

NYIPLA

July/August 2006

Bulletin

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WILL THE *eBAY* DECISION REQUIRE REINTERPRETATION OF THE SUPREME COURT INJUNCTION PRECEDENTS AND CAN WE EXPECT THE OTHER SHOE TO DROP IN *LABCORP**

David F. Ryan¹

I. Summary

The Supreme Court's unanimous ruling in *eBay Inc. v. MercExchange, L.L.C.*, ___ U.S. ___, No. 05-130, Slip Opinion (May 15, 2006) ("*eBay*"),² represents an important holding for patent practitioners which announces that, under "well-established principles of equity", the familiar four-part test for issuance of a permanent injunction must be applied in patent cases under 35 U.S.C. § 283:

A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

Op. at 2.³

As a result of *eBay*, two shortcuts in the application of the four-part test which numerous panels of the Court of Appeals for the Federal Circuit have been endorsing for some twenty years may no longer be employed by federal judges.⁴ Nevertheless, it seems unlikely that practitioners will experience any significant reduction in the availability of permanent injunctive re-

lief to the patent holder who obtains a judgment of infringement – so long as courts expressly acknowledge having given consideration to each element of the controlling test.

In a concurring opinion in which Justices Scalia and Ginsburg join, Chief Justice Roberts notes that beginning in "at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases." Roberts Op. at 1.⁵

The Chief Justice therefore cautions the lower courts to recognize that they are not "writing on an entirely clean slate", that "[d]iscretion is not whim", that "like cases should be decided alike" and that "a page of history is worth a volume of logic". *Id.*⁶

Four members of the Court, without any discussion whatsoever of the historical precedents, assert that some "cases now arising" are "quite unlike earlier cases" in terms of both "the nature of the patent being enforced" and the "economic function of the patent holder." Kennedy Op. at 2. Justice Kennedy therefore suggests that the historical precedents cannot be applied by the lower federal courts to control these allegedly new situations.

*This article was submitted for publication on May 30, 2006, prior to the Supreme Court's dismissal of the writ of certiorari in *Laboratory Corp v. Metabolite Labs* on June 22, 2006. cont. on page 3

July 30, 2006

PRESIDENT'S CORNER

Dear Members,

Welcome to our 2006-2007 Association year! During the Association's Annual Meeting held on May 24, 2006 at the Princeton Columbia Club in New York City, I promised to improve and strengthen the benefits and services provided to our members and requested your continued involvement and commitment to our Association's activities. I am pleased to state that we have started off our Association year well on both fronts.

You may have noticed several new or redefined committees on the Association's committee preference form for 2006-2007. To date, the Association has received a record number of committee preference forms from its members interested in committee involvement. If you have not yet completed your committee preference form, I encourage you to do so and have provided below the list of committees for 2006-2007 and a link to the committee preference form on the Association's web site.¹

With regard to the Association's educational programming for 2006-2007, the Association held its first CLE luncheon for the year on June 16, 2006 at the Princeton Columbia Club. Q. Todd Dickinson, Vice President and Chief Intellectual Property Counsel of General Electric Company and former Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office was our featured speaker and provided valuable insight and detail on pending legislative changes to our patent laws. On July 26, 2006, the Association offered its first online programming ("webinar") in conjunction with the U.S. Patent and Trademark Office with the Office presenting its new EFS ("Electronic Filing System") online patent application submission solution.

Also on July 26, 2006, the Association filed a brief *amicus curiae* in the U.S. Supreme Court in support of the respondent in the *MedImmune, Inc. v. Genentech, Inc.*, case. The *MedImmune* case raises the issue of whether Article III's grant of jurisdiction of all "Cases ... arising under ... the Laws of the United States," implemented in the "actual controversy" requirement of the Declaratory Judgment Act requires a patent licensee to refuse to pay royalties and commit material breach of a license agreement before suing to declare the patent invalid, unenforceable or not infringed. The Association is also considering filing a brief *amicus curiae* in the *KSR Int'l Co. v. Teleflex, Inc.*,



President Marylee Jenkins

a case which raises the issue of whether a finding of a "teaching, suggestion or motivation" in the prior art, that would have lead a person of ordinary skill to combine the prior art references in the manner claimed, is a requisite to a finding of obviousness. The Association's filed amicus briefs are located at www.nyipla.org/public/11amicusbriefs/Amicus_index.html.

As the Association year continues to get underway, I ask for you to think about how we can improve our Association as well as give back to our profession and the intellectual property

community. If you have suggestions, comments, ideas or concerns, I encourage you to contact me at Jenkins.marylee@arentfox.com. My mailbox is always open!

Thank you for your membership and continued support of this Association.

Best regards,
 Marylee Jenkins
 President

¹ The 2006-2007 Committees are as follows:

- Alternative Dispute Resolution
- Antitrust, Inequitable Conduct and Misuse
- Continuing Legal Education
- Copyrights
- Design Protection
- International IP Law
- Internet Law
- Legislative Oversight and Amicus Briefs
- License to Practice Requirements
- Litigation Practice and Procedure
- Meetings and Forums
- Membership
- Patent Law and Practice
- Professional Ethics and Grievances
- Public and Judicial Personnel and Int'l Relations
- Public Information, Education and Awards
- Publications
- Trade Secret Law and Practice
- Trademark Law and Practice
- Young Lawyers Committee

To join one or more of these committees, please complete online the committee preference form, located at http://www.nyipla.org/member/Committee_choice.cfm.

The Kennedy opinion represents a direct response to petitioners' implication that the Supreme Court should abandon the long-settled rule of *Paper Bag*⁷ and *Special Equipment*⁸ in any case involving business methods patents. Some supporting *amici* explicitly endorsed that same suggestion, and others proffered a disparate and sometimes inconsistent catalogue of complaints, all of which likewise allegedly supported rejection of the *Paper Bag* rule whenever established by the evidence.

In addition to the class of business methods patents (and a subcategory of such patents that allegedly could impede First Amendment free speech by shutting down “blogs”), such complaints were said to arise from both overly broad claims of “dubious technical merit” on the one hand and narrow improvement claims on the other (neither of which, it was said, should be deemed sufficient to support an injunction); infringement determinations predicated upon the presence of “trifling”, “de minimis” or “trace” amounts of a claimed chemical (or crystalline form of that chemical); the alleged widespread prevalence of “inadvertent infringement”; “patent thickets” which make it difficult and expensive to secure freedom to operate opinions from counsel; “submarine” patents which result from “gaming” the continuation practice specified by the regulations of the Patent and Trademark Office (“PTO”); “gaming” of standards issued by standard setting organizations (“SSOs”); “holdups” and “highjackings” which can lead to “windfalls” and “disproportionate settlements”; and the alleged insufficiency of the new eighteen-month publication rule.⁹

Given the sharp divergence between the two concurring opinions in terms of the respective conclusions they draw from the historical precedents, it is quite remarkable that neither opinion makes reference to any of those cases. Indeed, the sole reference to a Supreme Court patent decision that appears in any of the three opinions is the citation of the 1908 *Paper Bag* case by Justice Thomas (Op. at 5).¹⁰ Even more remarkably, no mention is made in any of the three opinions of the portion of the Constitution upon which those historical precedents are based.¹¹

A number of commentators believe that the principles set forth in Justice Kennedy's concurring opinion now will be adopted by the lower federal courts and by the Supreme Court in future cases. Some already have made predictions as to how various industries and types of patent owners will fare under such a rule. This article concludes, however, that when the historical precedents are correctly applied by the lower federal courts, per-

manent injunctions will continue to issue in the “vast majority of cases”.

Finally, it is probably worth asking whether any inferences can be drawn from the *eBay* decision which might indicate how the Court may rule in the *Metabolite* case.¹²

II. The Decisions Below

After a trial at which they failed to establish any cognizable equitable or legal defenses,¹³ petitioners in *eBay* were adjudicated willful infringers of a valid “business method” patent relating to fixed-price purchase technology. The district court refused to enter a permanent injunction, however, predicating its finding that respondent had suffered no irreparable harm upon its conclusion that respondent “does not practice its inventions and exists merely to license its patented technology to others”.¹⁴ That conclusion appeared flatly inconsistent with the controlling *Paper Bag* and *Special Equipment* decisions of the Supreme Court – which the district court failed even to discuss.¹⁵

The Court of Appeals for the Federal Circuit reversed on the ground that the district court's refusal to enter the permanent injunction represented an abuse of discretion, applying its “general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances”. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

III. The Three Supreme Court Opinions

(a) The Unanimous Opinion of the Court

The Opinion of the Court authored by Justice Thomas concludes that “a major departure from the long tradition of equity practice should not be lightly implied” and suggests that patent injunctions are no different from injunctions under other federal statutes (Op. at 3). In reaching this result, however, Justice Thomas relies exclusively upon two cases which have nothing whatsoever to do with patent injunctions.

Weinberger v. Romero-Barcelo, 456 U.S. 305 (1982) (“*Romero-Barcelo*”) involved injunctive relief under the Federal Water Pollution Control Act (“FWPCA”); and *Amoco Prod. Co. v. Vill. of Gambell, Alaska*, 480 U.S. 531 (1987) (“*Amoco*”), involved injunctions to prevent violations of the Alaska National Interests Lands Conservation Act (“ANILCA”). Manifestly, those statutes were not mandated by the Constitution and decisions construing them have nothing whatsoever to do with the injunctive relief necessary to preserve the “exclusive right” of the patentee under the Patent Clause to

which the Supreme Court has held “the public faith is forever pledged”.

Justice Thomas goes on to find that, despite several references to exclusivity in the Patent Act, “the creation of a right is distinct from the provision of remedies for violation of that right”. *Id.* Within the context of Constitutionally mandated exclusivity, however, it would seem that the “right” to exclusivity would be meaningless in the absence of the injunctive remedy.

Although he finds that the district court’s decision was “in tension with” *Paper Bag*, Justice Thomas finds it necessary to remand:

Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the grant of injunctive relief, we vacate the judgment of the Court of Appeals, so that the District Court may apply that framework in the first instance. In doing so we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any other disputes arising under the Patent Act.

Op. at 5.

[\(b\) The Concurring Opinion of Chief Justice Roberts](#)

The concurring opinion of Chief Justice Roberts joins in the Opinion of the Court and agrees that any *general rule* that permanent injunctions should issue would be improper. Roberts Op. at 1 (emphasis in original). Chief Justice Roberts finds that the grant of injunctive relief “upon a finding of infringement in the vast majority of patent cases” is:

not surprising, given the difficulty of protecting a right to exclude through monetary remedies that allow an infringer to use an invention against the patentee’s wishes – a difficulty that often implicates the first two factors of the traditional four-factor test.

Id. at 1.

[\(c\) The Concurring Opinion Of Justice Kennedy](#)

Justice Kennedy joins in the opinion of the Court because “in deciding whether to grant injunctive relief in patent cases”, the “courts should apply the well-established, four-factor test – without resort to categorical rules”. Justice Kennedy purports to agree with Chief Justice Roberts that “history may be instructive in applying this test”. However, Justice Kennedy departs from the Chief Justice in concluding that monetary remedies can be sufficient to compensate the patent holder and that this result is somehow consistent with the exclusive rights granted under the Patent Act:

Both the terms of the Patent Act and the traditional view of injunctive relief accept that the existence of a right to exclude does not dictate the remedy for a violation of that right.

