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Peppered with colorful language and spiced with economic theory, the Seventh Circuit's intellectual property (IP) law decisions of 2002 make zesty reading. On balance, the decisions are a moderate presentation in terms of new substantive law, following precedent for the most part. A notable exception is the Seventh Circuit's pronouncement that, in copyright infringement cases involving small damages amounts, the copyright owner has a "presumptive entitlement" to an attorney fee award. Additionally, the Seventh Circuit signaled a renewed interest in substantive patent law by suggesting that the United States Supreme Court overrule its decision in *Brulotte v. Thys Co.*, which limited the period for collecting patent license royalties to the life of the patent. Furthermore, the opinions include a useful range of suggestions to IP attorneys on how best to proceed in this vibrant circuit. This Article discusses the cases according to the primary subject matter of the cases. Part I of this Article examines trends and statistics of the Seventh Circuit's IP cases during the survey period. Part II reviews trademark and trade dress decisions. Part III considers the Seventh Circuit's copyright cases. Part IV is devoted to appeals in the area of trade secrets. Part V is a brief discussion of patent pronouncements.

I. SEVENTH CIRCUIT IP TRENDS AND STATISTICS

This article surveys twenty-seven IP or IP related decisions from the Seventh Circuit. Thirteen are on trademark and trade dress, seven are on...
copyright, five are on trade secrets, and two are on patents. Many appeals were decided on IP claims; several were decided on other claims. Eight decisions fall under contract theory, respecting IP ownership, licensing or franchising. Two decisions are criminal convictions for IP violations, one for an Economic Espionage Act violation and one for trafficking counterfeit computer software. Two appeals answer questions of insurance coverage of IP claims.

IP opinions were authored by the Seventh Circuit judges\(^5\) as follows: Chief Judge Joel M. Flaum (one panel opinion and one concurrence), Senior Judge Thomas E. Fairchild (none), Senior Judge William J. Bauer (two panel opinions), Senior Judge Harlington Wood, Jr. (one panel opinion), Senior Judge Richard D. Cudahy (no panel opinions but one dissent), Richard A. Posner (nine panel opinions), John L. Coffey (none), Frank H. Easterbrook (five panel opinions), Kenneth F. Ripple (two panel opinions and one concurrence), Daniel A. Manion (one panel opinion), Michael S. Kanne (two panel opinions), Ilana Diamond Rovner (no panel opinions and one dissent), Diane P. Wood (none), Terence T. Evans (two panel opinions), and Ann Claire Williams (one panel opinion). Judge Posner, with inestimable influence, authored one third of all the decisions. Judge Posner’s and Judge Easterbrook’s opinions combined are more than half of the IP decisions.\(^6\)

The appeals were from the following district courts from the Seventh Circuit region:\(^7\)

**Northern District of Illinois:** twelve  
Castillo, J. (1); Grady, J. (1); Guzman, J. (1); Holderman, J. (2); Kocoras, J. (2); Lefkow, J. (1); Norgle, J. (1); Shadur, J. (1); Zagel, J. (1); Denlow, Mag. (1).

**Central District of Illinois:** one  
McDade, C.J.

**Southern District of Illinois:** one  
Gilbert, J.

**Northern District of Indiana:** two  
Miller, J. (1); Sharp, J. (1).

**Southern District of Indiana:** three  
Hamilton, J. (1); Young, J. (1); Goodich, Mag. (1).

**Eastern District of Wisconsin:** four

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6. Articles, which refer to IP and underlying economic theory, written by these two prolific judges are recommended to the reader’s attention and are cited where pertinent to individual appeals surveyed.

The dispositions were as follows: affirmances, 18 (69%); affirmed-in-part and reversed-in-part, 3 (12%); reversed or vacated and remanded, 4 (15%); and dismissal for lack of jurisdiction, 1 (4%). One appeal was a review of the appellate motions judge.

IP counsel representing the parties were primarily locals in the Seventh Circuit. The firm with the most appeals reviewed herein was Kirkland & Ellis. Some parties chose nationally prominent attorneys from outside the circuit, such as Kenneth Starr and David Boies.

To guide the reader, the first citation of every case includes the appellate panel of judges, with the authoring judge’s name italicized. The trial judge and appellate counsel are parenthetically noted.

II. TRADEMARKS AND TRADE DRESS

A round-up of the Seventh Circuit’s trademark and trade dress decisions would include toys (Beanie Babies), cars (Hummer and Jeep), and toy cars (Micro Machines), as well as a host of other products and services. Ty lost both Beanie Babies appeals; AM General won both Hummer appeals. The Seventh Circuit addressed issues of dilution and infringement, the progressive encroachment excuse for laches, the interpretation of licenses and dealership agreements, and insurance coverage of trademark claims. The Seventh Circuit also considered domain names and metatags, as well as traditional product and service marks and configurations.

A. Dilution

In one of two Beanie Babies cases decided by the Seventh Circuit, Ty Inc. v. Perryman, the Seventh Circuit concluded that using Beanies in the domain name and website of a beanbag stuffed animal resale business did not dilute Ty’s Beanies trademark.

Ty was the trademark owner of the Beanie Babies and Beanies marks for beanbag stuffed animals. Ty sued Ruth Perryman, alleging

8. See infra notes 45-120, 176-204, 480-506, 552-590, 591-608, 636-669 and accompanying text.
9. See infra notes 591-608 and accompanying text.
10. See infra notes 767-777 and accompanying text.
12. Ty Inc., 306 F.3d at 514.
13. Id. at 511.
trademark infringement in her second-hand beanbag stuffed animals business that included Internet sales. Perryman used “bargainbeanies.com” as her domain name and www.bargainbeanies.com as the website where she advertised her stuffed animals. The district court found a violation of the federal antidilution statute and granted summary judgment in favor of the trademark owner Ty. The Seventh Circuit vacated the judgment in part, regarding Perryman’s use of Beanies in connection with reselling Ty products, but affirmed that part of the judgment that precluded Perryman from using the term “other Beanies” in connection with sales of non-Ty products. The Seventh Circuit remanded with instructions to reformulate the injunction.

