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Bright Ideas

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Message from the Chair


Joyce L. Creidy

Over the past two years, I have used this Message to encourage you to get involved and to urge you to attend Section programs not just for the excellent CLE but also to network with others in the IP arena and to motivate you to be proactive in your careers during these challenging economic times.

I am very pleased to say that many of you have done so; I have received many emails from members asking how they can join committees and assist in putting together roundtables. The last two programs the Section has offered—the Annual Meeting and Hot Topics in the Fashion and Cosmetics Industry—were over-subscribed. It was good to see attendees taking advantage of the events and using them as opportunities to expand their professional networks.

There is no shortage of program topics during this exciting period for IP law. Among the interesting recent or ongoing cases are *Bose*, *eBay*, *Egyptian Goddess*, *Bilski*, and *Authors Guild v. Google*. The future promises to be just as exciting as we see cases dealing with patents on genes and biotechnology. Recently, in *Association for Molecular Pathology v. United States Patent and Trademark Office*, Southern District Judge Robert W. Sweet granted plaintiffs' summary judgment motion and invalidated 15 claims in 7 patents that the PTO had granted to Myriad Genetics on the ground that genes are a product of nature and that allowing them to be patented would result in a barrier to testing, treatment, and prevention of disease. The patents at issue involved the isolation of a breast cancer and ovarian cancer gene and its sequencing. Clearly, this is just the beginning of litigation in this area, as biotechnology is a growing industry.

Patents make up a large part of the IP landscape, yet Professor Annette Kahler has shown that there is a large gender divide in patent law. At the last Section Executive Committee meeting, a Special Committee was created to build on Professor Kahler's research and expand it into the Trademark and Copyright fields. The Special Committee will be headed by Professor Kahler, who is also the Director of Albany Law School's Center for Law and Innovation. The Executive Committee looks forward to fashioning the Committee's objectives and deliverables, and we hope the information we gather will allow us to better serve our membership. We will be contacting you to help us with this undertaking.

I hope to see you at our upcoming programs: The Copyright Office Comes to New York in May; the 8th Annual Women in IP Program in June; and the Fall Meeting at the Otesaga in Cooperstown in October. Please check the NYSBA website (www.nysba.org/ipl) for more information on these programs and for upcoming round tables.

I look forward to completing my term as Chair and supporting the incoming Chair, Paul Fakler, in his endeavor to serve the growing membership of the IP Law Section. In closing, I would like to thank the officers and the members of the Executive Committee and the members of the NYSBA staff for making this a wonderful, positive experience and a successful term.

Joyce L. Creidy

Inside

Ariad Pharmaceuticals v. Eli Lilly: Change to the Written Description Requirement or Simply the Status Quo?

By Jonathan A. Muenkel and Landon R. Clark

I. Introduction

On March 22, 2010, the Federal Circuit issued its much-awaited en banc opinion in *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*[1] In a 9-2 decision, the court held that the written description requirement for patents under 35 U.S.C. § 112, first paragraph, is a separate and distinct requirement from that of enablement. The court also emphasized that the written description requirement does *not* apply only in the context of priority determinations (i.e., whether a patent applicant may rely on its original filing date with the United States Patent and Trademark Office (PTO) based on disclosures in the patent specification when the applicant later amends or broadens its claims). In other words, written description may be used to invalidate patent claims, even as originally filed.

The question arises whether the decision marks a change in how and when the written description requirement will be applied in patent litigation and in proceedings before the PTO or whether it simply maintains the status quo. Some, such as Ariad and research universities, are likely disappointed by the Federal Circuit's failure to overturn what they perceive as an overly restrictive written description requirement. Others—including several of the Federal Circuit judges—see the decision as properly affirming over 200 years of Supreme Court precedent and as having little real impact on patent validity determinations moving forward.

Other questions include whether the decision clarifies how the written description requirement should be analyzed and the likelihood that the Supreme Court will have the final word on the subject.

This article provides a brief history of the written description requirement and its application over the years, followed by a discussion of *Ariad*, including the initial Federal Circuit panel decision ("*Ariad I*"). We then look at the en banc decision ("*Ariad II*"), including the dissenting opinions, and discuss its practical implications and the likelihood it will be considered by the Supreme Court.

II. The Written Description Requirement

The written description requirement has existed in some form or another in U.S. patent law for over 200 years.[2] Under the current version of the Patent Act, 35 U.S.C. § 112, first paragraph, the requirement reads as follows:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.[3]

As explained below, much of the debate surrounding *Ariad II* was whether the written description requirement is separate and distinct from the enablement requirement. On the one hand, those opposed to the idea of the separate written description test look to the plain language of section 112 and to Supreme Court precedent such as *Tilgham v. Proctor*[4] and *The Telephone Cases*[5] for the proposition that the written description test need only enable a single means of practicing the claimed invention. *The Telephone Cases* specifically noted that the written description need only be detailed enough to enable one skilled in the art to understand, make, and/or use the invention. On the other hand, proponents of a separate written description test refuse to concede that the separate written description requirement is a relatively new construct, citing decisions in *Evans v. Eaton*[6] and *O'Reilly v. Morse*[7] as examples of the Supreme Court requiring more than just enablement for the written description requirement to be met.

While there has been much debate over whether statutory precedent and case law supported the notion of a separate written description requirement, there was little disagreement that prior to the Federal Circuit's 1997 decision in *Regents of the Univ. of Cal. v. Eli Lilly & Co.*,[8] written description under section 112 was used only in deciding priority of invention. Cases such as *In re Ruschig*[9] dealt with the issue of whether patent claims added or amended after the original filing date were sufficiently described by the patent applicant in its original specification to allow them to rely on the initial filing date for the new and/or amended claims in order to overcome certain prior art. The *Lilly* decision—written by Federal Circuit Judge Lourie—effectively broke this mold and was the first case to apply the section 112 written description requirement to questions of *validity*. The court held that a claim to a broad genus of genetic material was invalid because it was not supported by the specification describing only a single species of the genus. While the single species description may have met the enablement test, it was not a sufficient written description for purposes of section 112, first paragraph.

Many disagreed with *Lilly* (including several Federal Circuit judges), arguing that the decision effectively created a heightened and more exacting written description requirement that stood as an impediment to effective patent protection—especially for inventions in the field of biotechnology—and that was not supported by the language of section 112. Despite this, the Federal Circuit issued several decisions after *Lilly* that followed its reasoning and attempted to explain what was required to meet the written description requirement in biotech inventions. For example, in *Enzo Biochem, Inc. v. Gen-Probe, Inc.*[10] ("*Enzo II*"), a Federal Circuit panel vacated its own initial decision,[11] which had found that reference in a patent specification to public deposits of nucleic acid probes, in conjunction with functionality descriptions of those probes, did not meet the written description requirement absent disclosure of the probes' sequences themselves. Taking judicial notice of the PTO's own Written Description Guidelines, the court in *Enzo II* held that functional descriptions are not per se insufficient to meet the written description requirement so long as the functional description of the claimed genetic material is coupled with some other disclosures, such as complete or partial structure of the genetic material or a known or disclosed correlation between function and structure.

In *Amgen, Inc. v. Hoechst Marion Roussel, Inc.*[12] and *Capon v. Eshhar*[13] the court demonstrated the relevance of the "predictability or unpredictability of the science" when determining if a patent specification has met the written description requirement, and in *Univ. of Rochester v. G.D. Searle & Co.*[14] the court applied the "heightened" written description review to method claims using a compound that was insufficiently described. In *Rochester*, the court rejected the patentee's argument that the heightened written description requirement outlined in *Lilly* should be applied only to new genetic material. As a result of these decisions, many argued that it was difficult to know exactly what constituted sufficient written description to meet the requirements of section 112, most notably in the field of biotechnology.

Perhaps as important as the majority decisions in *Lilly* and its progeny were the dissents. Strong disagreement with the heightened written description requirement in *Lilly* was echoed repeatedly in separate opinions by several Federal Circuit judges, with Judges Rader, Linn, and Gajarsa leading the charge.[15] This split within the court as to how and when the written description requirement should be applied suggested that it was only a matter of time before the issue would be ripe for en banc review. *Ariad* offered the right set of facts and circumstances for this to occur.

III. *Ariad v. Lilly*: The Lead-Up to the En Banc Decision

A. District Court Proceedings

At issue in *Ariad* was U.S. Patent No. 6,410,516 ("the '516 patent"), which involved the discovery of the protein NF- κB and identification that reduction in NF- κB activity in the body could be used to reduce the harmful symptoms of certain diseases. The relevant claims of the '516 patent were to methods of regulating cellular responses to external stimuli by reducing NF- κB activity in a cell. Notably, the '516 patent did not claim any specific compounds capable of reducing NF- κB activity. Nor were any such compounds identified within the '516 patent specification. The specification did, however, describe three classes of hypothetical compounds thought capable of reducing NF- κB activity: (1) specific inhibitors, (2) dominantly interfering inhibitors, and (3) decoy molecules. Accordingly, the claims arguably encompassed the use of *all* substances capable of reducing NF- κB activity in the manner specifically described.

Ariad and other research institutions that held rights under the '516 patent (e.g., MIT, the Whitehead Institute for Biomedical Research, and the President and Fellows of Harvard College) brought a patent infringement action against Eli Lilly, claiming that Lilly's drug products Evista® (used to treat osteoporosis) and Xigris® (used to treat sepsis) infringed several method claims of the '516 patent.

Following a 14-day trial in April 2006, a federal jury in Massachusetts found that Lilly's accused drug products infringed the asserted claims of the '516 patent and that the claims were not invalid as anticipated or for lack of written description or enablement. The court subsequently denied Lilly's motion for a judgment as a matter of law and for a new trial. In May 2006, the trial court entered judgment against Lilly and ordered it to pay approximately $65 million in damages for past sales of Evista® and Xigris® and a 2.3% royalty on future sales of those products. Lilly appealed these rulings to the Federal Circuit.

B. The Federal Circuit Panel Decision

A Federal Circuit panel reviewed the denial of Lilly's JMOL motion, focusing on whether the claims of the '516 patent were adequately supported by the written description in the specification. Lilly contended that the specification for the '516 patent did not meet the written description requirement based on its failure adequately to disclose how to achieve the claimed reduction in NF-κB activity. By contrast, Ariad argued that written description was satisfied because the specification described three different methods of reducing NF- κB activity through the use of (1) specific inhibitors, (2) dominantly

interfering molecules, and (3) decoy molecules. Ariad further argued that since it was claiming only methods, not the actual molecules, it was not required to describe the molecules.

On April 3, 2009, the panel (Judges Prost, Moore, and Linn) reversed the trial court and found that Ariad's asserted claims were invalid for failure to meet the section 112 written description requirement. Specifically, the court held that for Ariad's method claims to meet the written description requirement, the description had to demonstrate "possession" of the claimed methods, which could be accomplished only by sufficiently disclosing specific molecules capable of reducing NF- κB. The panel found that of the three different methods discussed above, the '516 patent specification only disclosed decoy molecules, but even this disclosure was not a sufficient description of the method, since, the court found, the description was "not so much an 'example' as it is a mere mention of a desired outcome." The court also determined that the asserted claims of the '516 patent were "broad far beyond the scope of disclosure provided in the [patent's] specification."

In a concurring opinion, Judge Linn recognized that the decision was appropriate based on precedent, but wrote that it was based on a misguided approach to applying section 112. He argued that written description need be sufficient only to enable one having ordinary skill in the art to make and use the invention. Judge Linn further contended that the current course of written description jurisprudence confuses the issues and prevents the court from reaching the enablement issues raised by the 1997 *Lilly* decision.

