



NEWSLETTER

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Lost Profit Damages: Beware the Demand Curve's Slippery Slope

BY BRETT A. MARGOLIN



Brett A. Margolin

Lost profits constitute the applicable measure of damages in many commercial disputes, especially those involving intellectual property. These claims stipulate that, but for the defendant's infringement, the plaintiff would have earned greater profits through higher sales quantities ("lost sales" damages), higher prices ("price erosion" damages), or both. In most cases, such claims involve the presentation of economic expert testimony.

The admissibility of such testimony is governed primarily by *Daubert v. Merrell Dow Pharmaceuticals Inc.*¹ *Daubert* articulates four factors that a court should consider in accepting scientific testimony, including: (1) whether the subject of testimony is falsifiable or testable, (2) whether the testimony derived from techniques with known error rates, (3) whether the testimony has been subjected to peer review, and (4) whether the testimony is generally accepted in the scientific community.² These tests support Federal Rules of Evidence 701–703, which generally require that an expert have a reliable basis in knowledge of his discipline and that he properly apply this knowledge in his analysis.³

Unfortunately, economic testimony in lost profit claims frequently lacks the fundamental economic analysis that economists refer to as the "First Law of Demand." The First Law of Demand holds that an increase in the price of a product leads to a decrease in the quantity sold. Logically, this concept should play a central role in lost profit analyses, yet economic experts often develop lost profit opinions without considering how an assumed change in price would affect the quantity sold. In failing to consider a theory so fundamental to

economic analysis, these experts not only open themselves up to damaging cross-examination, but also expose themselves to successful *Daubert* challenges to exclude their testimony.

The First Law of Demand

The First Law of Demand, the central principle in market economics, recognizes an inverse relationship between price and quantity. Holding everything else constant, an increase in a product's price leads to a decrease in its quantity sold. Economists present this concept graphically in the demand curve (see Figure 1 on page 3); a downward sloping curve with price plotted on the vertical axis and quantity plotted on the horizontal axis.

A demand curve illustrates the quantity demanded at any given price, and, as reflected by the slope of the curve, the rate at which demand drops as price increases. Some factors for determining a product's price sensitivity, or "elasticity of demand," include the availability of substitute products, the price of the good relative to the consumer's income, whether the item is a luxury or

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Keeping Current with the Chair

MARK T. BANNER

Patents Mean Jobs, Congress to be Told

A stronger, more efficient, better-managed patent system means more jobs created in America. That's the message the American Bar Association will be delivering to Congress and the Bush administration this legislative session.

ABA members from all areas of the legal practice descend on Washington, D.C., once a year to meet with Senators and House members and explain, from a grassroots perspective, the key legal issues facing the nation. The one and a half-day conclave is called "ABA Day," and the major portion is devoted to meetings arranged for lawyers across the country to visit with members of Congress, their senior staff, and Executive Branch officials. This year ABA Day will be April 29 and 30. (A full meeting schedule can be found at www.abanet.org/poladv/abaday/mtgsched.html.)

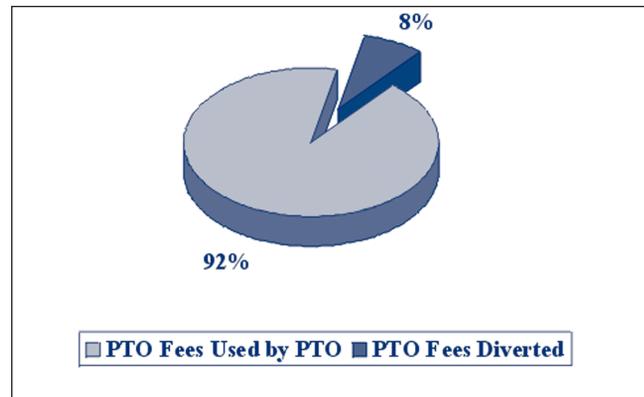
Each year the ABA Board of Governors designates certain policy positions of the association as "Legislative and Governmental Priorities" for that session of Congress. Issues on the priorities list are given preference over all others in the allocation of ABA lobbying efforts and resources. The ABA president usually signs letters to Congress relating to priority issues. Obviously, with an association of more than 410,000 members dealing with issues as diverse as the entire legal profession itself, the selection of priorities for any given year is a difficult task requiring a delicate balancing and weighing of priorities. For example, last year's priority list was: Application of State Ethical Codes to Government Attorneys, Gramm-Leach-Bliley Act Privacy Provisions, Health Care Accountability, Immigration, Independence of the Judiciary, Legal Remedies to Eliminate Discrimination, Legal Services Corporation, Rule of Law—International, Student Loan Forgiveness, and Tax Simplification.

Funding of the U.S. Patent and Trademark Office has been designated by the ABA as one of the legislative priorities for this year. That means it will be one of the most important issues to be highlighted by the entire ABA (as opposed to only the Section of Intellectual Property Law) in its lobbying efforts this year. In urging the ABA Board to make this a priority I said:

The issue involved here is not merely funding for a federal agency. Rather the issue is the inappropriateness of having the PTO collect fees from American inventors and businesses, and then using those fees to serve other, unrelated purposes while the PTO itself continues its decline and provides second-class services. This amounts to an unwarranted tax on innovation and entrepreneurship when innovators and emerging businesses can least afford it. It is well documented that new and emerging businesses account for a large number of the new jobs in America. As many companies announce manufacturing job layoffs, finding new jobs for these displaced workers is a key component of a strong America. By imposing this extra tax on inno-

vators and entrepreneurs just as they are beginning to develop their inventions and businesses into viable entities reduces the incentives to go forward and diminishes the chances that new businesses and new jobs will result.

I pointed out that there was agreement from former PTO Commissioners (Directors) from both political parties that the diversion of PTO user fees to other unrelated governmental programs was at the heart of the problem. The ABA House of Delegates, in 2000, at the urging of this Section, adopted a policy calling for an end to this diversion. (That ABA policy is the basis for this year's legislative priority designation.)



What can you do? ABA Day is open to every ABA member. **You can participate in ABA Day** by coming to Washington, D.C., to speak with your members of Congress and others. You can make the voice of the ABA heard, and help bring an end to fee diversion. For FY 2004, the Bush administration has recommended PTO funding of \$1,203 billion if no fee increases are enacted, and up to \$1,404 bil-

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IPL Newsletter provides current developments pertaining to intellectual property law and practice, Section news, and other information of professional interest to members of the Section.

Any member of the American Bar Association may join the Section by paying its annual dues of \$35, \$5 of which goes for a subscription to *IPL Newsletter*. Subscriptions to *IPL Newsletter* are available to nonlawyers for \$23 a year.

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Lost Profit Damages

(continued from page 1)

necessity, and the amount of time consumers have to respond to price changes.

While economists are infamous for their assumptions, the First Law is not a mere assumption. The First Law is simply mathematical law. If you have \$10, you can buy 5 cigars at \$2 each and only 2 cigars at \$5 each. Further, while you may maintain your total expenditure of \$10 if confronted with such a price change, others may eliminate their cigar consumption entirely. At \$2 each, a consumer might have derived only enough pleasure from a cigar to justify buying one. At \$5 per cigar, the same consumer might decide that she has better things to do with her money. Thus, the First Law is the driving force behind public policies ranging from sin taxes to public education: charge more for something you want to discourage people from consuming and charge less for something which you want to encourage people to consume.

The First Law of Demand and Lost Profits

The First Law is critically important to lost profit analyses because it identifies an inverse and causal relationship between two of the three variables defining profits and, therefore, lost profit damages:

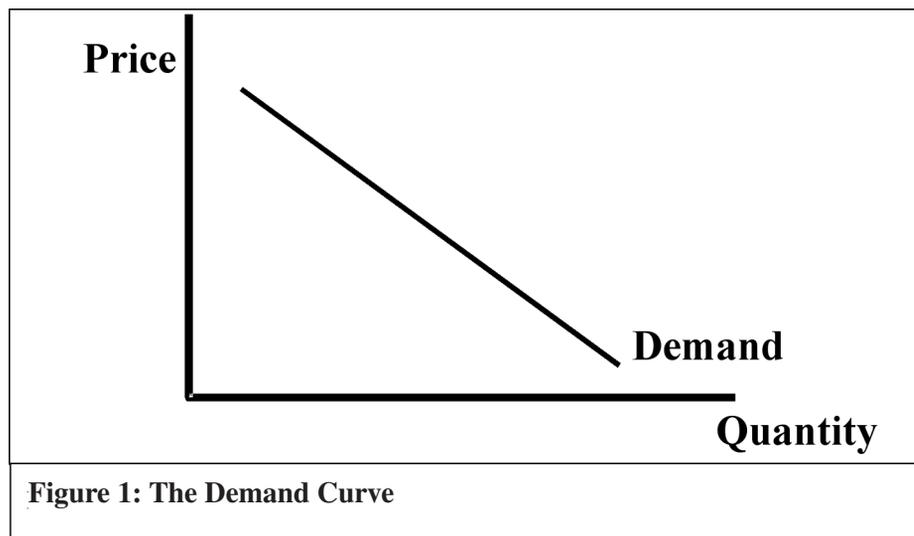


Figure 1: The Demand Curve

$$\text{Profit} = \text{Quantity} (\text{Unit Price} - \text{Unit Cost})$$

Further, lost profit analyses mandate movement in one of these two variables. “Price erosion” claims stipulate that, but for the infringement, the plaintiff’s product would have been priced higher. Price erosions damages, therefore, ask the question: “If the patented product had remained at a higher price, what would its profits have been?” By the First Law, this increase in price must result in a decreased quantity sold. Similarly, “lost sales” claims aver that the plaintiff would have made all or part of the infringing sales. If, however, the infringing sales occurred at a lower price, then the First Law dictates that the plaintiff could not have made the same unit sales as the defendant. A truly expert “economic”

opinion, therefore, cannot be rendered without careful consideration of the First Law of Demand.

Yet standard expert approaches in lost profit matters often either ignore or contradict the First Law. Price erosion claims frequently calculate damages by simply multiplying the preinfringement price by the postinfringement quantity, which, by the very definition of price erosion, occurred at a lower price. Lost sales are often estimated by multiplying the infringing quantity by the patented product’s price, despite the fact that the infringing quantity was sold at a price substantially below the price of the patented product. Such expert approaches leap off the demand curve into economically undefined space, and squarely into the arms of a *Daubert* challenge.

Acme Products Company v. Big Products Corporation

A stylized example from an actual patent case demonstrates the importance of the First Law in the determination of lost profit damages.

Acme Products Company (Acme) manufactures a small line of consumer products, including a patented product. Acme sells 150,000 units of the patented product at an average price of \$20 during 1998. In January 1999, Big Products Corporation (Big) begins marketing an infringing product at an average price of \$12. In response, Acme lowers its price to \$12, and by the end of 1999, sells a total of 250,000 units. During this same period, Big sells 150,000 infringing units. Acme claims both price erosion and lost sales damages.

With respect to price erosion, Acme asserts that, but for the infringement, it would have maintained its preinfringement price of \$20 rather than reducing its price to \$12 to compete with Big. Acme accordingly calculates price erosion damages by multiplying the \$8 price difference by the 250,000 units it sold during the infringement period to arrive at price erosion damages of \$2 million. Big counters that, but for the infringement, Acme still would have lowered its price to \$18, and thereby calculates price erosion damages of \$1.5 million (\$6 per unit * 250,000 units). Note that while Acme and Big disagree on what the price would be absent Big’s infringement, they agree on methodology. This methodology, however familiar it may seem to experienced patent litigators, violates economics’ First Law of Demand.

Acme sold 150,000 units when pricing its product at \$20, and 250,000 units at a price of \$12 (respectively, points A and B in Figure 2a). We know, therefore, that holding everything else constant, the demand curve for Acme’s

product intersects these two points as illustrated in Figure 2a. Acme's price erosion model, however, claims that it would have sold 250,000 units at \$20 apiece, as illustrated by point C in Figure 2a. This creates price erosion damages of \$2 million as represented by the rectangle \$20-C-B-\$12, which is achieved by mismatching the noneroded price with the quantity sold at the eroded price. Off the demand curve in economically undefined space (as is Big's defense at \$18 and 250,000 units), Acme's point C violates the First Law of Demand.⁶

Price erosion damages, however, are not \$1.2 million ($\$8 * 150,000$ units), as represented in Figure 2a by the rectangle \$20-A-D-\$12.

We know that, holding all else constant, Acme's 100,000 unit increase in sales resulted from it lowering its price to \$12. We also know from Acme's lost sales model that it claims avoided costs as \$8 per unit, as illustrated by the "Marginal Cost" line in Figure 2b. The lower price created by Big's infringement, therefore, yielded additional sales of 100,000 Acme units generating \$400,000 in additional

cost) * 150,000 units). From an economics perspective, this claim cannot coexist with Acme's price erosion claim. In the price erosion claim, the First Law tells us that at \$20

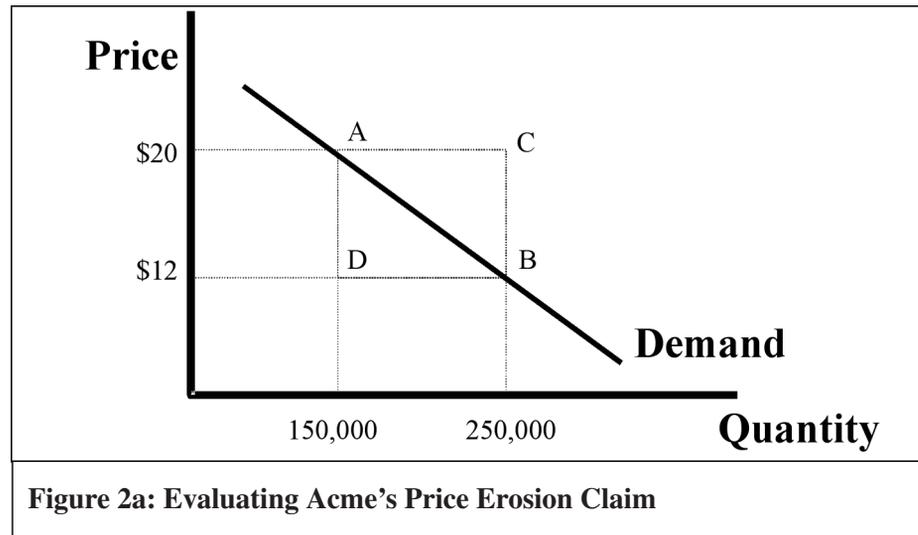


Figure 2a: Evaluating Acme's Price Erosion Claim

per unit, the market would have purchased 150,000 units, and the damages calculation assumes that Acme would have made all of these sales. Acme, therefore, completely exhausts the market's demand for the product, and there would be no Big sales. Further, the price erosion model is based on Acme's position that it would not have lowered its price but for Big's infringement, yet the lost sales model

assumes that Acme would have made Big's sales at \$12 per unit. Thus, Acme would seem to be precluded from receiving both price erosion and lost sales damages unless the law permits the simultaneous assertion of two contradictory "but-for" scenarios.

Acme's expert presented an opinion clearly violating the First Law of Demand and, thereby provided an ideal basis for a successful *Daubert* motion. However, Big's expert had also violated the First Law of Demand, so its counsel could neither pursue a *Daubert* motion against Acme's expert nor elicit testimony on the First Law during

its experts' direct examination. Big's only option, therefore, was to try to expose the economically indefensible nature of Acme's position during cross-examination of its experienced and savvy expert. Not surprisingly, the jury returned Acme's damages calculation of \$2.6 million.

Conclusion

As the most fundamental market concept in economics, the First Law of Demand is a necessary component

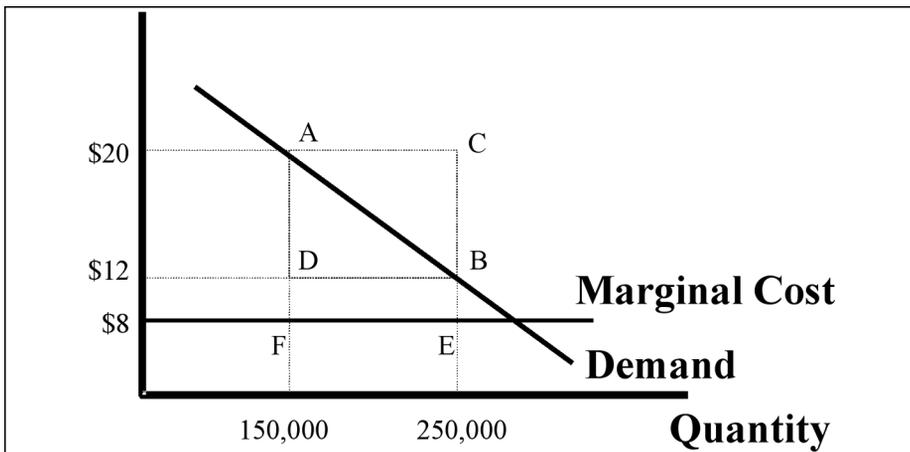


Figure 2b: Actual Price Erosion Damages

profits ($\$4$ per unit * 100,000 units), as illustrated by the rectangle D-B-E-F in Figure 2b. Consequently, lost profits are the price erosion rectangle \$20-A-D-\$12 minus the profits associated with the additional sales created by the eroded price, rectangle D-B-E-F, or \$800,000 ($\$8 * 150,000 - \$4 * 100,000$).

Acme also claims lost profits pursuant to *Panduit*.^v Documenting avoided costs of \$8 per unit, Acme calculates lost sales damages to be \$600,000 ($(\12 price - \$8

of lost profit analysis. Price erosion claims should be required to estimate and apply a quantity adjustment, and, most likely under the first or fourth *Panduit* factors, lost profit claims should be required to address relative prices and, when appropriate, estimate and apply appropriate adjustments. In the 2001 decision *Crystal Semiconductor v. Trittech*^{vi} the Federal Circuit appears to have recognized the need for such adjustments, yet despite similar decisions in the past, the mismatching of preinfringement prices with postinfringement quantities persists.⁷

An economic opinion failing to recognize and appropriately apply the First Law's inverse relationship between price and quantity is as antithetical to economics as is a physics opinion contradicting Newton's First Law. Such opinions lack economic scientific merit and pave the way for a successful *Daubert* challenge.

Endnotes

1. *Daubert v. Merrell Dow Pharmaceuticals Inc.*, 509 U.S. 579, 113 S. Ct. 2786 (1993).

2. *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 119 S. Ct. 1167 (1999) (confirmed that *Daubert's* gatekeeping function applies to all technical expert testimony).

3. Cite to Federal Rules FED. R. EVID. 701-703.

4. Note that lifting the assumed constancy of other factors cannot salvage Acme's claim of Point C. . While changes in "tastes and preferences" (a common economic catch-all) may cause the demand curve to shift out to quantities greater than 1500,000 at a price of \$20, such changes cannot create a demand curve intersecting point C. . We know that the combination of the *eroded price* and any other underlying changes generated unit sales of 250,000. . Thus, stripping away the effect of the price change and maintaining the underlying changes in tastes and preferences must result in a quantity lower than 250,000. . Within the requirements of economic science, and, therefore, *Daubert*, Acme cannot substantiate its opinion.

5. *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978). . *Panduit* articulates four factors which a plaintiff must demonstrate to receive lost sales damages. . They are (1) demand for the patented product, (2) the absence of noninfringing substitutes, (3) that it possessed the manufacturing and marketing capacity to have made the infringing sales, and (4) that lost profits are calculable within a reasonable degree of economic certainty.

6. *Crystal Semiconductor Corp. v. TriTech Microelectronics International, Inc.*, 246 F.3d 1336 (Fed. Cir. 2001).

7. *See, Micro Motion, Inc. v. Exac Corp.*, 761 F. Supp. 1420 (N.D. Cal. 1991). ; *See also, Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559 (Fed. Cir. 1992). (C.A. Fed. (Minn.) 1992, and 1991 WL 441901 (D. Minn.).

Nominating Committee Announces Candidates

Gregory J. Maier, chair of the Section's Nominating Committee reports that the following candidates have been nominated for the 2003–2004 year.

Chair-Elect: William L. LaFuze, Houston, TX. Mr. LaFuze currently serves as Section Vice-Chair.

Vice-Chair: E. Anthony Figg, Washington, D.C. Mr. Figg currently serves on the ABA Standing Committee on Amicus Curiae Briefs and is a former Section Council Member.

Section Delegate to the ABA House of Delegates: Donald R. Dunner (three-year term ending in 2006).

Joseph M. Potenza, Washington, D.C. (Secretary) and **Mark K. Dickson** (Financial Officer) were renominated to their respective positions.

Members of the **Section Council** for a four-year term ending in 2007: **Erich D. Andersen**, Seattle, WA, currently co-chair of Committee #701 (Computer Programs); **Theodore H. Davis, Jr.**, Atlanta, GA, currently chair of Division IX (Publications and Public Education); **Mark Garscia**, Pasadena, CA, currently co-chair of Committee #801 (Summer IPL Conference); and

Linda S. Resh, Chicago, IL, currently chair of Committee #404 (International Technology Transfer).

In addition to Chair Gregory J. Maier, Alexandria, VA, the Nominating Committee is comprised of Edward G. Fiorito of Dallas, TX, and Barbara J. Grahn of Minneapolis, MN.

Elections for open positions will be held at the ABA Annual Meeting in San Francisco on Saturday morning, August 9, 2003, at the Four Seasons Hotel during the Section's Annual Business Meeting.

Additional nominations for any position may be made by petition signed by no fewer than 100 members of the Section, listed by their ABA ID number. The 100 names must be representative of at least three states and must indicate that the individual has agreed to the nomination. The petition must be sent to the Section Chair and the Section Secretary and must be received by these individuals no fewer than four months before the Opening Assembly of the Annual Meeting. The Opening Assembly will be held on Saturday, August 9, 2003.

Valuing IP Assets in Bankruptcy

BY WESTON ANSON



Weston Anson

The accelerating pace of bankruptcy, both Chapter 7 and Chapter 11, is alarming to us all from a business point of view. However, from an intellectual property point of view, it raises a bigger and brighter red flag: In bankruptcy, who owns the licenses and the intellectual property controlled by the company going bankrupt? In virtually every bankruptcy situation today the question of intellectual property—identifying, valuing, and securitizing it—has become of serious importance. This article provides an overview of how to identify intellectual property and intangible assets (IP) and how to group those components into bundles of discreet value.

It is useful, however, to review some of the most important questions one faces when sorting through the issues surrounding technology, IT, patents, trademarks, brands, and other intangibles, collectively grouped together as IP. Some of those key questions are the following:

- What kinds of IP does a company have?
- How best can the IP be identified?
- Does the intellectual property maintain its value when it is in bankruptcy?
- Who owns and controls that value?
- Do existing licenses have value?
- Who controls the destiny of those licenses?
- How do you value these assets in a liquidation scenario?
- What sort of liquidation discount is experienced when a patent, a trademark, a copyright, or a software license is sold in an orderly disposal?
- Is there a formula to establish the descending value of these assets in liquidation?
- How do you market and dispose of these assets most cost-effectively and time-effectively?

Weston Anson is chair of CONSOR® in La Jolla, California. He served six years as vice president of the Licensing Industry Merchandisers' Association and is a lifetime member of the Board of Advisors, as well as a committee chair and board member of the Licensing Executives Society-International. He is also active in ASA, INTA, WIPO and the American Bankruptcy Institute

Recent Case Studies

Each bankruptcy is different, and each company has different types of intellectual property. When Warnaco sought protection in the courts, it had affected multiple pieces of intellectual property, including the Warner's brand, the Calvin Klein licenses held by Warnaco, and the Speedo brand. In addition, Warnaco has software and operating systems that have value and could be sold if the company had been liquidated.

In the chart below, we illustrate asset differences by looking at six different companies currently or recently in the bankruptcy process.

Maidenform, Inc., is another example of a company that used its IP and intellectual assets as collateral. Maidenform is a long-time manufacturer and marketer of underwear and women's lingerie. As it sought to reorganize its affairs, it used trademarks and future streams of royalties to collateralize a reorganization financing. Other examples include the securitization and sale of the Boston Market trademarks, and the recent successful reorganization of Fruit of the Loom. Fruit of the Loom used its trademarks—including its BVD brand—to secure both Debtor in Possession (DIP) financing and take-out financing.

In a different case, Montgomery Ward, when it closed its doors, had a great deal of intellectual property and intangible assets to be sold off. When GE Capital decided to shutter Montgomery Ward, the following were among the multiple groups of intellectual property and IT with value: trademarks; trademark licenses; domain names; brands and sub-brands; database; mailing lists; IT operating systems including SMARTauto, SMART merchant, SMARTservice and SMARTstaff; and shrink-wrap software.

Although each bankruptcy is different, there is a basic four-step process when valuing and disposing of intellectual property and intangible assets. Sometimes the task is to simply value the assets, while at other times clients need assistance in the disposition or sale of their intellectual property. In nearly every case, the process breaks out into four primary steps or levels of activity:

1. The audit and identification process, during which all intellectual property, IT and other salable intangibles are identified.
2. Placing market values on the assets and the triage of those assets for both salability and merchantability.
3. Development of a marketing and sales plan, demonstrating the assets when necessary (e.g., IT and operating systems), and advertising and targeting the market via traditional and electronic media.
4. Negotiation, sale, and disposal phase.

Identifying Specific IP Assets Having Value

The intellectual capital of the enterprise should be viewed as a portfolio of intangible assets. These include the obvious patents, trademarks, copyrights, brand names, logos and

**IP and Intangibles in Bankruptcy
SUMMARY CASE STUDIES**

Relative Value Ranking ¹	Company	Types of Intangibles				
		(A) TMs and Brands	(B) IT and Databases	(C) Patents & Technology	(D) Internet	(E) Other
A plus B + C	1 Warnaco	Warners, Speedo, CK licenses	Complex operating systems	Manufacturing technology	Domain Names and Website	N/A
C + B D, A, E	2 Borden Chemical	Corporate brand and subbrands	Manufacturing systems	Multiple and proprietary	Modest	Chemical processes
B A + D	3 Montgomery Ward	Montgomery Ward, Ship N Shore, plus 100+ TMs and subbrands	Operating platforms; mailing lists	None	Online store	Mail order system
B, C, D, E	4 Exodus	Corporate identity	Massive systems	Multiple BMPs ²	Complex assets	Hosting processes
C + D B	5 beenz.com	Corporate TM	International databases	Proprietary technology and BMP	Online sweepstakes service	Other BMPs
E + C A, D, B	6 Mosler	Corporate name	Security IT and software	Multiple patents	Modest	UL certifications

¹The rankings for each company reflect relative value within that company, in a bankruptcy or liquidation scenario (e.g., Montgomery Ward will realize most value from “B” assets, IT and databases).

²BMP = Business Method Patents. A BMP provides protection for intellectual concepts and systems sufficiently unique to earn patent protection. The one-click ordering system of Amazon.com is a BMP.

other elements frequently lumped into the category of goodwill and seldom valued individually. In addition, proprietary methodologies, best practices, the application-specific software, operating systems, enterprise information infrastructures, as well as the tools to operate and support the information needs of a twenty-first century business, comprise the intangible-asset bundles that contribute directly to return on equity and free cash flow. Their value, in terms of cash equivalence, is complex in composition and is heavily dependent on the context in which they are evaluated.

Intellectual assets—including IP and intangibles—have taken on a new level of importance, respectability, and legitimacy for those institutions involved in bankruptcies. For example, providers of DIP financing or loans to insolvent companies, or exit financings for those emerging from Chapter 11, often consider using the company’s intellectual assets or IP as collateral. They often focus on individual elements of a company’s portfolio of intellectual assets and on the revenue streams those assets can produce. One must focus on the components or elements of intellectual assets within a company and the role they play, not only in an ongoing enterprise, but also in the context of bankruptcy or liquidation.

