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Betty Boop Almost Lost Her “Bling-Bling”: Fleischer Studios v. A.V.E.L.A. I and the Re- Emergence of Aesthetic Functionality in Trademark Merchandising Cases

Tracy Reilly

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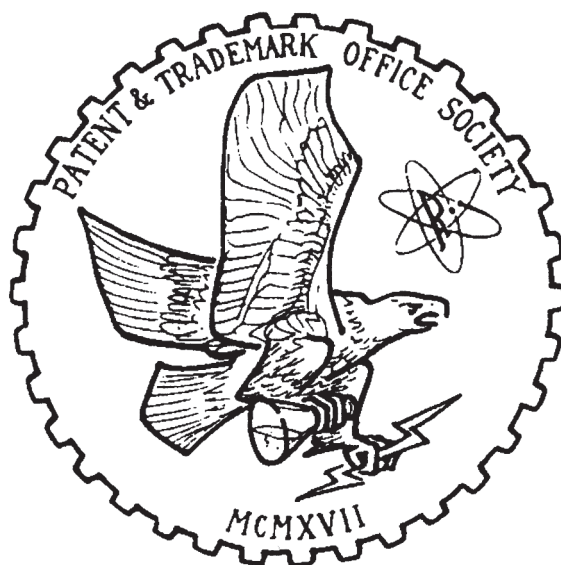


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Betty Boop Almost Lost Her “Bling-Bling”:

Fleischer Studios v. A.V.E.L.A. and The Re-Emergence of Aesthetic Functionality in Trademark Merchandising Cases

Tracy Reilly*

Abstract

This article analyzes the original Ninth Circuit opinion in *Fleisher Studios, Inc. v. A.V.E.L.A., Inc.* in which the court provided a *sua sponte* discussion of the dispraised doctrine of aesthetic functionality in the context of the contemporary merchandising practices of trademark owners, which analysis was subsequently withdrawn in its entirety by the court six months later when it substituted its former opinion with a new holding on grounds other than aesthetic functionality. The article will begin with an explanation and history of the Lanham Trademark Act, focusing on its twin goals of protection against consumer confusion over the source of goods in the marketplace, as well as the promise offered to producers of goods to secure the goodwill associated with such products. It will then explore the history and development of trademark licensing, particularly focusing on the contemporary phenomenon of brand evolution or trademark merchandising, which caters to the fulfillment of consumer connection, affiliation, and overall “experience” with valued materialistic commodities, which I term the “bling-bling” fac-

* Associate Professor of Law, University of Dayton School of Law, Program in Law & Technology. Copyright © 2012–Tracy Reilly. I am extremely grateful to Dean Paul McGreal and former Dean Lisa Kloppenberg at the University of Dayton School of Law for their support of the research efforts within the Program of Law & Technology (“PILT”). I extend special thanks to Executive Director Kelly Henrici and all the PILT faculty members, as well as my husband Mark Budka, for their undying encouragement of my scholarly endeavors.

tor. The article will then trace the history of court opinions that have interpreted aesthetic functionality and other provisions in the Lanham Act in conjunction with the evolving practice of trademark licensing, particularly critiquing the first *Fleisher Studios* opinion for reinstating the doctrine and arguing that it: (1) fails to account for protecting the needs of contemporary consumption; (2) thwarts the incentive of trademark owners to develop goodwill in branding practices; and (3) discounts to an unacceptable degree the phenomenon of rampant, unauthorized third-party use of marks by neglecting to distinguish a competitor from a free rider in the marketplace. Finally, the article will conclude with a plea to all circuits and the Supreme Court to extinguish the aesthetic functionality doctrine by showing that it is not a rational extension of the traditional principle of utilitarian functionality originally conceived by the drafters of the Lanham Act.

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Introduction

In the 1920s, Walt Disney created the loveable and endearing Mickey Mouse character. (I did not, Walt Disney did). A decade later, Max Fleisher designed the iconic image of Betty Boop. (I did not, Max Fleischer did). But if the Ninth Circuit's original decision interpreting the doctrine of aesthetic functionality in *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.* ("*Fleischer Studios I*")¹ had not been withdrawn a mere six months after its issuance, I would nonetheless have strong legal ground on which to stand in waging an argument for the right to sell t-shirts emblazing either of those ornamental characters without having to seek a license of the famous marks from their owners. Those endorsing the legal tenets espoused by the court in its opinion would argue this is a *good* thing.² After all, I can make a decent ancillary profit during the summer months in which I am not teaching by producing modest quantities of my Betty and Mickey t-shirts cheaper since my basement operation would not command the same overhead as does Fleischer Studios and the Walt Disney Corporation. I can sell these products to my Mickey and Betty loving neighbors for \$10 a pop, whereas if they were "forced" to purchase an officially sponsored Disney or Fleischer branded shirt, they would pay much, much more.

This scenario, according to some, best serves efficient and effective competition in the marketplace, which is the underlying driving force behind trademark jurisprudence in the United States.³ Many would argue, therefore, that as long as I do not deceive my neighbors into thinking they are purchasing "official" or "sponsored" t-shirts authorized by the original trademark owners, and provided they are not confused as to the source of the goods, so-called *competitors* such as myself "ought to have access to the mark as product without incurring the cost of labeling [such product] as an 'unofficial' product."⁴ Others—albeit apparently a lone few—believe that defendants like the A.V.E.L.A. merchandising company (or would-be basement t-shirt producers, like me) are not entitled to free ride on the goodwill created by a trademark owner like Fleischer Studios in the burgeoning and wildly successful merchandising market in today's economy.⁵

The progressing trend toward demonizing the merchandising rights of trademark owners is substantiated by scholarly notions that are similar to those that were set forth by early opponents of the dilution right, namely, the argument that there is no traditional theoretical or philosophical justification for the right and that recognizing the right will have the potential to undermine trademark jurisprudence and lead to

1 *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, 636 F.3d 1115 (C.A.9 Cal. 2011).

2 See e.g., Stephanie Frank, *Showing Your School Spirit: Why University Color Schemes and Indicia do not Deserve Trademark Protection*, 92 B.U. L. REV. 329, 368 (2012) ("[C]ourts can and should rein back trademark protection and stop reinforcing the merchandising right.").

3 See, *infra* notes 19-23 and accompanying text.

4 Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461, 505-06 (2005). ("[T]he public should have the benefit of competition in the sale of products that they desire, including products whose primary aesthetic feature constitutes a trademark. If—and only if—such competition risks creating misperceptions as to whether the trademark holder endorsed the product, the solution lies in correcting those misperceptions through disclaimers and corrective advertising, not through enjoining use of the mark.").

5 See, e.g., Christopher R. Perry, *Trademark as Commodities: The "Famous" Roadblock to Applying Trademark Dilution Law in Cyberspace*, 32 CONN. L. REV. 1127, 1139 (2000) ("Trademark owners have invested a significant amount of time, money, and sweat to make their trademarks distinctive. When their labor results in trademarks that take on value on their own, why shouldn't the trademark owners be able to cash in on their investments?").

the downright “stifling threat of monopoly.”⁶ This alarming denouncement of the valid legal rights earned and owned by trademark holders as it has most recently culminated in the *Fleischer Studios I* holding has three consequences which those who pronounce it have failed to fully consider. First, it denies the contemporary consumer the opportunity to participate in conspicuous consumption, product snobbery, or what I will refer to in this article as the “bling-bling” effect. Second, it fails to both validate the creation and protect the maintenance of goodwill earned by the trademark owner. And third, it discounts to an unacceptable degree the phenomenon of free riding and neglects to distinguish the subtle but important differences between one who validly competes and one who commonly free rides in the marketplace.

This article contains six sections which will ultimately debunk the myths that opponents of merchandising often assert in order to dissuade courts from holding defendants liable for the use of third-party marks in non-authorized settings. Section I provides an explanation of the “bling-bling” phenomenon associated with modern branding and the cultural and societal underpinnings of trademark merchandising. Section II is a brief, historical analysis of the purpose and policy behind trademark law. Section III discusses how modern trademark licensing practices have evolved and significantly changed from the common law function of mere source identification into the contemporary phe-

nomenon which allows the consumer to both express herself and socially and psychologically connect as a member of a group *via* conspicuous product choices. Section IV provides a summary of the cases in which courts have inconsistently interpreted the doctrine of aesthetic functionality in the context of merchandising and have overwhelmingly concluded that defendants in infringement actions should not rely on the doctrine to condone unauthorized uses of others’ trademarks. The fifth section consists of a detailed analysis and critique of *Fleischer Studios I*, outlining the three main problems with the case outcome and showing how the court’s holding and *dicta* proscribe a death knell for the practice of trademark owners who exclusively control their marks *via* licensing, merchandising, and sponsorship practices. Finally, the article will conclude in Section VI with a plea to all circuits and the Supreme Court to extinguish the aesthetic functionality doctrine once and for all by showing that it is not a rational extension of the traditional principle of utilitarian functionality that was originally conceived by the drafters of the Lanham Act.

I. The “Bling-Bling” is the Thing

The term “bling-bling” became a widespread phrase in the hip-hop culture “referring to flashy, ostentatious or elaborate jewelry and ornamented accessories that are carried, worn or installed” after rap artist B.G.’s 1999 release of a song with the same title that hit the Top 40.⁷ In 2000, the

6 Simone A. Rose, *Will Atlas Shrug? Dilution Protection for “Famous” Trademarks: Anti-Competitive “Monopoly” or Earned “Property” Right?*, 47 FLA. L. REV. 653, 681-82 (1995) and Simone A. Rose, *Patent “Monopolyphobia”: A Means of Extinguishing the Fountainhead?*, 49 CASE W. RES. L. REV. 509, 511-12 (1999) (companion articles by the author, each of which evaluates whether intellectual property rights are best viewed as property or monopoly). See also Clarisa Long, *Dilution*, 106 COLUM. L. REV. 1029, 1029 (2006).

7 See WIKIPEDIA entry for “bling-bling,” available at <http://en.wikipedia.org/wiki/Bling-bling> (last visited on Jun. 28, 2011). See also, “Bling Bling” from “Chopper City Ghetto” by B.G. on CASH MONEY RECORDS (released April 20, 1999). The lyrics to the chorus of the song are: “Bling bling, everytime I come around yo city/Bling bling, pinky ring worth about fifty/Bling bling, everytime I buy a new ride/Bling bling, Lorinsers on Yokahama tires.” See <http://www.stlyrics.com/lyrics/allaboutthebenjamins/blingbling.htm> (last visited on Jun. 28, 2011).

saying hit the mainstream when L.A. Lakers basketball star Shaquille O'Neal began using bling-bling to symbolize the team's goal of a trophy-winning season after viewing highly ornamental championship trophies that were on display at Phil Jackson's cabin in Montana.⁸ Today, "[t]he expression is so common that the mainstream media regularly use 'bling-bling' without defining it"⁹ and yet the Oxford Dictionary has officially coined the term to mean "expensive, ostentatious clothing and jewelry, or the wearing of them," the origin of which is attributable to being "imitative of light reflecting off jewelry, or of jewelry clashing together."¹⁰ While the original connotation of the term bling-bling was used to celebrate the "rags-to-riches . . . truly Horatio Alger-worthy tale" of the ascent of the hip-hop music genre "from the street corners of New York City to become a global million-dollar culture machine,"¹¹ it has most certainly evolved to become a mantra used today in popular society to indicate anything that is fancy, expensive, brand new, or "over the top," as well as any symbol of prosperity or an overtly materialistic pursuit.¹²

Sociologists, psychologists, and marketing experts more formally term the bling-bling effect as "snob" purchasing or

"conspicuous consumption," a phrase coined by twentieth-century American economist Thorstein Veblen in describing the evolving purchasing habits of the post-modern industrialist leisure class which exemplified a need to ostentatiously display "primarily socially useless goods" in order to "fix and demonstrate to others their place within a social hierarchy."¹³ As will be discussed more fully in Section III.C, trademarks have become the vehicle by which snob or "Veblen goods" are used by consumers in order to communicate their social status and identity—a trend that many legal scholars find dismaying and antithetical to traditional trademark theory.

The story of the success and continued popularity of Betty Boop is a perfect example of how the bling-bling has come to exist in characters, cartoons, and other popular creative icons that share elements protectable by both copyright and trademark law. The merchandising power of the sassy and sexy, yet shyly innocent, character of Betty Boop is more pervasive than ever in today's market despite the fact that she was initially put to ink over 70 years ago. To put it simply, people want more Betty than ever before. She is the subject of various recent co-branding arrangements by Fleischer Studios, including having been chosen

8 Renee Tawa, "Bling-Bling" in the Oxford Dictionary? That's Phat, L.A. TIMES, July 9, 2003, available at <http://articles.latimes.com/2003/jul/09/entertainment/et-tawa9> (last visited on Jun. 28, 2011) ("That November, 'bling-bling' was inscribed on the team's championship rings, and during the victory parade, fans held signs that picked up on the mantra.").

9 *Id.* (News stories in 2003 reported that rap star Lil' Kim recovered her bling-bling after several pieces of designer jewelry went missing from her luggage at Kennedy International Airport.).

10 See OXFORD DICTIONARIES.COM entry for "bling (bling)," available at <http://oxforddictionaries.com/definition/bling?region=us> (last visited on Jun. 28, 2011).

11 Aaron Leitko, *The Brains Behind the "Bling-Bling,"* WASH. POST, Jan. 16, 2011, available at <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/14/AR2011011406910.html> (last visited on Jun. 28, 2011) (chronicling the development of the hip-hop movement from Sugar Hill's 1979 hit "Rapper's Delight" to the successes of current rap stars such as Lil Wayne and Jay-Z).

12 Virginia Rohan, *Bling-Bling Fling Goes Mainstream*, SUN SENTINEL.COM, Apr. 29, 2003, available at http://articles.sun-sentinel.com/2003-04-29/lifestyle/0304280200_1_bling-chris-aire-hip-hop/2 (last visited on Jun. 28, 2011) (noting that the term was an "easy fit" for the materialism representative of the 1990s when the economy was booming).

13 MARTYN J. LEE, *THE CONSUMER SOCIETY READER* 31 (2000).

as the “fantasy” cheerleader for the United Football League.¹⁴ The Florida Lottery now features Betty on a series of its \$2-million scratch-off lottery tickets.¹⁵ Products ranging from apparel, underwear, and swimwear to home goods, drink mixes, and auto accessories (and everything imaginable in between) can be purchased on the official Betty Boop website that is operated and maintained by Fleischer Studios.¹⁶ The year 2010 marked the inauguration of the annual Betty Boop Festival held in Wisconsin Rapids, witnessing events such as animation demonstrations, motorcycle shows, a Betty look-alike contest and film festival.¹⁷ Betty Boop clearly still has bling-bling in the minds of purchasing consumers worldwide despite the attempts of courts like *Fleischer Studios I* that would prefer to douse the cachet of this and other famous characters. The tale of how Betty almost recently lost her bling-bling must proceed with a brief account discussing the history of trademark law, particularly focusing on how the law enforces licensing and merchandising agreements and trademark owners’ rights thereto.

II. The Purpose of Trademark Law

Trademarks are governed by the Lanham Act of 1946 (the “Act”), a federal statute.¹⁸ Section 43(a) of the Lanham Act fosters the protection of trademarks by prohibiting the use in commerce of “any word, term, name, symbol, device, or any combination thereof ... which is likely to cause confusion or mistake, or to deceive as to the affiliation, connection, or association ... to the origin, sponsorship, or approval.”¹⁹ The dual purpose of trademark law is to serve the following economic functions: (1) to encourage the production and quality of goods and services; and (2) to protect consumers by fostering fair competition in the marketplace.²⁰ By attempting to serve these two purposes simultaneously, “an inevitable tension exists” in trademark law; “[h]owever, avoiding consumer confusion is at the core of both of these rationales and is the common concern driving trademark law.”²¹

Whereas copyright and patent law are intended to promote the progress of in-

14 *Iconic Cartoon Character to Become United Football League Fantasy Cheerleader*, VEGAS.COM, Jul. 28, 2010, available at <http://www.vegasnews.com/28589/iconic-cartoon-character-betty-boop-to-become-united-football-league-fantasy-cheerleader.html> (last visited on June 5, 2011).

15 *See Betty Boop Stars in New Florida Lottery Scratch-Off Ticket*, ORLANDO SENTINEL, June 4, 2008, available at http://blogs.orlandosentinel.com/news_lottery/2008/06/berry-boop-star.html (last visited on June 16, 2011).

16 *See* <http://bettyboop.shop.musictoday.com/Default.aspx> (last visited on June 16, 2011).

17 *A Complex History of Betty Boop*, Aug. 9, 2001, available at <http://www.complex.com/art-design/2011/08/a-complex-history-of-betty-boop#11> (last visited on Aug. 18, 2011).

18 Codified, as amended, at 15 U.S.C. §§1051-1127 (2010).

19 15 U.S.C. § 1125(a).

20 Radiance A. Waiters, *Partial Forfeiture: The Best Compromise in Trademark Licensing Protocol*, 91 J. PAT. & TRADEMARK OFF. SOC’Y 126, 128 (2009). *See also*, *Lorillard Tobacco Co. v. Amouri’s Grand Foods, Inc.*, 453 F.3d 377, 383 (6th Cir. 2006) (The “two fundamental purposes of trademark law” are “preventing consumer confusion and deception in the marketplace and protecting the trademark holder’s property interest in the mark”). If an unauthorized third party adopts someone else’s trademark, the Lanham Act provides remedies to the trademark owner, such as the ability to obtain an injunction, monetary damages, and the destruction of products which bear the appropriated mark. *See* Jason B. Binford, *Supreme Court Passes on Assumption and Assignment of Trademark License Agreements*, 28-JUN AM. BANKR. INST. J. 36, 37 (2009). To determine infringement, courts perform a multi-part “likelihood of confusion” analysis, the essence of which is to determine whether the defendant’s use of a challenged mark is likely to confuse the ordinary consumer as to the source and origin of goods sold in connection with the mark. *See generally*, 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24:78 (4th ed. 2009).

21 Virginia Welch, *Contributory Trademark Infringement: Who Bears the Burden of Policing Online Counterfeit Activity?*, 13 SMU Sci. & Tech. L. Rev. 361, 363 (2010).

novation and the arts pursuant to the Progress Clause of the Constitution, the goal of trademark law is to prevent unfair competition as regulated by the Commerce Clause.²² Thus, the dominant view of trademark theory is primarily concerned with the consumer and grounded in the economic goal to reduce consumer search costs, which invariably, if not directly, leads to an incentive by trademark owners to produce products that have a consistent quality, as well as protecting the trademark owner's interest in the goodwill built up in its business that is connected to the mark.²³ The Supreme Court as early as 1916 acknowledged the value and importance of creating goodwill surrounding trademark ownership by recognizing that "the common law of trademarks is but a part of the broader law of unfair competition," and noting that:

"The redress that is accorded in trademark cases is based upon the party's right to be protected in the good will of a trade or business. The primary and proper function of a trademark is to identify the origin or ownership of the article to which it is affixed. Where a party has been in the habit of labeling his goods with a distinctive

mark, so that purchasers recognize goods thus marked as being of his production, others are debarred from applying the same mark to goods of the same description, because to do so would in effect represent their goods to be of his production and would tend to deprive him of the profit he might make through the sale of the goods which the purchaser intended to buy. Courts afford redress or relief upon the ground that a party has a valuable interest in the good will of his trade or business, and in the trademarks adopted to maintain and extend it. The essence of the wrong consists in the sale of the goods of one manufacturer or vendor for those of another."²⁴

Additionally, a review of the legislative history of the Lanham Act makes it quite clear that the drafters acknowledged that, in addition to the primary goal of protecting the consumer from confusion, a secondary goal was to ensure "where the owner of a trade-mark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats."²⁵ Hence, it cannot be denied that trademark law is meant to protect the

22 Joshua N. Mitchell, *Promoting Progress With Fair Use*, 60 DUKE L.J. 1639, 1649 (2011) ("Federal trademark law is therefore an enactment under the Commerce Clause rather than the IP Clause, and the restrictions on Congress's power to enact trademark law are those of the Commerce Clause, not of the IP Clause"). See also Susanna Monseau, *European Design Rights: A Model for the Protection of all Designers from Piracy*, 48 AM. BUS. L.J. 27, 76 (2011) (noting that "the purpose of trademark law is the protection of reputation rather than the encouragement of creativity in design").

23 Michael S. Mireles, *Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law*, 44 IND. L. REV. 427, 439-41 (2011) (noting that "the interests of the producer and the consumer are aligned" because "the producer will enforce its trademark rights if there is a likelihood of confusion and dilution and, thus, harm to goodwill").

24 *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412-13 (1916). See also William M. Landes and Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. OF L. & ECON. 265, 270 (1987) ("The free-riding competitor will, at little cost, capture some of the profits associated with a strong trademark because some consumers will assume (at least in the short run) that the free-rider's and the original trademark holder's brands are identical. If the law does not prevent it, free-riding will eventually destroy the information capital embodied in a trademark, and the prospect of free riding may therefore eliminate the incentive to develop a valuable trademark in the first place.").

25 See S. Rep. No. 79-1333, at 3 (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1274.

goodwill of the owner (even if primarily on behalf of the consumer) and should be called to task when it fails to accomplish this most important goal.

Nonetheless, goodwill is not an outright property interest, as the manner in which trademarks are legally assigned and licensed in the marketplace today has historically been dictated by “the assumption that trademarks cannot be protected as commodities *per se*, but only as conveyers of commercial information and as symbols of business goodwill.”²⁶ The premise that a trademark cannot exist apart from the goodwill it represents is a well-accepted black letter rule in trademark law.²⁷ As such, trademarks cannot be traded “in gross” but instead must be assigned along with the goodwill of the business they represent and licensed only if the licensor exercises quality control of products displaying the licensed mark.²⁸

While the goal of trademark law is by no means to provide for the monopolization by businesses over words or phrases, the reason these terms are protected by use from others is to aid consumers in distinguishing sources of products in the marketplace “and by allowing producers to accumulate and benefit from a good reputation.”²⁹ Any modern entrepreneur would agree that a business cannot thrive without methodically and consistently establishing goodwill to its customers as rep-

resented by its trademarks. As will be further discussed in Section V.B. below; however, “[t]he reputation necessary to gain trademark protection . . . is not built in a day because consumers need time to build the association in their minds.”³⁰

III. The Evolution of Trademark Licensing

Trademark licensing occurs when the owner of a legally protected trademark authorizes third parties to manufacture, distribute, and sell products branded with the mark in exchange for a royalty or percentage of the profits received by the licensee for such activities.³¹ This type of arrangement is usually accompanied by a written trademark license which contains negotiated clauses specifically outlining the responsibilities of both parties, including exclusivity, territorial and product scope, advertising, specific quality control standards, indemnities, as well as royalty rate structures and payment schedules.³² While the decision by a trademark owner to enter into a trademark license agreement first began as “an uncommon and mystified business practice,” it has throughout history evolved “to one of the most accepted and lucrative company strategies,”³³ particularly with respect to marks that are well-established in the marketplace. Today, most major law firms house lawyers who spe-

26 Irene Calboli, *What If, After All, Trademarks Were “Traded in Gross”?*, 2008 MICH. ST. L. REV. 345, 346 (2008).

27 W.J. Keating, *Promotional Trademark Licensing: A Concept Whose Time Has Come*, 89 DICK. L. REV. 363, 363-64 (1984-1985).

28 Calboli, *supra* note 26, at 346.

29 Eric E. Johnson, *Intellectual Property’s Need For a Disability Perspective*, 20 GEO. MASON U. CIV. RTS. L.J. 181, 192 (2010) (emphasis added). See also, 1 MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION, § 2.6 (2d ed. 1984) (explaining that what is impaired by infringing acts of defendant is both the right of the consumer not to be confused as well as the trademark owner’s right to a non-confused consumer and to control of his or her reputation in connection with products sold).

30 Jesse R. Dill, *Possessing Trademarks: Can Blackstone or Locke Apply to Fast Food, Grocery Stores, and Virtual Sex Toys?*, 14 MARQ. INTELL. PROP. L. REV. 371, 383 (2010).

31 Calboli, *supra* note 26, at 343.

32 PETER K. YU, INTELLECTUAL PROPERTY AND INFORMATION WEALTH: TRADEMARK AND UNFAIR COMPETITION 177 (2006).

33 *Id.* at 175.

cialize in trademark licensing and the shelves of law libraries are replete with primers on effective techniques for the negotiation of these types of contracts for their clients (especially in determining proper royalty rates).³⁴

A. The Initial "Single Source" Rule

Because trademark licensing is commonplace—indeed, rampant—in today's economy, it difficult to comprehend that the practice was considered "taboo" at common law.³⁵ This historical rationale was predicated on the notion that because goods that were licensed did not technically emanate from a single source it was assumed that consumers would be confused and deceived by the practice,³⁶ thus thwarting the main objective of trademark law. In fact, before the Lanham Act was passed, many early courts held that a trademark owner completely abandoned its rights in any mark it transferred separately from the entire business in connection with which the mark had been used.³⁷ Thus, the early view of trademarks was that they served the sole function of conveying to consumers the product's single physical source or origin,³⁸ and the main function of "classic" trade-

mark law was to protect consumers from being defrauded by any third party's use of a trademark it did not own.³⁹ In accordance with such reasoning, "courts in the traditional era conceived of 'source' literally—only uses that caused confusion regarding the *actual, historical source* of a good were actionable."⁴⁰ Moreover, any practice of licensing that involved outsourcing of product manufacture by parties other than the trademark owner was considered "philosophically impossible."⁴¹

B. The Modern "Quality" Theory

As the seeds of the Industrial Revolution grew and changed the course of economics and trade practices in developing countries such as the United States, intellectual property strategies and regimes developed and changed to meet the needs of owners of intellectual property products and the consumers who purchased such products.⁴² Attendant with this amazing growth of innovation, as early as 1927, courts began to recognize that the traditional "single source" trademark rule was outdated because it no longer reflected the fact that consumers had become increasingly more sophisticated, nor did it account for

34 See, e.g., ERIK W. KAHN, *TRADEMARK LICENSE AGREEMENTS LINE BY LINE: A DETAILED LOOK AT TRADEMARK LICENSE AGREEMENTS AND HOW TO CHANGE THEM TO MEET YOUR NEEDS* (2009); GREGORY J. BATTERSBY & CHARLES W. GRIMES, *LICENSING ROYALTY RATES* (2010); and RUSSELL PARR, *ROYALTY RATES FOR LICENSING INTELLECTUAL PROPERTY* (2007).

35 Kevin Parks, "Naked" is not a Four-Letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing, 82 TRADEMARK REP. 531, 533 (1992).

36 *Id.*

37 See, e.g., *Reddy Kilowatt, Inc. v. MidCarolina Electric Cooperative, Inc.*, 240 F.2d 282, 289 (4th Cir. 1957); *American Broadcasting Co. v. Wahl Co.*, 121 F.2d 412, 413 (2d Cir. 1941); and *Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc.*, 3 F.2d 7, 9 (8th Cir. 1924).

38 *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 475 (Cal. Ct. App. 1901).

39 Sheldon W. Halpern, *Trafficking in Trademarks: Setting Boundaries for the Uneasy Relationship Between "Property Rights" and Trademark and Publicity Rights*, 58 DEPAUL L. REV. 1013, 1014 (2009).

40 Mark P. McKenna, *Trademark Use and the Problem of Source*, 2009 U. ILL. L. REV. 773, 777 (2009).

41 Calboli, *supra* note 26, at 360-61.

42 CURTIS COOK, *PATENTS, PROFITS & POWER: HOW INTELLECTUAL PROPERTY RULES THE GLOBAL ECONOMY* 18 (2004). With the rapid increase in mass production of goods in Western society, people were no longer self-sufficient in obtaining material goods from the household and instead began to rely on the marketplace to sustain them. See THOMAS O'GUINN, CHRIS ALLEN & RICHARD J. SEMENIK, *ADVERTISING AND INTEGRATED BRAND PROMOTION* 77 (2008).

the reality that the individual businesses operated by the trademark owners could not themselves manufacture the quantity and variety of goods demanded by the burgeoning marketplace.⁴³ This “modern view” recognized that consumers no longer rationally expected nor believed that products they purchased in connection with a particular mark would necessarily be produced by a single physical source.⁴⁴

Trademark law theory and practice adapted to this change with a gradual loosening of the historical restrictions on outsourcing of manufacture and trademark licensing by “reconceptualizing” the meaning of product source.⁴⁵ As long as the trademark licensor utilized a sufficient amount of control over the quality of the goods produced by its licensees, the licensor would still legally be considered the source of the goods.⁴⁶ Congress soon followed suit and with the adoption of the Lanham Act, licensing was acknowledged as a valid and legal practice, provided that the owner’s marks are used by “related companies,”⁴⁷ even if that relatedness was only achieved by contract.⁴⁸ While the Act does not require direct control of a licensee by its licensor, it does state that the trademark cannot be “used in such a manner as to deceive the public.”⁴⁹ In fact, the Act

was amended in 1962 to eliminate the previously restrictive “source of origin” language and “make it clear that actionable confusion may also exist as to sponsorship,”⁵⁰ thus expanding the scope of infringement to encompass the act of using similar marks on similar goods resulting in any type of confusion or deception in order “to protect the ‘business’ of the trademark owner, as well as the reputation of the trademark owner as the *implied* source of origin of the goods.”⁵¹

Pursuant to this revised trademark theory, courts today assess whether trademark licensors have adequately exercised quality control over their licensees on a case-by-case basis.⁵² The types of quality control asserted can fall into the following categories: (1) actual control by the licensor; (2) a mere contractual right to control; (3) control by an agent of the licensor; (4) control by a third party; (5) reasonable reliance on the licensee to control itself; and (6) control by stock ownership.⁵³ While scholars are correct to criticize the non-uniformity and inconsistency of court decisions that run the gamut of pontificating on what specific types and in what specific manners of exerting quality control are adequate in order to achieve the ultimate goal of preserving the integrity of the mark via the purchasing

43 Parks, *supra* note 35, at 533. See also, Frank I. Schechter, *The Rational Basis for Trademark Protection*, 40 HARV. L. REV. 813, 813 (1927) (explaining that these “vigorous judicial expressions of impatience with the old theories of trademark protection are indicative of a desire to keep abreast of and to serve the needs of modern business”).

44 Parks, *supra* note 35, at 533.

45 McKenna, *supra* note 40, at 790.

46 *Id.*

47 Calboli, *supra* note 26, at 344.

48 McKenna, *supra* note 40, at 790.

49 15 U.S.C. § 1055 (2004).

50 Jerre B. Swann, Sr., David A. Aaker & Matt Reback, *Trademarks and Marketing*, 91 TRADEMARK REP. 787, 806 (2001).

51 Keating, *supra* note 27, at 370 (emphasis added).

52 Timothy W. Gordon, *Intellectual Property*, 73 DENV. U. L. REV. 829, 838 (1996).

53 *Id.* (citing William M. Borchard & Richard M. Osman, *Trademark Sublicensing and Quality Control*, 70 TRADEMARK REP. 99, 100-04 (1980)).

consumer,⁵⁴ it nonetheless remains true that some form of meaningful quality control is legally required before licensors may engage in the outsourcing of products that contain their marks.⁵⁵

The first "major explosion" in licensing that utilized the principle of quality control came after World War II with the development of franchise marketing, in which the franchisor was required to set up and impose strict and balanced standards of quality control for any franchisee who was allowed to market goods and services in connection with the licensed franchisor trademark.⁵⁶ If the franchisor failed to maintain a set and determined program of quality control, courts routinely held that the trademark license was invalidated.⁵⁷ An increase in personal income, the explosion in population, and the development of a large middle class of "active consumers" helped to spark the demand for high-quality, nationally recognized brands during this period.⁵⁸ Along with these socio-economic forces that developed in the marketplace of goods, so too "the law was updated through the adoption of an

expanded, quality assurance theory of trademarks, which held that although consumers may not be justified in relying on a mark as a symbol of a single physical source, the mark could nevertheless be relied on as an accurate indicator of the quality of trademarked goods,"⁵⁹ as policed by the owner.

C. The Contemporary "Brand" Notion

Trademark merchandising, commonly referred to as "secondary exploitation," is a subset of trademark licensing that occurs when a company engages in any use of its trademark that is beyond the main product or service which the company had originally offered in the marketplace.⁶⁰ Contemporary society has become "fascinated" with such ancillary products sold directly or *via* authorized licensees of the trademark owner, as witnessed by the scramble of manufacturers, merchants, and other enterprises to market and sell a host of products adorned with the trademarks and symbols of popular companies, sports teams, musical groups, universities, and

⁵⁴ See generally, Calboli, *supra* note 26.

⁵⁵ Xuan-Thao N. Nguyen, *Bankrupting Trademarks*, 37 U.C. DAVIS L. REV. 1267, 1280 (2004) ("Whether a trademark arrangement is a simple license or a complex franchise agreement, the quality control of the use of the trademark is an important issue.").

⁵⁶ Keating, *supra* note 27, at 365.

⁵⁷ *Id.*

⁵⁸ Swann, Aaker & Reback, *supra* note 50, at 789-90.

⁵⁹ Parks, *supra* note 35, at 533-34.

⁶⁰ GORDON V. SMITH, TRADEMARK VALUATION 69 (1996). The story of the GUESS brand is particularly representative of this phenomenon. In 1981, the Marciano brothers and founders of Guess left France in pursuit of the American Dream. "Inspired by a European influence, the Marcianos put their innovative touch on the apparel industry, redefining denim." They initially offered a few items of apparel, including the "Marilyn," a stone-washed, slim-fitting jean; however, it did not take long for the Marciano brothers to drive their vision of the brand into new frontiers, as Guess "became a symbol of a young, sexy and adventurous lifestyle...Today, Guess is a global lifestyle brand with a full range of apparel and accessories," including shoes, jewelry, wallets, fragrance, eyewear, and watches, among other products besides the denim jeans originally offered by the Marcianos. See the official Guess website, available at <http://www.guess.com/worldofguess/#/heritage> (last visited on June 14, 2011). See also, Leslie Earnest, *Guess Finds Answer*, NY TIMES, July 16, 2006, available at <http://articles.latimes.com/2006/jul/16/business/fi-guess16> (last visited on June 14, 2011) (tracing the dramatic shift in the structuring of the Guess business and reporting that the company expected that its revenue would surpass the \$1-billion mark for the first time in 2006).

other entities.⁶¹ As Americans rapidly scale Abraham Maslow's pyramid of societal/psychological needs, we no longer are satiated by the utilitarian and primary aspects of products such as clothing to keep warm, lamps to light rooms, or mugs to hold beverages.⁶² The "real" or "lower-order" needs of food, clothing, and shelter give way in an affluent society and are replaced by more psychologically based needs like luxury goods.⁶³ Because Americans began to demand that their otherwise useful products become embellished with their favorite cartoon characters, status symbols, and professional and personal/emotional affiliations, "starting in the 1920s, corporations gradually shifted their attention and resources from the production of material goods to the production of consumer desires."⁶⁴

It is at this point in time that trademarks evolved into brands, which progressively "became the platforms employed to attach feelings and images to physical commodities. They were the primary means of establishing emotional bonds and loyalty

relationships with consumers in a market saturated with goods. Brands extended the products, adding symbolic dimensions to the physical items."⁶⁵ Trademarks, particularly those that evolved into famous brands, no longer encompassed functional economic benefits, but began to "satisfy emotional and self-expressive needs" of the consumers who purchased items for associational and experiential purposes.⁶⁶ Some of the needs that contemporary trademarks help us fulfill include expressions of religion, sports affiliations, and group membership experiences, all of which, ironically "have negligible source relevance."⁶⁷

More interesting than that, consumers today are often less concerned with the quality of the product and more compelled by the social connotation or informational element that the product conveys regarding one who consumes it⁶⁸ and they are often willing to pay substantially more money for products so trimmed with their favorite marks.⁶⁹ This is not to say that quality has become irrelevant; to the con-

61 Veronica J. Cherniak, *Ornamental Use of Trademarks: The Judicial Development and Economic Implications of an Exclusive Merchandising Right*, 69 TUL. L. REV. 1311, 1312-13 (1995). See also, Gerald T. Tschura, *Likelihood of Confusion and Expressive Functionality: A Fresh Look at the Ornamental Use of Institutional Colors, Names and Emblems on Apparel and Other Goods*, 53 WAYNE L. REV. 873, 877-78 (2007) ("The purchasing public undoubtedly exhibits a tremendous fascination with wearing and possessing apparel and other products bearing the names, colors, and logos of their favorite academic institution(s). These names and symbols are common on sweatshirts, mugs, home fashions, and a host of other goods.").

62 Twentieth-century psychologist Abraham Maslow theorized that human needs can be categorized into five ascending categories. First and foremost, we must ensure that our physiological needs for food, water, and sex are satisfied. The needs for safety (security and protection) are next on the rung, after which societal needs encompass the desire for affection and a sense of belonging. Esteem needs include societal recognition and status. The last category on the pyramid is self-actualization, at which point we are able to achieve individualized self-development and self-accomplishment. Professional marketers view Maslow's social hierarchy as a "useful tool for understanding human motivation" when purchasing goods. See RONALD D. MICHMAN, EDWARD M. MAZZE & ALAN JAMES GRECO, *LIFESTYLE MARKETING: REACHING THE NEW CONSUMER* 61-62 (2003). See also Laura R. Bradford, *Emotion, Dilution, and the Trademark Consumer*, 23 BERKELEY TECH. L. J. 1227, 1256 (2008). ("People consume goods and services for more than utilitarian reasons; we use acquired goods to scale the last three rungs of Maslow's pyramid (social needs, ego needs, and self-actualization).").

63 Shahar J. Dilbary, *Famous Trademarks and the Rational Basis For Protecting "Irrational Beliefs"*, 14, GEO. MASON L. REV. 605, 611 (2007).

