HENNESSEY

FRANKLIN PIERCE LAW CENTER

PRESENTS

EMERGING

TRADEMARK, TRADE SECRET AND PATENT LITIGATION

ISSUES

Emerging Issues In
TRADEMARK LITIGATION
SEPTEMBER 10

Emerging Issues In
TRADE SECRET LITIGATION
SEPTEMBER 11

Emerging Issues In
PATENT LITIGATION
SEPTEMBER 12

The Ritz-Carlton Boston
SEPTEMBER 10-12, 1990

Franklin Pierce Law Center

September 1990

Good Morning!

It is a pleasure to welcome you to ***Trademark, Trade Secret and Patent Litigation: Emerging Issues***, Franklin Pierce Law Center's second annual conference on cutting-edge litigation issues in intellectual property. Chaired by Professor Karl Jorda, the Director of the Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship at FPLC, the series has been planned with the able assistance of Ron Coolley, Arnold, White and Durkee. The Law Center's Marketing Director Jamie Bulen has been in charge of all the arrangements.

We invite each of you to visit the Law Center in Concord, New Hampshire; as I'm sure you're aware, FPLC is one of the principal intellectual property specialists in American legal education. At present, we graduate annually 50 or more students qualified for patent and other IP practice; approximately 40% of them are from abroad, spending a year in concentrated IP study before returning to their home countries as administrators and policy-making officials. In this connection, we draw your attention to Professor Jorda's report of the FIRST FIVE YEARS of the Germeshausen Center, a copy of which is included in your conference packets.

We also urge your company or law firm to become a member of the Patent, Trademark and Copyright (PTC) Research Foundation, the organization within Franklin Pierce Law Center through which the intellectual property community provides the extra support that high-quality IP instruction requires. The PTC Research Foundation, under the direction of Professor Robert Shaw, quarterly publishes IDEA: THE JOURNAL OF LAW AND TECHNOLOGY. In addition to general articles on IP subjects, IDEA also reports the proceedings of conferences at the Law Center, such as the biannual Patent System Major Problems Conferences and the annual PTC Research Foundation conference on legal issues in computer software development.

Do enjoy your stay in Boston and the association with other participants.

Sincerely,

Robert M. Viles
Dean

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T H E

P R O G R A M

Emerging Issues in Trademark Litigation
September 10, 1990

Emerging Issues in Trade Secret Litigation
September 11, 1990

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September 12, 1990

EMERGING ISSUES IN TRADEMARK LITIGATION
MONDAY, SEPTEMBER 10

8:30- 9:00	Coffee/Registration
9:00- 9:10	Ferment in the Trademark Arena Karl F. Jorda Franklin Pierce Law Center Concord, NH
9:10-10:00	Damages in Trademark Litigation Frank P. Porcelli Fish & Richardson Boston, MA
10:00-10:50	The Good Faith Junior Use Defense Under 15 U.S.C. 1115(b)(5) Thomas M. O'Malley Willian Brinks Olds Hofer Gilson & Lione PC Chicago, IL
10:50-11:00	Break
11:00-12:00	Rule 11 Sanctions in Trademark Litigation Alan S. Cooper Banner, Birch, McKie & Beckett Washington, DC
12:00- 1:30	Lunch (Provided)
1:30- 2:15	Visual Chronology of Trade Dress Litigation Benjamin S. Warren Pattishall, McAuliffe, Newbury, Hilliard & Geraldson Washington, DC
2:15- 3:00	Trademark Litigation Under the New Trademark Act William D. Raman Arnold, White & Durkee Austin, TX
3:00- 3:10	Break
3:10- 4:00	Trademark Summary Judgments David M. Kelly Finnegan, Henderson, Farabow, Garrett & Dunner Washington, DC
4:00- 4:30	Open Forum

EMERGING ISSUES IN TRADE SECRET LITIGATION
TUESDAY, SEPTEMBER 11

8:30- 9:00	Coffee/Registration
9:00- 9:10	Burgeoning Trade Secret Theft and Wilting Business Ethics Karl F. Jorda Franklin Pierce Law Center Concord, NH
9:10-10:00	Trade Secret Protection for Computer Software -- A New Level of Sophistication Jerry Cohen Perkins, Smith & Cohen Boston, MA
10:00-10:50	Trial Tactics and Strategies in Trade Secret Cases Herbert F. Schwartz Fish & Neave New York, NY
10:50-11:00	Break
11:00-12:00	The Trend Toward "Leadtime" Injunctions Melvin F. Jager Willian Brinks Olds Hofer Gilson & Lione PC Chicago, IL
12:00- 1:30	Lunch (Provided)
1:30- 2:15	Mixed Results with the Uniform Trade Secrets Act James J. Foster Wolf, Greenfield & Sacks Boston, MA
2:15- 3:00	Litigating Trade Secrets in the 90s Charles R. Brainard Kenyon and Kenyon New York, NY
3:00- 3:10	Break
3:10- 4:00	<u>Gore v. Garlock</u> and the Respective Rights of Trade Secret Users and Patentees Karl F. Jorda Franklin Pierce Law Center Concord, NH
4:00- 4:30	Open Forum

EMERGING ISSUES IN PATENT LITIGATION
WEDNESDAY, SEPTEMBER 12

8:30- 9:00	Coffee/Registration
9:00- 9:10	How Far Will the Pendulum Swing? Karl F. Jorda Franklin Pierce Law Center Concord, NH
9:10-10:00	Should "Trial by Jury" be Eliminated in Patent Cases? Robert B. Benson Bancroft Corporation Waukesha, WI
10:00-10:50	Non-Prior Art Bases for Invalidity James W. Geriak Lyon & Lyon Los Angeles, CA
10:50-11:00	Break
11:00-12:00	Revolution in Patent Preliminary Injunctions Thomas L. Creel Kenyon & Kenyon New York, NY
12:00- 1:30	Lunch (Provided)
1:30- 2:15	Corporate Counsel's Role in Patent Litigation Walter Kirn 3M St. Paul, MN
2:15- 3:00	Tortious Interference: New Remedy for Patent Infringement Ronald B. Coolley Arnold, White & Durkee PC Chicago, IL
3:00- 3:10	Break
3:10- 4:00	To Settle or Sue--Creative Solutions to a Never-Ending Problem David Wolf Wolf, Greenfield & Sacks, P.C. Boston, MA
4:00- 4:30	Open Forum

T H E

F A C U L T Y

Emerging Issues in Trademark Litigation
September 10, 1990

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Robert B. Benson

Robert B. Benson, President, Bancroft Corporation (Waukesha, Wisconsin), is a graduate of Purdue University and Indiana University. Prior to his current position, Mr. Benson held several positions at Allis-Chalmers Corporation, the most recent being President and Chief Operating Officer. He has held a position of leadership in almost every major bar organization in the intellectual property law field and has lectured at various legal seminars on the subject.

During the Carter administration, Mr. Benson participated in a cabinet-level domestic review committee for industrial innovation; in addition, he helped to draft the Patent Cooperation Treaty which represents the most significant international treaty in the patent field in the last 100 years.

Charles R. Brainard

Charles R. Brainard is a member of Kenyon and Kenyon's New York office. Educated at Haverford University and University of Chicago, he's admitted to the New York bar. Professional memberships include Association of the Bar of the City of New York; New York State and American Bar Associations; New York Patent, Trademark & Copyright Law Association; AIPLA; Federal Bar Council; and Licensing Executives Society.

Jerry Cohen

Jerry Cohen is a partner in the Boston law firm of Perkins, Smith and Cohen and is a member of the Board of Editors of both the Massachusetts Law Review and BNA "United States Patent Quarterly."

A graduate of George Washington University (JD) and Rensselaer Polytechnic Institute (BME), Mr. Cohen is Director of New England Computer Law Forum, Chairperson of the Boston Bar Association International Law Section and Vice Chair of the Massachusetts Bar Association Business Law Section. He has also been active in: Copyright Society of the U.S.; Civil Liberties Union of Massachusetts; International Business Center of New England; American Trial Lawyers Association; and American Intellectual Property Law Association.

Ronald B. Coolley

Ronald B. Coolley is a member of Arnold, White & Durkee, an intellectual property law firm in Chicago. Holding degrees from Iowa State University (BS Aerospace Engineering) and University of Iowa (JD with distinction and MBA), Mr. Coolley was the recipient of the John Marshall Law School Gerald Rose Memorial Award (1985) and Rossman Memorial Award (1985-86) presented by the Patent and Trademark Office Society.

Mr. Cooley is a frequent lecturer on the intellectual property circuit, the author of several articles, and designed the patent portion of this conference. He is an active member in The Patent Law Association of Chicago; American Bar Association; American Intellectual Property Law Association; Licensing Executives Society; and United States Trademark Association.

Alan S. Cooper

Alan S. Cooper is a partner in the Washington, DC firm of Banner, Birch, McKie & Beckett where he specializes in trademark litigation, counseling and licensing. Currently an Adjunct Professor at Georgetown University Law Center, Mr. Cooper also lectures at various seminars and institutes on trademarks and unfair competition.

A graduate of Vanderbilt University (BA and JD), he has authored several articles and served as an Adviser on Trademark Law to U.S. Delegation to Diplomatic Conference on Revision of Paris Convention in Nairobi, Kenya.

Thomas L. Creel

Practicing patent law at Kenyon and Kenyon for the last 25 years, Thomas L. Creel specializes primarily in litigation. His background includes a BS from University of Kansas and LLB from University of Michigan. Mr. Creel has spoken at numerous professional associations, published various articles in the intellectual property field, and is editor of "The Guide to Patent Application" published by BNA books. In addition, he teaches patent law at Columbia University.

James J. Foster

James J. Foster is of counsel to Wolf, Greenfield & Sacks, a Boston-based firm specializing in intellectual property rights. A graduate of MIT (BSEE) and Harvard University (JD), Mr. Foster is admitted to the New York bar and registered to practice before US Patent and Trademark Office. Professional memberships include ABA, Boston Patent Law Association and New York Patent, Trademark and Copyright Law Association.

James W. Geriak

James W. Geriak of Lyon and Lyon in Los Angeles, specializes in patent litigation, and has been lead counsel for the prevailing party in such cases as Spectra-Physics v. Coherent and Scripps v. Genentech. He has also served on the quiet side of the bench as an arbitrator in several patent licensing disputes and is presently under appointment as a special master in a patent infringement case currently pending in the Central District of California.

Mr. Geriak holds degrees from Rensselaer Polytechnic Institute and Georgetown University.

Melvin F. Jager

Melvin F. Jager of the Chicago office of Willian Brinks Olds Hofer Gilson & Lione is a graduate of Joliet Junior College and University of Illinois (BS and JD). Other educational achievements include membership in Phi Delta Phi and Board of Editors, University of Illinois Law Forum. Professional activities include chairmanships in sections of the Illinois Bar Association, American Bar Association and Patent Law Association of Chicago, as well as memberships in Law Club of Chicago, AIPLA, and Bar Association of the Seventh Federal Circuit.

Karl F. Jorda

Karl F. Jorda is the David Rines Professor of Intellectual Property Law and Industrial Innovation at Franklin Pierce Law Center and also serves as the Director of their Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship. Prior to his FPLC appointment, he spent 30 years at CIBA-GEIGY in Ardsley, NY where he was Corporate Patent Counsel. He holds undergraduate degrees from University of Frankfurt (Germany) and College of Great Falls (Montana) and graduate degrees from Notre Dame University (MA and JD).

Mr. Jorda earned the 1989 PIPA Award for "Outstanding Contributions to International Cooperation in the Intellectual Property Field." He served as head of delegation of US Patent Counsel at four JPO meetings in Tokyo and as an observer for PIPA and NYPTC at WIPO Patent Law Harmonization and Paris Convention Revision meetings. Mr. Jorda's professional activities include leadership roles in several associations and extensive lecturing on intellectual property topics.

David M. Kelly

A member of the Washington, DC law firm of Finnegan, Henderson, Farabow, Garrett & Dunner, David M. Kelly is admitted to the Pennsylvania, Louisiana and District of Columbia bars and is registered to practice before US Patent and Trademark Office. Educational achievements include a BS and MS from University of Pittsburgh and JD from Duquesne University where he was a member of Chi Epsilon.

Mr. Kelly served as Professorial Lecturer of Trademarks and Patents at Loyola University School of Law and is a member of the AIPLA, USTA and ABA. He has authored several articles, including "Trademarks: Protection of Merchandising Properties in Professional Sports," "Protection of Merchandising Properties in Professional Sports," and "Broadening Trademark Protection in Louisiana: Enactment of the Louisiana Anti-Dilution Statute."

Walter Kirn

Walter N. Kirn, affiliated with 3M in St. Paul, has been practicing intellectual property law for 23 years. After earning a law degree from George Washington University, Mr. Kirn began his legal career as a Law Clerk with Judge Lindsay Almond, Jr.

Mr. Kirn coauthored "Patent Preparation and Prosecution Practice" and authored "The Treatment of Tangible Personal Property in Conjunction with Licensing of Biotechnology, Licensing Law & Business Report" and "Licensing and the Patent Term Restoration Act." He has lectured extensively for Patent Resources Group and Hamline University Law School.

Thomas M. O'Malley

Thomas M. O'Malley's law specialties include trademark infringement and related unfair competition, false advertising claims, and trademark counseling, prosecution and licensing. He is employed in the Chicago office of Willian Brinks Olds Hofer Gilson & Lione. He is an author and speaker on several intellectual property topics.

A graduate of Marquette University, Mr. O'Malley received his JD from Loyola University of Chicago School of Law, where he was Executive Editor of the Loyola Law Journal. Involved in trademark and copyright litigation, these recent cases have resulted in reported decisions:

<u>Echo Travel, Inc.</u> v. <u>Travel Associates Co.</u>, 870 F.2d 1264 (7th Cir. 1989)
<u>Ippolitto</u> v. <u>WNS, Inc.</u>, 864, F.2d 440 (7th Cir. 1988)
<u>Montgomery Ward & Co.</u> v. <u>Ward's Home Improvement Co.</u>, 13 U.S.P.Q.2d 2058 (N.D. Ill.1989)
<u>Marshall Field & Co.</u> v. <u>Mrs. Fields Cookies</u>, 11 U.S.P.Q.2d 1355 (T.T.A.B. 1989) <u>subs. dec.</u>, 11 U.S.P.Q. 1154 (T.T.A.B. 1989)

Frank P. Porcelli

A senior partner in the Boston law firm of Fish and Richardson, Frank P. Porcelli earned degrees from Boston College (BA), Northeastern (MS) and Harvard (JD). Mr. Porcelli was lead counsel for the successful defendant in a leading case in the First Circuit on summary judgment in trademark cases, <u>Astra Pharmaceuticals</u> v. <u>Beckman</u> [718 F.2d 1201 (1983)]. He has been very active in trademark litigation, having obtained many preliminary injunctions, as well as in the field of damages in intellectual property litigation.

Mr. Porcelli is President Elect of the Boston Patent Law Association and is also involved in the USTA and AIPLA. He has authored articles on trademark/ unfair competition law and patent damages.

William D. Raman

Mr. Raman earned degrees from Davidson College and University of Texas at Austin (BSME with Honors and JD). He is a partner in Arnold, White & Durkee's Austin office, specializing in trademark prosecution, trademark litigation and trade dress litigation. Mr. Raman has been involved in such cases as <u>Chevron Chemical Company</u> v. <u>Voluntary Purchasing Groups</u> and <u>The Pillsbury Co.</u> v. <u>Jack C. Southard</u>. Other professional involvement includes lecturing on the trademark circuit and coauthoring an article on cases decided under the Trademark Counterfeiting Act.

Herbert F. Schwartz

Herbert F. Schwartz, Managing Partner of Fish & Neave, is a graduate of University of Pennsylvania Law School (LLB) where he was Editor of Law Review, University of Pennsylvania Wharton Graduate School (MA) and Massachusetts Institute of Technology (BSEE). Since 1980, he has taught "Patents and Trade Secrets" and "Trademarks and Unfair Competition" at the University of Pennsylvania Law School.

Representative recent reported decisions in which Mr. Schwartz has appeared include:

Polaroid v. Kodak, 867 F.2d 1415 (Fed. Cir. 1989)(for Polaroid)
PPG v. Celanese, 840 F.2nd 1565 (Fed. Cir. 1988)(for Celanese)
DEC v. Emulex, 805 F.2d 380 (Fed. Cir. 1986)(for Emulex)

Mr. Schwartz prepared a monograph ("Patent Law and Practice") which was published by the Federal Judicial Center in 1988 and made available to all Federal judges and has testified different times before Congress, at its invitation, on issues relating to innovation and patent law reform. He is a member of numerous professional organizations and lectures frequently at programs relating to patents, trademarks and trade secrets.

Benjamin S. Warren

Since 1963, Benjamin S. Warren III has practiced continuously with the Pattishall, McAuliffe, Newbury, Hilliard & Geraldson law firm, both in Chicago and in the Washington DC offices. Presently a Managing Partner of the firm's DC office, Mr. Warren is a member of the Bars of Illinois and District of Columbia.

Mr. Warren has been active in the American Bar Association, American Intellectual Property Law Association, and United States Trademark Association, where he served as Chairman of the Patent and Trademark Office Committee and member of the Editorial Board of the Trademark Reporter. He holds degrees from University of Virginia and University of Virginia Law School.

David Wolf

David Wolf, a partner in the Boston law firm of Wolf, Greenfield & Sacks, has extensive trial and appellate experience in patent and trademark litigation. Successful appearances include lead counsel before the U.S. Supreme Court in the landmark Aro I and Aro II patent cases and before federal courts throughout the country. His expertise also extends to handling large patent and trademark portfolios and licensing for a variety of the area's leading corporations.

Mr. Wolf has an undergraduate degree from the University of Massachusetts, where he studied chemistry and economics, a law degree from Harvard University, and studied electrical engineering at Northeastern University. He has lectured for various bar associations, has been on the faculty of the ABA Trademark Trial Advocacy Program and holds over a dozen patents in electrical and mechanical arts.

T R A D E M A R K

E M E R G I N G   I S S U E S

L I T I G A T I O N

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September 10, 1990

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TRADEMARK REMEDIES - MONETARY RELIEF

by

Frank P. Porcelli
Dorothy P. Whelan
and
Alan D. Minsk

Fish & Richardson

I. Introduction

Trial courts have wide discretion in fashioning remedies for trademark infringement or unfair competition involving trademarks. In actions brought under the Lanham Act involving registered trademarks, §35(a) of the act (15 USC §1117 as amended by The Trademark Law Revision Act of 1988, public law 100-667) provides that the trial court may award as monetary relief to the plaintiff 1) defendant's profits, 2) actual damages, 3) costs, and, in exceptional cases, 4) reasonable attorney's fees to the prevailing party. The trial court also has discretion to increase the damages up to three times and to increase or reduce an award of defendant's profits. §35(a) appears to prohibit punitive damages ("Such sum...shall constitute compensation and not a penalty."), although some courts have awarded them. With respect to monetary relief, §35 provides the exclusive remedy for actions involving federally registered marks.

In addition, the Trademark Law Revision Act of 1988, §35(a) (15 USC §1117), explicitly codifies the decisions of earlier cases such as Metric & Multistandard Components v. Metric's, Inc., 635 F.2d 710 (8th Cir. 1980) in extending the remedies available under §35 to causes of action brought under §43(a). Section 35(a) of the act states, "When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, *or a violation under section 43(a)*, shall have been established..., the plaintiff shall be entitled ... to recover ...". Monetary relief under §35 is "subject to the principles of equity" and thus has been awarded at the trial court's discretion, and not as a matter of right.

Monetary awards are also available in common law trademark actions. Punitive damages may be awarded in some states. They are not allowed in Massachusetts. Electronics Corporation of America v. Honeywell, Inc., 358 F. Supp. 1230, 1235-36 (D. Mass. 1973), aff'd per curiam 487 F.2d 513 (1st Cir. 1973).

Courts are generally reluctant to award monetary relief unless the wrongdoer's actions are egregious or there is evidence of lost sales or substantial actual confusion. This is consistent with the view that a mere likelihood of confusion is inadequate to support an award of damages. See Champion Spark Plug v. Sanders, 331 U.S. 125 (1947). Otherwise, the injured party will probably be awarded only injunctive relief, which will "satisfy the equities". Id. at 131-32. However, note that the Seventh Circuit has adopted the view that the principles of equity do not justify withholding all forms of monetary relief from the victim of an innocent infringer. See Louis Vuitton S.A. v. Lee, 875 F.2d 584, 588 (7th Cir. 1989) ("the principles of equity referred to in section 1117(a) do not in our view justify withholding all monetary relief from the victim of a trademark infringement merely because the infringement was innocent"). See also General Electric Company v. Speicher, 877 F.2d 531, 536 (7th Cir. 1989) ("even the victim of an innocent infringer is entitled to simple damages").

II. Monetary Relief

1. Infringer's Profits

There are three basic theories under which courts will order an accounting: 1) as compensation for the injured party where injunctive relief is insufficient to make it whole, 2) to prevent unjust enrichment wherein the wrongdoer profits from its wrongful actions, and 3) as a means of deterrence - to prevent the wrongdoer from continued wrongdoing by making it unprofitable. See Frisch's Restaurant v. Elby's Big Boy of Steubenville, Inc., et al., 661 F. Supp. 971, 989 (S.D. Ohio 1987), aff'd, 849 F.2d 1012 (6th Cir. 1988), detailing when an accounting is appropriate under §35(a). See also Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) ("Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation.").

Courts following the compensation theory generally will only award an accounting if the plaintiff is in direct competition with the defendant, so that the plaintiff's sales are diverted and the plaintiff has suffered actual harm. The court in Frisch also added that in cases in which the plaintiff could not show actual damage, an accounting would be justified if the defendant has made "a deliberate attempt to cause confusion, mistake or to deceive purchasers." 661 F. Supp. at 989, citing with approval Nalpac Ltd. v. Corning Glass Works, 784 F.2d 752 (6th Cir. 1986). Note that if damage is claimed by the plaintiff, but no proof of such is offered, some courts have held that the defendant's profits will not be awarded. See Varitronics Systems, Inc. v. Merlin Equipment, Inc., 682 F. Supp. 1203, 1210 (S.D. Florida 1988). See also Roulo, 886 F.2d at 941.

Examples

a) Raxton Corp. v. Anania Associates, Inc., 668 F.2d 622 (1st Cir. 1982) - §43(a) case; no profits where parties did not compete directly for business, one party selling women's clothing while the other party sold men's clothing, and no proof of actual damages.

b) Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903 (Fed. Cir. 1984) - no profits where no fraud or no proof of loss of business or profits; only use of plaintiff's logo was in a single annual edition of the Seattle telephone book; absence of willfulness on defendant's part considered important.

c) Break-Away Tours, Inc. v. British Caledonian Airways, 704 F. Supp. 178, 182 (S.D. Cal. 1988) - no profits where plaintiff failed to demonstrate willful infringement or actual damages arising out of defendant's use of the mark.

Several courts appear to follow the unjust enrichment and deterrence theories so that the plaintiff need not prove actual damages. In addition, it is not even necessary for the defendant to have made a profit. Some courts stress that an accounting is necessary to protect the public from losing the benefit of its bargain and to protect the owner's reputation and goodwill where inferior counterfeit goods are involved.

Examples

a) Playboy Enterprises, Inc. v. Baccarat Clothing Co., 692 F.2d 1272 (9th Cir. 1982) - sale of counterfeit jeans bearing plaintiff's mark; an award of defendant's entire profits necessary because district court's award amounting to 10% of defendant's profits based on reasonable royalty theory made infringing activity profitable; accounting awarded based on defendant's actual sales of jeans, despite fact that defendant also had many more labels bearing plaintiff's mark which could have been affixed to jeans.

b) Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582 (5th Cir. 1980) - accounting awarded even though no diversion of sales because plaintiff had never made any sales.

c) Cuisinarts, Inc. v. Robot-Coupe International Corp., 580 F. Supp. 634 (S.D.N.Y. 1984) - motion for summary judgment; use of owner's name in misleading ads; no accounting because 1) no willful infringement because defendant relied on advice of counsel so deterrence unnecessary; 2) no actual losses by plaintiff; 3) unjust enrichment unlikely because ads only ran for a short period of time.

d) Polo Fashions, Inc. v. Bruhn, 230 USPQ 538 (9th Cir. 1986) - sale of counterfeit shirts bearing plaintiff's mark;

even though defendant sold some shirts at cost and thus derived no profit, plaintiff awarded cost of shirts to deter defendant from future infringing activities by making it unprofitable; by awarding plaintiff cost of shirts, defendant no worse off because if defendant had not sold the shirts, plaintiff would have confiscated them anyway.

e) Otis Clapp & Sons, Inc. v. Filmore Vitamin Co., 754 F.2d 738 (7th Cir. 1985) - plaintiff awarded 15% of defendant's sales for years in question, even though defendant actually lost money, to discourage infringement.

f) U-Haul International, Inc. v. Jartran, Inc., 793 F.2d 1034 (9th Cir. 1986) - false advertising action; plaintiff awarded, as profits, costs of defendant's advertising campaign on assumption that financial benefit defendant received was at least equal to its advertising costs.

Under the deterrence theory, courts awarding the infringer's profits stress that they are furthering the Lanham Act's goal of discouraging trademark infringement. Paradoxically, these appear to be awards of punitive damages, contrary to §35 of the Lanham Act.

In computing the amount of defendant's profits, the Second Circuit has held that fixed costs such as fixed overhead, as well as direct costs of production, can be deducted if the defendant can show they are related to producing the items in question. A significant issue in these situations is the burden of proof that must be sustained by the defendant as to the costs or expenses which it seeks to deduct from the value of the sales of the infringing articles. This is necessary in order to arrive at a determination of their profits. Section 35(a) of the statute (15 USC §1117) allocates the burden of proof by stating that "the plaintiff shall be required to prove the defendant's sales only; the defendant must prove all elements of cost or deduction claimed." See Pillsbury Company v. Southard, 682 F. Supp. 497, 501 (E.D. Okla. 1986); Roulo, 886 F.2d at 941.

Examples

a) Maltina - defendant's entire gross profits awarded because defendant could not show overhead costs, etc. related to producing product in question.

b) Warner Bros., Inc. v. Gay Toys, 598 F. Supp. 424 (S.D.N.Y. 1984) - proper method of accounting is "full absorption approach", under which the portion of fixed overhead costs related to production of the infringing item is properly deducted from gross profits.

2. <u>Attorney's Fees</u>

§35(a) permits an award of reasonable attorney's fees to the prevailing party in "exceptional" cases. Normally, this means willful infringement, to support an award to the plaintiff. Successful defendants may be awarded attorney's fees if the court finds that the plaintiff lacked a good faith belief in the merits of the suit, and initiated the suit to harass the defendant or as a competitive ploy.

<u>Examples</u>

a) <u>Playboy</u> - attorney's fees awarded where the defendant willfully infringed the plaintiff's mark, refused to provide discovery, and repeatedly pleaded the fifth amendment.

b) <u>Polo</u> - no attorney's fees, despite fact that defendant was a willful infringer and obstructed discovery to prevent plaintiff from locating counterfeit goods, because defendant did not invest time and effort to manufacture the counterfeit shirts. Instead, defendant merely took advantage of a profitable business opportunity presented to him.

c) <u>Bandag</u> - no attorney's fees because no willful infringement.

d) <u>Cuisinarts</u> - no attorney's fees because defendant's infringement could not be characterized as malicious, fraudulent, deliberate, or willful.

e) <u>Otis Clapp</u> - $20,000 in attorney's fees awarded because willful infringement found, but plaintiff did not receive the entire amount requested (over $100,000) because court found that plaintiff had overzealously pursued and escalated the litigation with a desire to "mortally wound" its competitor. Statutory goal of discouraging unfair competition while protecting competitors from harassment.

f) <u>Mennen Co.</u> v. <u>Gillette Co.</u>, 565 F. Supp. 648 (S.D.N.Y. 1983), <u>aff'd mem.</u>, 742 F.2d 1437 (2d Cir. 1984) - successful defendant received attorney's fees where plaintiff's suit was groundless and was used as a competitive ploy.

g) <u>Universal City Studios, Inc.</u> v. <u>Nintendo Co., Ltd.</u>, 230 USPQ 409 (2d Cir. 1986) - successful defendant received attorney's fees where plaintiff knew it didn't have trademark rights in "King Kong" mark, but instituted suit to coerce defendant into sharing profits on "Donkey Kong".

h) <u>Orient Express Trading Company Ltd.</u> v. <u>Federated Department Stores Inc.</u>, 2 USPQ2d 1106 (S.D.N.Y. 1987), <u>aff'd</u>, 842 F.2d 650 (2d Cir. 1988) - defendant awarded reasonable expenses and attorney's fees incurred in defending "vexatious" lawsuit.

i) Allen v. Men's World Outlet, Inc., 679 F. Supp. 360 (S.D.N.Y. 1988) - cites 15 USC §1117 to the effect that attorney's fees are awardable in "exceptional cases", those being cases which involve fraud or bad faith.

j) Standard Oil Co. v. Osage Oil and Transportation Inc., 122 F.R.D. 267 (N.D. Okla. 1988) - allowing the award of travel time and expenses for lead counsel in a situation in which local counsel could not have performed the needed discovery.

k) Getty Petroleum Corp. v. Bartco Petroleum Corp., 858 F.2d 103 (2d Cir. 1988) - exceptional case found where defendants infringed plaintiff's trademark rights "willfully, intentionally and with a callous and reckless disregard...."

l) Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc., 874 F.2d 431 (7th Cir. 1989) - award of fees incurred in defending against a "frivolous" appeal.

3. Adjustment of Monetary Award

It is within the discretion of the trial court, in the exercise of its equitable powers, to increase or decrease the amount of an award of infringer's profits and to increase, up to three times, the amount of actual damages. In cases involving the intentional use of a counterfeit mark, §35(b) requires an award of treble damages unless "extenuating circumstances" are found.

Examples

a) Playboy - no increase.

b) U-Haul - false advertising action (§43(a)); plaintiff awarded cost of defendant's advertising (equated to defendant's profits by the court), and cost of corrective advertising; total award then doubled pursuant to §35; court finds the double award was within trial judge's discretion under §35 as a deterrent.

c) Boston Professional Hockey Association, Inc. v. Dallas Cap & Emblem Manufacturing, Inc., 597 F.2d 71 (5th Cir. 1979) - double damages pursuant to §35 not appropriate if trial court awarded them because defendant violated an injunction or failed to respond to pretrial discovery completely (conduct unrelated to infringement); double damages would be appropriate if awarded because defendant withheld or misrepresented sales records.

d) Source Perrier, S.A. v. Waters of Saratoga Springs, Inc., 217 USPQ 617 (S.D.N.Y. 1982) - after determining that defendant did not make a profit, court determined amount of net profit plaintiff would have made on quantity of goods defendant sold, and awarded plaintiff 50% of that amount.

e) Louis Vuitton S.A. v. Spencer Handbags Corp., 765 F.2d 966 (2d Cir. 1985) - Mandatory treble damages for counterfeiting applied prospectively only because retrospective application of this provision of §35 could raise constitutional issues involving due process and ex post facto clauses.

f) Getty - the statute (§35) empowers a court to award an enhanced monetary recovery as a means of deterring willful infringement.

4. Actual Damages

§35(a) permits the trial court to award a successful plaintiff actual damages. The plaintiff, however, must prove these damages and show that they are causally connected to the defendant's actions. If the plaintiff cannot demonstrate it has suffered actual injury, no damages will be awarded. In practice, actual damages are often difficult to prove.

Examples

a) Maltina - no actual damages where plaintiff had never been able to manufacture any significant amount of the product bearing the infringed mark.

b) Bandag - no actual damages where plaintiff failed to show actual confusion.

c) Caesars World, Inc. v. Venus Lounge, Inc., 520 F.2d 269 (3rd Cir. 1975) - no damages where plaintiff failed to offer any evidence of injury.

d) Electronics Corp. - court does not have discretion to award damages in the absence of proof of actual business harm.

e) Break-Away - plaintiff unable to prove that defendant's violation caused any loss in sales or other damage.

f) Roulo - where plaintiff seeks an award of damages, plaintiff must show that defendant's infringement caused those losses.

5. Punitive Damages

Punitive damages are not available under §35. However, for some common law infringement and unfair competition claims, it may be possible to obtain punitive damages. The Lanham Act does not preempt state law claims which provide for punitive damages.

Examples

a) Metric's - §43(a) action; monetary award governed exclusively by §35 so no punitive damages for §43(a) violation.

b) Universal Studios - defendant received punitive damages pursuant to a tort claim under New York law.

c) Burma-Bibas, Inc. v. Excelled Leather Coat Corp., 223 USPQ 969 (S.D.N.Y. 1984) - plaintiff can rely on New York state law to obtain punitive damages because state claim (misappropriation) sufficiently dissimilar to federal claim (likelihood of confusion) so that there is no preemption.

d) Frisch - plaintiff not entitled to recover punitive damages under the Lanham Act or the Ohio Deceptive trade Practices Act.

e) Getty - no mention of punitive damages made in the statutory scheme, thus it is apparent that Congress did not allow for punitive damages as a remedy for holders of infringed marks.

f) Zazu Designs v. L'Oreal S.A., 9 USPQ2d 1972 (N.D. Ill. 1988) - punitive damage award allowed under Illinois law.

g) Allen - punitive damages have been held not to be recoverable under Lanham Act.

6. Reasonable Royalty

A court may award as monetary damages the amount the plaintiff would have received if he had licensed the mark to the defendant. In a few cases, courts have allowed an award of a reasonable franchise fee instead of lost profits or diverted sales. Note that this remedy is predicated on the alleged infringer appropriating the benefits they would have received from the license or franchise agreement. See Bandag, 750 F.2d at 920.

Examples

a) Playboy - accounting awarded instead of reasonable royalty because royalty amounted to only 10% of defendant's profits and thus would have made infringing activity profitable.

b) Boston Professional Hockey - trial court determined amount of award based on defendant's initial offer of $25K for a 3-year exclusive license; on appeal court based plaintiff's award on defendant's offer of $15K for a 3-year non-exclusive license because an authorized manufacturer already existed, making it impossible for defendant to obtain an exclusive license.

7. Corrective Advertising

Successful plaintiffs may receive the entire costs of corrective advertising.

Examples

a) U-haul - plaintiff received the entire amount of its actual corrective advertising expenditures; court distinguished Big-O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365 (10th Cir. 1977), in which plaintiff's corrective advertising award was limited to 25% of defendant's wrongful expenditures (following FTC practice), by noting that Big-O Tire did not involve actual expenditures.

b) Cuisinarts - award of reparative advertising expenses limited to expenses "prompted by and specifically addressed to" the misleading ads.

c) Zazu - award of $1,000,000 (20% of defendant's expenditures to exploit mark) for whatever efforts are required to resurrect value of plaintiff's mark.

8. Prejudgment Interest

§35(b) gives the trial court discretion to award prejudgment interest in cases involving the intentional use of a counterfeit mark. Although it is arguable that such an award serves a compensatory purpose in *all* trademark infringement cases (not just those involving a counterfeit mark), this conclusion is in opposition to the statements of the Supreme Court in Fleischmann Corp. v. Maier Brewing Co., 386 U.S. 714 (1967) condemning "judicially created compensatory remedies" under the Lanham Act. However, the legislative history of providing attorney fees as a monetary remedy in trademark cases (the subject in Fleischmann), differs from that with respect to the award of prejudgment interest. Additionally, no express Congressional mandate exists proscribing the award of prejudgment interest as is the case with regard to punitive damages. These distinctions argue for allowing a court greater discretion, and as noted below, the 7th Circuit has exercised such discretion in crafting a policy regarding the award of prejudgment interest.

Examples

a) Warner Bros. - prejudgment interest awarded where defendant acted in willful contempt of temporary restraining order.

b) Gorenstein - the 7th Circuit announced a general rule that prejudgment interest should be "presumptively" available to victims of federal law violations, and then proceeded to suggest that the prime rate be used to fix the value of prejudgment interest where no statutory rate was specified.

THE APPLICATION OF RULE 11 SANCTIONS IN TRADEMARK CASES

By Alan S. Cooper*

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THE APPLICATION OF RULE 11 SANCTIONS IN TRADEMARK CASES

By Alan S. Cooper*

I. INTRODUCTION

A. Rule 11 of the Federal Rules of Civil Procedure was amended in August of 1983 to provide that:

> "The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other papers; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law; and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation . . . . If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay to the other party or parties the amount of the reasonable expenses incurred because of the filing of the pleading, motion, or other paper, including a reasonable attorney's fee."

B. Rule 11 is applicable both to trademark litigation in the federal courts and to <u>inter partes</u> proceedings before the Trademark Trial and Appeal Board.

C. However, Rule 11 is not the only source of sanctions for attorney misconduct in trademark litigation.

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1. Discovery sanctions may be imposed under Rules 26(g) and 37 Fed. R. Civ. P.

2. Sanctions may be imposed under Rule 16(f) Fed. R. Civ. P. for failure to obey a scheduling or pretrial order or to participate in a pretrial or settlement conference.

3. Sanctions may be imposed under 28 U.S.C. § 1927 where an attorney unreasonably and vexatiously multiplies the proceedings in any case.[1/]

4. Sanctions for bad faith conduct of litigation may be imposed pursuant to the inherent power of the federal courts to discipline attorney misconduct. E.g., Roadway Express, Inc. v. Piper, 447 U.S. 752, 765-66 (1980). The inherent power of the federal courts to assess attorney's fees against an attorney who is guilty of bad faith and wanton and vexatious conduct in the prosecution of civil action is not displaced or limited by Rule 11 or 28 U.S.C. § 1927. Nasco, Inc. v. Calcasieu Television and Radio, Inc., 894 F.2d 696 (5th Cir. 1990). Thus, conduct which is of the same genre as that sanctionable under Rule 11 but nevertheless does not violate Rule 11 still may be sanctioned under the inherent disciplinary powers of the court. Id.

5. Pursuant to Rule 38 Fed. R. App. P., the federal appellate courts may impose sanctions in the form of attorney's fees and single or

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1/ Section 1927 provides that:

> "Any attorney or other person admitted to conduct cases in any court of the United States or any territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the Court to satisfy personally the excess costs, expenses and attorneys' fees reasonably incurred because of such conduct."

double costs against an appellant who brings a frivolous appeal.[2/] However, Rule 11 does not authorize the appellate courts to require the sanctioned party to reimburse its adversary for the latter's expenses incurred in defending the award of sanctions on appeal. Cooter & Gell v. Hartmarx Corp., ___ U.S. ___, 110 L.Ed.2d 359 (1990). Rather, on appeal the litigants' conduct is controlled by Rule 38 Fed. R. App. P. which governs a frivolous appeal of Rule 11 sanctions. Id.

II. BACKGROUND AND PURPOSE OF RULE 11

A. Background - Amended Rule 11 is the child of ethical and economic considerations.

1. The ethical parent is the fundamental proposition that each attorney, as an officer of the court, has an obligation to deal fairly and honestly both with the court and opposing counsel so that unnecessary expenditure of time and funds are avoided.

2. The economic parent is the high economic and societal cost of litigation which needlessly is increased where the court and an adversary are required to do unnecessary work due to a Rule 11 violation.

B. Purpose

1. Rule 11 is intended to protect the parties from incurring unnecessary costs in litigating a claim, defense or motion which a reasonable inquiry into the facts or law would have avoided or which is otherwise interposed for some improper purpose.

2. To accomplish that objective, sanctions having the following purposes are imposed when Rule 11 is violated:

2/ Rule 38 sanctions for frivolous appeals have been awarded in cases involving trademark infringement. See Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc., 874 F.2d 431 (7th Cir. 1989).

a. Compensation to the injured party for expenses caused by a violation of the rule.

b. A deterrent effect achieved by penalizing the offending counsel or party.

III. OPERATION OF RULE 11

A. Scope

1. Amended Rule 11 is covers pleadings, motions and any other paper submitted to a U.S. District Court[3/] or the Trademark Trial and Appeal Board by a represented party or one who is appearing pro se.

2. Even with its broad reach, there are still some limits to the scope of Rule 11. E.g., Adduono v. World Hockey Ass'n., 824 F.2d 617, 621 (8th Cir. 1987) (a settlement agreement is not a "pleading, motion or other paper" within the meaning of Rule 11 sanctions where it was neither submitted to the court nor incorporated into the order of dismissal); Snow Machines, Inc. v. Hedco Inc., 838 F.2d 718 (3d Cir. 1988) (proposed order is not subject to Rule 11 because it is not signed by counsel and is not the typical advocacy document to which Rule 11 is directed); Samuels v. Wilder, ___ F.2d ___ (7th Cir. 1990) (Rule 11 sanctions may not be imposed against counsel who chose not to file a pleading, motion or other paper that the District Court thought counsel should have been filed although sanctions may be available under 28 U.S.C. § 1927 if the failure to file multiplies the proceedings unreasonably and vexatiously).

3/ There is a division of authority on the question of whether Rule 11 covers a complaint filed in a state court and subsequently removed to a U.S. District Court. Compare Herron v. Jupiter Transportation Co., 858 F.2d 332 (6th Cir. 1988) (Rule 11 applies to action filed in state court and then removed), with Hurd v. Ralphs Grocery Co., 824 F.2d 806 (9th Cir. 1987) (Rule 11 inapplicable to pre-removal pleadings filed in state court).

B. Signature and Certification Requirements

1. Rule 11 requires that any pleading, motion or other paper filed by a represented party in a U.S. District Court or with the Trademark Trial and Appeal Board be signed by at least one attorney of record in his or her individual name.[4/]

2. If a paper is unsigned and remains so after that fact is brought to the attention of the pleader or moving party, Rule 11 provides that it shall be stricken.

3. The signature of an attorney on any paper falling under Rule 11 certifies that he or she has discharged each of the following obligations.[5/]

a. Reading

(i) The signing attorney must read the pleading, motion or other paper before he or she signs it.

(ii) The purpose of the requirement that an attorney read a paper before it is signed is to eliminate ignorance as an excuse.

4/ Where a facsimile or typewritten signature of counsel is used, it must be authorized by the attorney and placed on the document at his or her direction with the intent that it reflect the attorney's responsibility for the signature. Harris v. Marsh, Civil Action Nos. 81-60-CIV-3 and 80-168-CIV-3, slip op. (E.D.N.C. Oct. 3, 1988) (1988 U.S. Dist. LEXIS 13071).

5/ There is a division of authority as to whether the certification obligation is continuing; i.e., does an attorney run the risk of sanctions by failing to withdraw a pleading or motion which did not violate Rule 11 when filed if he or she, through discovery or otherwise, subsequently learns that it is factually and/or legally unfounded. Compare Herron v. Jupiter Transportation Co., supra, (continuing obligation), with Thomas v. Capital Security Services, Inc., 836 F.2d 866 (5th Cir. 1988) (en banc) (no continuing obligation).

b. Reasonable Inquiry

(i) Rule 11 imposes an obligation on the signing attorney to certify that, to the best of his or her knowledge, information and belief, the pleading, motion or other paper is well grounded in fact and law and is not interposed for any improper purpose.

(ii) The prerequisite to certification is that the attorney first conduct a reasonable prefiling inquiry into both the underlying facts and law which is the antithesis of a "sue now, inquire later" mentality.

(iii) Prior to 1983, Rule 11 did not require counsel to conduct a reasonable inquiry into the factual and legal bases of a pleading or motion, but rather provided that an attorney's signature certified only that, to the best of the attorney's knowledge, information and belief, there was good ground to support the pleading or motion.

(A) The pre-amendment standard for evaluating compliance with Rule 11 was purely subjective.

(B) Thus, before the 1983 amendment, sanctions were imposed only if there was a showing of subjective bad faith.

(iv) Although several early decisions interpreting amended Rule 11 continued to apply the pre-amendment subjective "bad faith" standard prior to 1983,[6/] the weight of authority in the federal appellate courts now clearly stands for the proposition that the reasonableness of an attorney's inquiry is determined by an objective test without regard to his or her subjective state of mind.[7/]

(v) The use of an objective standard to evaluate the reasonableness of counsel's Rule 11 inquiry is supported not only by the express language of the rule but also by common sense and experience in litigating cases which teach us that "there is no position -- no matter how absurd -- of which an advocate cannot convince himself." Wells v. Oppenheimer & Co., 101 F.R.D. 358, 359 n. 3 (S.D.N.Y. 1984), decision vacated and opinion withdrawn, 106 F.R.D. 258 (S.D.N.Y. 1985).

(vi) The objective standard which governs the reasonableness of an attorney's Rule 11 inquiry into the facts and the law makes no allowance for the relative experience or inexperience of the particular attorney. Thus, a generalist acts at his peril if he brings a suit in a substantive field or

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6/ E.g., Fisher Bros. v. Cambridge-Lee Industries, Inc., 585 F. Supp. 69, 71 (E.D. Pa. 1983) (Rule 11 "requires that an attorney filing a pleading do so in good faith whether or not the pleading viewed objectively has merit; the test is subjective.")