The Seventh Circuit expounded on the different theories of dilution, expanding on its economic underpinnings, yet concluded that no theory applied to reselling a branded product under its actual name. The courts are concerned with “blurring,” which occurs when consumer search costs incurred in identifying a particular source of particular goods rise because “a trademark becomes associated with a variety of unrelated products.” Using Tiffany as an example, the Court hypothesized about an upscale restaurant named Tiffany:

There is little danger that the consuming public will think it’s dealing with a branch of the Tiffany jewelry store if it patronizes this restaurant. But when consumers next see the name “Tiffany” they may think about both the restaurant and the jewelry store, and if so the efficacy of the name as an identifier of the store will be diminished. Consumers will have to think harder – incur as it were a higher imagination cost – to recognize the name as the name of the store.

The Court described tarnishment as follows:

Now suppose that the “restaurant” that adopts the name “Tiffany” is actually a striptease joint. Again, and indeed even more certainly than in the previous case, consumers will not think of the striptease joint under the common ownership with the jewelry store. But because of the inveterate tendency of the human mind to proceed by association, every time they think of the word

14. Id. at 509.
15. Id.
16. Id. at 510.
17. Id. at 514-15.
18. Id.
20. Ty Inc., 306 F.3d at 511.
21. Id. at 511. See also Mead Data Cent., Inc. v. Toyota Motor Sales, 875 F.2d 1026, 1031 (2d Cir. 1989) (noting that the legislative history of New York’s anti-dilution statute demonstrated that the legislation was meant to prevent such “hypothetical anomalies as Dupont shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos, Bulova gowns, and so forth”). But see Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003) (noting that the Supreme Court has since said that mental association alone is insufficient proof of dilution).
“Tiffany” their image of the fancy jewelry store will be tarnished by the association of the word with the strip joint.\textsuperscript{22}

The Court said that tarnishment was a subset of blurring because it reduced the distinctiveness of the trademark.\textsuperscript{23} The Court suggested that there is a third and “most far reaching concern” where, although technically not either tarnishment or blurring, there are still companies free-riding on the trademark owner’s investment.\textsuperscript{24}

Suppose the “Tiffany” restaurant in our first hypothetical example is located in Kuala Lumpur and though the people who patronize it (it is upscale) have heard of the Tiffany jewelry store, none of them is ever going to buy anything there, so that the efficacy of the trademark as an identifier will not be impaired. If appropriation of Tiffany’s aura is nevertheless forbidden by an expansive concept of dilution, the benefits of the jewelry store’s investment in creating a famous name will be, as economists say, “internalized” – that is, Tiffany will realize the full benefits of the investment rather than sharing those benefits with others – and as a result the amount of investing in creating a prestigious name will rise.\textsuperscript{25}

Although the Court has never articulated this third rationale for the anti-dilution law, the Court suggested that this rationale might conceivably track the common law doctrine of misappropriation.\textsuperscript{26} The Court questioned the validity of this rationale as not economically feasible due to the vast number of prestigious trademark names, which makes it unlikely that the owner of a trademark will derive sizeable license fees.\textsuperscript{27}

After canvassing the several rationales underlying dilution theory, the Seventh Circuit said that none of them applied to Perryman’s reselling of Ty’s products.\textsuperscript{28} Perryman was truthfully calling the beanbags toys Beanies\textsuperscript{TM}; “You can’t sell a branded product without using its brand name, that is, its trademark.”\textsuperscript{29} Ty’s deliberate marketing strategy, to produce a smaller quantity of each Beanie Baby\textsuperscript{TM} than the demand, gave rise to the resale market, said the Court.\textsuperscript{30} The Court characterization of the resale market was as follows: “The main goal is to stampede children into nagging their parents to buy the new Baby lest they be the only kid on the block who doesn’t have it.”\textsuperscript{31} This resale market was unlikely to operate efficiently if

\begin{itemize}
\item \textsuperscript{22} Ty Inc., 306 F.3d at 511.
\item \textsuperscript{23} Id.
\item \textsuperscript{24} Id. at 512.
\item \textsuperscript{25} Id. See Landes & Posner, supra note 19, at 270 (discussing the cost of free riders and the need for governmental protection of trademarks).
\item \textsuperscript{26} Ty Inc., 306 F.3d at 512.
\item \textsuperscript{27} Id.
\item \textsuperscript{28} Id. The Court also rejected Ty’s attempt to use the antidilution statute as a means of preventing uses of the mark that, although not confusing, threaten genericide of its Beanie\textsuperscript{TM} mark. Id. at 514. According to the Court, genericide results in a social cost—the trademark owner has to invest in a new trademark to identify its brand—but it also results in a social benefit—namely, an addition to ordinary language. Id.
\item \textsuperscript{29} Id. at 512.
\item \textsuperscript{30} Id. at 512-13.
\item \textsuperscript{31} Id. at 513.
\end{itemize}
sellers who specialized in serving it could not use Beanies™ to identify their business. Forbidding Perryman to use Beanies™, the Court reasoned, would be like banning a second-hand Toyota dealer from mentioning the name in its advertising.

The result in this Ty case has been questioned: "I submit that there is a big difference between saying in your advertising that you repair Chevrolets and putting it in your business name." However, the Ty case may be best understood as tackling the question of trademark “fair use” in the context of the relatively recent federal codification of dilution. The common law development of “reference” or “nominative” trademark fair use permits one party to use another party’s trademark as a trademark only under certain conditions, such as only to the extent necessary to identify the product.

The Seventh Circuit determined that resellers are permitted to adopt another’s trademark as part of their website address and domain name, even though consumers looking for the trademark owner may be diverted to the reseller’s website. The Seventh Circuit recognized that consumers searching for Beanies™ could be lead to Perryman’s webpage through a non-Beanie™-related web address, such as www.perryman.com. Is it not more likely that consumers will think Beanies™ are connected to Ty if a reseller’s Internet company and website include Beanies™ in its names? Given the extended discussion on Ty’s creation of the aftermarket, however, the holding may be more limited than it appears. It may apply only to manufacturers, such as Ty, that create the secondary market by limiting supply.

