit disagreed and found that the burden should be on Pacer to rebut the PTO's evidence, either by showing that the caps depicted in the design patents were not in use or that consumers found its cap design unique or unusual. The Federal Circuit affirmed the refusal finding that Pacer's five affidavits were not sufficient evidence of inherent distinctiveness because they were submitted by a small segment of Pacer's intended consumers and failed to explain what made Pacer's cap design different from its competitors' container caps.

Definition of Mistake Regarding Identity of Potential Opposer

Custom Computer Services Inc. v. Paychex Properties Inc., 67 U.S.P.Q.2d 1638 (Fed. Cir. 2003). The Payroll People, Inc. (Payroll People) appealed an order from the Trademark Trial and Appeal Board dismissing its Notice of Opposition as untimely.

Paychex Properties, Inc. (Paychex) owns an application to register the mark PAY-AS-YOU-GO. Attorneys for Payroll People filed two extensions of time to oppose Paychex's application identifying the potential opposer as "Custom Computer Services, Inc., formerly known as The Payroll People." In the Notice of Opposition, the opposer was identified as "The Payroll People, Inc." Because the extensions of time to oppose identified a separate entity from the eventual opposer, and those two entities were not in privity, the Board dismissed the Notice of Opposition as untimely filed.

After filing the Notice of Opposition, Payroll People submitted a Motion for Leave to Amend explaining that at the time the extensions of time to oppose were filed, its attorney mistakenly thought that Payroll People had changed its name to Custom Computer Services, Inc. Although the two entities were not related, Custom Computer Services, Inc. was owned by one of the founders of Payroll People and both entities were clients of the same law firm. The TTAB denied Payroll People's request to amend and found that the "mistake" was not "a mistake in the form of the potential opposer's name or its entity type" as defined in 37 C.F.R. § 2.102(b).

The Federal Circuit reversed the TTAB's decision finding that the original extensions of time to oppose did not identify a different existing legal entity because the entity identified in the extensions of time to oppose did

not actually exist. The Federal Circuit applied the standards of Section 2.102(b), and found that the error in identifying the opposer was a mistake in the *form* of Payroll People's name, and not an attempt to substitute one entity in the place of a different existing legal entity.

Doctrine of Licensee Estoppel

Idaho Potato Commission v. M&M Produce Farm & Sales, 67 U.S.P.Q.2d 1348 (2d Cir. 2003). The Idaho Potato Commission (IPC) filed suit in the United States District Court for the Southern District of New York against M&M Produce Farm and Sales, M&M Packaging, Inc. (M&M), a past licensee of its certification mark.

The district court vacated a jury award in favor of IPC, finding that IPC was required to prove counterfeiting before recovering monetary damages. IPC appealed the district court's decision, arguing that the Lanham Act does not require a certification mark owner to prove counterfeiting in order to recover damages. M&M filed a cross-appeal of the district court's earlier denial of M&M's motion for summary judgment, asserting that the district court erred in finding that M&M was estopped by its licensing agreement with IPC from challenging the validity of IPC's marks.

The Second Circuit considered M&M's cross-appeal first because the jury's verdict was predicated on the validity of IPC's certification marks. The Second Circuit considered whether a no-challenge provision in a license agreement could be enforced against a former licensee. M&M argued that enforcement of the provision would violate public policy because a licensee should not be able to waive the statutory right to challenge the licensor's marks.

The Second Circuit determined that the doctrine of licensee estoppel does not bar a former licensee from seeking to cancel as part of a counterclaim the licensor's certification marks, even where the licensing agreement specifically precludes the licensee from challenging the validity of the licensor's marks. The Second Circuit primarily based its decision on the differences between certification marks and trademarks because certification mark owners, unlike trademark owners, have a duty to assure that anyone using their certification mark meets the standards and conditions that are certified by the mark. The Second Circuit concluded therefore that the no-challenge provision injured public interest by, among other ways, placing nonquality control-related restrictions on the sellers of the certified products. The Second Circuit held that M&M was not estopped from seeking to cancel IPC's registrations, and declined to make a finding regarding IPC's assertion that it need not prove counterfeiting and remanded the case to the district court.

Evidence Regarding Genericness

In re Cell Therapeutics, Inc., 67 U.S.P.Q.2d 1795 (T.T.A.B. 2003). Cell Therapeutics, Inc. (CTI) sought registration of the mark CELL THERAPEUTICS, INC. for "pharmaceutical preparations for use in all fields of medicine, medical research and pharmacology" and "laboratory research and development services in the field of therapeutic products that affects cellular pathways." The examining

attorney refused registration on the proposed mark, asserting that CELL THERAPEUTICS, INC. is a generic term as applied to CTI's goods and services.

CTI appealed the examining attorney's decision to the Trademark Trial and Appeal Board. The TTAB examined the dictionary definitions of "cell" and "therapeutics" and determined that a medical doctor or researcher (the apparent purchaser or user of the goods and services) would understand the phrase "cell therapeutics" as generic for goods and services that are utilized to treat cells, as well as generic for laboratory research in the area of therapeutic products that affect cellular pathways.

CTI also argued that a substantial number of the examining attorney's news stories were from wire services and that the TTAB previously stated that such wire service news stories were of "limited probative value." The TTAB distinguished its earlier holdings and noted that technology has changed dramatically over the past fifteen years such that it is now much more likely that wire service news stories reach the public through electronic means and that such newswire stories have decidedly more probative value than they did fifteen years ago (although the TTAB stated that newswire stories did not have the same probative value as stories appearing in magazines and newspapers).

Geographically Deceptively Misdescriptive Services

In re Les Halles de Paris J.V., 67 U.S.P.Q.2d 1539 (Fed. Cir. 2003). Les Halles de Paris J.V. (Les Halles) appealed a decision by the TTAB affirming the refusal to register its mark LE MARAIS on the ground that it was primarily geographically deceptively misdescriptive.

