



## **FESTO – WHO DECIDES PROSECUTION HISTORY ESTOPPEL?**


On February 6, 2003, the Federal Circuit heard yet another oral argument in the ongoing case of *Festo Corp. v. SMC*. Every judge in the court was present. Their private goal, as humorously articulated by Judge Michel, is to decide the *Festo* case once and for all, so the Federal Circuit never sees it again. Their public and official goal, on the other hand, is to clarify certain thorny aspects of prosecution history estoppel, particularly where it overlaps the doctrine of equivalents.

The crux of the *Festo* matter concerns some amendments that the inventor made to his patent application. Originally, the inventor had not claimed sealing rings as part of his invention. When SMC was sued for infringement, it complained that because the inventor had added the sealing rings in an amendment, *Festo* should be limited to the literal scope of that language.

The U.S. Supreme Court partially agreed with SMC. The Court first said that prosecution history estoppel automatically applies whenever a narrowing amendment is made to secure a patent. However, the Court also explained that prosecution history estoppel may not be an absolute bar. Although it will be presumed that the inventor surrendered the equivalent in question, he can overcome the presumption if he can show either: (1) the amendment was not made to secure the patent, but was made for other reasons unrelated to patentability (the old *Warner-Jenkinson* test); or (2) at the time the amendment was made, the inventor could not reasonably have been expected to surrender the equivalent that the inventor now says infringes (the new *Festo* test).

Faced with implementing the Supreme Court's holding, the Federal Circuit realized that it must answer several important procedural questions: (1) as between the judge and the jury, who should decide whether the inventor has supplied the necessary proof to overcome the presumption that prosecution history estoppel should apply; (2) what level of deference should be given to that decision; and (3) what factors are relevant to prove the inventor has overcome the presumption?

The tenor of the questions posed by the Federal Circuit at oral argument suggests that the court may rule that prosecution history estoppel is like inequitable conduct – a mixed question of law and fact that should be decided by a judge. With respect to the level of deference given to a trial judge on appeal, it appears that the court may split the analysis of prosecution history estoppel into two prongs: a factual prong (reviewable for clear error) that covers what one of ordinary skill in the art would know at the time a clarifying amendment is made, and a legal prong (reviewable *de novo*) that covers interpretation of the prosecution file history, related rules and statutes.

If the Federal Circuit follows a suggestion made by counsel for the United States, the court will decide the *Festo* case narrowly. If, on the other hand, the court follows its not-so-secret desire to dispose of *Festo* once and for all, it may remand the case to the district court, along with some guidance concerning how to conduct a factual inquiry in order to minimize the chances that the district court will commit clear error. One thing seems certain, however. We have not heard the last of *Festo*. 

## THE INTERNATIONAL EXHAUSTION DOCTRINE

The doctrine of international exhaustion may be invoked to deprive a patentee or licensor of otherwise legitimate compensation for use of patent rights in a particular country. According to this doctrine once a *bona fide* purchase of the patented goods has been made in one country, the goods can be transported to another country where the patentee has corresponding patent rights and can be sold there with immunity from a patent infringement suit. In other words, the first sale exhausts the licensor's rights in other countries. The European Union ("EU") enforces a similar regional doctrine known as the territorial exhaustion. With some minor exceptions, the Japanese courts apparently have adopted the international exhaustion doctrine to protect gray goods imported into Japan.

Proponents of free trade see the international exhaustion doctrine as a means to curb the over-reach of the patent system thereby promoting competition. Opponents see it as a way to undermine the historical territoriality of patent rights. Under the exhaustion doctrine, parallel imports or gray goods can enter the market and compete with goods produced locally under the protection of a domestic patent. Typically, gray goods are made under a valid license in a first country and are then imported to a second country where the products are covered by a national patent licensed to another licensee.<sup>1</sup> In this manner gray goods are often sold through unauthorized channels in competition with authorized distributors.<sup>2</sup> Parallel imports can offer consumers the benefit of competitive pricing and brand diversity. Because manufacturing costs and other associated expenses can be substantially less in the country of export than in the country of import, entry of gray goods can pose a significant challenge to the patentee's authorized dealers and distribution channels in the import country. In addition to price advantage, gray goods can receive free the benefit from patentee's advertising in the underlying market. In the worst case scenario, gray goods can confuse the consumer and reduce consumer good will if the imported product is not up to the quality standards of the products made in the country of import.


