



**July/August 1999**

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## **President's Corner**

*By Herbert F. Schwartz*

In this my first President's Corner, I would like to follow up on the brief comments I made at the Annual Meeting.

In this day and age, with the proliferation of intellectual property organizations, both as stand-alone groups and as part of national organizations, the question arises as to the role and place of a regional intellectual property law association such as the New York Intellectual Property Law Association. One answer is found in the experiences encountered when taking part in the activities of a regional rather than a national group. Participating in the activities of the New York Intellectual Property Law Association is like that of any other organization -- you get out of it what you put into it. I have learned over the last five years of service on the Board and the officer "ladder" that one of the significant benefits of belonging to this organization is the opportunity I have had to know better many fellow attorneys in the local intellectual property bar, in an atmosphere far removed from the usual professional contexts, i.e., negotiation or litigation. It has provided me with much personal and professional satisfaction.

In earlier days of my practice in New York, the intellectual property bar (then called patent, trademark or copyright lawyers) was much smaller. It was much easier to get to know your counterparts in other organizations. With the explosion of what is now called intellectual property law, the lack of personal interaction has, at times, generated a concurrent lack of civility. This is true not only in intellectual property, but also the bar at large. It has not gone unnoticed by various bar organizations, courts and other commentators. See, e.g., the recent article in the *New York Times* (June 1, 1999) in which Judge Denny Chin was quoted as having decided to take to task what Judge Chin characterized as "Rambo lawyering." The *New York Times* went on to report that:

Judge Chin, who has served on the Federal bench since 1994, has criticized the conduct of lawyers in several cases, and he imposed sanctions on a lawyer in at least one. One legal ethics expert, Stephen Gillers, a law professor at New York University, said the judge's approach to civility in the courtroom was welcome and refreshing. 'I think Judge Chin is becoming the Mr. Clean of the Federal courthouse,' Professor Gillers said. 'It's recognized that if lawyers' aggressive tactics and threats are going to be curtailed, judges have to do it. There's no other way. Most judges do not do it.'

Simply being a member of the New York Intellectual Property Law Association will not, by itself, curtail such activities. However, having the chance to get to know and work with other members of the local bar in a relaxed and cooperative atmosphere can certainly be of assistance in getting to know your fellow attorneys better.

As you know, one of the many activities in our group is the submission of amicus briefs in appropriate cases. In that connection, the Association submitted an excellent, well-documented brief in the recent *Zurko* matter in support of the Patent Office's position. Although the Supreme Court did not adopt our point of view, its respect for the Association's work is manifest by the Court's (Justice Breyer) reliance on the appendix submitted in the Association's amicus brief which detailed the 89 cases which all parties agreed embodied the PTO ABA Standard of Review. This is a tribute, not only to the reputation this organization has in the Courts, but also to the excellent work done by Charlie Baker, Bruce Wexler and the rest of the Committee on Legislative Oversight and Amicus Briefs.

As I am sure everyone is aware, mandatory continuing legal education is here in New York. We, at the New York Intellectual Property Law Association, believe that an important part of our charter is to make available to all members meaningful programs to satisfy these requirements at a reasonable cost and without extensive away-from-home travel. Anthony Giaccio, the current Chair of our Committee on Continuing Legal Education, has performed a yeoman's service in getting our New York CLE program up and running. The first major upcoming event will be the Fall CLE Weekend at the Tarrytown House Convention Center in Tarrytown, New York. This program is being organized so that members can attend either for the entire weekend conference or either of the separate days without traveling from the area. It is hoped that Sections I and II are expected to qualify for two ethics credits and two professional practice credits, and Sections III and IV are expected to qualify for four professional practice credits. The program will be coupled with a golf tournament on a preceding Friday and other events during the weekend. I hope many of you will be able to attend.

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## **Continuing Legal Education Program on Intellectual Property Law and Practice**

The Ninth Annual Continuing Legal Education Program on Intellectual Property Law and Practice will be held in Akron September 17-18, 1999, in conjunction with the National Inventors Hall of Fame Induction Weekend.

