INSIDE: Federal Circuit Mediation · Conflicts of Interest in IP · An IP/Bankruptcy Primer

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INTELLECTUAL PROPERTY LAW

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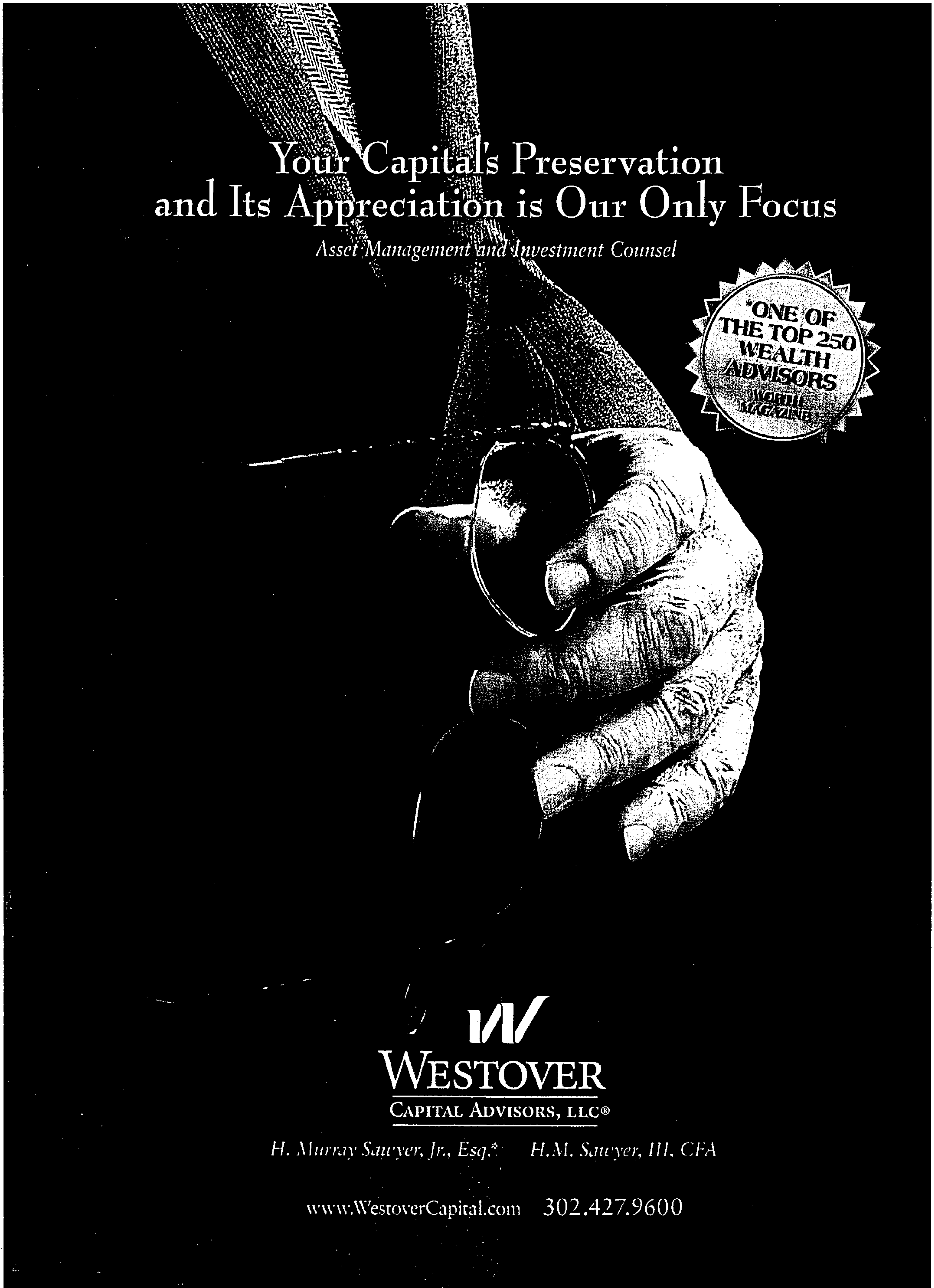
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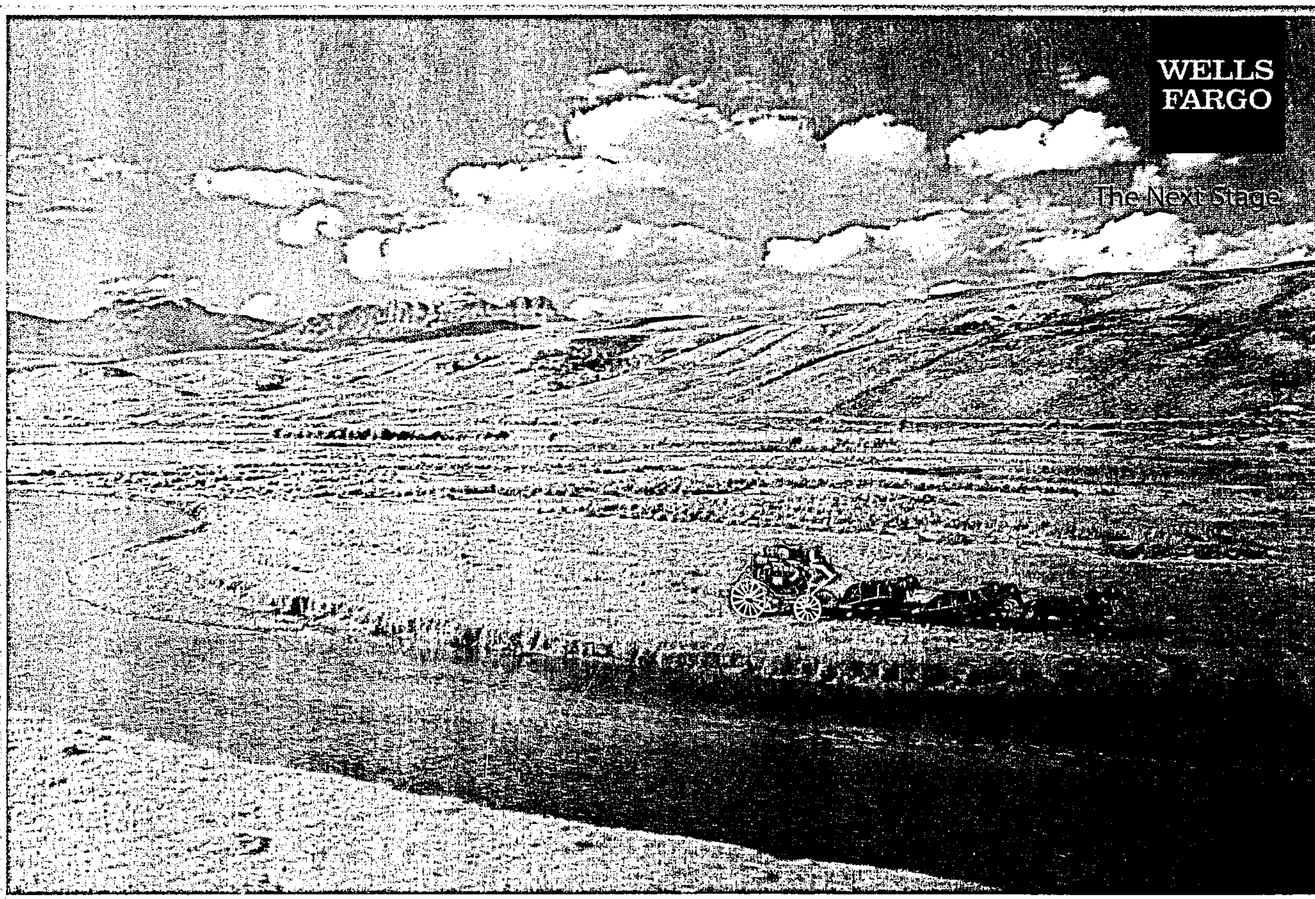

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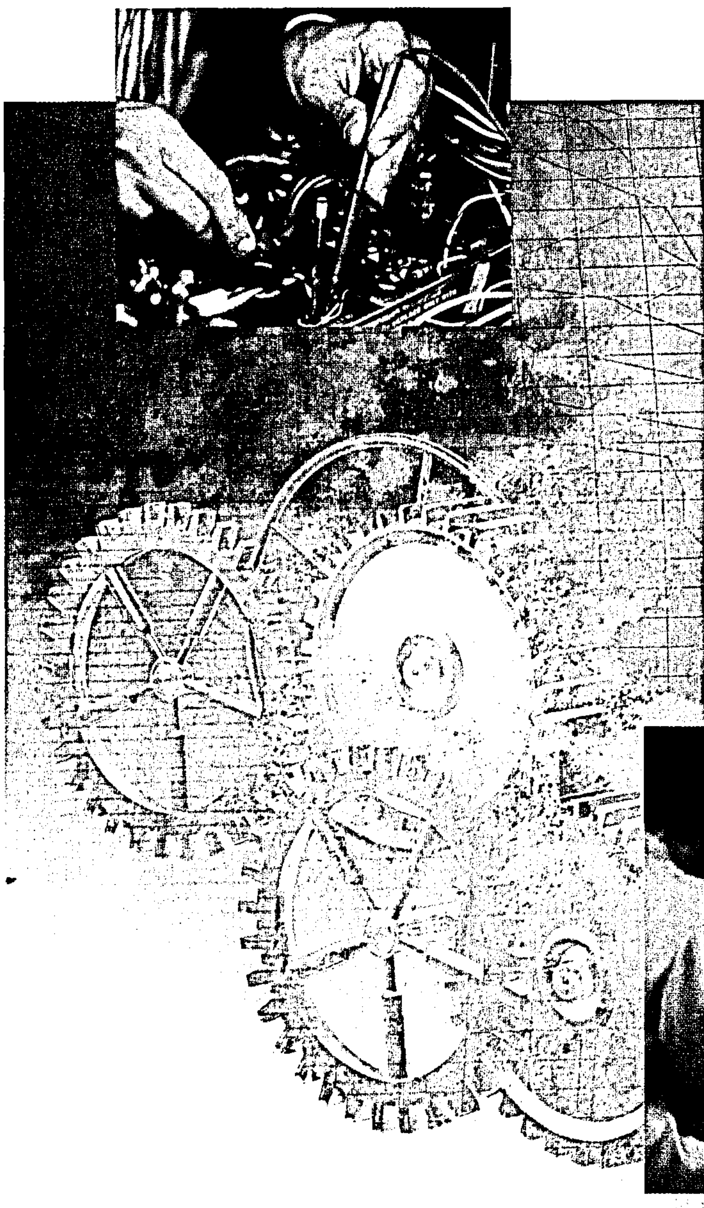

Karen L. Pascale

Harnessing the economic power of creativity – isn't that what intellectual property law is really about? There are significant financial rewards to be reaped from the exclusivity enjoyed by the holders of patents, trademarks, trade secrets, and copyrights. All of the statutes, regulations, PTO actions, jury verdicts, and court rulings that we think of as "intellectual property law"– aren't they just a reflection of our society's effort to ensure that those rewards are not gained unfairly or at the cost of stifling innovation and competition?

