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# Bulletin

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## IMPORTANT RECENT DEVELOPMENTS IN THE LAW OF PATENT "TYING"

By David F. Ryan<sup>1</sup>

On September 21, 2005, a three-judge panel of the Court of Appeals for the Federal Circuit issued its unanimous ruling in *U.S. Philips Corp. v. International Trade Commission*.<sup>2</sup> On November 29, 2005, the Supreme Court is scheduled to hear argument in *Illinois Tool Works, Inc.*<sup>3</sup> v. *Independent Ink, Inc.* Both *Philips/ITC* and *Independent Ink* discuss important limitations on the extent to which allegations of patent "tying" (a) can be interposed to establish the defense of unenforceability by reason of patent misuse in infringement actions; and (b) can be asserted under Section 4 of the Clayton Act, 15 U.S.C. § 15, as an antitrust counterclaim in an infringement suit or in a separate affirmative antitrust action. The Association filed briefs *amicus curiae* in both cases, arguing in each that the accused infringer was attempting to unreasonably expand the scope of the patent tying doctrine beyond that articulated in the authoritative decisions of the Supreme Court and the Court of Appeals for the Federal Circuit.<sup>4</sup>

In ruling that the package licenses offered by Philips to manufacturers in *Philips/ITC* cannot be analyzed as presumptively unlaw-

ful tying arrangements (even where market power in the "tying" patents ostensibly has been shown), the Federal Circuit adopted a number of the Association's arguments. The reasoning of Judge Bryson's opinion for the panel explicitly recognized that nonexclusive package licenses – even those that incorporate rights to patents found "not essential" to conform to an industry standard – cannot be analogized to product ties and often can be procompetitive in both purpose and effect. The precedent is potentially important in delineating a safe harbor both for individual licensors and for standard setting organizations ("SSOs") which license patents contributed by more than one inventive entity – such as the "patent pools" to which Philips was a party.

In *Independent Ink*, the Supreme Court granted *certiorari* for the purpose of determining:

Whether in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part

*cont. on page 3*

November 9, 2005

PRESIDENT'S CORNER

Dear Members:

Our Association has been busy at work since I last wrote to you in the prior issue of this Bulletin.

On October 19 the Association's Board met with Committee Chairs who reported on their ongoing work. You will see some of the fruits of the Committees' efforts published in the Bulletin over the course of the year.

On October 14, the Association joined with the Federal Circuit Bar Association and sponsored a full day program entitled "Perspectives on Patent Law and Innovation" at Columbia Law School. This excellent program provided our members with three different perspectives on patent issues – the academic, the trial judge, and the Federal Circuit's.

On November 18, 2005, the Association will host a full day program covering Patent Law Reform (analysis of HR2795); Patent Litigation Update; Opposition Proceedings Outside the U.S. – Is it All Rosy?; Developments in Foreign Patent Practice; and Ethical Issues in IP Law, and is honored to have Hon. Paul R. Michel, Chief Judge, U.S. Court of Appeals for the Federal Circuit, as the Key-note Speaker for the program.

On March 24, 2006 (the day of the Dinner in Honor of the Federal Judiciary), we



President Edward E. Vassallo

will continue our recent practice of hosting a full day program at the Waldorf-Astoria. More information on that program will be available to you soon.

And of course planning for our premier event, the Dinner in Honor of the Federal Judiciary on March 24, is ongoing. We are working with the Waldorf-Astoria to make the event a more enjoyable experience for those attendees in the "satellite" rooms, and to improve elevator service to suites in the Towers. We will update you on these and other matters relating to the Dinner soon.

I hope to see you at our upcoming programs and events.

Cordially,  
Edward E. Vassallo

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of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

The Court most probably will rule in *Independent Ink*, as the Solicitor General has requested and most commentators expect, that the antitrust plaintiff is not entitled to any presumption of “market power” based merely upon the existence of a patent narrowly directed to certain novel aspects of the bar coding system licensed by petitioner International Tool Works (“ITW”). The Supreme Court could reach this result based upon any one or more of a number of theories that have been briefed by the parties and the *amici curiae*.

## A. THE PHILIPS/ITC RULING

### 1. The Licenses At Issue

The *Philips/ITC* case involved arrangements under which a number of patents relating to recordable compact discs (“CD-Rs”) and rewritable compact discs (“CD-RWs”) were licensed by Philips on a nonexclusive basis for a fixed royalty to licensees who wished to manufacture discs conforming to the so-called “Orange Book” standards. The package licenses offered by Philips included rights to patents developed by one or more other members of two “patent pools” formed to facilitate manufacture of the CD-R and CD-RW disc devices.<sup>5</sup>

The program proved extremely successful. More than 100 manufacturing licenses had been issued by 2003; industry capacity had increased from some 300 million CD-R discs in 1997 to nearly 8 billion in 2002; and the concomitant consumer benefits resulting from price decreases had seen wholesale disc prices plummet from \$4.75 per disc in 1996 to \$0.12 per disc in 2003.

### 2. The ITC’s Unenforceability Determination

In the public version of the Opinion of the International Trade Commission (the “ITC” or the “Commission”) served April 8, 2004 (“ITC Opinion”),<sup>6</sup> the ITC “adopted” the determination of the Administrative Law Judge (“ALJ”) that 29 claims of six of the licensed patents were both not invalid and infringed by intervenors and other importers into the United States of the CD-R and CD-RW de-

vices.<sup>7</sup> The Commission nevertheless denied relief to Philips under 19 U.S.C. § 1337 on the ground that those patents were unenforceable by reason of their “misuse” in connection with the “package licenses” offered by Philips to the industry. The ITC held:

We affirm the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse *per se*, but on the ground, discussed below, that *complainant’s [Philips’] practice of mandatory package licensing constitutes patent misuse per se as a tying arrangement between (1) licenses to patents that are essential to manufacture CD-Rs or CD-RWs according to Orange Book standards and (2) licenses to other patents that are not essential to that activity*. We also adopt the ALJ’s conclusion that the asserted patents are unenforceable for patent misuse under a rule of reason standard based on the ALJ’s analysis of and findings as to the tying arrangements.

(Slip Op. 4-5) (footnotes omitted) (emphasis supplied).

The Commission identified four patents included within the Philips packages that it found “not essential”<sup>8</sup>. This determination was predicated upon a finding that “there were commercially viable alternative methods of manufacturing CD-Rs and CD-RWs that did not require the use of the technology covered by those patents” (Slip Op. 3). In the ITC’s view, inclusion of these four patents in the Philips packages rendered the licenses both unlawful *per se* and unlawful under the rule of reason because they “could foreclose alternative technologies” (Slip Op. 6).

### 3. The Federal Circuit’s Reversal

As a threshold matter, the Federal Circuit panel sustained the Commission’s ruling that Philips possessed “market power” and, accordingly, could not invoke the safe harbor of 35 U.S.C. § 271(d)(5) (Slip Op. 10).<sup>9</sup> Judge Bryson’s opinion then went on to reject the attempt by the Commission and intervenors to sustain the unenforceability determination under two lines of authority.

The panel’s opinion found that neither the block-booking cases,<sup>10</sup> nor the product tying cases,<sup>11</sup> could be read to govern an alleged tie of a non-exclusive license under an allegedly “not essential”

patent (Slip Op. 11-18). In reaching this result, the opinion adopted the Association’s arguments that a non-exclusive license cannot be analogized to a product since it represents nothing more than a promise not to sue (Slip Op. 16), and that “in the post-*Lear* era, the ‘acceptance’ of a license has no such restrictive [estoppel] effect on the licensee’s freedom” (Slip Op. 18, n. 3).

## **B. THE ISSUES IN *INDEPENDENT INK***

### **1. The Patent And Licenses At Issue**

Trident, Inc. (“Trident”) is a division of petitioner ITW which designs, manufactures and markets printing systems made up of industrial piezo-electric impulse ink jet printheads, ink containers and inks specially formulated for use in Trident’s systems.<sup>12</sup> Trident licenses its products to original equipment manufacturers (“OEMs”) for incorporation into printers that are used to print bar codes on product cartons. Trident’s licenses require the OEMs to use only ink supplied by Trident in single-use containers and also prohibit both OEMs and end users from refilling Trident’s containers.