Can Ty be squared with Equitrac? Equitrac, discussed below, concludes that confusion likely results when a website includes a metatag that the consumer never sees. The potential for initial interest confusion seems more apparent in Ty, but Ty is a dilution case for which likelihood of confusion need not exist. Moreover, in Ty, Perryman’s website disclaimed any affiliation with Ty. In Moseley v. V Secret Catalogue, Inc., the Supreme Court said that mental association with the trademark owner, standing alone, was insufficient evidence of dilution, and the Court required evidence of a lessening of a mark’s capacity to identify and distinguish goods or services. Where, between actual competition and mental association, must the quantum of proof reside? Clearly, the federal

33. Id. at 513.
36. JEROME GILSON ET AL., TRADEMARK PROTECTION AND PRACTICE, § 2-5.09[3]; § 3-11.08 [3][d].
37. Ty Inc., 306 F.3d at 513.
38. Id.
39. See supra notes 11-38 and accompanying text.
40. Ty Inc., 306 F.3d at 511.
42. Moseley, 123 S. Ct. at 1124-25.
antidilution statute is still a work in progress, and IP practitioners will want to include old standby claims like trademark infringement wherever possible.

Dilution was also at issue in *AM Gen. Corp. v. DaimlerChrysler Corp.*,43 which involved the trade dress of front-end grille designs of Jeeps™ and Hummer™ H2s. The Seventh Circuit held that the "family resemblance" of DaimlerChrysler's Jeep™ vehicles' grilles was not enough to be a family of marks warranting protection.44

AM General and General Motors45 brought a declaratory judgment suit, asking the Court to find that its Hummer™ H2 front-end grille neither infringed nor diluted any trademark held by DaimlerChrysler on its front-end grilles for Jeep™ sports utility vehicles (SUVs).46

DaimlerChrysler then sought a preliminary injunction against GM’s use of the grille design on the new Hummer™ H2 model.47 The district court denied the motion, concluding that "DaimlerChrysler showed virtually no chance of success on the merits" and that the balance of harms did not favor issuing an injunction.48 The Seventh Circuit affirmed the district court's decision and adopted the lower court's opinion as its own.

The Seventh Circuit's opinion also discussed the history of the car manufacturers' front-end grille designs. Willys-Overland Motors first manufactured jeeps during World War II.49 A commercial version, developed after the war, used the same seven vertical slots in its front-end grille. These began selling in 1945,50 and different Jeep™ models "came and went" as the ownership changed over time. Then in 1971, after other corporate change, American Motors owned Jeep™ and established two wholly owned subsidiaries: AM General (to develop and build military and postal vehicles) and Jeep™ Corporation (to sell the Jeep™ product line for retail sale).51

AM General developed a new military vehicle, the "M998 Series High Mobility Multi-Purpose Wheeled Vehicle" or HMMWV, which later become known as the Humvee™.52 AM General won a government contract for the Humvees™ in 1981.53 In 1983, LTV Corporation acquired AM General, and

43. 311 F.3d 796 (7th Cir. 2002) (Bauer, Coffey, Williams, JJ.). The case was appealed from United States District Court for the Northern District of Indiana, No. 01-CV-0134 (Miller, J.). The counsel for plaintiff-appellee AM General was John D. LaDue, of Boveri, Murphy, Rice, Ryan & LaDue, South Bend, IN; the counsel for plaintiff appellee, Christopher Landau, of Kirkland & Ellis, Washington DC and Paul R. Garcia, of Kirkland & Ellis, Chicago, IL; the counsel for defendant-appellant, DaimlerChrysler Corp, was David H. Bernstein, of Debevoise & Plimpton, New York, NY.
44. *AM General Corp.*, 311 F.3d at 802.
45. Collectively GM, except in discussion of Jeep™ and AM General history.
46. *Id.* at 802.
47. *Id.*
48. *Id.*
49. *AM General Corp.*, 311 F.3d at 806.
50. *Id.*
51. *Id.* at 807.
52. *Id.*
53. *Id.*
established it as a wholly owned subsidiary. AM General succeeded in securing subsequent military contracts for the Humvees. In 1999, General Motors acquired all Hummer brand intellectual property rights and granted back to AM General the exclusive production rights for the new Hummer model and the continued right to use the Hummer grille design on the Humvee. GM equipped its H2 model with a narrower version of the H1 front-end grille. Meanwhile, Jeep Corporation continued to sell the Jeep line of vehicles. In 1987, Chrysler acquired American Motors, and with it, Jeep Corporation.

The first question the district court resolved was which Jeep trade dress to evaluate. DaimlerChrysler argued that its series of Jeep grille designs, which used seven to ten vertical slots stamped through a flat surface, was a family of marks. The Court’s analysis of this argument examined (1) distinctiveness; (2) joint use in advertising; (3) likelihood of confusion that the junior mark will be mistakenly considered another member of the family of marks; (4) use on closely related group of products in a particular field. The Court noted that the use of a limited number of different products weighed against finding that DaimlerChrysler had a family of marks. The Court concluded that a family of marks did not exist when the first Hummer vehicle was sold in 1985. According to the trial court, for its dilution claim, DaimlerChrysler had to prove that the family was famous by 1985. The trial court noted that only one mark, the CJ-2A front-end grille design, had fame by that date. The only two other Jeep models with front-end grille designs that fit within the family of marks as defined by DaimlerChrysler were the 1984-85 Jeep Cherokee and the 1985 Jeep Commanche truck, both sporting a grille with ten vertical slots. The Court found no evidence that the ten slot grilles had acquired fame or secondary meaning by 1985.
The Court concluded that, at the time GM's grille entered the market, only one "member" belonged to the "family" of marks: the CJ-2A grille. Therefore, no family of marks existed in 1985.67 The use of the ten-vertical-slot design started in 1984, but had not achieved secondary meaning by 1985.68 The Court noted that two models used an eight-vertical-slot design beginning in 1988.69 The Court found the seven-to-ten slot mark missing from nine Jeep™ models.70 Finally, the Court evaluated two advertisements depicting multiple Jeep™ models, but each ad had only one model with a grille fitting the family description.71

Another sub-issue, subsumed in the family of marks issue, related to the common parentage of AM General and DaimlerChrysler's predecessor, Jeep™ Corporation. That issue was whether LTV's acquisition of American General transferred all intellectual property rights in the Hummer™'s front-end grille design to AM General, or, conversely, was the grille design merely licensed for use on military vehicles? If AM General was licensed and its license was limited to military vehicles, then the Court could evaluate the family of marks from 1992,72 when the Hummer™ H1 entered the commercial market, rather than from 1985, the time of the military vehicle's first sale.