Les Halles filed a use-based service mark application for LE MARAIS in connection with restaurant services. The mark had been used in connection with a French kosher restaurant in New York. The PTO refused registration on the ground that the mark was primarily geographically deceptively misdescriptive under Section 2(e)(3). Les Halles appealed to the TTAB, and the TTAB affirmed the refusal.

In its decision, the TTAB relied on record evidence that stated that Le Marais was the name of a Jewish area of Paris with many fine restaurants. The TTAB found that although the examining attorney had *not* shown that the Le Marais area was known for its cuisine, at least some of the customers of Les Halles' restaurant in New York would believe that there was a connection between the restaurant and the Le Marais area of Paris.

The Federal Circuit vacated and remanded the refusal. The Federal Circuit found that, at least with regard to services, the PTO must do more than show that a geographic area is known for a certain type of service. Refusal of a service mark under Section 2(e)(3) requires a separate showing that consumers are likely to be deceived into believing that the services provided have their origin in the place identified by the mark. Moreover, this services-place association must be a material factor in a consumer's decision to purchase the services.

Although it declined to define what might constitute materiality, the Federal Circuit stated that for restaurant services a consumer might be made to believe that the food

was imported from the place identified by the geographic name or that the chef received special training in that location. In the absence of a strong services-place association, the PTO should rely on direct evidence of materiality, which was not present in the record for this appeal.

Potentially Disparaging Trademarks

Pro-Football, Inc. v. Harjo, 68 U.S.P.Q. 2d 1225 (D.D.C. 2003). Pro-Football, Inc. (Pro-Football), owner of the Washington Redskins NFL franchise, sought de novo review of the TTAB's decision to cancel six registrations containing or consisting of REDSKINS. The TTAB canceled the six registrations under Section 2(a) of the Lanham Act, finding that the registered marks "may disparage" Native Americans or bring them into contempt or disrepute.

In its motion for summary judgment before the U.S. District Court for the District of Columbia, Pro-Football asserted that its marks do not disparage Native Americans and do not bring such individuals into contempt or disrepute and that the claim under Section 2(a) was barred by laches.

The district court concluded that the evidence presented to the TTAB was insufficient for the TTAB to determine that during the relevant time periods the marks at issue disparaged Native Americans or brought them into contempt or disrepute. The district court concluded that the TTAB erred in equating the views of the general public with those of Native Americans. The district court also determined that the TTAB's findings were not supported by substantial evidence because the relevant time period for determining whether a mark may be disparaging is as of the registration date of the mark at issue and the survey evidence and other evidence did not show that the term "Redskins" was a pejorative term when the registrations issued in the 1960s and 1970s. The district court also noted that the survey only looked at whether the term "Redskins" was disparaging in isolation rather than in the context of its use as a trademark for a professional football team.

The district court concluded, in the alternative, that the defense of laches precluded the cancellation of the six registrations. The defendants argued that because the case involved a public interest, the defense of laches was unavailable for a claim under Section 2(a). The district court determined that there was no support in law for a rule that precluded application of laches to situations involving a public interest and that such a rule permitting an attack of a registration at any time would undermine the policy of providing trademark protection.

Refurbished Goods

Nitro Leisure Products, L.L.C. v. Acushnet Co., 67 U.S.P.Q.2d 1814 (Fed. Cir. 2003). Acushnet Company (Acushnet) manufactures and sells golf balls, and it owns U.S. registrations for the marks TITLEIST and TITLEIST PRO V1 for golf balls. Nitro Leisure Products (Nitro) sells refurbished golf balls, which undergo a cosmetic treatment process that overhauls the balls, including a process to re-imprint the original manufacturer's trade-

mark on the balls. All of Nitro's golf balls are sold with disclaimers imprinted on both the ball and package explaining that the balls are used and refurbished.

Nitro and Acushnet filed suit against one another for unfair competition and violation of federal and state trademark laws, and Acushnet's claims against Nitro also included patent infringement. The suits were consolidated in the U.S. District Court for the Southern District of Florida. Acushnet moved for a preliminary injunction on its trademark claims related to the refurbished balls. The district court denied the injunction, holding that Acushnet had not shown a likelihood of success on the merits of its claims and denied injunctive relief.

Acushnet appealed the district court's ruling to the Federal Circuit because of the patent law claims, and the Federal Circuit applied Eleventh Circuit precedent because it did not have exclusive jurisdiction over the subject matter of the issues in the dispute. Acushnet primarily argued that the district court applied the wrong legal standard when it applied the holding of *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), and Eleventh Circuit law by failing to extend the "material difference" test applied in the context of altered new goods.

The Federal Circuit found that the Eleventh Circuit law cited by Acushnet was inapplicable in the present case because the cited precedent involved new goods, not refurbished goods. The Federal Circuit concluded that consumers of new goods have different expectations than consumers of used goods. As such, consumers of used goods are not likely to be confused by differences in their used goods when compared with a new version of the same good. The Federal Circuit held that the district court's reliance on *Champion* without regard to the Eleventh Circuit precedent was proper. The Federal Circuit affirmed the district court's decision, concluding that under *Champion* the district court properly determined that Acushnet failed to show that Nitro's refurbished golf balls were so different from the original that it would be a misnomer for them to be designated by the original trademark.

Registration under Section 44(d)

In re Societe D'Exploitation de la Marque Le Fouquet's, 67 U.S.P.Q.2d 1784 (T.T.A.B. 2003). The Trademark Trial and Appeal Board determined whether a French applicant seeking priority under Section 44(d) must show the continuing validity of its underlying French registration both before and after a suspension was entered in the PTO proceedings.