United States Patent No. 5,343,226 (“the ‘226 patent’”) owned by petitioner ITW contains one narrowly defined claim to an “impulse ink jet system” and three similarly narrow claims drawn to embodiments of the “ink supply apparatus” for the claimed system. According to the court of appeals panel, the point of novelty for the four claims of the ‘226 patent involved use of a “hand actuated peristaltic pump” which represented one of four available solutions to the problem of facilitating “pressure in one direction, forcing ink towards the printhead, without sucking the ink back when that pressure is released”. *See* 396 F.3d at 1344-45.

### **2. The District Court And Federal Circuit Decisions**

Respondent Independent Ink, Inc. (“Independent”) brought an action in the district court seeking a declaratory judgment that the ‘226 patent was invalid and not infringed. Independent later added a claim for relief under the antitrust laws predicated upon charges of unlawful tying and monopolization in violation of Sections 1 and 2 of the

Sherman Act, 15 U.S.C. §§ 1 and 2. The district court granted summary judgment dismissing the antitrust claims because Independent had failed to establish that Trident possessed market power in any relevant market for the tying product.<sup>13</sup>

The district court explicitly rejected Independent’s contention that a patent on the allegedly tying product, “standing alone” and “as a matter of law” (210 F. Supp. 2d at 1160), establishes the requisite coercive economic power in the market for the tying product. The district court reasoned that the “weight of authority is to the contrary” (*Id.* at 1163) and that the “several vintage Supreme Court cases” upon which Independent purported to rely were not controlling. *See id.* at 1165 n. 10.<sup>14</sup> The district court also found that Independent had produced “no evidence from which a trier of fact could define the relevant product and geographic markets”. *See id.* at 1173.

The court of appeals reversed the district court’s grant of summary judgment on the Section 1 claim but affirmed the dismissal under Section 2. Judge Dyk’s opinion for the panel found that “*International Salt and Loew’s* make clear that that the necessary market power to establish a section 1 violation is presumed” (396 F.3d at 1348-49). The panel’s opinion conceded that “the Supreme Court precedent in this area has been subject to heavy criticism” (*Id.* at 1350), and that other courts of appeals have reached a different result. *See id.* at 1350-51. Judge Dyk nevertheless concluded that although the “time may have come to abandon the doctrine” it would be “up to the Congress or the Supreme Court to make this judgment”. *See id.* at 1351.

There is no indication in the panel’s opinion as to whether petitioner’s peristaltic pump enjoys any advantages over the three described prior art mechanisms, and no indication as to which of those alternatives are used by the “two other competitors” of petitioners who “have designed printheads that can print bar codes on kraft paper”. *See* 396 F.3d at 1352. The panel also gave no consideration to whether there was any cross-elasticity of demand as between use of the “impulse ink jet” direct printing systems to which the claims of the ‘226 patent are directed and the bar code labeling systems which the testimony indicated could be used as “substitutes” for the “patented technology”. *See id.*

### 3. Basic Arguments For Reversal In The Supreme Court

The Association has endorsed the arguments and conclusions of ITW and its supporting *amici* to the effect that any market presumption arising from *Loew's* or *International Salt* should be overruled both (1) as a result of the Court's subsequent attenuation of the *per se* rule in the tying cases that do not involve patents,<sup>15</sup> and (2) as a result of the Court's subsequent determination in Walker Process that market power in patent-antitrust cases must be assessed by comparing the exclusionary power of the pertinent patent claims with the properly defined relevant product market.

### 4. The Association's Section 271(d)(5) Argument

The Association also has argued that the question presented by the grant of *certiorari* can be resolved in ITW's favor under the explicit language of Section 271(d)(5) of the patent statute, 35 U.S.C. § 271(d)(5), which provides that no "patent owner" shall be "deemed guilty of misuse or *illegal extension of the patent right*" by reason of having "conditioned the license of any rights to the patent" on the "purchase of a separate product" unless "the patent owner has market power in the relevant market" for the "patent or patented product on which the license" is "conditioned" (emphasis supplied).

In the district court, petitioner had argued Professor Areeda's interpretation of Section 271(d)(5) as reflecting a Congressional intent sufficiently broad to effectively abolish "any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine".<sup>16</sup> Although the impact of Section 271(d)(5) was not directly addressed before the court of appeals by either party, the panel's opinion contained a footnote concluding that

Congress has declined to require a showing of market power for affirmative patent claims as opposed to patent misuse defenses based on patent tying. Proof of actual market power is required to establish a patent misuse defense based on patent tying.

396 F.3d at 1349 n.7.

Any detailed explanation of the Association's argument as to why the panel misinterpreted Section 271(d)(5) is beyond the scope of this article. In a nutshell, however, our brief *amicus curiae* in the Supreme Court argues that the phrase "illegal extension of the patent right" must be interpreted to mean something different from "misuse" and is sufficiently broad to include antitrust claims. Moreover, the legislative history of the initial enactment of that language in 1952 establishes that Congress intended to insulate the conduct authorized by the statute both from unenforceability under the misuse doctrine and from liability under the antitrust laws.

## C. CONCLUSIONS

### 1. Package Licenses And The Rule Of Reason

The central teaching of *Philips/ITC* is that the antitrust legality of package licensing arrangements must be evaluated under the rule of reason. Thus, irrespective of whether Section 271(d)(5) may shield such licenses from antitrust illegality in the absence of "market power" in the tying "patent or patented product" (Slip Op. 11, n. 1), they cannot be proscribed under any remnants of the rule of *per se* or presumptive illegality applied to patent product ties by some of the older Supreme Court cases.

### 2. The Presumption Of Market Power

It is hoped that the Supreme Court will address the Association's argument that the *Independent Ink* case is controlled by 35 U.S.C. § 271(d)(5). We believe that such a statutory analysis would be most conducive to eliciting a clear and useful statement from the Court on how to achieve the proper balance between the objectives of the antitrust laws and the prerogative of Congress under the Constitutional mandate of Article 1, Section 8. It seems important to confirm the principle that Congress may delineate what a patentee may do to maximize the benefit from her Constitutionally mandated "exclusive right" without being charged with "illegal extension of the patent right" – whether such illegality is claimed to arise under the antitrust laws or under some other principle of statutory or decisional law.

*cont. on page 6*

### 3. Potential Reduction In Patent Tying Allegations

Irrespective of the rationale the Supreme Court adopts, however, both its anticipated reversal of the panel’s judgment in *Independent Ink* and the Federal Circuit panel’s decision in *Philips/ITC* are expected to make it considerably more difficult for accused infringers to engender delay and increased litigation costs for patentees by pleading baseless tying allegations.

<sup>1</sup> David F. Ryan, counsel to Fitzpatrick, Cella, Harper & Scinto, currently chairs the Association’s Antitrust, Inequitable Conduct and Misuse Committee and serves on the Legislative Oversight and Amicus Brief Committee. Over the past five years, he has appeared as counsel of record and principal author of briefs *amicus curiae* filed on behalf of the Association in five appeals involving important issues at the “interface” between the intellectual property and antitrust laws – two before the Court of Appeals for the Federal Circuit and three before the Supreme Court.



The author wishes to acknowledge the research assistance of Dennis D. Gregory, Joseph B. Divinagracia and Matthew S. Seidner in developing the approaches discussed in this article and set forth in the two pertinent Association briefs *amicus curiae*. He also is grateful for the opportunity to discuss those approaches with Charles P. Baker, chair of the Association’s Legislative Oversight and Amicus Brief Committee, and John D. Murnane and Edward E. Vassallo, the immediate past and current presidents, respectively, of the Association.

<sup>2</sup> 424 F.3d 1179 (Fed. Cir. 2005) (“*Philips/ITC*”).

<sup>3</sup> On June 20, 2005, the Supreme Court granted *certiorari* in No. 04-1329 (“*Independent Ink*”), to review the opinion of the court of appeals panel reported at 396 F.3d 1342 (Fed. Cir. 2005).

<sup>4</sup> The *amicus curiae* briefs filed in both cases are available on the Association’s website.

