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The Future of the Doctrine of Equivalents

BY JERRY A. RIEDINGER


Jerry A. Riedinger

The doctrine of equivalents, says the Supreme Court, is "settled law."[1] Few patent litigators would agree. Except for the widespread view that the doctrine is but a pale shadow of its former self, most patent litigators would, in fact, consider few things "settled." Over the past decade, a procession of Federal Circuit decisions has wreaked havoc with the doctrine, raising innumerable concerns over its applicability and causing it to evolve from a powerful tool into a repeatedly maligned theory. Yet the doctrine has survived, in one form or another, despite repeated efforts to procure its demise by forces of considerable magnitude. The recent decision in *Festo* was just the latest demonstration that, regardless of the doctrine's reduced value, it retains remarkable resilience.

A swarm of questions surround the doctrine of equivalents in the first decade of the twenty-first century. The primary question, of course, asks what form the doctrine will take. Related questions abound, some easy, some not: Will the Federal Circuit induce the doctrine's demise once and for all? Will the Supreme Court, yet again, reverse Federal Circuit equivalents precedent? Will patent owners grow tired of fighting uphill and abandon their efforts to assert equivalents? What defense to equivalents will become the favorite of accused infringers? Few of these questions can be answered easily, and not all answers are satisfactory. Nevertheless, this article attempts to peer into a crystal ball and predict the doctrine's future.

I. Patent Owners Will Continue to Assert the Doctrine of Equivalents

The first, and easiest, prediction is that patent owners will persist in asserting infringement by equivalents. Indeed, patent owners are likely to assert equivalents in virtually every case, despite the marked decline in the doctrine's value. This is so, not because of any broad belief that the doctrine likely will produce success, but because the benefits continue to dramatically outweigh the drawbacks.

The doctrine's benefits are direct, uncomplicated, and so substantial that only the doctrine's outright abolition could halt its near universal assertion. As the Supreme Court explained in its first modern exposition of the doctrine's purpose, "to permit imitation of a patented invention which does not copy every literal detail would be to convert the . . . patent grant into a hollow and useless thing."[2] Patent drafters are human and therefore imperfect; despite their best efforts, lawyers writing patents will never draft claims that capture perfectly all aspects of a development's inventive contribution. The doctrine has therefore been the traditional bulwark against attempts to use linguistic gymnastics to justify an invention's appropriation. Regardless of the particular semantic incantation proposed to render the patent "hollow and useless," the doctrine is often the only legal assertion that allows the plaintiff's infringement analysis to include common sense as an alternative to the

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Keeping Current with the Chair

MARK T. BANNER

On Wednesday, October 9, the Supreme Court heard a major copyright case that challenges the constitutionality of the Copyright Term Extension Act (CTEA), a 1988 law that extended current and future copyrights by twenty years. The case, *Eldred v. Ashcroft,* No. 01-618, was widely covered in the popular press as pitting Mickey Mouse against Stanford Law School professor Lawrence Lessig, who argued on behalf of Eric Eldred, an "Internet publisher" who had been posting various works on a website, including those by Nathaniel Hawthorne, Oliver Wendell Holmes, H.L. Mencken, and many others. His website (www.eldritch-press.org) provides the text "free, accessible books" whose copyrights have expired, and urges, "Read them and go in peace."

The CTEA (popularly known as the "Sonny Bono Copyright Term Extension Act" and named after the late congressman and singer) was strongly supported during congressional debate by the entertainment industry, including companies such as Disney, giving rise to the "Mickey Mouse" headlines. The Section, in a 1995 Resolution, supported the extension of copyright duration by twenty years and also supported then-pending legislation to that effect.

The law's opponents argued that an extension, coming after previous extensions and applied retroactively, is tantamount to a perpetual copyright for existing copyright holders. According to Professor Lessig, Congress acted unconstitutionally by extending copyright protection eleven times over the past forty years. The right of Congress under the Constitution gives power only to grant copyrights for "limited times," they argued. The CTEA exceeds that limited right granted by the Constitution, opponents urged.

Justice Stephen G. Breyer asked whether this argument wouldn't apply equally to the major revision to challenge the federal copyright law that took place in 1976. If so, he asked, wouldn't acceptance of the argument mean that "the chaos that would ensue would be horrendous?"

Arguing that the Court would not have to go that far, Professor Lessig nevertheless conceded that "under our theory as we've advanced it, you're right."

"Maybe we ought to find another theory," responded Justice Breyer.

Arguing in defense of CTEA was U.S. Solicitor General Theodore B. Olson, who defended Congress' right to extend copyright protection, saying that it struck a permissible balance between the public's right to eventual access and the constitutional mandate "to promote the progress of science and the useful arts" by rewarding creative individuals. "These are quintessentially legislative judgments," Olson told the Court.

The 1998 law was intended, in part, to put U.S. copyright owners on an equal footing with its European Union (EU) trading partners. An EU directive extended the minimum term of copyright for EU member countries to life-plus-seventy years (as compared with former basic U.S. term in the 1976 Copyright Act for individual authors of life-plus-fifty years). The EU directive required member countries to apply the "rule of the shorter term" so that if a particular country outside the EU provided for a shorter term of copyright, then the EU member countries were directed to afford only the shorter term of protection to works of nationals of that country rather than the longer life-plus-seventy years available in EU countries. As a result, without the CTEA, U.S. copyright owners would have only the shorter U.S. term of protection in Europe, rather than the extended term of the EU directive.

The CTEA, Solicitor Olson told the Court, was passed by Congress under a "broad grant of power" that allowed Congress to have in mind goals such as creating an incentive to copyright holders to keep their works in distribution. Justice O'Connor asked, "Is there any limiting principle out there that would ever kick in?" Solicitor Olson agreed that an explicitly perpetual copyright would be unconstitutional.

The high-profile case has attracted the attention of numerous groups, as well as the general press. An October 14, 2002, *Newsweek* article titled, "Glitterati vs. Geeks—Two heavyweights, Hollywood and Silicon Valley, take the fight over content to the Supremes," noted that the case attracted "*amicus* briefs from everyone." While not true literally, *amicus* briefs on behalf of Eldred were filed by, among others, the American Association of Law Libraries, the College Art Association, the Free Software Foundation, Hal Roach Studios, Intel Corporation, the National Writers Union, and

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Doctrine of Equivalents

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defendant's wooden application of literal terms. Until its complete demise, the doctrine will be embraced by patent owners with a drowning man's enthusiasm for a life jacket.

The Federal Circuit's crusade for narrow claim interpretations adds an exclamation point to the traditional rationale for equivalents. Many patent owners have been surprised, even astounded, at the narrow claim interpretations adopted by the courts in the 1990s.[3] Absent equivalents, such narrow constructions are often the death knell of the patent owner's case. Assertion of the doctrine can therefore give the patent owner a second infringement life, if only a short one, making equivalents an invaluable part of the patent owner's offensive.

Procedurally, the doctrine helps preclude dismissal of an infringement claim after an adverse claim construction. Claim construction, being an issue of law, is readily decided by a court on summary judgment.[4] Because the nature of the accused product or process is often uncontroverted, summary judgment is the grim reaper of patent claims, allowing district courts to terminate a patent suit in a single stroke. In the hands of a disinterested or hostile judge, summary judgment is the tool of choice to remove the case from the court's docket. With an equivalents assertion, however, summary judgment of noninfringement is materially more difficult, because equivalence is an issue of fact, not readily resolved on summary judgment.[5] The doctrine of equivalents is thus a common route past the hazards of summary judgment into the welcoming arms of the jury, whose members traditionally are friendlier to patentees than judges and swayed more easily by equities. Assertion of equivalents can be particularly valuable in the face of a hostile judge anxious to excise a tedious and complicated patent case from the court's docket. Such judges are less likely to stretch a summary judgment analysis into a dismissal when they believe equivalents will require a trial regardless of the outcome of a literal infringement analysis.

Assertion of an equivalents claim can also fundamentally change the dynamics of the infringement debate. Without an assertion of equivalents, infringement arguments often descend into an abyss of hypertechnical word games, disputing the meanings of "is" or "or."[6] With equivalents in play, the patentee can focus its jury arguments on broad equities, with particular emphasis on the inventor's contribution to the art. An equivalents argument often allows the patent owner to cast the defendant in the role of an ill-doer justifying appropriation of the invention with lawyer's loopholes. The infringement battle is then fought through discussion of the patentee's favorite topics: the benefits of the inventor's contribution, the defendant's use of that invention, and the primacy of justice over technicalities. Absent a revolution in the law, these facts mean the doctrine of equivalents will continue to be asserted vigorously in nearly every case.

II. The Federal Circuit Will Try to Further Narrow the Doctrine of Equivalents

Predicting the continued assertion of the doctrine is easy. Predicting the Federal Circuit's future handling of the issue is far more difficult, because many factors complicate predictions of the court's future rulings, with the factionalization of the court being the most problematic. Some court factions plainly have sufficient hostility to the doctrine to relentlessly persevere in their attempts to minimize or eliminate the doctrine's reach. Other factions support the doctrine, and will work to ensure its survival. Before the Supreme Court's decision in *Festo,* the anti-equivalents faction seemed to have the upper hand. *Festo,* however, included a plain rebuke by the Supreme Court of Federal Circuit efforts to vitiate the doctrine,[7] and that action could signal the end of the Federal Circuit's offensive against equivalents.

A continuation of the battle is still likely, with pro-equivalents judges strengthened by *Festo.* Before the Supreme Court acted, one could legitimately speculate that the Federal Circuit would, in some future case, formally pronounce the doctrine dead, despite the statements in *Warner Jenkinson* to the contrary.[8] *Festo* unequivocally makes that act impossible, at least until the Supreme Court undergoes a radical change of heart. Thus, while the proper application of the doctrine remains thoroughly unsettled, the Supreme Court has made clear that the continued existence of the doctrine is no longer an issue: the existence of the doctrine is "settled law,"[9] and the Federal Circuit cannot decree its extinction.

Various panels of the Federal Circuit will nevertheless continue to announce narrow interpretations of the doctrine even if those panels find themselves unable to deliver a deathblow. As the Federal Circuit decision in *Festo* shows, a majority of the Court favors limitation of the doctrine, and is likely to seek more opportunities to narrow the doctrine's scope. At least three narrowing principles continue to exist, and each will provide a strong herbicide to treat what the anti-equivalents faction seems to view as the equivalents weed. First, the Federal Circuit will continue to tweak prosecution history estoppel, and panels hostile to equivalents will narrowly apply the principles of *Festo* and *Warner-Jenkinson,* especially the "forseeability" factor, to the detriment of patent owners.[10] Second, unless reversed by the Supreme Court, the "dedication to the public" principle of *Johnson & Johnston* will cage the doctrine within relatively narrow limits.[11] Third, and most significant, panels hostile to equivalents will use the broad reach of the "all-limitations rule" to strike the doctrine of equivalents on a case-by-case basis.[12]

A. Prosecution History Estoppel

Further decisions by the Federal Circuit regarding prosecution history estoppel are inevitable, especially since the Federal Circuit must revise its *Festo* decision upon remand from the Supreme Court.[13] The criticism of the Federal Circuit in *Festo,*[14] means that those decisions are unlikely to yield trailblazing principles; the Federal Circuit is particularly unlikely to try again to obliterate the doctrine of equivalents through expansive interpretations of prosecution history estoppel. Rather, the Federal Circuit will slightly narrow equivalents in the process of amplifying the principles expressed by the Supreme Court in *Festo*.

The Federal Circuit will probably refine the presumption of a complete bar to equivalents that arises "when the court is unable to determine the purpose underlying a narrowing amendment."[15] In the process, the Federal Circuit will moderately expand the scope of prosecution history estoppel. The Supreme Court explained in *Festo* that, when no reason is given for an amendment, the court "should presume that the patentee surrendered all subject matter between the broader and the narrower language."[16] The presumption is rebuttable,[17] and further decisions from the Federal Circuit are likely to elaborate on the nature and circumstances of the rebuttal. In particular, much uncertainty surrounds how a patentee will show that a particular "amendment cannot reasonably be viewed as surrendering a particular equivalent,"[18] so the Federal Circuit will generate a plethora of decisions putting flesh on the skeletal principle enunciated by the Supreme Court. In doing so, the Federal Circuit will be bound by the Supreme Court's express approval of the doctrine of equivalents, and is therefore unlikely to modify the doctrine more than incrementally.

The Federal Circuit is likely to extensively tweak prosecution history estoppel by elaborating on the "forseeability" of an equivalent at the time of an amendment. In *Festo*, the Supreme Court focused on the forseeability of a proposed equivalent as a central question regarding prosecution history estoppel.[19] The Court expressly noted that an amendment cannot reasonably be viewed as surrendering a particular equivalent if the equivalent "was unforeseeable at the time of the application."[20] The overall context of the inventor's ability to overcome the presumption of a complete rebuttal was broadly stated by the Supreme Court to be those facts "suggesting that the patentee could not reasonably be expected to have described the insubstantial substitute in question."[21] As the cases evolve, the patent community can expect the Federal Circuit to construct an elaborate description of circumstances where a particular amendment was or was not foreseeable, with the most common outcome being a conclusion that most proposed equivalents are foreseeable. Prosecution history estoppels accordingly will be broad generally, even if they do not amount to complete bars to equivalence.

B. Dedication to the Public

The "dedication to the public" principle of *Johnson & Johnston* is a powerful tool for limiting the doctrine of equivalents. Under the *Johnson & Johnston* principle, any subject matter that is disclosed in a patent but not literally claimed is dedicated to the public and therefore not available as an equivalent.[22] Extended to its potential limits, the *Johnson & Johnston* doctrine can imply that virtually everything within the scope of a proposed equivalent was described, literally or inherently, in the patent's specification. The Federal Circuit can therefore use expansive interpretations of *Johnson & Johnston* to restrict the doctrine of equivalents to only those "insubstantial" differences from the claimed invention that are nevertheless so radically different from the specification that they would not reasonably have been foreseen—a circumstance that is remotely possibility at best. If that approach is taken, the "dedication to the public" concept might serve to eradicate most common arguments for equivalence. The Supreme Court's rejection of the Federal Circuit's rationale in *Festo,* however, should reduce the Federal Circuit's ability to expand *Johnson & Johnston* to its outer limits.

C. The "All Limitations Rule"

The "all limitations rule"[23] is a potent weapon for case-by-case eradication of the doctrine of equivalents. According to the rule, "if a court determines that a finding of infringement under the doctrine of equivalents 'would entirely vitiate a particular claim element,' then the court should rule that there is no infringement under the doctrine of equivalents."[24] Simply stated, the rule seems innocuous enough, and merely reiterates the holding in *Warner-Jenkinson*[25] that "[e]ach element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole."[26] Yet just as "beauty is in the eye of the beholder," identification of the circumstances when a particular application of the doctrine of equivalents would "vitiate" a claim limitation is not easily reduced to objective criteria. The resulting flexibility means that the "all-limitations rule" can be used to reduce equivalents to nothing more than what is literally claimed.

Cooper Cameron[27] provides a recent example. The patent in *Cooper Cameron* described underwater oil wellheads with a "workover port."[28] The claim in question specified that the "workover port" extended "between" two "plugs," while the accused product was alleged to have a port that was "above" the plugs.[29] Citing the all-limitations rule, the Federal Circuit held that a workover port "above" the plugs "cannot be equivalent" to a port "between" the plugs.[30] The Federal Circuit ruled that the "limitation" to be evaluated was not the requirement that a "workover port" exist (such a port was present in the accused product), but the claim's specification of the port's location.[31] Thus, by describing the location of the port as a "limitation" that could not be ignored, the Federal Circuit was able to decide, as a matter of law, that infringement pursuant to the doctrine of equivalents was not present.

The decision in *Cooper Cameron* demonstrates how equivalents claims can be discarded when the all-limitations rule is applied broadly. A court need merely label as a "limitation" the particular term in a claim that is not literally present in the accused device. Once defined as a limitation, the term cannot be ignored, and the proposed infringement by equivalents can be rejected as a matter of law. We can therefore expect panels that are hostile to the doctrine of equivalents frequently to apply the all-limitations rule, to the detriment of patent owners.

Not all Federal Circuit panels will cooperate, however. Instead, we can expect pro-equivalents panels to approve equivalents in factual circumstances that will be hard to distinguish from those where anti-equivalents panels reject the doctrine. The process will continue until a majority view is expressed *en banc*, or the Supreme Court intervenes. In that debate, *Festo* has strengthened the hand of the pro-equivalents judges, because it expressly rejected the cherished view of the anti-equivalents judges that "public notice" is the paramount consideration in evaluating infringement, overriding the need for equivalents.[32] Preserving the benefits of equivalents was expressly determined by the Supreme Court to be more important than providing clear notice to the public, a principle that the pro-equivalents judges are likely to use repeatedly to justify application of equivalents.

In short, a Federal Circuit majority will continue to limit the doctrine, but against more formidable dissent. Continued uncertainty will be the predominant short-term outcome.

III. The "All Limitations Rule" will be the Lead Defense to Equivalence Claims

Perhaps contrary to popular belief, prosecution history estoppel will not be the "star" defense against future assertions of infringement by equivalents. While still important to defendants, prosecution history estoppel was severely wounded by the Supreme Court in *Festo.* In particular, the Supreme Court rejected the Federal Circuit's view that a bright line test for prosecution history estoppel was needed to ensure public notice of the extent of a patent,[33] thereby preventing the defense from being a broad prophylactic to equivalents assertions. Moreover, the defense remains enormously complicated to explain, let alone establish, especially after evaluation of the "presumptions" of *Festo.* Accused infringers, although unlikely to abandon equivalents, are likely to exert their primary efforts in support of other defenses to the doctrine of equivalents.

Likewise, the *Johnson & Johnston* rule of "dedication to the public" is likely to be an important but secondary defense to allegations of equivalents. If the defense remains viable (i.e., it is not overturned by the Supreme Court), patent owners will know in advance that they cannot use equivalents to capture unclaimed subject matter disclosed in the specification. The primary effect of the "dedication to the public" defense should be to force patent owners to make more limited assertions of equivalents. Battles unquestionably will erupt over just what features are disclosed in the specification and whether the accused product (i.e., the proposed equivalent) really is the same as the patent disclosure. Yet the defense, despite its power, will not be available in all equivalents cases, so it cannot serve as a blanket shield against equivalents. Accused infringers will focus their primary efforts elsewhere.

The all-limitations rule, however, can be asserted against every equivalents allegation. Moreover, the Federal Circuit precedent illuminates no restriction on the circumstances where equivalents can be rejected by application of the rule. The all-limitations rule is therefore an enormously broad doctrine, so that the it will be employed as a defense against virtually every assertion of equivalents. The only question is the degree of eventual success.

The power of the all-limitations rule to defeat equivalence assertions originates with the breadth of the language used to describe the rule in Federal Circuit cases. Most cases applying the rule rely upon a simple statement of the broad principle that infringement cannot result from a proposed equivalent that would "entirely vitiate a claim limitation."[34] Other cases apply a similar formulation, which says that a proposed equivalent is impermissible when it would "write [the claim limitation at issue] out of the claims"[35] or when the patent owner attempts to treat a claim limitation as "irrelevant."[36] Yet such statements usually appear in the Federal Circuit's analyses without further elaboration, so that the cases provide little guidance regarding just when a proposed equivalent would "vitiate" a claim limitation. The few Federal Circuit cases that have additional explanations are rarely helpful, because the statements provide little specificity regarding the appropriate circumstances for application of the all-limitations rule.

Various vague statements are examples of the Federal Circuit explanations of why a particular equivalent would vitiate a claim. Thus, the Federal Circuit has stated that: the patentee cannot "ignore a material limitation;"[37] an equivalent cannot be the "antithesis" of a claim term;[38] and an equivalent cannot ignore a "clear structural limitation."[39] These statements provide little help. For example, when every word in a patent is considered a limitation, any assertion of equivalents is arguably an "antithesis" of the term in the claim that is not literally present.

The Federal Circuit has also described frequently a "clear exclusion" principle to support rejection of proposed equivalents. Under that principle "[a] particular structure can be deemed outside the reach of the doctrine of equivalents because that structure is clearly excluded from the claims whether the exclusion is express or implied."[40] The circumstances producing a "clear exclusion" are not well defined. As a result, every alleged equivalent can be argued to have been "clearly excluded" from the literal language of the claim. A review of the all-limitations cases leaves the definite impression that some Federal Circuit panels are willing to treat every term in a patent as a limitation, so that no deviation from the literal requirements of the claims, no matter how trivial, will be an acceptable equivalent.[41]

The broad application of the all-limitations rule, and especially the Federal Circuit's apparent willingness to consider every term (or even word) in a patent to be a "limitation," means that the all-limitations rule is a potentially devastating weapon against equivalents. Rare, indeed, will be the accused infringer who will find a reason not to assert that rule as a defense.

IV. The Supreme Court Will Reverse the Federal Circuit Again

Having concluded that some panels of the Federal Circuit will continue to seek formulas to vitiate the doctrine of equivalents, the natural follow-up conclusion is that the Supreme Court will again step in and reverse the Federal Circuit. Equivalents has been a favorite of the Supreme Court from long before the advent of the Federal Circuit,[42] and the thrust of the Supreme Court decisions have been directly contrary to the Federal Circuit's recent drive to narrow the doctrine. Further action by the Supreme Court seems almost inevitable.

When the Supreme Court will act is more difficult to predict, however. Predicting the legal issue that will provoke Supreme Court actions is at least equally difficult. Both depend on how aggressively the Federal Circuit attempts to minimize equivalents and especially on whether the Federal Circuit's decision in a particular case appears designed to circumvent Supreme Court precedent. At present, two topics seem likely candidates for further Supreme Court review: the *Johnson & Johnston* "dedicated to the public" doctrine, and the all-limitations rule.