(Kennedy Op. at 1). Justice Kennedy therefore concludes that:

To the extent *earlier* cases establish a pattern of granting an injunction against patent infringers almost as a matter of course, this pattern simply illustrates the result of the four-factor test in the contexts *then* prevalent.

Id. at 1 (emphasis supplied).

As to the nature of the patent being enforced, Justice Kennedy cites:

The burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.

Id. at 2. As to the economic status of the patent holder, Justice Kennedy notes that:

An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction and the potentially serious sanctions arising from its violation can be employed as a bargaining tool to charge *exorbitant fees* to companies that seek to buy licenses to practice the patent.

Id. at 2 (emphasis supplied) (citations omitted).¹⁶

IV. The Supreme Court’s Precedents and Congressional Inaction

Under the Patent Clause, the framers of the Constitution left to Congress the determination of how best to guarantee the “exclusive right” of the patentee “for limited times” in order to “promote the progress of science and the useful arts”. Since at least 1819 (when the first statute authorizing permanent injunctive relief to patentees in the federal courts was enacted), the Supreme Court consistently has recognized that the right to a permanent injunction represents the central element – and usually the *only* element – of the exclusive right that a patentee receives in return for her contribution to “the progress of science and the useful arts”.

Accordingly, the availability of injunctive relief when equitable defenses are asserted always must be determined against the background of the origin of the patent right in the Constitution. The Supreme Court’s prior rulings in *Paper Bag* and *Special Equipment* represent a relatively narrow but important facet of a far broader dialogue regarding the availability of injunctive relief generally in patent cases.

Where Congress is dissatisfied with the Supreme Court’s interpretation of an equitable defense, it can and will initiate the appropriate legislative response. In fact, Congress has twice acted to amend the Patent Act to cure what it believed were overbroad applications of the misuse doctrine by the Supreme Court.

[\(a\) Precedents Defining the Exclusive Patent Right](#)

In 1813, six years before enactment of the first federal patent injunction statute, Chief Justice Marshall found that the “inchoate property right” of a patent “is exclusive”. *Evans v. Jordan*, 8 F. Cas. 872, 873 (C.C.D. Va. 1813), *aff’d*, 13 U.S. 199 (1815).

In 1814 Justice Story addressed the question of “blocking” patents and noted that the “original inventor of a machine is exclusively entitled to a patent for it. If another person invent an improvement on such machine, he can entitle himself to a patent for such improvement only, and does not thereby acquire a right to patent and use the original machine”. *Odiorne v. Winkley*, 18 F. Cas. 581, 582 (C.C.D. Mass. 1814).

In 1817 Justice Story articulated an early formulation of the patentee’s bargain with the public, noting that the “exclusive patent-right” is conferred “as an encouragement and reward for his ingenuity”. *Lowell v. Lewis*, 15 F. Cas. 1018, 1020 (C.C.D. Mass. 1817).

In 1819 Congress enacted the first injunction statute under the federal patent law. In the preceding years, beginning with the federal patent act of 1790, injunctive relief had been available to a patentee in the state courts and often in the federal courts as well.¹⁷

In 1824 Justice Story again discussed the “exclusive right” of the patentee in *Ex parte Wood*, 22 U.S. 603, 608 (1824).

In 1832 Chief Justice Marshall announced that to the “exclusive enjoyment of” the patentee’s right to exclude during the period fixed by Congress, “the public faith is forever pledged”. *Grant v. Raymond*, 31 U.S. 218, 242 (1832).

In 1852 Chief Justice Taney announced in *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1852), that the “franchise which the patent grants, consists altogether in the right to exclude everyone from making, using or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent.”

In 1897 the Supreme Court, in a passage later quoted in *Paper Bag* (210 U.S. 405, 424), rejected the notion that an inventor of a patented improvement “occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible.” *Bell Telephone*, 167 U.S. at 250.

In 1908 *Paper Bag* was decided by the Supreme Court. In this landmark case, the Court held that a patent holder’s non-use of the claimed invention would not bar issuance of a permanent injunction (as reaffirmed

by the Court in *Special Equipment in 1945*).

In 1922 the Supreme Court reiterated that “the franchise secured by the patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee”. *United Shoe Mach Co. v. United States*, 258 U.S. 451, 463 (1922).

In 1923 the *Paper Bag* rule was again endorsed in *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) (“*Crown Die & Tool*”).

In 1945 the Supreme Court again explained that the owner of a patent “is not in the position of a quasi-trustee for the public” and “has no obligation either to use it or to grant its use to others”. So long as “he discloses the invention in his application so that it will come into the public domain at the end of the” fixed “period of exclusive right he has fulfilled the only obligation imposed by the statute.” *Hartford-Empire Co. v. United States*, 323 U.S. 386, 432-33 (1945).

In 1945 Chief Justice Stone reiterated the conclusion reached 37 years earlier in *Paper Bag* that “failure of the patentee to make use of the patented invention does not affect the validity of the patent”. *Special Equipment*, 324 U.S. at 378-79.

In 1952 Congress codified the patent law in a comprehensive enactment that included Section 283 in its present form.

In 1969 in an opinion by Justice White the Supreme Court confirmed that the “heart of” the patentee’s “legal monopoly is the right to invoke the State’s power to prevent others from utilizing his discovery without his consent”. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969) (“*Zenith v. Hazeltine*”).

In 1974 Chief Justice Burger characterized the patentee’s bargain with the public as involving “adequate and full disclosure so that upon expiration” of the period of exclusivity “the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use”. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974) (“*Kewanee Oil*”) (citation omitted).

In 1989 the Court articulated still another formulation of the patentee’s bargain with the public, noting that the patent system “embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances” so that “upon expiration” of the period of exclusivity “the knowledge inures to the people, who are thus enabled without restriction to practice it and profit from its use”. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989) (citation omitted) (“*Bonito Boats*”).

cont. on page 6

In 1998 Justice Stevens set forth yet another formulation of the patentee's rights and obligations drawn largely from *Bonito Boats. Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998) (“*Pfaff*”).

(b) [Precedents Relating To Misuse](#)

In 1942 the Supreme Court ruled that patent tying represented an equitable defense to an infringement suit under the misuse doctrine. *Morton Salt Co. V. G.S. Suppiger Co.*, 314 U.S. 488 (1942).

In 1944 the Supreme Court ruled that a patentee who initiated a suit for contributory infringement was guilty of a *per se* misuse. *Mercoïd Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) (“*Mercoïd I*”).

In 1952 Congress codified the patent law in a comprehensive enactment that included both the present form of Section 283 and Sections 271 (c) and (d) (1) through (3) which were designed to overrule *Mercoïd I*.

In 1962 the Court ruled that a presumption of market power for antitrust tying purposes could be presumed from the existence of a patent or copyright. *United States v. Loew's, Inc.*, 371 U.S. 38 (1962) (“*Loew's*”).

In 1980 the Supreme Court (a) recognized that Congress had legislatively overruled *Mercoïd I* in the 1952 enactment of Sections 271(c) and 271(d)(1) through (3) of the patent statute, and (b) again stated that the “essence of a patent grant is the right to exclude others from profiting by the patented invention”. *Dawson Chemical*, 448 U.S. at 176.

In 1988 Congress enacted Sections 271(d)(5) of the patent statute to legislatively overrule the presumption of *Loew's*.

In 2006 the Supreme Court recognized that the enactment of Section 271(d)(5) by Congress had legislatively overruled *Loew's*. *Illinois Tool Works Inc v. Independent Ink, Inc.*, 547 U.S. ___, Slip Op. (Mar. 1, 2006) (“*Independent Ink*”).

(c) [Stare Decisis and Congressional Inaction](#)

The Supreme Court's interpretations of the injunction statute in *Paper Bag* and *Special Equipment* unquestionably qualify as “statutory interpretation” under the rubric of *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989) (only “special justification” will permit departure from the doctrine of *stare decisis* and the doctrine applies with “special force in the area of statutory interpretation”, because “the legislative power is implicated and Congress remains free to alter what we have done”) (Citations omitted) (emphasis supplied).

An additional ground for refusing to depart from the

stare decisis principle in the case of *Paper Bag* and *Special Equipment* can be found in *Payne v. Tennessee*, 501 U.S. 808, 828 (1991), where the Court announced that the factors favoring *stare decisis* “are at their acme in cases involving property and contract rights, where reliance interests are involved”.

The patentee's right to exclude under Section 283 was both codified by Congress and involves property and contract rights. See *Hartford-Empire*, 323 U.S. at 415 (“That a patent is property, protected against appropriation both by individuals and by government, has long been settled.”); *Crown Die & Tool*, 261 U.S. at 40 (“Patent property is the creature of statute law”).

The Supreme Court has held that Congressional inaction and the passage of time also will enhance the applicability of the *stare decisis* doctrine. In *Shepard v. United States*, 544 U.S. 13, 20-21 (2005), the Court said:

In this instance, time has enhanced even the usual precedential force, nearly 15 years having passed since *Taylor* came down, without any action by Congress to modify the statute as subject to our understanding.

A fortiori, since Congress re-enacted virtually the same injunction statute in 1952, 44 years after *Paper Bag* and seven years after *Special Equipment*, the *stare decisis* principle necessarily requires adherence to those decisions.

The repeated rejection by Congress of the various forfeiture and compulsory licensing proposals discussed in *Paper Bag*, *Hartford-Empire* and *Dawson Chemical* only adds weight to the conclusion that alteration of the rule should be left to Congress. Indeed, yet another proposal to make non-use a bar to injunctive relief was dropped from H.R. 2795 just last year.¹⁸

Congress took no remedial action when the Supreme Court refused to create a novel equitable defense in *Paper Bag*; it took no action when that ruling was followed in *Special Equipment*; and it has repeatedly and steadfastly refused to enact any legislation tantamount to creation of that same putative equitable defense of non-use.

When the Supreme Court did create a novel equitable defense in *Mercoïd I*, however, Congress vitiated that ruling by enacting Sections 271(c) and (d)(1) through (3) as part of the 1952 patent act codification. When the Supreme Court created an evidentiary presumption having the effect of making an equitable defense to a patent injunction more widely available in *Loew's*, Congress obviated that result by enacting Section 271(d)(5) in 1988 – as the Supreme Court rec-

ognized earlier this term in *Independent Ink*.

Congress has repeatedly demonstrated that it is capable of dealing with decisions of the Supreme Court with which it disagrees. Its failure to deal with the rule of *Paper Bag* and *Special Equipment* for 98 years speaks volumes.

V. Conclusions

(a) Expectations of Minimal Change

Based upon the foregoing analysis of the “historical practice” which both concurring opinions in *eBay* purport to invoke, there does not seem to be any basis for believing that the federal district courts will not continue to issue permanent injunctions “in the vast majority of patent cases”.

(b) A Final Word on Reading the Tea Leaves in *Metabolite*

If a majority of the Supreme Court does not subscribe to Justice Kennedy’s views, and if there is nothing in the *eBay* ruling that will alter the way in which the district courts interpret the controlling Supreme Court precedents, then why did the Court feel it necessary to remand on such a seemingly hyper-technical ground? The answer may well lie in some combination of (a) the Chief Justice’s desire to promote consensus; and (b) the pendency of the *Metabolite* case from which the Chief Justice has recused himself.

