

## Are Markman Claim Construction Hearings Designed For Design Patent Claims?

by Philip Shannon<sup>1</sup>

### INTRODUCTORY STATEMENT

Neither the Court of Appeals for the Federal Circuit (“Federal Circuit”) nor the Supreme Court of the United States in *Markman v. Westview Instruments, Inc.*<sup>2</sup>, addressed the issue as to whether the construction of a design patent claim is a matter of law and “exclusively within the province of the Court.”<sup>3</sup>

### THE BACKGROUND

*Markman* was a utility patent case and did not involve a design patent. It was a jury case. The patent in-suit was a method patent entitled “Inventory Control and Reporting System”. The patented system monitored and reported the status, location and movement of clothing in a dry-cleaning operation. The disputed claim term was the word “inventory.” *Markman*, the patent owner, argued that “inventory” meant not only articles of clothing, but also included transactions or dollars. Defendant Westview contended that “inventory” was limited to articles of clothing and because its system did not track the movement and location of articles of clothing, it did not infringe.

The District Court had charged the jury on infringement instructing it “to determine the meaning of the claims . . . using the specification, drawings and file histories.” The jury returned a verdict that Westview infringed the patent in-suit. The District Court granted Westview’s motion for Judgment as a Matter of Law. In granting Westview’s motion for JMOL, the District Court stated that claim construction was a matter of law for the Court to determine and gave its construction of the claims. The Court held that “inventory” as

used in the claims meant “articles of clothing” and not transaction totals or dollars. Because Westview’s system was incapable of tracking articles of clothing and could only retain information regarding a listing of the invoices and the cash total of the inventory, it did not infringe.

*Markman*’s appeal was based on 1985 Federal Circuit precedent which had held that when the meaning of a claim term is in dispute, a “factual question arises, and construction of the claim should be left to the trier or the jury under appropriate instruction.” Therefore, *Markman* had argued that the District Court had denied them their right to a jury determination of this factual issue.

The Federal Circuit affirmed the District Court’s decision, explaining initially through cited decisions of Chief Justice Marshall and Judge Learned Hand, the following:<sup>4</sup>

The reason that the courts construe patent claims as a matter of law and should not give such task to the jury as a factual matter is straightforward: It has long been and continues to be a fundamental principle of American law that “the construction of a written evidence is exclusively with the court.” *Levy v. Gadsby*, 7 U.S. (3 Cranch) 180, 186, 2 L.Ed 404 (1805) (Marshall, C.J.);

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## PRESIDENT'S CORNER

February 3, 2005

Dear Members:

Last Wednesday night, I enjoyed attending our Association's Young Lawyers New Year Reception at the Opia Restaurant on 57<sup>th</sup> Street in Manhattan. Nearly 100 lawyers and law students were there, enjoying the opportunity to meet and socialize. We thank Alozie Etufugh, the Chair of the Young Lawyers Committee, for organizing the event.

Alozie has accomplished a great deal in the few months that he has served as committee chair. He attended our October 2004 Board of Directors meeting and recommended that the Association consider funding a scholarship for minority students interested in pursuing careers in intellectual property law. Our Immediate Past President, Mel Garner, then provided the Board with information about the American Intellectual Property Law Education Foundation ("AIPLEF") which has awarded such scholarships in the past to recipients selected by the Thurgood Marshall Foundation. Our Board later committed to work with the AIPLEF and to award a scholarship at our Judges' Dinner next month. On February 1<sup>st</sup>, Past President Andrea Ryan advised that our Board member, Dan Devito, had been elected to the AIPLEF Board of Trustees. Dan will serve as the NYIPLA's liaison to the AIPLEF. All this happened because Alozie Etufugh chose to be an active member of our Association. I hope that other young lawyers will also avail themselves of the many opportunities that exist to join in the important work of our committees.

I continue to be grateful to our Committees on Meetings and Forums and Continuing Legal Education for the excellent programs that have been scheduled. We send special thanks to panelists Harrie Samaras, Peter Michaelson, David Plant and Robert Whitney who came to New York on a day of bad weather last month and provided an excellent three hour program on Mediation in IP Cases. We look forward to hearing Fordham Professor Hugh Hansen speak about Copyright Developments in

P2P File Sharing at our February 11<sup>th</sup> luncheon and CLE program.

On March 18<sup>th</sup>, the day of our Judges' Dinner, our Secretary, Mark Abate, will moderate a CLE program on the Doctrine of Equivalents After *Festo*; and Federal Circuit: Rules to Remember. Panelists will include

Federal Circuit Judge Haldane Robert Mayer, Massachusetts District Court Judge William G. Young and practitioners Bob Baechtold and Rich DeLucia. We thank all involved for their commitment to this event.

All committee chairs will attend the Board of Directors meeting on February 15<sup>th</sup> to report on the work that they have done since last May. That night, our Board members will have dinner with our Past Presidents and hear their views about current issues and how we can best achieve the goals of the Association. On February 25<sup>th</sup>, John Sweeney will host a meeting of his Past Presidents Committee to consider their draft report commenting on the FTC proposal to modify the patent system. We are most grateful to John and his colleague, Mary Ann Colombo, for their hard work in preparing the draft report. We also convey special thanks to Board member Bill Dippert and to his Publications Committee, particularly Asheesh Puri, for producing this and prior Bulletins.

I look forward to seeing you at our Judges' Dinner where we will be presenting Federal Circuit Judge Pauline Newman with the Association's Outstanding Public Service Award, and then hear our guest speaker Dr. Ronan Tynan, who is known for his stirring performances as a member of the world famous *Irish Tenors* and his inspirational personal story. It promises to be a memorable evening.

Cordially,

John D. Murnane



President John D. Murnane

## NEWS FROM THE BOARD

### Meetings Of the Board Of Directors

#### Minutes Of November 18, 2004

The meeting of the Board of Directors was called to order at the Cornell Club at 12:30 p.m. by President John Murnane. Christopher Hughes, Marylee Jenkins, Susan McGahan, Mark Abate, William Dippert, Anthony Giaccio, Charles Hoffman, Dale Carlson and Robert Scheinfeld were present.

The minutes of the Board of Directors' Meeting held on October 19, 2004 were approved.

Ms. McGahan provided the Treasurer's Report. She reported that the Association's finances are sound and are consistent with the Association's finances at this time last year.

Mr. Murnane commented that the October meeting of the Board and Committee Chairs was very productive. Mr. Murnane intends to invite the Committee Chairs to the February meeting to provide further reports on their Committee activities. Dale Carlson presented a report concerning work of the Committee on Economic Matters Affecting The Profession. Committee Chair, Dawn Buonocore, had a Committee meeting with an insurance broker which was well attended. As a result of that meeting, the Committee asked for the Board's guidance concerning a number of possible projects: (1) creating educational guidelines for insurance companies when insuring law firms engaged in the practice of intellectual property law (e.g. a flyer for underwriters explaining the practice or a form application for use by underwriters which would set forth criteria that may be used to provide discounted rates to firms employing sound practices); (2) considering creating a group for insurance purposes of NYIPLA members; and (3) providing an analysis of large verdict intellectual property cases to see if anything in addition to intellectual property was involved. The Board approved work on all of these initiatives.

Mark Abate reported on the activities of the Committee on Consonance And Harmonization In The Profession (Young Lawyers Committee). Com-

mittee Chair, Alozie Etufugh, had reported that the estimated cost for holding a young lawyers reception at the Cornell Club in December was \$9,000.00. He also reported that if we could have the reception in January, the cost may be able to be reduced because a number of potential venues were booked in December. The Board authorized having the young lawyers reception in January and Mr. Etufugh will be asked to provide a cost estimate.

Mr. Hoffman reported on the activities on the Committee on Legislative Oversight And Amicus Brief. The Committee is in the process of finalizing a Reply Brief in the Phillips case.

Mr. Giaccio reported on the activities of the Committee on Continuing Legal Education. A Fall One-Day CLE program is planned to be held at the Yale Club on November 19. Work is underway on planning the program in conjunction with the Judge's Dinner on March 18 and the JPPCLE on April 21.

Ms. Jenkins reported on preparations for the Annual Dinner in Honor of the Federal Judiciary. Preparations for the Judge's Dinner are well ahead of schedule in that we already have a speaker (Dr. Ronan Tynan) and an Outstanding Public Service Award recipient (Judge Newman). Publication of the dinner is now beginning. In December, a save-the-date card will be sent out to all Honored Guests. Members will be receiving their invitations in the normal course of mailing in the beginning of January. The mailings concerning the Judge's Dinner have been revised to have a similar style and font. The Board discussed increasing the price of the tickets for the Judge's Dinner. The Board decided to maintain the membership price of \$175.00 per person and increase the guest price by \$5.00 to \$275.00 per person.

The Board revisited the issue of the price of congratulatory notices for the Outstanding Public Service Award recipient and decided to increase the

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price by \$50.00 so that the congratulatory notices will be priced at \$1,300.00. A memorandum concerning purchase of congratulatory notices will be sent to all firms in December.