<sup>5</sup> Apparently, the Philips licenses were issued for ten-year terms and contained neither any separate valuations for the individual elements of the licensed patents nor a right to terminate upon expiration or invalidity of any licensed patent. As the Association pointed out, the absence of a power to terminate is far less significant in the wake of the Supreme Court’s abrogation of the licensee estoppel doctrine in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) (“*Lear v. Adkins*”).

<sup>6</sup> See *In re Certain Recordable Compact Discs & Rewritable Compact Discs*, Inv. No. 337-TA-474, 2004 ITC Lexis 990 (Int’l Trade Comm’n April, 8, 2004). The unredacted version of the Opinion had issued as in March 25, 2004.

<sup>7</sup> The intervenors were Taiwanese manufacturers and their American affiliates who had been licensed by Philips but repudiated their licenses.

<sup>8</sup> Only one such patent would have remained unexpired when the last to survive of the patents found “essential” expired on March 31, 2013. Accordingly, any hypothetical “temporal” extension of the royalty obligation under the package by reason thereof might well have been considered *de minimis* even before the Supreme Court’s decision in *Lear v. Adkins*. Because neither the ALJ nor the Commission had addressed the temporal extension issue, however, the Federal Circuit panel likewise elected not to address it (Slip Op. 27, n. 8).

<sup>9</sup> In focusing exclusively upon the ALJ’s ruling that by the late 1990s “compact discs had become ‘unique products [with] no close practice substitutes’” (Slip Op. 10), the panel’s opinion failed to assess the role of the patents licensed by Philips in generating that market power. Arguably, that omission contravened the Supreme Court’s directive that the market power determination in a patent-based antitrust case must be predicated upon comparison of the exclusionary power of the patent claims with a properly-defined relevant product market. *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965) (“*Walker Process*”).

<sup>10</sup> *United States v. Loew’s, Inc.*, 371 U.S. 38, 44-51 (1962); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-59 (1948).

<sup>11</sup> *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 868-69 (Fed. Cir. 1997); *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986); *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 400 (1948); *Int’l Salt Co. v. United States*, 332 U.S. 392, 395 (1947); *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 493 (1942).

<sup>12</sup> The court of appeals panel accepted *Independent*’s characterization of the terms of the OEM licenses as “tying” agreements based merely upon its conclusion that the allegedly tied ink was not “patented” (396 F.3d at 1345). Under 35 U.S.C. § 271(c) and the rule of *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980) (“*Dawson Chemical*”), however, a determination of unlawful “tying” would have required the additional finding that the specially formulated ink was nevertheless a “staple article or commodity of commerce”.

<sup>13</sup> *Independent Ink, Inc. v. Trident, Inc.*, 210 F.Supp. 2d 1155 (C.D. Cal. 2002) (the “district court decision”).

<sup>14</sup> The district court reasoned that *United States v. Loew’s, Inc.*, 371 U.S. 38 (1962) (“*Loew’s*”), and *International Salt Co. v. United States*, 332 U.S. 392 (1947) (“*International Salt*”), “arose at a time when genuine proof of power in the market for the tying product was not required” *Id.*

<sup>15</sup> This line of authority is exemplified by *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610 (1977) (“*Fortner II*”).

<sup>16</sup> 210 F. Supp. 2d at 1166 n.11, citing PHILLIP E. AREEDA ET AL., ANTITRUST LAW ¶ 1737c (1996).

# Identity Theft and Phishing<sup>1</sup>

By Andrew Hollander

## IDENTITY THEFT

In mid-February 2005, data vendor ChoicePoint, Inc. acknowledged that it sent letters to some 145,000 consumers informing them that they may have been victims of identity theft. (See [http://choicepoint.com/news/statement\\_0205\\_1.html](http://choicepoint.com/news/statement_0205_1.html).) Posing as legitimate customers of ChoicePoint, scam artists had obtained names, addresses, Social Security numbers, drivers' license numbers and perhaps even credit reports of the victims. One fraudster has been jailed, and a woman has filed a lawsuit against ChoicePoint in California state court that seeks class-action status and millions of dollars in damages.

It is hardly an isolated incident. These days, "identity theft [is] rampant." *Joao v. Sleepy Hollow Bank*, 2004 WL 2785230, at \*10 (S.D.N.Y. 2004). It has been "among this country's fastest growing crimes." *U.S. v. Scott*, 270 F.3d 30, 33 (1st Cir. 2001). Indeed, one court recently pronounced that a corporation's liability for the theft of personal information within its control "promises to be a new area of law." *Daly v. Metropolitan Life Ins. Co.*, 782 N.Y.S.2d 530, 532 (N.Y. Supp. 2004).

### A. What is Identity Theft?

The Federal Trade Commission states that "[i]dentity theft occurs when someone uses your name, Social Security number, date of birth, or other identifying information." ("Remedying the Effects of Identity Theft", <http://www.ftc.gov/bcp/conline/pubs/credit/idtsummary.pdf>.) Broadly put, identity theft may be defined as misappropriating "identifying information."

However characterized, identity theft is a serious problem. It was the top source of consumer complaints to the FTC in 2003, numbering over half a million, 55% of them relating to the Internet. ("FTC Releases Top 10 Consumer Complaint Categories in 2003", FTC press release, Jan. 22, 2004.) The median loss by victims for Internet-related fraud was \$195. In rare cases the effects are not just monetary, as one victim learned after being locked up several times because someone else passed bad checks under her name. *Neville v. Classic Gardens*, 141 F. Supp.2d 1377, 1378 (S.D. Ga. 2001) ("[t]his case recounts the nightmare that can occur when a criminal steals another's identity and causes the identity-theft victim to be repeatedly arrested and incarcerated").

Computers make identity theft as easy as ever. For example, as reported by the Better Business Bureau, ([www.bbbonline.com](http://www.bbbonline.com)), a Prudential Insurance database manager was arrested for trying to sell information on more than 60,000 customers. As *Daly* shows, however, such acts are not only embarrassing but expose the client to liability.

### B. *Daly v. Metropolitan Life* – Identity Theft Liability as an Emerging Area

*Daly v. Metropolitan Life Ins. Co.*, 782 N.Y.S.2d 530 (N.Y. Supp. 2004), is all the more cautionary for having a fact pattern so mundane. Sara Daly applied for a life insurance policy from Met Life. She was "required to provide personal information including, but not limited to, her full name, her date of birth, her driver's license, and her social security number." *Id.* at 532. Ms. Daly received a privacy notice from Met Life that explained the company's privacy policy including "steps to make our computer data bases secure and to safeguard the information we have about you." *Id.*

Within two weeks of the application, a janitor, employed by a third party hired to clean Met Life's office, stole and then shared Ms. Daly's personal data with two other individuals, with nearly a dozen accounts created in the name of Ms. Daly (and her father). The scheme was discovered after Sears called her to verify information for a new credit card application. Ms. Daly sued Met Life for negligence.

Denying Met Life's motion for summary judgment, the court observed that it "is not aware of any case law that is directly on point on these issues." *Id.* at 534. Declaring that identity theft liability "promises to be a new area of law", *id.* at 532, the court analogized the cause of action to one for breach of fiduciary duty of confidentiality like that in a physician-patient relationship, *id.* at 532-3. The court said that "[a] similar covenant of trust and confidence may be inferred in business dealings" and "in the absence of appropriate legislative action" applied such principle in the case at bar. *Id.* at 535.

Warning that "identity theft . . . is one of the fastest growing criminal offenses in the twenty-first century", the court cited statistics including that "each victim spent an average of . . . 60 hours in cases that involved the fraudulent opening of new accounts." *Id.* at 532. Thus, "[i]t is therefore not surprising that the issue of

*cont. on page 8*

whether liability may attach to an entity that fails to safeguard its clients' personal and confidential information is of great importance and concern." *Id.*

The court went on to find that Met Life did have a duty to keep Ms. Daly's information confidential, and "[i]nasmuch as there remain considerable questions of fact concerning the precautions taken by Met Life to safeguard plaintiff's personal information, at this juncture, summary judgment cannot be awarded." *Id.* at 536.

What added "precautions" could Metropolitan Life have taken? The *Daly* opinion does not elaborate, but there is nothing to indicate that Metropolitan Life did anything but follow standard procedures. Indeed, the wrongdoing was not by a Metropolitan Life employee but by a third-party employee, which may limit the scope of the holding. Further, the case was merely a denial of summary judgment, with the usual bow to fact issues precluding entry of summary judgment.