The CLE conference is presented by Inventure Place, National Inventors Hall of Fame, and the National Council of Intellectual Property Law Associations and is cosponsored by the National Bar Association, the All Ohio Annual Institute on Intellectual Property, the Ohio State Bar Association, the Cincinnati Bar Association and the Cincinnati, Cleveland, Columbus, Dayton and Pittsburgh Intellectual Property Law Associations.

This two-day program features presentations by nationally recognized experts in the fields of patent, trademark and copyright law and is intended to review current issues affecting intellectual property law practice in the Federal Courts, the U.S. Patent and Trademark Office and the U.S. Copyright Office. The program will endeavor to identify inconsistencies in present law in order to try to predict where the next major changes might occur.

The conference will be held at the Hilton Hotel at Quaker Square in downtown Akron. For more information on the CLE conference or to register, please call (330) 849-6921.

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## **Pending Legislation**

*By Edward P. Kelly*

## TRADEMARKS

### Federal Dilution Statute in Trademark Office Proceedings

Congress amended the Lanham Act two years ago to provide for a federal cause of action for dilution of a trademark. Dilution is the whittling away of the distinctiveness of a famous mark by use on non-competing goods or services or in a manner which would tarnish the reputation of the famous mark. Prior to the amendment of the Lanham Act, a trademark owner alleging dilution of a famous trademark had to rely on state laws prohibiting dilution. Section 43(c) of the Lanham Act now provides protection against the dilution of famous marks as defined in the statute.

Clients advised of their newfound federal rights to prevent dilution may be surprised, however, to find that the federal dilution theory cannot be asserted in a cancellation or opposition proceeding in the U.S. Trademark Office. A bill recently introduced by Howard Coble (R-N.C.) (H.R.1565) would amend the Lanham Act to allow a dilution claim to be made in both an opposition proceeding and a cancellation proceeding. An Examiner reviewing a trademark application, of course, would not be able to refuse an application on the ground of dilution.

H.R.1565 also contains a provision that relates to a waiver of the sovereign immunity of the United States. Another provision would provide that in cases where a trademark owner alleges trade dress infringement, the burden would be on the trademark owner to plead and prove nonfunctionality of the trade dress. The bill has been referred to the Judiciary Committee.

### Madrid Protocol

The Madrid Protocol is an international treaty among twelve countries that provides for reciprocal trademark rights among countries. The United States has not yet acceded to the Protocol. Implementation legislation has been pending for several years which if passed would make the United States a member. Under the Madrid Protocol, a person filing a trademark application would only have to make a central filing in order to take the benefit in twelve countries. This is a significant economic benefit to a person who seeks to obtain trademark reputation through Europe but does not want to retain an agent in each country to file a separate application. Currently, American trademark owners could take advantage of the community trademark law which also offers central filing. But the expenses of filing a single CTM application are several times the cost of filing a U.S. application.

The US has been on the verge of accession to the Madrid Protocol for several years, and membership has been prevented only by the fact that the Administration has not supported an accession to the treaty due to an imbalance in the voting rights. The voting rights provisions of the Protocol provide that each country receives a vote and the EU also receives a separate vote. It is the separate EU vote that has had the Administration critical of accession. Rep. Coble recently introduced bill HR 769 to bring US into conformity with the Madrid Protocol. The bill has been passed by the House.

### Trademark Law Treaty Implementation Bill

Trademark practitioners are by now familiar with the fact that the U.S. is a signatory to the Trademark Law Treaty of 1994 (TLT) which is an international treaty among numerous countries. Implementation legislation has been pending in the House (H.R. 1661) and Senate (S. 2193) which would amend the U.S. trademark law to make it compatible with the requirements of the TLT. The TLT does not establish a central filing for trademarks like the Madrid Protocol or the Community Trademark Law. Rather, the TLT seeks to establish uniform guidelines for the prosecution and renewal of trademarks.