But the rules of the IP game are imperfect and always shifting. Powerful industries and interest groups are always lobbying vigorously for the rules that could tilt the playing field in their favor. Thus, one must cast an especially critical eye on the ongoing debates about intellectual property law (including the fate of copyrighted material in the age of digital media, and the many proposals being discussed under the umbrella of "patent reform").

While we wait to see what the next Congress might or might not accomplish on the "patent reform" front, and who President Obama will tap to head the PTO, Delaware hums along as a strong locus for IP litigation. According to Dr. Peter T. Dalleo, Clerk of the United States District Court for the District of Delaware, this district has the highest number of patent cases per authorized judgeship in the country – and that is based on four authorized judges, rather than the three judges we actually have as of early 2009! In short, it is clear that Delaware remains "An Ideal Venue for Patent Litigators." *See* DELAWARE LAWYER, Vol. 18, No. 4 (Winter 2000/2001) (available at delawarebarfoundation.org/delawyer).

Although it has been eight years since we've focused an issue on Intellectual Property, I think it was worth the wait. Greg Werkheiser navigates us through the dangerous intersection of intellectual property and bankruptcy law. Professor David Hricik's thought-provoking article reminds us that there are few "bright lines" when it comes to the many forms of potential conflicts of interest in patent litigation. Christina Hillson and Jennifer Fraser offer an excellent analysis of a hot-button issue: the prospect of trademark owners losing valuable registration rights based upon honest mistakes in their applications. And finally, Kevin Casey explores the successes and challenges of the Federal Circuit's fledgling IP mediation program. Many thanks to these fine contributors for offering us such a varied and informative slate of articles.

Karen L. Pascale

Karen L. Pascale

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The Delaware Bar Foundation is a 501(c)(3) charitable organization and all contributions are tax deductible within the limits of the law.

Kevin R. Casey

is a partner in Stradley Ronon Stevens & Young LLP and chair of the firm's Intellectual Property (IP) Practice Group. Mr. Casey has counseled clients for more than 20 years in all aspects of the intellectual property field, encompassing patent, trademark, copyright, trade secret and related matters. He has acted as lead litigation counsel and participated as assistant counsel in more than 50 IP cases. Mr. Casey also has an active appellate practice before the U.S. Court of Appeals for the Federal Circuit, applying his experience as a judicial clerk to the Hon. Helen W. Nies, former Chief Judge on the Federal Circuit. He has supported patent procurement, including U.S. and international patent application preparation and prosecution. Mr. Casey has provided IP legal opinions, and also has extensive experience negotiating and completing IP licenses. He has authored numerous papers on IP issues, and has been an adjunct professor at Temple University Beasley School of Law since 1995. Mr. Casey is ranked as one of the leading IP attorneys in Pennsylvania by "America's Leading Lawyers for Business, The Client's Guide," and was recommended as a leader in intellectual property in Pennsylvania in the 2008 and 2009 editions of *Chambers USA: America's Leading Lawyers for Business.* In addition, he has been consistently named a Pennsylvania Super Lawyer® by a vote of his peers, and was included in the 2009, 2008 and 2007 editions of *The Best Lawyers in America.*

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David Hricik

is a Professor of Law at Mercer University School of Law in Macon, Georgia. He is a past chair of the Ethics & Professionalism Committee of the American Intellectual Property Law Association, and teaches both patent law and legal ethics. In private practice for 14 years with the Houston law firms of Baker Botts LLP, Slusser & Frost LLP and Yetter & Warden LLP, he focused on complex civil litigation, patent litigation, malpractice defense and ethics consulting. A frequent speaker on issues related to legal ethics, professionalism and intellectual property, Professor Hricik also has written numerous books and articles, including *Ethical Issues in Patent Practice* and *Ethical Issues in Patent Litigation* (both Oxford University Press 2008); *The Ethical Responsibilities and Liability Risks Arising From Representing a Single Client in Multiple Patent-Related Representations: How Things Snowball,* 18 GEO. J. LEGAL ETHICS 421 (Spring 2005); *Trouble Waiting to Happen: Malpractice and Ethical Issues in Patent Prosecution,* 31 AM. INTELL. PROP. L. Q.J. 387 (2003); and *Wrong About Everything: Application by the District Courts of Federal Rule of Civil Procedure 9(b) to Inequitable Conduct,* 86 MARQUETTE L. REV. 895 (2003).

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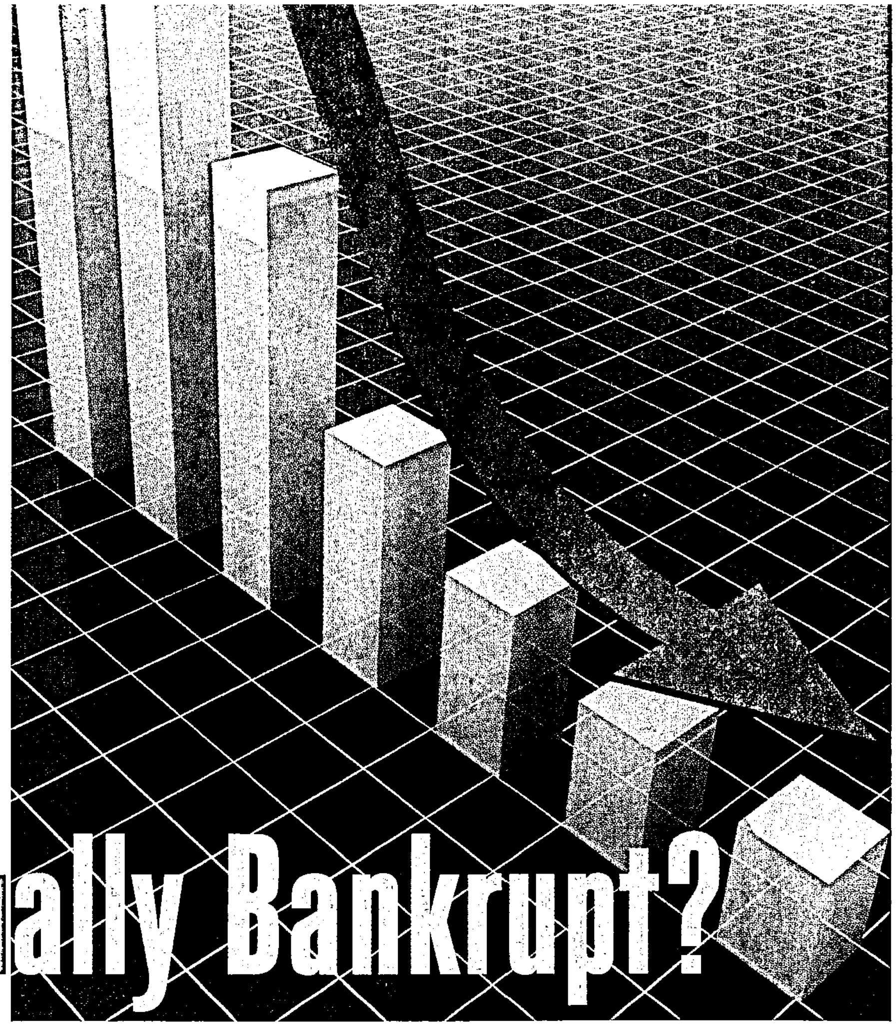
Gregory W. Werkheiser

is a partner with the Business Reorganization and Restructuring Group at Morris, Nichols, Arsht & Tunnel, LLP. He has substantial experience representing debtors and creditors in bankruptcy cases and out-of-court restructurings. His practice focuses on Chapter 11 business restructuring, advising fiduciaries and managers for distressed enterprises, bankruptcy acquisitions and transactions, committee representations, debtor-in-possession (DIP) financing, representation of secured and unsecured lenders to bankrupt or distressed companies and bankruptcy-related litigation. Mr. Werkheiser has appeared on behalf of clients in federal courts throughout the United States on a range bankruptcy issues.

FEATURE

Gregory W. Werkheiser



Intellectually Bankrupt?

Five pitfalls to avoid when it comes to the treatment of intellectual property interests in bankruptcy proceedings.

If you spend any amount of time with a group of bankruptcy lawyers, not only might you develop a somewhat skewed perspective of the world, but sooner or later someone will announce that bankruptcy lawyers are among the last "true generalists" in private practice. By this statement, they mean that bankruptcy lawyers, especially those that routinely represent companies in bankruptcy reorganization cases, need to know a lot about bankruptcy law and at least something about numerous other areas of the law.

In short, a bankruptcy lawyer needs to know enough about areas outside her chosen field to appreciate when to pick up the telephone and call one of her colleagues for assistance on a particular matter within a larger bankruptcy case.

The converse proposition, however, also holds true. Those that practice in other areas of the law, even ones seemingly remote from the bankruptcy world, need to know enough about what some might perceive as the arcane field of bankruptcy law to appreciate how the bankruptcy overlay may affect their clients' rights and obligations.

Ask pretty much any bankruptcy lawyer, and she is apt to launch into an account about how her corporate litigation, tax, insurance or [insert practice area name] colleagues got themselves into a boatload of trouble that could have been avoided had they just picked up the telephone and sought her advice at the first hint that the client or the other party might be experiencing some financial distress.

Perhaps nowhere does this scenario

play out more prominently than in the troublesome region where intellectual property law and bankruptcy law intersect. Pitfalls abound in the Bankruptcy Code for the unwary. The bulletproof intellectual property license that you thought you had negotiated is vitiated by the operation of certain provisions of the Bankruptcy Code after your licensee files for bankruptcy — or is it? The "bet the company" patent infringement litigation that was about to go to trial against the defendant which just filed for bankruptcy and its non-debtor subsidiary is enjoined by the automatic stay — or is it? Your right to continue using the trademark you licensed from your franchisor that just filed for bankruptcy is protected by the Bankruptcy Code — or is it?

These are but a few occasions of interactions between intellectual property law and the Bankruptcy Code that tend to produce results that one might not be able to intuit without developing some eye for how the Bankruptcy Code treats intellectual property interests.

The starting point for understanding the interplay between intellectual property and bankruptcy law is to realize that these two fields attempt to further some very different and often conflicting interests. For instance, one of the principal goals of patent law is to promote invention by recognizing and protecting property interests in technological developments, which is accomplished, in part, by allowing patentees to exclude others from making use of their proprietary technology.

The principal goals of the Bankruptcy Code include promoting reorganization and maximizing value for creditors, which are accomplished, in part, by removing restrictions that impede the free transferability of property. It is largely as a result of the Bankruptcy Code's attempts to reconcile these potentially conflicting policy goals that many of the pitfalls involving the treatment of intellectual property in a bankruptcy setting arise.

While a comprehensive cataloguing of every possible interaction between fields of intellectual property and bankruptcy law is beyond the scope of this modest article, I will attempt to identify some of those issues that have proven time and again to be the most irksome.