The Waldorf has increased security associated with the Judge's Dinner. There will be an engineer onsite to monitor operation of the elevators during the dinner, and Waldorf staff will direct the crowds to avoid overcrowding near the elevators and an emergency management technician will be in the hotel security office all evening. The need for event insurance is being investigated.

Chris Hughes reported on preparations for the Annual Meeting and Dinner. Mr. Hughes has met with Marylee Jenkins to discuss preparations for the event and will contact Jeff Butler regarding the Connor Writing Competition and Inventor of the Year. Mr. Hughes has given some preliminary thoughts to the potential speakers but no one has been invited.

Mr. Isaacs reported on the ongoing operations of the Association. Membership dues receipts were being processed and are slightly ahead of pace compared with the prior year. The Association website is being upgraded. Mr. Isaacs attended a CLE providers conference given by the NY State CLE Board on November 4 on behalf of the NYIPLA.

The meeting was adjourned at 2:00 p.m.

If you are an  
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committee, please  
contact the respective  
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[www.nyipla.org/public/  
2004chairs.htm](http://www.nyipla.org/public/2004chairs.htm)

## Minutes Of December 15, 2004

The meeting of the Board of Directors was called to order at the Cornell Club at 12:30 p.m. by President John Murnane.

Christopher Hughes, Marylee Jenkins, Susan McGahan, Mark Abate, Mel Garner, Daniel DeVito, Anthony Giaccio, Dale Carlson, and Michael Isaacs of Star Consulting were present.

The minutes of the Board of Directors' Meeting held on November 18, 2004 were approved.

Ms. McGahan provided the Treasurer's Report. The Association's finances are sound and are consistent with the Association's finances at this time last year.

An extended discussion took place concerning funding a scholarship for minority students interested in pursuing careers in intellectual property law. Mel Garner reported on discussions with the American Intellectual Property Law Education Foundation (AIPLEF). The AIPLEF was created a few years ago as a 501(c)(3) corporation to, *inter alia*, raise money for and provide scholarships to minority students interested in intellectual property law. The Thurgood Marshall Foundation publicizes the AIPLEF scholarships, receives the applications for the scholarships and ranks the applicants. The top 25 applicants are forwarded to the Scholarship Committee of the AIPLEF, which recommends the recipients to Trustees of the AIPLEF, who make the final determination of the scholarship recipients.

The Board voted to approve a minority scholarship in conjunction with the AIPLEF. The AIPLEF, working with the Thurgood Marshall Foundation, will select the recipients. However, a member of the NYIPLA Board will serve as the NYIPLA's liaison to the AIPLEF and will volunteer to serve as a trustee of the AIPLEF. Mr. DeVito agreed to accept this post. The recipient of the NYIPLA scholarship will either be from the New York Metropolitan area or attending law school in the New York Metropolitan area.

The scholarship will be presented to the recipient at the Annual Dinner in Honor of the Federal Judiciary. The scholarship will be in the amount of \$10,000 per year for up to three years (it may follow the recipient through law school). The Board voted to approve \$10,000 scholarship for 2005 and

to award \$10,000 in subsequent years provided the Board approves continuing the scholarship.

The first recipient will be presented at the March 2005 Judges' Dinner. In addition to the cost of the scholarship, the Association will bear the travel and lodging cost associated with bringing the recipient to the Judges' Dinner. To help defray some of those costs, we will ask the AIPLEF to purchase a congratulatory notice in the Judges' Dinner program.

Mr. Murnane commented that the October 2004 meeting of the Board and Committee Chairs was very productive. Creating a scholarship program was first raised by Alozie Etufugh, Chair of the Committee on Consonance And Harmonization In The Profession (Young Lawyers Committee), at the October meeting. Mr. Murnane will invite the Committee Chairs to the February 15, 2005 Board meeting to provide further reports on their Committee activities.

Ms. Jenkins reported that participation in the *Grokster* case at the Supreme Court is under consideration by the Amicus Committee. Mr. Isaacs reported on behalf of Bill Dippert that the Committee is continuing to work on the Green Book, which is anticipated to be completed shortly for publication during the beginning of the year. The Young Lawyers Committee will be asked to plan its young lawyers reception on January 14, 2005 following the Continuing Legal Education program on that date.

Mr. Giaccio reported on the activities of the Committee on Continuing Legal Education. The Fall One Day CLE Program on November 19 was very well attended. A schedule of NYIPLA CLE programs and luncheons through the end of the year is attached to the original of these minutes. The CLE program in conjunction with the Judges' Dinner on March 18 is being finalized and an announcement will be sent out shortly. Mr. Murnane expressed gratitude for the work on the Chairs of the Meetings and Forums Committees (Alexandra Urban) and the CLE Committee (Tom Meloro) for the outstanding programs they have been coordinating this year.

Ms. Jenkins reported on preparations for the Annual Dinner in Honor of the Federal Judiciary. Publication of the Dinner has begun. A save-the-date card has been sent out to all Honored Guests. Members will be receiving their invitations in the normal

course of mailing in the beginning of January. A memorandum concerning purchase of congratulatory notices has been sent to firm dinner liaisons. The need for event insurance is being investigated. The creation of the scholarship program will be announced at the Dinner.

Mr. Giaccio also reported on the activities of the Committee of Public Information, Education and Awards. Committee Chair Jeff Butler will attend the January 18, 2005 Board meeting to discuss activities of the Committee. The Conner Writing Competition and Inventor of the Year publicity is underway.

Chris Hughes reported on preparations for the Annual Meeting and Dinner. Mr. Hughes plans to invite the Patent Office Commissioner, Jon Dudas, to speak at the Annual Dinner. The tentative date is May 25, 2005 at the Yale Club.

Mr. Isaacs reported on the ongoing operations of the Association. Membership dues receipts were being processed and are ahead of pace compared with the prior year. The Association website is being upgraded. An annual audit report concerning our CLE programs is being prepared and will be submitted to the NY State CLE Board in January 2005. Member comments concerning the new Federal Circuit practice of posting the composition of panels on its website the Thursday prior to oral argument will be solicited via email.

The meeting was adjourned at 2:00 p.m.

The next meeting of the Board is scheduled for Wednesday, January 18, 2005 at 12:00 Noon at the Cornell Club. ■

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articles of  
interest to the IP bar.  
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[A]ppellate courts have untrammeled power to interpret written documents: *Eddy v. Prudence Bonds Corp.*, 165 F.2d 157, 163 (2d Cir. 1947) (Learned Hand J.)

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Upon countless occasions, the courts have declared it to be the responsibility of the judge to interpret and construe written instruments, whatever their nature.” (footnotes omitted). 4 Samuel Winstrom, *Williston on Contracts* § 601, at 303 (3d ed. 1961).

\* \* \* \*

The patent is a fully integrated written instrument. By statute, the patent must provide a written description of the invention that will enable one of ordinary skill in the art to make and use it. 35 U.S.C. § 112, para. 1. Section 112, para. 2, also requires the applicant for a patent to conclude the specification with claims ‘particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.’

\* \* \* \*

It follows, therefore, from the general rule applicable to written instruments that a patent is uniquely suited for having its meaning and scope determined entirely by a court as a matter of law. *Bates v. Coe*, 98 U.S. at 38

\* \* \* \*

It appears to be firmly established that . . . a patent is subject to the same general rules of construction as any other written instrument. 2 *Robinson on Patents*, *supra*, § 732, at 481/82; 1 Anthony W. Deller, *Patent Claims*, § 21 (2d ed. 1971).

The Supreme Court affirmed on the ground that although there were a few cases in the 18<sup>th</sup> Century that construed patent specifications, they did not show an “established jury practice sufficient to support an argument by analogy that today’s construction of a claim should be a guaranteed jury issue.”<sup>5</sup> Therefore, the Court held that the interpretation of a patent claim was not “subject to a Seventh Amendment guarantee that a jury will determine the meaning of any disputed term of art about which expert testi-

mony is offered.”<sup>6</sup> The Supreme Court concluded that “the construction of a patent, including terms of art within its claim, is exclusively within the province of the court.”

In quoting Walker on Patents<sup>7</sup>, the Supreme Court stated:

“A claim covers and secures a process, a machine, a manufacture, a composition of matter, or a *design*, but never the function or result of either, nor the scientific explanation of their operation.”

However, the Supreme Court did not consider whether design patent claim construction was properly “exclusively within the province of the court”, as the question was not before it.