The question becomes how to identify and separate these components of value, not only from the tangible assets, but also from flanking or associated intangibles when necessary. When analyzing a company’s intellectual assets and identifying those with value, a simple five-part process typically suffices:

- Identify all the elements of IP that may hold value;
- Look within all operations of the corporation, including marketing, IT, branding, legal, and R&D, as well as operating subsidiaries and companies;
- Think of these individual assets as elements of a larger whole—components of value within a logical bundle or grouping;
- Identify all intangibles, even small assets that might not necessarily be large enough or important enough to isolate and sell on their own; and
- Once the elements or components of value are all identified, the components can then be bundled into logical groupings for analysis, valuation and possible monetization.

Bundles of IP/Intangibles		
Brand Intangibles	Technical Intangibles	IT and Database Intangibles
Trademark Registrations	Key Patents	Operating Systems
Umbrella Brand Name	Packaging Technology	Mailing Lists
Sub-Brand Names	Manufacturing Technology	Proprietary Software
Product Names	Product Shapes	Databases
Copyrights	Process Technology	Shrink-wrap Software
Graphics	Technical Designs	Certifications
Corporate Name and Logo	Drawings, Manuals	Source Code

For example, a trademark may be bundled with a domain name and a logo or character device to make a logical grouping or bundle of value. Similarly, a single patent may be grouped with a proprietary technology and/or important trade secrets to make a logical bundle of value. To reaffirm the process, then it is simply as follows:

- Identify all components, no matter how small;
- Begin the triage process by sorting into logical groups of components;
- Sort those groups into a hierarchy of relative value; and
- Consolidate the important components in the logical bundles both from a commercial and legal point of view.

While the process seems simple, the actual identification, collation, triage, and valuation of these components of value can be time-consuming, and the process is best left to intellectual property professionals. The chart below illustrates how similar IP and intangible assets can be grouped into bundles, for valuation, securitization, and disposition.

Assembling Bundles of Value

When faced with a list of intellectual assets that can easily exceed a hundred discrete elements of IP, it is often difficult to break this amorphous and intertwined asset base into manageable, salable, and appropriate bundles. The assembly of components of value into logical bundles is one of the most important parts of the process. A misplacement of a key asset (e.g., putting a specific brand asset into a corporate identity package or vice versa) can make a substantial difference in the ability to securitize and/or monetize the asset.

Intellectual assets are unique in and of themselves, and unique between one company and another. In addition, unlike tangible assets such as real estate where each asset can be sold alone, intellectual assets or IP need most often

to be grouped into logical bundles in order to maximize value. For example, a company with four factories and six retail stores that they own free and clear, can sell each of these ten discreet tangible assets individually, and perhaps maximize value that way. You could, of course, take all ten pieces and group them into one bundle, but the overall result could be substantially lower.

To use a recent example, Service Merchandise is now in liquidation. For many years, a successful retailer and direct marketer of high-end consumer goods ranging from electronics to fine jewelry, Service Merchandise decided to exit the marketplace in an orderly fashion. As part of that process, a consultant was asked to identify, value, and monetize the intellectual assets and IP controlled by Service Merchandise. Using Service Merchandise as a case study to illustrate the benefits of grouping individual intellectual assets into bundles, let us look at the Internet-based assets of Service Merchandise. On the one hand, the company and its agents could offer to sell off each of the more than fifteen important domain names that they control, such as “jewelry.com.” In addition, the company could sell off its important 800 numbers, such as “1-800-jewelry.” They could also separately sell their website design, their linkages, and other Internet-related assets. However, Service Merchandise was much better served by grouping all of these assets into a single bundle and offering that single bundle for sale to the highest bidder—that bidder, in all probability, being one that can and will utilize the domain names, the 800 numbers, the website design, and the linkages in a viable, ongoing business.

On the other hand, one can find examples of companies where the unbundling of intellectual assets may be more appropriate. The situation of Sunbeam Corporation is entirely different. At first glance, it would appear logical to group all of Sunbeam’s brands and trademarks into one bundle, including Sunbeam, Mr. Coffee, HotShot, and Mixmaster. However, it was more likely that greater value could be extracted by unbundling these assets and offering

each of these trademark-based brands as individual assets for sale on their own.

The process of assembling the assets includes four key words: Research, Identification, Triage, and Bundling. The bundles must be logical, they must include compatible assets, they must include groupings that are both commercially feasible and legally appropriate, they must be intertwined or supportive, and the value of the whole must be greater than that of the individual elements if sold separately. A word of caution: Speed is of the essence, and these assets must be quickly and efficiently identified and packaged. It is important that key pieces of intellectual property not be skimmed off by secured lenders or others. The process requires professionals experienced in the assembly, valuation, and disposal of intellectual property.

This brief overview of intangible assets and intellectual property and their importance in reorganizations and bankruptcies stresses accurate values and orderly disposition.

This article is only a summary of a subject that is complex and increasingly important. However, there are five specific conclusions that should be restated:

1. The increasing importance to a corporation of intangible assets, intellectual property and intellectual capital cannot be denied.
2. The increasing recognition by bankruptcy, tax, and other courts of both the importance and value of intellectual capital.
3. A similar recognition by creditors of the importance and value of these assets.
4. The awareness that intangible assets and intellectual property can be valued accurately.
5. The realization of liquidation values in the tens of millions of dollars.

Confessions of a Serial Infringer

Can the Audio Home Recording Act of 1992 Protect the Consumer from Copy-Protected CDs?

BY RACHEL GADER-SHAFRAN



Rachel Gader-Shafran

Introduction

"Here's a prediction for 2002. This will be the most radical year in the history of the music industry."¹

In 1972 the coolest guy in my high school, the guy with the best elephant bell bottoms,² the fullest Mick Jagger hair and what, in hindsight, can only be described as the coolest "Captain Kirk" sideburns, had an eight track³ in his car. Even though

I thought this was *the* coolest technology, before you could say "Mrs. Robinson,"⁴ there was the cassette tape.

I, like everyone else, spent hundreds of hours turning my vinyl music into small, portable cassette tapes. By the time I graduated from college I had taped all my albums and all my friend's albums. I had mixed "disco" music tapes, road trip music tapes, exam-cramming music tapes, and kickin' back music tapes.

I thought it could not get any better than this. But in the time it took to say "ET phone home,"⁵ compact discs had been on the market for years. I still had my tapes. I could still make tapes from my CDs. But what was the point? Having gotten a real job, even my car no longer had a tape player and the quality just did not make it worth the time. If only, I thought, I could create my own CDs. Before you could say "Make it so Number One,"⁶ my wish had come true. Now I "burn" and give to my friends, they burn and give to me. I burn as once I used to tape.

I have spent thirty years taping and burning. It took Congress twenty of those thirty years to change me from a copyright infringer into a "noninfringer." I had no idea that for those first twenty years I had been a serial copyright infringer. Now I am relieved. Now I am safe. Being that I am now a "noninfringer" I have the "right" to burn. Or do I?

The purpose of this article is twofold. First, to discover whether the 10-year-old status of the consumer as a "noninfringer" establishes a "right" to make home, non-commercial copies. Second, to discover whether the consumer could succeed in a justiciable cause of action claim with damages to prevent entities from disabling the consumer's home, noncommercial copying.

The answers to the two questions presented in this article are contingent upon examining the AHRA to ascertain, (1) Congress' intent in creating the AHRA; (2) whether Congress provided an explicit, statutory right to

the consumer to make home, noncommercial copies; and, (3) whether Congress provided a remedy for consumers who bring causes of action to seek damages.

Before discussing the questions presented, it is necessary to review four areas of background: (1) an overview of what a copy-protected CD is, a description of how it works and what goes wrong; (2) a brief synopsis of events in the development of sound recording technology; (3) a summary of the legislative intent underpinning the AHRA; and (4) a review of what explicit rights and damages the AHRA provides for the consumer.

Background: The Copy-Protected CD⁷

In April 2001 Charlie Pride's "A Tribute to Jim Reeves"⁸ was released in the United States. This was the first known U.S. release to contain CD protection.⁹ By September 2001 Music City Records, Fahrenheit Entertainment, and SunnComm,¹⁰ a digital rights management firm, were facing a lawsuit by a California resident. Karen Delise bought and paid for Charlie Pride's "A Tribute to Jim Reeves." It was copy-protected. There was no disclosure statement on the CD to tell her that it was copy protected. It was unreadable.¹¹ In December 2001 Universal released "More Music from the Fast and the Furious."¹² According to an article on SiliconValley.com, "[This type of] copy protection technology will . . . render the disk unplayable on Macintosh computers, DVD players, and game consoles, such as Sony's PlayStation 2. It might not even play in some CD players."¹³

As I write, April 2002, Sony Music Entertainment has released Celine Dion's new CD in a copy-protected format in Europe.¹⁴ Not only will it not play on some CD players it is, as predicted, crashing PCs and MACs all over the world.¹⁵

The consumer clamor over inadequately labeled copy-protected CDs has risen to a fevered pitch¹⁶ and complaints are being collected by law firms in Pennsylvania¹⁷ and California.¹⁸ The Internet is also bursting with websites that collect and list the CD titles that consumers believe are restricted. One such site, FatChucks.com, has become a rallying place for music fans to post gripes and the names of suspect CDs.¹⁹

Obviously, the twenty-first century, with prolific CD-burning and the combination of CD-ROM drives in computers able to upload and download music onto the Internet through MP3 files,²⁰ has led recording industry corporations to take a vigilant stance against the very technologies that gave them their initial profits. With this in mind, the search for more complex technologies to

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protect their works began. This, they believed, they did to defend against what they saw as uncontrolled “ripping and burning” of their works. This, they believed, they did in order to safeguard future profits in the post-Napster age. Consequently, the development and implementation of the copy-protected CD.²¹

How it Works²²

The copy-protected CD “. . . aim[s] to do something no CDs before them could—provide an impervious barrier against the . . . free-for-all that . . . CD burners have made so popular.”²³ One part of the copy-protection approach is to include errors in the disk. In “technical” terms the technology exploits the difference between the standard used by consumer CD players, known as RedBook, and the standards used for CD drives in personal computers, known as YellowBook and OrangeBook.²⁴

In more comprehensible language it comes down to this. The CD data is stored in thousands of microscopic “pits.” Even if there are a lot of errors (i.e., scratches) in the signal, a standard CD player can still decipher the signal. But, CD-ROM drives in computers are much more sensitive and thus are stymied by these types of errors. A good CD-ROM might compensate for the errors but the copy-protection method is the “data equivalent” of rubbing a CD with 120-grain sandpaper.²⁵

What happens of course is, not only will the CD-ROM be unable to compensate for the errors but, more often than not, many CD players will not be able to correct the errors either. The CD becomes unreadable.²⁶

A second part of the copy-protection approach is to “modify the way the CD is placed on the disk that confuses the (computer’s) drive.”²⁷ CDs contain a table of contents, which lets the CD player know where each track begins and ends. When you press play the contents is the first thing the player looks for. Files on a CD come in two types, music and data. Some of the CDs have their contents masked or hidden as data files and not music files. This confusion could activate the built in safety mechanism in the player that keeps the player from reading the files it thinks are data files and not music files because of the masking. This safety mechanism is designed to stop the player from reading data files because the noise might damage the speaker system.²⁸

What Goes Wrong

Attempts to “. . . graft protective measures onto the 20-year old CD technology have had mixed results. Because there are hundreds and perhaps thousands of different CD players on the market, it is likely that some will be unable to read the new disks.”²⁹ Furthermore, “Even when the technology works as intended, normal wear and tear could eventually overwhelm the error correction for the altered disks, causing them to become unreadable within a few years.”³⁰

Most of the copy-protection experiments to date have taken place in Europe. “A European field trial of 130,000 protected CDs conducted two years [2000] ago by BMG

and Midbar, an Israeli hi-tech firm, ended in failure, after about 3 percent of users couldn’t listen to the CDs they purchased. Midbar says it has fixed the problem and can now achieve near-100 percent playability.”³¹

Universal Music Group, BMG Entertainment, and Warner Music Group have all used Midbar’s technology to lock up the ordinary audio files on disks. Those experiments have led to clashes with consumers over glitches with the disks and certain hardware configurations. Last November [2001], for example, BMG agreed to replace a popular Natalie Imbruglia disk that used Midbar’s technology after consumer complaints.³²

Also last fall [2001], BMG Finland pulled its “first shipment of secure CDs by Irish pop band *Westlife* as some consumers complained that the company failed to inform them that the disks could not be played on computers.”³³ Not only were consumer’s quite angry but the new disks were scrambling and crashing computers as has now happened with the new Celine Dion CD.

Disk versus Compact Disc

Consumer electronics giant Philips Electronics, which owns patents relating to CD technology, has called digital rights management schemes burdensome and raised questions about whether disks that include anticopying features are entitled to be marketed as CDs.³⁴ “Philips has complained that disks incorporating copy protection are not technically CDs—a contention that played into Sony’s decision not to include the CD logo on the [new Celine] Dion disk, according to Sony.”³⁵

This means that recording industry corporations could be barred from using the “compact disk” logo that has been on every CD since Sony and Philips developed and patented the CD in the late 1970s.³⁶

In sum, the copy-protected CD is not encrypted with any anticopying program at all. Simply put, the copy-protected CD has been designed either with small flaws in the “pits” and/or has had its contents hidden in order to confuse the programming of the CD player when trying to read the CD for copying. In other words, there is no program that would need to be circumvented in order to make a copy. Rather, the inability to copy a CD, and as mentioned even *to play* a CD, is shielded by the degradation inherent in the new design for so-called copy protection.

Events in the Development of Sound Recording Technology

The advent of the CD in 1982 with its revolutionary precise, noise-free playback of recorded music transformed audio from analog to digital format.³⁷ Although the CD was designed for playback only, a copy of a CD made onto a cassette tape produced relatively good sound quality. Until this time “widespread home taping or outright music piracy did not pose a major threat to the music industry because the technology was not available to record from CD to CD.”³⁸ Thus, consumers would still choose real CDs over the possibly pirated tapes with their less than perfect sound.

By the mid 1980s Sony and Phillips had created a Digital Audio Tape (DAT)³⁹ machine which essentially functioned like a CD player, converting digital signals to an analog format for playback but it contained a more important feature: the ability to digitally record music.⁴⁰ Hence, digitally recorded music could be copied with virtually no difference in sound quality. "This distinguishing feature between digital and analog technologies is that analog formats simulate the original work directly while digital formats replicate the original work by translate it into a language of zeros and ones."⁴¹ This meant that unlike analog copies, a "digital copy usually retains the same quality and precision as the original with no degradation in future generations of copies."⁴²

Inherent in this technology, as it was with photocopying⁴³ and videotaping,⁴⁴ is the ease with which infringing copies of author's works can be made. The recording industry corporations knew that this technology could cripple its profits and artists' royalties.⁴⁵

In 1992, as a result of the early developments in digital technology as described in the opening scenario, Congress enacted the American Home Recording Act (AHRA). The AHRA was the culmination of twenty years of lobbying efforts and debate by the recording industry corporations and electronics industry.⁴⁶

The American Home Recording Act of 1992: Congressional Intent

The debate in copyright law on the implications of home audio recording for noncommercial use has been seeking resolution since the early 1970s.⁴⁷ The distribution of consumer audio recording technologies had fomented a great many court challenges based on claims of contributory infringement.⁴⁸

As Congress created legislation to deal with the technological developments of the past,⁴⁹ so too did they tackle the legislative problems of consumer home recording. The only purpose of the AHRA was to put to rest the legality of home taping sound recording.⁵⁰ The intention of the committee in crafting the Act was to address the "longstanding issue of audio recording, and only audio recording." The committee stated that they had no intention to establish "generally applicable principles of copyright law."⁵¹

The legislative history states that the Act would "conclusively resolve this debate, both in the analog and digital areas, thereby creating an atmosphere of certainty to pave the way for the development and availability to consumers of new digital recording technologies and new musical recordings."⁵²

Congressional intent is further elucidated in the stated goal for enacting the AHRA, which was designed to ". . . embod[y] the compromise reached between the audio hardware industry and the various segments of the music industry"⁵³ as well as take into account public uses.⁵⁴

To see their intentions come to fruition, the AHRA approach was threefold. First, to "insure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use."⁵⁵

Second, to provide for a royalty payment system that provides modest compensation to the various elements of the music industry for the digital home recordings of copyrighted music. And third, to provide a serial copy management system (SCMS) that would prohibit the digital serial copying of copyrighted music.⁵⁶

AHRA Rights Provided to the Recording Industry. In brief, the AHRA, increased the copyright monopoly two ways. For the first time, Congress (1) reinforced exclusive rights by providing for technological measures to protect those rights while it granted additional legal protection to those measures;⁵⁷ and (2) set up a payment system whereby the recording industry is guaranteed profits.⁵⁸

The Serial Copy Management System (SCMS) and the Royalty Payment Scheme. Control of owner's works was designed to be achieved through the Serial Copy Management System (SCMS).⁵⁹ The SCMS was to be attached to all "digital audio recording devices,"⁶⁰ or "digital audio interface devices"⁶¹ and "flag" works that can be copied. The SCMS flag recognizes when a copy has been made and prevents further copying from that copy.⁶² In other words, the SCMS will not prevent me from making a copy for a family member but will prevent that family member from making a copy.

The SCMS is buttressed by another element, the royalty payment system.⁶³ The royalty system was designed to garner payment through scheme ". . . whereby the royalties are levied on sales of digital audio recording devices and the media into which they record, with the proceeds distributed to copyright owners of the audio recordings."⁶⁴

The royalty system provides for a percentage of the sales price of every digital audio device sold as well as all media blanks to be used with the device. The collected percentages are paid into a fund, which is then periodically assessed, and payments made to artist and music publishers.⁶⁵

The Register of Copyrights is responsible for receipt of royalty payments deposited under the AHRA and then giving over the balance, after deducting costs, with the Treasury of the United States.⁶⁶

The AHRA also prohibits the importation, manufacture or distribution of any device without SCMS whose primary purpose is to circumvent the SCMS attached to a digital audio device.⁶⁷ Finally, the AHRA requires that the Secretary of Commerce establish a procedure to verify that the SCMS system standards are met.⁶⁸

In sum, the recording industry and the electronics industry have a bundle of rights that not only protect copyrighted works but also garner larger profits than would have been collected without the AHRA. In many cases the electronic manufacturing companies own the recording labels and thus the conglomerates are receiving payments from the royalty system twice.⁶⁹

AHRA Rights and Damages Provided to the Consumer. Using the "plain meaning"⁷⁰ approach to examine the AHRA for a clear determination of a statute, the AHRA expressly states only one consumer right. That singular right is the freedom *from* prosecution

for a specific behavior that would otherwise be considered an infringing act.

No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.⁷¹

As an aside, the word “consumer” is mentioned seven times in the entire AHRA and only once,⁷² as quoted above, to bestow a right.

“There is a story of a Vermont justice of the peace before whom a suit was brought by one farmer against another for breaking a churn. The justice took time to consider, and then said that he had looked through the statutes and could find nothing about churns, and gave judgment to the defendant.”⁷³

The rule in law usually states that “where legal rights have been invaded and a cause of action is available, a federal court may use any available remedy to afford full relief.”⁷⁴

In terms of explicit civil remedies, Section 1009 makes no mention of consumers as injured parties able to bring suit. Rather, the Section makes mention of “interested copyright parties”⁷⁵ or other persons injured by violation of this chapter. These parties and persons are defined in terms of those with some form of interest in the ownership of the copyright. None of these statutory definitions fit the consumer.

Thus, the lack of explicit language in the AHRA, regarding private causes of action being brought by consumers, would most probably lead the Vermont justice of the peace to simply deny such an action. Accordingly, following general principles of law, the justice of the peace would find that no damages could be awarded because no cause of action could be raised.

The goal of this article is to discover whether the ten-year-old status of the consumer as a “noninfringer” establishes a “right” to make home, noncommercial copies. And, if so, to discover whether the consumer could succeed in a justiciable cause of action claim with damages to prevent entities from disabling the consumer’s home, noncommercial copying.

Having reviewed the areas of the AHRA in terms of the rights of the consumer, it is obvious that the bundle of rights granted to the consumer comes down to only one stick. The consumer is “safe” when making copies only because the one stick is the guaranteed right to be free from prosecution for making home, noncommercial copies. Perhaps this freedom from prosecution is no stick at all but only a statutory protection against those who do have the sticks.

If the above statements are correct, it would naturally follow that if the consumer has no right to make a copy, the consumer has no ability to bring a suit for enforcement under the AHRA against an entity which obstructs that right. Therefore, if there is no suit, there can be no damages in this instance.

The simplest conclusion to be drawn from this article thus far would seem to be that the AHRA does not seem to

be the route by which a consumer can stop copy-protected CDs from being thrust upon them.

Obviously, many scholars do agree that “In any case (at law), the fundamental issue in resolving the liability of P2P⁷⁶ down-loaders [copiers] is whether consumers do, or do not, have the right to make home copies of recorded music for personal use. Yet, there are those who subscribe to the belief that “The industry compromise of 1992, enacted as the AHRA, was that consumers have that right . . . Any other conclusion produces [an] unintelligible result. . . .”⁷⁷

To substantiate this belief they argue that “Section 1008 . . . makes explicit that consumers do not infringe by making noncommercial digital or analog musical recordings. As such it would seem to foreclose any claim that P2P down-loaders [copiers] are infringing copyright. But section 1008 goes farther than that they believe: By prohibiting ‘any action based on’ consumer activity, it seems directly to prohibit actions for contributory infringement or vicarious liability for infringement, if based on protected consumer conduct.”⁷⁸

In other words, contrary to the deductions of this article, some scholars seem to reason that, although 1008 does not explicitly give the right to copy, the explicit right to be free from infringement actions equals a protected conduct, which makes the right itself axiomatic.

Yet, however much “Congress’s (and the affected industries’) intent in enacting the AHRA was clearly to exempt every form of home recording from infringement liability,”⁷⁹ this argument is still problematic. Notwithstanding the fact that, in times before the AHRA it was open to debate whether a consumer who taped music at home for personal noncommercial purposes thereby committed infringement⁸⁰ it is still a long stretch from a consumer immunity to a consumer right.

The most recent and most notorious AHRA case, *Recording Industry Ass’n of America v. Diamond Multimedia Systems, Inc.*,⁸¹ dealt with analyzing the language of the AHRA as it defines “digital audio recording devices.”⁸² The device at issue was the “Rio PMP 300 (Rio).”⁸³ The Rio is MP3 compresses digital sound data into one-tenth the original size with very little degradation in sound. The court held that the Rio was not a digital audio recording device as defined by the AHRA and thus consumers could use the Rio to record, or essentially compress, music.

This holding gives the consumer the right to use the Rio to copy, or compress, music. But again this case still skirted the issue of whether having a right to use a device in any way creates a right to copy in itself. Some scholars believe that having a right to use a device to copy *does* create a right to copy. Again logic might be stretched too far to agree with this concept. However, it might be argued that the more cases that allow more devices to be used by the consumer for copying, the stronger an argument for a right to copy would become.

As of the date of this writing no court has directly dealt with the actual right, or lack thereof, of the consumer to copy under the AHRA.

Conclusion

Whether any court will deal with this inherent ambiguity in the statute or whether Congress will decide to take action to clarify this particular problem or take no action at all, remains to be seen.

At present, “SunnComm is adding a spoonful of sugar to its anti-copying medicine” by adding the “PromoPlay” feature to its protected CDs. PromoPlay allows consumers to send copy-protected songs to family, friends or each other.⁸⁴ This compromise, designed to be “an incremental incentive” for recording industry labels to choose SunnComm over other technology security companies,⁸⁵ will allow the recipient to listen to the song a number of times and then it “expires.”⁸⁶

Adding some urgency to the problem of copy protection in general is a bill authored by Senator Fritz Hollings⁸⁷ that would make illegal the creation, selling, or distribution of “any interactive digital device that does not include and utilize certified security technologies.”⁸⁸ The bill is called The Security Systems Standards and Certification Act (SSSCA)⁸⁹ and it orders that copy protection be built into everything from your PC and handheld to your TiVo recorder and TV set-top box. Companies worry that the measure would cripple a PC’s functionality, add manufacturing costs, and ultimately harm sales.

In light of the heightened awareness and fear on all sides in the copy-protection debate in the digital age, the U.S. Senate Committee on the Judiciary has set up a website to gather comments regarding the issues of distribution and use of digital copyrighted works.⁹⁰ Chair Orrin Hatch⁹¹ and Ranking Democratic Member Patrick Leahy⁹² have stated on the website that their goals are to “. . . craft copyright policies that advance the complementary goals of protecting copyrighted works, serving consumers and the public interest, and promoting the development of innovative technologies.”⁹³

Various organizations have created a “Bill of Rights” for consumer technology,⁹⁴ while at the same time Representative Rick Boucher⁹⁵ is leading the fight for consumer rights in the digital age. In January 2002, “Rep. Boucher sent a letter to Record Industry Association of America (RIAA)⁹⁶ asking whether the anti-piracy technology on CDs might override the consumers’ abilities to copy albums they have purchased for personal use.”⁹⁷

Boucher is concerned that the technologies will prevent or inhibit consumer home-recording using the media and devices covered by the AHRA and thus “. . . would appear to violate the content owner’s obligations.”⁹⁸ Again, although Boucher is careful to state the problem of copy-protected CDs and their effect on the consumer as the *content* owner’s violation, one might wonder if this statement is intended to imply a consumer right to copy.

As the battle over the right to copy intensifies⁹⁹ the idea that “Successive ages have drawn different balances among the interest of the writer in the control and

exploitation of his intellectual property, the related interest of the publisher, and the competing interest of society in the untrammelled dissemination of ideas”¹⁰⁰ is more true today than it was thirty-five years ago. The question for our age, the digital age, might not simply ask what the balance will be, but rather, if there will be any balance at all.

Like the sorcerer’s apprentice in Goethe’s poem of the same name,¹⁰¹ finding he was unable to control his own magic, we are finding that the all-encompassing ability of digital technologies to reproduce and distribute music has unleashed ever-more unwieldy challenges for copyright law.¹⁰² These challenges accentuate the tensions that exist between public use and author’s rights. Whether this tension tips the delicate balance American copyright law has strived to maintain since its inception,¹⁰³ only time will tell.

Endnotes

1. Tina Plotte, *Rock Stars Hate Me*, WASH. CITY PAPER, Archives (visited Apr. 4, 2002) (<http://www.washingtoncitypaper.com/archives/indc/rockstar/2002/rock0104.html>)

2. Very wide bell-bottom pants that now seem to be back in style.

3. An eight-track tape is about the size of present videotapes that fit into a large “tape player.”

4. A lead character, played by Anne Bancroft in the film *The Graduate*, Mike Nichols, Directed (1967), as well as a song produced by Simon & Garfunkle.

5. *ET, The Extraterrestrial*, Steven Spielberg, Director (1982).

6. *Star Trek, The Next Generation*, Gene Roddenberry, Executive Producer (1987-1994) (phrase used by Capt. Jean Luc Picard when giving a command to his first mate).

7. Produced by Fahrenheit Entertainment, Music City Records (2002).

8. *First ‘Napster-proof’ CD set to burn!*, C o m p u t e r W e l l n e t (Mar. 28, 2002 01:35 AM EST) (visited Apr. 1, 2002) http://www.computerwell.net/html/burn_proof_cd_s.html “If all goes as planned, Charley Pride will make music history in April [2001]. [Pride]—[is] set to release America’s first copy-protected compact disk.