Societe D'Exploitation de la Marque Le Fouquet's (SEF) initially filed its application for the mark FOUQUET'S in 1991, seeking registration in eighteen classes. Upon examination, the PTO found several prior-pending applications that, upon registration, would likely be cited as the basis for refusal of SEF's application, and the PTO suspended action on SEF's application pending disposition of the prior-pending applications. The PTO lifted the suspension in July 2001 and requested that SEF prove that its French registration, which would have expired in the interim, was

still in effect. SEF argued that by submitting its French registration in 1991, it had satisfied the requirement in Section 44(c), which provides that a U.S. registration will not issue for a mark until such mark has been registered in the country of origin. SEF also relied on the rationale of *In re Deluxe, N.V.*, 27 U.S.P.Q.2d 1475 (Fed. Cir. 1993), in which the Federal Circuit held that the requirements of Section 44 were met where the non-U.S. applicant assigned its Section 44 application prior to publication and without assigning the underlying foreign registration because the foreign registration had issued at the time of filing of the Section 44 application.

The TTAB was not persuaded by SEF's arguments and affirmed the refusal to register. The TTAB stated that *Deluxe* was inapplicable because there was a clear distinction between a requirement that a Section 44 applicant continue to own the underlying foreign registration and the requirement that the foreign registration continue to be valid at the time the U.S. registration issues. The TTAB also relied on 37 C.F.R. § 2.34(a)(3) (iii), which requires a Section 44 applicant whose underlying foreign registration will expire before the U.S. registration issues to submit proof of renewal of its foreign registration.

Corporate Counsel Column

(continued from page 30)

and so much money; it is sometimes frustrating not to be able to put more of that to bed.

IPL Newsletter: Putting aside business issues for a moment, if you could change one thing about the practice in which you are involved, what would it be?

Covington: I would like more often to be able to be proactive rather than reactive. It is another one of those "both good and bad" things. One of the great things about this job is that it is exciting, never dull. There has always been something new coming down the pipeline, and I would not want to change that. But there are those days, which I think everybody has, where I feel like all I have done is run around putting out fires, leaving idle the big projects that I long to do.

IPL Newsletter: Thank you again for sharing your insights and experiences with our readers.

Nominating Committee Announces Candidates

Edward G. Fiorito, chair of the Section's Nominating Committee reports that the following candidates have been nominated for the 2004–2005 year.

Chair-Elect:

E. Anthony Figg,
Washington, DC.

Mr. Figg currently serves as the Section Vice-Chair, is on the ABA Standing Committee on Amicus Curiae Briefs and is a former Section Council member.

Vice-Chair:

**Susan Barbieri
Montgomery,**
Boston, MA.

Ms. Montgomery has served on the ABA Task Force on UCITA and currently serves as a Section Council member.

Secretary:

Gordon T. Arnold,
Houston, TX.

Mr. Arnold currently serves as a Section Council member.

Financial Officer:

**Susan McHale-
McGahan,**
Bedminster, NJ.

Ms. McGahan currently serves as a Section Council member.

Members of the **Section Council** for a four-year term ending in 2008: **Robert A. Armitage**, Indianapolis, IN, currently chair of Division IX—(Publications); **Q. Todd Dickinson**, Washington, DC, currently co-chair of Committee 108 (Patent System Policy Planning) and former under secretary of commerce for intellectual property and director of the United States Patent and Trademark Office (USPTO); **Barbara J. Grahn**, Minneapolis, MN, currently assistant to the secretary; and **Don W. Martens**, Irvine, CA, currently chair of Division IV (Related Legal Issues).

Member of the **Section Council** for a term ending in 2005 (Susan B. Montgomery vacancy): **John J. Gresens**, Minneapolis, MN, currently chair of Committee 104 (Interferences).

According to Section bylaws, William L. LaFuze, current chair-elect, automatically assumes the office of chair for the 2004–2005 Association year.

In addition to Chair Edward G. Fiorito, Dallas, TX, the Nominating Committee is comprised of Charles P. Baker of New York, NY and Cynthia E. Kernick of Pittsburgh, PA.

Elections for open positions will be held at the ABA Annual Meeting in Atlanta, GA, on Saturday morning, August 7, 2004 at the Westin Peachtree Plaza during the Section's Annual Business Meeting.

Additional nominations for any position may be made by petition signed by no fewer than 100 members of the Section, listed by their ABA ID number. The 100 names must be representative of at least three states and must indicate that the individual has agreed to the nomination. The petition must be sent to the Section Chair and the Section Secretary and must be received by these individuals no fewer than four months before the Opening Assembly of the Annual Meeting. The Opening Assembly will be held on Saturday, August 7, 2004.

**AMERICAN BAR ASSOCIATION
SECTION OF INTELLECTUAL PROPERTY LAW**

In cooperation with the Section of Science & Technology Law

The 19th Annual Intellectual Property Law Conference

April 1-2, 2004

International Trade Center at the Ronald Reagan Building • Washington, DC

What IP Lawyers Need to Know

Welcome to the one annual conference in which IP lawyers consistently participate to get the latest updates on all aspects of IP law. Now in its nineteenth year, the Annual Intellectual Property Law Conference will highlight a gathering of the foremost authorities on the state of intellectual property law. It is the one conference of the year that an IP law practitioner should not miss. The conference is recognized for its preeminence in covering IP law topics, both nationally and internationally.

The past year has been marked by important changes and developments in many aspects of IP law and practice. In an area of the law already fraught with complexity, IP practitioners are faced with an array of new issues and areas of practice with multifaceted dimensions. The broad diversity of the practice, its accelerating rate of change, and its growing international importance place ever-increasing demands on the knowledge and skills of these practitioners.

The 19th Annual Intellectual Property Law Conference is designed to assist intellectual property law practitioners in

maintaining and updating their professional skills and their knowledge of current IP practice issues. The conference will address recent developments, corporate counsel issues, prosecution, litigation, licensing, copyright and the Internet issues, antitrust/unfair competition, international issues, and ethics. Speakers will include prominent IP practitioners from the U.S. and abroad, representatives from industry, and key policymakers from U.S. and international agencies.