C. The Federal Circuit's Decision to Rehear En Banc

The Federal Circuit granted Ariad's petition for a rehearing en banc. The court certified two questions for en banc review:

(1) Whether 35 U.S.C. § 112, paragraph 1, contains a written description requirement separate from an enablement requirement?

(2) If a separate written description requirement is set forth in the statute, what is the scope and purpose of the requirement?

In addition to briefing from Ariad and Lilly, the court accepted 25 amicus briefs: 17 in support of Lilly, 1 in support of Ariad, and 7 in support of neither party. Oral argument was heard on December 7, 2009.

IV. The En Banc Decision ("*Ariad II*")

On March 22, 2010, the Federal Circuit issued an en banc opinion reaffirming the decision in *Ariad I* that section 112, first paragraph, contains a written description requirement separate from enablement and that the asserted claims of the '516 patent were invalid for failure to meet the requirement.[16] The court was divided 9-2, with Judges Rader and Linn writing separate dissenting opinions. The majority opinion was written by Judge Lourie (a long-time proponent of this position and author of the 1997 *Lilly* decision), and joined by Chief Judge Michel and Judges Newman, Mayer, Bryson, Gajarsa, Dyk, Prost, and Moore.[17] The lengthy majority opinion addresses the following issues concerning the written description requirement:

A. Is a Separate Written Description Requirement Supported by the Text of Section 112?

The majority first found that a separate written description requirement is supported by the language of section 112, the first paragraph of which "contains two separate description requirements: a written description [i] of the invention, and [ii] of the manner and process of making and using [the invention]."[18] Disagreeing with Ariad, the court further stated that nothing in the statute's language or grammar implies that the written description requirement is satisfied so long as the description within a patent specification enables one of ordinary skill in the art to make and use the claimed invention.

The court declared that "[i]f Congress had intended enablement to be the sole description requirement of § 112, first paragraph, the statute would have been written differently."[19]

B. Is a Separate Written Description Requirement Supported by Supreme Court Precedent?

The court also found that Supreme Court precedent supported a separate written description requirement. Here, the court looked at the Supreme Court's decisions in *Gill v. Wells*,[20] *Schriber-Schroth v. Cleveland Trust*,[21] and, more recently, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*[22] Showing deference to these decisions, the court stated that "[a]s a subordinate federal court, we may not so easily dismiss…statements [made by the Supreme Court] as dicta but are bound to follow them."[23]

In addition, the court recognized the importance of the doctrine of stare decisis and that a decision in favor of Ariad would overturn written description law that has been followed for over forty years, effectively "disrupt[ing] the settled expectations of the inventing community."[24] Such a change, the court noted, should be made by Congress, not by the court.[25]

C. Can the Written Description Requirement Apply to Original Claims?

The court next turned to the issue of the scope of the written description requirement, namely, whether it applies outside the context of priority of invention determinations. In its principal brief and during oral argument, Ariad argued that the written description requirement—even if separate from enablement—should apply only

to amended and/or new claims, since original claims as filed constitute their own written description of the invention. Ariad also argued that the court's 1997 decision in *Regents of the University of California v. Eli Lilly* improperly expanded the role of written description beyond policing priority. By contrast, Lilly argued that the written description requirement applies to *all claims*, both originally filed and amended or newly filed claims, since section 112 contains no basis for applying a different standard to amended versus original claims.

The Federal Circuit agreed with Lilly that nothing in section 112 suggests that written description should only be used for determining priority.[26] The court further explained that while many originally filed claims will satisfy the written description requirement, certain claims will not. For instance, the court explained that applicants are likely to encounter written description problems with original claims that seek to cover a broad genus of chemical compounds unless a sufficient number of species are disclosed in the specification. As the court held in *Enzo II*, "generic claim language appearing *in ipsis verbis* [*i.e.*, in the same words] in the original specification does not satisfy the written description requirement if it fails to support the scope of the genus claimed."[27]

The court went on to note that the problem encountered with the written description requirement "is especially acute with genus claims that use functional language to define the boundaries of a claimed genus."[28] In such cases "the specification must demonstrate that the applicant has made a generic invention that achieves the claimed result and do so by showing that the applicant has invented species sufficient to support a claim to the functionally-defined genus." The court also reiterated that "functional language can meet the written description requirement when the [prior] art has established a correlation between structure and function." However, "merely drawing a fence around the outer limits of a purported genus is not an adequate substitute for describing a variety of materials constituting the genus and showing that one has invented a genus and not just a species."[29] This, the court explained, was the problem with Ariad's asserted claims of the '516 patent. Specifically, while the claimed methods encompassed a broad genus of materials to achieve a stated result, the patent specification failed to disclose a variety of species that could accomplish this result.[30]

D. What Is the Standard for the Written Description Requirement?

In an attempt to provide some clarification, the court next discussed the accepted standards to follow when analyzing patent claims and the written description requirement. First, it stated that to comply with the written description requirement, the description of the claimed invention provided in the patent specification "must clearly allow persons of ordinary skill in the art to recognize that [the inventor] invented what is claimed."[31] In other words, the specification must show that the inventor had "possession" of the claimed invention—an objective inquiry that is measured by one of ordinary skill in the art.[32] The court also stated that there is no bright-line rule in this regard and that each analysis depends on its own particular set of facts. Moreover, "the level of detail required to satisfy the written description requirement varies depending on the nature and scope of the claims and on the complexity and predictability of the relevant technology."[33]

In the case of generic claims, the court offered several factors that can be examined when considering written description, including: "[1] the existing knowledge in the particular [scientific] field; [2] the extent and content of the prior art; [3] the maturity of the science and technology [surrounding the claimed invention]; and [4] the predictability of the aspect at issue."[34] The court also set forth several "broad principles" that apply to all written description inquiries:

- The written description requirement does not demand examples or an actual reduction to practice; a constructive reduction to practice may be acceptable;
- Actual "possession" or reduction to practice outside of the specification is *not* enough to comply with the written description requirement. The specification itself must demonstrate the possession;
- The written description requirement does not demand any particular form of disclosure (or that the specification cite the claimed invention verbatim). However, a description that merely renders the invention obvious does *not* satisfy the requirement; and
- The court's written description requirement is not a "super enablement" requirement for chemical and biotech inventions. The written description requirement never required an applicant to provide a nucleotide-by-nucleotide recitation of an entire genus of claimed genetic material. It has always been acceptable to disclose structural features common to the members of the genus. Citing its decision in *LizardTech, Inc. v. East Res. Mapping, Inc.*, the court noted that it also has not just been applied to chemical and biological inventions.[35]

The court went on to note that "[p]atents are not awarded for academic theories, no matter how groundbreaking or necessary to the later patentable invention of others."[36] Moreover, the court stated that "[r]equiring a written description of the invention limits patent protection to those who actually perform the difficult work of the 'invention'—that is, conceive of the complete and final

invention with all its claimed limitations—and disclose the fruits of that effort to the public."[37]

E. Do the Asserted Claims of the '516 Patent Comply With the Written Description Requirement?

Finally, the court turned to analyzing Ariad's asserted claims and whether they met the requirements of written description. The court noted that Ariad's claimed invention (a method of reducing NF- κB activity) was "made in a new and unpredictable field where the existing knowledge and prior art was scant."[38] Similar to its ruling in *University of Rochester*, the court found that Ariad's patent specification did not support the written description requirement and was little more than a research plan. Moreover, the court found that the fact that the patent claimed only methods and not specific compounds did not absolve Ariad of the responsibility of describing "some way of performing the claimed methods."[39] In other words, Ariad must disclose *specific* compounds that are capable of performing its claimed methods of reducing NF- κB activity. Ariad's disclosure of three hypothetical classes of compounds that could accomplish this claimed method was insufficient and therefore did not meet the written description requirement. As the court stated, "a vague functional description and an invention for further research does not constitute written disclosure…."[40]

F. Concurring Opinion (Gajarsa)

Judge Gajarsa, in a short concurring opinion, expressed his doubt that the decision (specifically, the endorsement of a freestanding written description requirement) would have any real impact on patent validity determinations. He noted that empirical evidence demonstrated that "outside the priority context the written description doctrine seldom serves as a separate vehicle for invalidating claims."[41] While Judge Gajarsa further stated that the statutory language—and resulting written description jurisprudence—were somewhat ambiguous, he considered Congress to be best suited to provide ultimate clarification on this subject.

G. Dissenting Opinions (Rader and Linn)

In separate dissenting opinions, Judges Rader and Linn both expressed disappointment at the majority's decision, stating that a separate written description requirement has no support in the statutory language.[42] They further explained that the current written description test enunciated by the court provided little clarification and would be confusing to apply practically. Indeed, Judge Linn noted that the factors offered by the majority opinion mirror the factors for enablement as prescribed in *In re Wands*.[43] Finally, and perhaps inviting the Supreme Court to consider the case, Judge Linn took issue with the majority's statement that Supreme Court precedent supports its position.[44]

V. Conclusion

Those who hoped for a radical transformation of the written description requirement, and for elucidation of how such a requirement should be applied, are likely frustrated by the Federal Circuit's decision in *Ariad II*, which maintained written description law and strengthened the concept that written description is separate from enablement. It may be that the Supreme Court will have the final word on this issue. Given the Court's renewed interest in patent issues, this is conceivable. However, many feel that the Court will not take up the case because it does not necessarily rise to the same level of importance as the patent cases the Court has heard in recent terms. This, however, remains to be seen.

Endnotes

1. 2010 WL 1007369 (Fed. Cir. Mar. 22, 2010).
2. For example, section 3 of the 1793 Patent Act provided, in relevant part, that: "[E]very inventor, before he can receive a patent shall . . . deliver a written description of his invention, and of the manner of using, or process of compounding the same, in such full, clear and exact terms, as to distinguish the same from all other things before known, and to enable any person skilled in the art or science, or which it is a branch, or with which it is most nearly connected, to make, compound, and use the same."
3. 35 U.S.C. § 112 (2006).
4. 102 U.S. 707 (1881).
5. 126 U.S. 1 (1888).
6. 20 U.S. 356 (1822).
7. 56 U.S. 62 (1853).
8. 119 F.3d 1559 (Fed. Cir. 1997).
9. 379 F.2d 990 (C.C.P.A. 1967).
10. 323 F.3d 1013 (Fed. Cir. 2002).
11. *Enzo Biochem, Inc. v. Gen-Probe, Inc.*, 285 F.3d 1013 (Fed. Cir. 2002).
12. 314 F.3d 1313 (Fed. Cir. 2003).
13. 418 F.3d 1349 (Fed. Cir. 2005).
14. 375 F.3d 1303 (Fed. Cir. 2004).
15. *See, e.g., Enzo Biochem, Inc. v. Gen-Probe Inc.*, 323 F.3d 956, 978 (Fed. Cir. 2002) (Rader, Gajarsa, Linn, JJ., dissenting from denial of rehearing en banc); *Univ. of Rochester v. G.D. Searle & Co.*, 375 F.3d 1303 (Fed. Cir. 2004) (Newman, Linn, Rader, Gajarsa, JJ., dissenting from denial of rehearing en banc).
16. 2010 WL 1007369.
17. Judge Newman added a separate short statement, and Judge Gajarsa a short concurring opinion.
18. 2010 WL 1007369, at *4.
19. *Id.* at *6. The Court went on to explain that a separate written description requirement to describe one's invention is basic to patent law. "Every patent must describe an invention. It is part of the *quid pro quo* of a patent; one that describes an invention, and, if the law's other requirements are met, one obtains a patent. The specification must then, of course, describe how to make and use the invention (*i.e.*, enable it), but that is a different task." *Id.*
20. 89 U.S. (22 Wall.) 1 (1874).
21. 305 U.S. 47 (1938).
22. 553 U.S. 722 (2002).