64 Katya Assaf, *Brand Fetishism*, 43 CONN. L. REV. 83, 92 (2010).

65 *Id.*

66 Jerre B. Swann, *An Interdisciplinary Approach to Brand Strength*, 96 TRADEMARK REP. 943, 953-54 (2006).

67 Swann, Aaker & Reback, *supra* note 50, at 792.

68 Assaf, *supra* note 64, at 96. ("Marketing literature suggests that in the modern market, products have little material differences" and, to consumers, "the emotional dimension is actually more important than the product itself.").

69 Tschura, *supra* note 61, at 878 (noting the demand for merchandising products of sports teams and the fact that, even though the goods cost more, consumers are nonetheless "willing to pay more, often significantly more, than similar or identical goods without the desired collegiate ornamentation").

trary, in today's competitive marketplace, quality is the necessary starting point; however, contemporary consumers "typically look beyond mere quality" since "they want to satisfy psychological as well as physical needs, and they are often more concerned with identifying themselves than with identifying the source of the goods they buy. A brand, therefore, that denotes only source and quality is wanting in the added ingredients that consumers now demand"⁷⁰ because today's consumer "is actually purchasing a bundle of three products: a physical product, information about the physical product, and an intangible product, such as fame, prestige, peace of mind, or a pleasant feeling."⁷¹ Professor Jeremy Sheff goes so far as to say that consumers of Veblen goods "care less about the actual features of the product than about the product's social connotations"; therefore, the function of the trademark in such context is to provide information about the people who purchase the product more than even the product itself.⁷² Brands have undeniably evolved from being "an easy way to show us who made the product" to symbolizing "a more abstract idea of quality in our minds."⁷³

Perhaps this "quality plus experience" brand phenomenon is best explained with a personal example. After her first trip to New York as a young child, my step

daughter Christine took a fascination with the city, which prompted my husband and I to plan annual weekend vacations with her to indulge and encourage such enculturation. Much to our chagrin, as a young teen, Christine discovered the HERSHEY'S mega-store in Times Square which opened in 2002 and is accurately described as "an interactive candy store festooned with an elaborate electronic billboard."⁷⁴ Offering an unimaginable assortment of all candies made by the company and boasted by brands such as the original HERSHEY, TWIZZLERS and REESE'S (including personalized chocolate bar wrappers), as well as a staggering and embarrassingly overpriced variety of ancillary merchandise such as clothing, toys, and other unnecessary trinkets, the store has become an economic success story in the redevelopment of Times Square that began in the late 1990s. It was not necessarily that our daughter wanted to engage in a chocolate-eating frenzy (that would be bad enough) but she was also interested in gifting the trinkets to her friends back home in the Midwest in conjunction with talking about her unique Times Square *experience* to those who had never visited New York.⁷⁵ Scholarly articles on the subject of branding are replete with other examples of "experience" purchasing or conspicuous consumption of Veblen goods, as elo-

70 Swann, Aaker & Reback, *supra* note 50, at 796. When a consumer opens a package made by master-brand Tiffany, it "will feel different from opening a Macy's package—the feeling will be more intense, more special. Further, the wearing of a Tiffany bracelet may even make the wearer feel more attractive and confident." See *id.* (citing marketing specialist DAVID A. AAKER, MANAGING BRAND EQUITY 158 (1991)).

71 Dilbary, *supra* note 63, at 605. Professor Dilbary appropriately describes this phenomenon as the "pleasant aura for which the consumer paid" and explains how "branding creates a new intangible good that must piggyback on the physical one." See *id.*, at 608-09.

72 Jeremy N. Sheff, *The Ethics of Unbranding*, 21 FORDHAM INTELL. PROP. MEDIA & ENT. L. J. 983, 1001 (2011).

73 TIM PHILLIPS, KNOCKOFF: THE DEADLY TRADE IN COUNTERFEIT GOODS 14 (2005).

74 See Charles V. Bagli, *Sweet on Times Square, Hershey is to Open Store*, NY TIMES, Jun. 8, 2002, available at <http://www.nytimes.com/2002/06/08/nyregion/sweet-on-times-square-hershey-is-to-open-store.html?src=pm> (last visited on Jun. 29, 2011). For a visual image of the store and other information, see the official Hershey's store website, available at <http://www.thehersheycompany.com/about-hershey/visit-hershey/retail-stores/times-square.aspx> (last visited on Jun. 29, 2011).

75 Happily, I can report that in more recent years, Christine has refined her definition of a New York experience from Hershey shopping to theatre and museum going.

quently summarized by Swann, Aaker and Reback as follows:

"Emotional benefits are achieved when there are positive feelings associated with a brand. A person can feel safe driving a VOLVO, energetic and vibrant when drinking PEPSI, important while shopping at NORDSTROM, and caring when buying a HALLMARK card... When consumers can communicate a favorable self-image through a brand, they receive self-expressive benefits. They can define themselves as adventurous and daring by owning K2 powder skis, hip by buying fashions from GAP, successful by owning a MERCEDES, competent by using MICROSOFT software, or a nurturing parent by serving QUAKER OATS hot cereal. A cook using WILLIAMS-SONOMA kitchen equipment to host a dinner will enhance his reputation among guests who value quality housewares. Not only will he garner the functional, use-benefit of the cookware, and enjoy the emotional benefit of cooking well with quality equipment, but he also will express himself subtly as someone who can afford the best and who merits the admiration of his guests

for his good taste and a presumed culinary aptitude. Brands [therefore] can communicate a wide array of consumer messages in a succinct, efficient manner across innumerable contexts..."⁷⁶

As the above examples undeniably show, the purchase of branded goods help consumers achieve "positive emotional and self-expressive experiences."⁷⁷ A change in the way the public consumes and identifies with purchased commodities has ensued and "[a] substantial line of commerce has developed in which the consumer is more interested in identification with the trademark owner than in the quality of the goods bearing the trademark."⁷⁸ This change has horrified some (perhaps rightfully so) and led to a body of trademark merchandising scholarship that seeks to utilize the law to alter the modern purchasing habits of consumers "for their own good"⁷⁹ and attempts to influence courts that the most prudent course of action is to re-establish some form of the outmoded single source trademark theory.⁸⁰ Others, particularly the trademark owners who are in the position to capitalize on the altered market demand care much less (if at all) about the reasons *why* consumers are willing to pay a much higher premium for goods that are ornamented in a manner which allows them to

⁷⁶ Swann, Aaker & Reback, *supra* note 50, at 801.

⁷⁷ *Id.* at 800.

⁷⁸ Keating, *supra* note 27, at 363.

⁷⁹ See, e.g., Assaf, *supra* note 64, at 146-47 ("Legally protecting brand personalities . . . is undesirable. The fact that people today have a certain deficit of community, ideology, and religion does not mean that these needs should be fulfilled by commercial channels; it certainly does not mean that the law should actively facilitate this process. . . . If trademark protection is constrained to the informational function of the mark, there will be much less of an incentive for corporations to strive to satisfy our spiritual needs with commercial brands."); and Ralph S. Brown, Jr., 57 YALE L. J. 1165, 1165-66 (1948) (describing advertising as "a black art whose practitioners are part of the larger army which employs threats, cajolery, emotions, personality, persistence and facts in what is termed aggressive selling").

⁸⁰ See, e.g., Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 414 (2010) ("We think trademark law needs to . . . anchor once again to the core case of confusion regarding the actual source of a defendant's product); and Frank, *supra* note 2, at 368 ("[C]ourts should interpret the Lanham Act's language to require that the mark be used to identify the source of goods.").

self-express, identify with a group, or set themselves apart as "special."⁸¹ Within this dichotomy of thought exists the tension surrounding the progression of modern merchandising cases, as outlined in the following section.

IV. The Merchandising Cases

Since the ownership of trademarks and the goodwill associated with them has always rested in the owners of those marks and has been protected from infringing acts of third parties by the Lanham Act, it is not surprising that the owners of such marks would attempt to capitalize on the market for bling-bling or Veblen goods that have come to bedazzle modern consumers. As consumers continue to demand more of these associational and diverse goods, the market is happy to so provide. Even the pioneers of the bling-bling movement—the entertainment personalities who helped coin and subsequently define the term—have modified their public personae by choosing which ancillary clothing companies, sports drinks, and car manufacturers they will officially sponsor and promote.⁸² In short, branding, merchandising, and sponsorship relationships are those that drive the lust for luxury goods and consumer identifications with the beloved superstars who blatantly and fragrantly consume and sponsor them.⁸³ Until recently, the law has kept pace with

the changing and growing practice of trademark licensing; however, the adjudication of cases involving branding shows that it is currently failing to embrace the increasing consumer trend to emotionally identify with brands. Application of the aesthetic functionality doctrine in the context of merchandising has, at best, been inconsistent throughout the circuits and, at worst, has allowed the courts to manipulate key trademark concepts and engage in "judicial policy-making" regarding the proper scope of trademark rights and issues of ownership.⁸⁴

A. The Early Sports Merchandising Cases

The public obsession with and connection to favored sports teams on both the professional and college levels led to the early court decisions that paved the way for the growth and expansion of branding and merchandising of trademarks that continues today. In 1975, both the National Hockey League (the "NHL") and the National Football League ("NFL") "persuaded courts to enjoin the sale of unlicensed emblems bearing the marks of their member teams."⁸⁵

Perhaps no other case has been more cited and, unfortunately, more misunderstood in the context of merchandising than *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing*.⁸⁶ In *Boston Hockey*, the NHL along with thirteen of its

⁸¹ Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603, 604 (1984).

⁸² Lola Ogunnaike, *Sweeten the Image, Hold the Bling-Bling; Eyeing Mainstream Success, Rappers Clean up Their Act and Cultivate Their Philanthropy*, NY TIMES, Jan. 12, 2004, available at <http://www.nytimes.com/2004/01/12/arts/sweeten-image-hold-bling-bling-eyeing-mainstream-success-rappers-clean-up-their.html?src=pm> (last visited on July 23, 2011) (referring to P. Diddy and Jay-Z as effective "brand managers").

⁸³ See Sheff, *supra* note 72, at 985 (noting how audiences of popular reality shows such as "Jersey Shore" are affected by the luxury purse carrying habits of superstars such as Nicole "Snooky" Polizzi).

⁸⁴ Cherniak, *supra* note 61, at 1314-15.

⁸⁵ Dogan & Lemley, *supra* note 4, at 473.

⁸⁶ 510 F.2d 1004 (5th Cir.), *cert. denied*, 423 U.S. 868, *reh'g denied*, 423 U.S. 991 (1975).

member teams sued Dallas Cap after it manufactured and sold patches that displayed registered and unregistered team trademarks owned by the NHL as service marks in connection with ice hockey entertainment.⁸⁷ The defendant, who was in the business of making and selling popular sports merchandise, sought to capitalize on the ever-growing sport of hockey by pursuing a license from the plaintiffs to market goods displaying the famous team logos, such as the BOSTON BRUINS, CHICAGO BLACKHAWKS, and VANCOUVER CANUCKS.⁸⁸ Since the plaintiffs had previously granted a similar, exclusive license to a competing manufacturer, Lion Brothers Company, Inc. ("Lion Brothers"), they turned down the defendant's offer. That, however, did not stop the defendant, who "deliberately reproduced plaintiffs' marks on embroidered emblems and intended the consuming public to recognize the emblems as the symbols of the various hockey teams and to purchase them as such."⁸⁹

In reversing the trial court's finding that the defendant's acts did not constitute infringement because no purchaser of the goods was likely to be confused by thinking that the defendant's patches originated with or were sponsored by the plaintiffs, the Fifth Circuit made the following observation about the modern analysis of trademark confusion and consumer association with commodities and services offered by trademark owners:

"The confusion question here is conceptually difficult. It can be said that the public buyer knew that the emblems portrayed the teams' symbols. Thus, it can be argued, the buyer is not confused or deceived. This argument misplaces the purpose of the confusion requirement. The confusion or deceit requirement is met by the fact that the defendant duplicated the protected trademarks and sold them to the public knowing that the public would identify them as being the teams' trademarks. The certain knowledge of the buyer that the source and origin of the trademark symbols were in plaintiffs satisfies the requirement of the act. The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem."⁹⁰

That same year, the Illinois Appellate Court heard a similar case in which it upheld the district court's issuance of a preliminary injunction restraining the defendant emblem manufacturing company from manufacturing or selling emblems specifically bearing the identifying trademarks owned by the member clubs of the NFL and also licensed to Lion Brothers for exclusive reproduction and sale.⁹¹ In rejecting the defendant's claim that it only

⁸⁷ *Boston Hockey*, 510 F.2d at 1008. The plaintiffs alleged trademark infringement of their registered marks, false designation of origin, and common law unfair competition. *Id.* at 1009.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.* at 1012.

⁹¹ *Nat'l Football League Props., Inc. v. Consumer Enters., Inc.*, 327 N.E.2d 242, 244 (Ill. App. 1975).

copied and sold the plaintiff's marks and sold the emblem designs as merely decorative products that were not "performing the trademark function of *source identification*," the court noted that "[t]hrough the extensive licensing arrangements developed and perpetuated by plaintiff and its licensees, the buying public has come to associate the trademark with the *sponsorship* of the NFL or of the particular member team involved."⁹²

Both the *Boston Hockey* and *National Football League Properties* courts, then, embrace the modern realities of consumer/good connection that go well beyond the outmoded source identification function and, instead, represent the experience-related association that occurs in the contemporary marketplace of trademarked goods. In assessing the sponsorship/merchandising rights of trademark owners, both courts evaluated such rights as constituting goodwill of the plaintiffs and provided an implicit message that organizations such as the NFL and NHL "should have the right to obtain all proceeds from the sale of items bearing their trademarks."⁹³ The cases also recognize from the consumer's standpoint that in today's market the archaic notion of "viewing trademarks as only a means of communicating information about the product to which they are attached is naïve" since "[t]he mark has become a good of its own. In its new incarnation, the mark is

emancipated from the physical product to which it had previously been attached."⁹⁴

B. Job's Daughters: The Emergence of a "Brands are Bad" Mentality

A few years after the NFL and NHL cases were decided, however, the trend toward protecting the valuable merchandising and sponsorship rights for the benefit of owners of trademarks began to swing decidedly in favor of defendants who copied and sold products bearing the exact marks of others on aesthetic items, such as jewelry. In *The International Order of Job's Daughters v. Lindeburg*,⁹⁵ Job's Daughters sued fraternal jewelry maker Lindeburg for manufacturing and selling jewelry that contained the plaintiff's trademarked women's fraternal order insignia consisting of a depiction of three girls within a double triangle.⁹⁶ Like the defendant in *Boston Hockey*, Lindeburg sought and was refused a license from the plaintiff, yet continued to sell unauthorized merchandise despite a formal request to cease from Job's Daughters.⁹⁷

Unlike the courts in the NHL and NFL cases, however, the Ninth Circuit in *Job's Daughters* refused to recognize that the modern trademark continues to morph from having in the past a mere source identifying function to one in which consumers experientially identify with the

⁹² *Id.* at 246 (emphases added).

⁹³ Keating, *supra* note 27, at 371.

⁹⁴ Dilbary, *supra* note 63, at 620 (noting that the process of outsourcing trademarks on ancillary products that are today manufactured by third parties related to the mark owner only *via* a merchandising agreement should be legally protected).

⁹⁵ 633 F.2d 912 (9th Cir. 1980).

⁹⁶ *Id.* at 914.

⁹⁷ *Id.* at 914. In 1957, Lindeburg requested that Job's Daughters designate it an "official jeweler" along with other jewelers so licensed by the fraternal organization. Job's Daughters refused and in both 1964 and 1966 requested that Lindeburg cease selling jewelry with its emblem, with which request Lindeburg did not comply. In 1973, Lindeburg again sought permission to be an official jeweler for Job's Daughters, which request was granted for one year and subsequently withdrawn. Plaintiff's suit was filed soon thereafter. *Id.*

mark itself. In finding that the defendant in *Job's Daughters* used the plaintiff's marks not in a trademark sense but merely "on the basis of their intrinsic value" or aesthetic appeal to consumers, the court essentially rejected the right of owners to engage in and control merchandising activities associated with their trademarks by claiming that "[a] trademark owner has a property right only insofar as is necessary to prevent consumer confusion as to who produced the goods and to facilitate differentiation of the trademark owner's goods."⁹⁸

Moreover, in stating that the scope of trademark law is "narrower" than as interpreted by *Boston Hockey* and is only "to protect consumers against deceptive designations of the origin of goods and, conversely, to enable producers to differentiate their products from those of others,"⁹⁹ the court not only ignored the trademark owner's protectable interest in the goodwill it had built in connection with the mark, but also unacceptably broadened the "aesthetic functionality" doctrine used to limit the rights of trademark owners when their marks consist of common design or aesthetic elements that should be left in the public domain and for use by competitors.¹⁰⁰

The doctrine of aesthetic functionality is an offshoot of "utilitarian functionality"

which was originally used by courts to ensure that the "public [is not] deprived of the benefits of robust competition by precluding use of utilitarian product features" and preventing trade dress protection for elements of the owner's product that should, instead, be sought by means of obtaining a utility patent.¹⁰¹ Pursuant to the utilitarian functionality standard, a design feature "will be functional, and not entitled to trademark or trade dress protection, if it is dictated by *utilitarian* characteristics or by the *functions* that the relevant product or trade dress is intended to serve."¹⁰² In *Traffix Marketing, Inc. v. Marketing Displays, Inc.*,¹⁰³ the Supreme Court articulated the following test to determine functionality: (1) whether the feature to be protected by trademark is essential to the use or purpose of the article; (2) whether the feature affects the cost or quality of the article; or (3) whether a feature's exclusive use would place competitors of the trademark owner at a significant non-reputation-related disadvantage.¹⁰⁴

The traditional functionality doctrine has been extended by courts in the wake of *Traffix* to include the concept of "aesthetic functionality," which "focuses on the extent to which an aesthetically pleasing design feature contributes to a product's consumer appeal or salability" by promoting competition when denying protection

⁹⁸ *Id.* at 918-19. In expressly rejecting the reasoning of *Boston Hockey*, the *Job's Daughters* court opted to follow "traditional trademark principles." See Tschura, *supra* note 56, at 881.

⁹⁹ *Int'l Order of Job's Daughters*, 633 F.2d at 918.

¹⁰⁰ See, e.g., *Bauer Lamp Co. v. Shaffer*, 941 F.2d 1165, 1170 (11th Cir. 1991) (In order to establish trade dress infringement, the plaintiff must show that the features to be protected are non-functional).

¹⁰¹ See, e.g., *Fabrication Enters., Inc. v. Hygenic Corp.*, 64 F.3d 53, 55 (2d Cir. 1995).

¹⁰² *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429 (5th Cir. 1984) (emphases added) (The district court's finding that the plaintiff's bottle design was functional and not distinctive overruled).

¹⁰³ 532 U.S. 23 (2001).

¹⁰⁴ *Traffix*, 532 U.S. at 32 (Road signs with a dual spring design that had been covered by a utility patent that expired were not eligible for trade dress protection).

to "features that are an integral part of consumer demand."¹⁰⁵ In finding that a floral design pattern on hotel china cannot be protected as a trademark because of aesthetic functionality, the Ninth Circuit in *Pagliero v. Wallace China Co.* held that the particular feature copied by the defendant was not actionable because it was "an important ingredient in the commercial success of the product" and not related to indicia of source or trademark usage.¹⁰⁶ The defendants persuaded the court that one of the essential selling features of hotel china is the design, leading it to hold that what the defendant copied was not "a mere arbitrary embellishment, a form of dress for the goods primarily adopted for purposes of identification and individuality" which contrarily may be protected "since effective competition may be undertaken without imitation."¹⁰⁷

Citing with alacrity the aesthetic functionality principles outlined in *Pagliero*, the *Job's Daughters* court held that "the [plaintiff's] name and emblem are functional aesthetic components of the jewelry, in that they are being merchandised on the basis of their intrinsic value, not as a designation of origin or sponsorship" despite the fact that the court acknowledged that, unlike in *Pagliero*, what the defendant copied was a collective trademark "indisputably" used by the plaintiff to identify its fraternity members.¹⁰⁸ The court set forth a test to be used in determining whether a defendant's use of an image and name was a functional use or trademark purposes: "[A] court

must closely examine the articles themselves, the defendant's merchandising practices, and any evidence that consumers have actually inferred a connection between the defendant's product and the trademark owner."¹⁰⁹ In finding no infringement by defendant pursuant to this test, the court held:

"Lindeburg was not using the Job's Daughters name and emblem as trademarks. The insignia were a prominent feature of each item so as to be visible to others when worn, allowing the wearer to publicly express her allegiance to the organization. Lindeburg never designated the merchandise as "official" Job's Daughters' merchandise or otherwise affirmatively indicated sponsorship. Job's Daughters did not show a single instance in which a customer was misled about the origin, sponsorship, or endorsement of Lindeburg's jewelry, nor that it received any complaints about Lindeburg's wares. Finally, there was evidence that many other jewelers sold unlicensed Job's Daughters jewelry, implying that consumers did not ordinarily purchase their fraternal jewelry from only 'official' sources."¹¹⁰

What the *Job's Daughters* court failed to consider in this holding was that several courts had previously explicitly rejected the doctrine of aesthetic functionality. For

¹⁰⁵ Melissa R. Gleiberman, *From Fast Cars to Fast Food: Overbroad Protection of Product Trade Dress Under Section 43(a) of the Lanham Act*, 45 STAN. L. REV. 2037, 2045 (1993).

¹⁰⁶ *Pagliero v. Wallace China Co.*, 198 F.2d 339, 343-44 (9th Cir. 1952).

¹⁰⁷ *Id.* at 343.

¹⁰⁸ *Int'l Order of Job's Daughters*, 633 F.2d at 918.

¹⁰⁹ *Id.* at 919.

¹¹⁰ *Id.* at 920.

example, shortly after the *Pagliero* decision, a California district court rejected the argument that an aesthetic ashtray design was merely functional, stating that “[i]f the aesthetic quality of the form were held to be functional, then every feature of a product, even the ornamental and nonutilitarian, would be functional.”¹¹¹ Similarly, decisions immediately after *Job’s Daughters* such as that of the Third Circuit in *Keene Corp. v. Paraflex Industries* also readily dismissed a broad aesthetic functionality standard, claiming that it discourages the production of new aesthetic product features, holding:

“[T]he inquiry should focus on the extent to which the design feature is related to the utilitarian function of the product or feature. When the design itself is not significantly related to the utilitarian function of the product, but is merely arbitrary, then it is entitled to protection as a ... trademark.”¹¹²

Three years later, the Fifth Circuit followed suit, exclaiming that “defining functionality as anything that is ‘an important ingredient in the commercial success’ of a

product would almost always permit a second comer freely to copy the trade dress of a successful product that has accumulated good will.”¹¹³ In the 2008 *Smack Apparel* case, the Fifth Circuit reiterated its position in refusing to acknowledge the aesthetic functionality doctrine, holding “[w]e do not believe that the [Supreme] Court’s dictum in *Traffix* requires us to abandon our long-settled view rejecting recognition of aesthetic functionality.”¹¹⁴ Indeed, “[e]ven the Ninth Circuit, the creator of the *Pagliero* standard, has since limited its application” in more recent cases,¹¹⁵ culminating in *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, in which it drastically limited aesthetic functionality to product features that serve an aesthetic purpose wholly independent of any source-identifying function on grounds that holding otherwise would allow anyone to free ride on the mark of any competitor as long as “there is some ‘aesthetic’ value to the mark that customers desire.”¹¹⁶ “While a handful of courts had previously relied on *Pagliero* to deny protection to a large variety of product types, even they gradually came to reject the aesthetic functionality doctrine as it had been established via *Pagliero* by the late 1980s and early 1990s.”¹¹⁷

¹¹¹ *Haeger Potteries, Inc. v. Gilner Potteries*, 123 F. Supp. 261 (S.D. Cal. 1954).

¹¹² 653 F.2d 822, 825 (3d Cir. 1981).

¹¹³ *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 427-28 (5th Cir. 1984).

¹¹⁴ *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 487-88 (5th Cir. 2008).

¹¹⁵ Gleiberman, *supra* note 92, at 2046 (citing *Vuitton et Fils S.A. v. J. Young Enterprises, Inc.*, 644 F.2d 769 (9th Cir. 1981), in which the court narrowed the broad language of *Pagliero* by stating that it disagreed with the lower court finding “insofar as it found that any feature of a product which contributes to the consumer appeal and saleability of the product is, as a matter of law, a functional element of that product” and *Fabrica Inc. v. El Dorado Corp.*, 697 F.2d 890 (9th Cir. 1983) where the court stated that it “has specifically limited application of the *Pagliero* functionality test to product features and has refused to apply the test to cases involving trade dress and packaging”). See also *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1382 n.3 (9th Cir. 1987) (limiting, if not rejecting, the aesthetic functionality test in favor of utilitarian functionality) and *Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1260 (9th Cir. 2001) (purely aesthetic features cannot be functional).

¹¹⁶ *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, 457 F.3d 1062, 1064-74 (9th Cir. 2006), cert. denied, 549 U.S. 1282 (Mar. 19, 2007) (rejecting the argument that use of Volkswagen and Audi trademarks on defendant-manufactured keychains and other merchandise was aesthetically functional and finding, similar to the reasoning in *Boston Hockey*, that the plaintiff’s marks themselves were what the consumer is interested in purchasing).

¹¹⁷ Yevgeniy Markov, *Raising the Dead: How the Ninth Circuit Avoided the Supreme Court’s Guidelines on Aesthetic Functionality and Still Got Away With it in Au-Tomotive Gold*, 6 N.W. J. TECH. & INTELL. PROP. 197, 199 (2008).

The most persuasive holding that exposes the irrationality of the aesthetic functionality doctrine is the *Clicks Billiards, Inc. v. Sixshooters, Inc.* in which the court had to determine whether the combination of a pool hall operator's design decisions were protectable trade dress or whether aesthetic functionality operated as a bar to prevent Lanham Act protection over such elements.¹¹⁸ The court astutely observed that "trade dress cannot be both functional and purely aesthetic. Such a formulation is internally inconsistent and at odds with the commonly accepted view that functionality denotes utility."¹¹⁹ Renowned trademark expert J. Thomas McCarthy echoes this precept when claiming that appending both the words "utilitarian" and "aesthetic" to the same base word "functionality" is semantically misleading.¹²⁰ "Aesthetic functionality" is an oxymoron. Ornamental aesthetic designs are the antithesis of utilitarian designs.¹²¹ This premise is buttressed by comparing the ordinary dictionary definitions of "functional," meaning "having or serving a utilitarian purpose"¹²² and "aesthetic," meaning "pertaining to a sense of the beautiful."¹²³

In light of the negative reaction by most courts to the interpretation of aesthetic

functionality as applied to trademarks, most commentators agree that the canon has all but faded away in the last three decades.¹²⁴ If, indeed, that had been the past trend, the holding in *Fleischer Studios I* certainly sought to reverse it by attempting to breathe life back to the dying doctrine and concurrently sound the death knell to exclusive merchandising rights for trademark owners.

V. Fleischer Studios I: A Death Blow to Merchandising Rights

In 1930 Max Fleisher, head of Fleischer Studios, created the original character of Betty Boop, which was described as a "loveable victim" who regularly got into trouble in her cartoons and "had virtually no facial expressions, except her wink, a look of dismay, and a boop-boop-a-doop."¹²⁵ For approximately ten years, Fleischer licensed the image of Betty for use in connection with merchandise such as toys and dolls until he sold his rights in both the character and cartoons and dissolved Fleischer Studios in 1946.¹²⁶ In the 1970s, Fleischer's family members reincorporated Fleischer Studios and attempted to repurchase the copyright and trademark rights to Betty Boop, after which time they entered into

118 *Clicks Billiards, Inc.*, 251 F.3d at 1256.

119 *Id.* at 1260-62.

120 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7:81 (4th ed. 2000).

121 *Id.*

122 See DICTIONARY.COM, available at <http://dictionary.reference.com/browse/functional> (last visited on March 3, 2012).

123 See DICTIONARY.COM, available at <http://dictionary.reference.com/browse/aesthetic> (last visited on March 3, 2012).

124 See Charles E. Coleman, *A Red-Leather Year for Aesthetic Functionality*, 4 No. 2 LANDSLIDE 26, 28 (2011) ("Thus, it may come as no surprise that after *Auto Gold*, the doctrine went into something of a hibernation period. A survey of federal court opinions filed from August 2006 to August 2010 containing the phrase 'aesthetic functionality' indicates that the defense was raised relatively infrequently in the wake of *Auto Gold*. Further, even when raised during this period, the defense was virtually always rejected, often with reference to the 2006 decision.").

125 NORMAN M. KLEIN, 7 MINUTES: THE LIFE AND DEATH OF THE AMERICAN ANIMATED CARTOON 81 (1993). Interestingly, while Max Fleischer is usually credited for creating Betty Boop, it was actually his employee Grim Natwick who originally conceived her character. *Id.* at 60.

126 *Fleischer Studios, Inc.*, 636 F.3d at 1118-19.

exclusive licensing arrangements with third parties who manufactured and sold merchandise featuring the cartoon character.¹²⁷ A.V.E.L.A., who also sells Betty Boop merchandise without the authorization of Fleischer Studios, disputed the infringement claims of Fleischer Studios, maintaining that Fleischer Studios' alleged copyright and trademark rights in the Betty Boop image were without merit.¹²⁸ On appeal, the Ninth Circuit upheld A.V.E.L.A.'s motions for summary judgment dismissing both the plaintiff's copyright and trademark infringement claims.¹²⁹

The court's discussion regarding dismissal of the plaintiff's copyright claims is outside the scope of this article; however, with respect to Fleischer Studios' trademark claims, the court was faced with several issues, including whether: (1) cartoon characters are proper subject matter for protection by trademark law; (2) Fleischer Studios validly owns registered and/or common law trademarks in the name and image of Betty Boop; (3) the "fractured ownership" of the Betty Boop copyright precludes Fleischer Studios' trademark claims; and (4) A.V.E.L.A. infringed Fleischer Studios' marks.¹³⁰ In an unprece-

dent and shocking maneuver, however, the court held that all of these issues were mooted in light of its *sua sponte* discussion of what it considered the direct applicability of the *Job's Daughters* case and the doctrine of aesthetic functionality, despite the fact that neither party cited that case in its briefs, nor did the district court rely on it in its holding below.¹³¹

Utilizing the aesthetic functionality test set forth in the revived, yet disesteemed *Job's Daughters* holding, the *Fleischer Studios I* court held that "A.V.E.L.A. is not using Betty Boop as a trademark, but instead as a functional product" since: (1) like *Job's Daughters*, Betty Boop was a prominent feature displayed on the defendant's items to be visible by others when worn; (2) A.V.E.L.A. did not designate its products as official Fleischer merchandise or otherwise indicate sponsorship; and (3) Fleischer was unable to show that any of its customers were misled about the origins of A.V.E.L.A.'s products.¹³² Commentary immediately following issuance of the opinion seemed to unanimously support the notion that the court erred by reviving the aesthetic functionality doctrine.¹³³

¹²⁷ *Id.* at 1118.

¹²⁸ *Id.*

¹²⁹ *Id.* at 1117.

¹³⁰ *Id.* at 1122.

¹³¹ *Id.*

¹³² *Id.*

¹³³ See, e.g., Brief for the International Trademark Association as Amicus Curiae in Support of Rehearing or Rehearing *En Banc*, p. 10, *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, No. 09-56317 (2011) ("The majority, in applying the discredited *Job's Daughters* approach to aesthetic functionality, did not cite or even consider *Au-Tomotive Gold* or any of the other cases since *Job's Daughters*. By ignoring those precedents, the majority's decision effectually overrules *Au-Tomotive Gold*, which puts its decision in conflict with decisions of other panels of this Court. It also puts the Ninth Circuit in conflict with every other Circuit that has considered this issue. . . . Because established precedents make clear that Appellees' use of the Betty Boop trademarks should not be deemed aesthetically functional, INTA urges the full Court to grant rehearing and overrule the majority's opinion on this issue."); Tonya J. Gisselberg, *Betty Boop Court Misses the Mark*, SEATTLE COPYRIGHT WATCH, Mar. 10, 2011, available at <http://www.seattlecopyrightwatch.com/trademark/betty-boop-court-misses-the-trademark/> (last visited on Jul. 8, 2011) (questioning whether the court's holding suggests that trademarks should have a limited duration, as copyrights do); and Kate Spellman, *An Opinion That Cries Out For A 9th Circuit En Banc Review ... Betty Boop and The Tangled Character Copyright and Trademark Chain of Title*, COBALT LAW BLOG, available at <http://www.cobaltlaw.com/news/an-opinion-that-cries-out-for-a-9th-circuit-en-banc-review-%E2%80%A6-betty-boop-and-the-tangled-character-copyright-and-trademark-chain-of-title> (last visited on Jul. 8, 2011) (Fleischer opinion "flies in the face of 9th Circuit opinions that state that when the trademark is the very thing that is being infringed, that that infringement is not insulated by the functionality doctrine.").

Not surprisingly, six months after waging war against the merchandising rights of trademark owners, the court withdrew its opinion and issued a second opinion (*"Fleischer Studios II"*) in which its analysis of *Job's Daughters* and aesthetic functionality is completely removed and the trademark issues remanded to the district court on procedural grounds in order to determine whether Betty Boop has sufficient secondary meaning to qualify in order to be considered a common law trademark.¹³⁴ Even though *Fleischer Studios I* is, thankfully, no longer a standing opinion in the wake of the Ninth Circuit's action, it nonetheless has the potential to influence scholars and other courts to wage future arguments for the revival of aesthetic functionality as applied to merchandising cases. The remaining sections of this article, therefore, will attempt to dissuade such notions by proposing that the court's failed first opinion: (1) does not adequately account for protecting the needs of contemporary purchasing habits of consumers; (2) thwarts the ability of trademark owners to develop goodwill in brand activities lucrative to their businesses; and (3) discounts to an unacceptable degree the phenomenon of rampant unauthorized third-party use of marks by refusing to distinguish a competitor from a free rider in the marketplace.

A. Let Them Be Snobs: Why the Lanham Act Should Protect the Contemporary Purchasing Desires of the Consumer

As demonstrated throughout this article, it is undoubtedly true that "trademark use is not separable from consumer understanding," as witnessed by the fact that "every significant limitation in trademark law — from the existence of protectable rights to the scope of those rights and the availability of defenses—depends on consumer understanding."¹³⁵ Like it or not, the modern consumer appreciates that a strong brand designates more than source or even quality; it is an announcer of association. In fact, "[a] brand that today only denotes source and quality is thus often lacking in added attributes or content that consumers now want, demand and need."¹³⁶ Brands and advertising concerning them can be viewed as having positive consumer identification traits in that they act as an educating tool to inform others about the taste, beliefs, and stature of the owner of the product purchased.¹³⁷ In this manner, trademarks provide "a sophisticated language of cultural identity" and "fit neatly into the modernist enterprise of simultaneously allowing the construction of a more unified culture and allowing the splintering of this culture into a myriad of separate, self-fashioned identities."¹³⁸

¹³⁴ *Fleischer Studios, Inc. v. A.V.E.L.A., Inc.*, 654 F.3d 958, 968 (9th Cir. 2011).

¹³⁵ McKenna, *supra* note 40, at 776.

¹³⁶ Jerre B. Swann, *The Trademark Reporter As Catalyst*, 101 TRADEMARK REP. 81, 89 (2011).

¹³⁷ Dilbary, *supra* note 63, at 622.

¹³⁸ Steven Wilf, *The Making of the Post-War Paradigm in American Intellectual Property Law*, 31 COLUM. J.L. & ARTS 139, 161 (2008).

Thus, the first and most problematic shortcoming of the *Fleischer Studios I* opinion is that its rationale taken to the extreme corners of trademark jurisprudence will invariably restrict the ability of consumers to participate in brand affiliation that is structured, driven, and controlled by the original trademark owner. If trademark owners like the plaintiff in *Fleischer Studios I* cannot rely on courts to protect their valuable rights to exclusively commission merchandising companies to create the wares they sell, the consumer is ultimately the party that loses most since his or her associational and personal understanding of what it means to purchase a particular product from a particular producer will be ransacked.¹³⁹ If everyone can reproduce a Betty Boop or Mickey Mouse t-shirt without any oversight by the owners of these marks, then the cachet or bling-bling associated with these characters (and likely even the images of the characters themselves) will eventually be washed away, as owners will no longer have any incentive to maintain quality control of marks that have lost their legal value and for which they can no longer receive any monetary benefit for the goodwill previously developed in the mark.¹⁴⁰ Indeed, “the ‘branded experience’ is possible only if famous and highly distinctive trademarks possess a separable ‘image’ or ‘persona’ which allows the myth or association to extend be-

yond the brand name.”¹⁴¹ To make claims that consumers simply do not care whether the conspicuous goods they purchase are officially sponsored by the owner of the mark bearing those goods¹⁴² unduly discounts the fact that the modern Veblenistic consumer, whether she knows it or not (or is willing to admit it or not) is very concerned about broadcasting that *this* producer is connected to *that* particular product that is providing the bling-bling effect.

If, indeed, “the primary, perhaps singular purpose of a trademark is to provide a means for a consumer to separate or distinguish one manufacturer’s goods from those of another,”¹⁴³ why are courts and most scholars so loathe to recognize that the contemporary consumer achieves this purpose in the context of a strong merchandising program offered and monitored solely by the trademark owner, albeit not pursuant to traditional trademark standards that have become outdated in the modern marketplace? In fact, even the Ninth Circuit in *Job’s Daughters*, arguably the strongest holding against protection for merchandising rights, acknowledged that “there is some danger that the consumer may be more likely to infer endorsement or sponsorship when the consumer is a member of the group where the collective mark or the trademark is being marketed.”¹⁴⁴ Scholars also generally agree that “con-

139 Rose, *supra* note 5, at 723 (“Protecting [the mark’s] persona also ensures that the public can effectively rely on the ‘quality image’ which surrounds related or unrelated goods sold under ‘famous marks.’”).