The program is organized to allow registrants to select from sessions tailored to areas of IP practice such as patents, trademarks, and copyrights, and special interest sessions focusing on the specific issues related to breaking areas of twenty-first century IP law and practice.

This year the Section of Intellectual Property Law welcomes the Section of Science & Technology Law as a cosponsor of several of the sessions. As a cosponsoring Section, its members are invited to attend the conference at the Section registration rate.

Program Schedule At a Glance

THURSDAY, APRIL 1, 2004

7:30 a.m. - 5:00 p.m. — Registration and Check-in

8:30 a.m. - 11:45 a.m. — Three Concurrent Sessions
(There will be a 15-minute break near the halfway point of all morning sessions)

I) Bench and Bar Panel Discussion: Patent Litigation Hot Topics and Practical Tips

A panel of experienced trial and appellate judges and lawyers will address a variety of hot topics in intellectual property law. In addition, the panel will provide important tips on trial and appellate practice.

Administrative Remarks: Monique Morneault, Wallenstein Wagner & Rockey, Ltd., Chicago, IL. Co-Chair, 19th Annual Intellectual Property Law Conference.

Welcome Remarks: E. Anthony Figg, Rothwell, Figg, Ernst & Manbeck, PC, Washington, DC. Vice-Chair, ABA Section of Intellectual Property Law.

Moderator: Charles H. De La Garza, Fulbright & Jaworski LLP, Austin, TX

Panelists: Hon. Randall R. Rader U.S. Court of Appeals for the Federal Circuit, Washington, DC

Hon. T.S. Ellis, III, U.S. District Court for the Eastern District of Virginia, Alexandria, VA

Robert L. Baechtold, Fitzpatrick, Cella, Harper & Scinto, New York, NY

James J. Elacqua, Dewey Ballantine LLP, East Palo Alto, CA

Richard L. Stanley, Howrey, Simon, Arnold & White, LLP, Houston, TX

William A. Streff, Jr., Kirkland & Ellis LLP, Chicago, IL

II) Trademark Litigation—Where Do We Go from Here?

This panel will address topics and strategies relevant to all facets of litigation in the trademark and unfair competition arena in both traditional and digital media, with a particular focus on significant court decisions of the last year.

Administrative Remarks: Amy J. Benjamin, Darby & Darby, New York, NY. Co-Chair, 19th Annual Intellectual Property Law Conference.

Welcome Remarks: Robert W. Sacoff, Pattishall, McAuliffe, Newbury, Hilliard and Geraldson, Chicago, IL. Chair, ABA Section of Intellectual Property Law.

Moderator: Carrie A. Hanlon, Wiggin & Dana LLP, Stamford, CT

Speakers:

No Turning Back the clock: The Significance of Laches in *Pro-Football, Inc. v Harjo*

Robert L. Raskopf, White & Case LLP, New York, NY

Measuring Damages in Trademark Infringement and Related Claims in Light of Recent Court Decisions

Todd Schoettelkotte, FTI Consulting, Inc., Houston, TX

Trademark Fear and Loathing on the Internet: The UDRP and Cybersquatting in 2004

W. Scott Creasman, Powell, Goldstein, Frazer & Murphy, LLP, Atlanta, GA

Victor/Victoria and the Supremes: Scanty Support for Radical Dilution Ruling Piques Trademark Pundits

Jamie J. Fitzgerald, Wiggin & Dana LLP, New Haven, CT

Implementing an Economical and Effective Trademark Enforcement Program

Lawrence R. Robins, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, Cambridge, MA

TTAB Proceedings: Through the Looking Glass and What One Commentator Found There

J. David Mayberry, Kilpatrick Stockton LLP, Washington, DC

III) Open Source: From Software to Genetics

Co-sponsored by the ABA Section of Science & Technology Law

The recent market share success of the open source Linux operating system has made open source software a viable alternative to traditional proprietary software. As this model comes into the mainstream it is essential for IP lawyers to understand the fundamental legal issues raised by the open source process. Session I will address these questions, and delve into the terms of the five most frequently used open source software licenses. Session II will explore the application of open source principles to genetics research. Genetic research poses new challenges for intellectual property law as lawyers attempt to balance the desire of scientists for a free and open exchange of research results with the private sector requirements for property rights that reward investment.

Administrative and Welcome Remarks: Heather D. Rafter, Digidesign, Daly City, CA. Chair, ABA Section of Science & Technology Law.

Open Source Software Licenses

Moderator: Heather D. Rafter

Speakers:

Heather J. Meeker, Tomlinson Zisko LLP, Palo Alto, CA

Mark Webbink, Senior VP– General Counsel, Red Hat Software, Raleigh, NC

Daniel Ravicher, Senior Counsel, Free Software Foundation, New York, NY

W. Sam Byassee, Maupin Taylor, P.A., Research Triangle Park, NC

Randall Boe, Executive Vice President and General Counsel, AOL, Dulles, VA

The Application of Open Source Principles to Genetics Research

Moderator: Professor Anna Mastroianni, University of Washington School of Law, Seattle, WA

Speakers:

Claire T. Driscoll, Director, Technology Transfer Office, National Human Genome Research Institute, National Institutes of Health, Bethesda, MD

Professor Arti K. Rai, Duke University Law School, Durham, NC

Werten F.W. Bellamy, Jr., Lewis & Munday, PC, Washington, DC

12:00 Noon – 1:30 p.m.

LUNCHEON (*tickets required*)

Guest Speaker: Hon. Lamar Smith (R-TX), U.S. House of Representatives. *Atrium Hall, Concourse Level*

Co-sponsored by Oblon, Spivak, McClelland, Maier & Neustadt, P.C.

1:45 p.m. – 5:00 p.m.