9. According to the (out of court) settlement, the companies agreed to stop tracking listener habits and to warn consumers that the CD is not compatible with MP3 and other players. See, Pete O’Hara, *Copy-proof CDs in secrecy*, “Slipped quietly alongside regular music CDs in record stores, mostly in Europe, are more than 1 million secretly altered discs—stealth compact discs that represent the recording industry’s hopes for a solution to digital music piracy. The five major record labels aren’t disclosing many details on this experiment in copy protection—including which artists’ works have been digitally padlocked—and various different technologies are used. The nature of these discs could explain the labels’ reticence. They aim to do something no CDs before them could—provide an impervious barrier against the Internet music free-for-all that Napster and CD burners have made so popular. (8/27/2001 17:50)(visited Feb. 27, 2002) (http://www.linuxsecurity.com/articles/privacy_article-3573.html.)

10. *First copy-protected CD to be released in March* (Feb. 27, 2002) (visited Apr. 1, 2002) (<http://www.hitsquad.com/smm/news/660/#body>), (“SunnComm President Peter H Jacobs stated, “our licensing agreement with Fahrenheit Entertainment allows both companies to be at the forefront in the fight against intellectual property theft.” Fahrenheit will be provided with the SUN-X Sentinel® “Mastering Suite” for MLX® copy protection, and full access to SunnComm’s technical support staff.”) See, Evan Hansen, *Dion disc could bring PCs to a standstill*, CNET

News.com (Apr. 4, 2002, 12:50 PM PT)(visited Apr. 5, 2002) (http://news.com.com/2100-1023-876055.html?tag=cd_mh) (experiments on copy protected CDs in Europe have led to clashes with consumers over glitches with the discs and certain hardware configurations. Last November [2001], for example, BMG agreed to replace a popular Natalie Imbruglia disc that used Midbar's technology after consumer complaints. "[other] Companies that provide [copy protection] technology include Macrovision, SunnComm and Midbar Tech. Universal Music Group, BMG Entertainment and Warner Music Group have all tapped Midbar's technology to lock up the ordinary audio files on discs.)

11. Amy Harmon, *CD-Protection Complaint Is Settled*, N.Y. TIMES ON THE WEB (visited Feb. 27, 2002) (<http://www.nyt.com/technology/25PROT.html>). See, Hansen, *supra* note 10. ("According to the (out of court) settlement, the companies agreed to stop tracking listener habits and to warn consumers that the CD is not compatible with MP3 and other players."). See also, Tom Spring, *Music Labels Target CD Ripping: Claiming to fight piracy, labels test copy protection to keep audio CDs from going digital*, PCWorld.com (Nov. 05, 2001) (visited Apr. 2, 2002) (<http://www.pcworld.com/resource/printable/article/0,aid,69504,00.asp>). When Delise could download the CD she could only do this by first connecting to the SunnComm Web site with the original CD in her PC's drive. Online, she had to supply SunnComm with her name, address, and e-mail address. The digital song files she retrieved could be played only on the PC that downloaded the music. DeLise's suit also alleges privacy intrusion because she had to divulge personal information to download her digital music files.

12. Soundtrack from the teen movie of the same name released in December 2001 by Universal.

13. Harmon, *supra* note 11. ("On Amazon.com's listing for More Music, the customer rating indicates how infuriating and frustrating it is to purchase a CD you can't play and can't even exchange for one that does, because every unit released contains the copy protection."). Also see, Carol Levin, *Copy CDs?*, eWeek, (Oct. 16, 2001) (visited Feb. 5, 2002) (<http://www.eweek.com/article/0,3658,s%25D772%2526a%25D14540,00.asp>). ("According to the company (SunnComm) it plays on a standard CD player, but music cannot be copied with a CD burner or converted to MP3 files . . . Jim Whitmore a Vice President of SunnComm, says the company has heard of only six cases of "playability" problems.").

14. Plotte, *supra* note at 1.

15. Harmon, *supra* note 11.

16. Spring, *supra* note 11. See also, Gwendolyn Mariano, *Anti-copying Firm Eases CD Controls*, CNET News.com (Apr. 12, 2002, 5:15 PM PT) (visited Apr. 15, 2002) (<http://news.com.com/2100-1023-882221.html>).

17. Feldman & Rifkin, Attorneys at Law (visited Apr. 15, 2002) (<http://leflaw.net>) CORRUPT CDS Consumer protection law. Feldman & Rifkin offer a survey about "corrupt" CDs. If you would like more information on Corrupt CDs and the Class Action against Corrupt CDs you fill out a short form at (<http://noticenetwork.com/corrupted.html>).

18. Kaplan, fox & Kilsheimer, Attorneys at Law (visited Apr. 15, 2002) (<http://www.kaplanfox.com/press/news.php?id=24>). Corrupt and Copy Protected Music CDs (Apr 12, 2002). Kaplan Fox is investigating the sale and distribution of corrupt and/or copy protected music CDs by the major music recording and distribution companies in the United States. It has been reported that the major music recording companies have begun, or will soon begin, to install various types of technologies on music CDs limiting a consumer's ability to (1) play the CD on certain CD players, such as a personal computer or portable CD player, and (2) make digital audio files, such as MP3 files, for use on MP3 players and other personal digital listening devices. These practices potentially violate numerous states' consumer protection statutes. If you purchased a CD that you believe may be corrupted or copy protected, the firm suggests you contact them.

19. FatChucks.com (visited Apr. 15, 2002)(<http://www.fatchucks.com/corruptedcds/>) The list on FatChucks.com, when printed out is about seven pages and includes information CD title, producer and country of origin of the CD.

20. Simply put, an MP3 is a compression format that shrinks CD tracks to a more manageable size and is a popular medium for trading music online.

21. Levin, *supra* note 13. ("The music companies have had legal success that have put the breaks on Napster's free exchange . . . Now the music industry is turning to its technology departments . . . Bertelsmann's BMG Entertainment is using a copy-protection technology from SunnComm called MediaCloQ.").

22. *How a Copyproof CD Works*, Wired Magazine, (45) Feb. 2002.

23. O'Hara, *supra* note 9.

24. *Record Labels Plan Copy-proof CD in the Post-Napster Age*, Reuters (visited Apr. 2, 2002.) (http://www.cdmediaworld.com/hardware/cdrom/news/0108/copy-proof_cd.shtml).

25. *How a Copyproof CD Works*, *supra* note 22.

26. *Id.*

27. *Record Labels Plan Copy-proof CD in the Post-Napster Age*, *supra* note 24 (quoting Eyal Shavit, Midbar's Vice President for Research and Development).

28. *How a Copyproof CD Works*, *supra* note 22.

29. *CD Creator Burns Copy-Protection Efforts*, Reuters (Jan. 17, 2002 4:45 PM T) (visited Feb. 14, 2002) (<http://news.com.com/2100-1023-817937.html>) (quoting Gerry Wirtz, General Manager, Philips copyright office governing trademark.).

30. *Id.*

31. Spring, *supra* note 11.

32. Hansen, *supra* note 10.

33. Gwendolyn Mariano, *Japanese Label Protects its CDs*, CNETNews.Com, (Mar. 5, 2002, 4:05 PM PT) (visited Apr. 2, 2002) (<http://news.com.com/2100-1023-852540.html>).

34. *Id.*

35. Hansen, *supra* note 10.

36. *CD Creator Burns Copy-Protection Efforts*, *supra* note 29.

37. Aaron L. Melville, *The Future of the Audio Home Recording Act of 1992: Has It Survived The Millennium Bug?*, 7 B.U. J. SCI. & TECH. L. 372, 378-79 (Summer 2001).

38. *Id.* at 378.

39. 17 U.S.C. § 1001(4) ("A digital audio recording device is any machine or device, now known or later developed, of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a digital audio copied recording for private use. . . ."). For more information on DAT and other technology terms with a great deal of explanation, See, (<http://www.DAT-Heads@virginia.edu>) (visited Feb. 2, 2002).

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40. Melville, *supra* note 37 at 378–79.
41. Benton J. Gaffney, *Copyright Statutes That Regulate Technology: A Comparative Analysis of The Audio Home Recording Act and The Digital Millennium Copyright Act*, 75 WASH. L. REV. 611, 615 (April, 2000).
42. *Id.* at 616.
43. Williams & Wilkins Co. v. United States, 487 F.2d 1345 (1973) (holding that because the use by the facility and library fell within the scope of the fair use doctrine; also, the evidence failed to show a significant detriment to plaintiff demonstrated injury to medical and scientific research would result if photocopying of this kind were held unlawful. The NIH and the National Library of Medicine photocopied articles in medical journals published by plaintiff and gave them to physicians and medical researchers for use in their professional work. Because the photocopying and distribution of the articles were made without obtaining prior authorization . . . the plaintiff sued.); 420 U.S. 376 (1975)(aff'd by equally divided court).
44. Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984) (The court held petitioners demonstrated a significant likelihood that substantial numbers of copyright holders that licensed works for broadcast on free television would not object to having such broadcasts recorded for later viewing by private viewers. Further, respondents failed to demonstrate that such recording would cause any likelihood of nonminimal harm to the potential market for, or value of those works. The recorders were therefore capable of substantial noninfringing uses and respondents' sale of the recorders to the general public did not constitute infringement of respondents' copyrights.).
45. *Id.* at 378–79.
46. *Id.* at 336 n8. (stating “The purpose of H.R. 3204 (The Audio Home Recording Act) is to provide a legal and administrative framework within which digital audio recording technology may be available to consumers” Audio Home Recording Act of 1992, Pub. L. No. 102-563, 1992 U.S.C.A.N. (106 Stat.) 3578.).
47. Melville B. Nimmer & David Nimmer, 2 NIMMER ON COPYRIGHT, 8B.07[C][2][n53] (2001) [hereinafter 2 NIMMER ON COPYRIGHT]. “The debate over home taping of records goes back to 1970 when Congress first extended copyright protection for records . . . “ 138 CONG. REC. H9033 (daily ed. Sept. 22, 1992) (statement of Rep. Moorhead). In fact, such protection commenced not in 1970 but in 1972.
48. *Id.* See also, 464 U.S. at 431 n11 (“Sony argues that the legislative history of that Act [The Sound Recording Amendment of 1971, 85 Stat. 391]; See especially H. R. Rep. No. 92-487 at 7 (1971), indicates that Congress did not intend to prohibit the private home use of either audio or video tape recording equipment. In view of our disposition of the contributory infringement issue, we express no opinion on that question.”).
49. 464 U.S. at 431 at n11. (“Thus, for example, the development and marketing of player pianos and perforated rolls of music, see White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1 (1908), preceded the enactment of the Copyright Act of 1909; innovations in copying techniques gave rise to the statutory exemption for library copying embodied in Section 108 of the 1976 revision of the copyright law; the development of the technology that made it possible to retransmit television programs by cable or by microwave systems, see Fortnightly Corp. v. United Artists Television, Inc., 392 U.S. 390 (1968) and Teleprompter Corp. v. Columbia Broadcasting System, Inc., 415 U.S. 394 (1974), prompted the enactment of the complex provisions set forth in 17 U.S.C. § 111(d)(2)(B) and § 111(d)(5) (1982 ed.) after years of detailed congressional study, see Eastern Microwave, Inc. v. Doubleday Sports, Inc., 691 F.2d 125, 129 (1982). By enacting the Sound Recording Amendment of 1971, 85 Stat. 391, Congress also provided the solution to the “record piracy” problems that had been created by the development of the audio tape recorder. . . .”).
50. S. Rep. No. 102-294 at 52.
51. *Id.*
52. S. Rep. No. 102-294 at 51.
53. *Id.* at 33.
54. *Id.* at 30.
55. *Id.* at 51.
56. *Id.*
57. Jane C. Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613, 1628 (November 2001). See also, Ramon E. Reyes Jr., *Can the Common Law Adequately Justify a Home Taping Royalty Using Economic Efficiency Alone?*, 16 N.Y.L. SCH. J. INT'L & COMP L. 235 (for a comprehensive history of the development of this system and the AHRA in general).
58. Christine C. Carlisle, *The Audio Home Recording Act of 1992*, 1 J. INTEL. PROP. L. 335, 340-41 (Spring, 1994).
59. S. Rep. No. 102-294 at 36 (describing how the SCMS operates. See also, S. Rep. No. 102-294 at 41(describing the four important facets of the SCMS system.).
60. 17 U.S.C. § 1001(3) (“A ‘digital audio recording device’ is any machine or device, now known or later developed, of a type commonly distributed to individuals for use by individuals, whether or not included with or as part of some other machine or device, the recording function of which is designed or marketed for the primary purpose of, and that is capable of, making a digital audio copied recording for private use. . . .”). For more information on DAT and other technology terms with a great deal of explanation, See, DATheads (<http://www.DAT-Heads@virginia.edu>) (visited Feb. 2, 2002).
61. 17 U.S.C. § 1001(2) (“A ‘digital audio interface device’ is any machine or device that is designed specifically to communicate digital audio information and related interface data to a digital audio recording device through a nonprofessional interface.”). For more information on DAT and other technology terms with a great deal of explanation, see DATheads (<http://www.DAT-Heads@virginia.edu>) (visited Feb. 2, 2002).
62. Ginsburg, *supra* note 57 at 1628.
63. 17 U.S.C. §§ 1003–1004, 1006 (outlining obligations to make royalty payments, royalty payments, entitlement to royalty payments).
64. Gaffney, *supra* note 41 at 622. See also S. Rep. No. 102-294 at 38-39 (discussing the need for a royalty system).
65. Melville, *supra* note 37 at 380 n67–68. See generally, Reyes *supra* note 57 at 255 (discussing the actual distribution process, oversight agencies and breakdown of payments). See also 17 U.S.C. §§1005-1007.
66. 17 U.S.C. 1005.
67. *Id.* at § 1002(c).
68. *Id.* at § 1002(b).
69. Carlisle, *supra* note 58, at 341–42. Just one example is Sony, which manufactures CD players, CD burners, DVD players and DVDs, Playstations etc. and owns Sony Music Entertainment Corp.
70. Richard A. Posner, *Statutory Interpretation—In the Classroom and in the Courtroom*, 50 U.Chi. L. Rev. 800, 807(Spring, 1983)(“ . . . the “plain meaning” rule holds that in interpreting a statute you should begin, although maybe not end, with the words of the statute.”). For a complete discussion on the topic of statutory interpretation See also Karl Llewellyn, *The Common Law Tradition* (1960) (debunking the canons of construction).
71. 17 U.S.C. § 1008. See also, S. Rep. No. 102-294 at 6 (stating that “ . . . the copying of an audiogram by a consumer for private, noncommercial use is not for direct or indirect commercial advantage, and is therefore not actionable.”).
72. 17 U.S.C. §§ 1001-1010. The six other times the word consumer is mentioned is in Section 1001 and is used as part of the definitions in the context of to whom devices are sold, who uses the devices and what use the devices are put to.
73. Posner, *supra* note 70, at 821 (citing O. W. Holmes, *The Path of the Law*, 10 HARV. L. REV. 457, 474–75 (1897)).
74. *Guardians Ass'n v. Civil Service Comm'n of New York*, 463 U.S. 582, 595 (1983)(citing *Bell v. Hood*, 327 U.S. 678, 684 (1946)). See, Nancy Eisenhauer, *Implied Causes of Action Under*

Federal Statutes: The Air Carriers Access Act of 1986, 59 U. CHI. L. REV. 1183, 1194 (Summer 1992).

75. 17 U.S.C. § 1001(7). An “interested copyright party” is defined as (A) the owner of the exclusive right under section 106(1) of this title to reproduce a sound recording of a musical work that has been embodied in a digital musical recording or analog musical recording lawfully made under this title that has been distributed; (B) the legal or beneficial owner of, or the person that controls, the right to reproduce in a digital musical recording or analog musical recording a musical work that has been embodied in a digital musical recording or analog musical recording lawfully made under this title that has been distributed; (C) a featured recording artist who performs on a sound recording that has been distributed; or (D) any association or other organization— (i) representing persons specified in subparagraph (A), (B), or (C), or (ii) engaged in licensing rights in musical works to music users on behalf of writers and publishers. .

76. P2P is a short form of Peer-to-Peer.

77. Niels Schaumann, *Intellectual Property In An Information Economy: Copyright Infringement and Peer-To-Peer Technology*, 28 WM. MITCHELL L. REV. 1001, 1035 (2002) (further stating “If the industries are now unsatisfied with the compromise they reached in 1992, the burden (even under their rules of the game) is on them to submit a new compromise to Congress, not to press courts to remake the exemption provided to consumers by the AHRA.”).

78. *Id.* at 1034.

79. *Id.* at 1035.

80. 2 NIMMER ON COPYRIGHT, 8B.07[C][2].

81. 108 F.3d 1073 (9th Cir. 1999) (holding that the court of appeals affirmed the lower court’s decision that denied appellants’ request for a preliminary injunction when the court found that the device was not a digital audio recording device subject to the restrictions of the Audio Home Recording Act of 1992. The appellate court found that the lower court had properly denied appellants’ motion for a preliminary injunction against the manufacture and distribution of the device.).

82. 17 U.S.C. § 1001(4).

83. Gaffney, *supra* note 41, at 623.

84. Mariano, *supra* note 16.

85. *Id.* (quoting Phil Benyola, digital media research associate for investment company Raymond James Financial).

86. *Id.*

87. Tom Spring, PCWorld.com, and Saumya Roy, Medill News Service, *Battle Intensifies Over Right to Copy*, (Mar. 14, 2002) (visited Mar. 20, 2001) (<http://www.pcworld.com/resource/printable/article/0,aid,89164,00.asp>) (Sen. Hollings (D-S.C.) is the Ranking Democratic member of the Commerce Committee).

88. *Id.*

89. *Id.* (Draft dated Aug. 6, 2001. This bill has not been introduced as of September 7, 2001. It would be a civil offense to create or sell any kind of computer equipment that “does not include and utilize certified security technologies” approved by the federal government. It also creates new federal felonies, punishable by five years in prison and fines of up to \$500,000. Anyone who distributes copyrighted material with “security measures” disabled or has a network-attached computer that disables copy protection is covered.).

90. U.S. Senate Committee on the Judiciary Website, *Special Feature: Protecting Creative Works in a Digital Age: What is at stake for Content Creators, Providers, and Users?* (This site provides a link to a form where comments are gathered on this issue) (visited Mar. 20, 2001) (<http://www.senate.gov/~judiciary/special/feature.cfm>).

91. Sen. Orrin Hatch (R-Utah)

92. Sen. Patrick Leahy (D-Vt.).

93. U.S. Senate Committee on the Judiciary website (issues on which the Committee website solicits range from Digital Rights Management (DRM) to demands from recording and electronic companies for a government mandated security system.).

94. Digitalconsumer.org (visited Mar. 30, 2001) (<http://www.digitalconsumer.org/bill.html>).

95. Rep. Rick Boucher (D-Va.).

96. For a copy of the letter see the *Tech Law Journal* website (visited Mar. 30, 2002) (<http://www.techlawjournal.com/intel-pro/20020104boucher.asp>). For a link to a copy of the reply see (visited Mar. 30, 2002) (<http://www.techlawjournal.com/alert/2002/03/04.asp>).

97. John Borland, *Lawmaker: Is CD Copy-Protection Illegal?*, CNET News. Com (Jan. 4, 2002, 1:20 PM PT) (visited Mar. 30, 2002) (<http://news.com.com/2100-1023-801582.html?legacy=cnet>).

98. *Id.*

99. Spring & Roy, *supra* note 100.

100. 464 U.S. at 430 n12. (Foreword to B. Kaplan, *An Unhurried View of Copyright* vii-viii (1967)).

101. Johann Wolfgang von Goethe, *The Sorcerer’s Apprentice* (1797) (“The sprits that I summoned up I now can’t rid myself of.”).

102. *See* 464 U.S. at 430 (“From its beginning, the law of copyright has developed in response to significant changes in technology.”).

103. The Framers struck this delicate balance when they wrote “The Congress shall have the Power To promote the Progress of Science and useful Arts, by securing *for limited Times* to Authors and Inventors the exclusive Right to their respective Writings and Discoveries” (emphasis added). U.S. Const. Art I, 8, cl. 8.

The LESI Guide to Licensing Best Practices: Strategic Issues and Contemporary Realities

Robert Goldscheider (ed.), John Wiley and Sons, 2002

REVIEWED BY JOHN C. JAROSZ



John C. Jarosz

In one volume, Bob Goldscheider and the Licensing Executives Society International (LESI) have compiled some of the most current ideas of some of the most esteemed licensing experts addressing some of the most interesting topics in the field. In short, Goldscheider (ed.), *Licensing Best Practices: The LESI Guide to Strategic Issues and Contemporary Realities* (2002), is a must have for anyone in the licensing business.

The most striking feature of the text is that each chapter is written by one or more of the top licensing executives in the world. Many were instrumental in the formation and development of LES, the society of licensing professionals. All are current industry leaders. Some provide an in-house perspective. Some provide an outside law firm perspective. And some provide a business consultant's perspective. This "who's who" provides valuable insights from various complementary angles.

Some of the chapters were cursory, providing an overview for the beginning reader. Willy Manfroy's chapter on the business (and importance) of licensing, and the background of our profession, is a good example. Others were extremely detailed, providing useful and specific how-to insights for the more sophisticated licensing professional. John Ramsay's chapter on the mechanics of drafting a license agreement is such an example, providing an assortment of "tactics" to minimize dreadful drafting. Still others are a combination of the two. Richard Razgaitis's chapter on technology valuation techniques is outstanding—broad and sufficiently deep. It contains an assortment of valuable pricing tools. Bob Goldscheider provides a practical and insightful chapter on how consultants can and should be used in the licensing field.

The book covers all the necessary topics, and in a useful fashion. The first part is oriented to basics of licensing. The second part treats separately current topics in each one of the primary areas of intellectual property—patents (Goddard and Gordon), trademarks (Small and McKay), copyrights (Lechter), and trade secrets (Jager).

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The chapters define the various forms of IP protection and describe the statutory and common law that govern each. The third part addresses current topics in each of today's hot IP industries—biotechnology (Campbell), pharmaceutical (Picone) and university (Berneman and Denis). The fourth part deals with financial, valuation and litigation issues. The chapters address advanced valuation methods (Kossovsky and Brandege), corporate carve-outs (Malackowski and Harrison), use of litigation to enforce IP rights (Grudziecki and Michel), and the merits of alternative dispute resolutions (Arnold). The final part addresses specific topics in each of several regions around the world—Europe, China and Hong Kong, Japan, Russia, Australia, the Middle East, South America, and Latin America. Some chapters describe the region's development of IP licensing. Others define the parameters of IP protection. And others provide insider tips on how to license effectively.

The net result of the twenty-three chapters is a little bit for everyone, but not a lot for any particular reader. The chapters are directed to very different audiences. Many of them, however, provide useful sources for further learning. They provide a springboard for those readers who want to dive deeper. Each chapter brought to my attention issues of which I had little or no foreknowledge. And they gave me the tools or guidance to learn more.

In addition to the valuable writings of the individual authors, the book provides an *outstanding* bibliography. References are provided in the following categories—Basic Works, Creativity, The Future, Corporate Cultures and Strategies, Legal Commentaries, and International Comparisons. This alone makes it an important reference book to have on a licensing agent's shelf.

But the book goes further. It provides an extremely in-depth index. This 481 page book contains a twenty-one-page index. Virtually every licensing topic of interest is included. Even in those instances in which the book does not cover in great depth a particular area of interest, it provides the means (or people) to find those answers.

All told, this is an important contribution to the field. Bob Goldscheider and his thirty or so coauthors should be applauded for continuing to add structure and wisdom to the licensing field.

Recent Developments in Intellectual Property Law

BY JOHN C. GATZ, REPORTER



John C. Gatz

Patents

Anticipation

Elan Pharm. Inc. v. Mayo Found. for Medical Educ. and Research, 64 U.S.P.Q.2d 1292 (Fed. Cir. 2002). The Federal Circuit reversed the district court's judgment of invalidity based

on anticipation. Although a prior art patent described known procedures for making a transgenic animal, it did not describe every element of the claims and did not teach, other than by trial and error and hope, the production of a transgenic mouse having detectable ATF-betaAPP in brain homogenate.

The Federal Circuit found that a general recitation of known procedures, none of which were carried out by the prior inventor, did not defeat the novelty of the claimed transgenic mouse. One of the elements of the appealed claims required the processing of human APP polypeptide having the Swedish mutation to form detectable ATF-betaAPP in the transgenic mouse's brain. The prior art patent did not mention producing detectable ATF-betaAPP. The Federal Circuit concluded that the prior art patent did not inherently show this limitation because no evidence existed that the formation and detection of ATF-betaAPP with the Swedish mutation in a transgenic mouse's brain was known to those of ordinary skill in the field of the invention. Thus, the Federal Circuit remanded for further proceedings based on its conclusion that the claims were not anticipated by the prior art patent.

Judge Dyk dissented, concluding that the district court properly found the claims at issue invalid as inherently anticipated by the prior art patent. Judge Dyk stated that the majority erred in not using the inventor's own disclosure under Section 102 as the source of proof of anticipation by inherent disclosure. Judge Dyk indicated that the law allows the party raising the issue of inherency to fill in gaps in the disclosure using any source, including the inventor's own disclosure.

Board of Patent Appeals and Interferences' Procedure

In Re McDaniel, 63 U.S.P.Q.2d 1462 (Fed. Cir. 2002). The Board of Patent Appeals and Interferences (Board), for

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each ground of rejection, selects a single claim from the group. The Board must decide the appeal as to the ground of rejection on the basis of that claim alone unless a statement is included that the claims of the group do not stand or fall together and the applicant explains why the claims of the group are believed to be separately patentable. The applicant stated that claims 53 to 64 belong to a single group and argued patentability generally, without setting forth separate reasons for patentability between the claims. The Federal Circuit remanded the rejections of a few claims (55 to 57) because they did not share a common ground with the single claim selected by the Board (claim 53). Specifically, claims 55 to 57 were rejected under 35 U.S.C. § 103 on a different ground from the Section 103 rejection of claim 53. The Federal Circuit affirmed the rejection of all of the claims, except claims 55 to 57, which were remanded to consider the outstanding rejections applied thereto.

Claim Construction

Honeywell Inc. v. Victor Co. of Japan Ltd., 63 U.S.P.Q.2d 1904 (Fed. Cir. 2002). The definition of "contiguous" set forth in the prosecution history includes placing elements that are "in actual contact" or "near, though not in contact." Although the definition is broad in that the most common meaning of contiguous connotes actual contact, the district court erred in not according more weight to the inventor's definition. It is well settled that a patentee may define a claim term either in the written description of the patent or, as in the present case, in the prosecution history. The Federal Circuit therefore concluded that the term "contiguous," as used in claim 1, does not require actual contact between the elements.

Jack Guttman Inc. v. Kopykake Enters. Inc., 64 U.S.P.Q.2d 1302 (Fed. Cir. 2002). The Federal Circuit vacated the district court's order denying plaintiff's motion for a preliminary injunction because the district court based its decision on an erroneous construction of the pertinent claim terms. The Federal Circuit reviewed the district court's construction of the terms "non-tortuous copy path"/"tortuous bend" and "photocopy machine" in a claim directed to a method of reproducing images on edible webs for decorating baked goods.

The Federal Circuit concluded that the term "tortuous" cannot mean "marked by repeated twists, bends, or turns" as defined in the dictionary because it makes the phrase "tortuous bend" redundant. The Federal Circuit turned to the specification that indicated that a nontortuous path is one that enhances survivability of the edible substrate sheet. The Federal Circuit also analyzed the prosecution history during which the applicant explained that a nontortuous path is one that can be curved but which is free from bends that would tend to sacrifice the survivability of the substrate. Based on

these points, the Federal Circuit concluded that a non-tortuous path is a path that, while not necessarily straight, has no curves sharp enough to sacrifice the integrity of the edible substrate sheet.