The case law suggests several strategies for drafting contracts, particularly license agreements, to avoid limiting the patentee's future rights. It is important to note that any licensing strategy should be devised in view of the domestic antitrust rules and regulations of each country involved. These domestic rules may dictate a strategy that constrains consideration that the intellectual property owner might otherwise elicit from a licensee.

One possible strategy for protecting the patentee's rights against the international exhaustion doctrine is to use geographical limitations in the relevant contracts with the explicit statement that the license does not extend to resale in other countries. This strategy can be implemented where the underlying jurisdiction recognizes such geographically-limited licenses. Certainly the United States recognizes territorial limitations which makes the avoidance of exhaustion somewhat easier than in other countries. At the time of this writing, the European Union does not recognize territorial restrictions within the community on sale of goods once the goods have been legally purchased via an authorized sale within a member nation.<sup>3</sup> However, it appears the European Union prohibition does not apply to goods that are purchased elsewhere and then imported into the European Community.

In any event, where goods can be easily transported around the world, failure to properly address the doctrine of international exhaustion can result in significant loss of revenues to the patent owner and an undermining of its relationship with other licensees.

<sup>1</sup> See Tait R. Swanson, *Combating Gray Market Goods in a Global Market: Comparative Analysis of Intellectual Property Laws and Recommended Strategies*, 22 HOUS. J. INT'L L. 327, 328 (2000).

<sup>2</sup> Gray goods are distinguished from the so-called black goods since the latter refers to goods and products made illegally.

<sup>3</sup> The European Union is unique in this regard since the Union was formed with the goal of having a single market. For this reason, an authorized first sale within the EU creates community exhaustion precluding almost any limitation on the future transferability of the goods. 

## SPEAKING ENGAGEMENTS

- Patrick J. Birde, Estelle J. Tsevdos and Deborah A. Somerville spoke on a panel “Emerging Strategies in Biotech” at NYBA’s Annual Meeting, February 4.
- Deborah A. Somerville and Charles A. Weiss spoke on a panel “The Biotech Patent: To License or Litigate” at the BIO CEO and Investor Conference, February 27.
- Edward T. Colbert spoke on a panel at INTA’s Trademark Dilution Forum, March 7.
- Steven J. Lee spoke on “Orange Book Listings: Implications, Litigation and Strategies for Brand- Names and Generics” at the American Conference Institute program “Legal Strategies for Maximizing Pharmaceutical Patent Life Cycles,” March 31 and April 1.
- Robert L. Hails spoke at that 18th Annual ABA Symposium in IP Law in Washington, DC on April 3-4.
- Charles A. Weiss spoke at ACI’s Advanced Forum in New York on Biotech Patents and Section 112 Issues on April 7-8.

## RECENT ARTICLES

- *Personalized Medicine on the Horizon* by Brian S. Mudge, David R. Schaffer and Adam M. Treiber was published in the **New York Law Journal** on February 3, 2003.
- *A New Cause of Action to Attack Patents* by William K. Wells was published in English and Japanese in the March issue of **International Legal Strategy**.
- *The Attorney Client Privilege and Foreign Associates or Patent Agents* by Patrick J. Birde and Kathlyn Card-Beckles was published in the April issue of **Patent World**.
- *Anticybersquatting Computer Protection Act* by Howard J. Shire and Domingo Alonso was published in the April issue of **World Trademark Law Report**.