140 See discussion of quality control in Section V.B.

141 Rose, *supra* note 5, at 714. (“These [famous] marks evoke a quality image which helps consumers buy a projection of themselves as possessing [certain] qualities. Thus, although I may not expect the WIMBLEDON tennis organization to manufacture a new line of sports cars, I would still purchase a sports car bearing this trademark because in driving this car I now become part of the myth or quality image of ‘the elite,’ and, more importantly, I convey this quality image to the general public who will recognize and similarly become taken with my new ‘image’”). *Id.* at 719.

142 See e.g., Dogan & Lemley, *supra* note 4, at 486-88 and Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2154-55 (2004).

143 See *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265 (5th Cir. 1975).

144 *Int’l Order of Job’s Daughters*, 633 F.2d at 919 (emphasis added).

sumers do assume that any apparel provider who uses [a famous trademark] is required to have authorization from the [trademark owner]."¹⁴⁵ All of these facts suggest that applying aesthetic functionality to modern merchandising cases will *not* facilitate the purchasing needs of today's materialistically minded consumer.

There has been a plethora of legal and social criticism of the post-modern American aspiration to consume and both materially and mentally associate personal identity *via* product accumulation,¹⁴⁶ much of which scholarship is valid, and with which I personally agree.¹⁴⁷ Trademark law, however, is not the proper vehicle by which to change cultural perceptions or make our society more moral, and yet many scholars are very willing to use it as such. For example, in advocating for the obliteration of merchandising rights, Professor Katya Assaf claims that trademarks should not be legally sanctioned as tools for personal communication because "there are good reasons not to encourage materialistic communication and materialistic culture in particular."¹⁴⁸ Professor Assaf goes so far as to make claims such as:

"[t]he legal system should generally refrain from exerting cultural influence by providing individuals with certain types of communication channels; it certainly does not mean that the law should actively facilitate this process"; and "[i]f trademark protection is constrained to the informational function of the mark, there will be much less of an incentive for corporations to strive to satisfy our spiritual needs with commercial brands"; and "when brands retreat from the spiritual spaces of our society, alternative, non-consumerist visions of the good life will have a fair chance of rising to the fore."¹⁴⁹ In other words, judges and lawmakers should actively work to legally bash the bling-bling as moral governmental arbiters who dictate how folks "should" strive to find happiness.

Regardless of whether such lofty aims are socially and psychologically desirable in general, modifying established trademark law principles in order to moralize according to the patronizing beliefs of an elite few (and in obvious contradiction to the desires of contemporary consumers) is ill advised. Professor Graeme W. Austin discusses the thrust of the debate in terms

145 David Franklin, *League Parity: Bringing Back Unlicensed Competition in the Sports Fan Apparel Market*, 86 CHI-KENT L. REV. 987, 996 (2011) (citing MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §24:9 (4th Ed. 1994)).

146 See Wilf, *supra* note 138, at 161, 164 (noting the increased discomfort with the perceived "manipulation of mass psychology" by means of advertising by social critics such as José Ortega y Gasset and intellectual elitists such as H.L. Mencken and T.S. Eliot).

147 In his study on the negative social effects of materialism, Professor Tim Kasser has observed that: "Humanistic and existential psychologists tend to place qualities such as authentic self-expression, intimate relationships, and contribution to the community at the core of their notions of psychological health. From their viewpoint, a strong focus on materialistic pursuits not only distracts people from experiences conducive to psychological growth and health, but signals a fundamental alienation from what is truly meaningful. For example, when spouses spend most of their time working to make money, they neglect opportunities to be with each other and do what most interests them. No matter how many fancy designer clothes, cars, and jewels they might obtain, no matter how big their house or how up-to-date their electronic equipment, the lost opportunity to engage in pleasurable activities and enjoy each others' companionship, will work against need satisfaction, and thus against psychological health." See TIM KASSER, *THE HIGH PRICE OF MATERIALISM* 3 (2002). See also, NEIL POSTMAN, *AMUSING OURSELVES TO DEATH* 128 (1985) (lamenting the "distance between rationality and advertising," as evidenced by television commercials that are no longer "about the character of products to be consumed" but rather "about the character of the consumers of products and have, thus, "oriented business away from making products of value and toward making consumers feel value."); and A.H. MASLOW, *THE FURTHER REACHES OF HUMAN NATURE* 140 (1971) ("Many experiments show that social suggestion, irrational advertising, social pressure, propaganda, have considerable effect against freedom of choice and even freedom of perception.").

148 Assaf, *supra* note 64, at 145.

149 *Id.* at 146-48.

of “sovereign” versus “susceptible” consumers.¹⁵⁰ He describes the sovereign consumer as “part of a cluster of commitments and economic ideals that valorize, and regard as central to societal welfare, the ability of individuals to express private preferences, largely unimpeded by governmental regulation” on the one hand and the susceptible consumer as one “whose vulnerability to making irrational choices is caused and exacerbated by advertising and the promotion of trademarks” on the other.¹⁵¹ While Professor Austin points to empirical research studies that support the susceptibility of consumers to the manipulative effects of advertising, which research may buttress an argument to reduce or even eliminate merchandising rights altogether, he rightly points out that “judicial disapprobation of advertisers’ selling techniques has never led to much serious questioning of the judicial, or, indeed, the legislative, function in upholding trademark rights per se”¹⁵² and the notion of rewiring the consumer for his own good *via* altering established trademark doctrine “might strike many as excessively paternalistic to the extent that the analysis privileges certain attributes over others.”¹⁵³

In fact, unfair competition law, particularly in the Federal Trade Commission cases, has long recognized that in the absence of any legal wrongdoing on the part of producers, purchasers must be left to

pursue their personal reasons for consumption in the marketplace, even when those choices result from ignorance or a desire to engage in Veblenistic pursuits. For example, in a 1934 Supreme Court ruling on unfair competition, Justice Cardozo wrote that “the public is entitled to get what it chooses, though the choice may be dictated by caprice or by fashion or perhaps by ignorance.”¹⁵⁴ Citing Justice Cardozo, the Second Circuit in 1942 similarly held that “people like to get what they think they are getting, and courts have steadfastly refused in this class of cases to demand justification for their preferences. Shoddy and petty motives may control those preferences; but if the buyers wish to be snobs, the law will protect them in their snobbery.”¹⁵⁵

B. Let Them Get Rich: Why Trademark Owners Should be Allowed to Reap the Rewards Associated With Merchandising of Their Marks

If anti-merchandising proponents have their way, “everyone could make unauthorized use of the spiritual dimension of another’s trademark. Trademark owners could not internalize their investment in these dimensions. Consequently, they would not have sufficient economic incentives to build up brands with personalities and souls.”¹⁵⁶ Since modern trademarks

¹⁵⁰ Graeme W. Austin, *Trademarks and the Burdened Imagination*, 69 BROOK. L. REV. 827, 854-55 (2004).

¹⁵¹ *Id.*

¹⁵² *Id.* at 857.

¹⁵³ *Id.* at 922. See also Eric A. Posner, *Symbols, Signals, and Social Norms in Politics and the Law*, 27 J. LEGAL STUD. 765, 798 (1998) (noting that the results of efforts by the government to influence or change the symbolic behavior of people “whether through legal devices or official exhortation, are inherently unpredictable”).

¹⁵⁴ *Federal Trade Commission v. Algoma Lumber Co.*, 291 U.S. 67, 78, 54 S.Ct. 315, 78 L.Ed. 655 (1934).

¹⁵⁵ *Benton Announcements, Inc. v. Federal Trade Commission*, 130 F.2d 254, 255 (C.A.2 1942) (Order of the Federal Trade Commission directing defendant to cease and desist from using words “engraved,” “engraving” or “engravers” to describe their stationery and process by which they made it affirmed).

¹⁵⁶ Assaf, *supra* note 64, at 106.

are pursued by consumers for the very essence of their personalities and souls, then modern trademark owners will no longer have *any* incentives to invest in the traditional activities that build goodwill into their brands.

The anti-brand bandwagon proceeds with the unbridled assumption that owners of famous marks are base corporate entities who are wielding a power over the consumer that is unfounded and unjustified, yet it is not only the "big bad corporation" who takes a sting when its merchandising program is jeopardized, but also a wide variety of smaller companies and individuals.¹⁵⁷ Those leading the bandwagon are conveniently overlooking a fundamental economic premise that has governed trademark law through all its permutations, both ancient and modern: the expense of resources that is necessary to develop the advertising strength of a trademark for the purpose of lowering the search costs for the consumer.¹⁵⁸ This basic premise has been succinctly and accurately described by Professor Simone Rose as follows:

Under the economic model of trademarks, there is a direct incentive to spend resources to develop the advertising property or strength of a trademark. The more the product is advertised under its trademark or brand name, the broader the con-

sumer base becomes. An increase in potential consumers also increases the rate at which the favorable features associated with the product or service will become well known, thereby lowering consumer search cost. By lowering the consumer's search cost, the seller can raise the price for its goods or services, which will quickly offset the initial advertising costs and increase corporate profitability. This translates into higher priced goods/services for firms with strong marks, not because of any particular market power, but because of the lower search costs associated with the quality control benefit. Thus, a firm has a vested economic interest in both marketing and advertising its trademark, while simultaneously ensuring a consistent level of quality and features for the advertised goods or services.¹⁵⁹

Merchandising efforts can, indeed, be extremely lucrative for the trademark owner.¹⁶⁰ The merchandising of items ancillary to the trademark owner's original product line has become so pervasive that some believe it is impossible to become a leading brand in today's economy without such add-on product extensions.¹⁶¹ All of these efforts will not have an immediate effect on the bottom-line but, rather, are pur-

¹⁵⁷ PHILLIPS, *supra* note 73, at 12-13.

¹⁵⁸ Irene Calboli, *The Case for a Limited Protection of Trademark Merchandising*, 2011 U. ILL. L. REV. 865, 900 (2011) (acknowledging that scholars who ideologically criticize merchandising "have frequently ignored the principle that the general scope of trademark law and policy has historically included protecting business good-will against misappropriation").

¹⁵⁹ Rose, *supra* note 5, at 693-94.

¹⁶⁰ LYNETTE OWEN, *SELLING RIGHTS* 3D ED. 289 (2001). For example, the *Batman* film series returned an estimated \$4 billion in merchandising revenue, which funds far exceeded the amount received at the box office. Modern merchandising efforts can also serve to rejuvenate interest in older films such as *Star Wars*, as witnessed by the 1999 prequel *Episode One: The Phantom Menace*, which witnessed poor box office revenue returns, yet commanded \$6 billion in merchandising funds. *Id.*

¹⁶¹ Assaf, *supra* note 64, at 101 (noting a belief that the decrease in market share of Levi Strauss & Co. may be attributable to the fact that the company has not extended its well-known brand for jeans to a substantial number of related products).

sued for the eventual purpose of making the business more valuable and enhancing its shareholder value, while concurrently providing products to meet modern consumer demands.¹⁶² In short, everyone wins if the company's merchandising program is a success.

So, yes, merchandising is lucrative to the brand owner, but it also comes with an initial cost and risk. After the risk is taken and consumer desire for the branded goods or services is heightened, why should the owner not be allowed to reap the awards of such association, whether it is source driven or desire driven? After all, trademark law is intended to reward producers who make efforts to build a strong brand.¹⁶³ Merchandising programs are no exception to this corollary, as evidenced by the fact that successful secondary exploitation requires as a prerequisite "a mark that has firmly established itself and has a strong image."¹⁶⁴ Moreover, while brand-to-product association by the consumer takes a long time to acquire, it can much more readily be destroyed, as evidenced by cognitive science studies which have shown a "surprising range of acts that might interfere with consumer understanding."¹⁶⁵

Merchandising efforts associated with a new or weak mark will undoubtedly diminish the marketplace response to the program since it will be less clear to consumers what specific quality and "brand personality" is represented by the mark.¹⁶⁶ Indeed, "[t]he cost to create a new brand in the current marketing environment can be huge" and "the success rate of new brands is dismal."¹⁶⁷ Merchandising licenses are usually granted for a short, two to three-year term with an option to renew if the arrangement is successful.¹⁶⁸ While the popularity of some characters that are the subject of merchandising, like Betty Boop, can seem to have an almost infinite lifespan, other characters are much more short-lived, due largely to overexposure in the marketplace, especially when viewed on television or in the cinema.¹⁶⁹

Lawyers who represent owners of famous trademarks understand fully well that their clients are legally obligated to police and protect their marks from unauthorized use, or face allegations from their authorized licensees that they are not upholding the terms of their merchandising agreements.¹⁷⁰ Whereas patents or proprietary technology can be farmed out with-

¹⁶² SMITH, *supra* note 9, at 73-74.

¹⁶³ Benjamin M. Arrow, *Real-Life Protection for Fictional Trademarks*, 21 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 111, 114 (2010).

¹⁶⁴ SMITH, *supra* note 9, at 69.

¹⁶⁵ Graeme B. Dinwoodie & Mark D. Janis, *Confusion Over Use: Contextualism in Trademark Law*, 98 TRADEMARK REP. 1086, 1115-1116 (2008) (Once the JUST DO IT slogan had become associated with Nike by consumers, its use on a t-shirt by a third-party producer "would have clearly interfered with the integrity of that association.").

¹⁶⁶ SMITH, *supra* note 9, at 69.

¹⁶⁷ Swann, Aaker & Reback, *supra* note 50, at 811.

¹⁶⁸ LYNETTE OWEN, SELLING RIGHTS 3D ED. 289 (2001).

¹⁶⁹ *Id.* at 290.

¹⁷⁰ See Kate Thomas, *In Cape Cod League, It's Tradition vs. Trademark*, NY TIMES (Oct. 23, 2008), available at <http://www.nytimes.com/2008/10/24/sports/baseball/24capecod.html> (last visited on June 7, 2011). Many small-town minor baseball leagues have adopted with permission the famous names of the majors owned by Major League Baseball, such as the Chatham "Athletics" in Cape Cod. In order to honor its longstanding arrangements with local vendors to sell team attire, the Cape Cod team chose to change its name to the "Anglers" so as to avoid a brewing trademark dispute in which Major League Baseball was requiring it to purchase its uniforms and other merchandise solely through official licensed dealers. While some decried the act as "picking on" the Cape Cod team, a spokesman for Major League Baseball explained that it was contractually required to honor merchandising agreements with its dealers and would risk losing its rights in the major teams' names if it did not police its marks. *Id.* The Anglers' new website is located at <http://www.chathamanglers.com/> (last visited on June 7, 2011).

out future licensor supervision or contact with the licensee or any of its products that are manufactured utilizing such know-how, "[a]ll trademark exploitation is done by the trademark owner who seeks to continually exert quality control over the products or services that bear his mark."¹⁷¹ In fact, if a licensor does not exert sufficient quality control over its licensed products, it is susceptible to a finding that it has engaged in "naked licensing," which usually results in a finding of abandonment of the mark in the Patent & Trademark Office (the "PTO").¹⁷² It is indeed, an axiom of trademark law that "[a] system that does not maintain and enforce an effective quality control strategy is not likely to survive in the competitive marketplace."¹⁷³

Although trademark licensors regularly inspect and police the actual products and services connected with their licensed marks to ensure quality and consistency in such market commodities, quality control is also exerted by methodical programs that are devised by licensors to ensure proper usage of the licensed marks themselves.¹⁷⁴ Trademark owners who are "brand-conscious" create extensive trademark usage or "style guides" that particularly set forth both the proper and improper usage of style, color, format, size, and placement of their licensed marks, as well as how these marks should appear on websites and in advertising¹⁷⁵ so that licensees "will use

and promote a consistent visual image for the organization's brands."¹⁷⁶ Regardless, there are still those who understate the importance of the maintenance of quality control to consumer welfare, by making claims such as "[g]oodwill protection has nothing directly to do with facilitating consumer choice or safeguarding the quality of market information."¹⁷⁷ Another popular argument is that "ornamental and promotional uses of a trademark, *even if unauthorized*, will increase the value of the mark" since they increase the visibility of the mark and could assist the trademark owner in expanding into a new market.¹⁷⁸ To the contrary, whenever a trademark owner cannot directly control an unlicensed party's exact usage of its mark there is a threat to the continued viability and value of the mark, specifically because there is no contractual incentive or direction provided to such party.¹⁷⁹

For example, in the introductory example set forth in this article, I explained a viable post-*Fleischer Studios I* scenario in which I would be allowed to produce Betty Boop t-shirts in my basement and sell them for half the price that the owner of the Betty Boop trademark would charge. If I were allowed to open this operation without a Fleischer Studios style guide or other supervision of my reprinted images of Betty by the owner, how would I know exactly what shade of red to use in decorat-

¹⁷¹ SMITH, *supra* note 9, at 69.

¹⁷² GREGORY J. BATTERSBY AND CHARLES W. GRIMES, 2004 LICENSING UPDATE §402[D] 52 (2004).

¹⁷³ ANDREW J. SHERMAN, FRANCHISING AND LICENSING: TWO POWERFUL WAYS TO GROW YOUR BUSINESS IN ANY ECONOMY 37 (2003).

¹⁷⁴ INTELLECTUAL PROPERTY DESKBOOK FOR THE BUSINESS LAWYER BY COMMITTEE ON INTELLECTUAL PROPERTY 94 (2007).

¹⁷⁵ *Id.*

¹⁷⁶ LESLEY ROSENTHAL, GOOD COUNSEL: MEETING THE LEGAL NEEDS OF NONPROFITS 196 (2012) (suggesting that trademark branding or style guides should also contain information regarding spacing, typesetting, and the proper use of ®, ™, etc.). See also, Anne M. Wall, *Intellectual Property Protection in China: Enforcing Trademark Rights*, 17 MARQ. SPORTS L. REV. 341, 405 (2006).

¹⁷⁷ Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 549 (2006).

¹⁷⁸ Cherniak, *supra* note 61, at 1344 (emphasis added).

¹⁷⁹ ROBERT GOLDSCHIEDER, LICENSING BEST PRACTICES 187 (2002).

ing Betty's dress or how big her head should be graphed in proportion to her body without oversight by the owner? Now add to the mix thousands of unauthorized basement operations and the next thing you know, Betty Boop is tall, blonde, and wearing a blue dress, yet ironically "naked" pursuant to the standards of the PTO! At this point, in addition to losing her value to Fleischer Studios, Betty has most certainly lost her bling-bling in the eyes of consumers because she is no longer the consistent image that consumers have come to identify and adore.

Quality control is also maintained by concerted decisions of the trademark owner *not* to license uses of the mark since oversaturation or "overbranding" in the marketplace can quickly lead to the opposite desired goal: if a licensor becomes overzealous and does not spend enough time and resources in researching the "zone of appropriateness" for a brand extension program, it can be a disaster from a consumer perspective.¹⁸⁰ Luxury goods producer Pierre Cardin learned this lesson the hard way in the 1980s; after licensing his name in connection with approximately 800 products, including toilet seat covers, "the distinctiveness of his brand was quickly diluted, clearing the way for the rise of other luxury brands more careful about the risks of overexposure."¹⁸¹ Professor Robert Denicola admits that overexposure in the marketplace is "the

most serious difficulty with uncontrolled ornamental use" because when there exists an overabundance of branded merchandise, "demand for all such items may decrease. The public may simply grow bored with ornamental use of a mark if they encounter it too frequently. Unrestrained use may effectively spoil the market for everyone."¹⁸² Another commentator has provided a poignant example of the dangers of overuse of a brand in the marketplace, as follows:

"If the owner of KODAK should permit its use by others on washing powders, shoes, candy bars, or cosmetics, or if The Coca-Cola Company should permit COCA-COLA or COKE to be used for rain coats, cigarette lighters, golf balls, or jewelry not of its manufacture, it would not take long for even these giants in the trademark world to be reduced to pigmy size."¹⁸³

While it seems entirely rational to suggest that uncontrolled ornamental use by others besides the trademark owner invariably leads to diminishment of the mark's distinctiveness or uniqueness, the majority of scholars writing on the topic of merchandising have nonetheless remained skeptical of the validity of the merchandising right.¹⁸⁴ Those who decry the expansion of merchandising or sponsorship

180 Wall, *supra* note 176, at 374-75 (While GAP successfully extended its jean brand to sell perfume, a similar attempt by HARLEY DAVIDSON to extend its motorcycle brand to cigarettes failed miserably since "consumers were not convinced that the motorcycle manufacturers had a brand that would lend quality and value to a pack of smokes.").

181 Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 HARV. L. REV. 809, 821 (2010). See also Suzy Menkes, *The Label and the Man: Pierre Cardin*, NY TIMES (July 23, 1991), available at <http://www.nytimes.com/1991/07/23/style/23iht-card.html> (last visited on June 15, 2011) (Cardin's own colleagues "say he has exploited his name and cheapened the prestige of high fashion.").

182 See Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603, 640 (1984).

183 Julius R. Lunsford, Jr., *Trademark Basics*, 59 TMR 873, 879 (1969).

184 Calboli, *supra* note 158, at 892.

rights which rest exclusively within the control of the trademark owner often make spurious and unsupported claims that "when licensing their marks into collateral markets, trademark owners usually do not engage in quality control programs."¹⁸⁵ Another recent foundationless claim argues that mark owners will not suffer if courts refuse to prohibit unauthorized uses of their marks because such a policy "is unlikely to significantly affect [owners'] licensing revenue."¹⁸⁶ The author seems to justify this statement by claiming that since licensees are often willing to pay "massive amounts of resources" to a trademark owner in order to become the exclusive manufacturer of merchandise bearing the owner's mark, that the mark owner is adequately compensated by its authorized licensees and should not be heard to complain about unauthorized uses by other parties.¹⁸⁷ Still others maintain that "there is no obvious investment [made by the trademark owner] that will be lost if the broad merchandising theory is rejected," and thus, "we can reject the argument that a merchandising right provides needed financial support for the trademark owner."¹⁸⁸

In fact, such claims cannot be further from the truth. While it is accurate to note that there are not any registration requirements or administrative procedures that

exist in the United States to review and approve quality control programs of owners who license their trademarks, "quality control remains a fundamental aspect of valid [trademark] licensing...and the courts are called upon to rule on the sufficiency of quality control under specific circumstances."¹⁸⁹ Like most corporate ventures, the decision to engage in secondary exploitation of a mark can be a risky proposition and actions for the long-term success of the program are extremely difficult, but important, to evaluate.¹⁹⁰ Any company seeking a successful merchandising program must, therefore, perform a magnitude of prior due diligence, research and planning, including, *inter alia*, valuation of the trademark at issue, as well as the other tangible and intangible assets of the business; identifying constituencies; estimating the added expenses of entering new markets and introducing different products (including raw materials, costs of recruiting new employees, producers, and salespeople, advertising expenditures, research and development, *etc.*); and attracting more investors to help finance such added costs.¹⁹¹

Licensors must also account for professional expenses, most importantly in the negotiation and creation of the merchandising agreement itself, which can take up to six months to prepare—well before any

¹⁸⁵ Assaf, *supra* note 64, at 88 (offering no source or authority to substantiate the claim).

¹⁸⁶ Frank, *supra* note 2, at 368 (offering no source or authority to substantiate the claim).

¹⁸⁷ *Id.*

¹⁸⁸ Dogan & Lemley, *supra* note 4, at 485. ("Trademark owners won't lose their protection against consumer confusion or dilution. Nor can the trademark owner make a plausible case that a competing sale of, say, Dallas Cowboys hats will weaken the connection between the mark and the team. True, the Cowboys might make less money than they would if trademarks were absolute property rights, and they might argue that this 'discourages investment' in football. But so what?"). *Id.* at 484.

¹⁸⁹ NEIL J. WILKOF & DANIEL BURKITT, TRADE MARK LICENSING 113 (2005).

¹⁹⁰ SMITH, *supra* note 9, at 74.

¹⁹¹ *Id.* at 75.

income is returned to the licensor in the form of royalty payments.¹⁹² If the licensee is located in another country, the trademark owner can expect added expenditures for various travel, cultural, accounting, and record-keeping practices.¹⁹³ Due to quality control requirements, trademark licensors in particular must account for the proper administration and approval of product samples and packaging, branding, and inspection of manufacturing facilities.¹⁹⁴ In fact, some licensing practitioners have estimated that a licensor will pay an average of \$25,000 per license, per year, in order to cover these administrative expenses alone.¹⁹⁵ Entire treatises—such as the two cited in the footnotes to this paragraph—have been written to assist trademark lawyers in counseling their clients with respect to assessing additional risks and expenses associated with licensing programs.¹⁹⁶ In addition to the expenditures associated with the creation and maintenance of goodwill and quality control borne by all trademark owners, those who own marks associated with luxury goods have experienced

heightened struggles in the wake of the recent global economic crisis despite the fact that the luxury-goods industry has historically been considered “recession proof.”¹⁹⁷

The *Fleischer Studios I* decision, therefore, frustrates the “settled expectations” of trademark owners (and consumers) that have relied on the protections offered by the Lanham Act when engaging in licensing practices.¹⁹⁸ Particularly, it disregards the presumption of validity that is afforded by the Act to trademarks registered in the PTO¹⁹⁹ and results in an inconsistent message to trademark owners that they should invest goodwill into marks, as long as the marks are not *too* aesthetically pleasing to consumers, thus creating a bifurcated system of quality control for different types of marks. If left unchecked, this growing judicial presupposition that ornamental marks should somehow be afforded less recognition with respect to the goodwill surrounding them will eventually lead to a breakdown of quality control programs that are legally required by owners of all marks.²⁰⁰ The trademark owner is truly caught between a rock and a hard

192 GORDON V. SMITH & RUSSEL L. PARR, *INTELLECTUAL PROPERTY: LICENSING AND JOINT VENTURE PROFIT STRATEGIES* 193 (2004) (explaining that provisions which mandate the licensor to indemnify the licensee in the event of a trademark ownership or validity dispute are “[t]he most troublesome license provisions to quantify,” often involving a subjective analysis that requires the licensor to evaluate whether the proposed field of use is one with a history of litigation and competition, whether similar marks exist in the same or similar fields, and whether there exist major competitors of the licensee who can readily fund expensive infringement litigation, among other considerations).

193 *Id.*

194 *Id.*

195 *Id.*

196 See Calboli, *supra* note 158, at 893-94 (noting the growing body of manuals, guides, and publications directed to the management, advertising, and marketing of modern brands).

197 Abby Liebskind, *Nothing is Recession-Proof: The Impact of the Global Financial Crisis on the Luxury Goods Industry*, April 2009, available at http://www.abbyliebskind.com/portfolio/undergraduate-work/economics/nothing_is_recession_proof_.pdf (last visited on Feb. 21, 2012). See also, Eric Pfanner, *Once Wary of the Web, Luxury Brands Embrace It*, *NY TIMES* (Nov. 18, 2009) available at <http://www.nytimes.com/2009/11/18/business/global/18lux.html> (last visited on Feb. 21, 2012) (the recession has even threatened some well-known brand names with extinction).

198 Deborah S. Cohn, *Mere Ornamentation and Aesthetic Functionality: Causing Confusion in the Betty Boop Case*, 101 *TRADEMARK REP.* 1218, 1222 (2011).

199 *Id.* at 1218.

200 *Id.* at 1222 (“If aesthetic functionality becomes an accepted defense to infringement, there would be little incentive to build a successful brand around an appealing image”).

place since it is both encouraged and required by the Act to create goodwill associated with the mark on the one hand, yet on the other hand, after public demand for the product increases and popularity of the mark inevitably results from such practice, the owner cannot recoup expenditures from its efforts because the mark has become aesthetically functional and, thus, tossed into the public domain for use by all.²⁰¹ Indeed, prior to its unprecedented ruling in *Fleischer Studios I*, the Ninth Circuit in *Au-Tomotive Gold* had more correctly rejected its previous position in *Job's Daughters* by holding that "the fact that a trademark is desirable does not, and should not, render it unprotectable"²⁰² since such an "approach distorts both basic principles of trademark law and the doctrine of functionality in particular."²⁰³

***C. Let Them Beware:
Why Free Riding Should be
Distinguished From Competition
and not Defendable Under the
Lanham Act***

In 1927, Frank Schechter lamented that "[t]rademark pirates are growing more subtle and refined. They proceed circumspectly, by suggestion and approximation, rather than by direct and exact duplication of their victims' wares and marks."²⁰⁴ The rise in consumer demand for ancillary

products combined with the lucrative sales that can be achieved with modern merchandising programs has led to the phenomenon of "ambush marketing," which is particularly prominent in the field of professional and collegiate sports, and is described as

"... the set of activities that companies use to create the impression of an association with a given event or sport property. Typically, these activities are aimed at creating the impression, in the minds of consumers, that a company is a paying sponsor of an event or an official partner with the sport property (*i.e.*, collegiate athletic department)."²⁰⁵

While some believe that ambush marketing can be viewed as encouraging healthy competition in the marketplace,²⁰⁶ others take the position that it "poses a real threat to sponsorees because it reduces the incentive for companies to spend millions of dollars on sponsorships when they can potentially achieve the same advertising results through ambush marketing at significantly lower costs."²⁰⁷ Again, utilizing my fictional Betty Boop basement t-shirt operation example, my would-be actions should be treated as those of a free, "ambush marketer," or interloper of the type

201 See Scott R. Miller, *Is Aesthetic Functionality Rising From the Grave?*, 23 No. 11 INTEL. PROP. & TECH. L.J. 3, 3 (2011).

202 *Au-Tomotive Gold*, 475 F.3d at 1072. See also Miller, *supra* note 173, at 5 ("The *Au-Tomotive Gold* court "expressly refused to apply the rationale of the Ninth Circuit panel in *Job's Daughters* and noted that allowing these kinds of uses would destroy the ability of trademark holders to control their valuable trademark rights.").

203 *Au-Tomotive Gold*, 475 F.3d at 1064.

204 Schechter, *supra* note 43, at 825.

205 Steve McKelvey, Sheranne Fairley & Mark D. Groza, *Caught in the Web?: The Communication of Trademark Rights and Licensing Policy on University Official Athletic Websites*, 20 J. LEGAL ASPECTS SPORT 1, 22-23 (2010) (citing Kent, A. & Campbell, R.M., *An Introduction to Freeloading: Campus-Area Ambush Marketing*, SPORT MARKETING QUARTERLY, 16(2), 118-122 (2007)).

206 See generally, Mark A. Lemley & Mark A. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137 (2010).

207 Patrick Donohue Sheridan, *An Olympic Solution to Ambush Marketing: How the London Olympics Show the Way to More Effective Trademark Law*, 17 SPORTS LAW. J. 27, 28 (2010).

that Professor Schechter was concerned, not as a valid competitor in the free market.

The dictionary meaning of compete “implies having a sense of rivalry and of striving to do one’s best as well as to outdo another,”²⁰⁸ while the dictionary meaning of a free ride is connotative of “something obtained without effort or cost” or “participation without contributing anything.”²⁰⁹ Utilizing a different example, if I were to invest in an animation company like Max Fleischer and Walt Disney and hire artists to create my own sexy girl cartoon image (say Jessica Rabbit) or mouse (say Mighty Mouse) that tickles the fancy of worldwide consumers, I would, indeed, be properly labeled a competitor. The marketplace world be richer and more fulsome if some consumers can identify with Betty or Mickey, while others choose to define themselves by Jessica or Mighty (or perhaps, an altogether new minx or mouse that I choose to create). But what I am doing in my original example is similar to what Dallas Cap, A.V.E.L.A., and other free-riding defendants have done to the owners of famous marks who have painstakingly accumulated decades of investment in their marks—I am usurping their goodwill without having made the contribution or investment to the consumer that is one of the lynchpins of traditional trademark jurisprudence. The Fifth

Circuit in *Boston Hockey* attempted to highlight this distinction when it held:

“The conclusion is inescapable that, without plaintiffs’ marks, defendant would not have a market for his particular product among ice hockey fans desiring to purchase emblems embroidered with the symbols of their favorite teams.

Through extensive use, plaintiffs have acquired a property right in their marks which extends to the reproduction and sale of those marks as embroidered patches for wearing apparel. What plaintiffs have acquired by use, the substantive law of trademarks as it is embodied in the Lanham Act will protect against infringement. There is no overriding policy of free competition which would remove plaintiffs, under the facts of this case, from the protective ambits of the Lanham Act.”²¹⁰

To say, therefore, as Professor Denicola does, that I would be entirely “excluded from the market” were I not able to sell Betty shirts and can “sell to no one” is oblique.²¹¹ If that were true, it would mean that Max Fleisher would have been precluded from entering the marketplace of

208 See DICTIONARY.COM, available at <http://dictionary.reference.com/browse/compete?o=100074> (last visited on Jun. 30, 2011).

209 See DICTIONARY.COM, available at <http://dictionary.reference.com/browse/free+ride?o=100074> (last visited on Jun. 30, 2011).

210 *Boston Hockey*, 510 F.2d at 1011, 1014. See also, Keating, *supra* note 27 (Defendants in this scenario are misappropriating “the thing of value created by the plaintiff” or the “symbols of institutional loyalty, admiration, or sympathy” and not merely a utilitarian aspect of the product at issue).

211 See Denicola, *supra* note 147, at 613. The Au-Tomotive Gold court responded to a similar argument made by the defendant as follows: “Auto Gold complains that if precluded from using the famous marks, it would be unable to compete in the market for auto accessories bearing Volkswagen and Audi’s marks. This argument is just another way of saying ‘If I can’t trade on your trademark, I can’t compete.’ But this argument has no traction here because the mark is not a functional feature that places a competitor at a ‘significant non-reputation-related advantage.’” See *Au-Tomotive Gold*, 475 F.3d at 1074, n9 (citing *TrafFix*, 532 U.S. at 33, 121 S.Ct. at 1255).

competitive cartoon figure creation in the wake of Walt Disney and would be helpless to sell a thing without the necessity of having to recreate Disney's previously trademarked assets. Instead, we live in a world where Fleisher (via Betty) competes with Disney (via Mickey) who competes with Warner Brothers (via Bugs Bunny), and on and on and on. When Reilly creates her new mouse X, she enters into the vibrant market of cartoon character competition and must painstakingly dump as much goodwill into her new character as her competitors have *vis-a-vis* their characters in the past. When Reilly reproduces Mickey or Mighty, she is, point blank, a free rider.²¹² Worse than that, her latter conduct will actually harm the consumer because by choosing not to create her new mouse X she is, therefore, not "increasing the number of comparable products available to the public."²¹³

Most importantly—as well as undeniably contrary to the bulk of contemporary legal scholarship—the owners of the valued prior marks should expect the law to protect their interests and should not have to defend against arguments of third-party entitlement to their investments.²¹⁴ After all, "[i]nstead of taking anything from the

public, the trademark owner, like an inventor, confers on it the greatest benefits. Although a trademark owner may select a word from the public domain to identify her goods, she contributes 'new property' to the public in the quality assurance and source indication functions of the mark."²¹⁵ Third parties, therefore, are not excluded from selling competing *goods or services* which "may be freely sold on their own merits and under their own trade symbols. All that the plaintiff in such cases asks is the preservation of a valuable, though possibly anonymous link between him and his consumer, that has been created by his ingenuity and the merit of his wares or services. 'All the rest of infinity is open to defendant.' So limited a 'monopoly' as that cannot affect legitimate competition, and is of the very essence of any rational system of individual and exclusive trade symbols."²¹⁶

The *National Football League Properties* court acknowledged this important distinction when it held: "We note that defendant is in the business of manufacturing and selling embroidered emblems; it can place any design it wishes on the emblems. However, it has chosen to copy the marks of the NFL teams because they are very

212 See *Auto-Tomotive Gold*, 475 F.3d at 1064 ("Auto Gold's incorporation of Volkswagen and Audi marks in its key chains and license plates appears to be nothing more than naked appropriation of the marks. The doctrine of aesthetic functionality does not provide a defense against actions to enforce the trademarks against such poaching.").

213 Calboli, *supra* note 158, at 911. (By directly recognizing the merchandising rights of trademark owners, competitors could use alternative and original designs on their products, thereby providing consumers with access to a greater number of similar promotional products and enhancing "societal creativeness."). See also, Keene Corp., 653 F.2d at 825 ("The difficulty with accepting such a broad view of aesthetic functionality, which relates the doctrine to the commercial desirability of the feature at issue without consideration of its utilitarian function, is that it provides a disincentive for development of imaginative and attractive design. The more appealing the design, the less protection it would receive."); and PHILLIPS, *supra* note 73, at 220 ("[W]e have to decide that intellectual property works. We have to stop imagining that economies based around knocking off other people's ideas will suddenly and spontaneously develop new innovations and create their own industries, unless there is a way that their innovations and ideas can be protected. This isn't going to be easy, if their experience is that anything can be ripped off.")

214 Rose, *supra* note 5, at 664 (advocating for elimination of the prevailing negative presumption surrounding ownership rights in trademarks and calling for replacing this notion with a "positive presumption that the creator has earned this right and is entitled to a reasonable scope of protection which will not detract from the free flow of information and ideas").

215 *Id.* at 662.

