THE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION

BULLETIN

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PRESIDENT'S CORNER

Our joint meeting with the Patent and Trademark Institute of Canada was held October 7-9, on a beautiful autumn weekend in the Adirondacks. The members of our Association should be proud of the excellent program put together by our CLE committee, particularly with regard to the intellectual property aspects of NAFTA. Over 150 members of the Canadian group attended their annual meeting earlier in the week, the great majority of whom also attended the joint program. I want to thank the members of the committee who worked so hard to make this program the best it could be, and in particular want to commend Ed Vassallo, the chairman of the committee, Basam Nabulsi, Ilene Tannen and Brian Slater for their efforts.

Please note in your new *Greenbooks*, that Edward M. Blocker has agreed to serve as Chair of our Committee on Admissions.

The New York State Bar Association recently instituted a Conference of Bar Leaders for the purposes of increasing communication between local and specialty bar associations and assisting such associations, like ours, in developing educational programs and management techniques. Undoubtedly because ours is one of the largest of these associations, I was invited to serve on the Conference's Executive Council. The Conference held its annual fall meeting in Albany on September 30 and conducted a program on lawyer bashing, dealing with the media, and communication with clients. I would like to share with you some of the things discussed at that meeting.

LAWYER BASHING AND CLIENT RELATIONS

As we are all aware, attorneys have come under increased attack, both figuratively and in fact, in recent years. From Dan Quayle's tirade about the nation's legal system, to the fodder provided by lawyers for comedians' jokes, lawyers and the legal system are considered by many to be at a crossroads.

Several polls have been conducted in recent years to attempt to get at the cause of public dissatisfaction both with the legal system, and with lawyers. Common threads are now emerging. It used to be that clients trusted and respected their own lawyers. It was the other person's lawyer they didn't like. That trend has shifted to a general distaste for lawyers, even by their own clients. Less than half of those responding to a recent poll commissioned by the American Bar Association last year considered their relationship with their own lawyer to be favorable. In the poll, teachers, pharmacists, accountants, police officers and doctors rated considerably higher than lawyers. Only stockbrokers and politicians scored worse than lawyers.

It might be surprising to note that lawyers are most popular among the poor, minorities, the young, and people that know lawyers through the media, as opposed to those who deal with lawyers regularly.

One interesting fact revealed by the polls is that lawyer competency is not as

important as we lawyers might think. In the complex time that we live in, most people have used a lawyer on one or more occasions, and nearly 2/3 of them consider lawyers to be smart and knowledgeable.

Although such polls deal with lawyers generically and not with our particular intellectual property law specialty, with the increased interest in intellectual property law in recent years in all levels of society, intellectual property lawyers do have the opportunity to upgrade the image of the legal profession in general.

We often consider that our most important contribution is to provide high quality legal work, and we take pride in being "better than the competition." But the polls say that clients assume that all work prod-

CALENDAR OF EVENTS

December 5-6, 1994	Intellectual Property Owners (IPO), Annual Meeting, J.W. Marriott Hotel, Washington, D.C.
January 27-February 1, 1995	ABA-IPL Section, Mid-Winter Meeting, Ritz Carlton, Palm Beach Florida
February 1-4, 1995	American Intellectual Property Law Association, Mid-Winter meeting, Boca Raton Resort & Club, Boca Raton, Florida

uct will be top quality, just as they assume every plane they fly will transport them safely to their destination.

In what ways, then, are lawyers declining in the popularity polls? Without inundating you with numbers and statistics, suffice it to say that lawyers are rating poorly in the following major categories:

1. Ethics and honesty — only 20% of the respondents in the ABA poll described lawyers as honest and ethical. It is important to note that clients define ethics much more broadly than lawyers do since we do so with reference to the Model Rules. The public considers ethics to include fee disputes, client relationship complaints and communication problems.

Over 75% of the complaints lodged with state bar disciplinary offices are grounded upon client relations issues, and, in particular, communication problems — "he won't return my phone calls!" The fact that this type of complaint is not a violation of the ethics code results in a twofold dissatisfaction with the legal system: i) whatever the communication problem was that led to the client's dissatisfaction, and ii) the lack of adequate means for dissatisfied clients to obtain relief.