Nonetheless, many organizations collect "personal" information about virtually every employee, such as home address and social security number, with obvious implications, especially where an organization's core business includes collecting such identifying information.

### C. What Advice Can be Given Clients Regarding Preventing Identity Theft?

#### Attorneys should encourage clients to be proactive:

- Employee handbooks and/or agreements can be reviewed with an eye to emphasizing that information that the company may have collected is proprietary and disclosure thereof may result in termination, or civil and/or criminal penalties.
- Employee training can address identity theft issues, especially for those employees with access to sensitive information.
- Just as companies commonly notify employees of computer virus threats, so they could remind of identity theft / phishing issues that might make the company vulnerable.
- Maintain adequate computer security measures.
- A "terms of use" for the website can spell out what is expected of the user, and also support your client's position in a potential breach of contract cause of action.
- The FTC advises that individuals should take at least four steps if they become victims (*see* <http://www.consumer.gov/idtheft>), and they bear consideration for companies as well: (1) Contact any one of Equifax, Experian or Transunion, which are the

- three major credit reporting companies, to get a fraud alert placed in your file (the other two will be notified automatically);
- (2) Close old accounts, and fill out an Identity Theft Affidavit when disputing new ones;
- (3) File a police report and get a copy;
- and (4) File a complaint with the FTC.

### D. What if Your Client Has Been a Victim of Identity Theft?

The Identity Theft and Assumption Deterrence Act of 1998 (Identity Theft Act), 18 U.S.C. § 1028, makes it a federal crime to "knowingly transfer[] or use[], without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law." On July 15, 2004, the President signed the Identity Theft Penalty Enhancement Act, which adds hefty prison sentences. But the Identity Theft Act does not confer a private right of action. For example, in *Garay v. U.S. Bancorp*, 303 F. Supp.2d 299, 302 (E.D.N.Y. 2004), an identity thief obtained a credit card from U.S. Bancorp using plaintiff's name, date of birth, social security number, and address. According to the court, plaintiff had no right to redress based on U.S. Bancorp's alleged aiding and abetting the violation of the Identity Theft Act. Nor does the CAN-SPAM Act confer a private right of action for consumers.

Nonetheless, aggrieved parties might assert a plain vanilla cause of action for negligence *à la Daly*, which survived dismissal on summary judgment. Further, as discussed below, victims can invoke the Computer Fraud and Abuse Act, 18 U.S.C. § 1030, if the client's computer has been intentionally accessed in an unauthorized manner causing damage.

In *Creative Computing v. Getloaded.com LLC*, 386 F.3d 930 (9th Cir. 2004), for example, Creative Computing ran a web site, *truckstop.com*, that matched truckers to loads. Getloaded.com set up a rival load-matching site. Getloaded's principal logged into *truckstop.com* by using "the login name and password of a Getloaded subscriber, in effect impersonating the trucking company, to sneak into truckstop.com." *Id.* at 932. (Getloaded also hacked into Creative Computing's website to examine the source code, and paid a Creative Computing employee to download customer lists. *Id.*

The jury found, *inter alia*, a violation of the Computer Fraud and Abuse Act. *Id.* at 933. The Ninth Circuit also held that the Act's \$5,000 floor for damages per each unauthorized access was met -- even though the dam-



age occurred over a one-year period. *Id.* at 934. The Ninth Circuit also rejected Getloaded's argument that Creative Computing's failure to install a free Microsoft patch would have thwarted Getloaded's malfeasance in the first place, stating that:

Getloaded's argument that truckstop.com could have prevented some of the harm by installing the patch is analogous to a thief arguing that "I would not have been able to steal your television if you had installed deadbolts instead of that silly lock I could open with a credit card." *A causal chain from the thief to the victim is not broken by a vulnerability that the victim negligently leaves open to the thief.*

*Id.* at 935 (emphasis added).

Despite reasoning like the type in *Creative Computing*, however, computer "vulnerabilities" are best addressed prior to the identity theft. Damage prevention, not damage control, is the way to go.

## PHISHING

In December 2004, some AOL members received an email that ordered them to go to <http://update.aol.com> to "update [their] personal records" or suffer suspension of their AOL account. (See [http://www.antiphishing.org/phishing\\_archive/12-03-04\\_AOL/12-03-04\\_AOL.html](http://www.antiphishing.org/phishing_archive/12-03-04_AOL/12-03-04_AOL.html).) If the concerned AOL user went to the site, he or she was presented with the words "Welcome to AOL Customer Support", complete with the photo of a smiling AOL user, in a web page bearing the colors and overall trade dress of AOL. The user was instructed to provide name, address, credit card and banking information, social security number and mother's maiden name. The email was bogus. The actual web site that the user had entered, [olyscos.com](http://olyscos.com), had been hijacked. Yet another instance of "phishing" had occurred.

### A. What is Phishing?

"Phishing" is a variant of identity theft that "uses spam or pop-up messages to deceive you into disclosing your credit card numbers, bank account information, Social Security number, passwords, or other sensitive information." (June 2004 FTC Consumer Alert.) Typically, the user gets an unsolicited email that orders him or her to navigate to a phony web site that looks just like the real thing, and then disclose personal information.

According to an industry group, phishing activity rose 25% from July to October 2004. (Anti-Phishing

Working Group, "Phishing Activity Trends Report", October 2004.) Up to 5% of recipients who get a phishing email disclose personal data. ("What is Phishing?", [www.antiphishing.org](http://www.antiphishing.org).) Another survey found the number closer to 15%. ("U.S. Consumer Loss of Phishing Fraud to Reach \$500 Million", Ponemon Institute and TRUSTe survey, Sept. 29, 2004.)

Because it is a relatively new phenomenon, and because efforts to bring the phishing perpetrators to justice have mainly been carried out by the FTC (and FBI) and not the phishees, phishing does not have a developed jurisprudence. In May 2004, the FTC settled a civil phishing case against an individual (now imprisoned on related criminal charges) who had used phony AOL and Paypal requests. *FTC v. Zachary Keith Hill*, H-03-5537 (S.D. Tex.). The FTC had brought suit for violations of the FTC Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices affecting commerce, and also the Graham-Leach-Bliley Act, 15 U.S.C. § 6821(a), which basically prohibits obtaining financial information without authorization.

Of note for those seeking to go after the phisher via a private right of action, the complaint's claims under the FTC Act bore comparison to "false designation of origin" and/or "deceiv[ing] as to the affiliation" language under the Lanham Act, 15 U.S.C. § 1125, which of course has been the source of many a civil lawsuit. Specifically, the FTC claimed that the alleged phisher engaged in "false affiliation" by claiming that the bogus emails were from AOL or Paypal. Further, it would appear that state unfair competition law would support a similar cause of action.

Pursuant to criminal charges, the phisher is serving a nearly 4-year sentence. ("Fraudster sentenced to nearly four years in prison in Internet 'phishing' case", Dept. of Justice press release, May 18, 2004.) Prior to leaving the phishing hole, however, he had netted "473 credit card numbers, 152 sets of bank account numbers and routing numbers, and 566 sets of usernames and passwords for Internet services accounts." *Id.*

On July 9, 2004, Senator Patrick D. Leahy introduced a bill into the Senate that would criminalize phishing. Deemed the "Anti-phishing Act of 2004", it does not provide private litigants with an express cause of action for phishing.

Although primarily an email scam, "phishing is not limited to email." ("Comments for the FTC & NIST Email Authentication Summit", Hadmut Danisch, Sept. 27, 2004.) One might be phished by low-tech means also, i.e., get a telephone call requesting personal information, which is known as "phone phishing."

*cont. on page 10*

## B. What Advice Can be Given Clients On Phishing?

- Monitor domain name registrations with similar names. Look-alike names are a phishing tip-off. For example, a phisher of Visa users had registered the name “visa.security.com”, and one of “Paypal” users “paypair.com”. The AOL scam above ordered the user to go to <http://update.aol.com>, which is not an AOL domain.
- Obtain a trademark or service mark for your client’s domain name. This emphasizes the protected nature of the brand, and helps provide support for an infringement or cybersquatting claim.
- File a complaint with the FTC.
- File a complaint with The Internet Fraud Complaint Center (IFCC), a partnership between the Federal Bureau of Investigation (FBI) and the National White Collar Crime Center (NW3C). IFCC offers a central repository for complaints related to Internet fraud, works to quantify fraud patterns, and provides timely statistical data of current fraud trends.