On May 22, 2006, the *New York Times* reported the remarks of the Chief Justice at the Georgetown Law School graduation ceremonies on the preceding day. The *Times* article stated that Chief Justice Roberts was seeking “greater consensus” on the Supreme Court and had indicated that more consensus would be likely if controversial issues could be decided on the “narrowest possible grounds”. More specifically, the *Times* reported remarks of the Chief Justice to the effect that “the nation would benefit if the justices could avoid 5-to-4 decisions in cases with sweeping impact”.

While some might question the potential sweeping impact of a 5-4 decision affirming the Federal Circuit in *eBay*, a 9-0 decision remanding for further evaluation was certainly preferable from the standpoint of building a consensus. Moreover, the conference deliberations in *eBay* may well have taken the potential outcome of *Metabolite* into account as well.

Some of the concerns expressed by Justice Kennedy in the *eBay* concurrence also surfaced during the oral argument in *Metabolite*. In *Metabolite*, however, the Solicitor General had taken the position that the issue

of patentable subject matter under 35 U.S.C. § 101 is not properly before the Court for decision, and Justice Kennedy apparently is of the same view (Tr. 16).

By temporizing on the injunction question in *eBay*, the Court not only avoided a 5-4 decision, but opened a window in time during which to resolve the central issue in *Metabolite* that so clearly bothers the four-justice faction led by Justice Kennedy. The questions of whether and under what circumstances business methods or laws of nature are properly patentable should be determined under Sections 101 and 112, not under Section 283. With the pressure now off in *eBay*, a remand in *Metabolite* would seem the most likely outcome.

¹ David F. Ryan is counsel to Fitzpatrick, Cella, Harper & Scinto, currently chairs the Association’s Antitrust, Inequitable Conduct and Misuse Committee and also serves on the Legislative Oversight and Amicus Brief Committee. The substance of this article was generated during preparation of a draft brief *amicus curiae* in support of respondent MercExchange in the *eBay* case which the Association’s Board had authorized on February 15, 2006. Committee members Steven



M. Hoffberg, Robert J. Rando and Dennis D. Gregory contributed to the preparation of the draft brief, which the Board failed to approve by the March 10, 2006 filing deadline. The substance of this article reflects solely the thoughts and conclusions of the author and should not be ascribed to any other person, firm, committee or organization.

² For convenience, hereinafter the unanimous Opinion of the Court authored by Justice Thomas is referred to as “Op.”, the concurring opinion authored by Chief Justice Roberts is referred to as “Roberts Op.”, and the concurring opinion authored by Justice Kennedy is referred to as “Kennedy Op.”.

³ Section 283 provides that

The several courts having jurisdiction under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable (emphasis supplied).

The “principles of equity” referred to in Section 283 are far broader than those encompassed by the four-part test for a permanent injunction and include, by way of example, inequitable prosecution conduct, patent misuse, laches and equitable estoppel. The permissive “may”, moreover, arguably was necessary because the statute also authorizes preliminary injunctions which are subject to a more stringent test.

⁴ As noted by Chief Justice Roberts, “the difficulty of protecting a right to exclude through monetary” damages “often implicates the first two factors of the traditional four-factor test”. Roberts Op. at 1. The Federal Circuit first articulated this principle in *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983), where the court pointed out that:

cont. from page 7

where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to the public policy underlying the patent laws.

⁵ The fact that Chief Justice Roberts joined in the Opinion of the Court was a surprise to some based upon the following colloquy at the oral argument on March 29, 2006:

CHIEF JUSTICE ROBERTS: you don't think Judge Bryson forgot about the four-factor test do you?

MR. MINEAR: Absolutely not.

CHIEF JUSTICE ROBERTS: Sure. And – and he was just reflecting the reality that in a typical case, this is what happens. It seems to me all you want us to do is edit his opinion and stick in this formulaic paragraph about there are four factors and here they are.

⁶ Citations omitted.

⁷ *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908) (“*Paper Bag*”)

⁸ *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945) (“*Special Equipment*”)

⁹ It is of at least some historical interest that many of these complaints echo remarkably similar complaints voiced by the telephone and automobile industries more than a century ago. However, American Bell was able to purchase the crucial improvement patents that had threatened its business shortly after the Supreme Court's decision in *United States v. American Bell Tel. Co.*, 167 U.S. 224 (1897) (“*Bell Telephone*”), and by the third anniversary of the *Paper Bag* decision, Henry Ford had succeeded in overcoming the infamous Selden “submarine” patent without the need for any change in the injunction statute or any other provision of the patent law. See H.C. Wegner, “Injunctive Relief: A *Charming Betsy* Boomerang” at 4 and 33-36, 1st Annual Northwestern Journal of Technology and Intellectual Property Symposium: IP Litigation in the 21st Century, Chicago (February 24, 2006) (available at www.foley.com) (“Wegner Paper”).

¹⁰ For a further discussion of the Paper Bag decision, see *infra*, Section IV.

¹¹ U.S. CONST., Art. I, § 8, cl. 8 (“the Patent Clause”).

¹² *Laboratory Corp. v. Metabolite Labs.*, No. 04-607 (argued March 21, 2006) (“*Metabolite*”). The *Metabolite* case was still *sub judice* as of May 30, 2006, the date of submission of this article.

¹³ At various points, petitioners' brief on the merits (“Pet. Br.”) suggests (a) that the business method claims of respondent were “vaguely defined” (Pet. Br. at 2) or merely “vague” (Pet. Br. at 38); (b) that the district court found “compelling evidence” of non-infringement (Pet. Br. at 6); (c) that business method claims are associated with a “heightened possibility of invalidity” (Pet. Br. at 11); (d) that the timing of the filing of respondent's amended claims might somehow give rise to a defense of equitable estoppel or prosecution history estoppel (Pet. Br. at 4-5); and (e) that respondent's conduct at a June 2000 meeting also might give rise to a defense of equitable estoppel (Pet. Br. at 5-6). Those alleged defenses, however, were merged into the district court's judgment and were not before the Supreme Court.

¹⁴ *MercExchange, L.L.C. v. Ebay, Inc.*, 275 F.Supp.2d 695, 712 (E.D. Va. 2003).

¹⁵ In finding that “money damages are an adequate remedy to compensate” respondent “for any continuing infringement” (*id.* at 713), the district court cited *Foster v. American Foundry & Mach. Co.*, 492 F.2d 1317, 1324 (2d Cir. 1975) (“*Foster*”) – another decision that had failed to discuss either *Paper Bag* or *Special Equipment*.

¹⁶ Indeed, to buttress this putative economic argument, Justice Kennedy alludes to a hypothetical having nothing whatsoever to do with the facts before the Court:

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest

Id. at 2 (emphasis supplied).

¹⁷ The acts of Congress, prior to 1819, made no provision for any suit in equity by the owner of a patent, nor for his enjoyment of any form of equitable relief. Nevertheless, the Federal courts, following the decisions of the lords chancellors, held that equity had jurisdiction over patents for inventions, and could exercise its ordinary power in behalf of the patentee, whenever these were needed to give complete effect to the statute under which the patent had been granted. 3 William C. Robinson, *The Law of Patents and Useful Inventions* § 1082.

¹⁸ At the oral argument, Justice Ginsburg expressed concern that any refusal to enter the permanent injunction would be tantamount to the “compulsory licensing” which “Congress didn't provide” (Tr. at 17).

The NYIPLA Bulletin

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NYIPLA Proposed Comments and Recommendations to the USPTO On The USPTO's Proposed Rules Changes Regarding Continuations, Examination of Claims and Applications Containing Patentably Indistinct Claims

*Submitted on May 3, 2006 to the U.S. Patent and Trademark Office from the NYIPLA,
President Edward E. Vassallo and The Board of Directors*

The U.S. Patent and Trademark Office (“Office”) published two proposed rules packages¹ on January 3, 2006 that, if adopted, will dramatically affect how patent applications are prosecuted in the United States. On May 3, 2006, the New York Intellectual Property Law Association (NYIPLA), President Edward E. Vassallo, and The Board of Directors proposed comments for the Office to consider in evaluating whether these proposed rules should be adopted and recommended alternatives for the Office to consider to improve the patent examination process, as follows:

INTRODUCTION:

The New York Intellectual Property Law Association (the “NYIPLA”) is a professional association of more than 1,300 attorneys whose interests and practices lie in the area of patent, copyright, trademark, trade secret and other intellectual property law. The Association’s members include in-house attorneys working for businesses owning patents or having to deal with the patents of third-parties, as well as attorneys in private practice who represent both patent owners and accused infringers. NYIPLA members represent both plaintiffs and defendants and also regularly participate in proceedings before the Office.

The Board appreciates that the Office is trying to manage the record number of patent applications being filed each year in the Office² and the reported backlog, and supports the Office’s review of its current practices and procedures to determine ways that the Office can continue to make the patent examination process more effective and efficient. The Board notes, however, that the challenges faced by the Office relate to *procedural* issues that should be addressed by administrative remedies. However, the Office’s proposed rule changes have drastic consequences that will adversely affect an Applicant’s *substantive* patent rights as described below. The continuation practice, for example, is embedded in the U.S. patent system and *procedural* steps to limit the number of continuations that an Applicant is permitted to file without sufficient

explanation would have a dramatic negative effect on an Applicant’s *substantive* patent rights.

A. Changes to Continuation Practice:

The proposed rule would require that second or subsequent continued examination filings, whether a continuation application, a continuation-in-part application, or a request for continued examination, be supported by a “showing” as to why the amendment, argument, or evidence presented could not have been previously submitted.

If the “showing” requirement is not satisfied when a continuation application is filed under 37 C.F.R. § 1.53(b), the Office will refuse to enter, or will delete if present, any specific reference to a prior-filed application.

Comment A1:

The Office lacks the statutory authority under 35 U.S.C. § 120 to limit the number of copending continuation applications originating from an original application.

Section 120 provides, in part, that:

“[a]n application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States, or as provided by section 363 of this title, which is filed by an inventor ... named in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application”

There are no provisions in Section 120 as shown above that grant the Office the statutory authority to limit the number of continuations that can be filed. The comments provided by the Office in the notice of proposed rule making state that the Office is not setting a *per se* limit on the number of continuing applications. Rather, the notice goes on to state that the Office just wants the Applicant to show that the third and following

cont. on page 10

applications in the chain of applications are necessary to advance prosecution.³ However, contrary to the Office's assertions in the notice of proposed rule making, the effect of this proposed rule is to impermissibly limit the number of copending continuation applications originating from an original application. The Office's ability to refuse to enter, or to delete if present, a priority claim to an earlier-filed application that an Applicant previously filed a correct claim to priority to means that an earlier-filed application in a chain of continuations can be used against a later-filed application as a 35 U.S.C. § 102(b)⁴ absolute bar.