2. Inability to be understood (8 out of 10 people in the ABA survey did not know what the term "pro bono" means — is there any reason for us not to use terminology such as "donated legal services?") How many times have we heard complaints about the complexity of documents we present for client understanding?

3. The polls say lawyers are not caring and compassionate — and that they are indifferent and even arrogant.

Consider the following principles and positive reactions:

1. Clients do not merely represent abstract variables on scholarly points of law; clients are far more than billable hours; clients are real people with real problems.

• Greet clients promptly and courteously, offering a sincere smile and a firm handshake.

• Recognize that clients are likely to be under stress.

• Listen carefully to what clients have to say; answer all questions fully, and in plain English.

• Learn everything about clients' affairs and demonstrate interest in them; make clients feel important.

• Be extremely sensitive to underlying issues and problems and take them into consideration when suggesting remedies.

• Never take a case that cannot be handled effectively; refer it to other competent counsel.

• Promise only what can and will, in fact, be delivered.

• Explain all fees and costs accurately, completely, and in language clients will understand.

• Minimize fee disputes by using engagement letters, written fee agreements and discussing billing arrangements openly.

• Explain how clients may and should participate, and help keep fees down.

2. Clients expect predictability and businesslike conduct from all service providers. Clients expect value in exchange for a fee. Service is satisfactory only when the client perceives it as satisfactory.

• Ensure everything promised is delivered, and delivered on time.

• Never lie. About anything. At anytime.

• Avoid legalese; when it must be used, explain it.

• Brief clients on each stage of a matter before the fact.

• Do not hide or under-rate the difficulties of a case.

• Legal eventualities are unpredictable; clearly and concisely explain the variables and their consequences.

• Maintain regular contact with clients, even if nothing is happening.

• Copy clients on everything.

• Be accessible; let clients know how to make contact when a matter is active.

• Return client telephone calls promptly.

• Discuss services with clients periodically during the work to ensure it is satisfactory, making alterations if it is not.

• Be responsive. Follow up.

3. Clients and the public at large expect honesty, integrity and civility from each member of the legal profession. Lawyers must demonstrate that the people's fundamental belief in the law and the justice system is warranted. Public trust flows from client trust, not public relations.

• Never bash another lawyer. Never bash a judge.

• Project a conscientious attitude.

• Participate in the community; lead.

• Work to improve the system.

DEALING WITH THE MEDIA

With increased interest in intellectual property, attorneys in our practice are more frequently contacted by the press for comments about our own or other people's cases. You should be aware of the following media "code word" definitions:

On the Record: What you say will be quoted and published. The source will be fully identified, i.e., "John Smith, an attorney with O'Connell and Aronowitz."

Not for Attribution: The information can be used, but the source will not be named. Source may be referred to generally, such as "one local attorney said," or "an informed source said."

Background: Used to expand the reporter's knowledge. Information may not be attributed, but may be included with a reference such as "some claim."

Off the Record: Information and the source CANNOT be used. Reporters go "off the record" to steer themselves in the right direction. Any information gathered off the record must be confirmed by some other sources or through documentation.

Remember, reporters always assume they are ON the record. If you wish to speak off the record or not for attribution, BE SURE to say so at the start of the interview.

- Pasquale A. Razzano

THE HIGH COST OF PATENTS IN CANADA

by M. Andrea Ryan and Linda M. Kurdydyk

Do not get caught in the far reaching web of the Canadian Patented Medicine Price Review Board ("PMPRB")! Ciba-Geigy Canada Ltd. recently agreed to a $3.6 million settlement with the PMPRB based on the price it charged for its HABITROL nicotine patch. The active ingredient (nico-

tine) is not patented, but Ciba had patents for the transdermal delivery system. The purpose of this article is to alert U.S. practitioners to a dangerous provision in Canadian law which took effect in 1993 and which could present serious consequences to pharmaceutical companies who hold Canadian patents. At our recent CLE meeting at Lake George, Linda M. Kurdydyk, a partner at Bereskin & Parr in Toronto, Canada, explained the basic provisions of the statute, and I told how Warner-Lambert learned about the PMPRB from several expensive experiences. Ciba-Geigy and many other companies are being forced into costly settlement agreements because the PMPRB is giving a broad interpretation to its jurisdiction. The following article explains the basis for these actions.