7/ E.g., Adduono v. World Hockey Ass'n, supra; Hashemi v. Campaigner Publications, Inc., 784 F.2d 1581 (11th Cir. 1986); Zaldivar v. City of Los Angeles, 780 F.2d 823 (9th Cir. 1986); Eavenson, Auchmuty & Greenwald v. Holtzman, 775 F.2d 535 (3d Cir. 1985); Indianapolis Colts v. Mayor & City Council of Baltimore, 775 F.2d 177 (7th Cir. 1985); Westmoreland v. CBS, Inc., 770 F.2d 1168 (D.C. Cir. 1985); Davis v. Veslan Enterprises, 765 F.2d 494 (5th Cir. 1985); Eastway Construction Corp. v. City of New York, 762 F.2d 243 (2d Cir. 1985).

forum with which he is unacquainted. Hays v. Sony Corp. of America, 847 F.2d 412, 419 (7th Cir. 1988). The lawyer who lacks relevant expertise must either associate with him another lawyer who has that experience and background or must study the relevant law at every step in the way in recognition that his lack of experience makes him prone to error. Id.

c. Factual Basis

(i) Various factors generally have been considered by the courts in deciding whether an attorney made a reasonable prefiling inquiry into the underlying facts. See generally, Sanctions: Rule 11 and Other Powers, pp. 4-5 (American Bar Association 1986). These include:

(A) Whether the parties and key witnesses were personally interviewed, as opposed to cursory telephone inquiries, before the paper was filed.

(B) Whether pertinent documents available to counsel were reviewed prior to filing the paper.

(C) Whether there was time pressure involved in meeting a filing deadline.

(D) Whether the attorney blindly relied on the unwritten thoughts of other lawyers as to fundamental matters of federal practice, such as personal jurisdiction and venue, which should be within the ready grasp of anyone litigating in federal court.

(ii) The burden of proof typically faced by a prospective plaintiff in a trademark infringement action involves the issues of validity, priority of use, and likelihood of confusion, each of which raises the Rule 11 obligation of reasonable inquiry.

(iii) As part of a reasonable inquiry into the validity of the plaintiff's mark, counsel should carefully review the files of the registrations which he or she plans to plead and confirm that each is subsisting and that title is in the plaintiff.

(iv) A reasonable prefiling inquiry into the question of priority should include a sufficient investigation to confirm that the plaintiff is in fact the senior user.

(v) As part of a reasonable inquiry into the factual basis for the allegation that confusion is likely, each of the likelihood of confusion factors applicable in the appropriate federal circuit[8/] should be carefully considered.

d. Legal Basis

(i) Rule 11 requires counsel to certify that, based on a reasonable inquiry, the pleading, motion or other paper either is warranted either by (1)

8/ E.g., Freedom Savings and Loan Ass'n v. Way, 757 F.2d 1176 (11th Cir.), cert. denied 474 U.S. 845 (1988); WSM, Inc. v. Hilton, 724 F.2d 1320 (8th Cir. 1984); Marcon, Ltd. v. Helena Rubenstein, Inc., 694 F.2d 953 (4th Cir. 1982); Pignons S.A. de Mecanique de Precision v. Polaroid Corp., 657 F.2d 482 (1st Cir. 1981); Amstar Corp. v. Domino's Pizza, Inc., 615 F.2d 252 (5th Cir.), cert. denied 449 U.S. 899 (1980); AMF Inc. v. Sleekcraft Boats, 599 F.2d 341 (9th Cir. 1979); Polaroid Corp. v. Polarad Electronics Corp., 287 F.2d 492 (2d Cir.), cert. denied 368 U.S. 820 (1961).

existing law, or (2) a good faith argument for the extension, modification or reversal of existing law.

(ii) The courts seem to be more tolerant of a weak or far-reaching argument for the extension or modification of existing law than they are of a claim, defense or motion which is factually unfounded. Nevertheless, the courts are quick to impose sanctions where:

(A) There is no plausible basis for even arguing that the controlling law should be extended, modified or reversed. See e.g., McLaughlin v. Western Casualty and Surety Co., 105 F.R.D. 624 (S.D. Ala. 1985).

(B) An attorney fails to research controlling cases on the issue. Continental Air Lines, Inc. v. Group Systems International Far East, Ltd., 109 F.R.D. 594 (C.D. Cal. 1986).

(C) Counsel ignores firmly established precedent directly contradictory to the position being advanced. National Survival Game, Inc. v. Skirmish, U.S.A., Inc., 603 F. Supp. 339 (S.D.N.Y. 1985).

e. Improper Purpose

(i) Rule 11 sanctions will be imposed where a pleading, motion or other paper is filed for some "improper purpose such as to harass or to cause unnecessary delay or needless increase in the cost of litigation."

(ii) The common thread in most cases where sanctions have been awarded because of an improper purpose is that there is some clear element, or at least strong inference, of bad faith.

(iii) While subjective state of mind does not control the reasonable inquiry determination, there is a division of authority as to whether a subjective standard should be used to test whether a paper was interposed for some improper purpose. Compare Whittington v. Ohio River Co., 115 F.R.D. 201 (E.D. Ky. 1987) (whether a pleading was interposed for an improper purpose involves subjective standard of bad faith), with Schwarzer, "Sanctions Under the New Rule 11 -- A Closer Look," 104 F.R.D. 181, 195 (1985) (based on the record and surrounding circumstances, the district court should be able to make objective determination as to dilatory tactics, needless cost or other improper purpose without inquiry into the attorney's subjective intent).

(iv) Query: will the assertion of a factually well-grounded and legally supported position result in the imposition of sanctions if it is interposed for some improper purpose?

(A) In Zaldivar v. City of Los Angeles, supra, the Ninth Circuit noted that the Rule 11 requirements that the position be factually well-grounded, legally supportable, and not interposed for any improper purpose were joined conjunctively so that sanctions could be imposed if an attorney violates any one of these certification requirements.

(B) While this construction of Rule 11 suggests that the filing of a factually well-grounded and legally supported pleading or motion for an improper purpose would be sanctionable, Zaldivar nevertheless holds that a defendant cannot be harassed within the meaning of Rule 11 by the filing of a complaint which is well-grounded in fact and warranted by existing law.

(C) Although the Ninth Circuit in Zaldivar did not reach the question of whether the filing of a nonfrivolous (i.e., factually well-grounded and legally supported) pleading or motion would warrant sanctions if it were filed for an improper purpose other than harassment, it did consider that issue in Aetna Life Ins. Co. v. Alla Medical Services, Inc., 855 F.2d 1470 (9th Cir. 1988), and held that a pleading or motion that is objectively reasonable and nonfrivolous may nevertheless be sanctionable under the "improper purposes" prong of Rule 11 if that paper is part of a persistent pattern of clearly abusive litigation activity.

C. Sanctions

1. Mandatory

a. Under pre-amendment Rule 11, the imposition of sanctions (viz., the striking of a paper which violated the rule) was discretionary.

b. Amended Rule 11 basically eliminates the court's discretion as to whether to impose sanctions by requiring that "[i]f a pleading, motion or other paper is signed in violation of this rule, the court . . . shall impose . . . an appropriate sanction . . . ."

c. While Rule 11 sanctions thus are mandatory, a few decisions have lessened the impact of this requirement by developing the concept of a "technical" violation of Rule 11 which does not result in sanctions being imposed. See e.g., Greenberg v. Sala, 822 F.2d 882 (9th Cir. 1987) (avoidable factual errors were not so significant as to subject counsel to Rule 11 sanctions).

2. Imposition by the Court

a. Rule 11 permits the U.S. District Courts to impose appropriate sanctions on their own initiative.

b. The authority to impose sanctions sua sponte, which is supported by earlier decisional law[9/], was made explicit in amended Rule 11 in order "to overcome the traditional reluctance of the courts to intervene unless requested by one of the parties." Fed. R. Civ. P. 11 Advisory Committee

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9/ See North American Foreign Trading Corp. v. Zale Corp., 83 F.R.D. 293 (S.D.N.Y. 1979).

Note, 97 F.R.D. 198, 200 (1983) (hereinafter Adv. Com. Note).

c. Because Rule 11 sanctions are not dispositive of a claim or defense within the meaning of Rule 72(a) Fed. R. Civ. P., the U.S. Magistrates have jurisdiction pursuant to 28 U.S.C. § 636(b)(1)(A) to impose Rule 11 sanctions, including the power to impose such sanctions sua sponte. Maisonville v. F2 America, Inc., 902 F.2d 746 (9th Cir. 1990).

3. Applicability

a. While the language of Rule 11 mandates the imposition of sanctions when a violation occurs, the courts have discretion to sanction the attorney, the party, or both of them.

b. There is a division of authority with regard to whether attorneys and represented parties are to be held to the same standards under Rule 11.

(i) In Calloway v. Marvel Entertainment Group, 854 F.2d 1452 (2d Cir. 1988), rev'd on other grounds, sub nom Pavelic & LeFlore v. Marvel Entertainment Group, ___ U.S. ___, 107 L.Ed.2d 438 (1989), the Second Circuit held that a represented party should not be sanctioned for papers signed by his or her attorney unless the party had actual knowledge that filing the paper constituted wrongful conduct.

(ii) The Ninth Circuit in Business Guides, Inc. v. Chromatic Communications Enterprises, Inc., 892 F.2d 802 (9th Cir. 1989), declined to apply a different reasonable inquiry standard to attorneys and represented parties, holding instead that both attorneys and represented parties are held to the same objective standard of reasonable inquiry.

(iii) On June 25, 1990, the Supreme Court granted a petition for a writ of certiorari in the Business Guides case to resolve this conflict.

c. There are relatively few reported decisions which impose sanctions only on the client. See e.g., Friedgood v. Axelrod, 593 F. Supp. 395 (S.D. Tex. 1984).

(i) Rather, a substantial majority of reported decisions involve sanctions imposed solely against the attorney or against the attorney and client jointly. E.g., National Survival Game, Inc. v. Skirmish U.S.A., Inc., supra, Olga's Kitchen of Hayward, Inc. v. Papp, 108 F.R.D. 695 (E.D. Mich. 1985), mod. without pub'd opinion, 815 F.2d 79 (6th Cir. 1987).

(ii) Where sanctions are imposed on the attorney only, the courts commonly direct the attorney to pay the amount without seeking or obtaining reimbursement from the client. See Golden Eagle Distributing Corp. v. Burroughs Corp., 103 F.R.D. 124 (N.D. Cal. 1984), rev'd on other grounds, 801 F.2d 1531 (9th Cir. 1986); Motown Productions, Inc. v. Cacomm, Inc., 668 F. Supp. 285 (S.D.N.Y. 1987), rev'd 849 F.2d. 781 (2d Cir. 1988); Wold v. Minerals Engineering Co., 575 F. Supp. 166 (D. Colo. 1983).

d. Attorneys who sign papers prepared by other attorneys in their firm are subject to the mandate of Rule 11. E.g., Navarro v. Cohan, 109 F.R.D. 86 (S.D. Fla. 1985), (sanctions imposed on a partner who signed a frivolous complaint prepared by an unsupervised associate attorney); Harris v. Marsh, 123 F.R.D. 204, 216 (E.D.N.C. 1988) (associate cannot avoid Rule 11 sanctions simply because he or she was "only an associate following directions" of a partner with respect to questions of litigation procedure, strategy and tactics; an associate may not "blindly follow" a partner's commands which he or she knows to be wrong).

e. Where partners and associates each sign the same paper, there generally is a rebuttable presumption against allocating a Rule 11 sanction among them because the imposition of joint and several responsibility is normally fair under these circumstances and a contrary rule would result in unseemly divisiveness between counsel and generate satellite litigation which could dwarf the original case. Harris v. Marsh, 123 F.R.D. at 214-216. Nevertheless, where individual responsibility is clear or can be determined with a fairly high degree of confidence and minimal speculation, sanctions can be imposed against the responsible attorney alone. Id.

f. Serving as local counsel also has its Rule 11 risks.

(i) Several decisions have imposed sanctions on local counsel who signed and filed papers prepared by lead counsel without making any independent determination that pleading or motion met Rule 11 criteria. E.g., Long v. Quantex Resources, Inc., 108 F.R.D. 416 (S.D.N.Y. 1985); Itel Containers International Corp. v. Puerto Rico Marine Management, Inc., 108 F.R.D. 96 (D.N.J. 1985).

(ii) A somewhat different approach was taken in Golden Eagle Distributing Corp. v. Burroughs Corp., supra, where local counsel signed a summary judgment motion, prepared by an associate in the lead counsel firm, which advanced a legal argument presented as a statement of existing law rather than as an argument for an extension of existing law.

(iii) The District Court in Golden Eagle sanctioned only the attorneys in the lead firm despite the fact that they did not actually sign the motion papers. Cf., Coburn Optical Industries, Inc. v. Cilco, Inc., 610 F. Supp. 656 (M.D.N.C. 1985) (sanctions imposed against lead counsel who prepared but did not sign motion, and against local counsel who actually signed motion).

g. In its first decision construing amended Rule 11, the Supreme Court was faced with the issue of whether sanctions may be imposed not only against the individual attorney who signed the pleading, motion or other paper in question, but also against that attorney's law firm. Pavelic & LeFlore v. Marvel Entertainment Group, ___ U.S. ___, 107 L.Ed.2d 438 (1989).[10/]

(i) The underlying action involved a claim for intentional infringement of plaintiff's copyright in a motion picture script. The original complaint, which was signed by Raymond L. LeFlore, was dismissed by the District Court on the ground that it failed to specify the copyright registration number and the dates on which the

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10/ Certiorari was granted to resolve a conflict between the Second Circuit's decision in Calloway v. Marvel Entertainment Group, supra, (sanctions may be imposed both on the signing attorney and his or her firm), and the Fifth Circuit's decision in Robinson v. National Cash Register Co., 808 F.2d 1119 (5th Cir. 1987) (only the signing attorney is subject to sanctions).

alleged infringement had occurred. An amended complaint, also signed by LeFlore, remedied these defects and alleged that plaintiff's signature on documents purporting to grant defendants an option to develop the copyrighted work commercially had been forged.

(ii) Sometime after the filing of the amended complaint, LeFlore and Radovan Pavelic formed the partnership of Pavelic & LeFlore and thereafter all papers, including several which continued to rely on the allegation of forgery, were signed:

"Pavelic & LeFlore
By/s/Ray L. LeFlora
(a member of the Firm)
Attorneys for Plaintiff"

(iii) The District Court found that the evidence failed to support the forgery allegation and, on that basis, directed a verdict in defendants' favor on that claim. Defendants thereupon moved for Rule 11 sanctions which were imposed against the firm of Pavelic & LeFlore for that period of the case during which papers had been signed in its name on the ground that the forgery claim was factually unfounded and that counsel had failed to make a reasonable inquiry into the factual basis for the claim.[11/]

11/ Sanctions also were imposed against LeFlore individually for that portion of the case prior to the formation of the firm of Pavelic & LeFlore.

(iv) The Second Circuit affirmed, holding that the District Court had discretion to impose sanctions not only on the individual attorney who signed the objectionable papers but also on his or her firm. The rationale for this decision is that the firm in actuality is the client's counsel and that holding the entire firm subject to sanctions would strengthen the deterrent function of Rule 11.

(v) In reversing the Second Circuit, the Supreme Court focused on what it characterized as the plain meaning of that provision in Rule 11 which requires the imposition of a sanction "upon the person who signed" a pleading, motion or other paper which violates the rule. When read in the total context of all of the provisions of Rule 11 dealing with the signing of papers, the Court concluded that the language "upon the person who signed" refers to the individual attorney who actually signed the paper:

> "Just as the requirement of signature is imposed upon the individual, we think the recited import and consequences of signature run <u>as to him</u>." 107 L.Ed.2d at 444 (Emphasis in original).

(vi) The Court rejected arguments advanced by the respondent that sanctions could be imposed on the firm under long-established principles of agency and partnership law:

> "Where the text establishes a duty that cannot be delegated,

one may reasonably expect it to authorize punishment only of the party upon whom the duty is placed." 107 L.Ed.2d at 444.

(vii) The Court also rejected the deterrent-effect rationale of the Second Circuit, reasoning that it was not free to devise a textual interpretation in conflict with the clear language of Rule 11 even if that interpretation might more effectively promote the purposes of Rule 11. The Court, however, doubted that imposing a firm sanction would advance the policy of Rule 11 because its "purpose . . . as a whole is to bring home to the individual signer his personal, nondelegable responsibility." 107 L.Ed.2d at 445. Rather, the Court suggested that a greater deterrent would be achieved where the signing attorney knows that the economic consequences of a sanction will fall entirely on him or her instead of being diverted to a partnership or professional corporation.

(viii) Justice Marshall dissented, reasoning that the word "person" should be construed broadly to encompass juridicial persons, such as partnerships and professional corporations, in addition to natural persons thereby giving the District Courts effective discretion to formulate appropriate sanctions. Contrary to the majority opinion, Justice Marshall found that "individual accountability may be heightened when an attorney understands that his carelessness or maliciousness may subject <u>both</u> himself and his firm to liability." 107 L.Ed.2d at 447 (Emphasis in original).

h. However, even though a law firm cannot be sanctioned under Rule 11 for the vexatious conduct of one of its members, the firm can be sanctioned under 28 U.S.C. § 1927 which lacks the requirement of a signature of an individual attorney. Brignoli v. Balch Hardy & Scheinman, 735 F. Supp. 100 (S.D.N.Y. 1990).

4. Types

a. Monetary Sanctions

(i) Appropriate sanctions under Rule 11 may include reasonable attorney's fees and other reasonable expenses incurred by the adverse party as a result of the violation.

(ii) Although Rule 11 very clearly contemplates a range of sanctions other than an award of attorney's fees and incidental expenses, case law indicates that the accepted sanction is an award of attorney's fees.

(iii) In determining the amount of the award, there is some authority for the proposition that mitigating factors, such as the ability of the offending attorney to pay the full amount sought, should be considered. See Jackson v. Law Firm of O'Hara, Ruberg, Osborne & Taylor, 875 F.2d 1224 (6th Cir. 1989).

(iv) The District Courts also have power to impose a fine payable to the court in lieu of or in addition to an award of attorney's fees. See Markwell v. Bexar County (Meyers), 878 F.2d 899 (5th Cir. 1989).

(v) Monetary sanctions can be imposed indirectly where offending counsel is enjoined from charging his client for any time spent in preparing and filing frivolous papers. Markwell v. Bexar County (Meyers), supra.

b. Other Sanctions

(i) Federal Courts

(A) While an award of attorney's fees appears to be the preferred sanction, other sanctions ranging from reprimands to the entry of judgment have been imposed in appropriate situations. See Johnson v. Secretary, Dept. of Health and Human Services, 587 F. Supp. 1117 (D.D.C. 1984), (defendant's unfounded motion for enlargement of the time to answer the complaint was sanctioned under the improper purpose provision of Rule 11 by deeming admitted several key allegations in the complaint); Blanchette v. Cataldo, 734 F.2d 869 (1st Cir. 1984) (attorney who permitted his name to be used to sign over 1900 freight claim complaints required personally to review each complaint for Rule 11 compliance); Peabody v. Maud Van Cortland Hill Schroll Trust, 892 F.2d 772 (9th Cir. 1989) (suspension from practice for six months, pending the report of an ad hoc Committee on Discipline, is appropriate sanction against attorney who filed a frivolous second removal petition); Curtis Management Group Inc. v. Academy of Motion Pictures Arts and Sciences, ___ F. Supp. ___, 14 USPQ2d 1011 (S.D. Ind. 1989) (frivolous affidavits submitted in support of defendant's motion to dismiss for lack of personal jurisdiction and improper venue sanctioned under Rule 11 by striking motion to dismiss even though personal jurisdiction was found to be lacking and venue was improper); Stevens v. City of Brockton, 676 F. Supp. 26 (D. Mass. 1987) (sanctioned attorneys required to attend continuing legal education program on federal trial practice).

(B) The ultimate sanction of dismissal, however, has been imposed rarely and only in extreme circumstances. See Synanon Church v. United States, 579 F. Supp. 967 (D.D.C. 1984), aff'd, 820 F.2d 421 (D.C. Cir. 1987) (relying primarily on its inherent disciplinary power but also mentioning Rules 11, 16(f) and 41(b) Fed. R. Civ. P., the District Court dismissed the complaint where the plaintiff intentionally and systematically destroyed and altered documents and tapes relevant to a determination of its tax-exempt status).

(ii) Trademark Trial and Appeal Board

(A) Rule 2.116(a) of the Trademark Rules of Practice, 37 C.F.R. § 2.116(a), provides that inter partes proceedings before the Trademark Trial and Appeal Board are governed by the Federal Rules of Civil

Procedure where applicable and appropriate.

(B) While the Board thus has authority in inter partes proceedings to impose sanctions for violations of Rule 11, that authority does not include the power to award attorney's fees or require payment of other reasonable expenses occasioned by the violation. See Fort Howard Paper Co. v. G.V. Gambina Inc., 4 USPQ2d 1552 (TTAB 1987).[12/]

(C) Other types of non-monetary sanctions are available. For example, the final sanction imposed in Giant Food Inc. v. Standard Terry Mills, Inc., 229 USPQ 955 (TTAB), on reconsideration 231 USPQ 623 (TTAB 1986), was entry of judgment against the applicant. However, the Board took that action reluctantly, after giving ample warning, and only when faced with a continuation of egregious conduct.

(D) The Board also has the power to go beyond the sanctions contemplated by Rule 11. See Giant Food Inc. v. Standard Terry Mills, Inc., supra, (objectionable papers and letters filed by counsel for applicant were referred to the Patent and Trademark Office Director of Enrollment and Disci-

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12/ The Board similarly does not have power to impose monetary sanctions under Rule 37 Fed. R. Civ. P. and Rule 2.120(g) of the Trademark Rules of Practice, 37 C.F.R. § 2.120(g). Fisons Ltd. v. Capability Brown Ltd., 209 USPQ 167 (TTAB 1980); MacMillan Bloedel Ltd. v. Arrow-M Corp., 203 USPQ 952 (TTAB 1979).

pline for consideration in light of the provisions of 37 C.F.R. § 10.89 (c)(5)).

5. Judicial Discretion

a. The mandatory nature of Rule 11 sanctions is softened by the discretion given to the courts as to who should be sanctioned and the type and the magnitude of sanction imposed. The courts thus retain "the necessary flexibility to deal appropriately with violation of the rule. . . [and have] discretion to tailor sanctions to the particular facts of the case. . . ." Adv. Com. Note, 97 F.R.D. at 200.

b. Consistent with this flexibility, the Fifth Circuit in Thomas v. Capital Security Services, Inc., 836 F.2d at 878, stated that "[w]hat is [an] 'appropriate' [sanction] may be a warm friendly discussion on the record, a hard-nosed reprimand in open court, compulsory legal education, monetary sanctions, or other measures appropriate to the circumstances."

c. While subjective good faith is not a defense to a motion for Rule 11 sanctions, the attorney's subjective state of mind may be a factor which the courts may take into consideration in determining what is an appropriate sanction. See Weisman v. Rivlin, 598 F. Supp. 724 (D.D.C. 1984).

6. Effect of Voluntary Dismissal Under Rule 41(a)(1)(i) Fed. R. Civ. P.

a. The Supreme Court's decision in Cooter & Gell v. Hartmarx Corp., supra, resolved a split of authority as to whether the plaintiff's voluntary dismissal of its complaint under Rule

41(a)(1)(i) deprived the District Court of jurisdiction to impose Rule 11 sanctions.[13/]

(i) Only the Second Circuit had held that the filing of a notice of voluntary dismissal under Rule 41(a)(1)(i) automatically deprived the District Court of jurisdiction over the action including power to impose Rule 11 sanctions. Johnson Chemical Co. Inc. v. Home Care Products, Inc., 823 F.2d 28 (2d Cir. 1987).

(ii) The majority of the circuits reached a different conclusion, holding that the District Court retained power to impose Rule 11 sanctions even after the plaintiff filed a Rule 41(a)(1)(i) notice of voluntary dismissal. E.g., Szabo Food Service, Inc. v. Canteen Corp., 823 F.2d 1073 (7th Cir. 1987), cert. dismissed, 485 U.S. 901 (1988); Greenberg v. Sala, supra; Muthig v. Brant Point Nantucket, Inc., 838 F.2d 600 (1st Cir. 1988).

b. The Supreme Court adopted the majority view, holding that:

13/ Rule 41(a)(1)(i) provides, in pertinent part, that:

> "[A]n action may be dismissed by the plaintiff without order of court (i) by filing a notice of dismissal at any time before service by the adverse party of an answer or of a motion for summary judgment, whichever first occurs . . . . Unless otherwise stated in the notice of dismissal . . ., this dismissal is without prejudice, except that a notice of dismissal operates as an adjudication upon the merits when filed by a plaintiff who has once dismissed in any court of the United States or of any state an action based on or including the same claim."

If the defendant has filed an answer or summary judgment motion, the plaintiff may dismiss the action only by stipulation or court order.

> "In order to comply with Rule 11's requirement that a court 'shall' impose sanctions '[i]f a pleading, motion, or other paper is signed in violation of this rule,' a court must have authority to consider whether there has been a violation of the signing requirement regardless of the dismissal of the underlying action." 110 L.Ed.2d at 375.

c. The Court reasoned that Rule 11 sanctions -- like the imposition of costs, the award of attorneys' fees and contempt citations -- is not a judgment on the merits, but rather the determination of a collateral issue which may be made even after the underlying action has been terminated. Thus, the imposition of sanctions in this situation does not compromise the right of a plaintiff under Rule 41(a)(1)(i) to a voluntary dismissal of the action without prejudice; i.e., the imposition of Rule 11 sanctions would not preclude the refiling of the complaint unless a prohibition against refiling were an appropriate sanction under the circumstances of a given case.

d. Focusing on the compatible policies of Rule 11 and Rule 41(a)(1)(i) which are aimed at curbing abuses of the judicial system, the court observed that a plaintiff's right to "one free dismissal" does not carry with it "the right to file baseless papers." 110 L.Ed.2d at 377.

e. The Court also found that its decision was supported by the deterrent policy of Rule 11:

> "If a litigant could purge his violation of Rule 11 merely by taking a dismissal, he would loose all incentive to 'stop, think and investigate more carefully before serving and filing papers.' " 110 L.Ed.2d at 377.

f. Justice Stevens dissented on the ground that the voluntary dismissal of even a baseless complaint before the defendant answers or moves for summary judgment does not result in the waste of judicial resources or in an increase in judicial workload. Whatever additional costs the defendant may incur were regarded by Justice Stevens as either "minimal or non-compensable" and of no concern in a Rule 11 context if the filing of the complaint does not impose any costs on the judiciary. 110 L.Ed.2d at 385-86.

D. Appellate Review

1. The appellate review of an award of Rule 11 sanctions involves a consideration of three types of issues:

   a. The propriety of counsel's reasonable inquiry into the factual basis of the paper and the question of whether the paper was filed for any improper purpose present issues of fact.

   b. The question of whether a paper is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law presents issues of law.

   c. The appropriateness of the sanction involves the question of whether there has been an abuse of process.

2. Prior to the Supreme Court's decision in <u>Cooter & Gell v. Hartmarx Corp.</u>, <u>supra</u>, there was a three-way split of authority with respect to the standard of appellate review to be applied to sanctions imposed under Rule 11.

   a. In the District of Columbia Circuit, the questions of whether there was a sound factual basis for the paper and whether it was interposed for any improper basis are reviewed under an abuse of discretion standard while the legal sufficiency of a paper is reviewed de novo. See e.g., Westmoreland v. CBS, Inc., supra.

b. The Ninth Circuit reviews Rule 11 sanction awards under a three-pronged approach of examining factual findings under a clearly erroneous standard, the determination that Rule 11 had been violated under a de novo standard, and the propriety of the sanction under an abuse of discretion standard. See Zaldivar v. City of Los Angeles, supra.

c. The majority of the remaining circuits apply the deferential abuse of discretion standard to all Rule 11 issues. See Mars Steel Corp. v. Continental Bank N.A., 880 F.2d 928 (7th Cir. 1989); Kale v. Combined Ins. Co. of America, 861 F.2d 746 (1st Cir. 1988); Adamson v. Bowen, 855 F.2d 668 (10th Cir. 1988); Teamsters Local Union No. 430 v. Cement Express, Inc., 841 F.2d 66 (3d Cir. 1988), cert. denied, 488 U.S. 848 (1988); Thomas v. Capital Security Services, Inc., supra; Stevens v. Lawyers Mutual Liability Ins. Co. of North Carolina, 789 F.2d 1056 (4th Cir. 1986).

3. In considering these varying standards, the Supreme Court noted that the scope of actual disagreement is very narrow. For example, there is no different result if the District Court's factual findings are reviewed under an abuse of discretion or a clearly erroneous standard because the "court of appeals would be justified in concluding that a district court had abused its discretion in making a factual finding only if the finding were clearly erroneous." 110 L.Ed.2d at 374. Thus, the only real issue is "whether the court of appeals must defer to the district court's legal conclusions in a Rule 11 proceeding." Id.

4. Consistent with a majority of the circuits which have considered the issue, the Supreme Court concluded that all aspects of a District Court's imposition of sanctions -- viz., factual findings,

legal conclusions and the propriety of the sanction — should be reviewed by the appellate courts under the deferential abuse of discretion standard.

a. In reaching this conclusion, the Court noted the difficulty in distinguishing between legal and factual issues and that the reasonableness of an inquiry into the facts or law must be based on all the circumstances including the signing attorney's credibility.

b. Because of its greater familiarity with the issues and the litigants, the District Court is better situated than the Court of Appeals to marshall the necessary facts and resolve these issues.

c. The Supreme Court indicated, however, that the abuse of discretion standard still would permit the appellate court to correct legal errors such as misapplying the proper legal standard or relying on a "materially incorrect view of the relevant law. . . ." 110 L.Ed.2d at 380.

d. In addition to considerations of judicial efficiency and economy, the Court found that the policy objectives of Rule 11 favor an abuse-of-discretion standard because that standard will enhance the ability of the District Courts to control litigants and discourage marginal appeals.

IV. RULE 11 DECISIONS IN TRADEMARK CASES

A. Federal Courts

1. <u>El Greco Leather Products Co., Inc. v. Shoe World, Inc.</u>, 623 F. Supp 1038 (E.D.N.Y. 1985), <u>rev'd</u> <u>on</u> <u>other</u> <u>grounds</u>, 806 F.2d 393 (2nd Cir. 1986).

a. The controversy in <u>El</u> <u>Greco</u> grew out of a supply contract for 25,000 pairs of CANDIE'S shoes between the plaintiff and a Brazilian shoe manufacturer. Under the terms of this contract, the Brazilian manufacturer was to ship the shoes in seven lots by a set date, but only after the issuance of a certificate by plaintiff's agent stating that he had inspected the shoes and that they met plaintiff's specifications and quality control standards.

b. For reasons relating either to inferior quality or inability to meet the deadline, the plaintiff cancelled the last two lots totalling 7,000 pairs of shoes; no certificate of inspection was ever issued for those two lots.

c. The Brazilian manufacturer then sold the last two lots of shoes bearing the trademark CANDIE'S to the defendant who in turn sold the shoes at a retail price of $13.88 per pair, some $21.00 less per pair than the retail price of the same model sold by plaintiff.

d. Suit was filed for trademark infringement, unfair competition, trademark dilution and violation of the Genuine Goods Exclusion Act, 19 U.S.C. § 1526; the complaint specifically alleged that defendant had engaged in the importation and sale of "counterfeit shoes."

e. The District Court dismissed the complaint, holding that since the shoes were genuine despite their unauthorized sale by the Brazilian manufacturer, defendant was not liable for trademark infringement, unfair competition or trademark dilution. <u>El Greco Leather Products Co., Inc. v. Shoe World, Inc.</u>, 599 F. Supp. 1380 (E.D.N.Y. 1985), <u>rev'd</u>, 806 F.2d 393 (2d Cir. 1986).

f. Following the dismissal of the complaint, defendant moved for Rule 11 sanctions on the following alternative grounds:

(i) To the extent that plaintiff was unaware that the shoes in question were produced by its Brazilian manufacturer, plaintiff failed to make a reasonable inquiry into the factual basis for the complaint.

(ii) To the extent that plaintiff was aware of the source of the shoes, the allegation in the complaint that the shoes were "counterfeit" was legally unfounded and made for an improper purpose.

g. The District Court rejected the first contention, finding that the plaintiff's prefiling inquiry into the facts was reasonable although more might have been done.

h. Turning to the second prong of the Rule 11 motion, the District Court was critical of plaintiff's use of the word "counterfeit" to describe genuine goods whose sale was unauthorized, but nevertheless concluded that the basic issue of whether the unauthorized sale of otherwise genuine goods constitutes trademark infringement is not frivolous and therefore denied the Rule 11 motion in its entirety.

i. On appeal, the Second Circuit reversed the holding below that the shoes in question were genuine for purposes of trademark protection, but affirmed the denial of defendant's motion for Rule 11 sanctions.

2. <u>National Survival Game, Inc. v. Skirmish, USA., Inc.</u>, 603 F. Supp. 339 (S.D.N.Y. 1985).

a. The plaintiff filed suit against several corporate defendants and individuals who were officers of those corporations alleging a violation of § 43(a) of the Lanham Act, 15 U.S.C.

§ 1125(a), based on the defendants' operation of a competitive game.

b. The individual defendants moved to dismiss the complaint as to them under Rule 12(b)(6) Fed. R. Civ. P. on the ground that they were insulated from personal liability because the allegedly illegal acts were performed not in their individual capacities, but as corporate officers.

c. The District Court denied the motion to dismiss[14/] and <u>sua sponte</u> imposed Rule 11 sanctions based on a finding that defendants' counsel failed to conduct a reasonable inquiry into the legal basis for the Rule 12(b)(6) motion:

> "Defendants failed to cite a single case or authority in their two-page memorandum. Apparently, they completely ignored the firmly established precedents directly contradictory to their position. No doubt exists that [defendants'] counsel failed to conduct the 'reasonable inquiry' that Rule 11 requires to ensure that a motion 'is warranted by existing law or a good faith argument for the extension, modification or reversal of existing law . . . .'" 603 F. Supp. at 341-42 (citations omitted).

3. <u>Motown Productions, Inc. v. Cacomm, Inc.</u>, 668 F. Supp. 285 (S.D.N.Y. 1987), <u>rev'd</u>, 849 F.2d 781 (2d Cir. 1988).

a. After receiving a cease-and-desist demand from defendant directed to use of the mark NIGHTLIFE, plaintiffs filed a declaratory judgment action asserting that defendant had no exclusive rights in NIGHTLIFE; defendant in turn

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14/ The denial as based on the Court's determination that it is clearly established that a corporate officer who participates in a tort, even if in the course of his duties, may be held individually responsible.

counterclaimed for unfair competition under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and at common law.

b. On cross motions for summary judgment, the District Court held that defendant failed to discharge its burden of proving that it had established secondary meaning in NIGHTLIFE and that confusion was likely, noting in the latter respect that not even one of the confusion factors set forth in Polaroid Corp. v. Polarad Electronics Corp., supra, weighed in defendant's favor.

c. Sanctions were imposed under Rule 11 in the amount of $4,500 on defendant's counsel on the ground that a reasonable inquiry into the factual basis of the counterclaims would have readily disclosed that the allegation of secondary meaning was unfounded and that none of the Polaroid factors supported the claim that confusion is likely.

d. The District Court obviously was disturbed by the fact that defendant's counsel proceeded with a summary judgment motion after most of the basic facts about plaintiff's use of NIGHTLIFE were disclosed and in the face of the Court's earlier admonition that "the obligations of Rule 11 would be enforced to the fullest in this case." The District Court concluded that factually baseless counterclaims had been interposed for an improper purpose.

e. On appeal, the Second Circuit reversed the award of sanctions on the ground that the legal arguments advanced by defendant's counsel were not frivolous.

    (i) In reaching this conclusion, the Court of Appeals focused on that part of Rule 11 which provides that an attorney's signature certifies that the contentions set forth in a pleading are well grounded in fact and warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law.

(ii) After reviewing the summary judgment papers filed by defendant's counsel, the Court of Appeals found that counsel presented legally justifiable arguments and did its best to argue the facts as strongly as possible within the framework of existing precedent.

f. The Court of Appeals, however, did not address the grounds on which the District Court imposed sanctions, viz., that "[a] 'reasonable inquiry' . . . would have revealed this conclusion [i.e., that secondary meaning and likelihood of confusion could not be shown] to Cacomm's counsel" and that the "facts pertinent to the 'secondary meaning' and 'likelihood of confusion' issues were clearly available to Cacomm and its counsel [at the time the counterclaims were filed]." 668 F. Supp. at 293.

g. The Court of Appeals confined its analysis to the question of whether the legal arguments advanced by defendant's counsel were appropriate under existing law and inexplicably failed to come to grips with the basis for the award of sanctions below: the finding that defendant's counsel failed to conduct a reasonable inquiry into the factual basis for the counterclaims for a § 43(a) violation and unfair competition.

h. This result is unfortunate not only because it missed the point of the District Court's decision, but also because it would excuse a failure to conduct the requisite reasonable inquiry into the facts so long as the legal arguments advanced are supported by established precedent.

4. <u>Viola Sportswear, Inc. v. Mimun</u>, 574 F. Supp. 619 (E.D.N.Y. 1983).

a. In this action filed by the exclusive licensee of the mark SASSON for children's jeans, the charge of infringement was based on a single pair of SASSON jeans, worth approximately $10.00, which were produced by one of the defendants as a part of a pre-production sample for the trademark owner several months before plaintiff became its exclusive licensee.

b. The District Court found that neither plaintiff nor its counsel made any investigation, much less a Rule 11 reasonable inquiry into the underlying facts, before filing a complaint which alleged a nationwide "trademark conspiracy" by the defendants.

c. The situation was aggravated by the fact that even when the true story became known, plaintiff refused to discontinue the action unless the defendants agreed to release plaintiff from any liability or sanctions growing out of the commencement of the action.

d. The District Court accordingly awarded sanctions in the amount of $20,000 against plaintiff and its counsel jointly, holding that the "charge that the . . . defendants were engaged in a nationwide trademark conspiracy based upon the discovery of one pair of jeans worth $10, without more, can hardly be said to be well grounded in fact and can appropriately be characterized as a charge that is frivolous and in support of which a good faith argument on the merits could not be made." 574 F. Supp. at 621.

5. <u>Olins v. Young & Rubicam Inc.</u>, 7 USPQ2d 1820 (N.D. Ill. 1988).

a. In this action, the plaintiff, a former employee of the Young & Rubicam advertising agency, asserted that Young & Rubicam's use of the title "Consumer Insights Department" to identify its consumer research division infringed the plaintiff's rights in the service mark INSIGHTS for consumer research services.

b. The plaintiff asserted that Young & Rubicam violated Rule 11 by denying the following paragraph in the complaint even though it "knew" of the plaintiff's prior use of the mark INSIGHTS:

> "Defendant's aforesaid use of the name and mark CONSUMER INSIGHTS for market research services was with knowledge of plaintiff's use of and rights in its aforesaid name and mark INSIGHTS and over plaintiff's express objections and for the purpose of trading upon the goodwill represented by plaintiff's name and mark and giving defendant's services a reputation and salability to which they are not entitled and which they otherwise would not have."

c. In preparing the answer to the complaint, counsel for Young & Rubicam interviewed Ms. Fortini-Campbell, a Senior Vice-President of the agency, who was believed to be the individual most familiar with the plaintiff's activities and the services which plaintiff had previously performed for Young & Rubicam. During that interview, Ms. Fortini-Campbell stated that she knew of the plaintiff's services "only through the name Communications Research, Inc. and not through the service mark INSIGHTS." 7 USPQ2d at 1822.

d. In support of its Rule 11 motion, the plaintiff relied on documentary evidence showing that Young & Rubicam apparently had purchased the plaintiff's INSIGHTS computerized market research services during the period 1974-1985 and on a 1977 Young & Rubicam interoffice memorandum which assured the plaintiff that he had "exclusive use of the INSIGHTS name." 7 USPQ2d at 1822.

e. Notwithstanding this evidence, the District Court concluded that Young & Rubicam's counsel by interviewing Ms. Fortini-Campbell had discharged his Rule 11 obligation of conducting a reasonable inquiry into the factual basis for denying the allegation in question. The District Court noted in this regard that Ms. Fortini-Campbell had worked with the plaintiff during the period 1982 to 1985 and that she was quite familiar with his work during that period. Although the documentary evidence adduced by the plaintiff tended to establish that Young & Rubicam had institutional knowledge of the plaintiff's prior use of INSIGHTS, the Court declined to find a Rule 11 violation because that evidence was not current and not readily available from Young & Rubicam's files. Moreover, the Court noted that the individuals who had been involved in Young & Rubicam's earlier dealings with the plaintiff had left the advertising agency by the time the litigation had commenced. The Court thus concluded that:

> "Young & Rubicam would have incurred unnecessary time and expense if it had tracked down old documents and former employees to verify facts relevant to one phrase of plaintiff's complaint. This court cannot expect parties to complete such extensive discovery before filing their pleadings. Young & Rubicam made a reasonable inquiry to support its answer to Dr. Olins' complaint and was

justified in basing its answer on the interview of Ms. Fortini-Campbell because she was the person at Young & Rubicam most likely to have knowledge of plaintiff's use of the mark and was the person chosen by plaintiff to receive plaintiff's counsel's letter concerning the defendant's alleged infringement of that mark." 7 USPQ2d at 1822.

f. The District Court also observed that the quoted paragraph in the complaint is a complex and compound statement encompassing both legal conclusions and factual allegations. The Court stated in this regard that it would be reluctant to award sanctions even if Young & Rubicam had wrongfully denied knowledge of the plaintiff's prior use of INSIGHTS because the allegation directed to such prior use is "buried within one paragraph of a five-count complaint which contains numerous allegations and is susceptible to a variety of interpretations." 7 USPQ2d at 1822-1823.

6. <u>American Building Maintenance Industries Inc. v. Maintenance Service Systems Inc.</u>, ____ F. Supp. ____, 12 USPQ2d 1068 (D.N.M. 1989)

a. In response to plaintiff's complaint for service mark infringement, defendants counterclaimed for antitrust violations alleging "upon information and belief" that plaintiff filed the action "in a willful, wanton and deliberate attempt to force defendants out of business" and that plaintiff had done similar things in other states in an effort to monopolize the janitorial trade. The counterclaim also contained conclusory allegations that plaintiff had attempted to fix the price of building maintenance services and preclude defendants from providing such services except on terms controlled by the plaintiff.

b. After entry of a consent judgment enjoining defendants' use of the mark in issue, plaintiff sought Rule 11 sanctions against defendants' counsel for filing the antitrust counterclaim.

c. The District Court granted the Rule 11 motion, finding that the counterclaim failed to meet the test of "objective reasonableness":

> "Even a cursory review of the allegations in the . . . counterclaim negates any idea that there is a good basis upon which to support the claim formed after reasonable inquiry, and that the claim is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law." 12 USPQ2d at 1069.

Based on this determination, defendants' counsel was directed to pay sanctions in the amount of $1,500.00 to plaintiff and a fine of $500.00 to the District Court.

7. MasterCard International Inc. v. Arbel Corp., ___ F. Supp. ___, 12 USPQ2d 1958 (S.D.N.Y. 1989).

a. In this action, plaintiff sought a declaratory judgment that its use of the advertising slogan "Master The Travel Possibilities" in connection with financial services did not infringe defendant's rights in the trade name "Travel Possibilities" used in connection with religiously-oriented travel agency services. The defendant counterclaimed under § 43(a) of the Federal Trademark Act, 15 U.S.C.

§ 1125(a), seeking injunctive and monetary relief, including attorney's fees and an award of $18 million dollars for a corrective advertising campaign.

b. Plaintiff moved for partial summary judgment dismissing defendant's counterclaim for damages and attorneys' fees on the ground that, absent a showing that plaintiff had adopted the slogan "Master the Travel Possibilities" in bad faith, defendant is not entitled to an award of damages or attorneys' fees.

c. Defendant contested summary judgment motion and also moved for Rule 11 sanctions on the ground that there were genuine material issues of fact regarding plaintiff's claim of good faith adoption which were known to plaintiff at the time the summary judgment motion was filed thereby rendering that motion improper. In support of its Rule 11 motion, defendant argued that the District Court, in denying plaintiff's earlier summary judgment motion on the issue of likelihood of confusion, had determined that plaintiff's good faith adoption is a disputed question of fact.

d. Agreeing with the defendant, the District Court denied summary judgment on the ground that plaintiff's good faith adoption of the slogan in question "remains an issue of fact for the jury." 13 USPQ2d at 1962. Consistent with its earlier determination that good faith adoption is a disputed issue of fact, the District Court found that plaintiff's reliance on the advice of counsel, based on a pre-adoption trademark search limited to the slogan "Master the Possibilities," was not dispositive of the factual issue of good faith adoption:

> "[W]hether MasterCard [plaintiff] decided in good faith that it did not

need to search derivative slogans such as 'Master the Travel Possibilities' is an issue genuinely in dispute." 13 USPQ2d at 1962.

e. Although denying plaintiff's summary judgment motion, the District Court declined to impose Rule 11 sanctions reasoning that plaintiff's attempt to relitigate the issue of good faith adoption was appropriate because plaintiff argued that defendant's affidavits and the other evidence did not adequately support the prior determination that good faith adoption was a disputed issue of fact. In reaching this conclusion, the District Court relied on the admonition in Cross & Cross Properties v. Everett Allied Co., ___ F.2d ___ (2d Cir. 1989), that "it is important that Rule 11 not have the effect of chilling advocacy, even of positions that may arguably be at odds with existing precedent."