23. *Id.* at *8.
24. *Id.*
25. *Id.*
26. *Id.* at *10.
27. *Id.* at *11.
28. *Id.* at *10.
29. *Id.* at *11.
30. *Id.* at *14.
31. *Id.* at *12.
32. *Id.*
33. *Id.* For example, the more complex and less predictable or less well-known the technology, the more detail is required within the specification in order to meet the written description requirement.
34. *Id.* at *12.
35. *LizardTech, Inc. v. Earth Res. Mapping, Inc.*, 424 F.3d 1336, 1343-47 (Fed. Cir. 2005) (applying written description requirement to patent concerning the use of wavelet transforms in digital imaging compression).
36. 2010 WL 1007369, at *14.
37. *Id.*
38. *Id.* at *15.
39. *Id.* at *16.
40. *Id.* at *17.
41. *Id.* at *21 (citing Dennis Crouch, *An Empirical Study of the Role of the Written Description Requirement of Patent Protection* 12 (Univ. of Mo. Sch. Of Law Legal Studies Research Paper No. 2010-06 2000), *available at* http: / / ssrn.com / abstract=1554949) and Christopher Holman, *Is Lilly Written Description a Paper Tiger?: A Comprehensive Assessment of the Impact of Eli Lilly and Its Progeny in the Courts and PTO*, 17 Alb. L.J. Sci. & Tech. 1, 26-78 (2007)).
42. *Id.* at **22-34 (Rader & Linn, JJ., dissenting).
43. *Id.* at *29 (Linn, J., dissenting) (citing *In re Wands*, 858 F.2d 731, 737 (Fed. Cir. 1988)).
44. *Id.* **29-31.

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The S.515 Manager's Amendment: Negative Consequences for Patent Owners in Ex Parte Reexaminations and Calamitous Repercussions for the Inventive Community

By Charles E. Miller and Daniel P. Archibald

I. Introduction

America's patent system, currently administered in large part by the United States Patent and Trademark Office (PTO), was created when Congress enacted the Patent Act of 1790[1] pursuant to its power "to promote the Progress of…the useful Arts by securing for limited Times…to Inventors the exclusive Right to their…Discoveries."[2] Over the ensuing 220 years, Congress continued to exercise that power through successive legislative enactments, the most recent comprehensive manifestation of which was the Patent Act of 1952,[3] codified as title 35 of the United States Code ("the 1952 Act").[4] Initially, the 1952 Act incorporated some of the provisions in preexisting statutes and treaties and codified some case law. It, in turn, has been revised a number of times by Congress, always for the express purpose of improving the rights of the inventive community, the overall fairness of the patent system, and the administration of justice. Unfortunately, the PTO is now pressing for legislation that would significantly and dangerously expand its authority over patent issuance and reexamination. As we explain, this legislation, if enacted, would have an immediate negative impact on patent owners and serious long-term consequences for the nation's patent system.

II. Background

The March 4, 2010 Manager's Amendment of S.515 is the 105-page Senate version[5] of the pending Patent Reform Act of 2010. Consisting of eighteen sections, it represents the latest chapter in the ongoing effort on Capitol Hill to restructure the U.S. patent system in response to lobbying pressure from business, political, and bureaucratic interests that in many respects are not aligned with each other nor with those of inventors, owners and legitimate users of patents and inventions, or the public.[6]

Despite the generally favorable reaction to the Manager's Amendment as a whole by commentators and bar associations, certain provisions in sections 6 and 8 should be deleted from the bill. If enacted they will abolish the fundamental statutory right of patent owners to de novo review by a district court of adverse PTO decisions in ex parte patent reexaminations, thereby leaving direct appeals to the Federal Circuit as the only recourse. But because of the Federal Circuit's highly deferential "substantial evidence" standard of review of PTO decisions on a closed evidentiary record, in the absence of reversible legal error, the PTO's Patent Trial and Appeal Board (the presumptive new name for the Board of Patent Appeals and Interferences)—would effectively become the tribunal of last resort for patent owners. Further, the ability of other entities, e.g., patent applicants, to seek effective de novo review—and correction—of PTO decisions would be hampered because the Manager's Amendment would divert that review to a venue (the Eastern District of Virginia) where the decisions of federal agencies are perceived to be viewed with less circumspection than in the current venue (the District of Columbia).

These changes would send the patent system down a slippery slope toward the eventual eradication of organic statutory provisions in the 1952 Act for de novo judicial review in other types of ex parte matters decided by the PTO, including not only patent applications but also patent term adjustments[7] and disciplinary proceedings,[8] thereby profoundly altering the U.S. patent system in negative ways by abrogating long-standing statutory rights to specific judicial relief for those aggrieved by the agency's rulings. Why is the PTO doing this? For what purpose? The answer lies in the agency's desire to limit review of its decisions, which it cannot lawfully do under its current rulemaking authority.

A. Patent Reexamination

"Patent reexamination" denotes a statutory proceeding conducted in the PTO at the request of the patent owner or any third party[9] during the period of enforceability of the patent[10] whereby the agency that issued the patent in the first instance can reevaluate the validity of one or more claims in the patent in light of published prior art cited by the requester as raising "a substantial new question of patentability" of the patented (claimed) subject matter.[11] Reexamination can be either "ex parte," in which active participation during the prosecution phase is restricted to the patent owner and the PTO, or "inter partes," in which both the requester (always a third party) and the patent owner participate actively throughout the proceeding.[12]

Ex parte patent reexamination was instituted when Congress enacted the Patent Law Amendments Act of 1980,[13] which included the addition of Chapter 30 (initially entitled "Prior Art Citations to Office and Reexamination of Patents")[14] to Part III[15] of the 1952 Act. Since its inception, Chapter 30 has consisted of 35 U.S.C. §§ 301-307,

which have remained essentially unchanged. Ex parte reexamination has been applicable since July 1, 1981 to patents within the period of their judicial enforceability.[16]

Congress's purpose in establishing patent reexamination was to "strengthen investor confidence in the certainty of patent rights by creating a system of administrative reexamination of doubtful patents."[17] As a consequence, increasing numbers of patents are being subjected to reexamination—both ex parte and inter partes. The choice of one or the other depends in large part on when the patent was applied for[18] and on the party requesting reexamination.[19] Such proceedings have become a recognized adjunct to court enforcement litigation by which the patent owner, or the party challenging the patent, may seek to administratively validate or invalidate the patent(s)-in-suit, as the case may be, or on which the challenger may seek to base a motion to stay the litigation or to forestall an injunction.[20]

B. Judicial Review of PTO Decisions on Patent Applications and in Ex Parte Patent Reexaminations

The Administrative Procedure Act (APA), 5 U.S.C. § 706, codifies the general understanding that parties aggrieved by government agency action have presumptive standing to seek judicial review under the three-part test (pure question of law, finality, and immediate hardship) for fulfillment of the "ripeness" and "case or controversy" requisites for justiciability and Article III court jurisdiction.

Currently, patent applicants[21] or owners of patents in ex parte reexaminations[22] who are dissatisfied with the PTO's decisions under 35 U.S.C. § 134 can seek judicial review in either of two fora. This is because the PTO is one of the Executive Branch agencies whose final decisions in certain types of ex parte cases are statutorily subject to separate, dual jurisdictional routes of review by Article III courts.[23] Thus, inventors and patent owners who are dissatisfied with PTO rulings[24] on examiners' rejections of patent applications and claims in issued patents, respectively, can seek judicial review by appealing directly to the Federal Circuit.[25] In the alternative, they can sue the PTO in the U.S. District Court for the District of Columbia to obtain de novo review by trial.[26] These alternative routes of judicial review have always been non-redundant and mutually exclusive.[27]

The availability of these two different routes of judicial review of PTO decisions has been a feature of our patent system since long before the inception of ex parte reexamination in 1980,[28] when Congress conferred upon patent owners a similar dual right of judicial review.[29]

C. Civil Actions in District Court for De Novo Review of PTO Decisions

Under 35 U.S.C. § 306 the patent owner in an ex parte reexamination can seek judicial review of an adverse PTO decision by either of the two aforementioned routes. De novo review by trial in district court can be had by commencing a civil action against the Director of the PTO under section 145, which is incorporated by reference in section 306. The text of section 306 is as follows:

> The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 145 of this title, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent.

From a historical perspective, a civil action against the PTO is tantamount to what was known in chancery courts as a bill in equity, seeking non-monetary declaratory relief against the sovereign (viz., overruling the agency's grounds, for example, in refusing to grant a patent to an applicant or to issue a certificate of patentability of the claims in a patent in an ex parte reexamination). Unlike a direct appeal to the Federal Circuit under 35 U.S.C. § 306 / § 141, a civil action under sections 306 / 145 in an ex parte reexamination, just as in cases under section 145 involving patent applications, is an intermediate trial proceeding[30] which is part and parcel of the overall reexamination process,[31] because the losing party (be it the plaintiff patent-owner or the defendant PTO) can appeal to the Federal Circuit as of right.[32] A civil action under sections 306 / 145 in essence seeks to set aside the PTO's decision as being wrong on the facts, wrong on the law, or both through a trial in which the issues that were before the agency are adjudicated in light of the facts that "may appear" in the case, i.e., that were of record before the Board, *and* additional evidence that the parties may choose to present. The final judgment of the district court, if favorable to the plaintiff patent-owner, "authorizes" the PTO to issue a certificate of reexamination if the PTO has not appealed to the Federal Circuit or, if appealed, the Federal Circuit has affirmed that judgment.

The availability of de novo district court review of PTO decisions in ex parte reexaminations is crucial to the public interest in the enforceability of valid patents. It also promotes fairness in the overall process in several ways. First, an appeal to the Federal Circuit is decided on a closed fact record, i.e., neither side is allowed to present new evidence, the court will look only at the paper record that was compiled during proceedings in the PTO. In contrast, in a district court's de novo review of an ex parte reexamination, the parties—both the patentee and the PTO—may adduce new evidence, for example, live testimony (expert as well as factual), new affidavits, new test results, and the like—all subject to cross-examination in an adversarial courtroom proceeding quite unlike that in an administrative appeal in the PTO.

Second, a district court action involves a plenary trial before a judge who has the power to subpoena third-party witnesses and to compel production of evidence that otherwise would be unavailable (in the PTO, one rarely if ever has an opportunity to present live testimony in a trial-like setting), so this may be the only time certain evidence can be adduced in any tribunal.

Third, the Federal Circuit will defer to PTO fact findings and will disagree with the agency only if there is no substantial evidence in the record to support the challenged decision.[33] In contrast, the district court reevaluates the totality of the evidence and fact findings de novo when further evidence is presented.[34] Thus, if patentability turns on a determination or assessment of what was and what was not known at a particular relevant point in time or on an interpretation of the content of a prior-art document or the like, then the plaintiff has two key advantages in district court that are lacking in a Federal Circuit appeals: the right to present new evidence and to obtain a "hard look" review by a "fresh pair of eyes" in an Article III trial court whose judgment is, in turn, appealable as of right to the Federal Circuit under a "clear error" standard of review. This type of judicial review serves as an important check on PTO decision-making and tends to promote the accuracy of ultimate rulings.