Federal and provincial governments in Canada have adopted policies to encourage companies to market cheaper brands of medicine to Canadian consumers. The federal Canadian government has implemented its policies through the patent system. Canadian law, until recently, provided for compulsory licensing of patented medicines. The federal government has also created a price review board with a mandate to ensure that the prices of patented medicines in Canada are not excessive.

COMPULSORY LICENSING

In Canada, compulsory licensing for the manufacture of patented drugs existed since 1923. In 1969, the government introduced compulsory licensing for the importation of patented drugs. New provisions with respect to the compulsory licensing of medicines came into force on December 7, 1987 and were retroactive to June 27, 1986. The amendments did not affect the basis on which licenses were issued by the Commissioner, and as a practical matter, licenses were still granted as of right. Exclusivity periods were conditional upon providing information concerning pricing and costs of production to the Patented Medicine Prices Review Board, and upon selling the drug at a price, which in the opinion of the Board, was not excessive.

Compulsory licensing was abolished in Canada by The Patent Act Amendment Act 1992 ("Amendment Act"), retroactive to December 20, 1991 — the date the General Agreement on Tariffs and Trade (GATT) were made public. Compulsory licenses granted on or after December 20, 1991 expired February 15, 1993. New compulsory licenses ceased to be granted after February 15, 1993. The PMPRB continued, and the Amendment Act appears be a basis for giving it broader powers.

THE PATENTED MEDICINE PRICES REVIEW BOARD

The Patented Medicine Prices Review Board was established under the amendments of the Patent Act which came into force on December 7, 1987. The Board has several functions. One of its jobs is to protect consumers from excessive prices for patented medicines[1] for human or veterinary use, by reviewing the prices of all patented medicines in Canada and taking remedial action in cases where prices are excessive. The Board has no jurisdiction over the prices of medicines that are not patented. *The Board considers patents to medicines, including patents for active ingredients, patents for processes of manufacture, patents for particular delivery systems or dosage forms that are integral to the delivery of the medicine, patents for indications, and patents capable of being used whether or not they are actually being used in Canada.* Patented medicines may include over-the-counter medicines or non-prescription medicines.

Reporting Requirements

Every patentee[2] of an invention pertaining to a medicine[3] is required to provide the Board with information and documents identifying the medicine, and concerning the price at which the medicine is being sold or has been sold in Canada and elsewhere, and the costs of making and marketing the medicine, where such information is available to the patentee or is within the patentee's knowledge or control. The patentee must also provide information and documents relating to the factors considered by the Board in determining whether the price of a patented medicine is excessive. These reporting requirements extend to former patentees of an invention pertaining to a medicine, with the exception being any person not entitled to the benefit of a patent or to exercise any right relating to the patent for a period of three or more years.

The Board has the power to make an order requiring the patentee or former patentee to provide the information set out above. Exempted from this provision are former patentees who ceased to be entitled to the benefit of the patent or failed to exercise any rights relating to the patent for more than three years before the day on which the order is proposed to be made.

A patentee of an invention who intends to sell the medicine in a market in Canada in which it has not previously been sold must notify the Board of its intention and of the date it intends to commence selling in Canada. The patentee must notify the Board as soon as practicable after determining the date on which the medicine will be offered for sale in the market. The Board, by order, may require the patentee to provide information relating to the price at which the medicine is intended to be sold in that market. The patentee has to comply with such an order within 60 days of the date on which the patentee intends to first offer the medicine for sale in the relevant market.

Determination of Excessive Pricing

If the Board finds that a patentee is selling a patented medicine in any market in Canada at an excessive price, it can order the patentee to reduce the maximum price to such level as the Board considers not to be excessive. The Board also has powers to offset any excess revenues derived by the patentee from the sale of the medicine at an excessive price. Excess revenues are not to include any revenues derived by the patentee or former patentee before December 20, 1991 — the date when compulsory licensing was effectively abolished — or any revenues derived by a former patentee after the former patentee ceased to be entitled to the benefit of the patent or to exercise any rights in relation to the patent. To recover excess revenues, the Board can order the patentee to do any one or more of the following:

- further reduce the price at which the patentee sells the medicine in any market in Canada;
- reduce the price at which the patentee sells one other medicine to which a patented invention of the patentee pertains in any market in Canada; or
- pay a fine in an amount equal to the excess revenues.