Three Concurrent Sessions

(There will be a 15-minute break near the halfway point of all afternoon sessions)

I) Patents Are a Worldwide Business—International Patent Issues

As business tends to be globalized, we address patent coverage outside of the United States in order to protect our clients. The program will address three aspects of international practice. The first relates to the very successful Patent Cooperation Treaty (PCT). Recent changes make it easier, cheaper, and more useful to use PCT for foreign-filing your applications. We will discuss the changes, the U.S. rules involved, and strategies for making effective use of PCT filing. The second part of the program will address how to most effectively prepare a patent application for global filing in order to reduce the costs and achieve a “universal” patent application useful for all countries. The final aspect of the program will address problems that are unique in EPO practice, filing in Japan, and handling Canadian applications. It will address areas that always give difficulty to U.S. practitioners and will clarify and facilitate an understanding of these three areas in connection with patent filing and prosecution.

Moderator:

Samson Helfgott, KMZ Rosenman, New York, NY

PCT Changes—This Is the Way to Go for Your Client!

Speakers:

Recent PCT Changes and What Is Still Ahead

Louis Maassel, Consultant, Legal Division, World Intellectual Property Organization, Bowie, MD

U.S. Implementation of PCT Changes

Carol Bidwell, Supervisor, Office of PCT Legal Administration, U.S. Patent & Trademark Office, Alexandria, VA

Strategies for Handling PCT Cases with New Changes

Chen Wang, Senior Counsel, E.I. du Pont de Nemours and Company, Wilmington, DE

PCT Filing—An Essential Business Strategy Tool

T. David Reed, Senior Patent Advisor, Global Patent Services, The Procter & Gamble Company, Cincinnati, OH

Preparing a Global Patent Application

Samson Helfgott, KMZ Rosenman, New York, NY

Tips and Traps in Foreign Prosecution

Speakers:

EPO—Claiming Problems—Inescapable Traps

Soren Giver, European Patent Attorney, IP Manager, Awapatent AB, Sweden

Japan—How to Draft Effective Japanese Patent Applications

Shinji Kato, Patent Attorney, PROSPEC Patent Firm, Tokyo, Japan. Japan Patent Attorney Association Patent Committee.

Canada—Is It Really Different from U.S. Practice?

Dino P. Clarizio, Dimock Stratton Clarizio LLP, Toronto, ON, Canada

II) Madrid Protocol: The First Six Months—Boom or Bust?

Moderator:

Karin Segall, Darby & Darby, New York, NY

Speakers:

A European Perspective on Madrid Protocol: What Will Happen after the EU Joins?

Andreas Renck, Partner, Lovells, Alicante, Spain

In-house Filing Strategies under Madrid

Lucy Nichols, Global Director, IPR Brand Protection, Nokia Corporation, Espoo, Finland

Evaluation of the Madrid Protocol Now That the U.S. Has Joined

Suzanne Stoll, Washington Coordinator, World Intellectual Property Organization, Washington, DC

Madrid Protocol: The USPTO's Perspective

Deborah S. Cohn, Group Director for the Trademark Law Offices, U.S. Patent & Trademark Office, Arlington, VA

III) The Intersection of Antitrust and IP

The first half of this session will be available via ABA-CLE Teleconference from 1:45 p.m. – 3:15 p.m.

Balancing Competition with Intellectual Property Rights: Proposals from DOJ and FTC

Moderator:

M. Howard Morse, Drinker Biddle & Reath LLP, Washington, DC

Speakers:

Robert P. Taylor, Howrey, Simon, Arnold & White, LLP, Menlo Park, CA

Susan Stark DeSanti, Deputy General Counsel for Policy, Federal Trade Commission, Washington, DC

Frances E. Marshall, Special Counsel for Intellectual Property, Antitrust Division, U.S. Department of Justice, Washington, DC

Q. Todd Dickinson, Howrey, Simon, Arnold & White, LLP, Washington, DC (former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office)

Specific Issues in Managing IP and Competition Law

Moderator:

Robert P. Taylor

Speakers:

Settlement of Patent Litigation

Susan A. Creighton, Director, Bureau of Competition, Federal Trade Commission, Washington, DC

Refusals to License in the EU

Mauritz J.F.M. Dolmans, Cleary, Gottlieb, Steen & Hamilton, Brussels, Belgium

Patent and Copyright Misuse

Jeffery B. Fromm, Drinker Biddle & Reath LLP, Breckenridge, CO (former Senior Managing Counsel for Intellectual Property, Hewlett-Packard Company)

Standard Setting Involving Intellectual Property Rights

M. Howard Morse

Special Interest Sessions

1:45 p.m. – 2:30 p.m.

Things IP Counsel Should Know When Responding to Requests from Accountants and Transaction Counsel

Clients often ask IP counsel to participate in due diligence, provide IP schedules and respond to the information requests of the clients' auditors, accountants, lenders, corporate and commercial counsel, and others. What are the IP counsel's obligations? The speakers will explain the context and purpose of various audit and transaction-related requests and discuss the Do's and Don'ts for responding to these types of requests, including specific obligations under the Sarbanes-Oxley Act of 2002, the ABA/AICPA "Treaty" regarding responses to auditors, and the general standard of care.

Facilitator:

Susan Barbieri Montgomery, Foley Hoag, LLP, Boston, MA

Speakers:

Dean F. Hanley, Foley Hoag, LLP, Boston, MA

Susan E. McHale-McGahan, Intellectual Property Law Department, AT&T Corporation, Bedminster, NJ

3:00 p.m. – 3:45 p.m.

Latest Developments in Electronic Filing

Facilitator:

William C. Rowland, Burns, Doane, Swecker & Mathis, LLP, Alexandria, VA

Speakers:

Current Technology and Latest Electronic Filing Developments

Edmund Crump, U.S. Patent & Trademark Office, Alexandria, VA

E-filing Demonstration

Maria Eliseeva, Houston Eliseeva LLP, Lexington, MA

4:15 p.m. – 5:00 p.m.