216 Schechter, *supra* note 43, at 833 (quoting *Coca-Cola Co. v. Old Dominion Beverage Corp.*, 271 Fed. 600, 604 (C. C. A. 4th, 1921)).

distinctive and are associated with highly successful football teams.”²¹⁷ As Judge Posner most aptly stated, “[o]rnamental, fanciful shapes and patterns are not in short supply, so appropriating one of them to serve as an identifying mark does not take away from any competitor something that he needs in order to make a competing brand”²¹⁸ and, thus, “the fact that a design feature is attractive does not . . . preclude its being trademarked.”²¹⁹ The Seventh Circuit reaffirmed this position by holding that “marks that are so distinctive that competitors’ only reason to copy them would be to trade on the goodwill of the original designer” cannot be held to restrict the design options for competitors in aesthetic functionality cases.²²⁰ As such, while Reilly’s t-shirts may be sold at a much cheaper price than her competitors who own the official marks can sell them, the Lanham Act, unfortunately, does not permit that result.²²¹

The *Boston Hockey* court also attempted to point out another important factor that those who advocate the move away from an exclusive merchandising right fail to address: the fact that “defendant sought and ostensibly would have asserted, if ob-

tained, an exclusive right to make and sell the emblems.”²²² In other words, Dallas Cap, in its initial attempt to negotiate an exclusive merchandising right to sell goods labeled with plaintiff’s emblems, in essence acknowledged the very rights asserted against it in the lawsuit filed by plaintiff. While similar facts existed in the *Job’s Daughters* case, that court dismissed them entirely, stating only that it “must closely examine” the defendant’s merchandising practices in determining whether consumers would infer sponsorship or affiliation with the plaintiff-owner, which would invariably lead to a finding of infringement.²²³ The defendant in *Au-Tomotive Gold* also made “several attempts” to secure an authorized license from plaintiff owner and, when denied, used the marks anyway.²²⁴

The reality of the matter is that had the plaintiffs in *Boston Hockey*, *Job’s Daughters*, or *Au-Tomotive Gold* complied with the licensing requests of the defendants and the parties engaged in the time and expenses associated with the type of trademark license arrangement described in Section V.B. of this article, the defendants in each case would surely had taken a different

217 Natn’l Football League Props., Inc. v. Consumer Enters., Inc., 327 N.E.2d 242, 246-47 (Ill.App. 1975).

218 W.T. Rogers Co., Inc. v. Keene, 778 F.2d 334, 339 (7th Cir. 1985).

219 *Id.* at 343. See also, Apostolos Chronopoulos, *Trade Dress Rights As Instruments Of Monopolistic Competition: Towards a Rejuvenation Of The Misappropriation Doctrine in Unfair Competition Law and a Property Theory of Trademarks*, 16 MARQ. INTELL. PROP. L. REV. 119, 166 (2012) (“A number of theories of aesthetic functionality have been put forward to confine the right-holder to reputational advantages and to prevent him from obtaining economic benefits as a consequence of the trademark protection of an aesthetically pleasing design (identification theories of aesthetic functionality). The application of those theories reduces the scope of trade dress protection for aesthetically pleasing product design. This line of argumentation is flawed because it does not consider that product differentiation is, in terms of competition policy, desirable and one of trademark law’s substantive valuations.”).

220 Jay Franco & Sons, Inc. v. Franek, 615 F.3d 855, 861 (2010). (The court cited *Service Ideas, Inc. v. Traex Corp.*, 846 F.2d 118, 1123-24 (7th Cir. 1988) for the proposition that “purposeful copying of a beverage server’s arbitrary design indicated a lack of aesthetic functionality.”).

221 *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 428 (5th Cir. 1984). (“We particularly reject the suggestion that the doctrine of functionality insulates a second comer from liability for copying the first comer’s design whenever the second comer can merely cite marketing reasons to justify the copying.”).

222 *Boston Hockey*, 510 F.2d at 1011.

223 *Job’s Daughters*, 633 F.2d at 919 (emphasis added).

224 *Au-Tomotive Gold*, 475 F.3d at 1065.

stance in their interpretation of what rights are validly protected by trademark merchandising law.

While courts are inconsistent in their determinations of whether the defendant's bad faith in using the plaintiff's intellectual property after unsuccessfully requesting a license should be a factor to consider in an infringement analysis,²²⁵ it is the opinion of this author that the law must not allow for such situational flip-flopping and instead, should be constant, clear, and consistent regarding when and under what circumstances unauthorized third-party use of another's marks is justified, particularly in the realm of fictional characters who are trademarked.²²⁶ Although failure to seek a license should not in and of itself be determinative of the infringement issue,²²⁷ courts should nonetheless adjudge the defendant's bad faith in using the plaintiff's mark by assessing such behaviors, particularly due to the fact that defendant's intent is a distinct factor to be considered in the likelihood of confusion analysis in trademark infringement suits.²²⁸ As is evident in most merchandising cases, "[w]here the right in the mark is clear, as is the case with the right to affix a mark to the

same goods with respect to which the goodwill has been established, the intention [of the defendant to pass off its goods as those of the plaintiff] can usually be assumed."²²⁹ Moreover, such intent cannot be eviscerated, as many scholars argue, by merely attaching a notice to the defendant's product disclaiming affiliation with the trademark owner because packaging and tags that contain such disclaimers are usually removed by the original purchasers and can thus result in "post-sale" confusion issues, or when someone other than the purchaser sees the item and is confused as to source.²³⁰

VI. Conclusion

"Trademark law is 'troubling' in part because of the lack of consensus about what protecting trademarks is meant to achieve."²³¹ This phenomenon is particularly evident in the context of the contemporary merchandising practices of trademark owners. Some scholars and courts, particularly the Ninth Circuit in *Fleischer Studios I*, assert that the doctrine of aesthetic functionality is the proper vehicle by which to rein in the ropes on what

225 See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 & n.18 (1994) (the fact that the defendant had unsuccessfully requested a license to use the plaintiff's copyrighted musical work should not weigh against fair use when the work is later used without permission); and *Fisher v. Dees*, 794 F.2d 432, 437 (CA9 1986) (the defendant's conduct in using the plaintiff's song after the plaintiff specifically denied permission not considered sufficiently blameworthy by the court to negate the defendant's parody defense in copyright infringement action). But see *Grand Upright Music v. Warner Bros. Records*, 780 F. Supp. 182, 185 (S.D.N.Y. 1991) (claiming that when performer Biz Markie released his song "Alone Again" after plaintiff Gilbert O'Sullivan refused to grant him requested clearance to use O'Sullivan's song "Alone Again, Naturally" it was clear from the court's perspective that such act demonstrated that "the defendants knew that they were violating the plaintiff's rights" and was evidence of the defendant's "callous disregard for the law and for the rights of others").

226 See, e.g., DOROTHY J. HOWELL, *INTELLECTUAL PROPERTIES AND THE PROTECTION OF FICTIONAL CHARACTERS* ix (1990). ("Those who create or promote fictional characters for all the media or popular culture need a pragmatic understanding of how and to what extent their creations can be legally protected.").

227 *Blanch v. Koons*, 467 F.3d 244, 256 (2d Cir. 2006).

228 *Au-Tomotive Gold*, 475 F.3d at 1075-76 (The Ninth Circuit employs the following eight-factor test to determine the likelihood of confusion in trademark cases: (1) strength of the mark(s); (2) relatedness of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels; (6) degree of consumer care; (7) defendant's intent; (8) likelihood of expansion).

229 See Austin, *supra* note 146, at 847-48.

230 Franklin, *supra* note 143, at 1012-13. See also *Au-Tomotive Gold*, 457 F.3d at 1077 (holding that courts have historically been "justifiably skeptical" of the effectiveness of disclaimers, particularly when the defendant has copied the plaintiff's mark exactly).

231 Austin, *supra* note 147, at 838.

is considered an unacceptable broadening of the scope of trademark rights in the merchandising arena. To the contrary, it is manifestly clear that the unworkable and irrational doctrine is ripe for a complete death, as witnessed by the fact that the same court that heard the original *Fleischer Studios I* case withdrew its analysis on the issue and issued a new opinion on completely alternate grounds six months later.

The chaotic approach to aesthetic functionality applied across circuits and even within the same circuits through time is demonstrative evidence that the doctrine is fundamentally flawed and truly has become the step-child of modern trademark jurisprudence. In this article, I have demonstrated several reasons why future courts should decline to follow the flawed reasoning that reawakened aesthetic functionality in *Fleischer Studios I*. First, applying the doctrine in order to exonerate the acts of defendants like A.V.E.L.A. who engage in unauthorized uses of famous marks does not comport with the desire of the modern consumer who often purchases goods for Veblenistic purposes and who, thus, expects mark owners to control the quality of such goods so that these pur-

suits, materialistic as they may be, can be realized. Second, the doctrine also fails to account for the bargain struck by the Lanham Act to mark owners that if they properly police marks and build goodwill for the benefit of the consumer then the law will protect such investments. Last, encouraging free riders who unjustly benefit by riding on the dovetails of goodwill created by others will not encourage the type of vigorous competition contemplated by the Lanham Act and other doctrines such as unfair competition.

It is not clear exactly why the Ninth Circuit decided to remove its entire discussion of aesthetic functionality from *Fleischer Studios II*, especially since *Fleischer Studios I* was met with such criticism and bewilderment in the legal community. What is clear is that, by its determination not to address the issue in the second opinion, it has left ample opportunity for defendants in the Ninth Circuit, and others, to argue that the doctrine is alive and well. For the sake of trademark owners and consumers alike (conspicuous or otherwise), it is the hope of this author that aesthetic functionality will not once again be resurrected from its ugly grave.

The Effect of the Leahy-Smith America Invents Act on Collaborative Research

By N. Scott Pierce*

ABSTRACT

Requirement under subsection 102(f) of Title 35 of the United States Code that a person “himself invent the subject matter sought to be patented” has been removed by the Leahy-Smith American Invents Act (AIA) of 2011. At least one commentator proposes amending the new Act to add back this provision in order to prevent unauthorized copiers from patenting obvious variants of non-public inventions derived from an original inventor. However, judicial precedent prior to *OddzOn Prods., Inc. v. Just Toys, Inc.* generally does not sanction obviousness considerations under subsection 102(f). If a provision equivalent to subsection 102(f) is incorpo-

rated into the AIA that *does* block obvious variants of derived subject matter, then the Act should also be amended to provide that subject matter that qualifies only under that provision should not be prior art to a claimed invention if, by the effective date of the claimed invention, it is owned by the same person, subject to a common obligation of assignment, or subject to a joint research agreement.

INTRODUCTION

The Leahy-Smith America Invents Act of 2011¹ represents the most substantial change to American patent law since the Patent Act of 1952,² and possibly since the reinstatement of substantive patent exam-

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1 Leahy-Smith America Invents Act, H.R. REP. No. 112-98 (1st Sess. 2011) [hereinafter *AIA*].

2 Patent Act of 1952, ch. 950 §1, 66 Stat. 798 (July 19, 1952).

ination under the Patent Act of 1836.³ Among the most significant changes is the restructuring of conditions for patentability under 35 U.S.C. § 102 and, in particular, elimination of subsection 102(f), which states that a person is entitled to a patent unless “he did not himself invent the subject matter sought to be patented.” Also gone is subsection 102(g)(2), barring a person from obtaining a patent where, “before such person’s invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it.” In effect, while there is still the positive requirement under section 101 that patents be obtained by “[w]hoever invents or discovers a new and useful process, machine, manufacture, composition of matter, or any new and useful improvement thereof,” the “conditions and requirements” to which section 101 is subject under Title 35 of the United States Code now provide protection to inventors who are the first to file or publicly disclose their inventions, even if they were not the first to invent.

The criteria for non-obviousness under section 103 also have been changed to eliminate exclusion of “prior art” that qualifies only under “one or more of subsections (e), (f), and (g) of section 102 of this title ...” if the prior art and the claimed

subject matter are commonly owned or subject to an obligation of assignment to the same person at the time the invention was made.⁴ Therefore, anything that qualifies as “prior art” under new section 102 can prohibit a person from obtaining a patent under new section 103 if “the claimed invention as a whole would have been obvious ... to a person having ordinary skill in the art to which the claimed invention pertains.” Like the previous Act, the conditions of section 103 specifically state that “patentability shall not be negated by the manner in which the invention is made.”⁵

The new Act also replaces a statutory provision for a contest between patent applications, or between a patent application and a patent based on priority of inventorship, known as an “interference proceeding,” under section 135 of the Patent Act of 1952 with a “derivation proceeding.” Under new section 135 of the AIA, a petition to institute a derivation proceeding is proper when “an inventor named in an earlier application derived the claimed invention named in the petitioner’s application and, without authorization, [files] the earlier application claiming” an invention that is “the same or substantially the same” as that claimed by the petitioner.⁶ However, as Joshua Sarnoff recently pointed out, there is no standard in the AIA for “the

3 Patent Act of 1836, ch. 357, 5 Stat. 117 (July 4, 1836) (repealed 1870).

4 AIA, 35 U.S.C. § 103 states:

§103 Conditions for patentability; non-obvious subject matter

A patent for a claimed invention may not be obtained, notwithstanding that the claimed invention is not identically disclosed as set forth in section 102, if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains. Patentability shall not be negated by the manner in which the invention was made.

5 The word “negated” in section 103 of the previous Act has been replaced by the word “negated,” although the legislative history of the AIA states that no substantive change was intended by the substitution. H.R. REP. No. 112-98, at 43, n. 21 (1st Sess. 2011).

6 AIA, 35 U.S.C. § 135.

same or substantially the same,”⁷ and because subsection 102(f) has been removed, it is possible that original inventors of technology may not be able to stop copiers from patenting obvious variants of inventions communicated from original inventors to them.⁸ Prof. Sarnoff proposes amending the new Act to add back subsection 102(f) in order to bar patent protection of unauthorized copies of non-public inventions and their obvious variants.⁹

Under current law, establishing that a derived variant is “obvious” under section 103 requires that the subject matter under subsection 102(f) be eligible as “prior art.” However, prior to *OddzOn Prods., Inc. v. Just Toys, Inc.*,¹⁰ there is very little judicial precedent for considering subject matter under subsection 102(f) of the Patent Act of 1952 to be prior art. Rather, as discussed below, courts generally, and the Supreme Court in particular, had held that subject matter under subsection 102(f) was *not* considered to be prior art for obviousness purposes.¹¹ It was only exclusion of subject matter under subsection 102(f) from con-

sideration as evidence of obviousness under section 103 when commonly owned or subject to common assignment, pursuant to the Patent Act of 1984, that prompted the Federal Circuit in *OddzOn* to hold that such subject matter was to be considered prior art when not so excluded. Removal of subsection 102(f) from exclusion under section 103, therefore, means that, without more, amendment of the new Act to introduce a provision equivalent to subsection 102(f) will not ensure a statutory basis for blocking obvious variants of copied inventions.¹² Further, if the AIA is amended to include an equivalent to subsection 102(f), and even if subject matter under a newly minted 102(f) is to be considered prior art for obviousness purposes, then there must be further amendment to exclude subject matter that qualifies only under that subsection from consideration as prior art where the subject matter and a claimed invention are commonly owned, subject to an obligation of assignment to the same person, or subject to a joint research agreement.

7 The United States Patent and Trademark Office recently has proposed rule § 42.405 that repeats this standard when comparing the claimed inventions of the petitioner (originator) and the respondent (deriver):

§42.405 Content of petition

(a) Grounds for standing. The petition must:

(2) Show that the petitioner has at least one claim that is:

(i) *The same or substantially the same as the respondent's claimed invention;*

and

(ii) Not patentably distinct from the invention disclosed to the respondent.

Fed. Reg. 77:28, page 7040, February 10, 2012. (Emphasis added.)

8 Joshua D. Sarnoff, *Derivation and Prior Art Problems with the New Patent Act*, 2011 Patently-O Patent Law Review 12.

9 *Id.* at 23 (“First, Congress needs to restore § 102(f).... Restored § 102(f) would also provide the PTAB [Patent Trial and Appeal Board] with substantive grounds for denying claims to the copier (as obvious in light of derived § 102(f) prior art).”)

10 122 F.3d 1396 (Fed. Cir. 1997).

11 See *infra* text at note 36.

12 Although, as pointed out by Prof. Sarnoff, the Court of Customs and Patent Appeals in *In re Foster*, 343 F.2d 980 (C.C.P.A. 1965) provides some historical precedent for “extending the meaning of ‘invention’ to include obvious variants” under section 102 on policy grounds. Sarnoff at 18.

1. A Short History of Statutory Provision for Collaborative Research

Exclusions under section 103 of the Patent Act of 1952 of commonly-owned prior art under subsections 102(f) and (g) were enacted under the "Patent Law Amendments Act of 1984,"¹³ which was intended to "encourage communication among members of research teams, and patenting, and consequently public dissemination, of the results of 'team research,'"¹⁴ and to recognize "the realities of modern day industrial research and development."¹⁵ Subsection 102(e) was added to the exclusions under section 103 by the American Inventors Protection Act of 1999.¹⁶

The Cooperative Research and Technology Enhancement Act of 2004 (2004 CREATE Act) extended the scope of protection provided by the 1984 and 1999 Acts by including inter-institutional collaborations under the phrase, "owned by the same person or subject to an obligation of assignment to the same person."¹⁷ Pursuant to the 2004 CREATE Act, under 35 U.S.C. § 103(c)(2):

[A] claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person if

(A) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the date the claimed invention was made;

(B) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.¹⁸

The AIA deletes reference under new section 103 to subsections (e), (f) and (g) of prior section 102. Much of the language regarding common ownership consequent to the 2004 CREATE Act has been preserved under new subsections 102(b)(2)(C) and 102(c).¹⁹ However, because subsec-

13 Patent Law Amendments Act of 1984, Pub. L. No. 98-622, § 104(a), 98 Stat. 3384 (1984) [hereinafter *1984 Act*].

14 Section-by-Section Analysis of H.R. 6286, Patent Law Amendments Act of 1984, 130 Cong. Rec. 28069, 28071 (Oct. 1, 1984), reprinted in 1984 U.S.C.A.N. 5827, 5833.

15 Innovation and Patent Law Reform: *Hearings Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary*, 98th Cong., 2d Sess., 61 (1984) [hereinafter *1984 House Hearings*] (Statement of Harry F. Manbeck, Jr.).

16 American Inventors Protection Act of 1999, Public. L. No. 106-113, 113 Stat. 1537-44 (1999) [hereinafter *AIPA*].

17 Cooperative Research and Technology Enhancement Act of 2004, Pub. L. No. 108-453, §2, 118 Stat. 3596 (2004) [hereinafter *2004 CREATE Act*].

18 *Id.*

19 AIA, 35 U.S.C. § 102 (b)(2)(C) states:

§ 102 Conditions for patentability; novelty

(b) Exceptions.-

(2) Disclosures appearing in applications and patents. – A disclosure shall not be prior art to a claimed invention under subsection (a)(2) if –

tions 102(f) and (g) have been eliminated, provision for common ownership only extends to patents and published patent applications that would otherwise be prior art under new subsection 102(a)(2),²⁰ which has its closest parallel to provisions for patents and published patent applications under current 35 U.S.C. § 102(e).²¹

tion of another who had not abandoned, suppressed, or concealed it, *under the circumstances of this case* which include the disclosure of such invention in an issued patent, is available as “prior art” within the meaning of that term in § 103 by virtue of § 102(g).²⁴

2. Case Law Motivating Legislative Intervention in Collaborative Research

In 1973, the Court of Customs and Patent Appeals in *In re Bass*,²² in a case of first impression,²³ held that:

[W]e rule against appellants and hold that the use of the prior inven-

No exception was made by the court for the fact that the events considered under subsection 102(g) were all conducted by members of a common research and development program.²⁵ In addition to subsection 102(g), subsections 102(a), (b) and (e), were also stated by the court to be “prior art subsections,” and, therefore, relevant to obviousness considerations

Footnote 19 continued from previous page

(C) the subject matter disclosed and the claimed invention, not later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

AIA, 35 U.S.C. § 102(c) states:

(c) Common Ownership Under Joint Research Agreements. - Subject matter disclosed and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of subsection (b)(2)(C) if -

- (1) the subject matter disclosed was developed and the claimed invention was made by, or on behalf of, 1 or more parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;
- (2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and
- (3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

20 AIA, 35 U.S.C. § 102(a)(2) states:

§ 102. Conditions for patentability; novelty

(a) Novelty; Prior Art - A person shall be entitled to a patent unless -

(2) the claimed invention was described in a patent issued under section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

21 35 U.S.C. § 102(e) currently states:

§ 102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless -

(e) the invention was described in (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for the purposes of this subsection of an application filed in the United States only if the international application designated the United States and was published under Article 21(2) of such treaty in the English language. ...

22 59 CCPA 1342 (CCPA 1973).

23 *Id.* at 1350 (“However, it is the first time we have considered combining § 102(g) and § 103 in the context of an ex parte rejection entirely divorced from award of priority in an interference which established the prior inventorship relied on in rejecting.”).

24 *Id.* at 1355 (emphasis added).

25 *Id.* at 1350 (“[A]pplicants [Bass, Jenkins, and Horvat] were working together on a common project, as evidenced by the facts in the Rule 131 affidavit...”)

under 35 U.S.C. § 103, while subsections 102(c), (d) and (f) were explicitly held to have no relevance to obviousness under 35 U.S.C § 103:

Of course, (c), (d), and (f) have no relation to § 103 and no relevance to what is “prior art” under § 103. Only the remaining portions of § 102 deal with “prior art.” Three of them, (a), (e), and (g), deal with events prior to applicant’s invention date and the other, (b) with events more than one year prior to the U.S. application date. These are the “prior art” subsections.²⁶

Subsection 102(f) was understood by the CCPA in *Bass* to relate only to derivation in that it “deals with originality,”²⁷ whereby “one who ‘did not himself invent the subject matter’ (i.e., he did not originate it) has no right to a patent on it.”²⁸

The “circumstances of this case” of *Bass*, according to a later decision by the CCPA in *In re Clemens*,²⁹ included “clear and conclusive evidence of priority”³⁰ and knowledge of that fact by one of the inventors of the prior invention:

In *Bass*, it was clear that at least one of the three *Bass* co-inventors had knowledge of the prior invention before the making of the *Bass* inven-

tion. (The sole inventor of the prior invention was a co-inventor of the *Bass* invention.)³¹

In *Clemens*, however, there was “no such evidence in the record concerning the order in which the inventions in question were made,”³² and there was “no evidence of record that any of the applicants had knowledge of [non-co-inventor] Barretts’ invention prior to the making of their own invention.”³³ The court in *Clemens* refused to extend the logic of *Bass*, where a holding of obviousness under section 103 was made, by imputing an “applicant’s own knowledge of another’s prior invention,” when such “knowledge has not been shown to be known to either the public or the applicants.”³⁴ As stated by the court:

Where an applicant begins with knowledge of another’s invention that will be available to the public at a later date as a result of an issued patent, treating this other invention as prior art is justified under facts such as those in *Bass*. No such consideration is present when the applicant does not begin with such knowledge. To the contrary, where this other invention is unknown to both the applicant and the art at the time the applicant makes his invention, treating it as 35 U.S.C. § 103

²⁶ *Id.* at 1360.

²⁷ *Id.*

²⁸ *Id.*

²⁹ 622 F.2d 1029 (CCPA 1980).

³⁰ *Id.* at 1038.

³¹ *Id.* at 1039.

³² *Id.* at 1038.

³³ *Id.* at 1039.

³⁴ *Id.*

prior art would establish a standard for patentability in which an applicant's contribution would be measured against secret prior art. Such a standard would be detrimental to the innovative spirit the patent laws are intended to kindle.³⁵

From well before the time of *Bass* and *Clemens*, and until much later, subsection 102(f) generally was understood to be limited to derivation, as "shown by a prior, complete conception of the claimed subject matter and communication of the complete conception to the party charged with derivation," wherein the "[c]ommunication of a complete conception must be sufficient to enable one of ordinary skill in the art to construct and successfully operate the invention."³⁶ As late as 1997, the Federal Circuit, in *Gambro Lundia v. Baxter Healthcare*,³⁷ invoked the Supreme Court decision of *Agawan Co. v. Jordan*,³⁸ stating that the "Court required a showing that the communication 'enabled an ordinary mechanic, without the exercise of any ingenuity and special skill on his part to construct and put the improvement in successful operation.'"³⁹ The Federal Circuit in *Gambro*

chastised the lower court's reliance on another case, *New England Braiding Company v. A.W. Chesterton*⁴⁰:

Citing *New England Braiding v. A.W. Chesterton*, the district court concluded that Baxter did not need to prove communication of the entire conception, but rather only so much of the invention "as would have made it obvious to one of ordinary skill in the art." Based on this reasoning, the district court applied the obviousness standard in 35 U.S.C. § 103 (1994) to determine that the named inventors received enough information to make the invention obvious to one skilled in the dialysis art. This reasoning, however, misconstrues the dictum in *New England Braiding* and introduces incorrectly an obviousness analysis into the test for derivation.⁴¹

Nevertheless, in response⁴² to *Bass* and *Clemens*, both subsections 102(f) and (g) were excluded from consideration as prior art under section § 103 in the 1984 Act, provided that the subject matter under subsec-

35 *Id.* at 1039-40.

36 *Hedgewick v. Akers*, 497 F.2d 905,908 (CCPA 1974), citing *MacMillan v. Moffett*, 432 F.2d 1237 (CCPA 1970), *DeGroff v. Roth*, 56 CCPA 1331 (CCPA 1969), *Egnot v. Looker*, 387 F.2d 680 (CCPA 1967) and *Agawan v. Jordan*, 74 U.S. (7 Wall.) 583 (1869).

37 110 F.3d 1573, (Fed. Cir. 1997).

38 74 U.S. (7 Wall.) 583 (1868).

39 *Gambro* at 1577, quoting *Agawan*, 74 U.S. 583, at 602-603.

40 970 F.2d 878 (Fed. Cir. 1992).

41 *Gambro* at 1577 (citations omitted). The Federal Circuit in *New England Braiding* did, in fact, say: "To invalidate a patent for derivation of invention, a party must demonstrate that the named inventor in the patent acquired knowledge of the claimed invention from another, or at least so much of the claimed invention as would have made it obvious to one of ordinary skill in the art." 970 F.2d at 883. However, according to the court in *Gambro*, "[t]his dictum did not in fact incorporate a determination of obviousness into a Section 102(f) analysis. Indeed, this court in *New England Braiding* did not apply such a test." *Gambro* at 1578.

42 See Section-by Section Analysis, *supra* note 6. As stated in the legislative history of the 1984 Act:

However, under *In re Bass* and *In re Clemens* an earlier invention which is not public may be treated under section 102(g), and possibly under 102(f), as prior art with respect to a later invention made by another employee of the same organization.

...The bill by disqualifying such background information from prior art, will encourage communication among members of research teams, and patenting, and consequently public dissemination, of the results of "team research."

(Citations omitted.)

tions 102(f) and (g) and of the claimed invention “were, at the time the claimed invention was made, owned by the same person or subject to an obligation of assignment to the same person.”⁴³

In 1997, the Federal Circuit, in *OddzOn Products, Inc. v. Just Toys Inc.*,⁴⁴ decided a few months after *Gambro*, held that, despite language in *Bass* that subsections 102(c), (d) and (f) have “no relation to § 103 and no relevancy to what is ‘prior art’ under § 103,”⁴⁵ the language of section 103 mandates that subsection 102(f) “creates a type of prior art for purposes of § 103” outside of the “limited circumstances” prescribed:

While the statute [§ 103] does not expressly state in so many words that § 102(f) creates a type of prior art for purposes of § 103, nonetheless that conclusion is inescapable; the language that states that § 102(f) subject matter is not prior art under limited circumstances clearly implies that it is prior art otherwise. That is what Congress wrote into law in 1984 and that is the way we must read the statute.⁴⁶

The court further stated that such a result was “not illogical” because, while the “obvious invention, A’, may not be unpatentable to the inventor of A, and may not be unpatentable to a third party who did not receive the disclosure of A, ... it is unpatentable to the party who did receive the disclosure.”⁴⁷ For the court in *OddzOn*, public disclosure constituted the dividing line between, on one hand, events under section 102 that constitute “prior art,” including subsections 102(a), (b) and “prior invention of another that was not abandoned, suppressed, or concealed (102(g) prior art),”⁴⁸ and, on the other hand, events under those subsections, namely 102(c), (d) and (f), that do not relate to public disclosure.⁴⁹ According to the court, “[e]ven the ‘secret prior art’ of § 102(e) is ultimately public in the form of an issued patent before it obtains prior art status.”⁵⁰ Therefore, there was “a basis for an opposite conclusion [to their finding that events under subsection 102(f) are ‘prior art’], principally based on the fact that § 102(f) does not refer to public activity, as do the other provisions that clearly define prior art,”⁵¹ and the court expressed concern about their holding.⁵² But, for the Federal Circuit in *OddzOn*, the decision

43 Pub. L. No. 98-622, Sec. 104(a).

44 122 F.3d 1396 (Fed. Cir. 1997).

45 *Id.* at 1402, quoting *In re Bass*, 474 F.2d at 1360.

46 *Id.* at 1403.

47 *Id.* at 1403.

48 *Id.* at 1402.

49 *Id.* at 1402 (“There is substantial logic to that conclusion. After all, the other prior art provisions all relate to subject matter that is, or eventually becomes, public.”).

50 *Id.*

51 *Id.* at 1403.

52 *Id.* As stated by the court:

It is sometimes more important that a close question be settled one way or another than which way it is settled. We settle the issue here (subject of course to any later intervention by Congress or review by the Supreme Court), and do so in a manner that best comports with the voice of Congress. Thus, while there is a basis for an opposite conclusion, principally based on the fact that § 102(f) does not refer to public activity as do the other provisions that clearly define prior art, nonetheless we cannot escape the import of the 1984 amendment.

was the one “that best comports with the voice of Congress.”⁵³

3. Legislative History of the 2004 CREATE Act

a. The Original Proposal and Congressional Hearing

The 2004 CREATE Act, as finally enacted, differed significantly from the bill that was originally submitted in the House of Representatives on June 9, 2003.⁵⁴ In the first bill, subsection 102(f) was to be amended to state that a person shall be entitled to a patent unless he did not himself invent the subject matter sought to be patented, “except that subject matter under this subsection shall not be considered prior art or as evidence of obviousness under section 103 of this title.”⁵⁵ Subsection 103(c) was to be amended to remove reference to subsection 102(f) and to move the date by which ownership must be established from the date the invention was made to the earliest filing date of the patent application:

(c) Subject matter developed by another person, which qualifies as prior art only under one or both of subsections (e) and (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time of the earliest filing date for which benefit is sought under this title, owned by the same person or subject to an

obligation of assignment to the same person.”⁵⁶

A hearing before the Subcommittee on Courts, the Internet and Intellectual Property of the Committee on the Judiciary in the House of Representatives regarding the first proposed statutory amendments under the CREATE Act was conducted on June 10, 2003.⁵⁷ During the hearing, several concerns were raised about the language of the proposed amendments under the proposed Act. Among them was a view that the additional protections afforded by the proposed language went beyond the issues raised by the Federal Circuit in *OddzOn*, which arose “only where (a) there is no obligation for common ownership or assignment before the invention was made, (b) one party in a research team conveys information that, when combined with other prior art, would render the invention obvious, and (c) the party conveying that information is not part of the inventive entity named in the application.”⁵⁸

One suggested revision of the proposed bill was to keep subsection 102(f) as an exception under subsection 103(c), but to change the amendment to subsection 102(f) to state that “[a] person shall be entitled to a patent unless ... he did not himself invent the subject matter sought to be patented, except that subject matter communicated from a co-inventor shall not be considered prior art under this subsection.”⁵⁹ This suggestion was intended to

⁵³ *Id.*

⁵⁴ H.R. 2391, 108th Cong. (1st Sess. 2003).

⁵⁵ *Id.* at 2.

⁵⁶ *Id.* (emphasis added).

⁵⁷ Cooperative Research and Technology Enhancement (CREATE) Act of 2003: *Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the Comm. on the Judiciary on H.R. 2391, 108th Cong., 1st Sess., 33* (2003) [hereinafter 2003 CREATE Act Hearing].

⁵⁸ *Id.* at 41 (Statement of Jeffrey P. Kushan, Sidley, Austin, Brown and Wood, Washington, D.C.).

⁵⁹ *Id.* at 20 (Statement of Eric Steffe, Stern, Kessler, Goldstein and Fox, Washington, D.C.).

address two issues. Anticipating Prof. Sarnoff's basis for reintroducing subsection 102(f), the first issue was "a concern that the proposed bill [without the suggested revision] inadvertently protects a party who misappropriates the invention of another party, makes minor modifications, and files a patent application, because unpatentability for obviousness based on 102(f) prior [art] would no longer be available."⁶⁰ The second issue to be addressed by the suggested revision to the proposed bill would be to prevent claimed subject matter in a later, jointly developed broad invention by multiple ownership entities from being found unpatentable under subsection 102(f) in view of a non-public narrow embodiment communicated by one of those entities:

While, hopefully a court would consider the entire collaboration as an act of invention, and would refuse to find the [later] generic formula unpatentable over the earlier communication of compound X for public policy reasons, CREATE arguably leaves this an open question.⁶¹

Therefore, while the original proposed bill would have removed reference to subsection 102(f) from subsection 103(c) and, therefore, eliminated the basis for the reading of the statute by the Federal Circuit that made subsection 102(f) a prior art consideration, the suggested revision of the proposed bill would have narrowed

the amendments under the Act to exclude the possibility that a third party would be able to file a patent application on an obvious variant unless that third party were a co-inventor.

The amendments to subsection 102(f) under the proposed statute were also thought potentially to create a secondary problem in that, by being the only paragraph under section 102 that states that it excludes considerations of obviousness, the "negative implication is that all other paragraphs do apply for non-obvious determinations," such as "§ 102(c) and (d), where [sic] the Federal Circuit has said in dicta do not apply to non-obviousness."⁶² Concerns relating to amendment of section 102 as a way to avoid issues of obviousness under section 103 raised by the Federal Circuit in *OddzOn* were more broadly echoed in the testimony of one of the witnesses at the hearing, Dr. John Soderstrom:

My reaction, having been on both sides of litigation, both defending and prosecuting patents, is that I think the difficulty that I see that the Act needs to deal with are the 103(c) issues, not 102. I think the problem I see is that when you start playing around with the language of 102, there are lots of other issues that arise that have unintended consequences that I fear we will be right back here trying to correct a year from now.⁶³

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.* at 46. The word "exclusively" was proposed to be inserted under subsection 102(f) to prevent any interpretation of the proposed amendment to subsection 102(f) that would bar obviousness rejections where § 102(f) was not the only section under which a reference might be considered in an obviousness determination. *Id.*

⁶³ *Id.* at 50. (Statement of John Soderstrom, Ph.D., Managing Director, Office of Cooperative Research, Yale University, New Haven, CT, on behalf of the Association of University Technology Managers).

Speaking even more generally, Mr. Jeffrey P. Kushan, another witness, reflected on the realities of communications between individuals working in a “modern environment” and the inevitability of discovery in litigation:

I think the change that has been proposed wouldn't capture the full scope of the scenario that we are trying to protect because it would still have a strong encouragement to people who want to kill the patent that comes out of the inventive community by looking to somebody who doesn't qualify as an inventor and say, well, you told him something, blah, blah, blah. That goes in and can come into the litigation environment.⁶⁴

Dual situations were summarized by Mr. Berman, a representative from California on the Committee on the Judiciary. Mr. Berman stated that “the threat now is that some initial, some comments in an initial collaborative effort will be used either by that person or by someone else to defeat a patent achieved as a result of this inter-institutional collaboration,”⁶⁵ but “if we fix that problem, the problem then becomes that somebody participating in this collaboration will now be able to sustain a patent which is just a minor variation of the original idea as discussed in the collaboration.”⁶⁶

Moreover, as stated by Mr. Thomas, the intended effect of the CREATE Act was to “overturn the 1997 holding of the U.S.

Court of Appeals for the Federal Circuit in *OddzOn Products, Inc. v. Just Toys, Inc.*, which ruled that derived prior art may serve as evidence of obviousness.”⁶⁷ The Federal Circuit, however, as discussed above, also was concerned with the distinction between disclosed and undisclosed information as a dividing line between what should and should not be considered “prior art.”⁶⁸ The testimony of the witnesses reflected a further concern that even confidential communications could be considered derived prior art that might defeat a patent as being obvious under section 103. For example, as stated by Mr. Kushan in his oral testimony before the subcommittee:

It is looking at it from the perspective of litigation involving a patent once you have successfully developed an invention, when there are lots of motivations to go back 15 years before the invention was *made* and the patent was granted, talk to everybody who talked to the first researcher and find out if somehow they had information that they shared with the person who actually got the patent. This creates an unsustainable risk to patent validity that we think we should remove.⁶⁹

Presumably, such communications were the type of subject matter that could be considered prior art under subsection 102(f) and, thus, be eligible as evidence of obviousness under section 103.

64 *Id.* (Statement of Jeffrey P. Kushan).

65 *Id.* at 53. (Statement of Howard L. Berman, Representative from California)

66 *Id.*

67 *Id.* at 47 (Statement of John R. Thomas).

68 See text at notes 48 and 49, *supra*.

69 *Id.* at 35 (Statement of Jeffrey P. Kushan) (emphasis added).

b. The Revised Proposal

On February 24, 2004, a substantially revised version of the CREATE Act was reported that eliminated any amendment of subsection 102(f) and reinstituted subsection 102(f) under the exclusions of subsection 103(c).⁷⁰ The new version of the bill also reinstituted in section 103 the requirement that prior art under the excluded subsections of section 102 and the claimed invention be, “at the time that the claimed invention was *made*, owned by the same person or subject to an obligation of assignment to the same person,”⁷¹ but broadened the interpretation of the phrase, “owned by the same person or subject to an obligation of assignment to the same person,” in section 103 by including activities subject to a “joint research agreement”:

(2) For purposes of this subsection, subject matter developed by another person and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person if –

(A) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the date the claimed invention was *made*;

(B) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.⁷²

“Joint research agreement,” in turn, was specified by proposed subsection 103(c)(3) of the revised Act to mean “a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.”⁷³

The revisions to the proposed CREATE Act resolved many of the issues raised during the hearings of the year before. For example, by not having amended subsection 102(f), any concerns regarding consequent implications with respect to the remainder of section 102 as prior art were eliminated. However, by doing so the subcommittee was forced to include subsection 102(f) in section 103, (which had prompted the Federal Circuit in *OddzOn* to label events under subsection 102(f) as “prior art”) and to broaden the meaning of being “owned by the same person or subject to an obligation of assignment to the same person” in order to exempt certain inter-institutional collaborations.

⁷⁰ H.R. REP. No. 108-425, at 2 (2d Sess. 2004).

⁷¹ *Id.* (emphasis added). Interestingly, the AIA requires that the date of a joint research agreement be before the *filing date* of the invention. However, this opens the possibility for an inventor to buy up the rights to third party unpublished patent applications before they qualify as prior art under new 35 U.S.C. § 102(a)(2) by executing a joint research agreement under 35 U.S.C. § 102(c)(2) before his own patent application has been filed, but retroactively covering activities that led to the claimed invention. 35 U.S.C. § 102(c)(2) should be read to avoid this result. (Thanks to Prof. Sarnoff for his assistance on this point.)