D. The PTO Has Long Made Known Its Distaste for District Court Review

The PTO dislikes having to defend its decisions in de novo district court trials for reasons having no demonstrable relevance to the PTO's widely publicized concerns over inadequate PTO funding and professional staffing or to the patent application backlog, including the growing number of administrative appeals pending before the Board. Ironically, by precluding civil actions in district court, the Manager's Amendment would unduly burden not only patent owners financially but also the PTO. Patent owners are understandably concerned lest they find themselves in need of supplementing the evidentiary record, which they cannot do in the Federal Circuit. Therefore, the tendency would be for them to seek to ensure a complete record for the Federal Circuit to review by larding the record in the PTO and burdening an already overworked agency with every shred of conceivably relevant—and otherwise potentially unnecessary—evidence.

Rather, one suspects that the reason has to do with the fact that, as noted, district court trials make for a level playing field in contests between the PTO and the private sector. Like all lawyers, PTO attorneys don't like to lose, even though their client is a government agency whose mission is not to win cases but, rather, to see to that the patent laws are faithfully applied. Hence, one has a right to expect that the PTO's mission to see justice done would supersede the agency's desire to build a favorable win-loss record. Also, because the PTO is sued in district court less often compared to the frequency of appeals from its decisions to the Federal Circuit, and many private-sector IP litigators feel just as comfortable in trial courts as they do in appellate settings, the PTO does not necessarily have an advantage in district court when it comes to litigation expertise.

The PTO's historic aversion to civil actions in district court was evident eighty-five years ago in congressional proceedings entitled "To Amend Section 52 of the Judicial Code and Other Statutes Affecting Procedures in the Patent Office: Hearings on H.R. 6252 and H.R. 7087 Before the H. Comm. on Patents, 69th Cong., 1st Sess. 80-81 (1926)" and "To Amend the Statutes of the United States as to Procedure in the Patent Office and the Courts: Hearings Before the S. Comm. on Patents, 69th Cong. 2d Sess. 13-14 (1926)." These are discussed in Judge Kimberly Moore's dissent in the Federal Circuit's panel decision last year in *Hyatt v. Doll*.[35]

The PTO's hostility to district court de novo review explains the agency's rulemaking and pronouncements in 37 C.F.R. § 1.303(d) and MPEP § 2279. They stand in irreconcilable conflict with 35 U.S.C. §§ 141, 145, and 306, and, as such, constitute impermissible agency behavior. The law does not support the PTO's rulemaking effort to interpretively abrogate the specific statutory right to district court review conferred upon patent owners by 35 U.S.C. §§ 145 and 306. Invalidation of such ultra vires rulemaking and pronouncements through intra vires court action has recently been sought by a patent owner and opposed by PTO in an ex parte reexamination.[36] Enactment of S.515 in its present form would swallow the PTO's own unlawful rulemaking by statutorily amending 35 U.S.C. § 141 to achieve what the PTO sought to accomplish through ultra vires interpretive rulemaking in 37 C.F.R. § 303(d). In other words, by revising the language of the statute to conform to what the rule says, S.515 would convert the substance of that manifestly invalid interpretive rule into a legitimate statutory provision.

III. The S.515 Manager's Amendment: A Pandora's Box of Negative Consequences

The S.515 Manager's Amendment would demolish the long-established statutory right to district court trial de novo review in ex parte reexaminations on an open record (35 U.S.C. § 145 / § 306) as an alternative to Federal Circuit appeals under 35 U.S.C. § 141 on the existing PTO record. Nowhere is this mentioned in the Senate Press Release accompanying the Manager's Amendment.[37] What is happening here is that the PTO is seeking—through lobbying, without fanfare, without much if anything in the way of public legislative debate or visible input from stakeholders, and perhaps without informing the relevant congressional staff as to the seriousness of the effect that such legislation would have on the private sector—to extinguish an existing right of judicial review that, albeit odious to the agency,[38] has always been vitally important to the inventive community.[39]

A. Abolition of District Court Review-Jurisdiction Over PTO Decisions in Ex Parte Reexaminations

Subsection (a) of Section 6 on pages 65-66 of the Manager's Amendment is entitled "COMPOSITION AND DUTIES." One of its provisions would change the name of the Board of Patent Appeals and Interferences to the Patent Trial and Appeal Board. This change reflects the fact that under S.515 patent interferences would no longer take place as a result of the proposed conversion of the U.S. patent system from a "first-to-invent" to a "first-inventor-to-file" rule of priority. In addition to matching the existing name of the PTO's Trademark Trial and Appeal Board, the change also carries with it the aura of something beyond what the current name connotes.

Subsection (b) on pages 66-67 is entitled "ADMINISTRATIVE APPEALS" and would rewrite 35 U.S.C. § 134(b) in relevant part as follows:[40]

> (b) PATENT OWNER.—A patent owner, having once paid the fee for such an appeal, may appeal the final rejection of any claim by the primary examiner to the Patent Trial and Appeal Board in-
>
> (1) any ex parte reexamination; . . .

Subsection (c) on pages 67-68 is entitled "CIRCUIT APPEALS." Under the heading "(1) IN GENERAL," it would rewrite 35 U.S.C. § 141 into parts (a)-(d). Part (b) would read as follows (emphasis added):

> (b) REEXAMINATIONS—A party to a reexamination who exercises his right to appeal to the Patent Trial and Appeal Board pursuant to section 134(b) or (c) and who is dissatisfied with the final decision in that appeal *may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit*.

Since 35 U.S.C. § 134(b) applies explicitly to ex parte reexaminations according to section 134(b)(1), the proposed revision of section 141 would expressly do away with the right of patent owners in ex parte reexaminations to de novo review by trial in district court that has existed under 35 U.S.C. § 306 / § 145 since the inception of ex parte reexaminations in 1981 (a right which, incidentally, the amendment would not foreclose to patent applicants—at least not yet).[41] Curiously, the Manager's Amendment neglected to change section 306 to reconcile it with the proposed revision of section 141. Without further lobbying by the PTO to correct the obvious legislative oversight in the Manager's Amendment, the Senate will probably allow the inconsistency to slip through and infect the 1952 Act.

Subsection (c)(2) of on page 69—"JURISDICTION"—would alter the Federal Circuit's jurisdiction under 28 U.S.C. § 1295(a)(4)(A) to synchronize it with the proposed amendment of 35 U.S.C. § 141. This confirms that the proposed changes in § 134 and § 141 are a clear reflection of the PTO's conscious effort to attenuate a patent owner's right to a full day in court.

Subsection (d) of SEC. 6 on page 70 is entitled "EFFECTIVE DATE" and would retroactively implement the Federal Circuit's exclusive appellate jurisdiction (to the exclusion of the district court) over the PTO's decisions entered in all reexaminations "before, on, or after the date of enactment" of S.515.

B. Loss of De Novo District Court Review Would Leave Patentees With No Opportunity to Present New Evidence

Interactions among several existing and proposed provisions of the PTO's procedures can create situations in which district court review is the *only* opportunity for a patent owner in an ex parte reexamination to have a fair chance at judicial correction of a PTO error. For example, the PTO can raise new grounds of rejection of claims during an administrative appeal.[42] In such cases, the Board's written decision may be the first time the patent owner receives any notice of the new rejection. When that happens, de novo district court review would be the only chance for rebuttal based on evidence in a court trial. Repealing the right of district court review would directly harm patent owners by depriving them of any chance of *ever* having a balanced opportunity to seek validation of enforceable patents.

C. Relocation of Venue to the Eastern District of Virginia

Another part of the Manager's Amendment that warrants the attention of the patent community is Section 8—"VENUE"—which begins on page 72. Subsection (b), under the seemingly innocuous heading of "TECHNICAL AMENDMENTS RELATING TO VENUE," would require all civil actions seeking de novo review of PTO decisions (including decisions of the PTO Trademark Trial and Appeal Board) to be brought thenceforth in the Eastern District of Virginia instead of in the District of Columbia,[43] as has been the right of patent owners since the inception of ex parte reexamination and of patent applicants since time immemorial.[44]

There appears to be at least a two-fold purpose behind the PTO's promotion of this seemingly innocuous amendment. First, Section 8 would require plaintiffs and their counsel in civil actions against the agency to go traipsing with their litigation bags, bankers boxes, and other trial accoutrements, not to mention their experts and fact witnesses, out to a Federal courthouse in Virginia, where most of the agency's operations are now physically housed in a complex of office buildings across the street from the Albert V. Bryan Courthouse in Alexandria,[45] or in Newport News, Norfolk, or in Richmond. To some practitioners, such a venue change could hardly

be considered a mere "technical amendment." While a suburban courthouse location might be convenient for the PTO, compared to the E. Barrett Prettyman Federal Courthouse in downtown Washington, D.C., it certainly would be less so for most plaintiffs.

Second, and ominously, the amendment would preclude appeals to the D.C. Circuit (whose administrative law jurisprudence is unequalled by that of any other circuit and which views actions of federal agencies with justifiable skepticism) from district court decisions not involving substantial questions of patent law.[46] Such appeals would have to go to instead to the Fourth Circuit in Richmond, Va., which "embraces" the Eastern District of Virginia.[47]

D. What Is There to Stop the PTO from Seeking the Abolition of District Court Review Jurisdiction Over Its Decisions on Patent Applications?

The answer is nothing. The procedures for ex parte reexamination and the prosecution of patent applications are in relevant respects essentially similar,[48] and the PTO is as averse to being sued in the one case as in the other. Therefore, if the PTO succeeds in its legislative effort to abolish trials de novo under 35 U.S.C. § 145/§ 306 in ex parte reexaminations, then it shouldn't surprise anyone if the agency soon thereafter were to lobby for the abolition of the same recourse in cases involving patent applications. Thus, the patent system now stands at the edge of a precipice. If the Federal Circuit in its forthcoming en banc rehearing of *Hyatt v. Kappos*[49]—a case involving the prosecution of a patent application—does not reverse its earlier panel decision, then the purpose of sections 306/145 civil actions in district court as an alternative to section 141 appeals to the Federal Circuit would be undercut, and the distinction between them would become blurred, as Judge Moore warned in her dissent from the court's panel decision.[50] If that happens, it will embolden the PTO in its desire to achieve through legislation that which it could not through exercise of its current rulemaking authority.[51]

IV. Conclusion

The PTO lobbying on Capitol Hill that has resulted in the insertion of Sections 6 and 8 into the March 10, 2010 Manager's Amendment of S.515 reveals the agency's goal of insulating its decisions from meaningful de novo judicial review. Because PTO decisions are only subject to a highly deferential "substantial evidence" standard of review by the Federal Circuit, the presumptively renamed Patent Trial and Appeal Board would in effect become the tribunal of last resort, giving it a status tantamount to that of a de facto Article III court. There would be no practical recourse in the form of real judicial review in virtually all ex parte cases decided by the agency so long as its rulings are supported by "substantial evidence." The PTO would accomplish this through S.515 by first abrogating the *fundamental*, *meaningful*, and *necessary* right of patent owners seeking judicial review of adverse PTO decisions in ex parte reexaminations to choose *either* civil actions in the district court *or* appeals to the Federal Circuit. After that, could anyone doubt that the abolition of the corresponding right of patent applicants would be on the agency's future legislative agenda?

The PTO's effort to abolish the long-standing right of judicial review of its decisions by de novo trial in district court should be stricken from the Manager's Amendment of S.515.