The Board also has jurisdiction to review the prices of patented medicines of a former patentee, excepting a former patentee who ceased to be entitled to the benefit of the patent or to exercise any rights in relating to the patent more than three years before the day on which the proceedings in the matter commenced. This requirement was prompted by the *Genentech* case, which involved the price of its human plasminogen activator product, Activase. Accordingly, if a former patentee is found to have sold a patented medicine in any market in Canada at an excessive price, to offset excess revenues, the Board may reduce the price at which patentee sells a medicine to which a patented medicine of the former patentee pertains in any market in Canada or may require that the patentee pay a fine. If the Board decides, based on the extent and duration of the sales, that a patentee or former patentee has engaged in selling a medicine at an excessive price, it may require that up to twice the amount of the estimated excess revenues be offset.

Board Procedures

The Board reviews the prices of all existing and new patented medicines to ensure that they comply with the Guidelines. If a price appears to be outside the guidelines — for example if the price is 5% above the maximum non-excessive price — the Board may conduct an investigation, and the patentee is advised immediately. The investigation can include an analysis of the pricing history of the drug product and of the prices being paid for the drug product by customers. If the investigation shows that the price exceeds the guidelines, the patentee will be given an opportunity to submit a voluntary compliance undertaking (VCU) to adjust its price. The Chairman may approve the VCU in lieu of issuing a Notice of Hearing, if he is satisfied that it meets the objectives of the Act and it conforms to the Board's policies. The VCU does not constitute an admission by the patentee that the price of the drug product is or was excessive. The Board reports publicly on all VCU's accepted by the Chairman. In 1993, the Board obtained six VCU's from companies to lower prices and to repay excess revenues totaling $6.5 million. The Chairman may commence a formal hearing if he believes that the price exceeds the Guidelines or is otherwise excessive. The Board has developed a set of rules to govern the procedure of the formal public hearings.

An individual who fails to comply with the reporting requirements or with an order of the Board is guilty of an offense on summary conviction and is liable to a fine not exceeding $5,000.00, or to imprisonment for a term not exceeding six months, or both. A corporation is liable to pay a fine not exceeding $25,000.00. Where an individual contravenes or fails to comply with any order relating to excessive pricing, he may be liable to pay a fine not exceeding $25,000.00, or to imprisonment for a term not exceeding one year, or both. A corporation is liable to pay a fine not exceeding $100,000.00.

PRACTICE TIPS

This article gives the basic legal framework for the PMPRB and its activities in Canada as they relate to patented medicines. I urge all practitioners who represent clients with pharmaceutical or OTC products in Canada to look closely at the patent portfolios and determine if any issued patents "relate" to marketed pharmaceutical or OTC products. When undertaking this review, do not overlook cases which may be inactive in your record but which may still be alive in the Canadian Patent Office because no taxes were due. Ciba-Geigy was charged with excess pricing in spite of the fact that the only patent on their nicotine patch related to the delivery system, *not the active ingredient.* Other companies have settled with the PMPRB based on process patents which were not being used to make the unpatented product. The fact that the patent "relates" to the "medicine" is enough to trigger PMPRB jurisdiction and result in monetary payment.

Since Ciba-Geigy settled and did not continue to challenge the jurisdiction of the Board, the issue of the Board's jurisdiction is still unclear. Until the issue of what types of patents are subject to price regulation is clarified, I suggest that clients be cautioned prior to allowing a patent to issue in Canada. If the patent is "related" to a "medicine" it could cause the medicine to be subject to costly price controls.

Consult with your Canadian counsel for clarification and a full explanation of this potentially expensive pitfall. A full copy of the paper Linda distributed at the meeting is available from her on request.