## RECENT VICTORIES

- ***Applera Corp. v. Micromass UK, Ltd.***, No. 02-1434, -1459 (Fed. Cir. March 11, 2003) (court affirmed district court judgment holding client’s patent in suit valid and infringed, awarding damages of \$52.6M and enjoining the sale or importation into the U.S. of Micromass Quattro Ultima’ mass spectrometer systems) (Walter E. Hanley, Jr., James Galbraith, Lewis V. Popovski, Jeffrey S. Ginsberg, Mark A. Chapman and Huiya Wu)

- ***Rose Art Industries, Inc. v. Creative Platypus Limited***, 02-CV-6260 (D.OR., 2003) (motion for preliminary injunction granted to enjoin the defendant from further production, marketing, and sale of flocked poster designs in packaging that was designed to be, and is, confusingly similar to plaintiffs’ packaging, in violation of plaintiffs’ trade dress rights) (Stuart J. Sinder, Douglas E. Ringel, Fred T. Grasso and Susan A. Smith)

- ***Michael Tracy v. The Coca-Cola Company, Pow Wow Productions, Charlie Ahearn and Burrell Communications Group***, (N.Y. Supreme Court, Bronx 2002) (summary judgment dismissing plaintiff’s complaint for unfair competition and related state law claims granted in its entirety)(Appellate Division, First Department 2003)(decision unanimously upheld) (James E. Rosini and Michelle Mancino Marsh).

- ***Moba, B.V. et al. v. Diamond Automation, Inc.***, No. 01-1063, -1083 (Fed. Cir. April 1, 2003) (reversing a jury of non-infringement with respect to a patent related to egg processing machinery, affirming the jury finding of validity, and remanding for a determination of damages) (Albert J. Breneisen, John W. Bateman and Sheila Mortazavi)

- ***Bio-Technology General Corp. v. Duramed Pharmaceuticals, Inc.***, No. 02-1195 (Fed. Cir. April 1, 2003) (reversing summary judgement of noninfringement of method and product claims to oral contraceptives) (Charles A. Weiss, Richard L. DeLucia, A. Antony Pfeffer, Huiya Wu and Domingo A. Alonso)

- ***Building Materials Corp. of Am. d/b/a GAF Materials Corp. v. CertainTeed Corp. and Air Vent, Inc.***, 99 CIV 1806 (D.N.J., Apr. 1, 2003) (Kenyon protected its client’s market position by prevailing on a motion to bar the defendants from making claims that were disparaging of our client’s product) (John Flock, Mark A. Hannemann and Katrina D. Rainey)



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## FTDA UNAMBIGUOUSLY REQUIRES AN ACTUAL HARM

*MOSELEY ET AL., D/B/A VICTOR'S LITTLE SECRET V. V. SECRET CATALOGUE INC., ET AL.,*  
NO. 01-1015 (DECIDED MAR. 4, 2003)

Victoria's Secret lost a Supreme Court case that would have forced a sex-toy shop to change its name. The Court heard oral argument last November concerning the Federal Trademark Dilution Act of 1995 ("FTDA") and its application to the "Victoria's Secret" trademark. 15 U.S.C. §1125(c)(1). Finding no proof that Victor's Little Secret, a small sex toy shop run by a man named Victor Moseley and his wife, that was initially named Victor's Secret, harmed Victoria's Secret's famous trademark, the Court unanimously vacated a summary judgment in favor of Victoria's Secret. Resolving a split among the circuits, the Supreme Court ruled that the FTDA unambiguously requires an actual harm - some proof that there has been an actual dilution of the distinctiveness of the plaintiff's famous mark.

In essence, the Supreme Court's decision has tilted the playing field in the dilution litigation arena in favor of defendants. It is no longer enough for an owner of a famous trademark to prove that its mark is famous and that use of the defendant's mark causes a mental association with the famous mark. Only when a plaintiff can demonstrate evidence of actual harm to support its accusations will a defendant be forced to cease and desist such use.

The full decision is available at <http://www.supremecourtus.gov/opinions/02pdf/01-1015.pdf>. 

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