Endnotes

1. Act of Apr. 10, 1790, ch. 7, 1 Stat. 109-12.
2. Among the exclusive powers given to Congress by the U.S. Constitution, the power to enact laws relating to patents is set forth in Art. I, § 8, cl. 8. This was a major departure from the Articles of Confederation entered into by the original thirteen states and which remained in effect from 1781 to 1789. Those Articles did not mention the granting of patents by the central government. *See* James Madison's commentary in *The Federalist* No. 43 (January 23, 1788). For a contemporary analysis of the "Science and Useful Arts" clause of the Constitution, *see* Edward C. Walterscheid, *To Promote the Progress of Science and Useful Arts: The Anatomy of a Congressional Power*, 43 IDEA 1-81 (2002).
3. Act of Jul. 19, 1952, ch. 950, § 1, 66 Stat. 803.
4. The 1952 Act currently consists of four parts encompassing 35 U.S.C. §§ 1-376. Part I is entitled "United States Patent and Trademark Office" and includes §§ 1-42; Part II is entitled "Patentability of Inventions and Grant of Patent Rights" and includes §§ 100-212; Part III is entitled "Patents and Protection of Patent Rights" and includes §§ 251-318; and Part IV is entitled "Patent Cooperation Treaty" and includes §§ 351-376. The lacunal numbering of the sections indicates provisions that have been deleted since their enactment, or sections that have yet to be added.
5. 111th Congress, document GRA10134, the full text of which can be found at http://judiciary.senate.gov/legislation/upload/PatentReformAmendment.pdf.
6. The House version of the proposed Patent Reform Act of 2010 is H.R. 1260 (Mar. 3, 2009). That bill does not present the issues and concerns addressed in this article.
7. 35 U.S.C. § 154(b)(4).
8. *Id.* § 32.
9. A third-party requester is statutorily defined as "a person requesting…reexamination…who is not the patent owner." 35 U.S.C. § 100(e).
10. The period during which a patent can be enforced lasts six (6) years following the expiry of the statutory term of the patent under 35 U.S.C. § 154(a)(2) after which time a claim for money damages cannot be asserted. *Id. at* § 286. *See Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 225 U.S.P.Q. 243, 249 (Fed. Cir. 1985).
11. 35 U.S.C. § 303(a) [ex parte reexamination]; *id.* at § 313 [inter partes reexamination]. See also the PTO's *Manual of Patent Examining Procedure* ("MPEP") at sections 2216 and 2242.I.
12. The history, similarities, and differences between ex parte and inter partes reexamination are explained in Chapters 2200 and 2600, respectively, of the MPEP.
13. Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015, 3015-17.
14. In 1999 the title of Chapter 30 was amended in § 4602 of the American Inventors Protection Act (AIPA) so that it now reads

"Prior Art Citations to Office and Ex Parte Reexamination of Patents." The adjective "Ex Parte" was inserted in order to distinguish ex parte reexamination in Chapter 30 from inter partes reexamination in Chapter 31.

15. *See supra* note 4.

16. *See supra* note 11; *infra* note 18.

17. H.R. Rep. 96-1307.

18. Ex parte reexamination was made applicable to utility and plant patents granted after June 30, 1981. *See infra* Part II.B. Inter partes reexamination is applicable to original (as opposed to reissue) utility and plant patents applied for after November 28, 1999; *see Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 85 U.S.P.Q.2d 1465 (Fed. Cir. 2008).

19. Anyone, including the patent owner, can request ex parte reexamination of a patent. Only a third party (*see supra* note 9) not in privity with the patent owner can request inter partes reexamination.

20. Nationwide, about 60 percent of all contested motions to stay U.S. district court proceedings pending the reexamination of patents-in-suit are currently being granted. *LegalMedia Nationwide Report on Stays Pending Reexamination Decisions* (Sept. 2009). *See, e.g., E-Z-Go v. Club Con Inc.*, Fed. Cir. Case No. 1-09-cv-00119 (Jan. 12, 2010) ("[T]he court is particularly mindful that were it to decide that the [patent-in-suit] is valid, such finding is not binding on the PTO, and a contrary [prior] decision by the PTO could result in a substantial saving of judicial resources.").

21. *Id.* §§ 111-133.

22. *Id.* §§ 302-307.

23. U.S. Const. art. III. 35 U.S.C. §§ 141, second sentence; *id.* § 145, first sentence; *id.* §§ 146 & 306; and 28 U.S.C. § 1295(a)(4)(a). Dual routes of court review are not unique to the patent system. For example, decisions of the Department of Agriculture involving plant variety protection certificates (7 U.S.C. §§ 2321-2582) may be appealed directly to the Federal Circuit) (*id.* § 2461) or by civil action against the Secretary of Agriculture (*id.* § 2462). Another such agency is the Internal Revenue Service (review by the U.S. Court of Federal Claims or by the U.S. Tax Court depending on whether or not the amount of the tax in dispute has been paid). 28 U.S.C. §§ 1346 & 1507. Also, contractor's claims under the Contract Disputes Act of 1978 (41 U.S.C. §§ 601-613) may be appealed either to a tribunal within the Federal Contracts Dispute Board, or to the Court of Federal Claims. 28 U.S.C. §§ 1346(a)(2) & 1491(a)(2). The contractor thus has a choice of fora from either of which an appeal to the CAFC may be taken. *Id.* § 1295(a)(3) & (a)(10).

24. 35 U.S.C. § 134.

25. *Id.* § 141 (patent applications); *id.* § 306 / § 141 (ex parte reexaminations).

26. *Id.* § 145 (patent applications); *id.* § 306 / § 145 (ex parte reexaminations).

27. *Id.* § 141, second sentence; *id.* § 145, first sentence; 28 U.S.C. § 1295(a)(4)(A).

28. *See supra* note 12.

29. Act of Dec. 12, 1980, Pub. L. No. 96-517 § 1, 94 Stat. 3016, codified at 35 U.S.C. § 306.

30. Such trials are invariably bench trials because the Seventh Amendment right to trial by jury generally does not apply to civil actions against the Federal Government. *See* Jon L. Craig, 1 *Civil Actions Against The United States Its Agencies, Officers, and Employees* § 1:37 (2d ed. 2002). However, jury trials may be possible in cases where a third party is allowed to intervene as a co-defendant under Fed.R.Civ.P. 24(b)(1)(B)("Permissive Intervention") particularly if intervention occurs before issue has been joined. *See Pregis Corp. v. Doll*, No. 1:09-cv-467 (E.D. Va. 2010) which was a civil action against the PTO that was tried to a jury because a private party was a co-defendant.

31. The U.S. Supreme Court has characterized civil actions under the statutory antecedent of § 145 as proceedings that are "in fact, and necessarily, a part of the application for the patent." *Gandy v. Marble*, 122 U.S. 432, 439, 7 S. Ct. 1290, 30 L.Ed. 1223 (1887); *see also Butterworth v. United States* ex *rel. Hoe*, 112 U.S. 50, 61, 5 S. Ct. 25, 28 L.Ed. 656 (1884).

32. 28 U.S.C. § 1295(a)(4)(C).

33. *Dickinson v. Zurko*, 527 U.S. 150, 165 (1999).

34. *Winner Int'l Royalty Corp. v. Wang*, 202 F.3d 1340, 1345-46 (Fed. Cir. 2000).

35. *See infra* note 38.

36. *Sigram Schindler Beteiligungsgesellschaft MbH v. Kappos*, 93 U.S.P.Q.2d 1756 (E.D. Va. 2009) is the first case in which the question was raised regarding district court trial de novo / review-jurisdiction over BPAI decisions in ex parte patent reexaminations requested following the November 29, 1999 effective date of the AIPA. In *Sigram Schindler*, the defendant in a patent infringement action (Cisco Systems Inc.) requested ex parte reexamination of the patent-in-suit in 2007. The PTO granted the request, and reexamined the patent. Following the examiner's final rejection of the claims, the patent owner appealed to the BPAI. During that administrative appeal, the patent owner sued the PTO in a declaratory judgment action under the APA, 5 U.S.C. § 706(2)(C), challenging on *Chevron* grounds and under 35 U.S.C. § 2(b)(2) the legality of the agency's interpretive rule, 37 C.F.R. § 1.303(d) which purports to preclude district court trial de novo / review-jurisdiction in ex parte reexaminations requested post-November 28, 1999. In response to the parties' cross-motions for summary judgment, the court dismissed the action only because the Complaint did not present a justiciable case or controversy due to non-ripeness since the BPAI had not yet rendered a decision which, if adverse to plaintiff, would allow court review. And the fact that the BPAI's decision had not yet been handed down rendered plaintiffs purported injury contingent and speculative. Hence, the decision in *Sigram Schindler* left this important question unresolved.

37. *See* 79 PTCJ 560 (03 / 12 / 10).

38. The PTO's historic aversion to being a defendant in a civil action as opposed to being an appellee in the CAFC was discussed in Judge Moore's dissent in *Hyatt v. Doll*, 576 F.3d 1246, 1254-68, 1280-82, 91 U.S.P.Q.2d 1865, 1871-85, 1891-92 (Fed. Cir. 2009), *vacated and en banc rehearing granted sub nom. Hyatt v. Kappos*, 93 U.S.P.Q.2d 1871 (Fed. Cir. 2010).

39. Noteworthy in this regard is the PTO's unsuccessful attempt in 2007 to insert into H.R. 1908, the immediate predecessor to the House version of the Patent Reform Act of 2010 (H.R. 1260), a manager's amendment by that bill's sponsor, Rep. Berman, a provision that would have altogether abolished trial de novo review under 35 U.S.C. § 145 / § 306 of BPAI decisions in ex parte reexaminations. Now the PTO has returned to the well to try to achieve the same goal in S.515.

40. For many years 35 U.S.C. § 134 has read in pertinent part as follows (emphasis added):

> A patent owner *in any reexamination* proceeding may appeal from the final rejection of any claim by the primary examiner to the Board of Patent Appeals and Interferences, having once paid the fee for such appeal.

41. *See infra* Part II.D.

42. 37 C.F.R. § 1.50(b).

43. Or in other venues in civil actions against the PTO involving trademark cases under 15 U.S.C. § 071(b)(4).

44. The 170-year history of de novo review in the D.C. Federal District Court is recounted in *Hyatt*, 576 F.3d at 1254-57, 91 U.S.P.Q.2d at 1871-74.

45. 35 U.S.C. § 1(b).

46. The CAFC has exclusive appellate jurisdiction only over appeals from district court final judgments in cases that "arise under" the patent laws. 28 U.S.C. § 1295(a)(1). *Industrial Wire Products, Inc. (IWP) v. Costco Wholesale Corp.*, 576 F.3d 1516 (8th Cir. 2009).

47. 28 U.S.C. § 1294(1).

48. 35 U.S.C. § 305 states in relevant part that "reexamination will be conducted according to the procedures established for initial examination under the provisions of §§ 132 ['Notice of rejection; reexamination'] and 133 ['Time for prosecuting application'] of this title."

49. *See supra* note 38.