Of the two, the decision in *Johnson & Johnston* seems most likely to produce an early Supreme Court review. *Johnson & Johnston* resolved the apparent conflict between two earlier Federal Circuit decisions, *Maxwell*[43] and *YBM Magnex.*[44] *Maxwell*[45] ruled that subject matter in a patent that is disclosed but not literally claimed is dedicated to the public and is therefore not available as an equivalent.[46] A year later, *Maxwell* was distinguished in *YBM Magnex,* which held that *Maxwell* did not state a broad rule of law and was instead limited to its particular facts.[47] The *YBM Magnex* decision therefore allowed features that were disclosed but not literally claimed to be an equivalent.[48] *Johnson & Johnston* resolved the apparent conflict by definitively rejecting the view of *YBM Magnex*[49] and holding that a feature ("subject matter") that is described but not claimed in a patent has been dedicated to the public and cannot be an equivalent.[50]

Johnson & Johnston included contradictory concurring decisions and a sharply worded dissent. Judge Newman, the author of the decision in *YBM Magnex,* vehemently criticized the decision of the Court, based upon her belief that *Johnson & Johnston* not only contradicted prior Federal Circuit[51] and Supreme Court[52] precedent, but "establishes a new absolute bar to equivalency, a bar that applies when there is no prosecution history estoppel, no prior art, no disclaimer, no abandonment."[53] Judge Clevenger, joined by Judges Lourie (the author of the *Maxwell* decision), Schall, Gajarsa and Dyk, wrote a concurring decision stating that *Johnson & Johnston* did not make new law.[54] Judge Rader, in a concurrence joined by Chief Judge Mayer, offered "an alternative reasoning" for the Court's decision, even while "endorsing the results and reasoning of the court."[55] Judge Dyk, joined by Judge Linn, responded to Judge Newman's argument that *Johnson & Johnston* contradicted the Supreme Court's *Graver Tank* decision.[56] Judge Lourie added the final concurring opinion, which discussed the difficulties he found with Judge Rader's proposed alternative reasoning.[57]

The multiplicity of views in *Johnson & Johnston* shows the difficulty of reconciling that case with *Graver Tank.* This is so because the position of *Maxwell* and *Johnson & Johnston* was advocated by Justices Black and Douglas in their dissents in *Graver Tank*,[58] demonstrating that the Supreme Court considered, and rejected, the position ultimately adopted by the Federal Circuit.[59]

The potential survival of *Johnson & Johnston* is questionable. Not only is it arguably contrary to *Graver Tank,* its underlying reasoning was rejected by the Supreme Court in *Festo*, where the Supreme Court expressly referred to the dissent of Justice Black in *Graver Tank,* describing that reasoning as part of the pro "public notice" analysis that had been rejected by the Court.[60] Similarly, the majority in *Johnson & Johnston* did not adopt the "forseeability" approach for determining whether equivalents were available, relegating that topic to the "alternative reasoning" of Judge Rader's concurring opinion.[61] With the express adoption of the new "forseeability" test by the Supreme Court in *Festo,*[62] at least a modification of the rule of *Johnson & Johnston* seems likely, whether in *Johnson & Johnston* or a subsequent case.

The all-limitations rule is also an excellent candidate for Supreme Court action, if for no other reason than the rule's ability to eliminate all claims based on equivalents. The breadth of the past Federal Circuit decisions applying the rule and the potential for more broad decisions suggests that the Supreme Court might, at some point, accept certiorari to rewrite the Federal Circuit's application of the rule. While the all-limitations rule was expressly adopted in *Warner-Jenkinson,* the Supreme Court's recitation of the rule cannot be reasonably interpreted as approval for rejection of all equivalents.[63] The Supreme Court is therefore likely to step in and define when a term or phrase is or is not a limitation that must be present literally. In anticipation of that potential, the Federal Circuit could decide to provide the definition itself, and thereby restrict the all-encompassing nature of the all-limitations rule. Until then, every all-limitations decision by the Federal Circuit has a higher than usual potential for further Supreme Court reversal.

V. District Courts Will Increase Their Summary Judgment Dismissals of Equivalence Claims

The best measure of the strength of the doctrine of equivalents is the ability of the infringement claims applying the doctrine to withstand motions for summary judgment. That yardstick is likely to show a further decline in the value of infringement claims relying on equivalents between the continued expansion of limitations on equivalents will give district courts more confidence in their ability to summarily reject equivalents and thereby dispose of patent cases. That confidence will result, not from new Federal Circuit activism, but from growing district court recognition of the power of existing defenses created by the Federal Circuit, especially the "all limitations rule." The trend among district courts is therefore likely to be unfavorable to patent owners, at least until the Supreme Court acts again.

VI. Patents Will Continue to be Drafted with Equivalents in Mind

The further narrowing of the doctrine of equivalents does not mean patents can now be prosecuted without regard to the doctrine. As long as the doctrine exists in any form, prosecution counsel will continue trying to optimize their client's rights by paying careful attention to the doctrine. Experienced lawyers also know that patent law, and the doctrine of equivalents, has been in continuous flux since the Federal Circuit was created in 1982. That flux means that the trends of today might be reversed in a few years, breathing new life into the doctrine of equivalents. A failure to take reasonable efforts to protect potential equivalents claims would not be in the best interests of most patent applicants.

That efforts will still be made to protect equivalents does not, however, mean that equivalents will be the focus of prosecution strategy. Instead, elaborate prosecution strategies will replace many of the functions performed by equivalents. Much effort will be put into drafting patents with claims that are sufficiently broad and sufficiently numerous to make equivalents unnecessary. Patent prosecution lawyers also will make extensive use of continuation practice, so that work can be conducted to develop new claims in parallel patents that clarify the broad literal scope of an invention. Moreover, the Federal Circuit's attempts to narrow or eliminate the doctrine of equivalents will necessarily be less effective against means- and step-plus-function claims, which have an express basis in Section112, paragraph 6 of the patent statute. Patent prosecutors seeking to maximize the potential strength of their patents will therefore expand their use of means-plus-function claims to take advantage of the greater resiliency of statutory equivalents.[64]

VII. The Incentive to Innovate Will Diminish

Despite the likely long-term survival of the doctrine of equivalents, the power of the doctrine will be eroded steadily. The consequence of that trend will be a diminution of the incentive to innovate that the patent system provides. As the Supreme Court has noted in *Festo*, "[I]f patents were always interpreted by their literal terms, their value would be greatly diminished. Unimportant and insubstantial substitutes for certain elements could defeat the patent, and its value to inventors could be destroyed by simple acts of copying." Because the patent laws promote progress "by rewarding innovation with a temporary monopoly," vigorous application of the doctrine is part of "ensuring the appropriate incentives for innovation. . . . " At least in the first decade of the twenty-first century, the doctrine will not be protected vigorously, and will be less able to perform its function.

Endnotes

1. Festo Corp. v. Shoketsu Kinzoku Kogyokabushiki Co., 122 S. Ct. 1831, 1841 (2002).

2. Graver Tank & Mfg. Co. v. Linde Air Prods. Co., 339 U.S. 605, 607 (1950). The Supreme Court expressed a related sentiment in *Festo,* when it stated that "the nature of language makes it impossible to capture the essence of a thing in a patent application." 122 S. Ct. at 1837. That impossibility makes a strong case for some equitable relief from the strict dictates of language; hence the doctrine of equivalents.

3. *See, e.g.,* Elekta Instrument S.A. v. O.U.R. Scientific Int'l., 214 F.3d 1302 (Fed. Cir. 2000), where the Federal Circuit construed the claims so narrowly that they did not cover the only embodiment disclosed in the patent.

4. *See, e.g.,* Ethicon Endo-Surgery, Inc., v. United States Surgical Corp., 149 F.3d 1309, 1315 (Fed. Cir. 1998).

5. *Id.* Many Federal Circuit decisions note, however, that an assertion of equivalents can be rejected on summary judgment where "no reasonable fact finder could find infringement." *Id.* In an unpublished *per curiam* opinion, the Federal Circuit stated that "whether the application of the doctrine of equivalents wholly vitiates a claim limitation is a question of law, which we review de novo." Novo Biomedical Corp. v. I-Stat Corp., 1999 U.S. App. LEXIS 21390, *2 (Fed. Cir. Sept. 3, 1999).

6. The Federal Circuit has twice belabored interpretations of the word "or," each time producing a sharp dissent. In Kustom Signals, Inc. v. Applied Concepts, Inc., 264 F.3d 1326 (Fed. Cir. 2001), the Federal Circuit rejected that the proposition that "or" could mean "and/or," and chose a construction in accordance with the word's "common usage as designating alternatives." *Id.* at 1331. A similar conclusion was reached in Brown v. 3M, 265 F.3d 1349, 1352 (Fed. Cir. 2001).

7. The Supreme Court chastised the Federal Circuit, because it "ignored the guidance of Warner-Jenkinson…." 122 S. Ct. at 1841.

8. The Supreme Court began its discussion in *Warner-Jenkinson* with the statement: "Petitioner, which was found to have infringed upon respondent's patent under the doctrine of equivalents, invites us to speak the death of that doctrine. We decline the invitation." 520 U.S. at 21. The Court concluded its discussion by saying: "Today we adhere to the doctrine of equivalents." 520 U.S. at 40.

9. *Festo,* 122 S. Ct. at 1841.

10. Under the rule announced by the Supreme Court in *Festo,* the existence of unforeseeable equivalents can be used to rebut a presumption that an amendment during prosecution should be a complete bar to equivalents with respect to the amended element. *Festo,* 122 S.Ct. at 1842.

11. Johnson & Johnston Associates Inc. v. R.E. Service Co., 285 F.3d 1046 (Fed. Cir. 2002). In the words of the Federal Circuit: "when a patent drafter discloses but declines to claim subject matter, as in this case, this action dedicates that unclaimed subject matter to the public. Application of the doctrine of equivalents to recapture subject matter deliberately left unclaimed would 'conflict with the primacy of the claims in defining the scope of the patentee's exclusive right.'" *Id.* at 1054.

12. *See, e.g.,* Cooper Cameron Corp. v. Kvaerneroilfield Products, Inc., 291 F.3d 1317, 1322 (Fed. Cir. 2002).

13. *Festo* was remanded by the Supreme Court for further proceedings consistent with the Supreme Court decision. 122 S. Ct. at 1843. On Sept. 20, 2002, the Federal Circuit issued an order in *Festo* asking for briefs on four issues: (1) whether rebuttal of the presumption that a narrowing amendment surrendered all equivalents is a question of law or fact and the role of the jury, (2) the factors encompassed in the prosecution history criteria established by the Supreme Court, (3) whether remand to the district court is necessary, and (4) if remand is not necessary, whether Festo can rebut the presumption that any narrowing amendment surrendered the asserted equivalent. Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., No. 95-1066 (Fed. Cir. Sept. 20, 2002).

14. The Supreme Court stated in *Festo* that the "Court of Appeals ignored the guidance of Warner-Jenkinson, which instructed that courts must be cautions before adopting changes that disrupt the settled expectations of the inventing community." 122 S. Ct. at 1841.

15. 122 S. Ct. at 1841–42.

16. *Id.* at 1842.

17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.* Although the Supreme Court referred to the "time of the application," the Federal Circuit is likely to interpret that as meaning the time of the amendment. The issue is, nevertheless, a sure topic for further debate.

21. *Id.*

22. Johnson & Johnston, 285 F.3d at 1054.

23. The rule was traditionally known as the 'all elements rule" until renamed in Ethicon Endo-Surgery, Inc. v. United States Surgical Corp., 149 F.3d 1309, 1317 n. 1 (Fed. Cir. 1998).

24. Bell Atlantic Network Services, Inc. v. Covad Communications Group, Inc., 262 F.3d 1258, 1279-89 (Fed. Cir. 2001) (*quoting* Festo Corp. v. Shoketsu Kinzokukgyo Kabushiki Co., 234 F.3d 558, 587 (Fed. Cir. 2000), *overruled on other ground,* ___ U.S. ____, 122 S.Ct. 1831 (2002)).

25. Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520

U.S. 17 (1997).

26. *Id.* at 29. Like the Federal Circuit, the Supreme Court emphasized that it is "important to ensure that the application of the doctrine, even as to an individual element, is not allowed such broad play as to effectively eliminate that element in its entirety." *Id.*

27. Cooper Cameron Corp. v. Kvaerneroilfield Products, Inc., 291 F.3d 1317 (Fed. Cir. 2002).

28. *Id.* at 1319-21.

29. *Id.* at 1321.

30. *Id.* at 1322.

31. *Id.*

32. The Supreme Court stated: "It is true that the doctrine of equivalents renders the scope of patents less certain. It may be difficult to determine what is, or is not, an equivalent to a particular element of an invention…. These concerns with the doctrine of equivalents, however, are not new. Each time the Court has considered the doctrine, it has acknowledged this uncertainty as the price of ensuring the appropriate incentives for innovation, and it has affirmed the doctrine over dissents that urged a more certain rule." 122 S.Ct. at 1837-38.

33. *Festo,* 122 S.Ct. at 1837-38.

34. The phrase originated in *Warner-Jenkinson,* when the Supreme Court noted that "partial or complete" summary judgment should be rendered by a court "if a theory of equivalence would entirely vitiate a particular claim element." 520 U.S. at 39, n. 8. The Federal Circuit thereafter adopted the language in a series of equivalents cases. *See, e.g.,* Bell Atlantic Network Services, Inc. v. Covad Communications Group, Inc., 262 F.3d 1258, 1279-9-80 (Fed. Cir. 2001); Moore U.S.A., Inc. v. Standard Register Co., 229 F.3d 1091, 1107 (Fed. Cir. 2000);

35. *E.g.,* Tronzo v. Biomet, Inc., 156 F.3d 1154, 1160 (Fed. Cir. 1998).

36. Forest Laboratories, Inc. v. Abbott Laboratories, 239 F.3d 1305, 1313 (Fed. Cir. 2001).

37. Cooper Cameron Corp. v. Kvaerneroilfield Products, Inc., 291 F.3d 1317, 1322 (Fed. Cir. 2002).

38. Moore U.S.A., Inc. v. Standard Register Co., 229 F.3d 1091, 1106 (Fed. Cir. 2000).

39. *Id.* at 1109.

40. Scimed Life Systems, Inc. v. Advanced Cardiovascular Systems, Inc., 242 F.3d 1337, 1345 (Fed. Cir. 2001). *See also* Sage Products, Inc. v. Devon Industries, Inc., 126 F.3d 1420, 1425 (Fed. Cir. 1997) (equivalents do not extend to a structure that was plainly and necessarily excluded by the claim); Wiener v. NEC Electronics, Inc., 102 F.3d 534, 541 (Fed. Cir. 1996) (patent may not "embrace a structure that is specifically excluded from the scope of the claims'); Athletic Alternatives, Inc. v. Prince Manufacturing, Inc., 73 F.3d 1573, 1582 (Fed. Cir. 1996) (equivalents cannot include a structure that was "specifically excluded from the scope of the claims"); Dolly, Inc. v. Spalding & Evenflo Cos., 16 F.3d 394, 400 (Fed. Cir. 1994) (patentee cannot invoke equivalents to "embrace a structure that was specifically excluded from the claims)

41. Interestingly, the Federal Circuit has admonished against that exact process. *See* Ethicon Endo-Surgery, Inc. v. United States Surgical Corp., 149 F.3d 1309, 1317 (Fed. Cir. 1998) (warning against interpretations that would "swallow the doctrine of equivalents, reducing the application of the doctrine to nothing more than a repeated analysis of literal infringement").

42. A line of Supreme Court cases, dating back to the mid-nineteenth century, has approved the doctrine of equivalents. *See, e.g.,* Winans v. Denmead, 56 U.S. 330 (1854); Machine Co. v. Murphy, 97 U.S. 120 (1878); Hubbell v. United States, 179 U.S. 77 (1900); Graver Tank & Mfg. Co. v. Linde Air Products, Co., 339 U.S. 605 (1950).

43. Maxwell v. J. Baker, Inc., 86 F.3d 1098 (Fed. Cir. 1996), *cert. denied,* 117 S.Ct. 1244 (1997).

44. YBM Magnex, Inc. v. International Trade Commission, 145 F.3d 1317 (Fed. Cir. 1998).

45. *Maxwell* was authored by Judge Lourie, who wrote an earlier, concurring opinion that argued in favor of the proposition of *Maxwell.* In International Visual Corp. v. Crown Metal Mfg., 991 F.2 768, 775 (Fed. Cir. 1993) (Lourie, J., concurring), Judge Lourie argued that the doctrine of equivalents should not extend to disclosed, but unexamined, subject matter. *Id.*

46. 86 F.3d at 1106.

47. 145 F.3d at 1320.

48. 145 F. 3d at 1322.

49. Although the per curium opinion of the court does not expressly state that *YBM Magnex* has been overruled, the concurring opinion of Judge Clevenger, joined by Judges Lourie, Schall, Gajarsa and Dyk, makes clear the concurring judge's view that *YBM Magnex* was overruled. Johnson & Johnston, 285 F.3 at 1056 (Clevenger, J., concurring).

50. Johnson & Johnston, 285 F.3d at 1054. "As stated in Maxwell, when a patent drafter discloses but declines to claim subject matter, as in this case, this action dedicates that unclaimed subject matter to the public. Application of the doctrine of equivalents to recapture subject matter deliberately left unclaimed would 'conflict with the primacy of the claims in defining the scope of the patentee's exclusive right.'" *Id.*

51. Judge Newman argued that the Federal Circuit "routinely" deemed equivalency "applicable to disclosed but unclaimed subject matter." 285 F.3d at 1068 (Newman, J., dissenting). Arguing that the majority in *Johnson & Johnston* had created a new rule that discouraged patentees from making broad disclosures in patents, Judge Newman identified four earlier Federal Circuit cases that she believed were contrary to the "per se" rule enunciated by the Court because the accused infringing device was within the disclosure: Uniroyal, Inc. v. Rudkin-Wiley Corp., 939 F.2d 1540, 1544 (Fed. Cir. 1991); Miles Labs., Inc. v. Shandon Inc., 997 F.2d 870, 877 (Fed. Cir. 1993); Pall Corp. v. Micron Separations, Inc., 66 F.3d 1211, 1220 (Fed. Cir. 1995); Modine Mfg. Co. v. International Trade Commission, 75 F.3d 1545 (Fed. Cir. 1996).

52. 285 F.3d at 1064 (Newman, J., dissenting). Judge Newman argued that *Johnson & Johnston* placed the Federal Circuit "in egregious conflict" with the decisions of the Supreme Court, including the Supreme Court decision that established the modern version of the doctrine of equivalents, Graver Tank & Mfg. Co. v. Linde Air Products Co., 339 U.S. 605 (1950).

53. 285 F.3d at 1064.

54. 285 F.3d at1055-56 (Clevenger, J., concurring). Judge Clevenger also responded to Judge Newman's argument that *Johnson & Johnston* contradicted the Supreme Court's decision in *Graver Tank*, saying no inconsistency was present "for the reasons stated in the opinions for the court and by Judge Dyk." *Id.*

55. 285 F.3d at 1056 (Rader, J., concurring). Judge Rader suggested that the alternative principle that would reconcile "the preeminent notice function of patent claims with the protective function of the doctrine of equivalents." *Id.* Perhaps written with the expectation that *Johnson & Johnston* would be reviewed by the Supreme Court, Judge Rader suggested that an alternative rule would be that "the doctrine of equivalents does not capture subject matter that the patent drafter reasonably could have foreseen during the application process and included in the claims." *Id.* In so doing, Judge Rader anticipated the subsequent decision by the Supreme Court in *Festo.*

56. 285 F.3d at1059-64 (Dyk, J., concurring). *See* Graver Tank & Mfg. Co. v. Linde Air Products Co., 339 U.S. 605 (1950), which contains the Supreme Court's classic explanation of the doctrine of equivalents.

57. 285 F.3d at 1063 (Lourie, J., concurring).

58. Justice Douglas argued in *Graver Tank* that the alleged equivalent "was disclosed in the application and then excluded from the claims," causing him to conclude that "It therefore became public property." *Graver Tank,* 339 U.S. at 618 (Douglas, J., dissenting). Similarly, Justice Black argued that "what is not specifically claimed is dedicated to the public." 339 U.S. at 614 (Black, J., dissenting). The presumed rejection of the dissenter's reasoning in *Graver Tank* was a key reason for Judge Newman's conclusion in *YBM Magnex* that *Maxwell* was limited to its facts. *YBM Magnex,* 145 F.3d at 1317.

59. The majority in *Johnson & Johnston* did not discuss the prob-

lem, leaving it to be addressed in Judge Newman's dissent, 285 F.3d at 1064 (Newman, J., dissenting), and Judge Dyk's concurrence. 285 F.3d at 1060 (Dyk, J., concurring). Judge Dyk argued that *Johnson & Johnston* was "entirely consistent" with *Graver Tank,* and distinguishable on its facts. *Id.* at 1060–61.

60. 122 S. Ct. at 1837–38.

61. 285 F.3d at 1056.

62. 122 S. Ct. at 1842.

63. "Each element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole. It is important to ensure that the application of the doctrine, even as to an individual element, is not allowed such broad play as to effectively eliminate that element in its entirety." *Warner-Jenkinson,* 520 U.S. at 29.

64. Claims drafted pursuant to 35 U.S.C. §112 ¶ 6 must be prepared with an eye toward Chiuminatta Concrete Concepts, Inc. v. Cardinal Industries, Inc., 145 F.3d 1303 (Fed Cir. 1998). The *Chiuminatta* court decided that, once literal non-infringement had been found in a §112 ¶ 6 analysis, no infringement can exist under the doctrine of equivalents, unless the accused product is later developed technology. *Id.* at 1311.

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(continued from page 2)

the Organization of American Historians. In addition, a group of fifty-three intellectual property law professors from a variety of American universities submitted a brief.

Briefs in support of the law were filed by several intellectual property associations, including the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO), and the New York Intellectual Property Law Association (NYIPLA). *Amicus* briefs also were filed by the Association of American Publishers, the Bureau of National Affairs, the Directors Guild of America, the Motion Picture Association of America, the Songwriters Guild of America, the Nashville Songwriters Association International, the Recording Industry Association of America, the Songwriters Guild of America, and others.

The ABA Section of Intellectual Property Law took steps to file an *amicus* to no avail. In March, shortly after the Supreme Court indicated it would take *certiorari* in the case, the Section's Council approved a resolution favoring, in principle, the proposition that Congress had the power under the Copyright Clause to extend the term of existing copyrights, and that the CTEA did not violate the Copyright Clause or the First Amendment. This was consistent with the Section's earlier position in 1995 favoring enactment of a copyright extension of twenty years; certainly, the Section would not have favored legislation it thought unconstitutional. It also was consistent with a resolution adopted by the ABA in the mid 1960s supporting "an extension of subsisting copyrights."

Because the earlier ABA position, taken during earlier consideration of changes to the Copyright Act, was "archived" in 1997, it was no longer current ABA policy at the time *Eldred* arose. Thus, the Section (through Council) approved a specific resolution and, in March 2002, sought its approval from the ABA Board of Governors, which is a requisite in preparing and filing an *amicus* brief in the Supreme Court on behalf of the Association. (The June 20 deadline for filing *amicus* briefs made it impossible to await the meeting of the Association House of Delegates in August.)