## THE CONSEQUENCES

### 1. Federal Circuit Applies the Markman Case to Design Patent Claim Construction

Nevertheless, the Federal Circuit in *Elmer v. ICC Fabricating, Inc.*<sup>8</sup>, a design patent case, followed its Markman precedent, even before the Supreme Court’s affirmation:

“Determining whether a design patent claim has been infringed requires, first, as with utility patents, that the claim be properly construed to determine its meaning and scope.”<sup>9</sup>

The design patent in suit claimed the “ornamental” design for a “vehicle top sign holder, as shown and described.” The design shown and described in the patent drawings included triangular vertical ribs and an upper protrusion, shown in the patent drawings as full, solid lines. Defendant ICC Fabricating, Inc. did not have triangular vertical ribs and an upper protrusion in its vehicle-mounted advertising sign. Co-plaintiff HTH, Inc., Elmer’s exclusive licensee under the utility and design patents in suit, argued that the vertical ribs and upper protrusion were not limiting design claim elements because they were functional and not ornamental. The Federal Circuit did not construe the claim by deciding whether the design elements were ornamental or functional. Instead, it held that HTH could have omitted these

features from its patent drawings by placing the features in broken lines instead of full, solid lines for “design patents have almost no scope. The claim at bar, as in all design cases, is limited to what is shown in the application drawings.”<sup>10</sup>

Judge Giles Rich, as explained early on in *Application of Blum*<sup>11</sup> and *Application of Zahn*<sup>12</sup>, stated that if an applicant wishes to represent any part of his design sought to be patented, it should be placed in full solid lines and not broken lines.<sup>13</sup> He stated that when a design patent refers to a complete article, for example, “an automobile body”, it is not controlling. Rather, a claim must be read in conjunction with the specification and drawing and in doing so, it is clear that the claim is for the windshield portion only, *which is shown in solid lines in the drawing, all the rest being in dotted or broken lines.*<sup>14</sup>

*Goodyear Tire & Rubber Co. v. Hercules Tire & Rubber Co., Inc.*<sup>15</sup> is another example where a design patent owner narrowed its claim by claiming too much (placing the entire design in solid lines) with the result that a competing product with a similar design did not infringe. The design patent was for a tire tread. Hercules admitted that it had purposefully set out to produce a tire that emulated the basic appearance of the Goodyear tire but had done so in a way to avoid infringement. It did not include in its tire the circumferential groove and the shoulder ribs claimed with solid lines in the patented design. The District Court agreed with Hercules that it did not appropriate all of Goodyear’s novel features. The District Court found that, in particular, the circumferential groove was “one of the most significant factors contributing to the ‘080’s [U.S. Design Patent No. 349,080] novel or nonobvious appearance”<sup>16</sup> The Federal Circuit agreed that Hercules did not appropriate the novel features of the ‘080 patent and therefore did not infringe.

Goodyear had been careful not to claim the sidewall of the tire by placing this section of the tire in broken lines. But it didn’t place its circumferential groove or shoulder ribs in broken lines when it could have. If it had, it would have made it more difficult for Hercules to avoid infringement. But the placing of these features in solid lines effectively limited the scope of the ‘080 patent, enabling Hercules to avoid infringement.

After invoking its ruling in *Elmer v. ICC Fabricating, Inc.*<sup>17</sup> that *Markman* applies to design patents as well as utility patents, the Federal Circuit then found:

The requirement that the court construe disputed claim language, as applied to design patents, must be adapted to the practice that a patented design is claimed as shown in its drawing. There is usually no description of the design in words:

37 C.F.R. § 1.153(a). The title of the design must designate the particular article. No description, other than a reference to the drawing, is ordinarily required. The claim shall be in formal terms to the ornamental design for the article (specifying name) as shown, or as shown and described. More than one claim is neither required nor permitted.

The promulgation of the provisions of Title 37 of the Code of Federal Regulations is authorized by Title 35 United States Code, Section 2. It is the codified law regarding design patent claim presentation and construction.

Therefore, a Court, in considering the scope and extent of the question of law in construing (interpreting) a design patent claim, is limited primarily to referring to the drawings to observe which part of the design is claimed as new and ornamental (in solid full lines) and what is deemed old or functional or merely environmental. The former defines the claimed subject matter and the latter (in broken or dotted lines) forms no part of the claimed design. The prosecution file history should only be consulted to see if the applicant has admitted that a particular claimed design element is in fact old and functional. The Court should not decide as a part of claim construction which design elements are functional or old in the art because, it is submitted, that the better authorities hold that this issue is a question of fact for decision by either the trier of fact or the jury.

## 2. Translating Patent Drawing Lines into Words

The Federal Circuit added a further requirement for design patent claim construction in *Durling v. Spectrum Furniture Company*.<sup>18</sup> There, the District Court held U.S. Design No. 399,243 invalid for ob-

viousness but the Federal Circuit *reversed* for lack of a primary reference. In reversing, the Federal Circuit held that in an obviousness analysis, the trial court must first translate the visual description depicted in a design patent claim into words so that “the parties and the appellate courts can discern the internal reasoning employed by the trial court to reach its decision as to whether or not a prior art design is basically the same as the claimed design.”<sup>20</sup>

The Federal Circuit disagreed with the District Court’s verbalization of the patented design as shown and labeled in the patent drawings. The drawings employed all solid lines, and no dotted or broken lines. The Federal Circuit held that the District Court erred in not mentioning the specific claimed design elements.

The Federal Circuit’s verbalization of the solid lines of Durling’s design patent drawing captured all of its design elements. It held that the District Court had committed error in that in construing Durling’s claimed design too broadly, it had focused on the design concept of Durling’s design rather than on its visual appearance as shown in the patent drawings. There were, therefore, significant differences between the correct claim construction of the patented design and the asserted primary prior art reference, the Schweiger sofa model. As a result, the Court of Appeals held that it was error to invalidate Durling’s design patent on grounds of obviousness.

A visual design patent claim was also translated into words in aid of claim construction<sup>19</sup> in *Child Craft Industries, Inc. v. Simmons Juvenile Products Company, Inc.*<sup>20</sup> This was a declaratory judgment action for non-infringement of defendant Simmons’ U.S. Patent No. Des. 369,490 for an ornamental design of a crib endboard. The parties agreed that although each of the basic design elements of Simmons’ patent appeared in the prior art, no single reference contained all of the elements combined in the ‘490 patent. Therefore, Simmons was entitled to patent the particular combination of elements. However, Simmons’ argument for infringement on the part of Child Craft Industries relied on a verbal construct of its patent drawings (which uniformly consisted of solid lines) that omitted reference to two novel ornamental features of the crib endboard, a flat bottomed intermediate rail and a unique 3-4-3 slat configuration.

The District Court disagreed with Simmons’ proposed claim construction and construed the design claim to include the two design features that Simmons had omitted. The Court stated the Figs. 1, 3 and 5 of the patent drawings “clearly display[ed] these design features, while Figure 8 details the spacing and shape of a portion of the slats. These features give the basic Shaker design its distinctive and ornamental appearance.”<sup>21</sup> The reason that the Court contradicted Simmons’ verbal construction of its design patent is that it inspected and relied on what was shown in the patent drawings in conformity with its prior quote from *In re Mann*<sup>22</sup>: in short, “design patents have almost no scope. The claim at bar, as in all design cases, is limited to what is shown in the drawings.”

It appears that the Courts are adhering to the rule of design patent claim construction initially set out in *Application of Zahn* and *Elmer v. ICC Fabricating, Inc.*

### 3. Ornamentality and Points of Novelty

The patent statute 35 U.S.C. §171, provides that “whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefore . . .” If an applicant can only claim what is new, original and ornamental and not what is old and functional, are such issues questions of fact for the fact trier or jury? Are they treated as questions of law which are decided as part of design patent claim construction hearing or inquiry?

In *Five Star Manufacturing, Inc. v. Ramp Lite Mfg. Inc.*<sup>23</sup>, an action for infringement of a design patent for an arched lawn mower ramp, the Court denied defendant’s motion for summary judgment of non-infringement. The basis for defendant Ramp Lite’s motion was that elements of Five Star’s patented design were functional and not ornamental. The District Court denied the motion for summary judgment on the grounds that plaintiff by the introduction of sufficient evidence, had raised a genuine issue of fact as to whether the challenged features (principally, the ramp arch) were ornamental. In explicitly holding that “whether the features of a design are functional or ornamental is an issue of fact”, the Court cited *Hupp v. Siroflex of America, Inc.*<sup>24</sup>, where the jury’s verdict of “not ornamental” was reversed for a lack of substantial evidence to support the verdict. The Federal Circuit did not explicitly state that the

issue was a question of fact for the jury, however, the issue of whether the design patent for a mold used to make simulated stone pathway met the statutory requirement of being ornamental was presented to the jury at trial with the introduction of testimonial evidence and not at a pre-trial Markman-type claim construction hearing or argument.

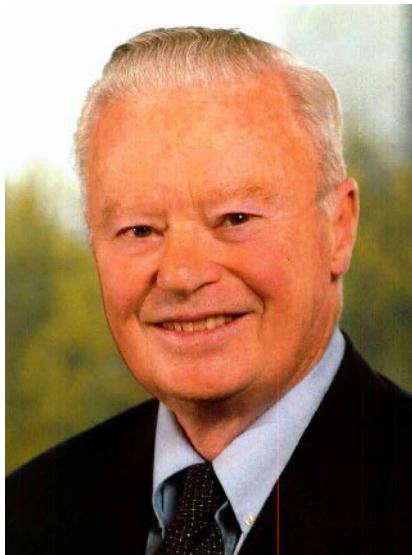
The Federal Circuit clearly considered the ornamental/functional dichotomy to be a question of fact when it reversed the jury's verdict of patent invalidity because "there was not substantial evidence to support the finding that the patented design was not ornamental."<sup>25</sup>

On the other hand, in *Contessa Food Products, Inc. v. Conagra, Inc.*,<sup>26</sup> the Federal Circuit noted with apparent approval that the District Court, in construing the "sole claim" of a design patent entitled "Serving Tray With Shrimp", had "based its claim construction on the ornamental features illustrated by all of the Figures . . ." Also, and more recently, the Federal Circuit in *Bernhardt LLC v. Collezione Europa U.S.A., Inc.*<sup>27</sup>, observed without criticism, that "the District Court determined the non-functional aspects of Bernhardt's design patents in the *claim construction* rulings, which Collezione has not contested. Thus, Bernhardt was not required as part of its infringement case to make any evidentiary showing of ornamental features."