8. Montgomery Ward & Co. Inc. v. Ward's Home Improvement Co., Inc., ___ F. Supp. ___, 13 USPQ2d 2058 (N.D. Ill. 1989).

a. Plaintiff moved to hold defendants in contempt for violating a consent judgment and also sought Rule 11 sanctions against defendants' attorney on the ground that he signed the consent judgment which falsely represented that defendants had discontinued all use of the infringing designations. Plaintiff asserted that defendants' counsel should be sanctioned either because he (1) misrepresented the true facts regarding defendants' continued acts of infringement, or (2) failed to make the requisite reasonable inquiry into the facts before signing the consent judgment.

b. Defendants' counsel opposed the Rule 11 motion, essentially on the ground that he "was of the firm belief" that defendants had ceased use of the infringing mark as of the entry of the consent judgment. The District Court rejected this argument, holding that counsel's "firm belief" was insufficient to preclude Rule 11 sanctions:

> "[R]ule [11] requires that his belief must have been based on 'reasonable inquiry.' Nowhere does Mr. Barnett [defendants' counsel] aver that defendants . . . told him that they would cease using the [infringing] name on November 28. Nowhere does he state that he at any time inquired of his clients when they would cease using the [infringing] name or whether they had in fact ceased on November 28. A reasonable inquiry would require that much . . . . Rule 11 requires that he at least communicate with his clients and attempt to insure that what he is representing to the court is indeed true." 13 USPQ2d at 2061.

9. <u>International Business Counselors Inc. v. The Bank of Ikeda Ltd.</u>, ___ F. Supp. ___, 14 USPQ2d 1463 (S.D.N.Y. 1990).

   a. In March 1989, plaintiff adopted the mark IKEDA for financial services purportedly because it is a "coined, arbitrary and fanciful mark." Seven months later, plaintiff opened an "Ikeda Financial Services" office in Washington, D.C. having the same office address and facsimile number as its attorney of record.

   b. Defendant, The Bank of Ikeda, is a Japanese bank with its principal office in the Japanese city of Ikeda. Defendant has assets in excess of $ 8.8 billion dollars and has been listed on the Tokyo stock exchange since 1971. Beginning in 1979, some ten years prior to the activities of plaintiff, defendant began establishing corresponding banking relationships with major U.S. banks and, by 1989, had such relationships with 18 U.S. banks. Although defendant had no branch office in the United States prior to the plaintiff's first use of the mark IKEDA and the trade name "Ikeda Financial Services, " defendants' name had appeared in tombstone advertisements in financial publications distributed in the United States and defendant, through its corresponding U.S. banks, had issued letters of credit to the U.S. subsidiaries of Japanese clients. Defendant opened a "Bank of Ikeda" office in New York City on November 2, 1989.

c. Plaintiff apparently learned of defendant's New York office shortly after it opened and, after unsuccessful negotiations, commenced an action for service mark infringement, unfair competition and service mark dilution. Defendant counterclaimed for service mark infringement.

d. On cross motions for preliminary injunctive relief, the District Court first resolved the question of priority of use in defendant's favor, finding that defendant was actively doing business under the name "Bank of Ikeda" in the United States as early as 1979. The District Court then determined, as asserted by each party, that there was a substantial likelihood of confusion. Although defendant failed to convince the District Court that the geographical term "Ikeda" had acquired a secondary meaning, the District Court nevertheless granted defendants' motion for preliminary injunction on the grounds that the counterclaim presented serious questions regarding defendant's right to relief, the balance of hardships tipped decidedly in defendant's favor,[15/] and that the likelihood of confusion resulted in irreparable harm to defendant.

e. Defendant then moved for Rule 11 sanctions claiming that if plaintiff had conducted a reasonable inquiry into the facts before filing suit, it would have known that defendant was the senior user of IKEDA in the United States

f. The District Court determined that the information known to plaintiff prior to filing the complaint plus a minimal amount of reasonable inquiry would have put plaintiff on notice of defendants' prior use of IKEDA and, on that basis, imposed Rule 11 sanctions:

> "This information would have put any reasonable person on notice that the Bank [defendant] was transacting business in the united States . . . at least one year before IBC [plaintiff] was incorporated. I conclude that IBC could not reasonably have believed that this action, alleging its own first use of the name 'Ikeda' in the United States, was well grounded in fact. Nor could IBC, given the chronology, have entertained an objectively reasonable belief that the name Ikeda had acquired secondary

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15/ In the Second Circuit, a preliminary injunction may issue based on a showing of (1) irreparable harm, and (2) either:

(a) likelihood of success on the merits, or
(b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party seeking preliminary inuctive relief.

E.g., Warner Bros. Inc. v. Gay Toys, Inc., 658 F.2d 76 (2d Cir. 1981).

meaning . . . [in] plaintiff." 14 USPQ2d at 1468.

B. Trademark Trial and Appeal Board

1. Giant Food Inc. v. Standard Terry Mills, Inc., 229 USPQ 955 (TTAB), on reconsideration 231 USPQ 626 (TTAB 1986).

a. The controversy in the Standard Terry Mills case grew out of an application to register the mark SUPRASORB for utility towels which was opposed based on prior use and registration of the mark SUPER SORB for paper towels for domestic and household use.

b. Instead of answering the notice of opposition, applicant initiated discovery and filed three successive motions for summary judgment based on factually and legally unsupported assertions that opposer's mark was merely descriptive and that opposer's registration had been fraudulently obtained, as well as numerous other motions relating to discovery.

c. The opposer moved for Rule 11 sanctions on the ground that the second summary judgment motion was factually and legally unfounded and interposed for the improper purpose of harassing opposer into a settlement or withdrawal of the opposition.

d. The Board agreed and held that procedurally none of applicant's summary judgment motions was warranted either by existing law or a good faith argument for the modification or reversal of existing law.

(i) The Board found that the second and third motions which sought summary judgment on the ground of fraud were based on distortion and mischaracterization of the record and otherwise were factually and legally unfounded.

(ii) Equally important in a Rule 11 context, the Board concluded that applicant's counsel either knew or should have known that there was no sound factual or legal basis for these motions.

e. Based on these considerations, the Board concluded that Rule 11 sanctions were appropriate:

> "[B]y filing baseless, unnecessary and frivolous motions and other papers, applicant has unnecessarily delayed this proceeding and needlessly increased the cost of this litigation. The imposition of appropriate sanctions is clearly warranted in the present situation if dilatory and reckless conduct is to be discouraged." 229 USPQ at 967-68.

f. The sanction imposed by the Board was a warning: judgment would be entered sustaining the opposition if applicant filed any other paper, including a request for reconsideration, which the Board found to be without basis in fact or law or otherwise frivolous.

g. Applicant's counsel promptly filed a request for reconsideration of the Board's denial of the three summary judgment motions as well his own motion seeking to impose Rule 11 sanctions on opposer and its counsel.

h. The Board concluded that applicant's request for reconsideration of the denial of the first summary judgment motion was frivolous; that applicant's counsel had engaged in a continuous course of conduct involving the filing of baseless, unnecessary and frivolous motions and other papers which unnecessarily delayed the opposition and needlessly increased its cost; and accordingly imposed the ultimate sanction of entering judgment sustaining the opposition, finding that any lesser sanction would not "halt the reckless and dilatory conduct displayed in this case." 231 USPQ at 634.[16/]

2. <u>Fort Howard Paper Co. v. G.V. Gambina Inc.</u>, 4 USPQ2d 1552 (TTAB 1987).

   a. In the <u>Fort Howard</u> opposition, the applicant moved for a protective order on the ground, that opposer's interrogatories were unduly burdensome and exceeded the number allowed under the Local Rules of the U.S. District Court for the Eastern District of Louisiana where applicant's counsel had his office. Applicant also moved for sanctions under Rule 2.120(g) of the Trademark Rules of Practice, 37 C.F.R. § 2.120(g), asserting that opposer had unreasonably refused to provide timely answers to applicant's discovery requests.

   b. The Board denied applicant's motion for protective order, holding that opposer's interrogatories were not unduly burdensome; that the limitation on the number of interrogatories in the Eastern District of Louisiana was irrelevant in <u>inter partes</u> proceedings before the Board; and directing applicant to respond to opposer's discovery in thirty days. Applicant's motion for discovery sanctions was denied on the ground that such a motion was premature until there was noncompliance with an order of the Board compelling such discovery which was not the case.

16/ Additionally, the Board forwarded the papers and letters filed by applicant's counsel to the Patent and Trademark Office Director of Enrollment and Discipline for consideration in light of 37 CFR § 10.89(c)(5).

c. In denying these motions, the Board warned applicant's counsel that "[t]he Board has not suffered gladly the premature escalation of this complaint caused in large part by applicant's precipitous filing of its discovery motions without any good faith attempt to resolve its differences."

d. The Board also noted its reluctance to impose sanctions "due, in large part, to our belief that applicant has acted out of lack of familiarity with our practice." 4 USPQ2d at 1553.

e. The battle, however, continued after a brief lull. When applicant failed to answer opposer's discovery requests as directed by the Board, opposer moved for entry of a default judgment and applicant, in response, filed its own motion for default judgment on the clearly incorrect ground that the Board's earlier order had directed opposer, rather than applicant, to respond to discovery and that opposer failed to comply with that "order."

f. Notwithstanding the Board's disposition of its discovery motions, applicant again moved for a protective order on the ground that opposer's second set of interrogatories were unduly burdensome and also moved to compel opposer to provide complete answers to applicant's discovery requests seeking, <u>inter alia</u>, monetary sanctions under Rule 37 Fed. R. Civ. P.

g. The Board denied both of applicant's motions, finding that neither had a reasonable basis in fact or law.

h. The Board proceeded to find a Rule 11 violation based on applicant's repeated failure to make a good faith effort to resolve discovery disputes before filing motions to compel and its repeated filing of discovery motions without first making a good faith investigation into the factual and legal grounds for such motions.

i. As a sanction, the Board ordered that:

"[A]pplicant is precluded from filing any further discovery motions in this case, including a motion for a protective order, a motion to compel, or a motion for Rule 37 (Fed. R. Civ. P.) sanctions. Furthermore, applicant is precluded from filing any motions on whatever basis without requesting, in advance, leave from the Board to file such a motion . . . . Failure to comply with this order, including the filing of any further frivolous pleadings, motions, or other papers or the service of untimely responses to opposer's discovery requests, shall result in the entry of default judgment against applicant." 4 USPQ2d at 1554 (citation omitted).[17/]

3. Marshall Field & Co. v. Mrs. Fields Cookies, Can. No. 16,572, slip op. (TTAB July 21, 1989).

a. This matter came before the Board on registrant's motion to strike an "affirmative defense" pleaded in petitioner's reply to registrant's counterclaim. This "affirmative defense" asserted that the counterclaim was pleaded without registrant or its counsel conducting a reasonable inquiry into the factual and legal bases of the claim and with knowledge that the allegations in the counterclaim were false, all in violation of Rule 11.

17/ The courts have imposed similar sanctions in analogous situations. See Sparrow v. Reynolds, 646 F. Supp. 834 (D.D.C. 1986) (plaintiff must seek leave of court in advance of filing any new civil action against defendants and must certify that new action presents matters not previously adjudicated).

b. Petitioner resisted the motion on the ground that its "affirmative defense" was legally sufficient. Alternatively, petitioner argued that if the alleged Rule 11 violation had been mislabeled, it should be treated as a general denial and not stricken.

c. The Board granted the motion to strike, reasoning that a Rule 11 sanction essentially is a disciplinary measure which does not concern the merits of the case. Accordingly, the alleged Rule 11 violation is not an "affirmative defense" nor is it a general denial, but rather is an allegation attacking registrant's conduct and, as such, is properly brought before the Board by Motion.

d. In reaching this decision, the Board made the following observations:

> "Fed. R. Civ. P. 11 should not be used to raise issues of legal sufficiency that more properly can be disposed of by motion. The rule is designed to encourage honesty and ought to be employed only in those rare cases in which an attorney deliberately presses an unfounded claim or defense." Slip Op. pp. 3-4 (citation omitted).

V. PROBLEM AREAS

A. Prayers for Excessive Damages

1. Rule 11 governs not only the factual and legal allegations in a pleading upon which a claim for relief is predicated, but applies as well to a prayer for specific relief.

2. For example, in Hudson v Moore Business Forms, 827 F.2d 450 (9th Cir. 1987), the Ninth Circuit concluded that a prayer for $4,200,000 in compensatory and punitive damages had no basis in fact and had been asserted with an apparently "retaliatory motive" for purposes of harassment.

3. The imposition of Rule 11 sanctions based on a prayer for exhorbitant damages should be a warning sign even in trademark and unfair competition cases where large monetary recoveries historically have been infrequent.

   a. The assertion of a prayer for excessive compensatory or, more likely, punitive damages thus may well trigger Rule 11 sanctions which are likely to be imposed against counsel rather than the party.

   b. The amount sought as damages is subject to the reasonable inquiry standard of Rule 11 and cannot, without some risk, be employed as a means of intimidation or to induce settlement.

B. "Kitchen Sink" Defenses

1. Unfortunately, it is not uncommon for an answer in a trademark infringement action routinely to include all or substantially all of the affirmative defense known to the Trademark Bar without regard to whether they have any basis in fact.

2. This practice appears to be a manifestation of the "sue now, inquire later" mentality which led to the 1983 amendment of Rule 11 or is motivated by the mistaken notion that failure to assert a particular defense will preclude it from being raised later notwithstanding the policy of liberal amendment underlying Rule 15 Fed. R. Civ. P.

3. Although there do not appear to be any reported cases precisely in point in the trademark field, there are decisions in other areas

which have imposed Rule 11 sanctions when faced with "kitchen sink" or "laundry list" claims and defenses, even though some of them may have merit.

4. Rather than pleading every conceivable defense, the preferable practice is to take discovery directed to possible affirmative defenses and, if that discovery provides a sound factual predicate, then move under Rule 15 for leave to amend the answer to add the new defense.

   a. It should be noted in this regard that failure to plead a particular affirmative defense does not preclude discovery directed to that defense on the ground of relevancy because the relevance of discovery is not measured by the precise issues framed by the pleadings, but by the general relevance of a line of inquiry to the subject matter of the litigation. See Moore's Federal Practice, ¶ 26.56[1], pp. 26-97 - 26-98 (2d ed. 1987).

   b. Thus, at least in the early stages of the case, discovery should not be confined to the specific issues raised by the pleadings precisely because discovery is needed to frame the issues ultimately to be tried. See, La Chemise Lacoste v. Alligator Co., Inc., 60 F.R.D. 164, 170-171 (D. Del. 1973) ("[T]he requirement of relevancy must be construed liberally and with common sense rather than measured by the precise issues framed by the pleadings . . . . Thus, discovery should ordinarily be allowed under the concept of relevancy unless it is clear that the information sought can have no possible bearing upon the subject matter of the litigation.").

   c. The Trademark Trial and Appeal Board has endorsed this approach by permitting discovery not only as to claims and defenses specifically raised in the pleadings, but also as to any matter which might support an affirmative defense or counterclaim for cancellation which can be added by amendment pursuant to Rule 15 Fed. R. Civ. P. and Rules 2.107 and 2.115 of the Trademark Rules of Practice. Johnson & Johnson v. Rexall Drug Co., 186 USPQ 167 (TTAB 1975); Neville Chemical Co. v. Lubrizol Corp., 183 USPQ 184 (TTAB 1984).

C. Naming Improper Party-Defendants

1. In an effort to reach each possible defendant, it is not uncommon for a complaint to name a corporate parent as a party-defendant based solely on the acts of its wholly-owned subsidiary.

   a. For example, in Rachel v. Banana Republic, Inc., supra, claims for copyright infringement and unfair competition were asserted against The Gap, Inc. based entirely on the acts of its wholly-owned subsidiary Banana Republic, Inc.

   b. The District Court dismissed the complaint as to The Gap, finding that the plaintiff had failed to demonstrate any of the factors required under California law to hold The Gap liable on an alter ego or agency theory.

   c. The District Court imposed Rule 11 sanctions on the grounds that naming The Gap as a party-defendant was factually unsupported, that the plaintiff's counsel had not made the mandatory reasonable inquiry into the factual basis for naming this defendant, and that even after it became clear that The Gap had no involvement in the transactions and conduct which gave rise to the suit, the plaintiff refused to dismiss the complaint as to The Gap.

d. The Ninth Circuit reversed the award of sanctions based on the conclusion that naming The Gap as a party-defendant was not completely baseless or lacking in plausibility.[18/]

2. Despite the reversal on appeal, the lower court's rationale in the Banana Republic case should be a signal to the trademark bar that indiscriminate, factually unsupported joinder of a corporate parent as a party-defendant based solely on the acts of its subsidiary poses a risk of Rule 11 sanctions. The preferable course of action appears to be to take discovery and, upon establishing the necessary factual predicate, to move under Rule 15 for leave to amend the complaint or counterclaim to join the corporate parent as a party-defendant.

D. Cross Motions For Rule 11 Sanctions

1. Rule 11 motions often generate cross-motions under Rule 11. In considering whether to file such a cross-motion or even whether to file a Rule 11 motion in the first instance, it should be recognized that a motion for sanctions under Rule 11 is a serious charge which itself is subject to Rule 11. See Harris v. WGN Continental Broadcasting Co., 650 F. Supp. 568 (N.D. Ill. 1986); John S. Giffith Construction Co. v. Southern California Cement Masons Negotiating Committee, 607 F. Supp. 809 (C.D. Cal. 1984). And in at least one case, attorney's fees were awarded to the party which successfully opposed a Rule 11 motion. Fisher Brothers v. Cambridge-Lee Industries, Inc., supra. Similarly, the filing of a baseless cross-motion for sanctions has been held to

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18/ Although the Court of Appeals found that the plaintiff had not adduced sufficient evidence to support the claim that The Gap was properly named as party-defendant, there were facts known to plaintiff's counsel (e.g., the response to plaintiff's cease-and-desist letter was written on The Gap's letterhead) which took the decision to name The Gap as a defendant out of the "baseless" category. 4 USPQ2d at 1882. Moreover, the Court of Appeals was reluctant in this instance to affirm an award of sanctions where factual errors were made before there was an opportunity to take discovery. Id.

compound the Rule 11 culpability of the counsel who filed the cross-motion. Portnoy v. Wherehouse Entertainment Co., 120 F.R.D. 73 (N.D. Ill. 1988).

2. For these reasons, the decision to file a motion or cross-motion seeking Rule 11 sanctions requires a reasonable inquiry into the factual and legal basis of the motion; it should not be made out of a desire to retaliate in kind or as a tactical device to advance one's case.

VI. CONCLUSION

A. Concern has been expressed in some circles regarding the "chilling" effect of Rule 11 on attorney creativity, and some commentators have critically noted the tendency of Rule 11 to generate expensive satellite litigation in already-crowded federal dockets. See K.M. Rubin, "Has a 'Kafkaesque Dream' Come True? Federal Rule of Civil Procedure 11: Time for Another Amendment?", 67 B.U.L. Rev.1019 (1987).

B. Other commentators, however, have emphasized the strong deterrent and punitive potential of Rule 11 as a means of correcting litigation abuse. See D.A. Wilson, "The Intended Application of Federal Rule of Civil Procedure 11: An End to the 'Empty Head, Pure Heart' Defense and a Reinforcement of Ethical Standards," 41 Vand. L. Rev. 343, 353-54 and 377-78 (1988).

C. Despite these conflicting views, it seems safe to assume that Rule 11 will remain a fact of life in trademark litigation although the relative incidence of Rule 11 motions seems to be greater in larger metropolitan areas than in other areas of the country where the Bar is smaller and better known to Judges.

A Visual Chronology of Trade Dress Litigation

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I. A Visual Chronology of Trade Dress Litigation

A. Chronological listing of slides:

1. RAINER BEER v. RHINEGOLD BEER - 1902
   a) Kostering v. Seattle Brewing and Malting Co., 116 Fed. 620 (9th Cir. 1902)

2. WHITE ROCK v. HIGH ROCK - 1908
   a) O'Connell v. National Water Co., 159 Fed. 1001 (E.D. Pa. 1908) aff'd 161 Fed. 545 (3d Cir. 1908)

3. SAMSON'S SPOTTED CORD 1911-1964
   a) Samson Cordage Works v. Puritan Cordage Mills
      1) 193 Fed. 274 (W.D. Ky. 1911)
      2) 194 Fed. 573 (W.D. Ky. 1912)
      3) 197 Fed. 205 (W.D. Ky. 1912)
      4) 211 Fed. 603 (6th Cir. 1914)
      5) 243 F. Supp. 1, 140 USPQ 119 (W.D. Ky. 1/7/64)
      6) 243 F. Supp. 1, 7 (9/29/64)

4. PARIS GARTERS v. FRENCH GARTERS - 1912
5. PARIS GARTERS v. FRENCH GARTERS - 1912
   a) A. Stein & Co. v. Liberty Garter Mfg. Co., 198 Fed. 959 (S.D. N.Y. 1912)

6. BOAR'S HEAD DRY GIN - 1917
7. BOAR'S HEAD DRY GIN - 1917
   a) Gordon's Dry Gin Co. v. Eddy & Fisher, 246 Fed. 954 (D. R.I. 1917)

8. AUNT JEMIMA pancake flour v. syrup - 1917
9. AUNT JEMIMA pancake flour v. syrup - 1917
   a) Aunt Jemima Mills co. v. Rigney & Co., 247 Fed. 407 (2d Cir. 1917)

10. WINTERMINT v. DOUBLEMINT chewing gum 1918-1928
   a) Wm. Wrigley Jr., Co. v. L.P. Larson, Jr., Co.
      1) 253 Fed. 914 (7th Cir. 1918)
      2) 275 Fed. 535 (7th Cir. 1921)
      3) 5 F.2d 731 (N.D. Ill. 1925)
      4) 20 F.2d 830 (7th Cir. 1927)
      5) 275 U.S. 521 (1927)
      6) 276 U.S. 616 (1928)
      7) 277 U.S. 97 (1928)

11. SCHLITZ v. SOUTHERN SELECT - 1919
12. SCHLITZ v. SOUTHERN SELECT - 1919
   a) Schlitz Brewing Co. v. Houston Ice & Brewing Co., 250 U.S. 28 (1919)

13.OLD TAYLOR v. WARREN TAYLOR - 1935
   a) Federal Court in St. Louis

14. OLD TAYLOR v. O'TAYLOR & C.O. TAYLOR
   a) O'TAYLOR: Federal Court in Chicago - 1935
   b) C.O. TAYLOR: Federal Court in Chicago - 1936

15. OLD TAYLOR v. COLONEL TAYLOR & JIM TAYLOR
   a) COLONEL TAYLOR: Federal Court in Chicago - 1935
   b) JIM TAYLOR: Federal Court in Milwaukee - 1935

16. OLD TAYLOR v. GRAND TAYLOR & OLD ZAC TAYLOR
   a) GRAND TAYLOR: Federal Court in Chicago - 1935
   b) OLD ZAC TAYLOR: Federal Court in Chicago - 1936

17. OLD TAYLOR v. BILLIE TAYLOR & G.O. TAYLOR
   a) BILLIE TAYLOR: Fed. Court in San Francisco - 1936
   b) G.O. TAYLOR: Federal Court in Boston

18. OLD TAYLOR v. TOM TAYLOR & OLD SAILOR
   a) TOM TAYLOR: Federal Court in Chicago - 1938
   b) OLD SAILOR: Federal Court in Chicago - 1935

19. OLD TAYLOR v. OLD TAYLOR ginger ale & OLD TRAILER
   a) OLD TAYLOR ginger ale: Federal Court in Chicago
   b) OLD TRAILER: Federal Court in Chicago - 1938

20. OLD GRAND-DAD v. OLD GRAND-PA

21. OLD GRAND-DAD v. MY DAD & GRANTED!
   a) MY DAD
   b) GRANTED!: Federal Court in Chicago

22. CORNING GLASS PLATE - 1939
   a) Corning Glass Works v. Pasmantier, 30 F. Supp. 477 (S.D. N.Y. 1939)

23. G.H. MUMM CHAMPAGNE v. EASTERN WINE - 1943
   a) G.H. Mumm Champagne v. Eastern Wine Corp.
      1) 52 F. 2d 167 (S.D. N.Y. 1943)
      2) 142 F. Supp. 499, 501 (2d Cir. 1944)
      3) 323 U.S. 715 (1944)
      4) 58 F. Supp. 71 (S.D. N.Y.)

24. CAMPBELL & CARNATION v. ARMOUR - 1948, 1949
25. CAMPBELL & CARNATION v. ARMOUR - 1948, 1949
   a) 81 F. Supp. 114 (E.D. Pa. 1948)
   b) 175 F. 2d 795 (3d Cir. 1949), cert. denied, 338 U.S. 847 (1949)

26. LIFE SAVERS CORP. v. CURTISS CANDY CO. - 1950
   a) Life Savers Corp. v. Curtiss Candy Co., 182 F.2d 4 (7th Cir. 1950)

27. STALEY MFG. CO. v. STALEY MILLING CO. - 1958
    a) Staley Mfg. Co. v. Staley Milling Co., 253 F.2d 269 (7th Cir. 1958)

28. ONE-A-DAY VITAMINS v. MISSION VITAMINS - 1961
    a) Miles Laboratories, Inc. v. Mission Multiple Vitamin Co., Civil Action No. F.S. 203 (D. Kan. 1961)

29. PLEDGE v. PROMISE - 1962-65
    a) S.C. Johnson & Son, Inc. v. Drop Dead Co., Inc.
        1) 210 F. Supp. 816 (S.D. Cal. 1962)
        2) 326 F. 2d 87 (9th Cir. 1963)
        3) Cert. Denied 377 U.S. 907 (1964)
        4) 144 USPQ 257 (S.D. Cal. 1965)

30. PLEDGE v. SUPER-GLO - 1964
    a) S.C. Johnson & Son, Inc. v. Penn Corp., (W.D. Pa. Civil Action No. 64-1192)

31. OFF! v. ARLAN'S INSECT REPELLENT
32. RAID v. ARLAN'S BUG KILLER
33. PLEDGE v. ARLAN'S FURNITURE POLISH
    a) S.C. Johnson & Son, Inc. v. Arlan's Department Stores, Inc.

34. BUTTERBALL v. BUTTERBEST - 1970
    a) Swift v. Farmer's Produce (N.D. Ill. 70-C1097)

35. LEMON PLEDGE v. LEMON FURNITURE POLISH-1973
36. GLORY v. FOAMING RUG CLEANER
37. RAID v. INVAID
    a) S.C. Johnson v. Dart Drugs

38. KEN-L RATION v. TOTAL RATION - 1974-75
    a) Ken-L Ration v. Dart Drug Inc.

39. FRITO-LAY CO. v. BACHMAN
40. FRITO-LAY CO. v. BACHMAN
41. FRITO-LAY CO. v. BACHMAN
42. FRITO-LAY CO. v. BACHMAN

43. GREETING CARDS - 1986
44. GREETING CARDS - 1986
45. GREETING CARDS - 1986
    a) Hartford House Ltd. v. Hallmark Cards, Inc.
        1) 647 F. Supp. 1533 (D. Colo. 1986)
        2) Aff'd, 846 F.2d 1268 (10th Cir.)
        3) Cert. denied, 109 S. Ct. 260 (1988)

46. READERS DIGEST v. CONSERVATIVE DIGEST - 1987
    a) Reader's Digest A'ssn, Inc. v. Conservative Digest, Inc., 821 F.2d 800 (D.C. Cir. 1987)

47. WHEEL MAGIC v. TURTLE WAX - 1987
    a) Blue Coral Inc. v. Turtle Wax, Inc., 3 USPQ.2d 1581 (N.D. Ill. 1987)

48. RESTAURANT INTERIORS - 1987
49. RESTAURANT INTERIORS - 1987
50. RESTAURANT INTERIORS - 1987
51. RESTAURANT INTERIORS - 1987
52. RESTAURANT INTERIORS - 1987
53. RESTAURANT INTERIORS - 1987
    a) Fuddruckers Inc. v. Doc's B.R. Others Inc., 4 USPQ.2d 1026 (CA 9 1987)

54. PEOPLE Magazine v. CELEBRITY Magazine - 1989
55. PEOPLE Magazine v. CELEBRITY Magazine - 1989
    a) Time, Inc. v. Globe Communications Corp., 10 USPQ.2d 1915 (S.D. N.Y. 1989)

56. SCHWINN BICYCLE v. ROSS BICYCLES - 1989
57. SCHWINN BICYCLE v. ROSS BICYCLES - 1989
    a) Schwinn Bicycle Co. v. Ross Bicycles, Inc. 870 F.2d 1176, 10 USPQ.2d 1001 (7th Cir. 1989)

58. CANADA DRY v. ONTARIO PALE

59. ALBERTO VO5 v. HEALTH CROSS HC
60. ALBERTO VO5 v. HEALTH CROSS HC

61. BARNUM'S ANIMALS v. HOO HOO ANIMALS
    a) National Biscuit Co. v. Pacific Coast Biscuit Co.

62. GATORADE v. WAGNER THIRST QUENCHER

63. ALBERTO BALSAM v. BALSAM

64. WILSON SPORTING GOODS v. SUPERIOR

65. KODAK v. MAGIMATIC

66. PILLSBURY v. CHILDREN'S DELIGHT

67. MILES v. GENERAL NUTRITION CORP.
68. MILES v. GENERAL NUTRITION CORP.

69. AMERICAN CYANAMID v. HELTH VITAMIN
70. AMERICAN CYANAMID v. HELTH VITAMIN
71. AMERICAN CYANAMID v. HELTH VITAMIN

72. THE ANDREW JERGENS CO. v. IODENT CO.
73. THE ANDREW JERGENS CO. v. IODENT CO.

SUMMARY JUDGMENT MOTIONS IN TRADEMARK CASES

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EMERGING ISSUES IN TRADEMARK LITIGATION

September 10, 1990

I. SUMMARY JUDGMENT CASES IN THE FEDERAL COURTS

The following is a summary of reported decisions involving motions for summary judgment in trademark, trade dress and related cases before federal district courts and courts of appeals (other than the Federal Circuit) from May 1984 to July 1990:[1/]

ABANDONMENT

J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945 (S.D.N.Y. 1990) [defendant's motion for summary judgment denied on ground that plaintiff acquired its marks via a "naked" assignment]

Liquid Glass Enter. v. Liquid Glass Indus., 14 U.S.P.Q.2d 1976 (E.D. Mich. 1989) [plaintiff's motion for partial summary judgment to cancel defendant's trademark registration granted on ground that the goodwill associated with the registered trademark was not assigned with the mark when defendant acquired the registration]

Bellsouth Adv. & Pub. Corp. v. Donnelley Inf. Pub., Inc., 719 F. Supp. 1551 (S.D. Fla. 1988) [defendant's motion for summary judgment denied since genuine issues of fact existed as to issue of plaintiff's intent to resume use of mark]

Silverman v. CBS, Inc., 632 F. Supp. 1344 (S.D.N.Y. 1986) [defendant's motion for summary judgment denied because question existed as to defendant's intent to resume use of "Amos 'n' Andy" marks which had not been used for twenty years]

DAMAGES

United States Hosiery Corp. v. The Gap, Inc., 707 F. Supp. 800 (W.D.N.C. 1989) [defendant's motion for summary judgment on plaintiff's request for accounting of defendant's profits on ground that defendant acted in good faith denied because genuine issue of fact existed regarding defendant's good faith]

[1/] Summary judgment cases before federal district courts and courts of appeals from 1960 to April 1984 are discussed in Summary Judgments in Trademark Cases, Duane Burton, 75 Trademark Reporter 497 (1985).

Finity Sportswear, Ltd. v. Airnit, Inc., 631 F. Supp. 769 (S.D.N.Y. 1985) [plaintiff's motion for summary judgment on its claim for damages denied because genuine issue of material fact existed as to whether defendant purchased trademarked clothing from manufacturer in good faith and without knowledge that manufacturer was not authorized by plaintiff to deliver such clothing or that such clothing was not in all respects genuine]

DILUTION

Universal City Studios, Inc. v. Nintendo Co., 746 F.2d 112 (2nd Cir. 1984) [Court of Appeals affirmed District Court's grant of summary judgment for defendant-appellee on ground that no likelihood of dilution existed because of lack of evidence that use of "Donkey Kong" for video game would have an adverse effect on "King Kong's" reputation or deprive the "King Kong" mark of its distinctiveness]

Wonder Labs, Inc. v. Procter & Gamble Co., 728 F. Supp. 1058 (S.D.N.Y. 1990) [defendant's motion for summary judgment granted on plaintiff's dilution claim because plaintiff's mark "Dentists Choice" for toothbrushes was not sufficiently distinctive]

Plasticolor Molded Prod. v. Ford Motor Co., 713 F. Supp. 1329 (C.D. Cal. 1989) [declaratory judgment plaintiff's motion for summary judgment on Ford's dilution claim granted because Ford failed to introduce any evidence that plaintiff's use of Ford's marks on automobile floor mats was likely to dilute the distinctive quality of Ford's marks]

Frito-Lay, Inc. v. The Bachman Co., 704 F. Supp 432 (S.D.N.Y. 1989) [cross motions for summary judgment denied on plaintiff's claim of dilution of the term "Ruffles" because disputed fact existed as to defendant's intent and neither party addressed the element of likelihood of dilution]

Transamerica Corp. v. Trans America Abstract Serv., Inc., 698 F. Supp. 1067 (E.D.N.Y. 1988) [plaintiff's motion for summary judgment denied because factual issues existed as to distinctiveness of plaintiff's mark "Transamerica" and defendant's intent]

Source Serv. Corp. v. Chicagoland Jobsource, Inc., 643 F. Supp. 1523 (N.D. Ill. 1986) [plaintiff's motion for summary judgment denied because factual issue existed as to distinctiveness of plaintiff's mark "Source"]

Source Serv. Corp. v. Source Telecomputing Corp., 635 F. Supp. 600 (N.D. Ill. 1986) [plaintiff's motion for summary judgment denied because factual issue existed as to distinctiveness of plaintiff's mark "Source"]

Arthur v. American Broadcasting Co., 633 F. Supp. 146 (S.D.N.Y. 1985) [defendant's motion for summary judgment on its counterclaim of dilution denied because "no showing of 'confusion'" was made]

L.L. Bean, Inc. v. Drake Pub., Inc., 625 F. Supp. 1531 (D. Me. 1986), rev'd, 811 F.2d 26 (1st Cir. 1987) [cross motions for summary judgment; summary judgment granted on plaintiff's dilution claim as plaintiff established likelihood that its "L.L. Bean" mark was tarnished by defendant's "L.L. Beam's Sex Catalog," a magazine providing erotic entertainment]

Sykes Lab., Inc. v. Kalvin, 610 F. Supp. 849 (C.D. Cal. 1985) [defendant's motion for summary judgment denied because factual issues existed as to distinctiveness of plaintiff's mark "Sykes Perfect Nail" and likelihood of dilution]

Vitabiotics, Ltd. v. Krupka, 606 F. Supp. 779 (E.D.N.Y. 1984) [plaintiff's motion for summary judgment granted because defendant, plaintiff's former distributor, continued to use plaintiff's distinctive mark "Omega - ZIII" after termination and acted with predatory intent]

Lord Jeff Knitting Co. v. Warnaco, Inc., 594 F. Supp. 579 (S.D.N.Y. 1984) [defendant's motion for summary judgment denied because factual issues existed as to defendant's intent and likelihood of dilution of plaintiff's mark "The Moors"]

DISTINCTIVENESS/GENERICNESS

Wiley v. American Greetings Corp., 762 F.2d 139 (1st Cir. 1985) [Court of Appeals affirmed District Court's denial of plaintiff's motion for summary judgment and grant of defendant's motion for summary judgment on ground that solid red heart affixed to left breast of teddy bear was not inherently distinctive]

Eldon Indus., v. Rubbermaid, Inc., 735 F. Supp. 786 (N.D. Ill. 1990) [defendant's motion for partial summary judgment denied because there was genuine issue of material fact whether trade dress of plaintiff's stackable trays had acquired secondary meaning]

Wonder Labs, Inc. v. Procter & Gamble Co., 728 F. Supp. 1058 (S.D. N.Y. 1990) [cross motions for summary judgment; defendant's motion granted on ground that defendant's use of phrase "the dentists' choice" in advertising its toothpaste was a fair use made in good faith]

Murphy v. Provident Mut. Life Ins. Co., 14 U.S.P.Q.2d 1825 (D. Conn. 1990) [defendant's motion for summary judgment granted on plaintiff's section 43(a) claim for infringement of its "thermometer" artwork used in advertising because the thermometer artwork functioned as an "attention-getting device" rather than as a trademark]

<u>White Swan, Ltd. v. Clyde Robin Seed Co.</u>, 729 F. Supp. 1257 (N.D. Cal. 1989) [defendant's motion for summary judgment denied because enough evidence existed on issue of secondary meaning of plaintiff's flower seed container in terms of advertising, sales and copying]

<u>Frito-Lay, Inc. v. The Bachman Co.</u>, 704 F. Supp. 432 (S.D.N.Y. 1989) [defendant's motion for summary judgment denied on its counterclaim for cancellation of plaintiff's incontestable registration for the mark "Ruffles" for ridged potato chips was generic; defendant failed to introduce evidence of widespread industry use of the term "ruffles" as a generic term for food in general or for potato chips in particular to overcome presumption of validity accorded to registration]

<u>Bellsouth Adv. & Pub. Corp. v. Donnelley Inf. Pub., Inc.</u>, 719 F. Supp. 1551 (S.D. Fla. 1988), [defendant's motion for summary judgment denied because genuine issues of fact existed as to issue of whether "walking fingers" logo and the term "Yellow Pages" were in the public domain]

<u>Convenient Food Mart, Inc. v. 6-Twelve Convenient Mart, Inc.</u>, 690 F. Supp. 1457 (D. Md. 1988) <u>aff'd without opinion</u>, 870 F.2d 654 (4th Cir. 1989) [cross motions for summary judgment; defendant's summary judgment motion on plaintiff's trademark infringement claim granted on ground that the term "convenient" in plaintiff's trademarks was generic for convenience store services]

<u>Forum Corp. of N. Amer. v. The Forum, Ltd.</u>, 683 F. Supp. 203 (E.D. Wis. 1987) [defendant's motion for summary judgment on plaintiff's claim for trademark infringement of the term "forum" denied because there was a genuine issue of material fact as to whether the consuming public perceived the term "forum" to be generic]

<u>Gear, Inc. v. L.A. Gear California, Inc.</u>, 670 F. Supp. 508 (S.D.N.Y. 1987) [defendant's motion for summary judgment granted that plaintiff's mark "Gear" as applied to clothing was generic, but denied as to handbags and soft luggage because evidence did not clearly indicate that "Gear" was generic for those goods]

<u>Scan-Plast Indus. v. Scanimport Am., Inc.</u>, 652 F. Supp. 1156 (E.D.N.Y. 1987) [defendant's motion for summary judgment denied because genuine issues of material fact existed as to whether copied features of plaintiff's brochures and wire basket systems had acquired secondary meaning]

<u>Henri's Food Prod. v. Tasty Snacks, Inc.</u>, 642 F. Supp. 255 (E.D. Wis. 1986) [defendant's motion for summary judgment granted that the term "tasty" as applied to salad dressings is a generic term, even if misspelled in its phonetic equivalent TAS-TEE]

Sykes Lab., Inc. v. Kalvin, 610 F. Supp. 849 (C.D. Cal. 1985) [defendant's motion for summary judgment on plaintiff's trademark infringement claim granted that plaintiff's bottle design for fingernail conditioner was "descriptive" and lacked secondary meaning, and court ordered cancellation of plaintiff's registration for its bottle design on same grounds]

Team Cent. Inc. v. Xerox Corp., 606 F. Supp. 1408 (D. Minn. 1985) [defendant's motion for summary judgment granted as to plaintiff's trademark infringement claims because the term "team" in "Team Xerox" was used by defendant in generic sense as shorthand way of communicating group of people, machines, and services all working to meet customers demands]

Merritt Forbes & Co. v. Newman Inv. Sec., Inc., 604 F. Supp. 943 (S.D.N.Y. 1985) [defendant's motion for summary judgment granted that the terms "tender option" and "tender option program" were generic, but denied as to the acronym "TOP's" because issue of fact existed as to whether it was generic]

Vitabiotics, Ltd. v. Krupka, 606 F. Supp. 779 (E.D.N.Y. 1984) [plaintiff's motion for summary judgment denied on its trademark infringement claim because genuine issue of fact existed as to whether the shape, color, and texture of plaintiff's vitamins had acquired secondary meaning]

FUNCTIONALITY

Brandir Int'l., Inc. v. Cascade Pac. Lumber Co., 834 F.2d 1142 (2nd Cir. 1987) [Court of Appeals reversed District Court's grant of summary judgment for defendant-appellee on ground that issues of material fact existed regarding the nature, price and utility of alternative bicycle rack designs]

United States Golf Ass'n v. St. Andrews Sys., Data-Max, Inc., 749 F.2d 1028 (3rd Cir. 1984) [Court of Appeals affirmed District Court's grant of summary judgment in favor of defendant-appellee on ground that plaintiff-appellant's mathematical golf "handicapping" formula was functional as a matter of law]

Dentsply Int'l, Inc. v. Kerr Mfg. Co., 732 F. Supp. 482 (D. Del. 1990) [defendant's motion for partial summary judgment denied because genuine issues of fact existed regarding functionality of plaintiff's ampule design]

Jordan Int'l, Inc. v. United Indus. Sales Org., 699 F. Supp. 268 (S.D. Fla. 1988) [declaratory judgment plaintiff's motion for summary judgment denied because factual issue existed concerning functionality of defendant's spice shaker design in view of existence of alternative designs]

Scan-Plast Indus. v. Scanimport Am., Inc., 652 F. Supp. 1156 (E.D.N.Y. 1987) [defendant's motion for summary judgment denied because genuine issue of material fact existed as to whether copied features of plaintiff's brochures and wire basket systems were non-functional]

Sunbeam Corp. v. Equity Indus. Corp., 635 F. Supp. 625 (E.D. Va. 1986) [defendant's motion for summary judgment granted on ground that overall design of plaintiff's compact food processor was functional]

Unital, Ltd. v. Sleepco Mfg., 627 F. Supp. 285 (W.D. Wash. 1985) [defendant's motion for summary judgment granted that plaintiff's design of roof contour of truck sleeper cab was functional]

Vitabiotics, Ltd. v. Krupka, 606 F. Supp. 779 (E.D.N.Y. 1984) [plaintiff's motion for summary judgment denied on its trademark infringement suit because issue of fact existed as to functionality of the shape, color, and texture of plaintiff's vitamins]

GEOGRAPHIC RIGHTS

Cotton Ginny Ltd. v. Cotton Gin Inc., 691 F. Supp. 1347 (S.D. Fla. 1988) [cross motions for summary judgment filed by plaintiff licensor and defendant licensee on plaintiff's trademark infringement claim denied because questions of material fact existed as to extent of the geographic market established by plaintiff's "Cotton Ginny" mark]

Quill Corp. v. LeBlanc, 654 F. Supp. 380 (D. N.H. 1987) [plaintiff's motion for summary judgment on its trademark infringement claim denied because defendant established Section 1115(b)(5) defense, and genuine issues of material fact existed with respect to the geographic scope of defendant's use of the trademark "The Quill" prior to date of plaintiff's registration]

LACHES

Ameritech Inc. v. American Information Technologies, 811 F.2d 960 (6th Cir. 1987) [Court of Appeals reversed District Court's grant of summary judgment for defendant that plaintiff's trademark infringement claim was barred by laches because of plaintiff's six month delay in bringing suit]

SCI Sys. Inc. v. Solidstate Controls, Inc., 15 U.S.P.Q.2d 1299 (S.D. Ohio 1990) [defendant's motion for summary judgment on its laches defense denied under doctrine of "progressive encroachment" because defendant recently departed from the business practices which had allowed the parties to coexist peacefully for many years]

LICENSING

Major League Baseball Promotion Corp. v. Colour-Tex, Inc., 729 F. Supp. 1035 (D.N.J. 1990) [cross motions for summary judgment; plaintiff's motion granted that sublicensee was liable for trademark infringement because licensee did not obtain trademark owner's prior written approval of licensee's agreement with sublicensee as required by agreement between licensee and trademark owner]

LIKELIHOOD OF CONFUSION

Woodsmith Publishing Co. v. Meredith Corp., 15 U.S.P.Q.2d 1053 (8th Cir. 1990) [Court of Appeals affirmed District Court's grant of summary judgment that there was no likelihood confusion between the trade dress of the parties' woodworking hobbyist magazines]