For example, assume that an Applicant files his first application on November 10, 2000, and the application issues as the '123 patent on December 12, 2003. Before the '123 patent issues, the Applicant files a continuation application on December 11, 2003, and continues to file copending continuation applications thereafter until a third continuation application is filed on September 15, 2006. Assuming the proposed rule has been adopted, and the third continuation application has been denied due to Applicant's failure to satisfy the "showing" requirement, the Office could deny the Applicant's claim to priority in the third continuation application to the '123 patent, and the '123 patent could be used by the Office as a Section 102(b) bar to the third continuation application.⁵

Comment A2:

The proposed rule runs afoul of the court's holding in *In re Henriksen*⁶

The court held in *In re Henriksen* that under 35 U.S.C. § 120 there is *no* statutory basis for fixing an arbitrary limit to the number of prior applications through which a chain of copendency may be traced to obtain the benefit of the filing date of the earliest of a chain of copending applications, provided Applicant meets all the other conditions of Section 120. The Office stated in the notice of proposed rule making that "[t]he Office is aware of case law (e.g., *In re Henriksen*) which suggests that the Office has no authority to place an absolute limit on the number of copending continuing applications originating from an original application."⁷ Again, the Office asserts that it is not limiting the number of continuation applications that can be filed, i.e., it is just requesting that an adequate "showing" be made. However, as described above, if an adequate "showing" is not made then the effect will be to limit an Applicant's right to have a copending continuation application.

Comment A3:

The Office should obtain authority from Congress under 35 U.S.C. § 120 to limit the number of copending continuation applications originating from an original application.

The Patent Reform Act of 2005 (H.R. 2795⁸, "the Proposed Act") sought to dramatically amend the patent laws in the United States. The Proposed Act was introduced June 8, 2005 in the House of Representatives by Congressman Smith and included a provision⁹ to amend 35 U.S.C. § 120 to give the Office the authority to limit the number of continuation applications that an Applicant could file.

An Amendment in the Nature of a Substitute to H.R. 2795 was offered by Representative Smith on July 26, 2005 ("Amendment"). Unlike the Proposed Act, the Amendment did not include a provision to give the Office the authority to limit the number of continuation applications that an Applicant could file.

Moreover, recently, on April 5, 2006, Representatives Berman and Boucher introduced a bill "the Patents Depend on Quality Act of 2006," ("the Proposed PDQ Act") that sought to amend 35 United States Code. The Proposed PDQ Act, like the Amendment discussed above, did not include a provision to limit the number of continuation applications that an Applicant could file.

Congress' decision to include a continuation-limiting provision in the Proposed Act, but not in the subsequent Amendment or the Proposed PDQ Act is an indication that Congress is still trying to determine whether such a law would be beneficial to our patent system. If the Office believes that such a law would be beneficial, then the Office should ask Congress to pass a law that gives the Office the clear statutory mandate to limit the number of continuations that an Applicant could file.

Comment A4:

The Office's decision to adopt this rule without a clear mandate from Congress could wreak havoc on the patent system if the courts subsequently hold that the Office did not have statutory authority under 35 U.S.C. § 120 to limit the number of continuation applications that an Applicant could file.

What happens one or two years after the adoption of this rule if the Court of Appeals for the Federal Circuit or the U.S. Supreme Court holds that the Office did not have the statutory authority under Section 120 to limit the number of continuations that an Ap-

plicant could file? Is the Office going to implement procedures to allow Applicants that were previously denied a continuation based on their inability to satisfy the “showing” requirement to revive their patent applications? Is the Office prepared to deal with this and other related situations?

Comment A5:

If the Office adopts this proposed rule, the Office should change the standard to satisfy the “showing” requirement from “why the amendment, argument, or evidence presented could not have been previously submitted” to --reasonable under the circumstances--.

As mentioned above, the Board does not believe the Office has the statutory authority under 35 U.S.C. § 120 to impermissibly limit the number of continuation applications that an Applicant could file. In addition, the *In re Henriksen* decision supports the Board’s position that there is *no* statutory basis for fixing an arbitrary limit on the number of continuations that an Applicant could file.

However, to the extent the Office decides to adopt this rule, the Board notes that in its present form, the standard of “why the amendment, argument, or evidence presented could not have been previously submitted” to satisfy the “showing” requirement is too stringent. An Examiner could always make the argument that the evidence could have been submitted earlier. The “reasonable under the circumstances” standard would give an Examiner more flexibility in determining whether the “showing” standard has been satisfied.

For example, the BioTech/Pharmaceutical group has been one of the biggest critics of the proposed changes to continuation practice because they argue that it takes 6-8 years, if not longer, to commercialize a product as compared to 2-3 years to commercialize a mechanical or electrical product. Thus, continuation applications allow a biotech/pharmaceutical application to stay co-pending while commercial embodiments of their products are being developed. If an Examiner uses the proposed strict standard, an Examiner could simply assert that the amendment, argument, or evidence *could have* been previously submitted. If, however, the Examiner used a “reasonable under the circumstances” standard then the Examiner would be able to take into consideration the unpredictability of chemical/pharmaceutical arts as compared to the predictability of the mechanical and electrical arts¹⁰, take all the related factors into con-

sideration and be given more discretion in making his or her determination regarding whether the “showing” requirement has been satisfied.

Comment A6:

If the Office adopts this proposed rule, the Office should use interim rules to ease the transition from an “unlimited continuation practice” to “limited continuation practice.”

For pending applications that already include at least one continuation application in its file history, the proposed rule change to continuation practice would not allow an Applicant to obtain “one more” continuation application after the effective date of the rule unless the Applicant could satisfy the “showing” requirement.¹¹ For example, if an Applicant files a continuation application under 37 C.F.R. § 1.53(b) on June 10, 2005 and the proposed rule is adopted and takes effect on June 10, 2006, then the Applicant must include in the next continuation application information directed to why the amendment, argument, or evidence could not have been previously submitted to satisfy the “showing” requirement. Although the Board understands the Office’s desire not to have a pre-GATT rush to file patent applications¹², equity and such a drastic shift in policy dictates that this rule should be phased-in gradually, especially shortly after the rule becomes effective. An interim rule would allow the Commissioner to apply a more lenient standard at least to the 400,000-500,000 pending applications after the effective date, for possibly a year from the adoption of the proposed rule. Such an interim rule would ease the transition into the “limited continuation practice” era.

B. Changes to Examination of Claims Practice:

The changes to the examination of claims practice propose to have an Examiner initially examine only 10 claims designated by an Applicant for review. For example, if a patent application includes 20 claims, of which 3 are in independent form and 17 are in dependent form, the Office will require the Applicant to choose the 3 independent claims and designate 7 additional dependent claims for review. The remaining 10 dependent claims will only be reviewed if there is an indication of allowable subject matter in the initial 10 claims.

If, however, the Applicant wants all 20 claims examined initially then the Office is proposing that the Applicant “share the burden” by submitting to the Office an Examination Support Document (ESD). The ESD

cont. on page 12

cont. from page 11

includes requirements similar to those required by Section 708.02 of the MPEP for a Petition to Make Special to, e.g., expedite the examination of an application. For example, the ESD must include a statement that a pre-examination search was conducted, submit an Information Disclosure Statement citing the relevant art, and include a detailed explanation of how the claims are patentable over the references cited in accordance with 37 C.F.R. § 1.111(b) and (c).

Comment B1:

Piecemeal examination by the Office would increase the pendency of some patent applications.

An example will illustrate this point more clearly. Assume an application includes 20 claims, three of which are in independent form. Under the existing rules, an Examiner will initially review *all* 20 claims. Quite often, the Examiner rejects the independent claims as not patentable over the cited prior art but includes an “Indication of Allowable Subject Matter” for the subject matter in one of the dependent claims, and states that the application would be allowable if the dependent claims that include the allowable subject matter are rewritten in independent form. An Applicant may decide to either traverse the Examiner’s rejections or amend the claims to place them in a form for allowance. Under the proposed rule, however, the allowable subject matter may be in one of the non-designated dependent claims. Thus, the Examiner would not review the subject matter of those claims, the Applicant would not be made aware of the indication of allowable subject matter in such claims and the pendency of the application would increase. A first full examination of all claims would be the most efficient practice.

Comment B2:

If the Office adopts this rule, the requirement in the Examination Support Document that Applicant characterize the prior art should be eliminated.

The ESD requires that an Applicant provide a concise statement of the utility of the invention as defined by the independent claims, a Section 112 showing of where the limitations in the claims find support in the application and any parents, and identify all the limitations of the claims that are disclosed by the references cited. The first two requirements relating to the concise statement of utility and the Section 112 showing are reasonable since they both relate to an Applicant’s application. The third requirement is not reasonable be-

cause it requires that an Applicant characterize in writing the relevant prior art. This role is more appropriate for the Examiner in light of 37 C.F.R. § 1.104¹³ since it is the Examiner’s role to review and analyze the prior art for patentability purposes. In other words, the first two requirements relating to the concise statement of utility and the Section 112 showing “share the burden” of examining all the claims in the application by providing the Examiner with additional information about the application. However, the third requirement relating to an Applicant reviewing and characterizing the prior art makes the Applicant *both* the Applicant and Examiner, and the latter role of examining and characterizing the prior art is best left to the Examiner. Shifting responsibility for examination of patent applications from Examiners to Applicants represents a fundamental and inappropriate shift in our patent system from our current examination system to a registration system.

C. Changes to Practice re Applications Containing Patentably Indistinct Claims:

The proposed rule requires that when an Applicant files multiple applications with the same filing date (or within two months of such date), and the applications include common inventors and overlapping disclosures, the Office will *presume* that the applications contain patentably indistinct claims.

An Applicant can rebut the presumption by explaining why the claims in the applications are distinct or submit a terminal disclaimer and explain to the satisfaction of the Office why two or more pending applications should be maintained. If the Office is not satisfied, then the Office may require elimination of the patentably indistinct claims from all but one of the applications.

Comment C1:

The Office should assign one group of Examiners or one Examiner to review applications that have overlapping disclosures.

In order to improve efficiency, the Office should assign one Examiner or one group of Examiners to review applications with overlapping disclosures. This approach will increase efficiencies at the Office because the Examiner will be familiar with the disclosure in the specifications of the related cases and can easily review the specifications and the scope of the claims. In other words, having one Examiner review 8 applications with overlapping disclosures is more efficient than 8 Examiners reviewing 8 applications with overlapping disclosures.

D. Alternatives to consider instead of proposed rule changes:

The Board makes the following recommendations to make the patent examination process procedurally more effective and efficient without negatively impacting substantive patent rights:

- i) Establish a system of notification of Applicants before First Office Actions are issued so that an Applicant can schedule an interview prior to the First Office Action and at least encourage Examiners to interview applications before a First Office Action;
- ii) Allow and encourage interviews after a final office action;
- iii) Ease after final practice (Section 1.116¹⁴ is too restrictive. It only allows amendments under very limited circumstances.);
- iv) Provide incentives to E-file submissions to the Office;
- v) Consider adopting additional rules that defer examination of applications for those Applicants that are willing to sacrifice patent term to delay examination; and
- vi) Require that the issuance of the second final office action, which will trigger the “showing” requirement if a continuation is filed thereafter, be reviewed by at least the Supervisory Patent Examiner for the Group Art Unit. Another approach may include having three examiners, instead of only the SPE, review the second final office action.

¹ See 71 Fed Reg 48, Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, and 71 Fed Reg 61, Changes to Practice of the Examination of Claims in Patent Applications.

² In FY 2005, the Office received 384,228 Utility, Plant, and Reissue (UPR) patent applications, 25,304 Design applications, as well as 46,926 PCT applications. (Source: PTO’s Performance and Accountability Report for Fiscal Year 2005).

³ See 71 Fed Reg 50, right-hand column, second full paragraph.

⁴ 35 U.S.C. 102 Conditions for patentability; novelty, provides that “[a] person shall be entitled to a patent unless ... (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.”