Based upon the specification, the Federal Circuit concluded that the term “photocopy machine” is defined to include a system with a separate scanner and printing capabilities so long as the two parts function cooperatively with one-button operation to produce the effect of a plain paper photocopy machine. The Federal Circuit concluded that the district court erred in assigning the term its ordinary meaning as a standard photocopy machine even though preferred embodiments in the specification were conventional photocopy machines because the specification explains ways in which the invention is broader than the specific embodiments illustrated in the drawings and text.

The Federal Circuit noted that the patentee clearly defined the disputed claim terms in the prosecution history and the specification. Thus, the Federal Circuit held that the district court’s failure to construe the claim terms in accordance with the definitions set forth by the patentee in the intrinsic evidence constituted an abuse of discretion. The Federal Circuit concluded that vacating the district court’s order was the appropriate remedy as the district court abused its discretion in denying plaintiff’s motion for preliminary injunction based on a claim construction at odds with clear definitions in the intrinsic evidence. The Federal Circuit thus remanded to the district court for further findings.

Claim Construction/Anticipation

In re Cruciferous Sprout Litigation, 64 U.S.P.Q.2d 1202 (Fed. Cir. 2002). The patentee Brassica contended that the district court erroneously construed the claims by failing to treat the preamble of claim 1 of the ‘895 patent as a limitation of the claims. No litmus test defines when a preamble limits the claim scope. In general, a preamble limits the claimed invention if it recites essential structure or steps, or if it is “necessary to give life, meaning, and vitality” to the claim. Clear reliance on the preamble during prosecution to distinguish the claimed invention from the prior art may indicate that the preamble is a claim limitation because it is used to define the claimed invention. The Federal Circuit stated that the phrase “rich in glucosinolates” in both the specification and prosecution history assists in defining the invention. Specifically, the stated object of the ‘895 patent was to provide food products and food additives that are rich in chemoprotective compounds or glucosinolates and the patentee used the preamble to distinguish the claimed invention from the applied prior art in the prosecution history. The term “rich” was given its ordinary meaning as opposed to being limited to a specific number because (a) the specification did not limit “rich” to this number, and (b) the doctrine of claim differentiation would render a dependent claim that recited a specific number of glucosinolates meaningless.

The Federal Circuit found that the prior art anticipated the limitations of the patents. “Under the principles of inherency, if the prior art necessarily functions in accordance with, or includes, the claimed limitations, it anticipates.” Brassica did not claim to have invented a new kind of sprout, or a new

way of growing or harvesting sprouts. Rather, Brassica recognized that some sprouts are rich in glucosinolates and high in phase 2 enzyme-inducing activity, while other sprouts are not. It does not matter that those of ordinary skill may not have recognized these inherent characteristics of the sprouts. Brassica could not credibly maintain that no one had previously grown and eaten one of the many suitable cultivars identified by its patent. It was unnecessary for purposes of anticipation for the persons sprouting these particular cultivars to realize that they were sprouting something rich in glucosinolates and high in phase 2 enzyme-inducing potential. The prior art indisputably included growing, harvesting, and eating particular sprouts that Brassica has recognized as being rich in glucosinolates and high in phase 2 enzyme-inducing potential. But these characteristics of sprouts are inherent properties of the sprouts put there by nature, not by Brassica. Brassica simply had not claimed anything that was new; and, its claims were therefore invalid.

Collateral Estoppel

Vardon Golf Co. v. Karsten Manufacturing Corp., 63 U.S.P.Q.2d 1468 (Fed. Cir. 2002). In a first suit (*Vardon I*), the patentee Vardon Golf Co. (Vardon) brought suit against Karsten Manufacturing Co. (Karsten) alleging that its golf clubs infringed claims 12 and 15 of its ‘941 patent and several claims of its ‘021 patent. Claims 12 and 15 of the ‘941 patent included the limitation “substantially uniform thickness.” In 2000, the district court in *Vardon I* construed this limitation and held as a matter of law that Karsten’s clubs did not infringe claims 12 and 15 of the ‘941 patent. Consequently, the district court granted summary judgment in favor of Karsten on the ‘941 patent. Prior to bringing suit against Karsten, Vardon filed a reissue application for the ‘941 patent. Vardon filed a motion (that was denied) to substitute the reissue patent for the ‘941 patent in the *Vardon I* lawsuit. To obtain the reissue, Vardon surrendered the parent patent, thereby mooted its summary judgment on the ‘941 claims and extinguishing Vardon’s right to appeal the court’s claim construction and finding of noninfringement regarding the ‘941 patent.

In a second suit (*Vardon II*), Vardon alleged that Karsten infringed claim 22 of the ‘950 reissue patent. Unlike claims 12 and 15 of the ‘941 patent, claim 22 of the ‘950 reissue did not contain the “substantially uniform thickness” limitation. Karsten argued that Vardon was collaterally estopped from asserting claims that included a limitation that Karsten’s clubs already had been found not to possess.

On appeal, Vardon argued that the *Vardon II* court erred when it accorded *Vardon I* preclusive effect because that decision was neither final nor appealable. Vardon argued that a nonfinal, unappealable judgment does not become preclusive simply because a party theoretically could have preserved its right to appeal by pursuing certain procedural avenues. Here, the *Vardon I* court’s grant of summary judgment clearly was not “immune . . . to reversal or amendment.” Neither party moved to certify the court’s interlocutory decision as final under Rule 54(b), and consequently that decision was “subject to revision at any time before the entry of judgment adjudicating all the claims.”

namely resolution of the remaining '021 patent allegations. Vardon never had the opportunity to appeal *Vardon I*'s construction of the "substantially uniform thickness" limitation or its finding that Karsten's product did not contain this limitation of the '941 patent either literally or under the doctrine of equivalents. Indeed, Karsten conceded that *Vardon I*'s partial summary judgment was not an appealable final judgment under 28 U.S.C. § 1291, and it was undisputed that this decision was rendered moot, and therefore unappealable, when Vardon surrendered the '941 patent. Under these circumstances, *Vardon I* cannot be said to be "final" for collateral estoppel purposes as the term is defined either by the Seventh Circuit or the Restatement.

Karsten argued that the decision in *Vardon I* should be deemed final and therefore preclusive because Vardon could have avoided mooting the district court's grant of partial summary judgment by (a) moving the *Vardon I* court to certify its decision for interlocutory appeal under Rule 54(b), (b) substituting the '950 reissue patent for the '941 patent at an appropriate time, or (c) suspending its reissuance proceedings before the PTO. The existence of such speculative methods of preserving the right to appeal does not render a nonfinal judgment preclusive for the purposes of collateral estoppel. Thus, the Federal Circuit found that the *Vardon II* court erred when it concluded that *Vardon I*'s grant of summary judgment was final for the purposes of collateral estoppel and accorded that interlocutory decision preclusive effect.

Damages

Catalina Lighting Inc. v. Lamps Plus Inc., 63 U.S.P.Q.2d 1545 (Fed. Cir. 2002). The Federal Circuit decided the issue of whether a patentee may recover infringer profits and a reasonable royalty when both a design patent and a utility patent have been infringed by the sale of a single product. 35 U.S.C. § 289 prohibits a double recovery of an infringer's profits, but it does not directly address whether an additional remedy may be recovered when both a design patent and a utility patent have been infringed. The Federal Circuit resolved the issue by focusing on the conduct that damaged Lamps Plus, the sale of the infringing lamps. Lamps Plus is entitled to damages for each infringement, but once it received profits under Section 289 for each sale, Lamps Plus is not entitled to a further recovery from the same sale because the award of infringer profits under Section 289 also constitutes "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer" under Section 284. In this case, because the district court determined that the award of profits was more than the reasonable royalty, the recovery of infringer profits resulting from the single act of selling lamps satisfies Lamps Plus' entitlement under Section 289 and more than satisfies its entitlement under Section 284.

Declaratory Judgment

Vanguard Research Inc. v. PEAT Inc., 64 U.S.P.Q.2d 1370 (Fed. Cir. 2002). The district court held that it lacked jurisdiction under the Declaratory Judgment Act because there was no objectively reasonable apprehension that PEAT would bring suit against Vanguard for infringing the '659 patent.

The district court found no actual controversy based on PEAT's repeated statements that it did not intend to sue Vanguard for patent infringement and its ongoing failure to bring such a suit. However, a patentee's present intentions do not control whether a case or controversy exists. The appropriate inquiry is whether Vanguard had a reasonable apprehension that PEAT would sue it for patent infringement in the future. Vanguard argued that it was subject to a continuing reasonable apprehension that PEAT would ultimately sue it for infringement of the '659 patent. PEAT sued Vanguard for misappropriation of trade secrets regarding the same technology and informed Vanguard's client's that Vanguard was using the PEAT technology without a license, thereby showing a willingness to protect its technology. The Federal Circuit found that the next logical step in protecting its technology is for PEAT to file suit for patent infringement. Thus, the Federal Circuit concluded that there was a reasonable apprehension of suit from Vanguard.

Indefiniteness

Cardiac Pacemakers Inc. v. St. Jude Medical Inc., 63 U.S.P.Q.2d 1725 (Fed. Cir. 2002). Cardiac Pacemakers Inc. (Cardiac) owns the '191 patent, which contains only one independent claim (claim 1) at issue. Claim 1 recites, *inter alia*, "third monitoring means for monitoring the ECG signal produced by said detecting means for activating said charging means in the presence of abnormal cardiac rhythm in need of correction." The issue was whether the claims of the '191 patent were invalid for failure to satisfy the definiteness requirement of 35 U.S.C. § 112, ¶ 2. The definiteness requirement is a question of law and, thus, is reviewed without deference to the district court. The limitation "third monitoring means" falls under 35 U.S.C. § 112, ¶ 6 and thus must be construed by (a) identifying the claimed function, and (b) after identifying the claimed function, determining what structure, if any, disclosed in the specification corresponds to the claimed function. If, however, this inquiry reveals that no embodiment discloses such a corresponding structure, the claim is invalid for failure to satisfy the definiteness requirement of Section 112, ¶ 2.

Cardiac attempted to identify structure corresponding to the function of the "third monitoring means" limitation. The function identified by the claim language included requiring the same means to monitor the ECG signal and activating the charging means in the presence of abnormal cardiac rhythm. The Federal Circuit stated that the intrinsic evidence (the prosecution history) indicated that the third monitoring means performs dual functions. Because only the physician monitors the EKG signal and activates the charging means in the presence of abnormal cardiac rhythm, and Cardiac conceded that the physician cannot be a corresponding structure, the patent specification disclosed no structure that corresponds to the claimed function. Because no structure disclosed in the embodiments of the patent application actually performs the claimed dual functions, the '191 patent specification lacks corresponding structure. Because the district court correctly concluded that the specification failed to disclose structure corresponding to the "third monitoring means," the Federal Circuit affirmed the district court's

judgment invalidating claims 1 to 14 of the '191 patent for indefiniteness.

Infringement

BBA Nonwovens Simpsonville Inc. v. Superior Nonwovens LLC, 64 U.S.P.Q.2d 1257 (Fed. Cir. 2002). The Federal Circuit upheld the district court's affirmance of the jury's finding that defendant Superior infringed plaintiff BBA's patent. Because the district court did not err in denying defendant's motions for judgment as a matter of law and a new trial, the Federal Circuit affirmed on appeal.

The district court concluded that the "corona means" limitation in the claimed device for producing a web of thermoplastic filaments was subject to Section 112, ¶ 6 but found that the claim includes further language designating location. The district court concluded that the claim language permits the corona means to be outside, albeit connected to, the attenuator. The Federal Circuit ruled that the district court properly concluded that the "corona means" limitation is subject to Section 112, ¶ 6 and properly read the claim as if it said "means for forming a corona." The Federal Circuit rejected Superior's argument that the "corona means" must be "within" the attenuator because this limitation did not appear in the claim. Although the prosecution history shows that the applicant described a prior art reference by noting that it "discloses applying a corona to filaments after the filaments have exited an attenuator," the applicant did not distinguish the prior art reference on that basis. The Federal Circuit thus found no error in the district court's finding that the intrinsic evidence does not require that the corona means be "within" the attenuator and upheld the district court's verdict.

The Federal Circuit also dealt with an appealed trade secret dispute involving another defendant. The Federal Circuit upheld the district court's finding in favor of plaintiff, Fiberweb, on the trade secret claim. The Federal Circuit concluded that the record supported a finding of willful misappropriation because the individual defendant, who became president of defendant corporation, had access to plaintiff's confidential information while employed by plaintiff and personally directed the transfer of information to outside contractors.

Minnesota Mining and Mfg. Co. v. Chemque Inc., 64 U.S.P.Q.2d 1270 (Fed. Cir. 2002). Relying on judicial estoppel, the Federal Circuit precluded defendants from arguing on appeal that the jury's finding of infringement with respect to a dependent claim was inconsistent with its finding of noninfringement with respect to the base independent claim. The Federal Circuit reached this conclusion because defendants did not raise the inconsistency before the district court and expressly argued against a finding of inconsistency when they argued to the district court that the jury verdict should not be modified. The Federal Circuit thus reviewed the case under the premise that the verdict is reconcilable and that base claim 1 is not infringed while dependent claim 9 is infringed.

The Federal Circuit affirmed the district court's claim construction. Defendants argued for the inclusion of narrowing limitations in the constructions of the phrases "effective

amount" and "cross-linking agent." The Federal Circuit found nothing in the prosecution history to construe "effective amount" to require all of the anhydride sites to be reactive and that none be neutralized. Although plaintiff distinguished its invention over one in which all of the sites were neutralized, the Federal Circuit found nothing in the prosecution history that plaintiff intended to require all of the anhydride sites to be reactive.

The Federal Circuit also found nothing in the prosecution history to require only covalent bonds between the anhydride compound and the cross-linking agent. Although plaintiff distinguished its invention over prior art in which the reaction was completely ionic, the Federal Circuit found nothing in the prosecution history that Plaintiff specified that no ionic bonding could occur. The Federal Circuit thus declined to hold that the district court erred in its claim construction and found no reason to overturn the jury's verdict that defendants infringed claim 9.

On the issue of inducement, the Federal Circuit concluded that plaintiff was entitled to judgment as a matter of law that defendants induced infringement of dependent claim 9. Plaintiff presented evidence that all requirements for inducement were met, and defendant Chemque failed to provide support for the jury's finding of no inducement. Thus, the Federal Circuit reversed the district court's denial of judgment as a matter of law that claim 9 was infringed by inducement.

Finally, the Federal Circuit held that the district court erred in denying judgment as a matter of law that claim 9 was not anticipated. The Federal Circuit stated that the jury did not have substantial evidence to support a verdict that claim 9 was invalid under Section 102. However, Judge Mayer dissented from this portion of the ruling, indicating that he would affirm the district court's judgment that claim 9 was invalid as anticipated.

Infringement and Damages

Riles v. Shell Exploration and Prod. Co., 63 U.S.P.Q.2d 1819 (Fed. Cir. 2002). The Federal Circuit affirmed the district court's finding of literal infringement of one of three disputed claim limitations. The Federal Circuit affirmed the district court's finding of no literal infringement but infringement under the doctrine of equivalents of the remaining two disputed claim limitations.

The Federal Circuit concluded that defendant's process included a "stabbing connection" under the doctrine of equivalents because defendant's leveling piling passes through the guide sleeve and rested on the leveling porch of the jacket leg. Thus, the guide sleeve, in combination with the leveling porch, performed substantially the same function as the depending support leg in substantially the same way to achieve substantially the same result of a "stabbing connection." The Federal Circuit concluded that defendant's process includes a "metal-to-metal bearing contact" under the doctrine of equivalents because the record supported the jury's potential finding that, even without a direct physical "metal-to-metal contact," defendant's metal-to-metal bearing contacts transferred the compressive weight of the jacket from the jacket legs to the pilings. Prosecution history estoppel

did not prevent plaintiff from employing the doctrine of equivalents for this claim element even though plaintiff attempted to distinguish a reference by arguing that the reference describes no metal-to-metal bearing contact for transferring loads to the platform legs. In context, the Federal Circuit concluded that plaintiff's prosecution statement simply explained the transfer of compressive load. The Federal Circuit concluded that defendant's process literally included a "depending support leg" based on the district court's claim construction because the leveling porch in defendant's oil platform had a space frame jacket leg that was angled and permitted a stabbing connection to be made with a piling for supporting the platform.

The Federal Circuit vacated the district court's \$8.7 million damage award, finding it excessive and unsupported by the evidence. The record showed that the jury could have relied on any of three economic models set forth by plaintiff's damage expert. The models were based upon a royalty of the cost of Defendant's entire oil platform, a royalty of the gross revenue received from oil production on the platform, and a combination of the first two models. The Federal Circuit found that each of these models failed to follow proper reasonable royalty criteria because the models did not account for actual losses due to infringement of the patented method; assumed that defendant's construction of the oil platform using the patented method could result in an injunction regarding use of the platform; failed to associate the proposed royalties with the value of the patented method; did not reflect the royalty rate that a hypothetical negotiation between the parties would have yielded when the infringement began, and ignored plaintiff's established licensing practice.

The Federal Circuit affirmed the district court's denial of enhanced damages. The Federal Circuit found that the district court did not abuse its discretion by denying plaintiff's request for enhanced damages even though the jury found defendant's infringement to be willful. Because willfulness does not mandate enhanced damages, the district court found the issues of infringement, damages, and willfulness to be close questions and the case to be hard-fought, and the jury could have found for defendant on the infringement and willfulness issues and awarded substantially less damages.

Judge Michel dissented from the majority's affirmance of the district court's finding that defendant's process met the "stabbing connection," "metal-to-metal bearing contact," and "depending support leg" limitations under the doctrine of equivalents.

Infringement Evidence

Bionx Implants Inc. v. Linvatec Corp., 64 U.S.P.Q.2d 1145 (Fed. Cir. 2002). The written description is clear that, to be "rigid" within the meaning of the claims of the '976 patent, a suture must be sturdy enough to be "pushed through the tissue to be repaired." Bionx offered as evidence a videotaped demonstration that showed the allegedly infringing product being pushed into tissue. The district court discounted the videotape, however, because the insertion was made possible only because of the use of a hollow insertion rod that the plaintiffs concede was designed

specifically for the videotape. Bionx did not modify the accused product, but instead, used a hollow rod to assist in the process of inserting the accused product into the tissue. The use of the hollow rod did not constitute an impermissible alteration of the accused device. The Federal Circuit determined whether the accused shaft is "rigid" within the meaning of that term as used in the '976 patent by determining whether the shaft is rigid enough to be pushed through the tissue in the same general circumstances in which the patented device was designed to be used. In this case, the use of a hollow tube to insert the suture into the tissue was contemplated in the written description of the patent. In the written description, the suture is inserted into the tissue to be repaired through a "hollow outer sleeve or cylinder." Thus, the '976 patent is clear that a suture that is inserted into tissue through an applicator cylinder is "rigid." As such, the use of the hollow rod in the videotaped demonstration did not, by itself, constitute an impermissible alteration of the accused device that rendered the videotaped demonstration an invalid test of whether the accused device is "rigid."

Infringement under ANDA

Minnesota Mining and Mfg. Co. v. Barr Laboratories Inc., 63 U.S.P.Q.2d 1477 (Fed. Cir. 2002). The plaintiff's petition for rehearing, and for rehearing *en banc*, were denied in the action in which the Federal Circuit panel held that the federal court does not have authority, in a patent infringement action, to determine whether a party filing an abbreviated new drug application has complied with 21 U.S.C. § 355(j)(2)(B). Section 355(j)(2)(B) provides that an ANDA filer making certification of noninfringement, under Section 355(j)(2)(A)(vii)(IV), to the holder of an approved new drug application must include a detailed statement of factual and legal basis for such certification, and that Section 355(j)(2)(B) therefore cannot be enforced by a private party in a patent suit, but must be enforced, if at all, under the Administrative Procedure Act.

Inherency

Trintec Industries Inc. v. Top-U.S.A. Corp., 63 U.S.P.Q.2d 1597 (Fed. Cir. 2002). A single prior art reference anticipates a patent claim if it expressly or inherently describes each and every limitation set forth in the patent claim. Inherent anticipation requires that the missing material is necessarily present, not merely probably or possibly present, in the prior art. The district court determined that the Sweda catalogue inherently disclosed a color printer because those in the graphics arts industry would have recognized that a color printing device is necessarily present in the catalogue's description of a full-color rendering produced from a computer printer. Nevertheless, the Federal Circuit found that a color printer is not a color photocopier as called for by the claim. As a matter of correct claim construction, color photocopier requires the ability to print and photocopy subject matter with color. The difference between a printer and a photocopier may be minimal and obvious to those of skill in the art, but obviousness is not inherent anticipation.

Inventorship

Trovan Ltd. v. Sokymat SA, 63 U.S.P.Q.2d 1865 (Fed. Cir. 2002). With the issuance of the '410 patent came the presumption that Gustafson was the true and sole inventor of the invention described in the '410 patent. The district court held on summary judgment that Hadden and Zirbes could not prove by clear and convincing evidence that they were entitled to be named co-inventors of the '410 patent and, thus, did not overcome the presumption that Gustafson was the sole inventor of the '410 patent. The '855 patent issued with the presumption that Hadden and Zirbes were the true and only inventors of the invention described in the '855 patent. Similarly, the district court found that Gustafson could not prove by clear and convincing evidence that he was a co-inventor of the '855 patent. Although Gustafson is presumed to have invented the invention described in the '410 patent, the presumption does not carry over to the '855 patent issued to Hadden and Zirbes. Even though the '410 patent and the '855 patent contain overlapping subject matter, that alone is insufficient to prove by clear and convincing evidence that Gustafson invented part of the invention of the '855 patent. While an examination of the Gustafson's inventive activities toward the '410 patent may be probative regarding whether he invented certain features of the '855 patent, Hadden and Zirbe's failure to meet their burden of proof on the issue of inventorship of the '410 patent cannot be relied upon to satisfy the burden of proof as to whether Gustafson is a co-inventor of the '855 patent.

Jurisdiction

Telcomm Technical Services Inc. v. Siemens Rolm Communications, Inc., 63 U.S.P.Q.2d 1606 (Fed. Cir. 2002). When the plaintiffs/appellants originally filed the appeal, jurisdiction was predicated on a patent infringement counterclaim. The Federal Circuit concluded that an intervening decision by the Supreme Court dissolved its jurisdiction over the appeal. In *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, ___ U.S. ___, 122 S. Ct. 1889, 62 U.S.P.Q.2d 1545 (June 3, 2002), the Supreme Court held that the well-pleaded complaint does not allow a patent infringement counterclaim to serve as the basis for a finding that an action "arises under" the patent law for the purpose of conferring jurisdiction to the Federal Circuit.

Lack of Support

PIN/NIP Inc. v. Platte Chemical Co., 64 U.S.P.Q.2d 1344 (Fed. Cir. 2002). Claim 33 at least covers the spaced, sequential application of CIPC and a substituted naphthalene. PIN/NIP argued that claim 33, in defining a spaced, sequential application of the two chemicals, extends beyond the invention as described in the originally filed patent application, which describes a unitary mixture of CIPC and a substituted naphthalene. Platte argued that the originally filed patent application discloses or at least enables one skilled in the art to make spaced, sequential applications of the chemicals separately. The Federal Circuit found that the originally filed patent application was devoid of any mention or implication that the two chemicals can be applied in a spaced,

sequential manner. While it is legitimate to amend claims or add claims to a patent application purposefully to encompass devices or processes of others, there must be support for such amendments or additions in the originally filed patent application. The Federal Circuit concluded the originally filed patent application did not support the later-added claim 33.

Obviousness

In re Thrift, 63 U.S.P.Q.2d 2002 (Fed. Cir. 2002). The Federal Circuit affirmed the Board of Patent Appeals and Interferences (Board) with respect to claims 1 to 10, but vacated and remanded the Board's decision with respect to claims 11 to 19. In finding claims 1 to 10 obvious under 35 U.S.C. § 103, the Federal Circuit stated that the two references disclose all of the limitations and the motivation to combine the references was present in the text of each reference. Claim 11 added a further limitation to claim 1 related to a grammar-creation capability feature. In rejecting claim 11, the examiner stated that "[t]he use of grammar is old and well known in the art of speech recognition as a means of optimization which is highly desirable." The Federal Circuit agreed with the applicants that the Board's ground of rejection was simply inadequate on its face. Although the statement of the examiner was likely true, it failed to address the grammar-creation capability feature recited in claim 11. While the examiner's statement generally addressed the use of grammar, it did not discuss the unique limitations of extracting, modifying, or processing the grammar to interact with hypermedia sources as recited in claim 11. The Board's decision was not supported by substantial evidence because the applied references did not support each limitation of claim 11. Because the Board failed to provide an adequate ground for sustaining its decision on appeal, or its decision on request for rehearing, the Federal Circuit was powerless to affirm the administrative action by substituting what it considered to be a more adequate or proper basis.

Novo Nordisk A/S v. Becton Dickinson and Co., 64 U.S.P.Q.2d 1524 (Fed. Cir. 2002). The Federal Circuit affirmed the judgment entered by the district court pursuant to the jury verdict that the claims of the patents-in-suit were invalid on the ground of obviousness and based on same-invention double patenting. The validity issues turned on the diameter of the needle in a pen-shaped insulin delivery system. The only question argued to the jury was the motivation to combine the teachings of the references to produce the claimed device. Although plaintiff argued that defendant failed to establish a motivation supported by prior art whereby a person of ordinary skill in the field would have been motivated to combine the teachings of several references to produce the claimed insulin pen, the Federal Circuit concluded that substantial evidence existed for a reasonable jury to find that known pain reduction provided the requisite motivation to narrow the needle diameter. Because plaintiff conceded at oral argument that an affirmance of the jury's verdict of invalidity on two of the patents-in-suit would, in turn, necessitate a finding that the third patent-in-suit was invalid, the Federal Circuit affirmed the judgment of invalidity of the third patent-in-suit.

The Federal Circuit rejected plaintiff's request for a new trial based on the district court's refusal to include a jury instruction that "obvious to try" is not the correct legal standard for determining obviousness. The Federal Circuit found no prejudicial error in the court's decision to leave it to the parties to argue the weight and significance of the evidence and found substantial evidence to support the jury's verdict.

The Federal Circuit also rejected plaintiff's request for a new trial based on arguments presented by defendant during its opening statement. Because plaintiff failed to object to any of the statements at trial, ask for corrective jury instructions, and raise the issue in post-trial motions, the Federal Circuit concluded that a new trial was not warranted.

On-Sale Bar

Netscape Communications Corp. v. Konrad, 63 U.S.P.Q.2d 1580 (Fed. Cir. 2002). The on-sale bar applies when the invention is the subject of a commercial offer for sale and is ready for patenting before the critical date. A first government-funded research institution offered to provide a working prototype of a remote database object to a second government-funded research institution, and the second research institution accepted. However, a sale or offer for sale under 35 U.S.C. § 102(b) must be between two entities. Where, as in this case, both parties to an alleged commercial offer for sale receive research funds from the same entity, it may be more difficult to determine whether there is an attempt to commercialize the invention. In such cases, whether there is a bar depends on whether the seller so controls the purchaser that the invention remains out of the public's hands. All indications were that the government funded projects at the two research institutions but never exercised such control over them as to render them all part of the same entity. There was no objective evidence by the patentee to support experimental use. Therefore, the first condition of the on-sale bar was satisfied because the transaction constituted an offer from the first research institution for the sale of the remote database object prototype that was accepted by the second research institution. With respect to the second condition, the patentee admitted that the invention was reduced to practice before the critical date and his disclosure was sufficiently specific to persons of ordinary skill to practice the invention. Thus, the Federal Circuit held that all claims were invalid under the on-sale bar of Section 102(b).