- Try to track down the source by computer forensics. Unfortunately, this is an uphill battle because about 95% of phishing emanates from bogus “from” entries in email addresses. (“Phishing Attack Trends Report”, June 2004, Anti-Phishing Working Group.)
- Monitor company emails for an unusually high number of “bounced” emails. When there are a significant number of undeliverable emails bearing the client’s domain name, it may be a warning sign of a phishing.
- Consider the evolving technological capabilities of email authentication. Authenticated email theoretically ensures that an email from “aol.com” actually originated from AOL and hasn’t resulted from a phishing expedition based in Eastern Europe.

<sup>1</sup> This article was submitted in December of 2004 as part of a Paper prepared by the NYIPLA Internet Law Committee, chaired by Paul Reilly, entitled “Recent Case Law, Developments and Trends Concerning Trademarks, Copyrights, Patents and the Internet.”

# NYIPLA CALENDAR

## Date: Friday, December 9, 2005

### Event: December CLE Luncheon

Topic: **Pop-Up Advertising, Trademarks and The Current State Of The Law**

Keynote Speakers: Jason M. Koral, Esq. and Ian Ross Shapiro, Esq.  
from Kronish Lieb Weiner and Hellman LLP

- Summary of the 1-800 Contacts, Inc. v. WhenU.com, Inc. Second Circuit Decision
- What Constitutes Use? Pop-Ups v. Keywords
- Related Trademark Issues in Pop-Up and Other Targeted Internet Advertising Systems
- The Current State of the Law in Trademarks and Internet Advertising

EARN 1.0 NYS PROFESSIONAL PRACTICE CLE CREDIT

Place: The Princeton/Columbia Club, 15 West 43rd St., New York

## Wednesday, December 14, 2005

### Evening Reception with The Honorable Sarah S. Vance

Federal District Judge, Eastern District Louisiana

Discussion on The Effect of Hurricane Katrina on the Legal Community in New Orleans

The Princeton/Columbia Club

Further Details to Follow

## Date: Friday, January 13, 2006

### Event: CLE Luncheon & Program

Keynote Speaker: The Honorable William G. Young  
U.S. District Court, District of Massachusetts

Topic: Ruminations on the Vanishing Trial:

The Role of the Federal Circuit and the Fact Law Distinction

Place: Princeton/Columbia Club

More Details to Follow

## Date: Thursday, January 26, 2006 – Save the Date

### Event: The World Intellectual Property Organization (WIPO) and NYIPLA will Co-sponsor a CLE Program outlining the WIPO Copyright Agenda.

WIPO will discuss copyright protection in the digital age, Open Source and the status of WIPO Internet Treaties and their future.

Location: The Princeton/Columbia Club

15 West 43rd Street, New York

Details to follow

## Date: Friday, March 24, 2006 - Save the Date

### Event: The 84th Annual Dinner in Honor of the Federal Judiciary and the CLE Day of Dinner Program

Place: Waldorf-Astoria, New York.

## Date: Wednesday, May 3, 2006 - Save the Date

### Event: 22nd Annual Joint Patent Practice Seminar

Keynote Speaker: Hon. Alan D. Lourie, Circuit Judge, United States Court of Appeals, Federal Circuit

A full-day program comprised of five panels featuring the most update information in the following areas: Litigation, Biotechnology/Pharmaceuticals, Foreign Patent Practice, Information Technology/Licensing/Trade Secrets and USPTO Practices

## Date: Wednesday, May 24, 2006 - Save the Date

### Event: NYIPLA Annual Meeting & Awards Dinner

# U.S. BAR/EPO LIAISON COUNCIL MEETING

by Samson Helfgott<sup>1</sup>

On July 21, 2005 the President and other officials of the EPO met with representatives of US Bar Groups in Chicago at the Annual Meeting of the US Bar/EPO Liaison Council. President Pompidou provided an update of activities of the EPO. NYIPLA is represented on the Council by Sam Helfgott and Tom Spath. Sam Helfgott was in attendance at the meeting in Chicago.

## A. Statistics and Internal Matters

With respect to statistics, in 2004, the number of European patent applications filed were around 178,600 applications, up almost 7%. In the first five months of 2005, there was an increase of over 15% compared to the first five months of 2004.

Of the applications filed last year, 42% came from the EPC Contracting States, 29% from the USA and 18% from Japan. The proportion of filings of European origin is slowly increasing, at the expense of the proportion from Japan.

In 2004, 160,300 search requests were submitted to the EPO, an increase of 6% over the previous year. The number of requests for examination filed rose more than 20% to 108,300, an increase which has continued in the first quarter of 2005. The number of substantive examinations performed on EP applications increased by 3.5%. On the other hand, demands for international preliminary examination under the PCT continued to decline, falling by 37%.

In 2004, the Office granted 58,700 patents, marginally fewer than the 60,000 it granted in 2003. The average time taken to grant a patent was 46.2 months, slightly less than the year before.

To keep pace with the higher demand for its services, the Office continued with its internal reorganization. At the start of the year 2005, the Office united all search, examination and opposition activities under a single Vice-President Operations (VP1). Since January 2005, this post has been held by Mr. Thomas Hammer, who was previously Vice-President of the German Patent and Trademark Office. All the support functions for the operational business are

grouped under VP Operational support (VP2), under the leadership of Mr. Pantelis Kyriakides.

In 2004, the EPO Boards of Appeal recorded a 15.6% increase in appeals filed, up to 1,533. Decisions were handed down in 1,451 cases. At the end of June 2005, the average duration was 28 months, namely 23 months for an ex parte case and 32 months for an inter partes case.

## B. International and Legal Affairs

The geographical coverage of European patents has expanded once again since last year. Following the accession of Poland, Iceland and Lithuania in 2004, Latvia joined the European Patent Organization on July 1, 2005, bringing the number of member states to 31. Malta's accession is imminent.

In addition, three more Extension Agreements have entered into force with Croatia, Serbia & Montenegro and Bosnia-Herzegovina, enabling applicants to obtain swift and inexpensive quality patent protection in these countries as well.

In November 2004, the EPO Administrative Council initiated a "strategy debate" on the future of PCT cooperation in Europe and on the respective roles of the EPO and the national patent offices (NPOs) of the EPC Contracting States in the patent granting procedure in Europe.

At the Administrative Council meeting in June 2005, the strategic debate on the cooperation between the EPO and the National Patent Offices culminated in the adoption of a "Joint Statement on the European Patent Network". The aim of this so-called "Madrid Declaration" is to establish a European Patent Network, and it outlines the principles upon which the future cooperation between the national patent offices of the Contracting States and the EPO should be based: Free choice for applicants; No compulsory outsourcing; No automatic recognition of the work of the NPOs by the EPO; Equal treatment of all Member States; Assurance of quality standards.

*cont. on page 12*

The Office has been asked to draw up proposals for decision by the Administrative Council regarding in particular a quality assurance system and the possibility of arrangements for outsourcing. It has also been requested to conduct a feasibility study considering the impact of these measures on EPO efficiency, productivity, finances and service to applicants.

There are now 5 International Search Authorities under the PCT in Europe: AT, Es, SE, the EPO and, since 1 April 2005, FL. Another decision of the Administrative Council in the wake of the strategy debate was that when the EPO receives a Euro-PCT application where a search has been drawn up by another European ISA, the EPO will perform a supplementary search.

Rule 51(4) EPC has been amended, shortening the period between the communication that the patent is ready for grant and the actual decision to grant, in that it is no longer possible to obtain an extension of the time limit for payment of the fees and filing of the translation of the claims in the two other official languages.

With respect to the London Agreement, to date, 5 states (German, Iceland, Monaco, Latvia and Slovenia) have deposited instruments of ratification and accession. In addition, the UK and Denmark have implemented the Agreement into national patent law but not yet deposited their instruments of ratification. Ratification bills are currently under consideration in the Swiss parliament and will be presented shortly to the Dutch and the Swedish Parliaments.