Does this mean then, that if the District Court does not decide whether design features are ornamental (as opposed to functional) at the claim construction hearing, the design patent owner must put on its proof that the design features are ornamental as a necessary first part of its infringement case? Does the trial court's failure to decide the issue on a question of law basis transmute it into a question of fact to be decided by the trier or jury at trial?

With respect to the statutory requirement of novelty, the Federal Circuit has been consistent and clear that "both the ordinary observer and point of novelty tests are factual inquiries that are undertaken by the fact finder during the infringement stage of proceedings, after the claim has been construed by the court."

The Federal Circuit relied on its previous decisions that the point of novelty test is a question of fact



Philip T. Shannon

in *Contessa Food Products, Inc. v. Conagra, Inc.* ("The 'point of novelty' test... requires proof that the accused design appropriates the novelty which distinguishes the patented design from the prior art")<sup>28</sup> and in *Catalina Lighting Inc. v. Lamps Plus, Inc.* ("According to the 'point of novelty test, the fact-finder must determine whether the accused design appropriates the points of novelty that distinguish the patented design from the prior art.")<sup>29</sup>

But of course, the two cases contain conflicting rulings regarding whether "functionality" is a question of fact for the jury or a question of law for the court in a claim construction argument.<sup>30</sup>

In *Contessa Food Products*, the Federal Circuit found "no error in the District Court claim construction" which had "based its claim construction on the ornamental features by all of the Figures..."<sup>31</sup>, whereas in *Catalina Lighting*, the Court found that "given Swanson's testimony, the jury was presented with evidence that these functions are not functional, but instead were aesthetic design choices."<sup>32</sup>

The District Court in *Black & Decker (U.S.) Inc. v. Pro-Tech Power, Inc.*,<sup>33</sup> blames the strongly contested disputes over whether functionality and points of novelty are questions of fact or questions of law on the fact that the litany of reasons and authorities noted in the outset of this article, as to why claim construction in a utility patent case is a question of law for the Court, simply do not apply in making determinations of functionality or points of novelty in the design patent context.

For example, in *In Re: Plastic Research Corporation*, the Court stated that after "having more fully reviewed the implications of the Supreme Court's decision in *Markman v. Westview Instruments, Inc.* and the Federal Court's subsequent opinion in *Cybor Corporation v. FAS Technologies, Inc.*", the Court is persuaded that the point of novelty is a question of law to be resolved by the judge."<sup>34</sup>

But, the *Black & Decker* court in Virginia disagrees on the basis that:<sup>35</sup>

The rationale behind the decision in *Markman* simply does not apply to making determinations regarding functionality or “points of novelty” in the design patent context. Because design patent claims consist of pictures, and not words, the Court’s experience with “document construction” and “standard construction rules” regarding terms contained in a document, are not of help in the design patent context. Furthermore, decisions regarding functionality and “points of novelty” are very likely to come down to a battle of the experts and, necessarily, will force the Court to make credibility determinations. This is evidenced in the present case by the voluminous expert reports and Pro-Tech’s clear reliance on its own expert for every “finding” regarding functionality or “points of novelty”.

In a well-reasoned and researched opinion, Chief Judge Cacheris held that whether certain elements of the design patent in suit were functional should be reserved for the jury and that likewise, the determination of “points of novelty” is an issue of fact for the jury.

The Court of Appeals on July 21, 2004, in *Philips v. AWH Corporation*<sup>36</sup>, a utility patent case concerned with claim construction methodology, ordered a Rehearing En Banc. If they are moved in the future to do so, in a design patent claim construction case, this Committee is confident that Judge Cacheris’ opinion deservedly will receive considerable attention and study by the parties, the Amici and the Court.

## CONCLUSION

Over the last fifty years the importance of design, style and appearance in commercial product attractiveness, has dramatically increased. Given fungible products, the aesthetically attractive one sells better than the prosaic. The talent and contribution of the designer is difficult to quantify but translates into commercial success and psychological satisfaction. Design patents clearly encourage and foster good and innovative designs. The rules governing Markman claim construction hearings for design patents need to be judicially clarified to vest more confidence and certainty in present and prospective owners of this valuable intellectual property right.

<sup>1</sup> Philip T. Shannon, chair of the NYIPLA Design Protection Committee, joined Pennie & Edmonds upon graduation from Fordham Law School in 1964 where he litigated and tried patent and trademark cases until the Pennie Firm closed its doors in December 2003. He earned an LLM in Trade Regulation at NYU in 1970 and is presently Counsel at Fross Zelnick Lehrman & Zissu in New York. The author would like to thank the members of the Design Protection Committee, including David Greenbaum, John Gallicher, James Prizant, Karen Horowitz, and Stephen Kampmeier.

<sup>2</sup> 52 F.3d 967 (Fed. Cir. 1995), aff’d 517 U.S. 370 (1996).

<sup>3</sup> 517 U.S. at 372.

<sup>4</sup> 52 F.3d at 978.

<sup>5</sup> 517 U.S. at 380.

<sup>6</sup> Id. at 372.

<sup>7</sup> 6 Liscomb, Walker on Patents, § 21:17 at 315-316 (emphasis added).

<sup>8</sup> 67 F.3d 1571 (Fed. Cir. 1995).

<sup>9</sup> Id. at 1577, quoting *Markman*, 52 F.3d at 976.

<sup>10</sup> *In re Mann*, 861 F.2d 1581, 1582 (Fed. Cir. 1988).

<sup>11</sup> 374 F.2d 904 (CCPA 1967).

<sup>12</sup> 617 F.2d 261 (CCPA 1980).

<sup>13</sup> 374 F.2d at 907.

<sup>14</sup> 617 F.2d at 267 (emphasis added).

<sup>15</sup> 162 F.3d 1113 (Fed. Cir. 1998).

<sup>16</sup> Id. at 1122.

<sup>17</sup> 67 F.3d 1571, 1577 (Fed. Cir. 1995).

<sup>18</sup> 101 F.3d 100 (Fed. Cir. 1996).

<sup>19</sup> There is no indication in the District Court’s opinion that it had at any time conducted a Markman Claim Construction hearing.

<sup>20</sup> 990 F. Supp. 638 (S.D. Ind. 1998).

<sup>21</sup> Id. at 641 (citation omitted).

<sup>22</sup> 861 F.2d 1581, 1582 (Fed. Cir. 1988).

<sup>23</sup> 44 F. Supp. 2d 1149 (D. Kan 1999).

<sup>24</sup> 122 F.3d 1456, 1460 (Fed. Cir. 1997).

<sup>25</sup> Id. at 1461.

<sup>26</sup> 282 F.3d 1370 (Fed. Cir. 2002).

<sup>27</sup> 386 F.3d 1371 (Fed. Cir. 2004).

<sup>28</sup> 282 F.3d at 1377.

<sup>29</sup> 295 F.3d 1277, 1286-87 (Fed. Cir. 2002), citing *Contessa Food Prod.*, 282 F.3d at 1377.

<sup>30</sup> If claim construction is a question of law, then any dispute as to a claim’s meaning and scope is resolved by legal argument and not by an evidentiary hearing.

<sup>31</sup> 282 F.2d at 1377.

<sup>32</sup> 295 F.3d at 1287.

<sup>33</sup> 47 USPQ2d 1843 (E.D. Va. 1998), appeal dism’d 232 F.3d 905 (Fed. Cir. 2000).

<sup>34</sup> 2002 U.S. Dist. Lexis 20547 (E.D. Mich. 2002) (citations omitted).

<sup>35</sup> 47 USPQ2d at 1846.

<sup>36</sup> In response to the Court of Appeal’s call, over thirty-five (35) Amicus briefs have been submitted for this Rehearing En Banc, including the ABA, the PTO and the NYIPLA.

# From Stolen Secrets to Safeguarded Source Code: The Importance of Trust in International Outsourcing Ventures

by Kiran Ghia

## I. Introduction: Trust

Hanging high above the workstations of software developers at Bleum Inc.'s headquarters in Shanghai is a blue and black lettered-sign that reads "Protect Our Customer."<sup>1</sup> This slogan serves to remind Bleum's foreign-based team of software engineers of the urgent need to protect the customer's software code. Along with other preventative measures such as an access-controlled workroom, this wall-hanging takes aim at a growing concern over the lack of intellectual property protection in place by outsourcing service providers in countries such as China, India and Eastern Europe.