The Section's request to the Board of Governors prompted opposition from a number of groups within the Association, including a number of Section members. As a result, the request was not approved, and in the absence of the ABA itself adopting the Section's position, no *amicus* brief could be filed. (The Section, like other Sections that are integral parts of the larger ABA, needs ABA approval to express its views in a court brief, in testimony before a legislative body, or to an executive agency of government.) Nevertheless, the resolution supporting the CTEA continues to be the Section's position unless modified through its normal committee, Council, and membership meetings, and many expect that even if the judicial challenge to the CTEA fails, it may be challenged legislatively.

And how did Mickey Mouse play in the Supreme Court? Reports indicate that no Disney character was mentioned, although Shakespeare and the Bible came up. The Court is not expected to rule for at least several months.

Assignability of Intellectual Property Licenses in Bankruptcy

Navigating the Murky Waters of Section 365

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I. Introduction

In the world of bankruptcy, traditional rules of contract interpretation and the intentions of one or both of the contracting parties are sometimes ignored and often displaced. One area of bankruptcy in which this phenomenon occurs frequently involves the assumption and assignment of executory contracts.[1] Bankruptcy law is clear that many executory contracts can be assumed and assigned by a debtor[2] without the consent of the nondebtor party (e.g., equipment leases, real property leases, a wide variety of customer, dealer and other agreements) even if the agreement expressly prohibits assignment or is silent on the issue of assignment.[3] Less clear is whether executory contracts involving the licensing of intellectual property (e.g., patent, copyright, trademark, software, know-how) that either expressly prohibit assignment or are silent on the issue can be assumed or assumed and assigned by a debtor without first obtaining the consent of the nondebtor party.

A debtor-licensee often desires to assume or assume and assign the intellectual property licenses to which it is a party—an action to which the nondebtor licensor may object. This article examines a debtor-licensee's ability to assume and assign such licenses in the context of bankruptcy.[4] As discussed more fully below, courts that have considered the issue have held that, notwithstanding the general authority granted under Section 365, consent is likely required before a debtor–licensee can assume and assign either a nonexclusive patent license or a nonexclusive copyright license if any such license contains an express restriction on assignment or is silent on the issue. Whether consent is needed to assume and assign a patent license or copyright license that is both exclusive and either restricts assignment or is silent on the issue is unsettled. For a trademark license, existing authority suggests that assumption and assignment of such a license, whether exclusive or nonexclusive, is likely prohibited absent consent or express provisions to the contrary.[5]

The discussion of these rules and other relevant nonbankruptcy rules concerning assignment of intellectual property licenses are set forth in this article as follows: Section II presents the general nonbankruptcy law rules regarding assignment of intellectual property licenses, focusing largely on patent, copyright, trademark, software and know-how licenses; Section III considers the issue of assignment of such licenses in bankruptcy, the determination of which turns largely on the general nonbankruptcy law rules discussed in Section II.

II. General Nonbankruptcy Rules Regarding Assignability

The assignability of intellectual property licenses in bankruptcy proceedings turns largely on general nonbankruptcy law rules that govern such assignments. When analyzing the assignability of an intellectual property license under such rules, three questions must be addressed: (1) What type of intellectual property is the subject of the license (e.g., patent, copyright, trademark, software, know-how)?; (2) Is the license exclusive or nonexclusive?; and (3) What does the license say about the licensee's ability to assign the agreement? Is it silent? Does it expressly restrict assignment? Does it expressly permit it?[6] The answers to these questions, as set forth in the discussion of the relevant case law below, will help determine whether an assignment by the licensee requires the consent of the licensor.[7]

A. Copyright Licenses

1. Exclusive[8]

General nonbankruptcy law on the assignment of exclusive copyright licenses is a patchwork of conflicting authority. One school of thought is that exclusive copyright licenses are freely assignable.[9] *Patient Educational Media* considered the transferability of a nonexclusive copyright license that included an express prohibition on assignment in certain invoices signed by the parties.[10] The court noted in dicta the distinction copyright law makes between exclusive and nonexclusive licenses and why an exclusive licensee does not need consent to transfer a copyright license:

> The holder of the exclusive license is entitled to all the rights and protections of the copyright owner to the extent of the license. Accordingly, the licensee under an exclusive

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> license may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else. By contrast, the nonexclusive license does not transfer any rights of ownership; ownership remains in the licensor. Thus, the nonexclusive licensee does not acquire a property interest in the licensed rights, and unlike the exclusive licensee, lacks standing to sue for its infringement. Accordingly, the nonexclusive licensee cannot assign it to a third party without the consent of the copyright owner. (Citations omitted.)[11]

But the opinion has several limitations. First, the opinion fails to address whether an exclusive copyright license is freely assignable even when the license expressly prohibits assignment. Second, not only is the language quoted above dicta, as discussed below, subsequent authority has called this language into question.[12] Thus, *Patient Educational Media* is likely of limited precedential value for the proposition that exclusive copyright licenses that restrict assignment are freely assignable.

The leading commentator in the copyright domain also distinguishes between the rights of an exclusive and nonexclusive copyright licensee.[13] But unlike *Patient Educational Media*, *Nimmer* states that a copyright licensor may restrict assignment of even an exclusive copyright license by express contractual restrictions.[14] This conclusion seems to fly in the face of the concept that an exclusive license transfers title and can be freely assigned—a concept to which *Nimmer* also adheres.[15] *Nimmer* seems to draw a distinction between exclusive copyright licenses that are silent on assignment and those that expressly restrict assignment, the former being freely assignable and the latter being assignable only upon consent of the licensor. Because *Patient Educational Media* was silent on the distinction, one could read *Patient Educational Media* to stand for the same proposition, thus making it possible to reconcile the apparent conflict between the two authorities.

A California district court, recently affirmed by the Ninth Circuit, took a different position than *Patient Educational Media* and *Nimmer* (insofar as those authorities conclude that exclusive copyright licenses are freely assignable absent express prohibitions against assignment), requiring an exclusive copyright licensee to obtain consent before assigning an exclusive license that was silent on assignability.[16] Interpreting Section 201 of the Copyright Act of 1976, *Gardner* held that Congress did not grant exclusive licensees the right to freely transfer the license, but rather only the protections and remedies the Copyright Act gives to the copyright owner with respect to the particular rights that are licensed. Such protections and remedies include the right of the licensee to sue and defend suits in its own name, but not the right to assign the license.[17]

Gardner expressly rejected *Patient Educational Media* as authority for the proposition that an exclusive copyright license may be assigned without the licensor's consent, largely because the relevant language in *Patient Educational Media* was dicta. Moreover, *Gardner* correctly claims that *Patient Educational Media* misquoted Section 201 when it stated that an exclusive licensee receives all the "rights and protections" of the copyright owner (which could be read to include the right to assign), rather than the narrower terms "protection and remedies" (which seems to be limited to the right of the licensee to sue and defend suits in its own name).[18]

Gardner is buoyed by the Second Circuit's recent holding in *Morris* that an exclusive licensee of certain rights under a copyright cannot be considered a "copyright owner" under the Copyright Act. [19] Although assignability was not at issue in the case, *Morris* involved a journalist who granted a magazine publisher the exclusive right to include the journalist's columns in several monthly issues of the publisher's magazine. The Second Circuit concluded that the magazine publisher was not the owner of the underlying copyright by virtue of the license, rather the license granted the publisher only the right to publish the columns in its magazines.[20] Thus, an exclusive copyright licensee is the owner only with respect to the particular rights that are licensed.[21] As *Gardner* holds, such a licensee receives only the protections and remedies under the Copyright Act with respect to such rights but not the right to freely transfer the license.

2. Exclusive[22]

In the nonbankruptcy context, courts have held that consent is required to assign a nonexclusive copyright license if: (1) the license explicitly restricts assignment—hat is, the license contains provisions restricting assignment or requiring consent, or a grant clause with language that indicates the license is not assignable (e.g., "non-assignable," "nontransferable," or "personal"); or (2) the license is silent concerning assignment.[23] The personal nature of these intellectual property licenses likely renders them nonassignable by the licensee without consent. Copyright licenses are made personal to the licensor by federal copyright law.[24] Section 106 of the Copyright Act grants a limited monopoly for a copyright holder that gives the holder the right to determine how the copyright is exploited.[25] Such a monopoly "is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."[26]

B. Patent Licenses

1. Exclusive

We have located no cases that specifically address the assignability of exclusive patent licenses as directly as *Gardner* addresses copyright licenses. Consequently, it is unclear exactly what conclusion a court would reach when faced with the issue of whether an exclusive patent license that either expressly prohibits assignment or is silent on the issue is assignable. In different contexts, however, cases have held that, depending upon the specific language of the agreement and the rights granted, an exclusive patent license can be considered a transfer of ownership, or at least a transfer of "all substantial rights" in the subject patent, even if the license contains an express prohibition on the licensee's ability to assign.[27] However, characterizing an exclusive license as an "assignment," or a "grant of all substantial rights" or a transfer of ownership, when such license contains an express prohibition on assignment, seems counterintuitive because one of the fundamental indicias of ownership of property is the owner's ability to freely assign such property to third parties.[28] Moreover, there are at least two reasons why the cases cited above should not be directly relied upon for the proposition that an exclusive patent license that contains an express prohibition on assignment can be freely assigned. First, the cases do not decide whether the license at issue is actually assignable by the licensee. Second, use of the terms "assignment" or "grant of all substantial rights" or "transfer of ownership" by these courts is somewhat confusing because title to the subject patents is probably not actually transferred in an exclusive license. Rather, these courts are analyzing the substantive language to determine only whether an exclusive license is sufficient to allow the licensee standing to sue or whether an exclusive license is a sale for tax treatment purposes, as the case may be.[29]

Although we have located no court that has yet addressed this issue, a different result might be reached if an exclusive patent license were silent concerning the issue of assignment. Arguably, assuming other important indicias of ownership have been transferred to the licensee (e.g., the right of exclusivity and the right to sue infringers) it is possible that a court may determine such license to be assignable absent the licensor's consent because such license would not be considered a license, but rather an assignment.

2. Nonexclusive

Courts that have considered the assignment of nonexclusive patent licenses in the nonbankruptcy context recognize the same rule applicable to nonexclusive copyright licenses—a nonexclusive patent license is personal and nonassignable unless assignment is expressly authorized.[30] Similarly, the rationale for the rule on patent licenses is much the same as the rationale for the rule on copyright licenses. Federal patent law encourages the invention of new technology.

> Allowing free assignability...of nonexclusive patent licenses would undermine the reward that encourages [such] invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents....Thus, any license a patent holder granted...would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party to whom the patent holder itself might be absolutely unwilling to [l]icense.[31]

C. Trademark Licenses

There are few cases discussing the assignability of trademark licenses, whether exclusive or nonexclusive.[32] That said, commentators have argued, and courts have held, that absent express language permitting assignment without consent, assignment of a trademark license without licensor's consent is likely prohibited.[33] This rule is based on the policy underlying federal trademark law, which seeks to prevent consumer confusion by protecting the goodwill associated with a particular mark.

A trademark owner-licensor has an ongoing right and duty under trademark law to control the quality of the goods sold under its mark. [34] If such duty is not properly discharged, the licensor risks losing trademark protection.[35] A court may determine that an integral part of the licensor's duty to control the quality of goods sold under its mark is the ability to control the identity of the licensee to whom the licensor has granted the right to manufacture and sell goods or services under the licensor's mark. Thus, a trademark owner must have the right at all times to determine who is an appropriate licensee of its mark.[36] As a result, absent either express language permitting assignment without consent or consent by the licensor, a court might hold that a trademark license—whether exclusive or nonexclusive—cannot be assigned by the licensee.

D. Computer Software Licenses

Our research to date has revealed at least one case specifically addressing a licensee's ability to assign a nonexclusive software license.[37] Certain aspects of nonexclusive software licenses make them, like nonexclusive copyright and patent licenses, personal to the licensee, such that nonexclusive software licenses that either expressly restrict assignment or are silent on the issue may also be nonassignable absent consent from the licensor. Software typically is protected by either one or both patent and copyright. Consequently, there likely is a nonexclusive copyright license inherent in every nonexclusive software license.[38] In addition, a nonexclusive software license may contain an explicit patent license. But even if such a license is silent in this regard, the licensor may still hold a patent in the subject software's functionality. In that case, assuming the licensee's use of such software would otherwise violate the patent, a nonexclusive patent license could be implied.[39]

Turning to exclusive software licenses, we have located no case that has specifically addressed their assignability. But again, because software licenses are generally protected by either one or both patent and copyright, one might expect the analysis concerning the assignability of exclusive patent and copyright licenses (see discussions in Sections II.A.1 and II.B.1 above) to apply.

E. Know-How Licenses

At least one case has considered the assignability of know-how licenses.[40] *Verson* involved a nonexclusive know-how licensee that granted to a third party the exclusive right to use some of the licensed know-how.[41] The court analyzed the assignability issue under patent law (although it did not explain why such law was analogous), which the court stated prohibits assignment of nonexclusive patent licenses without consent, and found insufficient evidence of licensor's consent to the exclusive grant of the licensed know-how by the licensee.[42] If *Verson* is any indication of how a future court may rule, nonexclusive know-how licenses will not likely be assignable without the consent of the licensor.

III. Assignment of Intellectual Property Licenses in Bankruptcy Proceedings

Despite the general nonbankruptcy rules requiring consent to assign certain types of intellectual property licenses, bankruptcy courts historically have treated such licenses as executory contracts and have considered their assignability under Sections 365(a) and (f).[43] Section 365(a) allows a debtor (subject to court approval, cure of any and all past defaults, and adequate assurances of future performance by the debtor) to assume an executory contract. Section 365(f) allows a debtor (again subject to court approval, cure of any and all past defaults, and adequate assurances of future performance by the assignee) to assign an executory contract to a third party. Typically, a debtor may take either of these actions even if the executory contract expressly restricts assignment. In more recent decisions involving intellectual property licenses, however, courts have interpreted another provision of Section 365—Section 365(c)—as limiting the seemingly extraordinary authority that §§365(a) and (f) grant to the debtor.

Section 365(c) provides that the debtor may not "assume or assign" any executory contract if: (1) applicable non-bankruptcy law excuses the nondebtor from accepting performance from or rendering performance to a third party; and (2) the nondebtor does not consent to the assumption or assignment.[44] Some courts have interpreted the reference in Section 365(c) to "applicable non-bankruptcy law" to apply only to "personal services" contracts.[45] But most courts adhere to the more reasoned view that Section 365(c) applies more broadly.[46]

Indeed, Section 365(c) has recently been applied to patent and copyright licenses where the assumption or assumption and assignment of such licenses were at issue.[47] Less recently, Section 365(c) has been applied to trademark licenses in a much narrower context.[48]

A. Executory versus Nonexecutory

The threshold question concerning the assumption and assignment of an intellectual property license under Section 365 is whether the intellectual property license is an executory contract, because only executory contracts are subject to Section 365.[49] As a general rule, intellectual property licenses are executory contracts.[50]

Note that the parties' characterization of a contract as a "license" will not make the contract executory when in fact all performance has been rendered, as in a sales contract. At least one court has interpreted an apparent intellectual property license as a sale rather than a license.[51] In *DAK Industries*, Microsoft granted DAK a pre-petition nonexclusive license to adapt Microsoft software for computer systems sold by DAK to end-users.[52] The following factors caused the court to conclude the agreement was a sale not a license: (1) pricing and timing of payment were more akin to a sale than a right to use (e.g., $2.75 million payment became due at signing and payment schedule was based upon units sold rather than duration of use of the software); (2) DAK received all rights under the agreement upon signing (at the point DAK made its first installment payment to Microsoft, it was given the right to the full quantity of units covered by the payment); and (3) the agreement did not simply permit DAK to use the software, but rather permitted DAK to sell the software.[53] *DAK Industries* illustrates that a "license" could be characterized as a sale. This could lead to a determination that the underlying contract is nonexecutory and thus not subject to Section 365. Consequently, parties should closely examine the nature of the agreement before assuming that a purported intellectual property license is an executory contract.

B. Assumption versus Assumption and Assignment—Hypothetical versus Actual Test

Although this memo largely concerns debtor-licensees seeking to assume and assign intellectual property licenses, there may be circumstances (e.g., plan of reorganization which contemplates the survival of the debtor) under which a debtor-licensee seeks only to assume an intellectual property license.[54] This begs the question of whether the debtor–licensee may do so without first obtaining the consent of the nondebtor licensor. Courts have split on the issue, largely because the relevant language of Section 365(c) is ambiguous. The Third and Ninth Circuits hold that a debtor may not assume an intellectual property license subject to Section 365(c) where applicable nonbankruptcy law prohibits assignment without consent, even if the debtor has no intention of ever assigning the license. Based on their interpretation of the language of Section 365(c), these courts are not concerned with whether or not a debtor *actually* intends to assign the license. Once the license is assumed, these courts will create a "hypothetical" third party to whom the license will be assigned. For this reason, the analysis is referred to as the "hypothetical test."[55]

The First Circuit takes a more pragmatic approach, allowing a debtor-licensee to assume an intellectual property license that is subject to Section 365(c), even over the objection of a nondebtor licensor, where the debtor-licensee does not contemplate assignment of the license to a third party.[56] The First Circuit approach is called the "actual test" because there is no consideration of the issue of assignment when the debtor–licensee seeks only to assume an intellectual property license. The *Institute Pasteur* court reasoned that requiring consent to assume the license is irrelevant because the debtor will continue to provide performance under the contract to the nondebtor post-petition, and thus the nondebtor licensor cannot possibly be harmed by the assumption.[57]

C. Copyright Licenses

1. Exclusive

At least one court has held that an exclusive copyright license is freely assignable without the licensor's consent, notwithstanding a nonassignability provision.[58] That said, applicable non-bankruptcy law—federal copyright law—is largely unsettled with respect to the assignability of exclusive copyright licenses.[59] As a result, how a bankruptcy court will rule when a debtor-licensee seeks to assume and assign such licenses will likely depend upon which authority such court chooses to follow: (1) *Patient Educational Media* and *Golden Books* suggest that such assignment is generally appropriate even if the copyright license expressly prohibits assignment; (2) *Nimmer* would allow assignment absent express contractual restrictions to the contrary; and (3) *Gardner* prohibits assignment unless consent is first obtained.

2. Nonexclusive

As discussed above, at least one bankruptcy court has recently applied Section 365(c) to a nonexclusive copyright license and held that, absent consent by a licensor or express provisions to the contrary, such a license is nonassignable in bankruptcy proceedings. *Patient Educational Media* involved a nonexclusive copyright license that the debtor claimed could be assigned in bankruptcy without consent despite the presence of an anti-assignment provision.[60] The court rejected the debtor's claim because "applicable" federal copyright law provides that non-exclusive copyright licenses are personal to the licensee and not assignable without being expressly made so in the agreement. [61]

D. Patent Licenses

1. Exclusive

To our knowledge, Section 365(c) has not yet been applied to an exclusive patent license. As discussed in Section II.B.1 above, the assignability of exclusive patent licenses may depend upon the scope of the license and the relevant language in the particular license agreement. As a result, it is difficult to predict how a bankruptcy court will rule when faced with a licensee seeking to assume and assign an exclusive patent license.

2. Nonexclusive

Bankruptcy courts hold that nonexclusive patent licenses are not assignable under Section 365(c), absent consent by a licensor. The court in *Access Beyond* disallowed, without consent from the licensor, the assignment of a patent license that was silent on assignment because "applicable" patent law provides that patent licenses are personal to the licensee and not assignable unless expressly made so in the agreement.[62]

E. Trademark Licenses

Unlike in the patent and copyright context[63] there do not appear to be any recent published opinions that offer an extended discussion and analysis concerning the assignability under Section 365(c) of exclusive or nonexclusive trademark licenses. Although case law appears to support the proposition that trademark licenses are likely assignable without consent, such decisions may apply only in very narrow circumstances or provide insufficient analysis to prove helpful.[64]

The *Rooster* court held that a trademark sublicensee, without the licensor's consent, could assume and assign an *exclusive* trademark sublicense under which the debtor-sublicensee was permitted to use the Bill Blass name and trademark on neckties that it manufactured.[65] *Rooster* supports the proposition that consent to assign a trademark license is *not* required. However, it is important to note that the issue decided in *Rooster* was narrowly framed by the parties. The court's analysis was based upon an interpretation of "applicable law" under Section 365(c), but the court specifically stated that it was deciding the parties' "narrowly framed" issue of whether the trademark license constituted a *contract for personal services* under such "applicable law" (in this case, the law of Pennsylvania).[66] The court ruled that the trademark license did not constitute a personal services contract and thus was assignable.[67] As a result, unless one is presented with an issue of whether a trademark license falls within the definition of a personal services contract (under Pennsylvania law), *Rooster* likely will have limited persuasive value.[68] As noted above in the introduction to Section III, Section 365(c) applies much more broadly than simply to "personal services" contracts.

Superior Toy is often cited for the proposition that trademark licenses are freely assignable in bankruptcy proceedings. But a close reading of *Superior Toy* reveals that this case provides little, if any, support for such a proposition. *Superior Toy* concerned whether a trustee could recover pre-bankruptcy petition payments made pursuant to a validly assumed trademark license. With no discussion, the court simply noted in the factual background that the exclusive, nontransferable license at issue was assumed by the trustee, without a hearing, and with approval of the bankruptcy court.[69] The opinion contains no discussion concerning the propriety of such assumption or even whether the nondebtor licensor objected to such assumption. Thus, *Superior Toy* likely stands for little more than the rather obvious proposition that trademark licenses *can* be assumed.

Not only will *Rooster* and *Superior Toy* provide minimal support to a licensee seeking to assign a trademark license in bankruptcy, there is additional authority suggesting that, in certain circumstances, a trademark license cannot be assumed or assumed and assigned by a debtor-licensee without the licensor's consent.[70] In *Luce*, the debtor–licensee attempted to assume a trademark license under which the debtor–licensee was granted the right to use the Fruit of the Loom trademark on certain apparel manufactured by the subcontractor of the debtor-licensee that was approved by the licensor. The licensor sought to terminate the license. The debtor–licensee responded stating its intent to assume the license under §365.[71] The *Luce* court denied the attempted assumption because: (1) the debtor–licensee sought to have the goods manufactured by a different subcontractor that had not been approved by licensor, which would have been "tantamount to an assignment of the license to [such subcontractor], an act prohibited by the [license agreement]"; (2) the potential third-party subcontractor refused to guarantee the debtor-licensee's continued performance to licensor; and (3) there was no assurance that the back debt owed to licensor would be paid.[72] It is unclear from *Luce* which one of the foregoing reasons was determinative of the court's decision. Thus, it is difficult to predict how much weight a bankruptcy court would give to the argument that a proposed assumption or assumption and assignment of a trademark license is prohibited solely because the licensor does not consent or because the license expressly prohibits assignment. Nevertheless, *Luce* does suggest that a bankruptcy court will consider the unique aspects of a trademark licensing relationship before allowing assumption or assumption and assignment of a trademark license.