⁵ The printed publication of the first application could also be used under Section 102(b) as an absolute bar to the third continuation application.

⁶ See *In re Henriksen*, 399 F.2d 253, 158 USPQ 224 (CCPA) 1968.

⁷ See 71 Fed Reg 50, right hand column, third full paragraph.

⁸ The Patent Reform Act of 2005 (H.R. 2795) was introduced June 8, 2005 in the House of Representatives by Congressman Lamar Smith (R-TX). H.R. 2795 is a bill to amend title 35, United States Code.

⁹ SEC 8, CONTINUATION APPLICATIONS, subsection 123, Limitations on continuation applications, provides that “[t]he Director may by regulation limit the circumstances under which an application for patent, ..., may be entitled to the benefit under section 120 of the filing date of a prior-filed application....”

¹⁰ See Section 2164.03 of the M.P.E.P, Relationship of Predictability of the Art and the Enablement Requirement - 2100 Patentability, which states that mechanical and electrical arts are predictable, and the chemical arts are unpredictable.

¹¹ See 71 Fed Reg 56, left-hand column, first full paragraph.

¹² See *Ending Abuse of Patent Continuations* (Lemley, Moore) 84 B.U. L. Rev. 63, 2004, footnote 86, which notes the spike in patent filings before June 8, 1995.

¹³ § 1.104 Nature of examination. (a) Examiner’s action. (1) On taking up an application for examination ..., the *examiner* (emphasis added) shall make a thorough study thereof and shall make a thorough investigation of the available prior art relating to the subject matter of the claimed invention.

¹⁴ 37 C.F.R. § 1.116, (b), provides that (1) an amendment may be made canceling claims or complying with any requirement of form expressly set forth in a previous Office action; or (2) an amendment presenting rejected claims in better form for consideration on appeal may be admitted. ■

NYIPLA CALENDAR

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PRINCETON-COLUMBIA CLUB (NEW LOCATION)
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DETAILS TO FOLLOW

"As Time Goes By - You be the Judge!"

by Dale Carlson

In our first two columns, we focused on the contributions to the patent profession of Judge Giles Rich and Paul Rose, respectively. As you may recall, they partnered in framing the 1952 Patent Act, working in concert with the PTO's Pat Federico.

Both Judge Rich and Mr. Rose were patent lawyers in the traditional sense of the word. Both were registered to practice before the PTO, practiced in the field, and eventually ended up teaching patent law to the next generation of would-be patent lawyers.

Long before Judge Rich became President of our Association, he wrote with the logical mind of someone destined to one day become a judge. In an article entitled "The Wrong Clue, Sherlock", appearing in the Journal of the Patent Office Society ("JPOS") in 1933, he critiqued another author's statements concerning the Constitutional mandate relating to inventions. The other author had commented that "an invention must promote progress in order to be patentable."

In dissecting Article 1, Section 8, Clause 8 of the Constitution, Judge Rich concluded that the Constitutional restrictions are but two: (a) the exclusive right is for inventors, and the right applies (b) only to their discoveries. He concluded that "we see no condition precedent to the granting of a patent requiring that the invention patented shall promote anything. Congress has the power to make laws which shall promote progress. The laws are to do the promoting..."

Judge Rich brought a practical mind to the bench borne of his years of practice as a patent lawyer. In preparing for this, he



Dale A. Carlson, a partner at Wiggin & Dana, is the Chair of the Committee on License to Practice Requirements.

had a head-start. Judge Rich's father was a patent lawyer, first with the Rochester, NY firm of Church and Rich, and later, beginning in 1919, in Manhattan with the Western Electric Company.

With his lineage in patent law and practice, it's easy to see why Judge Rich became what is tantamount to "a patent lawyer's patent lawyer". Other judges similarly situated include Federal Circuit Judge Pauline Newman, a past Director of our Association, and Judge William C. Conner, a past President of our Association.

What all three judges share as a common bond are their years of experience as practicing patent lawyers. Such experience doubtless provided, and continues to provide, a "real world" grounding to their judicial opinions.

Recently, President George Bush nominated Kimberly A. Moore to fill Judge Clevenger's open seat on the Federal Circuit. Ms. Moore brings impressive credentials to the bench. She clerked for Chief Judge Archer on the Federal Circuit, worked in private practice as an IP litigator, and co-authored a treatise on patent litigation.

Ms. Moore is not, however, a registered patent lawyer, and has not practiced before the PTO. This represents an important line of demarcation from the backgrounds of Judges Rich, Newman and Conner. We can hope that, if confirmed by the Senate, Ms. Moore will capitalize upon the practical experience in patents that her future colleagues, Judges Newman, Lourie and Gajarsa, bring to the bench.

To the extent that our Association's members believe that patent-experienced judges are an important component of the Federal Circuit's make-up, we should consider bringing forward qualified candidates when opportunity permits. If you spot a good candidate, or believe yourself to be one, please consider passing your thoughts on to Ed Bailey, Chair of the Committee on Public and Judicial Personnel.

Happy nominating!

Failure to Provide an Accurate List of Goods/Services in a Trademark Application May Result in Cancellation of the Registration

By Stephen Quigley¹

A pair of recent decisions from the Trademark Trial and Appeal Board of the Patent and Trademark Office may well have sent shudders through the trademark community. With its ruling last November in *Turbo Sportswear Inc. v. Marmot Mountain Ltd.*, 77 USPQ2d 1152 (TTAB 2005), and its ruling this year in *Standard Knitting Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 77 USPQ2d 1917 (TTAB 2006), the Board has left no doubt that a trademark registration is vulnerable to cancellation if there was a fraudulent statement concerning the goods or services in the application, the Section 8 declaration, or the renewal application.

Fraud in obtaining or maintaining a trademark registration occurs when the owner knowingly makes a false, material representation of fact. *Standard Knitting*, 77 USPQ2d at 1926. The key element is “knowingly” – fraud will not be found if the applicant’s statement, even though false, was made with a reasonable and honest belief that it was true. *Id.* The “reasonable” threshold, however, is high. Merely claiming an honest mistake that the applicant had a reasonable belief that the mark was in use will not escape a finding of fraud. As stated by the Board in *Standard Knitting*:

Mr. Groumoutis’s asserted mistake, assuming it truly was a mistake, was not a reasonable one. The language in the application that the mark “is now in use in commerce” is clear, and its meaning is unambiguous. It was not reasonable for Mr. Groumoutis to believe that if the items of clothing were ever made or sold, even if the last sale took place 20 years ago, it would support a claim that the mark “is” in use on the goods.

Id. at 1927.

In the Board’s view, “[s]tatements made with such degree of solemnity clearly are – or should be – investigated thoroughly prior to signature and sub-

mission to the USPTO.” *Medinol Ltd. v. Neuro Vasx Inc.*, 67 USPQ2d 1205, 1209 (TTAB 2003). Thus, pleading that the failure to weed out the unused goods was inadvertent or a matter of an innocent oversight will not avoid a cancellation. “Fraud cannot be cured merely by deleting from the registration those goods on which the mark was not used at the time of the signing of a use-based application or a Section 8 affidavit.” *Turbo*, 77 USPQ2d at 1155.

Intent to use applications are particularly vulnerable to a fraud claim. Often, the application includes a long and varied list of goods/services. Months, and possibly years later, the Notice of Allowance issues with the same extensive list of goods/services. If, at the time the Statement of Use is executed, the owner has not made the effort to review the list and remove those goods/services for which the mark is not in use, the registration will be vulnerable to cancellation. In the *Medinol* case, the Board granted summary judgment canceling Neuro Vasx’s entire registration because the Statement of Use included both neurological stents and catheters when, in fact, the mark was in use only on catheters.

The party contesting the registration need only prove that the owner of the mark knew or should have known that its statement regarding the goods/services was false. “[T]he appropriate inquiry . . . is not into the registrant’s subjective intent, but rather into the objective manifestations of that intent.” *Medinol Ltd.*, 67 USPQ2d at 1209. In other words, at the time of signing, the owner has an obligation to know about, and remove, those goods/services that are not in commerce under the mark.

The *Turbo* ruling also put potential opposers and cancellation petitioners on notice that before they leap into an *inter partes* proceeding, they had better

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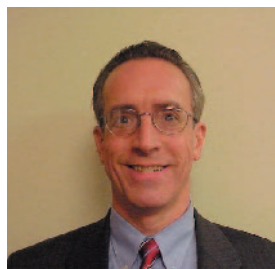
be sure that the registrations they intend to rely on can withstand a fraud counterclaim. In *Turbo*, Marmot Mountain, the applicant, counterclaimed to cancel five of Turbo's pleaded registrations on the ground that the marks were either not in use on all the goods at the time the applications or the Section 8 declarations were filed. The Board granted Marmot Mountain's motion to add the counterclaims stating that "if applicant is able to establish the elements of fraud even as to one of the goods listed in opposer's single-class registration, the entire registration is subject to cancellation." *Turbo*, 77 USPQ2d at 1155.

Conclusion

The lesson in *Turbo* and *Standard Knitting* is don't presume anything when preparing applications, Section 8 declarations and renewals. Clients should be made aware that there are potentially fatal consequences if an accurate

list of their goods/services is not provided to the Trademark Office. A passage along the lines of the following to the trademark owner should serve as a sufficient warning:

The [*application, statement of use, declaration of continuing use, renewal application*] must include only those goods/services for which you are actually using the mark. Thus, if you are not using the mark on any of the goods/services listed in the [*application, notice of allowance, registration*] they should be deleted. The failure to do so could result in the cancellation of the entire registration.



¹Stephen J. Quigley is an attorney at Abelman, Frayne & Schwab and also serves as the NYIPLA Greenbook Editor. He can be contacted at sjquigley@lawabel.com.

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SOUTHERN DISTRICT CASE REVIEW

by Mark J. Abate and Jennifer BianRosa*

Licensing Of Mark Established Priority Of Use

Hawaii-Pacific Apparel Group, Inc. v. Cleveland Browns Football Co. LLC

418 F. Supp. 2d 501
(February 22, 2006)
(Judge Denny Chin)

In a suit for trademark infringement and unfair competition under the Lanham Act and unfair competition under state law, Plaintiff Hawaii-Pacific (“HP”) and Defendants Cleveland Browns (“Browns”) and the National Football League properties (“NFLP”) filed cross-motions for partial summary judgment on the issue of priority of use of a disputed mark. The Court denied HP’s motion for partial summary judgment on the issue of priority, and granted defendants’ motion against HP’s claims of infringement.

Since the early eighties, the phrase “Dawg Pound” became popular with Browns players and fans, who referred to the team’s defense and its fans as the “Dawg Pound.” The NFLP asked the Browns to register the marks CLEVELAND BROWNS DOGS and CLEVELAND BROWNS DAWGS with the State of Ohio Trademark Office in order to capitalize on the “hot market.” The marks, which included a design of three dogs in football uniforms, were registered in the State of Ohio in 1988 and expired ten years later. NFLP licensed the use of the mark DAWG POUND to third parties for merchandise, including t-shirts, Christmas cards, posters, logos, and other apparel.

In the mid nineties HP started to manufacture and market a line of clothing with the mark DAWG POUND and tried to register the mark in 1994. The NFLP opposed the trademark application, and is in suspension pending the outcome of the present litigation. HP eventually registered the marks TOP DAWG in 1995 and LIL DAWG POUND in 1996 with no opposition. HP has sold millions of dollars of its DAWG POUND and DAWG-related merchandise.