To answer this question, the Court looked at the agreements accompanying the LTV acquisition of AM General.73 When LTV acquired AM General from American Motors in 1983, it acquired intellectual property rights for the Humvee™, including a design patent application, which never ripened into a patent, on the front-end design.74 American Motors also licensed unspecified proprietary rights, but reserved to American Motors the Jeep™ names and marks and derivatives thereof and the CJ-10 vehicle design.75 The trial court, interpreting the 1983 agreement pursuant to New York law as directed in the agreement, said the plain, unambiguous language of the contract transferred to AM General "all rights relating to the Humvee™ design." AM General Corp., 311 F.3d at 819. 76 AM General could not call its vehicle a "Jeep™

sales of Hummer H1s beginning in 1992 were insufficient to create likely consumer confusion, then the date at which to determine whether Jeep had developed sufficient secondary meaning in a family of marks might have been 2002. Not all members of an alleged family need have existed before the first commercial use of the accused mark. AM General Corp., 311 F.3d at 819.

67. Id. at 818-19. The Court based its decision considering only those with fame or secondary meaning by 1985.
68. Id. at 817-18.
69. Id.
70. Id.
71. Id. at 818.
72. Arguably, the family of marks could be evaluated as of the 2002 H2 product entry for the trademark infringement claim because arguably the likelihood of confusion did not arise until then. Prior to that date, Humvees™ were limited to military use and Hummer H1 sales were de minimis.
73. AM General, 311 F.3d at 820.
74. Id. at 819-20.
75. Id.
76. Id. at 820. This subissue in the determination of the family of marks is the subject
vehicle” and could not equip it with the CJ-2A design with narrow vertical slots. In order for the Court to agree with Daimler Chrysler’s interpretation, that AM General transferred its front-end grille design in the design patent application, and yet license the design and maintained ownership, it would have to “contort” the contractual language.

The Court declined to consider evidence outside the agreements, despite DaimlerChrysler’s contention that the circumstances demonstrated the parties’ intent to grant a license limited to military vehicles. DaimlerChrysler contended that while both AM General and Jeep Corporation were subsidiaries of American Motors, Jeep designers incorporated the Jeep grille design into the Humvee to give it a Jeep-like appearance. The Court refused to consider testimony of one of the negotiators of the agreements who said that he believed the Humvee had a Jeep grille design, therefore falling within the reservation of Jeep marks and the grille design. The Court said should it resort to parol evidence, it would be more persuaded by the complete inattention to the purported license. Royalties were never sought. Objections were not made, even when AM General sought and obtained a trademark registration for the front end of the H1. “This uninterrupted inattention to the ‘license’ speaks deafeningly to American Motors’s intent in entering into the 1983 agreements with LTV.” Because AM General owned the front-end grille design in the Humvee, the Court could consider AM General’s first use in 1985 for the family of marks analysis.

The district court also concluded that DaimlerChrysler had no potential to overcome GM’s affirmative defense of laches for its dilution claim. GM argued that “If DaimlerChrysler had not remained silent as the grille was used on the Humvee and the H1, . . . [GM] would not have invested millions of dollars into the acquisition of the Hummer brand and

of a later summary judgment granted in favor of General Motors and AM General. In AM General Corp. v. DaimlerChrysler, 246 F. Supp. 2d 1030 (N.D. Ind. 2003), the district court granted summary judgment that the law of the case precluded DaimlerChrysler from challenging the use of the H2 grille design due to the Seventh Circuit’s determination on the preliminary injunction that the agreements transferred the right to use that grille design. As of the time of this article’s printing, the Seventh Circuit had not ruled on any appeal of that summary judgment.

77. AM General, 311 F.3d at 820.
78. Id. See also AM General Corp. v. DaimlerChrysler Corp., 246 F. Supp. 2d 1030 (N.D. Ind. 2003) (providing the basis for the subsequent summary judgment decision by the trial court, which granted summary judgment for AM General and GM, based on the law of the case on the interpretation of these agreements precluding DaimlerChrysler from challenging the H2 grille’s use).
79. AM General, 311 F.3d at 820-21.
80. Id. at 819.
81. Id. at 821.
82. Id.
83. Id.
84. Id.
85. Id.
86. AM General Corp., 311 F.3d at 822.
DaimlerChrysler insisted that the doctrine of progressive encroachment excused its delay in filing its claims until the advent of the H2. DaimlerChrysler argued that the Humvee’s military use beginning in 1985 did not compete with its commercial Jeep sales and that the de minimis sales of HIs excused its delay. Further, DaimlerChrysler stressed that competition was required to pose a danger of dilution and that the doctrine of progressive encroachment applied equally to dilution and to infringement claims. General Motors contended that, because competition was not required to prove dilution, the doctrine of progressive encroachment never excused delay in filing a dilution case.

The Court did not announce any general rule concerning the applicability of the progressive encroachment doctrine to dilution claims, although it acknowledged that the statute specifically provided that dilution could occur without competition. Instead, the Court looked at the two elements of proof in dilution: similarity of the mark and renown. The Court reasoned that because there was no proof that the similarity of the grille designs or their renown had increased over time, the progressive encroachment doctrine did not apply to DaimlerChrysler’s dilution claim. Although the delay in filing the dilution claim was not excused, the Court noted that the doctrine of progressive encroachment did apply to DaimlerChrysler’s infringement claim.

The likelihood of success of DaimlerChrysler’s infringement claim was decided only on the CJ-2A grille trade dress. The Court mentioned that “given the length of its consistent use on Jeep vehicles (now more than half a century), it is easy to conclude that DaimlerChrysler has a very high likelihood of proving that the CJ-2A grille design has acquired secondary meaning.” However, the Court concluded that the likelihood of showing likely consumer confusion was no better than negligible. The Court was

87. Id.
88. See GILSON, supra note 36, at 11.08(3)(i)(ii)(A)(IV) (defining progressive encroachment as “plaintiff’s defense against defendant’s claim of laches, occurs when a defendant begins use of a trademark or trade dress in the market, and then directs its marketing or manufacturing efforts such that it is placed more squarely in competition with the plaintiff”).
89. AM General, 311 F.3d at 823.
90. Id.
91. Id.
92. Id.
93. Id. at 823-24.
94. Id.
95. Id.
96. AM General Corp., 311 F.3d at 824.
97. Id. The court’s insistence on the 1985 date is at odds with its determination that the doctrine of progressive encroachment applied to this claim. The findings underpinning the progressive encroachment determination would also support a conclusion that confusion was not likely until the introduction of the H1 or H2, which would permit consideration of the infringement of later-introduced front-end grille designs.
98. AM General, 311 F.3d at 824.
99. Id. at 825-26.
unpersuaded that survey evidence demonstrated likely confusion. The Court discounted two surveys, in which respondents were shown pictures of the front end of a Hummer™ H2, to the extent that they demonstrated an association between the pictured vehicle and "Jeep™" generally or to models other than those with the CJ-2A grille. Having discounted most of the associations with Jeep™, the Court said that the remaining associations were too few (2.2%) to support the proposition that the H2 grille was sufficiently similar to the Jeep™ CJ-2A grille to make consumer confusion likely.