On-Sale Bar and Indefiniteness

Allen Eng'g Corp. v. Bartell Indus. Inc., 63 U.S.P.Q.2d 1769 (Fed. Cir. 2002). The Federal Circuit vacated the judgment of infringement and the award of damages because the district court did not construe the claims in suit and did not identify the specific claims it held to be infringed under the doctrine of equivalents. The Federal Circuit indicated that, on remand, the district court should consider whether any of the claim amendments or any of the arguments made during prosecution gives rise to prosecution history estoppel limiting the doctrine of equivalents.

The Federal Circuit vacated the district court's determination that the patent-in-suit was not invalid under Section

102(b) because the district court failed to apply the proper legal test in considering whether plaintiff's sales of its Red Rider more than one year prior to the filing date of its patent, constituted an on-sale bar to patenting its invention. The district court erred in concluding that Red Rider sales did not trigger an on-sale bar simply because the Red Rider was in an experimental stage. The court found that the Red Rider was an experimental prototype that never reached completion based on its findings that plaintiff's customers received a guarantee of repair or replacement of the Red Rider and that it was necessary to test the devices on job sites. By themselves, however, such findings are insufficient to determine whether the Red Rider sales constituted a commercial offer for sale under the *Pfaff* test.

The Federal Circuit reversed the district court's holding that claims 1 to 4, 13, and 23 were not invalid under Section 112. Claim 23 ends in the middle of a limitation (i.e., "coupled to said gearbox means by rigid"). The Federal Circuit found it impossible to discern the scope of the truncated limitation. Claims 1 to 4 and 13 limit one of the two pivot steering boxes to pivoting "its gear box only in a plane perpendicular to said biaxial plane." However, the specification describes this structure in contrary terms, stating that the gearbox "cannot pivot in a plane perpendicular to the biaxial plane." The Federal Circuit concluded that a simple comparison of the claims with the specification makes it apparent that the inventor did not regard a trowel having the second gear box pivoted only in a plane perpendicular to the biaxial plane to be his invention. Thus, the Federal Circuit found claims 1 to 4, 13, and 23 invalid under Section 112, ¶ 2.

The Federal Circuit affirmed the district court's finding that defendant Bartell did not establish the intent to deceive necessary to its claim of inequitable conduct based on plaintiff's failure to disclose its earlier Red Rider model during prosecution of the patent-in-suit. Bartell provided no direct evidence that Allen withheld information about the Red Rider with the intent to deceive the PTO. The Federal Circuit found no abuse of discretion in the district court's determination that there was no inequitable conduct based on the record at hand.

The Federal Circuit affirmed the district court's finding that the typographical error contained in certain patent identification labels on plaintiff's trowels was not material. Because the typographical error simply involved a misplaced semicolon and those interested in the patents covering plaintiff's Flying Frame would have no difficulty discerning the actual patent number from the sticker, the Federal Circuit affirmed the district court's holding that plaintiff's sticker provided effective notice to the public under 35 U.S.C. § 287(a).

Personal Jurisdiction

Deprenyl Animal Health Inc. v. University of Toronto Innovations Foundation, 63 U.S.P.Q.2d 1705 (Fed. Cir. 2002). The issue was whether personal jurisdiction existed over the University of Toronto Innovations Foundation (UTIF). The plaintiff, Deprenyl Animal Health, Inc. (DAHI), has its principal place of business in Kansas and is

organized under Louisiana law. UTIF is a technical licensing company that assists the University of Toronto in commercializing its inventions. UTIF does not own or operate any Kansas facilities, it employs no one in Kansas, and has not sold or advertised any products there.

In 1992, DAHI and UTIF entered into a license agreement for technology that eventually issued as the '164 patent. The agreement was signed on separate copies in Kansas and Toronto. After the parties signed a letter of intent, DAHI and UTIF entered into a course of dealings during which UTIF's president regularly made telephone and mail contact with DAHI's president in Kansas. DAHI alleged that UTIF's president traveled to Kansas once in 1991 to negotiate the license agreement and again in 1994 to resolve a dispute that resulted in amending the agreement. As the agreement required, UTIF kept DAHI informed of the status of prosecution of the application that issued as the '164 patent. This included forwarding copies of any patent applications and PTO correspondence to DAHI in Kansas. DAHI paid licensing fees to UTIF from Kansas, but in Canadian dollars. The agreement included a clause stating it "shall be interpreted and construed, and the legal relation contained therein shall be determined, in accordance with the laws of the Province of Ontario, Canada." The dispute began in December 1998, when DAHI's parent company (the Canadian corporation Draxis) issued a press release announcing FDA approval of a drug called Anipryl, which is used to treat canine cognitive dysfunction. In February 1999, UTIF sent a notice to DAHI contending that sales of Anipryl would be subject to the royalty provisions of the license agreement. UTIF sent the notice letter to DAHI at the Kansas address in the license agreement. DAHI's president responded in a letter written with Ontario letterhead. All subsequent communications between UTIF and DAHI were sent to the parties' Canadian offices. In May 2000, DAHI filed a complaint in Kansas seeking a declaratory judgment that the license agreement was not applicable to its product, and the '164 patent was invalid and not infringed.

The Kansas long-arm statute authorizes the exercise of jurisdiction to the full extent permitted by the Constitution. Because this is a patent-related case, Federal Circuit law governs the issue of personal jurisdiction. The issue was whether UTIF's contacts authorized finding specific jurisdiction. For specific jurisdiction, the "minimum contacts" prong requires the plaintiff to show that the defendant "has purposefully directed his activities at residents of the forum and the litigation results from alleged injuries that arise out of or relate to those activities." The three factors for determining whether the exercise of personal jurisdiction over an out-of-state defendant comports with due process are (a) whether the defendant "purposefully directed" its activities at residents of the forum, (b) whether the claim "arises out of or relates to" the defendant's activities in the forum, and (c) whether the exercise of jurisdiction is "reasonable and fair."

The Federal Circuit found that the exercise of personal jurisdiction over UTIF was consistent with the requirements of due process and, thus, reversed the dismissal of DAHI's complaint, and remanded to the district court. On

remand, the Federal Circuit stated that the district court should stay proceedings in this case pending the outcome of the Canadian arbitration.

Personal Jurisdiction/Preliminary Injunction

Monsanto Co. v. McFarling, 64 U.S.P.Q.2d 1161 (Fed. Cir. 2002). Monsanto patented a soybean seed that is marketed under the brand name Roundup Ready. The soybeans are resistant to glyphosate herbicides such as Roundup. Monsanto authorizes several companies to manufacture the patented soybean seeds, which are then sold to farmers. The farmers who purchase these seeds obtain a "technology agreement" and pay a license fee to Monsanto. McFarling, a farmer in Mississippi, purchased Roundup Ready soybean seed. McFarling signed the technology agreement, which stated that the seeds are to be used "for planting a commercial crop only in a single season" and directed the licensee not to "save any crop produced from this seed for replanting, or supply saved seeds to anyone for replanting."

McFarling challenged the jurisdiction when Monsanto filed suit in the Eastern District of Missouri. The Technology Agreement included a clause printed in all capital letters stating that all disputes arising under this agreement would be governed by the laws of Missouri and the parties consented to the jurisdiction of the Eastern District of Missouri. The issue here is not the reach of a state's long-arm statute, but the effect of a forum selection clause whereby jurisdiction is obtained by contractual consent or waiver. Such a clause is enforceable unless the party challenging it clearly demonstrates that it is invalid or that enforcement would be unreasonable and unjust. McFarling argued that he purchased, planted, and harvested the seeds, and executed the technology agreements, all in Mississippi, and, thus Mississippi is the fairest forum. McFarling's argument that his failure to read the forum selection clause entitled him to exemption from its effect is unsupported by any law. Due process as to these issues is satisfied when a party consents by contract to personal jurisdiction in a selected forum. Moreover, McFarling failed to demonstrate that the choice of Missouri as the forum is unreasonable. The district court correctly exercised personal jurisdiction over McFarling. The Federal Circuit did not find any errors on the reasonable likelihood of success on the issues of infringement and breach of contract, and that it was unlikely that an antitrust violation would be found. Judge Clevenger dissented on the finding of personal jurisdiction against McFarling because of the circumstances in this case resulted in an adhesive contract—one in which the parties have unequal standing in terms of bargaining power.

Reduction to Practice

Manning v. Paradis, 63 U.S.P.Q.2d 1681 (Fed. Cir. 2002). The Federal Circuit affirmed the Board of Appeals and Interferences' (Board) award of judgment to senior party. The interference count was directed to a method of treating a subject in cardiac arrest by perfusing the subject's aortic arch with oxygen-carrying solution in an amount effective to deliver oxygen to the heart. The Board concluded that the count required delivery of an amount of oxygen sufficient to have a therapeutic effect on the subject's heart while the sub-

ject is in cardiac arrest. The Board based this construction on language in the preamble count, the plain meaning of “treat,” junior party’s specification, which indicated the invention is used to achieve a therapeutic effect on the subject rather than simply to provide oxygen to the subject’s heart, and junior party’s amendment during prosecution to require that the subject be treated by actual delivery of oxygen to the heart. The Board found that junior party had not proved he delivered an effective amount of oxygen to the heart but only that he supplied oxygenated fluid to the aortic arch and held that junior party had not reduced the count to practice.

The Federal Circuit affirmed the Board’s adoption of junior party’s construction of the count using a similar rationale as the Board. Because senior party conceded that junior party had constructed an embodiment or performed a process that met all of the limitations of the count in a brief to the Board, the Federal Circuit only addressed whether junior party knew his invention would work for its intended purpose in assessing reduction to practice. The Federal Circuit affirmed the Board’s finding of no reduction to practice of the count before senior party’s filing date as supported by evidence in the record that junior party did not know his experiments established that the invention worked for the intended purpose of the construed count. The Federal Circuit thus affirmed the Board’s holding that junior party had not reduced the count to practice.

Reference to Deposit of Genetic Material

Enzo Biochem Inc. v. Gen-Probe Inc., 63 U.S.P.Q.2d 1609 (Fed. Cir. 2002). The Federal Circuit held, in a case of first impression, that reference in the specification to a deposit in a public depository that makes its contents accessible to the public when it is not otherwise available in written form constitutes an adequate description of the deposited material to comply with the written description requirement of Section 112, ¶ 1. Specifically, the Federal Circuit held that reference in a patent specification to a deposit of genetic material may suffice to describe that material. The Federal Circuit concluded that the district court erred in granting summary judgment that the claims were invalid for failure to satisfy the Section 112, ¶ 1 written description requirement. The Federal Circuit remanded for further resolution of certain issues consistent with its opinion.

Step-Plus-Function

Masco Corp. v. United States, 64 U.S.P.Q.2d 1182 (Fed. Cir. 2002). The accused infringer argued that the phrase “transmitting a force” recited in the claims is a step-plus-function that involves 35 U.S.C. § 112, ¶ 6. The use of the word “means” to describe a claim limitation “gives rise to a presumption that the inventor used the term advisedly to invoke the statutory mandates for means-plus-function clauses.” Similarly, in the context of method claims, the use of the phrase “steps for” signals the drafter’s intent to invoke Section 112, ¶ 6. However, even where the drafter employs the “step for” language, “section 112, ¶ 6 is implicated . . . only when steps plus function *without acts* are present.” To determine between acts and functions under Section 112, ¶ 6

the “underlying function” of a method claim element corresponds to what the element ultimately accomplishes in relationship to what the other elements of the claim and the claim as a whole accomplish. “Acts,” on the other hand, correspond to how the function is accomplished.

Where the claim drafter has not signaled an intent to invoke Section 112, ¶ 6 by using the “step[s] for” language, the Federal Circuit is unwilling to resort to that provision to constrain the scope of coverage of a claim limitation without a showing that the limitation contains nothing that can be construed as an act. The Federal Circuit held that where a method claim does not contain the term “step[s] for,” a limitation of that claim cannot be construed as a step-plus-function limitation without a showing that the limitation contains no act. “Transmitting a force” recited in the claims describes how the lever is driven into a cam. In other words, “transmitting” in the sense of causing a force to be conveyed through a medium by mechanical parts is an act because it describes how the function of the “transmitting a force” limitation is accomplished. Accordingly, the Federal Circuit reversed the holding of the Court of Federal Claims and held that the “transmitting a force” limitation of claim 1 of each of the patents is not a step-plus-function limitation.

Summary Judgment of Infringement

Abbott Laboratories v. TorPharm Inc., 63 U.S.P.Q.2d 1929 (Fed. Cir. 2002). The Federal Circuit vacated the district court’s decision granting summary judgment to the patentee, Abbott Laboratories (Abbott), because it found genuine disputes of material fact concerning TorPharm’s accused product. After finding no error in the claim construction, the Federal Circuit focused on two claim limitations: (a) the 1:1 molar ratio of sodium valproate and valproic acid, and (b) the oligomeric structure of the acid/salt complex.

Because drug manufacturers are bound by strict statutory provisions to sell only those products that conform with the ANDA’s description of the drug, an ANDA specification defining a proposed generic drug in a manner that directly addresses the issue of infringement controls the infringement inquiry. The Federal Circuit stated that the ANDA filing described a composition with a “a 1:1 molar ratio of sodium valproate and valproic acid.” While TorPharm asserted that a composition can be “a stable co-ordination compound in a 1:1 molar relationship” without having a 1:1 ratio of acid to salt at the “molecular level,” it provided neither evidence nor logic to support the same.

In its oligomeric structure, Abbott claimed various subunits (from 4 to 6 subunits) that comprise a valproic acid molecule and a sodium. TorPharm’s ANDA filing did not specify the number of repeating subunits, if any. To prove this claim limitation, Abbott introduced evidence of the molecular weight of TorPharm’s formulation using three different tests. TorPharm’s expert showed that the molecular weight peaks could be accounted precisely down to the atomic mass unit by complexes of one to eight molecules of sodium valproate alone coupled with a sodium atom. TorPharm’s expert alternative analysis of the data raised a genuine issue of material fact as to whether the mass spectrometry data

proved the presence of the claimed oligomeric structure. Because Abbott chose to claim by composition of its oligomeric structure and the number of repeating units, it must define infringement in those terms (rather than molecular weight measurements). The Federal Circuit affirmed the district court's judgment that the patents are not invalid and are not unenforceable for inequitable conduct.

Terminal Disclaimer

Bayer AG v. Carlsbad Tech. Inc., 64 U.S.P.Q.2d 1045 (Fed. Cir. 2002). The Federal Circuit affirmed the district court's application of the Uruguay Round Agreements Act to a terminal disclaimer filed by Bayer to extend the term of the patent-in-suit to December 9, 2003. The terminal disclaimer filed by Bayer set the expiration date of the patent-in-suit at the earlier of the expiration dates of two related patents. Before the URAA amendments took effect on June 8, 1995, the earlier of the expiration dates of the two related patents was October 1, 2002 (i.e., seventeen years from the issue date of one of the related patents, the '658 patent). However, when the URAA amendments took effect on June 8, 1995, the term of the '658 patent was extended by operation of law. Consequently, when the URAA amendments took effect, the earlier of the expiration dates of the two related patents became December 9, 2003 (i.e., twenty years from the date of filing the '658 patent). The terminal disclaimer of the patent-in-suit, which was tied to the expiration of the '658 patent, moved the expiration date of the patent-in-suit to December 9, 2003.

Violation of Protective Order/Infringement

Eagle Comtronics Inc. v. Arrow Communication Labs. Inc., 64 U.S.P.Q.2d 1481 (Fed. Cir. 2002). The Federal Circuit reversed the district court's finding of no violation of the protective order by plaintiff Eagle and its counsel. During discovery, Eagle's counsel took defendant Arcom's patent application that was marked as "Confidential-Attorneys Only" and filed two copies of the application as Eagle's patent applications. One listed an Eagle employee as the inventor and the other listed an Eagle employee as a joint inventor with Arcom's inventors. The protective order stated that items marked "Confidential-Attorneys Only" shall not be used for any purpose other than for the litigation unless authorized by the court. The Federal Circuit stated that copying a competitor's application obtained through discovery and submitting it as your own—for whatever reason—is not using the material for purposes of the litigation. The Federal Circuit remanded to impose an appropriate sanction.

The Federal Circuit vacated the grant of summary judgment of noninfringement. The Federal Circuit did not find the required clear and unmistakable surrender of subject matter to invoke argument-based prosecution history estoppel. Eagle's repeated reference during prosecution to the location of the seal was an attempt to distinguish the claimed seal location from the location in the prior art. However, Eagle's use of specific claim language to further define the location of the claimed seal did not amount to a surrender of seals located elsewhere along the interface between the assembly and the filter housing. Thus, the district court erred by hold-

ing that prosecution history estoppel barred Eagle from asserting infringement under the doctrine of equivalents. Because the district court found no infringement under the doctrine of equivalents based on prosecution history estoppel, it did not address Arcom's alternative noninfringement arguments based on the all-limitations rule. Thus, the Federal Circuit remanded for resolution of disputed factual issues.

Written Description and Anticipation

New Railhead Mfg. LLC v. Vermeer Mfg. Co., 63 U.S.P.Q.2d 1843 (Fed. Cir. 2002). The Federal Circuit affirmed the district court's order granting defendant Earth Tool's motion for summary judgment of invalidity of the '283 patent based on the on-sale bar. The Federal Circuit also affirmed the district court's order granting defendant Vermeer's motion for summary judgment of invalidity of the '743 patent based on prior public use.

The Federal Circuit first assessed the '283 patent and, specifically, the specification of the prior provisional application. The Federal Circuit concluded that the patent-in-suit was not entitled to the priority date of the provisional application because the specification of the provisional application failed to satisfy the written description requirement of Section 112 for the invention claimed in the non-provisional application and because the provisional application did not adequately describe to one of ordinary skill in the art the claimed "heel-toe" angle between the bit and the housing. The Federal Circuit noted that the provisional never stated that the drill bit was angled with respect to the housing, did not mention or describe the toe or the heel, and did not mention or define the heel-toe ratio. Thus, the Federal Circuit held that the '283 patent was not entitled to the filing date of the provisional application. Because the nonprovisional application that issued as the '283 patent was filed on November 12, 1997, more than one year after the admitted mid-1996 commercial offers for sale, the district court properly granted Vermeer's motion for partial summary judgment of invalidity under Section 102(b).

The Federal Circuit next assessed the '743 patent. The Federal Circuit concluded that this patent was invalid because the inventive method of horizontal drilling in rock was in public use more than one year before the filing date of the application for the '743 patent. Evidence showed that experimental drilling was conducted prior to the critical date to test the drill bit claimed in the companion '283 patent but not the method claimed in the '743 patent. Evidence also showed that the method was successfully performed numerous times in January 1996 with the first prototype of the drill bit. The Federal Circuit found no suggestion that the January 1996 use of the patented method did not meet each claim limitation of the '743 patent and concluded that the January 1996 use of the patented method did not qualify for the experimental use exception. Thus, the Federal Circuit concluded that the district court did not err in holding the '743 patent invalid because the claimed method had been in public use as early as January 1996.

Judge Dyk dissented from the holding of invalidity of the claims of the '743 patent. Judge Dyk emphasized that the use took place under public land hidden from view and was con-

fidential. Judge Dyk noted that the January 1996 testing and that further testing qualified as an experimental use. Judge Dyk concluded that the majority opinion improperly held the '743 patent claims invalid on grounds of public use under Section 102(b).

Copyrights

Conduct Sufficiently Egregious for an Award of Fees and Costs under Copyright Act, But Not Lanham Act

Elements/Jill Schwartz, Inc. v. Gloriosa Co., 2002 WL 31133391 (S.D.N.Y. 2002). The District Court for the Southern District of New York required plaintiff Schwartz to repay defendant Gloriosa's expenses in defending against plaintiff's copyright infringement action despite plaintiff's request that its copyright infringement claim be dismissed with prejudice. The court ruled that Schwartz's conduct in pursuing the claim prior to dismissal demonstrated sufficient frivolity and bad faith to warrant an award of fees and costs. In the twenty-one months of correspondence, threatened litigation, and litigation with Gloriosa, Schwartz never identified a specific instance of alleged copyright infringement despite repeated requests from Gloriosa to do so. The court determined that Schwartz's conduct was sufficiently egregious to award fees and costs under Section 505 of the Copyright Act. Fees and costs were not awarded, however, for Gloriosa's expenses in defending Schwartz's Lanham Act's claims because Section 1117(a) of the Lanham Act requires a higher degree of malfeasance.

Copying a Few Lines of Computer Code More Than De Minimis

Dun & Bradstreet Software Services, Inc. v. Grace Consulting, Inc., 307 F.3d 197 (3d Cir. 2002). Plaintiff Geac Computer Systems owns the copyright in its Millennium software package program, which includes several business information applications. Defendant Grace Consulting provides consulting and maintenance services to licensees of Geac's Millennium software. Grace produced a program called "Remain on Release" that allowed a Millennium user to stay on its current version of Millennium without having to obtain costly upgrades from Geac. In doing so, however, Grace copied several lines of code (27 out of about 525,000 lines) from Geac's Millennium software and also included "copy and call" commands in its "Remain on Release" program, which accessed significant portions of the Millennium code when executed.

Grace argued, *inter alia*, that its copying was *de minimis* as only a small portion of the Millennium code was copied. The Third Circuit rejected this argument reasoning that the quality of what is copied is much more significant than the quantity. And in this instance, Grace copied "highly critical" portions of the Millennium code.

Grace also argued that its use of copy and call commands is permitted under the doctrine of externalities, which provides that "copyright protection is denied to those expressions that are standard, stock, or common to a particular topic

or that necessarily follow from a common theme or setting." The Third Circuit rejected this argument indicating that Grace improperly focused on the point-of-view of the creator of the infringing work, and not on the point-of-view of the creator of the infringed work, in determining whether expressions may be copied under the doctrine of externalities.

Damages in Tabloid Alien Photo Case

Bruce v. Weekly World News, 310 F.3d 25 (1st Cir. 2002). Douglas Bruce took a photograph of presidential candidate William Clinton in March 1992 and sold the photograph to a stock agency called The Picture Group. The Picture Group, in turn, licensed the photo to Weekly World News, a super-market tabloid publisher. World News added a space alien image to the photograph without Bruce's authorization and published the Clinton-and-alien photo on the cover of its August 11, 2002 issue. Bruce netted \$1,775 following the transaction.

In 1994, Bruce noticed a World News advertisement featuring the doctored photo. World News was also using the photo on T-shirts and other tabloid covers. Bruce sued World News for copyright infringement based on this unauthorized use and the district court awarded him \$20,142 in damages, based on actual damages and nonduplicative profits. Bruce appealed the damages determination, arguing that he was entitled to an additional \$359,000 based on a number of theories, including a claim that he would have been able to negotiate a more lucrative license than the district court determined.

The First Circuit determined that Bruce was entitled to an extra \$5,500 because the district court had failed to award Bruce a portion of the licensing fees that would have gone to the then-defunct Picture Group. The First Circuit deemed it unjust enrichment to reward World News with a lower damages payment simply because one of the recipients no longer existed. Bruce argued that he would have been able to negotiate a per-use license rather than the one-time license contemplated by the district court, but showed no evidence that such a license would have been acceptable. Thus, the First Circuit upheld the remainder of the district court's award.

Fair Use Covers Barbie Head-Switching

Mattel, Inc. v. Pitt, ___ F. Supp. 2d ___, 2002 WL 31475004, Case No. 01 Civ. 1864 (S.D.N.Y. 2002). Susanne Pitt created and sold a sexually suggestive "Dungeon Doll" featuring a head removed from one of Mattel's popular Barbie dolls. Mattel sued Pitt for copyright infringement and filed for summary judgment.

The court liberally construed statements relating to artistic freedom made by Pitt, a *pro se* defendant, to raise the affirmative defense of fair use and denied Mattel's motion for summary judgment based on the fair use defense. The court addressed the four fair use factors listed in Section 107 of the Copyright Act of 1976. The purpose and character of Pitt's use weighed in favor of fair use, in view of the extensive changes Pitt made to the Barbie doll and the lack of any "S&M" Barbie line created by Mattel. Pitt argued that her doll was a commentary on Barbie's origins, and the court characterized Pitt's use as "patently transformative." Turning

to the nature of the copyrighted work, the court noted that the Barbie doll is a creative work entitled to substantial protection, but also noted that this factor has less importance than the other three factors in a critical comment or parody case. The court determined that the amount and substantiality of the portion of the copyrighted work used by Pitt was tied to the likelihood that the Dungeon Doll would serve as a substitute for the original doll. The court found there was “slim to no likelihood” of that happening. Similarly, the fourth factor, analyzing the effect of the use upon the potential market of the copyrighted work, weighed against a finding of infringement because “the dolls do not appear to pose any danger of usurping demand for Barbie dolls in the children’s toys market.”

Fair Use of Los Angeles Riot Footage

Los Angeles News Service v. CBS Broadcasting, Inc., 305 F.3d 924 (9th Cir. 2002). The Ninth Circuit Court of Appeals upheld a ruling that Courtroom Television Networks’ use of certain videotape footage was fair. Los Angeles News Service (LANS) owns rights to footage of rioters in Los Angeles beating truck driver Reginald Denny during the mayhem that followed the trial of police officers charged with beating motorist Rodney King. LANS sued Court TV and several other media defendants for copyright infringement after the defendants used portions of the footage during television programming. Court TV broadcasted a few seconds of the footage in on-air promotions of its coverage of the trial of two of the rioters, and also incorporated portions of the footage into a stylized background design for the introductory montage for its show “Prime Time Justice.”

The district court granted Court TV’s motion for summary judgment on the basis of fair use, and the Ninth Circuit affirmed. The court found that of the four mandatory but nonexclusive statutory factors, all but one weighed in favor of finding fair use. The “purpose and character” of the use was found to weigh in favor of fair use because Court TV’s use of the footage in the introductory montage was “transformative” in nature. In accordance with its prior rulings regarding this footage, the court also affirmed that the “nature of the copyrighted work” factor points clearly toward fair use because the footage is “informational and factual and news.” The court also concluded that the statutory factor regarding the effect of the use upon the potential market for the work weighed in favor of fair use because Court TV operated in a significantly different market than did LANS. With regard to the “amount and substantiality of the portion used” factor, the court found that it was neutral because while Court TV may have used the most valuable and pertinent portion of the copyrighted material, the actual amount used was quite small in relation to the work as a whole. On balance, the court found that Court TV’s use of the footage amounted to fair use.

Statute of Limitations or Government Copyright Infringement

Wechsberg v. United States, 54 Fed. Cl. 158 (Fed. Cl. 2002). Plaintiff Wechsberg created and directed “Deafula”—a film based upon the Dracula legend adapted for deaf and hearing-impaired viewers—which he published in 1975.

From October 1995 until October 1998, the U.S. Department of Education copied Wechsberg’s film and distributed videotaped copies as part of the department’s free-loan captioned film circulation program. Wechsberg learned of the Department of Education’s activities in 1998 and sued the Department of Education for copyright infringement based upon this improper copying and distribution in February 2001.

The United States moved for summary judgment contending that Wechsberg’s claim for copyright infringement is time-barred as set forth in 28 U.S.C. § 1498(b), which prohibits recovery for infringements committed by the United States more than three years prior to the filing of the complaint. The Court of Federal Claims disagreed holding that the three-year statute of limitation under Section 1498(b) runs from the most-recent infringing act. Damages for infringements occurring before the limitations period were barred because the court determined that the Department of Education’s actions did not constitute a continuing wrong.

Termination May Negate Comic Contract

Marvel Characters, Inc. v. Simon, 310 F.3d 280 (2d Cir. 2002). In a case of first impression, the Second Circuit determined that a prior agreement that a work was a work for hire constitutes an “agreement to the contrary” under Section 304(c)(5) of the Copyright Act of 1976, allowing a work’s creator to argue he was the author and is entitled to terminate transferred rights.