⁷² *Id.* (emphasis added).

⁷³ *Id.*

The proposed revisions of the CREATE Act responded to the issues raised by the Federal Circuit in *OddzOn* more narrowly and without the risks of providing unintentional fodder for litigation, on one hand, or overexpansive protections on the other, as articulated during the hearings conducted with respect to the first proposal under the CREATE Act. The CREATE Act as ultimately passed was essentially identical to the rewritten bill reported on February 24, 2004.

4. Changes Made by the American Invents Act that Affect Collaboration

a. The Effect on “Derivation.”

Changes by the AIA to what had been components of the 2004 CREATE Act, the Patent Law Amendments Act of 1984 and the American Inventors Protection Act of 1999, appear to have been made as part of the overall conversion from a “first-inventor” to a “first-inventor-to-file-or-publicly-disclose” system. However, removal of reference to subsection 102(f) from section 103 of the new Act reopens the question of the meaning of “derivation.”

As discussed above, derivation generally had no relation to determinations of obviousness from the time of the Supreme Court’s decision in *Agawan* through the Federal Circuit’s decision in *Gambro*.⁷⁴ If

the logic of the Federal Circuit in *OddzOn* is to be maintained in the new Act, whereby “language that states that § 102(f) subject matter is not prior art under limited circumstances clearly implies that it is prior art otherwise,”⁷⁵ then removal of reference to subsection 102(f) from the new statute should remove the basis for the conclusion that subject matter otherwise under subsection 102(f) would be prior art at all. Simply introducing an equivalent to subsection 102(f), without more, will not be a basis for linking derivation with obviousness as the Federal Circuit did in *OddzOn*. Further, those portions of the 2004 CREATE Act preserved in the AIA were originally written into the 2004 CREATE Act, as discussed above, to *exclude* events under subsection 102(f) as prior art that the Federal Circuit reluctantly held to be prior art in *OddzOn*. Therefore, contrary to a recent statement made by Prof. Sarnoff in his proposal to amend the AIA,⁷⁶ preservation of portions of the 2004 CREATE Act in new subsection 102(c) does *not* suggest that Congress “intended to preserve derivation art for obviousness generally....”⁷⁷

It may be that obviousness will be a consideration in derivation proceedings under new section 135 as a carry-over from standards for conducting interference proceedings⁷⁸ and, certainly, preservation of the phrase “substantially the same” in new section 135 leaves room for that interpreta-

⁷⁴ See *supra* text at note 39, *supra*. See also *Gambro* at 1577 (“This reasoning, however, misconstrues the dictum in *New England Braiding* and introduces incorrectly an obviousness analysis into the test for derivation.”).

⁷⁵ See *supra* text at note 46.

⁷⁶ Joshua D. Sarnoff, *Derivation and Prior Art Problems with the New Patent Act*, 2011 Patentably-O Patent Law Journal 12, at n. 11:

Congress went out of its way to indicate its intent to preserve the legislative purposes of the Create Act in Section 3(b)(2) of the new act, when adopting new § 102(c) to replace current § 103(c). This suggests that Congress intended to preserve derivation art for obviousness generally, notwithstanding elimination of § 102(f), as current § 103(c) applies to prevent invalidation under current § 102(f) – combined with current § 103(a) – of claims of joint inventors operating under joint research agreements who derive relevant knowledge from each other.

⁷⁷ *Id.*

tion.⁷⁹ However, new section 291, entitled “Derived Patents,” which is directed to civil action between owners of patents contesting derivation, includes no such language.⁸⁰ Further, there is nothing in the legislative history or in the new Act that explicitly requires an obviousness determination in any derivation proceeding. The fact that courts may rely on judicial precedent to exclude obviousness from derivation proceedings further supports Prof. Sarnoff’s recommendation to restore subsection 102(f)⁸¹ and adopt a proposed revision by Prof. Sarnoff of new subsection 291(a).⁸² However, both sections 135 and 291 should be amended to *explicitly* bar obvious variants of an earlier-derived invention unless they are commonly owned, as prescribed by the statute.

b. The Effect on Collaboration

Under the Patent Act of 1984, subject matter under subsections 102(f) and (g) were excluded from consideration as evidence of statutory obviousness under section 103 when the subject matter and a claimed invention were commonly owned or subject to an obligation of assignment to the same person in order to “encourage communication among members of research

teams.” The Patent Act of 1999 expanded the protection of the Patent Act of 1984 by also excluding patents and published patent applications under 102(e) from section 103 when the subject matter disclosed and claimed is commonly owned or subject to a common obligation to assign to the same person. The 2004 CREATE Act embraced inter-institutional “joint research agreements” within the meaning of “common ownership or obligation to assign.” Under the new Act, only patents or published patent applications under subsection 102(a)(2) can (like prior subsection 102(e)) be excluded as prior art if the subject matter disclosed and claimed is commonly owned or subject to a common obligation to assign to the same person.

If subject matter under any new subsection 102(f) is eligible for consideration as evidence of obviousness of claimed subject matter under section 103, then the AIA should also be amended to exclude such subject matter when it and the claimed subject matter are “owned by the same person or subject to an obligation of assignment to the same person,” including subject matter “commonly owned” under a “joint research agreement,” as “common ownership” and “joint research agree-

⁷⁹ Sarnoff at n. 20. Professor Sarnoff states:

If Congress does not act to fix the provision, I hope Chico [Gholz] and Mark [Lemley] turn out to be right and that the courts uphold a broader interpretation that would authorize the PTO [United States Patent and Trademark Office] to trigger derivation proceedings for obvious variants and for the PTAB [Patent Trial and Appeal Board] to deny patents on them.

⁷⁹ Under previous “§ 135. Interferences,” subsection (b)(1) states: “A claim which is the same as, or for the same or *substantially the same* subject matter as, a claim of an issued patent may not be made in any application unless such a claim is made prior to one year from the date on which the patent was granted.” (Emphasis added.) Under new “§ 135. Derivation proceedings,” subsection “(a) Institution of Proceeding” states: “...Any such petition [to institute a derivation proceeding] may be filed only within the 1-year period beginning on the date of the first publication of the claim to an invention that is the same or *substantially the same* as the earlier application’s claim to the invention” (emphasis added).

⁸⁰ New “§ 291. Derived Patents” states: “The owner of a patent may have relief by civil action against the owner of another patent that claims the *same invention*....” (emphasis added).

⁸¹ Sarnoff at 23. (“First, Congress needs to restore § 102(f).”)

⁸² Prof. Sarnoff’s proposed subsection 291(a) is as follows:

Any person may have relief by civil action against the owner of a patent where a claim of that patent is alleged by that person seeking relief to be derived in whole or in part. For any claim found to be derived in whole or in part, the court may correct the named inventor, may find the claim invalid, or may deny relief, as appropriate under the circumstances by applying substantive patentability standards to the claim.

ment” are defined under subsections 102(c) and 100(h),⁸³ respectively, of the AIA. Failure to do so may engender arguments challenging validity like those proffered in *Bass*, *Clemens* and *OddzOn* and cause a chilling effect on intra-institutional and inter-institutional collaborations.

CONCLUSION

It is important that avenues carefully closed by the Acts of 1984, 1999 and 2004 not be reopened. The new Act greatly streamlines patent prosecution and provides many safeguards to ensure higher quality patent protection. Prof. Sarnoff’s proposal to amend the new Act to incorporate an equivalent to subsection 102(f) rightfully intends to bar patent protection of obvious variants and thereby foreclose the opportunity for unscrupulous copiers to leverage the AIA to their advantage. However, if such an amendment is made, it should be realized that subject matter under subsection 102(f) was only considered “prior art” by the Federal Circuit in *OddzOn* by virtue of language limiting its

use under section 103. The fact that section 103 under the AIA does not exclude any “prior art” may, therefore, remove the utility of a new subsection 102(f) if judicial precedent prohibiting consideration of subject matter under subsection 102(f) as evidence of obviousness in derivation proceedings is followed by the courts. Therefore, any such amendment of the AIA to include a requirement that the inventor “himself invent the subject matter to be patented,” should also explicitly state that subject matter that qualifies as prior art under such new subsection be subject to consideration for obviousness purposes. Further, if obviousness is part of a derivation analysis based on a new subsection 102(f), then care must be taken not to allow third parties to use any subject matter that qualifies as prior art exclusively under that subsection to invalidate claims when that “prior art” and the claimed subject matter are owned by the same person, subject to an obligation of assignment to the same person, or subject to a joint research agreement.

⁸³ AIA, 35 U.S.C. § 100(h) (“The term ‘joint research agreement’ means a written contract, grant, or cooperative agreement entered into by 2 or more persons or entities for the performance of experimental, developmental, or research work in the filed of the claimed invention.”).

Challenging Validity of Issued Patents Before the PTO: Inter Partes Reexam now or Inter Partes Review Later?

Andrei Iancu, Ben Haber, Elizabeth Iglesias*

Introduction

On September 16, 2011, President Obama signed the America Invents Act ("AIA") into law.¹ The AIA contains many provisions that could substantially alter the landscape of American patent law. One of the major changes was the creation of new procedures for challenging the validity of an issued patent before the United States Patent and Trademark Office ("PTO"). One of these new provisions, Inter Partes Re-

view ("IPR") is set to completely replace the Inter Partes Reexamination ("Re-exam") procedure that is currently in use.² While it mapped out the skeletal framework of these newly created procedures, including IPR, the AIA also mandated that the PTO conduct rulemaking to flesh out the rest of the proceedings. On February 9th and 10th, 2012, the PTO issued several proposed rules packages to do just that.³

The new IPR procedures contemplated by the PTO's proposed rules are more

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1 LEAHY-SMITH AMERICA INVENTS ACT, PL 112-29, September 16, 2011, 125 Stat 284 [Hereinafter "AIA" or "H.R. 1249"]. NOTE: to differentiate the code sections of Title 35 that have been altered by the AIA, this article will refer to these new provisions as "New 35 U.S.C." This article will refer to the current Title 35 provisions simply as "35 U.S.C." Additionally, this article will refer to provisions of the AIA which will not be included in Title 35 as "H.R. Sec. XXX," where XXX is the AIA section number.

2 Ex Parte Reexamination remains largely unchanged in light of the AIA, and therefore will not be addressed by this article

3 Final rules will be issued August 16, 2012, allowing for the required 30 day notice before the final rules become effective on September 16, 2012. See MESSAGE FROM JANET GONGOLA, PATENT REFORM COORDINATOR: Analysis of Comments Filed in Response to Patent Related and Administrative Trial Notices of Proposed Rulemaking, available at http://www.uspto.gov/aia_implementation/index.jsp

“trial-like” than prior Reexam practice at the PTO. For example, current Reexam is conducted in an amendment-and-response format, similar to primary patent examination. The new AIA procedures on the other hand, including the new IPR procedure, call for limited discovery, including deposition of declarants and affiants, a hearing, and oversight by Administrative Patent Judges of the Patent Trial and Appeals Board (“PTAB” or “the Board”).

IPRs will not be available until the end of this year. This leaves a question open to patent practitioners who would like to challenge the validity of an issued patent before the PTO in an inter partes setting: is it better to wait for the new IPR provisions to come into effect, or file a Reexam under the current rules before they are gone?

Considering a number of factors, this article finds that it may often be strategically more favorable to file under the current Inter Partes Reexam rules to take advantage of certain favorable features of Reexam. The current Reexam rules offer important strategic advantages to third party requesters, including fewer requirements on the contents of the petition requesting review (including page limits and claim construction requirements), predictability, lower relative costs, and high historical Reexam success rates for requesters. Unlike IPR, discovery is not allowed in Reexam, but this is not necessarily negative as certain discovery procedures of the AIA seem to favor patentees. Discovery may be important in cases where the prior art is close to the priority date of the patent and there is a concern that the patentee may attempt to swear behind the prior art, but in most other cases, the addition of discovery may be of limited help for the requester. On the other hand, the current Reexam rules offer

a patentee multiple opportunities to amend its claims in light of the prior art the requester identifies in its Reexam requests, and therefore more opportunities for the patentee to emerge from reexam with at least some claims confirmed. Additionally, IPR may prove to be a faster process than the current Reexam procedures. The various benefits and potential pitfalls of these procedures should be taken into account before a decision is made as to which path to follow.

This article will elaborate on the relative benefits of the alternative procedures. We focus solely on a comparison of Inter Partes Reexamination with Inter Partes Review, without regard to other available procedures—such as Ex Parte Reexamination—that remain unchanged. We also focus on the options available to the requester, rather than the patentee, because the requester is the party that has the option to choose which path to follow. Part II of the article provides a detailed analysis of the relevant factors. Part III of the article provides a set of tables for easy comparison outlining the factors considered and which procedure the factor favors. Part IV of the article provides a brief conclusion, suggesting that in many cases that could be filed before September 16th, 2012, the better choice for a requester may be the current Inter Partes Reexam process. Time is of the essence, however, because as of that date the current procedures will no longer be available.

II. Detailed analysis

1. Post-issuance Review Background

As an initial matter, current Reexams may be requested until September 15, 2012. On

September 16, 2012, these will be replaced with the new IPRs. Any Reexam requested before September 16, 2012 will continue to conclusion under the old rules, even though it may not be decided until well after the AIA takes effect.⁴ For Reexams requested between the AIA's enactment and September 15, 2012, the threshold showing required to begin the process was altered. Before enactment of the AIA, a third party requester needed only raise "a substantial new question of patentability."⁵ Now, a third party requester must provide "a showing that there is a reasonable likelihood that the requester would prevail."⁶ The PTO has stated that this is a higher threshold showing than was required for previous Reexams.⁷ This does not affect the following analysis, however, since it is the same threshold that will be applied to IPR requests.

This article considers only the potential advantages and disadvantages of IPR as compared to Reexam. The Post Grant Review ("PGR") provision of the AIA is not considered here, because it can only be used on patents that issue from applications filed under the new First-Inventor-To-File rules (effective March 16, 2013),⁸ and will therefore be inapplicable to issued patents and currently pending applications. PGR, in other words, will not be available for some time, and certainly not for patents that would also qualify for Re-

exam. Further, this article relies on proposed rules published by the PTO for comment. These rules have not yet been adopted and may be amended before they are adopted.

2. Key Differences between Inter Partes Reexam and Inter Partes Review

a. Estoppel

One of the key changes in IPRs is the potential strengthening of estoppels. Reexams have two estoppel provisions: 1) a requester who loses a Reexam cannot subsequently assert invalidity in civil action in district court on any grounds that it raised or could have raised in the prior Reexam ("civil action estoppel")⁹; and 2) parties, and privies of parties, who lost either a prior civil action or a prior Reexam cannot request a Reexam of the same claim on any grounds that they raised or could have raised in the prior proceeding ("PTO estoppel")¹⁰. The current Reexam estoppel provisions conclude with this sentence: "This subsection does not prevent the assertion of invalidity based on newly discovered prior art unavailable to the third-party requester and the Patent and Trademark Office at the time of the inter partes reexamination proceedings."¹¹

Several issues regarding the estoppel rules applicable to current Reexams are no-

⁴ See H.R. 1249 sec. 6 (c)(3)(C)

⁵ 35 U.S.C. 304

⁶ H.R. 1249 sec. 6 (c)(3)(A).

⁷ Oral Presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, speaker Mike Tierney, Administrative Patent Judge, USPTO.

⁸ H.R. 1249 sec. 6(f)(2); H.R. 1249 sec. 3(n)(1); USPTO PowerPoint presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, at 92.

⁹ 35 U.S.C. § 315 (c)

¹⁰ 35 U.S.C. § 317 (b)

¹¹ See 35 U.S.C. §§ 315 (c), 317 (b)

table. First, in all instances, estoppel only arises based on “final” actions; either a final court judgment or a final decision of the PTO, with all appeals exhausted.¹² Practically speaking, this gives the requester significant time before it faces the consequences of estoppel. Second, on its face, district court estoppel only applies to the actual requester, not its privies.¹³ As such, only the actual requester of a Reexam may be estopped from later asserting invalidity in a district court. Third, on its face, PTO estoppel only applies to the subsequent filing of an Inter Partes Reexamination.¹⁴ A requester is free to return to the PTO for another proceeding, for example requesting an Ex Parte Reexam. Finally, these estoppel provisions have an escape clause. Estoppel is defeated simply by demonstrating that additional prior art is newly discovered, or was unavailable at the time of the Reexam.¹⁵ This provides an inherent mechanism to avoid estoppel which is not contained in the new estoppel provisions.

IPRs, on the other hand, contain different estoppel provisions.¹⁶ The new provisions essentially estop four things: 1) a requester, or real party in interest to the request, that has previously filed a civil action challenging the validity of the

claim—a declaratory judgment of invalidity, for example—cannot request an IPR;¹⁷ 2) where a requester, real party in interest to the request, or privy of the requester has been served an infringement complaint more than one year prior, that requester cannot request an IPR on that claim;¹⁸ 3) where a requester, real party in interest to the request, or privy of the requester lost a prior IPR, that requester cannot request a proceeding before the PTO with respect to that claim on any grounds it raised or could have raised;¹⁹ and 4) where a requester, real party in interest to the request, or privy of the requester lost a prior IPR, that requester cannot subsequently assert invalidity in a civil action in district court, or in the ITC, on any grounds that it raised or could have raised in the prior IPR.²⁰

There are a few key differences for IPR estoppel when compared to current Reexam estoppel. First, these estoppel provisions apply to the requester, real party in interest to the request, and privies of the requester, as opposed to current district court estoppel, which only applies to the requester. Second, estoppels attach as soon as a declaratory judgment action claiming invalidity is filed, or as soon as the PTAB issues a decision in an IPR. This can be sig-

12 *Bettcher Indus., Inc. v. Bunzl USA, Inc.*, 661 F.3d 629, 646-48 (Fed. Cir. 2011)

13 35 U.S.C. § 315 (c) (“CIVIL ACTION.- A third-party requester whose request for an inter partes reexamination results in an order under section 313 is estopped ...”)

14 35 U.S.C. § 317 (b) (“[I]f a final decision in an inter partes reexamination proceeding ... is favorable to the patentability of any ... claim of the patent, then neither [the requester] nor its privies may thereafter request an inter partes reexamination of any such patent claim.”)

15 See 35 U.S.C. §§ 315 (c), 317 (b) (“This subsection does not prevent the assertion of invalidity based on newly discovered prior art unavailable to the third-party requester and the Patent and Trademark Office at the time of the inter partes reexamination proceedings.”)

16 New 35 U.S.C §§ 315 (a), (b), (e)

17 New 35 U.S.C § 315 (a)

18 New 35 U.S.C § 315 (b)

19 New 35 U.S.C § 315 (e)(1)

20 New 35 U.S.C § 315 (e)(2)

nificantly faster when compared to current Reexams, in which estoppel does not attach until after a final decision is issued and all possible appeals are exhausted. Practically speaking, this gives the requester of a Reexam, or even a declaratory judgment plaintiff, significant time before it faces the consequences of estoppel. Third, PTO estoppel for IPRs applies one year after being served with a complaint alleging infringement, as opposed to the current rules which require a final judgment before estoppel attaches. This is critical, because if the requestor (or its privies) have been served a complaint alleging infringement before September 16, 2011, it will *never* be able to request an IPR on the asserted claims, as they would be time-barred.²¹ Fourth, a party that loses an IPR is barred from returning to the PTO for any proceeding, including Ex Parte Reexamination and PGR; this is an expanded scope of PTO estoppel as opposed to current rules. And Fifth, a party that loses an IPR cannot assert invalidity in district court or the ITC on grounds that it raised or could have raised in the IPR; this is an expanded scope of estoppel from the current rules which do not specifically reference the ITC.

Apart from these relatively clear differences, there remains an open question as to the exact scope of prior art on which estoppel may apply. Both current Reexams and IPRs estop issues that the “petitioner raised or reasonably could have raised during that [Reexam/IPR].” Current Reexams, however, have the built-in escape clause that subsequent requests are not estopped if based on “newly discovered prior art unavailable to the third-party requester.” The new estoppel rules, on the

other hand, do not contain this sentence. The scope of prior art estoppel in IPR will turn on how “could have raised during that [IPR]” is interpreted, both by the PTO and by the courts. It is possible that estoppel in an IPR will be limited to only those pieces of prior art which the PTAB includes in its initial order granting review. For example, if the requester submits 50 pieces of art, and then the PTAB issues an order stating that IPR will proceed only with 5 of those pieces of art, then it could be interpreted to mean that the remaining 45 pieces of submitted art will not be subject to estoppel. It could be argued that such references could not have been raised during the IPR because the PTO expressly ordered that they were not part of the review. This would be a narrower prior art estoppel than in current Reexams. On the other hand, this phrase could be interpreted to mean all 50 pieces of prior art raised in the petition requesting IPR, as well as any other reference that could have been raised in that petition. This would be a potentially broader estoppel than in current Reexam, because of the removal of the statutory “escape clause.” There is substantial uncertainty on this, so, conservatively, one would assume that the scope of prior art estoppel will likely be similar in both proceedings, with the possibility that IPRs *could* apply estoppel to prior art more narrowly.

Additionally, the expanded PTO estoppel provisions may have a significant impact on IPR requesters. A party that loses an IPR is barred from returning to the PTO for any proceeding, including Ex Parte Reexam and PGR. It is possible that the PTAB in an IPR proceeding could uphold the

²¹ Question and Answer session of the Oral Presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, speaker Sally Medley, Administrative Patent Judge, USPTO.

claims in the IPR on an unexpected or unforeseeable basis. In doing so, the requester may be aware of prior art references which would cut against the PTAB's decision, but which were not included in the original request since the PTAB's reasoning was unexpected. The requester may later be estopped from filing an Ex Parte Reexam request on the basis of such prior art, even though it never got to fully address the PTAB's unexpected grounds for upholding the claim.

Finally, PTO estoppel for current Reexams is very explicit in its terms. "[I]f a final decision in an inter partes reexamination proceeding ... is favorable to the patentability of any ... claim of the patent, then neither [the requester] nor its privies may thereafter request an **inter partes reexamination** of any such patent claim."²² The plain terms of the current statute would not seem to estop a party that lost a Reexam from subsequently filing an IPR or an Ex Parte Reexamination request. The PTO may or may not see it this way, but there is certainly an argument to be made that even if a party lost a Reexam there is nothing that, per se, stops it from later filing an IPR (potentially further delaying litigation). On the other hand, it is clear that no PTO proceeding of any kind can be maintained after the requester loses an IPR challenge.

b. Page Limits

The proposed rules for practice before the Patent Trial and Appeals Board ("PTAB")

impose some additional requirements on IPRs that do not exist in the same form for Reexams. One of those rules imposes very strict page limits for papers filed to the PTAB in an IPR.²³ For example, major IPR motions will be limited to 50 pages. This includes the request for IPR itself, but seemingly not accompanying declarations (which may provide a significant means to circumvent the page limits).²⁴ Current Reexam requests, on the other hand, have no formal page limits, and may balloon to several hundred pages or more. If the requester will require substantial space to fully brief its arguments, that requester will find the 50 page limit applicable to IPR requests relatively cumbersome.

c. Claim Construction Requirement

The proposed IPR rules require that an IPR requester, in its request, provide an express proposed claim construction for the challenged claim.²⁵ This is different than the current practice, in which no such express construction need be provided by the requester. Further, there is nothing in the proposed IPR rules that requires a patentee to expressly take a position on claim construction, unlike the requester. Before the request is granted, the patentee *may* argue that the requester's proposed claim construction is "unreasonable," but it is not *required* to take any express position on claim construction.²⁶ After the request is granted, again there is no requirement for a patentee to provide an express claim con-

²² 35 U.S.C. § 317(b).

²³ Proposed 37 C.F.R. § 42.24

²⁴ See Proposed 37 C.F.R. § 42.24 ("The following page limits for petitions and motions apply and include the required statement of facts in support of the petition or motion. The page limit does not include a table of contents, a table of authorities, a certificate of service, or appendix of exhibits."). To the extent that declarations are included in the "appendix of exhibits," they should not count toward the underlying page limits.

²⁵ Proposed 37 C.F.R. § 42.104(b)

²⁶ See *Practice Guide for Proposed Trial Rules*, 77 FR 6868-01, *6873, PTO Docket number, PTO-P-2011-0094, at 26.

struction. A patentee may do this in one of its IPR papers, but there is no rule requiring that it do so. In addressing the IPR, however, the patentee will certainly have to take some implicit position on claim construction, including by attacking the requester's claim construction, but it may not be as clear as that of the requester.

If the requester believes that it may become an infringement defendant, then it may be disadvantageous for the requester to provide such an express claim construction, particularly where there is no such affirmative burden on the patentee. Claims before the PTO will be construed using the broadest reasonable interpretation.²⁷ Accordingly, the requester will likely advocate a broader construction than it might otherwise choose in infringement litigation (while keeping in mind, of course, the potential consequences of its statements in litigation). The broader the interpretation it can reasonably advocate in the PTO, the more likely that the requester will succeed in invalidating the claims. On the other hand, if the claims survive and are later asserted against the requester, the broad constructions previously advocated for could potentially be used against the requester in litigation. Claim construction is a matter of law for the Court to decide, and judges are generally familiar with applying different standards of interpretation. A judge may therefore understand that the broad construction was required by the PTO's standard. But also may not. The risk remains

that the Court would be swayed by broad constructions previously advocated by the requester in the IPR.

d. Historical Statistics

The history of Inter Partes Reexams demonstrates that the third party requester is fully successful in invalidating the claims in about 44% of the cases.²⁸ Additionally, the third party requester forces narrowing amendments or cancellation of the claim in almost 90% of cases.²⁹ Arguably, these are favorable statistics for a third party requester. On the other hand, since IPR is a new procedure, it is not yet certain how the statistics will play out. As such, a requester may prefer Reexam to take advantage of these known, and relatively favorable, statistics.

e. Discovery

Current Reexam rules do not allow for any discovery. However, under the new IPR rules limited discovery is allowed,³⁰ although the provisions seem to favor patentees in certain respects.³¹ Essentially, the proposed IPR rules limit discovery to cross examination of the other side's declarants and experts.³² Additionally, discovery is staggered such that the patentee will usually be able to take discovery first.³³ Specifically, if the requester relies on any declarations in its request, such as from an expert, the patentee will have the first opportunity to depose those declarants. The requester, on the other hand,

²⁷ Proposed 37 C.F.R. § 42.100(b)

²⁸ See Inter Partes Reexamination Filing Data – September 30, 2011, available at http://www.uspto.gov/patents/IP_quarterly_report_September_2011.pdf.

²⁹ *Id.*

³⁰ See, e.g., 35 U.S.C. § 316(a)(5),

³¹ See, e.g., Proposed 37 C.F.R. § 42.51(b), (c).

³² See Proposed 37 C.F.R. § 42.51(b)(2).

³³ *Practice Guide for Proposed Trial Rules*, 77 FR 6868-01, *6869, PTO Docket number, PTO-P-2011-0094, at 8.

cannot take discovery until *after* the patentee files its first papers, potentially much later in the process.

When considering the impact of discovery on IPRs, it is important to remember that IPR (just like Reexam) will be limited to patents and printed publications that qualify as prior art under §§ 102 and 103.³⁴ This does not include issues that traditionally benefit from discovery, like the on sale or public use bars, or § 102(f) derivation issues, for example.

One way that the discovery provisions may benefit the requester is if priority or conception dates are expected to be at issue. If the patentee attempts to “swear behind” a prior art reference, then it may be required to submit inventor declarations, automatically subjecting the inventors to deposition. In current proceedings, without discovery, there is no opportunity to cross-examine inventors who submit declarations to swear behind submitted art. Discovery will allow for greater exploration of invention dates than the current proceedings, when these issues are in play.

Absent a priority issue, however, the availability of discovery may not be a significant factor in favor of IPR. The ability to depose the patentee’s experts is helpful, but in return the opposing party is able to depose the requester’s experts as well. In addition, not only does the patentee get to conduct discovery first, it also gets to conduct discovery *before it files its response to the IPR*. This procedural posture can be quite beneficial to the patentee. Essentially, the requester must lay out its entire case in its request without the benefit of discovery. The PTO will then issue an order selecting

a subset of grounds from the request on which to proceed. Immediately thereafter, the patentee has the right to depose the requester’s experts. Only after taking discovery, the patentee will then file its first paper to the PTO. This posture is key; it allows the patentee to fully explore the requester’s position, the requester’s experts, and the PTO order before it is forced to take any position at all. The staggered discovery will place the patentee at an informational advantage before it ever files its first motion. This timing is demonstrated in the blow diagram that PTO issued with its proposed rules package.

Finally, discovery may serve to make the already strong estoppel provisions that much stronger. Estoppel applies to issues that were raised or reasonably could have been raised. When discovery is added to the proceeding, it could become easier to argue that a wider scope of issues “could have been” raised. Since the requester will have the opportunity for discovery, some may argue that it “could” raise almost anything.

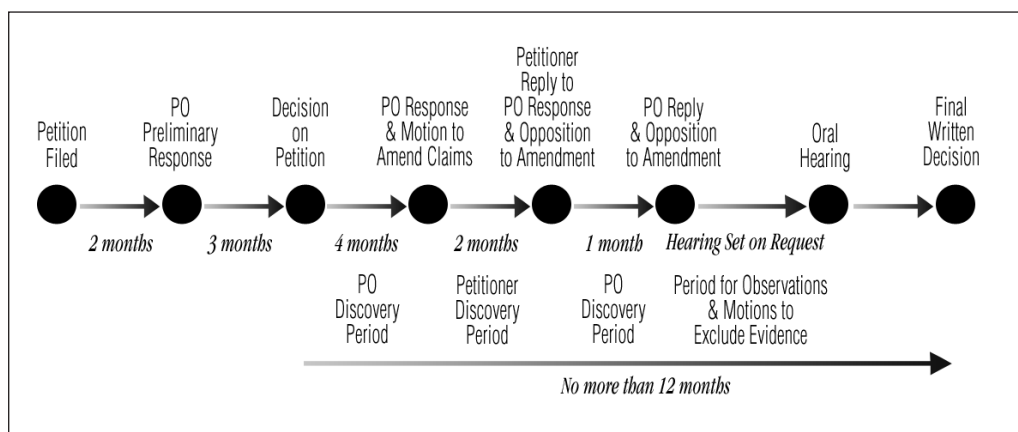
On the whole, the discovery provisions may give the patentee an advantage. Plus, they introduce significant costs in the form of expert fees and attorney time spent preparing and working with the experts. The discovery provisions of IPR may actually be a factor in favor of Reexam, unless priority and dates of invention are expected to be critical issues.

f. Discretion to Deny Request

Under current Reexam rules, the PTO has no discretion to deny requests for Reexam so long as the threshold question is met.³⁵

³⁴ See 35 U.S.C. § 311; 35 U.S.C. § 301; New 35 U.S.C. § 311.

³⁵ 35 U.S.C. § 313 (“If, in a determination made under section 312(a), the Director finds that a substantial new question of patentability affecting a claim of a patent is raised, the determination shall include an order for inter partes reexamination.”)



However, under the proposed IPR rules the PTO has the discretion, for the first 4 years after IPRs become effective, to limit the number of IPR requests granted, regardless of whether or not they satisfy the threshold question.³⁶ This discretion, however, is not expected to be a concern for a few reasons. First, PTO personnel have stated that the PTO not envision using this discretion to limit the number of IPR requests it grants.³⁷ Second, the threshold invalidity question to grant IPR is substantially higher than it was previously. Third, the proposed IPR fees are much higher.³⁸ The higher standard and higher fees by themselves will likely act to limit the number of IPR requests that are filed and subsequently granted. And last, just as was the case when Inter Partes Reexams were first introduced, it may take a while before the Patent Bar fully embraces

the procedure and files requests en masse.³⁹ For these reasons, IPRs filed within a reasonable time of the effective date are expected to be granted so long as they meet the threshold question.

g. Duration of the Proceeding

IPRs are required to be completed in one year.⁴⁰ Reexams, on the other hand, may take upwards of two to three years.⁴¹ Both systems could offer advantages depending on the requester's business goals.

h. Narrowing Amendments

Under the new IPR system there will be less opportunity for the patentee to successfully narrow its claims in response to the progression of the procedure than is currently available in Reexam. The current practice proceeds in the traditional amendment-and-response format. The examiner takes a position on the claims and issues a

³⁶ H.R. 1249 sec. 6 (c)(2)(B).

³⁷ Oral Presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, speaker Mike Tierney, Administrative Patent Judge, USPTO.

³⁸ Proposed 37 C.F.R. § 42.15(a).

³⁹ See Inter Partes Reexamination Filing Data – September 30, 2011, available at http://www.uspto.gov/patents/IP_quarterly_report_September_2011.pdf. Note that only 5 requests were filed for the first 3 years of the program.

⁴⁰ New 35 U.S.C. § 316(a)(11).

⁴¹ See Inter Partes Reexamination Filing Data – September 30, 2011, available at http://www.uspto.gov/patents/IP_quarterly_report_September_2011.pdf.

rejection over the prior art. The patentee then responds to the rejection with either argument or claim amendment to differentiate the prior art. After that, the 3rd party requester responds to the patentee's argument and claim amendment. Lastly, the examiner considers the arguments and either reasserts the rejection, makes a new rejection, or allows the claims. The process repeats as needed until the claims are allowed, or the patentee is unable to overcome a rejection.⁴²

The IPR system is slightly different. In requesting IPR, the requester must put forth an express claim construction and argue that the submitted art renders invalid the claims so construed. Assuming the PTO grants the requests, an IPR will follow a very structured format. The first paper filed by the patentee will include their one amendment by right.⁴³ This context is key. At this point in the proceeding, the PTO has not taken a position on claim construction (other than granting the IPR request in the first place — perhaps an implicit acceptance of the requester's construction). As opposed to Reexams, where the patentee is responding directly to an examiner's position and rejection, in IPR the patentee is more or less taking a shot in the dark; they do not have much of an idea of how the PTO will respond to their amendment. After this proposed amendment, the requester has a chance to reply. The Board (not an examiner) will then decide on the validity of the narrowing

amendment.⁴⁴ After this one amendment by right, it is within the discretion of the Board whether or not it will allow another.⁴⁵ As the IPR progresses, it is less likely that the Board would allow another amendment.⁴⁶ So, there is at least one chance to amend the claims in an IPR, but it is less dynamic and robust than in current Reexams.

Under the IPR rules, therefore, the requester may be able to prevent the patentee from making successive narrowing amendments to preserve validity, thereby forcing the patentee to choose to preemptively (in its one amendment of right) narrow its claims to where the patentee believes they are defensible, or to defend its broad claims and risk complete invalidation without further opportunity for narrowing amendments.

Additionally, in IPR the requester will be able to introduce new prior art in response to a patentee's proposed amendment.⁴⁷ On the one hand, since the requester can raise new prior art in its reply to any proposed amendment, the requester can make a more complete reply to ensure that it has the best invalidity art and arguments for the amendment. On the other hand, this presents a potential estoppel concern. Since there is estoppel on any issues that reasonably could be raised, a requester should seek to ensure that it locates every single piece of prior art that could possibly invalidate the amendment. It is very likely that the requester could later be estopped from

⁴² See MPEP §§ 2660, *et. seq.*

⁴³ New 35 U.S.C. § 316(d); *Practice Guide for Proposed Trial Rules*, 77 FR 6868-01, *6874, PTO Docket number, PTO-P-2011-0094, at 33.

⁴⁴ New 35 U.S.C. § 316(c);

⁴⁵ *Practice Guide for Proposed Trial Rules*, 77 FR 6868-01, *6874, PTO Docket number, PTO-P-2011-0094, at 33.

⁴⁶ *Id.* at 33-34 ("The Board will take into account the timing of the submission with requests made earlier in the proceeding requiring less compelling reasons than would be required for amendments later in the proceeding.")

⁴⁷ Question and Answer session of the Oral Presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, speaker Mike Tierney, Administrative Patent Judge, USPTO.

asserting invalidity based on prior art that it did not assert, but could have asserted, in the IPR in response to an amendment.

Finally, it is important to consider the potential impact of proposed rule 37 C.F.R. § 42.73(d)(3), “patentee estoppel.”⁴⁸ This provision provides for a PTO estoppel attaching to the patentee, essentially precluding seeking a new claim, in any patent, that “could have been filed” as an amendment to the disputed claim in the IPR. In other words, if the patentee’s single opportunity for narrowing amendment fails, resulting in the claim being cancelled, then the patentee might *never* be able to return to the PTO to have a claim issued *from any currently pending or subsequent application* that is substantially similar to the cancelled claim, or that could have been filed as a proper narrowing amendment. This represents an almost catastrophic estoppel for a patentee with a large patent family tree (such as a set of continuation applications stemming from a common parent); it fundamentally precludes filing any claim that arguably could have been filed in response to the challenge of a broad generic claim. Importantly, 37 C.F.R. § 42.73(d)(3) is still just a *proposed* rule remaining in its comment period. Additionally, this proposed rule does not have express statutory support in the AIA. The AIA creates statutory estoppels for the requester, but none for the patentee. In light of the potential for such catastrophic effects on a family of patent applications, and its lack of statutory support, it seems unlikely that this

proposed rule will actually be adopted. If the rule is adopted, however, this could be a strong tactical weapon for a requester to use against pending patent applications of a patentee.

i. Scope of Review

In an IPR petition, the requester is required to expressly propose a claim construction and point to the specific evidence on which it intends to rely to prove invalidity.⁴⁹ In particular, “[t]he petition must specify where each element of the claim is found in the prior art patents or printed publications relied upon,” and “state the relevance of the evidence to the challenge raised, including identifying specific portions of the evidence that support the challenge. The Board may exclude or give no weight to the evidence where a party has failed to state its relevance or to identify specific portions of the evidence that support the challenge.”⁵⁰

If the Board decides to institute an IPR, it will likely do so with an order that describes the scope of the proceeding on a claim-by-claim, and ground-by-ground basis.⁵¹ Essentially, what the PTO plans to do is look at the request and determine which claims are subject to IPR, which statutory invalidity grounds are at issue, and which pieces of prior art support that statutory invalidity ground. The scope of the IPR will be limited to only those claim-by-claim and ground-by-ground items that are identified by the Board. This may work to limit estoppel, since only those grounds

⁴⁸ Proposed 37 C.F.R. § 42.73(d)(3)

⁴⁹ Proposed 37 C.F.R. § 42.104

⁵⁰ Proposed 37 C.F.R. § 42.104

⁵¹ See Proposed 37 C.F.R. §§ 42.108(a), (b); PowerPoint Presentation of *The America Invents Act Roadshow*, given Feb. 24, 2012, Sunnyvale, CA, USPTO.

identified and accepted by the Board might arguably be considered part of the IPR for estoppel purposes; no additional prior art (even if included in the request but not adopted) “could have been raised during that inter partes review” if the PTO expressly limits the procedure to only certain art. It is unclear, however, how the Courts will construe this provision.

