



THE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION

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PRESIDENT'S CORNER

We are continuing to make our Association's views known to the PTO. Here, for example, is a copy of the letter we recently submitted to the PTO, to provide our comments on the very important topic of patent protection for software-related inventions.

LETTER TO COMMISSIONER OF PATENTS AND TRADEMARKS

Comments on Patent Protection for Software-Related Inventions

We submit these comments, on behalf of the New York Intellectual Property Law Association (NYIPLA), in response to the request published in the Federal Register of December 20, 1993.

NYIPLA and its Activities

Our Association (formerly, The New York Patent, Trademark and Copyright Law Association) was organized in 1922. A principal purpose was to be of assistance to your Office. We now have more than 1000 members, most of whom actively practice intellectual property law in the New York metropolitan area (either as private practitioners or as corporate employees). Our members represent diverse clients ranging from individual inventors to large corporations.

We have long been interested in the improvement of our Nation's Patent Laws. The purpose of this letter is to inform you of our views on the patent protection of software-related inventions.

Basically, we believe that software-related inventions should be protected under the same statutory provisions applicable to all other patentable subject matter. Rather than enacting new patent legislation unique to software-related inventions, we

believe that such inventions would best be dealt with by further judicial development under the existing statutes. In particular, we believe that the Supreme Court has already developed guidelines in this area, and that, although there has been some variation in the decisions of the lower courts, judicial uniformity is developing. We do endorse, however, the PTO's commitment to recruit and train as Examiners individuals who are experienced in computer-related technologies — and we believe that the PTO should continue to explore means for gaining better access to software-related prior art, particularly those unpublished materials which can be shown to have been placed on sale or in public use. We thus join in the recommendations set forth in Section XI of the August 1992 Report to the Secretary of Commerce of The Advisory Commission On Patent Law Reform.

Use of the Patent System to Protect Software-Related Inventions

As a threshold matter, we endorse the continued protection of software-related inventions under the patent laws, to the



maximum extent now allowed by statute. And we also endorse the proposition that — as to software-related inventions, as well as any other invention — the Section 101 statutory subject matter for patent protection should be interpreted broadly. As was stated by the Supreme Court in *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980): "The committee Reports accompanying the 1952 Act inform us that Congress intended statutory subject matter to 'include anything under the sun that is made by man.'"

We recognize that interpretation of Section 101 has sometimes proven difficult. As Judge Rich stated almost fifteen

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April 26, 1994

The 10th Annual Joint Seminar Program — Patent Practice Update, Grand Hyatt Hotel, New York, NY

years ago: "The determination of statutory subject matter under § 101 in the field here involved [mathematical algorithms] has proved to be one of the most difficult and controversial issues in patent law...."¹

But the Supreme Court has developed reasonably clear guidance. In 1972, for example, the Court held that a method of converting numerical information from binary-coded decimal numbers into "pure" binary numbers, for use in programming general purpose computers, did not constitute patentable subject matter. *Gottschalk v. Benson*, 409 U.S. 63 (1972).²

The Supreme Court expanded the *Benson* rule in *Parker v. Flook*, 437 U.S. 584 (1978) — holding that a method for updating alarm limits during catalytic conversion processes, in which the "only novel feature" was a mathematical formula, did not constitute patentable subject matter (437 U.S. at 588). In the landmark case of *Diamond v. Diehr*, 450 U.S. 175 (1981), however, the Court held that a process for molding raw rubber into cured products *did* constitute patentable subject matter — notwithstanding that the process employed a mathematical equation. In reaching this result, the Court emphasized both that the *application* of a mathematical formula to a known structure or process may well be deserving of patent protection and that, in determining the eligibility of such an invention for patent protection under Section 101, a claim must be considered as a *whole* (450 U.S. at 187-88).