For all the benefits derived from international outsourcing, it carries with it several potentially disastrous liabilities. While the sharing and widespread dissemination of intellectual property, whether in the form of source code, trade secrets or other confidential information, is a commonplace and necessary occurrence in the outsourcing industry, theft and misuse of customers' intellectual property by outsourcing vendors have become major security risk-factors for customers seeking to outsource offshore. In fact, the latest CSI-FBI Computer Crime and Security Survey, which surveyed several hundred large US companies, reported losses totaling over \$11 million for the theft of proprietary information in the previous year alone.<sup>2</sup>

While many analysts have examined the common concerns and issues that arise in intellectual property protection (IPP) with outsourcing vendors, none have thoroughly addressed the issue of trust—an issue that is perhaps best described as both an underlying cause of intellectual property (IP) security breaches as well as a solution to the problem itself. Trust, in fact, is at the heart of the debate regarding 'alternative workplace' environments and 'virtual organizations.' It seems only natural then, that the issue of trust should be a focal point in the outsourcing debate with respect to IPP. Exploring the nature of trust and how it can be developed with an international outsourcing vendor, as well as exploring the dimensions of the intellectual property concerns themselves from an international

perspective, may help to provide businesses and legal counsel with a better framework for understanding how to address these issues.

A culture of mistrust within an organization may be responsible for the lack of loyalty by any given employee. If, for example, employees' behavior is largely shaped by the overarching managerial attitude and corporate culture, the recent trend towards "audit mania" (described as the "urge to have some independent inspection") sends a message to employees that they are not trusted.<sup>3</sup> Charles Handy states that this attitude "becomes a self-fulfilling prophecy. 'If they don't trust me,' employees say to themselves, 'Why should I bother to put their needs before mine?'" If it is at all true that a "lack of trust makes employees untrustworthy," Handy notes that this "does not bode well for the future of virtuality in organizations."<sup>4</sup>

Without nurturing a trust-based mentality, outsourcing vendors, like employees in a virtual organization, have little incentive to remain loyal to their customers, and the security of IP assets becomes a serious concern. Where offshore vendors have minimal contact, if any, with their customers, where they have only known their customers for a short period of time, and where they often have cultural barriers to communicating with their customers, clear structural obstacles exist to developing loyalty and trust. Customers often remain suspicious of vendors they contract with and have a myriad of security measures in place to protect themselves. In turn, employees of outsourcing vendors may feel undervalued and begin to lose faith in the organization. This mentality, combined with different cultural attitudes toward intellectual property rights, can make for a potential IP security breakdown.

## How to develop and maintain trust with the offshore vendor

While technology has given us the actual capacity to run organizations with offshore outsourcing vendors, technology is simply not enough. Handy would urge that companies utilizing international outsourcing service providers must learn to run their systems based more on trust rather than on control.<sup>5</sup>

But how does an organization learn to build trust in an ever-expanding corporate environment where managers may not even know their employees, or even worse, where managers may be suspicious of their own employees?

Sociologist Robert Putnam, who has written about the decline of social cohesion and trust in civic society, has used the phrase “coordination and cooperation for mutual benefit” to describe certain features of ‘social capital.’<sup>6</sup> In the business context, this phrase provides a key to understanding the building blocks of a trusting organization.<sup>7</sup> Employees must be able to work in an organization that emphasizes *reciprocal* benefits and the *common* good—in other words, they must feel fulfilled and valued by the company. Nurturing trust at the individual vendor employee level will help to create a loyal employee base, which will ultimately result in the protection of the customer’s IP. There are several common sense principles that customers can utilize from the outset of their relationship with an outsourcing vendor.<sup>8</sup>

The first principle that can help to foster a trusting environment with an international outsourcing service provider is that a customer must know the vendor it is contracting with. It is simply not sensible business practice to trust employees or companies that you do not know well, or that you have not witnessed in action, or who may not be dedicated to the same goals.<sup>9</sup> For customers, this means getting to know an outsourcing vendor before committing to a contract by visiting its facilities, meeting with managers and employees of the vendor company, and ensuring that both companies are dedicated to the same end-goals. This principle goes hand-in-hand with another core principle of trust: that trust requires contact and touch. No matter how much a vendor might share a customer’s commitment, this “commitment still requires personal contact to make it real.”<sup>10</sup> More importantly, according to John Naisbitt, the accelerating pace of “high tech” society must be balanced by “high touch” or human contact, in order to foster healthy and trusting businesses.<sup>11</sup>

As a starting point, both customers and outsourcing vendors, as individual companies, should assess whether they already have trusting relationships with their employees, clients, and other business affiliates. Outsourcing vendors should provide this

internal information (through surveys, evaluations, etc.) to customers as a prerequisite to engaging in a business relationship. With this information, a customer may be better prepared to approach and get to know the particular vendor. This ‘getting-to-know you’ process entails meeting with international outsourcing vendors on a regular basis, and not just through videoconferencing or telephone calls, but through live, face-to-face meetings. Further, vendor employees should be given ample opportunity to get to know both the customer’s managers and employees. For example, if the costs are not prohibitive, an exchange program in which vendor employees travel to the customer’s place of business might be an important way for the customer to initiate a dialogue and a relationship with the vendor. On the other hand, frequent videoconferencing may be a more cost-sensitive means to achieve this same goal. In addition, customers could sponsor promotional events or giveaways, in which vendors get to sample the customers’ products, as yet another way to develop a close, trust-based relationship.

Perhaps the key principle in building a trusting relationship with an international outsourcing service provider is making a long-term commitment to cultural awareness and sensitivity. Analysts, however, have typically applied the cultural awareness argument to a discussion of the initiation of an outsourcing relationship and corporate compatibility. Specifically, analysts seem to operate under the assumption that there is a perfect vendor match for every customer in terms of cultural beliefs and values. Not only is this assumption somewhat parochial, but it is also limited in scope. Cultural awareness should signify more to a customer than simply determining initial compatibility—it should be a continuing means of learning about a vendor’s corporate culture as well as the offshore country’s own nuanced social culture and regional differences. If developing trust comes down to the individual level and valuing the individual vendor employee, learning basic cultural norms and cues, sometimes even something as simple as a respectful bow or a ‘Namaste,’ can go a long way toward building a trusting and loyal relationship.

It would be naïve to assume that any given international vendor’s culture will align perfectly with the customer’s, so learning to work with and

around these varying cultural attitudes and values is the best way to build and maintain a trusting relationship with the offshore vendor. Customers can implement cross-cultural awareness training (teaching country-specific cultural norms as well as country-specific IP laws), workshops, partnerships, and exchange programs to give employees and management the opportunity to interact with each other, which, in turn, may foster an environment of trust. Moreover, cultural awareness plays a decisive role in the protection of intellectual property rights in terms of attitudes toward IPP. Establishing an open line of cultural communication can help to build a community of trust and to maintain loyalty to the customer among offshore vendor employees.

Finally, another key principle in building a trusting organization is the idea of membership.<sup>12</sup> Offshore vendor employees must have a sense of belonging to a community even if that community is scattered halfway across the world. This feeling of belonging can help to commit vendor employees to a higher purpose beyond selfishness, and can encourage them to see themselves “as integral to the organization’s success.”<sup>13</sup> By giving offshore vendor employees a stake in the organization, whether through benefits, incentives, or by an open-book management technique in which customers keep all vendor employees informed about the company’s performance and the vendor employees’ role in it, customers can cultivate a cooperative environment in which vendor employees are truly working toward the “mutual benefit” of the organization by protecting the customer’s IP rights.<sup>14</sup>

## **II. A Global Legal Perspective: India**

Developing and maintaining trust with an international outsourcing vendor is one of the most basic elements of international outsourcing and IPP, but it is certainly not the only part of the puzzle. Understanding the legal framework of the vendor country in terms of IP rights is also a critical element in constructing a practical toolkit for an international outsourcing venture. While international outsourcing requires the sharing of virtually every type of IP asset, including copyrights, trade secrets, trademarks, and patents, each proprietary asset is governed by its own unique set of laws which vary from country to country. And,

even in countries that formally recognize strong IP rights, they may lack the means to enforce these rights or may have a general cultural attitude that does not afford the same respect to IP rights as the customer’s home country.

India, for example, has emerged as a global player in the offshore outsourcing industry. The latest figures show that Indian software and services exports jumped to \$12.5 billion in 2003-2004, up from nearly \$10 billion in the previous fiscal year.<sup>15</sup> Studies also show that offshoring is creating wealth for the United States, one of India’s largest customers; in fact, “for every dollar of corporate spending outsourced to India, the US economy captures more than three-quarters of the benefit and gains as much as \$1.14 in return.”<sup>16</sup>

However, the risks and actual losses to customers seeking to outsource in India continue to be ever-present. Just last year, the arrest of a former employee of an Indian outsourcing company, Geometric Software Solutions Ltd., who allegedly stole the source code for a computer-aided design package of a customer and offered to sell it to a competitor, led to the first prosecutorial filing for outsourcing-related IP theft in India.<sup>17</sup> And while outsourcing-related intellectual property theft has arisen largely in the form of stolen source code, the higher-end business process outsourcing market continues to expand through the use of call centers and other claims processing providers, making customer-specific, personal data increasingly vulnerable to theft. India will therefore have to make greater efforts to strengthen its IPP regime by way of data protections laws and trade secret theft laws if its wants to retain its edge in the industry.