Pitfall #1: *Not understanding the rather peculiar way the Bankruptcy Code determines which intellectual property licenses can and cannot be assumed, or assumed and assigned, by a debtor or trustee.*

Consistent with the Bankruptcy Code's overall policy goals of promoting reorganizations and maximizing value, it generally favors the free assignability of prepetition contracts, and section 365 of the Bankruptcy Code gives a trustee or debtor the authority to assume, or assume and assign, most executory contracts.

The Bankruptcy Code, however, also attempts to do as little violence as possible to applicable non-bankruptcy law by recognizing that in several areas the assignment of contracts should be prohibited or restricted. The result of these efforts is reflected in sections 365(c) and 365(f) of the Bankruptcy Code, two seemingly contradictory provisions that have befuddled and continue to befuddle litigants and courts. *See* 11 U.S.C. § 365(c) & (f).

The application of these provisions to intellectual property licenses has proven particularly challenging. The threshold inquiry is whether the agreement really is an executory contract (*i.e.*, a contract on which performance remains due to some extent on both sides), or something else, such as a sale.

Frequently, although not always, courts make this distinction on the basis of whether the license is non-exclusive (*i.e.*, merely grants the licensee permission to use certain intellectual property) or exclusive (*i.e.*, transfers to the licensee (and divests the licensor of) some significant portion of the ownership rights associated with the intellectual property).

If the license agreement is determined to be executory, then the question under section 365(c) is whether "applicable law" would excuse the non-debtor party from accepting performance from or rendering performance to a party other than the debtor. The term "applicable law" in the context of intellectual property licenses generally refers to patent law, copyright law or trademark law. As a general proposition, patent law and copyright law have been held to make non-exclusive licenses nonassignable without the consent of the licensor.

In contrast, the rights of a trademark holder to control the use of its mark may be more limited, which creates more uncertainty about whether section 365(c) would necessarily excuse a trademark holder from accepting performance from or rendering performance to a party other than the debtor per the license's terms.

Another peculiar aspect of the way the Bankruptcy Code treats licenses of intellectual property to debtors is in the manner in which sections 365(c) and 365(f) are applied to affect the ability of a debtor in possession (*i.e.*, a debtor in a chapter 11 reorganization case in which no separate trustee has been appointed) to assume a license even when assignment is not contemplated (*i.e.*, where the debtor seeks only to exit bankruptcy with the rights and obligations under the license intact, but not to transfer it to a third party). In this situation, whether or not the debtor will be stripped of the opportunity to assume a license without the non-debtor party's consent may depend on the venue in which the debtor's bankruptcy case was commenced.

Several circuits, including the Third Circuit, follow the so-called "hypothetical" approach, which they conclude is mandated by the specific language of section 365, and do not permit a debtor's assumption of a license if "applicable law" would not allow its assignment to a third party. Other circuits follow the so-called "actual" approach (or variants thereof), pursuant to which they reject the notion that the debtor in possession should be presumed to be an entity distinct from the pre-petition debtor and typically allow assumption to occur, even when applicable law would restrict assignment to a third party.

Thus, although all courts are interpreting the same language, there is no broad consensus among federal courts about the manner in which these provisions are to be applied.

Furthermore, even the few broad generalizations that can be made about the treatment of intellectual property licensed to a debtor can break down when applied to the facts of a given case. In most instances, it will be necessary to examine the nature of the intellectual property rights at issue and the terms of the license before any reliable conclusion can be reached about the license's transferability without the express consent of the licensor.

As a practical matter, this means that care must be taken by intellectual property holders long before the advent of the bankruptcy to structure a license in such a way to maximize the likelihood that its restrictions on assignability will be enforced within a bankruptcy proceeding.

Pitfall #2: ***Being unfamiliar with the reach of the automatic stay that comes into effect when a debtor files a bankruptcy petition.***

Pursuant to section 362(a), upon the filing of a bankruptcy petition, an injunction automatically comes into effect against certain actions, including

> (1) the commencement or continuation . . . of [an] action or proceeding against the debtor that was or could have been commenced before the commencement of the [bankruptcy] case . . . , or to recover a claim against the debtor that arose before the commencement of the [bankruptcy] case . . . ; (2) the enforcement, against the debtor or property of the estate, of a judgment obtained before the commencement of the [bankruptcy] case . . . ; (3) any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate; [and] (6) any act to collect, assess, or recover a claim against the debtor that arose before the commencement of the [bankruptcy] case . . . .

11 U.S.C. § 362(a).

Exactly what this language means for participants in intellectual property litigation is not always clear. The stakes, however, if one is wrong about whether the automatic stay applies may be significant, because actions taken in violation of the automatic stay may be deemed void or voidable and, if done willfully, may result in the imposition of actual and punitive damages. *See* 11 U.S.C. § 362(h).

Even in a simple, bilateral patent infringement suit the question of whether the automatic stay applies is not always clear. For instance, it is not unusual for an accused infringer to file a preemptive suit seeking a declaration of noninfringement and for the defendant in such a suit to counterclaim for damages and injunctive relief. When the plaintiff/counterclaim-defendant in such an action then files for bankruptcy, it can create doubt as to whether and to what extent the automatic stay applies.

Certainly, in such a situation the infringement count brought by the defendant/counterclaim-plaintiff would be stayed, but the impact of the automatic stay on the plaintiff/counterclaim-defendant's request for a declaration of non-infringement is less certain. Generally, actions *by* a debtor are not affected by the automatic stay, but when the nature of that action is essentially a request to determine the nonexistence of a claim against the debtor, there is greater likelihood that the action would not be permitted to proceed, either as a direct application of the automatic stay or for prudential reasons.

The impact of the automatic stay also can be uncertain in situations where elements of the action relate to events that have occurred after the debtor filed a bankruptcy petition. For instance, when a patent has issued *after* a debtor sought bankruptcy petition, it has been held that an action for damages and injunctive relief may be prosecuted against a debtor without first obtaining relief from the automatic stay; however, the execution or attachment of a judgment obtained against a debtor through such an action would be barred, absent relief from the automatic stay.

Further, it has been suggested (on the theory that each act of infringement is an independent tort) that an action may be pursued against a debtor based upon its postpetition infringement even though the infringing acts commenced on a date prior to the bankruptcy filing; however, such an action also could be viewed as one that "could have been commenced before the commencement of the [bankruptcy] case . . ." and, therefore, violative of the stay.

Even more uncertainty creeps in when the question is presented of what effect a debtor-defendant's bankruptcy filing should have on the continuation of infringement litigation against parties who have not themselves sought bankruptcy protection, especially when those parties are closely connected with the debtor. As a general rule, litigation should proceed against non-debtor parties, but courts have found that the automatic stay can be extended to non-debtor defendants (or have otherwise granted injunctive relief) in situations where there exists a substantial identity of interests between the debtor and non-debtor parties, such that a judgment of infringement against the non-filing defendant might operate (either technically or practically) as a judgment against the debtor.

This is but a sampling of the types of issues that arise in the litigation context when an automatic stay comes into effect. There are numerous other permutations on these themes. The lesson to take away from this abbreviated discussion is to stop and fully consider all of the potential implications of the automatic stay when a bankruptcy filing occurs or is contemplated.

Pitfall #3: ***Not appreciating the limited and incomplete nature of the Bankruptcy Code protections available to a debtor's licensees and sublicensees of intellectual property.***

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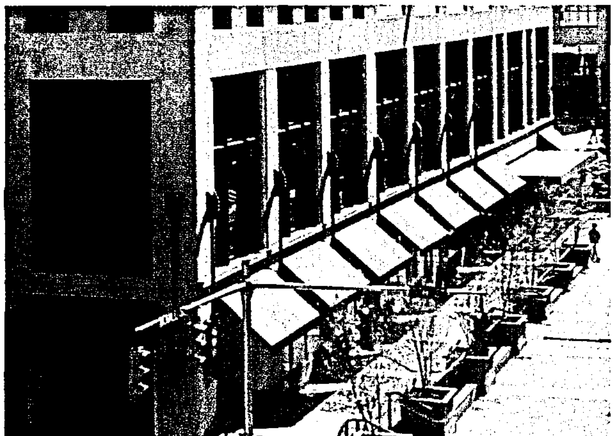

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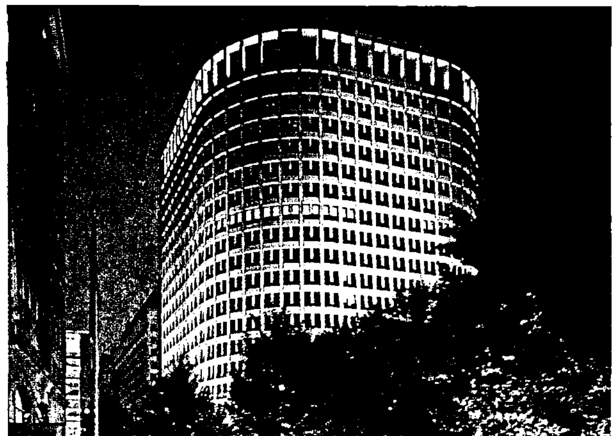

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When originally enacted, section 365 of the Bankruptcy Code allowed a debtor licensor to reject (*i.e.*, breach and cease performing under) an intellectual property license without regard to the potentially disastrous effects of such action on the viability of the business of its non-debtor licensee. Because of the perceived inequity of this result, in 1988, Congress added subsection 365(n) of the Bankruptcy Code in an attempt to provide special protections for non-debtor licensees.

Subsection (n) attempts to mitigate the effects of a debtor licensor's rejection of an intellectual property license by giving the non-debtor licensee the option to either (a) treat the license as terminated or (b) retain its rights to the licensed intellectual property under the license, other than the right to specific performance of any license provision (save for any exclusivity requirement). If the licensee opts to retain the right to use the intellectual property it must make all royalty payments under the license and may not assert against the debtor any setoff rights or administrative claims arising under the license.

Despite this legislative attempt to improve the lot of non-debtor licensees, it would be a mistake to assume that section 365(n) fully insulates them from the adverse consequences of a debtor's rejection. Section 365(n) has significant limitations that make its protections incomplete and may lessen the utility of those protections when available.

A notable limitation is that trademarks fall outside of the Bankruptcy Code's definition of "intellectual property," thereby placing trademark licenses beyond the reach of section 365(n). Thus, for example, the non-debtor franchisee of a debtor franchisor may find itself with no protection against the debtor franchisor's decision to reject its franchise agreement and thereby deny it the right to continue to use the trade name and trade dress.

Another limitation of section 365(n) is its potential inapplicability to sublicensees (as distinguished from licensees). Although there is no definitive guidance available concerning whether section 365(n)'s protections reach sublicensees of intellectual property, an analogous provision that allows a non-debtor tenant to remain in possession of premises after the debtor lessor has rejected its lease has been held not to extend such a right to a sublessee when the debtor is the tenant on a prime lease which is rejected. *See* 11 U.S.C. § 365(h).