This could, however, significantly limit the flexibility of the procedure and the arguments available to the requester. In an IPR, since the review is set explicitly by the PTAB’s order, it is less likely that a requester will be able to modify/adapt its arguments in light of the progression or the

proceeding. Reexam, on the other hand, arguably provides more flexibility. After every examiner rejection and patentee response, the requester is largely free to respond as it sees fit. If the argument by the examiner or patentee is unforeseen, there is little that stops the requester from adapting its arguments and responding accordingly. In an IPR, on the other hand, the requester’s hands could be tied by the PTAB’s order granting review; it may be that the PTAB would not allow the requester to change or adapt its arguments once the request has been granted and the order issued.

IV. Conclusion

All else being equal, it may often be strategically more favorable to the requester to file under the current Inter Partes Reexam rules than to delay and file IPRs instead. The current Reexam rules offer important strategic advantages to third party requesters, including potentially less severe estoppels, fewer requirements on the contents of the petition requesting review (e.g. page limits and claim construction), predictability, no discretion on the part of the PTO to deny requests if the threshold question is met, lower relative costs, and robust historical Reexam success rates for

requesters. However, the current rules offer the patentee multiple opportunities to amend its claims in light of the prior art that the requester identifies in its Reexam requests, which gives the patentee more opportunity to amend its claims and preserve validity. Finally, a requester’s business goals regarding timing may also be an important consideration in the decision as to which path to follow. Absent this factor, however, it could be in a requester’s best interest to file a Reexam request and secure a pre-September 16, 2012 filing date before this is no longer an option, and the potential benefits of Reexams are off the table.

V. Comparison Tables

(a.) *Comparison of Reexam to IPR*⁵²

	Inter Partes Reexam ("Reexam")	Inter Partes Review ("IPR")
Who Can File	Any person other than the patent owner	Any person other than the patent owner
Threshold	Reasonable likelihood to prevail	Reasonable likelihood to prevail
Invalidity Grounds	Patents and printed publications	Patents and printed publications
Time to File	Any time during the enforceability of a patent filed after Nov. 1999	After 9 months post-issue; <u>OR</u> after Post-grant Review; <u>AND</u> No later than 1 year after service of infringement complaint
Who Can Participate	Patentee and single party requesting Inter Partes Reexam	Patentee, parties requesting Inter Partes Reexam, and other joined parties at the discretion of the PTO director
Procedure	Amendment-and-response	Trial-like
Who Conducts the Procedure	Patent examiners	Patent Trial and Appeal Board
Estoppel in the PTO	On issues that were raised or could have been raised, when appeals exhausted	On issues that were raised or could have been raised, when PTAB issues decision
Estoppel in Civil Actions	On issues that were raised or could have been raised, when appeals exhausted	On issues that were raised or could have been raised, when PTAB issues decision
Appeal	All parties may appeal to BPAI, and then to Federal Circuit	All parties may appeal to Federal Circuit
Code Sections - 35 U.S.C.	§§311-318	New §§311-319

⁵² For a more detailed comparison of this and other post-issuance review options, see Iancu and Haber, Post-issuance Review Proceedings in the America Invents Act, 93 JPTOS 476 (Feb. 2012)

(b.) Summary Table of Relevant Factors Discussed in (a.)

Factor	Inter Partes Reexam ("Reexam")	Inter Partes Review ("IPR")	Better for the Requester?	Reasoning
Estoppel	No returning to PTO for Inter Partes Reexam, no subsequent invalidity assertion in district court, unless newly discovered prior art. Not applicable until final judgment with appeals exhausted	No returning to PTO for any proceeding, no subsequent invalidity assertion in district court or the ITC, applicable after PTAB decision. No IPR 1 year after receipt of infringement complaint, no IPR after filing invalidity DJ	Unknown at this time	Depends on how "could have been raised during" is interpreted, and on how the PTO drafts its orders granting IPR
Page Limits	No express limits in the rules	50 Page limit on major motions, 15 page limit on general motions, 5 page limit on replies	Reexam	More flexibility in papers filed to the PTO
Claim Construction	No express claim construction required	Requester must provide an express proposed claim construction under "the broadest reasonable interpretation"	Reexam	No need to expressly advocate any particular claim interpretation
History	44% success rate of invalidating claims, 90% success rate of forcing narrowing amendment or claim cancellation	N/A	Reexam	Reexams have a demonstrated history
Discovery	None	Staggered discovery and depositions of opposing experts	Reexam	Patentees in an IPR get discovery before they file their first paper
Duration	2-3 years	1 year	Depends on requester's business goals	
Narrowing Amendments	Like primary prosecution	Generally one opportunity, early in the proceeding	IPR	Patentee has fewer robust and dynamic options for narrowing claims to survive the proceeding
Scope of Review	Potentially expansive	Narrow and focused	Reexam	More flexibility to adapt arguments as proceeding progresses
Predictability	Procedure has existed for 13 years	Procedure is new and untested	Reexam	More predictability

A Unitary Patent and Unified
Patent Court for the European Union:

An Analysis of Europe's Long Standing Attempt to Create a Supranational Patent System

Kevin P. Mahne¹

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I. Introduction

There is widespread awareness by European leaders that the fragmented European patent system has negatively impacted "innovation, growth and the competitiveness of European business."² To compete in the information based global economy, the European market requires a patent system that is on par with the patent systems in Japan and the United States.³ To ensure that the European patent system no longer limits the competitiveness of European businesses, European countries must provide "patent applicants and owners with an efficient way to obtain [patents] and enforce protection" throughout Europe.⁴

For over forty-years European countries have held numerous conferences and signed several international agreements aimed at either creating a unitary patent which would be valid in all European countries upon issuance or establishing a specialized European court with jurisdiction over patents. While the European Patent Organization "EP Organization," established by the European Patent Con-

vention (EPC), was a significant milestone toward the creation of a supranational patent system for Europe, other attempts by European countries to reach an agreement which would resolve the problems that are inherent in the European fragmented patent system have failed. This is partly because of the reluctance of some countries to relinquish their sovereign power over patent matters to an international body.⁵

The disadvantages of the fragmented European patent system include the high cost of securing a patent in multiple European countries, the likelihood of infringement and revocation proceedings in numerous national courts, the possibility of different interpretations of European patent law by national courts, and the cost of renewal fees in each European country where patent protection is desired.⁶ Since 1999, the European Commission⁷ has been working tirelessly to establish a European supranational patent system.⁸ Until recently, the European Commission's efforts to finalize a unitary patent regulation for the European Union ("EU") have been thwarted because Italy and Spain object to

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2 *European Commission Staff Working Paper Impact Assessment Accompanying Document to the Proposal for a Regulation of the European Parliament and the Council Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection and Proposal for a Council Regulation Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*, at 23, 24, SEC (2011) 482 final (Apr. 13, 2011) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2011:0482:FIN:EN:PDF>.

3 *European Commission Promoting Innovation Through Patents Green Paper on the Community Patent and the Patent System in Europe*, at 1, COM (97) 314 (Jun. 1997) available at http://europa.eu/documents/comm/green_papers/pdf/com97_314_en.pdf.

4 Kevin R. Casey, *The European Patent "Situation,"* 9 Del. L. Rev. 107, 108 (2007).

5 *Green Paper on the Community Patent*, *supra* note 2, at 2-4.

6 *Green Paper on the Community Patent*, *supra* note 2, at 4-5.

7 "The European Commission is one of the [three] main institutions of the European Union [EU]. It represents and upholds the interests of the EU as a whole. It drafts proposals for new European laws. It manages the day-to-day business of implementing EU policies and spending EU funds." *European Commission*, Europa, How the EU Works http://europa.eu/about-eu/institutions-bodies/european-commission/index_en.htm (last viewed Jun. 30, 2012).

8 *European Commission Communication to the Council, the European Parliament and the Economic and Social Committee Promoting Innovation Through Patents-the Follow-up to the Green Paper on the Community Patent and the Patent System in Europe*, at 7-8, COM (1999) 42 final (Feb. 5, 1999) available at http://ec.europa.eu/internal_market/indprop/docs/patent/docs/8682_en.pdf.

the translation arrangements that are necessary for the regulation to be adopted.⁹ In addition, the Court of Justice of the European Union ("CJEU") blocked the advancement of the European supranational patent system on March 8, 2011, when it opined that the proposed draft agreement on the European and Community Patents Court (renamed the Unified Patent Court)¹⁰ was not compatible with European Community Treaties.¹¹

Regardless of the recent setbacks, the European Commission has continued to work toward a European patent system and the EU is now on the verge of establishing unitary patent protection which will be automatically enforceable in twenty-five EU Member States upon patent issuance.¹² These same twenty-five EU Member States are also close to finalizing an agreement for the creation of the Unified Patent Court.¹³ The European Commission has tendered two proposals to advance the European patent system within the EU. The first proposal is the draft EU Unitary Patent regulation that will provide unitary patent protection upon patent issuance in twenty-five par-

ticipating EU Member States. The draft regulation implements EU enhanced cooperation procedures allowing fewer than all EU Member States to pass an EU regulation.¹⁴ The second proposal is a modified draft agreement on the Unified Patent Court and draft statute which includes the amendments necessary to ensure compliance with EU treaties and the CJEU March 8, 2011 opinion.¹⁵

This paper discusses Europe's current patent system and the necessity for European countries to agree on a patent system for the common market or risk falling further behind Japan and the United States with regard to technological innovation. The paper chronicles the advances European countries have made since the mid-1970's to develop a European-wide unitary patent system and addresses the obstacles that have, in the past, prevented European countries from coming to an agreement regarding the EU Unitary Patent regulation and the EU Unified Patent Court. Finally, the paper will consider the most recent proposals from the European Commission regarding the EU Unitary Patent and Unified Patent Court

9 EU Member States Back Special Legislative Procedure to Break EU Patent Deadlock, Bloomberg BNA, 81 PTCJ 646 (Mar. 18, 2011).

10 Council of the European Union Draft Agreement on a Unified Patent Court and Draft Statute, 13751/11 LIMITE PI 108 COUR 48 (Sep. 2, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st13/st13751.en11.pdf>.

11 Joe Kirwin, *Court Delivers Setback to EU Patent Plans By Striking Down Special Patent Tribunal*, Bloomberg BNA, 81 PTCJ 614 (Mar. 18, 2011); also see *Unitary Patent / EU Patent*, European Patent Office ("EPO"), Legislative Initiatives (Jan. 31, 2012) <http://www.epo.org/law-practice/legislative-initiatives/eu-patent.html>.

12 Council Decision No. 167/2011 of 10 Mar 2011, Authorizing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection, 2011 O.J. (L 76) 53-55; *European Commission Proposal for a Regulation of the European Parliament and of the Council Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*, at 10-24, COM (2011) 215 final (Apr. 13, 2011) available at http://ec.europa.eu/internal_market/indprop/docs/patent/com2011-215-final_en.pdf.

13 Council of the European Union, *Draft Agreement on the Unified Patent Court and Draft Statute – Presidency Text*, 11533/11 LIMITE PI 68 COUR 32 (Jun. 14, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st11/st11533.en11.pdf> (last viewed Mar 11, 2012); *EU Unitary Patent – A Historic Breakthrough*, European Council – EU Unitary Patent (Jun. 29, 2012) <http://www.european-council.europa.eu/home-page/highlights/eu-unitary-patent-%E2%80%93-a-historical-breakthrough?lang=en>.

14 *Proposal for a Regulation of the European Parliament*, supra note 11; *European Commission Proposal for a Council Regulation Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection with Regard to the Applicable Translation Arrangements*, COM (2011) 216 final (Apr. 13, 2011) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0216:FIN:en:PDF>.

15 *Draft Agreement on a Unified Patent Court and Draft Statute – Sep. 2, 2011*, supra note 9.

and whether these proposals will result in a European supranational patent system that is on par with the patent systems in Japan and the United States.

II. The Need for a Unitary European Patent System

A. Sovereignty and Patents

The Thirty-Years War ended in 1648 with the Peace of Westphalia. The Treaty divided the European continent into numerous independent Nation-states defined by territory and established the sovereignty of the Nation-state over internal affairs. For over 360 years Nation-states have exercised their sovereign authority over internal affairs and have only reluctantly relinquished it when it was in their national interest to do so.¹⁶ The exercise of sovereign power includes the right to issue patents, determine patent validity, decide patent infringement, and provide remedies for patent infringement. Consequently, a patent awarded by a sovereign nation is generally only enforceable within the territorial boundaries and under the laws of the country that awarded the patent.¹⁷

Although European countries have, to a large extent, harmonized their substantive

patent laws, thus far, many have been reluctant to relinquish sovereign power over post-grant patent matters to any other country or to a multinational organization.¹⁸ However, in order to make the "patent system attractive for promoting innovation in Europe,"¹⁹ the political obstacles which have prevented European countries from relinquishing a part of their sovereign authority over patent matters must be resolved so that the EU Unitary Patent regulation can be passed and the EU Unified Patent Court can be established.²⁰

B. Acquiring Patent Rights in Europe

Patents have traditionally been considered an individual property right and can only be granted by a sovereign Nation under its national laws. In Europe, there are two avenues for an inventor or owner of an invention to obtain patent protection.²¹ The first avenue is for the inventor or owner to file and prosecute a patent application in each of the European countries where he seeks patent protection for his invention. This is known as a "national patent application" and may be preferable if the inventor is seeking patent protection in one or only a few European countries. An inventor or owner can also file and prosecute a

16 Kevin P. Mahne, *State Sovereignty and Security* 1-3 (Sep. 2, 2003) (unpublished paper, The Army Judge Advocate General's School) (on file with the author).

17 In *Microsoft v. AT&T*, the Supreme Court of the United States refused to extend AT&T's U.S. patent rights to cover allegedly infringing activity by Microsoft that occurred in China. The court ruled that there is a presumption against extraterritorial application of U.S. patent laws because conduct that takes place in the domain of a foreign country is generally the domain of that country's laws. *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454 (2007); also see Gretchen Ann Bender, *Clash of the Titans: The Territoriality of Patent Law vs. the European Union*, 40 IDEA 49, 51 (2000); also see *Commission Staff Working Paper Impact Assessment*, *supra* note 1, at 10-11.

18 *Green Paper on the Community Patent*, *supra* note 2, at 1-2.

19 *Follow-up to the Green Paper on the Community Patent and the Patent System*, *supra* note 7, at 7.

20 *European Commission Communication to the European Parliament and Council – Enhancing the Patent System in Europe*, at 4-5, 8-11, COM(2007) 165 final (Apr. 3, 2007) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:en:PDF>.

21 Although an applicant can also file a Patent Cooperation Treaty (PCT) patent application, the PCT application does not mature into a patent unless the applicant takes the necessary steps for the application to enter the national stage in each of the countries or regional offices where he requires patent protection. See WORLD INTELLECTUAL PROPERTY ORGANIZATION, *PCT APPLICANT'S GUIDE-NATIONAL PHASE*, at 3, (2010) available at <http://www.wipo.int/pct/guide/en/gdvol2/pdf/gdvol2.pdf>.

patent application before the European Patent Office (EPO).²² In the latter case, the inventor or owner files one patent application in English, French, or German, the three official languages of the EPO, pays a single application fee and the application is examined by a single patent office. This option provides advantages to the inventor or owner who seeks patent protection in several EP Organization Member States.²³ However, a European patent issued by the EPO is not a unitary patent, but rather a bundle of national patents.²⁴ In order for a European patent to be enforceable, it must be "validated in each EP [Organization] [M]ember [S]tate for which the patent proprietor seeks patent protection. For this purpose, the majority of [S]tates require a full translation of the patent [into the] official language[] of the country."²⁵ Since each European country maintains sovereign authority over patent matters following the issuance of a European patent, patent enforcement is similarly fragmented.

C. Enforcing Patent Rights in Europe

Infringement of a European patent, issued by the EPO and validated in an EU Member State, is governed by the national patent law of the Member State.²⁶ Accord-

ingly, a patent holder must sue an alleged infringer in the national courts of each country where the alleged infringement has occurred. Additionally, only national courts can address actions for patent revocation and counterclaims regarding patent revocation that are filed as part of the infringement action.²⁷ The requirement to sue an alleged infringer in multiple jurisdictions is expensive and causes legal uncertainty for patent owners since "significant differences exist between the various national court systems and the way courts handle patent cases" which frequently results in "divergent decisions on the substance of the cases."²⁸

D. Cost and Uncertainty Regarding European Patents

Recently, EPO President Battistelli commented that "[c]reating a simpler and more accessible patent system [autonomous, unitary patent and a centralized, specialized European patent court] will enable European businesses to operate on par with firms in competing markets such as the [United States] and Japan, which already enjoy unitary patent protection covering their territory and operate in a single language, under a single court jurisdiction."²⁹ One of the main disadvantages of the fragmented European

22 *Commission Staff Working Paper Impact Assessment*, *supra* note 1, at 10-11; *Green Paper on Innovation*, *supra* note 1, at 2.

23 Convention on the Grant of European Patents ("European Patent Convention" or "EPC"), Oct. 5, 1973, art.14, ROMUALD SINGER AND MARGARETE SINGER, SINGER: THE EUROPEAN PATENT CONVENTION (Raph Lunzer, Sweet and Maxwell, English ed. 1995) (1989).

24 Gerald J. Mossinghoff and Vivian S. Kuo, *World Patent System Circa 20XX, A.D.*, 38 IDEA, 529, 542-543 (1998); LADAS AND PARRY, GUIDE TO PATENT PROTECTION UNDER THE EUROPEAN PATENT CONVENTION, at 7, (Sep. 2003).

25 *Unitary Patent / EU Patent: A Breakthrough Decision Sets the Wheels in Motion ("A Breakthrough Decision")*, EPO, Patenting Issues (Nov. 10, 2011) <http://www.epo.org/news-issues/issues/eu-patent.html>.

26 EPC, *supra* note 22, art. 64(3).

27 *European Patent Office Assessment of the Impact of the European Patent Litigation Agreement on Litigation of European Patents*, at 1, (Feb. 2006) available at [http://documents.epo.org/projects/babylon/eponet.nsf/0/CFCE3624CD11025AC125795700511874/\\$File/impact_assessment_2006_02_v1_en.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/CFCE3624CD11025AC125795700511874/$File/impact_assessment_2006_02_v1_en.pdf).

28 *Id.* at 2.

29 EPO President Battistelli and European Commissioner Barnier Renew their Commitment to Cost-efficient European Patents, EPO, Press Releases (Oct. 6, 2011) <http://www.epo.org/news-issues/press/releases/archive/2011/20111006.html>.

patent system is the high cost to obtain patent protection in all twenty-seven EU Member States or all thirty-eight EPC countries. A 2009 study performed for the European Commission, revealed that the cost of obtaining a European patent, validating the patent in all EPC countries, and paying renewal fees to the national offices is fifteen times greater than the cost of obtaining a patent enforceable throughout the United States.³⁰

In both Japan and the United States,³¹ an inventor who seeks a patent for his invention files a single patent application in the official language of the country and the application is examined by a single patent office. Similarly, an inventor who seeks a European patent can file a single patent application in one of the official languages of the EPO.³² However, unlike Japan and the United States, after the patent is awarded by the EPO the inventor must validate the patent in all countries where he seeks patent protection.³³ The process of validating a patent is both costly and difficult because the patent owner is generally required to file a translation of the patent in the official language of each national office where he seeks protection, pay for the services of patent agents to file in each country, pay publication fees to each national patent office, and contend with a multitude of formal

filing requirements.³⁴ The European Commission's 2011 Impact Assessment reports that the total cost of validating a typical European patent in France, Germany, and the United Kingdom is 680 Euros; if the patent is validated in thirteen European countries the total cost increases to 12,500 Euros, and if the patent is validated in all twenty-seven countries of the EU the total cost is 32,000 Euros.³⁵

Other disadvantages of the fragmented European patent system include the degree of uncertainty regarding the enforceability of the patent, managerial complexity, and cost of litigation. Europe's purely national patent litigation system makes litigation in multiple jurisdictions inevitable, increases litigation cost, may result in divergent decisions from national courts on the substance of the case, encourages forum shopping, and fragments the European market because it is impossible to ensure that a European patent will result in a uniform level of protection in all Member States.³⁶ Additionally, a patent issued by the EPO may be challenged in an opposition proceeding within nine months of the patent grant and if the challenger is successful, the patent cannot be enforced in any Member State.³⁷ Yet, a determination by the EPO to uphold the validity of a European patent, that was challenged within the nine month period, does not shield the

30 BRUNO VAN POTTELSBERGHE AND JÉRÔME DANGUY, ECONOMIC COST-BENEFITS ANALYSIS OF THE COMMUNITY PATENT, at 2-6, (Apr. 7, 2009) available at http://ec.europa.eu/internal_market/indprop/docs/

patent/studies/compact-cost%20benefit-study-final_en.pdf; *Attorneys Say European Patent World Struggles with Costs, Finds Opportunities*, Bloomberg BNA (Aug. 2, 2011).

31 The European patent system is compared to the patent systems in Japan and the United States because EPO, Japan, and the United States process the majority of patent applications filed worldwide. See *About Us*, Trilateral <http://www.trilateral.net/about.html> (last viewed Apr. 13, 2012).

32 EPC, *supra* note 22, art. 14.

33 PCT APPLICANT'S GUIDE-NATIONAL PHASE, *supra* note 20, Ch. 4.

34 *European Commission Staff Working Paper Impact Assessment*, *supra* note 1, at 14.

35 *European Commission Staff Working Paper Impact Assessment*, *supra* note 1, at 16.

36 *Assessment of the Impact of the European Patent Litigation Agreement*, *supra* note 26, at 1-4.

37 EPC, *supra* note 22, art. 99.

patent owner from a challenge of patent invalidity in a subsequent patent infringement suit in any Member State.³⁸ Additionally, a decision by one national court regarding the validity or invalidity of a patent is only binding within the nation where the issue was litigated.³⁹ For instance, the same patent issued by the EPO may be held valid in one European country, modified in another, and found to be invalid in yet another European country.⁴⁰

Furthermore, patent litigation in Europe is unnecessarily costly and poses a significant problem for small and medium sized businesses.⁴¹ In 2007, the European Commission's Communication to the European Parliament and Council of the EU reported that the accumulated cost of parallel patent litigation in France, Germany, the Netherlands, and the United Kingdom, the four European countries that handle the majority of patent cases, varies from between 310,000 to 1,950,000 Euros at the courts of first instance and between 320,000 to 1,390,000 Euros at courts of second instance.⁴²

E. European Patent Organization and European Union's Efforts

Both the EP Organization, created by international treaty in 1977, and the EU, the successor to the European Economic Com-

munity (EEC) created in 1957, have worked toward improving the European patent system, however, these two organizations are separate legal entities with distinct memberships. All EU Member States are members of the EP Organization, but there are eleven European countries that are members of the EP Organization that are not members of the EU.⁴³ In the event that the European Commission's proposed regulation for an EU Unitary Patent is passed, patents issued under the regulation will only have autonomous and unitary effect in the participating EU Member States. Similarly, if the European Commission's proposed agreement to establish a Unified Patent Court with jurisdiction over European patents and future EU unitary patents enters into force, the court's authority will be limited to participating EU Member States.

III. Europe's Long Journey toward the Unitary Patent and Unified Patent Court

A. The Paris Convention - 1884

The first international treaty to address intellectual property rights of inventors across international borders is the Paris Convention for the Protection of Industrial

³⁸ *Assessment of the Impact of the European Patent Litigation Agreement*, *supra* note 26, at 1-4.

³⁹ BRUNO VAN POTTELSBERGHE AND JÉRÔME DANGUY, ECONOMIC COST-BENEFIT ANALYSIS OF THE COMMUNITY PATENT, at 7-8, (Apr. 7, 2009) available at http://ec.europa.eu/internal_market/indprop/docs/patent/studies/compact-cost%20benefit-study-final_en.pdf.

⁴⁰ *Assessment of the Impact of the European Patent Litigation Agreement*, *supra* note 26, at 2.

⁴¹ *European Commission Communication to the European Parliament and Council – Enhancing the Patent System in Europe*, at 7, COM (2007) 165 final (Apr. 3, 2007) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:en:PDF>.

⁴² *Id.* at 8.

⁴³ The Annex provides a table of countries that are EPC Member States and countries that are EU Member States. See *The EPO and EU-Working Together for an Effective IP System*, EPO, News and Issues (Jul. 26, 2011) <http://www.epo.org/news-issues/issues/eu.html>; *Member States of the European Patent Organization*, EPO, About Us (Mar. 10, 2011) <http://www.epo.org/about-us/organisation/member-states.html>; *Countries, Europa, How the EU Works* http://europa.eu/about-eu/countries/index_en.htm (last viewed Apr. 14, 2012).

Property (“Paris Convention”).⁴⁴ The Paris Convention was the result of a diplomatic conference convened in Paris, France in 1883 and it entered into force on July 7, 1884.⁴⁵ The fourteen original members were Belgium, Brazil, Ecuador, El Salvador, France, Guatemala, Great Britain, Italy, the Netherlands, Portugal, Serbia, Spain, Switzerland, and Tunisia.⁴⁶ The United States joined in 1903.⁴⁷ There are currently 174 countries that are parties to the Paris Convention.⁴⁸

The Paris Convention is hailed as the “precursor of all modern-day multinational protection for intellectual property”⁴⁹ and has been regarded as the first attempt to harmonize patent law throughout Europe.⁵⁰ With regard to patent matters, the Paris Convention established the principle of the right of national treatment, which requires parties to the Convention to grant the same protection to nationals of the other Member States as it grants to its own citizens.⁵¹ The Paris Convention also created the right of priority which gives an inventor who files a regular application in

one Member State up to twelve months to apply for protection in all other Member States without losing the priority of his first filing date.⁵² The principle of mutual independence of patents obtained for the same invention was not a part of the Paris Convention until 1900.⁵³

Although the Paris Convention is the cornerstone of later attempts to harmonize intellectual property law throughout Europe and globally, Member States did not make any significant concessions regarding harmonizing substantive patent law and did not relinquish sovereignty over issuing patents, determining patent validity, or deciding infringement actions. The harmonization of substantive patent law and relinquishment of sovereign authority over patent matters, which started with the Paris Convention, has been a long and difficult road for European countries, but at least twenty-five European countries have decided to make the concessions necessary that will lead to a European supranational patent system.⁵⁴

44 Paris Convention for the Protection of Industrial Property, July 7, 1884, revised 1900, 1911, 1925, 1934, 1958, 196, and amended 1979, World Intellectual Property Organization (Geneva 1996 Reprint); available at http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html (last visited Feb. 17, 2012).

45 G. H. C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY, United International Bureaux for the Protection of Intellectual Property (no copyright date); *Contracting Parties, Paris Convention*, World Intellectual Property Organization, About Us http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=2 (last visited Mar. 31, 2011).

46 WORLD INTELLECTUAL PROPERTY ORGANIZATION [WIPO], WIPO INTELLECTUAL PROPERTY HANDBOOK: POLICY, LAW AND USE 241 (2nd ed. 2004).

47 HAROLD C. WEGNER, PATENT HARMONIZATION, at 17, (London Sweet and Maxwell, 1993).

48 *Contracting Parties, Paris Convention*, *supra* note 44.

49 Gerald J. Mossinghoff, *National Obligations Under Intellectual Property Treaties: The Beginning of a True International Regime*, 9 FED. CIR. B.J. 591, 593 (2000).

50 Bender, *supra* note 16, at 52.

51 WIPO INTELLECTUAL PROPERTY HANDBOOK, *supra* note 45, at 242-243.

52 WIPO INTELLECTUAL PROPERTY HANDBOOK, *supra* note 45, at 243-245.

53 Under this principle, the granting of a patent in one member country does not oblige any other member country to grant a patent for the same invention and a patent cannot be refused, invalidated, or otherwise terminated by any member country on the ground that such action has been taken by another member country. See Paris Convention, *supra* note 43, art. 4*bis*; BODENHAUSEN, *supra* note 44, at 61; WIPO INTELLECTUAL PROPERTY HANDBOOK, *supra* note 45, at 245.

54 EPO Welcomes Historic Breakthrough on the Unitary Patent, EPO, News 2012 (Jun 29, 2012) <http://www.epo.org/news-issues/news/2012/20120629.html>.

B. Economic Cooperation Between European Countries

1. The European Coal and Steel Community Treaty - 1952

Following the end of the Second World War, European countries recognized the necessity to create economic community organizations to reconstruct the European economy that had been devastated by the war and to aid in ensuring lasting peace.⁵⁵ The European Coal and Steel Community ("ECSC") Treaty⁵⁶ between Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany, entered into force on July 24, 1952.⁵⁷ The aim of the ECSC Treaty was to "contribute, through the common market for coal and steel, the economic expansion, growth of employment and a rising standard of living" by ensuring the free movement of products without customs duties or taxes, and prohibiting restrictive trade practices.⁵⁸ In order to achieve these goals, the ECSC Treaty established a supranational organization that pooled the national powers of Member States⁵⁹ and bound Member States to decisions made by the Higher Authority of the organization.⁶⁰ The estab-

lishment of the ECSC required Member States to relinquish part of their sovereign authority over domestic matters for the betterment of the larger Community.⁶¹

The ECSC Treaty evidences early awareness by European leaders that peace, economic expansion, growth of employment, and raising the standard of living requires the free flow of goods between European nations.⁶² Following the success of the ECSC, the founding Member States, in 1958, signed the Convention on Certain Institutions Common to the European Communities which expanded cooperation to other economic sectors and is the foundation of the European single market that allows people, goods, services, and money to move around the EU freely.⁶³

2. The European Economic Community Treaty - 1958

The Convention on Certain Institutions Common to the European Communities, often referred to as the European Economic Community ("EEC") Treaty or the Rome Treaty, established the EEC in 1958.⁶⁴ The six founding Member States were Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany.⁶⁵ The

⁵⁵ *A Peaceful Europe—the Beginnings of Cooperation*, Europa, History 1945-1959 http://europa.eu/about-eu/eu-history/1945-1959/index_en.htm (last visited, Feb. 12, 2012).

⁵⁶ European Coal and Steel Treaty, EUROPEAN COMMUNITIES, TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES, (1978).

⁵⁷ Treaty establishing the European Coal and Steel Community, ECSC Treaty, Europa, Summaries of EU Legislation (Oct. 15, 2010) http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm.

⁵⁸ *Id.*

⁵⁹ *The European Communities*, Centre Virtuel de la Connaissance sur l'Europe (CVCE) (Aug. 11, 2011) <http://www.cvce.eu/collections/object-content/-/object/d5906df5-4f83-4603-85f7-0cab24b9fe1/a1d171c1-e894-493d-8ee5-106573135a89/3940ef1d-7c10-4d0f-97fc-0cf1e86a32d4>.

⁶⁰ ECSC Treaty, Europa Summary, *supra* note 56.

⁶¹ ECSC Treaty, Europa Summary, *supra* note 56.

⁶² European Coal and Steel Treaty, *supra* note 55, at Preamble, arts. 2-4; ECSC Treaty, Europa Summary, *supra* note 56.

⁶³ *Border Free Europe – Single Market*, European Union, Internal Market (Mar. 29, 2012) http://europa.eu/pol/singl/index_en.htm.

⁶⁴ Convention on Certain Institutions Common to the European Communities (Rome Treaty), art. 1, Mar. 25, 1957, EUROPEAN COMMUNITIES, TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES, (1978).

⁶⁵ *A Peaceful Europe*, *supra* note 54.

purpose of the EEC Treaty is set forth in article 2: to “establish[] a common market and progressively approximat[e] the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.”⁶⁶ Due to the success of the EEC, European countries decided to further harmonize their economic activities and created the EU in 1993.

3. The Maastricht Treaty – 1993

The EU was established by the Maastricht Treaty which was signed in Maastricht, the Netherlands on February 7, 1992 and entered into force on November 1, 1993.⁶⁷ The Maastricht Treaty amended the Rome Treaty, established the EU, set rules and a timetable for developing a single currency, and established the freedom of movement of goods, services, people, and money between Member States.⁶⁸

If enacted, the EU Unitary Patent regulation will further two objectives of the EU. First, it will advance the European common market, a market where the free

movement of goods is ensured.”⁶⁹ Perhaps, more importantly, the EU Unitary Patent regulation will promote scientific and technological advances because “the propensity of individual inventors, innovative [small and medium sized entities,] and big businesses to invest in [research and development] depends to a large extent on the possibility of securing an exclusive right for any invention made.”⁷⁰ Although EU Member States have relinquished national sovereignty over many economic issues to the EU, some remain unwilling to relinquish sovereignty over patent matters even though this harms businesses and is not in their national interest.⁷¹

C. The Strasbourg Treaty - 1963

The Council of Europe is an international organization that was created in 1949 by ten European countries for the “purpose of safeguarding and reali[z]ing the ideals and principles which are their common heritage and facilitating their economic and social progress.”⁷² In 1963, shortly after the establishment of the EEC, the Council of Europe initiated the first major attempt to harmonize substantive patent law throughout Europe. The sixteen Member

⁶⁶ Rome Treaty, *supra* note 63, art. 2.

⁶⁷ ANTHONY ARNULL ET AL., WYATT AND DASHWOOD’S EUROPEAN UNION LAW, at 17 (5th ed. 2006).

⁶⁸ Europe Without Frontiers, Europa, History 1990-1999 http://europa.eu/about-eu/eu-history/1990-1999/index_en.htm (last visited Mar 17, 2012).

⁶⁹ *European Commission Proposal for a Council Decision Authorizing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*, at 8-9, COM (2010) 790 final (Dec. 14, 2010) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0790:FIN:EN:PDF>.

⁷⁰ *Id.* at 8-10.

⁷¹ A European patent is usually validated in only five EU Member States. See *European Commission Staff Working Document Impact Assessment Accompanying Document to the Proposal for a Council Regulation on the Translation Arrangements for the European Union Patent*, at 12, SEC (2011) 796 (Jun. 30, 202011) available at http://ec.europa.eu/internal_market/indprop/docs/patent/translation_arrangements/impact_assessment_en.pdf.

⁷² Statute of the Council of Europe, art. 1, May 5, 1949, ETS 1. The original ten founding countries of the Council of Europe were Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, and the United Kingdom. See Member States of the Council of Europe, Council of Europe Treaty Office (Mar. 3, 2012) <http://www.conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=001&CM=8&DF=02/03/2012&CL=ENG>.

States at the time⁷³ met in Strasbourg, France and negotiated the Convention on the Unification of Certain Points of Substantive Law on Patents for Invention (“Strasbourg Treaty”).⁷⁴ The objective of the Strasbourg Treaty is to harmonize substantive laws on patents, assist industry and inventors, “promote technical progress[,] and contribute to the creation of an international patent.”⁷⁵ To achieve these goals, the Treaty prescribes formalities for submitting a patent application⁷⁶ and defines patentable subject matter as “any invention that has industrial application, is new, and involves an inventive step.” Inventions which do not comply with these conditions are not patentable.⁷⁷ The Treaty also defines the terms: industrial application, new, inventive step,⁷⁸ and prior art.⁷⁹

The Strasbourg Treaty was the first significant effort by European countries to harmonize substantive patent law, but it proved to be a bridge too far in 1963. The Treaty was opened for signature on November 27, 1963, however, it did not enter into force until August 1, 1980, when it was ratified by eight countries.⁸⁰ Even though

only thirteen European countries are parties to the Strasbourg Treaty,⁸¹ it remains a significant European patent law harmonization effort because the substantive law provisions contained in 1963 document provided the “blueprint for the substantive European patent law that is embodied in the 1973 [EPC].”⁸² While the Strasbourg Treaty was a significant step toward the harmonization of European substantive patent law, it did not provide a solution to the fragmented European patent system for acquiring and enforcing patent rights.

D. The European Patent Convention-1973

The next notable effort to create a European patent system and the most significant thus far, is the EPC which was signed in Munich, Germany in 1973 and became effective on October 7, 1977 when seven countries — Belgium, France, Luxembourg, the Netherlands, Switzerland, the United Kingdom, and West Germany — ratified the Treaty. Italy and Sweden joined the following year.⁸³ There are currently thirty-eight European countries that are parties to the EPC. EPC Member States

⁷³ The sixteen Member States of the Council of Europe in 1963 were Austria, Belgium, Denmark, France, West Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, Turkey, and the United Kingdom. *Id.*

⁷⁴ Convention on the Unification of Certain Points of Substantive Law on Patents for Invention (Strasbourg Treaty), entered into force Aug. 1, 1980, C.E.T.S. No. 047.

⁷⁵ *Id.* Preamble.

⁷⁶ *Id.* art. 8.

⁷⁷ *Id.* art. 1.

⁷⁸ *Id.* arts 3, 4, 5.

⁷⁹ *Id.* art. 4.

⁸⁰ Chart of Signatures and Ratification, Convention on the Unification of Certain Points of Substantive Law on Patents for Invention, Council of Europe (Apr. 3, 2012) <http://www.conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=047&CM=8&DF=04/03/2012&CL=ENG>.