Moreover, India’s path toward an effective IPP regime has been rather inconsistent. Even after the passage of major legislation initiatives in 1999 regarding IPP, including the Patents (Amendment) Act, the Trade Marks bill, and the Copyright (Amendment) Act, and the efforts made to implement the World Intellectual Property Organization Internet treaties, India has continued to struggle with enforcement of IP rights. In fact, the Office of the United States Trade Representative (USTR) recently placed India on its “Priority Watch List,” citing concerns over India’s Copyright Act and its three broad exceptions, which weaken the protec-

tion of software, as well as concerns over the protection of foreign trademarks.<sup>18</sup>

In spite of these efforts, concerns over IPP in international outsourcing often boil down to a lack of enforcement. While many countries, including India and China, are members of the World Trade Organization and adhere to the Trade-Related Aspects of Intellectual Property Rights (TRIPS), TRIPS protection must still be enforced locally—in other words, individual countries must enact local laws to protect IP even as signatories to TRIPS. However, many countries have not yet enacted such laws, rendering TRIPS protection somewhat meaningless. India was, until very recently, one such country. But, under extreme pressure from the USTR, and much to the chagrin of many Indian drug companies, the Indian government on December 26, 2004, enacted the Patents (Amendment) Ordinance, under which the government provides patent protection for certain products including pharmaceuticals and agricultural chemicals, among other things, in order to fulfill its promise of becoming TRIPS-compliant.<sup>19</sup> However, unless the new Ordinance obtains approval by the Indian Parliament, it will lapse, thus further dragging out the process towards creating a comprehensive IP regime.<sup>20</sup> In addition, access to the court systems in many of these countries is limited and / or cumbersome, making compliance and remediation an unlikely possibility. Cultural attitudes are also a barrier to the enforcement of IPP. China, for example, has been criticized for a cultural attitude that seems to disrespect intellectual property, treating it somewhat like communal property.

Nonetheless, India continues to push towards better protection for IP rights in order to maintain its edge in the international outsourcing industry. To further this effort, India's National Association of Software and Service Companies (NASSCOM) recently launched an initiative to evaluate India's information security system called "Trusted Sourcing," as well as a partnership to prevent cyber crime and related issues with local enforcement authorities, called the Mumbai Cyber Lab.<sup>21</sup>

Overall, as India and other major offshore players continue to create new IP laws and tighten up their existing laws, customers will increasingly become more comfortable placing their valuable proprietary information in vendors' hands. However, laws or no laws, enforcement will remain a serious concern. One possible alternative to enforcement of IP rights in actual courts is to pursue arbitration or mediation.

To this end, it is critical that a customer creates, from the outset, a team of local and regional attorneys who are knowledgeable in the IP laws of the particular vendor's country as well as familiar with the general cultural and legal environment of that country. The lawyer can help the customer to draft an arbitration clause into the original offshoring contract, mandating, for example, that all disputes arising out of the contract are to be settled by arbitration according to the International Chamber of Commerce, which provides international dispute resolution services.<sup>22</sup> However, it is vital that companies and especially legal counsel pay close attention to the site of the arbitration itself, as this can often bear heavily on the outcome of the proceeding.

### **III. Risk Management: "Trust Plus"**

Building trust between a customer and an outsourcing vendor also requires detailed knowledge of the intellectual property rights involved in the business relationship. There are two main concerns associated with international outsourcing and intellectual property rights, the first of which is the ownership of IP. Many companies often overlook this vital part of a comprehensive IP protection program, and thus fail to identify, account for, and specify ownership rights of IP assets improved upon or created during the offshoring relationship.<sup>23</sup> These issues should be discussed and settled from the outset of the venture, and can be resolved through the use of licensing agreements and other similar instruments. The second major concern in regards to international outsourcing and IP rights is the misappropriation or theft of confidential information, trade secrets, and other proprietary information. As illustrated by the stories of Geometric Software Solutions and others, such as Jolly Technologies—where it was reported that one of the employees at Jolly's Indian research and development center had misappropriated valuable trade secrets in the form of source code and other confidential documents—customers' fears are indeed legitimate. However, there are a number of preventative steps that customers and vendors can take together to help minimize, and hopefully, eliminate these concerns.

Due diligence is certainly an important initial step in building a strong IPP program. If, after conducting background checks on employees, looking at the company's history, financial stability, retention rates for employees, and whether or not the company does

business with a chief competitor, a customer determines that the vendor is simply unfit or untrustworthy to do business with, the relationship should not be pursued. However, if a customer finds that the vendor is sound, there are a variety of controls that can be put in place to help protect the customer's IP rights. Non-disclosure agreements and confidentiality agreements, for example, are effective legal tools that can be used to prevent against the accidental or willful loss or disclosure of confidential information. Individual employees of both the customer and the vendor should be required to read and sign such agreements before engaging in any outsourcing venture. Trade secret indemnification agreements with the vendor may also be used to protect valuable proprietary information. As a last resort, customers may think about getting insurance for their source code. In addition, various security measures such as using electronic tags to mark digital property, using internet access controls, segregating the manufacturing process into separate components and outsourcing to multiple vendors, and internal auditing, may help to mitigate the risk of loss.

While it is important for customers to plan ahead, in considering whether to implement these preventative strategies, customers should also think about adding an element of trust into their otherwise standardized "Due Diligence" checklists. Customers must begin to incorporate trust into their outsourcing ventures to ensure that they are working towards a healthy, trusting business relationship with the vendor, rather than simply creating a lockdown environment of controls and access-card entry, which may only breed mistrust and disloyalty. Therefore, it is critical for customers to create a "trust plus" security environment with their vendor, working primarily to build a relationship of trust with the vendor, balanced with only the necessary and appropriate means of IP security measures for that particular vendor, or for that matter, for the individual employees of the vendor. In practice, for example, this would entail the customer getting to know the vendor and its employees, visiting the facilities, conducting exchange programs and cultural awareness trainings, as well as restricting access to certain workrooms, if this was found to be an appropriate control device for the specific vendor employees. Rather than subjecting a given vendor to an entire battery of security measures, the customer should choose appropriate controls tailored to the individual vendor's situation. Starting the outsourcing relationship on a foundation of trust will

foster a kind of loyalty that restrictions and surveillance cannot guarantee on their own, and can thus serve as a critical means of protecting valuable IP rights in the international outsourcing industry.

<sup>1</sup> Sumner Lemon, *Overcoming the Piracy Stigma in China: Providers 'overcompensate' for the risk* (Aug. 30, 2004), available at <http://www.computerworld.com/managementtopics/outsourcing/story/0,10801,95536,00.html>.

<sup>2</sup> Computer Security Institute (CSI), CSI / FBI Computer Crime and Security Survey 2004, available at [http://www.usdoj.gov/criminal/cybercrime/CSI\\_FBI.htm](http://www.usdoj.gov/criminal/cybercrime/CSI_FBI.htm).

<sup>3</sup> Charles Handy, *Trust and the Virtual Organization*, Harvard Business Review 40, 44 (May-June 1995).

<sup>4</sup> Handy at 44.

<sup>5</sup> *Id.*

<sup>6</sup> Robert Putnam, *Bowling Alone: America's Declining Social Capital*, Journal of Democracy 6:1, 65-78 (Jan. 1995) (discussing the concept of 'civic disengagement' for which Putnam uses the metaphor of bowling: from 1980 to 1993, the number of individual bowlers rose by 10% while league membership decreased by 40%).

<sup>7</sup> Douglas Smith, *Are Your Employees Bowling Alone? How to Build a Trusting Organization*, Harvard Management Update 3 (Sept. 1998).

<sup>8</sup> *Id.* at 3.

<sup>9</sup> Handy at 44.

<sup>10</sup> *Id.* at 46.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 48.

<sup>13</sup> Smith at 3.

<sup>14</sup> Customers should proceed with caution, however, in extending such benefits to offshore employees, and should be aware of the pitfalls of triggering "joint employer" status over offshore employees.

<sup>15</sup> See <http://www.nasscom.org>.

<sup>16</sup> *Offshoring: Is it a Win-Win Game?* McKinsey Global Institute (Aug. 2003); see also Martin N. Baily and Dana Farrell, *Exploding the Myths of Offshoring*, The McKinsey Quarterly (Dec. 2004).

<sup>17</sup> Michael Fitzgerald, *Big Savings, Big Risk: Offshore Software Development puts Intellectual Property at Risk* (Nov. 2003), available at <http://www.csoonline.com/read/110103/outsourcing.html>.

<sup>18</sup> See <http://www.usit.gov>.

<sup>19</sup> See Patents (Amendment) Ordinance, 2004 available at <http://lawmin.nic.in/Patents%20Amendment%20Ordinance%202004.pdf>.

<sup>20</sup> P.T. Jyothi Datta, *Date Kept, Now for the Devil in the Detail*, The Hindu Businessline (Dec. 27, 2004)

<sup>21</sup> See <http://www.nasscom.org>.

<sup>22</sup> Dana H. Shultz, *What Every Business Lawyer Needs to Know about Outsourcing*, California Bar Journal, Nov. 2004, at 1, 4.