After return to Cleveland¹, the Browns and NFLP filed an intent-to-use application with the

PTO for the mark DAWG POUND. The application was rejected based on its similarity to and the likelihood of confusion with HP’s LIL DAWG POUND mark. HP sent a cease and desist letter to the Browns and NFLP in March 2000.

The parties cross-filed motions for partial summary judgment on the priority of use of the mark. The NFLP and the Browns argued that their license of the mark DAWG POUND to third parties prior to HP’s first use of the mark in 1994 entitled them to summary judgment on HP’s claims of infringement as no reasonable jury could find that HP was the senior user. HP countered that the NFLP and the Browns did not control their licensees and, as such, the license to third parties did not qualify as “use” for trademark ownership purposes. The Court disagreed and noted that the NFLP required licensees of the DAWG POUND mark to sign lengthy licensing agreements which required, *inter alia*, samples to be submitted to the NFLP for approval prior to being placed in the stream of commerce.

The Court held that because the Browns and NFLP licensed goods that contained the words “Dawg Pound” years prior to HP’s first commercial use of the DAWG POUND mark, a reasonable jury could not find that HP was the senior user. The Court therefore denied HP’s motion for partial summary judgment and held that the license of the mark by the Browns and NFLP was sufficient to establish priority of use as a matter of law.

Claim Construction Based On Arguments Made In Sibling Application

CIAS, Inc. v. Alliance Gaming Corp.

2006 U.S. Dist. LEXIS 13610
(March 26, 2006)
(Judge Lewis A. Kaplan)

Plaintiff CIAS, Inc. (“CIAS”) filed suit for patent infringement against Alliance Gaming Corporation and Bally Gaming, Inc. CIAS is the owner of U.S. Patent No. 5,283,422 (“the

cont. on page 18

‘422 patent”), which relates to a system for detecting counterfeit items used in tickets for playing cashless slot machines in casinos. The ‘422 patent system assigns and stores identifying information for a finite number of objects. The system compares the identifying information of an object presented for authentication to the stored data. If the object’s identifying information is not found in the stored data or was not previously presented for authentication, the system determines that the object is counterfeit.

Defendant Alliance Gaming Corporation and its subsidiary, Bally Gaming, Inc. (collectively “Alliance”) offer two products, the Slot Data System (“SDS”) and the Slot Management System (“SMS”), that manage accounting and management functions of casino slot machines. The systems use “cashless” slot machines where players insert and retrieve electronically-generated paper “eTickets” that may be redeemed for cash.

The Court construed a number of claim terms to resolve Alliance’s motion for summary judgment of non-infringement. The term “unique authorized information,” associated with individual objects, is found in a number of claims, but not defined in the specification. CIAS argued that the term was intended to carry its ordinary meaning as “information associated with each object [which] is unique to that object, and it is information that

has been authorized by the system,” and may be any data so designated by the system.

Alliance argued that during re-examination of the ‘422 patent, the inventors disclaimed multi-part information as being “unique authorized information”. The prior art considered during the re-examination taught objects with an associated pair of numbers: one of which is a serially-selected identification number and the other is a randomly-selected control number. The inventors argued that the prior art reference “teaches the *use of a pair of numbers*, and not either serial numbers alone or randomly-selected numbers alone.” The Court held that, based on the inventors re-examination arguments in distinguishing prior art, the term “unique authorized information” excludes information other than serial information alone or randomly-selected information alone.

The Court also construed the term “randomly selected,” which appears in claims describing each particular object as being associated with unique “randomly selected” authorized information comprised of machine-readable code elements. Alliance contended that the term means “selection according to a random process, without any pattern or predictability whatsoever, as in a generator that selects digits based on cosmic noise” and does not include pseudo-random selection, an apparent randomness which may be generated by a computer algorithm. CIAS disagreed that “randomly selected” may include information selected by both true and pseudo-random means.

Alliance argued, *inter alia*, that the inventors recognized that “random” does not include pseudo-random in a sibling patent, U.S. Patent No. 5,367,148 (“the ‘148 patent”). In prosecuting the ‘148 patent, the inventors attacked the prior art for incorrectly using the term “random” to include pseudo- or non-random information. The inventors therefore referred to true random selection when using the term “randomly selected” in the ‘148 patent. The Court considered the identical claim language of the ‘148 patent in construing the claims of the ‘422 patent and concluded that “randomly selected” refers to true, not pseudo-random selection.

The accused SDS system produces an eTicket identification number that is a composite number with five subparts, including three non-serial, non-random numbers and the pseudo-random unique ticket identifier. The court found that the SDS system does not literally infringe the ‘422 patent as the combination of data is outside the scope of the construed claim term “unique

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authorized information.” The court also held that the Plaintiffs could not use the doctrine of equivalents to recover any surrendered subject matter, as the patentee narrowed the claims during re-examination to exclude information other than serial information alone or randomly-selected information alone.

The accused SMS system also includes a secret algorithm to generate pseudo-random numbers. Having construed the term “randomly selected” to refer to true, not pseudo-random selection, the Court held that the SMS system did not literally infringe the claims of the ‘422 patent. The SMS system also did not satisfy the “unique authorized information” element of the claims, as with the SDS multipart system, so there was no infringement literally or under the doctrine of equivalents.

Declaratory Judgment Action By Patent Licensee Sustained

Pony Pal LLC v. Claire’s Boutiques, Inc.

2006 U.S. Dist. LEXIS 14962

(March 30, 2006)

(Judge Charles S. Haight)

Plaintiff Pony Pal, LLC (“Pony”) sued Defendant Claire’s Boutiques, Inc. (“Claire’s”) for breach of contract for failure to make royalty payments under a license. Pony moved to strike Defendant’s affirmative defense of invalidity and to dismiss counterclaims for declaratory judgment.

The patent at issue claimed, *inter alia*, “an inventive, removable hair piece comprising an elastic loop suitable to surround and bind a pony tail of a user and a connection securing a first end of a length of hair strands to the elastic loop.” The licensing agreement called for the payment of royalties by Claire’s as well as for an up-front payment of \$10,000 in consideration for a release and as compensation for any product covered by the patent and sold before the agreement. The agreement also allowed Pony to recover unpaid royalties by suit, but did not allow Pony to terminate the license agreement in certain circumstances.

Pony alleged that while Claire’s made the up-front payment of \$10,000, it did not pay royalties thereafter despite continuing to sell products within the scope of the patent. Claire’s argued that it did not owe any royalties under the licensing agreement as the products sold by Claire’s after the execution of the agreement were not within the scope of the patent claims. Claire’s also

asserted an affirmative defense of invalidity of Pony’s patent and counterclaims for declaratory judgment of invalidity and non-infringement.

Claire’s argued that the licensing agreement required royalties to be paid on “Licensed Products,” defined as “products that are covered by one or more valid claims” and, as such, royalty payments need not be paid on invalid claims.

The Court noted that under 35 U.S.C. § 282 a patent is presumed valid and it is “counterintuitive and needlessly litigious to construe the Agreement to require Plaintiff to prove validity of the claims of the Patent before Defendant would have any obligation to pay royalties under the Agreement.” The Court cited *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) in identifying that held that “a licensee is not estopped from challenging the validity of a patent, and to avoid liability for royalty payments on the basis of patent invalidity, the licensee must (1) cease making royalty payments, and (2) give notice to the patentee that the licensee contests the validity of the patent.” Because Claire’s first notice to Pony of its belief that the patent was invalid was in its Answer, the Court held that Claire’s may not allege invalidity of the patent claims to avoid royalty payments prior to that notice. The Court granted Pony’s motion to strike the affirmative defense of invalidity to the extent that Claire sought to use invalidity to avoid payment of royalties that accrued prior to the Answer being filed, but did not preclude Claire’s from arguing patent invalidity as a defense to paying royalties thereafter.

Pony also argued that the Court lacked jurisdiction to adjudicate Claire’s counterclaim, claiming that no justiciable controversy existed and Claire’s was not faced with a “reasonable apprehension” of an infringement suit because Pony agreed not to terminate the agreement and sue for infringement even in the event of a breach such as nonpayment of royalties.

The Court distinguished *Medimmune, Inc. v. Centocor, Inc.*, 409 F.3d 1376 (Fed. Cir. 2005) and *Gen-Probe, Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1380-82 (Fed. Cir. 2004), where there was no apprehension of suit, and thus no case or controversy sufficient to permit adjudication under the Declaratory Judgment Act. The licensees challenging validity in *Medimmune* and *Gen-Probe* did not face any threat of litigation because the licensees continued to pay royalties and were in compliance with the licensing agreements. Here, in contrast, Claire’s never paid royalties despite the agreement and was sued by Pony for its breach of contract.

cont. on page 20

The Court noted that while Claire's cannot allege patent invalidity to avoid liability for any royalties accrued before its Answer, the validity of the patent claims is an issue in which Claire's has an interest in having the Court decide. The Court denied Pony's motion to dismiss counterclaims for declaratory judgment of patent invalidity because there was an actual controversy with respect to patent invalidity. The Court also denied Pony's motion to dismiss the counterclaim for a declaratory judgment of non-infringement for lack of subject matter jurisdiction, because the scope of the patent claims was also proper subject matter.

No Likelihood Of Confusion Between Marks Used On Cosmetics And Clothing

Juicy Couture, Inc. v. L'Oreal USA, Inc.

2006 U.S. Dist. LEXIS 20787

(April 19, 2006)

(Judge Denise Cote)

Plaintiff Juicy Couture, Inc. ("Couture") (f.k.a. Travis Jeans), a seller of women's clothing, sued Defendant L'Oreal USA, Inc. and Luxury Products, LLC (collectively "Lancome"), a cosmetic fragrance manufacturer and retailer, for trademark infringement of its registered marks JUICY, JUICY COUTURE and CHOOSE JUICY ("Registered Marks") and the common law marks Juicy Pop Princess, Be Juicy, Wear Juicy, The Joy of Juicy and Juicy Girls Rule. Lancome used the mark Juicy Wear as a name for a lip product and the words juicy, Juicy Pop and Juicy Gossip in the advertising and promotion of Lancome products.

Lancome developed the name Juicy Tubes in 1999 for a high shine lip gloss in a tube to connote gloss and shine. Lancome registered the marks JUICY TUBES and JUICY ROUGE for a lip product introduced in 2003 in France and the United States; Couture did not oppose the applications. Lancome developed product extensions of Juicy Tubes in 2003: Juicy Tubes Pop, Juicy Crayon and Juicy Vernis, and applied for trademarks on each. Juicy Wear, introduced in 2004, was Lancome's sixth product including the word juicy. Lancome applied for a trademark on Juicy Wear in January 2004.

In 1996, Travis Jeans first used the mark JUICY on its clothing labels, and in 1997 used JUICY COUTURE labels and hang-tags. Couture's first attempt to register the mark Juicy was on December 13, 1994, which was later abandoned. Couture's second application,

filed on August 18, 1998, resulted in registration of the mark JUICY on October 12, 1999, with the first use on September 15, 1996. In June 2002, Couture expanded its business beyond jeans and t-shirts. Its garments included two hang tags which read JUICY COUTURE and CHOOSE JUICY, of which were registered for clothing in June 2002.