To be sure, the Supreme Court's decisions in this area have not always been the subject of uniform interpretation. In the years following *Benson*, for example, the CCPA formulated a "two-step test" — first, does the claim recite a mathematical algorithm, directly or indirectly, and second, if so, does the claim as a whole show that the algorithm is applied to physical elements or process steps.³ At first, the Federal Circuit appeared to follow this two-step analysis.⁴ But the Federal Circuit has now pretty clearly rejected the two-step test, and appears to be following the directives of the Supreme Court in *Diehr*. See, in particular, the concurring opinion of Judge Rader in *Arrhythmia Research Technology Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1061-66 (Fed.Cir. 1992):

the supreme Court in [*Diehr*], turned away from the *Benson* algorithm rule. Thus, I too conclude that the '459 patent claims patentable subject matter — not on the basis of a two-step post-*Benson* test, but on the basis of the patentable subject matter standards in title 35.

* * *

First, even if mathematical algorithms are barred from patentability [citation omitted], the '459 patent as a whole does not present a mathematical algorithm. The '459 patent is a method for detecting the risk of a heart attack, not the presentation and proposed solution of a mathematical problem. In *Diehr*, the Supreme Court viewed the claims as 'an industrial process for molding of rubber products,' not a mathematical algorithm. [Citation omitted.] The '459 patent's claims as a whole disclose a patentable process.

Second, the '459 patent does not claim a natural law, abstract idea, or natural phenomenon. *Diehr* limited the *Benson* rule to these three categories, none of which encompass the '459 patent.

Finally, and most important, *Diehr* refocused the patentability inquiry on the terms of the Patent Act rather than on non-statutory, vague classifications. Under the terms of the Act, a 'process' deserves patent protection if it satisfies the Act's requirements. The '459 patent claims a 'process' within the broad meaning of section 101. Therefore, this court must reverse and remand.

The bottom line, for us, is that there is no need to change the scope of statutory subject matter as to the patentability of software-related inventions, particularly as interpreted by the Supreme Court and the Court of Appeals for the Federal Circuit. As elaborated in the following section, however, we do believe that the PTO should recruit and train Examiners who are better equipped to review software-related inventions — and we do believe that the PTO should continue to explore means for providing those Examiners with better access to the relevant prior art.

Standards and Practices Used in Examination of Patent Applications for Software-Related Inventions

A number of our members have observed that the ability of the PTO to examine patent applications for software-related inventions is impeded by the Examiner's lack of appropriate educational background, experience and training. Based on the remarks of Gerald Goldberg, Director of Group 2300, at a seminar given by the New York City Bar Association in June 1993, however, it is our understanding that the

PTO has already undertaken to: (1) recruit additional qualified Examiners; (2) retain those Examiners who have proficiency in the software-related fields; and (3) expand its training program in order to increase Examiners' expertise.

We strongly endorse these efforts. An improved examining corps is an essential component of any effort to provide adequate protection for meritorious software inventions, while ensuring that only properly patentable inventions are allowed to be patented. Because we believe a high level of technical training is critical to adequate examination, we strongly encourage the PTO to increase its efforts to hire Examiners who possess substantial academic and industrial training in computer design and software engineering. Given the difficulty of attracting highly trained software professionals from industry, enhanced training of existing Examiners should also be aggressively pursued.

Because there are now a variety of software-related journals and commercial databases containing software-related information, we believe that the problems associated with unavailability of relevant prior art have been reduced. But we also believe that there is a substantial body of pertinent software-related art which is neither published in readily available journals nor online — such as user manuals, conference proceedings and course handouts. Therefore, we encourage the PTO to continue its efforts to improve the database of prior art available to Examiners in the software field. And we support the PTO's efforts to encourage the computer industry to provide the PTO with prior art which is not published in generally available journals or online. We also encourage the PTO to improve the Examiners' access to the prior art — both by putting as much art as possible online and by classifying the available art in a manner which maximizes the Examiner's ability to perform meaningful searches.

We believe that an additional volume of unpublished software-related prior art exists in the form of prior public sales and uses. In our opinion, the volume of this prior art may be more substantial in the software field than in other fields. Improper allowance of a patent application over prior art publications and patents can be remedied by reexamination. No such

¹ Relying on the language of the patent statute,

procedure is available with respect to public sales and uses. Therefore, we suggest that the PTO explore ways for gathering software-related prior art sales and public uses in order to minimize the potential for improper allowance of software-related patents. (This may require the PTO to implement procedures for authenticating prior art which takes the form of public sales or uses.)