Century 21 Real Estate Corp. v. Sandlin, 846 F.2d 1175 (9th Cir. 1988) [Court of Appeals affirmed District Court's grant of summary judgment in favor of plaintiff-appellee on grounds that defendant-appellant's, a former Century 21 franchisee, use of name "Century" in same line of business and in same locale created a likelihood of confusion as a matter of law]

Ameritech Inc. v. American Information Technologies, 811 F.2d 960 (6th Cir. 1987) [Court of Appeals reversed District Court's grant of summary judgment of no likelihood of confusion to defendant because parties' businesses were unrelated; District Court failed to consider plaintiff's reverse confusion of sponsorship claim]

Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 799 F.2d 867 (2nd Cir. 1986) [Court of Appeals affirmed District Court's grant of summary judgment enjoining plaintiff-appellant from using back pocket stitching pattern confusingly similar to defendant-appellee's pocket stitching design]

McGraw-Edison Co. v. Walt Disney Productions, 787 F.2d 1163 (7th Cir. 1986) [Court of Appeals reversed District court's grant of summary judgment against plaintiff-appellant because genuine issues of material fact existed with respect to the likelihood of confusion over "TRON" mark which plaintiff-appellant used on electrical fuses and defendant-appellee used on a wide variety of products including video games and software; issues of fact included similarity of products, degree of care likely to be exercised by consumers, strength of plaintiff's mark, survey evidence and defendant's intent]

Lippo v. Mobil Oil Corp., 776 F.2d 706 (7th Cir. 1985) [Court of Appeals reversed District Court's grant of summary judgment on Mobil's counterclaim for trademark infringement arising from defendant's sales of non-Mobil gasoline from Mobil pumps and station because issues of fact existed as to whether plaintiff advised his customers that they were receiving non-Mobil gasoline and whether customers understood they were receiving non-Mobil gasoline from Mobil pumps]

Kazmaier v. Wooten, 761 F.2d 46 (1st Cir. 1985) [Court of Appeals affirmed District Court's grant of summary judgment for defendant on ground that defendant's and plaintiff's use of the phrase "the World's Strongest Man" was not likely to cause confusion because parties had readily distinguishable names and likeness]

Universal City Studios v. Nintendo Co., 746 F.2d 112 (2nd Cir. 1984) [Court of Appeals affirmed District Court's grant of summary judgment for defendant-appellee on ground that there was no likelihood of confusion between plaintiff-appellant's "King Kong" mark and defendant-appellant's use of "Donkey Kong" for video game]

Nature's Way Prod. v. Nature-Pharma, Inc., 736 F. Supp. 245 (D. Utah 1990) [defendant's motion for partial summary judgment denied because genuine issue of material fact existed as to whether defendant's references to lecturer, who founded defendant company, but who sold exclusive rights to plaintiff, were likely to cause confusion]

J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945 (S.D.N.Y. 1990) [plaintiff's motion for summary judgment on its trademark infringement claims denied because genuine issues of fact existed as to whether defendant's "gray market" goods were intended by manufacturer to be sold in U.S. and whether they were identical to plaintiff's goods]

Wonder Labs, Inc. v. Procter & Gamble Co., 728 F. Supp. 1058 (S.D. N.Y. 1990) [cross motions for summary judgment; defendant's motion granted on ground that defendant's use of phrase "the dentists' choice" in advertising its toothpaste was a fair use made in good faith and was not likely to cause confusion with plaintiff's mark "Dentists' Choice" for toothbrushes]

Chronicle Pub. Co. v. Chronicle Publications, Inc., 733 F. Supp. 1371 (N.D. Cal. 1989) [cross motions for summary judgment; plaintiff's motion for summary judgment granted as to likelihood of confusion between plaintiff's use of "Chronicle," "Chronicle Books," and "Chronicle Publishing" for books and defendant's use of "Chronicle" and "Chronicle Publications" for books; defendant's motion for summary judgment granted on plaintiff's claim that defendant's "Chronicle" and "Chronicle Publications" were confusingly similar to plaintiff's "San Francisco Chronicle," "Chronicle Sprint Green" and "San Francisco Sunday Chronicle" marks for newspapers]

White Swan, Ltd. v. Clyde Robin Seed Co., 729 F. Supp. 1257 (N.D. Cal. 1989) [defendant's motion for summary judgment denied because plaintiff introduced "enough evidence" of likelihood of confusion between parties' flower seed containers to avoid summary judgment]

Bd. of Gov. of Univ. of N.C. v. Helpingstine, 714 F. Supp. 167 (M.D. N.C. 1989) [cross motions for summary judgment on plaintiff's trademark infringement claim arising from defendant's use of University of North Carolina name, symbols and insignia; plaintiff's motion denied on ground that identity of marks alone, absent evidence of actual confusion or likelihood of confusion as to sponsorship or endorsement, was insufficient to establish likelihood of confusion; defendant's motion denied because court could not conclude as a matter of law that there would be no likelihood of confusion as to defendant's goods]

Plasticolor Molded Products v. Ford Motor Co., 713 F. Supp. 1329 (C.D. Cal. 1989) [cross motions for summary judgment denied on Ford's counterclaim of trademark infringement on ground that court was unable to rule, as a matter of law, (a) whether likelihood of point of purchase confusion existed without any survey evidence, and (b) whether Plasticolor's disclaimer on bottom of floor mat that Ford was not source of mat was an adequate step to avoid the likelihood of post-sale confusion]

Conan Properties, Inc. v. Mattel, Inc., 712 F. Supp. 353 (S.D.N.Y. 1989) [defendant's motion for summary judgment granted on plaintiff's claim of trademark infringement in absence of consumer confusion between plaintiff's superhero muscleman comic book character and defendant's action doll]

United States Hosiery Corp. v. The Gap, Inc., 707 F. Supp. 800 (W.D.N.C. 1989) [cross motions for summary judgment denied on plaintiffs' trademark infringement claim because factual issues existed concerning similarity of marks which both contained the term "Workforce", similarity of goods, purchasers and channels of trade, defendant's intent, and likelihood that plaintiff will "bridge the gap"]

Frito-Lay, Inc. v. Bachman Co., 704 F. Supp. 432 (S.D.N.Y. 1989) [cross motions for summary judgment on plaintiff's trademark infringement claim denied because genuine factual issue existed concerning the similarities between plaintiff's mark "Ruffles" for potato chips and defendant's use of "ruffled" in the name "Bachman's Ruffled All Natural Potato Chips" and on plaintiff's trade dress claim because genuine issue of fact existed concerning distinctiveness of plaintiff's packaging in view of industry wide use of similar colored bags]

NEC Elec. Inc. v. New England Circuit Sales Inc., 13 U.S.P.Q.2d 1058 (D. Mass. 1989) [defendant's motion for summary judgment granted that no likelihood of confusion existed between plaintiff's NEC mark for computer chips and defendant's NECS mark for computer chips]

Imperial Serv. Sys. v. ISS Int'l Serv. Sys., 701 F. Supp. 655 (N.D. Ill. 1988) [plaintiff's motion for summary judgment denied on its trademark infringement claims because factual issues existed regarding similarity of overall marks which both contained the letters "ISS," weight to be accorded evidence of actual confusion, and the degree of care exercised by consumers]

Transamerica Corp. v. Trans America Abstract Serv., Inc., 698 F. Supp. 1067 (E.D.N.Y. 1988) [plaintiff's motion for summary judgment on its trademark infringement claims denied because issues of fact existed concerning the strength of plaintiff's mark "TRANSAMERICA," defendant's intent and sophistication of purchasers]

Plasticolor Molded Prods. v. Ford Motor Co., 698 F. Supp. 199 (C.D. Cal. 1988) [declaratory judgment defendant's motion for summary judgment granted on its counterclaims for trademark infringement and false designation of origin that plaintiff's sale of floor mats bearing defendant's marks created substantial likelihood of confusion]

Chevy's Int'l, Inc. v. Sal De Enters., 697 F. Supp. 110 (E.D.N.Y. 1988) [cross motions for summary judgment on trademark infringement claim denied because genuine issue of material fact existed as to distinctiveness of "Chevy's" mark for restaurant services given numerous third party uses of "Chevy's" for restaurant services]

R.J. Toomey Co. v. Toomey, 683 F. Supp. 873 (D. Mass. 1988) [Plaintiff's motion for summary judgment of likelihood of confusion granted based on the parties' use of the surname Toomey in their marks for similar products sold to similar markets]

Cues, Inc. v. Polymer Indus., 680 F. Supp. 380 (N.D. Ga. 1988) [plaintiff's motion for summary judgment denied because plaintiff failed to address the issue of likelihood of confusion in its summary judgment brief; plaintiff merely asserted that defendant used plaintiff's mark with knowledge of plaintiff's rights]

Supermarkets General Corp. v. Pathmark Title Co., 686 F. Supp. 535 (D. Md. 1987) [defendant's motion for summary judgment denied on plaintiff's claims of trademark infringement and unfair competition because factual issues existed concerning defendant's intent, similarity of advertising, actual confusion and sophistication of purchasers]

Disenos Artisticos E Industriales SA v. Work, 676 F. Supp. 1254 (E.D.N.Y. 1987) [cross motions for summary judgment denied on plaintiff's trademark infringement claim because of unresolved question of fact as to whether "gray-market" goods distributed by defendant were identical to those distributed by plaintiff]

Chuck Blore & Don Richman, Inc. v. 20/20 Advertising, Inc., 674 F. Supp. 671 (D. Minn. 1987) [defendant's motion for summary judgment denied because issue of fact existed with regard to the likelihood of confusion between plaintiff's and defendant's commercials employing same actress because of visual similarity of commercials and evidence of actual confusion]

Dial Corp. v. Manghnani Inv. Corp., 659 F. Supp. 1230 (D. Conn. 1987) [plaintiff's motion for summary judgment on its trademark infringement claims granted on ground that likelihood of confusion existed between plaintiff's "Dial" soap and defendant's gray market "Dial" soap]

Polo Fashions, Inc. v. Fernandez, 655 F. Supp. 664 (D. P.R. 1987) [plaintiff's motion for summary judgment granted on ground that defendant's use of "POLO" mark and polo player symbol on its shirts was sufficient to establish likelihood of confusion as a matter of law]

Scan-Plast Indus. v. Scanimport Am., Inc., 652 F. Supp. 1156 (E.D.N.Y. 1987) [defendant's motion for summary judgment denied because genuine issue of material fact existed as to whether there was a likelihood of confusion arising from copied features of plaintiff's wire basket systems and brochures]

Harvey Cartoons v. Columbia Pictures Indus., 645 F. Supp. 1564 (S.D.N.Y. 1986) [defendant's motion for summary judgment granted on ground that plaintiff's "Fatso" ghost and defendant's "Ghostbusters" ghost were sufficiently dissimilar to support finding of no likelihood of confusion]

Source Serv. Corp. v. Chicagoland Jobsource, Inc., 643 F. Supp. 1523 (N.D. Ill. 1986) [plaintiff's motion for summary judgment denied on ground that genuine issues of fact existed regarding defendant's intent, strength of plaintiff's mark "Source," degree of care likely to be exercised by consumers, similarity of services, and geographical and marketing overlap of the parties' services]

Source Services Corp. v. Source Telecomputing Corp., 635 F. Supp. 600 (N.D. Ill. 1986) [plaintiff's motion for summary judgment denied because genuine issues of material fact existed concerning similarity of marks including the word "Source" used by plaintiff employment agency and defendant company providing computer time-sharing services, similarity of services, strength of plaintiff's mark, evidence of actual confusion and degree of care to be exercised by consumers]

Walt Disney Productions v. Filmation Assoc., 628 F. Supp. 871 (C.D. Cal. 1986) [defendant's motion for summary judgment denied because material issue of disputed fact existed as to whether defendant's use of plaintiff's titles and character depictions (e.g. Pinocchio) to advertise and solicit sales of defendant's films created likelihood of confusion]

L.L. Bean, Inc. v. Drake Pub., Inc., 625 F. Supp. 1531 (D. Me. 1986), rev'd on other grounds, 811 F.2d 26 (1st Cir. 1987) [cross motions for summary judgment denied because issues of fact existed as to likelihood of confusion between plaintiff's "L.L. Bean" mark for mail order catalog business and defendant's "L.L. Beam's Sex Catalog," a magazine providing erotic entertainment; factual issues included survey evidence and defendant's intent]

Arthur v. American Broadcasting Cos., 633 F. Supp. 146 (S.D.N.Y. 1985) [defendant's motion for summary judgment on its counterclaim of trademark infringement denied because "no showing of 'confusion'" was made]

Polo Fashions, Inc. v. Gordon Group, 627 F. Supp. 878 (M.D.N.C. 1985) [plaintiff's motion for summary judgment granted on ground that likelihood of confusion existed between plaintiff's polo player symbol and defendant's virtually identical polo player symbol]

Weil Ceramics & Glass, Inc. v. Dash, 618 F. Supp. 700 (D. N.J. 1985) rev'd, 878 F.2d 659 (3rd Cir. 1989) [plaintiff's motion for summary judgment granted that defendants' use of plaintiff's mark on "gray market" goods without plaintiff's consent was likely to cause confusion]

Porter v. Farmers Supply Serv., Inc., 617 F. Supp. 1175 (D. Del. 1985), aff'd on other grounds, 790 F.2d 882 (Fed. Cir. 1986) [defendant's motion for summary judgment granted on ground that no likelihood of confusion existed as to use of plaintiff's "Porterway" mark by defendant on invoices to indicate that defendant's tomato harvester disks would fit a Porterway Harvester]

La Terraza de Marti, Inc. v. Key West Fragrance & Cosmetic Factory, Inc., 617 F. Supp. 544 (S.D. Fla. 1985) [defendant's motion for summary judgment denied because question of fact existed regarding likelihood of confusion between plaintiff's "La-Te-Da" mark for a restaurant/guesthouse and defendant's "La-Te-Da" mark for perfumes]

Blue Cross and Blue Shield Ass'n v. Blue Cross Mut. Clinic, Inc., 612 F. Supp. 41 (S.D. Fla. 1985) [plaintiff's motion for summary judgment granted on ground that defendant health care clinic's use of "Blue Cross" in its name and use of Blue Cross design created likelihood of confusion]

Allen v. National Video, Inc., 610 F. Supp. 612 (S.D.N.Y. 1985) [cross-motions for summary judgment; plaintiff's motion granted as to likelihood of confusion caused by defendant's use of celebrity look-alike's photograph in advertisement]

Sykes Lab., Inc. v. Kalvin, 610 F. Supp. 849 (C.D. Cal. 1985) [defendant's motion for summary judgment granted on grounds that (a) no likelihood of point of purchase confusion existed between bottle used for defendant's generic product and bottle used for plaintiff's product because defendant's bottle was not visible through the packaging of product and defendant did not use bottle design in advertising or selling its product, and (b) no likelihood of post-sale confusion existed because defendant's bottle was clearly labeled as generic version of plaintiff's product]

Smithkline Beckman Corp. v. Pennex Prods. Co., 605 F. Supp. 746 (E.D. Pa. 1985) [defendant's motion for summary judgement granted on plaintiff's trademark infringement and unfair competition claims as to one of defendant's generic safety-coated aspirin product because of differences in appearance of packaging and fact that trade dress of tablets was not visible at point of purchase; however, genuine factual issue of likelihood of confusion existed as to second generic safety-coated aspirin product where the trade dress of the tablet was visible to the consumer at the time of purchase]

Vitabiotics, Ltd. v. Krupka, 606 F. Supp. 779 (E.D.N.Y. 1984) [plaintiff's motion for summary judgment granted on its trademark infringement suit where defendant, plaintiff's former distributor, used plaintiff's packaging and "Omega-ZIII" trademark after termination]

Lord Jeff Knitting Co. v. Warnaco, Inc., 594 F. Supp. 579 (S.D.N.Y. 1984) [defendant's motion for summary judgment denied because factual issues existed concerning evidence of actual confusion and defendant's intent]

Polo Fashions, Inc. v. Branded Apparel Merchandising, Inc., 592 F. Supp. 648 (D. Mass. 1984) [plaintiff's motion for summary judgment on its trademark infringement, false designation of origin, and unfair competition claims granted because defendant's sales of counterfeit shirts bearing "Polo by Ralph Lauren" label and Polo logo highly likely to cause confusion]

CBS, Inc. v. Enco Indus., 585 F. Supp. 1291 (S.D.N.Y. 1984) [defendant's motion for summary judgment on plaintiff's trademark infringement and unfair competition claims denied in absence of evidence of likelihood of confusion of customers]

PRIORITY

First Fidelity Bancorporation v. First Fidelity Capital Corp., 723 F. Supp. 246 (D. N.J. 1989) [plaintiff's motion for summary judgment granted on defendant's counterclaims of unfair competition where plaintiff was prior user of mark]

STANDING

Star-Kist Foods, Inc. v. P.J. Rhodes & Co., 735 F.2d 346 (9th Cir. 1984) [Court of Appeals affirmed District Court's grant of partial summary judgment in favor of plaintiff-appellee on cancellation of defendant-appellant's trademark registration that plaintiff-appellee possessed standing to seek cancellation of the registration]

Jackson v. Lynley Designs, 729 F. Supp. 498 (E.D. La. 1990) [defendant's motion for summary judgment granted on plaintiff's claim for damages under 15 U.S.C. § 1120 arising from defendant's alleged fraudulent procurement of its registration; plaintiff lacked standing to maintain action because she could not establish sufficient direct injury resulting from defendant's alleged fraud]

OWNERSHIP

J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945 (S.D.N.Y. 1990) [plaintiff's motion for summary judgment granted on issues of its ownership of "B & W" mark for loudspeakers and incontestability of its trademark registrations]

II. SUMMARY JUDGMENT CASES BEFORE THE TTAB AND FEDERAL CIRCUIT

The following is a summary of trademark, trade dress and related cases involving motions for summary judgment before the Trademark Trial and Appeal Board and the Court of Appeals for the Federal Circuit reported at 14 U.S.P.Q.2d 1497 through 15 U.S.P.Q.2d 1320 (July 23, 1990):[2/]

CLAIM/ISSUE PRECLUSION

MasterCard Int'l v. American Express Co., 14 U.S.P.Q.2d 1551 (TTAB 1990) [prior district court decision involving same parties finding American Express' mark GOLD CARD generic for charge card services precluded American Express from relitigating genericness of GOLD CARD for charge card services in opposition proceeding, but did not preclude American Express from litigating the genericness or descriptiveness of GOLD CARD for check cashing services in cancellation proceeding or hotel and motel reservation services in opposition proceeding]

LIKELIHOOD OF CONFUSION

Kellog Co. v. Pack'Em Enter., 14 U.S.P.Q.2d 1545 (TTAB 1990) [applicant's motion for summary judgment of no likelihood of confusion granted because applicant's mark FROOTIE ICE & elephant design for frozen ice bars and opposer's mark FROOT LOOPS for breakfast cereals differed substantially in appearance, sound, connotation and commercial impression]

2/ Attached as Appendix A is a summary of trademark cases involving summary judgment motions from early 1989 to May 1990 before the Board and Federal Circuit which appeared in Review of Recent Trademark Cases Involving Summary Judgment Motions, T. Jeffrey Quinn and Laurence R. Hefter, Court of Appeals for the Federal Circuit Eighth Annual Judicial Conference, May 31, 1990. Attached as Appendix B is a list of summary judgment cases before the Board and Federal Circuit from 1984 to the end of 1988 which appeared in TTAB Practice Hints From the Practitioner: Survey of Summary Judgment at the Trademark Trial and Appeal Board; 1984 to date, J. Paul Williamson, ABA-PTC Section, Fourth Annual Spring Educational Program, March 29-30, 1989. These reproductions are made with the approval of Messrs. Williamson, Quinn and Hefter. Summary judgment cases before the Board prior to 1984 are discussed in Summary Judgment Motions Before the Trademark Trial and Appeal Board, Veronica Colby Devitt, 1 APLA Selected Legal Papers B-1 (Winter and Spring 1983).

REFERENCES

Review of Recent Trademark Cases Involving Summary Judgment Motions, T. Jeffrey Quinn and Laurence R. Hefter, Court of Appeals for the Federal Circuit Eighth Annual Judicial Conference, May 31, 1990.

TTAB Practice Hints from the Practitioner: Survey of Summary Judgment at the Trademark Trial and Appeal Board; 1984 to Date, J. Paul Williamson, ABA-PTC Section, Fourth Annual Spring Educational Program, March 29-30, 1989.

Tips from the TTAB: Inter Partes Summary Judgment Revisited, T. Jeffrey Quinn, 76 Trademark Reporter 73 (1986).

Summary Judgments in Trademark Cases, Duane Burton, 75 Trademark Reporter 497 (1985).

Summary Judgment Motions Before the Trademark Trial and Appeal Board, Veronica Colby Devitt, 1 APLA Selected Legal Papers B-1 (Winter and Spring 1983).

Tips from the TTAB: Summary Judgment, David J. Kera, 71 Trademark Reporter 59 (1981).

Following is a summary of cases involving motions for summary judgment before the Trademark Trial and Appeal Board and the Court of Appeals for the Federal Circuit reported at 9 USPQ2d 1001 (January 2, 1989) through 14 USPQ2d 1496 (May 7, 1990).[1/]

Likelihood of Confusion

Johnson & Johnson v. Jack Frost Laboratories, Inc., 14 USPQ2d 1076 (Fed. Cir. 1990) **(unpublished)** [Federal Circuit reversed Board's grant of summary judgment of no likelihood of confusion; likelihood of confusion is question of law which Federal Circuit reviews de novo]

Phoenix Closures Inc. v. Yen Shaing Corp., 9 USPQ2d 1891 (TTAB 1988) [cross motions for summary judgment; applicant's motion granted in view of no likelihood of confusion between opposer's **PHOENIX** marks for closures and liners for bottles and containers and applicant's **PHOENIX** & design mark for vacuum bottles, thermal food jars and the like]

Presto Products Inc. v. Nice-Pak Products, Inc., 9 USPQ2d 1895 (TTAB 1988) [cross motions for summary judgment; opposer's motion granted on ground that likelihood of confusion exists between **KID STUFF** and **KIDWIPES** for identical goods, namely moistened towelettes]

Flatley v. Trump, 11 USPQ2d 1284 (TTAB 1989) [respondent's motion for summary judgment denied since respondent failed to meet its burden for establishing initially the absence of any genuine issue of material fact regarding priority and likelihood of confusion between **CASTLE** marks for casino services and **THE CASTLE** and **TARA** and castle design for hotels, motels and associated services]

1/ Attached as Appendix A is a list of summary judgment cases before the Board and Federal Circuit from 1984 to the end of 1988 which appeared in **TTAB Practice Hints From the Practitioner: Survey of Summary Judgment at the Trademark Trial and Appeal Board; 1984 to date**, J. Paul Williamson, ABA-PTC Section, Fourth Annual Spring Educational Program, March 29-30, 1989. This reproduction is made with the approval of Mr. Williamson.

S & L Acquisition Co. v. Helene Arpels Inc., 9 USPQ2d 1221 (TTAB 1987) [opposer's motion for summary judgment of no likelihood of confusion (on a counterclaim) as between ADRIEN ARPEL for beauty care services and HELENE ARPELS for shoes, belts, clothing, accessories, handbags and retail store services denied for lack of proper support for the motion]

Wool Bureau, Inc. v. Warenzeichenverband, 10 USPQ2d 1559 (Fed. Cir. 1989) (unpublished) [Federal Circuit affirmed Board's grant of summary judgment of no likelihood of confusion; sole evidence introduced by opposer, an affidavit of its president, was conclusory and contained speculative allegations not having any basis in fact]

Priority

Action Temporary Services, Inc. v. Labor Force, Inc., 870 F.2d 1563, 10 USPQ2d 1307 (Fed. Cir. 1989) [concurrent use proceeding, Board granted senior user's motion for summary judgment; Federal Circuit reversed, holding that a federally registered mark in force at the time of an applicant's adoption of the same or similar mark, but which registration is subsequently cancelled, does not prevent the applicant from being a "lawful use[r]" under Section 2(d) of the Lanham Act, subsequent to that cancellation]

Person's Co. v. Christman, 9 USPQ2d 1477 (TTAB 1988), recon denied, 10 USPQ2d 1634 (TTAB 1989), aff'd, ____ F. 2d ___, 14 USPQ2d 1477 (Fed. Cir. 1990) [respondent's motion for summary judgment on priority granted; respondent's knowledge of use of petitioner's mark outside U.S. commerce did not preclude good faith adoption and use of the identical mark in the U.S. prior to the entry of the foreign petitioner and user into the domestic market]

VO-Toys, Inc. v. Bounce, Inc., 10 USPQ2d 1245 (TTAB 1989), vacated and remanded, 889 F.2d 1101, 13 USPQ2d 2033 (Fed. Cir. 1989) unpublished) [Board erroneously granted summary judgment in petitioner's favor without first determining whether petitioner used its mark in good faith before respondent abandoned its mark]

Descriptiveness/Distinctiveness

Nature's Way Products Inc. v. Nature's Herbs Inc., 9 USPQ2d 2077 (TTAB 1989) [petitioner's motion for summary judgment granted on ground that **NATURE'S MEDICINE** ("MEDICINE" disclaimed) is descriptive as applied to vitamins and dietary food supplements]

Neapco Inc. v. Dana Corp., 12 USPQ2d 1746 (TTAB 1989) [petitioner's motion for summary judgment denied on issue of descriptiveness and lack of secondary meaning]

Abandonment

Roush Bakery Products Co. v. F.R. Lepage Bakery, Inc., 4 USPQ2d 1401 (TTAB 1987), aff'd, 851 F.2d 351, 7 USPQ2d 1395, vacated and remanded, 863 F.2d 43, 9 USPQ2d 1335 (Fed. Cir. 1988), 13 USPQ2d 1335 (TTAB 1989) [cross motions for summary judgment; petitioner's motion for summary judgment on basis of abandonment due to a transfer of a collective trademark registration to a noncollective organization granted, and affirmed by Federal Circuit, then vacated and remanded by the Federal Circuit; on remand, petitioner's motion granted as to standing and otherwise denied; respondent's cross motion denied]

First National Bank of Omaha v. Autoteller Systems Service Corp., 9 USPQ2d 1740 (TTAB 1988) [respondent's motion for summary judgment (on counterclaim) granted on ground of abandonment of petitioner's pleaded registration; since petitioner abandoned rights in mark, Section 2(d) claim in petition fails]

Person's Co. v. Christman, supra, [Federal Circuit affirmed Board's grant of respondent's motion for summary judgment of no abandonment where respondent made intermittent sales, with no periods of nonuse long enough to raise presumption of abandonment]

Societe Des Produits Marnier Lapostolle v. Distillerie Moccia S.R.L., 10 USPQ2d 1241 (TTAB 1989) [plaintiff's motion for summary judgment on ground of abandonment is denied since defendant's showing is sufficient to demonstrate existence of genuine issues of material fact relative to defendant's intent to resume use]

Imperial Tobacco Ltd. v. Philip Morris, Inc., 899 F.2d 1575, 14 USPQ2d 1390 (Fed. Cir. 1990) [Federal Circuit affirmed Board's grant of petitioner's motion for summary judgment on ground that registered mark, obtained on the basis of a foreign registration, had been abandoned based on nonuse for more than five years and inability of respondent to establish any special circumstances which excused its nonuse]

Fraud

Garri Publication Associates Inc. v. Dabora Inc., 10 USPQ2d 1694 (TTAB 1988) [respondent's motion for summary judgment on fraud claim granted in view of respondent's showing that respondent made use of its mark in interstate commerce prior to the filing of its application]

Neapco Inc. v. Dana Corp., supra [respondent's motion for finding no fraud on summary judgment granted]

Person's Co. Ltd. v. Christman, supra, [Federal Circuit affirmed Board's grant of respondent's motion for summary judgment of no fraud where applicant was aware of petitioner's use of mark in Japan, but was unaware of any use by petitioner in U.S. or any intention or plans of petitioner to use mark outside of Japan]

Standing

Coup v. Vornado, Inc., 9 USPQ2d 1824 (TTAB 1988) [respondent's motion for summary judgment granted on basis that petitioner lacked standing since petitioner did not own the pleaded mark]

Grounds

Century 21 Real Estate Corp. v. Century Life of America, 10 USPQ2d 2034 (TTAB 1989) [request for reconsideration denied; opposer's motion for summary judgment denied because insufficiency of specimens is not a ground for sustaining an opposition]

Appealability

Copeland's Enters., Inc. v. CNV, Inc., 887 F.2d 1065, 12 USPQ2d 1562 (Fed. Cir. 1989) [grant of partial summary judgment by Board, which does not result in disposition of the proceeding, cannot be appealed to the Federal Circuit]

Equitable Defenses

S & L Acquisition Co. v. Helene Arpels, Inc., supra [opposer's motion for summary judgment on applicant's counterclaim for cancellation of registration granted on basis of opposer's ownership of an earlier registration (subject to opposer's providing a status and title copy of the pleaded registration)]

Section 44

United Rum Merchant's Ltd. v. Distillers Corp. (S.A.), 9 USPQ2d 1481 (TTAB 1988) [summary judgment granted for opposer (subject to proof of standing) on ground that mark as shown in U.S. application did not conform with the appearance of the mark in the Section 44(e) registration]

Marmark Ltd. v. Nutrexpa S.A., 12 USPQ2d 1843 (TTAB 1989) [opposer's motion for summary judgment granted on basis that goods in U.S. application exceeded the scope of the goods set forth in the foreign registration upon which the U.S. application is based]

Claim Preclusion

Vitaline Corp. v. General Mills, Inc., 891 F.2d 273, 13 USPQ2d 1172 (Fed. Cir. 1989) [Federal Circuit affirmed Board's grant of respondent's motion for summary judgment on basis of claim preclusion; petitioner's claim of abandonment based on same facts as its claim for fraud in prior action between the parties]

FRCP 56(f) Discovery

Orion Group, Inc. v. Orion Ins. Co. P.L.C., 12 USPQ2d 1923 (TTAB 1989) [opposer entitled to discovery to enable opposer to respond to applicant's motion for summary judgment]

References

TTAB Practice Hints from the Practitioner: Survey of Summary Judgment at the Trademark Trial and Appeal Board; 1984 to date, J. Paul Williamson, ABA-PTC Section, Fourth Annual Spring Educational Program, March 29-30, 1989.

Tips from the TTAB: Inter Partes Summary Judgment Revisited, T. Jeffrey Quinn, 76 Trademark Reporter 73 (1986).

Summary Judgments in Trademark Cases, Duane Burton, 75 Trademark Reporter 497 (1985).

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Tips from the TTAB: Summary Judgment, David J. Kera, 71 Trademark Reporter 59 (1981).

APPENDIX B

SURVEY OF SUMMARY JUDGMENT AT THE TRADEMARK TRIAL AND APPEAL BOARD; 1984 TO DATE

Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 106 S. Ct. 2505 (1986), motion denied, 480 U.S. 903, 107 S. Ct. 1343 (1987)

Andre Oliver, Inc. v. Products Exchange Co., 1 U.S.P.Q.2d 1817 (T.T.A.B. 1986)

Approved Pharmaceutical Corp. v. P. Leiner Nutritional Products, Inc., 5 U.S.P.Q.2d 1219 (T.T.A.B. 1987)

Avakoff v. Southern Pacific Company, 226 U.S.P.Q. 435 (Fed. Cir. 1985)

Avon Products, Inc. v. MarCon, Ltd., 225 U.S.P.Q. 977 (T.T.A.B. 1985)

Bausch & Lomb, Inc. v. Leupold & Stevens, Inc., 1 U.S.P.Q.2d 1497 (T.T.A.B. 1986)

Block Drug Co. v. E.R.N.I. Inc., 37 BNA P.T.C.J. 199, Dec. 22, 1988, ____ U.S.P.Q. ____ (T.T.A.B. 1988)

Bongrain International (American) Corp. v. Delice de France, Inc., 1 U.S.P.Q.2d 1775 (Fed. Cir. 1987)

Bongrain International (American) Corp. v. Moquet, Ltd., 230 U.S.P.Q. 626 (T.T.A.B. 1986)

Buffett v. Chi-Chi's, Inc., 226 U.S.P.Q. 428 (T.T.A.B. 1985)

Celotex Corp. v. Catrett, 477 U.S. 317, 106 S. Ct. 2548 (1986)

Chromalloy American Corp. v. Kenneth Gordon (New Orleans), Ltd., 222 U.S.P.Q. 187 (Fed. Cir. 1984)

Coach House Restaurant, Inc. v. Coach & Six Restaurants, Inc., 223 U.S.P.Q. 176 (T.T.A.B. 1984)

Colonial Arms Corp. v. Trulock Firearms, Inc., 5 U.S.P.Q.2d 1678 (T.T.A.B. 1987)

Consolidated Foods Corp. v. Berkshire Handkerchief Co., 229 U.S.P.Q. 619 (T.T.A.B. 1986)

Consolidated Foods Corp. v. Big Red, Inc., 226 U.S.P.Q. 829 (T.T.A.B. 1985)

Consolidated Foods Corp. v. Big Red, Inc., 231 U.S.P.Q. 744, (T.T.A.B. 1986)

Crocker National Bank v. Canadian Imperial Bank of Commerce, 223 U.S.P.Q. 909 (T.T.A.B. 1984)

Coup v. Vornado, Inc., 9 U.S.P.Q.2d 1895 (T.T.A.B. 1988)

Devries v. NCC Corp., 227 U.S.P.Q. 705 (T.T.A.B. 1985)

Dresser Industries, Inc. v. Coupling Systems, Inc., 206 U.S.P.Q. 756 (T.T.A.B. 1979)

Dunkin' Donuts of America, Inc. v. Metallurgical Exoproducts Corp., 6 U.S.P.Q.2d 1026 (Fed. Cir. 1988)

First National Bank of Omaha v. Autoteller Systems Service Corp., 9 U.S.P.Q.2d 1740 (T.T.A.B. 1988)

Gal v. Israel Military Industries Of The Ministry Of Defense, 230 U.S.P.Q. 669 (T.T.A.B.) aff'd, (Fed. Cir. 1986) (unpublished opinion)

Gal v. Israeli Military Industries of the Ministry of Defense, 1 U.S.P.Q.2d 1424 (Com'r. Pat. & Tm. 1986), aff'd, 824 F.2d 980 (Fed. Cir. 1987)

Gemini Engine Co. v. Solar Turbines Inc., 225 U.S.P.Q. 620 (T.T.A.B. 1985)

Giant Food, Inc. v. Standard Terry Mills, Inc., 229 U.S.P.Q. 955 (T.T.A.B. 1986)

Gray v. Dan Bargaintown, 229 U.S.P.Q. 474 (T.T.A.B. 1986), aff'd 3 U.S.P.Q.2d 1306 (Fed. Cir. 1987)

Greyhound Corp. v. Both Worlds, Inc., 6 U.S.P.Q.2d 1635 (T.T.A.B. 1988)

Hawaiian Host, Inc. v. Rowntree MacKintosh PLC., 225 U.S.P.Q. 628 (T.T.A.B. 1985)

International Order Of Job's Daughters v. Lindeburg & Co., 220 U.S.P.Q. 1017, (Fed. Cir. 1984)

Jeweler's Vigilance Committee, Inc. v. Ullenberg Corp., 2 U.S.P.Q.2d 2021 (Fed. Cir.), on remand, 5 U.S.P.Q.2d 1622 (T.T.A.B. 1987), rev'd 7 U.S.P.Q.2d 1628 (Fed. Cir. 1988)

J. I. Case Co. v. F. L. Industries, Inc., 229 U.S.P.Q. 697 (T.T.A.B. 1986)

Keebler Company v. Murray Bakery Products, 9 U.S.P.Q.2d 1736 (Fed. Cir. 1989)

La Fara Importing Co. v. F. Lli de Cecco di Filippo Fara S. Martino S.p.a., 8 U.S.P.Q.2d 1143 (T.T.A.B. 1988)

Levi Straus & Co. v. Genesco, Inc., 222 U.S.P.Q. 939 (Fed. Cir. 1984)

Los Angeles Bonaventure Co. v. Bonaventure Associates, 4 U.S.P.Q.2d 1882 (T.T.A.B. 1987)

Lukens, Inc. v. Vesper Corp., 1 U.S.P.Q.2d 1299 (T.T.A.B. 1986), aff'd, 831 F.2d 306 (Fed. Cir. 1987)

Medtronic, Inc. v. Pacesetter Systems, Inc., 222 U.S.P.Q. 80 (T.T.A.B. 1984)

Nestle Co. v. Grenadier Chocolate Co., 212 U.S.P.Q. 214 (T.T.A.B. 1981)

Nestle Co., v. Joyva Corp., 227 U.S.P.Q. 477 (T.T.A.B. 1985)

New York Times Co. v. Sullivan, 376 U.S. 254, 84 S. Ct. 710, (1964)

NutraSweet Co. v. K & S Foods, Inc., 4 U.S.P.Q.2d 1964 (T.T.A.B. 1987)

Parker Bros. v. Tuxedo Monopoly, Inc., 225 U.S.P.Q. 1222 (T.T.A.B. 1984), appeal dismissed, 226 U.S.P.Q. 11 (Fed. Cir. 1985)

Pegasus Petroleum Corp. v. Mobil Oil Corp., 227 U.S.P.Q. 1040 (T.T.A.B. 1985)

Person's Co. v. Christman, 9 U.S.P.Q.2d 1477 (T.T.A.B. 1988)

Phoenix Closures, Inc. v. Yen Shaing Corp. Ltd., 9 U.S.P.Q.2d 1891 (T.T.A.B. 1988)

Presto Products, Inc. v. Nice-Pak Products, Inc., 9 U.S.P.Q.2d 1895 (T.T.A.B. 1988)

Pure Gold, Inc. v. Syntex (U.S.A.), Inc., 222 U.S.P.Q. 741 (Fed. Cir. 1984)

Rainbow Carpet, Inc. v. Rainbow International Carpet Dyeing & Cleaning Co., 226 U.S.P.Q. 718 (T.T.A.B. 1985).

Roush Bakery Products Co. v. F.R. Lepage Bakery, Inc., 4 U.S.P.Q.2d 1401 (T.T.A.B. 1987), aff'd 7 U.S.P.Q.2d 1395, vacated and remanded 9 U.S.P.Q.2d 1335 (Fed. Cir. 1988)

S & L Acquisition Co. v. Helene Arpels, Inc., 9 U.S.P.Q.2d 1221 (T.T.A.B. 1987)

Sweats Fashions Inc. v. Pannill Knitting Co., 4 U.S.P.Q.2d 1793 (Fed. Cir. 1987)

Taylor Brothers, Inc. v. Pinkerton Tobacco Co., 231 U.S.P.Q. 412 (T.T.A.B. 1986)

Tonka Corp. v. Tonka Tools, Inc., 229 U.S.P.Q. 857 (T.T.A.B. 1986)

Torres v. Cantine Torresella S.r.l., 1 U.S.P.Q.2d 1483 (Fed. Cir. 1986)

United Rum Merchants Ltd. v. Distiller's Corp. (S.A.) Ltd., 9 U.S.P.Q.2d 1481 (T.T.A.B 1988)

U. S. Olympic Committee v. Bata Shoe Co., 225 U.S.P.Q. 340 (T.T.A.B. 1984)

Von Schorlemer v. Schorlemer Weinkellerei GmbH, 5 U.S.P.Q.2d 1376 (T.T.A.B. 1986)

Walden Book Co. v. B. Dalton Co., 4 U.S.P.Q.2d 1414 (T.T.A.B. 1987)

Trademark And Trade Dress Litigation Under The "New Trademark Act"

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**Trademark And Trade Dress Litigation
Under The "New Trademark Act"**

I. *INTRODUCTION*

The Trademark Law Revision Act of 1988 ("TLRA") has now been in effect less than ten months. Sufficient time has not passed for the anticipated issues relating to intent-to-use applications (and other matters) to surface and be tried. Indeed, there are, as yet, few reported decisions which even mention the Act, let alone apply or analyze its effect. Hence, we are still left, to a large extent, to conjecture as to the issues the Act will raise.

The first part of this outline and the accompanying speech will provide a brief review of the changes in the Act which appear to be the most likely to affect trademark and trade dress litigation. The second part of the speech will focus upon the current treatment of trade dress by the courts

For some of the issues discussed in the speech, I will be, to a degree, playing devil's advocate and raising points for future consideration and possible use. Hence, while some speeches begin with the caution that the views presented are the speaker's own views and not those of the speaker's law firm, I can go one step further. Some of the points in this speech are raised to provoke thought and discussion and are not necessarily endorsed even by the speaker, himself.

II. *APPLICABILITY OF THE TLRA TO PENDING CASES*

A. Unlike its "mother" statute, the Lanham Act of 1946, the TLRA does not include a prohibition against retroactive application.

B. The Supreme Court has stated that a court should apply the law in effect at the time it renders a decision unless doing so would result in manifest injustice or unless there is a statutory direction or legislative history to the contrary.

C. At least two courts, therefore, have applied the TLRA in cases which were pending before the effective date of the statute, November 16, 1989.

III. *TLRA AMENDMENTS THAT MAY AFFECT LITIGATION*

A. PRESUMPTIONS

1. Sections 7(b) and 33(a) have been amended to provide that a certificate of registration of a mark is prima facie evidence of (a) the validity of the registered mark and of the registration of the mark, (b) the registrant's ownership of the mark, and (c) the

registrant's exclusive right to use the mark for the specified goods or services.

2. Section 33(b) has been amended to provide that to the extent that the right to use a registered mark has become incontestable under Section 15, the registration shall be conclusive evidence of (a) the validity of the registered mark and of the registration of the mark, (b) the registrant's ownership of the mark, and (c) the registrant's exclusive right to use the mark in commerce for the goods or services which were specified in the latest of the Section 15 Affidavit or the last renewal application.

3. Section 33(b) was further amended to make clear that the conclusive evidence of the right to use the mark was subject to proof of infringement and subject to equitable defenses such as laches, estoppel and acquiescence.

B. REGISTRATIONS MATURING FROM INTENT TO USE APPLICATIONS

1. Section 7(c) provides that, contingent upon the registration of a mark, the filing of the application shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect. The right of priority does not apply against those who (1) used their mark prior to the date of filing or (2) filed an application

prior to the date of filing or (3) filed a foreign application prior to the date of filing upon which priority for a U.S. application is properly based.

2. Section 1(b) provides that "[a] person who has a bona fide intention, under circumstances showing the good faith of such person, to use a trademark in commerce" may apply for a registration.

C. <u>SECTION 43(a)</u>

1. Section 43(a) was amended to recite the likelihood of confusion standard which most courts had previously applied.

2. Section 43(a) was also amended to apply to misrepresentations by one party about another party's goods, services or commercial activities.

3. The section was amended to include the subtitle: "Unregistered Marks; False or Misleading Descriptions and Representations." The intent for the section to provide protection for unregistered marks was thereby expressly set forth.

D. **<u>REMEDIES</u>**

1. Sections 34, 35, and 36 have been amended to include specific references to "a violation under Section 43(a)".

IV. *<u>TRADE DRESS INFRINGEMENT TODAY</u>*

A. **<u>THE BASES FOR PROTECTION UNDER THE "NEW TRADEMARK ACT"</u>**

1. "Trade Dress" relates to the overall appearance or image of goods or services. In theory, "trade dress" can refer to any combination of features which, together, create an overall appearance that actually distinguishes and identifies the goods or services of the trade dress owner from the goods or services of others.

2. Certain trade dress may be registered and protected as a mark under the Act. If registered, the "mark" would be entitled to the appropriate presumptions provided under Sections 7 and 33. Difficulties of seeking registration may include identification of the "mark" (i.e., can the "mark" be limited to fewer than all of the features of the trade dress) and proof of secondary meaning. The danger also exists that if you apply for registration, but fail to obtain a registration, you will have an administrative finding that

your proposed "mark" is not registrable and, therefore, arguably not protectable.

3. Section 43(a), as amended, provides protection against the use by another of any "word, term, name, symbol, or device" which is likely to cause confusion. The section thereby provides protection for unregistered marks and trade dress.

B. <u>ELEMENTS OF PROOF FOR TRADE DRESS INFRINGEMENT</u>

1. The trade dress must be "nonfunctional." The treatment of functionality, however, differs among the courts. Some courts treat functionality as a defense. Other courts treat proof of nonfunctionality as an integral part of the plaintiff's case. Additionally, at least one circuit recognizes the possibility of aesthetic functionality. The only certainty is that the trade dress must be nonfunctional under the standard of the particular court.

2. The trade dress must have acquired distinctiveness. This generally requires proof of secondary meaning. Certain circuits, such as the Fifth Circuit, allow proof that the trade dress is "inherently distinctive" in lieu of proof of secondary meaning. Also, some circuits treat copying with an intent to trade on the goodwill of

the trade dress owner as probative evidence of secondary meaning or distinctiveness.

3. A trade dress owner must also show that a relevant likelihood of confusion is created by the use of the accused trade dress. The courts have set forth a variety of factors to be considered when determining likelihood of confusion. These factors include, but are not limited to, the similarity of the trade dress, the similarity of the channels of trade, the similarity of advertising media utilized, the strength or fame of plaintiff's trade dress, and defendant's intent. Proof of wrongful intent through proof of copying with an intent to trade on the goodwill of the trade dress owner has been found by some courts to raise an inference or presumption of confusing similarity.