50. *See id.*

51. *See Tafas v. Dudas*, 541 Fed. Supp. 2d 805, 86 U.S.P.Q.2d 1623 (E.D. Va. 2008), *aff'd in part and vacated in part sub nom Tafas v. Doll*, 559 F.3d 1345, 90 U.S.P.Q. 2d 1129 (Fed. Cir. 2009), *en banc rehearing granted* July 6, 2009; *motion to dismiss appeal granted and motion for vacatur denied sub nom. Tafas v. Kappos*, November 13, 2009. This was a consolidated civil action against the PTO by Triantafyllos Tafas and by GlaxoSmithKline (GSK) under the APA, 5 U.S.C. § 706, challenging the agency's final rules implementing (i) a limitation on the number of continuations and requests for continued examination of applications and (ii) a restriction on the number of claims as an alternative to submitting "examination support documents" in applications. The district court enjoined the implementation of the rules as being beyond the PTO's rulemaking authority under 35 U.S.C. § 2(b)(2). The PTO later rescinded the rules by voluntarily removing them from the *Code of Federal Regulations*, 74 ed. Reg. 52686 (Oct. 14, 2009). At the same time, the PTO together with one of the plaintiffs (GSK) sought to end the case by moving to dismiss the agency's appeal from, and to vacate, the district court's summary judgment (injunction). The CAFC denied the motion insofar as it sought to vacate the district court's summary judgment, thereby happily preserving the status of the case as precedent in opposing future PTO attempts at ultra vires rulemaking.

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Announcing the Winners of the Intellectual Property Law Section's

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Second Circuit Addresses Dilution Standard

By Stacey Mayer

I. Introduction

In *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*,[1] the Second Circuit handed down its first ruling construing the new federal anti-dilution statute, the Trademark Dilution Revision Act of 2006 (TDRA). The court held that the TDRA does not require substantial similarity for a finding of dilution by blurring, rejecting the district court's holding that minimal similarity precluded a finding of dilution. As a result, dilution by blurring can potentially be a viable claim for famous mark owners even where confusion as to source or sponsorship is unlikely.

II. Background

Plaintiffs-appellants Starbucks Corporation and Starbucks U.S. Brands, LLC (collectively, "Starbucks") are the well-known coffee company, which boasts over 8,700 retail locations throughout the world. In conducting all of its commercial activities, Starbucks prominently displays its registered marks, including, *inter alia*, the trade name "Starbucks" and its logo, a circle containing a "mermaid-like siren" encompassed by the phrase "Starbucks Coffee" (the "Starbucks Marks").

Defendant-appellee Wolfe's Borough Coffee, Inc., d/b/a Black Bear Micro Roaster ("Black Bear") is a relatively small, family-run company that "manufactures and sells. . . roasted coffee beans and related goods via mail order, internet order, and at a limited number of New England supermarkets."[2] In April 1997, Black Bear began selling a dark roasted blend of coffee called "Charbucks blend" and later "Mister Charbucks" (the "Charbucks Marks"). Charbucks Blend was sold in packaging that featured a picture of a bear above the large font "BLACK BEAR MICRO ROASTERY." Starbucks sued Black Bear in the Southern District of New York, alleging various trademark and unfair competition claims, including, *inter alia*, federal and state trademark dilution claims.

After a two-day bench trial before Judge Laura Taylor Swain, the court ruled in favor of Black Bear on the dilution, infringement, and unfair competition claims. Starbucks appealed. While the appeal was pending, Congress passed the TDRA in response to *Moseley v. V. Secret Catalogue, Inc.*, 537 U.S. 418 (2003), in which the Supreme Court held that the Federal Trademark Dilution Act required a showing of actual, rather than likely, dilution. Under the TDRA, 15 U.S.C. § 1125(c)(1), the owner of a distinctive mark is entitled to an injunction against the use of a mark that is *likely* to cause dilution of the famous mark. In response to this change in the law, the Second Circuit vacated the district court's ruling and remanded for further proceedings. On remand, the district court again ruled for Black Bear, and Starbucks again appealed.

III. Dilution Claims

A. Dilution by Blurring

Dilution by blurring is an "association arising from the similarity between a [an accused] mark or trade name and a famous mark that impairs the distinctiveness of the famous mark" and may be found "regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury."[3] The TDRA lists six factors to be considered in evaluating the likelihood of dilution by blurring:

(1) the degree of similarity between the mark or trade name and the famous mark;

(2) the degree of inherent or acquired distinctiveness of the famous mark;

(3) the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark;

(4) the degree of recognition of the famous mark;

(5) whether the use of the mark or trade name intended to create an association with the famous mark; and

(6) any actual association between the mark or trade name and the famous mark

15 U.S.C. § 1125(c)(2)(B)(i)-(vi). The district court found that the second, third, and fourth factors, which focus on the Starbucks Marks, favored Starbucks. Those factors were not contested on appeal. However, the district court imposed heightened requirements for the remaining factors—similarity, intent, and association—and, largely relying on its finding of a lack of similarity between the marks, held that there was no likelihood of dilution.

On appeal, the Second Circuit, in an opinion by Judge Roger Miner, concluded that the district court erred in its analysis of similarity, intent, and association (the first, fifth, and sixth factors). Focusing on the degree of similarity between the marks, the court noted that the marks were similar in sound and spelling, but it found "minimal similarity" between the marks "as they are presented to consumers."[4] Charbucks products were presented as "Mister Charbucks" or "Charbucks Blend" in a package with the Black Bear that also made clear that Black Bear is a "Micro Roastery" located in New Hampshire. The court also found that Black Bear's package design was "different in imagery, color, and format from Starbucks' logo and signage," highlighting the differences between Black Bear's bear graphic and Starbucks' mermaid siren graphic in pose, shape, art-style, gender, and overall impression and the fact that Starbucks' graphic did not appear on Charbucks' package.[5]

Although it found that the district court did not clearly err in finding minimal similarity between the marks, the Second Circuit concluded that the district court did err "to

the extent that it required '*substantial*' similarity between the marks."[6] Prior to the TDRA, the Second Circuit required marks to be "very" or "substantially" similar for a plaintiff to prevail on a state or federal dilution claim.[7] But, the court rejected that standard here, finding it "significant that the federal dilution statute does not use the words 'very' or 'substantial' in connection with the similarity factor.[8] The court considered the statutory language—"[t]he degree of similarity between the mark or trade name and the famous mark"—and found that a consideration of a "degree" of similarity does not lend itself to the requirement that the similarity between marks be "substantial."[9] The court opined that the district court's error in imposing the "substantial" requirement likely affected its dilution-by-blurring analysis, "which must ultimately focus on whether an *association*, arising from the similarity between the subject marks, impairs the distinctiveness of the famous mark."[10]

The Second Circuit also held that the district court erred by treating the fifth factor—intent to create an association with the famous mark—as requiring "bad faith" intent,[11] and it rejected the district court's analysis of the sixth factor—evidence of any actual association between the mark and the famous mark.[12] For dilution purposes, "association" requires that the ordinary person encountering the junior user's mark will think of the senior user's famous mark.[13] The court's interpretation of this factor is especially significant because although the concept of "association" was implied under previous anti-dilution law, the TDRA codified it.[14] In this connection, the court considered the results of Starbucks' telephone survey, presented at trial, in which 3.1% of 600 consumers responded that Starbucks was the possible source of Charbucks, and 30.5% responded "Starbucks" to the question "What is the first thing that comes to mind when you hear the name 'Charbucks?'"[15] The district court erred in finding no "actual association" in light of the absence of actual confusion, the Second Circuit explained, because the "absence of actual or even of a likelihood of confusion does not undermine evidence of trademark dilution."[16]

In sum, the court noted that "the existence of some—but not substantial—similarity between the subject marks may be sufficient in some cases to demonstrate a likelihood of dilution by blurring,"[17] and it explained that on remand, the absence of substantial similarity should not preclude a finding of a likelihood of an association arising from the similarity between the marks.

B. Dilution by Tarnishment

The court also affirmed the district court's holding rejecting Starbucks' claim of dilution by tarnishment.[18] Dilution by tarnishment is "an association arising from the similarity between a mark or a trade name and a famous mark that harms the reputation of the famous mark."[19] Dilution by tarnishment may be found where the association causes the famous mark to lose its ability to serve as a "wholesome identifier" of plaintiff's product.[20] Although the TDRA leaves open the possibility of asserting a claim for dilution by tarnishment, the Second Circuit agreed with the district court that Black Bear's "very high quality" product was inconsistent with the concept of tarnishment.[21]

C. Parody Defense

Finally, the court provided guidance on the parody exception under the TDRA, which exempts from liability

> a) any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person *other than as a designation of source for the person's own goods or services*, including use in connection with—
>
> > (i) advertising or promotion that permits consumers to compare goods or services; or
> >
> > (ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owners.
>
> b) all forms of news reporting and news commentary.
>
> c) all noncommercial use of a mark.[22]

The court held that Black Bear failed to satisfy the parody exception because the Charbucks Marks served as a designation of source.[23] Although other circuits have recognized the parody exception even where the parody was used to identify the source of the defendant's goods, the court opined that this case was "not a parody of the kind which would favor Black Bear in the dilution analysis," as it was not a "clear parody" but, at most, "a subtle satire of the Starbucks Marks."[24]

In *Louis Vuitton Malletier S.A. v. Haute Diggity Dog*, LLC, 507 F.3d 252, 266 (4th Cir. 2007), which the Second Circuit cited, the defendant manufactured pet toys whose names parodied elegant high-end brands, including, *inter alia*, Louis Vuitton. Although the court recognized that the parody exception applies only if the parody is *not* a designation of source, it nevertheless held that the defendant's use of parody still may be considered in determining whether the defendant's use of a parody mark is likely to impair the distinctiveness of the famous mark.[25] In this regard, the court found that the defendant's product—"Chewy Vuitton"—did not dilute Louis Vuitton because it "convey[ed] the…message that it was not in fact a source of [Louis Vuitton] products… . [A]s a parody, it separated itself from the [Louis Vuitton] marks in order to make fun of them."[26] The *Starbucks* court distinguished *Louis Vuitton* on the ground that Black Bear's humor failed to demonstrate a "clear parody as to qualify under the Fourth Circuit's rule"[27]—it was, as noted, at most "a subtle satire of the Starbucks Marks."[28] The *Starbucks* court also noted that the Charbucks Marks would compete with the Starbucks

Marks, whereas the products at issue in *Louis Vuitton* were clearly marketed to different classes of consumers.[29]

III. Trademark and Unfair Competition Claims

The Second Circuit also affirmed the district court's rejection of Starbucks' trademark infringement and unfair competition claims. To prevail on a trademark infringement and unfair competition claim, the plaintiff must demonstrate that its mark is protected and that the defendant's use of the allegedly infringing mark would likely cause confusion as to the origin or sponsorship of the defendant's goods.[30] The court concluded that Starbucks' conceded lack of evidence of actual confusion and the co-existence of the marks for eleven years without actual confusion was a "powerful indication" that there was no confusion or likelihood of confusion.[31]

IV. Analysis

Trademark dilution is controversial, largely because it diverges from the traditional notion of trademark law as protecting consumers from mistake and deception.[32] Critics of the dilution doctrine have warned against the owners of famous marks being able to automatically exclude uses of similar marks in all product or service lines, noting that the same marks can peacefully co-exist on different goods and services.[33] And where competing goods are concerned, these critics contend that only traditional trademark infringement law should be available to trademark owners so as not to upset the balance of free and fair competition.

The *Starbucks* decision reflects the continued divergence of federal anti-dilution law from the traditional notion of trademark law as protecting consumers. *Starbucks* reflects a strengthening federal anti-dilution law, providing an avenue of relief against junior users of similar marks despite a lack of either actual confusion or "substantial similarity" between the marks. Although the decision may give rise to concern with the overexpansion of dilution as a cause of action, there is something disconcerting about allowing a second user to profit from an association with the name of a more famous user where it also has a high-quality product (such that there is no tarnishment) and where there is no likelihood of confusion. For instance, if all family-run coffee companies started selling blends of coffees with the suffix"-bucks," it surely would impair the distinctiveness of the Starbucks Marks. The TDRA protects the owners of famous marks from these business practices, which can be seen as a form of unfair competition.