Conclusion

In sum, we believe that patent protection for software-related inventions is desirable, but can be accomplished without specialized legislation. The changes needed are evolutionary, not revolutionary. We believe the patent laws can be made to work in the software area by the continued case-by-case development of judicial precedent. More effective and efficient patent examination can be achieved by recruiting and training Examiners who are knowledgeable about software technology and by providing Examiners with better training and greater access to the relevant prior art.

Respectfully submitted,

William J. Gilbreth
President

ENDNOTES

¹ *In re Walter*, 618 F.2d 758, 764 (CCPA 1980).

² Although the *Benson* rule is that a "mathematical algorithm" cannot be the subject of a patent, it is important to know that *Benson* did not deal with algorithms generally. To the contrary, the *Benson* court dealt only with a mathematical algorithm, which the court defined as a "procedure to solve a given mathematical problem." 409 U.S. at 65.

³ See, e.g., *Patentable Subject Matter*, 1106 Official Gazette 5, 6 (Sept. 5, 1989).

⁴ *In re Grams*, 888 F.2d 835 (Fed.Cir. 1989).

NEWS FROM THE BOARD OF DIRECTORS

by William H. Dippert

The Board of Directors met on January 18, 1994. William Gilbreth presided.

Mr. Barnaby distributed copies of the Treasurer's Report, and he advised that the monies from the Joint CLE Program had been distributed. In addition, Mr. Barnaby advised that letters had been sent to individuals who had not paid 1992-1993 dues. If payment is not made within thirty days of notification, the names of those individuals will be deleted from the NYIPLA membership list.

Mr. Gilbreth led discussion concerning the solicitation by the PTO concerning comments regarding software-related inventions. Mr. Smith commented that the Commissioner has scheduled hearings in California and Washington and referred to a notice in the Federal Register responsive to the Compton Patent. Mr. Smith recommended that the Association respond to some, not all, of the issues raised.

Mr. Sweeney commented that the Copyright Committee previously considered the concept of software-related inventions and forwarded copies of its report to Andrea Ryan. Mr. Gilbreth suggested that the Patent and Copyright Committees should work together on this and then indicated that he would call the respective Chairs of the Patent and Copyright Committees and encourage other interested parties to participate.

Mr. Gilbreth reported on the November 11, 1993 CLE Program. He again offered his and the Association's appreciation to Ed Vassallo for a terrific program. There were 156 attendees, 112 of whom were paid and 44 of whom were students. The program ran a deficit of approximately \$2400, due mostly to the cost of materials.

Ensuing discussion concerned the types of programs to run in the future and the way in which such programs should be priced, namely, whether they should be priced to break even or whether the Association should subsidize such programs. Many Board Members expressed different thoughts

on these issues. Mr. Gilbreth suggested that each program should be analyzed on a "case-by-case" basis for its budget.

A motion to continue the annual New York City CLE programs passed unanimously.

Mr. Barnaby commented with regard to the foreign trademark program set for April 7 and 8, 1994. A separate program directed to the Madrid Protocol will be scheduled as a breakout session on the morning of April 8. Association members will be able to attend at a reduced rate.

Mr. Gilbreth reported that the Hon. Helen Nies will speak at the 1994 Judges Dinner. She indicated in accepting that she would welcome this opportunity to speak to the Federal Judiciary. Also, the Waldorf-Astoria has committed to certain price increase limitations for the next two years.

Mr. Gilbreth led discussion concerning model jury instructions. Various Board members commented that other organizations and judges have their own respective model jury instructions, and Mr. Filardi offered to provide some to Mr. Gilbreth. Mr. Gilbreth indicated that he would consider this issue and report back to the Board.

Mr. Barnaby reported for Mr. Gregory Battersby concerning the *Annual* publication. The *Annual* publication is being set in type and is expected to be mailed out the last week in February or the first week in March. Mr. Battersby is still formulating a plan for distributing the *Annual* publication to third parties.