END NOTES

[1] Medicine is defined in Sections 1.5 and 1.6 of the Board's Compendium of Guidelines, Policies and Procedures, as "any substance or mixture of substances made by any means—whether produced biologically, chemically or otherwise—that is applied or administered in vivo in human or animals to aid in the diagnosis, treatment, mitigation or prevention of disease, symptoms, disorders, abnormal physical states, or to modify organic functions in humans or animals however administered. Medicines include vaccines, topical preparations, anesthetics and diagnostic products used in vivo, regardless of delivery mechanism (e.g. transdermally, capsule form, injectable, inhaler, etc.)" Medical devices, in vitro diagnostic products and disinfectants not used in vivo are not considered medicines.

[2] Patentee is defined in Section 79(1) of the Patent Act as a person for the time being entitled to the benefit of the patent for that invention, and includes where any other person is entitled to exercise any rights in relation to that patent other than under a license continued by subsection 11(1) of the Patent Act Amendment Act, 1992 i.e. a compulsory license. Generally, the patentee will be the manufacturer who sells the medicine into the distribution chain (Patentee's Guide to Reporting, September, 1988, Page F1-1).

[3] An invention pertains to a medicine if the invention is intended or capable of being used for medicine, or for the preparation or production of medicine (Patent Act Section 79(2)).

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JAPANESE INTELLECTUAL PROPERTY DEVELOPMENTS

by John B. Pegram

The U.S. Bar/JPO Liaison Council had its Fifth Annual Meeting in Washington DC on Thursday, October 6th, 1994. The JPO was represented by Deputy Commissioner Hajime Aburaki, Director for Inter-

national Cooperation Yoshihiro Masuda, and the Director of the Institute for Intellectual Property's Washington, DC office Hirotsuna Yamashita. Representatives of 17 U.S. intellectual property bar groups participated.

STATISTICS

In 1993, the JPO received 366,500 patent applications, 77,100 utility model applications and 307,500 requests for examination of such applications. It disposed of 263,000 applications, reducing the average time for examination to 28 months.

The Japanese government has a general policy of reducing government employees. Thus, it is difficult for the JPO to increase the number of examiners. Sixty-six additional examiners and "associated officials" were added in 1994, a slightly larger increase than in recent years. In order to reduce the examination pendency period, it has taken several other steps. The Utility Model Law has been amended so that utility models filed after January 1, 1994 will be registered without substantive examination. Extensive use is made of outside agencies for prior art searching in connection with patent applications. Over 100,000 outside prior art searches were conducted in the fiscal year 1994. The JPO also continues to employ 50 experts to assist examiners by searching and preparing preliminary written opinions.

PENDING AMENDMENTS DUE TO GATT-TRIPS

The Trade Related Intellectual Property provisions (TRIPs) of the GATT Uruguay Round Agreement requires certain patent law harmonization steps in signatory countries. The JPO reports that legislation is being prepared to change Japanese patent law in four respects.

The words "offering for sale" will be included in the definition of working of an invention in Article 2. As a result, offering an infringing product for sale will be an act of infringement, and it appears that offering a patented product for sale will satisfy one of the requirements for expedited examination of a patent application.

At present, the term of a Japanese patent is 15 years from the date of publication (after examination), but not to exceed 20 years from the filing date. Article 67 will be amended to set the term at 20 years from the filing date. (Article 67)

The provision in the present Japanese law rendering unpatentable "inventions of substances manufactured by a process of nuclear conversion" will be deleted. (Article 32) Priority rights under Article 43 will be extended to applicants from non-member states of the Paris Convention who are TRIPs members or who extend reciprocal rights.

LIMITED RESTORATION OF RIGHTS

One of the problem areas which the Council members have noted at more than one meeting with the JPO is the possibility of restoring abandoned patents after the present six-month grace period. Japan's present law in this area is probably the most restrictive. Council members have asked the JPO to permit restoration, for a fee, within a grace period of one year to permit persons who missed payment of annuity to restore the patent when they receive a notice or docket reminder for the next year. The JPO, however, has expressed a belief that persons should be able to rely upon abandonment of a patent.

In its recent status report, the JPO informed the Council that legislation was being prepared to allow restoration within six months after the expiration of the grace period when the failure to pay is due to reasons outside the control of the patentee. In answer to questions, the JPO representatives indicated that an inadvertent failure to pay annuities by an attorney, agent or service probably would not satisfy the proposed standard. Council members interested in this issue expressed disappointment.