In light of the foregoing, a court attempting to determine whether a trademark license is assumable or assumable and assignable may borrow from the rationale of the recent patent and copyright cases and apply "applicable" nonbankruptcy trademark law to restrict a debtor-licensee from assuming or assuming and assigning a trademark license without the licensor's consent. As discussed in Section II above, a trademark license, like nonexclusive copyright and nonexclusive patent licenses, is personal to the licensee (although a trademark license is personal for different reasons) and thus under trademark law, a trademark licensor, like a copyright and patent licensor, may be able to prevent a debtor–licensee's assumption and assignment of a trademark license without the licensor's consent, regardless of whether the license is exclusive or nonexclusive.

It is important to note that a trademark licensor need not wait for notice from a debtor-licensee of its intent to assume and possibly assign a license before taking action to prevent such a result. Under certain circumstances, a trademark licensor may be able to successfully persuade a bankruptcy court to lift the automatic stay[73] in order to permit the licensor to terminate the license. To do this, a licensor would have to demonstrate real harm (other than simply financial harm) as a result of the licensee's continued use of licensor's trademark or service mark, or the licensee's inability to cure past defaults or provide adequate assurance of future performance under Section 365.[74]

For example, if a licensor could show that a debtor-licensee repeatedly failed to comply with the "quality control" provisions of the license, especially pre-petition, or that the debtor–licensee was failing to satisfy its post-petition payment obligations, a court may allow the licensor to terminate the agreement. [75] In any event, in order to take advantage of its ability to lift the automatic stay and terminate the license, a licensor is well-advised to be vigilant and to keep detailed records of its efforts to exercise control over the quality of licensee's trademark-related activities.

F. Computer Software Licenses

As a general matter, computer software licenses are treated as executory contracts under the Bankruptcy Code and thus may be assignable under Section 365(f), notwithstanding any restrictions on assignment in the agreement or silence.[76] Our research to date has not disclosed any case specifically addressing a licensee's ability to assign a software license, whether exclusive or nonexclusive, in the bankruptcy context. As discussed above in Section II.D, however, because there are elements of copyright and possibly patent inherent in every software license, applicable non-bankruptcy law concerning the assignability of copyright and patent licenses would seem to apply when analyzing the assignability of a software license.

G. Know-How Licenses

We have located no case in which Section 365 has been applied to the assignability of know-how licenses. Should a bankruptcy court determine that the law discussed in §II.E above is applicable nonbankruptcy law, it is possible the assignability of know-how licenses, at least in the nonexclusive context, would be treated the same as the assignability of nonexclusive patent licenses.

IV. Conclusion

As in many areas of law, the rules concerning assignability of intellectual property licenses in bankruptcy proceedings are often less than clear and constantly evolving. Nevertheless, this article has attempted to distill and present those rules in a manner that is helpful to the intellectual property and bankruptcy practitioner attempting to reach a satisfactory resolution of these challenging issues.

Endnotes

1. Treatment of executory contracts in bankruptcy is governed by 11 U.S.C. § 365 of the United States Bankruptcy Code. Although Section 365 does not define the term "executory contract," courts define such a contract as one under which performance is due to some extent on both sides and in which the obligations of both parties are so far unperformed that the failure of either party to complete performance would constitute a material breach and thus excuse the performance of the other. *See*, *e.g.*, Everex Sys., Inc. v. Cadtrak Corp., 89 F.3d 673, 677 (9th Cir. 1996).

2. A debtor-in-possession, with few exceptions not applicable here, has the same rights and duties of a trustee. 11 U.S.C. § 1107(a). Thus, the term "debtor" as used in this article shall refer to both a debtor-in-possession and a trustee in bankruptcy.

3. *See* 11 U.S.C. § 365(f) (granting a debtor the authority to assume, assign, or reject the executory contracts of the debtor, notwithstanding any contrary provisions appearing in such contracts).

4. Different rules may apply where the licensor, as opposed to the licensee, seeks to assume or assume and assign an intellectual property license in bankruptcy; discussion of such rules is beyond the scope of this article.

5. To the extent a debtor–licensee seeks only to assume rather than assume and assign an intellectual property license, different rules may apply depending upon the jurisdiction. *See* discussion in Section III.B below.

6. Whether a particular transfer affects an "assignment" will depend on the particular language in the agreement and applicable state law. Thus, it is important to consider the specific language of the assignment provision at issue in the context of the applicable law.

7. If a license agreement expressly permits the licensee to assign its rights under the license without the licensor's consent, there is very little, if anything, a licensor can do to either prevent such an assignment or terminate the license. This article discusses only those situations in which a license expressly prohibits assignment or is silent on the issue. However, note that a nondebtor licensor in bankruptcy may have grounds to prevent a debtor–licensee's assumption and assignment of a license agreement that expressly permits assignment if the debtor-licensee cannot cure all past defaults under the agreement and the debtor-licensee (or the assignee) cannot provide adequate assurances of continued performance. *See* Sections 365(b) and (f); discussion in Section III.E below.

8. An exclusive license grants the licensee the right to use the subject intellectual property to the exclusion of any third party and to the exclusion of the licensor itself.

9. *See* In re Patient Educ. Media, Inc., 210 B.R. 237 (S.D. N.Y. 1997); *see also* In re Golden Books Family Entm't, Inc., 269 B.R. 311, 318-19 (D. Del. 2001) (holding exclusive copyright license to be freely assignable under *Patient Educ. Media*).

10. *Id.* at 239–40.

11. *Id.* at 240.

12. *See* Gardner v. Nike, Inc., 110 F.Supp.2d 1282 (C.D. Cal. 2000), *aff'd*, 279 F.3d 774 (9th Cir. 2002); Morris v. Business Concepts, Inc. 259 F.3d 65 (2d Cir. 2001).

13. *See* NIMMER ON COPYRIGHT, § 10.02[A] and [B][4] (2001).

14. *See* § 10.02[B][4].

15. *Id*. (exclusive licensee, "having acquired 'title' or ownership of the rights conveyed, may reconvey them absent contractual restrictions.")

16. *See Gardner*, 110 F.Supp.2d at 1286–87, 279 F.3d at 781 ("[A]n exclusive licensee has the burden of obtaining the licensor's consent before it may assign its rights, absent explicit contractual language to the contrary.").

17. *Id.*

18. *Id*. at 1287. *But see Golden Books*, 269 B.R. at 318–19 (hold-

ing exclusive copyright license freely assignable under *Patient Educ. Media* and *Nimmer* and declining to follow *Gardner* because "protections and remedies" includes all of the rights of an owner that are transferred, including the right to assign).

19. *Morris*, 259 F.3d at 69.

20. *Id.* at 70–71.

21. *Id.*

22. A nonexclusive license grants the licensee a nonexclusive right to use the subject intellectual property. Thus, the licensor is free to use such intellectual property itself and/or license it to other parties.

23. *See Patient Educ. Media*, 210 B.R. at 240–241 (*citing* SQL Solutions, Inc. v. Oracle Corp., 1991 WL 626458 (N.D. Cal. 1991)); *see also* In re Golden Books Family Entm't, Inc., 269 B.R. 300 (D. Del. 2001) (holding nonexclusive copyright license to be nonassignable).

24. *Patient Educ. Media* at 240.

25. *Id.*

26. *See* Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984); *see also Patient Educ. Media*, 210 B.R. at 242.

27. *See*, *e.g.*, Aluminum Co. of America v. Norton Co., Inc., 27 U.S.P.Q.2d 1317, 1993 WL 330628, *2 (W.D. Pa. 1993) (express prohibition on assignment of exclusive patent license does not prevent a finding of a grant of "all substantial rights" in the subject patent thus allowing licensee to sue infringers) As a general rule, only assignees of patents have standing to sue for infringement. Refac Int'l, Ltd. v. Visa USA, Inc., 16 U.S.P.Q. 2024, 1990 WL 130032, *3 (N.D. Cal. 1990). As the following cases discuss, an exclusive patent licensee *may* also have the right to sue infringers in its own name if the license effectively transfers all substantial rights in the subject patent to the exclusive licensee. Ciba-Geigy Corp. v. Alza Corp., 804 F. Supp. 614, 633–34 (D. N.J. 1992) (same); Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A., 944 F.2d 870, 874–75 (Fed. Cir. 1991) (same); *see also* Conde Nast Publ'n v. United States, 575 F.2d 400 (2d Cir. 1978) (exclusive trademark and trade name license considered a "sale" for tax treatment purposes and restriction on assignability not inconsistent with a completed sale). *But see* Pfizer Inc. v. Elan Pharmaceutical Research Corp., 812 F. Supp. 1352, 1373 (D. Del. 1993) (express prohibition on assignment of patent license without patent holder's consent, among other factors, precluded finding that agreement was an "assignment" rather than a license and thus party, as mere licensee, has no standing to sue); Raber v. Pittway Corp., 23 U.S.P.Q.2d 1313, 1992 WL 219016, *3 (N.D. Cal. 1992) (same).

28. *See Ciba-Geigy*, 804 F. Supp. at 630.

29. *See* McNeilab, Inc. v. Scandipharm, Inc., 95 F.3d 1164, 1996 WL 431352, *5 (Fed. Cir. 1996) (noting that courts have "recognized that there is no substantive difference between the property interests of the exclusive licensee and the assignee of the patent, and thus have sometimes used the terms interchangeably, subordinating the purity of the distinction to the reality of legal rights."); Calgon Corp. v. Nalco Chemical Co., 726 F. Supp. 983, 985 (D. Del. 1989) (noting that "just as the right to alienate personal property is an essential incident of ownership, the right to further assign patent rights is implicit in any true assignment").

30. *See Everex*, 89 F.3d at 679.

31. *Id.*

32. Although the case law does not appear to distinguish between exclusive and non-exclusive trademark licenses, there are strong arguments that trademark licenses are likely never assignable without the licensor's consent, because the licensor always maintains its duty to control the quality of goods and services sold under the licensed mark, whether the license at issue is exclusive or nonexclusive.

33. *See* Tap Publ'n, Inc. v. Chinese Yellow Pages (New York), Inc., 925 F. Supp. 212, 218 (S.D.N.Y. 1996) (assignment of exclusive trademark license that was silent on assignment was prohibited absent trademark owner's consent); 4 MCCARTHY ON TRADEMARKS § 25.33 (2001) (while the case law is sparse on this issue, unless the license states otherwise, a licensed mark is personal to the licensee and cannot be assigned).

34. Gorenstein Entm't, Inc. v. Quality Care-USA, Inc., 874 F.2d 431 (7th Cir. 1989). The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark....The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the same good or service. 874 F.2d at 435.

35. *Id.*

36. MCCARTHY at § 25:33.

37. *See*, *e.g.*, *SQL Solutions*, 1991 WL 626458.

38. *Id.* at *5–6 (noting "[i]t is well established that computer programs are 'works of authorship' subject to copyright" and holding non-exclusive copyright license that expressly restricted assignment non-assignable absent licensor's consent).

39. *See* NORTON BANKR. LAW & PRACTICE, 2d §151:33.50 (2000).

40. Verson Corp. v. Verson Int'l Group, 899 F. Supp. 358 (N.D. Ill. 1995).

41. It is unclear from the *Verson* opinion whether or not there was an enforceable express restriction on assignment; the court says only that the licensor did not expressly grant the licensee the right to assign.

42. *Verson*, 899 F. Supp. at 363.

43. *See*, *e.g.*, *Everex*, 89 F.3d at 677.

44. *See* 11 U.S.C. § 365(c).

45. *See, e.g.*, In re Tom Stimus Chrysler-Plymouth, Inc., 134 B.R. 676 (M.D. Fla. 1991); *In re Fulton Air Service, Inc.*, 34 B.R. 568 (N.D.Ga. 1983). "Personal services" contracts are considered to be nonassignable because the party performing the services possesses certain unique skills or special knowledge. Presumably, the other party has relied upon such skill and knowledge as the basis for entering into the contract and such reliance makes the performing party's duties nondelegable and thus nonassignable without the nonperforming party's consent. *See*, *e.g.*, In Re Rooster, 100 B.R. 228, 232–33 (E.D. Pa. 1989).

46. *See* In re Braniff Airways, Inc., 700 F.2d 935, 943 (5th Cir. 1983) ("[s]urely if Congress had intended to limit § 365(c) specifically to personal services contracts, its members could have conceived of a more precise term than 'applicable law' to convey the meaning."); *see also* In re Pioneer Ford Sales, Inc., 729 F.2d 27 (1st Cir. 1984); In re Lil'Things, Inc., 220 B.R. 583, 587-88 (N.D. Tex. 1998).

47. *See* Perlman v. Catapult Entm't, Inc., 165 F.3d 747, 754–55 (9th Cir. 1999) (debtor–licensee may not assume nonexclusive patent license without consent), *cert. dismissed*, Catapult Entm't, Inc. v. Perlman, 120 S. Ct. 369 (1999); In re Access Beyond Tech., Inc., 237 B.R. 32, 48–49 (D. Del. 1999) (debtor–licensee may not assume and assign non-exclusive patent license that is silent on the issue of assignment without consent); *Patient Educ. Media*, 210 B.R. at 242–43 (nonexclusive copyright license with anti-assignment provision not assignable without consent).

48. *See Rooster*, 100 B.R. 228 (holding exclusive trademark license was not a "personal services" contract under Pennsylvania law and thus was assumable and assignable by debtor–licensee, notwithstanding licensor's objection).

49. *See* note 2, *supra*, for definition of executory contracts. Insofar as a license is found to be non-executory, the treatment of such license in bankruptcy would be just the same as that of any other asset of the debtor, such that a purchaser of any interest in such license would acquire all right, title and interest in and to such asset.

50. *See*, *e.g.*, *Patient Educ. Media*, 210 B.R. at 241 (copyright license found to be executory contract); Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489 (1st Cir. 1997) (recognizing patent license as executory); In re Superior Toy & Mfg. Co., 78 F.3d 1169 (7th Cir. 1996) (recognizing trademark license as executory). Courts do not need much to deem an intellectual property license executory. For example, one case did so even though the only performance owed from the licensor was to refrain from suing the licensee for infringement and the only performance due from the licensee was to mark all products made pursuant to the license with the statutory patent notice. *See*, *e.g*., *Everex*, 89 F.3d at 677.

51. *See In re DAK Indus., Inc.*, 66 F.3d 1091 (9th Cir. 1995).

52. 66 F.3d at 1093.

53. *DAK Indus.*, 66 F.3d at 1095–96.

54. In many bankruptcy proceedings, the debtor's business (or one of debtor's businesses) may be liquidated and the assets associated with such business are sold to unrelated third parties, requiring that title to such assets, including any intellectual property licenses, be assigned to such unrelated third party to effect a proper transfer. However, certain plans of reorganization are structured in a way that causes the debtor (or one of debtor's businesses) to survive the bankruptcy proceedings and thus assumption of any necessary intellectual property licenses is all that is needed.

55. *Access Beyond*, 237 B.R. at 48–49 (non-exclusive patent license silent on the issue of assignment cannot be assigned without consent and thus debtor could not even assume the license); *Catapult Entm't*, 165 F.3d at 754–55 (debtor may not assume non-exclusive patent license because federal patent law prohibits assignment of such license without consent); *see also* In re James Cable Partners, L.P., 27 F.3d 534 (11th Cir. 1994) (hypothetical test adopted in non-intellectual property context); *In re Magness*, 972 F.2d 689 (6th Cir. 1992) (same); In re West Elec., Inc., 852 F.2d 79 (3d Cir. 1988) (same). At least one district court in the Seventh Circuit has indicated in dicta that it will likely follow the "hypothetical test." *See* Szombathy v. Controlled Shredders, Inc., 1996 WL 417121 *12–13 (Bankr. N.D. Ill. 1996) (noting that federal law concerning assignability of patents "supersedes assignment rights under §365 of the Bankruptcy Code.") *rev'd in part*, 1997 WL 189314 (N.D. Ill. 1997).

56. Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489 (1st Cir. 1997), *cert. denied*, 521 U.S. 1120 (1997).

57. *Id.* at 493–94. *See also* In re GP Express Airlines, Inc., 200 B.R. 222, 231–33 (Bankr. D. Neb. 1996) (accepting "actual test" as applied to airline contract); Texaco Inc. v. Louisiana Land and Expl. Co., 136 B.R. 658, 668–71 (M.D. La. 1992) ("actual test" applied to mineral contract).

58. *Golden Books*, 269 B.R. 300 (D. Del. 2001).

59. *See* Section II.A.1.

60. *See* introduction to Section III.

61. 210 B.R. at 242–43.

62. 237 B.R. at 45-47. *See also* Catapult Entm't, 165 F.3d at 750-55 (federal patent law made non-exclusive patent licenses personal and non-delegable, and thus not assignable without licensor's consent).

63. *See* Sections C and D.

64. *See Rooster*, 100 B.R. 228; In re Superior Toy & Mfg. Co., Inc., 78 F.3d 1169 (7th Cir. 1996).

65. 100 B.R. at 235. The court's opinion does not disclose whether there was a provision in the license agreement concerning the licensee's ability to assign the agreement. In any event, it is fair to assume that the license agreement at least did not expressly permit assignment.

66. *Id.* at 232. The *Rooster* court acknowledged that Section 365(c) is applicable to any contract subject to a legal prohibition against assignment—not only "personal services" contracts. *Id.* at 232, fn.6.

67. In the words of the court:

> I cannot conclude that the debtor's performance under the licensing agreement draws upon any special personal relationship, knowledge, unique skill or talent. The only actual discretion retained by the debtor in the area of development or manufacture is the choice of patterns to put into production.... [the debtor] is not involved in creating the actual design of the trademarked neckwear; its artistic input is limited to choosing from established patterns...[The debtor] is not involved in the creation of a new or unique product.

Id. at 233.

68. Note that a "personal services" contract and a contract that is "personal" (e.g., patent, copyright and trademark licenses) are two distinct, although somewhat related, concepts. In both situations, the *identity* of the licensee or the party performing special or unique services, as the case may be, is the important factor. The licensor or non-performing party is entitled to know and choose with whom it is contracting because of the special nature of the relationship. The *Rooster* court did not consider whether the license agreement at issue was "personal" to the licensee under applicable non-bankruptcy trademark law.

69. 78 F.3d at 1170.

70. In re Luce Indus., Inc., 14 B.R. 529 (S.D. N.Y. 1981).

71. *Luce*, 14 B.R. at 530.

72. 14 B.R. at 530–531.

73. As a general matter, the filing of a bankruptcy petition operates as an automatic, temporary stay of several different actions that non-debtors may otherwise be entitled to pursue against the debtor, including the right to seek an injunction to prevent the use of the non-debtor's intellectual property rights. §362(a)(1)-(8).

74. *See, e.g.*, In re Indep. Mgmt. Assoc., Inc., 108 B.R. 456, 465-64 (D. N.J. 1989) (licensor's failure to provide evidence of consistent quality control inspections and its failure to raise quality control issues until after bankruptcy petition filed and notices of assumption were sent, clearly indicated that the reasons sought to terminate the agreements were solely financial).

75. *See* In re B-K of Kansas, Inc., 69 B.R. 812 (D. Kan. 1987) (licensee-debtor's failure to make post-petition royalty payments clearly indicated an inability to cure monetary defaults and present a successful reorganization plan); In re Tudor Motor Lodge Assoc., L.P., 102 B.R. 936 (D. N.J. 1989) (licensee-debtor's repeated pre-petition, and continued post-petition, failure to comply with licensor's stringent quality control requirements entitled licensor to terminate license agreement, in spite of debtor's assurances of adequate protection in the form of payment of post-petition obligations).

76. *But see DAK Indus.,* 66 F.3d 1091.

The Extent of a Third-Party's Right to Modify Original Packaging under EU Law

BY ROMANO F. SUBIOTTO

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The extent of third parties' rights to modify original packaging to suit their commercial objectives is a hot topic in the European Union, specifically in connection with imports of products into high-priced countries that were first placed on the market in low-priced countries. The issues are relevant to all industrial sectors, but especially in areas such as pharmaceuticals, where price is regulated by the various national authorities and results in gaping price differences.

Article 28 of the EC Treaty prohibits any barrier, however small, on imports into an EU member state. A barrier can nevertheless be justified under Article 30 of the EC Treaty, among others, by the need to protect intellectual property rights. For example, a manufacturer has legitimate grounds to ensure that the contents of imported products contained in packaging that has been tampered with and that bears the manufacturer's trademark have not been altered in a way that would undermine the trademark's indication of origin. This is central to a trademark right, which is designed to guarantee to consumers that products bearing the manufacturer's trademark have been manufactured under the control of the manufacturer and that the products are all of the same quality.

Litigation before the European Court of Justice (Court) in Luxembourg between manufacturers and importers of pharmaceuticals have focused on trademark rights because these rights have proved to be the most relevant in barring imports. In creating a common market, the Court has had to strike a balance between the need to protect national intellectual property rights and the need to secure a common area without barriers. Going back to 1978, the Court struck a balance in *Hoffman-la Roche v. Centrafarm*[1] by holding that an importer can remove a third-party's product from its original packaging and place it in new packaging on which the importer has reaffixed the third-party's trademark, provided that the importer could show that (1) it had not adversely affected the original condition of the product, (2) it had warned the trademark holder in advance of the proposed repackaging, and (3) it had identified the repackager on the new packaging.

Importers have exploited this holding to argue that EC law gives them a right to do whatever they wish to the original packaging of a pharmaceutical product, subject only to the three conditions just mentioned, namely not adversely affecting the original condition of the product, warning the trademark holder in advance of the proposed repackaging, and identifying the repackager on the new packaging. Trademark owners, on the other hand, have consistently claimed a right to have their products reach end-consumers in their original packaging, modified only to the extent necessary to permit their free circulation between EC member states. The Court sided with the trademark owners, holding in *Upjohn v. Paranova*,[2] that Article 30 allows a trademark owner to exercise his national rights to block the sale of an imported product bearing his trademark if its original packaging has been modified in a way that is not necessary to permit its sale in the importing member state.

On April 23, 2002, the Court confirmed this principle and other important points in *Merck, Sharp & Dohme v. Paranova* and *Boehringer Ingelheim v. Swingward and Dowelhurst*.[3] These judgments are discussed below.[4] (Paragraph references in this article are to the Court's judgment or to the Advocate General's opinion in *Boehringer Ingelheim*).

In *Merck Austria,* Paranova obtained twenty-eight tablet packs of Merck's Proscar in Spain and resold them in Austria. Instead of modifying the label slightly to conform with Austrian regulations, which would have allowed the sale of the products in question in Austria, Paranova placed the contents into Paranova-specific packaging displaying the Paranova colors, and reaffixed Merck's Proscar trademark on the new packaging. On September 9, 1999, an Austrian court asked the Court to rule on whether Paranova's repackaging could be permitted if evidence proved that the marketability of the product would otherwise be undermined because consumers preferred products in new packaging as opposed to the original packaging modified to comply with Austrian packaging regulations.