4. A cause of action for trade dress infringement is generally subject to the same defenses as a cause of action for trademark infringement.

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TRADE SECRET PROTECTION FOR COMPUTER SOFTWARE - A NEW LEVEL OF SOPHISTICATION

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Notwithstanding the expansion of utilization of copyright and patent protection for software, trade secret law and related doctrines remain the principal underpinning of proprietary interest in software in the U.S. and abroad. This is true as to stand-alone software sold for use with general purpose mainframe, mini, micro and workstation hardware and in built-in or otherwise dedicated software, e.g. for robotics, manufacturing, data acquisition and analysis, transport, measurement and other specialized equipment. Trade secret law and patent-copyright laws are not parallel in their respective historical origins, philosophies and applications. This review of trade secret law provides an updating of recent developments, with emphasis on those areas where software proprietors (and would-be appropriators) have learned to apply trade secret law to their own ends and tribunals have learned to apply and shape trade secret law to the - in some ways unique - software context.

When we speak of trade secret law herein, we include practical self-help elements that reinforce legal protections -- e.g. the Czar putting out the eyes of the architect of the Kremlin and other measures of greater or lesser severity, that may be attempted in the great dungeons-and-dragons game known as the software business.

1. Status of State Law Developments

(1.1) Uniform Trade Secrets Act

The Uniform Trade Secrets Act (UTSA) is making steady progress in state-by-state formal adoption, now in a majority of U.S. states, and use by analogy in other jurisdictions. Some of its important distinctions over common law are (a) the grant of protection to trade secrets of potential value (i.e. on the shelf), and (b) high tolerance of errors or shortcomings in the proprietor's diligent protection.

(1.2) Mass. amendments

Amendments over the last five years to M.G.L. c. 93 sec. 42, 42A and c. 266 sec. 30 assure protection for trade secrets not embodied in tangible form and assure a preliminary injunction for breach of an employee agreement. These measures bridge the gap between prior law and UTSA standards in this non-UTSA state.

(1.3) Case law trends

The trend is to give a wider scope to what can be protected under trade secret law (see, e.g., J&K Computer Systems, Inc. v. Parrish, 642 P2d 732 (Utah 1982), Dickerman Associates v. Tiverton Bottled Gas Co., 594 F.Supp. 30 (1984), SI Handling systems, Inc. v. Heisley, 753 F.2d 1244 (3d Cir. 1985) and Continental Data Systems, Inc. v. Exxon Corp., 638 F.Supp. 432 (EDPa 1986)). The cases are exploring the application of long standing trade secret principles to software. See, e.g., Q-Co Industries, Inc. v. Hoffman, 625 F.Supp. 608 (SDNY 1985).

An important area for future development is that of liability of a third party who hires a defendant or otherwise acquires plaintiff's trade secret, or the benefit thereof, through defendant. Metallurgical Industries, Inc. v. Fourtek, Inc., 790 F2d 1195 5th Cir. 1986).

(1.4) State government issues

Some state agencies are literally unable to keep a secret and issues of sovereign immunity may still cloud the owner's rights and/or limit her remedy. See, e.g. Lane v. Commonwealth, 401 Mass. 549 (1988).

2. Federal Action

(2.1) As to U.S. law enforcement

Civil and criminal remedies for trade secret misappropriation are often pursued in federal court under diversity jurisdiction and under mail and wire fraud and interstate transport of stolen property allegations where plausible.

The International Trade Commission (ITC) can determine trade secret infringement abroad and issue orders under

19 USC 1337, see, e.g., In re Certain Floppy Disk Drives and Components (ITC Inv. No. 337-TA-203).

(2.2) As to foreign law enforcement

The U.S. has used pressures of Super 301 and other strengths to force a greater respect for trade secret rights and the provision of practical remedies (as well as pressing a similar U.S. position in other areas of intellectual property). The current four year round of GATT negotiations is drawing to a close with a breakthrough (capitulation by developing countries which have resisted a U.S. code of minimum standards) expected by year-end/1990.

(2.3) In U.S. Government contracts and U.S. Government regulation and under FOIA

The limitations of reverse Freedom-of-Information pleas have been shown in Ruckelshaus v. Monsanto, 467 US 986 (1984) and follow-on cases, e.g. Hercules, Inc. v. Marsh, 659 F.Supp. 849 (WDVa 1987).

Protection of software and other data in government procurement was expanded in recent revisions to section 252.227 of the DOD Supplement to the Federal Acquisition Regulation establishing the protected category of Restricted Rights Computer Software which parallels, generally, the traditional Limited Rights Technical Data classification with important variations protecting the interest of a contractor or subcontractor who uses or supplies "commercial" computer programs or data bases.

3. Foreign treatment of trade secrets

Most foreign legal systems lack the U.S. concept of trade secret violation as tortious invasion of a property right, but will enforce contract covenants relating to trade secret use. However, contracts limiting future employment are disfavored.

[NOTE: A copy of the recently promulgated guidelines of the Japan Fair Trade Commission is Appendix A to this outline. A copy of the report of ABA/PTC-Committee No. 404 Subcommittee D on international technology transfer outlining recent license guidelines of the Japan Fair Trade Commission is Appendix B]

4. **Practice Methods**

Specimen elements of a formal program of protection of trade secrets appear at Appendix C to this outline.

Substantial use of such procedures is vital to maintaining availability of remedies and where such procedures are followed, protectability claims can have a wider scope. See Ariel Information systems v. Pacific Management Systems, 366 NW2d 366 (Minn.App. 1985), SOS, Inc. v. Payday, 886 F.2d 1081 (9th Cir. 1989), Telerate Systems, Inc. v. Caro, 8 USPQ 1740 (SDNY 1988) (user interface protected against reverse compilation by agreement). See, also S&H Computer Systems v. SAS Institute, 568 F.Supp. 416 (MDTenn. 1983). But a shrink wrap license approach to contract is problematical Vault Corp. v. Quaid, 847 F.2d 255 (5th Cir. 1988).

The protection program must include secure facilities, education, consistency and practical artifacts (such as subdividing vendors and encryption), audit trails for code usage and modification, audits of the protection program itself and consistent application.

5. **Ancillary enforcement and defense means**

(5.1) Covenants not to compete

(5.1.1.) Variable enforcement

No-compete clauses are not enforceable against former employees (but may be enforced againt a seller of a business or a program, if properly structured) in California, Colorado, Hawaii, Louisiana, Michigan, Montana, Nevada, North Dakota, Oklahoma, So. Carolina. Scope of the forbidden competition in those states, and even in other states which are otherwise hospitable to no-compete covenants in principle, must be drafted with some care. Marshall v. Gore, 506 So. 2d 91 (Fla.Dist.Ct. Appl. 1987) (embargo on all "software" business activity too broad).

(5.1.2) Threshhold trade secret or good will to support enforceability

The requisite trade secret to support a no-compete contract remedy can be at a lower level than is necessary to support a remedy under trade secret law per se. Good will, as a basis for no-compete clause validity, is subjected to strict scrutiny. <u>Diversified Human Resources Group.</u> v. <u>Leviason-Polakoff</u>, 752 SW2d 8 (Tex. App. 1988).

(5.2) <u>Forfeitures of benefits</u>

Instead of an absolute prohibition of competition, an employer may condition post-employment benefits on non-competition. But this is subject to the same review as a no-competition ban.

(5.3) <u>Fiduciary theories</u>

Where a former employee was an officer or director, a theory of breach of fiduciary duty can bolster a marginal trade secret case. <u>See Chelsea Industries, Inc.</u> v. <u>Gaffney</u>, 389 Mass. 1 (1983).

(5.4) <u>Other theories of relief for Plaintiff or Defendant</u>,

An imaginative pleader for plaintiff can allege (and a counsellor can structure the basis for allegations of) tortious interference with business, antitrust-destruction of trade secret assets, misuse of trade secrets, breach of the covenant of good faith. Defendants are wont to assert plaintiff's prior breach of a contract (to excuse defendant from performance) and abuse or other lack of equity on plaintiff's side, as well as antitrust limitations, lack of a trade secret and non-infringement.

6. Relation of trade secrets to patents, copyrights, export control laws and other statutory artifacts

(6.1) <u>Preemption</u>

The Supreme Court's ruling in <u>Bonito Boats, Inc.</u> v. <u>Thunder Craft Boats, Inc.</u>, ____ US ____, 109 SCt. 971, 103 LEd2d 118 (1989) has raised alarms about trade secret preemption -- that are inappropriate. Trade secret remedies are safe. But 'misappropriation' theories are suppressed once again by the ruling.

(6.2) Inconsistency of company approaches

A company must compare its party lines in different contexts to avoid inconsistency, e.g. best mode assertion in trade secret context vs. patent application context. Another example is the assertion for export control purposes that a product or data concerning it is known and therefore entitled to general license treatment contrary to the company's position in a trade secret suit.

Copyright deposits can imperil trade secret status, but need not do so under current regulations.

7. Litigation aspects in the U.S. and abroad

(7.1) Preliminary injunctions and restraining orders and bonding

Early relief is critical to plaintiff in a trade secret action. The way to get it is through preparation that precludes uncertainties, ambiguities and any reason to give defendant the benefit of a doubt. That and a reasonable scope of relief sought. A probability of success and likelihood of harm must be shown. In patent, trademark and copyright actions harm is presumed; not so in trade secret cases (with exceptions). The Uniform Trade Secrets Act appears to shift towards a presumption of harm for preliminary relief purposes; but it remains to be seen whether it will be effective. Generally a court will set a benign low value of the size of bond a plaintiff must post as a condition of an injunction or restraining order.

(7.2) Discovery and protective orders and pitfalls

Discovery in a trade secret case is almost invariably complicated by a need for impoundment of the record in whole or in part and/or closing the courtroom for all or parts of motion hearings and trial and protective orders (to protect trade secrets of defendant as well as plaintiff). The protective orders involve pitfalls of blocking disclosure to critical employees and of managers whose aid is needed for efficient and effective litigation. Third party experts must be screened carefully to see if they can abide by protective order restrictions and are free of conflicts.

(7.3) Proving the case for plaintiff or defendant; burdens of proof

Too often the parties to a trade secret case try to prove their sides as if trying a patent case. Trade secret case issues are more centered on relationships and conduct than on objective merit. Plaintiff has most of the significant formal burdens; but in most cases, the practical result is that the burden shifts.

(7.4) Remedies for plaintiff and defendant

An injunction against further use or disclosure is the most frequent remedy. Even in losing, a defendant's counsel can seek to tailor the injunction to avoid over breadth and enable continued business life for defendant.

Damage analysis on trade secret cases has lacked the sophistication of patent and copyright cases, but lost time is being made up.

(7.5) Third party practice/indemnity

Efforts at cross claims, intervention, forcing or avoiding joinder of parties and causes occupy an increasing share of the litigation budget. The plaintiff's efforts to paint defendant as a rare villain fall short when defendants multiply.

(7.6) Forums for litigation

The places for asserting trade secret claims and defenses include state courts, federal courts, foreign courts, ITC, GAO, State Attorney Generals, U.S. and foreign police, U.S. and foreign administrative agencies, etc.

(7.7) The criminalization of trade secret law

Increasingly, trade secret users go to county district attorneys, local police, state attorneys general, U.S. Department of Justice and foreign police agencies and justice ministries for assistance, which is frequently extended. Be aware, however, that threats of criminal prosecution to gain advantage in a civil dispute can backfire on the complaining company and its counsel.

8. Arbitration and ADR in the U.S. and abroad

The trends for expanded use of arbitration and various forms of moderately coerced, but essentially consensual means of dispute resolution (the latter called alternative dispute resolution or ADR) create new needs for cautionary signposts. The arbitration or ADR process should be governed by agreements for privacy of the proceeding and result, non-binding nature of the determination or settlement made except as between the parties for purposes of the particular dispute, upper and/or lower bounds on damages and/or costs awards, expedited procedures, qualifications of arbitrator(s) or mediator(s) and enforcement means, including equitable relief stipulations (subject to limited review by an enforcing court) and means to assure collectibility of a damages award, such as collateral or escrow deposit.

Sometimes traditional litigation including a declaratory judgment action is superior in efficiency to arbitration or ADR. Consider also splitting a dispute into court, ADR and/or arbitration segments to break a negotiating impasse. Don't take for granted the universal acceptability of arbitration/ADR, particularly abroad.

9. Ownership, licensing and joint ventures

These issues are spelled out very well in a recent revision to Milgrim, Trade Secrets, Ch. 12 (Matthew Bender). Specifics of trade secret identity, ownership, party succession, sub-license control and post-termination rights are treated with useful insights.

It is also necessary to consider the effects of U.S. and foreign antitrust restraints and the Intellectual Property Protection Bankruptcy Protection Act 1988 amendment to the Bankruptcy Code. Careful drafting is required to utilize the new protection effectively. See, Hemnes, "Computer Software Licensing...." 5 Computer Lawyer No. 10, p. 7 (Oct. '88).

For a prime example of antitrust pitfalls, see CVD v. Raytheon, 769 F2d 842 (1st Cir. 1985).

10. **The university/research institute environment: The publish or perish sensibility vs. a proprietary rights sensibility**

The publish or perish and academic freedom themes of university life superficially preclude trade secrets in the university context. In fact there are formal short term secret limits adjunct to patenting/licensing and sponsored research programs and informally, a new breed of professor/entrepreneurs who have mastered the art of industrial secrecy.

On the other hand, at the fringe of each major EE or AI department, there is an important shareware constituency fighting for openness of knowledge concerning software.

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SOURCES

APPENDIX A

Ed. Note: The following is an English translation of the recently revised guidelines used by the Japanese Fair Trade Commission in evaluation patent and know-how license agreements between Japanese and foreign entities.

Guidelines for the Regulation of Unfair Trade Practices with Respect to Patent and Know-How Licensing Agreements

Preamble

1. The Fair Trade Commission, on May 24, 1968, had announced the Guidelines for International Technology Introduction Agreements and had specified outstanding restrictions among those which are liable to come under unfair trade practices in international technology licensing agreements on patent or know-how.

The FTC relied on this Guidelines when it reviewed international contracts or agreements filed under Paragraph 2 of Section 6 of the Antimonopoly Act.

2. In view of recent trends of increasing significance of importance as well as the number of international technology licensing agreements (those agreements between Japanese entrepreneur) and of technology licensing agreements among Japanese entrepreneurs, the FTC had formulated the Guidelines for the Regulation of Unfair Trade Practices with respect to Patent and Know-How Licensing Agreements.

3. The legal framework to protect intellectual property rights such as patent has a procompetitive effect by giving stimulation to research and development for entrepreneurs, and could work as a promoter to introduce a new market or new technology.

Also, technology transactions could have a procompetitive effect when, as a result of technology transactions, new business entities can enter a market, when the number of competing entities increases, or when the technology can be utilized more efficiently.

Therefore, transfer of technology could be promoted through clarification of examining standards by way of guidelines.

On the other hand, if certain types of restrictive conditions are imposed in technology licensing agreements, they might cause an anticompetitive effect.

In view of such nature of restriction, it is as a matter of course that impacts on competition should be evaluated individually as to each case when it is examined whether restrictions contained in technology licensing agreements constitute unfair trade practices.

However, impacts on competition may vary depending on types of restrictive conditions.

Therefore, after taking our enforcement experience into consideration as well, the following three types of outstanding restrictions contained in patent and know-how licensing agreements which occupy a large part of technology licensing agreements are identified as much as possible in this guidelines.

(a) such restrictions which are considered, in principle, not to fall under unfair trade practices.

(b) Such restrictions which may fall under unfair trade practices.

(c) Such restrictions which are highly likely to fall under unfair trade practices.

As to restrictions which are described as "may fall under unfair trade practices", such determination will be made, in addition to the requirements stipulated in each paragraphs, after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

On the other hands, as to restrictions which are described as "highly likely to fall under unfair trade practices", such restrictions are considered to constitute unfair trade practices unless specific justifiable reasons could be presented.

4. Examining standards stipulated in this guidelines are applicable without any discrimination to those patent and know-how licensing agreements among Japanese entrepreneurs as well as those between Japanese entrepreneur and foreign entrepreneur.

However, so far as restrictive conditions contained in patent and know-how licensing agreements between Japanese entrepreneur and foreign entrepreneur are concerned, examining standards in this guidelines are applicable insofar as restrictive conditions can influence competition within a Japanese market.

5. As stated above, impacts on competition within a Japanese market should be evaluated individually as to each case when it is examined whether restrictions contained in technology licensing agreements constitute unfair trade practices.

Thus, clearance request from contracting parties is expected to increase. Therefore, at the same time with announcement of this guidelines, a clearance system on patent and know-how licensing agreements is established, and any clearance request filed by foreign entrepreneurs as well as by Japanese entrepreneurs will be responded in a proper way.

6. Examining standards in this guidelines could be applicable to reciprocal licensing agreements or licensing agreements among more than three parties such as cross-licensing agreement, patent pool, multiple licensing agreement, etc.

Because this guidelines are to clarify examining standards for unfair trade practices as to patent and know-how licensing agreements, it is a matter of course that Section 3 of the Antimonopoly Act (Prohibition of Private Monopolization or Unreasonable Restraints of Trade) and other Sections could also be application to such cases where technology licensing agreements are used as a means to effect unreasonable restraint of trade.

Thus, as to reciprocal licensing agreements or licensing agreements among more than three parties, other aspect than unfair trade practices need to be examined.

7. A licensing agreement which licenses both a patent and a know-how could be regarded as patent licensing agreements and a know-how licensing agreements, therefore, as to restrictive conditions contained in such hybrid licensing agreement, examining standards in each Part will be applied depending on which technology restrictive conditions are related to.

Part 1. Patent Licensing Agreements

1. <u>Restrictions which are considered, in principle, not to fall under unfair trade practices</u>

Among restrictions contained in licensing agreements on patent or utility model rights (hereinafter referred to as "patent licensing agreements"), which are considered, in principle, not to fall under unfair trade practices (This is defined as those practices designated as unfair trade practices in the FTC Notification No. 15 of 1982. This Notification is referred to hereinafter as "General Designation") since they are thought to be within a proper exercise of patent rights or utility model rights, or to have only a negligible effect on competition, the following are outstanding.

Hereinafter, when referred to as "patent", "patent rights", "patented goods (Goods covered by patent rights are referred to as "patented goods". Goods produced by employing patented process are also included. hereinafter the same)", they also include "utility model", "utility model rights", "goods covered by the utility model rights" respectively.

(1) Separately granting a license to manufacture, use, sell, etc.

(2) Granting a license for a limited period within the life of patent rights.

(3) Granting a license for a limited area within the whole area covered by patent rights.

(4) Restricting exploitation of patent rights to a specified field of technology.

(5) Requiring minimum production or minimum sales volume of patented goods, or minimum use of patented process.

(6) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed patent, or to grant the licensor non-exclusive license with respect to an improved or applied invention, etc. by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

(7) Making it obligatory for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc., insofar as such obligation is confined to an extent necessary for guaranteeing the effectiveness of a licensed patent (This condition applies when the licensor guarantees the licensee specifically the effectiveness of licensed patent), or for maintaining the good will of trademark, etc, (This condition applies only when the licensor grants a license on trademark, etc. to the licensee, hereinafter the same).

(8) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed patent, or to maintain the goodwill of trademark, etc.; Provided that such obligation is confined to an extent necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc.

(9) Restricting ability of licensee to export patented goods into an area falling within one of the following paragraphs.

(a)The licensor has registered his patent rights on patented goods in the area.

(b)The licensor has been conducting a continuous marketing activity on patented goods in the area.

(c)The licensor assigns the area as an exclusive sales territory to a third party.

(10) Restricting the licensee's export price or export volume of patented goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor, insofar as the licensor allows the licensee to export to the area falling within one of the paragraphs a), b) or c) mentioned in (9)above; Provided that such restriction or obligation is confined to a necessary extent.

(11) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, or making it obligatory for the licensee to use consumption of raw materials of components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate tis calculation.

(12) Making it obligatory for the licensee to accept licensing of more than two patents as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed patent.

(13) Providing that royalty continues to be charged after the expiration of patent rights, insofar as it constitutes installment payment or extended payment of royalty.

(14) Providing that the licensor can terminate licensing agreements if the licensee challenges the validity of licensed patent.

(15) Making it obligatory for the licensee to use his best efforts to exploit licensed patent.

2. <u>Restrictions which may fall under unfair trade practices</u>

Among restrictions which may fall under unfair trade practices in patent licensing agreements, the following are outstanding.

The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraphs, after the position of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

(1) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with patented goods (hereinafter referred to as "competing goods"), or not to employ substitutable technology or similar technology which is in competition with licensed patent (hereinafter referred to as "competing technology") during the term of licensing agreements

This restriction could fall under unfair trade practices in such cases where competing companies are deprived of important customers or the chance of business with them, or the licensee is deprived of freedom to select his goods or technologies, thus it could result in the reduction of competition in a relevant market (possibly falling under Articles 11 or 13 of the General Designation).

(2) Making it obligatory for the licensee to sell patented goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of an important means of competition, namely freedom to select sales outlet, and thus it could result in the reduction of competition in a patented goods market (possibly falling under Article 13 of the General Designation).

(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed patent, or to grant the licensor non-exclusive license with respect to an improved or applied invention, etc. by the licensee.

However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee, by such reasons as the licensor does not bear similar obligations, or obligations of both parties are not well balanced in substance (possibly falling under Clause 3 of Article 14 of the General Designation).

(4) Making it obligatory for the licensee to use trademark, etc. designated by the licensor for patented goods.

This restriction could fall under unfair trade practices in such cases where business activities of the licensee is unjustly restricted by the licensor by depriving of the licensee's freedom to select trademark, etc., which is one means of competition, thus it could result in the reduction of competition in a Relevant market (possibly falling under Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to continue the use of trademark, etc. after expiration of patent rights because of his continued use of the trademark, etc. during the term of licensing agreements, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee. (possibly falling under Clause 3 of Article 14 of the General Designation).

(5) Restricting quality of patented goods, raw materials, components, etc.

However, obligation for the licensee to maintain certain standards of quality for patented goods, raw materials, components, etc. are excluded where such obligation is confined to an extent necessary for guaranteeing the effectiveness of a licensed patent, or for maintaining the goodwill of trademark, etc.

This restriction could fall under unfair trade practices in such cases where it could result in the reduction of competition in a market of raw materials, components, etc. or in a market of patented goods, because quality of patented goods or quality of raw materials, components, etc., which should be freely decided by the licensee, is unduly restricted (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor.

However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed patent, or to maintain the goodwill of trademark, etc. and such obligation is confined to a necessary extent for guaranteeing the effectiveness of licensed patent, or for maintaining the goodwill of trademark, etc.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his sources of raw materials, components, etc., and thus it is deemed as an unfair means from the viewpoint of efficient competition, or where it could result in the reduction of competition in a market of raw materials, components, etc. (possibly falling under Article 10 of the General Designation).

(7) Restricting ability of the licensee to export patented goods. However, such cases are excluded where restricted area falls into within one of the following paragraphs.

(a) The licensor has registered his patent rights on patented goods in the area.

(b) The licensor has been conducting a continuous marketing activity on patented goods in the area.

(c) The licensor assigns the area as an exclusive sales territory to a third party.

This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export patented goods to the area not covered by patent rights is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(8) Restricting the licensee's export price or export volume of patented goods or making it obligatory for the licensee to export through the licensor or a person designated by the licensor.

However, such cases are excluded where the licensor allows the licensee to export to the areas falling within one of the paragraphs (a), (b) or (c) mentioned in (7) above, and such restriction or obligation is confined to a necessary extent.

This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export patented goods to the area not covered by patent rights is restricted, and thus it could result in the reduction of competition in an export market. (possibly falling under Article 13 of the General Designation).

(9) Making it obligatory for the licensee to pay royalty based on products or service other than patented goods.

However, such cases are excluded where the licensor makes it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing patented goods, as a basis for royalty in order to facilitate its calculation.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(10) Making it obligatory for the licensee to accept licensing of more than two patents as a package.

However, such cases are excluded where such restriction is confined to an extent necessary for guaranteeing the effectiveness of licensed patent.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his technology, and thus it is deemed as an unfair means from the viewpoint of efficient competition, or it could result in the reduction of competition in a technology market. (possibly falling under Article 10 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to pay extra royalty or the duration of royalty payment is extended, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(11) Imposing unilaterally disadvantageous condition to the licensee for the termination of licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reason other than unenforceability of licensing agreements due to insolvency, etc.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(12) Making it obligatory for the licensee not to challenge the validity of licensed patent.

This restriction could fall under unfair trade practices in such cases where patent rights continue to exist for technology which otherwise could not obtain any patent rights, and use of technology by other business is eliminated, thus it could result in the reduction of competition in a relevant market (possibly falling under Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee may have to continue to pay royalty for technology which otherwise could be used without any royalty, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

3. Restrictions which are highly likely to fall under unfair trade practices

Among restrictions in patent licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following are outstanding.

1) Restricting resale prices of patented goods in Japan.

The licensor, under this restriction, restricts freedom of pricing which forms a basis of competition for wholesalers and retailers, therefore it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

2) Restricting sales price of patented goods by the licensee in Japan.

This restriction, by restricting freedom of pricing of the licensee, will lead to a significant limitation of competitive ability of the licensee, and could result in the reduction of price competition in a patented goods market.

Further, this restriction cannot be justifiable by such reason as securing royalty. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements.

After the expiration or termination of licensing agreements, this restriction could have no such justification as securing royalty for the licensor based on sales by the licensee. Therefore, it is highly likely to impede fair competition (possibly falling under Article 11 or 13 of the General Designation).

(4) Restricting use of licensed technology in spite of the expiration of patent rights, or making it obligatory for the licensee to pay royalty for use after the expiration of patent rights.

Anyone should be able to use licensed technology freely after the expiration of patent rights, and the licensor has no authority to limit the use of technology concerned, or to compel payment of royalty for use after the expiration of patent rights. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation).

(5) Restricting research and development activities by the licensee himself or joint research and development with a third party regarding to licensed patent or its competing technology.

Under this restriction, the licensor restricts freedom of research and development activities of the licensee which are an important means of competition, and also limits business activities of the licensee in a product or technology market in the future, thus it could have an important and long term impact on these markets. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to assign the licensor the right on an improved or applied invention by the licensee or to grant the licensor exclusive license (such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory is included.) with respect to an improved or applied invention, etc. by the licensee.

This restriction could result in undue enhancement or maintenance of a dominant position of the licensor in a relevant market. This restriction could further impede incentive for research and development of the licensee, and thus it could impede development of new technology by restricting freedom of the licensee to use knowledge, experience and modification or to grant a license to a third party. Thus it could result in the reduction of competition in a product or technology market (possibly falling under Article 13 of the General Designation).

When the licensor does not bear similar obligation, or obligations of both parties are not well balanced in substance, this restriction could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

Part 2. Know-how Licensing Agreements

1. Restrictions which are considered, in principle, not to fall under unfair trade practices

Among restrictions contained in licensing agreements on know-how (Only those technological know-how related to industrial use are covered. Non-secret know-how is excluded. Hereinafter those are referred to as "know-how" and "know-how licensing agreements".) which are considered, in principle, not to fall under unfair trade practices, since they are thought to have only a negligible effect on competition, the following are outstanding.

A-6

(1) Granting a license for a limited period insofar as licensed know-how remains secret.

(2) Restricting exploitation of licensed know-how to a specified field of technology.

(3) Requiring minimum production or minimum sales volume of goods manufactured exploiting licensed know-how (Hereinafter referred to as "licensed goods."), or minimum use of licensed know-how.

(4) Making it obligatory for the licensee not to handle substitutable goods or similar goods which are in competition with licensed goods (Hereinafter referred to as "competing goods".), or not to employ substitutable technology or similar technology (Hereinafter referred to as "competing technology".) for a short period after the expiration or termination of licensing agreements, insofar as it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements; Provided that such obligation is confined to an extent necessary for preventing unauthorized exploitation of licensed know-how.

(5) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee, insofar as the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non-exclusive license are roughly balanced in substance.

(6) Making it obligatory for the licensee to maintain certain standards of quality for licensed goods, raw materials, components, etc., insofar as such obligation is confined to an extent necessary for guaranteeing the effectiveness of licensed know-how (This condition applies when the licensor guarantees the licensee specifically the effectiveness of licensed know-how.), or for maintaining the good will of trademark, etc.

(7) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor, insofar as restrictions on quality of raw materials, components, etc. or any other restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of a trademark, etc., or such obligation is vital for protection of the secrecy of licensed know-how, provided that such obligation is confined to an extent necessary for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc., or for protecting the secrecy of licensed know-how.

(8) Restricting ability of the licensee to export licensed goods into an area falling within one of the following paragraphs.

(a) The licensor has registered his patent rights on licensed goods in the area.

(b) The licensor has been conducting a continuous marketing activity on licensed goods in the area.

(c) The licensor assigns the area as an exclusive sales territory to a third party.

(9) Restricting the licensee's export price or export volume of licensed goods or making it obligatory for the licensee to export through the licensor or a person designated by the licensor, insofar as the licensor allows to export the licensee to export to the areas falling within one of the paragraphs (a), (b) or (c) mentioned in(8) above, provided that such restriction or obligation is confined to a necessary extent.

(10) Making it obligatory for the licensee to use production or sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, or making it obligatory for the licensee to use consumption of raw materials or components, etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation.

(11) Making it obligatory for the licensee to accept licensing of more than two know-how as a package, insofar as such restriction is necessary for guaranteeing the effectiveness of licensed know-how.

(12) Provided that royalty continues to be charged after licensed know-how has become publicly known due to reasons for which the licensee is not responsible, insofar as it constitutes installment payment or extended payment of royalty, or insofar as royalty is charged for use after licensed know-how has become publicly known for a short period thereafter during the term of licensing agreements.

(13) Providing that the licensor can terminate licensing agreements if the licensee challenges whether licensed know-how has become publicly know.

restriction is insufficient to guarantee the effectiveness of licensed know-how, or to maintain the goodwill of trademark, etc., or where such obligation is vital for protection of the secrecy of licensed know-how, and such obligation is confined to an extent necessary for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill of trademark, etc, or for protecting the secrecy of licensed know-how.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his sources of raw materials, components, etc., and thus it is deemed as an unfair means from the viewpoint of efficient competition, or where it could result in the reduction of competition in a market of raw materials, components, etc. (possibly falling under Article 10 of the General Designation).

(7) Restricting ability of the licensee to export licensed goods.

However, such cases are excluded where restricted area falls into within one of the following paragraphs.

a) The licensor has registered his patent rights on licensed goods in the area.

b) The licensor has been conducting a continuous marketing activity on licensed goods in the area.

c) The licensor assigns the area as an exclusive sales territory to a third party.

This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export licensed goods is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Articled 13 of the General Designation).

(8) Restricting the licensee's export price or export volume of licensed goods, or making it obligatory for the licensee to export through the licensor or a person designated by the licensor.

However, such cases are excluded where the licensor allows to export to the areas falling within one of the paragraphs a), b) or c) mentioned in (7) above, and such restriction or obligation is confined to a necessary extent.

This restriction could fall under unfair trade practices in such cases where freedom of the licensee to export licensed goods is restricted, and thus it could result in the reduction of competition in an export market (possibly falling under Article 13 of the General Designation).

(9) Making it obligatory for the licensee to pay royalty based on product or service other than licensed goods.

However, such cases are excluded where the licensor makes it obligatory for the licensee to use production of sales volume or price of finished product as a basis for royalty in order to facilitate its calculation, or the licensor makes it obligatory for the licensee obligatory for the licensee to use consumption or raw materials or components, etc., which are necessary for producing licensed goods, as a basis for royalty in order to facilitate its calculation.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(10) Making it obligatory for the licensee to accept licensing of more than two know-how as a package.

However, such cases are excluded where such restriction is confined to an extent necessary for guaranteeing the effectiveness of licensed know-how.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of freedom to select his technology, and thus it is deemed as an unfair means from the viewpoint of efficient competition, or it could result in the reduction of competition in a technology market (possibly falling under Article 10 of the General Designation).

This restriction could also fall under unfair trade practices in such cases where the licensee is forced to pay extra royalty or the duration of royalty payment is extended, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(11) Imposing unilaterally disadvantageous condition to the licensee for the termination of licensing agreements, such as terminating licensing agreements unilaterally or terminating them immediately without affording an appropriate notice by reasons other than unenforceability of licensing agreements due to insolvency, etc.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

(12) Making it obligatory for the licensee not to challenge whether licensed know-how has become publicly known.

This restriction could fall under unfair trade practices in

(14) Making it obligatory for the licensee not to disclose licensed know-how to a third party insofar as licensed know-how remains secret.

(15) Making it obligatory for the licensee to use his best efforts to exploit licensed know-how.

2. Restrictions which may fall under unfair trade practices

Among restrictions which may fall under unfair trade practices in know-how licensing agreements, the following are outstanding.

The determination whether restrictions fall under unfair trade practices will be made, in addition to the requirements stipulated in each paragraph, after the positions of licensor and licensee in a relevant market, the conditions of a relevant market, the duration of restrictions imposed, etc. are examined as a whole.

(1) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology during the term of licensing agreements.

This restriction could fall under unfair trade practices in such cases where competing companies are deprived of important customers or the chance of business with them, or the licensee is deprived of freedom to select his goods or technologies, thus it could result in the reduction of competition in a relevant market (possibly falling under Articles 11 or 13 of the General Designation).

(2) Making it obligatory for the licensee to sell licensed goods through the licensor or a person designated by the licensor, or not to sell to a person designated by the licensor.

This restriction could fall under unfair trade practices in such cases where the licensee is deprived of an important means of competition, namely freedom to select sales outlet, and thus could result in the reduction of competition in a licensed goods market (possibly falling under Article 13 of the General Designation).

(3) Making it obligatory for the licensee to inform the licensor of knowledge or experience newly obtained by the licensee regarding licensed know-how, or to grant the licensor non-exclusive license with respect to an improved or applied invention by the licensee.

However, such cases are excluded where the licensor bears similar obligations and obligations of both parties with respect to informing the other party or granting non exclusive license are roughly balanced in substance.

This restriction could fall under unfair trade practices in such cases where it could result in setting transaction terms in a way unduly disadvantageous to the licensee, by such reasons as the licensor does not bear similar obligations, or obligations of both parties are not well balanced in substance (possibly falling under Clause 3 of Article 14 of the General Designation).

(4) Making it obligatory for the licensee to use trademark, etc. designated by the licensor for licensed goods.

This restriction could fall under unfair trade practices in such cases where business activities of the licensee is unjustly restricted by the licensor by depriving the licensee's freedom to select trademark, etc., which is one means of competition, thus it could result in the reduction of competition in a relevant market (possibly falling under Article 13 of the General Designation).

This restriction could also fall under unfair trade practices in such cases when the licensee is forced to continue the use of trademark, etc. after licensed know-how has become publicly known because of his continued use of the trademark, etc. during the term of licensing agreements, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee. (possibly falling under Clause 3 of Article 14 of the General Designation).

(5)Restricting quality of licensed goods, raw materials, components, etc.

However, obligations for the licensee to maintain certain standards of quality for licensed goods, raw materials, components, etc. are excluded where such obligation is confined to a extent necessary for guaranteeing the effectiveness of licensed know-how, or for maintaining the goodwill go trademark, etc.

This restriction could fall under unfair trade practices in such cases where it could result in the reduction of competition in a market of raw materials, components, etc. or in a market of licensed goods, because quality of licensed goods or quality of raw materials, components, etc., which should be freely decided by the licensee, is unduly restricted (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to procure raw materials, components, etc. from the licensor or a person designated by the licensor.

However, such cases are excluded where restrictions on quality of raw materials, components, etc. or any other such cases where the licensee may have to continue to pay royalty for technology which otherwise could be used without any royalty, thus it could result in setting transaction terms in a way unduly disadvantageous to the licensee (possibly falling under Clause 3 of Article 14 of the General Designation).

3) Restrictions which are highly likely to fall under unfair trade practices

Among restrictions in know-how licensing agreements which are considered to constitute unfair trade practices unless specific justifiable reasons can be presented, the following are outstanding.

(1) Restricting resale prices of licensed goods in Japan.

The licensor, under this restriction, restricts freedom of pricing which forms a basis of competition for wholesalers and retailers, therefore it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(2) Restricting sales price of licensed goods by the licensee in Japan.

This restriction, by restricting freedom of pricing of the licensee, will lead to a significant limitation of competitive ability of the licensee, and could result in the reduction of price competition in a licensed goods market.

Further, this restriction cannot be justifiable by such reason as securing royalty. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(3) Making it obligatory for the licensee not to handle competing goods, or not to employ competing technology after the expiration or termination of licensing agreements.

However, such cases are excluded where such obligation covers for a short period after the expiration or termination of licensing agreements, and it is difficult to prevent unauthorized exploitation of licensed know-how by such restrictions as use ban after the expiration or termination of licensing agreements.

After the expiration or termination of licensing agreements, this restriction could have no such justification as securing royalty for the licensor based on sales by the licensee. Therefore, it is highly likely to impede fair competition (possibly falling under Articles 11 or 13 of the General Designation).

(4) Restricting use of licensed technology even though licensed know-how has become publicly known due to reasons for which the licensee is not responsible, or making it obligatory for the licensee to pay royalty for use after licensed know-how has become publicly know.

However, such cases are excluded where royalty is charged for use after licensed know-how has become publicly known for a short period thereafter during the term of licensing agreements.

Anyone should be able to use technology freely after licensed know-how has become publicly known due to reasons for which the licensee is not responsible, and the licensor has no authority to limit the use of technology concerned, or to compel payment of royalty for use after licensed know-how has become publicly known. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 or Clause 3 of Article 14 of the General Designation).

(5) Restricting research and development activities by the licensee himself or joint research and development with a third party regarding to licensed know-how or its competing technology.

Under this restriction, the licensor restricts freedom of research and development activities of the licensee which are an important means of competition, and also limits business activities of the licensee in a product or technology market in the future, thus it could have an important and long term impact on these markets. Therefore, it is highly likely to impede fair competition (possibly falling under Article 13 of the General Designation).

(6) Making it obligatory for the licensee to assign the licensor the right on an improved or applied invention by the licensee or to grant the licensor exclusive license (meaning such case where licensee grants a license exclusively for the licensor by agreeing not to exploit the invention by himself in the territory) With respect to an improved or applied invention by the licensee.

This restriction could result in undue enhancement or maintenance of the dominant position of the licensor in a relevant market. This restriction could further impede incentive for research and development of the licensee, and thus it could impede development of new technology by restricting freedom of the licensee to use knowledge, experience and modification or to grant a license to a third party. Thus it could result in the reduction of competition in a product or technology market (possibly falling under Clause 3 of Article 14 of the General Designation)

SUBCOMMITTEE D   William Norris, Subcommittee Chairman
ASA PTC - Committee 404
Subject. JAPAN - NEW FTC REGULATIONS RELATING TO REGULATING UNFAIR PRACTICES RELATIVE TO PATENT AND KNOW-HOW LICENSING AGREEMENTS

NO PROPOSED RESOLUTION.

Past Action. None.

Discussion. In February 1989, the Japanese Fair Trade Commission (JFTC) updated guidelines first promulgated in 1968 on "Restrictions Which are Liable to Come Under Unfair Business Practices in International Licensing Agreements on Patent Rights or Utility Model Rights".

The new guidelines are broadened to cover both patents and know how. Moreover, a "clearance system" by which a foreign party may ask the JFTC for confirmation that a particular agreement does not constitute an illegal unfair trade practice is established. Once granted, the clearance is binding on the JFTC unless and until the approval is cancelled. It is interesting that whereas the 1968 guidelines focused only on international agreements, the 1989 version applies also to transactions between domestic Japanese entities. Note should be taken of the facts that the revised guidelines have not eliminated the necessity of notifying the JFTC of international agreements subsequent to their execution and notification gives no immunity under proscribed practices. Accordingly, if there is any question, parties may wish to seek a prior clearance of the agreement.

There are some open questions with respect to the scope of the guidelines. Reportedly they do not address agreements pertaining to computer programs. This may be due to the fact that they do not purport to cover copyrights, but a question remains as to whether the guidelines apply to "know how" that may be embedded in computer programs. Attention is also directed to the fact that the subject of trademarks, particularly the obligatory use thereof, or use unduly conditioned on the purchase of materials, are potentially unfair trade practices.

The Japanese guides are classified somewhat after the EEC's tripartite scheme as follows:

A. Restrictions which are considered, in principle, not to fall under unfair trade practices.

B. Restrictions which may fall under unfair trade practices.

C. Restrictions which are highly likely to fall under unfair trade practices.

From a summary perspective, restrictions within classification B will be judged under a Japanese version of the "rule of reason" which includes assessment of relevant market, the conditions within that market, and the duration of the restrictions, all to be examined as a whole.

Those restrictions under classification C are rebuttedly presumed to constitute unfair trade practices.

Restrictions most severely scrutinized are those on handling competing goods or technology after the expiration of an agreement, resale price maintenance, obligations to assign or exclusively license improvements, restrictions on use after expiration of the patent or obligations to pay royalty, and any restrictions on sale price or R&D. Each of these is rebuttably presumed to be an "unfair business practice" under the Japanese Antimonopoly Act.

A detailed analysis of the guidelines is beyond the scope of this report, but a survey of classifications applicable to a series of general categories of restrictions is shown in the following table:

GUIDELINES FOR THE REGULATION OF UNFAIR TRADE PRACTICES WITH RESPECT TO PATENT AND KNOW-HOW LICENSING AGREEMENTS

	Patent			Know How		
RESTRICTIONS	A	B	C	A	B	C
Separate licensing for manufacture, use or sale	x					
Restriction on term	x			x		
Restriction on area	x					
Restriction on technical field	x			x		
Restriction on minimum volume of manufacture and sales, and minimum frequency of use	x			x		
Export area restriction	x	x		x	x	
Restriction on export price and volume, etc	x	x		x	x	
Restriction on handling, etc of competing goods or technology during the term of agreement		x			x	
Restriction on handling, etc of competing goods or technology after expiration of agreement			x	x		x
Restriction on raw materials, components, etc	x	x		x	x	
Designation of distributors		x			x	
Resale price restriction			x			x
Obligation to inform improved invention (technology) etc or to grant non-exclusive license	x	x		x	x	
Obligation to assign improved invention (technology), etc or to grant exclusive license			x			x
Obligation to pay royalty for products, etc. other than patented (subject of licensing agreements) products	x	x		x	x	
Restriction on quality of patented (subject of licensing agreements) products, raw materials or components, etc	x	x		x	x	
Obligation to use best efforts to exploit licensed patent	x			x		
Restriction on use after patent expiration or obligation to pay royalty	x		x	x		x
Restriction on sales price			x			x
Restriction on R & D			x			x
Obligation not to content		x			x	
Termination of agreement when validity of patent (public knowledge of how-how) is challenged	x			x		
Obligation to use trademark, etc.		x			x	
Unilateral termination condition		x			x	
Package license	x	x		x	x	
Confidentiality				x		

B-3

The JFTC guidelines for the regulation of unfair trade practices with respect to patent and know how licensing agreements add considerable analysis to what was an unclear area in Japanese antitrust precedents. No change is made, however, in the post agreement notification practice inaugurated in 1968. Moreover, questions will remain with respect to hybrid agreements that deal with copyrights in addition to know how and/or patents. Also note should be taken of the fact that while the guidelines purportedly address patents and know how, they contain important provisions pertaining to trademarks. While notification of the agreement does not provide any immunity under Japan's antitrust laws, there is an opportunity for advance clearance which gives immunity from JFTC action so long as the approval is in effect. It is not clear from the guidelines where a private cause of action under the Japanese antitrust laws is abrogated by the clearance, but such actions for single damages are rare in Japanese antitrust litigation.

6-6 STATEMENT OF TRADE SECRET SECURITY PROGRAM

6-7 BULLETIN BOARD NOTICE

6-8 PROCEDURE FOR IDENTIFICATION OF TRADE SECRETS

6-9 PROCEDURE FOR VISITOR ACCESS TO COMPANY FACILITIES

COMMENTARY

The following four documents represent elements of a trade secret security program that a software company may use to protect against misuse and disclosure of its trade secrets and other confidential information. In conjunction with employment agreements entered into with individual employees, such a security program is mandatory for almost every company engaged in the development of proprietary software products.

All of these documents seek to explain the program, the purposes behind it, and the procedures involved, in clear, concise language. Form 6-6, Statement of Trade Secret Security Program, is a complete description of the program, which is to be provided to employees. It explains the reasons for the program; enables the employer to provide a basic list of trade secrets to be protected; and specifies procedures for labeling, transmittal, and storage of trade secrets and for destruction of documents containing trade secrets. Form 6-7, Bulletin Board Notice, is a brief announcement for posting on company bulletin boards, stating that a formal trade secret program is about to be implemented and that a statement of procedures will be distributed. Form 6-8, Procedure for Identification of Trade Secrets, is a memorandum to be internally distributed that provides guidelines for employees (particularly department heads) in identifying and describing the materials that are to be classified as trade secrets under the program. Form 6-9, Procedure for Visitor Access to Company Facilities, is designed to prevent visitors from being exposed to confidential material and from using or disclosing any information that may have been revealed.