EXAMINATION GUIDELINES

The JPO deserves great credit for production of numerous examination guidelines (similar to our MPEP) under the existing Japanese patent law and recent revisions. The Council has encouraged prompt release of English versions by the JPO. The JPO is to be complimented on having produced five sets of guidelines for recent revisions in patent and utility model examination, amendment and appeal procedure. English versions have been provided to the Council members and probably will be available for purchase from AIPPI-Japan Group and other organizations in Japan.

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NEWS FROM THE BOARD OF DIRECTORS

by William H. Dippert

The Board of Directors met on September 22, 1994. Pasquale A. Razzano presided. Howard Barnaby distributed copies of the Treasurer's Report. He reported that the Association's bank balance is not as healthy as usual at this time oft he year, due to the cost of the *Annual* and certain prepayments to the Sagamore in connection with the CLE Weekend.

Mr. Razzano asked whether the Association should raise its dues. After a brief discussion on this point, Mr. Razzano asked Mr. Barnaby to determine when the Association's dues were last increased and to compare the Association's dues with the dues of other similar organizations.

There was brief discussion concerning Jerry Lee's application for Life Membership. Upon motion by John Sweeney, Mr. Lee's application for Life Membership was unanimously approved.

Mr. Razzano led a brief discussion of possible speakers for next spring's Judges Dinner. Mr. Razzano reported that, through Mr. Goldstein, the Association has extended an invitation to Vice President Gore. Secretary of Commerce Ron Brown may be alternatively available. Mr. Razzano reported that he, Howard Barnaby and Martin Goldstein had met with Horizon to discuss a long-term contractual relationship. A three-year contract with modest increases was agreed to. The contract will be sent to the Association by Mr. Isaacs.

Mr. Razzano reported that he received a request for a contribution from the National Inventors Hall of Fame. Since the letter indicated that the Association would be contacted by NIHF representatives, Mr.

Razzano indicated that he would wait for that contact.

There was discussion concerning proposed comments on the Justice Department's draft antitrust guidelines. It was agreed that no comments would be filed at this time.

Mr. Vassallo and Mr. Slater made a report concerning the CLE Weekend scheduled for October 7. Mr. Vassallo reported that whereas the Canadian contingent expected to have at least 180 attendees, the Association had only ten people committed thus far.

Mr. Razzano reported on the July, 1994 hearing concerning obviousness that was held at the PTO. He said there were about 30 speakers, only one of whom was in favor of different standards of obviousness. He stated that the present patent law is fine and that the problem is how the law is administered by the PTO.

There was brief discussion of the need for a permanent Association storage facility for records and archives. No decision was reached. ■

RECENT DECISIONS OF INTEREST

by Thomas A. O'Rourke

In *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994), The Court of Appeals for the Federal Circuit upheld the decision of the Board of Patent Appeals and Interferences affirming a rejection of claims 1-5 of a patent application for a data processing system. The CAFC concluded that the patent examiner had incorrectly found that the application covered unpatentable subject matter under 35 U.S.C. § 101.

The invention at issue in *Lowry* was a data processing system using the "attributive data model." Under this model, attributive data objects (ADOs), which are single primitive data elements "compris[ing] sequences of bits which are stored in the memory as electrical (or magnetic) signals that represent information," are governed by simple organizational rules. The ADOs have both hierarchical and non-hierarchical interrelationships, and operate to facilitate "software operations such as retrieval, addition, and removal of information in the data structure." *Id.* at 1033.

The examiner's rejection had been on the grounds that the alleged invention consisted of "printed matter." The CAFC, however, reversed. The CAFC noted that "[t]he printed matter cases 'dealt with claims defining as the invention certain novel arrangements of printed lines or characters, useful and intelligible only to the human mind.'" *Id.* at 1034 (citing *In re Bernhart*, 417 F.2d 1395, 1399 (C.C.P.A. 1969)). The CAFC distinguished those cases from *Lowry*, in which the claims require that the information be processed by a machine, e.g., a computer. The CAFC further stated:

> Lowry's data structures, while including data resident in a database, depend only functionally on information content. While the information content affects the exact sequence of bits stored in accordance with Lowry's data structures, the claims require specific electronic structural elements which impart a physical organization on the information stored in memory. Lowry's invention manages information. As Lowry notes, the data structures provide increased computing efficiency. *Id.* at 1034.