Starbucks, however, does not fully resolve the issue of how similar marks have to be to support a finding that dilution by blurring is likely. Despite the court's finding of "minimal similarity," it held that the marks were similar-sounding enough to support a finding of likelihood of "association" where survey evidence demonstrated that consumers who heard the trade names "Starbucks" and "Charbucks," without viewing their accompanying logos, indicated an association between the two marks. This is an area that undoubtedly will continue to play out in the courts. Commentators have noted the overlap between the similarity and association factors in that the more similar the marks, the less evidence of an "association" should be required.[34] Yet *Starbucks* indicates that even where the record demonstrates minimal similarity between two marks, a finding of "association" is not precluded. Where two marks sound similar, survey evidence could well support a finding of an association.

In the wake of *Starbucks*, dilution by blurring should be a viable claim in many cases for famous mark owners seeking protection against junior users even where confusion is unlikely.

Endnotes

1. *Starbucks Corp.*, 588 F.3d 97 (2d Cir. 2009).
2. *Id.* at 103.
3. Classic hypothetical examples of blurring include Dupont shoes, Buick aspirin, and Kodak pianos.
4. *Starbucks Corp.*, 588 F.3d at 106.
5. *Id.*
6. *Id.* at 107 (emphasis added).
7. *Id.*
8. *Id.* at 108.
9. *Id.*
10. *Id.* (emphasis added).
11. *Id.* at 109.
12. *Id.*
13. 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 24:116 (2009).
14. *Id.* § 24:115.
15. *Starbucks Corp.*, 588 F.3d at 109.
16. *Id.* (citing *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 221 (2d Cir. 1999)).
17. *Id.* at 107 n.3.
18. *Id.* at 111.
19. *Id.* at 110 (citing 15 U.S.C. 1125(c)(2)(C)); *see also Hormel Foods Corp. v. Jim Henson Prods, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996).
20. *Id.* (citing *Hormel Foods*, 73 F.3d at 507).
21. *Id.* at 111 (citing *Hormel Foods Corp.*, 73 F.3d at 507).
22. *Id.* at 111-12 (citing 15 U.S.C. § 1125(c)(3) (emphasis added)).
23. *Id.* at 112.
24. *Id.* at 112-13.
25. *Id.*
26. *Id.* at 113 (citing *Louis Vuitton*, 507 F.3d at 267-68 (quotation omitted).
27. *Id.*
28. *Id.*
29. *Id.* (citing *Harley Davidson, Inc. v. Grottanelli*, 164 F.3d 806, 813 (2d Cir. 1999) (quotation omitted); *Louis Vuitton*, 507 F.3d at 260-61 (quotation omitted)).
30. *Id.* at 114.
31. *Id.* at 117.
32. McCarthy, *supra*, § 24:72.
33. *See id.* §§ 24:111, 24: 120, 24:74.
34. *Id.* § 24:74.

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Financial Services Firms Win "Hot News" Misappropriation Case

By Jonathan Bloom

I. Introduction

In *Barclays Capital, Inc., et al. v. Theflyonthewall.com*,[1] Judge Denise Cote of the Southern District of New York ruled in favor of the plaintiffs after a four-day bench trial in a case involving the rarely litigated "hot news" misappropriation doctrine. In an 89-page opinion, Judge Cote held that the plaintiffs—Barclays Capital, Merrill Lynch, and Morgan Stanley—were entitled to injunctive relief against the systematic, unauthorized, and typically pre-market open posting of summaries of their upgrades, downgrades, and other research recommendations by the defendant's subscription website, theflyonthewall.com.[2]

The court found liability based on a straightforward application of the elements of the "hot news" tort as set out in *Nat'l Basketball Ass'n v. Motorola, Inc.* ("*NBA*"),[3] including that the defendant (referred to herein as "Fly") was free riding on the plaintiffs' considerable efforts to produce the research; that Fly's conduct was in direct competition with the plaintiffs distribution of their research to clients; and that Fly's conduct already had, and if not enjoined would continue to have, a demonstrable adverse impact on the plaintiffs' investment in producing equity research.

II. The "Hot News" Doctrine

The "hot news" misappropriation tort stems from the Supreme Court's decision in *Int'l News Serv. v. Associated Press* ("*INS*"),[4] in which the Court enjoined INS from copying AP stories from bulletin boards and early East Coast editions of AP affiliate papers and selling paraphrased versions of the stories on the West Coast in competition with AP papers. The Court held that although anyone who purchased an AP paper was free to "spread knowledge of its contents gratuitously, for any legitimate purpose not unreasonably interfering with [AP's] right to make merchandise of it,"[5] INS's conduct was a form of unfair competition. INS, the Court observed was

> taking material that has been acquired by [AP] as the result of organization and the expenditure of labor, skill, and money, and which is salable by [INS] for money and…appropriating it and selling it as its own…. Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of [AP's] legitimate business precisely at the point where the profit is to be reaped….[6]

Such conduct, the Court held, amounted to INS "reap[ing] where it has not sown," as it was "not burdened with any part of the expense of gathering the news."[7] Nearly eighty years later, in *NBA*, in a case involving the real-time transmission of basketball scores via the defendant's pager service, the Second Circuit held that the "hot news" tort escaped preemption by the Copyright Act, provided the plaintiff could establish the following "extra" elements:

(i) the plaintiff generates or gathers information at a cost;

(ii) the information is time-sensitive;

(iii) the defendant's use of the information constitutes free riding on the plaintiff's efforts;

(iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and

(v) the ability of other parties to free ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.[8]

The *Barclays* court found that the plaintiffs established each of these elements.

III. The Court's "Hot News" Analysis

As for the first element, there was no dispute that each of the plaintiff firms expends hundreds of millions of dollars each year to produce equity research reports.[9]

With respect to the time-sensitivity of the information, the record showed that the timeliness with which the plaintiffs' clients received the research recommendations was critical to the clients' ability to trade on them in advance of any stock price movement, which is how they derive the maximum value from the recommendations. The testimony of the plaintiffs' witnesses established that many important clients trade almost instantly on the basis of concise "headlines" of the firms' recommendations, whether received by email, through a sales call, or otherwise. Fly's own marketing materials, the court noted, consistently highlighted the fact that its "live newsfeed" made "time sensitive" Wall Street analyst recommendations available in "real time" so its subscribers could make informed investment decisions.[10] (Another typical Fly marketing piece promised subscribers "breaking analyst comments as they are being disseminated to Wall Street trading desks").

With respect to free riding, the Court found that

> Fly's core business is its free-riding off the sustained, costly efforts by the Firms and other investment institutions to generate equity research that is highly valued by investors. Fly does no equity research of its own, nor does it undertake any original reporting or analysis that could generate the opinions reflected in the "Recommendations" section of its newsfeed. Fly's Recommendation headlines consist entirely of regurgitations of the Firms' Recommendations and those of other investment institutions…. Its only cost is the cost of locating and lifting the Recommendations and then entering a few keystrokes into its newsfeed software.[11]

In the court's view, the effort Fly expended to gather, edit, and disseminate other firms' research recommendations—i.e., to aggregate—"does not controvert the fact that Fly expends no effort to produce the Recommendations and does not contribute to the underlying research and analysis process."[12] The court also rejected Fly's argument that it was not free riding because it no longer lifted the recommendations from the firms' actual research reports (which it claimed to no longer access directly) but instead relied on what it characterized as "publicly available information" that "freely" circulated on "the Street" through other "market intelligence" websites, chat rooms, mainstream financial news services such as Bloomberg and Thomson Reuters, "blast IMs," and industry contacts with "people in the know." The conduct of third parties, the court held, was not relevant to Fly's liability. Fly, the court found, was one of the first to engage in such "systematic misappropriation" of research recommendations, and the fact that similar practices may subsequently have become more common practice was not a valid excuse.[13] Moreover, the court noted, even if Fly had obtained the firms' research—which the firms distributed only to entitled clients—from public sources (which the record showed was not always the case), it would be no defense. After all, the court pointed out, the news at issue in *INS* was "widespread and publicly available on the East Coast" and was obtained by INS from public sources.

Turning to the direct competition element, the court found that the parties were "in direct competition in disseminating Recommendations to investors for their use in making investment decisions."[14] The production and dissemination of equity research reports—to assist clients in making investment decisions—is "one of the 'primary' businesses for each of the Firms,"[15] and dissemination of the same research recommendations was likewise Fly's primary business. Fly's very name, the court observed, touts its inside access to the firms' analyst opinions, which it provides in order to assist its subscribers in making better informed investment decisions. "Thus," the court found, "Fly's extensive and systematic use of the Firms' Recommendations is undertaken 'with the obvious intent, if not the effect, of fulfilling the demand for the original work.'"[16] Further, the parties used similar channels of distribution. The plaintiffs transmit their research to clients by email and through password-protected web portals, while Fly runs a subscription website. The plaintiffs also license their content to third-party aggregators, while Fly likewise licenses its feed to third parties, including to some of the plaintiffs' licensees.[17]

The court further found that Fly also has fostered competition with the plaintiffs by entering into partnerships with discount brokerage firms such as Cyber Trader, eSignal, and Newsware which facilitate the ability of Fly's subscribers to circumvent the plaintiffs in executing trades based on the plaintiffs' research, thereby diverting the trading commissions that are the principal means by which the plaintiffs fund their research.[18]

The court also rejected Fly's argument that there is no direct competition with the plaintiffs because their clients value access to the full research reports, which Fly does not provide. To the contrary, the court noted, many of the firms' significant clients are "volume traders who quickly trade on the Recommendations with little or no opportunity to scrutinize and evaluate the actual reports."[19] In other words, the research "headlines" alone—exactly what Fly provides—are extremely valuable to the firms' clients and potential clients.

Finally, as for the fifth *NBA* element, the court found "ample evidence that the continued conduct of Fly, and others like Fly, would so reduce [the firms'] incentive to invest the resources necessary to produce equity research reports that the continued viability of plaintiffs' research business is and 'would be substantially threatened.'"[20] Rather than having to speculate, the court noted that the firms had shown that the conduct of Fly and others already had caused them to reduce the resources they devote to their research businesses by impairing their ability to monetize the research through trading commissions.

The court was not persuaded by Fly's contention that the plaintiffs were required to provide statistical evidence of lost customers, trades, or profits attributable to Fly's conduct.[21] The inquiry, the court stated, was expressly framed in *NBA* as future-oriented, based on the likely impact on the plaintiffs' incentives to produce the product or service in question if the defendant's conduct were left unrestrained; it did not require specific proof of damages, as Fly contended. Moreover, the court held, the fact that others may be engaging in similar conduct—a centerpiece of Fly's defense—"misapprehends" the legal standard, as the *NBA* test expressly requires the court to take into account the effect of free riding by other parties.

Fly pointed to a number of other factors that, it argued, were the real cause of the plaintiffs' curtailing of their investment in equity research, such as the recession, the Global Research Analyst Settlement in 2003, and the increased availability of discount electronic trading platforms that compete with the plaintiffs for trade execution business. But the court held that there was "no need to measure the exact impact" of each of these factors on the firms and their investment in research given the "persuasive evidence" presented by the firms that the misappropriation of their research by Fly and others "has also had a profound effect on their business model."[22]

IV. Injunctive Relief

As for relief, the court permanently enjoined Fly from posting on its website "summaries, abstracts, headlines, or any other synopses" of the plaintiffs' equity research recommendations or analyses before 10 a.m. for research released before the 9:30 a.m. New York market open or two hours after release for research first distributed to the plaintiffs' clients after 9:30 a.m. The injunction expressly allows Fly, after the market opens, to refer to the plaintiffs' research "in the context of independent analytical reporting on a significant market movement in a security that has already occurred that same day," i.e., to engage in bona fide news reporting.