Some commentators have referred to the changes in the implementation legislation as minor because the United States trademark law is largely compatible with the Trademark Law Treaty. However, trademark

practitioners will likely find that the amendments to the Lanham Act together with the changes to the Code of Federal Regulations will result in significant practice changes, most of which should lead to greater flexibility and reduced costs for both attorney and client. For instance, under the implementation legislation and changes to the code of federal regulations, the client will no longer have to sign the trademark application at time of filing the application in order to secure a filing date. The application will have to be signed before a trademark registration will issue. The implementation legislation also contains revisions of the requirements for Section 8 and 15 declarations. There will now be a grace period within which to file a Section 8 declaration. A Section 8 also will be required at the time of each ten-year renewal. The PTO intends to draft a combined Section 8 declaration and Section 9 renewal declaration. The TLT also will eliminate onerous legalization requirements in certain countries. Additionally, an application based upon a foreign registration would receive a filing date even if a certified copy of the foreign registration were not submitted with the application. The legislation would be implemented as to applications and post registration actions as of October 30, 1999. The implementation amendments were the subject of hearings in the PTO in June.

## COPYRIGHTS

### Increase of Statutory Damages

The copyright law currently provides that the copyright owner may elect to receive up to \$100,000 in statutory damages per infringed work. The statutory damage provisions exist because it is sometimes difficult to prove actual damages. Representative James Rogin recently introduced a bill in the House (HR 1761) entitled "The Copyright Damages Improvement Act of 1999" which would increase the statutory damages available in cases where the infringement was part of a repeated pattern or practice of infringement. In such cases, the Court would be allowed to award statutory damages up to a sum of \$250,000 per work. In introducing the bill, Rep. Rogin stated that the bill targets repeat offenders that have engaged in a pattern or practice of infringement. He noted that while \$100,000 may be sufficient in certain cases, infringers who distribute thousands of unauthorized copies would not necessarily be deterred by a \$100,000 penalty.

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## Recent Decisions of Interest

*By Thomas A. O'Rourke*

## PATENTS

### Inducement to Patent Infringement Where No Implied License Present

In *Glass Equipment Development, Inc. v. Besten, Inc.*, 98-1200 (Fed. Cir. April 5, 1999) (Rich, C. J.) GED appealed the district court's grant of summary judgment which held Besten not liable for inducing infringement of GED's method patent by Simonton because Simonton had an implied license to use GED's method. Besten cross-appealed the district court's dismissal of Besten's antitrust counterclaim.

Spacer frames used in the manufacturing of thermally insulating glass windows are made of hollow aluminum bars joined with "corner keys" and coated with sealant/adhesive so that, when the spacer frame is sandwiched between two sheets of glass, an air- and moisture-tight seal is formed between the frame and the glass, and an insulating space is formed between the glass sheets. GED is the assignee of a patent on spacer frame assemblies. Folding, locking corner keys, which are elements of the apparatus patent but are not claimed independently, are manufactured by Allmetal under GED's license. GED is also assignee of the method patent in suit for linearly connecting four spacer frame segments together using folding, locking corner keys, moving frames and unfolded corner keys through a linear extruding machine which applies sealant/adhesive to them, pivoting the coated frames about the axes of the corner keys so that the corner keys lock in place, and joining the free ends together so that they form a rectangular frame. Simonton, a manufacturer of insulating glass windows, used to buy corner keys from GED's licensee

Allmetal to make spacer frames by a noninfringing method. However, Simonton bought a linear extruding machine from Besten to make the spacer frames. Simonton was sued by GED for infringement of GED's method patent, and, subsequently, admitted infringement in settlement negotiations with GED. GED maintained suit against Besten for inducing Simonton to infringe.

Before the district court, Besten successfully argued that GED was estopped from asserting Besten induced infringement because Simonton had an implied license to use GED's method. Besten was not successful on its counterclaim that GED's lawsuit against Besten for inducement was an attempt to monopolize the market for spacer frame linear extruding machines in violation of section 2 of the Sherman Act and the corresponding state statute.