The CAFC acknowledged that the stored data had no physical structure, but commented that it existed "as a collection of bits having information about relationships between the ADOs." *Id.*

The CAFC further reversed the decision of the Board that had found claims 1-19 invalid on the grounds of obviousness, and claims 20-29 invalid as anticipated under section 102. *See id.* at 1034-35.

TRADEMARKS

Is there ever abandonment of a mark, or is the third party simply held to a likelihood of confusion standard? In *Indianapolis Colts. Inc. v. Metropolitan Baltimore Football Club Limited Partnership*, 31 USPQ2d 1811 (7th Cir. Aug. 12, 1994), the Seventh Circuit affirmed the district court's ruling which granted a preliminary injunction barring the new Canadian Football League ("CFL") team in Baltimore from using the name "Baltimore CFL Colts," which incorporated the abandoned mark "Baltimore Colts." Chief Judge Posner stated that the ground for the preliminary injunction was likely consumer confusion.

In 1952, The National Football League ("NFL") "Dallas Texans" moved to Baltimore, where the team was renamed the "Baltimore Colts." In 1984, the team moved to Indianapolis and became the "Indianapolis Colts." In 1993, a new CFL team was created in Baltimore. Originally named the Baltimore Colts, the team's name was changed to the "Baltimore CFL Colts," after protests by the NFL. The NFL was not satisfied, and brought suit. *Id.* at 1812.

Judge Posner first concluded that the Indianapolis Colts and the NFL could bring suit under Indiana's long-arm statute, which reaches as far as the U.S. Constitution. He reasoned that the new Baltimore CFL team would be broadcasting its games in Indiana, and the trademark injury to the Indianapolis Colts would be felt mainly in Indiana. *Id.* at 1812-13.

The district court found that the mark "Baltimore Colts" had been abandoned. Judge Posner stated that while an abandoned mark is in the public domain, "those who make subsequent use may be required to take reasonable precautions to prevent confusion." *Id.* at 1813 (citations omitted). Additionally, since there was no break of continuity in the team when it moved, the mere difference in the geographical component of its name did not entitle a third party to pick up the name and confuse fans with regard to the identity, sponsorship, or league affiliation of the new Baltimore team. *Id.* at 1814.

The Court next turned to the issue of confusion. It stated that if there is no actual confusion, there is no trademark infringement to enjoin under the Lanham Act. The Baltimore fans probably all know that their NFL team has deserted them, so is confusion likely? Judge Posner stated that confusion was possible, suggesting that Baltimore CFL Colts merchandise might be purchased by a consumer who thought it was associated with the NFL team, or that a fan may watch a Baltimore CFL Colts broadcast rather than an NFL broadcast due to confusion. *Id.* at 1815. These hypotheticals were bolstered by the surprising survey results discussed *infra*. However, Judge Posner conceded that the Lanham Act would not "impoverish the lexicon of trade names to protect the most

gullible fringe of the consuming public." Judge Posner stated that the test for finding nfusion is whether use of the challenged ark would cause the plaintiff to lose a substantial numbers of consumers. *Id.* at 1815 (citations omitted).

The Court then listed the following factors for determining the likelihood of confusion: the similarity of the marks and the products, the knowledge of the average consumer of the product, and the overlap of the geographical markets. The court stated the applicable policy of trademark law as balancing the interest of the seller of the new product and the interest of the public in the availability of informative names against the interest of the existing seller and the interest in the public in knowing the reputation of a product without costly investigation. *Id.* at 1815.

Having described the policy concerns involved, Judge Posner then criticized the often relied on practice of using marketing consultants in trademark cases, and the resulting unedifying battle of the experts. Since the marketing consultant is often a "hired gun," the Chief Judge's suggestion of requiring neutral experts might encourage surveys which are not biased. Judge Posner then criticized the defendant's expert, which the district court also discounted, for an entirely inept study characterized by loaded questions and a small, localized statistical sample. *Id.* at 1815-16.