Joseph Simon and Jack Kirby were the attributed authors of the original Captain America Comics, published in 1940 by Martin and Jean Goodman, doing business as Timely Comics. Simon claimed that he orally assigned his interests in Captain America Comics and the Captain America character to Timely. Toward the end of the Captain America works’ initial 28-year copyright term, Simon sued the Goodmans in state and federal court. These actions were settled in a settlement agreement in which Simon acknowledged that his contributions to the works “was done as an employee for hire of the Goodmans.”

In December 1999, Simon filed Notices of Termination with the Copyright Office, making use of the termination provisions of Section 304(c) of the 1976 Copyright Act to purportedly terminate his transfers to Timely. Marvel, Timely’s successor in interest, filed a declaratory judgment action in an attempt to invalidate Simon’s Termination Notices.

Finding the doctrines of *res judicata* and collateral estoppel inapposite, the Second Circuit determined from the legislative history of the 1976 Copyright Act that protection of works’ creators was the goal of Section 304(c), and that this protection is accomplished by considering the settlement agreement an “agreement to the contrary,” which Section 304(c)(5) ignores when determining whether a termination is valid. The Second Circuit remanded the case for a determination of whether Simon was the author of the works, entitled to exercise a termination right.

“Total Concept and Feel” Test Clarified

Lynx Ventures v. Miller, 45 Fed. App. 68; 64 U.S.P.Q.2d 1542 (2d Cir. 2002). The Second Circuit Court of Appeals

has clarified the circumstances under which the “total concept and feel” test should be applied to determine the question of substantial similarity. In *Lynx Ventures v. Miller*, the plaintiff owned a searchable database compiling descriptions of more than 800 of the world’s commercial wood species. Lynx asserted that its database was infringed by a similar database owned by the defendant, and moved for a preliminary injunction. The district court denied the motion, finding that although the defendant’s database copied components of the plaintiff’s database such as certain textual descriptions of the wood species, there was no substantial similarity between the “total concept and feel” of the two databases.

The Second Circuit reversed, finding that the district court erroneously applied the “total concept and feel” test. The court pointed out that this test had never been applied to a case such as this where the alleged infringement involved verbatim and wholesale copying of original text. The court stated that to use such a test here would “effectively immunize the infringer who appends original material to plagiarized text.” The Second Circuit instructed that, on remand, the district court should conduct the substantial similarity analysis by inquiring whether the copying of the protectable portions of the database (i.e., the manner in which facts were presented), was quantitatively and qualitatively sufficient to support a finding of infringement. In other words, the court should consider both whether each allegedly copied textual portion was copied verbatim or merely paraphrased, as well as the total amount of protectable expression copied by the defendants.

Trademarks

Abandonment

Cumulus Media, Inc. v. Clear Channel Communications, 64 U.S.P.Q.2d 1353 (11th Cir. 2002). Defendant Clear Channel Communications (Clear Channel), the owner of radio station WTLY-FM, appealed the district court’s entry of a preliminary injunction prohibiting its use of on-air name and logo “The Breeze” entered in favor of plaintiff Cumulus Media, Inc. (CMI), the owner of radio station WBZE-FM. The parties operate competing radio stations in the Tallahassee, Florida, radio market. From January 1994 until September 2000, CMI used the name “The Breeze” in addition to a distinctive logo and trading style to identify radio station WBZE. CMI used “The Breeze” in its radio and television advertising as well as on outdoor signage, business cards, cups, mugs, license plates, t-shirts, sticky notes, and stickers. In a two-year period alone, CMI invested more than one million dollars in advertising and promoting “The Breeze.” In September 2000, CMI stopped using “The Breeze” on the airwaves to identify its radio station and commenced using “Star 98.” Contemporaneously, CMI switched its radio format from “mainstream adult contemporary” targeting twenty-four to fifty-four year old listeners, to “hot contemporary” targeting the eighteen to forty-nine year old population. Although it ceased using “The Breeze” as part of its on-air radio programming, CMI continued to use “The Breeze” on its outdoor signage, business cards, and promotional materials.

Thirteen months after CMI switched to “Star 98,” competitor Clear Channel changed its on-air name at WTLY from “The Mix” to “The Breeze.” The station also adopted a logo that was nearly identical to CMI’s “The Breeze” logo. On air promotions on WTLY proclaimed “It’s back . . . and it’s now at 107.1 FM—The Breeze.” Four days after WTLY began identifying itself as “The Breeze,” CMI commenced legal proceedings in federal district court for trademark infringement and unfair competition in violation of § 43(a) of the Lanham Act. Upon CMI’s motion for a preliminary injunction, the district court found that “CMI had made continuous commercial use of ‘The Breeze’ rather than abandoning it, and thus had continuing rights in the name.” The lower court also found that “Clear Channel had changed WTLY’s name to ‘The Breeze’ to divert audience market share from WBZE to WTLY and to trade off preexisting public awareness of ‘The Breeze.’”

The Eleventh Circuit Court of Appeals affirmed the rulings of the district court including its rejection of Clear Channel’s affirmative defense that CMI had abandoned its right in “The Breeze.” In a footnote, the Eleventh Circuit noted that “admittedly, evidence of CMI’s use of ‘The Breeze’ after WBZE’s September 2000 name change was limited, consisting largely of a logo on a billboard, some business cards, and a few promotional materials, but it was sufficient to enable the trial court to reject Clear Channel’s abandonment defense.” In addition, the Eleventh Circuit found that the trial court did not commit legal error in placing a “strict burden of proof” upon Clear Channel for its abandonment affirmative defense. The court noted that “the burden of proof a defendant bears on the affirmative defense of abandonment is, in fact, strict.” *Conagra, Inc. v. Singleton*, 743 F.2d 1508, 1516 (11th Cir. 1984). Furthermore, the Eleventh Circuit ruled that “the ultimate burden of persuasion on the issue of abandonment remains with the defendant.” While CMI met its burden of production by showing evidence of continued use of “The Breeze,” Clear Channel was unable to meet its burden of persuasion on both the district and appellate levels. The Eleventh Circuit also affirmed the district court’s denial of a second hearing preventing Clear Channel from introducing additional evidence and ruled that the parameters of the injunction were not overbroad.

Dilution and Infringement Claims May Be Pursued Through an In Rem ACPA Suit

Harrods Ltd. v. Sixty Internet Domain Names, 64 U.S.P.Q. 2d 1225 (4th Cir. 2002). Harrods Limited (Harrods), the owner of the department store in Knightsbridge, London, brought suit in the United States District Court for the Eastern District of Virginia against sixty domain names relying upon the in rem provision of the Anticybersquatting Consumer Protection Act (ACPA). The domain names were registered by Harrods (Buenos Aires) Limited (Harrods BA), a former Harrods affiliate which severed all legal ties to the London store in 1963. Harrods BA registered the domain names around the same time that Harrods was launching its website and announcing it in the press.

The district court granted summary judgment to Harrods BA for six domain names; the .com, .net, and .org registra-

tions for “harrodsargentina” and “harrodsbuenosaires.” After a bench trial, the district court found a bad-faith intent regarding the other fifty-four names and ordered their transfer to Harrods, but dismissed the infringement and dilution claims. Harrods appealed these dismissals and the summary judgment ruling. On appeal to the United States Court of Appeals for the Fourth Circuit, Harrods BA contended that in rem jurisdiction was improper and that the burden of proof required under the ACPA is clear and convincing evidence rather than a preponderance of evidence.

The Fourth Circuit concluded that jurisdiction was proper because the action was related to Harrod BA’s rights and duties arising out of the ownership of the property in question and Virginia had important interests in not permitting foreign companies to use rights emanating from its territory to infringe U.S. trademarks. In reaching a decision on the proper standard of proof, the court noted that the interests implicated by the cybersquatting provisions of the ACPA are not in the same category as those where a heightened standard of proof is traditionally used, such as proceedings to terminate parental rights, involuntary commitment proceedings, and deportations. Recognizing that some cases involving fraudulent or bad-faith conduct require a showing of clear and convincing evidence, the court could not determine an overarching principle between those that do, such as tax fraud, and others that don’t. Relying on Supreme Court authority stating that heightened evidentiary burdens stemmed from a concern that charges of fraud could be easily fabricated, the court reasoned that the guidelines for a finding of bad faith stated in the ACPA mitigated that concern and hence the court ruled that a preponderance of evidence is the correct standard.

In reversing the decision of the district court, the Fourth Circuit concluded that in rem proceedings under the ACPA are not limited to bad-faith registrations, but can include claims for dilution and infringement. The court focused on the language in the ACPA stating that the owner of a mark may file an in rem action against a domain name if it violates “any right” of the owner of a registered mark. The court also could not understand why Congress would describe the types of marks covered by the statute as those marks “registered in the [PTO] or protected under [infringement and dilution statutes]” if it intended in rem jurisdiction to be available only for bad-faith claims. Whereas the district court viewed the phrase “a person who would have been a defendant in a civil action under paragraph (1)” of the Act as limiting the proceedings to bad-faith claims, the Fourth Circuit viewed it as a shorthand reference for the current registrant of the domain name. Finally, the Fourth Circuit relied on legislative history indicating that the statute was meant to apply where the domain name violated “substantive Federal trademark law” and was “infringing or diluting under the Trademark Act.”

Dismissal of Opposition Based on Prior Coexistence Agreement

Ron Cauldwell Jewelry Inc. v. Clothestime Clothes Inc., 63 U.S.P.Q.2d 2009 (TTAB 2002). Ron Cauldwell Jewelry Inc. (opposer) initiated an opposition proceeding before the Trademark Trial and Appeal Board against Clothestime

Clothes Inc. (applicant) opposing applicant’s application for EYE CANDY for retail store services featuring, among other products: apparel, footwear, cosmetics, fragrances, health and beauty aids, candles, hair accessories, watches, and jewelry. Applicant also owns an application for EYE CANDY for a wide variety of products including, among other items: health and beauty aids, fragrances and cosmetics, jewelry, watches, gloves, and scarves. Opposer owns a pending application for EYE CANDY for retail store services featuring jewelry, watches, money clips, cuff links, key chains, clocks, handbags, purses, shawls, scarves, gloves, decorative hair clips and pins.

Prior to opposing applicant’s mark, the parties entered into a coexistence agreement in which opposer consented to applicant’s use and registration for EYE CANDY for the goods and services identified in applicant’s pending applications. With a signed coexistence agreement in hand, applicant countered the opposition by filing a motion for summary judgment including an affirmative defense premised upon the coexistence agreement. Applicant argued that because it entered into a binding coexistence agreement with opposer, opposer is precluded from preventing Applicant from registering EYE CANDY for the goods and services specified in its applications.

The signed coexistence agreement in effect between the parties memorialized the fact that opposer uses the term EYE CANDY as the name of its store and not for its goods. The parties also agreed, among other terms, that opposer had no plans or desire to use EYE CANDY as a trademark on merchandise. It also contained explicit language that opposer had “no objection to its [applicant’s] use and registration of the EYE CANDY mark” as set forth in the agreement. The agreement contained an exact list of all of applicant’s goods and services and acknowledged the fact that opposer has been operating a small retail store named EYE CANDY in New York City for eighteen years featuring the “Ron Cauldwell line” of jewelry, watches and other accessories. In the event of confusion, the parties agreed to notify each other to amicably resolve the matter.

Opposer responded by presenting arguments to the Board that genuine issues of material fact existed because its coexistence agreement with applicant “is not clear and unambiguous,” opposer failed to receive adequate consideration in exchange for the agreement, and Applicant had been in breach of the agreement before opposer filed the opposition. Opposer claimed that the agreement was “unclear and ambiguous” because opposer was unaware that the coexistence agreement covered applicant’s additional application covering retail store services. Because prior versions of the agreement allegedly did not contain a reference to applicant’s second application for retail store services, opposer’s principal signed the coexistence agreement believing it only to related to applicant’s goods. Opposer asserted that the agreement lacked consideration because opposer “did not get anything as a result of the coexistence agreement.” Claiming that applicant failed to respond to opposer’s notification of incidents of actual confusion, opposer also argued that applicant breached the agreement between the parties.

In granting applicant’s motion for summary judgment and dismissing the opposition with prejudice, the Board ruled that

“the record is devoid of any evidence which raises a genuine issue of material fact as to whether the coexistence agreement is ambiguous, whether the agreement lacks consideration, and whether there has been a breach of the agreement on applicant’s part.” The Board noted that a coexistence agreement must be interpreted on the objective words of the agreement, rather than upon the subjective intent of the parties. *Novamedix Ltd. v. NDM Acquisition Corp.*, 49 U.S.P.Q.2d 161 (Fed. Cir. 1999). The Board found that the parties’ coexistence agreement clearly set forth both of Applicant’s applications and stated that “even if prior versions might create a genuine issue of fact, here no copies of prior versions of the agreement were submitted.” The Board ruled that the agreement is short and uncomplicated and rejected opposer’s argument that “unbeknownst” to opposer, applicant included the application covering retail store services. On the issue of a lack of consideration, the Board held that “the coexistence agreement itself evidences the consideration. In exchange for opposer not objecting to applicant’s use and registration, applicant indicated that opposer’s use for its store was acceptable.” Finally, the Board ruled that applicant’s alleged nonresponsiveness to opposer’s notification of actual confusion was not supported by the record. The Board fully deferred to the terms of the parties’ signed coexistence agreement and dismissed the opposition proceeding with prejudice.

Dissimilar Goods and Services, Marketing Channels Precluded Likelihood of Confusion

Therma-Scan, Inc. v. Thermoscan, Inc., 63 U.S.P.Q.2d 1659 (6th Cir. 2002). In this federal trademark infringement action under the Lanham Act, the Sixth Circuit Court of Appeals affirmed the United States District Court for the Eastern District of Michigan’s grant of summary judgment to the defendant.

Plaintiff Therma-Scan, Inc. (TSI) registered the mark THERMA-SCAN in November 1988. TSI performs infrared thermal-imaging examinations of the human body and prepares diagnostic reports that are provided to its clients or their physicians. The facility where TSI performs examinations is located in Huntington Woods, Michigan, and most of its clients are residents of the greater Detroit area. Defendant Thermoscan, Inc. (Thermoscan), which began operations in Georgia in March 1989, manufactures electronic ear thermometers. Thermoscan sold 3.2 million thermometers between January 1, 1997 and July 31, 2000. It had sales of more than \$147 million in 1996, along with advertising and promotional expenses in excess of \$20 million. The defendant registered the mark THERMOSCAN in September 1991. TSI sued for trademark infringement and unfair competition.

Applying the standard eight-factor likelihood of confusion test, the Sixth Circuit determined that the district court did not err in finding that there was no likelihood of confusion. The relatedness of goods and services and the marketing channels used were the two factors the court considered most relevant and tipped the scales in favor of finding no likelihood of confusion. The Sixth Circuit determined that the parties’ goods and services utilize similar technology but in very different ways, are marketed to different populations, and the

parties do not compete in the marketplace. As a result, confusion is unlikely. Additionally, the Sixth Circuit concluded that the district court correctly found that the two parties’ use of the Internet as a marketing channel was entitled to little weight. Furthermore, Thermoscan sells 80 percent of its thermometers directly to consumers and 20 percent to physicians and hospitals, while TSI depends on referrals from physicians for the vast majority of its business. Because the parties have predominantly different customers and no common marketing approach, the Sixth Circuit agreed the district court correctly found confusion to be unlikely.

Taken together, the district court correctly determined that the relevant facts failed to raise a genuine issue as to whether consumers would be confused regarding the origin of TSI’s examinations and Thermoscan’s thermometers.

First Amendment Trumps Trademark Law Even When Dilution Shown

Mattel Inc. v. MCA Records Inc., 296 F.3d 894, 63 U.S.P.Q.2d 1715 (9th Cir. 2002). Mattel manufactures the famous doll Barbie. Mattel brought suit in the United States District Court for the Central District of California against the companies that produced, marketed, and sold the song “Barbie Girl” (collectively defendants), performed by the Danish band Aqua on its album *Aquarium*. Mattel sued for trademark infringement, dilution, and related claims. In part of the song, one band member impersonates Barbie and another impersonates Ken, who entices Barbie to “go party.” The lyrics suggest the values that Barbie apparently represents to Aqua. The Ninth Circuit affirmed the district court’s grant of summary judgment to MCA Records on Mattel’s claims of federal and state-law trademark infringement and dilution.

In upholding the grant of summary judgment on Mattel’s trademark-related claims, the Ninth Circuit focused on the balance between trademark law and the First Amendment. For example, the court stated that, “when a trademark owner asserts a right to control how we express ourselves . . . when the mark . . . has taken on an expressive meaning apart from its source-identifying function – applying the traditional [likelihood-of-confusion] test fails to account for the full weight of the public’s interest in free expression.”

Adopting the Second Circuit’s holding in *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989), which stated that literary titles do not violate the Lanham Act “unless the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work,” the Ninth Circuit reasoned that the district court did not err in finding no infringement because the use of Barbie in the song’s title (1) was relevant to the underlying work (a song about Barbie and the values the band suggested she represents), and (2) did not mislead as to the source of the song. Although the Ninth Circuit did find that MCA Records’ use of Barbie diluted that mark, the court found no Lanham Act violation since MCA Records’ use fell within the third statutory exception to the Federal Trademark Dilution Act (FTDA) because MCA Records’ use was non-commercial and protected by the First Amendment.

Because Barbie Girl's commercial purpose was "inextricably entwined with expressive elements," MCA Records' use was not purely commercial speech and was therefore fully protected by the First Amendment.

Finally, the district court did not err in granting summary judgment against Mattel on its claim of unfair competition under the Paris Convention for the Protection of Industrial Property (Paris Convention) (brought on behalf of the foreign defendants named by Mattel). The Ninth Circuit reasoned that because the Paris Convention does not provide any substantive rights but merely ensures "national treatment," foreign nationals are to be given the same treatment in a member country as that country makes available to its own citizens. As a result, Mattel's claim that this treaty provision providing for "national treatment" provides Mattel more protection against foreign nationals than it has against U.S. nationals was rejected.

In Rem Jurisdiction Does Not Need to Persist Throughout the Case

Porsche Cars North America, Inc. v. Porsche.net, 64 U.S.P.Q.2d 1248 (4th Cir. 2002). Pursuant to the Anticybersquatting Consumer Protection Act (ACPA), Porsche Cars North America, Inc. (Porsche) brought an in rem action in the United States District Court for the Eastern District of Virginia against 128 domain names containing some variant of Porsche trademarks. Porsche also brought a dilution claim based on in rem jurisdiction under 28 U.S.C. § 1655, which authorizes in rem jurisdiction to enforce or remove a lien or encumbrance on property. Two of the domain names at issue were registered to a British citizen, Christian Holmgreen (Holmgreen). The district court granted Holmgreen's motion to dismiss the dilution claim on the ground that dilution was not contemplated by 28 U.S.C. § 1655. On the eve of the trial, Holmgreen, who had previously contested personal jurisdiction, notified the district court that he would accept personal jurisdiction in the Southern District of California and then moved to dismiss the ACPA action on the grounds that the district court no longer had jurisdiction. Although frustrated with Holmgreen's procedural jockeying, the district court concluded that as long as personal jurisdiction was available, Porsche could not proceed in rem. Porsche appealed these two rulings.

The Fourth Circuit could find no language in the statute supporting the contention that in rem jurisdiction must continue throughout the proceedings, nor did it find support in any ACPA case law. Comparing in rem jurisdiction to diversity jurisdiction, the court of appeals noted case law holding that diversity is measured at the time of commencement of the action. The court also noted that personal jurisdiction, which is analogous to in rem jurisdiction, is waived absent a timely objection. The court reasoned that if a party may waive objections to a form of jurisdiction, it follows that the conditions that create jurisdiction cannot be necessary in every case to support a court's power to hear a case or required to exist throughout the life of the case. The court also drew comparisons from forfeiture cases, where jurisdiction remains even after the res is removed from the jurisdiction. The court interpreted the language of the ACPA as sup-

porting the view that in rem jurisdiction must exist at the time of filing, but not necessarily persist throughout the life of a case. The statute's statement that the "owner of a mark" may "file" an in rem action if "the court finds that the owner . . . is not able to obtain in personam jurisdiction" indicated to the court a temporal aspect of when in rem jurisdiction is needed, the time of filing. The court pointed out that the diversity statute, which the court already concluded argued against the required persistence of in rem jurisdiction, has no temporal aspect. Policy interests also argued against Holmgreen's position as a defendant could hijack a case across country on the eve of trial as indeed Holmgreen attempted to do. The court ruled that it is not necessary for in rem jurisdiction to persist throughout the lifetime of a case.

The Fourth Circuit also rejected Holmgreen's arguments that the ACPA violated due process. The court determined that while the mere presence of property in a jurisdiction may be insufficient to establish jurisdiction in cases not involving the property, it is settled that presence of property in a jurisdiction is sufficient for cases where the property itself is the source of the underlying controversy. Because the ACPA treated domain names as property, the court was not persuaded by Holmgreen's contention that the domain names were addresses rather than property.

The court affirmed the district court's dismissal of Porsche's dilution claims because they were filed under 28 U.S.C. § 1655, which provides in rem jurisdiction to enforce or remove any lien or encumbrance on property. The court reasoned that no dilution remedy entitles a plaintiff to possess diluting material, hence a claim for dilution cannot be characterized as a lien or incumbrance on property.

Laches and Acquiescence Are Legally Insufficient Bases for an Opposition

Leatherwood Scopes Int'l Inc. v. Leatherwood, 63 U.S.P.Q.2d 1699 (TTAB 2002). James M. Leatherwood (applicant) sought a federal trademark registration of the mark LEATHERWOOD for telescopes and optical scopes for rifles. Leatherwood Scopes International Incorporated (opposer) opposed registration on the grounds that it purchased all rights to the LEATHERWOOD mark from Leatherwood and the goods were closely related, channels of trade were similar, the class of consumers was similar, and the mark resembled opposer's mark such that confusion was likely.

Opposer was formed in 1995 when it entered into an agreement with applicant's company to purchase the assets, technology, and goodwill related to the ART II and ART Tel rifle scopes. A separate line of scopes, the MPC scope, was not included in the agreement. Applicant continued his use of the mark after entering into the agreement. When the applicant began selling a scope that he claimed was based on the MPC scope, however, the opposer filed suit claiming that applicant had violated the parties' prior agreement. A district court, in concurrent proceedings, agreed with the Applicant and ruled that the agreement was not intended to sell the LEATHERWOOD name or mark and that the new scope being sold by applicant was based on the MPC scope which was not part of the parties' previous noncompetition

agreement. Hence, the district court granted summary judgment to the applicant/defendant on all counts.

In the TTAB proceedings, Applicant contended that he had never abandoned or assigned his rights in the mark to opposer, and that he had priority. The applicant sought summary judgment based on the decision of the judge in the concurrent lawsuit that no sale of the mark LEATHERWOOD had taken place. Opposer sought leave to amend the notice of opposition to include claims of acquiescence to opposer's use and that opposer relied on this acquiescence, which constituted laches precluding applicant from obtaining registration. Opposer also contended that its uncontrolled use of the mark constituted a naked license and hence Applicant abandoned his rights in the mark.

The TTAB refused to grant leave to allow opposer to file its amended opposition on the grounds of futility. The TTAB noted that to the extent that opposer is attempting to allege laches and acquiescence, per se, as grounds for opposition, they are legally insufficient because they are affirmative defenses, not grounds for opposition to registration of a mark. The TTAB interpreted opposer's proposed amendment as asserting a claim for abandonment, but ruled that claim would be futile as well. The proposed amendment did not include any allegation that the mark lost all capacity as a source indicator for applicant's goods; regardless of whether or not applicant's use was proper. The TTAB stated that maintenance of exclusivity of rights in a mark is not required to avoid a finding of abandonment. The TTAB also ruled that the opposer, as licensee under the parties' agreements, was estopped from challenging the applicant's ownership of the mark under the doctrine of licensee estoppel.

Summary judgment was granted in favor of applicant. It was uncontested by the parties that applicant had priority of use. The record contained no facts indicating abandonment on the part of applicant, hence applicant was entitled to summary judgment on the sole remaining issue of priority and the opposition was dismissed with prejudice.

Mere Registration Insufficient to Create Material Fact Issue

Tie Tech, Inc. v. Kinedyne Corp., 63 U.S.P.Q.2d 1587 (9th Cir. 2002). In an opinion focusing on the evidentiary weight of a trademark registration, the Ninth Circuit affirmed the grant of summary judgment by the United States District Court for the Western District of Washington for the defendant accused of infringing a product configuration mark for a web-cutting device. The Ninth Circuit found that the district court correctly determined that the product design was not fanciful but wholly functional, and therefore lacked trademark significance.

Plaintiff Tie Tech, Inc. (Tie Tech) makes and sells "wheelchair securement systems" for public and private vehicles. In the 1980s, Tie Tech began making the SAFECUT web-cutter, which it describes as a "hand-held, well-balanced webbing cutter" intended to allow quick release of individuals from their wheelchair securement systems in an emergency. The Patent and Trademark Office (PTO) registered the device as a trademark in 1998, but excepted the

scalloped finger indentations on the web-cutter's handle, which the examiner found to be functional.

Defendant Kinedyne, a Tie Tech competitor, once made its own distinctive web-cutter, but redesigned it to be virtually indistinguishable from the SAFECUT configuration due to customer dissatisfaction. The only differences between the SAFECUT configuration and Kinedyne's web-cutter, the court noted, were the color; Kinedyne's name embossed in its polycarbonate frame; and, most notably, the absence of the scalloped finger indentations in the handle.

On appeal from the district court's grant of summary judgment, Tie Tech argued that its trademark registration alone should have been sufficient to create a material issue of fact and defeat summary judgment. The Ninth Circuit disagreed explaining that while the registration discharges the plaintiff's original common law burden of proving validity in an infringement action, the registration is still subject to rebuttal. The plaintiff retains the ultimate burden of persuasion in a trademark infringement action, namely proof of infringement. Because an invalid mark cannot be infringed, validity is a threshold issue. The plaintiff in an infringement action with a registered mark is given the presumptive advantage on the issue of validity, the court wrote, shifting the burden of production to the defendant to prove otherwise—here, to provide evidence of functionality. Once the presumption of validity is overcome, the court concluded, the mark's registration is merely evidence of registration, and nothing more. The court termed the approach "rebutting the prima facie case or 'piercing the presumption.'"

The Ninth Circuit rejected Tie Tech's approach on the ground that it would mean that a defendant in a trademark infringement action never could prevail at the summary judgment stage on an invalidity defense because a registered mark would always raise a material fact issue—even when functionality can be determined as a matter of law based on undisputed facts. Such an approach "inflates the evidentiary value of a trademark registration."

The Ninth Circuit also rejected Tie Tech's alternative argument that it presented sufficient evidence of nonfunctionality beyond its registration to warrant reversal, and that Kinedyne should not be allowed to sell a web-cutter in a shape that mimics that of the SAFECUT. The court reasoned that Tie Tech did not introduce any evidence of distinctiveness of the SAFECUT design other than the elements essential to its effective use.

No Deference to PTO's Decision to Register Defendant's Mark in Determining Distinctiveness of Plaintiff's Mark

U.S. Search LLC v. US Search.com Inc., 300 F.3d 517, 63 U.S.P.Q.2d 2013 (4th Cir. 2002). Plaintiff U.S. Search LLC is an executive recruiting and placement firm that specializes in the plastics industry. Defendant US Search.com Inc. provides access to online public records on the Internet and through its 1-800-US-SEARCH phone number, which is also its registered trademark. When defendant began offering its business clients the ability to verify a prospective employee's background, plaintiff alleged it received more than 325 calls intended for defendant.