Looking at the classic likelihood of confusion factors, the Court concluded that only one factor, the strength of General Motor's CJ-2A grille design, weighed in favor of concluding confusion was likely. On the similarity of the trade dresses, the Court found only modest similarity: "[t]he CJ-2A grille is a series of seven long, narrow, closely bunched slots; the intended H2 grille is a series of seven shorter, wider, and more widely spaced slots." The Court did not analyze the variations in the CJ-2A grilles amongst the many models it was used on, most recently the Jeep™ Wrangler and the Jeep™ Liberty. The Court also did not evaluate the change in the Hummer™ grilles from the wider H1 to the narrower H2. The Court scrupulously avoided considering the front-end grilles in the context of the remainder of the vehicles they were used upon, and did not consider whether the front-end grilles considered, whatever their differences, might have more similarities than the front-end grilles of other vehicles. On the manner and area of concurrent use, the Court said that vehicles of both front-end grilles would be sold at car dealerships, but these would be different dealerships.

Regarding the degree of care likely to be used by consumers, the Court noted that vehicle consumers, spending more than $16,000 on a Jeep™ vehicle or more than $50,000 on an H2, were likely to use a great deal of care. At the time of the decision, the H2 had not yet been sold, so the evidence of actual confusion could not reasonably be expected. On the issue of General Motors's intent to pass off the H2 as a DaimlerChrysler Jeep™ vehicle, the Court concluded there was no direct evidence to support that claim. The Court rejected DaimlerChrysler's argument that General Motor's advertising references to a "legend" referred to Jeep™ vehicles rather than other Hummer™ vehicles and their use in Operation Desert Shield.

The Court noted that because DaimlerChrysler had shown no likelihood of confusion, the Court need not consider the harm to deny the preliminary

100. Id.
101. Id.
102. Id. at 826.
103. Id. at 827-29.
104. Id. at 825.
105. AM General Corp., 311 F.3d at 827.
106. Id. at 828.
107. Id. at 829.
108. Id.
109. Id.
injunction motion. However, the Court did consider the harm to the parties and others and concluded that on balance they “weigh[ed] enormously against the requested injunction.” The Court determined this, despite its view that over fifty years of goodwill built up around a “venerable” brand identifier would be irreparably harmed if the injunction was not issued, and the infringement was proven after the introduction of the H2. The Court also noted that the confusion may cause potential job losses to DaimlerChrysler employees and harm consumers. The harm to General Motors, the Court acknowledged, was largely due to its own high-stakes decisions during the suit’s pendency. However, the Court was sensitive to the $700 million General Motors invested in the H2 project. The Court was persuaded that there would be considerable harm to Indiana residents and state and local governments who made extraordinary arrangements to facilitate building the H2 production plant (including buying homes located where the plant was later built).

Despite the Seventh Circuit’s contrary view, the DaimlerChrysler decision seems to deliver overly broad and unnecessary dicta, which will likely be cited for a rash of purposes. The real message of this decision appears to be that Jeep, and its many associated corporate entities, missed the moment. If indeed it gave its sister corporation limited permission to use a Jeep grille design, but did not intend that use to expand beyond the military use, then it should have been on notice to carefully protect its reserved rights. Jeep should have been the most scrupulous at the time of the LTV agreement. If Jeep intended to grant the license only for military vehicles, then it could have included an express reservation clarifying that point. It took a risk in failing to do so. Perhaps Jeep did not wish an express reservation for fear that it would be a deal-buster.

B. Likely Confusion

A court may grant a preliminary injunction against a business with a website using metatags that cause initial interest confusion, according to

110. Id. at 830.
111. Id. at 835.
112. AM General Corp., 311 F.3d at 831-32.
113. Id. at 832.
114. Id.
115. Id.
116. Id. at 832-33.
117. The court described metatags as follows:

Metatags are HTML [HyperText Markup Language] code intended to describe the contents of the web site. There are different types of metatags, but those of principal concern to us are the “description” and “keyword” metatags. The description metatags are intended to describe the web site; the keyword metatags, at least in theory, contain keywords relating to the contents of the web site. The more often a term appears in the metatags and in the text of the web page, the more likely it is that the web page will be “hit” in a search for that keyword and the higher on the list of “hits” the web page will appear.

Promatek Indus. v. Equitrac Corp., 300 F.3d 808, 811 n.1. (7th Cir. 2002).
the Seventh Circuit in *Promatek Industries, Ltd. v. Equitrac Corp.* The appeal in *Promatek* was from a preliminary injunction that required the defendant, Equitrac, to place the following remedial language on its web page:\(^1\)

If you were directed to this site through the term "Copitrack," that is in error as there is no affiliation between Equitrac and that term. The mark "Copitrak" is a registered trademark of Promatek Industries, Ltd., which can be found at www.promatek.com or www.copitrak.com.\(^2\)

The Seventh Circuit affirmed the preliminary injunction grant.\(^3\)

The Equitrac website had been constructed using Copitrack™ as a metatag. The use of "Copitrack™" was the webmaster’s unintentional misspelling of "Copitrak."\(^4\) Equitrac and Promatek were competitors in the cost-recovery and cost-control equipment business.\(^5\) Promatek sold COPITRAK equipment, which provided a means of accounting and billing for the number of paper copies made for clients of law firms, accounting firms and such.\(^6\) Even though Equitrac sold a competing device, Equitrac contended that it included the Copitrack™ metatag on its website as a means of advertising its capability to service Copitrak equipment.\(^7\)

Upon learning of Equitrac’s use of the Copitrack™ metatag, Promatek sued for trademark infringement.\(^8\) Equitrac thereafter contacted all known search engines to have any link from the business’ website to the term Copitrack™ removed.\(^9\) Equitrac removed the problematic metatag from its website.\(^10\) Nevertheless, Promatek sought a preliminary injunction to prevent the use of Copitrack™ on Equitrac’s website.\(^11\) After granting the motion, the district court required that Equitrac post the above notice of nonaffiliation.\(^12\) Equitrac appealed.