C-1

Third, every person who works for the Company occupies a position of trust and loyalty The Company has placed its confidence in its employees. The employees of the Company owe a duty to the Company as a result of this trust.

3. **Basic List of Company Trade Secrets.** Although this list is not all-inclusive, the following information is certainly to be considered confidential *at all times*. [*provide list of trade secrets*]

Portions of the information itemized above may circulate through the Company in many ways It may be found in formal embodiments, such as source code listings, system design documents, or magnetic computer tapes containing proprietary computer code. Some of this information, however, will necessarily be contained in less formal documents. For instance, elements of a marketing program have to be broken down, analyzed separately from the overall marketing program, and sent to outside agencies, sales data may be set forth in financial documents and in memoranda.

You should remember that it is not the form the confidential information takes but its substance that is important. The fact that the confidential information is contained in a letter does not make the information any less confidential. In fact, some of the Company's most prized Trade Secrets may be kept only in the memories of various employees. The procedures for handling confidential information apply equally to all Trade Secrets, regardless of the form the Trade Secrets take.

4. **Dissemination of Trade Secrets.** In most instances, not all employees have access to the Company's Trade Secrets. Access is generally given only on a need-to-know basis. Employees who do have access to Company Trade Secrets are in essence "trustees" of that material. One of the most important elements of the Company's Trade Secret Program is this limitation of access to the Trade Secrets.

All employees are therefore instructed to limit the number of people who have access to the Company's Trade Secrets. Employees who have no reason to obtain knowledge of Trade Secrets should not seek access to them. To help employees determine which information constitutes Trade Secrets, the Company has adopted the special labeling program described below.

5. **Labels.** The best way for the Company to indicate to its employees which items are to be treated in a confidential manner (i.e., as Trade Secrets) is to follow a conscientious labeling program using rubber stamps, properly marked envelopes, and so forth. The following language, on a label or rubber stamp, should be applied to all materials containing Trade Secrets:

"CONFIDENTIAL AND PROPRIETARY"

> "The contents of this material are confidential and proprietary to the Company and should not be reproduced, published, or disclosed to others without express authorization of the Company."

6. **Transmittal of Trade Secrets.** Unavoidably, many of the Company's Trade Secrets must be sent through the U.S. mail or through the direct mail channels of the Company. The following procedures should be followed in such event.

C-3

8. **Destruction of Documents Containing Trade Secrets.** All confidential material should be systematically destroyed by shredding (or in the case of computer programming code that is kept on magnetic tape, internal memory, or hard disk, by erasure) at appropriate times. Under no circumstances should it be thrown away in open waste containers as normal trash.

C-5

FORM 6-8

Procedure for Identification of Trade Secrets

It would not be practical for a general listing of Trade Secrets of the Company to itemize all Trade Secrets in detail or to describe all the materials that conceivably could contain Trade Secrets. Hence, much of the decision-making process for the identification of such material must rest with each employee. Every employee should apply the criteria set forth below in performing his customary duties.

1. Guidelines.

a. Trade Secret material can take almost any form, such as computer code (including object code and source code), algorithms, system documentation, user manuals, training instructions, data structures and modifications of all the Company's computer programs, systems design and architecture, and other technical developments, as well as sales data, cost and pricing information, and know-how. Do not be restricted by the *form* of such material.

b. Trade Secret information is very special, sometimes even unique. It may be material that enables the Company to "get a head start" past the rest of the field. Your competitors would like to know about it. Do not give it to them or let them get it.

2. Identification.

a. Each Department Head should apply these guidelines to Trade Secret materials under his control and should specifically identify materials that satisfy these criteria.

b. A list of such materials should be sent to the [*designate company officer*].

c. Example. In the new-product development division, the following documents should be placed by the Department Head on the Company's Trade Secret List:

i. The algorithms, coding procedures, source code, object code, and procedural code for each product;

ii. The product development specifications and design architecture;

iii. The research and development list;

iv. The training instructions, user manuals, and all technical memoranda; and

v. Sales and cost figures.

3. Application by Employees. After materials containing Trade Secrets have been identified by each Department Head, each person who comes into contact with

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FORM 6-9

Procedure for Visitor Access to Company Facilities

1. As part of the implementation of the Company's Trade Secret Program, access to the Company's facilities by visitors must be limited and controlled. The following procedure must be employed

2. All visitors must be logged in and out. The log will contain the visitor's name, the organization he represents, and the name of the person he is visiting.

[Alternate provision]

2. All visitors must obtain a Visitor's Pass (attached hereto as Exhibit A). There will be no exceptions. The reason for this strict control is that a visitor might obtain Trade Secrets of the Company while on the premises of the Company. The use of this pass merely acknowledges that such material is confidential and will not be disclosed.

EXHIBIT A

VISITOR'S PASS

VISITOR'S NAME (print): ....

FIRM REPRESENTED: ....

TO SEE: ....

Visitor will carry and display this pass while on the premises.

Visitor is prohibited from using or disclosing any confidential information disclosed to him or observed by him while visiting the Company's facilities, except as expressly authorized by the Company.

Visitor will deliver this pass to the receptionist or a gate guard when leaving the plant.

Pass must be worn so that it is visible.

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afforded access to Proprietary Information protect same against unauthorized use, dissemination, or disclosure.

4.2 Legends. Recipient shall reproduce and include in all copies of Proprietary Information prepared by Recipient the copyright notices and proprietary legends of Company as they appear therein as furnished to Recipient by Company.

4.3 Secure Handling. Recipient shall require that all Proprietary Information be kept in separate, secured safes or cabinets, which shall be maintained in a manner so as to reasonably preclude unauthorized persons from having access thereto, and Recipient shall permit such safes or cabinets to be open to access only as necessary for Recipient's use thereof in accordance with the terms of this Agreement.

4.4 Obligations of Parties Having Access. Recipient shall limit use of and access to Proprietary Information to such Recipient personnel as are directly involved with the use thereof, and Recipient shall use its best efforts to disclose such materials only to Recipient personnel whom Recipient has no reason to believe are untrustworthy or may violate the provisions of this Section 4 or the provisions of any Company Restrictive Disclosure Agreement executed as referred to in Section 4.5 hereof.

4.5 Listing of Personnel. Recipient shall, as requested by Company, (1) give Company written notice of all Recipient personnel who have been accorded access to any such Proprietary Information in the course of their employment by Recipient and (2) obtain and retain for its file from all such Recipient personnel at least two signed copies of a Company Restrictive Disclosure Agreement executed substantially in the form of Exhibit A hereto [*omitted*].

4.6 Assistance of Recipient. At the request and expense of Company, Recipient shall use reasonable efforts to assist Company in identifying any use, copying, or disclosure of any Proprietary Information by any current or former Recipient personnel in any manner that is contrary to the provisions of this Agreement, so long as Company shall have provided Recipient with information reasonably justifying the conclusion of Company that such contrary use may have occurred.

4.7 Survival of Confidentiality Obligations. Recipient's obligations respecting confidentiality of the Proprietary Information shall survive termination of this Agreement for any reason and shall remain in effect for as long as Recipient continues to possess or control any Proprietary Information furnished by Recipient. In addition, Company shall remain entitled to enforce its copyright interests in all Proprietary Information.

Section 5

TERM, TERMINATION

5.1 This Agreement shall continue for a period of one year from the date hereof unless sooner terminated by Company by written notice to Recipient. Upon receipt of than those that are expressed herein. No change, waiver, or discharge hereof shall be valid unless in writing and executed by the party against whom such change, waiver, or discharge is sought to be enforced.

7.7 **No Assignment.** Neither party shall assign or transfer this Agreement without the prior written consent of the other party, and any attempt to do so shall be void and of no force and effect.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as set forth below.

[*Company*]	[*Recipient*]
By	By ....
Title	Title ....

TRIAL TACTICS AND STRATEGIES IN TRADE SECRET CASES

I. INTRODUCTION

The basic strategy for the trade secret owner is to move quickly for preliminary relief -- either a temporary restraining order or preliminary injunction. Moving for preliminary relief will impress upon the Court and the other party the importance of the case to the trade secret owner. And, if preliminary relief is obtained, settlement on favorable terms often follows soon thereafter.

On the other hand, basic strategy for the alleged misappropriator is to get early discovery from the trade secret owner about its claims and the scope of the trade secrets it is asserting. The objectives are to prevent wholesale inquiry into its own technology by the trade secret owner and to prevent the trade secret owner from tailoring the definition of the secret to cover its technology.

II. PRE-COMPLAINT CONSIDERATIONS

A. Choice of Forum

It may be to the plaintiff's advantage to bring suit in state court, if it can obtain jurisdiction in its home state. The defendant may seek to diminish this home court advantage by having the case removed federal court, if diversity jurisdiction applies or if it can assert a plausible pendent federal claim.

1. A trade secret violation is a tort which is governed by state law. Sheets v. Yamaha Motors Corp., U.S.A., 849 F.2d 179, 182-83 (5 Cir. 1988).

2. Federal jurisdiction can be obtained if the requirements for diversity jurisdiction are met: (a) diversity of citizenship with respect to each defendant; and (b) the claim is for more than the jurisdictional amount (now $10,000). 28 U.S.C. § 1332. Pendent federal jurisdiction can be obtained if there is a related federal claim or counterclaim regardless of whether diversity jurisdiction is available. Forest Laboratories, Inc. v. Pillsbury Company, 452 F.2d 621, 629 (7 Cir. 1971). Examples of pendent claims are antitrust claims and patent claims.

3. The forum court must have personal jurisdiction over the defendant under state law if the complaint is filed in state court or in federal court using diversity jurisdiction. Arrowsmith v. United Press International, 320 F.2d 219, 222-23 (2 Cir. 1963).

B. Advising A Client Who Owns Trade Secrets -- Implementing A Trade Secret Protection Program

1. Employment Agreements: Each employee who will be in a position with access to confidential information should be required when hired to sign an agreement acknowledging such access and agreeing not to disclose that information. A covenant not to compete may

also be included. Many jurisdictions require that a covenant not to compete be effective only for a limited time or in a limited geographic area because of public policy considerations favoring an individual's right to pursue the livelihood for which he is best suited or trained. E.g., SI Handling Systems, Inc. v. Heisley, 753 F.2d 1244, 1264-65 (3 Cir. 1985).

2. Exit interviews: When an employee with access to confidential information leaves the company, an exit interview may be used to seek the return of confidential materials the employee had taken home and remind the employee of an obligation to maintain secrecy of any information learned in carrying out his job responsibilities.

3. Implementing a secrecy program: In order to prove the existence of a trade secret, the trade secret owner must be able to prove that it took reasonable precautions to protect the information. E.g., Sheets, supra, 849 F.2d at 183-84; Surgidev Corp. v. Eye Technology, Inc., 828 F.2d 452, 455 (8 Cir. 1987); CVD, Inc. v. Raytheon Co., 769 F.2d 842, 850-51 (1 Cir. 1985); Fleming Sales Co., Inc. v. Bailey, 611 F.Supp. 507, 512-13 (N.D. Ill. 1985); Telex Corp. v. International Business Machines Corp., 367 F.Supp. 258, 357 (N.D. Okla. 1973), affirmed in pertinent part 510 F.2d 894 (10 Cir. 1975). In most Courts, complete secrecy is not required, however. Rather, taking

reasonable steps will suffice. E.g., Surgidev Corp., supra, 828 F.2d at 455; CVD, Inc., supra, 769 F.2d at 851.

Precautionary steps which have been held to be sufficient to maintain a trade secret include:

(a) posting warning signs;

(b) designating restricted areas where only authorized employees are permitted entry;

(c) keeping files in locked cabinets;

(d) referring to component parts or ingredients with code names in internal documents;

(e) discussing secrecy procedures with new employees who may have access to confidential materials;

(f) marking documents or magnetic storage media containing secrets "Confidential"; and,

(g) screening professional speeches or papers by employees for confidential information.

III. PLEADINGS

Typically the trade secret owner will initiate the action. However, there may be advantages for the alleged misappropriator to bringing a declaratory judgment action in a more favorable jurisdiction or, in the case of an individual who is changing employers, seeking an injunction against interference by the former employer. In the discussion that follows, it is assumed that the action is initiated by the trade secret owner.

A. Complaint

1. The plaintiff should define its asserted trade secret in only the most general terms. This is advisable for two reasons. First, if the pleadings become public information, the trade secret will lose its secrecy. Second, it is advisable not to define the secret until learning through discovery the details of the processes or apparatus used or made by the defendant. That way, the plaintiff can avoid providing details of secrets that are not being used by the defendant.

2. At trial, the plaintiff has the burden of proving elements of a trade secret claim by a preponderance of the evidence. E.g., Air Products and Chemicals, Inc. v. Chas. S. Tanner Co., 219 USPQ 223, 252 (D.S.C. 1983); Wesley-Jessen Inc. v. Reynolds, 182 USPQ 135, 144 (N.D.Ill. 1974). A complaint which sets forth the prima facie elements of a trade secret case is likely to withstand a motion to dismiss on the grounds that it is based merely on a suspicion of trade secret violation.

3. Generally, trade secret claims may take the form of claims for misappropriation, breach of contract, interference with contract, fraud or breach of confidence. The definition of the trade secret may be kept especially vague in a misappropriation claim. In most general terms, the elements of a misappropriation claim may include:

(a) ownership of a trade secret (i.e., something that gives the plaintiff commercial advantage that is not known to the public);

(b) the plaintiff disclosed the trade secret to the defendant or the defendant obtained the secret without the plaintiff's consent;

(c) the defendant has or will use or disclose the trade secret and the plaintiff will be harmed by that use or disclosure; and

(d) difficulty encountered by defendant in developing new products and hiring plaintiff's employees with access to secrets that can solve those problems.

Surgidev, supra, 828 F.2d at 455-57; Telex Corp. v. International Business Mach. Corp., 510 F.2d 894, 928-29 (10 Cir. 1975); Fleming Sales Co., supra, 611 F.Supp. at 510-11; Ecolaire Inc. v. Crissman, 542 F.Supp. 196, 205-206 (E.D.Pa. 1982).

B. Defenses And Counterclaims

1. Defenses: It may be in the defendant's interest to plead as affirmative defenses each of the elements the plaintiff has alleged. If a summary judgment motion is being considered, pleading an affirmative defense regarding the anticipated subject matter will also be required in those few jurisdictions, that require pleading an affirmative defense to provide a basis for the summary judgment motion. 2A Moore's Federal Practice ¶ 8.28 (2d Ed.

1948, rev 1990). However, given that the plaintiff normally will not clearly define its trade secret in pleadings, the defendant should not provide details of its own proprietary technology. Among the affirmative defenses available, depending of course on the particular facts of the case, are:

(a) procedural defenses such as lack of jurisdiction, laches, statute of limitations and unclean hands;

(b) plaintiff's breach of the contract sued upon;

(c) the alleged secret is in the public domain; and

(d) plaintiff overreached by seeking to protect as secrets information which is not sensitive to its operations or which plaintiff did not attempt to keep confidential.

See, e.g., CVD, Inc., supra, 769 F.2d at 851-54; Fleming Sales Co., supra, 611 F.Supp. at 511-13.

2. Counterclaims: If the complaint was filed in a state court, a counterclaim pursuant to the federal antitrust laws will provide a basis for removing to federal court. Possible counterclaims include:

(a) Antitrust -- If the plaintiff is a company with market power, and it is trying to stop a new business from taking root by enjoining a new employee, the defendant should investigate whether it can make a claim under section 1 or 2 of the Sherman Act. In addition, if there are sufficient facts available indicating that the plaintiff does or should know that there is no trade secret (for example because of a publication by one of its employees), the defendant should plead an antitrust violation analogous to a Walker Process type of claim. CVD, Inc., supra, 769 F.2d at 849; Telex Corp., supra, 510 F.2d at 930.

(b) Business torts -- Pleading any of a number of business torts can induce the plaintiff to be careful in its statements to the trade. They also provide a basis for seeking injunctive relief to restrain the plaintiff from making statements which might damage defendants reputation. Among the business torts potentially applicable in a trade secret case are disparagement, injurious falsehood, interference with contracts or contract negotiations, and tortious litigation. See Prosser And Keeton On Torts, §§ 128-29 (5th Ed. 1984).

C. Jury Demand

Typically, plaintiff's lawyers will automatically request a jury in a trade secrets case. See generally Arnold and Wong, "Trial Tactics in Trade Secret Cases," in Protecting Trade Secrets 1989 333, 392-93 (PLI 1989). However, if one considers juries to be sympathetic to individuals or small companies, there are circumstances where a defendant should consider filing a jury demand. For example, a case where a successful lawsuit would prevent an individual from taking a new job, jury sympathy could sway toward the defendant. Likewise, if the plaintiff is a large company attempting to shut down a small start-up competitor, the defendant can plan on jury sympathy.

IV. PRELIMINARY RELIEF

Generally two types of preliminary relief are available -- temporary restraining orders and preliminary injunctions. In terms of a trade secret owner's trial strategy, the most important step is to seek preliminary relief at the outset of the action.

In moving for preliminary relief the plaintiff's objectives are to immediately shut down the defendant's use or dissemination of the trade secret and to prevent the defendant from making investments in plant and machinery that may incorporate the trade secret. Quickly moving for preliminary relief will also preclude a defendant from arguing that delay in prosecuting the lawsuit indicates that the trade secret is not valuable to the plaintiff. In addition, once a secret is disclosed, injunctive relief is more difficult to obtain because a Court's perception of the balance of hardships may shift towards a defendant who has made capital investments and because the trade secret is no longer a secret.

The outcome of a trade secret case will often turn on whether or not the trade secret owner is successful in obtaining preliminary relief. If preliminary relief is obtained, the defendant will be more likely to settle because its operations will be shut down and because it is a signal that the Court sees strength in the plaintiff's position.

Careful crafting of a proposed preliminary injunction or temporary restraining order will serve these goals of shutting down the defendant and promoting settlement on favorable terms. However, caution must be exercised in applying for and drafting a proposed injunction or order because if the order ultimately is shown to be overly broad or improperly granted, the party obtaining the injunction will be subject to costs and damages. American Can Co. v. Mansukhani, 742 F.2d 314 (7 Cir. 1984). Generally, the party obtaining preliminary relief will be required to post a surety bond from which these costs and damages can be collected. For example, Rule 65(c), F.R.Civ.P., provides:

> "No restraining order or preliminary injunction shall issue except upon the giving of security by the applicant, ... for the payment of such costs and damages as may ave been incurred or suffered by any party who is found to have been wrongfully enjoined or restrained."

See also Ecolaire Inc., supra, 542 F. Supp. at 211. From the defendant's point of view, if preliminary relief is granted, it should attempt to persuade the Court to require a large bond. The size of the bond generally is determined by the amount of the possible monetary loss to the defendant due to the injunction or order and the plaintiff's resources or lack thereof. Crowley v. Local No. 82, Furniture & Piano, Etc., 679 F.2d 978, 1000 (1 Cir. 1982), reversed on other grounds 467 U.S. 526 (1984); USACO Coal Co. v. Carbomin Energy, Inc., 689 F.2d 94, 100 (6 Cir. 1982). And, the defendant can apply at a later time to increase the bond if it can demonstrate that a larger one is needed. Pargas, Inc. v. Empire Gas Corp., 423 F.Supp. 199, 245 (D.Md. 1976), affirmed 546 F.2d 25 (4 Cir. 1976).

A. Temporary Restraining Order

The objective of a temporary restraining order ("TRO") is to freeze the status quo without delay. Accordingly, there are provisions such as Rule 65(b), F.R.Civ.P., for obtaining a TRO without notice. However, the Supreme Court has held that such an ex parte TRO is a limited device to be used for "preserving the status quo and preventing irreparable harm just so long as is necessary to hold a hearing, and no longer." Granny Goose Foods, Inc. v. Teamsters, 415 U.S. 423, 439 (1974); American Can Co., supra, 742 F.2d at 321-25.

This short-term remedy (only ten days in federal courts, with the possibility of extensions) is best used only if there is a threat of immediate harm. For example a TRO can be used effectively to temporarily prevent an employee of the plaintiff from going to work for the defendant, or if the defendant is about to publish the trade secret in issue. Tactically, a TRO will expedite placement of a preliminary injunction hearing on the Court's calendar, particularly if it is obtained through an ex parte hearing. See Rule 65(b), F.R.Civ.P., which provides that, "[i]n case a temporary restraining order is granted without notice, the motion for a preliminary injunction shall be set down for hearing at the earliest possible time and takes precedence of all matters except older matters of the same character...."

B. Preliminary Injunctions

The grounds for awarding preliminary injunctions vary from court to court. In the most general terms, the applicant must give notice to the other party, attend a contested hearing and, depending on the court, prove some combination of:

(1) a substantial likelihood of success on the merits;

(2) likelihood of irreparable harm if the injunction is not issued;

(3) the threatened injury to the applicant outweighs any damage the injunction might cause the opponent;

(4) serious questions going to the merits are raised and the threatened injury to the

applicant outweighs any damage the injunction might cause the opponent; and

(5) the injunction would not be contrary to the public interest.

Plains Cotton Co-Op v. Goodpasture Computer Serv., 807 F.2d 1256, 1259 (5 Cir. 1987)(applicant must prove numbers 1, 2, 3 and 5); SI Handling Systems, Inc., supra, 753 F.2d at 1254 (applicant must prove numbers 1, 2, 3 and 5); Litton Systems, Inc. v. Sundstrand Corp., 750 F.2d 952, 956 (Fed. Cir. 1984) (applicant must prove numbers 1 and 2, or must prove number 4)(applying Ninth Circuit law); Friendship Materials, Inc. v. Michigan Brick, Inc., 679 F.2d 100, 102 (6 Cir. 1982)(applicant must prove numbers 1, 2, 3 and 5); Community Communications v. City of Boulder, Colo., 660 F.2d 1370, 1375 (10 Cir. 1981)(applicant must prove numbers 1 and 2, or must prove numbers 2 and 4); Consolidated Brands, Inc. v. Mondi, 638 F.Supp. 152, 154-55 (E.D.N.Y. 1986) (applicant must prove number 2 and either 1 or 4); Maxwell Alarm Screen Co. v. Protective Service Corp., 218 USPQ 580, 582 (C.D.Cal. 1982) (applicant must prove numbers 1 and 2, or must prove number 4).

V. DISCOVERY

A. The Opposing Interests Of The Plaintiff And Defendant

A trade secret owner should try to quickly obtain discovery on the details of the defendant's products and processes and to procure a protective order which will maintain the confidentiality of its secrets. Speed is helpful in taking away from the defendant any temptation to tailor the history of the development of its technology to the definition of the trade secret. At the same time, the trade secret owner is likely to try to keep vague any definition of the asserted trade secret because (a) the client will naturally be reluctant to provide any more detail about the secret it believes to have been appropriated, and (b) the more narrow the definition, the narrower the discovery that will be obtainable. But see Litton Systems, Inc., supra, 750 F.2d at 954, 956 (discussion of a discovery dispute concerning the definition of trade secrets and noting the possibility that a Court will refuse to grant a preliminary injunction if the trade secret is not sufficiently defined).

On the other hand, the defendant will want to force the plaintiff to define with specificity the secrets it is asserting early in the litigation. See Xerox Corp. v. International Business Machines Corp., 64 F.R.D. 367, 371-72 (S.D.N.Y. 1974) (plaintiff compelled to define its trade secrets); Cal. Civ. Proc. Code § 2019(d) ("before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity...."). That way, the defendant will be able to prevent an overly broad inquiry into its own technology and the plaintiff will not be tempted to tailor the definition of its asserted trade secret to the materials received in discovery. The defendant also may seek to limit discovery if it can show that the plaintiff will be unjustly enriched or that the defendant will be irreparably harmed.

Substantively, the trade secret owner will want to obtain discovery to: (a) prove that the defendant's technology is the same as the its own; (b) prove that the defendant's technology was not independently developed; (c) learn about any recruitment efforts directed at the plaintiff's employees; (d) show any linkage or coincidence between the development of the defendant's technology and the arrival of new employees from the plaintiff or the theft of documents; (e) show that defendant was aware that the plaintiff's technology was a secret; and (f) learn about the job duties of employees hired from the plaintiff.

The defendant will want to obtain discovery: (a) to show the scope and nature of the asserted trade secrets; (b) to show that the trade secrets are not valuable or essential to the plaintiff; (c) to show that the plaintiff has not lost any sales from the defendant's competition; (d) to show that there will be no other harm to plaintiff if the alleged trade secret is used by defendant; (e) to show that the alleged secret has been disclosed to others or the general public; and (f) to show the lack of precautions taken to preserve secrecy, such as the large number of employees with access to the technology, and the failure to post warning sings or to use locked rooms and file cabinets.

B. Protective Orders

It is critical that the trade secret owner maintain the confidentiality of its secrets throughout the proceedings. Confidentiality orders governing discovery and filing of papers regulate access to trade secret material. The trade secret owner ought to try to restrict access to the defendant's outside counsel and expert witnesses. The trade secret owner should also seek to preserve secrecy at hearings and trial by having the courtroom cleared and even barring the opposing party when trade secrets are discussed. Moving for and obtaining an order that proceedings be held in camera also conveys to the Court and jury that the trade secret owner is serious about its allegations of secrecy.

Obtaining the defendant's agreement regarding a protective order and other secrecy provisions often will not be difficult because the defendant will want to maintain the confidentiality of its own proprietary technology.

C. Writ Of Attachment

Concurrently with filing the complaint, a plaintiff may move for a writ of attachment or similar remedy in order gain custody of the evidence of stolen secrets and to prevent destruction of documents.

VI. TRIAL

A. Proving The Existence Of A Trade Secret

Although before trial it is often to the trade secret owner's advantage to avoid defining its trade secret, prevailing will require evidence of a "sufficiently specific nature to establish the trade secret and to serve as the basis for injunctive relief." 2 Milgrim on Trade Secrets § 7.07[1][a] (1967, rev. 1990). Therefore, the trade secret owner must show: (a) the technology or information that is the trade secret; (b) that secrecy has been maintained and protected; (c) the information is not known to the trade; (d) the defendant has had access to the trade secret; and (e) any other evidence tending to prove its claims. See Surgidev Corp., supra, 828 F.2d at 455-56; Matter of Innovative Const. Systems, Inc., 793 F.2d 875, 879-87 (7 Cir. 1986); CVD, Inc., supra, 769 F.2d at 851-54 (1 Cir. 1985); Litton Systems, Inc., supra, 750 F.2d at 957-58; Air Products and Chemicals, Inc., supra, 219 USPQ at 252. The trade secret owner may put forth witnesses from its own organization to prove that the elements of a trade secret have been met. Expert testimony may be used to prove that the information is not known to the trade, that the defendant could not independently have developed its own technology in the amount of time shown, that there is similarity between the trade secret and the defendant's technology, or to prove the amount of damages and the value of the trade secret. See Rapco Foam, Inc. v. Scientific Applications, 479 F.Supp. 1027, 1029 (S.D.N.Y. 1979). Any number of proofs may also be used, such as the defendant's failure to develop a competitive product until it learned of the secret, the long time the trade secret owner spent on research and development and the lack of discussion in trade publications.

B. Defense

Assuming the trade secret owner has put forth evidence which meets the elements of a trade secret claim, the defendant has the burden of rebutting that evidence. See generally 2 Milgrim on Trade Secrets § 7.07[2][a]. For example, if the trade secret owner has put forth proof that it maintained secrecy, or expert testimony that the information is not known to the trade, it is the defendant's burden to adduce evidence to the contrary. Likewise, the defendant might want to put forth evidence to prove independent development or reliance upon nonconfidential sources of information. If the trade secret owner asserts that there was a contractual relationship that the defendant breached, the defendant might want to prove that the contract was improperly entered into (such as a contract of adhesion) or that it was breached by the trade secret owner. On remedies, the defendant will want to put forth evidence that minimal money damages will adequately compensate the plaintiff and that an injunction is not necessary.

VII. REMEDIES

A. Injunctions

Equitable relief is a common remedy in trade secret cases. Monetary damages also may be awarded, although in jurisdictions distinguishing between law and equity, there may be an election of remedies issue. E.g., Roberts v. Sears, Roebuck & Co., 573 F.2d 976, 984-86 (7 Cir. 1978) (election of remedies discussed); Telex Corp., supra, 367 F.Supp. at 363 (injunction and monetary relief rewarded). As with other remedies in trade secrets cases, the rules governing injunctions are similar to those in other fields. See discussion of temporary restraining orders and preliminary injunctions, supra.

Generally, the basis for granting an injunction is likelihood of irreparable harm to the trade secret owner. For example, an injunction might not issue if the trade secret has little or no value, or if monetary relief will provide adequate compensation. See Foundry Services v. Beneflux Corporation, 206 F.2d 214, 216 (2 Cir. 1953). However, in cases where the defendant's conduct has been flagrant or otherwise egregious, an injunction may issue even if the probability of irreparable harm is not proven. E.g., Telex Corp., supra, 367 F.Supp. at 358-59, 363.

The rules governing the duration of an injunction vary from jurisdiction to jurisdiction. See generally Barclay, "Trade Secrets: How Long Should An Injunction

Last," 26 U.C.L.A. L. Rev. 203 (1978). Even within a particular jurisdiction, however, duration of the injunction may vary depending upon factual issues. Many courts apply the "independent development" test, which is often called the "Winston research" rule. Such lead-time injunctions last "only so long as is necessary to negate the advantage the misappropriator would otherwise obtain by foregoing independent development." SI Handling Systems, Inc., supra, 753 F.2d at 1266. See also Surgidev Corp., supra, 828 F.2d at 456-57; Winston Research Corp. v. Minnesota Min. & Mfg. Co., 350 F.2d 134 (9 Cir. 1965). Many jurisdictions, even those propounding the independent development test, will award injunctions for longer, or shorter periods, or even permanent injunctions, depending upon the equities of the case. E.g., Aerosonic Corporation v. Trodyne Corporation, 402 F.2d 223, 226-28 (5 Cir. 1968); Brunswick Corp. v. Outboard Marine Corp., 79 Ill.2d 475, 404 N.E.2d 206-207 (1980). Longer injunctions, including permanent injunctions, are available in some jurisdictions under the "Shellmar" rule, even if the trade secret has been disclosed to the public, if there was a confidential relationship between the plaintiff and defendant. Molex, Inc. v. Nolen, 759 F.2d 474, 477 (5 Cir. 1985); Shellmar Products Co. v. Allen-Qualley Co., 87 F.2d 104 (7 Cir. 1936); Molinaro v. Burnbaum, 201 USPQ 83, 96 (D.Mass. 1977). See Syntex

Opthalmics, Inc. v. Tsuetaki, 701 F.2d 677, 683 (7 Cir. 1983).

B. Monetary Damages

As in patent cases, a party may seek to bifurcate a trade secret trial such that liability is tried before damages. See Rohm and Haas Company v. AZS Corp., 229 USPQ 399 (N.D.Ga. 1986). However, unlike patent cases, there is no uniform standard governing monetary damages in trade secret cases. Telex Corp., supra, 510 F.2d at 930-31. University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 535-39 (5 Cir. 1974). Various methods of computing damages are available and in some cases damages are awarded under a combination of theories. Computation theories include: (a) reasonable royalties, Metallurgical Industries Inc. v. Fourtek, Inc., 790 F.2d 1195, 1208 (5 Cir. 1986); Vitro Corporation of America v. Hall Chemical Company, 292 F.2d 678, 682-83 (6 Cir. 1961); (b) the defendant's profits or unjust enrichment, SI Handling Systems, Inc. v. Heisley, 658 F.Supp. 362, 371 (E.D.Pa. 1986); University Computing Co., supra, 504 F.2d at 535-36; Telex Corp., supra, 367 F.Supp. at 325, 363 (lost profits and unjust enrichment damages awarded); and the plaintiff's lost profits, Sperry Rand Corporation v. A-T-O, Inc., 447 F.2d 1387, 1393-94 (4 Cir. 1971). Since a Court may choose any of these methods of damages, it is worthwhile to introduce evidence proving damages under one or more of these theories.

Herbert F. Schwartz

The assistance of Mitchell P. Brook of Fish & Neave is acknowledged.

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GORE V. GARLOCK AND THE RESPECTIVE RIGHTS OF TRADE SECRET USERS AND PATENTEES

> "A Constitutional award to one inventor does not mandate a Constitutional penalty to another." Bennett.

I. Introduction

Patent law harmonization discussions at the World Intellectual Property Organization (WIPO) in Geneva have rekindled the debate about the respective rights of trade secret users and patentees, or more particularly, the rights of the first inventor/trade secret user as against those of the second inventor/patentee with respect to the same invention.

Article 308 of the proposed Treaty on the Harmonization of Patent Laws provides that:

> ". . . the owner of a patent shall not enjoy, under that patent, rights against activities within the scope of the patent, not authorized by him, of a person (the prior user) who, at the date of the filing of the application, or where priority is claimed, at the priority date of the application on which the patent is granted, and with a view to industrial or commercial exploitation,
>
> (i) was actually engaged in such activities, or
>
> (ii) was engaged in serious preparation, involving, from the viewpoint of the prior

> user, significant investment, for such activities,
>
> in the territory and any other place or space to which the sovereignty of the Contracting State extends and in or for which State the patent is granted. . . ."

According to an article by Angelo Notaro entitled "Patents and Secret Prior User Rights: A Comparative View" (PATENT AND TRADEMARK REVIEW, Vol. 81 No. 9, p. 347, 348, Sept. 1983), "provisions permitting the continuation of use initiated prior to the effective date of a patent application are found in the laws of more than thirty countries" and in some of those they have a long history dating back to the last century.

For instance, Article 79 of the Japanese Patent Law provides that:

> "A person who, being unaware of the contents of an invention under patent application, made such invention himself, or acquired the knowledge of it from a person who being unaware of the contents of an invention under patent applications, made such invention, and who has been engaged in a business of working such invention or has been making preparations for such business in Japan at the time of filing of the application for patent is entitled to a nonexclusive license under the patent granted to such person."

and the statutory provision in Germany, which is typical, reads:

> "A patent shall have no effect against a person who, at the time of the filing of the application, had already used the invention in . . . Germany or had made the necessary arrangements for doing so. Such a person shall be entitled to use the invention for the purposes of his own business in his own plant or workshops of others."

Incidentally, the reasons behind the lack of a first-user right in the U.S., in contrast to other countries where such rights exist, has a lot to do with the "recognition of a limited novelty instead of an absolute novelty system and the recognition of a right to a patent in the first-to-invent, rather than the (first-to-file) wherein the first inventor is a *de jure personage* and not necessarily the actual first inventor" (Notaro, *supra* at 357).

II. Statutory Precedents and Proposals

Historically, recognition of the prior-use right was embodied in a statutory provision, at one time, namely, Section 7 of the Patent Act of 1836 but it was later removed. And two of the Patent Reform Bills introduced over the past twenty some years proposed such a right, i.e., S.1042 of 1967 vintage (90th Congress), which provided that a prior good faith inventor would have a personal defense as a "prior user" provided his actions had not caused a statutory bar effective against a subsequent inventor (Section 274) and H.R. 12873 (94th Congress, 1976), which would have made prior commercial manufacture of a claimed product or process, or substantial preparations therefor, a defense in any patent infringement action (Section 282(b)). But these bills were not enacted.

In 1979, the Advisory Subcommittee on Patent and Information Policy of the Advisory Committee on Industrial Innovation recommended that the U.S. patent law be revised to provided that any prior use which is not obvious on inspection or analysis of a product, sold or available to the public, not bar patentability. In addition, it was suggested that the prior user be allowed to continue using the invention. (Final Report on Patent Policy, Feb. 6, 1979). Nothing became of this proposal, either.

In 1982 the Patent, Trademark and Copyright (PTC) Section of the American Bar Association passed the following favorable resolution:

> "Resolved, that the Section of Patent, Trademark and Copyright Law favors in principle legislation providing an *in personam* right or right of prior public user to the first inventor who elects to keeps his invention a trade secret, and further provides that the patent on the same invention which was independently discovered by a subsequent inventor shall not be held invalid based on the trade secret public use of the first inventor."

This resolution likewise went no place.

Interestingly, the PTC Section passed another resolution at a special harmonization meeting in Washington in September of 1989 opposing any right of prior user. This was done after a debate in which the prior favorable resolution was not only disregarded but statements were made that the PTC Section always had come out against any such provision.

III. <u>Prior User Rights in Special Situations</u>

Apart from historical precedents and recent legislative proposals, there are areas where something akin or tantamont to a prior user right already does exist. Notaro, *supra* at 357-361 lists a veritable litany of statutorily- or decisionally-created "co-uses", "forced sharing of inventions", "estoppels", "implied licenses", "intervening rights", "judicial recognition of prior user rights", etc. as, for example, shoprights, temporary uses of inventions on vessels or aircrafts, intervening rights in reissue cases, co-uses in supplier/customer, manufacturer/distributor, contractor/contractee relationships, public interest situations where injunctive relief is denied, certain uses by government uses under the Clean Air and Atomic Energy Acts, compulsory licenses as a remedy for antitrust violations, etc.

Richard E. Bennett ("The Trade Secret Owner Versus the Patentee of the Same Invention: A Conflict?", 57 JPOS, 742, 758, (1975)) in particular, dwells on "The Reissue Analogy" and points out that:

> "The philosophy behind the reissue provision is that it would be unfair to enjoin a party from using that which he had no reason to believe would contravene a patent right. The equities are strengthened by a showing that the user has made substantial investment in the business sought to be enjoined by the patentee. Although his rights have not 'intervened' but are actually prior to the effective date of the patent, these are precisely the considerations which ought to militate against enjoining the trade secret owner who has previously used and probably invested large sums in creating and using the process duplicated later by the patentee.
>
> If the purpose of the patent system is to promote reliance on patents by inventors so that the invention is promptly disclosed and yet that very

> system in a reissue situation envisions the possibility that intervening rights should, for equitable reasons, be respected, it makes no sense to urge that the patent system cannot tolerate concurrent use by the first inventor. Moreover, the intervenor and the trade secret owner share the common distinction of not owing knowledge of the invention to the patentee. Unlike the rest of the members of society who first learn the art from the patent, the intervenor and the trade secret owner are already in possession of that information. It would seem somewhat anomalous and arbitrary to sanction continued use of the intervenor and yet prohibit use by the trade secret owner under similar circumstances where the underlying policy considerations are analogous."

IV. Continuation of Prior Use Due to Invalidation of Patent Over the Prior Use

This is of course also true in a manner of speaking when the patent of the second inventor is invalidated due to the existence of the prior use or invention. It is a curious fact that there is actually no case on the books where as first inventor/trade secret owner has been enjoined from practicing his invention/trade secret by a late comer patentee even though there are literally scores of cases where the second inventor prevailed on the issue of priority in an interference context. Notaro confirms this by stating that "no U.S. court has dealt with the prior user issue by deciding to let use continue without invaliding the patent" (Notaro, *supra* at 361) and, of course, neither the Supreme Court nor the Court of Appeals for the Federal Circuit has yet resolved the question of which of the two parties — the trade secret user or the patentee — has a superior right to the invention.

However, a spate of District/Circuit Court decisions cut the Gordian knot by holdings in favor of the first inventor/trade secret owner. The *Dunlop* case (*Dunlop Holdings Ltd. v. Ram Golf Corp.*, 188 USPQ 481 (7th Cir. 1975, *cert den.* 189 USPQ 256, 1976)), is undoubtedly the key case — clearly a landmark decision. It held that a noninforming use of an invention with secrecy intended, bars a patent to a subsequent inventor and it invalidated U.S. Patent No. 3,454,280 on a new kind of golf ball under Section 102(g).

The Seventh Circuit Court of Appeals in affirming the lower court said that an important distinction must be made between a "secret" use and a "noninforming" public use. Though the inventor didn't tell what made his golf balls unusual, he certainly made every effort to market them and they were in widespread public use before February 1965 (the date of Dunlop's British application, the earliest date it could claim under 36 U.S.C. §104).

The Court gave:

> "three reasons why it is appropriate to conclude that a public use of an invention forecloses a finding of suppression or concealment even though the use does not disclose the discovery. First, even such a use gives the public the benefit of the invention. If the new idea is permitted to have its impact in the marketplace, and thus to 'promote the progress of science and useful arts' it surely has not been suppressed in an economic sense. Second, even though there may be no explicit disclosure of the inventive concept, when the article itself is freely accessible to the public at large, it is fair to presume that its secret will be uncovered by potential competitors long before time when a patent would have expired if the inventor had made a timely application and disclosure to the Patent Office. Third, the inventor is under no duty to apply for a patent; he is free to contribute his idea to the public, either voluntarily by an express disclosure, or involuntarily by a noninforming public use. In either case, although he may forfeit his entitlement to monopoly protection, it would be unjust to hold that such an election should impair his right to continue diligent efforts to make the product of his own invention."

In *Westwood Chemical, Inc. v. Dow Corning Corp.*, 189 USPQ 649 (E.D. Mich. 1975), one finds the broadest and most drastic application of Section 102(g). A patent held by Westwood on pigmented silicone elastomers was held invalid in the face of a Section 102(g) defense based on prior independent secret work done at Dow Corning. The court held that a:

> "'prior invention' which will invalidate a patent under §102(g) need not involve use of the invention in public. Prior private or secret knowledge is available as prior art. . . . This independent work of others is also clearly evidence of obviousness." (*Id.* at 666)

The language in this holding as in many is quite loose if not confused (note, e.g., the reference to "secret knowledge"; "knowledge" is a bar only under Section 102(a) and only if it is public), but it seems that Dow Corning had a big-in-depth R&D project in this area while the Westwood patent was but a paper patent in the sense that first it was based on graphite chemistry and secondly was not in use. Again, apparently equity and justice considerations played a significant part, especially since a paper patent was involved.

Another case is *Grain Products v. Lincoln Grain*, 191 USPQ 177 (S.D. Ind. 1976), in which a patent applied for by defendant in 1960 on cold-water-dispersible cereal products was voided under Section 102(g) because in 1949 (!) an employee of plaintiff "produced gelantinized cereal adhesive on a plastic extruder . . . (and) made 35 tests (!) using corn meal and flour and varying moisture, die area, feed rate and extruder temperature". The court considered this work as the "prior invention of the subject matter" of defendant's patent by plaintiff's employee.

Also to be noted in this context are such cases as *Continental Copper and Steel Industries, Inc. v. New York Wire Co.*, 196 USPQ 30 (M.D. Pa. 1976), where the court, unlike in the two proceeding in cases, discussed at length the requirements and the burden of proof of a Section 102(g) defense but struck down Continental's patent nonetheless. This also happened in *Norris Industries, Inc. v. The Tappan Co.*, 193 USPQ 521 (C.D. Ca. 1976), aff'd 203 USPQ 169 (9th Cir. 1979).

However, *Philip Morris v. Brown & Williamson Tobacco*, 231 USPQ 321 (D.C. M.D. Ga. 1986), a failed experiment was held not to be available as prior art under 35 USC §103 by virtue of Sec. 102(g) in reliance on *Kimberly Clark v. Johnson & Johnson*, 223 USPQ 603 (CAFC 1984). (Hopefully, aberrations like *Westwood Chemical* and *Grain Products* are a thing of the past and this aspect of the law stands settled.)

According to some of the prior Section 102(g) decisions, the prior activities, even if abandoned, are nonetheless evidence of the level of ordinary skill in the art at the time the later invention is made and can thus be used in a Section 103 context (*International Glass v. United States*, 159 USPQ 434 , Ct. Cl. 1968). Thus, the latecomer patentee may also face Section 103, Section 102(g)/103 and likely also Section 102(a) and (b) defenses.

Interestingly, some older, pre-1952 cases have holdings in a similar vein. In the 1928 Supreme Court decision, *Corona Cord Tire Co. v. Dovan Chemical Corp.*, 276 U.S. 358 (1928), a patent was invalidated over prior experimental use and in *United Chromium v. General Motors Corp.*, 85 F.2d 577 (2d Cir. 1936), *cert den.* 300 U.S. 674 (1936), a patent was struck down over prior private use.