An interested party must file an objection by a stated deadline or forever forego the opportunity of challenging what the debtor proposes.

This result suggests that the rights of a sublicensee against the ultimate licensor may be governed exclusively by applicable non-bankruptcy law even when the bankruptcy act of the debtor sublicensor's rejection of the sublicense is the triggering event. If (as is often the case) under applicable non-bankruptcy law the total breach of the prime license would extinguish the sublicensee's right to use the technology, section 365(n) may be of no help to a sublicensee. To take a real world example, sublicensees of a software distributor that files for bankruptcy may well be without any protection under section 365(n) if that software distributor rejects its distribution agreement with the original licensor.

Finally, even when section 365(n) is available, its conditions may not be economically or otherwise viable for non-debtor licensees. Aside from the right to enforce the exclusivity provisions of the license agreement, all that the licensee retains is the bare right to practice the licensed technology subject to the terms of the license. Significantly, there is no ability to obtain specific performance of the licensor's other obligations under the license agreement, such as those related to training and support of the licensed technology. Furthermore, any rights under the license that the licensee might otherwise have had to alterations and improvements to the technology will be no longer recognized.

In short, section 365(n) provides little more than a basic safety net against catastrophic business failure resulting directly from the loss of ability to practice a licensed technology.

Pitfall #4: *Forgetting that bankruptcy cases often operate under the "scream or die" principle.*

The phrase "scream or die" harkens back at least 165 years, as indicated by this early usage in American literature:

> But anything was better than this agony! Anything was more tolerable than this derision! I could bear those hypocritical smiles no longer! **I felt that I must scream or die** – and now – again – hark! louder! louder! louder! LOUDER!
> — Edgar Allan Poe, *The Tell-Tale Heart* (1843) (emphasis added).

In reality, the term "scream or die" as used in the bankruptcy context probably owes less to great literature than it does to the bankruptcy bar's penchant for developing its own colorful lexicon. This phrase describes the concept that an interested party must file an objection by a stated deadline or forever forego the opportunity of challenging what the debtor or trustee proposes to accomplish by the noticed transaction. Thus, a holder of intellectual property that fails to timely object to a bankruptcy transaction involving its property may be precluded from later challenging the transaction by any other means.

Failure to heed the "scream or die" rule can be particularly problematic for intellectual property holders. As a licensor of intellectual property to a debtor, you may be secure in the notion that the license agreement you drafted is immune from being treated as anything other than the personal, non-exclusive and nontransferable license that your client intended it to be.

Likewise, as a patent or copyright licensee of a debtor, you may be equally confident that your basic rights to continue using the licensed technology are protected pursuant to section 365(n) of the Bankruptcy Code even if the debtor attempts to reject your license.

If, however, in either case your assuredness about your position caused you to fail to object to a debtor's attempt to sell the intellectual property free and clear of interests pursuant to section 363(f) of the Bankruptcy Code, you may find that your rights have been adversely affected.

Section 363(f) authorizes the sale of property "free and clear of any interest in such property of an entity other than the estate" in various situations, including when "such entity consents" or "such interest is in bona fide dispute." 11 U.S.C. §§ 363(f)(2) & (4). Pursuant to these provisions, a party that claims an interest in intellectual property — possibly even when the claimed interest is the ownership of the intellectual property — may be at risk of having that interest severed from the intellectual property if the party is put on notice of the debtor or trustee's adverse claim of ownership and intent to sell the intellectual property, but "consents" by failing to interpose a timely objection.

This is particularly so, where the debtor or trustee has made a record that ownership of such intellectual property is in *bona fide* dispute, such as the existence of unresolved litigation over the nature or extent of the asserted interest in the intellectual property. A timely objection to a transaction involving one's intellectual property should resolve any question of "deemed consent" and may go some distance to creating an opportunity for an intellectual property holder to protect its rights, even where ownership of intellectual property is contested by a debtor or trustee.

As for section 365(n)'s protections of licensees from a debtor, while the right to continue using intellectual property pursuant to the terms of the license might seem guaranteed by the express language of the statute, bankruptcy case law has cast doubt on this assumption. At least one Court of Appeals has held, in interpreting an analogous provision of the Bankruptcy Code, that the rights included for contract parties in that provision are not meaningfully different than any other "interest" that a debtor or trustee may sell free and clear of. Once again, however, a timely objection may be the predicate act that prevents a licensee from being stripped of its rights without receiving anything of value.

Pitfall #5: ***Assuming that you will have more than a nanosecond to respond to protect your intellectual property interests in a bankruptcy case.***

Bankruptcy, by its nature, often requires quick action to monetize assets that are deteriorating in value. Businesses in many industries, especially technology driven firms that are dependent upon human capital, often do not fare well in bankruptcy. Key employees leave. Customer relationships sour.

This "melting ice cube" phenomenon means that a company may file for bankruptcy and immediately move for the authority to sell substantially all of its assets through an auction and sale process that could be completed on less than 30 to 45 days notice to creditors and other affected parties. The notice period provided to contract parties, such as those who may have licensed intellectual property to the debtor, is often significantly more compressed. The winning bidder for a debtor's assets may not be identified until after the conclusion of an auction that occurs only well into the sale process. That winning bidder then may have the opportunity to designate which contracts and which assets it wants to take as part of the transaction.

By the time formal notice is given (if it is given) of the intent to transfer certain assets and contracts to the winning bidder, holders of intellectual property interests may be left with no more than a few days to evaluate the bona fides of the potential acquirer and the terms of the proposed transaction, and to act on that information to protect their rights.

While in some cases scenarios like the one above may be contrived to diminish the ability of contract parties to take action to block or increase the cost of a transaction, often it is the unavoidable consequence of attempting to monetize assets in a distressed environment. There is not much for intellectual property holders to do, except to heed warnings like this one to be vigilant about what happens in bankruptcy cases and to be proactive about asserting their rights.

Holders of intellectual property interests need to be aware of the ways the Bankruptcy Code protects — and sometimes fails to protect — their rights. An inherent level of uncertainty necessarily arises from the Bankruptcy Code's imperfect attempt to harmonize the sometimes conflicting goals of intellectual property and bankruptcy law.

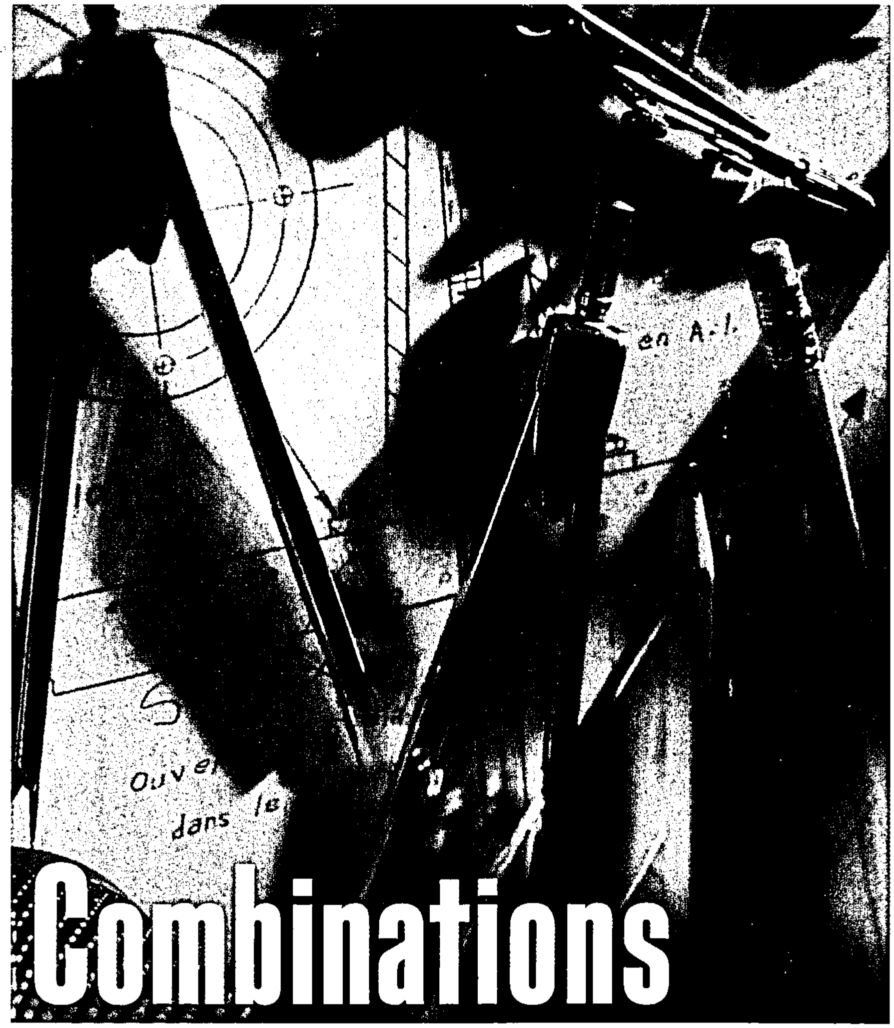
Careful planning for the advent of a bankruptcy and vigilance concerning what may transpire in a bankruptcy case are the twin keys to mitigating such risks and to maximizing the likelihood that intellectual property interests will be recognized and respected in a bankruptcy scenario. ◆

FOOTNOTE

1. The author would like to thank his co-participants on the "Intersection of Bankruptcy and Intellectual Property" panel co-sponsored by the United States Bankruptcy Court for the District of Delaware and the Delaware Chapter of the Federal Bar Association on September 11, 2008, to whom the author is gratefully indebted for their insightful comments that helped inspire this article.

FEATURE

David Hricik



Infinite Combinations

The many forms of conflicts of interest in patent litigation.[1]

Courts generally hold that, absent unusual circumstances, a lawyer may not be adverse to a current client even in an unrelated matter. Generally, too, this obligation is imputed to all lawyers associated with a firm: if one lawyer is representing a company in a matter, no lawyer may be adverse to that client, even in a matter completely unrelated to the representation of the client.

Patent litigation presents a variety of ways for clients to be harmed, even when they are not parties to a suit. For example, suppose a firm represents a patentee against a non-client, but another client of the firm is likely to be sued later for infringing that same patent. While the other client will not be bound by claim preclusion doctrines from contesting any findings made in the first suit, and so as a legal matter is not bound by any findings such as those as to claims scope, for example, as a practical matter one court's interpretation of a patent may have some impact on a later court's views. Is that adverse "enough" to be "adverse?"

This article addresses adversity in the context of current clients and patent litigation. Obviously, representing a patentee against a current client in an infringement suit constitutes an adverse representation. Beyond that, there are less obvious actions that have been held to constitute unethical behavior. Indeed, if the cases are any indication, there are few bright lines and instead infinite combinations of circumstances may lead to a conclusion that a law firm is acting adversely to his current client.

This article addresses circumstances, beyond the obvious "across the v" suit, in which representing a patentee can be an adverse representation. We will see that even suits in which a firm represents a patentee against a non-client can be "adverse" to a non-party client of the firm.