The Seventh Circuit considered the following factors required for a preliminary injunction: (1) the likelihood of success on the merits; (2)
inadequacy of a legal remedy in the absence of the injunction and irreparable harm; (3) the balancing of harms; and (4) the public interest. On the likelihood of success, the Seventh Circuit considered the traditional likelihood of confusion factors used to assess trademark infringement:

First, in considering "the similarity between the marks," the Court found the marks were similar because Equitrac confessed that it intended to use the proper spelling of Copitrak in its metatag. Second, in considering "the similarity of the products," the Court concluded that the cost-recovery and cost-control equipment and services were in direct competition with each other. Third, in evaluating "the area and manner of concurrent use of the products," the Court concluded there was direct competition. Fourth, in analyzing "the degree of care likely to be exercised by consumers," the factor most discussed, the Court found that Internet consumers could initially be confused. Fifth, in considering "the strength of the plaintiff's marks," no evidence was provided. Likewise, in considering "evidence of actual confusion," no evidence was provided. Finally, in evaluating "the defendant's intent to palm off its goods as those of the plaintiff's," the Seventh Circuit discounted the defendant's claims that it did not intend to mislead customers. The Court noted that Equitrac "used that trademark in a way calculated to deceive consumers into thinking that Equitrac was Promatek."

The Seventh Circuit followed the Ninth Circuit in ruling that placing a competitor's trademark in a metatag created a likelihood of confusion because of initial interest confusion. Initial interest confusion, under the Lanham Act "occurs when a customer is lured to a product by the similarity of the mark, even if the customer realizes the true source of the goods before the sale is consummated." The Seventh Circuit found compelling the rationale in Brookfield Communications, Inc. v. West Coast Entertainment Corp.: In Brookfield Communications, the court found that although consumers are not confused when they reach a competitor's website, there is

131. Id.
132. Id. at 812.
133. Promatek, 300 F.3d at 812.
134. Id.
135. Id.
136. Id.
137. Id.
138. Id.
139. Id.
140. Promatek, 300 F.3d at 813.
142. Promatek, 300 F.3d at 812.
143. 174 F.3d 1036, 1062, 1064 (9th Cir. 1999).
nevertheless initial interest confusion. This is true in this case, because by Equitrac's placing the term Copitrack in its metatag, consumers are diverted to its website and Equitrac reaps the goodwill Promatek developed in the Copitrak mark. As the court in Brookfield explained,

"[U]sing another's trademark in one's metatags is much like posting a sign with another's trademark in front of one's store." Customers believing they are entering the first store rather than the second are still likely to mill around before they leave. The same theory is true for websites. Consumers who are directed to Equitrac's webpage are likely to learn more about Equitrac and its products before beginning a new search for Promatek and Copitrak.1

The Court did not consider the brevity of the potential confusion to be important.145 The Court found that trademark infringement is not excused by the fact that consumers' confusion would eventually be dispelled.146 The Seventh Circuit's main concern was the misappropriation of a company's goodwill by another, and in that sense, "Equitrac cannot unring the bell."147

Regarding the second element required for a preliminary injunction, the Court said that Promatek's injury to its consumer goodwill was an irreparable harm for which Promatek had no adequate remedy at law.148 On the balance of harms, the Seventh Circuit agreed with the district court that, without the injunction, Equitrac would continue to attract Internet consumers by using Promatek's trademark, thereby capitalizing on Promatek's goodwill.149 The Court rejected Equitrac's argument that Promatek was not being harmed because its consumers were sophisticated business people who were not likely to be confused easily or to make a purchase on the website.150 It ruled that the public interest was served by preventing consumer confusion.151

Finally, the Seventh Circuit rejected Equitrac's argument that the district court committed a procedural error in refusing to hold an evidentiary hearing.152 Equitrac claimed that it would have introduced evidence on its entitlement to advertise its capability of repairing Copitrack™ products.153 The Seventh Circuit said the failure to hear evidence on this point was no error because it was not the offer of repair services on the website which was problematic, but the way consumers found their way to Equitrac's website, that in effect the Copitrack™ metatag led consumers into thinking that Equitrac was Promatek.154

What is perhaps most interesting about the injunction against Equitrac
was the remedial language for the website. If the initial interest confusion resulted from website searches of Copitrack™ or Copitrak, then the remedial language potentially perpetuated the problem. If potential customers searched for Copitrak, they would still get to Equitrac due to the "remedial" language. Perhaps this is the reason that the remedial language is not presently on Equitrac's website.

Another case addressed likelihood of confusion for online consumers, albeit in dicta. In *Simon Property Group v. mySimon, Inc.*, the Simon Property Group (SPG), a real estate investment group with the domain name simon.com alleged Lanham Act and state law violations through the use of the mySimon domain name, web address and cartoon mascot in its comparison Internet shopping business. The district court granted a permanent injunction, following a jury trial, but stayed the injunction pending resolution of some outstanding damages issues. The Seventh Circuit dismissed the appeal for lack of jurisdiction, but put in its two cents on the evidence of likelihood of confusion.

The Seventh Circuit said that it had jurisdiction of an appeal challenging a delay in issuing an injunction if it was, effectively, a denial of injunctive relief that was appealable under 28 U.S.C. § 1292(a). However, the party attempting to appeal must show that the district court's decision was a definitive disposition of the request for relief and that a delay would cause irreparable harm. The Seventh Circuit said that SPG demonstrated neither. First, SPG voluntarily abandoned its request for a preliminary injunction after the district court denied its TRO motion. Such abandonment strongly undermined SPG's argument that the permanent injunction delay would cause irreparable harm. The Seventh Circuit also rejected SPG's argument that the trademark infringement would result in an irreparable harm due to the inability to control the nature and quality of the infringer's services. The Seventh Circuit called this irreparable harm argument "thin." The Court believed mySimon's evidence on likelihood of confusion was stronger than SPG's evidence:

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155. 282 F.3d 986 (7th Cir. 2002) (Flaum, C.J., Bauer, Evans, JJ.). The case was appealed from the United States District Court for the Southern District of Indiana, No. IP 99-1195-C H/G 2001 U.S. Dist. LEXIS 852 (S.D. Ind. Jan. 24, 2001) (Hamilton, J.). The counsel for plaintiff-appellant was Daniel L. Boots, of Bingham, Summers, Welsh & Spilman, Indianapolis, IN and David C. Hilliard, of Pattishall, McAuliffe, Newbury, Hilliard & Geraldson, Chicago, IL; the counsel for defendant-appellee, was Richard A. User, of Locke Reynolds, Indianapolis, IN and Costantine L. Trela, of Sidley Austin Brown & Wood, Chicago, IL).