In *Boehringer Ingelheim,* the parallel traders, Swingward and Dowelhurst, discarded Boehringer Ingelheim's (Boehringer's) carefully developed and highly distinctive pack design used for almost thirty years, and sold the products in new external packaging displaying Swingward's and Dowelhurst's house style, having completely removed Boehringer's trade dress, logo, trademark, and name on the packaging. Swingward continued to use Boehringer's original trademark. Dowelhurst used the generic name of the active ingredient of the pharmaceutical preparation, and presented these products as part of its own "concept generics" range of products. In all cases, Boehringer's name and trademark could be seen on the contents inside the packages. On February 28, 2000, the Chancery Division of the High Court of England (U.K. High Court) asked the Court to rule on a number of questions, including:

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1. Does a trademark owner need to prove harm or damage to the trademark before being able to rely on the trademark to prevent the unauthorized use of the owner's trademark on imported products?

The Court in *Boehringer Ingelheim* rejected the U.K. High Court's and the defendants' position that the trademark owner must show damage to his trademark as a prerequisite to opposing repackaging. The Court stated that the repackaging of a product by a third party without the authorization of the proprietor "is likely to create real risks" for the guarantee of origin, which is a trademark's essential function (¶ 29). The Court also stated that a trademark owner's right to oppose the repackaging of products bearing its mark arises without needing to assess "the actual effects of the repackaging by the parallel importer" (¶ 30).

With this holding, the Court followed the July 12, 2001 opinion of Advocate General Jacobs (Advocate General) in *Boehringer Ingelheim*, in which he stated that any tampering with the packaging of a product is a particularly intrusive form of trademark infringement (¶ 98 of the opinion), that repackaging operations are liable to prejudice the trademark's guarantee of origin, and that a trademark owner "can so rely on his rights even if it might appear in a particular case that there is no actual harm to the specific subject-matter or essential function of his mark" (¶ 96 of the opinion).

2. When is it necessary, and therefore justified, for an importer to reaffix a trademark on new packaging or to modify original packaging? This is the so-called principle of necessity?

The Court in *Boehringer Ingelheim* followed the Advocate General's opinion in the same case, confirming that a parallel trader can repackage a product when such repackaging is "objectively necessary" for the sale of the product in the importing member state, taking account of the circumstances prevailing at the time of marketing in that state. Objective necessity would exist if, without such repackaging, the imported product's access to the market of the importing state would be hindered (¶ 46). By contrast, objective necessity would be absent if the importer "is able to reuse the original packaging for the purpose of marketing in the Member State of importation by affixing labels to that packaging" (¶ 49), provided the re-labeled products have effective access to the market concerned (¶ 50). The Court and the Advocate General therefore rejected the Norwegian government's argument that it is for the parallel importer to determine what is necessary (see also, ¶ 108 of the opinion).

The Court also confirmed, agreeing with the Advocate General, that repackaging is not objectively necessary "if it is based solely on the parallel importer's attempt to secure a commercial advantage" (¶ 48). The Court thus rejected the defendants' argument that the use of a mark should be deemed necessary if the parallel importer attempts to secure a commercial advantage, unless such commercial advantage is unfair or abusive (see also, ¶ 114 of the opinion).

This conclusion can be explained by the fact that Article 30 of the EC Treaty and Article 7 of the Trademark Directive[5] confer on the parallel importer certain rights which, in normal circumstances, are reserved for the trademark owner. The sole purpose of giving the parallel trader a "certain license" is that this license is essential to ensure the free movement of goods, as the court stated in *Hoffman-la Roche.*[6] As the Court stated in *Loendersloot*[7] "relabelling is … permissible only to the limited extent necessary to facilitate parallel imports." EC law thus interferes with the exercise of the exclusive rights granted to a trademark owner under national law only to the extent that such interference is necessary to permit the free movement of goods between member states. For example, it could be necessary to modify the labels on a packaging if local regulations required the labels to be in German and the product is imported from a non-German-speaking country. On the other hand, it would not be justified to use new packaging for imported pharmaceuticals if a modification of the labels on the original packaging would be sufficient to conform the original packaging to the local packaging requirements in the importing member state. An importer's tampering with packaging merely because that importer thinks the modified packaging would enhance sales of the imported product clearly is not necessary.

With respect to whether consumer resistance to relabeled packaging can make repackaging necessary, the Court in *Boehringer Ingelheim* stated that such resistance "does not always constitute an impediment to effective market access, such as to make replacement packaging necessary" (¶ 51), but that "there may exist on *a market*, or on *a substantial part of it*, such *strong resistance* from a *significant proportion of consumers* to re-labeled pharmaceutical products that there must be held to be a hindrance to effective market access. In those circumstances, repackaging of the pharmaceutical products would not be explicable solely by the attempt to secure a commercial advantage. The purpose would be to achieve effective market access" (¶ 52, emphasis added).

Thus, the Court agreed with the Advocate General, who had argued that:

> widespread and substantial resistance to re-labeled packaging by the relevant consumers may make repackaging objectively necessary if the effect of such resistance is that the parallel importer would be effectively excluded from the market. While mere patterns of consumer preference would not make repackaging objectively necessary, such patterns may deny effective market access where they are sufficiently strongly held, widespread and widely recognized that doctors' prescription practices or pharmacists' purchasing practices are affected (¶ 110 of the opinion).

However, the Advocate General's statement is at variance with ¶ 115 of his opinion in *Boehringer Ingelheim*, where the Advocate General stated that only factors beyond the parallel importer's control justify interference with the trademark owner's rights. Consumers, in particular educated consumers like physicians and pharmacists, may be convinced that relabeled packaging contains products that are of no lower quality than products offered in new boxes.

In a developed market economy based on free competition, the parallel trader must persuade the persons responsible for deciding whether to rely on the parallel importer's products (in the event they need persuasion) that his goods are preferable to domestic goods and induce them to abandon existing preferences by competing on price and consistency of supply and by promoting the imported product adequately. Any doubts harbored by prescribing doctors, pharmacies, or, if relevant, consumers, as to the quality of the parallel importer's products must therefore be dealt with by the parallel importer. In this way, importers must invest in promoting their imported products.

It is important to note that, in general, parallel importers are satisfied to free-ride on the trademark owner's sales and marketing investments. A parallel trader's marketing expenditure, if any, is significantly lower than that of the trademark owner. Unlike the trademark owner, a parallel importer usually does not have a sales force in the importing state and does not commit material resources to marketing campaigns with doctors and pharmacists to promote the products he imports. The parallel importer simply relies on the goodwill created by the trademark proprietor. At the time of the *Merck Austria* case, Merck had more than one hundred employees promoting its products in Austria, whereas the importer, Paranova, had two employees in Austria.

Any resulting commercial disadvantage resulting from the use of a modified original packaging as compared to the use of new packaging for imported products cannot therefore be attributed to restrictions on marketing the products, but to the importer's failure to market the sale of the imported products. Also, allowing the commercial interests of a parallel trader to be a relevant factor would inevitably introduce the need to make economic assessments on a case-by-case basis. A national court would have to determine the economic benefit of using new packaging arising for every single parallel importer and for every single imported product. Furthermore, allowing the commercial interests of the parallel trader to be a relevant factor would undoubtedly open the floodgates to increasing numbers of requests for preliminary rulings, given that parallel traders will no doubt wish to establish the preponderance of their commercial interests over the interests of the original trademark owner in as many areas as possible.

The issues to be taken into account in determining whether a parallel importer would incur a commercial disadvantage and whether the parallel importer has exercised reasonable diligence in eliminating or reducing this disadvantage are too complex and hypothetical to bear any weight in this context. In any event, the Court's rulings raise significant practical questions of evidence and interpretation. Presumably, the parallel trader will bear the burden of showing that a significant proportion of consumers in the member state of importation shows such strong resistance to relabeled pharmaceutical products that effective market access is denied. It is not clear, however, what percentage of consumers must resist re-labeled pharmaceutical products to allow the conclusion that repackaging is necessary for market access. Should it suffice that a parallel trader shows that it cannot capture a meaningful share of sales, and what would be meaningful? What type of evidence should be advanced to show that any failure to capture a meaningful volume of sales in the country of importation is due to resistance to relabeled products, rather than inadequacies in the parallel trader's sales and marketing organization?

What does seem clear is that a parallel trader will have difficulty providing the required evidence without a previous attempt to market a relabeled product. One practical effect of the Court's judgment in *Boehringer Ingelheim* may be that parallel traders in the future will first have to make a good-faith attempt to penetrate the market in the country of importation with relabeled goods before being able to advance a claim to a "right" to repackage.

3. Is an importer obliged to tamper with original packaging as little as possible in order to make imports possible, or can an importer modify the packaging as he chooses, even if there are less intrusive modifications available that would allow the product to be sold in the importing country? This is the so-called principle of proportionality.

The Court in *Boehringer Ingelheim* did not address the issue of proportionality, other than stating that the use of new packaging cannot be justified if an importer "is able to reuse the original packaging for the purpose of marketing in the Member State of importation by affixing labels to that packaging" (¶ 49). The Advocate General added to the Court's statement by confirming that a particular method of repackaging cannot be regarded as necessary if another method, which interferes less with the trademark owner's rights, will suffice to give the parallel importer effective market access (¶ 111 of the opinion).

Of course, the concept of necessity must be interpreted narrowly. A trademark is a property right. Property rights constitute fundamental rights of EC law, as the Court confirmed in *Hauer.*[8] The principle of proportionality requires that a restriction on a fundamental right be the least one means to a legitimate objective. Thus, the principle of proportionality requires parallel traders to use means which permit parallel trade, while causing as little prejudice as possible to the trademark. As a result, if a parallel trader can market goods by altering the original labels on the original packaging, the parallel trader may not use new packaging for the product. Clear support for this position can be found in the Court's prior case law. For example, in *Loendersloot*, the Court stated that:

> the person carrying out the relabelling must, however, use means which make parallel trade feasible while causing as little prejudice as possible to the specific subject matter of the trade mark right. Thus if the statements on the original labels comply with the rules on labelling in force in the Member State of destination, but those rules require additional information to be given, it is not necessary to remove and reaffix or replace the original labels, since the mere application to the bottles in question of a sticker with the additional information may suffice.[9]

National courts have complied with the principle of proportionality in their judgments. This has been particularly clear in cases where larger packs are sold in the importing member state than in the exporting member state. In these circumstances, parallel traders have claimed a right to use new packaging. By contrast, trademark owners have required parallel traders to bundle several original packs together to achieve the required pack size. Siding with trademark owners, national courts (e.g., the Higher Regional Court in Hamburg, Germany, on May 11, 2000),[10] have held that the use of new packaging is not justified if bundling of several original packs is possible.

4. Do the same rules apply where, having removed the original trademark, an importer does not reaffix it on the product's new or modified packaging? This practice is referred to as "generic rebranding."

This issue was not addressed by the questions to the Court in *Boehringer Ingelheim*, but it is one of the practices that gave rise to the U.K. litigation. The Court's judgment contains no clear reference to generic rebranding constituting trademark infringement other than the statement that "the change brought about by *any* repackaging of a trade-marked product—creating by its very nature the risk of interference with the original condition of the product—may be prohibited by the trade mark proprietor" (¶ 34, emphasis added). Also, the Court referred in the judgment to "repackaging" and uses this term to cover generic rebranding (¶ 7 of the judgment).

The Advocate General was clearer on this point, stating that: "repackaging a product which bears a trade mark, whether or not the trade mark is re-affixed to the new external packaging or *simply removed and not replaced*, is a particularly intrusive form of trade mark infringement" (¶ 98 of the opinion, emphasis added). The Advocate General concluded that the principles governing repackaging apply to generic rebranding as it is equally liable to prejudice the trademark's guarantee of origin (¶ 86 of the opinion).

This view seems to be common sense. However, some argued in the past that a trademark infringement occurred only if a trademark was used by a third party, for example by affixing the trademark to new packaging. By contrast, a trademark infringement could not occur if a trademark was simply removed from packaging. However, if the removal and reaffixing of a trademark on new packaging can be opposed by a trademark holder, because of the potential interference with the trademark's so-called guarantee of origin, then logic suggests that the complete removal of a trademark from an original packaging must be deemed to interfere even more with the original functions of a trademark, particularly if the contents continue to refer to the original manufacturer. Furthermore, the principle of exhaustion is designed to allow the free movement of trademarked goods in the European Community, but not to permit traders to do whatever they deem commercially desirable to the original design and packaging of products sold in the European Community, and certainly not to replace an original trademark by a generic name. For example, once a BMW is sold in Luxembourg, resale of the car should be permitted throughout the European Community. But the principle of exhaustion, or EC law generally, cannot give parallel traders the right to replace any BMW logo on the car by, for example, concept generics, even if the BMW mark still appears on the engine, simply because the parallel trader is anxious to establish his own range of cars under a distinctive tradename.

A trademark owner must have the right to have products reach the end-consumer in the European Community under the product's original trademark and packaging. Indispensable modifications should be permitted only to make the sale of these products possible throughout the European Community, but no more. A trademark owner must therefore be entitled to oppose the replacement of an original trademark by a generic name, unless such removal is necessary to sell the product in the importing member state.

5. Is the importer required to notify the trademark owner in advance of the commercialization of an imported product sold in altered or new packaging?

The Court (¶ 61), agreeing with the opinion of the Advocate General (¶ 128), confirmed that a an importer that repackages a trademarked product must directly give the trademark owner advance notice that the product is being put on sale in the importing country, and supply the trademark owner, at his request, with a sample of the repackaged product before it goes on sale. The Court thus rejected the parallel traders' argument that notice given by a third party, for example the authority issuing a parallel import license, should be deemed sufficient. The Advocate General had argued that advance notice must be given even where there is no prejudice to the specific subject matter or essential function of the trademark. Although the Court did not address this point specifically, it would seem to follow from the Court's unconditional statements regarding an importer's duty to give notice and a trademark owner's right to oppose repackaging, irrespective of the actual effects of the repackaging on the trademark.

Concerning the period of notice, the Court stated that the trademark owner must have a reasonable time to react to the intended repackaging, and that reasonableness must be assessed on a case-by-case basis, in light of all the relevant circumstances. According to the Court, the evidence before it suggested that a purely indicative period of fifteen working days from the time a sample of the repackaged product is supplied to the trademark owner should suffice. The Court's guidance is thus similar to the Advocate General's, who had spoken of a period of advance notice of three to four calendar weeks.

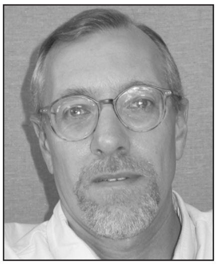
In conclusion, a parallel trader can modify original packaging only to the extent necessary and indispensable to overcome a barrier to the commercialization of the imported product in the importing country. Furthermore, a more intrusive form of tampering may be justified if, in very exceptional circumstances, consumer resistance prevents using a less intrusive form. These rules apply also where the parallel trader does not reaffix the original trademark on new packaging.

Endnotes

1. Case 107/77, [1978] E.C.R. 1139.
2. Case C-379/97, [1999] E.C.R. I-6927.
3. Cases C-443/99 and C-143/00, not yet published. Available on the Court's website http://europa.eu.int.
4. The author argued the cases for Merck Austria and Boehringer Ingelheim before the Court.
5. First Council Directive 89/104/EEC of December 1988 (OJ 1989 L 40/1).
6. Case 107/77, [1978] E.C.R. 1139.
7. [1997] E.C.R. I-6227.
8. Case 44/79 [1979] E.C.R. 3727.
9. [1997] E.C.R. I-6227, ¶ 46.
10. 3U 121/99, PharmR [2000], 247.

Needed: A Comprehensive Working Definition of "Likelihood of Confusion"

BY PAUL KILMER



Paul Kilmer

With the advent of GATT-TRIPS and its application to developing nations, over the last several years I have been called upon to assist several foreign countries in improving their intellectual property laws and enforcement regimes. One question that often arises among judges and other officials charged with overseeing trademark conflicts is what standard the United States uses for assessing trademark infringement, especially in relation to traditional "word" marks.

Courts in the United States have generally used a seven- or eight-factor test for assessing likelihood of confusion.[1] However, an analysis of the case law indicates that more factors and nuances within those factors are used by the courts than are present in their current standard formulas.

As a result of experience and input from many sources, I have developed and propose a ten-factor likelihood of confusion test, which is an attempt at creating a synthesis of the factors used by the various federal circuits. I encourage, and would appreciate receiving, the comments and suggestions of the membership in relation to my effort, which may be forwarded to pkilmer@hklaw.com.

Proposed Likelihood of Confusion Factors

The determination of trademark infringement for "word" marks is based upon whether a reasonably prudent consumer for the goods or services who encounters the marks of the parties in the marketplace is likely to be confused as to the source, sponsorship, association or affiliation of the goods or services of the trademark owner (plaintiff) and the defendant. The likelihood of confusion test involves a multifactor balancing that generally includes an analysis of:

A. the strength of the plaintiff's mark:

1. The inherent nature of the mark or the mark's "conceptual strength" (that is, whether the mark is descriptive, suggestive, arbitrary or fanciful as used for the goods or services of the plaintiff); and

2. The marketplace strength of the plaintiff's mark (that is, the extent to which likely consumers associate the plaintiff's mark with a single source of services), including:

a. the fame of the plaintiff's mark (including consumer recognition demonstrated through means such as unsolicited consumer communications, consumer surveys, unpaid media recognition, and consumer testimonials);

b. the number and nature of similar marks used by others, including the success the plaintiff has had in preventing the use of its mark by others to identify competing or related goods or services, and in preventing use of the mark as a generic term;

c. the extent of sales or provision of services under the plaintiff's mark (that is, the degree of potential consumer exposure to the plaintiff's mark as reflected in sales or provision of services, including the duration of use of the mark); and

d. the nature, duration and extent of advertising of the plaintiff's services under the mark (again, going to the extent to which likely consumers have been exposed to the plaintiff's mark).

3. Any presumptions to which the mark is entitled as a result of registration (e.g., *prima facie* evidence of validity, ownership and the exclusive right to use the mark in connection with plaintiff's goods or services).

B. the similarity in appearance, sound, connotation and commercial meaning or impression of the plaintiff's and defendant's marks, including:

1. whether, when viewed as whole, the marks create similar commercial impressions;

2. whether certain elements of the marks (words and/or devices) dominate over other elements and would be more likely to influence the purchasing decision;

3. whether the marks are likely to be encountered side-by-side (e.g., on the same store shelf) or in different locations and/or at different points in time, and whether, and in what manner, those conditions of purchase affect prospects for confusion; and

4. weighing similarities of the marks more heavily than their differences (newcomer has the obligation to avoid confusion).

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C. whether, and to what extent, the goods or services of the parties overlap or are related, which may include:

1. an assessment of the extent of the plaintiff's use of its mark (that is, whether the plaintiff's mark identifies only one discrete product or service or whether it is a house mark or part of a "family" of marks covering a broader range of goods or services); and

2. if the goods or services of the parties are not related, the likelihood that prospective consumers would believe that the goods or services of the defendant emanate from the plaintiff (or *vice versa*), including an analysis of whether the plaintiff or defendant is likely to bridge any gap there may be between their respective goods or services and whether the goods or services are complimentary or otherwise of a type known to trade under the same brand (e.g., clothing and perfume).

D. whether, and to what extent, the marketing methods and channels of trade (including advertising and promotional channels) and likely consumers of the parties overlap;

E. the characteristics of likely consumers, including the degree of care likely to be exercised by potential consumers, with an analysis of the sophistication of likely consumers and whether likely consumers are "impulse" shoppers (generally associated with lower cost goods or services in the mass market, where confusion may be more likely to occur) or likely to exercise a higher degree of care (generally associated with higher priced or specialized goods/services, where confusion may be less likely to occur) in selecting the products or services they use (this may include an analysis of the effect of "disclaimers" of affiliation used by the defendant);

F. whether actual confusion (initial interest, point-of-sale or post-sale) has resulted from the concurrent use of the marks of the parties, and the nature and extent of any such confusion;

G. the length of time and conditions under which the marks of the parties have been used concurrently; including past market interface between the goods or services of the parties, plaintiff's knowledge of defendant's trademark use, and plaintiff's past acquiescence regarding defendant's trademark use;

H. whether the defendant had a wrongful intent or failed to exercise reasonable prudence (acted carelessly) in adopting and using its mark (which may occasionally be inferred from the defendant's knowledge or conduct, including whether a more knowledgeable or sophisticated defendant conducted a trademark availability search before adopting and using its mark—in the absence of which some courts have found at least a willful disregard for the trademark rights of the plaintiff);

I. if the goods or services of the parties are offered in different geographic territories, the plaintiff's prospects for expanding into the defendant's territory (or *vice versa*) and/or the likelihood that consumers in the territory of one party are likely to know of the trademark of the other party (through advertising, promotion or otherwise); and

J. whether use of the product or service at issue could cause significant injury to consumers if even a limited number of instances of actual confusion were to arise (e.g. in the case of pharmaceuticals, courts may not require the same quantum of proof of likelihood of confusion as might be the case for less harmful products).

There is no set manner for evaluating the significance of any one of these factors in any particular infringement situation. In fact, the law cautions against applying the factors in the manner of a "mechanistic formula."[2]

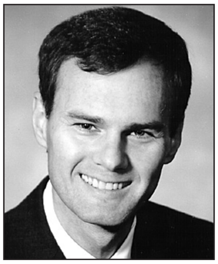
Endnotes

1. GILSON AND LALONDE, THE LANHAM ACT: TIME FOR A FACE LIFT? (Matthew Bender & Company, Inc,. 2002) (indicating that most circuits use seven or eight factors, while one circuit uses thirteen factors and another uses a mere six).

2. Polaroid Corp. v. Polarad Electronics Corp., 287 F.2d 492 (2d Cir. 1961); AMF, Inc. v. Sleekcraft Boats*,* 599 F.2d 341 (9th Cir. 1979); J. B. Williams Co. v. Le Conte Cosmetics, 523 F.2d 187, 191 (9th Cir.), *cert. denied* 424 U.S. 913 (1976); Application of E.I. DuPont DeNemours & Co., 476 F.2d 1357, 1361 (CCPA 1973); Rolex Watch USA Inc. v. Meece, 158 F.3d 816, 829 (5th Cir. 1998); Planetary Motion, Inc. v. Techsplosion, Inc., 261 F.3d 1188, 1201, fn. 22 (11th Cir. 2001); Glenwood Labratories, Inc. v. American Home Products Corp., 455 F.2d 1384 (CCPA 1972)("lesser quantum of proof") *contast,* American Cyanamid v. Connaught Laboratories, Inc., 800 F.2d 306 (2d Cir. 1986); Goto.com, Inc. v. Walt Disney Co., 202 F.3d 1199 (9th Cir. 2000). *See* MCCARTHY ON TRADEMARKS § 23.19 and RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 20–23 (1995).