Negotiating Technology Licenses in Europe? Leave Your Pants at Home!

In these days of GATT and TRIPS, with a Starbucks

on every corner of London, it's easy to underestimate the legal and cultural differences between the US and Europe. Many U.S. companies still don't realize that the "ordinary" exercise and protection of their IP rights can violate European competition (antitrust) laws and expose them to massive fines—even if they are far smaller players than Microsoft. Then there are the on-the-ground challenges of negotiating across barriers of law, language and business culture. This panel explains the major changes to EU competition rules for technology agreements that will come into force on May 1, 2004, and gives an in-house perspective on doing deals in Europe without flying by the seat of your pants.

Facilitator: Susan L. Foster, Eversheds LLP, Cambridge, United Kingdom

Speakers:

Competition Law Safe Harbor or Sucker Punch? Assessing the Impact of the "New and Improved" Technology Transfer Block Exemption on Your Business in Europe

Susan L. Foster

Speaking the Language: An In-house Perspective on Doing Tech Deals in Europe

Jill N. Fuchs, Senior Counsel, Convergys Corporation, Cincinnati, OH

Representing the Competition—How to Avoid Losing Clients

Speaker to be announced

II) Downloading Drama: Strategies for Copyright Protection in the Digital Era

Co-sponsored by the Section of Science & Technology Law

Copyright owners have launched a multi-pronged campaign to combat the digital exchange of music and other copyrighted works through the Internet. Our expert panel will discuss and debate the current litigation strategies employed against individual file swappers, file-sharing networks and Internet service providers and consider alternative proposals for protecting the rights of copyright owners in the age of Grokster and Kazaa.

Moderator: Thad Chaloeintarana, Pattishall, McAuliffe, Newbury, Hilliard & Geraldson, LLP, Chicago, IL

Speakers:

Sandra M. Aistars, Counsel, Intellectual Property, Time Warner, Inc., New York, NY

Sarah B. Deutsch, Vice President & Associate General Counsel, Verizon Communications, Arlington, VA

Joseph P. Liu, Assistant Professor of Law, Boston College Law School, Newton, MA

Matthew J. Oppenheim, Senior Vice President of Business and Legal Affairs, Recording Industry Association of America, Washington, DC

Wendy Seltzer, Staff Attorney, The Electronic Frontier Foundation, San Francisco, CA

5:30 p.m. - 7:00 p.m.

RECEPTION *sponsored by Kirkland & Ellis*

Thursday's coffee breaks are co-sponsored by BNA Books, Inc.

FRIDAY, APRIL 2, 2004

8:00 a.m. - 5:00 p.m.

Registration and Check-in

8:30 a.m. - 11:45 a.m.

Three Concurrent Sessions

(There will be a 15-minute break near the halfway point of all morning sessions)

I) Hot Topics Facing the In-House Counsel

Moderator:

Scott T. Piering, Cargill, Inc., Minneapolis, MN

Speakers:

E-mail: Attorney-Client Privilege—All the Rules Are Changing

Paul R. Rice, Professor of Law, Washington College of Law, American University, Washington, DC

Budgetary Challenge: Adapting to a New Economic Playing Field

Gloria D. Archuleta, Cingular Intellectual Property Strategic Management Team, Cingular Wireless, Atlanta, GA

The Inside Scoop to Outside Counsel

Debbie K. Wright, Chief Patent Counsel, Kraft Foods, Inc., Northfield, IL

Protecting Your Intellectual Property Rights from Your Employees

L. Marisia Campbell, Osler, Hoskin & Harcourt, LLP, Ottawa, ON, Canada

III) Ethical Pitfalls for the Unwary Patent Lawyer: We'll Tell You How to Avoid Them

This program will present the most common areas of discipline and legal malpractice against the unwary patent lawyer based on discipline and malpractice interviews and reports. Don't leave yourself unprotected!

Facilitators:

Carol M. Langford, Office of Carol M. Langford, Walnut Creek, CA

John M. Steele, Rogers, Joseph, O'Donnell & Phillips, San Francisco, CA

Special Interest Sessions

9:15 a.m. - 10:00 a.m.

Pharmaceutical Balance of Powers: Do the Hatch-Waxman Reforms Restore Equilibrium?

Co-Sponsored by the Section of Science & Technology Law

The Hatch-Waxman Act is said to achieve a balance of power by allowing the development of new, more effective medicine and the fast introduction of generic medicine. The true balance of the Act, however, has been debated since its inception in 1984. The 2003 Hatch-Waxman reforms seek to restore any unequal powers granted by the Act. A panel of distinguished pharmaceutical industry representatives will continue the debate concerning the balance of power, and will explore how the changes to the Act impact both research-based and generic drug industries.

Facilitator: Lee A. Goldberg, Darby & Darby,
New York, NY

Speakers:

Roberta R. Loomar, VP–Assistant General Counsel,
Andrx Corporation, Davie, FL

Robert A. Armitage, Eli Lilly and Company, Indianapolis, IN

Erika King, Assistant General Counsel, Pharmaceutical
Research and Manufacturers of America, Washington, DC

10:30 a.m. - 11:15 a.m.

**Electronic Discovery: How to Obtain It, Contain
Costs, and Who's Responsible for Paying for It?**

Facilitator: Bruce Malter, OmniDox, Chicago, IL

12:00 Noon - 1:30 p.m.

LUNCHEON (*tickets required*)

Guest Speaker: Gary Kremen, President and CEO of
Grant Media Management Inc., San Francisco, CA

Atrium Hall, Concourse Level

Sponsored by Howrey, Simon, Arnold & White, LLP

1:45 p.m. - 5:00 p.m. — Two Concurrent Sessions

**I) Legal Ethics in Trademark Law: The Domestic and
International Dimensions**

The continuing relevance of trademarks in the United States and abroad forces practitioners to confront both ethical dilemmas common to all attorneys and conflicts particular to the nuances of trademarks. The international aspects of practicing trademark-related law exacerbate these problems for all but the most wary of attorneys. This panel will highlight current issues in this area.