Helping Out Behind the Scenes

A firm that cannot represent a party opposing a current client in litigation also cannot help some other firm to do the same thing, trying to avoid adversity solely by not making an appearance in court.[2] Put the other way, if a firm would be disqualified if it appeared in court, it can't avoid disqualification by simply acting only out of court. In some ways, a firm that tries to help out "behind the scenes" can be portrayed in even a harsher light than a firm that appears in court, since the failure to appear can be characterized as a strategic, cynical decision designed to "hide" the conflict.

In patent litigation, clearly this case means that if a firm is precluded from acting openly in court – because, for example, the opposing party is a current client of the firm – then the firm cannot avoid the conflict by simply not formally appearing in court. The problem, as we will see, is that adversity can exist even if the opposing party is not a current client of the firm, as next shown.

Parallel Patent Litigation

Suppose, as happens, a firm is approached by a patentee with a list of possible infringers. The firm determines that out of the, say, five possible targets, one is a client of the firm. As shown above, the firm cannot represent the patentee against its client. Nor can it help some other firm in that suit.

Suppose the patentee-client retains the firm, but only to sue the non-client defendants. It retains another firm to act separately and file suit against the first firm's client. Is the first firm, nonetheless, disqualified from representing the patentee against non-clients?

Two district courts have addressed this issue in the context of patent litigation. Naturally, they split on their answer to the question. In the first case, *Enzo Biochem, Inc. v. Applera Corp.*,[3] the court found no adversity; a month later the second court, in *Rembrandt Technologies, LP v. Comcast Corp.*,[4] did find adversity. The cases are fact intensive. The *Rembrandt* court distinguished *Enzo* and ordered disqualification, as follows:

> In *Enzo*, the Hunton firm represented a client in a patent case against one defendant. The same plaintiff, represented by the Greenberg firm, sued a different defendant. Some of the same patents were asserted in both cases. A client of the Hunton firm, GE, later acquired the defendant being sued in the second case. The Hunton lawyers representing the plaintiff in the first case aided, to a certain extent, the Greenberg lawyers representing the plaintiff in the second case. GE contended that the Hunton firm's concurrent representation of Enzo in the first case and the GE subsidiary sued by Enzo in the second case amounted to an impermissible conflict of interest. GE intervened in the first case and moved to disqualify the Hunton firm. The court evaluated the evidence and concluded that GE had not demonstrated a sufficient showing of direct adversity. The court stated that "while the construction of [the plaintiff's] patents applicable to the infringement claims brought against two separate accused infringers ... implicates pretrial *Markman* overlap, **the trials of how those constructions apply to the respective accused products or conduct are wholly separate.**" *Enzo*, 2007 WL 30338 at *7 (emphasis added). As a result, the court refused to disqualify the Hunton firm from representing the plaintiff in the first case. The court agrees with *Enzo* that the mere possibility of overlapping *Markman* proceedings is insufficient to show direct adversity, particularly when the trials of how the constructions apply to accused products or conduct varies from defendant to defendant.
>
> Here, in contrast to *Enzo*, F & R is not simply advocating claim construction positions that might, at some later date, adversely impact Time Warner. F & R advocates that the Comcast defendants infringe the patents because the defendants comply with industry standards. In particular, F & R advocates in this case that Comcast infringes because it adheres to the ATSC standard for United States Patent No. 5,43,627 ("the '627 patent") and DOCSIS for United States Patent Nos.5,852,631, 4,937,819, and 5,719,858 ("the '631, '819, and '858 patents"). The practical significance of Rembrandt's infringement theory is to indict for patent infringement all major cable companies that follow the industry standards. A finding of infringement and an injunction issued by this court against a cable company for compliance with industry standards would have a significant practical effect on Time Warner.
>
> There are additional distinctions between this case and the *Enzo* deci-

A firm that cannot represent a party opposing a current client in litigation also cannot help some other firm to do the same thing.

sion that lead the court to find the requisite direct adversity. Rembrandt filed its cases in the same district. Its case against Time Warner is pending before the same judge at roughly the same time as this case, but this case was filed first. Although it is true that the claim construction rulings in this case would not be binding on Time Warner, there is a likelihood that the positions taken by F & R in this case could, as a practical matter, prejudice Time Warner in subsequent proceedings. As a result, on these facts, this court reaches a different conclusion from the one in *Enzo*. F & R's representation of Rembrandt in this case is directly adverse to Time Warner.

Thus, a firm may have a conflict of interest even where it is not adverse to a current client, and even if it is not helping a firm to sue a current client, if there is "enough" practical impact to establish direct adversity. In *Enzo*, there was not enough, but in *Rembrandt*, the fact that the patent covered a standard, the litigation was pending before the same judge, and the other facts tipped the scales in favor of adversity.

Increasing a Client's Risk of Liability Even Without Parallel Litigation

Suppose a law firm is representing a client adverse to a non-client, but in the course of that representation, the firm uncovers evidence that might lead someone else to sue a client. Is that adverse?

Maybe.

Even without parallel litigation, but somewhat similarly, there are circumstances "in which a lawyer's pursuit of a client's lawsuit or defense may be at odds with or detrimental to the interests of a person or entity that has not been joined in the litigation but is being represented by the lawyer in a different litigation or transactional matter."[5] Identifying precisely when this sort of indirect adverse representation becomes an ethical violation is "difficult."[6]

As we'll see below, "difficult" may be a severe understatement, at least in the middle of the infinite spectrum of circumstances that can arise. On one end of the spectrum, there are some relatively easy cases. For example, representing a plaintiff against a defendant who impleads a third party defendant who is a client is adverse: if the non-client is liable to the plaintiff, then the impleaded client is liable to the defendant.[7] Similarly, adversity can arise short of actual impleading of the client such as when a lawyer in a case against a non-client will give the non-client the ability to seek indemnity against a client.[8]

The mere fact that one client's victory will allow that client to compete economically against another client is not enough to establish an adverse interest.

On the other end of the spectrum, the mere fact that victory by a lawyer for one client will allow that client to compete economically against another client does not mean the lawyer is representing an adverse interest. As a general matter, most states recognize that "adversity" cannot be stretched so far as to include mere economic competition.

In the middle are those "difficult" cases. Two somewhat famous non-patent cases illustrate the fact-intensive, difficult, and arguably subjective nature of this inquiry.

In the first, *National Medical Enterprises, Inc. v. Godbey*,[9] Baker Botts was representing a client against a non-client. A former client, Cronen, alleged that while representing its client, Baker Botts might uncover evidence that might lead to criminal charges being brought against him. The Texas Supreme Court found that Baker Botts was acting adversely to Cronen even though Cronen was not a party to the suit, and there was no litigation planned by anyone against him:

> Even if Baker & Botts is correct that resolution of the pending case will leave Cronen unscathed, Cronen's anxiety that his former law firm is now vigorously advancing the same allegations that have swirled around him for so long is certainly understandable. The chances of being struck by lightning are slight, but not slight enough, given the consequences, to risk standing under a tree in a thunderstorm. Cronen is not likely to be struck by lightning in the pending case, even though he is in the midst of a severe thunderstorm, but he is entitled to object to being forced by his former lawyer to stand under a tree while the storm rages on.

Id., 924 S.W.2d at 133.

The second, the well-known case of *Fund of Funds, Ltd. v. Arthur Andersen & Co.*,[10] illustrates this point. In *Fund of Funds*, Morgan Lewis represented Client A. With Meister as co-counsel, it then represented Client B in a suit against King. At the time the *King* suit was filed, Morgan Lewis knew that Client A intended to sue Client B. At this time, Morgan Lewis repeatedly advised Meister that it could not "make the case" against Client B and said Morgan Lewis lawyers would not participate in any consideration of wrong-doing by its Client B. Nonetheless, the court held that Morgan Lewis was disqualified because it had violated its duty of loyalty to Client B because the firm had examined documents which touched on Client B's liability to Client A and had otherwise investigated and assisted in the prosecution of a claim against a current client.

In light of these cases, adversity can arise even where the firm is doing its best to avoid "making the case" against its client, and even where no impleader has taken place, and may not even be contemplated.

Implications and Recommendations

Two principles emerge. First, adversity does not depend upon appearing in court against a client; it can arise even when a firm does not actually appear in a case, and even if the case is not filed against its own client. Second, disqualification often turns, not on the normal bright line that accompanies the prototypical "across the v" conflict, but instead on the facts and circumstances of each case.

The consequences may not be as clear, however.

Whenever a firm knows that its patentee-client contemplates parallel litigation, the firm should analyze whether that litigation could result in either adversity under the facts and circumstances or the need to communicate and coordinate with a firm representing the patentee to a degree prohibited by the principle that "helping out behind the scenes" is improper. Either circumstance could be deemed to be unethical and warrant disqualification.

Second, firms ought to consider an issue not litigated in any of these cases: the risk that the patentee-client may later claim that the firm's ability to represent its interests was materially limited by the firm's representation of the party accused of infringement in the parallel case, the impleader action, or the possible later claim. "You pulled your punches in the suit against the non-client in order to avoid creating a record that could harm your client," would be the gist of such an allegation. Fee forfeiture and other remedies may be available to the patentee if the firm, for example, failed to obtain a broad *Markman* construction in order to avoid infringement by its other client.

The ultimate lesson may be that firms should monitor for conflicts in patent litigation closely. The nature of patent litigation, with sometimes common multiple defendants, *Markman* rulings, and indemnity obligations, means that care and attention may be the only way to spot the issues. ◆

FOOTNOTES

1. The title comes from the song "Infinite Combinations" by John Wesley Harding. Most of my articles have in their title a song by Wes. It's a long story.

2. *E.F. Hutton & Co. v. Brown*, 305 F. Supp. 371, 378-79 (S.D. Tex. 1969) (New York firm that had represented employee was disqualified from assisting Houston firm in litigating against him in substantially related matter).

3. 468 F.Supp.2d 359 (D. Conn. 2007).

4. 2007 WL 470631 (E.D. Tex. Feb. 8, 2007).

5. ABA/BNA Lawyer's Manual on Professional Conduct 51:111 (2001).

6. *Id.*

7. *Richmond Am. Homes of N. Cal., Inc. v. Air Design, Inc.*, 2002 Cal. App. Unpub. LEXIS 6948 (Cal. App. July 25, 2002) (finding adversity because procedural rules allow third-party defendants to defend against a third-party complaint by alleging that the defendant had no liability to the plaintiff); *Pressman-Gutman Co., Inc. v. First Union Nat'l Bank*, 459 F.3d 383 (E.D. Pa. 2004), *on reconsideration, Pressman-Gutman Co., Inc. v. First Union Nat'l Bank*, 2004 U.S. Dist. LEXIS 23991 (E.D. Pa. Nov. 30, 2004), *mandamus denied, Pressman-Gutman Co., Inc. v. First Nat'l. Bank*, 459 F.3d 383 (3d Cir. 2006).