Charles Baker reported on the activities of the Alternative Dispute Resolution Committee. His Committee has prepared comments on WIPO's rules re: ADR, and he would like to send those comments to WIPO. Mr. Gilbreth suggested that Mr. Baker prepare a letter to WIPO, for both their signatures.

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PENDING LEGISLATION

by Edward P. Kelly

COPYRIGHTS

Sports Broadcasts

If the copyright law affords the copyright owner the exclusive right in certain instances to perform the work publicly (see 17 U.S.C. § 106), then why is it that bars or restaurants providing televised copyrighted sports or music events to their customers often do not pay a royalty? The reason is that the copyright owner's permission is not necessary for performances that qualify under the exemption provided by § 110(5) of the Copyright Act. That provision provides that one exception to infringement is when an establishment presents the copyrighted broadcasts over receiving apparatus, (i.e., a television) of a kind commonly used in private homes. One court has held, however, that a satellite dish is not the kind of television used in private homes, and therefore, does not fall under the exemption to infringement. See *National Football League v. McBee and Bruno's, Inc.*, 792 F.2d 726 (8th Cir. 1986). In the case of a satellite dish, the bar owner would have to receive the permission of the copyright owner. Another court has held that the physical size of the store is a controlling factor in determining whether the exemption applies. See *Broadcast Music Inc. v. Claire's Boutique's Inc.*, 949 F.2d 1482 (7th Cir. 1991).

Two bills are currently pending in Congress that would clarify a bar or restaurant's obligation to pay royalties on television programming broadcast in their establishments. One of the bills, H.R. 3288 introduced by Representative Craig Thomas (R-Wyo.), would provide that such TV broadcasts in these establishments would be exempt from infringement as long as the broadcast is incidental to the main purpose of the bar or restaurant and a fee is not charged to see the broadcast. Another bill, H.R. 1988 introduced by Representative William Lipinski (D-Ill.), would require that a reasonable fee would be payable for such public broadcast. The permission granted

to the bar owner essentially would be a compulsory license.

The House Subcommittee on Intellectual Property and Judicial Administration recently held hearings on the bills. Representatives of the performing rights societies testified against the bill that would provide an exemption on the ground that there is no economic reason bars and restaurants should be exempt from paying royalties. Representatives of bars and restaurants testified that if there are to be royalties paid they should be paid under compulsory licenses established by an independent agency that would set the fees. According to these witnesses, this would prevent the performing rights societies from leveraging the individual establishments for high fees.

PATENTS

The Clinton administration recently announced that it would not resume negotiations with U.S. trading partners to harmonize the various patent laws of each country. Those negotiations included among other issues, proposals to convert the U.S. patent system to a first to file system rather than a first to invent. This issue is therefore on hold at least for the near future. Nevertheless, there have been significant international developments that will affect U.S. patent law. For instance, the adoption of the GATT agreement led to the introduction of fast track legislation that provides for a twenty-year patent term that would run from the date of filing of the application. Additionally, the Clinton administration recently signed an agreement with Japan in which it agreed to introduce legislation by June 1, 1994 calling for a twenty-year patent term in exchange for Japan's promise to permit the filing of applications in English at its patent office.

Senator DeConcini (D-Ariz.) recently introduced legislation (S. 1854) that would extend the patent term from seventeen years from the issuance of the patent to twenty years from the date that the patent application was filed. The bill also contains a provision that provides that the patent application would be published eighteen months after filing. Patent applications are currently maintained in secret at all times until the issuance of the patent.

Senator DeConcini introduced this leg-

islation in view of international developments and due to his belief that the twenty-year term running from the date of filing the application would avoid perceived problems in U.S. industry where patent applicants may have intentionally slowed the issuance of their patent and obtained the patent as much as ten years after the filing date — thereby extending the right to exclude granted by the patent law. According to DeConcini, these patents have a detrimental effect on certain industries because they surface years after other companies have already invested in these industries. In some instances, a company receives a patent on basic technology after a long delay in the application thereby gaining a competitive edge over other companies. According to DeConcini, the competitive edge is not justified because the disclosure of the information never took place under the current patent system until the issuance of the patent.