Facilitators:

Nathaniel Nicoll, San Francisco, CA

Jonathan Matkowsky, Seward & Kissel, LLP, New York, NY

**II) Recent Developments In Patent Law—What You Need
To Know**

This panel will focus on recent patent law precedents impacting practice in obtaining and enforcing patent rights. A survey of decisions from the Federal Circuit, the U.S. District Courts, and the U.S. Patent and Trademark Office will be provided.

The first half of this session will be available via ABA-CLE Teleconference from 1:45 p.m. – 3:15 p.m.

Moderator: John J. Gresens, Merchant & Gould,
Minneapolis, MN

Speakers:

Barbara A. Wrigley, Oppenheimer, Wolff & Donnelly,
Minneapolis, MC

Professor R. Carl Moy, William Mitchell College of Law,
St. Paul, MN

John J. Gresens, Merchant & Gould, Minneapolis, MN

Special Interest Sessions

1:45 p.m. - 2:30 p.m.

**Navigating the IP Minefields: Economic Aspects of
IP Litigation**

Due to the intangible nature of IP and its ability to be used simultaneously in many different ways, the litigation and management contexts in which we have historically seen and used IP are changing. Attorneys are forced to be involved in disputes and transactions that they may not have considered in the past. From a litigation perspective, given the importance of intellectual property rights to a company, IP is showing up in a multitude of different types of disputes. It is no longer limited to infringement and misappropriation. IP issues are emerging in bankruptcy, purchase price disputes, breach of contract, tax, fraud, and licensing disputes. Attorneys need to be aware of the interplay between IP and these areas to properly protect IP rights and their value. From a management perspective, the valuation methodology around IP is becoming more and more sophisticated. The value of IP may also change given its many different uses and applications.

Facilitator:

Kathi Kedrowski, Ernst & Young Global Investigations
and Dispute Advisory, Chicago, IL

3:00 p.m. - 3:45 p.m.

**Accessing Embedded Software: Competition,
Infringement, and the DMCA**

Co-sponsored by the Section of Science & Technology Law

In two recent cases, *Lexmark v. Static Control Components* and *Chamberlain v. Skylink*, plaintiffs have used the anti-circumvention provisions of the Digital Millennium Copyright Act against after-market competitors. This session will explore the legal and policy issues with some of the participants in the litigation.

Facilitator:

Jonathan Band, Morrison & Foerster, LLP, Washington, DC

Speakers:

Seth D. Greenstein, McDermott, Will & Emery,
Washington, DC

Scott D. Baker, Reed Smith Crosby & Heafey, LLP, San
Francisco, CA

*Friday's coffee breaks are co-sponsored by Burns,
Doane, Swecker & Mathis, LLP*

*Course Materials on CD-ROM are co-sponsored by
Finnegan, Henderson, Farabow, Garret & Dunner, LLP*

*The Cyber Café is co-sponsored by Pattishall, McAuliffe,
Newbury, Hilliard & Geraldson, LLP*

REGISTRATION AND MEETING INFORMATION

Tuition includes admission to the program, beverage breaks, one reception and one set of program materials on CD-ROM.

Early Registration: Register online here beginning in December. The deadline for receipt of early registration, at the earlybird rate will be Wednesday, March 17, 2004. A printable registration brochure will also be posted to this site for those who prefer to mail the registration in with a check.

Onsite Registration: Registration will be available onsite from 2:00-5:00 p.m. Wednesday, March 31, in the Atrium Ballroom Foyer, Concourse Level. Registration will also be available beginning at 7:30 a.m. Thursday, April 1 in the Amphitheater Foyer. A busy morning registration rush is anticipated on April 1, so registration on Wednesday, March 31 is encouraged.

Onsite registrations will be accepted only when accompanied by a credit card (Visa, MasterCard or American Express only), check, money order, or government purchase order or training form. Late registration fees will be in effect for onsite registrations.

Registration Confirmation: Confirmation of registration will be sent via e-mail in advance of the program for all registrations received prior to March 17. Indicate on the registration form if you would prefer to receive confirmation via fax or U.S. mail.

Cancellation Policy: Registrants who are unable to attend the conference will receive a refund less a \$50 administrative fee if a written cancellation is received by March 17, 2004. Cancellation requests should be faxed to 312/988-5628. No refunds will be granted after March 17, 2004. Substitutions are acceptable. The ABA reserves the right to cancel any program and assumes no responsibility for personal expenses.

CLE Credit: CLE accreditation will be requested for this Conference from every state with mandatory continuing education requirements for lawyers. Please be aware that each state has its own rules and regulations, including its definition of "CLE". Check with your state agency for confirmation of this program's approval. Attendees requesting credit for the program must sign the attendance roster onsite at the program. New York attorneys must sign in and sign out each time they enter or leave the program room, and complete the special New York certificate of attendance at the end of each program and have it signed by ABA authorized personnel.

Teleconference CLE Credit Available: For those unable to attend the 19th Annual Intellectual Property

Law Conference in person, selected sessions will be made available via live teleconference. Watch this site for further information on the day, time and topic information. Registrants for teleconference sessions will be eligible for CLE credit in those states that allow for teleconference credit. Instructions on downloading course materials and dialing in to the program will be provided in a confirmation letter upon registration.

Course Materials (available on CD-ROM): Course materials are produced in CD-ROM format and made available for pickup at the conference. A limited number of printed course material sets will be available for an additional fee to those who request this in advance on the registration form. Materials will also be posted on the Section website, available for viewing by conference registrants in advance of the conference.

Location: The International Trade Center in the Ronald Reagan Federal Building, at 1300 Pennsylvania Avenue, between 13th and 14th Streets, NW, Washington, DC.