Shortly thereafter, plaintiff filed suit against defendant in the United States District Court for the Eastern District of Virginia for unfair competition and false designation of origin. Defendant counterclaimed, alleging infringement of its registered mark, false designation of origin, and unfair competition. The trial court granted defendant's motion for summary judgment and held that plaintiff's mark US SEARCH was not entitled to service mark protection because it was descriptive and no evidence existed of secondary meaning. Defendant later dismissed its counterclaims.

On appeal to the United States Court of Appeals for the Fourth Circuit, plaintiff argued that the district court erred by refusing to recognize that its mark was entitled to service mark protection. One of plaintiff's primary arguments relied on the fact that the PTO issued a registration for defendant's 1-800-US-SEARCH mark, which indicates that the mark is not merely descriptive. Although the Fourth Circuit explained that a court "should not freely substitute its opinion for that of the PTO because a decision to register a mark, without requiring evidence of secondary meaning, is powerful evidence that the registered mark is suggestive" and such a registration typically constitutes prima facie evidence sufficient to establish a question of material fact to preclude summary judgment, the PTO registered defendant's, not plaintiff's mark. The Fourth Circuit refused to conclude that plaintiff's mark is suggestive merely because the PTO found that defendant's mark is suggestive. To do so would be to ignore a fundamental tenet of trademark law, which is "that the distinctiveness of a mark is measured in connection with the particular goods or services that are being offered." Moreover, defendant submitted evidence that plaintiff used "search" as a synonym for its recruiting services, further underscoring its descriptive nature as used by plaintiff.

No Trademark Rights in Single Book Title

Herbko Int'l, Inc. v. Kappa Books, Inc., 64 U.S.P.Q.2d 1375 (Fed. Cir. 2002). Despite finding a likelihood of confusion between the two marks at issue, the Federal Circuit reversed the Trademark Trial and Appeal Board's (TTAB) decision to cancel the trademark registration at issue, finding that the TTAB erred in determining that the appellee's prior use created proprietary rights.

Herbko International, Inc. (Herbko) makes and sells the Crossword Companion Roll-A-Puzzle System, a handheld device with scrollable rolls of crossword puzzles. Herbko filed an intent-to-use (ITU) application in June 1994 and obtained registration of the mark and design CROSSWORD COMPANION for its puzzle system and replacement rolls, declaring first use in commerce on September 22, 1994.

Kappa publishes a variety of paperback books, including a series of crossword puzzle books sold under the name CROSSWORD COMPANION. Kappa first used the mark in 1993 and shipped more than one million copies of the first CROSSWORD COMPANION book to WalMart between April and October of that year. Kappa made no significant sales of the books in 1994, and the Federal Circuit assumed that Kappa did not publish a second vol-

ume of its crossword puzzle books until 1995. Kappa recommenced shipments of its CROSSWORD COMPANION books in February 1995, selling more than 900,000 books from 1995 to 1997.

Kappa filed a petition seeking cancellation of Herbko's mark on the grounds of priority of use and likelihood of confusion. The TTAB entered summary judgment for Kappa, holding that Kappa's use of the mark on its first CROSSWORD COMPANION book in 1993 constituted an analogous use that was perfected when it later produced its second CROSSWORD COMPANION book in 1995. The TTAB held that the proprietary rights for the title of the book series dated back to the beginning of the series because the second volume in the series was published within a reasonable time.

The Federal Circuit found that the TTAB's decision was contrary to its precedent clearly requiring not only timeliness, but also that the mark be used in a manner reasonably expected to create an association between the mark and its goods. The TTAB's precedent holds that the title of a single book cannot serve as a source identifier. Thus, the publication of a single book cannot, as a matter of law, create an association between the book's title (the alleged mark) and the source of the book (the publisher). The Federal Circuit explained that "if a later party uses or applies for a trademark before the creation of a series (i.e., before publication of a second volume), the proprietary rights for the series title date back to the first volume of the series only if the second volume is published within a reasonable time with a requisite association in the public mind."

Kappa did not provide evidence of a second volume before Herbko filed its ITU application. Therefore, Kappa could rely only on sales of its first CROSSWORD COMPANION volume. Because even large sales of a single work are insufficient to create a source-identifying association in the public mind, the Federal Circuit concluded that the TTAB erred in holding that Kappa established priority of the mark.

Preliminary Injunction Entered Enjoining Use of Competitor's Mark in Metatags and Requiring Remedial Language on Website

Promatek Industries, Ltd. v. Equitrac Corporation, 63 U.S.P.Q.2d 2018 (7th Cir. 2002). Equitrac Corporation (Equitrac) filed an appeal with the United States Court of Appeals for the Seventh Circuit after the United States District Court for the Northern District of Illinois entered a preliminary injunction enjoining Equitrac from using a Promatek Industries (Promatek) trademark on its website and requiring Equitrac to post a notice on its website directing consumers to Promatek's website. Promatek owns the federally registered trademark COPITRAK to identify a counter for counting copies produced on photocopying machines. Equitrac is a competitor of Promatek, but also provides maintenance and service for equipment bearing the COPITRAK trademark.

The dispute between the parties stems from Equitrac's use of "Copitrack" in the metatags for Equitrac's website. Although Equitrac used "Copitrack" in its metatags,

Equitrac intended to use Promatek's exact trademark COPITRAK. After Promatek filed suit against Equitrac for trademark infringement, Equitrac removed the "Copitrack" metatag from its website and asked all of the search engines known to it to remove any link between the term "Copitrack" and Equitrac's website. Dissatisfied with Equitrac's remedial measures, Promatek asked the district court to enter a preliminary injunction prohibiting Equitrac from using "Copitrack" on its website. The district court granted the requested injunctive relief to Promatek and further required the following disclaimer on its website: "If you were directed to this site through the term 'Copitrack', that is in error as there is no affiliation between Equitrac and that term. The mark 'Copitrak' is a registered trademark of Promatek Industries, Ltd., which can be found at www.promatek.com or www.copitrak.com."

The Seventh Circuit affirmed the entry of the preliminary injunction and found that given the likelihood of initial interest confusion, the district court correctly found that Promatek was likely to succeed on the merits of its claim. Initial interest confusion "occurs when a customer is lured to a product by the similarity of the mark, even if the customer realizes the true source of the goods before the sale is consummated." *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996). The court found that Equitrac's placement of the "Copitrack" mark in its website code diverted consumers to Equitrac's own website enabling Equitrac to reap the goodwill Promatek built up in its COPITRAK mark. The Seventh Circuit further ruled that: "What is important is not the duration of the confusion, it is the misappropriation of Promatek's good will. Equitrac cannot unring the bell." The Seventh Circuit also quoted the Ninth Circuit's conclusion that "using another's trademark in one's metatags is much like posting a sign with another's trademark in front of one's store." *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1064 (9th Cir. 1999).

The Seventh Circuit also found that Promatek lacked an adequate remedy at law and that the balancing of the harms weighed in favor of Promatek. The court ruled "without the injunction, Equitrac would continue to attract consumers browsing the web by using Promatek's trademark, thereby acquiring goodwill that belongs to Promatek." The court rejected Equitrac's argument that Promatek may garner a competitive advantage by including the remedial language on its website. In making such a finding, the court found that Equitrac had not provided evidence of lost customers, and that the remedial language is "more informative than it is harmful." The court noted that Equitrac nevertheless is permitted to advertise that it is capable of servicing COPITRAK products, place comparison claims on its website, and include press releases about its litigation with Promatek.

Trade Dress Protection

Gray v. Meijer, Inc., 295 F.3d 641, 63 U.S.P.Q.2d 1735 (6th Cir. 2002). In a trade dress infringement action, the plaintiff, a relatively unsuccessful wholesale popcorn distributor, sued one of its retailers alleging that the retailer's trade dress for its own brand of popcorn infringed plaintiff's unregistered trade dress for its popcorn packaging. The United

States District Court for the Western District of Michigan granted summary judgment in favor of defendant based on its finding that there could be no likelihood of confusion between plaintiff's and defendant's trade dress as a matter of law. The United States Court of Appeals for the Sixth Circuit affirmed.

Focusing on the strength of plaintiff's trade dress and the similarity between the two packagings, the Sixth Circuit noted that such strength depends on "the interplay of two elements, the uniqueness of the trade dress and the investment in imbuing a trade dress of secondary meaning." A strong trade dress could result from very unique packaging even without strong efforts to promote the packaging, or from advertising and other promotional activities that might take an ordinary package and turn it into a package worthy of trade dress protection. In this case, plaintiff's popcorn packaging fell into neither category because it was neither exclusive nor unique. The Sixth Circuit also noted that although the district court used the term "side-by-side comparison," it nevertheless conducted the proper analysis when comparing the parties' popcorn packaging. "The differences noted by the district court were not the technical differences implied by a 'side-by-side comparison.'" Rather, the differences in the two packages and the general impression each created were not similar."

Finally, regarding defendant's intent in selecting its trade dress, the court held that even if defendant intended to copy plaintiff's trade dress, evidence of copying is of no import if there is no real issue of a likelihood of confusion.

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BY SAMSON HELFGOTT, INTERNATIONAL ACTIVITIES COORDINATOR

Change of Examination Procedure at EPO



Samson Helfgott

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

PCT Reform

Over the last few years a number of changes have been approved for modifying the PCT to make it more user-friendly and lower cost. One of the first reform initiatives approved by the PCT Assembly was to extend the time limit for Chapter I of PCT from 20/21 months to 30/31 months. This would permit applicants to obtain an international search under Chapter I and avoid the necessity of paying for and obtaining an examination under Chapter II. Many applicants felt that the examination was not of significance since upon entry into national and regional offices following perfection of the PCT separate examinations would take place.

The ability to remain in Chapter I for the full 30/31 months went into effect on April 1, 2002. However, some countries required modifying their national laws to accommodate this change. Of the 118 Contracting States, the only countries that have still not modified their laws to accept this change are Brazil, China, Republic of Korea, Norway, Singapore, Yugoslavia, and South Africa. If an applicant intends to complete the national entry into any of these countries, it still will be necessary to utilize Chapter II until these other countries accept this modification. While there are other European and South African countries that also have not yet accepted the change, utilization of the European Patent Office and the African Treaty ARIPO, respectively, would permit entry into those other countries after the full 30/31 months from Chapter I.

Further changes approved by the PCT Assembly include the reinstatement of rights after failure to comply with the requirement for entering into the national phase within the applicable time. Specifically, failure to enter into the national phase at the end of the 20/21 month or the 30/31 month time limits will no longer result in the abandonment of the application. National/regional entry still will be permitted based upon showing that due care was taken under the circumstances. The national/regional offices have the ability of lowering that standard to one of unintentional failure to

enter into the national phase. This restoration privilege will go into effect as of January 1, 2003.

Further changes that have been accepted and which will go into effect on January 1, 2004 concern the new Enhanced International Search and Preliminary Examination (EISPE) System. Under this system, along with the International Search Report (ISR), which will be produced under Chapter I, there also will be an International Preliminary Report on Patentability (IPRP). This will be similar to the written opinion that is currently generated during the Chapter II examination phase. The IPRP will be sent to the applicant and will be retained in the file but will not be published at 18 months. Only the search report will be published. Should the applicant remain in Chapter I and never enter Chapter II, at the end of the 30/31 months the IPRP will be issued as the International Search Authority Opinion (ISAO) that will be sent to the designated offices upon entry into the national/regional phase. Should the applicant desire to have a dialog with the examiner and amend the claims, he can enter into Chapter II, as at present, and receive a written opinion that will generally be the same as the IPRP. He can then amend the claims and ultimately receive an International Preliminary Examination Report (IPER) as at the present time and that will then be sent to the elected countries upon entry into the national phase.

Other simplifications that also will be effective January 1, 2004, include an automatic and all-inclusive designation system covering all of the countries that are member states of the PCT. There will be a flat "international filing fee" for any filing. Designated offices will receive communications only upon their request, in order to reduce paper flow. Simplifications on signatures, powers of attorney, and indications concerning applications also go into effect at that time. Furthermore, from October 17, 2002, there will be a fee reduction for electronic filing of applications into the PCT.

Additional reforms are still being discussed. At the Third Session of the Working Group on Reform of the PCT held in Geneva on November 18–22, 2002, they reviewed the restoration of the right of priority. The Patent Law Treaty (PLT), which was adopted a few years ago, provided for restoration of the failure to file an application within the twelve-month Paris Convention period. Under the PLT, the criteria for such restoration was left to the national/regional organization involved to determine whether it is a standard of "due care" or a standard of "unintentionality." The PCT Working Group discussed

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what standard should be provided within the PCT for failure to meet the twelve-month deadline of the Paris Convention for filing a PCT application. Although the International Bureau initially proposed that the applicant choose which standard he would use, with a higher fee being payable should the applicant choose the standard of "unintentionally," a number of delegations indicated that they were unwilling to accept this proposal. Many Europeans were not willing to accept a dual standard into their system. At the same time, the delegations agreed that it would be preferable to continue to seek a solution under which a decision of the receiving office to restore the right of priority would be given proper effect by the designated offices rather than to leave the matter to be determined separately by each designated office under a variety of national laws. It was agreed that practical problems and confusion would arise if receiving offices were obliged to apply one criterion as a receiving office and a different criterion as a designated office or national office. Furthermore, it was agreed that there would be a need for guidance in the PCT Guidelines on the practice to be followed. The International Bureau was charged with providing a revised proposal presenting different options for consideration by the working group at the next meeting.

Other proposals for reform of the PCT also were considered. These included simplifications in the formalities reviewed by the various receiving offices. A proposal was discussed that there should be permissible divisional applications filed during the PCT phase. It also was proposed that there be a standardized international form for entry into the national phase. Also discussed was the proposal to provide a further period of time after the expiration of the period within which one must enter the national phase for filing any required translation of the international application. It was also agreed to look into the investigation of the possibility of further integrating the international search and international preliminary examination procedures to further strengthen the international phase and reduce the need for duplication of work by designated offices during the national phase and providing a more useful and final result of the international phase for use by designated offices.

In an attempt to improve the quality of search and preliminary examination, it was agreed that there be considered standards for a PCT search and examination. In addition, a task force will be appointed to determine what other measures can be used to improve the quality, including the possibility of a common central data base, providing feedback from designated and elected offices regarding searches carried out by different offices on applications from the same family, an extensive examiner exchange program, and other matters that could improve the search and examination procedure.

The next session of the working group was tentatively scheduled for May 19–24, 2003.

European Community Designs Treaty

The European Commission adopted a regulation on October 22, 2002, to allow the Office for Harmonization in

the Internal Market (OHIM), based in Alicante, Spain, to begin registering Community designs as of January 1, 2003. These early applications will then receive the first possible date of application (i.e., April 1, 2003). Thus, applicants will now be able to apply for either Community designs or national designs.

Community designs offer the applicant the specific advantage of having to deal with only one application proceeding for each design for the entire EU. In contrast, each national design application requires a separate proceeding. An application for a Community design is therefore easier than an application for several national designs.

A further advantage of Community designs lies in the possibility to choose the language. A community design can be applied for in any of the official languages of the Community (i.e., English, German, French, Italian, Spanish, Danish, Greek, Dutch, Portuguese, Finnish, or Swedish). The applicant must, however, also name a second language (i.e., one which is a language of the OHIM, and which applicant accepts for use as a possible procedural language). The languages of the OHIM are German, English, French, Italian, and Spanish.

National design applications must on the other hand be applied for in the respective language of the country of application. Often enclosures and exhibits also must be translated into these languages, incurring further costs.

A comparison of the official fees for designs has revealed that an application for three or four or even more national designs (depending on the country selected) is more expensive than an application for one Community design. In reverse, the official fees for national design applications are lower than those of Community designs if protection is to be acquired for only three or four or fewer EU states.

In addition, it must be kept in mind that often there is the necessity to appoint a domestic representative before the national patent offices when filing a design application, and therefore the fees of the respective national attorney will be incurred in addition to the official fees.

If, on the other hand, one attorney files a Community design application, only the fees of this one attorney will be incurred.

During the registration proceedings, the OHIM will examine for the most part only the formal conditions for the application of a Community design. From a substantive view, the OHIM restricts its examination to the question of whether the design complies with Art. 3(a) of the CDR (i.e., whether the appearance of the product or a part thereof is applied for, which arises especially from the features of the lines, contours, colors, shape, texture and/or materials of the product itself and/or its ornamentation). Along with this, possible contraventions of public order and morality are examined. However, any further substantive conditions of protection of the Community design, such as novelty and distinctive character, will not be examined during the examination proceedings.

Also, it should be noted the EU regulations cover the protection of unregistered designs, which enjoy automatic protection as from their having been made available to the

public in the European Union; thereafter, the period of protection shall be three years. The owner of such right shall be entitled to only prohibit the use of copies of the original design. This modality will be beneficial for industries, which are subject to seasonal renewals of their product collections.

On the other hand, for registered Community designs, under the authority of the OHIM, the protection is for a five-year period as from the date of application, renewable for successive five-year terms up to twenty-five years. This kind of protection shall entitle holders to prohibit the use in the market of designs copying their creations, as they enjoy exclusive protection. Likewise the owners of a registered Community design may prohibit the commercialization of any design creating an impression similar to their protected Community design. Thus, this precludes any posterior creation in the market similar to their own creation.

The regulation allows companies to launch their product on a market and, depending on its accomplishing targets and results, subsequently spend or not the cost of its registration. This is possible due to the fact that the regulation provides for a one-year grace period from the date of disclosure of the design; the protection period will be computed from the date when the design had been made available to the public.

U.S. Bar/JPO Liaison Council

The annual meeting of the US Bar/JPO Liaison Council took place on December 3, 2002 in Washington. This council was organized thirteen years ago and includes representatives of regional and national U.S. patent bar associations meeting annually with Japanese officials, alternately in the United States and in Japan. Attending this year's meeting were senior representatives of the Japanese Patent Office (JPO) and representatives of the major regional and national patent bar associations in the United States.

During the meeting, numerous topics were reviewed, including the new information disclosure system that recently went into effect in Japan. The JPO representatives pointed out the distinctions between the Japanese IDS system and that in the United States. In the Japanese system, the information of closely related art must be included directly in the specification and must identify the prior art with bibliographic information relating to the prior art. Although an examiner can reject the application if the examiner believes that relevant prior art was not identified, there is no fraud on the patent office issue should the patent owner fail to submit the information. The examiner must provide reasons why he felt the material art was not cited. For example, if he is aware that the patent owner, being a large corporation, does have numerous patents in the field and these have not been cited. Alternately, if the examiner believes that there are major patents that were not brought to the attention of the examiner or, by way of example, if the application refers to prior art and discusses it without identifying what that prior art is.

It was pointed out to the Japanese officials that by requiring the prior art to be inserted directly in the specification, rather than in a separate document, the JPO was unique and different from most other patent offices in the

world and thereby required a different specification to be prepared for Japanese filing as compared to one for the rest of the world. This works against uniformity and harmonization, especially when electronic filing is to be introduced. The JPO indicated their awareness of this situation and that they would take under advisement the possibility of any needed change.

With respect to the recently introduced restriction on new matter in the Japanese patent law, it was pointed out to the Japanese representatives that under their current requirement, examiners were requiring very strict interpretation and limiting claims to the literal language copied directly from the specification. This was especially a problem in filing divisional applications where the examiners were being critical of the introduction of any claims in a divisional application that differed literally from the original application. The JPO officials indicated their awareness of this situation and advised that they are reviewing the guidelines and hoped to have new guidelines for review by April 2003.

The JPO also discussed current proposals for revision of the appeal/trial system. Under the present laws, there are various opportunities for challenging a particular patent. There currently exists the opposition system that can be filed by any individual, but only within a fixed period of time after grant. There also exists the trial for invalidation that is limited to only interested parties but can be filed at any time during the life of the patent. There also exists a trial for correction that has no time limits, and the ability to challenge the validity of a patent directly in an infringement action before a district court. As a result of these numerous procedures, a patent owner is often faced with multiple challenges all going on at the same time.

The patent office is currently reviewing various proposals to a more uniform approach to challenging the validity of a patent incorporating various features of the many currently existing systems as part of the introduction of a new system. The JPO is expected to publish their proposal for comments in the near future.

The JPO also reviewed their system of Consolidated Examination Program for Relevant Applications. Recently the JPO introduced this system where technically related applications could be examined at the same time. Under this procedure, the applicant's request is submitted for consolidation examination with a combined list of the relevant applications and thereafter a consolidated examination is carried out in the JPO with information from the applicants.

On the issue of small entity fees, the Japanese officials indicated that at present there were no plans for any specific introduction of small entity fees specifically addressed to patent fees. However, they pointed out that under various other laws in their country, benefits of reduced fees are available. For example, there currently are laws assisting persons deficient in funds, researchers of universities, small venture enterprises, and other types of qualifying organizations. Qualification must be made under these other general laws and if these individuals comply with the other laws, they also might be entitled to reductions of

patent fees. However, in many cases some of these other laws required that the individual or corporation be a Japanese, national or citizen.

New Members to PCT and EPO

Nicaragua (NI) became the 118th PCT contracting state on December 6, 2002. The PCT will enter into force for the state on March 6, 2003.

The European Patent Organization (EPO) will gain two new members as Slovenia and Hungary have ratified the European Patent Convention and have become contracting states in December 2002 and January 2003, respectively.

Attempts at a European Union Patent System Fails Again

The attempt by the European Union to introduce an EU-wide patent face new impediments after failure to agree on how to organize the jurisdiction of courts in patent disputes.

The major issues concerning introduction of a European Union patent related to the translation problem and the court system. In May 2002, the member states agreed on a language compromise that reduced the number of EU languages of which the applications had to be translated. Although it avoided the necessity for individual translations, it still required a fixed number of translations that would still be somewhat of a burden. However, it avoided the necessity for translating in every country. There are fifteen member states and an anticipated ten new countries joining in 2004 that would have made it impossible to have individual translations for each country.

However, the second difficulty, which was not overcome, related to the issue of organization of the jurisdiction of courts in patent disputes. The differences remained excessively strong between those member states that wanted to retain a decentralized court system and those who preferred a more centralized model. Germany, which has the largest amount of patent disputes in the European Union, wanted a centralized system that would ensure a high quality of enforcement. On the other hand, proponents of decentralization were led by Portugal, Italy, and Spain.

There also was a disagreement on the number of regional chambers that should be included, whether they should be created immediately or only when the workload warranted it, and whether they should be placed at geographical locations with a large number of cases. Supporters of a centralized system warned that patent holders should not run the risk of potential legal action before courts in each EU country, which might adopt divergent interpretations of disputed patents. Opponents were afraid their countries and inventors would lose out in a centralized system.

Although the current failure has been a setback, attempts to restart the process are still prevailing within the European Union.

WIPO Ranking Patent Registrations Around the World

According to a recent report published by the World Intellectual Property Organization (WIPO) in 2000, the

country with the most patent applications filed by nationals within their own country was Japan (388,879), followed by the United States (175,582), Germany (78,754), and Korea (73,378). In terms of patent registrations, Japan again led the group (112,269), followed by the United States (85,071), and Korea (22,943).

In terms of per capita or population per unit, Japan again reigned in this category with thirty-one applications per 10,000 nationals; Korea ranked second with sixteen per 10,000 nationals; Germany, the United States, and the United Kingdom followed with 10, 7 and 6 patent applications filed per 10,000 nationals, respectively.

Counting only the number of foreign patent registrations within a particular country, the United States headed the list with 72,425 patent registrations, followed by the United Kingdom (29,586), France (26,101), Germany (24,684), Japan (13,611) and Korea (12,013).

WIPO Harmonization Talks

Member states of the WIPO continued discussions on further global harmonization of substantive patent law in Geneva last week. The Standing Committee on the Law of Patents (SCP), at its eighth session held November 26–29, 2002, considered revised provisions of the draft Substantive Patent Law Treaty (SPLT). Representatives from seventy-six member states, four intergovernmental organizations, and twenty-three nongovernmental organizations attended.

The draft SPLT covers a number of basic legal principles relating to the grant and validity of patents in different countries. It aims, in particular, at ensuring that applicants in all contracting parties are subject to the same substantive conditions for the grant of patents and the invalidation of granted patents, and at contributing to the reduction of duplication of search and examination work in patent offices.

The SCP made further progress toward a common understanding on several issues arising from differences that exist among patent systems. While agreement in principle was achieved on a number of draft provisions, discussions on provisions, such as those relating to the grace period and the scope of patentable subject matter were postponed. It also was decided to include proposals relating to the protection of public health, genetic resources, traditional knowledge and a number of other public policy issues in the draft Treaty on the understanding that substantive discussion of these provisions would be postponed.

The next session of the SCP is tentatively scheduled for May 11–12, 2003.

WIPO Copyright Treaty

The WIPO Copyright treaty (hereafter, the Treaty) entered into force in the United States on March 2, 2002. The Treaty is designed to update and improve existing international copyright protections that were established long before the development and widespread use of personal computers and the Internet. In particular, it updates and harmonizes national copyright laws with regard to the publication, production, and reproduction of digital works,

issues that are especially important in the borderless world of cyberspace. The Treaty will serve to safeguard the reliability and integrity of the online marketplace.

Specifically, the Treaty updates and supplements certain provisions of the Berne Convention for the Protection of Literary and Artistic Works, the main international copyright treaty in the world today, by:

- supplementing the Berne Convention's already broad definition of literary and artistic works to include computer programs, databases, and photographic works;
- clarifying a copyright owner's exclusive right of reproduction in the electronic environment, including the storage of material in digital form in an electronic medium;
- confirming the copyright owner's right to control distribution of his creations, even in electronic or digital format, to individual members of the public;
- requiring member states to address the problem of hacking by providing copyright owners with adequate legal protection and effective remedies against the circumvention of technological measures designed to protect copyrighted works, such as encryption;
- requiring member countries to prohibit the deliberate alteration or deletion of electronic "right management information" (i.e., information that identifies a work, its author, performer or owner and the terms and conditions for its use), by virtue of the "anti-circumvention" provision; and
- obligating member countries to provide adequate and effective enforcement measures.

WIPO's director general believes that the Treaty, when combined with its sister treaty, the WIPO Performances and Phonograms Treaty (hereafter, WPPT), is necessary to safeguard copyright owner's rights in cyberspace. In WIPO's view, the Treaty is essential to facilitate continued development of the Internet and electronic commerce as well as the culture and information industries. The Treaty will facilitate these developments by making it safer for artists, writers, and others use digital and electronic media to create, distribute, and use their works within the electronic environment.

The United States must, in accordance with its accession to the Treaty, either enact new laws or supplement existing laws to beef up the protection afforded to copyright owners in electronic works to conform to the protections contemplated by the Treaty. In addition, the United States must ensure that copyright owners are provided with both the means to protect their works against hackers and remedies for any infringement of their rights in and to their works, their reproductions or their distribution.

Korean Supreme Court Makes First Ruling on Application of Prosecution History Estoppel

In its first ruling on the application of prosecution history estoppel, the Korean Supreme Court, on September 6, 2002, appears to have rejected a rule that an amendment automatically bars all equivalents for the amended limitation from

the scope of a claim (the so-called absolute-bar rule for prosecution history estoppel). The Korean Supreme Court also apparently declined to place the burden on a patentee to show that an amendment did not surrender an asserted equivalent. Instead, the Korean Supreme Court ruled that in order for prosecution history estoppel to preclude application of the doctrine of equivalents, there must be evidence in the file history that the patentee "intentionally excluded" an asserted equivalent element from the scope of a claim during patent prosecution. The court further ruled that the decision as to which equivalents were intentionally excluded requires examination of not only the patent specification, but also the entire prosecution history, specifically including any opinion provided by the patent examiner and any argument and amendment submitted by the applicant during prosecution of a patent application.