To enter into force, the London Agreement must be ratified or acceded to by 8 EPC Contracting State (including FR, DE and UK). Entry into force therefore depends on ratification by France.

In November 2003, the Working Party on Litigation finalized the basic legal instruments needed to establish a jurisdictional scheme for European patents (European Patent Litigation Agreement), but the establishment of the scheme has since then been held up owing to the work being done by the EU with a view to introducing a Community patent with a jurisdictional system of its own.

Support from the European Union is pivotal for the future of the project. The Commission's current review of priorities in the patents field could lead to a reconsideration of its hitherto reluctant position vis-à-vis the EPLA, and new initiatives might include seeking a mandate from the Council

of ministers to negotiate the EPLA on behalf of interested European Union Member States, in order to ensure participation of the European Union in the new international organization set up under the EPLA (the European Patent Judiciary).

In the course of 2004, the Office laid the legal and technical foundations for electronic publication of applications and grants and launched a trial service. This cleared the way for free publication of all European patent applications and patents on the Internet to replace the paper versions.

The content of the INPADOC databases was further extended. The integration of Indonesian and Moroccan data brought the total number of patent offices whose bibliographic data is available to 73.



The coverage of the legal status database grew to 44 countries with the addition of data from Estonia and Taiwan.

<sup>1</sup>Samson Helfgott serves as Director of Patents at Katten Muchin Rosenman and as Chair of the NYIPLA Committee on Harmonization of Patent Laws. He can be reached at [samson.helfgott@kattenlaw.com](mailto:samson.helfgott@kattenlaw.com).

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## "As Time Goes By - A Rose Without Thorns"

by Dale Carlson

In our last column, we considered Past President Giles Rich's role as part of a two-person drafting team that framed the Patent Act of 1952. The other person on that team was a gentleman named Paul A. Rose. Mr. Rose passed away on October 29, 2004 at the ripe old age of ninety-seven.

The drafting team for the 1952 Act bridged two cities - Giles Rich being a New Yorker and Mr. Rose being a Washingtonian. Although physically located in Washington, Mr. Rose had an influence on many of our members above-and-beyond the obvious impact of the 1952 Act on us all. First, he taught "patent practice and procedure" at George Washington Law School for many years. Second, he was, at the time, the manager of the Washington office of the patent branch of Union Carbide Corporation.

Back in those days, companies like Union Carbide, GE and DuPont, to name a few, had extensive training programs as a means for introducing new patent lawyers to the profession, and offering them well-rounded practical experience. Paul Rose played an instrumental role in the training of new patent lawyers at Carbide. Since Carbide was based in Manhattan then, he was effectively enhancing the skill-set of lawyers who would become members of our Association.

One of our Association's retired members, Larry Kastriner, vividly remembers taking Mr. Rose's course at GW Law, and, upon joining Carbide, being accompanied by Mr. Rose to his first interviews with Patent Examiners. Larry recalls that Mr. Rose "seemed to know everybody" at the Patent Office.

The tutelage by Mr. Rose served Larry well. Larry went on to become chief patent counsel for Praxair in Danbury, and to serve a twenty-year stint teaching patent law at Pace University Law School in White Plains. Our Association's Henry Renk has succeeded him in the teaching post at Pace.

Twelve years after completing his role in framing the 1952 Act, Mr. Rose gave a forceful speech before the Georgetown Patent Law Club in Washington. It was given on December 17, 1964, and entitled "U.S. Patent Examination System - Why Change a Good Thing? (For the Wrong Reasons)".

In the opening of his speech, Mr. Rose alluded to the popular opinion back then that the patent examination system was about to collapse under its own weight absent some drastic change - due the mounting backlog of patent applications attributable to the "techni-

cal explosion" purportedly occurring back then. In addressing this popular opinion, Mr. Rose minced no words in stating that "this theme has been stated as fact so many times that even members of the Bar and Committees of Congress are beginning to believe it and repeat it."

In the same speech, Mr. Rose addressed the possibility of introducing "deferred examination" into our patent system, a policy that had been previously adopted by the Dutch back before the European Patent Office came into being. Again, he didn't mince words in stating "should we adopt the practices of a country where the policy is to restrict rather than to expand its patent system to make it truly an incentive system? The Dutch don't like patents because 80 percent of their patents issue to foreigners and only tend to restrict the local economy. That is why the Dutch have the best or most rigid examining system in Europe. It has been suggested that the Dutch probably wouldn't even have a patent system if it were not for the fact that not having one might cause other nations to [t]hink that they are backward. Therefore, the suggested imitation of the Dutch system is based on the wrong motivation. We should be thinking in terms of operating our system to increase its incentive force, rather than in terms of how we can amend it so as to operate it more cheaply and easily."

Those words ring as true today as they doubtless did when Mr. Rose gave his forceful speech over forty years ago. As we contemplate the current patent reform initiatives, we would do well to keep Mr. Rose's words in mind.

In addition, our Association should reflect on how well Mr. Rose and Giles Rich bridged any geo-political gap that existed between New York and Washington. We should consider how to best have our Association's voice added to those voices, regional, national, and international, that have already spoken on the various facets of reform. As we have done in the past, our Association can once again serve as a "voice of reason" in helping to insure that any changes made to

the system will, in fact, "increase its incentive force", not merely allow it to operate "more cheaply and easily".



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

Charles L. Gholz at September 23, 2005  
 CLE Luncheon Program

Charles L. Gholz, the leading authority on interference practice in the United States, was the featured speaker at the NYIPLA CLE luncheon program on September 23, 2005. Mr. Gholz is a senior partner and head of the interference practice at Oblon, Spivak, McClelland, Maier & Neudstadt in Alexandria, Virginia.

Mr. Gholz first provided an introduction to interference practice, and highlighted the key guidelines for patent interferences before the U.S. Patent & Trademark Office. Mr. Gholz also addressed the recent rules changes for interference practice and their impact on practitioners. Mr. Gholz added his concerns with the new rules, including the lack of a duty of candor on a patent interferent. Mr. Gholz concluded with a discussion of the current state of interference practice, particularly in light of the proposed post-grant opposition proceedings.



Left to Right: Charles Gholz, Richard Erwine, host

Karen Copenhaver at October 21, 2005  
 CLE Luncheon Program



Left to Right: Daniel DeVito, Karen Copenhaver

Karen Copenhaver, Executive Vice President and General Counsel of Black Duck Software, discussed the compelling business case behind open source adoption and the effect of open source development models on corporate intellectual property strategies. Karen presented the case for automation of internal controls relating to software development to identify the contents of software assets and to assure compliance with license obligations as the development model gains complexity due to the re-use of available software assets. She also shared her experience working with acquirors using source code fingerprinting technology and other automated search methods and tools to perform code analysis in due diligence.

Save the Date

Friday, March 24, 2006

*The 84th Annual Dinner  
 in Honor of the Federal Judiciary*

and the CLE Day of Dinner Program

Waldorf-Astoria, New York

# The NYIPLA:

## The Benefits - The Opportunities - The Rewards

The NYIPLA serves as a vehicle to promote the development and administration of intellectual property interests. The NYIPLA strives to educate the public and members of the bar in this particular field and continually works with other associations to harmonize United States and international intellectual property laws for the protection of such properties. Currently, there are nearly 1500 members of this organization carrying out this function.

The NYIPLA and its committees support a large variety of activities related to all aspects of intellectual property practice, including a bi-monthly bulletin, frequent lunches with presentations by leading practitioners or representatives from the Patent and Trademark Office, and, of course, the now famous yearly Judges' Dinner at the Waldorf-Astoria that is attended by over 3000 judges, lawyers and guests. Members are offered a substantial discount in the cost of attending the dinner. Save the date: This year's dinner is set for Friday, March 24, 2006. And make sure to pay your dues by the 31st of December if you want to receive the discount!

The Association has twenty-four active committees whose scope covers all aspects of intellectual property law and practice as well as related topics including alternative dispute resolution, legislative oversight and amicus briefs, meetings and forums, and continuing legal education. The Association is an accredited CLE provider and its programs range from luncheon meetings that provide at least one NY CLE credit to full day seminars on topics of interest or practice tips for IP practitioners. Members are offered a discount on the costs of attending these luncheons and meetings.