8. *See Snapping Shoals Elec. Membership Corp. v. RLI Ins. Corp., 2006* WL 1877078 (N.D. Ga. July 5, 2006) (firm disqualified from asserting claim against non-client that would result in a client owing the non-client indemnity). See NHBA Eth. Comm. Formal Op. 1989-90/17 (Aug. 25, 1990). In that opinion, the committee concluded that a firm could not represent a general contractor in pursuing a claim against a lender where doing so would expose its other client, a developer, to a claim by the lender. (Although the opinion is couched in terms of material limitations, the issue could also be viewed as one of adversity.) "Directly adverse" representations can arise in a variety of ways, apart from the circumstance of taking action that will result in liability against a client. For example, current clients have argued that their firms may not argue a "position" that affects their rights. *See Flying J Inc. v. TA Operating Corp.*, 2008 WL 648545 (D. Utah March 10, 2008) (denying motion to disqualify, though finding a conflict of interest, where firm could be creating arguments, facts, and positions in litigation against a non-client that "could be applied" by "third parties" to the client in litigation in which the firm would not be involved).

9. 924 S.W.2d 123, (Tex. 1996).

10. 567 F.2d 225 (2d Cir. 1977) (trial counsel disqualified for receiving assistance from law firm which breached its duty of undivided loyalty).

FEATURE
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False or Misleading?

Honesty is the best policy, but in trademark applications an honest mistake may be fraud.

Could this happen to you? A client calls, very excited, because he's just launched a new business. He wants you to file a trademark application for him. You explain what information is required and what constitutes "use in commerce" in the trademark world, and ask him for which products he is using the mark. He explains that he is using the mark on clothing. You get the date of his first sale in commerce, a specimen of the mark being used on a clothing hang tag, and file the application. Along with the application is a declaration signed by the client confirming the accuracy of the application information, including the use on the goods.

Four months later you receive an Office Action from the United States Patent and Trademark Office (the "PTO") requiring more specificity regarding "clothing." The Examining Attorney helpfully suggests: clothes, namely women's, men's, and children's shirts. You forward this Office Action to the client along with a letter explaining the Examining Attorney's requirements and recommendation.

The client, extremely busy at this point with his new business, is only too glad to accept the recommendation and obtain his trademark registration. Unfortunately, the client has sold only women's and men's shirts under the mark, not children's shirts. The registration that issues will be vulnerable to cancellation for fraud.

After the Trademark Trial and Appeal Board's (the "Board") decisions in *Medinol Ltd. v. Neuro Vasx Inc.*[1] and *Standard Knitting, Ltd. v. Toyota Ji-*

dosha Kabushiki Kaisha,[2] such a seemingly innocent misstatement could have just such serious consequences.

The Board in *Medinol* found that including both "neurological stents and catheters" in the Statement of Use when the mark was used only for catheters constituted fraud thereby resulting in cancellation of the entire registration. *Medinol*, 67 U.S.P.Q.2d at 1210. The Board stated that "knowledge that [respondent's] mark was not in use on stents — or its reckless disregard for the truth — is all that is required to establish intent to commit fraud in the procurement of a registration." *Id.* Registrant's subjective intent is not relevant in assessing fraud but the objective manifestation of that intent is relevant and must be inferred from the circumstances. *Id.* at 1209.

Trademark practitioners wondered whether *Medinol* was an aberration and whether other mistakes would have such severe consequences. On January 10, 2006, the Board issued another precedential decision on the issue, once again confirming that mistakes in claiming use will result in cancellation of the registration based on fraud.

In *Standard Knitting*, the Board reiterated this strict standard and found Standard Knitting committed fraud because of false statements in connection with claiming use on children's clothing, when the marks were used for other clothing. *Standard Knitting*, 77 U.S.P.Q.2d at 1928. The Board noted that it was not reasonable for the individual who signed the applications to believe that making the goods, or using the goods in the past, supported a statement of current use. *Id.* at 1927.

Generally in Trademark law, fraud arises when the applicant makes material representations of fact in its declaration which it knows or should know to be false or misleading while procuring or renewing a registration. *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48-49 (Fed. Cir. 1986). *Medinol* and its progeny might have altered the landscape, at least with regard to claims of use.

As the concept of "use" might be confusing to many trademark applicants, could a misunderstanding regarding use in commerce or use of broad or perhaps awkwardly crafted wording result in fraud and cancellation of the entire registration? After *Medinol* and *Standard Knitting*, the answer is quite simply "yes."

Many registrations currently found on the Principal Register could be vulnerable, judging by the extensive and

Is the mark in actual use in commerce for all the goods listed? If not, whether the error is deliberate or innocent, the registration could be cancelled.

varied listings of goods and services. If the mark was not in actual use in commerce for <u>all</u> the goods listed, it might not necessarily be the result of a deliberate misrepresentation, but after *Medinol* the consequences could be the same.

Many trademark practitioners recall conversations with clients who have asked for an explanation of "use in commerce" and, in the process of providing an explanation, have clarified that mere incorporation, registering a domain name, or sending artwork to the ad agency, for example, does not constitute use in commerce.

Additionally, many practitioners have reviewed Web sites, advertising, and/or labels and have questioned whether the identification of goods and services is entirely accurate. After all, the identification is often the result of an Examining Attorney's requirement and is frequently defined prior to use. We must also wonder whether our careful explanations of use in commerce are relayed to the appropriate business units within a large organization.

Attorneys filing trademark applications should now think differently when filing a use-based application, a Statement of Use, or an Amendment to Allege Use. When a foreign client sends a letter requesting that a Statement of Use be filed, we must be certain that the client understands "use in commerce," that legitimate use has been made for <u>all</u> the goods and services, and that the identification of goods and services accurately describes the goods or services in use.

Perhaps there is now a need to follow up with clients on this issue, ask for more specimens than are required, and repeatedly explain the meaning of "use." Many of us already provide explanations of use and provide clients with checklists when forwarding the Notice of Allowance, but are we certain these explanations are understood and relayed to the appropriate people?

Unfortunately, the Board has opined on these issues in only a handful of cases. Those cases do not provide clear guidance for many of the day-to-day scenarios encountered by trademark attorneys and do not offer clear solutions in the event a mistake is uncovered. The Board has left open the possibility that there are "circumstances" where a misstatement does not constitute fraud.

In a 2006 decision, *Maids to Order of Ohio, Inc. v. Maid-to-Order, Inc.*,[3] the Board rejected a claim of fraud where a "layperson" was uncertain about the meaning of "use in commerce" and, in that case, a potentially mistaken belief was sufficient to negate the inference of fraud. The *Maids to Order* decision might provide guidance as to scenarios that do not amount to fraud. This decision cited the testimony of the company president, specifically referred to the president as a "layperson," and provided excerpted testimony regarding her understanding of the legal concept "use in commerce."[4] *Maids to Order,* 78 U.S.P.Q.2d at 1906-7.

In contrast to *Medinol, Standard Knitting,* and other cases involving a claim of use made for particular goods, which a layperson can or should know, *Maids to Order* might provide insight into situations where an ambiguous claim of use does not rise to the level of fraud. This concept might have been foreshadowed in *Medinol,* wherein the Board noted "[n]either the identification of goods nor the statement of use itself were lengthy, highly technical, or otherwise confusing, and the President/CEO who signed the document was clearly in a position to know (or to inquire) as to the truth of the statements therein." *Medinol,* 67 U.S.P.Q.2d at 1210. Although such language might suggest a demarcation in what constitutes fraud, it does not provide certainty for the practitioner.

The Board is still refining its position on fraud and two very recent opinions give some additional guidance. In *University Games Corp. v. 20Q.net Inc.,*[5] the Board denied a Motion for Summary Judgment based on fraud. The application was use-based and claimed use for "board games, tee shirts, and supporting promotional materials including videos and paper products."

During prosecution and in response to an Office Action, the applicant amended its goods to "a board game for correctly identifying well-known persons, places, things and years using game cards and board pieces," deleting the other claimed goods.

According to the Board, such an amendment during prosecution "constitutes a *rebuttable presumption* that opposer lacked the willful intent to deceive the Office." *University Games,* 87 U.S.P.Q.2d at 1468 (emphasis added). In this case, the Board confirmed its dicta in *Hurley International LLC v. Volta,* [6] that indicated an amendment prior to publication which corrects a misstatement as to goods or services "does not rise to the level of fraud. . . ." *Hurley International,* 82 U.S.P.Q.2d at n. 5.

Judge Walsh, in his concurrence-in-part/dissent-in-part in *University Games,* went further and opined that the amendment, prior to any challenge to the application, "should *preclude* a fraud claim." *University Games,* 87 U.S.P.Q.2d at 1469 (emphasis added).

> AIPLA wants a rule "that will appropriately sanction truly fraudulent acts without stripping trademark owners of their rights due to innocent mistakes."

Interestingly, Judge Walsh then penned one of the most recent Board opinions on the subject of fraud, *Grand Canyon West Ranch, LLC v. Hualapai Tribe,*[7] and apparently relied on his own concurrence/dissent in *University Games* to support a conclusion that an attempted amendment to the goods or services after a challenge has been filed is not enough to preclude a claim of fraud. *Grand Canyon West Ranch,* 2008 WL 2600669 at *21. This appears to suggest that an amendment before a challenge might be enough to preclude fraud; however, this is far from clear.

So far, the Federal Circuit has not weighed in, although a very recent fraud case will be considered on appeal: *Bose Corp. v. Hexawave, Inc.*[8] Trademark practitioners will be paying close attention. In this case, Bose's federal trademark registration for the mark WAVE for "radios, clock radios, audio tape recorders and players, portable radio and cassette recorder combinations, compact stereo systems and portable compact disc players" came under attack in an Opposition proceeding.

The applicant, or defendant in the Opposition proceeding, asserted a counterclaim of fraud against the registration claiming that, at the time of renewal, a false declaration of use had been filed with the PTO.

Bose's in-house counsel argued that, in signing the declaration of use, he had made a good-faith legal conclusion that the shipment of "audio tape recorders and players" bearing the mark to and from customers for repair constituted use. "Use in commerce" under Trademark law is, after all, the sale or transport of marked goods in commerce. However, this argument was deemed unreasonable and therefore fraudulent by the Board, and it cancelled the entire registration due to fraud in the renewal.

The *Bose* case is currently being briefed, and the American Intellectual Property Law Association ("AIPLA"), clearly interested in the *Medinol* line of cases, has filed an *amicus curiae* brief in support of Bose's appeal.[9]

In its brief, AIPLA "urges the Court to adopt a fair and uniform approach that will appropriately sanction truly fraudulent acts without stripping trademark owners of their rights due to innocent mistakes." The organization's position is that "mistakes made without any intent to deceive or not having a material effect on the scope of the registration do not amount to fraud."

AIPLA also urges the Court to recognize that an erroneous conclusion of law should not necessarily support a finding of fraud. And, indeed, the "intent" of Bose's counsel in coming to his legal conclusion, while no doubt pushing the envelope of the definition of use, would not appear to rise to this level. This could be compared with Federal Rule of Civil Procedure 11's standard for sanctioning attorneys' erroneous assertions of law that states that legal contentions are acceptable if "warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law."