Based on these principles, the Korean Supreme Court, in *Genetics Institute v. Cheil Food and Chemical* (Decision 2001 Hu 171, Sept. 2, 2002), vacated a Patent Court decision which held that prosecution history estoppel precluded application of the doctrine of equivalents where a patentee amended a claim "to obtain a patent right" since the patentee should be considered to have narrowed the claim and intended to exclude all equivalents when making the amendment. The Korean Supreme Court also reaffirmed, and perhaps strengthened, the doctrine of equivalents in Korea, specifically holding that the scope of a patent is not limited to the literal terms of the claims, but embraces all equivalents unless there are particular reasons to exclude an equivalent from the scope such as the equivalent being publicly known or obvious at the time of filing of an application for the patent, or the equivalent being intentionally excluded during patent prosecution.

Unfortunately, the Korean Supreme Court's opinion included only a brief articulation of the standards for application of the doctrine of equivalents and prosecution history estoppel in Korea. The brevity of the court's discussion of prosecution history estoppel and its relationship to the doctrine of equivalents makes it difficult to predict the decision's full impact. However, the case that led to the court's ruling provides a concrete example of the court's application of the doctrine of equivalents and prosecution history estoppel to a fact pattern.

USPTO Roundtable on Small Businesses and Harmonization

In response to a General Accounting Office (GAO) report on Federal Action Needed to Help Small Businesses Address Foreign Patent Challenges (GAO-02-789), the USPTO held a roundtable discussion in Washington, D.C., on December 19, 2002. The GAO report recommended that the USPTO obtain input from small businesses and other interested parties to assess the advantages and disadvantages of various patent harmonization options. Accordingly, at the Roundtable, there were representatives of small businesses, as well as national patent bar associations and other knowledgeable individuals in this area. Representatives were present from the National Association of Manufacturers (NAM), the Consumer Project on

Technology, Small Business Technology Coalition, as well as representatives from IPO, AIPLA and ABA.

With respect to harmonization, most of the speakers indicated the need for moving forward on the SPLT with ongoing discussions in Geneva under the auspices of WIPO. It was generally felt by most of the speakers that the U.S. would have to institute a first-to-file system as part of such negotiations. Some speakers even encouraged the U.S. to change to a first-to-file system independently of such Treaty, as it would improve our system and would not in any way present any hardships for small businesses in their U.S. filing opportunities, based upon various statistical analyses.

Nevertheless, most speakers recognized that due to current local interests and national politics, the prospect of achieving a successful treaty in the near future was not very promising. It was therefore generally the opinions of the speakers that the U.S. endeavor to work on bilateral or multilateral treaties seeking regionalized harmonization. Whether it be through the Trilateral Group or through Pacific Rim nations, or even within the Americas, however, such separate negotiations were considered important.

The greatest impediments to small businesses were the costs and complexities of the various differing systems. On the cost end, it was believed that the duplication of search and examination was one of the major reasons for such huge costs and that attempts must be made to eliminate such duplication of work. Other sources of high costs were the multiplicities of translations involved and the necessity for individual maintenance fees in each country individually. It was also brought out that enforcement costs were also of significance and must be included within any context addressing harmonization.

Although the thrust of the Roundtable was addressed to small businesses, it was generally agreed that the same impediments face large businesses. However, because of limited resources, the impact on small businesses was felt much greater by them.

The representatives from the small business organizations were most emphatic on the emergency need to address foreign patenting for small businesses. They pointed out that there is tremendous loss on the part of small businesses of international sales and exports which are very damaging to the advancement of small businesses in the international market. They indicated that such small businesses could not wait for the evolution of harmonization activities to be effective. They indicated that with the advancement of technology, immediate action must be implemented to assist such small businesses before they lose their edge of technology in the international arena.

A number of creative suggestions emerged from the discussions that may be worthwhile following up during future meetings. One suggestion pointed out that the Paris Convention was the first international treaty that provides benefits to small businesses (and large businesses as well) and is free of any costs. It was therefore

suggested that rather than further enhance the PCT, which is a costly treaty, that the thirty-month time limit provided by the PCT should be introduced into the Paris Convention so priority could extend to the thirty months.

Other proposals suggested the formation of a U.S. government-sponsored translation organization on a cost basis. Small businesses qualifying for such service would be able to have translations provided for foreign filing through this service at a cost basis and avoid the heavy markups now incurred by foreign patent attorneys in providing such translations. Also discussed were government subsidies to small businesses. In addition to the small entity fee now provided for domestic filing, some type of subsidy might be considered for foreign filing with the U.S. government obtaining a license under such foreign patents or possibly getting back the money after a number of years, similar to educational loans.

Copies of all of the transcribed oral statements, as well as the written submissions by the various participants are available on the USPTO website.

Chair

(continued from page 2)

lion if legislation to increase fees is enacted. The administration anticipates that \$1,304 billion will be raised by user fees in FY 2004 if no fee increases are approved, and \$1,504 billion if the fee changes proposed by the administration on February 3 are enacted. (The draft bill containing those changes is posted on the PTO website.) The pie chart on page 2 shows graphically what this would mean (using the fees without an increase) in terms of the amount of funds diverted. Since the practice of diversion began more than \$1 billion in PTO user fees have been used by the government for purposes other than improving the quality and timeliness of PTO services. As the late Senator Everett Dirksen (from my home state of Illinois) once said, "A million here, a million there, and pretty soon you're talking about *real money*."

PTO fee increases likely are coming and, as noted, if the present proposals are adopted there will still be \$100 million of user fees diverted in FY 2004. This grassroots effort to end the pernicious practice of collecting fees from patent and trademark owners and using them for other governmental activities will be brought to an end only when the user community expresses sufficient interest to the government officials. Again, as Senator Dirksen once said, "When I feel the heat, I see the light." It is particularly important that members from all parts of the country, both inside counsel and outside counsel, let their representatives know *firsthand* how patents create jobs in their districts and states, and how unfair fee diversion hurts industry and job creation in their home areas.

How can you do this? Plan to spend two days in Washington, D.C. dedicated to this effort. All of our activities will be coordinated by our Legislative Consultant, Hayden Gregory. If you can help, please contact Hayden at 202/662-1772, or by e-mail at gregoryh@staff.abanet.org.

The 18th Annual Intellectual Property Law Conference

April 3-4, 2003

International Trade Center at the Ronald Reagan Federal Building □ Washington, D.C.

Welcome to the one annual conference that IP lawyers consistently and enthusiastically attend to get the latest updates on all aspects of IP law. Now in its eighteenth year, the annual Intellectual Property Law Conference of the ABA Section of Intellectual Property Law promises to provide a gathering of the foremost authorities on the state of intellectual property law. It is the one conference of the year that IP law practitioners should not miss. The conference is recognized for its preeminence in covering IP law topics, both nationally and internationally, and in recent years has hosted more than 600 attendees annually.

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

To allow intellectual property law practitioners to maintain and update their professional skills, the ABA Section of Intellectual Property Law is presenting its 18th Annual Intellectual Property Law Conference.

The conference will address recent developments, prosecution, litigation, and licensing issues and observations by judges of the Court of Appeals for the Federal Circuit. Speakers will include representatives from industry, practitioners from the U.S. and abroad, and key policymakers from the U.S. Copyright Office and the U.S. Patent and Trademark Office.

The program is organized to allow registrants to attend sessions tailored to specific areas of practice (patents, trademarks, and copyrights) and to attend sessions focusing on the problems and issues related to breaking areas of twenty-first century IP law and practice.

New! Special Interest Sessions

In addition to the main CLE program tracks, this year's annual Intellectual Property Law Conference will introduce nine Special Interest Sessions. The narrowly focused Special Interest Sessions are developed for individuals who concentrate their practice in the topic presented. These smaller group sessions will provide a setting with more interactivity and an opportunity to focus on very specialized areas of IP law.

Special Interest Session topics will include Pharmaceutical Patents and the FDA; Marketing Your Patent Practice; Electrical Patent Practice; Software/Internet Patent Practice; Industrial Designs and Design Patents; Interference Practice Strategies; Recent Developments in PCT Practice; ITC Practice Strategies; and Chemical Patent Practice. See the program schedule for the days and times of these sessions, and sign up on the registration form.

Teleconference Sessions offered

For those unable to attend the 18th Annual Intellectual Property Law Conference, selected sessions will be made available by live teleconference. This year the sessions will be "Trademark Dilution and Trade Dress" and "Copyright Law: State of the Copyright Office and Recent Developments." See the program schedule and conference information for details.

Special one-day Practical Tips program preceding the conference

A separate, one-day program will be held on Wednesday, April 2, 2003, at the International Trade Center. Entitled "Practical Tips on Intellectual Property Law," this one-day precedes this year's Spring CLE conference and will provide a broad background of information to bring the new IP law practitioner up to speed with the nuts and bolts of IP law practice in light of current developments in the field. Two separate tracks of CLE education will be available—a Patent Law Track, and a Trademark and Copyright Law Track. The Young Lawyers Committee of the ABA Section of Intellectual Property Law sponsors this program. For information and a registration form for this program, visit our website at www.abanet.org/intelprop, or e-mail us at intelprop@abanet.org. This program also will offer CLE credit.

Program Co-Chairs:

Steven Gardner, Kilpatrick Stockton LLP, Winston-Salem, NC

Frederic M. Meeker, Banner & Witcoff, Ltd., Washington, DC

Program Schedule

THURSDAY, APRIL 3, 2003

8:00 a.m. – 5:00 p.m. Registration and Check-in

9:00 a.m. – 12:00 Noon

Three Concurrent Sessions

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

1) Patent Litigation in 2003 and Beyond: Views from the Bench and Bar

Federal Circuit Judges, District Court Judges, and experienced practitioners on *Festo*, *Markman*, prosecution laches, and other developments; trying cases and drafting patent applications in light of recent cases.

Welcome and Administrative Remarks: Steven Gardner, Kilpatrick Stockton LLP, Winston-Salem, NC. Program Co-Chair.

Joseph M. Potenza, Banner & Witcoff Ltd., Washington, DC (moderator)

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

Hon. Paul R. Michel, U.S. Circuit Court of Appeals for the Federal Circuit, Washington, DC

Hon. Patti B. Saris, U.S. District Court for the District of Massachusetts, Boston, MA

Hon. James F. Holderman, Jr., U.S. District Court for the Northern District of Illinois, Chicago, IL

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

Professor John R. Thomas, Georgetown University Law School, Washington, DC

Jack Q. Lever, McDermott Will & Emery, Washington, DC

Anthony B. Askew, Kilpatrick Stockton LLP, Atlanta, GA

Morgan Chu, Irell & Manella LLP, Los Angeles, CA

2) Trademark Practice: Current Developments in Domestic and International Practice

Administrative Remarks: Frederic M. Meeker, Banner & Witcoff, Ltd. Washington, DC. Program Co-Chair.

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

Louis N. (Woody) Jameson, Duane Morris LLP, Atlanta, GA (moderator)

State of the U.S. Trademark Office

Anne H. Chasser, Commissioner for Trademarks, U.S. Patent and Trademark Office, Washington, DC

Madrid Protocol

Clark W. Lackert, King & Spalding LLP, New York, NY

The Trademark Electronic Application System (TEAS)

Craig K. Morris, TEAS Project Manager, Office of the Commissioner for Trademarks, U.S. Patent and Trademark Office, Washington, DC

Recent trademark developments in the federal courts

Professor Jeffrey M. Samuels, David L. Brennan Professor of Law, The University of Akron School of Law, Akron, OH

The TTAB in 2002: Strong marks, weak marks, phantom marks, and no marks at all
John L. Welch, Foley Hoag LLP, Boston, MA

3) Special Interest Sessions

9:00 a.m. – 9:45 a.m. Recent Developments in PCT Practice

Thomas M. Isaacson, *AT&T Corporation, Huntingdown, MD*

Charles Pearson, *Director, Office of PCT Legal Administration, U.S. Patent and Trademark Office, Washington, DC*

Louis O. Maassel, *Consultant on PCT Matters for the World Intellectual Property Organization, Bowie, MD*

10:35 a.m. – 11:25 a.m. Chemical Patent Practice

Martha A. Finnegan, *Cabot Corp., Billerica, MA*

11:30 a.m. – 12:15 p.m. Pharmaceutical Patents and the FDA

Errol B. Taylor, *Fitzpatrick Cella Harper & Scinto, New York, NY*

LUNCHEON (tickets required)

12:15 p.m. – 1:30 p.m.

Atrium, Concourse Level

Co-sponsored by Oblon Spivak McClelland Maier & Neustadt PC

1:45 p.m. – 5:00 p.m.

Three Concurrent Sessions

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

1) Patent Practice: Hot Topics

Robert O. Lindefeld, *Jones Day, Pittsburgh, PA (moderator)*

Maximizing patent damages through claim drafting

Edward G. Fiorito, *IP Consulting Attorney, Dallas, TX*

A judge's view of claim construction and key issues in a patent case

Hon. Robert E. Payne, *U.S. District Court for the Eastern District of Virginia, Richmond, VA*

Texas Digital and the stampede to the borders for the latest dictionaries

Robert C. Kahl, *Jones Day, Cleveland, OH*

What we can learn from statistics

Matthew J. Moore, *Howrey Simon Arnold & White LLP, Washington, DC*

Willful infringement and opinions of counsel: the current state of the law

Richard L. Rainey, *Fish & Neave, Washington, DC*

2) Dilution, Trade Dress, and Practice Management

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

Melanye K. Johnson, *Arent Fox Kintner Plotkin & Kahn, Washington, DC (moderator)*

Recent developments in dilution cases

Theodore H. Davis, Jr., *Kilpatrick Stockton LLP, Atlanta, GA*

Trade dress protection—Has the law gone too far?

Charles H. De La Garza, *Fulbright & Jaworski LLP, Minneapolis, MN*

Christopher J. Renk, *Banner & Witcoff Ltd., Chicago, IL*

Creating an IP program from scratch in a technology company

William Weisel, *General Counsel, Gilat Satellite Networks Ltd., Petach Tikva, Israel*

Mark S. Wdowik, *Director of the Office of Technology Transfer, University of North Carolina – Charlotte, Charlotte, NC*

Controlling legal expenses in intellectual property law

George A. Frank, Ph.D., *Drinker Biddle & Reath LLP, Philadelphia, PA*

Taraneh Maghame, *Hewlett-Packard Company, Palo Alto, CA*

Stacey Rabbino, *VeriSign, Inc., Dulles, VA*

3) Special Interest Sessions

1:45 p.m. – 2:35 p.m.

Industrial Designs and Design Patents

Perry J. Saidman, *Saidman DesignLaw Group, Silver Spring, MD*

2:40 p.m. – 3:20 p.m.

Marketing Your Patent Practice

Brad Copeland, *President and Creative Director, Iconologic LLC, Atlanta, GA*

3:25 p.m. – 4:10 p.m.

Electrical Patent Practice

James M. Ross, *ShawPittman LLP, McLean, VA*

4:15 p.m. – 5:00 p.m.

Internet/Software Patent Practice

Stuart D. Smolen, *Immersion Corp., San Jose, CA*

Christopher R. Hutter, *Cooley Godward LLP, Reston, VA*

RECEPTION

5:30 p.m. – 7:00 p.m.

Co-sponsored by Banner & Witcoff, Ltd.

Thursday's coffee breaks are cosponsored by BNA Books, Inc.

FRIDAY, APRIL 4, 2003

8:00 a.m. – 5:00 p.m. Registration and Check-in

9:00 a.m. – 12:00 Noon

Four Concurrent Sessions

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

1) Advanced Patent Practice: Current Developments and Practice Pointers

Samuel H. Dworetzky, *General Attorney, AT&T Corporation, Bedminster, NJ (moderator)*

Recent developments in patent law

Q. Todd Dickinson, *Howrey Simon Arnold & White LLP, Washington, DC*

Recent legislative developments, e.g. changes in sections 102(e) and 374

Robert J. Spar, *Director, Patent Legal Administration, U.S. Patent and Trademark Office, Washington, DC*

Patent drafting tips in light of recent developments, e.g. *Johnson & Johnston*

Gordon T. Arnold, *Arnold & Associates, Houston, TX*

Advance patent prosecution tips in view of *Festo*

Jerry A. Riedinger, *Perkins Coie LLP, Seattle, WA*

Claim drafting to survive a *Markman* hearing and get to a jury

Nagendra (Nick) Setty, *Needle & Rosenberg, Atlanta, GA*

2) Internet and New Media: IP and Other Issues

Kim R. Jessum, *Morgan Lewis, Philadelphia, PA (moderator)*

Recent developments and jurisdiction on the Internet

Jonathan Hudis, *Oblon Spivak McClelland Maier & Neustadt, PC, Alexandria, VA*

Policing intellectual property assets in cyberspace

Chad Doellinger, *Pattishall McAuliffe Newbury Hilliard & Geraldson, LLP, Chicago, IL*

Adam J. Ruttenberg, *Cooley Godward LLP, Reston, VA*

Legal protection for web services

Erich D. Andersen, *Microsoft Corporation, Redmond, WA*

Bruce P. Keller, *Debevoise & Plimpton, New York, NY*

Right of publicity in cyberspace

Jonathan N. Jennings, *Pattishall McAuliffe Newbury Hilliard & Geraldson LLP, Chicago, IL*

3) Legal Ethics for Trademark Practitioners

A rare opportunity to hear practitioners and academics discuss ethics issues from the perspective of a trademark practice.

Professor David C. Hricik, *Mercer University School of Law, Macon, GA (moderator)*

Professor Simone Rose, *Wake Forest University School of Law, Winston-Salem, NC*

Thomas E. Graham, *Moore & Van Allen PLLC, Charlotte, MC*

Roberta L. Horton, *Arnold & Porter, Washington, DC*

4) Special Interest Sessions

10:45 a.m. – 11:30 a.m.

Interference Practice Strategies

Charles L. Gholz, *Oblon Spivak McClelland Maier & Neustadt PC, Alexandria, VA*

11:35 a.m. – 12:20 p.m.

ITC Practice Strategies

Barbara A. Murphy, *Adducci Mastriani & Schaumburg LLP, Washington, DC*

LUNCHEON (tickets required)

12:15 p.m. – 1:30 p.m.

Atrium, Concourse Level

1:45 – 5:00 p.m. Three Concurrent Sessions

1) Corporate Counsel Issues in Intellectual Property

Sean W. O'Brien, *Otis Elevator Company, Farmington, CT (moderator)*

Scope of waiver when relying on opinion of counsel

William L. LaFuze, *Vinson & Elkins, Houston, TX*

Strategies for responding to demand letters

William P. Atkins, *Pillsbury Winthrop LLP, McLean, VA*

Attorney-client privilege issues for in-house counsel

Craig S. Summers, *Knobbe Martens Olson & Bear LLP, Newport Beach, CA*

Patenting standards and patent pools

James Kulbaski, *Oblon Spivak McClelland Maier & Neustadt PC, Alexandria, VA*

Panel discussion of IP licensing issues

Bryan J. Sinclair, *Oppenheimer Wolff & Donnelly, LLP, Palo Alto, CA*

Donald J. Fancher, *Deloitte & Touche, Atlanta, GA*

Justin J. Oliver, *Fitzpatrick Cella Harper & Scinto, Washington, DC*

2) Copyright Law: Current Developments & Practical Tips

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

Mark V. Campagna, *Jones Day, Chicago, IL (moderator)*

State of the Copyright Office

Hon. Marybeth Peters, *Register of Copyrights, U.S. Copyright Office, Washington, DC*

Hon. David O. Carson, *General Counsel, U.S. Copyright Office, Washington, DC*

Recent developments in copyright law

Robert W. Clarida, *Cowan Liebowitz & Latman PC, New York, NY*

Seeking and obtaining attorney fees in copyright cases

Michael O. Sutton, *Locke Liddell & Sapp LLP, Houston, TX*

Elliot N. Brown, *Irell & Manella LLP, Los Angeles, CA*

Shrink-wrap licenses and copyright law

Karen J. Jacobs, *Goodwin Procter LLP, New York, NY*

3) Legal Ethics for Patent Practitioners

Identifying and avoiding conflicts of interest; Who is your client—the inventor or her employer?; Can you ethically prosecute applications for competitors?; Is it ethical to comment on issued patents of one client in an opinion prepared for a different client?; Advice from the PTO on complying with the canons of the PTO Code of Professional Responsibility; A private practitioner's practical suggestions for complying with your ethical obligations; Avoiding malpractice liability through good ethical practices.

Barry L. Grossman, *Foley & Lardner, Milwaukee, WI (moderator)*

James Cargher, *Foley & Lardner, Milwaukee, WI*

Jeffrey A. Lindeman, *Morgan Lewis, Washington, DC*

Harry Moatz, *Director, Office of Enrollment and Discipline, U.S. Patent and Trademark Office, Washington, DC (invited)*

Friday's coffee breaks are cosponsored by Rothwell, Figg, Ernst & Manbeck, P.C.

Registration and Meeting Information

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

Early Registration: Register online at www.abanet.org/intelprop/spring2003, or complete the form in the brochure and mail to: 18th Annual Intellectual Property Law Conference, Section of Intellectual Property Law M/S 10.5, American Bar Association, 750 N. Lake Shore Drive, Chicago, IL 60611. If paying by credit card, you may also fax your form to 312/988-5628. The deadline for receipt of early registration, at the early bird rate is March 19, 2003. Registration will be accepted only when accompanied by a credit card number (Visa, MasterCard or American Express only), check, money order, or government purchase order or training form. No registration can be held without payment.

Onsite Registration: Registration will be available onsite from 2:00 p.m. – 5:00 p.m. Wednesday, April 2, in the Atrium Foyer, Concourse Level. Registration also will be available beginning at 8:00 a.m. Thursday, April 3 in the Amphitheater Foyer. A busy morning registration rush is anticipated on April 3, so registration on Wednesday, April 2 is encouraged.

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

Registration Confirmation: Confirmation of registration will be sent via e-mail prior to the program for all registrations received by March 19. Indicate on the registration form if you would prefer to receive confirmation via fax or U.S. mail.

Cancellation Policy: Registrants who are unable to attend the conference will receive a refund less a \$50 administrative fee if a written cancellation is received by March 19, 2003. Cancellation requests should be faxed to 312/988-5628. No refunds will be granted after March 19, 2003. Substitutions are acceptable. The ABA reserves the right to cancel any program and assumes no responsibility for personal expenses.

CLE Credit: CLE accreditation has been requested for this program from every state with mandatory continuing education requirements for lawyers. Please be aware that each state has its own rules and regulations, including its definition of "CLE." Check with your state agency for confirmation of this program's approval.

Teleconference CLE Credit:

For those unable to attend the 18th Annual Intellectual Property Law Conference, selected sessions will be made available via live teleconference. Teleconference sessions this year include

"Trademark Dilution and Trade Dress" and "Copyright Law: State of the Copyright Office and Recent Developments." See the program schedule for the day, time, and topic information. Registrants for teleconference sessions will be eligible for CLE credit in those states that allow for teleconference credit. Instructions on downloading course materials and dialing in to the program will be provided in a confirmation letter upon registration. If you have any questions regarding CLE application and approval, contact the ABA Center for CLE at 312/988-6217.

Course Materials available on CD-ROM:

The course materials will be produced in CD-ROM format and will be sent to all conference registrants prior to the conference. A limited number of printed course material sets will be available for an additional fee to those who request this in advance on the registration form. Materials also will be posted on the Section website, available for viewing by conference registrants in advance of the conference.

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

Lodging: The J.W. Marriott Hotel, 1331 Pennsylvania Avenue, NW, Washington DC 20005 (right across Pennsylvania Avenue and Freedom Plaza from the Ronald Reagan Building). The ABA group rate is \$213 single/double occupancy. All rooms are subject to a 14.5% District of Columbia sales tax plus a \$1.50 per night District Occupancy Tax. To reserve a room, call the J.W. Marriott Hotel directly at 202/393-2000 or 800/228-9290. Be sure to mention the ABA 2003 Annual Intellectual Property Law Conference to receive the special group rate. **Note: The cutoff date for the room block is Monday, March 10, 2003—but do not wait until the March 10 cutoff date, as the room block fills up quickly.** After this date, reservations can be made on a space-available basis only. The ABA will not be able to secure a room for you.

Special Tuition Assistance: A limited number of registration fee reductions are available for government employees, academics, law students, and public-interest lawyers employed with nonprofit organizations. No full tuition waivers are available. The fee reductions will be determined on a one-time only, case-by-case, first-come first-serve basis. To apply, send a letter outlining the basis for your fee-reduction request to Betsy Roach, Section Director, ABA Section of Intellectual Property Law, 750 N. Lake Shore Drive, Chicago, IL 60611. Deadline for receipt: March 1, 2003.

Registration Form

Advance Registration Deadline: March 19, 2003
To register online, visit our website at: www.abanet.org/intelprop/spring2003

- Yes, please register me for The 18th Annual Intellectual Property Law Conference
- No, I cannot attend this program. Please send the course materials on CD-ROM (\$75), which includes postage and handling. Payment must accompany this form (allow 4-6 weeks from date of program for receipt of course materials.)

Registrant Information

Name _____

Organization _____

Address _____

City _____

State _____ Zip _____

Phone _____

Fax _____

E-mail _____

ABA ID Number (8-digit):

States registered to practice in:

State Bar ID: number:

Registration Fees

(check one)

before 3/19 after 3/19

\$395 \$445

ABA IPL Section members

\$445 \$495

ABA, but not IPL members

\$495 \$545

General Attendance

\$350 \$400

Government, Public Interest, Academics

\$185 \$235

Law Students

Luncheons (ticket required)

\$35 Thursday, April 3, 2003

\$35 Friday, April 4, 2003

ABA-CLE Teleconference Registration

Trademark Dilution and Trade Dress, 1:45 p.m. – 3:15 p.m.

(Eastern time), Thursday, April 3, 2003

\$ 85 Section member

\$125 ABA but not IPL members

\$150 General attendance (not an ABA member)

\$ 60 Secondary Registrant, same site.

Name of additional registrant:

Copyright Law: State of the Copyright Office and Recent Developments, 1:45 p.m. – 3:15 p.m. (Eastern time), Friday, April 4, 2003

\$ 85 Section member

\$125 ABA but not IPL members

\$150 General attendance (not an ABA member)

\$ 60 Secondary Registrant, same site.

Name of additional registrant:

Printed Course Materials Order

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

\$ _____ Total of all fees

PAYMENT

Credit card:

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

Fax U.S. Mail

Special Interest Session Sign-Up

(Sign-up below is for planning purposes only—it does not commit you to a session nor reserve your seat at a session. Space is limited for special interest sessions and will be available on a first-come basis onsite):

Thursday, April 3

Recent Developments in PCT Practice 9:00 a.m. – 9:45 a.m.

Chemical Patent Practice 10:35 a.m. – 11:25 a.m.

Pharmaceutical Patents and the FDA 11:30 a.m. – 12:15 p.m.

Industrial Designs and Design Patents 1:45 a.m. – 2:35 p.m.

Marketing Your Patent Practice 2:40 p.m. – 3:20 p.m.

Electrical Patent Practice 3:25 p.m. – 4:10 p.m.

Internet/Software Patent Practice 4:15 p.m. – 5:00 p.m.

Friday, April 4

Interference Practice Strategies 10:45 a.m. – 11:30 a.m.

ITC Practice Strategies 11:35 a.m. – 12:20 p.m. Washington

Return to:

18th Annual Intellectual Property Law Conference; Section of Intellectual Property Law M/S 10.5; American Bar Association; 750 N. Lake Shore Drive; Chicago, IL 60611.

FAX: 312/988-5628

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

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



NEWSLETTER

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Section of Intellectual Property Law
American Bar Association
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