⁸¹ The thirteen European States who are parties to the Strasbourg Treaty are Belgium, Denmark, France, Germany, Ireland, Italy, Liechtenstein, Luxembourg, the Former Yugoslav Republic of Macedonia, the Netherlands, Sweden, Switzerland, and the United Kingdom. *Id.*

⁸² WEGNER, PATENT HARMONIZATION, *supra* note 46, at 22.

⁸³ Member States of the European Patent Organization, EPO (Mar. 10, 2011) <http://www.epo.org/about-us/organisation/member-states.html>.

include all twenty-seven members of the EU as well as eleven countries that are not in the EU.⁸⁴ The Annex to this paper provides a table of EPC Member States and EU Member States.

The EPC created the EP Organization, bestowed on the EP Organization the authority to grant European patents, established a single procedure for the grant of European patents, and introduced standard rules governing European patents.⁸⁵ Under the EPC, an inventor files a single patent application with the EPO or the patent office of one of the Contracting States.⁸⁶ Once the EPO issues the patent, the inventor can validate the patent in each of the Contracting States and all Contracting States are required to give the European patent the same effect as is given to a national patent granted by the Contracting State.⁸⁷ The EPC also established uniform requirements for filing European patents⁸⁸ and prescribes procedures for patent prosecution,⁸⁹ patent opposition,⁹⁰ and the appeal of EPO decisions.⁹¹ Similar to the Strasbourg Treaty, the EPC substantive patent law provisions define: patentable invention, exceptions to patentability, novelty, nonprejudicial disclosures, inventive step, and industrial appli-

cation.⁹² In addition, the EPC created a twenty year patent term from the date the patent application is filed.⁹³

The EPC is considered to be the foundation for the eventual unification of substantive patent law throughout Europe. Although the EPC does not require Member States to harmonize national patent law, the EPC, combined with other international agreements discussed throughout this paper, has caused the harmonization of many substantive patent law provisions among European countries.⁹⁴ However, the EPC's effect on harmonizing European patent law was not immediate and the impact of the EPC on the development of a European unitary patent system has been limited. This is mainly because the EPO did not replace national patent offices, EPC Member States were able to continue operating their autonomous national patent systems. In addition, EPC Member States were not obligated to amend their national patent laws to conform to the EPC substantive patent provisions.⁹⁵ Moreover, EPC Member States retained, within their borders, sovereign authority over European patents after validation to include the authority to determine patent validity, post-

84 The countries that are members of the EPC, but not members of the EU are Albania, Croatia, the former Yugoslav Republic of Macedonia, Iceland, Liechtenstein, Monaco, Norway, San Marino, Serbia, Switzerland and Turkey. See Legal Foundations, European Patent Office (Aug. 18, 2010), <http://www.epo.org/about-us/organisation/foundation.html>.

85 Convention on the Grant of European Patents (European Patent Convention or EPC), Preamble, arts. 4, 52-57, Oct. 5, 1973, available at <http://www.epo.org/law-practice/legal-texts/html/epc/2010/e/ma1.html>.

86 *Id.* art. 75.

87 *Id.* arts. 2(2), 64(1).

88 *Id.* Part III.

89 *Id.* Part IV.

90 *Id.* Part V.

91 *Id.* Part VI.

92 *Id.* arts. 52-57.

93 *Id.* art. 63.

94 GERALD PATERSON, *THE EUROPEAN PATENT SYSTEM: THE LAW AND PRACTICE OF THE EUROPEAN PATENT CONVENTION*, at 1-2, (London Sweet and Maxwell, 1992).

95 *Id.* at 1-2, 20

grant infringement, damages, and enforceability.⁹⁶ Nonetheless, the EPC's importance to the development of a European unitary patent system cannot be overlooked. The EPC created the first European multinational organization with authority over certain aspects of patents and all other attempts to further the European unitary patent system have struggled to build upon the success of this unifying Treaty.

E. The Community Patent Convention – 1975 and 1985 Luxembourg Conference

On December 15, 1975, just two years following the signing of the EPC, nine Member States of the EEC — Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany⁹⁷ — signed the Convention for the European Patent for the Common Market, frequently referred to as the Community Patent Convention (“CPC”), in Luxembourg, Luxembourg.⁹⁸ Although the EPC entered into force on October 7, 1977,⁹⁹ the CPC never entered into force. The main goal of the CPC was to create a unitary and autonomous European patent for the whole EEC¹⁰⁰ by bringing “together the bundle of patent rights

resulting from the grant of a European patent and merge them into a single, unitary and autonomous, protection right.”¹⁰¹ The CPC was developed in conjunction with the EPC and EEC Member States viewed the CPC as the second Convention in a two Convention patent scheme.¹⁰² If enacted, the CPC would have created a system that granted patents issued by the EPO, automatic effect throughout the entire European Community upon issuance. In addition, the CPC would have created a system of uniform rules governing the unitary and autonomous effect of European patents that would apply throughout the territory of the European Community.¹⁰³ The proposed Community patent would be unitary in that it would have equal effect throughout the EEC and could only be transferred or allowed to lapse with respect to the whole EEC.¹⁰⁴ The proposed Community patent would be autonomous in that it would only be subject to the provisions of the CPC and EPC.¹⁰⁵ Similar to the EPC, the CPC would not require Member States to change their national patent laws or relinquish their national patent systems.¹⁰⁶

Following the conclusion of the 1975 Luxembourg Conference, EEC Member

⁹⁶ Any infringement of a European patent shall be dealt with by national law. See EPC, *supra* note 84, art. 64.

⁹⁷ See *Countries*, European Union, How the EU Works http://europa.eu/about-eu/countries/index_en.htm (last viewed Apr. 25, 2012).

⁹⁸ Convention for the European Patent for the Common Market (“Community Patent Convention” or “CPC”), 1976 O.J. (L17), at 1-43, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1976:017:FULL:EN:PDF>; PATERSON, *supra* note 93, at 2; *Enlargement, From 6 to 27 Members and Beyond*, European Commission (Jan. 30, 2012), http://ec.europa.eu/enlargement/the-policy/from-6-to-27-members/index_en.htm.

⁹⁹ *Legal Foundations*, *supra* note 83.

¹⁰⁰ CPC, *supra* note 97, Preamble; Amiram Benyamini, *Patent Infringement in the European Community*, 13 IIC STUDIES 10, 11, 17 (1993).

¹⁰¹ *Green Paper on the Community Patent*, *supra* note 2, at 2; CPC, *supra* note 97, Preamble, arts. 1, 2.

¹⁰² Benyamini, *supra* note 99, at 10, 11.

¹⁰³ Benyamini, *supra* note 99, at 10-12.

¹⁰⁴ CPC, *supra* note 97, art. 2(2).

¹⁰⁵ CPC, *supra* note 97, art. 2(3).

¹⁰⁶ CPC, *supra* note 97, art. 2; see also Benyamini, *supra* note 99.

States, the European Commission, and various international organizations were eager to conclude the CPC. To this end, the CPC was signed by all EEC Member States¹⁰⁷ with the intent to quickly ratify the agreement so that it would enter into force soon after the EPC. However, "due to constitutional and political problems in some Member States" only seven countries ratified the CPC and it never entered into force.¹⁰⁸ One of the obstacles to ratification in 1975, which, to this day, impedes a unanimous agreement on the EU Unitary Patent regulation, is the translation provisions. Under the CPC, in order for a European patent to become a Community patent, the patent holder would be required to translate the claims, but not the specification, into the official languages of all EEC Contracting States.¹⁰⁹

The CPC, like the Strasbourg Agreement, was a bold leap forward toward creating a single European-wide patent system and suffered the same fate because it was also too far reaching for all EEC Member States to ratify it. Upon reflection, the failure of all EEC Member States to ratify the CPC was a missed opportunity for Europe because even before the CPC was drafted, European leaders were well aware that the establishment of a "strong and efficient patent would enhance innovation and technological development, and lead to the opening of new fields of industry and trade."¹¹⁰ In addition, European leaders knew that the "Community patent system

was inseparable from the attainment of the objectives of the [EEC, because it would] eliminate within[] the Community the distortion of competition which may result from the territorial aspect of national protection rights."¹¹¹

In 1985, ten years following the signing of the CPC and failure of the Treaty enter into force, a second intergovernmental conference was held in Luxembourg, Luxembourg with the goal of finalizing and ratifying the agreement. However, little progress was made during the conference because EEC Member States were unable to resolve the main issues that were necessary to bring the CPC into force including reaching an agreement on the financial obligations of the parties and the translation requirements for the patent specification.¹¹² At the conclusion of the 1985 Luxembourg Conference, a working group of experts was selected to continue negotiations and identify solutions necessary for ratification of the agreement by all EEC Member States.¹¹³

F. The Patent Cooperation Treaty - 1978

During the same period of time that Europe was struggling to negotiate and ratify the EPC and write the CPC, there was another patent initiative ongoing which would impact patent applications throughout the globe. The initiative began in the late 1960's with the goal of developing a

¹⁰⁷ PATERSON, *supra* note 93, at 21.

¹⁰⁸ Benyamini, *supra* note 99, at 17.

¹⁰⁹ CPC, *supra* note 97, art. 33.

¹¹⁰ Benyamini, *supra* note 99, at 12.

¹¹¹ CPC, *supra* note 97, Preamble.

¹¹² Benyamini, *supra* note 99, at 17.

¹¹³ Benyamini, *supra* note 99, at 18.

global patent procedural agreement to reduce the need for patent applicants to file separate patent applications in every country where protection was sought and minimize the duplication of effort by national patent offices to review the same invention and research the same prior art.¹¹⁴ This effort resulted in the Patent Cooperation Treaty ("PCT") which was signed in Washington, D.C. on June 19, 1970, by twenty countries and remained open until the end of 1970, by which time fifteen additional countries signed the agreement.¹¹⁵ The Treaty entered into force on January 24, 1978, when it was ratified by fourteen countries. All EEC Member States (currently EU Member States) have ratified or acceded to the PCT¹¹⁶ and as of June 14, 2012, 146 countries were parties to the PCT.¹¹⁷

The PCT allows an applicant for a patent to file a single international patent application in order to preserve his filing date and postpone filing national applications in the countries where protection is desired. The PCT also sets forth formalities for filing a PCT application, requires Member States to accept PCT applications as national applications,¹¹⁸ and prohibits Member States from imposing additional

requirements regarding form or content of an international application different from or additional to formalities required by the PCT.¹¹⁹ The PCT, however, does not interfere with the sovereignty of Member States over granting patents or post patent grant validity, infringement, damages, and enforceability. Even though the PCT was a important step in international cooperation regarding intellectual property, it had little, if any, impact on the advancement of the Community patent or European patent court. This is because, the main purpose of the PCT was to establish a single international patent application which would be recognized by all Member States, but by the time the PCT came into force European countries had already established a regional patent application process which allowed patent applicants to file a single patent application with the EPO.¹²⁰

G. The Agreement Relating to Community G. Patents - 1989

In 1989, fourteen years after the CPC was signed and four years after the 1985 Luxembourg Conference, European countries met once again in Luxembourg, Luxembourg to reach agreement regarding the Community patent.¹²¹ The result of this

¹¹⁴ Mossinghoff, *World Patent System*, *supra* note 23, at 535.

¹¹⁵ Patent Cooperation Treaty (PCT), World Intellectual Property Organization available at <http://www.wipo.int/export/sites/www/pct/en/texts/pdf/pct.pdf>; STEPHAN LANDIS, PATENTS, TRADEMARK, AND RELATED RIGHTS VOL I, at 565, (1975).

¹¹⁶ The original contracting States are Brazil, Cameroon, Central Africa Republic, Chad, Congo, Gabon, West Germany, Madagascar, Malawi, Senegal, Switzerland, Togo, the United Kingdom, and the United States. See *Contracting Parties: Patent Cooperation Treaty*, World Intellectual Property Organization, About WIPO http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=6 (last viewed Apr. 21, 2012); Mossinghoff, *World Patent System*, *supra* note 23, at 535; WEGNER, PATENT HARMONIZATION, *supra* note 46, at 23, (London Sweet and Maxwell, 1993).

¹¹⁷ *PCT Applicant's Guide – International Phase*, Annex A available at http://www.wipo.int/pct/guide/en/gdvol1/annexes/annexa/ax_a.pdf (Jun. 14, 2012).

¹¹⁸ PCT, *supra* note 114, art. 3-8.

¹¹⁹ PCT, *supra* note 114, art. 27.

¹²⁰ In Volume I of his 1975 Treatise on Patents, Trademarks, and Related Rights, Stephan Landis points out that a principle aim of the PCT is to save time, work, and expense for the applicant who seeks protection in various countries and the national patent offices. LANDIS, PATENTS, TRADEMARK, AND RELATED RIGHTS, *supra* note 114, at 565-566; *Contracting Parties: Patent Cooperation Treaty*, *supra* note 115.

¹²¹ Benyamini, *supra* note 99, at 18.

second Luxembourg Conference was the Agreement Relating to Community Patents ("1989 Agreement") which was open for signature on December 15, 1989.¹²² The 1989 Agreement amended the 1975 CPC by incorporating a new system for litigation concerning the validity, effects, and infringement of Community patents.¹²³ To implement the litigation system, the 1989 Agreement supplemented the CPC with three Protocols mainly: the Protocol on the Settlement of Litigation Concerning the Infringement and Validity of Community Patents ("Protocol on Settlement of Litigation"), the Protocol on Privileges and Immunities of the Common Appeal Court ("Protocol on Privileges and Immunities"), and the Protocol on the Statute of the Common Appeal Court ("Protocol on the Statute").¹²⁴ The Protocol on Settlement of Litigation would create the Community patent courts of first and second instance, which would be national courts that have been designated as Community patent courts, would establish the Common Appeal Court with an independent legal personality, and would grant limited subject matter and territorial jurisdiction to the Community patent courts of first and second instance and the Common Appeal

Court.¹²⁵ The Protocol on Privileges and Immunities would "define the conditions under which the Common Appeal Court, its judges, the members of the Administrative Committee, the officials and other servants of the Common Appeal Court ... shall enjoy, in the territory of each Contracting State, the privileges and immunities necessary for the performance of their duties."¹²⁶ The Protocol on the Statute would prescribe the various rules regarding the judges and the organization of the Common Appeal Court.¹²⁷

By the end of 1989, the ratification of the 1989 Agreement looked promising because by December 21, 1989, twelve states — Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, and West Germany — signed all documents which were necessary in order to bring the 1989 Agreement and the CPC into force.¹²⁸ However, the 1989 Agreement never entered into force because ratification by all twelve countries is required and only seven European countries — Denmark, France, Greece, Luxembourg, the Netherlands, the United Kingdom, and West Germany — have ratified the Agreement.¹²⁹ There are two main reasons all EEC Mem-

¹²² Agreement Relating to Community Patents (1989 Community Patent Agreement) Dec. 30, 1989, 1989 O.J. (L 401) 1-27 available at [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:41989A0695\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:41989A0695(01):EN:HTML).

¹²³ Other aspects of infringement which are governed by national law will only be heard by the Community Patent Courts of first and second instance, and, before national courts of third instance. See Benyamini, *supra* note 99, at 21-23.

¹²⁴ Benyamini, *supra* note 99, at 18, 19.

¹²⁵ Protocol on the Settlement of Litigation Concerning the Infringement and Validity of Community Patents, Dec. 30, 1989, 1989 O.J. (L 401) 34 [hereinafter "Protocol on the Settlement of Litigation"] arts. 1, 2 available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1989:401:0034:0044:EN:PDF>.

¹²⁶ *Id.* art. 4; see also Protocol on Privileges and Immunities of the Common Appeal Court, Dec. 30, 1989, 1989 O.J. (L 401) 45-47 available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1989:401:0045:0047:EN:PDF>.

¹²⁷ Protocol on the Statute of the Common Appeal Court, Dec. 30, 1989, 1989 O.J. (L 401) 48-50 available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1989:401:0048:0050:EN:PDF>.

¹²⁸ Benyamini, *supra* note 99, at 18, 19.

¹²⁹ Commission of the European Union Proposal for a Council Regulation on the Community Patent, at 4-5, (COM 2000) 412 final (Aug. 1, 2000) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2000:0412:FIN:EN:PDF>.

ber States did not ratify the 1989 Agreement. The first reason is the excessive cost to patent applicants associated with the requirement that the European patent be translated into the official language of every EEC country. The second reason is the complex judicial system which would have authorized national judges to declare Community patents invalid and those decisions would have effect throughout the European Community.¹³⁰ The objection to the supranational judicial system reflects the long standing reluctance of some European countries to cede sovereign authority over the determination of patent validity, patent infringement, damages, and remedies for patent infringement to a multinational organization or the courts of other European countries.

Eight years after the failure of the 1989 Luxembourg Agreement to result in a Treaty, the European Commission published a Green Paper in order to open discussions for new initiatives regarding the Community patent through eliciting opinions from interested parties.¹³¹ Nonetheless, it would take the European Community another three years following the publication of the Green Paper, over ten years after the 1989 Luxembourg Agreement, to undertake the tasks of establishing a European unitary patent and creating a European patent court.

H. The Agreement on Trade-Related Aspects of Intellectual Property Rights – 1994

Following the entry into force of the EPC,

the national substantive patent laws of European countries underwent a *de facto* harmonization and this occurred, for the most part, in the absence of any specific European-wide agreement requiring harmonization.¹³² The Strasbourg Agreement does require parties to harmonize substantive patent law, but it did not enter into force until 1980 and only thirteen European countries are parties to the Treaty. One international agreement that has influenced the harmonization of European substantive patent law is the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement").¹³³ The TRIPS Agreement did promote the harmonization of European substantive patent law because, unlike the EPC, it requires Member States to modify national law to "give effect to the provisions of [the] Agreement" and permits Member States to "implement in their law more extensive protection than is required by [the] Agreement, provided that such protection does not contravene the provisions of [the] Agreement."¹³⁴ Similar to the substantive provisions of the EPC and the Strasbourg Agreement, the TRIPS Agreement delineates basic standards for patentability (new, inventive step, and industrial application), establishes a minimum twenty year patent term from time of filing, grants patent owners a right to enforce patents, and obligates Member States to provide nationals of other Member States intellectual property protection no less favorable than that given to their own nationals. The TRIPS Agreement also prevents Member

¹³⁰ *Green Paper on the Community Patent*, *supra* note 2, at 6-8.

¹³¹ *Green Paper on the Community Patent*, *supra* note 2, at 1; *Proposal for a Council Regulation on the Community Patent*, *supra* note 128 at 5.

¹³² *Proposal for a Council Regulation on the Community Patent*, *supra* note 128, at 5; PETER L. KOLKER, *TRIPS AGREEMENT: PATENT PROTECTION*, EUROPEAN COMMISSION, at 10, (2000).

¹³³ *Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement")* Apr. 15, 1994, WIPO Pub. No. 223(E) available at <http://www.wipo.int/export/sites/www/treaties/en/agreement/pdf/trips.pdf>.

¹³⁴ *Id.* art. 1.

States from discriminating based on the place of the invention or the field of technology and limits their authority to issue compulsory licenses.¹³⁵ All EU Member States are parties to the TRIPS Agreement¹³⁶ and thus are obligated to ensure their patent laws are in compliance. Even though TRIPS was instrumental in harmonizing substantive patent law throughout Europe, it appears to have had little effect on advancing the European unitary patent or establishing a European patent court.

I. The European Patent Litigation Agreement (Draft) – 2003

The 2003 Draft European Patent Litigation Agreement (“EPLA”), proposed by the EP Organization Sub-group of the Working Party on Litigation, is an optional protocol to the EPC and would “remedy the shortcomings of the present purely national litigation system for European patents.”¹³⁷ If it enters into force, the EPLA would establish a “European Patent Court with jurisdiction to deal with infringement and revocation actions concerning European patents [issued by the EPO].”¹³⁸ The European Patent Court would comprise a Court of First Instance, with a Central Division and a number of Regional Divisions, and a Court of Appeal.¹³⁹ However, in November 2003, the EP Organization Working Party on Litigation adopted a Declaration

and stopped work on the EPLA in deference to the work being done by the EU “to introduce a Community patent with a judicial system of its own.”¹⁴⁰ As discussed further below, in August 2000, the EU Member States began negotiating an agreement to precede a Treaty establishing a European patent court. On June 29, 2012, after nearly twelve years of negotiations, EU Member States finalized the terms for the Unified Patent Court agreement. It is projected that EU Member States will sign the agreement in the second-half of 2012.¹⁴¹

IV. Efforts to Improve the European Patent System (2000 - 2008)

A. European Union’s Lisbon Strategy – 2000

The European Commission’s 1997 Green Paper on the Community Patent emphasized that “[i]nnovation is vital for the viability and success of a modern economy [and that] Europe [was] lagging behind in many of the new technology fields.”¹⁴² The Green Paper reflected on the reasons the CPC and 1989 Luxembourg Convention did not result a Treaty, identified the weaknesses of the fragmented European patent system, and opened a forum to address how to overcome the obstacles which have

¹³⁵ TRIPS Agreement *supra* note 132, arts. 3, 4, 27-29, 31, 33; Mossinghoff, *National Obligations Under Intellectual Property Treaties*, *supra* note 48, at 599.

¹³⁶ *Members and Observers*, World Trade Organization, Home http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last viewed Mar 17, 2012); *Member States of the European Union*, European Union http://europa.eu/about-eu/countries/index_en.htm (last viewed Mar 17, 2012).

¹³⁷ *EPLA-European Patent Litigation Agreement*, European Patent Office, para. 5, (Apr. 3, 2009) <http://www.epo.org/law-practice/legislative-initiatives/epla.html>.

¹³⁸ *Id.* at ¶ 3.

¹³⁹ *Id.* at ¶ 3.

¹⁴⁰ *Id.* at ¶ 4.

¹⁴¹ *EU Unitary Patent – A Historic Breakthrough*, *supra* note 12.

¹⁴² *Green Paper on the Community Patent*, *supra* note 2, at 1.

prevented the creation of the Community patent.¹⁴³ The lack of a Community patent was a subject of the European Council meeting in March 2000 in Lisbon, Portugal. At that meeting, the European Council called for the creation of Community-wide patent protection by the end of 2001 as part of the EU's strategic goal to "become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion."¹⁴⁴ As a result of the discussions that followed the 1997 Green Paper, the European Commission made the critical decision to pursue Community-wide patent protection through EU regulation rather than attempt to reach consensus through the treaty process.¹⁴⁵ Based on this decision, the European Commission proposed an EU regulation for a Community patent (now the EU Unitary Patent regulation) in August 2000.¹⁴⁶

The proposed EU Unitary Patent regulation is founded on the CPC and 1989 Agreement. If enacted, the EU Unitary Patent regulation would "give inventors the option of obtaining a single patent legally valid

throughout the [EU and] significantly lessen the burden on business and encourage innovation by making it cheaper to obtain a patent and by providing a clear legal framework in case of dispute."¹⁴⁷ During 2003, the proposal for a Council of the EU regulation on the EU unitary patent was subject to several revisions in an attempt to arrive at a compromise.¹⁴⁸ Nonetheless, the EU Working Group failed to reach an agreement on the period of time for filing the translation of claims into all official EU languages and consensus on the legal effect of an incorrect translation of claims.¹⁴⁹ In an effort to resolve these issues, on March 8, 2004, the Presidency of the Council of the EU submitted the proposal for a Council regulation on the EU unitary patent to the Council of the EU. The proposal invited the Council of the EU to "consider the two alternative approaches ... with a view [toward] reaching a political agreement on the Regulation on the [EU unitary] patent to be transmitted to the European Parliament for re[-]consultation."¹⁵⁰ Unfortunately, negotiations regarding the proposed regulation stalled and a final agreement was never reached.¹⁵¹

On April 3, 2007, the Commission of the

¹⁴³ *Id.* at 1.

¹⁴⁴ Lisbon European Council 23 and 24 March 2000, Presidency Conclusions, European Parliament, ¶¶ 5, 13, http://www.europarl.europa.eu/summits/lis1_en.htm (last viewed Apr. 27, 2012); Community Patents, Patents, The EU Single Market, European Commission (May 5, 2011) http://ec.europa.eu/internal_market/indprop/patent/index_en.htm#patent.

¹⁴⁵ *Proposal for a Council Regulation on the Community Patent*, *supra* note 128, at 5; *see also*, PAUL TORREMANS, HOLYOAK AND TORREMANS INTELLECTUAL PROPERTY LAW, at 48, 6th ed. 2010.

¹⁴⁶ *Proposal for a Council Regulation on the Community Patent*, *supra* note 55; Patents: EU Achieves Political Breakthrough on an Enhanced Patent System, Europa, Press Release IP/09/1880 (Dec. 4, 2009) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1880&format=HTML&aged=0&language=EN&guiLanguage=en>.

¹⁴⁷ Commission Proposes the Creation of a Community Patent, Europa, Press Release IP/00/714 (July 5, 2000), <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/00/714&format=HTML&aged=0&language=EN&guiLanguage=en>.

¹⁴⁸ *Council of the European Union Proposal for a Council Regulation on the Community Patent* 8539/03 PI 36 (Apr. 16, 2003), 10404/03 PI 53 (Jun. 11, 2003), 10728/03 PI 58 (Jun. 23, 2003), 12219/03 PI 77 (Sep. 4, 2003), 15086/03 PI 122 (Nov. 21, 2003) available at http://ec.europa.eu/internal_market/indprop/patent/index_en.htm.

¹⁴⁹ *Council of the European Union Preparation of the Meeting of the Council on 11 March 2004-Community Patent* 7119/04 PI 28 (Mar. 8, 2004) available at <http://register.consilium.europa.eu/pdf/en/04/st07/st07119.en04.pdf>.

¹⁵⁰ *Id.* at 1, 2.

¹⁵¹ Patents: EU Achieves Political Breakthrough, *supra* note 145

European Communities (now the European Commission) adopted the Communication Enhancing the Patent System in Europe setting forth its vision to make the EU unitary patent a reality and to improve the European patent litigation system.¹⁵² The purpose of the Communication was to reinvigorate the patent reform debate and suggest new avenues to explore regarding the establishment of the patent court and the translation regime for the EU unitary patent.¹⁵³ This 2007 effort, which consists of two parts, was based on extensive consultations which occurred during 2006.¹⁵⁴ The first phase is the creation of a single EU unitary patent which the Commission asserted “remains the solution which would be both the most affordable and legally secure answer to the challenges with which Europe is confronted in the field of patents and innovation.”¹⁵⁵ The remaining part of the effort is to create a “unified and specialized patent judiciary with competence for litigation on European patents and future [EU] patents¹⁵⁶ (“Unified Patent Court”). The proposed

Unified Patent Court was inspired by the EPLA model with regard to patent litigation, but also accounts for the integration of EU jurisdiction.¹⁵⁷ The progress the EU has made and the obstacles that may still prevent the creation of the EU unitary patent and the establishment of the EU Unified Patent Court are addressed in part V of this paper.

B. The London Agreement - 2008

The Agreement on the Application of Article 65 of the Convention of the Grant of European Patents (“London Agreement”) was an EP Organization initiative that was concluded on October 17, 2000, but did not enter into force until May 1, 2008.¹⁵⁸ Parties to the London Agreement consented “to either waive, entirely or largely, the requirement for translations of European patents to be filed in their national language.”¹⁵⁹ There are currently eighteen countries that have either ratified or acceded to the London Agreement.¹⁶⁰ Seven countries have dispensed entirely with the translation requirement and eleven countries only re-

152 *Commission of the European Communities Communication from the Commission to the European Parliament and the Council: Enhancing the Patent System in Europe*, COM (2007) 165 final (Apr. 4, 2007) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:EN:PDF>.

153 *Patents: EU Achieves Political Breakthrough*, *supra* note 145.

154 *Patents: Commission Sets Out Vision for Improving Patent System in Europe*, Europa, Press Release IP/07/463 (Apr. 3, 2007) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/463&type=HTML&aged=0&language=EN&guiLanguage=fr>; *Commission of the European Communities Communication from the Commission to the European Parliament and the Council: Enhancing the Patent System in Europe*, COM (2007) 165 final (Apr. 3, 2007) available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:en:PDF>.

155 *Communication from the Commission - Enhancing the Patent System in Europe*, *supra* note 151, at 4.

156 *Communication from the Commission - Enhancing the Patent System in Europe*, *supra* note 151, at 11.

157 *Communication from the Commission - Enhancing the Patent System in Europe*, *supra* note 151, at 11.

158 Agreement on the Application of Article 65 of the Convention of the Grant of European Patents (London Agreement), 12 O.J. EPO 550 (2001) available at

[http://documents.epo.org/projects/babylon/eponet.nsf/0/7FD20618D28E9FBFC125743900678657/\\$File/London_Agreement.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/7FD20618D28E9FBFC125743900678657/$File/London_Agreement.pdf).

159 *Id.*

160 The eighteen countries are Croatia, Denmark, Finland, France, Germany, Hungary, Iceland, Latvia, Liechtenstein, Lithuania, Luxembourg, Former Yugoslav Republic of Macedonia, Monaco, the Netherlands, Slovenia, Sweden, Switzerland, and the United Kingdom. *Status of Accession and Ratification, London Agreement*, European Patent Office (Jan. 27, 2012) <http://www.epo.org/law-practice/legal-texts/london-agreement/status.html>.

quire that the patent claims be translated into the official language of the country.¹⁶¹ Accordingly, the London Agreement facilitates access to the European patent system because it reduces the cost for businesses to obtain a European patent which is valid and enforceable in the eighteen European countries that are parties to the agreement.

The London Agreement was a major step toward reducing the cost of validating a European patent in multiple European countries and the concessions made regarding the translation regime were capitalized on by the EU during the EU unitary patent negotiations. Although only twelve EU countries are parties to the London Agreement,¹⁶² as a concession to advance the EU Unitary Patent regulation, thirteen other EU countries have agreed to either dispense entirely with the translation requirement or require only that the patent claims be translated into the official language of the country in order for a patent holder to receive EU unitary patent protection. Italy and Spain are not parties to the London Agreement and both countries oppose the proposed EU Unitary Patent regulation because it does not require that European patent applications be filed in their respective national language or that granted European patents be translated into their respective national language.¹⁶³

V. The EU's Recent Progress Toward a Unitary Patent and Unified Patent Court

After decades of negotiations that have failed to remedy the fragmented European patent system, Europe is the closest it has been since the mid-1970's to establishing an EU-wide supranational patent system. The European Commission is aggressively pursuing two closely related proposals that will advance the European patent system. The first proposal is to use the EU enhanced cooperation procedures, under the Treaty on the Functioning of the EU, to pass an EU regulation on unitary patent protection.¹⁶⁴ The second proposal is the Draft Agreement for the Unified Patent Court and draft Statute of the Court ("Unified Patent Court (Draft) Agreement").¹⁶⁵

A. The EU Unitary Patent Regulation - Enhanced Cooperation

On December 4, 2009, the Council of the EU adopted the conclusions of the European Commission regarding the Enhanced Patent System for Europe which will create unitary patent protection within the territory of the EU.¹⁶⁶ Under the proposed EU Unitary Patent regulation, an inventor will be able to obtain patent protection in all

¹⁶¹ Key Points, Dispensation with Translation Requirements, European Patent Office (Jan. 31, 2012) <http://www.epo.org/law-practice/legal-texts/london-agreement/key-points.html>.

¹⁶² Status of Accession and Ratification, London Agreement, *supra* note 159.

¹⁶³ Joe Kirwin, *Italy, Spain File Legal Challenge Against EU Single Patent Plan at CJEU*, Bloomberg BNA, 25 WIPR 9 (Jul. 1, 2011); Società Italiana Brevetti, *Italy's Submission in Appeal Against Unitary EU Patent*, Bloomberg BNA, 25 WIPR 16 (Aug. 1, 2011); Brett A. King, *Spain Continues to Defend Case for Adoption of Spanish for Unitary Patent*, World Intellectual Property Report, Bloomberg BNA 25 WIPR 21 (Jan. 8, 2011).

¹⁶⁴ Council of the European Union, *Proposal for a Regulation of the European Parliament and of the Council Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*, 17578/11 LIMITE PI 169 CODEC 2203 (Dec. 1, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st17/st17578.en11.pdf>.

¹⁶⁵ Council of the European Union, *Draft Agreement on the Unified Patent Court and Draft Statute*, 13751/11 PI 108 COUR 78 (Sep. 2, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st13/st13751.en11.pdf>.

¹⁶⁶ Following the entry into force of the Lisbon Treaty the term "European Union" replaced the word "Community" to identify the international organization created under the Maastricht Treaty. See Council of the European Union, *Proposal for a Council Decision Authorizing Enhanced Cooperation in the Area of Creation of Unitary Patent Protection-Adoption of Council Decision*, at ¶ 5, 6524/11 PI 10 (Mar. 2, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st06/st06524.en11.pdf>.

EU countries by submitting a single patent application to the EPO that designates the EU. "[T]he planned [unitary] patent would be granted by [the EPO] under the same procedure, criteria and rules for examining patentability as is currently the case with European patents issued under the EPC. The difference would be the post-grant phase, when the patent will be given unitary protection throughout the territory of [] EU Member States participating in the unitary patent scheme."¹⁶⁷ Therefore, if the EU Unitary Patent regulation is passed, patent owners will no longer be required to validate their European patent in EU Member States in order to obtain protection across the EU.¹⁶⁸

Although there is consensus regarding the substantive provisions of the EU Unitary Patent regulation, the translation regime is not part of the EU Unitary Patent regulation; therefore, a second regulation governing the translation regime must also be adopted.¹⁶⁹ On June 30, 2010, after considering various options for possible translation requirements, the European Commission adopted a proposal for a

translation regime which is the same as the translation regime for the Community Patent regulation of May 23, 2008. The European Commission chose this translation regime due to its simplicity and cost effectiveness.¹⁷⁰ The planned EU unitary patent translation regime will require applicants to file a patent application in English, French, or German (the three official languages of the EPO). If the application is filed in any other official language of the EU, it will be translated into one of the official languages of the EPO.¹⁷¹ A majority of EU Member States supported the European Commission's proposal, but the Council of the EU was unable to achieve the required unanimity¹⁷² because Italy and Spain objected to the translation regime.¹⁷³

To overcome Italy and Spain's objections, on December 14, 2010, the European Commission, at the request of twelve EU Member States, proposed the use of the EU enhanced cooperation legislative procedure which allows for approval of [EU] legislation without the consent of all [twenty-seven] [M]ember [S]tates."¹⁷⁴ Thirteen additional EU Member States

167 *Unresolved Court System Holds Key to Unitary EU Patent Rollout, Attorney Says*, Bloomberg BNA, 25 WIPR 8 (Dec 1, 2011).

168 *Commission Proposes Unitary Patent Protection in 25 Member States – Frequently Asked Questions*, Europa, Press Releases, MEMO/11/240 (Apr. 13, 2011) <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/240&format=HTML&aged=0&language=EN&guiLanguage=en>.

169 *Council of the European Union, Enhanced Patent System in Europe—Council Conclusions*, at ¶ 36, 17229/09 PI 141 COUR 87 (Dec. 7, 2009) available at <http://register.consilium.europa.eu/pdf/en/09/st17/st17229.en09.pdf>; *Patents: EU Achieves Political Breakthrough*, *supra* note 145.

170 *European Commission Proposal for a Council Regulation (EU) on the Translation Arrangements for the European Union Patent*, COM (2010) 350 final (Jun. 30, 2010) available at http://ec.europa.eu/internal_market/indprop/docs/patent/translation_arrangements/proposition_com_2010_350_en.pdf; *European Commission Proposal for a Council Decision Authorizing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*, COM (2010) 790 final (Dec. 14, 2010) available at [http://ec.europa.eu/internal_market/indprop/docs/patent/COM\(2010\)790-final_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/COM(2010)790-final_en.pdf).

171 *Council of the European Union, Presidency, Revised Proposal for a Council Regulation on the Community Patent*, PI 25 (2008) 9465/08 (May 23, 2008), Annex, art. 24a, available at <http://register.consilium.europa.eu/pdf/en/08/st09/st09465.en08.pdf>.

172 *European Commission Proposal for a Council Decision Authorizing Enhanced Cooperation*, *supra* note 145, at 2-4.

173 *Società Italiana Brevetti, Italy's Submission in Appeal Against Unitary EU Patent*, *supra* note 162.

174 Under the EU Treaty and the Treaty on the Functioning of the EU, enhanced cooperation allows nine or more Member States to move forward on in a particular area as a last resort if no agreement can be reached by the EU as a whole within a reasonable period. Other Member States can opt to join at any stage before or after enhanced cooperation has been launched. See *Commission Proposes Unitary Patent Protection to Boost Research and Innovation*, Europa, Press Releases, IP/11/470 (Apr. 13, 2011) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/470&format=HTML&aged=0&language=EN&guiLanguage=en>.

submitted requests to join the enhanced cooperation procedure¹⁷⁵ and on March 10, 2011, the Council of the EU authorized twenty-five EU countries to “establish enhanced cooperation between themselves in the area of creation of unitary patent protection.”¹⁷⁶ Shortly following the Council of the EU decision, Italy and Spain filed complaints with the CJEU challenging the use of the enhanced cooperation legislative procedures and seeking to annul the March 10, 2011 decision.¹⁷⁷ Both countries asserted that the use of the enhanced cooperation procedures is contrary to the founding treaties of the EU.¹⁷⁸ A CJEU decision regarding the complaints filed by Italy and Spain is not expected until late 2012 or early 2013.¹⁷⁹ If the current EU Unitary Patent proposal becomes law, the cost to obtain an EU-wide patent with unitary effect in twenty-five Member States will decrease from around 32,000 Euros to less than 2,500 Euros during a transitional period and that cost would be reduced to 680 Euros following the transition period.¹⁸⁰

B. The Unified Patent Court

1. 2009 European Commission Negotiations

On March 20, 2009, the Commission of the European Communities (now the European Commission) sought approval from the Council of the EU to open negotiations between the European Community, its Member States, and other EPC Contracting States to conclude an agreement for a European Unified Patent Litigation System (“UPLS”).¹⁸¹ The aim of the UPLS is to stimulate innovation, competitiveness, growth, and job creation in Europe by “increase[ing] legal certainty, reduc[ing] litigation costs and improve[ing] access to patent litigation for businesses.”¹⁸² To accomplish this goal, the UPLS provides for the establishment of a patent court with exclusive jurisdiction over existing European patents and future EU unitary patents, but not national patents. The UPLS judicial structure consists of decentralized courts of “first instance with local and regional divisions as well as one cen-

¹⁷⁵ Enhanced Cooperation in the Area of Unitary Patent Protection, European Commission, Internal Market (May 5, 2011) http://ec.europa.eu/internal_market/indprop/patent/index_en.htm.