AIPLA also contends that the Board's view on the "materiality" of a mistake in determining fraud is circular. The Board's reasoning is that *any* "wrongly recited goods or services are material because the registration would not have issued *in that form* without the erroneous statement."

AIPLA "suggests that materiality instead should be judged based on how related the non-used goods are to other goods properly included in the registration, and whether the inclusion of those non-used goods had any significant impact on the public."

This element of materiality is closely related to the element of injury, and AIPLA argues to the Court that the "*public* may not suffer any real injury when a registration properly covering various goods inadvertently includes another highly related product on which the registrant was not using the mark at the time."

This conclusion is illustrated by one of the most recent fraud decisions by the Board, *Sierra Sunrise Vineyards v. Montelvini S.P.A.*[10] In this case, the Board cancelled a federal trademark registration for "wines, spirits and liqueurs" based on the fact that the foreign owner had not imported "liqueur" under the mark. Realistically speaking, it is doubtful that the over-inclusion of the related "liqueur" in a description of "wine and spirits" would likely have a significant impact on the public.

So, for the time being, it is not known whether the Federal Circuit will agree with the Board's analysis of fraud under the *Medinol* line of cases. It will be interesting to see whether district courts, which are on the front lines of fact-finding, will encounter circumstances establishing fraud "to the hilt." And whether there will be a proliferation of successful claims under Section 38 of the Lanham Act, which provides a civil remedy for fraudulent registration. 35 U.S.C. § 1120 ("Civil liability for false or fraudulent registration: Any person who shall procure registration in the Patent and Trademark Office of a mark by a false or fraudulent declaration or representation, oral or in writing, or by any false means, shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof.") It is one thing to lose your federal trademark registration to allegations of fraud, and quite another to be civilly liable to your opposing party.

At this time, practitioners are not entirely certain as to how to deal with *Medinol* and its progeny. One thing is certain: Until the Board and the Federal Circuit have further delineated what circumstances constitute fraud, the Board can expect to see increased allegations of fraud in opposition and cancellation proceedings. Clients and practitioners can also expect to defend such allegations.

Some practical tips to remember include the fact that trademark rights still exist with regard to the goods or services that have been offered in connection with the mark even if a client's federal registration is vulnerable or void under *Medinol's* fraud standard. These common law rights can, and should, be defended despite a potentially faulty registration.

Of course, if a client is considering using its federal registrations as a sword, rather than a shield, trademark practitioners are well advised to perform their due diligence carefully and to thoroughly consider whether the registrations to be asserted are vulnerable to cancellation.

If a client's federal registration is vulnerable or void, one immediate course of action is to file new applications covering just goods or services actually being offered. When filing these "bullet-proof" applications, consider filing only the goods or services in one class per application, or perhaps even more narrowly.

This alternative, although perhaps costly, will force the client to focus on the actual goods or services being offered and, if a problem should arise with one registration, will leave the client with others on which to fall back.

It is one thing to lose your federal trademark registration to allegations of fraud, and quite another to be civilly liable.

Another problem area is with Affidavits of Continued Use under Section 8. Particular attention should be paid to these affidavits, especially in situations involving U.S. registrations based on foreign registrations. Many times those descriptions of goods and services will need to be narrowed significantly. Candid discussions with the client as to exact use of the mark in commerce are imperative in these situations.

In fact, it is prudent to explain to all trademark clients, in writing, that a misstatement to the Trademark Office regarding the goods or services offered in connection with a mark can result in the cancellation of the entire registration.

Always keep in mind that the Trademark Office requires *sworn* declarations of use in which the trademark owner confirms that the mark is being used in commerce on *all* of the goods or services listed in the application or registration.

After *Medinol*, there is little room for error and a wary practitioner can help clients avoid a problem under the current fraud standard and protect their federal trademark registrations. ◆

FOOTNOTES

1. 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

2. 77 U.S.P.Q.2d 1917 (T.T.A.B. 2006).

3. 78 U.S.P.Q.2d 1899 (T.T.A.B. 2006).

4. In this case, the federal registration for the mark at issue was for use in connection with "cleaning of domestic and business premises." The owner of the mark was an Illinois company that conducted its cleaning business almost exclusively in Illinois. The evidence introduced regarding use in interstate commerce included two actual instances of providing services in another state in the 1970s and invoices and checks to and from corporate clients whose headquarters were located outside of the state, although the cleaning services were performed in Illinois at corporate apartments. The Board specifically stated that while the evidence was not "conclusive on the question of whether [registrant] has in fact used the mark MAID TO ORDER in interstate commerce" it was sufficient to negate an inference of fraud. *Maids to Order*, 78 U.S.P.Q.2d at 1906-7.

5. 87 U.S.P.Q.2d 1465 (T.T.A.B. 2008).

6. 82 U.S.P.Q.2d 1339 (T.T.A.B. 2007).

7. 2008 WL 2600669, (Trademark Tr. & App. Bd.), June 30, 2008, Opposition No. 91162008 to Application Serial No. 76484111 filed on 1/23/2003.

8. Docket No. 2008-1448, U.S. Court of Appeals for the Federal Circuit, Appeal from the T.T.A.B. of Opposition No. 91157315 [not precedential].

9. Brief of Amicus Curiae American Intellectual Property Law Association In Support of Bose Corporation and Reversal, *Bose Corp. v. Hexawave, Inc.*, September 10, 2008, Docket No. 2008-1448 ("Brief").

10. Cancellation No. 92048154 to Registration No. 2,293,853 (September 10, 2008) [not precedential].

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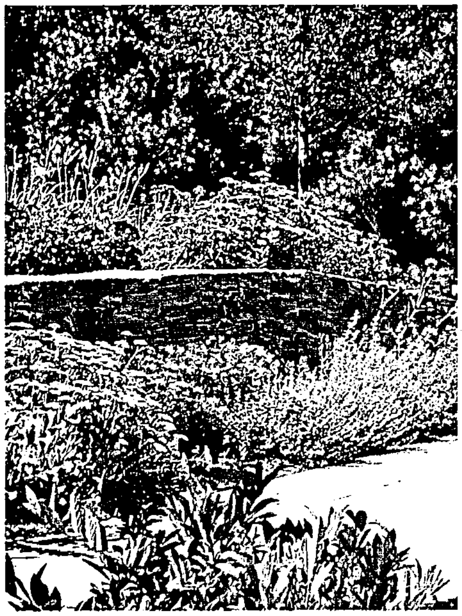

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FEATURE

Kevin R. Casey

IP

The court's fledgling program has proven to be surprisingly successful.

The U.S. Court of Appeals for the Federal Circuit hears appeals from the U.S. Patent and Trademark Office in patent and trademark matters, and from all of the district courts countrywide in patent infringement cases. Along with other subject matter such as copyrights and trade secrets, patents and trademarks fall within the category of "intellectual property" or IP. IP cases are among the most complex and costly to litigate, and among the most difficult to resolve via mediation. Perhaps for these reasons, many people have thought a lot about, and have addressed with great passion, the topic of mediation at the Federal Circuit.

This article addresses the topic in five sections. The article briefly outlines what the process of mediation entails, explains existing appellate mediation at the federal level, provides a history of mediation at the Federal Circuit, summarizes the relatively new Federal Circuit mediation program, and concludes with a look at the future of mediation at the Federal Circuit.

I. What is Mediation?

There is no shortage of literature on the topic of mediation. *See, e.g.*, B. Picker, "Mediation Practice Guide" (American Bar Association Section of Dispute Resolution, 2d ed., 2003). Mediation is a non-binding process designed to result in a settlement agreement that is an enforceable contract. The parties are free to define the parameters of the process; it is both flexible and informal. The Federal Rules of Evidence and Federal Rules of Civil Procedure are inapplicable.

The mediator does not impose any judgment on the parties. Rather, the mediator changes the dynamics of settlement negotiations through a structured process designed to encourage compromise. When mediation occurs before trial, some have expressed concern that they will educate the opposition via candor that might ultimately hurt their case. Especially at the appellate level, however, where all issues should have been vetted at trial, mediation is substantially risk-free.

In addition to mediation, a number of other "alternative dispute resolution" or ADR tools, alternatives to litigation, are available. Among these alternatives are settlement negotiations, arbitration, early neutral evaluation, summary jury trials, mini-trials, private judging, fact finding, and hybrid processes (*e.g.*, mediation-arbitration or "Med-Arb").

Each alternative has its place in the toolkit of those trying to resolve a particular dispute at a particular time. Few of the other alternatives are better suited for implementation at the appellate level than mediation.

II. Background: Appellate Mediation

The Federal Circuit became the thirteenth federal court of appeal in 1982. The jurisdiction of the 12 regional U.S. courts of appeal is limited by geography. In contrast, the jurisdiction of the Federal Circuit is defined by subject matter. Interestingly, all of the other 12 regional circuit courts had existing mediation programs well before 2005, with the first implemented in 1974. The Federal Circuit was the last holdout. For more information on the various appellate mediation programs, *see* R. Niemic, "Mediation & Conference Programs in the Federal Courts of Appeals" (Federal Judicial Center, 2006).

A. Key Factors for Success

What have these existing programs taught us? There are a number of key factors that affect the likelihood of success for a mediation. *See* K. Casey, "Mediating IP Disputes: Seven Keys to Success," 9 Intellectual Property Law Newsletter 1 (Pennsylvania Bar Association Intellectual Property Law Section, Spring 2005). Four of the more important factors are mediator qualifications, case selection, the mediation structure, and practice culture.

First, selection of the mediator is critical to the success of the process and perhaps the most important factor. The mediator must manage the process, control and direct the parties, offer creative solutions, break impasse, establish credibility, and more. Many mediations fail through mismatch between mediator and case.

Second, some cases are more suited to mediation than others and, therefore, case selection is also important to the success of a mediation program.

The structure of the mediation process is also critical. When mediation occurs affects the likelihood of success. If the process begins too early, the parties may not have enough information to resolve their dispute. If too late, the advantageous cost and time savings which often drive parties to mediation dissipate.

Other practical factors — such as which party representatives attend, whether the mediation is done in person or by telephone or even online, and many more — also affect success.

Finally, certain industries are already comfortable with ADR and have incorporated it into their culture. Consider many employment disputes or baseball arbitration. Unfortunately, IP is not yet one of those fields. But many in the field are working toward that goal.

B. Assessments

What have been the assessments of existing appellate mediation programs? The mediation settlement rates of existing appellate programs range from about 25% to 75% across all circuits in civil cases, depending on the factors identified above. In terms of saving time, about half of the appellate mediations are concluded faster than the appeal would have taken; the other half are concluded in about the same time frame.

Although cost savings may be achieved, they should not be expected during the appeal. The data report insignificant savings. Consider the savings, however, if further proceedings are avoided by settlement.