With respect to such decisions Roger Milgrim had this to say on the subject:

> "Actually as a non-patent lawyer, I am not terribly shocked by the result, for this reason: It seems to me that one of the key things that the courts expect from a patentee is that the patentee was the inventor. If you establish that the patentee was in fact not the inventor, you get into a very murky philosophical, economical and moral area as to whether a second 'discoverer' should be given a 17-year period of exclusivity." (Proceedings ABA-PTC Section Meeting, Chicago, August 8, 1977, p. 137)

And Stanley H. Lieberstein drew the following conclusion in a BNA Conference talk in 1979, entitled "The Commercially Utilised Trade Secret: Is It Prior Art?":

> "There is no case which flatly decides whether a prior inventor, trade secret owner, would have rights greater than a subsequent patentee, but it would seem fairly clear from the case law thus far that any patentee who maintained such a suit would run a substantial risk that his patent would be held invalid. A court is not only likely to find that the use by the trade secret owner, inherent in the definition of a trade secret, constitutes a public

> use but it is also possible that a trade secret owner could establish that he was the first inventor, that he was the first to reduce it to practice, and that he had not abandoned, suppressed or concealed it. In the latter event it appears that it would not even be necessary for a court to find a public use." (BNA Conference Course Book, "1979 Patent Conference: The Novelty Requirement And Other Important Aspects of 35 USC 102", Arlington, Va., Sept. 6-7, 1979, p. 339)

In view of these decisions, I had concluded that it should be possible for a first inventor/trade secret owner to stand on his trade secret election rather than be "spurred into activity"; he need not file an application as a panic-stricken but self-defeating reaction the moment he is alerted to competitive activities, in order to get into or provoke an interference in the hope of settling it on the basis of a royalty-free license. (Jorda, "The Rights of the First Inventor-Trade Secret User As Against Those of The Second Inventor-Patentee", 61 JPOS 593, 603 (1979)).

However, we now have a new Court of Appeals for the Federal Circuit and one cannot be sanguine about the outcome of a case involving the issue of the respective rights if one came before it in view of such categorical statements in *Kimberly Clark v. Johnson & Johnson*, *supra*, as "the use of . . . secret (prior) art — as §103 'prior art' — except as required by §102(e) is not favored for reasons of public policy" — *In re Clemens*, 206 USPQ 289 (CCPA 1980), was relied on for this statement — and "[s]ecret uses do not constitute prior art" in *Gore v. Garlock*, 220 USPQ 220, 226 (D.C. N.D. Ohio 1982), aff'd 220 USPQ 303 (CAFC 1983).

V. *Gore v. Garlock*

W.L. Gore & Associates v. Garlock, Inc. *supra* has been interpreted as putting an end to the debate by resolving the conflict in favor of the patentee. Far from it!

Garlock does address the issue of prior secret use. The patents in issue were: 1) Wilbert Gore's `915 patent on the 401 tape-stretching machine, filed October 3, 1969; 2) Robert Gore's (Wilbert's son) `566 patent on a process for stretching unsintered PFTE (teflon) at stretch rates greater than 10% per second at temperatures above 35° C, filed May 21, 1970; and 3)

Robert Gore's `390 patent on products by the `566 process, also filed May 21, 1970.

Robert Gore experienced tape breakage problems when stretching unsintered PFTE using the 401 machine, and began experimenting to find a solution. In late October of 1969, he discovered, contrary to conventional thought, that rapid stretching of unsintered PFTE produced a remarkable breathable yet waterproof material. The results of his research lead to the `566 and `390 patents. In August of 1969, Gore and Associates offered to sell PFTE tape to be made on the 401 machine. This tape was shipped on October 24, 1969.

Cropper, a New Zealand inventor, had developed and constructed a machine for producing stretched PFTE tape in 1966. In 1967 Cropper sent a letter to a Massachusetts company offering to sell his machine. The letter described the machine's operation and a photo was enclosed. Nothing came of this solicitation. In 1968 Cropper sold his machine to Budd, who thereafter used the machine to produce PFTE tape in the U.S. Budd's use of the machine was subject to a secrecy agreement.

Gore and Associates brought an infringement action against Garlock in the District Court. The District Court held claim one of the `566 patent anticipated under 102(a) by Gore's use of the 401 machine (the court found the machine stretched at a rate greater than 10% per second at temperatures above 35° C at the time Gore filled the order for PFTE tape made using the 401 machine in October of 1969) and use by Budd of the Cropper machine. The trial court also held all claims of the `566 patent invalid under 102(b) by Budd's use of the Cropper machine.

Gore appealed to the Federal Circuit. The Federal Circuit found the record to support the District Court's finding that the limitations of claim one of the `566 patent were met by Gore and Associates' use of the 401 machine before Robert Gore's asserted late October 1969 date of invention. Robert Gore had made no attempt to show an invention date earlier than the date of shipment of the PFTE tape made on the 401 machine. Citing *Shimadzu* (307 U.S. 5, 1938) the court held "the nonsecret use of a claimed process in the usual course of producing articles for commercial purposes is a public use". *Gore*, 721 F.2d at 1549, 220 USPQ at 309. Having found claim one thus invalid Budd's use of the Cropper machine was not considered as grounds for invalidating claim one under 102(a).

Addressing the District court's holding regarding 102(b), the Federal

Circuit held that beyond the failure of the district court to consider the claims independently, and a failure of proof that the claimed inventions as a whole were practiced by Budd before the critical date, it was error to hold Budd's use was a public use, that activity having been secret. The Federal Circuit noted that Budd offered the tape for sale, not the process. Neither party contended that the public could learn the process from examining the tape. The Federal Circuit held that Budd and Cropper could forfeit patent protection on a patent filed more than a year after commercialization, but that there was no reason or statutory basis on which Budd's secret commercialization of the process could be held to bar the grant of patent to Gore on that process. The Federal Circuit remarked: "Early public disclosure is a linchpin of the patent system. As between a prior inventor who benefits from a process by selling its product but suppresses, conceals, or otherwise keeps the process from the public, and a later inventor who promptly files a patent application from which the public will gain a disclosure of the process, the law favors the latter. See *Horwath v. Lee* 195 USPQ 701 (CCPA 1977)." *Gore* 220 USPQ at 310.

The Federal Circuit's reliance on *Horwath v. Lee* is misplaced. *Horwath* involved an interference where the junior party/prior inventor had waited some five years before filing his application. It is significant that the Court did not cite *Kewanee* or *Dunlop* to clarify its position of the rights of the prior inventor/trade secret owner. This is obviously due to the fact that the prior inventor and his licensee were not parties in interest. Their activity was merely cited by the alleged infringer as invalidating the plaintiff's patent. Had Gore gone after Budd the issue might have been squarely addressed.

In any event the holding of Gore has been limited to an interpretation of 102(b). See *In Re Caveny* 226 USPQ at 4 (CAFC 1985); *D.L. Auld Co. v. Chroma Graphics Corp.* 219 USPQ 13, 16 (CAFC 1983); and *J.A. LaPorte Inc. v. Norfolk Dredging Co.* 229 USPQ at 438 (CAFC 1986).

The rights of a prior inventor/trade secret owner under 102(g), given *Kewanee* and *Dunlop*, have not been squarely addressed, as stated above. Even if the Federal Circuit should uphold the patent of a subsequent inventor/patentee on reasoning similar to *Gore*, it is not at all clear that the prior inventor/trade secret owner would be enjoined, as infringer. 35 USC §283 states that "[t]he . . . courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the *principles of equity* . . . on such terms as the court deems *reasonable*" (emphasis added). As Bennett points out: "The terms of this section (35 USC §283) are clear: injunctive relief is in the discretion of the court depending upon general principles of equity. The terms must be reasonable . . . It would seem that injunctive relief in the circumstances posited herein could be interpreted as violating the trade secret owner's right to substantive due process." Bennett, *supra* at 755.

Actually, the *Gore v. Garlock* decision hardly established a new principle. In the 1940 case of *Gillman v. Stern*, 114 F.2d 28 (2nd Cir. 1940), was sued for infringing Gillman's patent on a pneumatic "puffing" machine for quilting. One of the defenses set up by Stern was that a third party, Haas, had invented the machine prior to Gillman. Haas, however, had exploited the invention as secretly as possible.

The parallels between the two decisions are striking. Of course, a holding that a secret prior use by a third party does not invalidate a later patent is an entirely different proposition from a holding that a prior inventor/trade secret user is an infringer vis-a-vis a later inventor/patentee.

VI. Views of Commentators

Over the years and decades, many authors have recommended that the prior user be indeed granted a limited prior user or *in personam* right permitting him to continue to practice his invention. See, for instance, Benjamin, "The Right of Prior Use", 26 JPOS 329 (1944); Gambrell, "The Constitution and the In Personam Defense of First Invention", 39 JPOS 791 (1957); Gambrell et al., "The Second Inventor's Patent, The Defense of First Invention and Public Policy", 41 JPOS 388 (1959); and, in particular, and more recently, Bennett, *supra*, who even felt that such a right could be fashioned by courts without resort to legislation and that such a right would avoid an unconstitutional reading of Section 102(g) (P. 747); Burke ("The 'Non-Informing Public Use' Concept and its Application to Patent-Trade Secret Conflicts", 45 Albany Law Review 1060, 1981) who reasoned that:

> "In order to protect both patents and trade secrets from mutual destruction in the face of a conflict, <u>legislative action should be taken</u>. For the two systems to coexist, it is necessary for Congress to follow the footsteps of the other industrialized nations of the world and grant protection to both patents and trade secrets." (p.1077);

and Notaro, *supra*, who concluded that "equity and public policy considerations favoring the recognition of an *in personam* right clearly reflect the *Kewanee* (*Kewanee Oil Co. v. Bicron Corp.*, 181 USPQ 673, 1974) willingness to accept both patents and trade secrets as compatible forms of protection for technological development" (p. 361).

Lastly, K. Hormann and R.L. May, in their paper on "Prior Users' Rights", delivered at the 19th PIPA Congress held in Toba City, Japan, October 1988, had the following conclusion:

> "In the United Sates, a bona fide prior user of a subsequently patented invention may probably continue using the invention. Earlier statutes expressly gave him such a right. Under modern practice, the right may be inferred from the fact his prior use is in the nature of private property vested in him by common law.
>
> By way of suggestion to those advocating harmony among the three patent systems . .. I would say that the Japanese and German statutes relating to prior users appear to be of greater benefit to society at large and that the U.S., should it adopt a first-to-file system, would benefit from a similar statute because it has a potential for reducing current elaborate legal disputes."

See also Milgrim, "Trade Secrets", §8.02(3):

> "In practical effect, the foregoing analysis creates a kind of 'shop right' in the first inventor and his assigns and licensees predating the second inventor's patent issuance."

And Ellis, "Trade Secrets", §180, speaks of "intervening rights":

> "On general grounds it would appear that intervening rights should exist in favor of one who has made a substantial investment to enable the public to buy the product of his machine or process. The secret user learned nothing from and owes nothing equitably or legally to the

> subsequent inventor. If the latter is granted a patent, it should not be enforceable against the prior secret user.
>
> ****
>
> To give a patent to a subsequent inventor without barring him from suing the first inventor and secret user of the invention, would be to offer as a reward to anyone who could discover the invention by independent research the economic scalp of the first inventor and secret user. The only requirement would be to disclose the invention in a patent application. A user of a secret process or machine would never know when he would wake up to find he had to stop using his process machine in which he had perhaps invested thousands of dollars and built up a substantial business."

Yet another author called it a "personal easement on the invention". (Silverstein, "The Value of Patents in the United States and Abroad . . . ", 8 Cor. Int'l L. Rev. 135, 1975).

At any rate, no explicit statutory or decisional "right of prior user", "personal easement" or "*in personam* right" exists in this country. But the above authors have pointed out that such right

1) is a first inventor's common law right,
2) exists already in reissue law,
3) would be required by principles of equity,
4) and not according it would be taking property without compensation and, hence, would violate due process principles.

Two articles appeared recently in "The Computer Lawyer" (George H. Gates III, "Trade Secret Software: Is It Prior Art?", Vol 6 No. 8, August 1989, p. 11) and the "Journal of the Patent and Trademark Office Society", (Lisa M. Brownlee, "Trade Secret Use of Patentable Inventions, Prior User Rights and Patent Law Harmonization: An Analysis and Proposal", Vol. 72 No. 6 June 1990 p.523), respectively. Both argue against implementing prior user rights.

VII. Conclusion

From a narrow point of view, it may not be particularly material to a trade secret owner whether he is entitled to continued practice of his invention/trade secret because the later inventor's patent is either invalid or is not enforceable against him. However, from a broader vantage point, it may of course be in his interest that his invention, which is now in the public domain by way of the later inventor's patent, is not a free-for-all.

Thus, it is manifest and compelling that a right of prior user or *in personam* right should be enacted into law. It is badly needed. The arguments advanced in favor of such a right are eminently logical and convincing. It would be the best and ideal solution and compromise between the clashing public policy considerations and the illogical extremes now faced by first inventors/trade secret owners and second inventors/patentees.

Unless legislation is enacted providing protection for the prior user of a trade secret and also protection for the second independent inventor who secures a patent, there could be mutual destruction of patents and trade secrets and the legal situation woefully unsettled. The solution clearly is to let the patent stand without being invalidated by a prior trade secret use and the same time assure the trade secret holder that he will not be the subject of a later filed patent infringement suit. By protecting the rights of both parties the patentee would receive protection for his invention and the independent trade secret user would be allowed to continue using his invention. This solution would be in conformity with the *Kewanee* decision and would satisfy the constitutional mandate concerning the use of patents to promote the progress of the Arts and Sciences.

After all, a Constitutional award to one inventor does not mandate a Constitutional penalty to another, as Bennett said.

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CHANGING TIMES - THE EMERGING JURISPRUDENCE REGARDING THE STANDARD OF PATENTABILITY AND NON-PRIOR ART BASES FOR INVALIDITY

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INTRODUCTION

Rather much has been said recently, in some instances with a penchant for overstatement, with regard to the changes wrought in the last decade with regard to the "standard of patentability" (it has been lowered in the eyes of many) and what a sad state of affairs it is that patents which would have had no chance of being upheld in the period 1950-1975 are presently being found to be directed to unobviously patentable inventions. More accurately, the pendulum swing of the anti-patent sentiment which had existed for at least 25 years was arrested during the 1980's and a counter swing is well under way such that patents are now being assessed differently in the courthouses of this nation in making unobviousness determinations than was the case ten years ago. At the same time, there are substantial indications that matters which are within the patent applicant's control, e.g., the description, enablement and best mode requirements of 35 U.S.C. 112 and the requisite showing for reissue prescribed in 35 U.S.C. 251, are being treated with a judicial seriousness that did not exist during the heyday of patent bashing. Given the fact that each of us is responsible for protecting our clients from the adverse consequences of inadequate patent application drafting, you will want to be alert to the renewed emphasis being placed by courts on what it takes to hold up the patent applicant's end of the social compact which is the bedrock of the patent system, viz., a disclosure in compliance with the constitutional purpose of advancing the useful arts (as embodied in 35 U.S.C. 112) in return for an exclusive right.

Before turning to the emerging law relating to non-prior art bases for invalidity, it will be useful to outline the changes in social, economic and judicial attitudes toward patents which have been occurring during the last several decades.

<u>1950-1975 - 25 Years of Anti-Patent Thinking and Its Consequences</u>

During this period, "competition" was King (often without regard to whether such competition was fair or unfair and almost always without a workmanlike analysis of how competition might be enhanced by protecting technical innovation) and both political parties swore allegiance to vigorous enforcement of the antitrust laws. This was the Thurman Arnold school of antitrust and it proliferated much economically pernicious doctrine, including <u>per se</u> rules of antitrust violation which had the virtue of ease of application and the vice of economically undesirable result. Antitrust doctrine became so disorganized that one Supreme Court Justice (Stewart) was prompted to remark that "The sole consistency that I can find is that . . . . [in antitrust litigation] the Government always wins.", <u>United States v. Von's Grocery Co.</u>, 384 U.S. 270, 301 (1966).

At the same time, patents were erroneously viewed as "monopolies" (something they are not unless they contain a claim covering a relevant market, as finally recognized in Walker Process Equipment Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965)), and monopolies were and are viewed as the most evil of all antitrust violations. Entirely lost in this view of patents was that they are pro-competitive in the global economy because they protect against unfair competition (the Thurman Arnold school seemed unaware that there were competitors beyond our borders) and that protection of research and development investment through patents promotes technological competition. Worse, many industries of this era viewed patents as unimportant or bothersome, a view reflected in, e.g., the massive royalty-free cross-licensing of patents in the semiconductor industry (a practice that no longer exists).

In addition, the Supreme Court did much mischief in its patent decisions which contained language requiring a "flash of genius" or "synergism" or some other non-statutory requirement for patentability because, undoubtedly, it found difficulty in reasoning through to a conclusion of invalidity using the correct, but softer, test of unobviousness. Things got so bad that another Supreme Court Justice (Jackson) was moved to state, "the only patent that is valid is one which this Court has not been able to get its hands on.", Jungerson v. Ostby & Barton Co., 335 U.S. 560 (1949).

The prevailing philosophy of antitrust enforcement together with the near-impossible tests promulgated by the Supreme Court produced a judicial mind-set at the district court level that patents should be invalidated unless there was no alternative. The Patent Bar, asleep at the switch for far too long, did not seem to realize that it could substantially neutralize this mind-set by asking for jury trials in patent cases until very late in this era. Thus, district court judges invalidated patents in a huge percentage of cases, appellate courts only very rarely reversed a holding of invalidity and, other than Adams v. United States, 383 U.S. 39 (1966), the patent cases that got to the Supreme Court produced an unhappy result for the patentee and frequently produced unhappy language for patent owners everywhere.

The Post-1975 Era - Why Things Turned Around

Although the establishment of the Court of Appeals for the Federal Circuit in 1982 was a significant factor in improving the judicial climate for patents, much of what has come to pass in the last decade or so might have happened even without the creation of the Federal Circuit. Perhaps the single most important factor was the sea-change in the perceptions of economic consequences of existing law in the antitrust area. In the mid-1970's, Robert Bork's book "The Antitrust Paradox" was both intellectually influential and prophetic in explaining the irrational nature of antitrust enforcement as it then existed and in recommending approaches which were economically and legally sound. The first Reagan administration made Bork's views the cornerstone of its antitrust policies beginning in 1980 and those policies, i.e., elimination of many per se rules and return to the rule of reason, remain vigorous today. These policies, coupled with the growing realization that patents are not monopolies but rather are exclusive rights which are subject to being designed around and only rarely create market dominance, saw the end of the mindless antipathy to patents. Still further, growing global competition for U.S. companies produced the further recognition that patents are particularly pro-competitive in the international arena because the protection which they afford for research and development investment which is the financial fuel of technological, rather than price, competition.

At the same time, down at the courthouse, the creation of the Federal Circuit had the almost immediate effect of nullifying the Supreme Court-generated ersatz requirements for patentability such as flash of genius and synergism and the now-widespread practice of trying patent cases to juries was in the process of taking hold. Furthermore, as the 1980's progressed, the Federal District Court bench was being populated by an ever-increasing percentage of property rights-oriented judges who took a congenial view of the pronouncements of the Federal Circuit. Out of all of this has come our present circumstances in which patents fare much better in court then seemed even thinkable in the early 1970's.

NON-PRIOR ART ISSUES BECOME MORE IMPORTANT

The Law Seeks Equilibrium

In an era when prior art has become significantly less important as an invalidity hurdle for patents, two things have happened. First, non-prior art issues which courts found it unnecessary to reach at a time when a high percentage of patents were invalidated over prior art have, of necessity, been reached more frequently. Second, there appears to be a growing judicial perception that, if contested patents are to be held valid over the prior art in a substantial percentage of cases, the question of whether the patent owner has met his statutory obligation to provide a disclosure which meets the enablement, best mode and description requirements of the law will be given a harder look. Here is what has happened thus far:

Enablement

For reasons which are not entirely clear, the Federal Circuit has concluded that enablement is a question of law, Quaker City Gear Works, Inc. v. Skil Corp., 747 F.2d 1446, 1453 (Fed. Cir. 1984), Atlas Powder Co. v. DuPont, 750 F.2d 1569, 1576 (Fed. Cir. 1984), and thus can be decided by a court without submitting the question to the jury. However, even though a question of law, it can be decided by a jury if the parties agree to submit it to the jury, Allen Organ Co. v. Kimball International, Inc., 839 F.2d 1556 (Fed. Cir. 1988).

The key to compliance with the enablement requirement is whether that which has been disclosed permits the patented subject matter to be made and used without "undue experimentation." This is a subjective standard which introduces notions of reasonableness, White Consolidated Industries v. Vega Servo-Control, 713 F.2d 788, 791 (Fed. Cir. 1983). In White, the court held that one and a half to two years of effort to make use of a patent's disclosure was unreasonable and constituted undue experimentation. In the somewhat colorful language of In re Hawkins, 486 F.2d 569, 575 (CCPA 1973), the enablement requirement "effectively prevents applicants from patenting pipe dreams." Thus, the district court in Hormone Research Foundation v. Genentech, Inc., 708 F.Supp. 1096 (N.D. Calif. 1988), held the patent in suit invalid for lack of enablement because there was no evidence that the inventor or anybody else had been able to make the claimed product, a "synthetic" hormone, using the procedures described in the patent. However, on appeal, a panel of the Federal Circuit, in Hormone Research Foundation v. Genentech, Inc., ____ F.2d ____, 15 U.S.P.Q.2d 1039 (Fed.

Cir. 1990), vacated this decision because, in its view, the district court had not considered the effect of In re Hogan, 559 F.2d 595 (CCPA 1977), on the resolution of the enablement issue. Hogan holds that post-filing date evidence cannot be used to demonstrate that information not known at the time of filing should have been disclosed. A petition for rehearing has been filed.

The Federal Circuit has also recognized that some degree of tedious labor may be required to make use of the patent disclosure without running afoul of the enablement requirement. In In re Wands, 858 F.2d 731 (Fed. Cir. 1988), it was held that the patent applicant had complied with the enablement requirement in an application claiming a microorganism even though the microorganism had not been deposited and even though the screening procedures described in the patent would require a substantial amount of time and effort to obtain the desired result. The more recent holding in Northern Telecom, Inc. v. Datapoint Corp., ____ F.2d ____ (Fed. Cir. June 29, 1990, slip. op. pp. 19-24) is to the same effect with regard to a computer program.

It is, however, not entirely clear how the enablement requirement will be applied when a single embodiment is plainly enabled, but many other embodiments are claimed without being individually enabled. In United States v. Telectronics, Inc., 857 F.2d 778 (Fed. Cir. 1988), the district court held the patent invalid for lack of enablement because only stainless steel electrodes were enabled whereas the claims encompassed many different types of electrodes. However, the Federal Circuit reversed and held that, under the circumstances of that case, enablement of one embodiment was enough. Keeping in mind that it was held in In re Fisher, 427 F.2d 833, 839 (CCPA 1970), that the scope of enablement "varies inversely with the degree of unpredictability of the factors involved," it may be that the court in Telectronics believed, but left unsaid, that what was disclosed created a sufficient level of predictability for making and using other types of electrodes.

Compliance with the enablement requirement can be established by reference to materials outside of the patent to complete the enabling disclosure provided that such materials were available to those skilled in the art prior to the date the patent application was filed, but in Quaker City, supra, the court would not permit reliance on information of debatable availability to the public for this purpose.

Best Mode

While there were a few pre-Federal Circuit best mode decisions which staked out the fundamentals of the best mode requirement -- Union Carbide Corp. v. Borg-Warner Corp., 550 F.2d 355 (6 Cir. 1977), Dale Electronics, Inc. v. R.C.L. Electronics, Inc., 488 F.2d 382 (1 Cir. 1973), and Flick-Reedy Corp. v. Hydro-Line Mfg. Co., 351 F.2d 546 (7 Cir. 1977) -- such decisions were a minute percentage of the decided cases. It is plain that the decision in Spectra-Physics, Inc. v. Coherent, Inc., 827 F.2d 1524 (Fed. Cir. 1987), has now created a new awareness that an invalidating concealment of the best mode will result from a disclosure which makes a general reference to the best mode but which is so poor as to result in effective concealment. In Spectra-Physics, the patent disclosed that a brazing process had been used to fabricate the claimed laser, but failed to disclose the braze cycle comprising times, temperatures and pressures which had been developed by the patent applicants with considerable time and effort to permit them to obtain respectable yields of product and was held invalid for lack

of compliance with the best mode requirement. In so doing, the court gave effect to the holding of In re Nelson, 280 .2d 172 (CCPA 1960), that it is an essential element of the patent system that the patent applicant not disclose what is second best and keep the best for himself.

In the wake of Spectra-Physics, the decisions in Dana Corp. v. IPC Ltd., 860 F.2d 415 (Fed. Cir. 1988), Dana Corp. v. NOK, 882 F.2d 505 (Fed. Cir. 1989), Consolidated Aluminum Corp. v. Foseco International Ltd., ____ F.2d ____ (Fed. Cir. July 19, 1990), Northern Telecom, Inc. v. Datapoint Corp., supra, and Scripps Clinic & Research Foundation v. Genentech, Inc., 707 F.Supp. 1547 (N. D. Calif. 1989), have all invalidated patents for failure to disclose the best mode.

In addition, Dana Corp. v. NOK, observed that the same facts which gave rise to a holding of failure to comply with the best mode requirement could be the basis of a holding of inequitable conduct and in each of Scripps and Consolidated, it was found that deliberate failure to disclose the best mode constituted inequitable conduct. Scripps is presently on appeal.

Thus, the risks of failing to adequately investigate the best mode at the time of patent application preparation so that adequate disclosure can be made creates not only the risk of invalidity, but also the more difficult problem of inequitable conduct. A word to the wise . . . .

The Description Requirement

Failure to meet the description requirement can appropriately be viewed as the failure to disclose any mode and this appears to be the holding in Kennecott Corp. v. Kyocera International, Inc., 835 F.2d 1419 (Fed. Cir. 1987), and was the situation in In re Barker, 559 F.2d 588 (CCPA 1977). It is to be assumed that, for most patent lawyers, failure to meet the description requirement will be a rare event indeed, but the foregoing decisions demonstrate that nothing can be taken for granted.

Reissue

This could be a snare for the unwary. Although the law has long provided that not every defect in a patent can be cured by reissue and that there must be a showing of both an error in the patent and an error in the conduct of those preparing and prosecuting the original patent in order to meet the threshold requirements for reissue, the importance of attention to these requirements has been brought home in Hewlett-Packard Co. v. Bausch & Lomb, Inc., 882 F.2d 1556, 1564 (Fed. Cir. 1989), and Scripps Clinic, supra, where failure of the reissue declarations to demonstrate error in, as contrasted with dissatisfaction with, the patent resulted in invalidation of the reissue claims.

The holding of In re Weiler, 790 F.2d 1576, 1583, that "Insight resulting from hindsight on the part of new counsel does not, in every case, establish error." should be kept in mind. In addition, both Hewlett-Packard and Scripps demonstrate that reissue declarations which do not meet the requirements of law can raise serious issues of inequitable conduct as well. It is plain that the mere quotation of the statutory language in a reissue declaration is both inadequate and risky.

CONCLUSION

In today's world, the patentee is no longer as subject to unfair invalidation over prior art as once was the case, but non-prior art issues are growing in importance. It may well be that the United States patent system is reaching an equilibrium between reward for innovation and compulsion of full disclosure that accords with the aims of those who originally constructed it.

THE REVOLUTION IN PRELIMINARY INJUNCTIONS IN PATENT LITIGATION

Thomas L. Creel

INTRODUCTION

Prior to the establishment of the United States Court of Appeals for the Federal Circuit, preliminary injunctions were seldom sought in patent litigation. The regional courts generally required the patent owner to establish validity "beyond question." As a practical matter this meant that unless the patent had gone through a second proceeding after issuance, such as another litigation, to "strengthen" its statutory presumption of validity, no preliminary relief was possible. Furthermore, even for a valid "beyond question" patent, if the defendant could respond in damages, relief was often denied because the patentee would not be irreparably harmed.

Additionally, if the patentee did not seek preliminary relief soon after learning of a possible infringement, no preliminary relief was possible because the delay was thought to negate irreparable harm.

Soon after the establishment of the Court of Appeals for the Federal Circuit, however, cases such as Smith Int'l Inc. v. Hughes Tool Co. 718 F.2d 1573, 219 U.S.P.Q. 686 (Fed.

Cir. 1983), cert. denied, 464 U.S. 996 (1988), rev'g No. _______ (C.D. Cal. Dec. 15, 1982) (motion for preliminary injunction denied) heralded a revolution in the enforcement of patent rights. The Federal Circuit eradicated the formidable barriers that effectively prevented patent holders from preliminarily halting infringing activities. Today preliminary injunctions in patent infringement cases are decided on the same basis applicable to preliminary injunctions in other fields of the law.

The revolution occurred largely without a shot being fired. The Federal Circuit merely changed the ground rules. The patentee now need only have a "reasonable" likelihood that it can carry its burden of proving infringement by a preponderance of the evidence and that the infringer cannot carry its burden of showing invalidity by clear and convincing evidence. Indeed, if a strong enough showing is made on the validity and infringement issues, irreparable harm is presumed. In any event, irreparable harm has been redefined to mean that a patentee cannot be required to grant a continuing compulsory license, even if the infringer can respond in damages and even if the infringer may be largely out of business. The Federal Circuit has said that an infringer should be stopped "cold turkey" if all the requirements for a preliminary injunction have been met.

This paper provides statistics setting forth the frequency with which preliminary injunctions are now sought and granted and the grounds upon which preliminary injunctions are most often won or lost.

THE STATUS OF THE REVOLUTION TODAY

As noted, it was generally believed that preliminary injunctions were rarely granted in patent cases before the Federal Circuit was established. Surprisingly, a 1978 survey indicated that about 41% of preliminary injunction motions in patent litigation were granted despite the judicially-created obstacles. This early survey, however, spanned a twenty-five year period between January 1953 through September 1978 and incorporated only forty-seven cases reported in the United States Patent Quarterly, or less than an average of two decisions per year. The present survey includes seventy-three patent preliminary injunction cases available on a commercial legal database for only a seven year period from the Smith Int'l Inc. v. Hughes Tool Co. decision in October 1983 through April 1990 -- a quickening pace of more than 10 decisions per year on average.

I use the Smith International decision as a milestone because it was in this decision that the Federal Circuit first assigned to patent cases the same standard used in copyright cases. The circuit court stated that "where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed," adding "This is the rule in copyright cases."

Referring to Table 1, 69% of the cases leaving the Federal Circuit entitled the patent holder to a preliminary injunction for the period October 1983 through April 1990. For the same period this figure was 56% in the district courts and 59% overall.

<u>Table 1. Percentage of Preliminary Injunctions Granted* Since Smith Int'l. Inc. v. Hughes Tool Co.</u>

In the Federal Circuit	69%
In the Federal District Courts	56%
In the Federal Circuit and the Federal District Courts	59%

* This statistic represents the number of preliminary injunction motions granted out of the total number of preliminary injunction motions granted or denied. Cases where the Federal Circuit vacated the lower court decision are not included.

It is interesting to note here that 61% of the patents brought before the Federal Circuit between 1980 and 1988 were found not invalid after trial.* Thus, one may conclude from Table 2 that the success rate in obtaining a patent preliminary injunction, at least at the Federal Circuit level, is higher than the success rate after a trial on the merits.

* Note that the figure for winning patentees would be lower. This figure is only on the issue of validity. It does not include infringement or unenforceability determinations. Thus, the figure for winning patentees after trial is expected to be lower than 61% since it does not include infringement or enforceability determinations.

Table 2. Preliminary Injunctions Granted vs. Patents Found Not Invalid By The Federal Circuit

Preliminary injunctions granted	69%
Patents found not invalid by the Federal Circuit after trial	61%

The difference between the percentages at the Federal Circuit and district court levels is probably explained by the standard of review of the appellate court and the nature of the cases appealed. Appellate review of interlocutory injunctions is limited by rule 52(a) of the Federal Rules of Civil Procedure. Generally, the lower court decision "will not be disturbed on appeal unless (1) there was a clear abuse of discretion, (2) the court based its decision upon an erroneous legal standard, or (3) its decision was based upon clearly erroneous findings of fact."

This narrow scope of review, combined with a greater likelihood that those cases where preliminary injunctions were granted will be appealed, probably explains why more successful preliminary injunction motions are included in the statistics for the Federal Circuit. Substantial pressure is on an accused infringer to appeal a granted motion given its dependency on revenues generated from the infringing activity to cover litigation costs.

As shown in Table 3, at least 56% of the preliminary injunction cases before the Federal Circuit involved a patent that was not previously adjudicated. In the federal district courts, 84% of the cases involved unadjudicated patents. Overall, 77% of the patent preliminary injunction motions before the federal courts involved unadjudicated patents. Of those cases involving unadjudicated patents, roughly 60% of the motions for preliminary injunction were granted.

Table 3. Unadjudicated Patents & Preliminary Injunctions

In the Federal Circuit

Total number of cases involving adjudicated patents	7
Total number of cases involving unadjudicated patents	9
Total number of cases	16
Percentage of cases involving unadjudicated patents	56%
Percentage of preliminary injunctions granted among all cases involving unadjudicated patents	56%
Percentage of preliminary injunctions granted among all cases involving adjudicated patents	86%

In the Federal District Courts

Total number of cases involving adjudicated patents	8
Total number of cases involving unadjudicated patents**	42
Total number of cases**	50
Percentage of cases involving unadjudicated patents	84%
Percentage of preliminary injunctions granted among all cases involving unadjudicated patents	60%
Percentage of preliminary injunctions granted among all cases involving adjudicated patents	38%

In the Federal Circuit and the Federal District Courts

Total number of cases involving adjudicated patents	15
Total number of cases involving unadjudicated patents	51
Total number of cases	66
Percentage of cases involving unadjudicated patents	77%
Percentage of preliminary injunctions granted among all cases involving unadjudicated patents	59%
Percentage of preliminary injunctions granted among all cases involving adjudicated patents	60%

* Those cases where the Federal Circuit vacated and remanded to the lower courts are not included in these statistics.

** These statistics do not include Joslyn Mfg. Co. v. Amerace Corp., No. 89 C 5775 (N.D. Ill. Mar. 15, 1990)(where the court made no determination on the motion for preliminary injunction but scheduled an early trial).

The Present Battlefield Rules

The current criteria used to evaluate a motion for a preliminary injunction "sound" much the same as the previous standards. However, the subtle change in language accompanies an enormous difference in philosophy. The factors are now:

(1) Whether the plaintiff will have an adequate remedy at law or will be irreparably harmed if the injunction does not issue;

(2) whether the threatened injury to the plaintiff outweighs the threatened harm the injunction may inflict on the defendant;

(3) whether the plaintiff has at least a reasonable likelihood of success on the merits; and

(4) whether the granting of a preliminary injunction will disserve the public interest.*

"These factors, taken individually, are not dispositive; rather, the district court must weigh and measure each factor against the form and magnitude of the relief requested."** Apparently, this means that if a patentee does not have a strong case on validity and infringement, but a very strong case on irreparable harm, it is entitled to an injunction. Conversely, relief should be granted where there

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* Roper Corp. v. Litton Systems, Inc., 757 F.2d 1266, 1269 (Fed. Cir. 1985).

** Hybritech Inc. v. Abbott Laboratories, 849 F.2d 1446 (Fed. Cir. 1988).

is a strong case supporting validity and infringement, but a less persuasive case for irreparable harm.

Although no one factor is to be weighted heavier, courts have denied preliminary injunction motions based on just one factor.

Table 4 indicates that the most frequently cited reason for denying a preliminary injunction motion is no longer "no reasonable likelihood of success because the patent was not shown to be valid." Rather, the factor of lack of irreparable harm is now more frequently relied upon in denying a preliminary injunction.

Table 4. Reasons For Not Granting A Preliminary Injunction In Patent Cases Since Smith Int'l, Inc. v. Hughes Tool Co.*

REASONS**	NUMBER OF OCCURRENCES
A. No showing of irreparable harm	23
1. Movant's delay in filing suit was a factor	10
B. No reasonable likelihood of success	19
1. The patent was not clearly valid	11
2. No infringement was shown	11
3. Unenforceability or misuse found	1
C. Balance of hardships weighed against patentee	14
D. Public interest did not favor patentee	10

* These statistics were derived from a total of 32 cases through April 1990. The total here includes all cases where a preliminary injunction was denied, or where an injunction was granted by a lower court and vacated by the Federal Circuit, or where the district court set an early trial in lieu of a determination on the preliminary injunction motion.

** This table reflects the fact that preliminary injunctions were often not granted for a number of reasons. It therefore contains some overlap and the total number of reasons does not equal the total number of cases where preliminary injunctions were not granted.

CONCLUSION

In light of the revolutionary changes made in the rules of battle by the Federal Circuit, patent holders should consider a preliminary injunction motion. Not only is the likelihood of success in getting an injunction greater than ever before, but also the time required to get a trial may be reduced using Rule 65(a)(2), F.R.Civ.P. Indeed, in some jurisdictions, because of court congestion, it may be the only way to get the attention of the court at all. Furthermore, while the odds of winning a preliminary injunction at the district court level are lower than the odds of being entitled to a preliminary injunction after an appeal to the Federal Circuit, the likelihood that a preliminary injunction granted by a district court will be reversed on appeal or stayed pending appeal is slim.

LITIGATION FROM THE PERSPECTIVE OF HOUSE PATENT COUNSEL

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LITIGATION FROM THE PERSPECTIVE OF HOUSE PATENT COUNSEL

INTRODUCTION

The primary goal of patent litigation is to win. The definition of "winning" may vary from case to case, but achieving realistic goals identified at the outset as justifying pursuit of the litigation qualifies as a victory. It should be the obvious objective of any corporate patent department to manage all phases of the litigation, consistent with its personnel, skills, and other corporate responsibilities, in a manner calculated to result in an efficient, economical, intelligent pursuit of winning. This can not be an ad hoc process; it requires addressing and answering some very fundamental questions about the type of organization that will best serve the long-term intellectual property needs of the corporation, assembling the personnel capable of meeting those needs, and then utilizing those personnel in a manner consistent with their qualifications and professional interests and goals.

The managing of litigation is as important to having a good winning record as the managing of a professional sports team. Mismanagement of the litigation not only detracts from the substantive conduct of the litigation but often results in budget-busting costs and fosters lack of confidence by business executives in the ability to achieve the recognized goals, i.e., "win." The willingness to stay the course is compromised and losing or capitulation often ensues. Not every litigation can be won any more than every game result in victory, but by managing litigation properly and, importantly, demonstrating that ability to the corporate client, the chances for a winning record are measurably enhanced.

A. Identifying An Approach To Patent Litigation Compatible With The Corporation's Intellectual Property Needs and Goals

Not every corporation, not even every multi-billion dollar corporation, has the same needs when it comes to intellectual property. Corporations whose primary income derives from commodity products will hardly view the securing and protection of intellectual property in the same light as the corporation whose life-blood is innovation, high Research and Development expenditures, and a stream of new products. The latter will certainly demand a more aggressive approach to intellectual property litigation than the former. Not only the innovator but often the copyist as well is more apt to face the prospect of litigation as plaintiff or defendant on a regular basis. This translates into a need to have a patent department capable of serving an active role in the management if not the substantive process of the litigation.

The role of the corporate patent department in litigation may vary from a truly benign one of turning the litigation over to outside counsel, to the more active management of litigation using outside counsel as the litigators, to the sharing of the litigation process, to the discharge of the litigation function in its entirety. The time when litigation is imminent is not the time to decide the role the patent department is to play, particularly if the option of a more active, litigational role is to be available. To have that option requires staffing the department with attorneys having the experience, interest, skill and time to devote to the demands of litigation. Generally, the first and foremost need of the corporation is to have a corporate patent department capable of preparing and prosecuting patent applications covering corporate inventions. The second need is a staff capable of counseling the corporation on intellectual property matters and assisting in its licensing program. Litigation is generally at least a third-place need. In most instances, the expense of having a staff of qualified litigation specialists is not cost-effective. Certainly, there must be a track record of sufficient litigation or at least the prospect of such before a decision should be made to have a full-fledged litigation staff capability. Even if the corporation were willing to absorb the cost of such a staff, the lack of "playing time" will result in stale, disaffected personnel.

While there is much to argue against carrying a the bottom line is that most large corporations with fairly active litigation demands require at a minimum a few attorneys with sufficient litigational capabilities to direct an in-house litigation team, preferably also composing the attorney whose technical credentials and duties are most relevant to the patent in suit. Needless to say, the department must be willing to allow the members of the team sufficient time to discharge the duties expected of them. An important side benefit of having such staff capabilities is the educational benefits it provides to the entire department staff.

B. The Selection Of Outside Counsel

Intellectual property litigation is so complex and time consuming that in most cases involvement of outside counsel is essential. There are a number of considerations that must be taken into account in selecting outside counsel. Geographic proximity to the client and/or the venue of the court is one factor, especially if there is the possibility of regional bias by the court or more likely a jury. Geographical separation may also add to litigation costs but the difference in costs is rarely sufficiently substantial to be decisive. Having outside counsel whose technical competency is relevant to the technology of the patent in suit is another factor to be considered. The more complex the technology, the greater the need for an appropriate match.

By far the most important factor should be the competency of the individual outside counsel. And once that counsel has been identified, conflicts cleared, and representation accepted, consideration should be given to using such counsel on a regular basis. For the larger corporations with substantial litigational demands, there will be need for more than one regular outside counsel litigator. But there is great benefit to having a few individual litigators, preferably part of firms with a number of high quality litigators with varying technical backgrounds, to serve as regular outside litigation counsel for your corporate client. Over time, outside counsel becomes familiar with the workings of the corporation and patent department staff. The advantages to the litigation effort are obvious. Loyalty, a two-way street, is engendered. Particularly in this litigious era, conflicts are a problem for outside counsel. It is unrealistic if not unfair to expect on-going loyalty from outside counsel whose representation of your corporate client is infrequent.

Having an enduring, regular relationship between the patent department and outside counsel is beneficial not merely for litigation, present and future, but for other counseling opportunities with department staff. Another educational benefit.

C. The Relative Roles Of House And Outside Counsel

It is very critical to define for all concerned the respective roles of house counsel and outside counsel in the litigation. Outside counsel should in most instances control the strategy of the litigation. However, if consultation with house counsel is desired, that should be made clear, and ample time provided for the decision process to occur. This requires timely notification of all deadlines. Waiting until a deadline is imminent before consulting with house counsel frustrates the consultative process and detracts from the educative benefits intended to be derived from the relationship.

Scheduling conflicts are a prime source of problems. A recurring problem is commitments made for discovery by outside counsel before house counsel's availability is determined. On the other hand, house counsel can not expect that its schedule can always be accommodated. In many instances, opposing counsel will be calling the shots, and there will be little or no opportunity for flexibility. Where possible, however, outside counsel should at least attempt to accommodate house counsel's schedule.

Budgeting For Litigation

Before a corporation can decide whether litigation is warranted, it must be provided with a realistic cost estimate of the litigation. Once the relative roles of outside and house counsel are determined, each must estimate the cost of its services to arrive at a projected cost of the litigation for legal services. Needless to say, realistic cost projections are critical to making the ultimate decision as to whether or not to litigate.

As managers of the litigation, it is incumbent upon house counsel to insist upon realistic cost estimates from outside counsel. These estimates should be as detailed as is reasonable under the circumstances. Merely providing an overall cost is not enough. The charges should be broken down in terms of each outside attorney assigned to the team, as well as the cost of legal assistants and other litigation support people. Granted cost estimates can be only that, but by allocating costs to the various members of the team there is a greater chance that the overall estimate will be closer to the mark.

While an overall cost estimate is essential to arriving at the corporate decision to litigate or pursue another course, it is often equally important to break the estimate down in terms of corporate fiscal periods. What might be an untenable cost for one year may be acceptable if spread over two or three years. There is some opportunity for flexibility in spreading litigational expenses over a period of time. Thus, the original cost estimate for legal services should be broken down not only in terms of personnel but relevant time period.

As anyone who has been involved in litigation is aware estimating litigation costs is an inexact science to say the least. A major reason, but surely not the only one, is the lack of control over the opponents activities. Nevertheless, it is possible to give reasonably accurate projections based upon a certain level of yours and your opponents likely level of activity. The pressures on the business people to meet budgeting forecasts must be recognized. Ignoring such pressures results in disaffection for the litigation, which translates into succumbing to settlement offers that fall far short of the legitimate value of the litigation to your client.

The cost estimate must be updated as the litigation proceeds. Corrections for previously unexpected charges must be made. This serves to minimize if not avoid the feeling by the business people that the litigation is a runaway locomotive, which can only be arrested by settlement that can be tantamount to capitulation.

Administrative Litigation Support

While the role of house counsel in the substantive aspects of litigation depends upon a variety of factors that may well argue for a minor if not totally benign involvement of house counsel, there is much to be said for having house counsel and its support staff, including paralegals or legal assistants, play a major role in the administration of the litigation, particularly at the discovery stage. While patent litigation for a corporation may not warrant a staff of litigators, the combination of patent and general litigation is likely to justify having a staff of legal assistants that can play a significant role in the discovery phase, particularly such things as document production and computerizing documents. These aspects of litigation have a fairly universal aspect, independent of the nature of the litigation. It is here that substantial economies can be realized by having house counsel's support staff assume the litigation support role rather than paying for outside counsel's support staff to perform that function. In fact, there is strong justification for this due to the fact that house counsel's support staff is likely to be more aware of the relevant records of the corporation and the means to identify those records for production purposes.

Assuming house counsel has the support staff to assist in the administration of the litigation, it is critical to bring them on board at the outset of litigation so they can become familiar with the issues. Outside counsel must be advised of the role the support staff is expected to play and the insistence that the support staff be fully utilized to avoid duplication of effort with outside counsel's support staff. Ground rules must be laid as to the duties and responsibilities of the respective support staffs.