¹⁷⁶ Council Decision Authorizing Enhanced Cooperation in the Area of Creation of Unitary Patent Protection, *supra* note 11, at 55.

¹⁷⁷ Council of the European Union Case Before the Court of Justice of the European Union—Case C-274/11 12500/11 JUR 346 PI 87 (Jul. 5, 2011) and Case C-274/11 12502/11 JUR 347 PI 87 (Jul. 5, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st12/st12500.en11.pdf> and <http://register.consilium.europa.eu/pdf/en/11/st12/st12502.en11.pdf> respectively; Kirwin, *Italy, Spain File Legal Challenge Against EU Single Patent Plan* *supra* note 162.

¹⁷⁸ King, *Spain Continues to Defend Case for Adoption of Spanish for Unitary Patent*, *supra* note 162; World Intellectual Property Report, Bloomberg BNA 25 WIPR 21 (Jan. 8, 2011); Società Italiana Brevetti, *Italy's Submission in Appeal Against Unitary EU Patent*, *supra* note 162.

¹⁷⁹ Joe Kirwin, *EU Patent Accord Blocked Over Dispute for Seat of Central Patent Court*, Bloomberg, BNA 26 WIPR 6 (Jan. 1, 2012).

¹⁸⁰ Commission Proposes Unitary Patent Protection to Boost Research and Innovation, Europa, Press Releases, IP/11/470 (Apr. 13, 2011) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/470&format=HTML&aged=0&language=EN&guiLanguage=en>.

¹⁸¹ Commission of the European Communities, Recommendation from the Commission to the Council: To Authorize the Commission to Open Negotiations for the Adoption of an Agreement Creating a Unified Patent Litigation System (“Recommendation to Open Negotiations to Create a UPLS”), SEC (2009) 330 final (Mar. 20, 2009), at 2-3, available at http://ec.europa.eu/internal_market/indprop/docs/patent/recommendation_sec09-330_en.pdf.

¹⁸² Commission Sets Out Next Steps for Creation of a Unified Patent Litigation System, Europa, Press Releases IP/09/460 (Mar 24, 2009) <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/460&type=HTML>.

tral division, a [court] second instance and a Registry.”¹⁸³ Decisions of the courts of first and second instance would have effect in the territory of all Contracting States.¹⁸⁴

2. Court of Justice of the European Union Opinion – 2011

On July 6, 2009, the Council of the EU requested an opinion from the CJEU¹⁸⁵ regarding whether the proposed agreement creating the UPLS was compatible with the treaties establishing the EU.¹⁸⁶ In March 2011, the CJEU ruled that the proposed “agreement creating a unified patent litigation system (currently called ‘European and Community Patents Court’) [was] not compatible with the provisions of the EU Treaty and the [Treaty on the Functioning of the EU].”¹⁸⁷ The CJEU based its ruling on the finding that the proposed agreement would have conferred on an “international court which is outside the institutional and judicial framework of the [EU,] exclusive jurisdiction to hear a significant number of actions brought by individuals in the field of the patent” and would have “alter[ed] the essential charac-

ter of the powers which the [EU t]reaties confer on the institutions of the [EU] and on the Member States.”¹⁸⁸

3. Draft Agreement on a Unified Patent Court and Draft Statute – 2011

On June 14, 2011, soon after the CJEU’s opinion, the Presidency of the Council of the EU presented a modified Draft Agreement for the Unified Patent Court “which confers exclusive jurisdiction upon a court[,] common to the Member States[, over] European patent[s] and European patent[s] with unitary effect.”¹⁸⁹ The modified Unified Patent Court (Draft) Agreement includes the necessary amendments to the UPLS to ensure compliance with EU treaties and the CJEU decision.¹⁹⁰ From June 14, 2011, until the final proposal was submitted on December 6, 2011, the Unified Patent Court (Draft) Agreement was the subject of several meetings, exchanges of views, compromises, and numerous revisions.¹⁹¹ The latest version of the Unified Patent Court (Draft) Agreement (only a redacted version is available to the public),¹⁹² is expected to be similar to the

183 *Recommendation to Open Negotiations the Create a UPLS*, *supra* note 180, at 5.

184 *Recommendation to Open Negotiations to Create a UPLS*, *supra* note 180, at 3-6.

185 “The CJEU interprets EU law to make sure it is applied in the same way in all EU countries. It also settles legal disputes between EU governments and EU institutions.” *The Court of Justice of the European Union*, Europa, How the EU Works http://europa.eu/about-eu/institutions-bodies/court-justice/index_en.htm (last visited Feb. 23, 2012).

186 Draft Agreement – Creation of a Unified Patent Litigation System, Opinion, 2011 E.C.J. 1/09 available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009V0001:EN:HTML>.

187 *Id.* at Opinion; Kirwin, *Court Delivers Setback* *supra* note †††.

188 Creation of a Unified Patent Litigation System, Opinion, *supra* note 185, at ¶ 89.

189 *Draft Agreement on a Unified Patent Court and Draft Statute*, *supra* note 9.

190 *Id.*

191 *Council of the European Union, Draft Agreement on a Unified Patent Court and Draft Statute* 13751/11 PI 108 COUR 48 (Sep. 2, 2011), 13751/11 COR 1 PI 108 COUR 48 (Sep. 15, 2011), 14192/11 PI 115 COUR 51 (Sep. 23, 2011), 15289/11 PI 27 COUR 56 (Oct. 7, 2011), 15539/11 PI 133 COUR 59 (Oct. 19, 2011), 16023/11 PI 141 COUR 62 (Oct. 26, 2011), 16741/11 PI 155 COUR 64 (Nov. 11, 2011), 17120/11 PI REV 1 PI 157 COUR 67 (Nov. 17, 2011), 17317/11 PI 165 COUR 70 (Nov. 22, 2011), 17580/11 PI 170 COUR 72 (Dec. 1, 2011), 18239/11 PI 181 COUR 78 (Dec. 6, 2011) available at <http://register.consilium.europa.eu/servlet/driver?typ=&page=Simple&lang=EN&cmsid=638>.

192 *Council of the European Union, Draft Agreement on a Unified Patent Court and Draft Statute – Presidency Compromise Text* 18239/11 PI 181 COUR 78 (Dec. 6, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st18/st18239.en11.pdf>.

Unified Patent Court (Draft) Agreement of November 11, 2011,¹⁹³ subject to some revisions. These changes are expected to include the compromises made regarding articles 18 (budget of the court), 19 (financing the court), 58 (transition period), 58a (ratification and depositing), 58d (revisions), and 59 (entry into force).¹⁹⁴ If this is the case, the Unified Patent Court will be a court common to the Member States of the EU only, be subject to EU law, and will have jurisdiction over litigation involving current and future European patents and future EU unitary patents.¹⁹⁵ The proposed Patent Court will consist of a Court of First Instance, a Court of Appeal, and a Registry.¹⁹⁶ The Court of First Instance will include a central division as well as local and regional divisions¹⁹⁷ and the Court of Appeal will consist of a “multinational composition of five judges.”¹⁹⁸ The Unified Patent Court will have exclusive jurisdiction to decide actual and threatened infringement, declare non-infringement, provide provisional and protective measures, issue injunctions, revoke patents, award damages and compensation, determine prior use, and award compensation for licenses. National courts will retain jurisdiction over all other patent

matters not specifically set forth in the Unified Patent Court (Draft) Agreement.¹⁹⁹ Decisions of the Patent Court regarding future EU unitary patents will have effect in the territory of all Contracting Member States, whereas decisions regarding European patents will have effect only in Contracting Members States where the patent has been previously validated.²⁰⁰

Italy initially objected to the Unified Patent Court and refused to participate in the negotiations, but in December 2011, the country reversed its position and declared that it would take part in negotiations.²⁰¹ In early 2012 there remained various unresolved issues regarding the Unified Patent Court including financing the court, transition period, and seats of the Central Division of the Court of First Instance and the Court of Appeal.²⁰² The latter issue had the potential to unravel the progress that had been made because Germany, France, and the United Kingdom would not agree as to “which country [would] host [the] new central court that will adjudicate patent disputes. ... Germany and the United Kingdom [had] refused to cede the seat to France, which Poland proposed as part of an overall compromise.”²⁰³ On June 29, 2012, at the conclusion of an EU

193 Council of the European Union, *Draft Agreement on a Unified Patent Court and Draft Statute – Presidency Compromise Text* 16741/11 PI 155 COUR 64 (Nov. 11, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st16/st16741.en11.pdf>.

194 Council of the European Union, *Draft Agreement on a Unified Patent Court and Draft Statute – Draft Declaration for an Operational UPC, Revised Articles 18, 19, 58, 58a, 58d and 59* 17317/11 PI 165 COUR 70 (Nov. 22, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st17/st17317.en11.pdf>; Council of the European Union, *Draft Agreement on a Unified Patent Court – Presidency Compromise* 18239/11 LIMITE PI 181 COUR 78 (Dec. 6, 2011) available at <http://register.consilium.europa.eu/pdf/en/11/st18/st18239.en11.pdf>.

195 *Draft Agreement on a Unified Patent Court and Draft Statute – Nov. 11, 2011* *supra* note 192, arts. 1, 2, 14a, 14b.

196 *Id.* art. 4.

197 *Id.* art. 5.

198 *Id.* art. 7.

199 *Id.* art. 15.

200 *Id.* art. 16.

201 Società Italiana Brevetti, *Italy Reverses Stance on Unified Patent Court*, Bloomberg BNA 25 WIPR 19 (Jan. 2, 2012).

202 *Draft Agreement on a Unified Patent Court and Draft Statute – Nov. 11, 2011* *supra* note 192, arts. 5(1a), 7(4); see also Kirwin, *EU Patent Accord Blocked Over Dispute for Seat of Central Patent Court*, *supra* note 192.

203 Kirwin, *EU Patent Accord Blocked* *supra* note 178.

summit, this issue was at last resolved. EU Member States decided that the seat of the Central Division of the Court of First Instance will be based in Paris, France with two specialized sections in both London, England and Munich, Germany. The office of the Patent Court's President will also be based in Paris.²⁰⁴ It is anticipated that the Unified Patent Court Agreement will be signed by EU Member States in the second half of 2012 and enter into force in early 2014 following ratification by at least thirteen EU Member States.²⁰⁵

VI. Conclusion

European businesses are at a disadvantage in the global marketplace, in comparison to businesses in other industrialized nations, because the fragmented European patent system makes it more expensive for them to obtain patents and enforce patent rights. In order to encourage innovation, growth, and the competitiveness of European businesses, European political leaders must establish a patent system which provides patent applicants an efficient and cost effective way to obtain patents and enforce patent rights throughout Europe.

After the Second World War, European countries began creating economic community organizations with the goal of ensuring peace, economic expansion, growth of employment, and a higher standard of living. One example of this cooperation is the EU, an economic and political partnership with a single currency and single market where goods, services, and people travel freely across borders. Regrettably, the European patent system, which is a

critical component of the European economy, has not yet benefited from European unification. For the most part, each European country continues to operate its own national patent system for granting national patents, validating European patents granted by the EPO, and controlling all post patent grant issues. This fragmented patent system is prohibitively expensive for European businesses and results in legal uncertainty because of the possibility that different national courts will reach different conclusions on substantive patent issues.

European countries have made several attempts, beginning in the mid-1970's, to create a European unitary patent and establish a European patent court. Although European countries have been working toward the creation of a European supranational patent system for nearly forty years, thus far, they have been unable to finalize the agreements that are necessary for the creation of the European unitary patent and establishment of a European patent court. That being the case, the fragmented European patent system continues to adversely affect European businesses, but this may soon change. Twelve years ago, the European Council included the creation of Community-wide patent protection as part of the EU's strategic goal to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth. While progress has stalled at times, EU Member States over the past two years have made significant advances on two closely related EU agreements. The first is the proposed EU Unitary Patent regula-

204 EU Unitary Patent – A Historic Breakthrough, European Council – EU Unitary Patent (Jun. 29, 2012) <http://www.european-council.europa.eu/home-page/highlights/eu-unitary-patent-%E2%80%93-a-historical-breakthrough?lang=en>.

205 *Id.*

tion which when adopted will provide unitary patent protection within the territories of the twenty-five participating EU Member States. The second is a draft agreement on the EU Unified Patent Court which will have nearly EU-wide jurisdiction over European patents and future EU unitary patents.

The most significant obstacle to the adoption of the EU Unitary Patent regulation has been the delegations from Italy and Spain that have refused to compromise on the translation regime. To overcome Italy and Spain's objections, the other twenty-five EU Member States, in December 2010, elected to use the EU enhanced cooperation procedures which allows them to pass an EU regulation without receiving unanimous consent from all EU Member States. On June 29, 2012, the European Council reported that an agreement has finally been reached and the European Parliament will vote on the EU Unitary Patent regulation and on the translation regime for the EU unitary patent in July 2012. The Council of the EU is expected to adopt the two regulations shortly thereafter.²⁰⁶ The only remaining complication to the adoption of the EU Unitary Patent regulation would be an CJEU ruling annulling the Council of the EU decision of February 11, 2011, which authorized twenty-five EU Member States to use enhanced cooperation procedures to advance the EU Unitary Patent regulation. Provided the CJEU does not derail the EU Unitary Patent regulation, the regulation will greatly benefit European businesses

because the cost of obtaining a European patent which is enforceable in all twenty-five participating EU Member States will be significantly reduced. Unfortunately, even following the passage of the EU Unitary Patent regulation, patent owners will still be required to validate their European patents in Italy and Spain, two significant EU markets, and the eleven EPC Member States that are not part of the EU, if protection is required in those countries.

The second initiative of the EU is the establishment of the EU Unified Patent Court. The Unified Patent Court will increase legal certainty and reduce litigation costs because the court will have jurisdiction over European patents and EU unitary patents, and decisions of the court will have effect in all twenty-five participating EU Member States. Until recently, it was uncertain as to whether EU Member States would resolve the remaining issues that have prevented reaching an agreement on the EU Unified Patent Court. However, on June 29, 2012, Helle Thorning-Schmidt, the Prime Minister of Denmark, reported that the European Council had concluded an agreement regarding the seat of the Unified Patent Court's Central Division of the Court of First Instance paving the way for creating the EU's unitary patent system.²⁰⁷ Soon after the announcement, David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, applauded the "tireless effort of the [EU] ... and the leadership of Denmark [for removing] last remaining obstacle to the

²⁰⁶ A Historic Breakthrough, *supra* note 203.

²⁰⁷ A Historic Breakthrough, *supra* note 203.

Unitary European Patent System.”²⁰⁸ Likewise, EPO President, Benoît Battistelli, on July 3, 2012, congratulated the European Council for reaching an agreement regarding the European patent court.²⁰⁹

The European Commission anticipates that the Unified Patent Court Agreement will enter into force in 2014 following ratification of the agreement by at least thirteen EU Member States.²¹⁰ While this most recent agreement between EU Member States is momentous, the establishment of an EU Unified Patent Court is not yet a *fait accompli*. While it can be assumed that the twenty-five participating EU Member States will all sign the Unified Patent Court Agreement in the second one-half of 2012 as anticipated, there is no guarantee that the agreement will be ratified by thirteen EU Member States which is necessary for the agreement to enter into force.²¹¹ It is possible that even after the Unified Patent Court Agreement is signed, some EU countries will be unable to obtain the political support necessary to ratify the agreement because of the sweeping changes the

agreement would make to the status quo regarding patents. Under the current system, European countries are the final arbiter of patent issues within their territorial boundaries. Whereas under the Unified Patent Court Agreement, Contracting States will have to relinquish nearly all sovereign authority over European patents and future EU unitary patents to the Unified Patent Court.

Based on the reports following the June 28 through 29, 2012 European Council summit, the outlook for the ratification of the EU Unified Patent Court Agreement is good. However, there remains the possibility that the agreement will suffer the same fate as the CPC and 1989 Agreement which never entered into force because the agreements were not ratified by enough countries. If this occurs, there is no telling how long it will be before European countries can set aside their differences and create a supranational patent system that is urgently needed by European businesses so they can more effectively compete in the global marketplace.

208 David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office, *Paving a Way Toward a Unitary Patent*, DIRECTOR'S FORUM: DAVID KAPPOS' PUBLIC BLOG (Jun. 29, 2012, 9:44 AM) http://www.uspto.gov/blog/director/entry/paving_the_way_toward_the.

209 Benoît Battistelli, President EPO, *Breakthrough for the Unitary Patent*, EPO, NEWS AND ISSUES, BLOG (Jul. 3, 2012) <http://blog.epo.org/patents/breakthrough-for-the-unitary-patent/>.

210 A Historic Breakthrough, *supra* note 203.

211 A Historic Breakthrough, *supra* note 203.

Annex

	European Patent Organization ²¹²	European Union ²¹³
Albania	Yes	No
Austria	Yes	Yes
Belgium	Yes	Yes
Bulgaria	Yes	Yes
Croatia	Yes	No
Cyprus	Yes	Yes
Czech Republic	Yes	Yes
Denmark	Yes	Yes
Estonia	Yes	Yes
Finland	Yes	Yes
France	Yes	Yes
Germany	Yes	Yes
Greece	Yes	Yes
Hungary	Yes	Yes
Iceland	Yes	No
Ireland	Yes	Yes
Italy	Yes	Yes
Latvia	Yes	Yes
Liechtenstein	Yes	No
Lithuania	Yes	Yes
Luxembourg	Yes	Yes
Former Yugoslavia Republic of Macedonia	Yes	No
Malta	Yes	Yes
Monaco	Yes	No
Netherlands	Yes	Yes
Norway	Yes	No
Poland	Yes	Yes
Portugal	Yes	Yes
Romania	Yes	Yes
San Marco	Yes	No
Serbia	Yes	No
Slovakia	Yes	Yes
Slovenia	Yes	Yes
Spain	Yes	Yes
Sweden	Yes	Yes
Switzerland	Yes	No
Turkey	Yes	No
United Kingdom	Yes	Yes
Total Members	38	27

²¹² The EPO and EU-Working Together for an Effective IP System, EPO, News and Issues (Jul. 26, 2011) <http://www.epo.org/news-issues/issues/eu.html>; Member States of the European Patent Organization, EPO, About Us (Mar. 10, 2011) <http://www.epo.org/about-us/organisation/member-states.html>.

²¹³ Countries, Europa, How the EU Works http://europa.eu/about-eu/countries/index_en.htm (last viewed Apr. 14, 2012).

Multinational Enforcement of Patent Rights: National Jurisdiction Over Infringement and Validity of a Foreign Patent¹

By Arthur O. Hall

I. Detailed Description of Project (Ausführliche Beschreibung des Projekts)

The decisive question to be answered by this project is whether or not the right holder has the ability to adjudicate their patent rights in foreign patents in any country other than the country where the patent rights were granted. This question will be addressed with respect to any country of which only includes the United States (US), the States of Europe under the European Patent Convention (EPC) and Japan. Therefore, this project is focused on multinational enforcement of patent rights, similarly referred to as multinational

patent litigation.² Consequently, the litigation issues of this project are centered on national jurisdiction over infringement and validity of a foreign patent.

This project will address three issues of multinational enforcement of patent rights using the US, the States of Europe under the EPC and Japan as a measure for determining the feasibility and scope of litigation on a multinational scale. In the future, the analysis may be extended to incorporate China and other countries in relation to the issues presented and/or any expansion of these issues. The goal of this study is to determine a reasonable scope of the substantive rights of the patent holder, if any, to enforce his foreign granted patent

¹ Copyright Arthur O. Hall

² Graeme B. Dinwoodie, William O. Hennessey, and Shira Perlmutter, *International and Comparative Patent Law*, Matthew Bender & Company, Inc., a member of the LexisNexis Group, 761-809 (2002).

rights in other countries against defendants in countries other than the country in which the patent rights were granted. The next step would be to recommend substantive guidelines for enforcing these patent rights internationally. These guidelines shall be expanded from the European Patent Litigation Agreement (EPLA) currently in an approval process. The further step would be to evaluate the possibility of achieving jurisdiction of the courts, normally out of reach, to review patent cases for patents granted in foreign countries. An additional step is to determine the possibility of obtaining the adjudication of one action for infringement or validity of a patent in one court of justice.

Upon turning to the agreements and treaties as mechanisms for providing enforcement provisions, it is understood that the Trade Related Intellectual Property Rights (TRIPS) Agreement, the draft Substantive Patent Law Treaty (SPLT), and the EPLA under approval have as a goal, at some level of standards, to harmonize enforcement provisions. An exception to this goal is that the SPLT has only been subject to the review of enforcement by the World Intellectual Property Organization (WIPO) General Assembly. However, these agreements and/or treaties do not, *per se*, achieve the goal of multi-jurisdictional enforcement of patent rights. The TRIPS Agreement, being focused on minimum standards of enforcement, has a low enforcement standard with no teeth to enforce patent rights internationally. As discussed below, the EPLA appears to come the closest to achieving this goal, although only on a regional level.

The TRIPS Agreement, being the first and, currently, the only substantive agreement on enforcement of patent rights, defines merely what the minimum

standards for substantive enforcement of patent rights should be for all countries that are member states. However, while the enforcement provisions of TRIPS are well defined, the realism is that enforcement of these minimum standards with regard to patentability in the respective states is limited.

The draft SPLT is another agreement between states that is intended to harmonize substantive principles of patent law. The SPLT builds upon the Patent Law Treaty (PLT), which harmonized many aspects of national and regional procedural patent practice and law. The process of international harmonization of enforcement provisions must also take into account the provisions relating to patent applications under the Patent Cooperation Treaty (PCT). Consequently, the SPLT also builds upon the provisions of the PCT. However, the SPLT is limited in that the treaty is in the early stages of development, and thus would not currently be the best mechanism for expanding the implementation of enforcement provisions internationally.

Currently in the process of being approved by States under the EPC, the EPLA is aimed at enforcement of a single application that is prepared under the EPC for the purposes of consistent substantive examination in all States. The EPC was established as a mechanism by which a single application would be validly accepted by all States for the purposes of filing an application. Hence, the EPC creates a bundle of patents for the aggregation of designated States.

Under the EPLA, a system of courts has been constructed to provide "specialized" EPC courts that will be located in most EPC countries, and that will have jurisdiction to decide infringement and validity of European patents. The decisions of these

“special” courts will be adjudicated at the highest or last instance in what is called the European Patent Court. The decision of the European Patent Court will be binding for all States of the EPC for enforcement of patent rights in the bundled patents established under the EPC.

Thus, the EPLA will establish substantive judicial law where one action for infringement and validity of patent rights of the patent holder may be adjudicated in any State of the region governed by the EPC. This patent for the region of the EPC will provide sufficient connection to the Community Patent of the European Union (EU) notwithstanding a major difference in that the community patent is valid in all countries of the EU whereas the patent of the region of the EPC is valid only in the selected countries. Another noteworthy difference is that the community patent requires the patent to be translated into all languages of the countries of the EU whereas the patent of the region of the EPC only requires translation of the patent into the language of each selected country.

Therefore, the goal of the harmonization of enforcement of patent rights internationally should be to establish a uniform set of standards expanded from the EPLA that would be applicable to both national and regional laws and practice (i.e. the regional EPC and the national USPTO and the JPO laws and practice). These common standards of enforcement should also be applicable to the international framework under the PCT.

The first issue, and essentially the most relevant to the analysis, is whether a court can assert jurisdiction over a foreign patent. This issue has gained some review in at least two cases.

In one case, the plaintiff sued in US court for infringement of US and Japanese patents.³ The issue brought by the Court of Appeals of the Federal Circuit (CAFC) was whether a US court should have jurisdiction over a foreign case on infringement of a foreign patent, or rather whether a US Court can adjudicate infringement of a Japanese patent.⁴ Although not stated clearly in this case, it is a matter of course that a patent holder cannot sue on foreign patents in the US regardless of whether this case explicitly says that the patent holder cannot do so. Thus, it remains an open issue as to whether a court can assert jurisdiction over a foreign patent.

A more recent case was a situation where a plaintiff sued a defendant for infringement of three US patents.⁵ Similar to the previous case, the issue here was whether the district court had supplemental subject matter jurisdiction over the plaintiffs five foreign patents.⁶ The difference here is that the district court allowed the plaintiff to amend the complaint to include infringement of Canadian and European patents, in addition to US patents, where all patents originated from same Patent Cooperation Treaty (PCT) application.⁷ The CAFC granted interlocutory appeal to the defendant for this case, which was argued in March 2005 and dismissed.⁸

3 Mars Inc. v. Kabushiki-Kaisha Nippon Conlux, 24 F.3d 1368, 1370 (CAFC 1994).

4 24 F.3d at 1371.

5 Voda v. Cordis Corp., 122 Fed. Appx. 515, 515 (CAFC 2005).

6 *Id.*

7 *Id.*

8 Voda v. Cordis Corp., 122 Fed. Appx. 287, 287 (CAFC 2005).

Because this case will be decided in the future under principles of US law only and because this case does not implicate the laws of any other state internationally, the resulting decision will likely have little impact on a courts jurisdiction over a foreign patent. Thus, it still remains an open issue in the US, further enhanced by the lack of precedence inherent in this case, as to whether a court can assert jurisdiction over a foreign patent.

In order to resolve the ultimate question posed, this project will determine whether the EPLA provision of jurisdiction to the "specialized" courts and the European Patent Court to adjudicate infringement and validity of patents generated by the EPC may be extended to provide similar jurisdiction for multinational enforcement of patent rights in the US, States of Europe under the EPC and Japan. Where there may be substantial conflicts with the current patent enforcement laws of the countries, those conflicts must be described. Furthermore, recommendations will be made as to how to bridge the gap to arrive at appropriate substantive standards for multinational patent litigation.

A different issue is whether it is feasible to have one action of infringement or validity of patents granted in different countries enforced in one court of justice. It is well known that patent rights are territorial in relation to the prosecution of a patent; however, once a patent is granted, territoriality of the patent would play a great affect on whether one court may enforce a patent judgment of infringement or validity.

For example, in one case, a declaratory judgment action for no infringement of a US patent and against injunction was brought in a Tokyo District Court.⁹ The Tokyo District Court found that it had jurisdiction and used the 2002 Supreme Court case, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, under US law to find no infringement.¹⁰ The court also found that any invalidity or infringement decision would be binding on the parties only and not third parties, but found that any injunction order should be enforced by a US court.¹¹ Although it appears here that territorialism is not an issue for patent litigation, it is sufficient to say that patents remain territorial and that the principle of the litigation of patents is one patent per country and one court per patent. Moreover, under the law of the EPC, the European Court of Justice (ECJ) has stated that no single foreign court has jurisdiction over litigation at any point at which an assumption of patent validity is raised. Therefore, the fact that national courts of foreign countries under the EPC have exclusive jurisdiction over issues of validity of intellectual property (IP) rights opposes the finding of the Japanese court and supports territorialism as a barrier to patent litigation.

In an English case specifically related to one action, one court for infringement or validity of patents granted in different countries, a plaintiff petitioned in an English Patents Court to revoke a UK patent owned by a defendant.¹² The court found that Article 16(4) EPC governed in that the dispute over the UK patent fell within the

9 K.K. Coral v. Marine Bio., (Tokyo Dist. Ct. 2003)

10 *Id.*

11 *Id.*

12 Dinwoodie, et al., *International and Comparative Patent Law*, at 793.

exclusive jurisdiction of the UK Patents Court.¹³ The court also found that there was no jurisdiction to grant provisional relief of injunction under Article 24 EPC to restrain infringement within the UK as additional relief to the claim for full relief being adjudicated in the Dutch proceedings.¹⁴ Hence, this case also affirms that there are barriers to one action in one court, at least in Europe, as it relates to multinational enforcement of patent rights.

To answer the decisive question, this project shall utilize the EPLA enforcement provisions as a vehicle to expand the EPLA proposed final decision of the highest or last instance in one court to multinational enforcement of patent rights in the US, States of Europe under the EPC and Japan. Further to the decisive question, this project, in providing a path to adjudication of one action in one court on a multinational scale, may consider the effect of comity on extension of the EPLA to multinational enforcement of patent rights. Comity would allow judgments from a foreign court to be recognized in a different country. In addition, comity would not be an absolute obligation, but would also not be mere courtesy and good will. Comity would provide the same recognition that one nation allows within its territory to be "transported" to the acts of another nation.

Another issue deals with whether the substantive requirements for patentability are similar in all countries, particularly in the US, States of Europe under the EPC and Japan, such that enforcement of patent rights internationally is served. The substantive requirements for patentability may also be affected, minimally or sub-

stantially, by whether the breadth of differences in language can or should be minimized or reduced. Differences in breadth should not be substantial so as to create differences in litigation.

Although there is substantial case law and many opinions regarding the set of necessary substantive requirements for patentability, the substantive requirements that are continuously of concern are Usefulness/Industrial Applicability, Novelty, Non-obviousness/Inventive Step, First to File and Grace Period. Further, the EPC defines substantive requirements of patentability for Member States within its region. As a complement to the EPC, the EPLA will define the enforcement of patent rights of the patent holder for patents in the region.

To the goal of enforcement of patent rights for bundled patents in each State of the EPC, it is important that the EPC patentability requirements define a patent of the region that is the same patent for the purposes of having the same defendant, the same plaintiff and the same subject matter. Consequently, these common patentability requirements of the EPC will allow the EPLA to provide a "transporter" decision of the highest or last instance regarding litigation for a patent of the region in an infringement or validity case.

When questioning what role language plays in the background of substantive requirements for patentability, the critical question is how far the court should stretch the claim beyond its literal meaning in the interest of fairness to the patentee. Therefore, the question whether countries must live with potential differ-

¹³ *Id* at 799.

¹⁴ *Id* at 798.

ences in litigation based on possible differences in breadth of the language terms should be considered with regard to substantive patentability requirements.

In order to decide the major question, this project shall also propose substantive requirements, in particular, Usefulness/Industrial Applicability, Novelty, Non-obviousness/Inventive Step, First to File and Grace Period. These substantive requirements shall be expanded from the EPC to multinational substantive patentability requirements in support of multinational or multi-jurisdictional enforcement of patent rights in the US, States of Europe under the EPC and Japan. Also within the scope of this project, it should be assessed with regard to the substantive requirements for patentability, where possible, whether litigation differences will be minor or not as a result of differences in the breadth of language terms.

In conclusion, this project will answer the farther issue of whether or not the right holder has the ability to adjudicate their patent rights in foreign patents in any country other than the country where the patent rights were granted. Multinational patent litigation will be addressed on a smaller scale using more developed countries such as the US, the States of Europe under the EPC and Japan as a test bed to determine the feasibility and scope of litigation on a multinational scale. The three issues discussed will be explored. Formalization or development of guidelines, where possible, that may be an effective starting point toward harmonization of the laws of the prescribed country's to achieve

multinational enforcement of patent rights will be generated.

II. State of the Art (Stand der Wissenschaft)

The state of the art with regard to multinational enforcement of patent rights exists currently as national enforcement of patent rights under international law such as the TRIPS Agreement. The important feature of the TRIPS Agreement is that it provides equally, enforcement provisions of IP rights and substantive standards to be provide for the protection of those rights.¹⁵ The TRIPS Agreement provides enforcement of each states international obligations by making compliance potentially subject to the World Trade Organization (WTO) Dispute Settlement procedures.¹⁶ The TRIPS Agreement also provides substantive provisions that delineate the standards to which procedures for private enforcement of domestic IP rights would be measured in Part III of TRIPS concerning procedures and remedies to be provided at the national level for enforcement of IP rights.¹⁷

The disadvantage of national enforcement of patent rights under international law is that states within regions like the EU have their own national laws and also abide by the laws under the EPC as described above. These laws of the EPC limit the multinational enforcement of patent rights to litigation in the courts of each state. Thus, as described above, if multinational patent litigation requires jurisdiction to adjudicate patents in all countries, one

¹⁵ *Id* at 756.

¹⁶ *Id* at 756.

¹⁷ *Id* at 756.

action for infringement or validity in one court and substantive requirements for patentability, then the goal of enforcement of patent rights on a multinational scale has been impeded. Alternatively, an advantage of national enforcement of patent rights under international law is that this approach provides minimum standards under international law that may be a starting point for incorporation into a common multinational enforcement system expanded from the EPLA.

III. Explanation Why Project Deserves Support (Förderungswürdigkeit)

A particular need for understanding better the effect of multinational enforcement of patent rights evolves from the current concerns surrounding IP rights enforcement in Europe and in the US. Currently at Max Planck, a Ph.D. dissertation by K. Janušauskait is focused on creating an ef-

fective IP rights enforcement model in Europe. This Ph.D. thesis discusses the challenges faced by the Baltic countries during the implementation of the EU Enforcement Directive in those countries. Because there is evidence of the need for an IP rights enforcement model in Europe, it is believed that, although the ultimate pursuit of a multinational IP enforcement model is most likely distant, the benefit of recommending interim common standards that may become a starting point for the implementation of substantive law for multinational enforcement of patent rights is substantial. In addition, it would be of benefit to determine the legitimacy of expanding standards of the EPLA, which is under approval, as a method of obtaining compliance with newly developed enforcement provisions based on multinational enforcement of patent rights. It is also beneficial to determine the state of feasibility of a multinational patent litigation system and the scope of such a system internationally.

IV. Further People Involved (Weitere Involviert Personen)

To be determined

V. Key Words and Systematic Outline (Thematische Stichworte und Einordnung in Systematische Gliederung)

1. Immaterialgüterrecht übergreifend

Intellectual property law - general

a. Schranken der Immaterialgüterrechte

Restraints regarding intellectual property rights

b. Internationales Immaterialgüterrecht

International intellectual property law

2. *Technologierecht*

Technology law

a. Allgemeines Patentrecht

General questions concerning patent law

aa. Gegenstand des Patentschutzes/ Patentfähigkeit

Subject matter of patent protection/ patentability

bb. Entstehung/Inhalt/Ende des Patentschutzes

Acquisition/scope and content/ termination of rights

b. Sonstige technologierechtliche Fragen

Further questions concerning law on technology

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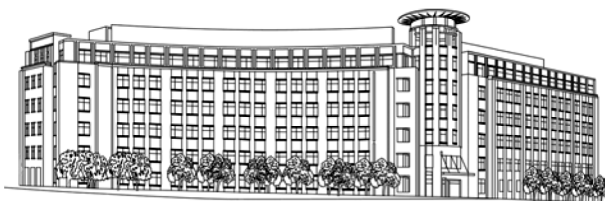
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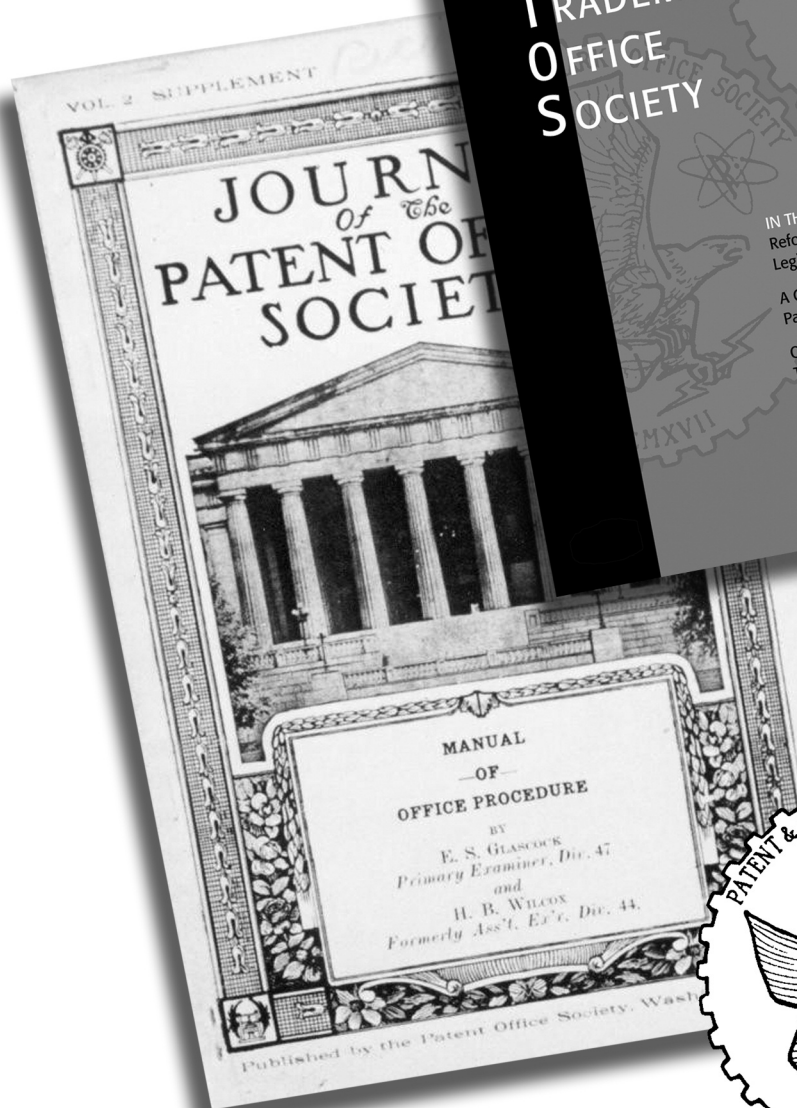
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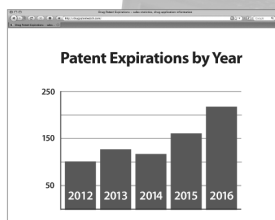
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