The court expressly retained jurisdiction to enforce compliance with the injunction, and it provided that Fly may, after one year from the date of the order, request that the court modify or vacate the injunction if it can demonstrate that the plaintiffs "have not taken reasonable steps to restrain the systematic, unauthorized misappropriation of their Recommendations."

Fly filed a notice of appeal on April 9, 2010.

V. Conclusion

The ruling in favor of the plaintiffs in *Barclays* demonstrates the viability of the "hot news" misappropriation doctrine in the age of fast-paced Internet communication. Now the case will present the Second Circuit with its first opportunity to address the doctrine since its decision more than a decade ago in *NBA*.

Endnotes

1. No. 06 Civ. 4908 (DLC), Slip op. (S.D.N.Y. Mar. 18, 2010).
2. The plaintiffs waived their misappropriation damages claims in order to secure a bench trial. Barclays and Morgan Stanley also prevailed on uncontested copyright infringement claims relating to Fly's copying of a representative sample of research reports prior to a change in Fly's practice in 2005. (Merrill Lynch did not sue for copyright infringement.) In addition to awarding the requested minimum statutory damages, the court also awarded prejudgment interest and attorney's fees on the copyright claims.
3. 105 F.3d 841 (2d Cir. 1997).
4. 248 U.S. 215 (1918).
5. 248 U.S. at 239.
6. *Id.* at 239-40.
7. *Id.* at 240.
8. *NBA*, 105 F.3d at 845.
9. *Slip. op.* at 57.
10. *Id.* at 57-58.
11. *Id.* at 59.
12. *Id.* at 60.
13. *Id.* at 63.
14. *Id.* at 66.
15. *Id.*
16. *Id.* at 67 (citing *Wainwright Securities, Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91 (2d Cir. 1977)).
17. Slip op. at 68.
18. *Id.*
19. *Id.* at 70.
20. *Id.* at 72.
21. *Id.* at 73.
22. *Id.* at 76.

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Committee Activities

The **Trademark Law Committee** hosted a seminar titled "Hot Topics in the Fashion and Cosmetics Industries" on April 1, 2010. The panelists were Professor Guillermo Jimenez (Fashion Institute of Technology), Barbara Kolsun (Executive Vice President and General Counsel at Stuart Weitzman) and Heather McDonald (Partner at Baker Hostetler). Professor Jimenez and Ms. Kolsun are the editors of *Fashion Law: A Guide for Designers, Fashion Executives, and Attorneys*, and Ms. McDonald is a contributing author. The program, which was oversold, was attended by 80 people.

Professor Jimenez gave a background on how the law of fashion has developed, noting important cases such as *Diodato Photography v. Kate Spade* and notable pending legislation such as the Design Piracy Prohibition Act. He also discussed key issues in online selling and design piracy and in "beauty law," and he encouraged attendees to contribute to his fashion law blog at FashionLawCenter.com and / or by emailing him at Guillermo.Jimenez@fitnyc.edu.

Ms. Kolsun presented an introduction to intellectual property protection in fashion and discussed protection via trademarks, domain names, trade dress, copyright, design patent, utility patent, and trade secrets. Ms. McDonald described the fashion counterfeiting industry and strategies for proactively and reactively protecting fashion. As leaders in the fashion law field, Kolsun and McDonald shared a number of personal stories regarding issues they have addressed over the years.

Congratulations to Co-Chairs Lisa Rosaya of Baker & McKenzie and Rebecca Griffith of Day Pitney for putting together such an interesting program. Our special thanks to Fulbright and Jaworski LLP, which, due to the high demand and consequent need for a larger space, provided the space for the program on very short notice.

Kelly Slavitt

Trade Winds

Trade Winds offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming articles or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

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Scenes from the Intellectual Property Law Section

Annual Meeting

January 26, 2010

Hilton New York • New York City

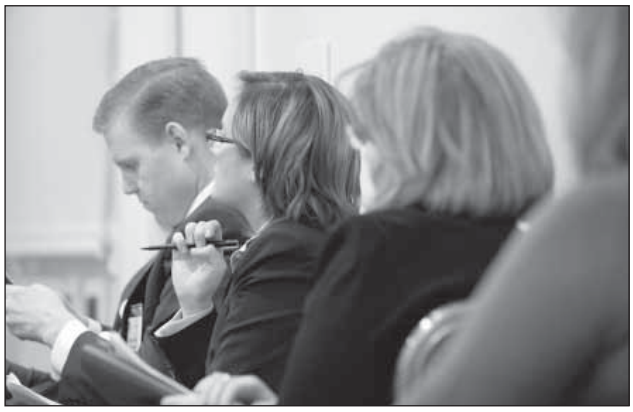

JEANNE


MAX


HAMBURG


Fellowship Award


Rouse



MEMBERSHIP APPLICATION

New York State Bar Association

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual fall event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section sponsors continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. Now, with Mandatory Continuing Legal Education (MCLE) requirements, Intellectual Property Law Section membership is more valuable than ever before! The Section also sponsors joint programs with Law Schools including an annual writing contest for law students wherein the winning articles appear in an issue of *Bright Ideas*.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Copyright Law; Diversity Initiative; Ethics; Greentech; International IP Law; Internet & Technology Law; Legislative / Amicus; Litigation; Meetings and Membership; Patent Law; Pro Bono and Public Interest; Trademark Law; Trade Secrets; Transactional Law; and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 27 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 28 of this issue.

___ Copyright Law (IPS1100)
___ Diversity Initiative (IPS2400)
___ Ethics (IPS2600)
___ Greentech (IPS2800)
___ International Intellectual Property Law (IPS2200)
___ Internet and Technology Law (IPS1800)
___ Legislative / Amicus (IPS2300)
___ Litigation (IPS2500)
___ Meetings and Membership (IPS1040)
___ Patent Law (IPS1300)
___ Pro Bono and Public Interest (IPS2700)
___ Trademark Law (IPS1600)
___ Trade Secrets (IPS1500)
___ Transactional Law (IPS1400)
___ Young Lawyers (IPS1700)

Please e-mail your committee selection(s) to Naomi Pitts at: npitts@nysba.org

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

❒ As a member of the NYSBA, I enclose my payment of $30 for Intellectual Property Law Section dues. (Law student rate: $15)

❒ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.

❒ Please send me a NYSBA application. No payment is enclosed.

Name _____

Office _____

Office Address _____

Home Address _____

E-mail Address _____

Office Phone No. _____

Office Fax No. _____

Home Phone No. _____

Please return payment and application to:

Membership Department
New York State Bar Association
One Elk Street
Albany, New York 12207
Telephone: 518/487-5577
FAX: 518/487-5579
http://www.nysba.org/membership

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The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

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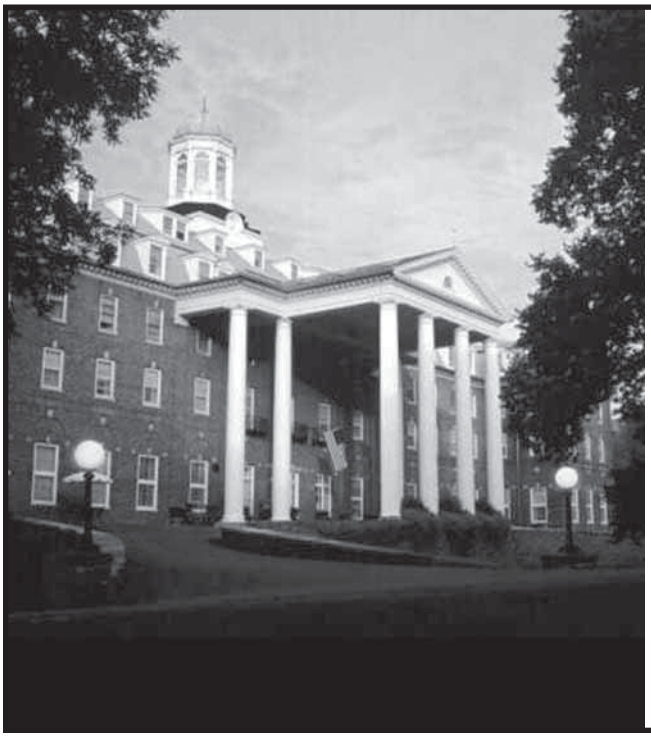

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in Cooperstown

for the

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FALL MEETING

October 7-10, 2010

The Otesaga

ANNOUNCING THE

Intellectual Property Law Section's

ANNUAL LAW STUDENT WRITING COMPETITION

To be presented at the **Annual Meeting of the Intellectual Property Law Section, January 25, 2011, New York, NY** to the authors of the best publishable papers on subjects relating to the protection of intellectual property **not published elsewhere, scheduled for publication, or awarded another prize.**

First Prize: $2,000

Second Prize: $1,000

COMPETITION RULES ARE AS FOLLOWS:

To be eligible for consideration, the paper must be written solely by students in full-time attendance at a law school (day or evening program) located in New York State or by out-of-state students who are members of the Section. One hard copy of the paper and an electronic copy in Word format on a 3.5" H.D. or CD disk must be submitted by mail, postmarked no later than December 6, 2010 to the person named below. As an alternative to sending the disk or CD, the contestant may e-mail the electronic copies, provided that they are e-mailed before 5:00 p.m. EST, December 6, 2010.

Papers will be judged anonymously by the Section and must meet the following criteria or points will be deducted: no longer than 35 pages, double-spaced, including footnotes; and one file with a cover page indicating the submitter's name, law school and expected year of graduation, mailing address, e-mail address, telephone number, and employment information, if applicable.

Winning papers may be published in the Section's publication *Bright Ideas*. Reasonable expenses will be reimbursed to the author of the winning paper for attendance at the Annual Meeting to receive the Award.

The judges reserve the right to: not consider any papers submitted late or with incomplete information, not to publish papers, not award prizes, and/or to determine that no entries are prizeworthy or publishable.

Entries by hard copy and e-mail to: Naomi Pitts, NYSBA, One Elk Street, Albany, NY 12207 (e-mail: npitts@nysba.org). Comments and/or questions may be directed to the Co-Chair of the Young Lawyers Committee: Sarah B. Kickham, Ullman Shapiro & Ullman LLP, 299 Broadway, Suite 1700, New York, NY 10007, (212) 571-0068, sbkickham@yahoo.com or Abby Hannah Volin, Harris Beach PLLC, 100 Wall Street, New York, NY 10005, (212) 313-5447, avolin@harrisbeach.com.

Winners of the 2009 Annual Law Student Writing Competition

First Place	Second Place
Nonna G. Akopyan	**Sean Scuderi**
Pace University School of Law	St. John's University School of Law

NEW YORK STATE BAR ASSOCIATION
INTELLECTUAL PROPERTY LAW SECTION
One Elk Street, Albany, New York 12207-1002

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Submission of Articles

Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Fall 2010 issue must be received by July 1, 2010.

BRIGHT IDEAS

Bright Ideas is a publication of the Intellectual Property Law Section of the New York State Bar Association. Members of the Section receive a subscription to the publication without charge. Each article in this publication represents the author's viewpoint and not that of the Editors, Section Officers or Section. The accuracy of the sources used and the cases, statutes, rules, legislation and other references cited is the responsibility of the respective authors.

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