THE 10TH ANNUAL JOINT SEMINAR PROGRAM PATENT PRACTICE UPDATE

April 26, 1994
Grand Hyatt Hotel

For Reservations, Contact:
Dr. Allen Bloom
(609) 452-7080

RECENT DECISIONS OF INTEREST

by Thomas A. O'Rourke

PATENTS

In *In re Baird*, 29 USPQ2d 1550 (Fed. Cir. 1994), the Court of Appeals for the Federal Circuit held that a chemical compound consisting of a dicarboxylic acid and bisphenol A, a diphenol, was not obvious in view of a prior art compound, a combination of a dicarboxylic and a generic formula for a diphenol.

In *In re Baird* the applicants Brian Baird, et al. ("Baird") appealed from a decision of the Board of Patent Appeals and Interferences, which affirmed the Examiner's rejection of all claims of Baird's application for "Flash Fusible Toner Resins" on the grounds of obviousness.

Baird's alleged invention is a flash fusible toner having the desired qualities of high thermal stability and low critical surface energy. The toner consists of a polyester of bisphenol A and an aliphatic dicarboxylic acid. The application discloses that the toner is made by the acetylation of bisphenol A and the reaction of the product with an aliphatic dicarboxylic acid selected from the group consisting of succinic acid, glutaric acid, and adipic acid. See *id.* at 1551.

The Examiner rejected the application in view of U.S. Patent No. 4,634,649 to Knapp, et al. ("the Knapp patent"). The Knapp patent, which is directed to developer compositions, discloses the polymeric esterification product of a dicarboxylic acid and a diphenol of a given generic formula. The formula contains several variables, and thus Knapp discloses an estimated 100 million different diphenols. Knapp also discloses twenty different carboxylic acids, and specifically names the three carboxylic acids named in Baird's application: succinic acid, glutaric acid, and adipic acid. The Examiner concluded that since Knapp disclosed the carboxylic acids used by Baird, and since the generic diphenol formula of the '649 patent includes bisphenol A, Baird's toner is obvious over Knapp. The Board affirmed. See *id.* at 1551.

On appeal, the CAFC reversed. The Court stated that "the fact that a claimed compound may be encompassed by a disclosed generic formula does not by itself render that compound obvious." *Id.* at 1552 (citing *In re Jones*, 958 F.2d 347, 350 (Fed. Cir. 1992)). The Court reasoned that there is nothing in the Knapp patent that suggests that bisphenol A should be tried as the diphenol. The Court also noted that Knapp appeared to turn away from trying bisphenol A, since Knapp listed several more complex diphenols as preferred.

PATENTS

Judge and Jury Roles

Pursuant to a recent order, the CAFC will hear arguments en banc on several issues crucial to the respective roles of the judge and jury in patent infringement trials.

On November 5, 1993, the CAFC issued an order *sua sponte* for en banc review of two cases in which arguments had already been heard by three-judge panels of the Court. In both cases, *Pall Corp. v. Micron Separations*, No. 91-1393, and *Markman v. Westview*, No. 92-1049, the appellants appealed from district court judgments on the issue of infringement. In *Pall*, the defendant appealed from a judgment of infringement under the doctrine of equivalents. In *Markman*, the plaintiff appealed from the Court's order granting defendant's motion for a directed verdict, after the jury had found infringement.

In an order dated January 7, 1994, the CAFC requested briefing on the following issues for its en banc hearing of *Pall* and *Markman*:

- (1) Are disputes over the meaning of a term in a claim (a) issues of law to be decided on a documentary record, similar to questions of statutory construction, or (b) are there some claim construction disputes that can only be resolved by resort to extrinsic evidence which requires the taking of factual and expert testimony?
- (2) If factual or expert testimony is proffered to resolve a particular dispute, what are the respective roles of the trial judge and jury?
- (3) When a claim construction dispute is on appeal to this Court, what is the standard of review this court should apply to the judgment below on the merits? With regard to permissible post-trial motions?
- (4) When the meaning of a claim term must be decided in the course of deciding the question of infringement, what are the respective roles of trial judge and jury?