The Federal Circuit reviewed the district court's decision *de novo*. As to the implied license issue, the Federal Circuit recognized that it was true that "absent any direct infringement because of implied license, there can be no inducement of infringement." Nevertheless, the party, who argues that the sale of a device carries with it an implied license to use that device in practicing a patented invention, has the burden to show that the purchased device has no reasonable noninfringing uses. Here, the CAFC rejected the district court's noninfringing use analysis that Besten had shown that there were no noninfringing uses for the folding, locking corner keys Simonton bought from Allmetal. According to the Federal Circuit, the district court improperly limited its analysis of the existence of noninfringing uses to the ones currently in use at the time of the summary judgment motion. GED did submit evidence of two noninfringing methods (i.e., the "handgun" and the "cartwheel" methods) in use until 1995 when they were substituted for the linear method. Secondly, the Federal Circuit held that the district court erred in requiring that any potential noninfringing method be "commercially viable" (i.e., that it permit the user to sell the resulting device at a profit and "afford the development and continuation of an ongoing business") so that only the most profitable method of using the corner keys would be an acceptable alternative. The CAFC, instead, applied its own holding in *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 923-26 (Fed. Cir. 1984) that "a legally acceptable noninfringing use need not be as profitable as the patented method-it need only be reasonable." Besten made no showing that the change from the preexisting methods to the linear one occurred because the previous methods became unreasonable due to industry reasons unrelated to the availability of the linear method. Thus, the preexisting methods, perhaps less profitable, qualified as reasonable noninfringing uses for the corner keys Simonton bought from Allmetal. Besten had failed to meet its burden to show that companies like Simonton, which purchased corner keys from Allmetal, obtained an implied license to practice GED's patented linear method upon which Besten would be entitled to continue selling its linear extruding machines to such companies. Accordingly, the Federal Circuit reversed the district court's grant of summary judgment to Besten.

As to the Besten's antitrust counterclaim, the district court's dismissal was based on the court's holding that all purchasers of corner keys from Allmetal had an implied license to practice GED's linear method, and that Besten consequently had no antitrust damages since it was permitted to sell its linear extruding machines to those purchasers for use in practicing that method. The Federal Circuit affirmed on the different ground that Besten, although not allowed to sell its extruding machines to such companies, failed to show GED's antitrust liability under the law. A patent owner who brings a suit with an anti-competitive effect to enforce its patent statutory rights to exclude others from making, using, or selling the claimed invention is exempt from antitrust laws, unless the infringement defendant proves that (1) the patent was obtained through knowing and willful fraud, or (2) the infringement suit was a mere sham to interfere with a competitor's business. Here, Besten only showed that GED brought a series of actual or threatened patent infringement suits with potential anti-competitive effect, without showing that GED obtained its method patent through knowing and willful fraud upon the patent office, or that GED's suit were sham litigations.

#### Personal Jurisdiction-Government Contacts Exception

In *Zeneca Limited v. Mylan Pharmaceuticals, Inc.*, 97-1477 (Fed. Cir. April 1, 1999) (Gajarsa, C. J.), Mylan appealed the Pennsylvania district court's order granting Zeneca's motion to transfer its patent infringement suit to the Maryland district court holding that the Maryland district court had personal

jurisdiction over Mylan in light of the government contact exception.

Mylan is a subsidiary of Mylan Laboratories Inc., which has a place of business in Pennsylvania. Zeneca is a corporation incorporated under the laws of England with its principal place of business in England. According to the "Hatch-Waxman Act" (Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. 98-417, 98 Stat. 1585 [1984]), Mylan filed a petition with the FDA in Maryland to obtain permission to market a generic form of tamoxifen, a patented drug owned by Zeneca. Mylan's petition includes its abbreviated new drug application (the "ANDA") and a certification pursuant to 21 U.S.C. § 355(j)(2)(A)(vii)(IV) claiming that the Zeneca's patent is invalid or will not be infringed by the manufacture, use or sale of the new drug. A "paragraph IV" application such as this is an infringement under the statute and gives the patent holder right of action pursuant to 35 U.S.C. § 271(e)(2). After suit was brought, a jurisdictional ping-pong match began between the Pennsylvania and Maryland district courts on the issue of jurisdiction, after which the Pennsylvania district court granted Zeneca's motion to transfer the case to Maryland and certified the case for interlocutory appeal to the Federal Circuit. The issue before the Federal Circuit was whether the Maryland district court could properly exercise personal jurisdiction over Mylan, in light of the government contacts exception. In the context of traditional personal jurisdiction analysis, the government contacts exception provides that petitioning the national government does not "count" as a jurisdictional contact to assert in personam jurisdiction, even when the plaintiff's cause of action was related to this governmental contact, because it would pose at risk the First Amendment right to petition the federal government. The Federal Circuit held that the government contacts exception should apply since the fact that federal agencies have had to move to states surrounding the District of Columbia, as the FDA to Maryland, is no reason for the government contacts exception not to apply. In addition, Mylan's petition for the right to market its generic drug clearly falls within the First Amendment right to petition. Therefore, allowing jurisdiction based solely on the submission of the Petition would allow for the creation of a national judicial forum in Maryland for generic drug infringement cases since Mylan's contact with Maryland arose out of the mere fortuity that the government agency that must receive the Petition is located in Maryland. Moreover, application of the government contacts exception in this case would not deprive Zeneca of a forum in which to seek relief because the Pennsylvania district court has personal jurisdiction over Mylan.