Couture was aware of Lancome's JUICY TUBES by 2001 and JUICY ROUGE in 2003, but took no action. Couture concentrated on protecting its marks, primarily in connection with the use on clothing in 2002 and 2003. In 2003, Liz Claiborne purchased Couture, believing that Couture had a potential to grow and hoped to add a line of fragrances with some associated cosmetics. After the purchase, Couture changed its corporate name from Travis Jeans to Juicy Couture, Inc. and opposed Lancome's application in France to register the word Juicy alone in connection with cosmetics on February 28, 2003. Couture filed suit and opposed Lancome's US trademark applications in 2004.

Couture applied for registration of other marks as well, but never applied to register the phrases Wear Juicy, Be Juicy, The Joy of Juicy, Juicy Girls Rule, or Juicy Pop Princess ("Slogans"), for which it sought common law protection. Couture asserted common law trademark rights in the Slogans Juicy Pop Princess and Wear Juicy based on its use of the logos Juicy Pop Princess and Wear Juicy on t-shirts. The Court noted that Couture's unregistered marks would be protectable if sufficiently distinctive so as to distinguish Couture's goods from those of others, but that the Slogans were not inherently distinctive. The only evidence of secondary meaning was testimony concerning media coverage of Britney Spears, a pop princess, in a t-shirt with the Slogan Juicy Pop Princess, without any documentary evidence. The Court held that Couture did not register the Slogans, and therefore had no rights in them. The Court further held that Couture "never considered any of the five Slogans as any more distinctive than the myriad of other slogans it adopted for a season and then abandoned."

With respect to its Registered Marks, none of which are for cosmetics, the Court noted that "the market for cosmetics is sufficiently related to the field of women's clothing to merit an inquiry into whether Lancome's products are likely to cause confusion with Couture's marks." The likelihood of confusion is determined by the balancing test in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961): "1) strength of the trademark; 2) similarity of the marks; 3) proximity of the

products; 4) evidence that the senior user may “bridge the gap” into the market occupied by the alleged infringer’s product; 5) evidence of actual confusion; 6) evidence that the junior mark was adopted in bad faith; 7) respective quality of the products; and 8) sophistication of consumers in the relevant market.”

In determining the strength of Couture’s Registered Marks, the Court noted that the marks were not inherently distinctive, but descriptive, and that the term juicy is descriptive or suggestive when applied to cosmetics. Evidence of secondary meaning included Couture’s unique approach to advertising by winning celebrity endorsements and inviting media attention. Nonetheless, Couture never sold any cosmetics or fragrances and the Court found that the strength of Couture’s marks were limited to clothing.

The similarity between Lancome’s and Couture’s uses of Juicy is limited to the first word of Lancome’s Juicy Wear lipstick. Lancome does not use the Registered Marks JUCY COUTURE or CHOOSE JUCY. Lancome’s use of Juicy Wear on its packaging of a product was consistent with every Lancome cosmetics product. The Court found no likelihood of confusion as the Juicy Wear product was only available at Lancome counters or the Lancome website.

Proximity favored Couture as both Lancome’s Juicy Wear and Couture’s clothing are sold in similar high end department similar stores and target similar consumers. The Court noted that Couture is the senior user of the mark Juicy, with its first use in 1996 and registration in 1999, while Lancome sold its first Juicy product, JUCYTUBES, in 2000 and registered the mark in 2001. The Court found that the likelihood of “bridging the gap” only marginally weighed in Couture’s favor, as it had shown that it would like to enter the market, but without much success.

Couture failed to show that Lancome’s sale of Juicy Wear caused any actual confusion. A survey conducted by Couture in shopping malls failed to replicate the market conditions in which consumers normally purchase Lancome’s products, namely at Lancome counters with prominent signage identifying Lancome as the seller. Couture also failed to establish bad faith as Lancome adopted the mark Juicy without any knowledge of Couture’s business or name.

The parties agreed to the high quality of Lancome’s products which weighed in favor of Couture. Moreover, the consumers for both Couture and Lancome are sophisticated, and not likely to be confused.

In weighing the factors, the Court found that the lack of similarity of the marks and the absence of bad faith strongly favored Lancome. Therefore, the Court found that there was no likelihood of confusion between Juicy Wear and the Registered Marks.

Lancome asserted the affirmative defense of laches against Couture which required Lancome to establish that Couture knew of defendant’s misconduct, inexcusably delayed in taking action, and that Lancome was prejudiced by the delay. The Court considered the issue of laches against Lancome’s entire line of Juicy products, as Juicy Wear was Lancome’s sixth Juicy product. The Court held that Lancome established prejudice by Couture’s delay in the substantial investment of time and money in the Juicy product line. Couture did not contest that it sat on its rights in the United States. The Court therefore held that even if a likelihood of confusion were shown, Lancome’s affirmative defense of laches would bar Couture’s claim for injunctive relief. ■

¹ During 1996-1999 period, the Browns moved to Baltimore and became known as the “Ravens,” but returned to Cleveland in 1999.

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PROCEDURAL RULINGS IN THE SECOND CIRCUIT¹

By Eric J. Lobenfield & Arun Chandra^{2*}

SECOND CIRCUIT EXPLAINS THE DIFFERENCE BETWEEN WAIVER AND FORFEITURE OF AN AFFIRMATIVE DEFENSE

Patterson v. Balsamico

440 F.3d 104

(2d Cir. Feb. 27, 2006)

(Circuit Judges Joseph M. McLaughlin and Robert D. Sack and District Court Judge John G. Koeltl (sitting by designation))

Plaintiff Michael Antonio Patterson, an African-American Corrections Officer at the Oneida County Sheriff's Department, brought suit alleging violation of his civil rights under federal and state laws. Patterson alleged that he was subjected to a racially discriminatory and hostile work environment, and subsequently fired because of his race. Specifically, he alleged that, during his employment, other employees used racial slurs and made disparaging remarks about African-Americans on approximately twelve occasions. Patterson also alleged that William Balsamico and two other officers assaulted and taunted him with racial slurs in January 1999. Patterson further challenged the Department's policies regarding promotion, discipline, training and staffing as being racially discriminatory, and claimed that his supervisor, Lieutenant Joseph Rende, treated him differently than other white officers.

The district court granted summary judgment with respect to Patterson's claims against each defendant, and did not address any of the affirmative defenses raised by the defendants. On appeal, the Second Circuit affirmed the district court's judgment except as to claims against Balsamico and Rende under 42 U.S.C. §§ 1981 and 1983 and state law, necessitating a jury trial on those claims.

With respect to the alleged violations of 42 U.S.C. §§ 1981 and 1983 and the New York Human Rights Law, the jury found that Balsamico had assaulted Patterson and that racial discrimination was a substantial factor behind Balsamico's conduct. The jury also found that the conduct created a hostile work environment and awarded Patterson one dollar in nominal damages and \$20,000 in punitive damages. Regarding Patterson's state law claim of intentional infliction of emotional distress, the jury found Balsamico liable and awarded compensatory damages of \$100,000 on that claim. As to Rende, the jury found that

although he had engaged in the alleged conduct, Rende was not liable because his conduct did not alter the terms and conditions of Patterson's employment.

A second appeal followed, where Balsamico raised a number of issues. Pertinent to this discussion, he argued that Patterson's state common law claims were time-barred, because the applicable statute of limitations was one-year for intentional torts and Patterson filed his complaint more than a year after the date of the alleged incident. Patterson responded that Balsamico's affirmative defense was never raised in the district court and was therefore waived. The Second Circuit disagreed. It noted that Balsamico had raised the defense in his Answer and in support of the defendants' original motion for summary judgment. Therefore, the defense was not "waived," because "the term 'waiver' is best reserved for a litigant's intentional relinquishment of a known right." *Quoting Hamilton v. Atlas Turner, Inc.*, 197 F.3d 58, 61 (2d Cir. 1999).

Instead, the Second Circuit held that Balsamico's affirmative defense was forfeited by his failure to pursue it during the earlier appeal or upon remand. The court explained:

"Forfeiture" is the failure to make the timely assertion of a right. [*Hamilton*, 197 F.3d at 61.] "Where a litigant's action or inaction is deemed to incur the consequence of loss of a right, or, as here a defense, the term 'forfeiture' rather than waiver is more appropriate." *Id.*

(internal brackets omitted). In fact, in completing the portion of the Court-Ordered Voir Dire form that requested "a brief description of each and every affirmative defense asserted," Balsamico did not list his statute of limitations defense. Because Balsamico had "ample opportunity . . . to reassert the limitations defense throughout the pre-trial activity in the case, the trial itself, and litigation of the post-trial motions, no reference was made to it," the Second Circuit concluded "that Balsamico [had] abandoned this defense to Patterson's intentional infliction of emotional distress claim."

The Second Circuit noted that a court may exercise its discretion to decide the merits of a forfeited claim or defense "where the issue is purely legal and there is no need for additional fact-finding or where consideration of the issue is necessary to avoid manifest injustice." *Quoting*

Krumme v. WestPoint Stevens Inc., 238 F.3d 133, 141-42 (2d Cir. 2000). Here, however, because Balsamico had no justification for his failure to pursue the defense when it could have been resolved, vacating the judgment would present a substantial “risk of prejudice to” Patterson, *quoting Krumme*, 238 F.3d at 142, which was a sufficient basis to decline consideration of the forfeited defense.

Thus, the Second Circuit concluded that although Balsamico had not waived his affirmative defense, he had nevertheless forfeited it.

UNRELIABLE EXPERT TESTIMONY FOUND INADMISSIBLE UNDER FED.R.EVID. 702

Colon v. Abbott Laboratories

397 F. Supp. 2d 405

(E.D.N.Y. Nov. 15, 2005)

(Judge Raymond J. Dearie)

Plaintiffs Alexis Colon and her mother Carmela Stolyar brought suit against Abbott Laboratories, alleging that Abbott’s Similac® infant formula caused Alexis to develop insulin dependent Type 1 juvenile diabetes (“T1D”). Similac, comprising non-hydrolyzed cow’s milk, is an infant formula for use as a supplement or alternative to breastfeeding. Plaintiffs offered expert testimony to establish general causation (*i.e.*, milk-based infant formula causes T1D) and specific causation (*i.e.*, Similac caused Alexis’s T1D). Defendant, in turn, sought to exclude plaintiffs’ expert’s opinions for failure to provide reliable testimony.

The underlying facts are as follows. Alexis Colon was born to Carmella Stolyar on January 22, 2000. While in the hospital, Ms. Stolyar fed Alexis both breast milk and Similac. A month after giving birth, Ms. Stolyar stopped breast-feeding entirely. In July 2001, Alexis was diagnosed with the Coxsackie virus and a few weeks later with T1D.

Plaintiffs offered Dr. Jack Newman, a fellow at the Royal College of Physicians in Canada and an Assistant Professor on the Faculty of Medicine at the University of Toronto, as their expert. Although Dr. Newman had established three hospital-based breast-feeding clinics in Canada and served on the staff of the Hospital for Sick Children in Toronto, he was not a pediatric endocrinologist and had never diagnosed or treated patients with T1D.