Patent Claims Can Be Broadened After Two Years

BY JOHN E. HYATT



John E. Hyatt

Section 255 of the Patent Statute provides that a patentee may obtain a certificate of correction of an applicant's mistake if that mistake is "of a clerical or typographical nature, or of minor character."[1] Specifically, Section 255 provides that:

> Whenever a mistake of a clerical or typographical nature, or of minor character, which was not the fault of the Patent and Trademark Office, appears in a patent and a showing has been made that such mistake occurred in good faith, the Director may, upon payment of the required fee, issue a certificate of correction, if the correction does not involve such changes in the patent as would constitute new matter or would require reexamination. Such patent together with the certificate, shall have the same effect and operation in law on the trial of actions for causes thereafter arising as if the same had been originally issued in such corrected form.[2]

Section 254, by contrast, deals with mistakes attributable to the Patent and Trademark Office (PTO) rather than the applicant.[3] In 1970, the Third Circuit drew the bright line that Section 255 "does not authorize a broadening of the claims."[4] But that was an issue the Federal Circuit had not addressed until recently.[5] And, decisions of regional circuits on issues within the exclusive jurisdiction of the Federal Circuit are not binding on it.[6] In *Superior Fireplace*, the Federal Circuit interpreted "§ 255 to require that a broadening correction of a clerical or typographical error be allowed only where it is clearly evident from the specification, drawings, and prosecution history how the error should appropriately be corrected."[7] While the court's interpretation appears straightforward, a review of the court's statutory interpretation and the facts of the case are instructive.

First, the court interpreted the phrase "clerical or typographical nature" and then the phrase "minor character."[8] The court interpreted "§ 255 to allow broadening corrections of clerical or typographical mistakes."[9] This is perhaps the most important part of the court's holdings in *Superior Fireplace*. Typographical mistakes were then divided into three categories. The first category includes those mistakes that "are immediately apparent and leave no doubt as to what the mistake is."[10] Such mistakes include misspellings that leave no doubt as to the word intended.[11] The second category includes those mistakes not apparent to the reader at all.[12] And the third category includes those where it is apparent that a mistake has been made, but it is unclear what that mistake is.[13] Examples of the latter are those that create inconsistent terms, but leave unclear which of the conflicting terms is in error.[14] With mistakes of the second and third categories, it "is not evident" how to correct them from the public record.[15] But after setting forth the categories, the court's analysis appears to ignore them.

Based on the Court's interpretation that a "broadening correction [is only] allowed where it is clearly evident," broadening corrections of mistakes of the second and third categories are flatly not allowed. But merely having conflicting terms, with each conflicting interpretation supported, does not, it would seem, automatically foreclose a broadening correction of the conflicting terms. The facts in *Superior Fireplace* are between those described as falling within categories one or three and therefore should have been flatly rejected. But the court analyzed the claim correction nevertheless.

In *Superior Fireplace*, the claim language in question recites "a firebox within the housing comprising a top wall, rear walls and side walls."[16] The next limitation refers to "the rear wall of the firebox."[17] "Because that limitation refers to rear wall in the singular, with the definite article 'the,' it does not agree with the earlier reference to rear walls in the plural."[18] One of those "limitations contains a mistake, but the claim does not indicate which is mistaken."[19] Therefore, the error is not a category-one mistake and should not, under the court's categorical approach, be allowed. The court, however, analyzed the mistake with respect to the intrinsic evidence and thus does not follow its own categorical approach.

A proposed resolution of the conflicting terms apparently need not be "immediately" apparent, despite the court's rhetoric to the contrary. The court found that "the written description and drawings are consistent with either there being two rear walls or only one rear wall."[20] At this point, the court could have placed the correction in category three because it was unclear which conflicting term was in error. Also, category one should not apply because there was doubt as to the word intended. But the court looked to the prosecution history where the examiner changed "rear wall" to "rear walls" after an interview to discuss prior art. Such action by the court indicates that broadening corrections are not limited to correcting "spelling errors." Also, such corrections are not foreclosed merely because resolution of the conflicting terms is not immediately apparent.

Furthermore, the interpretation ultimately selected by a court need not be immediately apparent. In *Superior Fireplace*, although the specification only refers to "the firebox rear wall 15," the court finds support for a second rear wall based on the commonality between "sheet 11 and rear wall 15."[21] The court bolsters its commonality argument by noting the lack of a separate claim limitation toward the sheet 11.[22] The dissent, however, was of the view that "rear wall" rather than "rear walls" was the correct interpretation.[23] And, according to the dissent, the majority gave little weight to the

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presumption of validity that extends to a certificate of correction.[24]

Notwithstanding the facts of *Superior Fireplace,* the court's statutory interpretation requires that the broadening correction be evident (or at least in some sense) from intrinsic evidence to preserve public notice to protect the public from unanticipated broadening of a claim.[25] The court based part of its notice requirement on the fact that there is not a two-year time bar under Section 255 as there is under Section 251 and Section 252.[26] Also, in reading into Section 255 the intrinsic evidence limitation from Section 254, the court does so only for the purposes of a broadening correction.[27] A narrowing correction does not, apparently, need to be so supported. The dissent's argument that such limitation should not be read into Section 255 at all should not be overlooked. The dissent correctly argues that intrinsic evidence is explicitly limited to Section 254, but not to Section 255.[28] So, the indication is that Congress intended no such limitation.[29] As the statutory interpretation issue was close, and the majority's decision was based, in part on "notice" to the public, the holding in this case should be reviewed in light of the Supreme Court opinion in *Festo*.

The Court interprets the phrase "minor character" to exclude mistakes that broaden a claim.[30] But because the Court analyzed the correction to determine if it was broadening, it did not foreclose all corrections to claims under the rubric of minor character.[31] The correct comparison for determining what is "minor" is between the "corrected" claim and the "uncorrected" claim without any "inquiry as to the subjective intent of the applicant or PTO. . . ."[32]

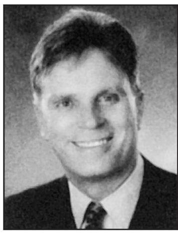
The Federal Circuit has, for now, left open this narrow door for broadening claims after two years. Despite the holding that a broadening correction to a typographical or clerical mistake be allowed only where it is "clearly evident . . . how the error should . . . corrected," the analysis of the *Superior Fireplace* court indicates otherwise. In practice the error and correction need not be immediately apparent, notwithstanding the court's rhetoric to the contrary. And, the category of typographical or clerical mistakes is not limited to simply misspellings. But there must be some support for the correction in the intrinsic evidence and some apparent error. The Certificate of Correction effecting such broadening will, however, only apply to actions subsequent to its issuance.[33] The door will likely stay ajar, so reevaluate your patents.

Endnotes

1. 35 U.S.C. § 255.
2. *Id.*
3. 35 U.S.C. § 254.
4. Eagle Iron Works v. McLanahan Corp., 429 F.2d 1375, 1383 (3d Cir. 1970).
5. Superior Fireplace Co. v. The Majestic Products Co., 270 F.3d 1358, 1369 (Fed. Cir. 2001).
6. *Id.* at 1372 citing South Corp. v. United States, 690 F.2d 1368, 1370 (Fed. Cir. 1982) (en banc).
7. *Id.* at 1373.
8. *Id.* at 1369–75, 75–76.
9. *Id.* at 1370.
10. *Id.*
11. *Id.*
12. *Id*
13. *Id.*
14. *Id.*
15. *Id.*
16. *Id.* at 1374.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.*
21. *Id.* at 1373–74.
22. *Id.*
23. *Id.* at 1381–82.
24. *Id.* at 1380–82.
25. *Id.* at 1371–72.
26. *Id.* at 1371, 1380.
27. *Id.* at 1372.
28. *Id.* at 1378–81.
29. *Id.*
30. *Id.* at 1375.
31. *Id.*
32. *Id.*
33. *Id.* at 1373, 1380 citing Southwest Software, Inc. v. Harlequin, Inc. 226 F.3d. 1280, 1294 (Fed. Cir. 2000) (Certificates issued under Section 254 valid only for claims arising after certificate issued.); see also In re Shirouchi and Urade, 204 U.S.P.Q. 513 (USPTO 1979) (Hold Certificate of Correction in abeyance pending interference proceeding.).

Recent Developments in Intellectual Property Law

BY RONALD B. COOLLEY, REPORTER



Ronald B. Coolley

Patents

Claim Construction

Teleflex Inc. v. Ficosa North America Corp., 63 U.S.P.Q.2d 1374 (Fed. Cir. 2002). In the absence of an express intent to impart a novel meaning to claim terms, an inventor's claim terms take on their ordinary meaning. A heavy presumption exists that a claim term carries its ordinary and customary meaning. In this case, the accused infringer argues that where only one embodiment is disclosed in the specification, claim terms are limited to the embodiment disclosed. However, the Federal Circuit finds that the number of embodiments disclosed in the specification is not determinative of the meaning of the disputed claim terms. An accused infringer cannot overcome the heavy presumption that a claim term takes on its ordinary meaning simply by pointing to the preferred embodiment or other disclosed structures or steps. The Federal Circuit holds that claim terms take on their ordinary meaning unless the patentee demonstrates an intent to deviate from the ordinary and accustomed meaning of a claim term by redefining the term or by characterizing the invention in the intrinsic record using words or expressions of manifest exclusion, representing a clear disavowal of claim scope.

Doctrine of Equivalents—All-Limitations Rule

Cooper Cameron Corp. v. Kvaerner Oilfield Products Inc., 62 U.S.P.Q.2d 1846 (Fed. Cir. 2002). The doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole. It is important to ensure that the application of the doctrine, even to an individual element, is not allowed to effectively eliminate that element in its entirety. The district court applied the all-limitations rule to foreclose infringement by equivalents to the "between the plugs" limitation because "between" expressly excludes "above." The Federal Circuit found that "above" the two plugs cannot be equivalent to a connection "between the two plugs." To ignore the patentee's decision to claim a port that connects to the assembly only "between" the plugs would vitiate that limitation, thereby running afoul of the all-limitations rule.

Federal Circuit Jurisdiction

Holmes Group Inc. v. Vornado Air Circulation Systems Inc., 62 U.S.P.Q.2d 1801 (2002). The Federal Circuit's jurisdiction is fixed with reference to that of the district court and turns on whether the action arises under federal patent law. The well-pleaded complaint rule has long governed whether a case "arises under" federal law for the purposes of conferring federal-question jurisdiction to the federal district courts. Adapted to determine whether the action arises under patent law, the well-pleaded complaint rule provides that whether a case arises under the patent law must be determined from what necessarily appears in the plaintiff's statement of his own claim. The plaintiffs' well-pleaded complaint must establish either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law. In this case, the plaintiff's well-pleaded complaint did not assert any claim arising under federal patent law. A counterclaim, which appears as part of the defendant's answer, not as part of the plaintiff's complaint, cannot serve as the basis for "arising under" jurisdiction.

Inequitable Conduct

Transclean Corp. v. Bridgewood Serv., Inc., 62 U.S.P.Q.2d 1865 (Fed. Cir. 2002). The district court precluded the accused infringer Bridgewood from arguing noninfringement due to its failure to answer an interrogatory seeking the basis for any noninfringement arguments. The district court granted Transclean's motion for summary judgment that Bridgewood infringed several of the patent claims. Transclean also alleged that Bridgewood willfully infringed the claims of its patent directed to an automatic transmission fluid-changing apparatus. Bridgewood responded by arguing that its accused device was the embodiment of its own patent and, thus, this demonstrated a good-faith belief that it was not an infringer.

The jury found that Bridgewood willfully infringed at least one claim of the patent, but the district court declined to award Transclean (a) enhanced damages for willful infringement and (b) attorneys' fees based on Bridgewood's willfulness.

The Federal Circuit, applying the law of the regional circuit, stated that Transclean was entitled to a response on its interrogatory and, thus, the district court did not abuse its discretion. The Federal Circuit affirmed the district court's

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holding with respect to willfulness and declined to award attorneys' fees. The Federal Circuit stated that a finding of willful infringement authorizes, but does not mandate, enhancing damages. The district court properly considered the *Read* factors and utilized its discretion by not increasing damages. Likewise, the court's analysis of the *Read* factors supported the determination that the infringement case was not exceptional. Thus, attorneys' fees were not awarded for the willful infringement. The Federal Circuit also stated that, under a reasonable royalty analysis, a patentee cannot receive an award based on the infringer's sale of its business because it would be duplicative of the already received reasonable royalty.

Inequitable Conduct—Inventorship

Frank's Casing Crew & Rental Tools Inc. v. PMR Technologies Ltd., 63 U.S.P.Q.2d 1065 (Fed. Cir. 2002). The district court found that Darrel and Larry Vincent deliberately concealed Dr. Weiner's involvement in the conception of the invention and engaged in a pattern of intentional conduct designed to deceive the attorneys and the patent office. The court found that the Vincents' failure to disclose Weiner's involvement in the invention was material because he was an inventor. The Federal Circuit found that the district court could have concluded that the patent at issue was unenforceable because of the Vincents' conduct before the PTO in omitting Weiner as an inventor. Additionally, the assignee of Weiner's interest in the patent at issue seeks to vest enforceable rights to the patent in Weiner alone as the sole true inventor. The assignee urges that because the Vincents were not true inventors, their conduct cannot render the patent unenforceable. However, the Federal Circuit disagreed and found that this is not a situation in which the patent would have issued without participation by the wrongdoers. If not for the Vincents, the patent would not have issued. Thus, one bad apple spoils the entire barrel, and the assignee could not obtain rights to an enforceable patent in this case.

Infringement—Permissible Repair

Husky Injection Molding Systems Ltd. v. R&D Tool & Engineering Co., 62 U.S.P.Q.2d 1834 (Fed. Cir. 2002). The same safe harbor from infringement exists where activity "akin to repair" is involved as when repair is involved. In both cases, there is no infringement if the particular part is readily "replaceable." Having determined that a part is readily replaceable, it is irrelevant whether the part was an essential element of the invention. In this case, there is no question that the particular parts were readily "replaceable." The design of the injection molding machine allowed replacement of the mold and carrier plates. Typically, after three to five years, a customer purchases a new mold and carrier plate in order to change the perform design. Moreover, Husky sold substitute molds and carrier plates.

Patent Construction—Claims

Beckson Marine Inc. v. NFM Inc., 63 U.S.P.Q.2d 1031 (Fed. Cir. 2002). On summary judgment, the district court determined that the defendant did not infringe plaintiff's patent. Because the record did not support the trial court's claim interpretation, the Federal Circuit reversed and remanded. In this case, the district court based its holding of noninfringement entirely on its construction of the term "sloping drain groove." The district court construed "sloping drain groove" to require "a highly specific U-shaped drain channel of constant diameter/width, as shown in the figures accompanying the patent." In addition to the patent figures, the district court also relied heavily upon the dependent claims to construe "sloping drain groove."

On appeal, the Federal Circuit held that the district court improperly narrowed the scope of the independent claims by importing limitations from the specification and from the dependent claims. Upon review of the entirety of evidence bearing on the meaning of "sloping drain groove," the Federal Circuit determined that the ordinary meaning was not limited to long and narrow U-shaped entities, but encompassed other structures that drain water. Similarly, the Federal Circuit did not construe the figures depicting a single preferred embodiment as limiting the claim term in light of other language in the written description embracing other draining structures. In sum, the Federal Circuit construed the term "sloping drain groove" as a sloping artificial channel for flowing water.

Catalina Marketing International Inc. v. Coolsavings.com Inc., 62 U.S.P.Q.2d 1781 (Fed. Cir. 2002). On summary judgment, the district court held that the defendant did not infringe, either literally or by equivalents, the claims of the patent-in-suit. Because the district court erroneously relied on nonlimiting language in the preamble of Claim 1 to interpret the claims, the Federal Circuit reversed the district court's holding of noninfringement. In this case, there were two independent claims at issue. The preamble of independent Claim 1 read as follows: "1. A system for controlling the selection and dispensing of product coupons at a plurality of remote terminals *located at pre-designated sites such as consumer stores* wherein each terminal comprises: . . . " During prosecution of the patent, the examiner rejected all of the original claims as being obvious. Responsive to the rejection, the applicants amended the claims and submitted several declarations to bolster their assertion of nonobviousness. The applicants did not amend the claim language relating to the location of the terminals. The applicants also did not argue that the location of the terminals in stores distinguished the invention from the cited patent. The accused device is a web-based coupon system to monitor and control the distribution of coupons. The district court construed the claim language "located at predesignated sites such as consumer stores," and held that because the accused device is web-based, and located in a consumer's home, it did not infringe, either literally or by equivalents, the construed claim language.

On appeal, the patentee argued that the disputed language, which appears only in the claim preamble, is not a limitation because it merely states an intended use for the claimed system. The Federal Circuit construed this disputed phrase to determine whether the phrase was indeed a limitation. According to the Federal Circuit, whether to treat a preamble as a limitation is a determination "resolved only on review of the entire patent to gain an understanding of what the inventors actually invented and intended to encompass by the claim." In general, the court continued, a preamble limits the invention if it recites essential structure or steps, or if it is "necessary to give life, meaning, and vitality." Conversely, a preamble is not limiting "where a patentee defines a structurally complete invention in the claim body and uses the preamble only to state a purpose or intended use for the invention." In this case, according to the Federal Circuit, the claims, specification, and prosecution history of the patent demonstrated that the preamble phase "located at predesignated sites such as consumer stores" was not a limitation of Claim 1. To support their holding, the Federal Circuit found that the applicant did not rely on the phrase to define its invention nor was the phrase essential to understand limitations or terms in the claim body.

Practice and Procedure in Patent and Trademark Office—Interference

Berman v. Housey, 63 U.S.P.Q.2d 1023 (Fed. Cir. 2002). On appeal, the junior party in an interference argued that the Board erred by refusing to address its unpatentability motion. The junior party contended that all issues that are fairly raised in an interference proceeding must be decided by the Board, regardless of whether the moving party's claims are found to be unpatentable. The junior party further argued that 35 U.S.C. § 6 supports this conclusion, as it provides that the Board "*shall* determine priority and *patentability* of invention in interferences declared under section 135(a)."

After reviewing the statute and legislative history, the Federal Circuit concluded that the Board did not err by refusing to consider the junior party's unpatentability motion on the ground that the junior party's sole remaining claim in the interference was barred under Section 135(b). The Federal Circuit reasoned that Section 135(b)(1) provides that "[a] claim which is the same as, or for the same or substantially the same subject matter as, a claim of an issued patent may not be made in any application unless such a claim is made prior to one year from the date on which the patent was granted." Both the plain language of that provision and the relevant legislative history make clear that it was intended to be a statute of repose, limiting the time during which an interference may be declared "so that the patentee might be more secure in his property right." Accordingly, the Federal Circuit held that Section 135(b) is a threshold issue that should be addressed by the Board at the preliminary stage of an interference before proceeding to the merits and that the Board in this case properly refused to consider the junior party's unpatentability motion once it determined that that junior party's claim was barred under Section135(b).

Procedure—Evidence

Juicy Whip Inc. v. Orange Bang Inc., 63 U.S.P.Q.2d 1251 (Fed. Cir. 2002).

The Federal Circuit reversed the district court's holding of infringement, finding that the oral testimony of the defendants' witnesses, without supporting documentary evidence, failed as a matter of law to provide the clear and convincing evidence required to invalidate a patent on grounds of prior public use. The Federal Circuit reasoned that even if the testimony at trial were sufficient to correlate each element of the alleged anticipatory dispensers with each claim limitation, the court must still ascertain whether that type of evidence was adequate to support the jury's finding. Historically, courts have looked with disfavor upon finding anticipation with only oral testimony. The Supreme Court clarified that the standard of proof required when using oral testimony to prove prior public use was a very high threshold. In light of this high standard, the Federal Circuit has adopted a list of factors for evaluating the credibility of oral statements. Those factors include: (1) delay between event and trial, (2) interest of witness, (3) contradiction or impeachment, (4) corroboration, (5) witnesses' familiarity with details of alleged prior structure, (6) improbability of prior use considering state of the art, (7) impact of the invention on the industry, and (8) relationship between witness and alleged prior user. Here, applying these factors, the Federal Circuit concluded that the evidence presented by the defendant was insufficient as a matter of law to surmount the clear and convincing evidence hurdle.

Reissue

In re Doyle, 63 U.S.P.Q.2d 1161 (Fed. Cir. 2002). The issue addressed by the Federal Circuit was whether "failure to present a so-called linking claim, a claim broad enough to read on-or link-two or more groups of claims subject to a restriction requirement, is an error correctable by reissue." Here, the patentee filed a request for reissue of the patent so as to broaden the claim. The broader claims encompassed both the issued claims and some of the nonelected claims resulting from a restriction requirement. The solicitor argued that the C.C.P.A. decision of *In re Orita* controlled in that the failure to file a timely divisional in response to a restriction requirement is not an error correctable by reissue. The so-called *Orita* doctrine, therefore, precludes a reissue applicant from obtaining substantially identical claims to those of nonelected groups identified in an examiner's restriction requirement when such claims could not have been prosecuted in the application from which they were restricted.

The Federal Circuit stated that the present facts are quite different from those of the applicants in *In re Orita*. First, Dr. Doyle's new claims are neither identical nor substantially similar to the nonelected claims. Rather, Dr. Doyle's new claims are genus claims where the nonelected claims are species that fall within the new genus claims. In other words, the reissue claims are substantially broader than any of the nonelected claims. The Federal Circuit also stated that Dr. Doyle could have prosecuted his reissue claims with the claims of the elected group. Indeed, as the Solicitor concedes, these linking claims not only could have but should have been prosecuted with the elected group. This undercuts the other rationale underlying the result in *In re Orita* in that the issued patent contains no error. Therefore, the Federal Circuit reversed the Board's decision affirming the rejection of the pending claims and remanded for further proceedings.