156. *Simon Property Group*, 282 F.3d at 989. The district court set aside the $11.5 million award for profits, reduced the $10 million in state law punitive damages, and ordered a new trial on the corrective advertising issue. *Id.*

157. *Id.* at 991.

158. *Id.* at 990.

159. *Id.*

160. *Id.* at 990-91.

161. *Id.* at 990.


163. *Id.* at 990-91.
Despite the relative strength of mySimon's evidence and the relative weakness of SPG's, SPG's lawyer must have done a whale of a selling job as the jury awarded the company $11.5 million in mySimon's "profits" (although mySimon had not yet earned any profits), $5.3 million in corrective advertising (although SPG had not engaged in any corrective advertising), and $10 million in state law punitive damages.\footnote{164}

The Court noted that SPG and mySimon offered dissimilar services,\footnote{165} and that mySimon's survey evidence indicated that a "negligible risk of confusion" was present.\footnote{166}

The Seventh Circuit discredited SPG's surveys because they questioned professionals whose jobs required them to be aware of SPG, and thus were unrepresentative of the typical consumer.\footnote{167} MySimon's four surveys, on the other hand, questioned Internet users and shopping mall consumers.\footnote{168} Two percent of the respondents indicated relevant confusion.\footnote{169} The Seventh Circuit considered this "substantial" evidence of no likely confusion.\footnote{170}

The Seventh Circuit's conclusion on SPG's lack of credibility of the evidence appears insufficiently deferential to the jury. This case confirms what is well-understood by trademark trial attorneys: courts can almost always find something wrong with a survey.

The Te-Ta-Ma Truth Foundation v. World Church of the Creator case serves as a grave reminder to all officers of the court, both judges and attorneys, that the public service component of their duties may involve personal danger.\footnote{171} In 1982, the white supremacist group involved in Te-Ta-Ma, called itself Church of the Creator\textsuperscript{TM}. In 1996, it changed its name to World Church of the Creator.

Te-Ta-Ma gained renown when World Church's leader Matt Hale was the subject of a contempt hearing for refusing to stop using an infringing mark and turn over its organization's material bearing the mark.\footnote{172} The case then took a harrowing turn: Hale was arrested for allegedly conspiring to kill

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\footnote{164. Id. at 989.}
\footnote{165. Id. at 991.}
\footnote{166. Id.}
\footnote{167. Id. at 988-89.}
\footnote{168. Id. at 989.}
\footnote{169. Simon Property Group, 282 F.3d at 988-89. (citations omitted).}
\footnote{170. Id.}
\footnote{171. 297 F.3d 662 (7th Cir. 2002) (Coffey, Easterbrook, Williams, JJ.), cert. denied, 123 S. Ct. 864 (2003). The case was appealed from the United States District Court for the Northern District of Illinois, No. 00 C 2638, 2002 U.S. Dist. LEXIS 1478 (N.D. Ill. Jan. 31, 2002) (Lefkow, J.). The counsel for plaintiff-appellant Te-Ta-Ma Truth Foundation-Family of URI, Inc., was Paul R. Steadman, of Kirkland & Ellis, Chicago, IL; the counsel for defendant-appellee, The World Church of the Creator, was Todd M. Reardon, of A Citizen's Law Office, Charleston, IL.}
\footnote{172. See also Shia Kapos, Hale Church Fined for Trademark; U.S. Judge Sets Penalty Until it Stops Using Name, CHI. TRIB., April 25, 2003, at B3 (noting that the World Church, now calling itself the Creativity Movement, was fined $1000 per day for each day it failed to comply with the injunction forbidding its use of the CHURCH OF THE CREATOR and requiring it to shut down its website and to surrender its membership list).}
the federal district judge in the Te-Ta-Ma case.\(^{173}\)

The Te-Ta-Ma Seventh Circuit decision focused on a single question, "Is Church of the Creator\(^{TM}\) generic?"\(^{174}\) The Seventh Circuit concluded it was descriptive, not generic, and therefore the mark could be enforced against the World Church.\(^{175}\)

Te-Ta-Ma began receiving protests about its supposedly racist creed, a clear sign of confusion between the groups.\(^{176}\) Te-Ta-Ma brought suit seeking an injunction against the World Church’s use of its name.\(^{177}\) Both sides moved for summary judgment, and the district court entered judgment in favor of defendant, on the grounds that Church of the Creator\(^{TM}\) was a generic name of monotheistic religions and was therefore unenforceable.\(^{178}\)

The Seventh Circuit reversed.\(^{179}\)

According to the Seventh Circuit, the fact that the mark was incontestable only amounted to a rebuttal presumption of non-genericness and did not preclude a finding that the mark was generic.\(^{180}\) The Court looked to the mark’s usage: “A mark is ‘generic’ when it has become the name of a product (e.g., ‘sandwich’ for meat between slices of bread) or class of products (thus ‘church’ is generic). But ‘Church of the Creator’ is descriptive, like ‘lite beer.’ It does not name the class of monotheistic religions.”\(^{181}\)

The Seventh Circuit recited numerous “Church of” designations for denominations of religions.\(^{182}\) The Court distinguished a denominational name from a religious designation:

No Jewish, Islamic, Baha'i, or Unitarian group would say that it belongs to a “Church of the Creator”; and a Christian congregation would classify itself first into its denomination (e.g., Baptist, Lutheran, Russian Orthodox, Society

\(^{173}\) See Te-Ta-Ma Truth Found. v. World Church of the Creator, 246 F. Supp. 2d 980 (N.D. Ill. 2003) (dismissing Hale’s motion to disqualify the judge); Te-Ta-Ma Truth Found. v. World Church of the Creator, 2003 U.S. Dist. LEXIS 5466 (N.D. Ill. March 31, 2003) (noting that even though the opposing counsel received threatening communications from Hale, this still was not an exceptional case as to justify awarding attorney fees to counsel). As of the date of this article, his criminal trial is pending. The World Church’s litigation tactics include refusing to comply with the court’s injunction prohibiting World Church’s use of Church of the Creator,\(^{TM}\) seeking disqualification of the threatened judge, and filing suit against Te-Ta-Ma, which was dismissed on grounds of res judicata in view of the litigation discussed herein.