Continuing Communications Between Outside Counsel, House Counsel, and The Business Unit

It is imperative that there be continuing communication between counsel and the business unit as the litigation proceeds. There are many reasons for this, both from the standpoint of substance and continued support for the cause.

Substantively, the goals of the litigation that are defined at the pre-litigation stage are subject to change with business conditions. The product line relevant to the litigation may be altered from that prevailing at the outset of litigation. The economics of the business may change, altering the premises upon which the litigation was initially founded. Having periodic dialogues between all counsel and the business people is essential to assure that the litigation is proceeding consonant with the prevailing business conditions.

A more subtle benefit to be derived from such periodic dialogues is to keep the business people on board the litigation effort. By keeping the business people apprised of the progress of litigation, they are more likely to be supportive of the effort. Second-guessing and recrimination, corrosive to the commitment to the litigational cause, present and future, can ensue. Moreover, since patent litigation often spans a period of years, there is likely to be turnover in the personnel ranks of the business unit involved. Unless new personnel are not only made aware of the litigation but apprised of the current conditions, they are likely to be less supportive than the original participants. Ignorance of the litigation soon translates to non-support, again increasing the likelihood that the business people will succumb to settlement terms that fall short of reasonable expectations. The business people are also cognizant of the litigation risks, making them more likely to understand unfavorable decision results.

Risk Analysis

Analyzing the chances of success or failure in the substantive outcome of the litigation is an activity much in vogue in today's legal environment. Certainly there is a place in the decision-making process for such analyses. There is, however, a caution to be sounded, particularly against an overly mechanistic approach to the matter. Any risk analysis must not only take into account the chances of success on dispositive issues in the litigation but the direct and indirect benefits to be realized if success is achieved. The full effect of an injunction on the business presents a particularly elusive assessment when it comes to deciding whether to proceed with litigation. This is not to say that its effect can not be monetarized to some extent, but there are psychological benefits or detriments that will certainly arise in the market place if a product line must be withdrawn. Any risk analysis worth its salt must account for these psychological effects. It is a simple fact that if there are several dispositive issues related to validity of a patent, any potential result less than 100% victory will result in an overall chance of success approaching 50% or even less. Focusing only on that percentage figure, without factoring in the benefits to be derived if, for example, success is achieved and an injunction issued, fails to provide a true picture for the businessman-decision maker. Many would argue that sentiment, or more correctly vindication of right, should play no part in the decision-making process. However, a corporation's willingness to defend its intellectual property or refuse to pay tribute to a "weak" patent has some value, both to its technical personnel who have created and developed the property, and to its competitors. The respect so engendered has a real, if not monetarily discrete, value.

SUMMARY

The role of house counsel in patent or other intellectual property litigation requires, inter alia, a realistic appraisal of intellectual property in achieving the corporation's sales and profit goals. The greater the reliance on intellectual property the more justification there is for having house counsel staffed with attorneys having litigation expertise. It takes commitment and long-term planning to build a staff with the ability and flexibility to discharge a litigation function.

Whether or not house counsel has the skill and time to serve as trial counsel, there are substantial benefits to be derived from having house counsel sufficiently conversant with litigation to manage the litigation for the corporation. Having house counsel litigation support personnel is often both cost-effective and best suited to perform critical administrative functions in the litigation effort.

The selection of particular outside counsel requires taking into account a variety of factors. But getting the best individual attorney for the job should be paramount. And having selected that attorney, there are substantial benefits to seeing that over time the selected attorney (or others in his firm) is retained sufficiently frequently that a loyal relationship is engendered. These benefits are direct, in terms of familiarity with the technology and personnel of the corporation, and indirect, in terms of the educative value provided to house counsel staff who interact with outside counsel.

Success in litigation comes not only from having the facts and law on your side, so to speak, but from having a client confident in and supportive of the litigational effort. Creating and sustaining that support requires providing realistic cost estimates both initially and throughout the litigation. Avoidance of budget-busting surprises is critical to maintaining client support. This requires periodic update of cost estimates. Support and confidence of the business personnel also requires periodic review of the substantive progress of the litigation.

To accomplish all of the foregoing, it is imperative that house counsel inform outside counsel of the ground rules at the time counsel is retained. It is unfair and illogical to expect outside counsel to take upon itself the forging of communication links with the business personnel when there exists a house counsel interposed between the two.

TORTIOUS INTERFERENCE: CORPORATE REMEDY FOR BUSINESS INJURIES DUE TO INFRINGEMENT

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TORTIOUS INTERFERENCE IN GENERAL

Is it possible to win eleven billion dollars in an infringement lawsuit from a single cause of action? Pennzoil won this amount relying on a cause of action for tortious interference, and the same cause of action can be used in infringement actions. Although you may not win eleven billion dollars, a charge of tortious interference coupled with a cause of action for infringement can provide an injured corporation the maximum relief available for injuries to business.

Maximum relief means that in an infringement action, the corporate owner of intellectual property can obtain a remedy for damages to business relationships by the infringer. A charge of tortious interference allows the corporate owner to demonstrate to the fact finder the harm inflicted on existing and potential business relationships. Obtaining damages for this harm under an infringement cause of action alone has proven difficult. This difficulty can be reduced or eliminated by coupling a tortious interference cause of action with an infringement cause of action.

Tortious interference has not been frequently used in infringement actions, but this lack of use is not due to its inapplicability to intellectual property lawsuits. Rather, this infrequent use is primarily due to an unfamiliarity with this theory of relief. Since a tortious interference cause of action can open significant new avenues in litigation for the injured owner of intellectual property, a review and discussion of the law of tortious interference is appropriate.

Purpose of the Cause of Action

Tortious interference is actually a branch of the law of unfair competition. Interference with business relations is a form of unfair competition under state law, and § 44 of the Lanham Act.[1] It is, however, entirely governed by state law, and the federal courts only have jurisdiction in diversity or pendant jurisdiction cases.[2] For this reason, the purpose of tortious interference in infringement actions is primarily to provide a backup remedy.[3]

Elements of the Tort

Although modern courts disagree in some important respects as to the exact boundaries of liability for tortious interference, there is widespread acceptance of the elements of the tort. There are five specific elements of the tort. These elements are: (1) existence of a valid contract between the injured party and a third party; (2) knowledge by the interferer of the contract or knowledge of facts which should lead the interferer to inquire as to the existence of the contract; (3) intent by the interferer to induce or cause the third party not to perform; (4) action by the interferer that induces or causes nonperformance of the contract; and (5) resulting damage to the injured party.[4]

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[1] Callmann, Unfair Competition, Trademarks and Monopolies § 9.01 (1985).

[2] Id.

[3] Frandsen v. Jensen-Sundquist Agency, Inc., 802 F.2d 941, 947 (7th Cir. 1986).

[4] Williams v. Burns, 540 F. Supp. 1243, 1251 (D. D.C. 1982); Span-Deck, Inc. v. Fab-Con, Inc., 677 F.2d 1237, 1245 (8th Cir. 1982).

Where the interest disturbed is a contract, even one that is voidable or terminal at will, and the five elements are shown, the intentional interference is *prima facie* actionable.[5] Where the interest is only an expectancy, intentional interference is again actionable, but any legitimate commercial motive of the interferer can serve as an affirmative defense.[6]

The tortious interference prohibition also extends to mere negotiations.[7] For example, interference with negotiations for a license may be actionable. It must be established, however, that the interfering party actually interfered with pending negotiations which had a reasonable probability of concluding successfully.[8]

Recovery is also available for any act which retards, makes more difficult, or prevents performance or makes performance of a contract of less value.[9] If a licensee is wrongly forced to pay a royalty to an interferer in order to enter a license with an injured party, this action of retarding the entry into the license is actionable.[10]

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5 Restatement (Second) Torts § 766.

6 Restatement (Second) Torts § 767 comment f.

7 Morse v. Swank, Inc., 459 F. Supp. 660, 667 (S.D.N.Y. 1978).

8 Callmann, supra note 1 at § 9.11.

9 45 Am. Jur. 2d, Interference, § 41.

10 Universal City Studies, Inc. v. Nintendo Co., Ltd., 615 F. Supp. 838 (S.D.N.Y. 1985).

Justified

There are situations that despite proof of the five elements of tortious interference, the interference will be found to be justified or proper. Important facts to consider in determining whether the interference is justified or proper are the actor's motive and the interest sought to be advanced by him.[11] If the actor had no desire to effectuate the interference by his action, but knew that it would be a mere incidental result of the conduct he was engaging in for another purpose, the interference may be proper.[12] One who intentionally causes a third person not to perform a contract or not to enter into a prospective contractual relation with another does not interfere improperly with the other's contractual relation by giving the third person: (a) truthful information, or (b) honest advice within the scope of a request for the advice.[13] For example, if an owner of an intellectual property right or a trade secret notifies a party negotiating with an alleged infringer of the possibility of infringement and this notification results in a break down of the negotiations, this interference may be proper.

Similarly, it is not improper interference if: (a) the actor has an economic interest in the matter for which he wishes to influence the policy of another; and (b) the desired result does not unlawfully restrain trade or otherwise violate an established public policy; and (c) the means employed are not wrongful.[14] One

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[11] Restatement (Second) Torts § 767(B).

[12] Restatement (Second) Torts § 766(B).

[13] Restatement (Second) Torts § 772.

[14] Restatement (Second) Torts § 771.

who, by asserting in good faith a legally protected interest of his own or threatening in good faith to protect that interest by appropriate means, intentionally causes a third person not to perform an existing contract or enter into a prospective contractual relation with another does not interfere improperly with the other's relation if the actor believes that his interest may otherwise be impaired or destroyed by the performance of the contract or transaction.[15] This rule, stated in §773 of the Restatement (Second) Torts, gives to the actor a defense for his legally protected interest. It is of narrow scope and protects the actor only when: (1) he has a legally protected interest; and (2) in good faith asserts or threatens to protect it; and (3) the threat is to protect by appropriate means.[16] A typical example of this situation is the threat of a lawsuit by an owner of intellectual property if an infringing act is committed as a result of negotiations between two other parties.

__Privileged__

Liability also can be avoided if the interfering party can show that the interference was privileged.[17] For example, a parent company has a privilege of interfering with a contract between its subsidiary and another party if the parent does not use illegal means and is not motivated by malice toward the other

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15 Restatement (Second) Torts § 773.

16 Id.

17 __Hare v. Family Publication Service, Inc.__, 334 F.2d 953, 957 (D. Md. 1971).

party.[18]

Corporate employees also enjoy a privilege in their conduct. Any interference with a corporation's contract by an officer, director or employee of the corporation who is in good faith serving the corporate interest is privileged.[19] Officers and directors of a corporation, by virtue of their corporate offices, are permitted to take actions which have the effect of interfering with contractual relations between the corporation and third parties.[20] The privilege to take these actions rests on the basic principle that a corporation cannot tortiously interfere with an agreement to which it is a party.[21] Corporate officers are not outsiders meddling maliciously in the business affairs of the corporation. They are privileged to act on behalf of their corporations, using their business judgment and discretion.[22] Since officers hold policy making positions, their freedom of action aimed toward corporate benefit should not be curtailed by fear of personal liability.

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18 Conniff v. Dodd, Mead & Company, 593 F. Supp. 266, 269 (S.D.N.Y. 1984).

19 Mellor v. Budget Advisors, Inc., 415 F.2d 1218, 1221 (7th Cir. 1967).

20 DuSesoi v. United Refining Co., 540 F. Supp. 1260, 1275 (W.D. Pa. 1982).

21 Restatement (Second) Torts § 766.

22 Loenwenthal Securities Company v. White Paving Company, 351 Ill. 285, 300, 184 N.E. 310, 316 (1932).

A non-employee who stands in a close and confidential relationship with a party to the contract, also may be privileged to induce its breach.[23] For example, an attorney acting within the scope of a professional engagement as counsel is not liable to third persons for counseling a client to breach a contract, unless the attorney is motivated by personal interest or knowingly participates in the client's perpetration of a fraudulent or unlawful act.[24]

When the action of an officer, director or employee is detrimental to the corporation and outside the scope of corporate authority, however, immunity ceases to exist.[25] Corporations have been held liable for interference, even though its agents who actually carried out the scheme were non-malicious, when it was established that the corporation acted under the direction of corporate officers who had the requisite state of mind for tortious interference.[26]

Tortious interference can provide a basis for finding an officer personally liable for the harm caused, however. A corporate officer who participates in a tort, even if it is in the course of his duties, may be held individually responsible.[27] In one decision, a party asserted that as a corporate employee, an officer who acted on his employer's behalf was immune from a tortious

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[23] Callmann, supra note 1.

[24] Id.

[25] Avins, Liability for Inducing a Corporation to Breach its Contract, 43 Cornell Law Quarterly 55, 59 (1957).

[26] South Air, Inc. v. Architectural Mfg. Co. of America, 122 Ga. App. 711, 178 S.E.2d 542 (1971).

[27] Gear, Inc. v. L.A. Gear California, Inc., 670 F. Supp. 508, 522 (S.D.N.Y. 1987).

interference with contract suit unless he committed a separate tort apart from the alleged interference.[28] The court disagreed. The court said the trier of fact must decide whether the employee acted on his employer's behalf or for his own benefit when he terminated the contract. According to the court, the fact that the employee was employed by the corporation to exercise the authority he used to terminate the contracts did not immunize his conduct if he used his authority to further his own ends at the expense of the injured party.[29]

By commencing a lawsuit and announcing the commencement of the lawsuit an officer can also commit tortious interference. By willfully, deliberately and without justification inducing licensees and prospective licensees to refrain from dealing with another party by commencing a lawsuit and issuing one or more press releases in trade journals describing the litigation and threatening to commence litigation against such licensees and prospective licensees, an officer can be liable for tortious interference.[30]

Malice

Although some acts of interference may be allowed because they are justified or privileged, if the sole purpose of the actor is to vent his ill will, the interference may be improper although the means are less blameworthy than

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28 Seven D. Enterprises Limited v. Fonzi, 438 F. Supp. 161, 164 (Mich. 1977).

29 Id.

30 Gear, Inc. v. L.A. Gear California, Inc., supra note 27 at 670 F. Supp. 522.

privileged interference.[31] Tortious interference rests upon the general principle that to injure one without justification or privilege is actionable,[32] but most jurisdictions require more than this. Most jurisdictions require the conduct to be malicious.[33]

The term malice necessitates the balancing of the conflicting interests of the parties. A possible inquiry is whether the wrongful competitor's sole motive is to destroy the competition.[34] If the inquiry reveals the primary objective of an interferer is reasonable competition to realize profit at his competitors' expense, the fact that he wants his opposition to fail is not improper conduct.[35] All businesses at some point want their competition to falter. When the competitors' actions are intended to harm others for the sole purpose of preventing them from participating in the marketplace, however, the competition is not justified and is actionable.[36]

Damages

A cause of action for tortious interference allows the owner of intellectual property to obtain compensation for injuries to business. Although the major objective for providing compensation for tortious interference is to redress the

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31 Restatement (Second) Torts § 766B.

32 Harper & James, The Law of Torts, § 6.11 (1956).

33 Walker, Business Relationships, 35 Baylor Law Review 123, 126 (1983).

34 Id.

35 Id.

36 Id.

harm caused by the interferer, there is disagreement over the proper measure of recovery.[37] Three optional means of compensation have been recognized by the courts: (1) contractual, (2) negligence, and (3) intentional.[38]

The first possible manner of compensation suggests the liability of the accused party should rest upon the direct or foreseeable consequences of his act, i.e., a contractual theory.[39] Under this theory, the injured party is entitled to only nominal damages unless the harm arises naturally or was contemplated by the parties at the time they made the contract.[40] Under the contractual theory of compensation, the injured party is required to mitigate his damages if possible, and the court will not award punitive damages.[41] It has been argued that the contractual measure of damages directly conflicts with the basic principles of tortious liability since an injured party should not be limited to a contract basis of recovery when a tort cause of action is employed.[42]

An alternative means of recovery is under a negligence theory. This alternative means of recovery provides that the interferer's liability is limited to

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[37] See Note, Damages Recoverable in an Action for Inducing Breach of Contract, 30 Columbia Law Review 232 (1930).

[38] Walker, _supra_ note 33 at 136.

[39] Note, _supra_ note 37.

[40] Hadley v. Baxendale, 9Ex Ch. 341, 353 (1854).

[41] Walker, _supra_ note 33 at 136.

[42] Id.

the proximate damage arising from the interference,[43] and a duty to minimize the damages as a result of the interference exists.[44]

The most widely accepted measure of damages is based on the premise that since the interference is intentional, the compensation should reflect this form of liability.[45] The Restatement of Torts incorporates this theory of recovery.[46] Under this theory, the wrongful competitor is responsible for all damages for which its actions are a contributing cause. The injured party is under no duty to mitigate his damages under this method of compensation,[47] and the injured party may recover consequential and punitive damages.

Under the intentional interference theory, the liability of the wrongful

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[43] National Merchandising Corp. v. Leyden, 370 Mass. 425, 348 N.E.2d 771 (1976).

[44] Id.

[45] Walker, supra note 33 at 138.

[46] Section 774 (A), Restatement (Second)Tort provides the following:

(1) One who is liable for another for interference with a contract or prospective contractual relation is liable for damages for

(a) the pecuniary loss of the benefits of the contract or the prospective relation;

(b) consequential losses for which the interference is a legal cause; and

(c) emotional distress or actual harm to reputation, if they are reasonably to be expected to results from the interference.

(2) In an action for interference with a contract by inducing or causing a third person to break the contract with the other, the fact that the third person is liable for the breach does not affect the amount of damages awardable against the actor; but any damage in fact paid by the third person will reduce the damages actually recovered on the judgment.

[47] Id.

competitor includes loss of benefits from a prospective relationship, consequential losses for which the interference is a legal cause, emotional distress, and actual harm to business reputation.[48] Punitive damages are awarded under this theory if the wrongful competitor's conduct is outrageous, due to an evil motive, or due to reckless indifference to the rights of others.[49]

Attorney's Fees

Generally, attorney's fees are not recovered except when their recovery is provided for by statute or by contract.[50] This general rule, however, is not without exception. Where the wrongful act of the interferer involved the injured party in litigation or other detrimental relations for the purpose of vindicating the rights interfered with, making it necessary to incur expenses to protect his interest, such expenses, including attorney's fees, are treated as the proximate consequences of the wrongful act and may be recovered.[51]

Equitable Relief

An action for damages is often a belated and inadequate remedy, because the damage largely involves a loss of profit or a similar loss which is rarely susceptible of precise determination. The benefit the injured party is deprived of

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[48] Walker, supra note 33 at 138.

[49] Restatement (Second) Torts §908.

[50] Waldinger v. Ashbrook-Simon-Hartley, Inc., 564 F. Supp. 970, 981 (C.D. Ill. 1983).

[51] Callmann, Contractual and Bargaining Rights, Section 9.20, p. 105 (1985).

is, in many instances, an avenue to a new business connection, rather than the profit of only an immediate bargain.[52] For these reasons, a desirable remedy is an injunction.[53] Injunctive relief is available in tortious interference actions to prevent interference with a contract in the future when the ordinary grounds for such relief are established and there is a threat of future repeated harm.[54]

TORTIOUS INTERFERENCE IN PATENTS

Now having an understanding of the tortious interference cause of action it may be asked how would this tort occur in intellectual property matters. One common form of this tort in intellectual property matters is litigation or the threat of litigation. Litigation and the threat of litigation are powerful weapons. When wrongfully instituted, litigation entails harmful consequences to the public interest in judicial administration as well as to the actor's adversaries. The use of these weapons is ordinarily wrongful if the actor has no belief in the merit of the litigation or if, though having some belief in the merits, he nevertheless institutes or threatens to institute the litigation in bad faith, intending only to harass and not to bring his claim to definitive adjudication.

With specific regard to patents, tortious interference can result from

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52 Callmann, supra note 1 at §9.19.

53 Sinram-Marnis Oil Co. v. Reading-Sinram-Streat Coals, Inc., 160 N.Y.S.2d 775 (1957).

54 Adler, Barish, Daniels, Levin and Creskoff v. Epstein, 482 Pa. 416, 393 E.2d 1175 (1978). In appropriate circumstances, under the general rules relating to equitable relief one may be enjoined from conduct that would subject him to liability. Restatement (Second) Torts §766.

persistent threats to bring a patent infringement suit if it is shown that the threatening party had no intention of actually filing suit and had only made threats in an effort to stifle the injured party's business expansion.[55] A typical example of this activity is a case in which an interferer threatens another's prospective customers with suit for the infringement of his patent and either does not believe in the merit of his claim, or is determined not to risk an unfavorable judgment but instead, to rely upon the force of his threats and harassment.[56] In Coal Processing Equipment, Inc. v. Campbell, 578 F. Supp. 445 (S.D. Ohio 1981), Coal Processing Equipment ("CPE") alleged intentional interference with prospective contractual relations. The court referred to § 766(b), Restatement (Second) Torts, for a two-step analysis. The first step was to determine if there was intentional interference, and the second step was to determine if the interference was improper.

As for the first step, the court had no difficulty concluding that infringement letters sent by the patentee, Dr. Campbell, were sent for the purpose of inducing past and prospective customers of CPE not to purchase CPE equipment. In the court's words, Dr. Campbell directed his attorney, Mr. Johnson, to send the letters, and the letters expressly claimed infringement and demanded that the addressees cease using CPE equipment. According to the court, it was quite reasonable to conclude that the intent and impact of those

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[55] Sun-Maid Raisin Growers v. Avis, 25 F.2d 303 (N.D. Ill. 1928).

[56] Restatement (Second) Torts § 767.

letters was to interfere with the continuing and prospective contractual relations between CPE and its customers.[57]

The court said that to determine if the interference was improper in accordance with the second step of the analysis, it must turn to the considerations directed by § 767 of the Restatement (Second) Torts. According to the court, the conduct which actually interfered with the contractual relations of CPE, sending the infringing letters, was direct and overt. The letters specifically charged infringement and threatened suit; however, they did not specify what the nature of the alleged infringement was; indeed, they did not even identify CPE devices as the accused equipment. The failure to accuse CPE equipment specifically was, in the opinion of the court, undoubtedly due to the fact that Dr. Campbell wanted letters sent to the customers of another company as well as those of CPE, and Johnson used the same letter for each group of customers.

Nevertheless, the letters were neither specific as to equipment accused nor to the exact nature of the alleged infringement. The letters did not contain information to permit substantiation or verification by the addressees. Further, the court noted that there was no evidence, other than the letters, that Dr. Campbell intended to bring suit over the alleged infringement.[58]

The court also found that the interests of CPE that were interfered with by the infringement letters were substantial. The court noted that CPE had an

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[57] Coal Processing Equipment, Inc. v. Campbell, 578 F. Supp. 445, 464 (S.D. Ohio 1981).

[58] Id.

The patentee, Dr. Campbell, sought to prove good faith by asserting his right to rely on advice of counsel. The court said that the testimony of Dr. Campbell that he relied on the advice of his counsel in sending the infringement letters, which could support an inference of good faith, was substantially undercut by the fact that his attorney did not testify.[60]

Although empty threats to sue for patent infringement, such as in the Coal Processing case, can be tortious interference, charging a competitor's customers with patent infringement and refusing to sell to them may not be tortious even though the charges are shown to be false, where the infringement charges were made in good faith and with a belief that infringement would result from the use of that which was sold.[61] One may not be held liable in tort for asserting or threatening to protect a legally protected interest of his own which he believes may otherwise be impaired or destroyed by the performance of a contract or transaction.[62]

The general rule is that a patent holder has a right to protect his interest by notifying alleged infringers of his claims, even before a decree in his favor has been obtained. He may threaten suit against an alleged infringer, but he must act in good faith, not attempt to injure a competitor's business, and confine himself to

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60 Id.

61 Falcon Lock Co. v. Best Universal Lock Co., 362 F.2d 221 (9th Cir. 1966).

62 Grotrian Helfferich Schulz v. Steinway & Sons, 365 F. Supp. 707, 720 (S.D.N.Y. 1973).

publicizing only the information necessary for his protection.[63]

The prohibition against threats of litigation must be balanced with the fact that during the seventeen year life of a patent, a patent owner has a right to determine who may use, make, or sell its patented invention.[64] Under this right, a patent owner is not guilty of tortious interference with a contract between two parties where one party is to supply what the patent owner believes is an infringing device to a second party, and the patent owner refuses to sell a component to either party to be used in the infringing device. This interference is privileged since the patent owner in good faith is exercising his legal rights.[65]

A privilege may also exist in a patent license situation. A patent licensee may challenge a patent, and it is not tortious interference for the licensee to induce other licensees to cease paying royalties and join in the challenge of the licensed patent. In Hope Basket Co. v. Product Advancement Corp., 187 F.2d 1008 (6th Cir. 1951), Hope Basket Co. ("Hope") was engaged in the manufacture of baskets while Product Advancement Corporation ("Product") was engaged in licensing the manufacture of baskets under certain patents including a machine patent. Hope operated under those licenses paying royalties until several months after the expiration of the machine patent. Hope then wrote Product that the licenses were terminated as of the date of the expiration of the machine patent

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[63] 2 F. Callmann, The Law of Unfair Competition, Trademarks and Monopolies, § 42.4 at 254-255 (3rd ed. 1968).

[64] 35 U.S.C. §261.

[65] Whitehall Corp. v. Western Geophysical Co., 664 F.Supp. 1056, 1075 (S.D. Tex. 1986).

since the remaining patents were invalid.

In a subsequent lawsuit, Product alleged that Hope had wrongfully induced other licensees to breach their licenses and refrain from paying royalties to Product. Product relied upon the legal proposition of tortious interference that an action for damages lies against one who was not a party to a contract, but who wrongfully induced a breach or termination of that contract as provided in Lumley v. Gye, 2 El.Bl. (Q.B. 1852), 216 (118 Eng. Reprint 749).

In the lawsuit, the court noted that a prima facie case of tortious interference is established when an injured party proves the intentional procurement of a breach of contract; and, upon such proof, it becomes incumbent upon the accused interferer to show justification. The court noted that persuading and inducing other patent licensees to cease paying royalties and to contribute to a fund to be used in connection with prosecution of a lawsuit was not an act of bad faith made actionable by the rule cited by Product. The court found that Hope and the other licensees were justified in discontinuing the payment of royalties after the termination of the patent, and in having the question of further liability for royalties judicially determined. According to the court, justification of this type is a defense to the tort of inducing others to breach a contract.[66]

[66] Hope Basket Company v. Product Advancement Corp., 187 F.2d 1008, 1015 (6th Cir. 1951).

TORTIOUS INTERFERENCE IN TRADEMARKS

A tortious interference cause of action can also be asserted in trademark infringement situations. For example, in Airship Industries v. Goodyear Tire and Rubber, 643, F.Supp. 754, 756 (S.D.N.Y. 1986) an assertion was made that Airship Industries had been injured due to tortious interference. Airship Industries ("Airship") designed, manufactured and operated blimps. A significant portion of the business of Airship was the lease or sale of blimps to other companies for use in aerial advertising and related print, media and other advertising depicting blimps. Fugi, among other companies, promoted and advertised its services and goods in the United States and other countries by means of airships produced and operated by Airship Industries.

Goodyear had been operating blimps since 1919. In addition to using its blimps to promote its goods, Goodyear utilized the depiction of a blimp as a trademark in connection with its advertising, promotion and sale of goods. Goodyear filed two civil actions in Florida and Nebraska against Airship's customers seeking damages and injunctive relief based on the anti-dilution statutes in those states.[67]

Airship asserted an injury arising from tortious interference with prospective business relations. According to the court, this claim properly related to Airship's own interests and the consequences of Goodyear's actions. Goodyear asserted, however, that Airship's pleadings were defective because they failed to allege that

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[67] Airship Industries (UK) v. Goodyear Tire and Rubber, 643 F. Supp. 754, 756 (S.D.N.Y. 1986).

Goodyear's sole motive was to inflict injury or that Goodyear employed unlawful means to do so.

According to the court, the sole motive test does not reflect the current standard. The court emphasized that liability for tortious interference with prospective relations depended on proof of more blatant conduct on the part of the interferer, but did not require that the interferer's sole motive be malice.[68] The court said the elements to be considered in determining the liability of the alleged interferer were: (i) whether the interference was intended to advance a competing interest; (ii) whether the interference had caused an unlawful restraint of trade, and (iii) whether the means employed were wrongful. These elements, according to the court, may not be resolved merely on the basis of the absence of any allegation that malice was the sole motive of the interferer.[69]

The court said that Airship had also adequately pleaded that Goodyear employed wrongful means of interference. Its allegations in this respect were that Goodyear instituted the Nebraska and Florida actions in bad faith and threatened similar suits in bad faith. According to the court, the standard for proving such an allegation is very stringent.[70] The court said that litigation is ordinarily wrongful if the actor had no belief in the merits of the litigation, or if, though having some belief in its merits, he nevertheless instituted or threatened to institute litigation in bad faith, intending only to harass the third parties and not

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68 Id.

69 Id.

70 Restatement (Second) Torts § 767.

to bring his claim to definitive adjudication. The court ruled that this allegation and the allegation of interference of prospective contractual relations were sufficient to proceed in the lawsuit.[71]

Tortious interference can also be a cause of action in an action where the injured party does not have a cause of action for infringement but its trademark licensing relationships have been harmed. In Universal City Studios, Inc. v. Nintendo Co., Ltd., 615 F. Supp. 838 (S.D.N.Y. 1985), Nintendo Co., Ltd. (Nintendo) asserted that Universal City Studios, Inc. (Universal) tortiously interfered with Nintendo's licensing program.

Universal had certain rights to KING KONG that derived from prior litigation. There was no active program to capitalize on these rights or to protect them. Nintendo, independently of Universal, had started selling an arcade game called DONKEY KONG; first in Japan, and then in the United States. Coleco wanted to produce a home video cartridge version of DONKEY KONG under license from Nintendo. When this was learned by Universal, Universal sent telexes to Coleco and Nintendo asserting Universal's rights in KING KONG and claiming DONKEY KONG was an infringement of these rights. Universal made or sought no formal opinions or writings clarifying its rights before it sent the telexes.

Coleco, in an exercise of business judgment, capitulated to the demands of Universal and entered into an agreement with Universal. Nintendo declined to

[71] Airship Industries (UK) v. Goodyear Tire and Rubber, supra note 67.

make any concessions to Universal. Having received a list of Nintendo's licensees in discovery, Universal's counsel wrote to those licensees threatening litigation if agreements with Universal were not reached. Universal successfully convinced two other Nintendo licensees, including Atari, to enter into an agreement similar to that entered into by Coleco. In view of these facts, Nintendo sought damages for tortious interference with its licenses.[72] Evidence was provided at the trial that all of the initial activities by Universal relating to Coleco and Nintendo were undertaken without consultation with the officers of Universal usually involved in licensing and without reference to the in-house expert on KING KONG rights.[73]

The claim by Nintendo of tortious interference fell into three categories, relating to: (1) Coleco and Atari who breached material terms of their licensing arrangements but continued to perform their other obligations; (2) the existing licensees of Nintendo who breached their licenses and refused to perform as a result of Universal's actions; and (3) potential licensees who were dissuaded from doing business with Nintendo by the actions of Universal. The court said that the elements that must be proven to establish tortious interference with contractual relations were: (1) a valid contract between Nintendo and a licensee; (2) the knowledge by Universal of the contract and inducement of a breach; and (3) resulting damage to Nintendo.[74] The court held that Nintendo's cause of action

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[72] Universal City Studies, Inc. v. Nintendo Co., Ltd., 615 F. Supp. 838, 841 (S.D.N.Y. 1985).

[73] Id.

[74] Id.

for tortious interference failed with the respect to its contracts with Coleco because Nintendo had not proven a material breach of that contract.

According to the court, the facts did establish that as a result of Universal's threatened litigation, some licensees failed to pay guaranteed royalties due under the license agreements with Nintendo. The facts as found by the court also established that Universal had knowledge of the existence of these licenses when it took the actions that induced the breaches. The court said that interference in the form of a threat of litigation is improper and actionable only if the litigation is instituted without probable cause and for a purpose other than securing proper adjudication of certain claims.[75] The court said that liability for tortious interference with respect to these licensees hinged on whether or not the threats of litigation by Universal were based on good faith and probable cause.

The court said that the limited investigation by Universal of the merits of its underlying claim was intentionally structured so that the inadequacy of the claim would remain obscured while the collateral benefits of the litigation were enjoyed. According to the court, only by consciously avoiding discovery of the lack of merit of the underlying claim could Universal have hoped to accomplish its goal.

Universal also asserted that it was privileged to act as it did because it did so on advice of counsel. According to the court, probable cause exists when a party acts in reliance of advice of counsel, sought in good faith after full

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75 Id.

conscious disregard of the rights of others.

The court concluded that the conduct of Universal amounted to reckless disregard of the rights of Nintendo as well as the licensees of Nintendo and exemplary damages were justified.[80] The court said that an appropriate punitive damages award would be equal to the amount of legal fees incurred by Nintendo in defending against Universal's infringement action. While recognizing the unusual nature of this means of determining the size of award of exemplary damages, the court said that only such an award bears a reasonable relationship both to the harm inflicted and the flagrancy of the conduct causing the harm.[81]

Tortious interference with the trademark licensor- licensee relationship was also considered in a lawsuit involving the New York Giants professional football team. Although the New York Giants plays all of its home games in New Jersey, it avoids a New Jersey identification as strongly as a vampire avoids the cross. The defendant, The New Jersey Giants, Inc., was created and existed solely to exploit illegally the confusion engendered by the unwillingness of the professional football team to connect its name with the place it called home.[82] The other party to the case, National Football League Properties, Inc. (NFLP), was the marketing arm of the twenty-eight National Football League (NFL) member clubs, and was licensed by those clubs to use the NFL marks to promote the interests of

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80 Id.

81 Id.

82 National Football League Properties, Inc. v. New Jersey Giants, Inc., 637 F. Supp. 507, 229 U.S.P.Q. 785 (D.N.J. 1986).

the NFL and the clubs. NFLP contended that the defendant had tortiously interfered with business relationships by selling various items of sports related apparel bearing the words "New Jersey Giants". NFLP had established a licensing program through which it licensed selected companies to use NFL marks on specific articles of merchandise and in approved promotional programs. The court found that The New Jersey Giants, Inc. had engaged in no business other than the sale of unlicensed apparel bearing the mark "New Jersey Giants". The court noted that NFLP had no control over defendant's business activities or over the nature and clearly inferior quality of the merchandise sold by defendant.

The court additionally found that the sale of inferior quality merchandise bearing the NFL marks, or colorable imitations, would adversely affect NFLP's business.[83] Because the demand for merchandise bearing NFL marks was finite, the court stated that any sales of unlicensed merchandise bearing those marks would cause direct economic harm to the licensees of NFLP thus reducing the royalty payable by licensees to NFLP. It was also determined that the defendant's activities in the sale of its merchandise would interfere with NFLP's business and cause harm to its reputation and goodwill with licensees. If NFLP were unable to abide by its agreement to protect licensees from companies that use the NFL marks without authorization, the court said that licensees would lose confidence in the licensing program of NFLP and the value of a license would be impaired thus harming the business of NFLP.[84]

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[83] Id.

[84] Id.

Based on these findings, the court ruled that the defendant's conduct constituted tortious interference with the business relationships of NFLP with licensees of NFLP, with retailers of licensed merchandise and with the ultimate consumers of licensed merchandise.[85]

A tortious interference cause of action can also be used in trademark infringement situations, but care should be exercised in its application. If a trademark owner in good faith sends a warning of potential legal action to a customer of what the trademark owner considers to be an infringer, the trademark owner will not be held liable for insisting on its rights guaranteed to it by the Lanham Act.[86] An example of the failure to properly assert this cause of action occurred in Leopold v. Henry I. Siegel Co., 2 U.S.P.Q.2d 1715 (S.D.N.Y. 1986). Allison Leopold (Leopold) was a writer, fashion consultant, and designer of women's clothing. Leopold brought an action against Henry I. Siegel Co. (Siegel) a manufacturer of women's clothing. One of the claims for relief was damages for tortious interference with business relations.[87] Siegel argued that since the sole basis for Leopold's claim of tortious interference was a letter written by Siegel's counsel to the counsel for Leopold's distributor, and that the letter could not constitute tortious interference with Leopold's business relations as a matter of law because the letter at issue was not wrongful, it was a justified

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[85] National Football League Properties, Inc. v. New Jersey Giants, Inc., supra note 82 229 U.S.P.Q. at 794.

[86] Grotrian, Helfferich Schulz v. Steinway & Sons, 365 F. Supp. 707, 720 (S.D.N.Y. 1973).

[87] Leopold v. Henry I. Siegel Co., 2 U.S.P.Q.2d 1715 (S.D.N.Y. 1986).

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85 National Football League Properties, Inc. v. New Jersey Giants, Inc., supra note 82 229 U.S.P.Q. at 794.

86 Grotrian, Helfferich Schulz v. Steinway & Sons, 365 F. Supp. 707, 720 (S.D.N.Y. 1973).

87 Leopold v. Henry I. Siegel Co., 2 U.S.P.Q.2d 1715 (S.D.N.Y. 1986).

communication of a legitimate trademark claim.[88]

Leopold had applied for a Federal trademark registration for the mark SHORT CHIC for women's jackets and other clothes. Siegel had obtained a registration for the trademark CHIC for women's jeans. Siegel's attorney telephoned the attorney representing Leopold and stated that Siegel objected to Leopold's application for SHORT CHIC. Later, Siegel learned that J.C. Penney was adding a private label line of women's clothes to be sold under Leopold's name SHORT CHIC. Siegel's attorney then wrote a letter to the counsel for Penney regarding the rights of Siegel. This letter was the basis of Leopold's claim of tortious interference with business relations.

The court noted that Leopold did not explicitly argue that Siegel was unjustified in sending the letter, but maintained that the letter was improper because Siegel's primary motive was improper.[89] The court stated that a trademark owner is entitled to advise others of its trademark rights, to warn others that they or others are or may be infringing its rights, to inform others that it is seeking to enforce its rights through legal proceedings, and to threaten accused infringers and their customers with suit.[90] The court held that it was clear that it was not wrongful for Siegel to send Penney a letter advising Penney

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88 Id.

89 Leopold v. Henry I. Siegel Co., supra note 87 2 U.S.P.Q.2d at 1717.

90 Id.

of Siegel's trademark rights, and of Siegel's intention to protect it rights.[91] The court specifically found that Siegel's statement in its letter that it would take appropriate action to protect its rights and an inquiry in the letter by Siegel as to whether Penney planned to continue use of SHORT CHIC could not be reasonably construed as an improper threat.[92]

TORTIOUS INTERFERENCE IN UNFAIR COMPETITION

Tortious interference has been raised in unfair competition situations such as those involving former employees. An example of this use of tortious interference occurred in a lawsuit involving two former employees (Hon and Clay) of A. O. Smith Corporation. After leaving A. O. Smith, Hon and Clay began conducting negotiations with a contractor concerning a job, and the negotiations had reached a fairly advanced stage. At that stage of the negotiations, A. O. Smith sent a telegram to various interested parties, notifying them that it would take action to enjoin the two former employees from utilizing any A. O. Smith procedures. The proposed contract by Hon and Clay for the project was subsequently rejected,[93] and Hon and Clay alleged that the sending by A. O. Smith of the telegram constituted a tortious, unprivileged interference with the contract negotiations and resulted in the loss of the contract. The court ruled

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[91] Leopold v. Henry I. Siegel Co., supra note 87 2 U.S.P.Q.2d at 1718.

[92] Id.

[93] Hon and Clay v. A. O. Smith Corp., 320 F.2d 166, 168 (5th Cir. 1963).

that A. O. Smith was privileged to send its telegram so long as, in so doing, it acted in good faith, rather than malice, and on the belief that the contract negotiations would result in the impairment of the competitive value of those secrets by leading to their disclosure, and that the sending of the telegram would serve to prevent that disclosure.[94]

Hon and Clay responded by stating that the sending of copies of the telegram to various named parties conclusively established bad faith since there was no justification for A. O. Smith having sent the copies. The court said that those to whom the copies of the telegram were sent were, if not present customers of A. O. Smith, at least potential customers, and it could have been thought prudent to apprise them of the situation at the outset, rather than waiting until, because of litigation, deliveries by Hon and Clay were interrupted.[95] Based on these findings, the court ruled there was no tortious interference.

Enforcement of non-competitive clauses in employment agreements can also give rise to an allegation of tortious interference. In Emery v. Merrimack Valley Wood Products, Inc., 701 F.2d 985, (1st Cir. 1983), Leslie Emery (Emery) brought an action against his former employer, Merrimack Valley Wood Products, Inc. (Merrimack), alleging tortious interference with his contractual relationship with his new employer, Building Materials Distributorships (BMD). Emery had been hired by Merrimack to sell cabinets and mill work, and during his employment he signed a comprehensive employment agreement containing the restrictive covenant

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94 Id.

95 Id.

that gave rise to the litigation. In the restrictive covenant, Emery agreed not to be or become engaged in any competing company or industry during the term of the agreement, and if for any reason the employment with Merrimack was terminated, then Emery should not, through employment with any competitive concern or industry, directly or indirectly sell to, or cause to be sold any materials to customers to whom Merrimack had sold within the twelve months prior to the date of termination. That restriction extended for a period of one year from the date of termination.

Later, Emery was terminated and he obtained a job with BMD. BMD, like Merrimack, sold mill work and was in competition with Merrimack. Merrimack learned of sales by Emery to customers of Merrimack, and it retained an attorney who sent a letter to the President of BMD, pointing out that Emery was a former employee of Merrimack and that he had been contacting and selling products to customers of Merrimack. The letter went on to point out that Emery was under an employment agreement which prevented him from soliciting business from customers of Merrimack. Upon receiving the letter, BMD terminated Emery. Emery then filed a lawsuit against Merrimack alleging that Merrimack had tortiously interfered with his prospective and contractual relations.

The court said that the issue before it was whether the interference by Merrimack was proper; and more specifically, whether the letter sent by Merrimack was either privileged or otherwise justified under the circumstances.[96]

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[96] Emery v. Merrimack Valley Wood Products, Inc., 701 F.2d 985, 988 (1st Cir. 1983).

The court said to prevail on the affirmative defense of privilege, Merrimack must prove that: (1) it had a legally protected interest; (2) it made a good faith threat to protect this interest; and, (3) it acted by appropriate means.[97] The court held that Merrimack had a legitimate interest in assuring that Emery, who had received training from Merrimack, would not immediately use this training to Merrimack's detriment. The court also noted that as part of his training, Emery was introduced to customers of Merrimack. The court ruled that the letter sent by Merrimack advising BMD of the intention of Merrimack to take all necessary steps to protect its rights was undeniably appropriate. The court said that the restrained language used in the letter was in full accord with the standards set out in the Restatement (Second) Torts, Section 767, comment c.[98]

A cause of action for tortious interference is one that should not be overlooked by corporate owners of intellectual property. A charge of infringement provides a remedy for injury to the rights in intellectual property, but it is often an incomplete remedy. An infringement cause of action often does not reach the entire harm done by the infringer to the corporate owner's business relationships and lost customers or potential customers. A tortious interference cause of action allows the corporate owner access to a complete remedy for damages to its business.

You may not win eleven billion dollars in your next infringement action, but including a tortious interference cause of action along with an infringement

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97 Id.

98 Id.

cause of action will assure your corporate client of the most complete remedy possible.

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IV. If you must litigate then consider:

1. What are the objectives

   (a) yours:

   are they consistent with the client's

   should you take the case (conflicts/other is

   (b) client's:

   - financial objectives
   - injunctive objectives
   - competitive in trade

2. Costs

   (a) to you - can you handle the case effectively for the client

   (b) to your client:

   - financial cost/cash flow
   - resource costs (e.g., Int'l. Diamond Dist.)

3. Probability of Success

   factual evaluation

   egal evaluation

   the court in which it will be tried

OUTLINE

I. Why Litigate?

-because there is no other viable option to achieve the desired goal.

II. Election of litigation changes the game.

Litigation to a court decision is a zero sum game. Negotiation is not. [Consider what that means. - i.e., foregoing chance for both parties to benefit by abandoning negotiations]

III. Before Litigating Use Your Skills to Create Solutions

1) Evaluate your client's goals (all)
   Evaluate your opponents goals (all)
2) Consider all variables for settlement.
   Variables include:
   limited license (product/time/territory)
   royalty rates (increasing, decreasing)
   cross licenses
   product sale
   business sale
   forbearances
3) Consider settlement vehicles, including client negotiations, lawyer negotiating arbitration, mediation, court mediation, minitrials, etc.

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3. Probability of Success

factual evaluation

legal evaluation

the court in which it will be tried

4. Downside risks

to your client

- counterclaims
- reputation in trade and to customers

to you

- is it you can and should handle
- is the client going to be able to afford the case
- should you be a witness (see ABA notes)

5. Client evaluation

Strengths and weaknesses

financial

intellectual (intellect, resources, temperment, stamina & cooperation, attitude)

6. Your opponent and his attorney

Strengths and weaknesses

- if you win the case is the prospective judgment worth it
- can they pay
- is an injunction worth the efforts

7. The court