Subject Matter Jurisdiction

Pixton v. B&B Plastics Inc., 62 U.S.P.Q.2d 1944 (Fed. Cir. 2002). Pixton owns two patents directed to plastic fishing lures. Pixton granted B&B Plastics, doing business as Gambler, an exclusive license to these patents that included a clause directed to a minimum annual royalty to Pixton. If B&B Plastics chose not to cover the shortfall, Pixton could make the agreement nonexclusive or terminate it outright. Pixton notified B&B Plastics of its alleged breach due to this clause, terminated the license agreement, and demanded that B&B Plastics cease and desist from all allegedly infringing activities. After failing to hear from B&B Plastics, Pixton filed a complaint alleging patent infringement. In response to Pixton's complaint, B&B Plastics pleaded that the license agreement was still in force because it had been orally modified to remove the minimum royalty clauses. The Federal Circuit reviewed the district court's decision to dismiss for lack of jurisdiction *de novo*. The Federal Circuit stated that "[t]o determine whether section 1338 jurisdiction attaches, the court must look to see whether the plaintiff has stated, in a well-pleaded complaint, a claim arising under the patent laws." The Federal Circuit stated that the issue was not ownership, but an action for patent infringement in which the alleged infringer, B&B Plastics, has asserted the defense of license. Thus, the Federal Circuit vacated and reversed the decision of the district court and stated that the district court has subject matter jurisdiction.

Summary Judgment/Invalidity/Enablement

Crown Operations International Ltd. v. Solutia Inc., 62 U.S.P.Q.2d 1917 (Fed. Cir. 2002). The Federal Circuit (a) affirmed the district court's opinion granting summary judgment that the '511 patent is not invalid as being anticipated by or obvious over the asserted prior art, and (b) reversed the district court's opinion granting summary judgment that the '258 patent is enabled.

The invalidity argument on appeal involved whether the asserted prior art patents disclosed a 2 percent limitation for the reflective contribution of the solar control film. Crown, the alleged infringer, argued that the 2 percent reflective limitation was inherent because it must be necessarily present and a person of ordinary skill in the art would recognize its presence. None of the embodiments in the prior art patents discloses the 2 percent limitation. The Federal Circuit stated that the asserted prior art patents did not invalidate the '511 patent because there was not a teaching, suggestion or motivation of this 2 percent limitation. The Federal Circuit concluded that given the presumption of validity, Crown failed to meet its burden because it had not presented sufficient evidence to rebut the evidence that the 2 percent limitation was disclosed.

With respect to the enablement issue, the Federal Circuit stated that Crown's proffered evidence raised a genuine issue of material fact as to whether a person of ordinary skill in the art could make or use the invention of the '258 patent without undue experimentation. The Federal Circuit relied upon Crown's expert stating that (a) the amplitude was not defined in the patent and could be defined in several ways; the amplitude is a direct input for a crucial claim limitation (wave index), (b) the wave index had no specified boundaries causing inoperative embodiments, and (c) the inflation points using the wave index rules could not have been determined.

Copyrights

Bona Fide Claim of Independent Creation Bars Copyright Infringement Action

Calhoun v. Lillenas, 2002 WL 1625364 (11th Cir. 2002). The Eleventh Circuit Court of Appeals upheld a grant of summary judgment on the basis of the defendant's *bona fide* claim of independent creation. In *Calhoun v. Lillenas*, the author of a song entitled "Before His Eyes" sued the author of a song entitled "Emmanuel" as well as various publishing houses and record labels, claiming that the later song was based on the chorus of the former, and that it had been published, marketed, promoted, and distributed without permission. "Before His Eyes" was originally recorded by the author on an album of apparently extremely limited distribution in 1970. "Emmanuel" was composed and originally published in 1976. The defendant asserted that "Emmanuel" was independently created and provided evidence to support this position. The plaintiff was unable to refute the evidence of independent creation, and thus, the district court granted summary judgment in favor of the defendant.

The Eleventh Circuit affirmed the lower court, finding that the evidence fully supported the conclusion that there was no genuine issue of material fact regarding independent creation. The opinion is noteworthy, however, for a special concurrence filed by Judge Birch, who believed that the facts of the case presented a "perfect storm" in which to consider an issue of first impression: whether an unreasonable delay may bar a claim of copyright infringement where there is considerable delay in filing suit and a *bona fide* claim of independent creation. Judge Birch postulated that a challenging author must not be allowed to unreasonably delay in asserting his rights when he seeks a judicial determination of the challenged author's originality of creation. In determining if a case should be barred based on unreasonable delay, Judge Birch suggested that courts consider (1) whether the delay was longer than the three-year statute of limitation period; (2) the cause of the delay; and (3) whether the challenged author was prejudiced by the delay.

Codes Enacted into Law Not Copyrightable

Veeck v. Southern Building Code Congress International Inc., 293 F.3d 791 (5th Cir. 2002). Southern Building Code Congress International (SBCCI) drafts and publishes model building codes in the hope that the building codes are enacted into law by local governments. Peter Veeck, an operator of a nonprofit website providing information on Texas, purchased codes from SBCCI and posted on his website codes that had been enacted into law. Veeck sued SBCCI for a declaratory judgment of noninfringement; SBCCI counterclaimed for infringement. A panel of the Fifth Circuit affirmed the Eastern District of Texas's grant of summary judgment of infringement and the Fifth Circuit reviewed the case *en banc*.

In an 8–6 decision, the Fifth Circuit overturned the judgment of infringement. SBCCI argued that placing its works into the public domain following their enactment into law would be a disincentive to the private development of legal codes. The Fifth Circuit majority responded that lawmakers who enact privately written codes into law "represent the public will, and the public are the final 'authors' of the law." The Fifth Circuit further determined that copyright law's merger doctrine meant that enactment of SBCCI's codes resulted in their becoming "facts" not protected by copyright law. The court said that its decision was limited to cases in which model codes are adopted as law and should not be extended to cases in which privately written standards are incorporated into law.

Judge Jacques L. Wiener Jr. dissented on the bases that the public was given access to the laws in this case even before their copyrightability was questioned, and that no authority exists for stripping private authors of their copyrights based on their works' adoption as law. Reasoning that the merger doctrine does not apply here because codes having the same effects can be written in a variety of ways, Judge Patrick Higginbotham also dissented.

Industry Custom Used to Rebut Presumption That a Hiring Party Is the Author of a Work Made for Hire

Ward v. National Geographic Society, 208 F. Supp. 2d 429 (S.D.N.Y. 2002). Plaintiff Ward, a writer and a photographer, authored numerous articles for *National Geographic Magazine*, which is published by defendant National Geographic Society, as an independent contractor between 1964 and 1978. Although Ward did not register any copyrights in his articles during their initial term under the 1909 Copyright Act, he did seek registrations for the renewal terms. In 1996, National Geographic created and sold a digital archive on CD-ROM of all of past issues of *National Geographic Magazine*. Ward sued for copyright infringement. National Geographic moved for summary judgment claiming to be the owner of the works, which it considered to be works made for hire entitling it to judgment as a matter of law.

The district court denied National Geographic's motion for summary judgment. Under the 1909 Copyright Act, an independent contractor is considered an employee and the hiring party an employer when the work was made at the hiring party's insistence and expense, provided also the employer had the right to exercise control over the author's execution of the work. The hiring party is presumed to be the author of a work made for hire, but the presumption can be overcome by contrary evidence. The district court found that National Geographic met its "instance" and "expense" prongs of the inquiry as a matter of law. The district court, however, denied National Geographic's motion for summary judgment because Ward presented evidence that, if true, would rebut the presumption that National Geographic is the author of several of the works. Ward's evidence was sufficient to create a genuine issue of fact regarding the existence of an implied-in-fact agreement that he would retain copyright in several of his works that appeared in *National Geographic Magazine*. This evidence centered on the custom and practice in the magazine industry in the 1960s and 1970s that freelance projects were produced for one-time use and additional uses came about with additional pay. As evidence of the industry custom, Ward presented an affidavit of a former director of photography for National Geographic stating that National Geographic was not interested in acquiring the copyrights in works that freelancers were commissioned to produce during the relevant time period.

Indiana Supreme Court Holds State Court May Decide Copyright Counterclaim

Green v. Hendrickson Publishers, Inc., 770 N.E.2d 784 (Ind. 2002). Plaintiff Hendrickson Publishers contracted for a ten-year term to publish and distribute books in which the defendants owned copyrights. At the end of the ten-year term, the parties did not renew their agreement and entered into a termination agreement that outlined the procedures for wrapping-up the parties' relationship. Hendrickson brought suit for breach of the termination agreement. Defendants initially counterclaimed for copyright infringement for books sold after the original agreement expired and removed the action to federal court based on the exclusive jurisdiction over copyright claims. The district court remanded the case to the Indiana state court because a counterclaim based on federal law does not confer federal court jurisdiction. Back in the Indiana state court, the defendants amended their counterclaim to allege breach of contact. Hendrickson then moved for summary judgment asserting that the amended counterclaim was based on the federally preempted copyright claim and was merely couched as a claim for breach of contract. The state trial court found that the claim was preempted by the Copyright Act, but the appellate court reversed. The Indiana Supreme Court reversed the appellate court and decided that the counterclaim was a claim for copyright infringement—the court found that an agreement not to infringe a copyright does not provide the extra element necessary to avoid preemption under the Copyright Act. However, the Indiana Supreme Court held that a state court does have jurisdiction to decide the copyright counterclaim. The Indiana Supreme Court interpreted the U.S. Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 122 S. Ct. 1889 (2002) as rejecting the federal authorities stating or implying that a state court may not entertain a counterclaim under patent or copyright law.

Internet Service Provider Not Subject to Jurisdiction of Out-of-State Court

ALS Scan, Inc. v. Digital Service Consultants, Inc., 293 F.3d 707 (4th Cir. 2002). ALS Scan, a producer and marketer of adult photographs on the Internet, sued Digital Service Consultants, an Atlanta, Georgia-based Internet service provider (ISP), for copyright infringement in Maryland district court. Digital provided bandwidth for co-defendant Alternative Products. ALS Scan alleged that Alternative Products misappropriated hundreds of ALS Scan's copyrighted images and posted them on Alternative Products' website, making money from membership fees and advertising. Digital argued that, as an ISP, it merely provided bandwidth to Alternative Products and was not affiliated with Alternative Products in any other way. Other than through the Internet, Digital had no contacts with the State of Maryland. Digital moved to dismiss for lack of personal jurisdiction, and the district court granted the motion.

Noting that "technology cannot eviscerate the constitutional limits on a State's power to exercise jurisdiction over a defendant," the court of appeals affirmed the dismissal. The court stated that a determination of personal jurisdiction depends on whether Digital had "sufficient minimum contacts with Maryland" and relied on the Western District of Pennsylvania's decision in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp 1119, for standards in making the determination. *Zippo* established a "sliding scale" of interactivity between a website and its users to decide whether Internet contacts are sufficient for personal jurisdiction. Under this analysis, exercise of personal jurisdiction is proper where a defendant does business over the Internet, for example by entering into contracts with a jurisdiction's residents. Personal jurisdiction will not be found where a defendant has "simply posted information on an Internet Web site which is accessible to users in foreign jurisdictions." Digital's Internet activity "was, at most, passive and therefore does not subject it to the judicial power of the Maryland court even though electronic signals from Digital's facility were concededly received in Maryland."

Passing-Off Unfair Competition Claims Not Preempted by Copyright Act

Too, Inc. v. Kohl's Department Stores, Inc., ____ F. Supp. 2d ____, 2002 WL 1401553 (S.D.N.Y. 2002). Plaintiff Too designs and markets sleepwear bearing its copyrighted "Panda Design" and "Dreamer Mark." Too sued retailer defendants Kohl's and Windstar Apparel for copyright infringement in connection with that sleepwear. Windstar counterclaimed for infringement of its own copyrights. Too moved to amend its complaint to add an unfair competition claim based, in part, on Windstar's submissions of allegedly fraudulent registrations to the Copyright Office. Windstar opposed the motion to amend, arguing that the Unfair Competition claim alleging fraud on the Copyright Office is preempted by Section 301 of the Copyright Act. The district court disagreed noting that a cause of action is not preempted by Section 301 where it involves an extra element beyond the acts of reproduction, performances, distribution, or display, which are protected by the Copyright Act. Windstar's passing-off unfair competition claim includes the extra element of false designation and, thus, is not preempted by Section 301.

Shipment of Works into State Sufficient Contacts for Jurisdiction

Cambridge Literary Properties, Ltd. v. W. Goebel Porzellanfabrik G.m.b.H., 295 F.3d 59 (1st Cir. 2002). Plaintiff Cambridge owns a copyright interest in the Hummel Book, which contains images of children drawn by the now-famous German nun, Sister Berta Maria Innocentia Hummel. The illustrations in the Hummel Book serve as models for a continuing series of porcelain figurines—called Hummels—that have become popular with collectors in the United States. Cambridge claims that these figurines, which it has been manufacturing since 1935, comprise derivative works from the Hummel book. Cambridge filed an action for an accounting and constructive trust against defendant Goebel in the Massachusetts district court based on Goebel's importing and selling Hummel-like figurines in the United States.

Goebel, having its principal place of business in Germany, moved to dismiss the action for lack of personal jurisdiction. Goebel shipped its product to its independent distributor in Massachusetts until 1994 and then shipped to its wholly owned subsidiary in New Jersey. The district court granted Goebel's motion to dismiss, finding that Cambridge's claims "arose from" events transpiring in Germany and the claims had no connection to the distribution and sales in Massachusetts.

The First Circuit vacated the district court's dismissal and found that sufficient contacts existed for the Massachusetts District court to exercise jurisdiction over Goebel. For specific jurisdiction to exist under the Massachusetts long-arm statute and the U.S. Constitution there must be a nexus between Cambridge's claim and Goebel's in-state activities. The court of appeals found that Goebel's derivation of profits from the shipments of the Hummel-like figurines that may infringe Cambridge's copyrights is directly linked to Massachusetts. The First Circuit pointed out that the main inquiry of the long-arm statute and the Constitution's due process clause is whether the claim in some significant degree arises from Goebel's contacts with Massachusetts. That events in Germany also bear upon the claim does not negate the existence of minimum contacts with Massachusetts.

Standard for Indirect Profits Clarified

Mackie v. Rieser, 296 F.3d 909 (9th Cir. 2002). The Ninth Circuit Court of Appeals has clarified the standard under which indirect profits may be awarded to a successful copyright infringement plaintiff. The case involved a sculpture created by the plaintiff that was subsequently photographed and used without permission in a direct mail advertisement for the Seattle Symphony Orchestra. The symphony admitted infringement, but because the plaintiff had not registered the sculpture, statutory damages were not available. Plaintiff also lacked evidence of the Symphony's direct profits, so he sought actual damages and indirect profits. The trial court granted the Symphony's motion for summary judgment on the issue of indirect profits and the plaintiff appealed.

The Ninth Circuit held that in order to survive summary judgment on a demand for indirect profits pursuant to Section 504(b) of the Copyright Act, the copyright holder must proffer sufficient nonspeculative evidence to support a causal relationship between the infringement and the profits generated indirectly from the infringement. The court found support for this "common sense" approach in both its prior decisions and in those of other circuit courts. In the case at hand, the court rejected the argument that the response rate to the Symphony's infringing direct mail advertisement was somehow correlated with revenue generated because of the use of the plaintiff's work in the advertisement. The court emphasized that there was no way of determining what percentage of the individuals who responded to the direct mail campaign did so because of the plaintiff's work. As a result, to award indirect profits on the basis of the response rate would be too speculative and would not be allowed under the newly announced standard.

Visual Combination of Public Domain Elements Is Sufficiently Creative

Willard v. Estern, 206 F. Supp.2d 723 (D.V.I. 2002). Deborah Willard, a Virgin Islands artist, created a design incorporating a "Caneel" petroglyph as the two zeros in a depiction of the year "2000." Willard's design was used in a Virgin Islands newspaper for advertising purposes, and Willard acquired a copyright registration for the design. Following discussions with Willard, Elaine Estern, another Virgin Islands artist, created a 2002 calendar using a petroglyph as the two zeros. Willard sued Estern and her publishing company for copyright infringement, and the defendants moved to dismiss on the grounds of: (a) copyright invalidity due to insufficient originality; and (b) failure to properly plead infringement.

The U.S. District Court of the Virgin Islands denied the defendants' motion. Addressing the originality argument, the court relied on *Feist Publs., Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991), to show that the defendants argued for too high a standard for originality. *Feist* notes that an extremely low level of creativity suffices for a determination of originality, requiring a work to "possess some creative spark, 'no matter how crude, humble, or obvious' it might be."

Willard proved access to support a determination of copying. To determine whether the works were sufficiently similar to support a pleading of copyright infringement, the court asked whether the average observer would recognize Estern's work as having been appropriated from Willard's. The court determined that, although Estern's and Willard's designs featured different petroglyphs, an ordinary observer may find infringement "based on the nature of the works." The court stated that the combination of the petroglyphs with the calendar years could support a determination of infringement.

Trademarks

ACPA Protection for Foreign Marks

Barcelona.com, Inc. v. Excelentisimo Ayuntamiento De Barcelona, 63 U.S.P.Q.2d 1189 (E.D. Va. 2002). In February 1996, Joan Nogueras Cobo (Nogueras) registered the domain name barcelona.com with Network Solutions, Inc. (NSI) in the name of his wife. In February 1997, Nogueras launched the web site barcelona.com, which provided information about the city of Barcelona, an email service, a chat room and links to other Internet services. Nogueras incorporated Barcelona.com, Inc. (BCI) under the laws of Delaware in October 1999, and Nogueras's wife subsequently transferred the domain name to BCI.

In May 2000, the City Council of Barcelona (Council) sent a letter to BCI contesting its use of the word "Barcelona" in the barcelona.com domain name. The Council subsequently filed a complaint with the World Intellectual Property Organization (WIPO). Thereafter, a WIPO panelist ordered the transfer of the domain name barcelona.com to the Council.

BCI filed a declaratory judgment action in the U.S. District Court for the Eastern District of Virginia seeking a declaration that its registration of barcelona.com was not unlawful. The Council counterclaimed under the Anti-Cybersquatting Consumer Protection Act (ACPA).

The district court noted that neither BCI nor the Council owned a U.S. trademark for the name "Barcelona," nor did either party have a Spanish trademark for the name "Barcelona" alone. The Council did, however, possess multiple Spanish trademarks containing the term "Barcelona." In considering the Council's claim under the ACPA, the district court noted that in the text of the ACPA, Congress made no distinction between United States or foreign marks. The district court stated that the ACPA "was framed to govern the registration of domain names on the Internet, and the framers were perfectly aware of the international nature of the Internet when enacting the law." The district court held it was untenable, therefore, to suppose that Congress intended that the ACPA to only protect U.S. trademarks. Accordingly, the court denied BCI's request for declaratory judgment and ordered that the domain name "barcelona.com" be transferred to the Council.

Effect of Incontestable Registration

In re Best Software Inc., 63 U.S.P.Q.2d 1109 (TTAB 2002). Best Software, Inc. (Best Software) filed an appeal with the Trademark Trial and Appeal Board (Board) of the U.S. Patent and Trademark Office (PTO) because the examining attorney refused to register its mark BEST! IMPERATIV HRMS absent the entry of a disclaimer for "BEST" to identify computer software for human resource management and related activities. The examining attorney found the word "best" to be merely descriptive of Best Software's goods because it is a laudatory term and unregistrable without a showing of acquired distinctiveness. The examining attorney relied upon the dictionary meaning of "best" and numerous third-party registrations containing disclaimers of "best." The examining attorney also noted that Best Software disclaimed BEST PROGRAMS in its registration for BP BEST PROGRAMS "THE QUALITY SOFTWARE COMPANY."

Best Software countered by arguing that the word "BEST" does not describe any real or specific characteristic of its goods and the use of the exclamation mark after "BEST" creates a unitary commercial impression. Moreover, Best Software claimed that its incontestable registration for "BEST!" (also for computer software for human resource management and related activities) granted it an exclusive right to use the mark BEST!, thus it should not be required to disclaim "BEST!" in its application for BEST! IMPERATIV HRMS. Best Software's prior registration for "BEST!" issued without entry of any disclaimer or showing of acquired distinctiveness.

The Board concluded that the word "BEST" is merely descriptive, in a laudatory sense, of Best Software's computer software and must be disclaimed, in the absence of a showing of acquired distinctiveness. The Board cited the Court of Appeals for the Federal Circuit's holding in *In re Boston Beer Co. L.P.*, 198 F.3d 1370, 53 U.S.P.Q.2d 1056, 1058 (Fed. Cir. 1999), finding that the slogan "THE BEST BEER IN AMERICA" is so highly laudatory and descriptive of the qualities of its product that the slogan does not and could not function as a trademark.

Addressing the issue of incontestability, the Board ruled that ownership of an incontestable registration does not give the applicant a right to register the same or similar mark for different goods or services, even if they are closely related to the goods or services set forth in the incontestable registration.

"Identical or Confusingly Similar" in the acpa Is Not Shorthand for the Likelihood of Confusion Infringement Test

Hartog & Co. v. swix.com, 63 U.S.P.Q.2d 1086 (E.D. Va. 2001). Hartog & Co. (Hartog) is a Norwegian company. In 1949, Hartog's parent company obtained a U.S. trademark registration for the mark SWIX for ski waxes. Thereafter, Hartog obtained registrations for the mark in several other countries, including Switzerland. Hartog's U.S. subsidiary sells ski waxes bearing the SWIX mark in the United States and elsewhere.

In the early 1990s, Pedram Burgin (Burgin), a citizen of Switzerland, began doing business as a sole proprietor in Switzerland under a couple of different names. In 1995, Burgin began providing Internet services to the public under the name SWiX Internet Dienste (SID). In 1996, Burgin registered the mark SWIX in several International Classes in Switzerland. Burgin also registered the domain names "swix.com" and "swix.net" with NSI in 1996.

Later in 1996, Hartog became aware of Burgin's and SID's use of "swix.com" and "swix.net." However, Hartog's attempts to obtain the domain names were not successful, and Hartog filed a lawsuit in 1999 in the U.S. District Court for the Eastern District of Virginia. Because personal jurisdiction could not be obtained over Burgin, Hartog later amended its complaint to seek transfer of the domain names under the *in rem* provisions of the ACPA.

Following a bench trial, the district court determined that Hartog was not entitled to *in rem* relief under the ACPA because Burgin is a legitimate businessman and SID is a legitimate business. Significantly, the court also stated that the language "identical or confusingly similar" in the ACPA should not be interpreted as shorthand for the likelihood of confusion infringement test because doing so would largely undermine Congress' goal of stopping individuals who own domain names that approximate distinctive marks but do not actively use the domain names other than to make them available for sale.

Internet Domain Name Registrar Not Liable for Alleged Infringement, Dilution and Violation of the acpa

Bird v. Parsons, 62 U.S.P.Q.2d 1905 (6th Cir. 2002). Darrell J. Bird (Bird) brought suit based on various causes of action against Dotster, Inc. (Dotster), a domain name registrar, Afternic.com, Inc. (Afternic), a domain name auction company, and others. Bird owns a U.S. trademark registration for FINANCIA for computer software. Marshall Parsons (Parsons) registered the domain name "efinancia.com" with Dotster. The next day Parsons listed the "efinancia.com" domain name on the Afternic website, which provides auction services for the purchase, sale and exchange of domain names.