The Court then described at length the plaintiffs' survey, which the district court had found credible. Although Judge Posner found some bias in the plaintiff's survey, the generally acceptable survey showed a surprisingly large amount of confusion evidenced by the 64% of self-identified football fans who thought that the "Baltimore CFL Colts" team was either the old (NFL) Baltimore Colts or the current NFL Indianapolis Colts. The battle of the experts had clearly been won by the plaintiffs in this case. The defendant failed to raise any issue concerning irreparable harm in granting or denying the preliminary injunction, and therefore, the preliminary injunction was sustained, as the district judge did not commit clear error.

While courts often fervently protect e goodwill of a mark holder, and avoid e loss of rights associated with trademark abandonment, this case may be an instance of a court protecting "bad will." Here, the new CFL team may well have been trying to trade on the negative impact of the Baltimore Colts leaving town, since fans previously loyal to the old Baltimore Colts would know that the CFL team is a new team.

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In *Bloom v. Hearst Entertainment, Inc.*, 32 USPQ 2d 1333 (5th Cir. Sep. 29 1994), the U.S. Court of Appeals for the Fifth Circuit affirmed a district court decision which held that a contract granting rights to plaintiff's manuscript was ambiguous. Upon considering all extrinsic evidence of the parties' intent, the court held that the contract granted the rights to the home video later made from the manuscript.

Appellees were granted "exclusive worldwide motion picture and television rights" to appellants' book, *Evidence of Love*, in a contract applying New York law. The appellant's expert stated that the contract did not grant home video rights under the industry custom and usage, but the district court discounted the expert's testimony. Appellants further argued that the contract clause was not ambiguous since the court should be bound by the expert testimony, and extrinsic evidence of the parties' intent should not have been admitted. *Id.* at 1334.

The Fifth Circuit held that contract ambiguity is a question of law and that

> [a] term is ambiguous if it is susceptible to more than one meaning when viewed objectively by a reasonable intelligent person who has examined the context of the entire agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business.

Additionally, extrinsic evidence should only be used if the explicit contract language is ambiguous. *Id.* at 1334 (citations omitted).

However, under the Uniform Commercial Code N.Y.U.C.C. § 2202, as adopted in New York, extrinsic evidence of usage of trade, course of dealing or course of performance is determinative evidence as to the ambiguity of a contract term, but only if the express contract terms were ambiguous. Therefore, the evidence of usage or trade could not make expressly ambiguous language clear, as appellant argued. *Id.* at 1335. The Fifth Circuit applied the following test:

> 1. Were the express contract terms ambiguous?
> 2. *If not*, are they ambiguous after considering evidence of course of dealing, usage of trade, and course of performance?
> 3. If the answer to either of the first two questions is yes[], what is the meaning of the contract in light of [all] extrinsic evidence?
> *Id.* (citations omitted) (emphasis added).

The court then turned to the standard of review under these rules, and held that the first test was a question of law reviewed *de novo*, and the third test was a question of law reviewed under the clearly erroneous standard. The Court declined to decide the standard of review for the second test, since it held that the contract clause in question was expressly ambiguous as a matter of law. *Id.* at 1335.

The Court found that the express language of the clause was ambiguous since there are at least two reasonable constructions of the clause. First, as appellant suggests, the clause could be construed to cover only "motion pictures" for theatrical release and made for "television" movies. Secondly, as appellee contends, the clause could reasonably be construed as encompassing all video rights including home video rights. *Id.* at 1334.

The Court held that the agreement was ambiguous as a matter of law and that the properly admitted extrinsic evidence of intent overwhelmingly indicated appellant's intent to transfer video rights to the book. The extrinsic evidence of the parties' intent included testimony by both of the opposing negotiators of the contract that they believed the home video rights were being transferred. The court affirmed the district court's factual finding under the clearly erroneous standard. *Id.* at 1336.

Additionally, the Court noted that under New York rules of contract construction, a grantor who makes a broad grant of rights shall bear the burden of reserving the right to any new, but foreseeable use. The Court held that a general grant of motion picture rights is potentially broad enough to cover home video use. *Id.* at 1337 (citations omitted). Therefore, the burden was on the appellant to reserve the video rights to the book, which they did not, and thus there is no infringement. ■

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