The CAFC also rejected the argument that the exception is not applicable here because, under the Hatch-Waxman Act, by filing applications "ANDA" and certifications under paragraph IV, generic drug manufacturers commit a tort and the court of the place of the tort should have enough contact to assert personal jurisdiction against the tortfeasors. According to the Federal Circuit, such a construction would allow Congress to burden unnecessarily, and possibly impermissibly, a First Amendment right to petition, and it would undermine the real purpose of the Hatch-Waxman Act which was not to transform FDA filings into inherently tortious acts, rather into "highly artificial" torts for a stated purpose. Through the Hatch-Waxman Act, Congress ensured that making, using or selling of patented drugs before the expiration of the patent would not be considered infringing if done for the limited purpose of applying and obtaining FDA approval *by the time* patent on the drug would be finally expired. Nevertheless, the patent holder has exclusive rights as to the drug until expiration of the patent. The submission of the ANDA with the paragraph IV certification was therefore called an act of infringement (a tort) to prevent the commercial marketing of an infringing generic drug *before the expiration* of the patent. Thus, the CAFC concluded that, although the filing of the petition is a statutory act of patent infringement, it is not sufficient basis to dismiss application of the government exception under the facts.

In *Seal-Flex, Inc. v. Athletic Track & Court Construction and Owen E. Perry*, 97-1432 (Fed. Cir. April 1, 1999) (PER CURIAM), AT&CC appealed the district court's judgment against AT&CC for literal infringement of Seal-Flex's patent, the district court's dismissal of AT&CC's patent invalidity claim and order granting Seal-Flex's motion for attorney fees incurred due to AT&CC's abuse of the discovery process, and the district court's dismissal of AT&CC's antitrust and unfair competition counterclaims.

Seal-Flex is the assignee of a patent for constructing all-weather activity mats, made of layers of particulate rubber bound together with latex, on a foundation of asphalt or concrete, to be used as running

tracks. The patent claims "a method for constructing the mat over a foundation comprising the 'steps of:' (1) 'spreading' an adhesive tack coating 'for adhering the mat to the foundation' surface; (2) spreading a first uniform layer of particulate rubber over the tack coating; then, (3) in sequence, first applying a liquid latex binder to the rubber layer to cover all its rubber particles, then air drying until no liquid is visible, then spreading another uniform layer of particulate rubber over the preceding layers; and (4) continuing the sequential applications described under (3) until the desired thickness for the mat is achieved."

Applying a final sealing coat of binder material completes the process. As suitable tack coatings, the patent specifically mentions emulsified asphalt diluted 50% by water, such as SS1H, hot applied asphalt, urethanes, and modified epoxies, and any other material which performs the function of adhering the mat to the foundation. However, the specification does not expressly mention latex as a tack coating. Seal-Flex does not construct any activity mats itself; each of its shareholders is licensed to practice this patented process. AT&CC builds and repairs all-weather running tracks throughout the United States.

Before the district court, Seal-Flex produced evidence that AT&CC built all-weather tracks with the infringing method, by introducing a videotape in which AT&CC began construction by spraying the foundation with a coat of latex, letting it dry before spreading a layer of particulate rubber across the latex-coated foundation, then applying liquid latex as a binder, and, after the latex dried, repeating the layering and drying process to achieve the desired thickness.