Reverse Doctrine of Equivalents

In a January 4, 1994 ruling, the CAFC ruled on the proper interpretation of the reverse doctrine of equivalents, as set forth in *Wilson Sporting Goods v. David Geoffrey & Associates*, 904 F.2d 677 (Fed. Cir.), *cert. denied*, 498 U.S. 992 (1990).

In *Conroy v. Reebok International, Ltd.*, 29 USPQ2d 1373 (Fed. Cir. 1994), the plaintiff Robert Conroy appealed from a district court judgment granting the defen-

dant Reebok's motion for summary judgment in a case alleging infringement of Conroy's patent on air inflatable bladders to be used in sneakers. The alleged infringing devices were Reebok's sneakers incorporating air inflatable bladders, which were sold under the trademark "THE PUMP."

The parties agreed that Reebok's sneakers contained all but one of the limitations of the independent claims of the Conroy patent, and Reebok moved for summary judgment on the grounds that its sneakers did not contain a "linking member," as claimed by Conroy. In his defense, Conroy argued that the downward extending tabs of the air inflatable bladders of Reebok's sneakers were the equivalents of the linking members claimed in the patent. See *id.* at 1375-76.

In granting Reebok's motion, the district court noted that Conroy had failed to present evidence in support of his doctrine of equivalent arguments. The district court added that even if Conroy had presented such evidence, Conroy could not assert equivalents "as a matter of law" under the rule of *Wilson Sporting Goods*, on the grounds that the downward extending tabs of the Reebok's sneakers were disclosed in the prior art. See *id.* at 1375-77.

On appeal, the CAFC reversed, and stated that the district court has misinterpreted the rule of *Wilson*. The court noted that *Wilson* called for a hypothetical claim analysis to measure the scope of the doctrine of equivalents to be afforded to a patentee. The CAFC stated that instead of applying a hypothetical claim analysis, the district court had "concluded that the mere existence of an element in the prior art automatically precludes Mr. Conroy from asserting a scope of equivalency sufficient to encompass the corresponding element in the accused device." *Id.* at 1378. The CAFC added that the district court had "applied an improper test of permissible patent scope under the doctrine of equivalents, and thus contravened the rationale of *Wilson*." *Id.* The CAFC further stated that "[w]hile a court may employ a means other than the hypothetical claim analysis set forth in *Wilson* to determine the extent to which the prior art limits the application of the doctrine of equivalents, a court also must apply standards of patentability consistent with our jurisprudence regarding anticipation and obviousness." *Id.*

COPYRIGHT

In a case decided March 7, 1994, *Campbell v. Acuff-Rose Music, Inc.*, No. 92-1292, the United States Supreme Court held that the "fair use" exception to copyright protection, as codified at 17 U.S.C. §107, extends to a song parody characterized by "excessive" borrowing and having a commercial character.

In *Campbell*, the plaintiff Acuff-Rose had sued the members of the rap group "2 Live Crew" for copyright infringement of Acuff-Rose's song "Pretty Woman." The district court granted summary judgment in favor of the defendants on the grounds of the "fair use" exception. The Court of Appeals for the Sixth Circuit, however, reversed. Citing the statement in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 451 (1984) that "every commercial use . . . is presumptively . . . unfair," the Court of Appeals, after analyzing the four factors listed in the statute, concluded that the 2 Live Crew parody was not a fair use.

On certiorari, the Supreme Court noted that 2 Live Crew's rap song was a "parody" which for the purposes of copyright law, is "the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that author's works." *Id.* at 22. The Court added that if the parody has "no critical bearing on the substance or style of the original composition," its claim to fair use diminishes. Distinguishing parody from "satire," the Court also stated that parody "needs to mimic an original to make its point, and so has some claim to use the creation of its victim's (or collective victims') imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing." *Id.* at 22-23.