The membership committee believes that lawyers and students who are interested in a career in intellectual property would benefit tremendously by joining the NYIPLA. By participating in the activities mentioned above, they also would be able to meet practitioners who can provide information on various opportunities in

this field as well as discuss their experiences. The well-known "Greenbook," which lists all our members, is updated and published annually and is provided to each member as the resource and reference guide for our NYIPLA members.

If you are thinking of becoming a member of the NYIPLA or if you have not renewed your membership this year, please visit our website at [www.nyipla.org](http://www.nyipla.org) and download a new member application or dues renewal form. Your eligibility for membership discounts begins the day your check is received.

We look forward to serving you in the coming year. If you have any questions about membership, our CLE programs or other NYIPLA activities, please contact our administrative offices at [admin@nyipla.org](mailto:admin@nyipla.org).

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ARTICLES

The Association welcomes  
articles of interest to the IP bar.

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[asheesh.puri@ropesgray.com](mailto:asheesh.puri@ropesgray.com)

Guidelines are set forth at

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## Minutes Of September 16, 2005 Meeting Of The Board Of Directors

The meeting of the Board of Directors was called to order at the Penn Club at 12:15 p.m. by President Ed Vassallo.

Marylee Jenkins, Christopher A. Hughes, Anthony Giaccio, John E. Daniel, Mark J. Abate, Laura A. Coruzzi, Daniel A. Devito, Robert C. Scheinfeld, Dale L. Carlson, Karl F. Milde, Jr. Philip T. Shannon and W. Edward Bailey were present. Also present were Committee Chair Stephen Feingold and Michael Isaacs of Star Consulting.

The minutes of the Board of Directors' Meeting held on June 29, 2005 were approved.

Mr. Daniel provided the Treasurer's Report. The Association's finances are sound.

Mark Abate reported on behalf of the Committee on Legislative Oversight And Amicus Briefs. The Committee had a luncheon organization meeting in September. The Committee will continue its amicus activities on behalf of the Association. The Committee also discussed possibly getting involved in lobbying activities surrounding the patent law reforms being considered in Congress. Mr. Abate and Ms. Jenkins will discuss and investigate approaches to getting the Association involved in lobbying activities.

Ed Vassallo reported on the activities of the Committee on Publications. Fall issue of the Bulletin will be published shortly. It will include an announcement for a Federal Circuit Bar Association meeting at Columbia University on October 14, 2005.

Stephen Feingold reported on the Committee on Trademark Law and Practice. The "Anti-dilution Act" was discussed at length. The INTA proposal, which is embodied in a current

bill before Congress, was discussed as well as a proposal of the Bar Association of the City of New York to modify the INTA proposal/Congressional bill. Board members will review the City Bar proposal and the Committee's recommendation and further discuss taking a position on the bill at a subsequent meeting.

Mr. Giaccio discussed planning for the Annual Meeting and Dinner in May. In the planning process, the concerns expressed at the last Board meeting with respect to streamlining the Annual Meeting and Dinner are being addressed.

Messrs. Vassallo and Hughes reported on the Annual Dinner in Honor of the Federal Judiciary. Governor Arnold Schwarzenegger, who had been invited to speak at the Dinner, cannot commit to the date. Other speakers are being considered. Nominees for the Outstanding Public Service Award were discussed. Pricing for the Judge's Dinner was also discussed. The Waldorf has held the cost of the Dinner relatively constant for the past four years and has asked for an increase. To minimize the amount of the increase, the Board decided to reduce the number of dinner courses from four to three. Having a three-course dinner also allows more time for the Dinner program, which now includes the Outstanding Public Service Award, the speaker and the Minority Scholarship presentation.

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

The next meeting of the Board is scheduled for Wednesday, October 19, 2005 at Noon at the Princeton/Columbia Club. The Committee Chairs will be at this meeting to report on the work on their Committees.

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Carlos Cucurella and Lydia Gobena have been elected to partnership at  
Fross Zelnick Lehrman & Zissu, P.C., effective December 1, 2005.



Fitzpatrick, Cella, Harper & Scinto congratulates the following eight lawyers

listed as Best Lawyers in Intellectual Property Law in the  
2006 edition of Best Lawyers in America

Bob Baechtold, Nick Cannella, Joe Fitzpatrick, Pat Razzano,  
Henry Renk, Larry Scinto, Henry Tang and Ed Vassallo.



## SOUTHERN DISTRICT CASE REVIEW

by Mark J. Abate <sup>1</sup>

### INEQUITABLE CONDUCT THAT IS NOT ACCOMPLISHED USING THE MARK AT ISSUE CANNOT SUPPORT AN UNCLEAN HANDS DEFENSE

**De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc.,**  
 2005 U.S. Dist. LEXIS 9307  
 (S.D.N.Y. May 18, 2005)  
 (Judge Denise Cote)

Plaintiffs were incorporated in the United Kingdom in 2002 as a joint venture between the unspecified “owner of rights in De Beers” and luxury good producer LMVH Moët Hennessy Louis Vuitton. Plaintiffs were assigned the right to use the DEBEERS mark in the United States with respect to diamonds, jewelry, luxury goods, and retail store services, and subsequently filed applications to register the mark in the United States for luxury goods and retail services. In December 15, 2001, Defendants registered several Internet domain names that included the word “DeBeers.” On January 29, 2002, Defendants registered the mark “DEBEERS DIAMOND SYNDICATE” for use with respect to diamonds, listing a first use date of June 1981 and a first use in commerce date of January 2002. Plaintiffs alleged, inter alia, trademark infringement in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and unfair competition under New York common law. Defendants pled the affirmative defense of unclean hands. Plaintiffs moved to strike the defense.

The court initially confirmed that unclean hands may be asserted as an affirmative defense to equitable claims in an action under Lanham Act Section 43(a). Federal law, the court noted, requires an equitable plaintiff to act in good faith. Misconduct that is unrelated to the claim to which it is asserted as a defense, however, does not constitute unclean hands. New York law is virtually identical, the court continued, since New York courts apply the defense when a plaintiff “has committed some unconscionable act that is directly related to the subject matter in litigation and has injured the party

attempting to invoke the doctrine.” 2005 U.S. Dist. LEXIS 9307 \*9 (quoting *PenneCom, B.V. v. Merrill Lynch & Co.*, 372 F.3d 488, 493 (2d Cir. 2004)).

Defendants based their unclean hands defense on the fact that “the alleged worldwide fame of DEBEERS...was achieved by anti-competitive, monopolistic, and inequitable conduct by plaintiffs’ alleged predecessors in interest to DEBEERS around the world.” Defendants listed several lawsuits in which the assignors of Plaintiffs’ rights in the DEBEERS mark were or had been defendants, and asserted that “various De Beers entities had engaged in monopolistic behavior, acted to restrain competition, pled guilty to fixing prices, and had been the subject of criminal investigations and prosecutions...”

The court held that “[a]s grave as the monopolistic behavior that defendants allege may be, their allegations are not sufficiently related to the subject matter of the action to support” an unclean hands defense. The court noted that Defendants did not allege that Plaintiffs had misused their marks in furtherance of inequitable conduct. Examples of conduct that might qualify as sufficiently related to a trademark action, the court stated, are when a plaintiff encourages or induces the commission of a wrong, when the mark itself is deceptive, or when the plaintiff procured or maintained a registration by false or fraudulent misrepresentation. Discussing a case cited by Defendants, *Estee Lauder, Inc. v. Fragrance Counter, Inc.*, 189 F.R.D. 269, 272 (S.D.N.Y. 1999), the court noted that in that case, Judge Sweet emphasized when an anti-trust-related unclean hands defense is raised in a trademark case, “an essential element [of the defense]...is proof that the mark itself has been the basic and fundamental vehicle required and used to accomplish the violation.” The court contrasted the “collateral activities” alleged by the Defendants with those cited by Judge Sweet, and consequently granted Plaintiffs’ motion to strike the defense. Also, in a footnote the court stated that it was unnecessary to reach the issue whether inequitable conduct by the entities from which Plaintiffs received their rights, as opposed to plaintiffs themselves, would be sufficient to establish the defense.