<sup>23</sup> Donna Ghelfi, *The 'Outsourcing Offshore' Conundrum: An Intellectual Property Perspective*, available at <http://www.wipo.int/sme/en/documents/outsourcing.htm>.

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# Update on C.L.E. Luncheons

## November 19, 2004 CLE Fall One Day Program

On Friday, November 19, 2004, the NYIPLA hosted a CLE Fall One Day Program at the Yale Club. The Program was divided into four panels. The topic of discussion among Panel I concerned "Inequitable Conduct." The topic of discussion among Panel II concerned "Recent Trends and Developments From the Courts." The topic of discussion among Panel III concerned "Patent and Trade Secrets Practice Update." The last topic of discussion among Panel IV concerned "Ethics in Patent Prosecution."

### Panel I –

#### "Issues Concerning Inequitable Conduct":

Members of Panel I consisted of Thomas Beck, partner, Fitzpatrick, Cella, Harper & Scinto; Edward Filardi, partner, Skadden, Arps, Slate, Meagher & Flom LLP; Herbert Schwartz, partner, Fish & Neave LLP; and John Sweeney, partner, Morgan & Finnegan LLP.

The panel provided a tutorial on the current state of the law regarding the inequitable conduct defense, and discussed their opinions on the most recent trends in the courts on inequitable conduct issues. In some instances, the panel discussed their participation in recent cases.

Additionally, each panel member offered his opinion on how the district courts and the Court of Appeals for the Federal Circuit are presently applying the law to the inequitable conduct defense. The panel members also provided advice to patent practitioners based on the current state of the law.

The panel commented on the Federal Circuit's recent decisions in *Bristol-Meyers Squibb, Co. v. Rhone-Poulenc Rorer, Inc., Dayco Products, Inc. v. Total Containment, Inc.*, and *Hoffman-LaRoche v. Promega, Monsanto Co. v. Bayer Bioscience N.V.* The panel also discussed the Southern District of New York's recent decision in *Purdue Pharma L.P. v. Endo Pharmaceuticals, Inc.*

### Panel II –

#### "Recent Trends and Developments From the Courts":

Members of Panel II consisted of Bryan Schwartz, attorney at Calfee Halter & Griswold, in Ohio; Mark Koffsky, attorney at Goodwin Procter; Henry Kennedy, Managing Attorney at Willkie Farr & Gallagher; and Fredrick Zullow, partner at Milbank, Tweed, Hadley & McCloy.

Mr. Schwartz spoke on "The Renaissance of Patent Litigation at the ITC." He discussed 19 U.S.C. § 1337, which was enacted to protect against "unfair competition in import trade." He described the types of suits that could be brought in the ITC, the jurisdictional requirements for bringing such suits, and the potential remedies. He focused on suits that currently are before the ITC involving at least one party from New York. Mr. Schwartz further described the similarities and differences between practicing before district courts and the ITC.

Mr. Koffsky spoke on "Standards Setting – *Rambus* Revisited." He discussed the ongoing *Rambus* saga as it relates to the interface between patent law and standards setting committees. As background, Mr. Koffsky described the *Rambus v. Infineon* district court and Federal Circuit proceedings, and discussed the FTC complaint against Rambus (which was brought after the District Court found that Rambus had committed fraud by failing to disclose certain patent applications to a standards setting committee, but before the Federal Circuit reversed the finding of fraud and remanded the case). Mr. Koffsky then discussed the current status of the case (an FTC ALJ ruled in favor of Rambus and the case has been appealed to the full FTC), discussed lessons that could be learned from the *Rambus* saga, and provided practice tips based on the same.

Mr. Kennedy spoke on "Electronic Case Filing In The Southern District of New York." He discussed electronic case filing requirements in the Federal Courts with a focus on the Southern and Eastern Districts of New York. Mr. Kennedy

described some of the Courts' specific rules, and provided practice tips to ensure compliance with electronic filing rules/requirements.

Mr. Zullow spoke on "How *Daubert* Is Shaping Patent Cases." He discussed the admissibility requirements for expert evidence. As background, Mr. Zullow described the admissibility requirements before *Daubert*, and gave a brief overview of the requirements of *Daubert*. Mr. Zullow then discussed the requirements for admissibility of expert evidence, in detail, providing the factors that courts consider, and the burdens of proof that apply. Finally, Mr. Zullow discussed statistics regarding *Daubert* challenges in patent cases, and discussed the trends that have become apparent.

### **Panel III –**

#### **"Patent and Trade Secrets Practice Update":**

Members of Panel III consisted of the Honorable Richard Torczon, Administrative Patent Law Judge of the Board of Patent Appeals and Interference at the U.S. Patent & Trademark Office; Stanley Lieberstein, partner at St. Onge Steward Johnston & Reens; Maria Luisa Palmese, partner at Kenyon & Kenyon; Philip Vorbeck, attorney at Alston & Bird; and Theodore Mlynar, partner at Kramer, Levin, Naftalis & Frankel.

Judge Torczon spoke on "Update on New Interferences Practice Rules." He provided an update on the new interference practice rules. He discussed the timeline of the new rules, the rulemaking goals, and key changes, which are more Board control over issues raised, allowing petitions to go directly to the panel, and a clearer estoppel effect from claim correspondence.

Mr. Lieberstein spoke on "*Knorr-Bremse*: Where Do We Go From Here?" Mr. Lieberstein discussed in detail the background of the *Knorr-Bremse* case, including how the case went to trial, what happened at the trial level, how the Federal Circuit issued an order, *sua sponte*, for re-argument, *en banc*, on issues concerning whether the "adverse inference" rule should continue to apply when an accused infringer fails to produce an exculpatory opinion in defense of a willful infringement charge. Mr. Lieberstein also discussed the impact of the *Knorr-Bremse* decision, which overturned the "adverse inference" rule, on patent litigation and opinion practice.

Ms. Palmese spoke on "When Is Electronic Media a 'Printed Publication'?" She discussed in detail the importance of understanding electronic media as a prior art source and the law governing what constitutes a printed publication under 35 U.S.C. 102(a) or (b). She discussed the history of the cases concerning "printed publication" with a particular emphasis on the recent Federal Circuit case, *In re Klopfenstein*, 380 F.3d 1345 (Fed. Cir. 2004) and its impact. She further discussed PTO's practice in making rejections based on electronic media and provided valuable tips on how to respond such rejections.

Mr. Vorbeck spoke on "Trends on a Civil Approach To Trade Secret Law." He provided an overview of the trade secrets law in Germany, both criminal and civil, and contrasted the German law with the provisions of the U.S. Uniform Trade Secret Act. He provided the definition of trade secret under German law and discussed in detail the German criminal and civil statutes which govern trade secret protection. He further discussed the penalties for violating German trade secret criminal codes, which may include up to 3 years imprisonment for employees of a company who intentionally disclose company trade secrets to a third party.

Mr. Mlynar spoke on "Pitfalls in Trade Secret Licensing." Mr. Mlynar focused on trade secret laws in New York, New Jersey, and Connecticut, the differences among them, and how the differences would affect trade secret licensing. Mr. Mlynar first discussed New York trade secret law as having a Restatement of Torts approach. He then discussed New Jersey trade secret law as having a different Restatement of Torts approach. He added that in contrast to New York and New Jersey, Connecticut has adopted the Uniform Trade Secrets Act. He then discussed the importance of the choice of law provision in a trade secret license given the differences in laws among the different states.

### **Panel IV –**

#### **"Ethics in Patent Prosecution":**

Members of Panel IV consisted of Richard Seltzer, partner at Kaye Scholer; and Evan Stewart, partner at Brown Raysman Millstein Felder & Steiner.

Mr. Seltzer spoke with regard to the *Pfizer v Pennie & Edmonds* case, in which he represented *Pfizer*. He particularly commented on the difficulty of identifying and then resolving conflict issues in large firms.

Mr. Stewart spoke on “General Principles of Subject Matter Conflicts.” Mr. Stewart discussed general principles of subject matter conflicts as applied to patent attorneys and particularly advised against relying on e-mails alone to determine whether there is a conflict.

### Judge Dyk at December 10, 2004 CLE Luncheon Program

The Honorable Timothy B. Dyk, U.S. Court of Appeals for the Federal Circuit, spoke at the NYIPLA’s CLE Luncheon program on Friday, December 10, 2004, on the topic of “The Federal Circuit, Administrative Law and the Patent Office.” The topics discussed were: To what extent is the PTO similar to, or different from, other administrative agencies?; To what extent should administrative law doctrines such as Chevron deference apply to the PTO?; Should District Courts refer validity issues to the PTO?; and the Federal Trade Commission’s (FTC) proposed post-grant patent review procedures.