Lodging: The J.W. Marriott Hotel, 1331 Pennsylvania Avenue, NW, Washington DC 20005 (right across Pennsylvania Avenue and Freedom Plaza from the Ronald Reagan Building). The ABA group rate is \$222 single/double occupancy. All rooms are subject to a 14.5% District of Columbia sales tax plus a \$1.50 per night District Occupancy Tax. To reserve a room, call the J.W. Marriott Hotel directly at 202/393-2000, or 800/228-9290. Be sure to mention the ABA 2004 Annual Intellectual Property Law Conference to receive the special group rate. Note: The cutoff date for the room block is Monday, March 1, 2004—but do not wait until the March 1 cutoff date, as the room block fills up quickly. After this date, reservations can be made on a space-available basis only. The ABA will not be able to secure a room for you.

Special Tuition Assistance: A limited number of registration fee-reductions will be available for government employees, academics, law students, and public interest lawyers employed with non-profit organizations. No full tuition waivers are available. The fee-reductions will be determined on a one-time only, case-by-case, first-come first-serve basis. To apply, send a letter outlining the basis for your request of a fee-reduction to Betsi Roach, Section Director, ABA Section of Intellectual Property Law, 750 N. Lake Shore Drive, Chicago, IL 60611. Deadline for receipt: March 1, 2004. No cases will be considered after the deadline, and all standard registration fee rates will apply after March 1, 2004.

REGISTRATION FORM

Advance Registration Deadline: March 17, 2004

- Yes**, please register me for The 19th Annual Intellectual Property Law Conference
- No**, I cannot attend this program. Please send me the course materials on CD-ROM available after this meeting at the price of \$75, which includes postage and handling. Payment must accompany this form (please allow 4 to 6 weeks from date of program for receipt of course materials).

Registrant Information

Name: _____

Organization: _____

Address: _____

City: _____ State: _____ Zip: _____

Daytime phone number: _____

Fax number: _____

E-mail: _____

ABA ID Number: _____

States registered State Bar ID: _____

to practice in: _____ number: _____

Fees and Payment

REGISTRATION FEES (check one)

before 3/19 after 3/19

- \$395 \$445 ABA IPL Section Members
- \$395 \$445 ABA Section of Science and Technology Law Members
- \$445 \$495 ABA, but not IPL members
- \$495 \$545 General Attendance
- \$350 \$400 Government, Public Interest, Academics
- \$185 \$235 Law Students

LUNCHEONS (ticket required)

- \$40 Thursday, April 1, 2004
- \$40 Friday, April 2, 2004

ABA-CLE Teleconference Registration The Intersection of Antitrust and IP

The first half of this session Thursday, April 1, will be available via ABA-CLE Teleconference from 1:45p.m. – 3:15 p.m.

- \$ 85 Section member
- \$125 ABA but not IPL members
- \$ 60 Secondary Registrant, same site. Name of additional registrant: _____

Recent Developments in Patent Law—What You Need to Know

This panel, Friday, April 2, will focus on recent patent law precedents impacting practice in obtaining and enforcing patent rights. A survey of decisions from the Federal Circuit, the U.S. District Courts, and the U.S. Patent and Trademark Office will be provided. The first half of this session will be available via ABA-CLE Teleconference from 1:45 p.m. – 3:15 p.m.

- \$85 Section member
- \$125 ABA but not IPL members
- \$150 General attendance (not an ABA member)
- \$60 Secondary Registrant, same site. Name of additional registrant: _____

PRINTED COURSE MATERIALS ORDER

- \$75 Please reserve for me (in addition to the CD-ROM), a printed set of course materials. Orders for printed materials must be received before March 19, and will be available onsite upon check-in at the registration desk.

Total of all fees \$ _____

PAYMENT

Credit card:

- VISA MasterCard American Express

Card no: _____

exp. date: _____

Signature (Only applies to hard-copy form for U.S. mail, or fax purposes):

Print name as it appears on card:

- Check enclosed. Payable to "American Bar Association"

Purchase order no. _____
(government employees only)

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

SPECIAL INTEREST SESSION SIGN-UP

(Your sign-up below is for planning purposes only; it does not commit you to a session nor guarantee you a seat at the session. Space is limited for these special interest sessions and will be available on a first-come basis onsite at the program.)

Thursday Afternoon

- 1:45 p.m. – 2:30 p.m.
Things IP Counsel Should Know When Responding to Requests from Accountants and Transaction Counsel (1:45 p.m. – 2:30 p.m.)
- 3:00 p.m. – 3:45 p.m.
Latest Developments in Electronic Filing
- 4:15 p.m. – 5:00 p.m.
Negotiating Technology Licenses in Europe? Leave Your Pants at Home!

Thursday Afternoon

- 1:45 p.m. – 2:30 p.m.
Sarbanes-Oxley Act
- 3:00 p.m. – 3:45 p.m.
Electronic Filing
- 4:15 p.m. – 5:00 p.m.
Licensing

Friday Morning

- 9:15 a.m. – 10:00 a.m.
Pharmaceutical Balance of Powers: Do the Hatch-Waxman Reforms Restore Equilibrium?
- 10:30 a.m. – 11:15 a.m.
Electronic Discovery: How to Obtain It, Contain Costs and Who's Responsible for Paying for It

Friday Afternoon

- 1:45 p.m. – 2:30 p.m.
Navigating the IP Minefields: Economic Aspects of IP Litigation

- 3:00 p.m. – 3:45 p.m.
Accessing Embedded Software: Competition, Infringement and the DMCA

Return to:

19th Annual Intellectual Property Law Conference
Section of Intellectual Property Law M/S 10.5
American Bar Association
750 N. Lake Shore Drive
Chicago, IL 60611
FAX: 312/988-5628

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 the luncheons, please note them below: _____



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