Perhaps the most important assessment is how the participants ultimately view their mediated outcome. Most evaluate appellate mediation positively. A positive evaluation is not surprising, as a compromise settlement is often "better" than an appellate judgment. This is especially true because it avoids the suggestion for panel rehearing and petition for en banc proceedings (filed in over 90% of Federal Circuit cases), petitions for certiorari, and remands to the trial tribunal. Some cases have bounced between the district court and Federal Circuit multiple times.

III. History of Mediation at the Federal Circuit

The Federal Circuit rules expressly require the parties to discuss settlement. *See* Fed. Cir. R. 33 (appeal conferences). Although the parties' own, unfacilitated efforts to settle cases on appeal are often ineffective, the Federal Circuit's adoption of its mediation program in 2005 was accomplished in the face of significant controversy. An hour-long introductory program at the second annual Bench and Bar Conference sponsored by the Federal Circuit Bar Association (FCBA) in 2000 touted the advantages of mediation. Discussion with several court personnel following the presentation revealed an appreciation for the process but disinterest in applying it to Federal Circuit appeals.

At least six reasons were expressed to justify the court's initial reluctance to adopt a mediation program: (1) incentives to settle are reduced on appeal; (2) opportunities to discuss settlement are reduced on appeal; (3) complex patent cases are ill-suited for mediation (how ironic that patent cases comprise the bulk of those now settled by the Federal Circuit's mediation program); (4) when the government is a party, settlement approvals are problematic; (5) there is only a small group of mediators available; and (6) timing concerns in that the court lacked a backlog and did not want mediation delays to affect the favorable status quo.

Nevertheless, the FCBA formed a Dispute Resolution Committee (DRC). The court's clients or customers — members of the FCBA — flocked in large numbers, initially more than 50, to join that committee. The committee continues to generate great interest. DRC representatives worked with the Federal Circuit Advisory Council in recommending mediation to the Federal Circuit, and then worked with the judges of the court to help develop a pilot program. Chief Judge Paul R. Michel has been a terrific supporter of the court's mediation program.

IV. The Federal Circuit Mediation Program

On October 3, 2005, the Federal Circuit initiated its Appellate Mediation Program. The program is authorized by an en banc order, revised on September 18, 2006, and is operated in accordance with a set of Guidelines, last revised on May 1, 2008. Relevant materials are available on the court's Web site: *www.cafc.uscourts.gov*. A three-judge panel monitors the program; the court wants to see the program work. The expressly stated purpose of the program is perhaps self-evident, i.e., to help the parties settle.

The program was entirely voluntary at the outset; counsel could jointly ask to participate. Although court resources continue to be available for voluntary requests, subsequent amendments now make mediation "mandatory" for selected cases. Thus, parties enter the program either upon selection by the court staff, or by filing a confidential joint request to enter the mediation program.

Of course, the mediation ceases once it appears that mediation will not be fruitful, so "mandatory" is a relative word. But the court does not hesitate to order the parties to a mediation session even if one or both parties do not want to try mediation. Curiously, the court reports a slightly higher settlement rate for those cases where one party came reluctantly than when both parties were initially willing to try mediation.

A Chief Circuit Mediator has been appointed to administer the program. His name is Jim Amend and he is assisted by a Circuit Mediation Officer, Wendy Dean. Together, they select cases and mediators "as early as possible." To do so, they review the record and the parties' own assessment provided in an initial Docketing Statement that, among other items, asks whether the case may be amenable to mediation. They also conduct a telephone assessment.

The FCBA was asked to compile a list of mediators who, preferably, are not in active practice. The requirements to qualify as a mediator are somewhat flexible. The mediators receive no compensation, but for minor expenses. The mediator list is available on the court's Web site. For those who mediate, an application form is also available on the court's Web site.

Based on its order and the authority provided in FRAP 33, the court has published guidelines for the program. The mediation process is confidential. Certain cases are excluded from selection for the program; namely, pro se cases. The appeal proceeds in parallel — sensitive to the court's desire to keep current on its case load — but the court grants consent motions for extensions of time to allow mediation as needed.

V. Future

The trend is toward settlement of civil cases. A recent study by the American Bar Association showed that 98.2% of civil cases settled after the complaint was filed. This statistic augers well for the Federal Circuit's mediation program.

Despite the finality of the judgment being appealed, each party has a significant risk that it will still lose on appeal. Statistics show a reversal rate somewhere between 35% and 50% on the issue of patent claim construction. This statistic, too, bodes well for the success of the mediation program.

And the court's fledgling mediation program has proven successful. The court has consistently helped the parties to resolve their patent appeals through mediation in over 40% of the patent cases selected for the program. In remarks presented at the Annual Bench and Bar Conference of the FCBA held June 25-28, 2008 ("the Conference"), Chief Judge Michel noted the following statistics: 65% of patent cases are decided by the court, 12% are settled by the parties, 9% are dismissed by the court, and 8% are resolved by the court's mediation program.

Chief Judge Michel supports the program as a way to give the court docket relief, case management assistance, and enhanced service to litigants. His support appears warranted. Helped by its mediation program, the court has been able to issue opinions within three months after oral argument in about 80% of its cases.

Clearly, the program will require monitoring and shaping. Many issues must be resolved. For example, parties often neglect to complete and file a Docketing Statement (available on the court's Web site). In those instances, the court sends a reminder letter.

More substantively, when the parties settle during the appeal process, perhaps literally on the steps of the Federal Circuit courthouse on Lafayette Square in Washington, D.C., will the court vacate the decision being appealed?

In efforts to enhance the success that the mediation program of the Federal Circuit has already enjoyed in its short existence, Chief Circuit Mediator Amend identified at the Conference eight impediments to settlement of patent cases on appeal. The impediments are: (1) the case involves a "troll" (which might be defined as a non-inventive entity with no commercial product that acquires and asserts overbroad patents in an attempt to extort a toll from others) and the defendant company wishes to avoid a "bulls-eye" inviting further litigation; (2) party representatives with settlement authority are not present for the mediation session; (3) the party having lost the judgment appealed is reluctant to mediate (this is perhaps counterintuitive, since the winning party might be viewed as more reluctant, but the cost of rolling the die on appeal can appear small relative to the cost already sunk into the case); (4) the patent was held invalid (one solution might be to ask the district court to vacate its invalidity holding as part of a settlement award); (5) counsel is representing the appellant on a contingent fee basis; (6) an emotional, entrepreneur patent owner appeals a loss and seeks "justice"; (7) a summary judgment of non-infringement is appealed and the plaintiff seeks millions (the "lottery" case); and (8) a party believes it is entitled to attorney fees or enhanced damages. The court is in the process of refining the selection criteria for, and the techniques used in, its mediation program to take these impediments into account and improve the program.

Ultimately, however, the success of the program depends on the parties using it. The court likely would, as it should, cancel the program at some point if they do not. Attorneys do a disservice to their clients without placing the appropriate case in the mediation program. In addition, it is perhaps a breach of ethical duty not to at least advise clients of the existence and availability of the court's mediation program.

In summary, the belief that IP cases cannot be mediated with sufficient success rates to justify an appellate mediation program has been dispelled. The consequence is that you should become familiar with the Federal Circuit's mediation program and, in your next patent case, be ready to participate. And the odds that you just might settle the case through mediation are good. ◆

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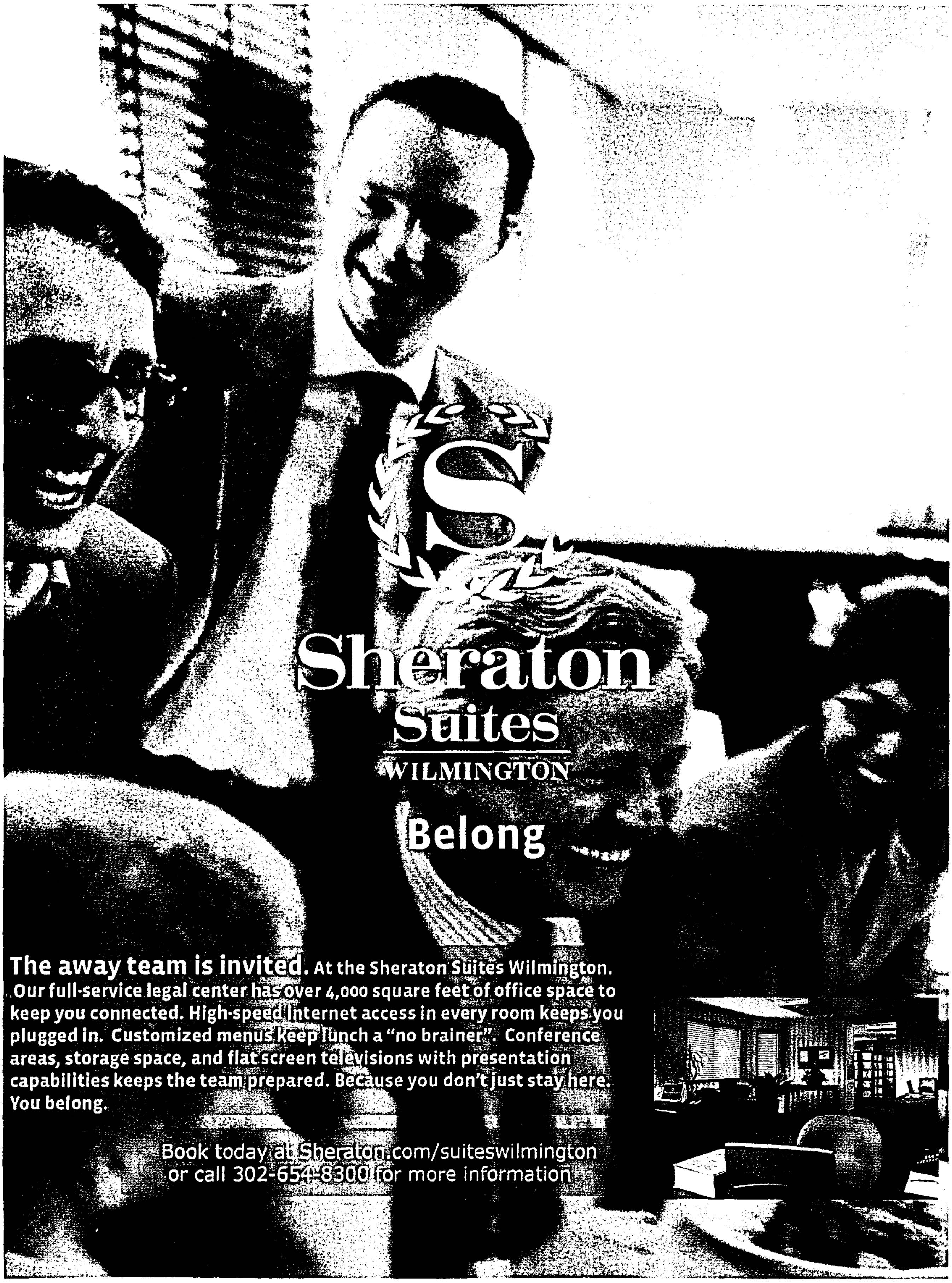

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