Judge Dyk discussed the issue of deference that courts give to PTO decisions in light of the *Dethmers Manufacturing Co., Inc.* decision (Fed. Cir. 2001). There, the court held, *inter alia*, that Claims 4-7 of a reissue patent were invalid as a result of a defective reissue declaration even though the PTO accepted a substitute reissue declaration and granted the subject reissue patent. The court’s decision was based solely on a *de novo* review of the compliance of the reissue declaration with 37 C.F.R. § 1.175. The court accorded no deference to the PTO’s own interpretation and application of the

rule. Judge Dyk, in his presentation and in a dissenting opinion in the *Dethmers* case, pointed out that Claims 4-7 should not have been held invalid, noting that the PTO’s decision to accept the substitute declaration should have been given substantial deference. Judge Dyk noted that the rule of deference is not new, i.e., giving deference to agency interpretations of their own regulations has long been the rule. For example, Judge Dyk noted, in the seminal Supreme Court decision, *Dickinson v. Zurko*, 527 U.S. 150 (1999), the Supreme Court held that the standards of the Administrative Procedure Act (APA) apply to the court’s review of PTO’s decisions. Thus, under the APA, the PTO was to be treated like any other agency. Judge Dyk noted that the PTO filed an amicus brief requesting that the court hear this case *en banc*, arguing that the *Dethmers* decision be reversed, i.e., that the PTO should be given deference when making agency decisions. In addition, Judge Dyk urged the PTO to submit more amicus briefs in important cases involving patent law and procedures.

Judge Dyk also discussed the FTC’s proposals for enacting a new post-grant review procedure for challenging the validity of a patent. The FTC proposal includes a provision that information used to invalidate a patent include not only patents and printed publications as permitted in reexaminations, but also written description, enablement, and utility issues. An administrative patent judge would preside over the review proceeding, cross examination of witnesses would be allowed, and carefully circumscribed discovery would be permitted. Judge Dyk discussed the presumption of validity of a patent claim under 35 U.S.C. § 282, the “clear and convincing” standard required to invalidate a patent claim in the federal courts and the FTC’s proposal that a patent claim be invalidated based on information sufficient to satisfy a “preponderance of the evidence” standard.



Left to right Peter Thurlow, Judge Timothy Dyk

**Peter L. Michaelson, David W.  
Plant and Robert B. Whitney  
as Panel Members and Harry  
Samaras as Moderator at  
January 14, 2005  
CLE Luncheon Program**

The NYIPLA CLE Luncheon program held on January 14, 2005 featured a panel of distinguished practitioners in the ADR field focusing on mediation of IP cases. The moderator was Harrie Samaras, who co-chairs RatnerPrestia's Dispute Resolution Department. The panelists included two ADR neutrals, Peter L. Michaelson and David W. Plant. The third panelist, Robert B. Whitney, Assistant General Counsel of Air Products and Chemicals, Inc. provided a very useful perspective of an in-house counsel who has participated in many mediations. The program consisted of two sessions: "Preparation for the Mediation" and "Closing the Deal." Topics covered in the first session included selling the client on mediation, selecting mediation counsel, getting the right people to participate, investing the parties' interests, preparing



From Left to Right: Cheryl Agris, Esq., (Host) Peter L. Michaelson, Esq., David W. Plant, Esq., Robert B. Whitney, Esq., and Harrie Samaras, Esq. (Panel Leader)

the client and the mediator for mediation, and what to bring to the mediation session. There was extensive discussion during the second session on ways to overcome an impasse as well as tips for formulating any agreements resulting from the mediation. Information on purchasing a video tape, DVD and/or written materials of this program may be obtained at [www.nyipla.org](http://www.nyipla.org) or by contacting the NYIPLA administrative office at (201) 634-1870. ■

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# SOUTHERN DISTRICT CASE REVIEW

by Mark J. Abate and Ping Gu<sup>1</sup>

## Continuing Litigation Resulted In Rule 11 Sanction

ResQNET.com, Inc. v. Lansa, Inc.,

2005 U.S. Dist. LEXIS 594

(S.D.N.Y. January 13, 2005)

(Judge Robert W. Sweet)

Defendant Lansa moved for sanctions under Rule 11, Fed. R. Civ. P., against ResQNet on the grounds, *inter alia*, that ResQNet failed to perform an adequate pre-filing investigation and that it continued to litigate a patent infringement action after recognizing that defendant's product did not infringe ResQNet's patents.

With respect to ResQNet's pre-filing investigation, defendant Lansa cited deposition testimony of plaintiff's officers disavowing an understanding of defendant's products. Plaintiff ResQNet responded by showing 8.25 hours spent on pre-filing investigation. The district court denied defendant's Rule 11 motion, holding that the efforts by plaintiff were sufficient to satisfy the pre-filing requirement that a comparison of the patent and accused product was conducted.

Of more consequence was defendant Lansa's arguments that plaintiff ResQNet continued to litigate claims it believed to be unfounded. Defendant based its argument on a letter by plaintiff's counsel before the filing of an amended complaint. In that letter, plaintiff's counsel explained that it would drop two patents, which did not appear to be infringed, from suit. The district court granted defendant's Rule 11 motion on this ground because notwithstanding ResQNet's own determination of non-infringement, and without an additional investigation from which a good faith basis to bring suit might be inferred, plaintiff filed the amended complaint thereby requiring Lansa to defend against baseless claims.

## Enhanced Damages And Attorney Fees Awarded Based On Jury Verdict Of Willful Infringement

Romag Fasteners, Inc. v. Mitzi Int'l Handbag And Accessories, Ltd.,

2005 U.S. Dist. LEXIS 394

(S.D.N.Y. January 12, 2005)

(Judge Lewis A. Kaplan)

A jury found that defendant willfully infringed plaintiff's patent and awarded damages of \$4.5 million. Plaintiff filed a post-trial memorandum in support of an application for enhanced damages and attorneys fees. Defendant did not respond except for filing a letter noting that plaintiff had not filed a motion which was required by the local rules.

The Court reasoned that plaintiff's post-trial memorandum was in substance a motion because it stated with particularity the grounds therefor and set forth the relief sought.

Turning to the merits, the Court found that the plaintiff correctly stated that willful infringement alone may support enhanced damages. Regarding the extent of enhanced damages, the district court found the relevant factors "cut both ways." According to the court, "[i]n plaintiff's favor were the facts that defendant deliberately copied the design, defendant's litigation behavior was obstructive, and that some efforts were made to conceal the infringement. Moreover, its invalidity defense bordered on frivolous. On the other hand, this was not even remotely a clear case of infringement." The district court pointed out that it "probably would not have set aside the verdict as against the weight of the evidence had defendant sought such relief, but it remained convinced that the defendant had the better of the argument." Under the circumstances, the Court held enhancement by one-third to be appropriate and fixed damages at \$6.0 million.

Plaintiff also sought attorneys' fees arguing this was an "exceptional case." Based on the findings of willful infringement and litigation misconduct and the fact that plaintiff's claim for fees were both modest and undisputed, the district court granted the request.

## **Two-Way Test For Interference-In-Fact Applied Rendering Patent Invalid**

**Medichem, S.A. v. Rolabo, S.L.,**

2004 U.S. Dist. LEXIS 23697

(S.D.N.Y. November 19, 2004)

(Judge Jed S. Rakoff)

Medichem sued Rolabo alleging that Rolabo's patent interfered with Medichem's patent and was therefore invalid. After a bench trial, the court ruled in favor of Rolabo. On appeal, however, the Federal Circuit disagreed with the district court's analysis and remanded the case for further proceedings.

On remand, the district court applied a "two-way test" to determine whether an "interference-in-fact" existed between the two patents. Under that test:

The claimed invention of Party A is presumed to be prior art vis-a-vis Party B and vice versa. The claimed invention of Party A must anticipate or render obvious the claimed invention of Party B and the claimed invention of Party B must anticipate or render obvious the claimed invention of Party A.

The Federal Circuit had held on appeal that, when Medichem's patent was presumed to be prior art to Rolabo's patent, Medichem's patent anticipated Rolabo's patent. The district court adopted that ruling as satisfying the first part of the two-way test. Turning to the second part of the two-way test, the district court presumed that Rolabo's patent was prior art to Medichem's patent and found that Rolabo's patent anticipated and rendered obvious Medichem's patent. The district court relied on the testimony of an expert and the inventor and a technical article that were in evidence at trial.

Having determined that there was an interference-in-fact, the district court turned to the issue of priority. The district court confirmed and reinstated its prior ruling that awarded priority of invention to Medichem. The district court rejected Rolabo's arguments concerning the pervasiveness of the evidence of Medichem's reduction to practice.

<sup>1</sup> Mark J. Abate is a Partner and Ping Gu is an Associate at Morgan & Finnegan, L.L.P. The authors can be reached at mjabate@morganfinnegan.com and pinggu@morganfinnegan.com. ■



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**Friday, March 18, 2005**

Noon: CLE Program

“Doctrine of Equivalents After Festo” and  
“Federal Circuit Rules to Remember”

Waldorf Astoria

6:30 PM Reception for Honored Guests

8:00 PM Dinner in Honor of the Federal Judiciary

**Friday, April 15, 2005**

CLE Program

Harvard Club

Honorable Richard Linn

“Effective Appellate Advocacy Before  
the Federal Circuit”

**Thursday, April 21, 2005**

JPP Seminar

Topics to be announced

**Wednesday, May 25, 2005**

NYIPLA Annual Dinner, Details to follow

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