On appeal before the Federal Circuit, AT&CC challenged the judgment of literal infringement of Seal-Flex's patent on the ground that AT&CC's use of latex to bind the initial layer of rubber particles to the foundation removes it from coverage by the "adhesive tack coating" limitation in the claimed method. AT&CC argued that latex is not equivalent to the "adhesive tack coating" materials disclosed in the specification. In reviewing the district court's claim construction, the CAFC evaluated whether analysis of the element at issue must be conducted in a "mean-plus-function", or in a "step-plus-function" form. The district court expressly stated that the claim element is in a step-plus-function form, but followed with instructions more consistent with an assumption that the element is in a means-plus-function form (i.e., a finding of literal infringement requires a showing that AT&CC uses a material to perform the identical function and that the material used for performing that function is the same as or equivalent to the corresponding materials disclosed in the specification). Under a means-plus-function analysis of section 112, ¶ 6, the test for equivalency is whether the accused material is "insubstantially different" from the material disclosed in the specification for performing the claimed function. The CAFC affirmed the jury's finding of equivalence, and the district court's holding of literal infringement on the grounds of the testimony of both parties as well as the prosecution history of the patent. The record showed that latex was insubstantially different from the adhesive tack coatings described in the specification. For instance, both latex and emulsified asphalt is water based, viscous and can be sprayed. AT&CC's own president, Lehmann, admitted to their equivalence when he testified that he had used latex as a tack coat even when the specifications for a project called for asphalt emulsion. Similarly, the prosecution history showed that, when the examiner objected to the term "tack coating" ("because it reads on the 'liquid latex binder' and various resinous materials outside the scope of applicant's specification"), he intended to ask simply for a clearer language rather than exclude latex from the claim construction. The examiner was satisfied when the applicant amended the claim adding the word "adhesive" before "tack coating" and clarified its intention to cover broadly "any material," including latex, that could serve as an adhesive tack coating, whether or not such materials are among those listed in the specification. Finally, the Federal Circuit rejected various AT&CC's arguments that latex cannot serve as an "adhesive tack coating" because, in certain passages of the specification, the applicant warns that, in some defined situations, the particulate rubber may adhere to the tack coating before application of the latex binder. Such passages are taken out of context, and simply describe a modified process when particular circumstances occur which do not alter the general ability of latex to perform as an adhesive tack coating. Moreover, AT&CC's argument that the infringing procedure showed in the video in evidence is not the one customarily performed by AT&CC may serve to limit a damage award, but is immaterial to the issue of literal infringement which is substantially proved it occurred at least that one time.

As to AT&CC complaint of the district court's abuse of discretion in dismissing AT&CC's patent

invalidity defenses and counterclaims, and awarding attorney fees for violation of discovery order, the Federal Circuit applies the law of the pertinent regional circuit. Under the applicable Sixth Circuit law, "an abuse of discretion occurs when this court has 'a definite and firm conviction that the trial court committed a clear error of judgment.'" In reviewing whether the district court committed a clear error of judgment, the CAFC applies Supreme Court's and Sixth Circuit's standards. According to the Supreme Court, due process requires that the claim dismissed for failure to comply with a discovery order "must be specifically related to the particular 'claim' which was at issue in the order." In this case, the district court found that AT&CC had withheld documents that were relevant to both the liability and damages portions of the case, therefore the court was correct in not allowing AT&CC and its compliant attorney to present their claims of invalidity of the same patent. In reviewing district court's order dismissing actions as a discovery sanction, the Sixth Circuit considers whether: (1) the failure to cooperate was willful, in bad faith, or at fault; (2) the failure to cooperate prejudiced the adversary; (3) the dismissed party was warned that failure to cooperate could lead to dismissal; and (4) less drastic sanctions were considered. Here, AT&CC's willful failure to comply with the order to disclose prejudiced Seal-Flex, AT&CC was dutifully warned that such a conduct would lead to application of sanctions pursuant to Fed. R. Civ. P. 37(b), and dismissal, among those sanctions, is extreme but adequate to the circumstances. Thus, AT&CC did not identify any clear error in the district court's judgment.

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