Dr. Newman opined that at the time of Alexis’s birth, it was well known in the medical community that the early introduction of cow milk protein could trigger the development of diabetes mellitus type I. Although Dr. Newman conceded that his theory had not been proven, he insisted that it was a plausible theory with “much

theoretical, laboratory, and epidemiological evidence to back up the possibility.” Later, in response to defendant’s experts, Dr. Newman submitted an affidavit reiterating his belief that the non-hydrolyzed cow’s milk in Similac caused Alexis’s T1D. Dr. Newman claimed that several studies supported his view. For example, a 1997 study showed “a strong relationship” between the development of T1D and the introduction of infant formula in the first eight days of life, as well as another study which showed that “longer, exclusive and total breast feeding” was an independent factor against development of T1D.

The court began by noting that Dr. Newman was neither an epidemiologist nor an immunologist (and therefore did not have the education or experience to support his opinions), a fact casting considerable doubt on the reliability of his opinions. The court, nonetheless, went on to consider the substance of Dr. Newman’s opinion and found it speculative, and therefore inadmissible.

With respect to Dr. Newman’s opinion, the court noted that Rule 702 of the Federal Rules of Evidence requires an expert’s testimony to be based on sufficient facts or data and be the product of reliable scientific principles. As such, the proffered expert testimony must be analyzed to determine whether it “has any tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable than it would be without the evidence.” *Citing Amorgianos v. Nat’l R.R. Passenger Corp.*, 303 F.3d 256, 265 (2d Cir. 2002) (internal alterations omitted). Indeed, scientific evidence requires “more than subjective belief or unsupported speculation.” *Quoting Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 590 (1993).

With respect to plaintiffs’ general causation theory (*i.e.*, T1D is linked to milk-based infant formula), Dr. Newman asserted that “early exposure to cow milk protein *may* be the ‘trigger’ for a series of events, which eventually results in a genetically susceptible child developing diabetes (emphasis in original; internal brackets omitted).” While he claimed that there was a “very strong possibility” that infant formula causes T1D and that there was “theoretical, laboratory, and epidemiological evidence to back up the possibility,” Dr. Newman provided little data to establish his thesis. Further, the studies cited by Dr. Newman were unreliable: one suffered from “bias and inaccuracy”; another’s findings could not be replicated by anyone including its own author; and yet another study remained incomplete. Thus, because Dr. Newman could not provide a reliable basis for his opinion regarding an alleged association between cow’s milk infant formula and T1D, the court excluded his theory of general causation.

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Similarly, the court found Dr. Newman's specific causation theory (*i.e.*, Similac caused Alexis's T1D) to be speculative. In particular, Dr. Newman's statements, such as "there is no doubt that to develop type I diabetes at 18 months of age is a much younger age than . . . usual," "it is likely that the earlier the introduction of cow milk protein (assuming it does trigger diabetes), the earlier the manifestations of diabetes would arise," and "the early introduction of non-hydrolysed cow's milk in Similac triggered an immune response . . . which rapidly developed into T1D," were unsupported, and therefore insufficient to establish specific causation (internal brackets omitted). Indeed, Dr. Newman's opinion was "connected to existing data only by the *ipse dixit* of the expert." *Quoting In re Rezulin Prods. Liab. Litig.*, 309 F. Supp. 2d 531, 540 (S.D.N.Y. 2004).

Because plaintiffs' expert testimony was inadmissible, defendant had no trouble winning summary judgment on plaintiffs' causation theory:

After a review of the literature before the Court and the interpretations and commentaries of the opining physicians, including Dr. Newman, it cannot now be said that a causal relationship has been demonstrated. What the scientific community will in the course of time prove or disprove remains to be seen, but asking a lay jury to do what science has yet to do, and may never do, would be clearly inappropriate. It may well be, as defendants' experts suggest, that science has overtaken plaintiffs' theory of causation; or, perhaps, the ongoing studies will provide critical evidence to establish a connection. But the trial court is no place for pure theory, hypothesis, or even sincerely held opinion.

¹ The following discussion is limited to civil procedural and evidentiary issues; the substantive law is not discussed unless necessary.

² Eric J. Lobenfeld is a partner and Arun Chandra is an associate in the New York office of Hogan & Hartson L.L.P., where they concentrate on intellectual property litigation. The views expressed herein are the personal views of the authors and do not necessarily reflect those of their firm or the firm's clients.



Eric J. Lobenfeld



Arun Chandra

A MEMENTO TO WORDS, NOT THINGS

BY RONNIE NORPEL ¹

*I rather favor concepts than
Ownership of goods
These words are worth more than
The paper they're written on*

*The Word was always the thing
Though not a 'thing' at all
Playing with them is fun
Tossing around that ball*

*Using them to say the things
We cannot touch or hold
Only attempt to make them right
Restate if needs be: word*

*What more do we have
Than our words in
Thought word and deed
No deed needed:*

This is Intellectual Property

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The Twenty-Second Annual Joint Patent Practice Seminar (JPPCLE) was held on May 3, 2006 at the Marriott Marquis in New York City, as a continued collaboration (since 1985) between the NYIPLA and three longtime IP Associations from New Jersey, Philadelphia and Connecticut.

The Hon. Alan D. Lourie, Circuit Judge, U.S. Court of Appeals, Federal Circuit, was this year's keynote speaker. Judge Lourie shared his perspective from the bench. In addition, he discussed the history of the JPPCLE as former President of the Philadelphia Intellectual Property Law Association, and as one of the original founders of the JPPCLE. Judge Lourie's luncheon address is expected to be published by the Bureau

of National Affairs (BNA) Patent Trademark & Copyright (PTC) Journal.

The format of the JPPCLE includes five panels in the following areas: Litigation, Biotechnology/Pharmaceuticals, Foreign Patent Practice, Information Technology/Licensing/Trade Secrets and USPTO. This year there were 33 speakers, each presenting a 10-minute presentation on information that has occurred over the past year. This format, combined with timely topics and excellent speakers, creates a special program for IP attorneys from both law firms and major corporations.

NYIPLA members Anthony Giaccio, First Vice President, Ira Levy and Frank Morris, along with the representatives of the other three Associations, brought these programs to the members. Planning for the Twenty-Third Annual Joint Patent Practice Seminar in 2007 is already underway.

For information about the topics and speakers for this year's program, as well as past programs, please visit www.jppcle.org.

CLE PROGRAMS



of the original founders of the JPPCLE. Judge Lourie's luncheon address is expected to be published by the Bureau



Harvey Kurzweil at April 21, 2006 CLE Luncheon Program:

Topic: MedImmune v. Genentech

On April 21, 2006, the NYIPLA hosted its monthly luncheon at the Princeton Club. The speaker was Harvey Kurzweil, a partner at Dewey Ballantine and counsel for MedImmune, the petitioner in the *MedImmune v. Genentech* case, which was recently granted certiorari by the Supreme Court. Mr. Kurzweil discussed what must be done by a patent licensee before it can seek to have a licensed patent declared invalid and unenforceable and whether a declaratory judgment action can be brought by such a licensee, who continues to comply with the terms of the license

Mr. Kurzweil discussed the facts of the case, case law supporting his client's position, and concluded with how the Supreme Court would likely

rule. Mr. Kurzweil believes that the Supreme Court would support the licensee's right to bring a declaratory judgment action without requiring a breach of the license agreement, and that the Court of Appeals for the



Susan McGahan, Harvey Kurzweil

Federal Circuit departed from prior precedent and policy in its prior rulings in the *MedImmune v. Genentech* and other cases.

Q. Todd Dickinson at June 16, 2006 CLE Luncheon Program

Topic: Update on Patent Reform Issues

On June 16, 2006, the NYIPLA sponsored a CLE Luncheon Program on the topic of "Update on Patent Reform Issues." Q. Todd Dickinson, Vice President & Chief Intellectual Property Counsel at General Electric, and former Commissioner at the U.S. Patent and Trademark Office, was the guest speaker.

Mr. Dickinson's presented background information related to (1) the Federal Trade Commission's report on promoting innovation by finding the proper balance between competition and patent policy, and (2) the National Academies of Science report on "A Patent System for the 21st Century." Mr. Dickinson's also presented the latest information related to Congress' plans to amend the U.S. patent laws as codified in Title 35 of the United States Code. Mr. Dickinson noted that the proposed

patent law changes are directed to a broad array of topics including first inventor to file, creation of post-grant opposition procedures, changes to prior art standards, best mode, inequitable conduct, willful infringement, Section 271(f), injunctions, continuations and venue.

Under a First Inventor to File system, as discussed by Mr. Dickinson, the first inventor to file a patent application would be entitled to the priority, regardless of whether another person was the first to invent the subject matter. Under such a system, interference proceedings to determine priority of invention would be eliminated, and inventorship contests would be created to determine the correct inventor, i.e., only the first inventor could file the application, not a person that inappropriately derived the invention from someone else.

Mr. Dickinson noted that the post-grant opposition procedures are being considered as a means to quickly challenge patents of questionable merit. The procedures would be similar to the European's opposition procedures and are not considered as a substitute for better initial quality examination by the Patent Office or as a substitute for litigation. The proposed post-grant opposition procedures would allow an Applicant to challenge the patentability of claims based not only on prior art patents and printed publications as allowed in existing reexamination proceedings, but also based on Section 101 (non-statutory subject matter) and Section 112 (written description/enablement) issues.



Q. Todd Dickinson, Marylee Jenkins and Peter G. Thurlow

ANNUAL MEETING AND DINNER



Anthony Giaccio Matthew Dowd Hon. Michael B. Mukasey



Anthony Giaccio Gregory Reilly Hon. Michael B. Mukasey



On Wednesday, May 24, 2006, the NYIPLA held its Annual Meeting and sponsored the Annual Dinner. At the Annual Meeting, Marylee Jenkins was appointed as the President of the Association. Also appointed were Christopher A. Hughes as President-Elect; Anthony Giaccio as First Vice-President; Mark J. Abate as Second Vice-President; John E. Daniel as Treasurer; and Theresa M. Gillis as Secretary. The Board of Directors was also appointed comprising Robert C. Scheinfeld, Dale L. Carlson, Vincent N. Palladino, Karl F. Milde, Jr., Philip Shannon, Edward E. Bailey, Ronald A. Clayton, Thomas J. Meloro and Alexandra B. Urban.

The Annual Dinner followed thereafter. The Hon. Michael B. Mukasey, Chief Judge, United States District Court, Southern District of New York, presented the awards for the Hon. William C. Conner 2006 Intellectual Property Law Writing Competition. The 1st Place award was presented to Matthew Dowd for his paper entitled “Elimination of the Best Mode Requirement: Throwing the Baby Out with the Bathwater.” The 2nd place award was presented to Gregory Reilly for his paper entitled “The Territorial Limits of U.S. Patent Law – NTP, Inc. v. RIM.”

Richard Erwine, Chair of the NYIPLA Committee on Public Information, Education and Awards presented the 2006 Inventor of the Year Award. The winners of this award were inventors from IBM of U.S. Patent No. 6,709,562. The patent relates to copper interconnect technology for semiconductor integrated circuit chips. The inventors included: P.C. Andricacos, H. Deligianni, J.O. Dukovic, D.C. Edelstein, W.J. Horkans, C-K Hu, J.L. Hurd, K.P. Rodbell, C.E. Uzoh, and K-H Wong.

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The *Bulletin* is published periodically for the members of The New York Intellectual Property Law Association. Annual Non-Member Subscription is \$25.00. Single copies are \$10.00 each.

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