*cont. on page 18*

## USE OF “THUMBNAIL” REPRODUCTIONS OF COPYRIGHTED POSTERS IN A BIOGRAPHY CONSTITUTES A FAIR USE

**Bill Graham Archives L.L.C. v. Dorling Kindersley Ltd.,**

2005 U.S. Dist. LEXIS 9041

(S.D.N.Y. May 11, 2005)

(Judge George B. Daniels)

Plaintiff claimed that seven reduced images of concert posters reproduced by Defendants in their entirety in the book “Grateful Dead: The Illustrated Trip” infringed Plaintiff’s copyrights in the works. The posters were used on certain pages of Defendants’ book as “thumbnail” reproductions and appeared in chronological order. Defendants moved for summary judgment, asserting that their reproduction of the images constituted a fair use of the works pursuant to Section 107 of the Copyright Act.

Citing 17 U.S.C. § 107, the court first noted that the use or reproduction of a copyrighted work is not an infringement of copyright if it is used for purposes such as criticism, comment, news reporting, teaching, scholarship, or research. Also citing that section, the court then stated that four nonexclusive factors to consider are 1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; 2) the nature of the copyrighted work; 3) the amount and substantiality of the portion used; and 4) the effect of the use upon the potential market for, or value of, the copyrighted work. The ultimate test, the court concluded, was “whether the copyright law’s goal of ‘promoting the Progress of Science and useful Arts,’ U.S. Const., art. I § 8, cl., 8, ‘would be better served by allowing the use than by preventing it.’” 2005 U.S. Dist. LEXIS 9041 \*10 (quoting *Arica Inst., Inc. v. Palmer*, 970 F.2d 1067, 1077 (2d Cir. 1992)).

Regarding the first factor, the purpose and character of the use, the court stated that there is a “strong presumption” in the Second Circuit that this factor favors a defendant if the infringing work is, *inter alia*, a biography. Defendants did not dispute that Plaintiff’s book was indeed a biography, as the “backbone of the book” was a timeline “from which all entries and features hang.” The “more important” question, the court stated, was whether the infringing work “merely supersede[d]” the original work or was “transformative”—i.e., whether the work “adds something new, with a further purpose or different character, altering the first with new expression, meaning or message.” 2005 U.S. Dist. LEXIS 9041 \*12 (quoting *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 579 (1994)). The court noted that “transformative”

uses are “the very type of activity that the fair use doctrine intends to protect for the enrichment of society.” *Id.* The court then concluded that the Defendants’ use of the works was transformative since Defendants did not reproduce the works for the original purpose that they were created—to be decorative and to advertise—but rather Defendants reproduced the works, in conjunction with other pieces of visual art, to commemorate historic events that occurred. The court noted that the entirely different use was evidenced by the significant reduction to thumbnail size of the images. Furthermore, the court stated, the commercial nature of the book did not preclude fair use: the fact that the images were reduced in size and were not utilized directly to promote sales of the book suggested that their commercial importance was minimal. Therefore, the court held, the first factor weighed heavily in favor of Defendants.

The court stated that the second factor, the nature of the copyrighted work, related to whether the original work was “creative as opposed to factual” as well as to whether the work had been previously published. The court noted that “[o]riginal works that are creative in nature will generally receive greater copyright protection.” However, the court further noted that although Plaintiff’s posters were creative, this factor “may be of less (or even no) importance when assessed in the context of certain transformative uses.” 2005 U.S. Dist. LEXIS 9041 \*16 (quoting *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 144 (2d Cir. 1998)). Also, the court continued, the Second Circuit has mitigated the importance of creativity where a work is “a published work available to the general public.” *Id.* (quoting *Arica Inst.*, 970 F.2d at 1078). Since Plaintiff’s works had been previously published and Defendants’ use was transformative, the court concluded that the second factor slightly favored plaintiff.

The court stated that the third factor considers “whether the amount and substantiality of the portion used in relation to the copyrighted work as a whole are reasonable in relation to the purpose of the copying.” 2005 U.S. Dist. LEXIS 9041 \*17 (quoting *Campbell*, 510 U.S. at 586). The inquiry focuses on the degree to which the original work was copied, whether the extent of copying is consistent with or more than necessary to further the purpose and character of the use, and asks whether the borrowed material forms the “heart” of the invention. The court acknowledged that although Plaintiff’s seven works were copied in their entirety, they formed only a small part of a book meant to represent the Grateful Dead’s history and were displayed among hundreds of other images and text. The court concluded that the thumbnail reproductions could not be considered the “heart” of the full size original concert posters, and that without the

use of thumbnail reproductions, the creative nature of the materials could not be conveyed without the use of several samples of work in their entirety. As such, the court concluded that this factor favored Defendants.

Lastly, the court remarked that the fourth factor looks to the effect of the use upon the potential market for or value of the copyrighted work. The court noted that copyright law is primarily concerned with protecting the ability of copyright holders to exploit the market for their works. However, the court continued, only an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally recognized—both for the original work and derivative works. Furthermore, whether a copyright holder is expected to exploit a market depends substantially on whether the use is transformative—the qualification of a work as transformative informs whether a licensing market should be reserved to the copyright holder. In this instance, the court noted, the Plaintiff’s copyright was in promotional concert posters, which are artistic works. Reproducing and selling one of the works as a poster or artwork, or selling a book that compiled the collection of posters, would clearly infringe. However, the court stated, Defendants’ use was transformative: the use of seven thumbnails in a 480 page book was “not likely to supplant the market, either for reproductions or derivative works, of the original.” Consequently, the court asserted, it would be unreasonable to find that Defendants had unjustly appropriated Plaintiff’s market. Therefore, the court held that the fourth factor also favored the Defendants, and that the totality of factors determined that Defendant’s use was a fair use.

## PATENT CLAIM TERMS MUST BE CONSTRUED BY LOOKING AT THE CLAIM AS A WHOLE

### **Advanced Magnetic Closure, Inc. v. Rome Fastener Corp.,**

2005 U.S. Dist. LEXIS 10016  
(S.D.N.Y. May 11, 2005)  
(Judge George B. Daniels)

Plaintiff alleged that Defendants’ product infringed U.S. Patent No. 5,512,773, which covers a magnetic snap fastener used primarily as a closure device for purses. The fastener comprises a female half and a male half. A donut shaped magnet (“magnetic member”) is mounted on the female half. A rivet is positioned at the periphery of the hole in the magnet, leaving the hole in the magnet at least partially unobstructed. The male half is made

of magnetically attractive material and contains a rivet protruding outward that fits within the hole of the magnet to fasten the two halves together. At least one of the two rivets contains a small hole.

A Markman hearing was held to construe terms in claims 1 and 9 of the patent. With respect to claim 1, the purpose of the aforementioned rivet hole was in dispute, as the claim language in question read (emphasis added): “[with] said small hole in said one of said first and second rivets *increasing the magnetic attraction of said magnetic member by modifying a resistance to said magnetic circuit at said first and second rivets.*” Plaintiff argued that the italicized portion should be construed to mean that the purpose of the rivet hole is to provide an increase in magnetic attraction. Defendants argued that the italicized portion should be construed to mean that the small hole in one of the rivets cause an increase in the magnetic attraction of the magnet itself, i.e., that the power of the magnet is increased.

The court held in favor of Plaintiff’s construction, stating that the claim language does not speak in terms of increasing the power of the magnet, but rather that the magnetic attraction is increased. The court noted while it is impossible to increase the power of a magnet—as that property is inherently fixed—it is possible to increase magnetic attraction and recited as an example the fact that the further away a magnet is placed from a metal object, the less attraction those objects will have to each other. The court addressed Defendant’s argument that the claim specifically describes increasing the magnetic attraction “of said magnetic member” by noting that Defendant erroneously focused on the “increasing” language as it relates to the phrase “magnetic member,” rather than *as it relates to the claim as a whole*. The court stated that the claim language continues by describing *how* the magnetic attraction is able to be enhanced—by affecting the circuitry when the male and female halves are brought together. Thus, the court noted, it is the location of the rivet hole, within the overall structure formed when the two halves are brought together, that creates a change within the magnetic circuitry, not a change to the magnet itself. Moreover, the court held that nothing in the specification or prosecution history was to the contrary.

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