Among other claims, Bird alleged trademark infringement, trademark dilution, unfair competition and cybersquatting under the ACPA. The U.S. District Court for the Southern District of Ohio determined that Bird failed to state a claim against Dotster and Afternic and granted the companies' motion to dismiss.

On appeal, the Sixth Circuit affirmed the decision of the district court determining that Bird: (1) failed to state a claim for trademark infringement or unfair competition because neither Dotster nor Afternic "used" a registered trademark in connection with sale, distribution or advertising of goods and services within the meaning of 15 U.S.C. §§ 1114(1)(a) and 1125(a)(1); (2) failed to state a claim under trademark dilution because neither company made "commercial use" of a mark within the meaning of 15 U.S.C. § 1125(c); and (3) failed to state a claim under the ACPA because neither company "registered," "trafficked in," or "used" a domain name within the meaning of 15 U.S.C. § 1125(d).

Naked Licensing of a Trademark

Barcamerica International USA Trust v. Tyfield Importers Inc., 62 U.S.P.Q.2d 1673 (9th Cir. 2002). Barcamerica International USA Trust (Barcamerica) obtained a U.S. registration for the trademark LEONARDO DA VINCI for wine in 1984. In 1988, Barcamerica entered into a licensing agreement with renaissance vineyards (Renaissance) for production and sale of wine under the LEONARDO DA VINCI trademark. In 1989, the two parties entered into another licensing agreement for the same mark. Neither licensing agreement contained a quality control provision.

Another winemaker, Cantine Leonardo Da Vinci Soc. Coop. a.r.l. (Cantine), an Italian entity, had been producing and selling wine under the mark LEONARDO DA VINCI to producers in the U.S. since 1979. In 1996, in the course of prosecuting its first trademark in the United States, Cantine learned of Barcamerica's registration. In May 1997, Cantine commenced a proceeding in the PTO seeking cancellation of Barcamerica's registration based on abandonment. Barcamerica responded by filing a suit in the U.S. District Court for the Eastern District of California for trademark infringement.

Cantine moved for summary judgment on various grounds, including asserting that Barcamerica had abandoned the LEONARDO DA VINCI mark through naked licensing. The district court determined that Barcamerica licensed its mark without retaining any control or supervision over the quality of the wine sold under the LEONARDO DA VINCI mark and thus granted the motion for summary judgment. Barcamerica appealed to the Ninth Circuit.

In its appeal, Barcamerica did not contest the district court's finding that: (1) the license agreement failed to include quality control provisions and (2) Barcamerica was not familiar with its licensee's quality control efforts. Rather, Barcamerica essentially argued that, because Renaissance makes good wine, the public is not deceived by Renaissance's use of Barcamerica's LEONARDO DA VINCI mark, thus the license was legally acceptable.

The Ninth Circuit rejected Barcamerica's argument explaining that whether "Renaissance's wine was objectively 'good' or 'bad' is simply irrelevant. What matters is that Barcamerica played no meaningful role in holding the wine to a standard of quality—good, bad, or otherwise." The Ninth Circuit emphasized that consumers are entitled to assume that the quality of goods and services represented by a certain mark will be consistent and predictable. The Ninth Circuit therefore upheld the district court's determination that Barcamerica abandoned its mark through naked licensing.

Proving Fame in an Infringement Action Without a Survey

Bose Corp. v. QSC Audio Products, 63 U.S.P.Q.2d 1303 (Fed. Cir. 2002). Bose Corporation (Bose) appealed the decision of the Trademark Trial and Appeal Board (Board) dismissing its opposition to the application of QSC Audio Products, Inc. ("QSC") to register the mark POWERWAVE for amplifiers and power amplifiers. The Board concluded that there was no likelihood of confusion between POWERWAVE and Bose's ACOUSTIC WAVE and WAVE marks.

The Bose ACOUSTIC WAVE mark is registered and used for speaker and stereo systems. The Bose WAVE mark is registered and used for a variety of related goods including radios, audio tape recorders and players, and compact stereo systems. Bose also owns its house mark BOSE that frequently accompanies the ACOUSTIC WAVE and WAVE marks. For purposes of this litigation, QSC and the Board accepted that the BOSE house mark is "famous."

Bose opposed QSC's application on the ground that permitting QSC to apply the mark POWERWAVE to its amplifiers would lead to a likelihood of confusion as to the origin of the amplifiers, in light of Bose's registrations for the ACOUSTIC WAVE and WAVE marks. The Board rejected Bose's claim, based primarily on its determination that Bose failed to prove that its ACOUSTIC WAVE and WAVE marks were famous. The Board noted that: (1) Bose failed to produce any direct survey evidence regarding the fame of the marks; (2) Bose failed to prove that the marks were famous independent of the famous BOSE mark that accompanies them; and (3) the raw sales and advertising expenditures data standing alone did not provide a sufficient context for a determination of fame.

The Federal Circuit addressed each of the Board's points and held that the WAVE and ACCOUSTIC WAVE marks were famous. First, the Federal Circuit dismissed the Board's requirement for direct survey evidence of fame, stating that prior cases are replete with findings of fame based on indirect evidence of fame relying on statistics of sales, revenue, and advertising as well as recognition and awards. Second, the Federal Circuit noted that the awards and praise received by the individual products, as well as certain advertising and sales material that referenced the products without mention of the BOSE house mark, served as evidence that the marks had acquired fame separate from the BOSE house mark. Finally, the Federal Circuit acknowledged that statistics of sales, revenues, and marketing expenses can be misleading but stated that the significance of the sales and advertising figures in this context were supported by the evidence that the consuming public had been continuously and extensively exposed to the WAVE and ACOUSTIC WAVE marks. The Federal Circuit reversed the Board, held that a likelihood of confusion existed, and denied QSC's registration for POWERWAVE.

The Importance of Using an Itemized List on a Return Postcard Submitted to the USPTO

In re Group Falck A/S, 62 U.S.P.Q.2d 1797 (Comm'r. of Patents & Trademarks 2002). Group Falck A/S (Group Falck) filed a petition with the PTO's Commissioner of Patents and Trademarks for a ruling that its trademark application and drawing page for the mark GROUP 4 FALCK & Design was properly filed on November 3, 2000.

On November 3, 2000, Group Falck filed its application using the "& Design" designation. Group Falck also submitted a return postcard with its application. Notably, however, the postcard did not contain a specific reference to the drawing page. The return postcard was date-stamped by the PTO and sent back to Group Falck. The examining attorney subsequently issued an office action noting that the application failed to contain a drawing page.

The commissioner noted that in light of the PTO's practice of scanning images of applications almost immediately after applications are received, the scanned image of an application is highly likely to be an exact copy of what was sent to the PTO. Further, the commissioner ruled that if the database of scanned applications does not include an image of a missing element that a petitioner declares was submitted with the application, the director will not find that the element was submitted, unless there is evidence to corroborate the declaration. Such evidence could consist of a postcard that was submitted with the original application which "(1) bears an Office date stamp and (2) an itemized list of materials that references the element in question." Because Group Falck did not itemize the drawing page on its postcard, the commissioner determined that the record was insufficient to allow a conclusion that the drawing page was submitted with the application.

The commissioner stressed in a footnote, "[A]pplicants can avoid any uncertainty they believe exists by filing applications electronically, via the Trademark Electronic Application System (TEAS). Where applications are filed using TEAS, there is near-absolute certainty that the Office receives whatever is properly transmitted."

I²P Group News

BY SAMSON HELFGOTT, INTERNATIONAL ACTIVITIES COORDINATOR

Change of Examination Procedure at EPO

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.

Japanese Intellectual Property Policy Outline

The government of Japan, through its Strategic Counsel on Intellectual Property, have put forth an Intellectual Property Policy Outline reviewing Japan's position with respect to intellectual property and proposing reforms and programs to reshape Japan as a "nation built on intellectual property." For this goal, the outline proposes reforms in technology and culture as a national undertaking with a view to the construction of a twenty-first century Japan.

The Outline recognizes that since the World War II, Japan has generally introduced and improved upon technology from the United States and Europe. However, it now recommends that in going forward, Japan must make major reforms for revitalizing the Japanese economy and society "by further promoting the creation, protection and exploitation of intellectual property, which will become a source of national wealth for Japan in the future."

Toward these goals, the government of Japan will undertake various projects and reforms to promote greater creativity at various levels of society. At the lowest level of education, as early as the elementary level, Japan will be cultivating the appreciation of free-thinking and ingenuity. Japan desires better intellectual property education adapted to each age level to develop a cultural environment that attaches importance to originality and individuality.

Serious programs will be established to encourage universities and public research institutions to make innovative breakthroughs. To this goal, greater appreciation of researchers and inventors will be instituted and greater return and rewards provided to such inventors.

Along with stimulating creativity, the government of Japan proposes to encourage and enhance the entire patent system. The patent office and courts will be made more user-friendly and more accommodating to obtaining and enforcing patents. Plans for expediting examination will be introduced, as well as working toward global mutual recognition of rights through international harmony of patent law and patent examination standards. To this end, as a first step, it is suggested that the patent offices of Japan and the United States should consider, by the end of 2002, the mutual use of prior art search and examination results for applications filed in either Japan or the United States. Likewise, enhancement of copyright protection, the enforcement of protection of trade secrets and improvement in the court system in Japan are all addressed.

Encouragement will be given to the private sector to value companies not only based on tangible assets, but also on intellectual property. Efforts will be given for publicizing the availability of intellectual property rights to promote the growth potential of venture companies. Improved rights of the original inventor and protection of his creative works also will be instituted. Increased specialists for aiding in the creation of intellectual property and the obtaining of intellectual property rights also will be established to enhance the patent legal profession in Japan. There also will be plans for integrating various technological databases and patent databases to facilitate overall search and R&D efforts.

As part of this Outline, it is proposed that beginning with 2003, an intellectual property basic law will establish an Intellectual Property Headquarters. In cooperation with various related ministries, the headquarters will be responsible for strong and steady implementation of the Outline.

To implement these broad concepts and goals, a specific action plan has been proposed for the next three or four years to promote R&D and focus on the creation of intellectual property at universities. By FY2003 there will be an R&D system that covers the overall R&D process from basic R&D to application of research results and technology transfer. Japan plans to increase R&D funds, including scientific research grants. Programs will be instituted to systematically collect research information and disseminate the information by providing a system to promote international distribution of research information. Starting in FY2002, Japan will make efforts to provide open exhibitions, lectures, and opportunities for information disclosure through the Internet and other communication channels.

The Outline proposes that in FY2003, the paper search system of technical information will link to the patent search system. In that same year, various govern-

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ment ministries will prepare individual research evaluation guidelines using intellectual property-related items as evaluation indicators. Regulations also will be instituted for universities and R&D centers to provide proper compensation to individual inventors for inventions. The Japanese government will promote the use of patent lawyers and private experts by universities. Rules also will be established for having the universities and research facilities exploit the intellectual property produced by their staff.

To provide more prompt examination of patent applications, in FY2002, Japan proposes to take comprehensive measures to improve the examination system by securing a sufficient number of examiners, outsourcing prior art searches, actively using the system examiners with expertise, and reforming the Japanese patent application/examination request system. By 2003, Japan plans to reconsider the relationship between various third-party actions within the patent system, such as the opposition system, the system for trial for invalidation, the system for trial for correction, and the relationship between appeals, trials and lawsuits. Japan proposes to study the various dispute resolution opportunities, and, by 2004, propose suitable systems for patent resolution. Japan will also grant both the Tokyo and Osaka district courts exclusive jurisdiction over lawsuits relating to intellectual property.

Other aspects of the Outline include providing intellectual property courses in law schools, promoting business law instruction at law schools, providing technical experts with business acumen, and increasing the numbers of patent lawyers and strengthening their functions. Additionally, Japan will address new areas of technology and how to protect them, including addressing the results of post-genome research, regenerative medicine, and gene therapy.

The government of Japan anticipates implementing these policies before the end of 2002.

U.S. General Accounting Office Issues Report on Foreign Patent Challenges

In response to a request from the U.S. Senate Committee on Small Business and Entrepreneurship, and the House of Representatives Committee on Small Business, the United States General Accounting Office studied the impediments that small businesses face in obtaining patents outside the United States. The final report issued as GAO-02-789 and is entitled "International Trade-Federal Action Needed to Help Small Businesses Address Foreign Patent Challenges."

The minimum cost to a small business to obtain and maintain for twenty years a relatively simple patent in the United States could be about $10,000 based on a scenario that GAO developed. However, extending the patent to nine other countries, which could be a typical small business foreign patent strategy, could cost between $160,000 and $330,000.

The businesses and counsel also identified other impediments, including limited domestic knowledge of the patent process in other countries, and challenging business climates and patent enforcement in certain countries. Large businesses obviously face these impediments, but have developed better expertise to address these issues.

More than 70 percent of both the small businesses and the patent lawyers that GAO surveyed believed that federal efforts to promote harmonization (i.e., reduced differences) among U.S. and foreign patent systems and reduce the high cost of obtaining foreign patents, would be the best way to help small businesses. A majority of small businesses also thought that federal financial assistance would be useful to help defray the high cost of foreign patents. The majority of the patent lawyers surveyed believed that informing and educating small businesses about foreign patents would also be worthwhile.

GAO recommended that the U.S. Patent and Trademark Office obtain input from small businesses and other interested parties to assess the advantages and disadvantages of various patent harmonization options. They also recommended that the Small Business Administration make readily available to small businesses information about key aspects of foreign patent laws, procedures, and costs.

A full copy of the report is available at www.gao.gov/new.itemsd02789.pdf.

Japanese Patent Law Changes from September 1, 2002

Several new changes have come into force in Japanese patent law from September 1, 2002:

1.Prior Art Disclosure

The Japanese Patent Office now requires patent applicants to disclose known prior art when filing a patent application. Although there are similarities to U.S. practice, the Japanese law differs in a number of ways. First, the identification of prior art must be in the specification directly and must include all information known to the applicant as of the Japanese filing date. There is no obligation to update this information throughout prosecution. This new requirement applies to all applications filed on or after September 1, 2002. The new law does NOT apply to

(1) International Applications filed prior to September 1, 2002 that enter the JP National Phase after that date, or

(2) JP National Phase applications that entered the JP National Phase prior to September 1, 2002, but are still pending on that date.

For applications that are examined under the new provision, prior art may be cited in the specification either at the time of filing or added to the specification by amendment; such amendments will not be considered new matter. The contents of the prior art documents may not be added to the specification, only citations to such documents.

When the JPO issues an Office Action requiring disclosure of prior art information, the applicant can provide either of the following responses:

(a) the applicant may add information on prior art documents through amendment; when doing so, the applicant could submit a written argument explaining the contents of inventions publicly known through documents as well as the similarities and difference between the invention for which a patent is sought and the inventions publicly known through documents, or

(b) submit a written argument that he/she has no knowledge of relevant inventions publicly known through documents.

However, the Japanese prior art disclosure duty is much more relaxed than in the U.S. under 37 C.F.R. § 1.56. For instance, failure to disclose known prior art is not grounds for invalidity, even for opposition/invalidation purposes. It is only a basis for rejection during prosecution.

Even if the applicant does not submit prior art during prosecution or after the patent issues, that omission does NOT invalidate or render the patent vulnerable to attack.

2. Additional Months to Submit Japanese Translation of PCT

Japan's new law on PCT entry, effective September 1, 2002, provides that the applicant must still file the JPO domestic filing documents on the thirtieth month due date (e.g., September 2, 2002) but the applicant is now permitted to submit the Japanese translation of the PCT application two months later (e.g., November 2, 2002). The applicant must still file the Japanese National Phase filing documents by the thirtieth month due date. There is still no revival or reinstatement system for PCT applications that have missed the JP National Phase entry deadlines. This law does not operate retroactively. Also, under the new law effective September 1, 2002, the claims are not considered as part of the specification (in harmony with PCT requirements).

3. Protection for Program-Related Inventions

The 2000 revision of the JPO Patent Examination Guidelines stated that "computer programs" can be described in claims as inventions of products irrespective of whether they are recorded on recording media. However, Section 85 of the civil law defines "material" as tangible items. Therefore, there was apprehension whether computer programs are really included in the term "material (product)" used in the patent law.

Also, in sending computer programs providing Application Service Provider (ASP) services via networks, the original copies of programs remain at the sender or the service provider even after the programs or services have been sent or provided. It was therefore not clear whether such processing or services can be covered by such terms as "transfer (handover)" or "lend" and therefore whether such acts can be covered by a patent right in the current patent law.

To ensure better protection for program-related inventions, Section 2(3) of the patent law that defines "working of an invention" has now been revised. A patent is an exclusive right to commercially "work" the patented invention (Section 68 of the patent law). Section 2(3) of the patent law defines what constitutes "working," making a clear distinction between "inventions of products" and "inventions of methods." Section 2(3) of the Patent Law has been revised in such a way that it expressly states that "a computer program" is included in "inventions of products," without introducing a third category. The Section is further revised so that "offering via telecommunication line" is included in "working" of an invention, and "a program" is defined as "instructions for a computer, combined so as to bring a result."

This revision applies to Japanese applications filed on or after September 1, 2002, in Japan, and a Japanese national phase application based on a PCT international application filed on or after September 1, 2002.

European Patents Expanded to Eastern Europe

The EPO has announced that four new states have acceded to the European Patent Convention (EPC). The new states are Bulgaria, the Czech Republic, Estonia, and the Slovak Republic.

The EPC will enter into effect for those states on July 1, 2002 and as of that date the twenty-four states that can be covered by a European patent will be:

> Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, the Netherlands, Portugal, Slovakia, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.

European applications filed on or after July 1, 2002 may designate the new member states. Similarly, the EP designation of a PCT application filed on or after July 1, 2002 will automatically cover those states. It will *not* be possible to designate the new states retroactively in applications filed before that date except in certain circumstances. In the near future all the aforementioned extension countries (except the former Yugoslav Republic of Macedonia), together with Hungary and Poland, also will become full members of the European Patent Organization, bringing the total number of member states to thirty-one.

EPO Clampdown on Multiple Independent Claims

Amended Rule 29(2) EPC effective from 2 January 2002, applies to all European applications on which a Rule 51(4) EPC communication (Notice of Allowance) had not issued by that date. Under this amendment, a European patent application may contain more than one independent claim in the same category (product, process, apparatus or use) *only* if the subject matter of the application involves one of the following permitted exceptions listed in the Rule:

(a) a plurality of interrelated products;

(b) different uses of a product or apparatus; and

(c) alternative solutions to a particular problem, where it is not appropriate to cover those alternatives by a single claim.

The EPO has stated that this change underscores and legally defines the principle of one independent claim per category and the only exceptions to the principle are now explicitly stated in the rule. An applicant wanting more than one independent claim in the same category will have to demonstrate convincingly that any additional independent claims come under one of the exceptions given in Rule 29(2).

The EPO has given examples of things that will be considered within the exceptions listed in Rule 29(2): a plug and socket; a transmitter and receiver; intermediate and final products; and a gene, a gene construct, a host, a protein and a medicant. Permissible exceptions under Rule 29(2)(b) EPC are in particular second or further medical use in the format of a second medical use claim. Finally, typical permitted exceptions under Rule 29(2)(c) EPC are two or more processes for the manufacture of a chemical compound in inventions relating to a group of new chemical compounds. In cases where there are multiple independent claims and it is not clear these fall within the exceptions permitted under Rule 29(2), an objection will be raised under the Rule and full substantive examination will be deferred.

Streamlined Allowance and Grant Procedure in EPO

The procedure affecting allowances and grants is generally governed by Rule 51 EPC, which was amended effective 2 July 2002. Under the previous version of the rule, when the specification was in condition for allowance, a communication issues under Rule 51(4) EPC and a four-month term is set in which the applicant must approve the allowed text and drawings, or file amendments, or perhaps, file arguments against amendments made by the examiner. Once the applicant has approved a version of the text and drawings allowed by the Examining Division, a communication issues under Rule 51(6) EPC. This communication sets a 3 month term for paying the grant and printing fees and the filing of translations of the claims into the two official EPC languages that were not the language of the proceedings (and any other outstanding formalities such as translation of the priority application).

As of 2 July 2002, the previous two-stage procedure will be combined into a single stage.

Once the Examining Division has decided on a form of the specification it is prepared to allow, it will issue a communication under Rule 51(4) EPC inviting the applicant to pay the grant and printing fees and file the translations of the claims in the two official languages that were not the language of the proceedings. There will no longer be a requirement to approve specifically the allowed text and drawings, as payment of the grant and printing fees and filing of the translations will be deemed an approval of the allowed specification.

There may be cases where the applicant does not wish to approve the allowed text, but instead wishes to file an amendment or correction. This might be the case if the Examining Division has allowed the application as filed (in which case the Rule 51(4) EPC communication is effectively the first examination report) or perhaps where new prior art has come to light. In any event, that possibility is covered by Rule 51(5) EPC, permits amendments in response to Rule 51(4) EPC communications. In that case, the same deadline for filing the translations of the claims and the grant and printing fees applies, but if the amendment or correction is in the claims, the translations should be of the amended or corrected claims and not those that have been allowed. Payment of the fees and filing of the translations is deemed an approval of the amended or corrected specification and, provided the Examination Division approves the amendments or corrections, the application will proceed to grant. If the Examining Division does not approve the amendments or corrections submitted by the applicant, a period will be set in which to submit observations or any amendments considered necessary by the Examining Division. If amendments are filed and they are in the claims, translation of the amended claims must be filed.

Domain Names: Beijing China Court Rules in Favor of Eleven World-Famous Companies

Recently the Beijing 2nd Intermediate People's Court ruled that several domestic enterprises had illegally cybersquatted the domain names of the eleven world-famous companies, including Kentucky Co. Ltd., United Parcel Service, and P&G. The court found that as of 1998, Guangzhou Yuejing Information Network Co. Ltd (Yuejing) and Beijing Chinanet Information Co. Ltd. (Chinanet), had registered "kfc.com.cn" and "ups.com.cn" in China even though they do not own any right to these domain names. In addition, they registered "pepsi.com.cn", "cocacola.com.cn," and "nike.com.cn," which are the same as or similar to other famous international brand names.

The court found that the registrations of these domain names was willful, constituted unfair competition, and damaged the commercial benefits of the world-famous companies. The court required that Yuejing and Chinanet remove their registration of all domain names, which are similar to, or the same as, the world-famous brand names and trademarks, within ten days from the effective date of the decision.

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