Nevertheless, the Court ruled that a parody, like any other work which seeks to fall within the fair use exception, must "work its way through the relevant factors, and be judged case by case, in light of the ends of the copyright law." *Id.* at 25.

In analyzing the first factor of section 107, the purpose and character of the use, the Court stated that there is no "per se" rule against commercial use, and that the Court of Appeals had misinterpreted *Sony*. Quoting from *Harpers & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566

(1985), the Court explained that *Sony* "stands for the proposition that the fact that a publication was commercial as opposed to nonprofit is a separate factor that tends to weigh against a finding of fair use." *Id.* at 31.

The Court also considered at length the third and fourth factors of section 107. With regards to the third factor, the amount and substantiality of the portion used, the Court noted that "the extent of permissible copying varies with the purpose and character of the use." *Id.* at 34. The Court reasoned that because of the nature of parody, "using some characteristic features cannot be avoided." *Id.* at 37. After further analysis, the Court found that 2 Live Crew's copying did not prevent it from being entitled to the fair use exception.

Finally, with regards to the fourth factor, the effect of the use on the market or value of the original work, the Court noted that 2 Live Crew's work was "transformative," and thus "[n]o presumption or inference of market harm that might find support in *Sony* is applicable to a case involving something beyond mere duplication for commercial purposes." *Id.* at 43. The court reversed, and remanded the case to the district court.

The United States Court of Appeals for the Second Circuit issued a ruling which limits the power of district courts to issue injunctions that limit the rights of foreign corporations in order to protect the trademark rights of American companies.

In *Sterling Drug, Inc. v. Bayer AG*, 29 USPQ2d 1321 (2d Cir. 1994), the United States Court of Appeals for the Second Circuit issued a ruling limiting the scope of an injunction issued to protect American trademark rights to the mark "Bayer" from infringement by a foreign corporation.

In *Sterling Drug*, the plaintiff German corporation, Bayer AG, was the original owner of the "Bayer" mark. Bayer AG lost those rights in 1918, however, when its United States subsidiary was seized by the Alien Property Custodian. The defendant Sterling, an American corporation, purchased Bayer AG's American subsidiary in 1918, and as a result obtained the American trademark rights to the mark "Bayer."

Thereafter, the parties entered into a series of agreements permitting the defendant Bayer AG some limited use of the mark. At issue in this case was a 1986

agreement under which Bayer AG was allowed to name its American subsidiary holding company "Bayer USA Inc.," so long as Bayer USA remained a holding company and did not trade in goods. Bayer AG was also permitted to register the mark for use in the course of trade in "non-consumer and non-pharmaceutical goods." See *id.* at 1323. Following the agreement, Bayer USA obtained registration for the mark "Bayer" for industrial and agricultural chemicals and related products. Bayer USA advertised those products in trade journals. Bayer USA also conducted a public relations campaign in which it made frequent use of its name.

Sterling sued Bayer AG under the agreement and under the Lanham Act. After a bench trial, the court granted Sterling an injunction allowing Bayer AG only limited use of the mark. See *id.* at 1324.

The Court's injunction permitted Bayer AG the following "narrow exceptions" to the prohibition against use of the mark:

advertising in foreign publications with a circulation in the U.S. of 5,000 or less, or in trade publications where the advertisement refers to non-pharmaceutical or non-consumer products;
for use in not more than two press releases per year involving extraordinary Bayer AG events; and
certain press conferences and press releases which were not held or delivered in the United States.

See *id.* at 1329-30.

On appeal, Bayer AG argued that the injunction impaired its ability to conduct its everyday operations.

The Court of Appeals reversed the order, commenting that "[b]ecause the district court failed to make the necessary findings to support the extraterritorial reach of its injunction, we vacate the injunction's extraterritorial provisions and remand for further analysis as to the scope of such extraterritorial relief as may be warranted." *Id.* at 1330. The Court held that on remand, the district court "may grant an extraterritorial injunction carefully crafted to prohibit only those foreign uses of the mark by Bayer AG that are likely to have significant trademark-impairing effects on United States commerce." *Id.* at 1331.

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