\(^{174}\) Te-Ta-Ma, 297 F.3d at 665.

\(^{175}\) Id. at 666.

\(^{176}\) Id.

\(^{177}\) Te-Ta-Ma, 297 F.3d at 664.

\(^{178}\) Id. at 665.

\(^{179}\) Id. at 667.

\(^{180}\) Id. at 665. The Seventh Circuit was not persuaded that only the Patent and Trademark Office, and not courts, could cancel a generic mark. Id.

\(^{181}\) Id. at 666.

\(^{182}\) Id. The court lists “Church of God; Church of God (Anderson, Indiana); First Church of God; Worldwide Church of God; Church of God in Christ; Assembly of God; Korean Assembly of God; Church of the Nazarene; Church of Christ; United Church of Christ; Disciples of Christ; Church of Christ, Scientist; Church of Jesus Christ of Latter Day Saints.” Te-Ta-Ma, 297 F.3d at 666.
of Friends), then into one of the major groupings (Roman Catholic, Orthodox, and Protestant), and finally into Christianity, but never into a “Church of the Creator.” No one called or emailed a Baptist church to complain about its complicity in the hate mongering of the World Church of the Creator; people recognized the name as denominational, and that’s why protest ended up in the Church of the Creator’s in box.\textsuperscript{183}

The Seventh Circuit said that using Church of the Creator\textsuperscript{TM} as a denominational name left ample choices for other sects to establish a separate identity.\textsuperscript{184} The Court noted that where the question of generic versus descriptive was close, it was helpful to ask whether one firm’s exclusive use of the phrase would prevent rivals from naming themselves and describing their products.\textsuperscript{185} The Seventh Circuit rejected World Church’s evidence of dictionary definitions of the individual words, “church” and “creator”: “That won’t cut the mustard, because dictionaries reveal a range of historical meanings rather than how people use a particular phrase in contemporary culture. ([S]imilarly, looking up the words ‘cut’ and ‘mustard’ would not reveal the meaning of the phrase we just used).”\textsuperscript{186}

The Seventh Circuit rejected the World Church’s argument that, as a religious group, it was exempt from trademark laws by the First Amendment.\textsuperscript{187} The Seventh Circuit also rejected World Church’s argument that it was the prior user because of its earlier use of the mark: “It turns out that tactics adopted to avoid paying for one’s wrongs have collateral costs.”\textsuperscript{188}

The Seventh Circuit’s distinction between a mark’s designation of denomination, rather than a monotheistic religion, seems to make no meaningful difference in terms of deciding whether the mark was generic. Certainly, the genericness doctrine gets to the public policy issue of language necessity, and the Seventh Circuit was right in assuring itself that the public did not need “World Church” as the only means of describing a service. However, the question might have been better decided on grounds other than religious classification, such as World Church’s failure to meet its burden of proof. The Foundation had an incontestable mark; therefore, the World Church was required to prove it was generic. Its only evidence was dictionary definitions of individual words.\textsuperscript{189} The Court could have avoided the difficult task of distinguishing religious classifications by pointing to the World Church’s lack of evidence.

\textbf{C. Licensing and Franchising}

The Seventh Circuit had a second occasion to consider the very visible Hummer\textsuperscript{TM} trademarks last year. The scope of a representation agreement

\textsuperscript{183} ld.
\textsuperscript{184} ld.
\textsuperscript{185} ld. at 666-67.
\textsuperscript{186} ld. at 666.
\textsuperscript{187} ld. at 667.
\textsuperscript{188} ld.
\textsuperscript{189} ld. at 666.
for a third party to license the Hummer™ mark was the subject of the appeal in *Beanstalk Group, Inc. v. AM General Corp.* The trial court dismissed, for failure to state a claim, the breach of contract allegation made by Beanstalk, the Hummer™ trademark licensing representative. The Seventh Circuit affirmed, with a dissent from Judge Rovner.

Beanstalk’s was in the intellectual property license negotiations business. It entered into an agreement with AM General, in 1997, to obtain licenses to use AM General’s Hummer™ mark in exchange for thirty-five percent of the receipts from those licenses. The representation agreement gave the following definition of property: “‘Property’ shall mean the name, symbols, designs, logos, packaging, copyrights and trademarks of Hummer™, and such other trade names, trademarks, copyrights, logos and other ancillary rights relating thereto to the fullest extent that Owner has, or may hereafter obtain, title or right thereto.”

The nature of the representation and the license agreements covered were defined as follows:

(b) The term “License Agreement” as used in this Agreement shall be deemed to include any agreement or arrangement, whether in the form of a license or otherwise, granting merchandising or other rights in the Property.

2. **NATURE OF REPRESENTATION.** Owner hereby engages Beanstalk, and Beanstalk accepts such engagement, to act as its sole and exclusive non-employee representative...(i) for the purpose of conceiving and establishing licensing programs in the Property,(ii) to seek out persons, firms or corporations to enter into License Agreements for use of the Property, and (iii) to solicit and negotiate agreements on the Owner’s behalf with any person, firm or corporation in the Territory granting licenses to use the property and all trademarks, trade names, service marks, copyrights... in connection with the manufacture, distribution, sale, advertising and promotion of any and all

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190. 283 F.3d 856 (7th Cir. 2002) (Posner, Rovner, Evans, JJ.), *reh'g and reh'g en banc denied*, 2002 U.S. App. LEXIS 7679 (7th Cir. Apr. 24, 2002). The case was appealed from the United States District Court for the Northern District of Indiana, No. 00 C 525 (Sharp, J.). The case was appealed from the United States District Court for the Northern District of Indiana, No. 00 C 525 (Sharp, J.). The case was appealed from the United States District Court for the Northern District of Indiana, No. 00 C 525 (Sharp, J.).


192. *Id.* at 864.

193. *Id.* at 858.

194. *Id.*

articles of merchandise or commerce, services, endorsements or any other form of exploitation of the business of the person, firm or corporation so licensed.\textsuperscript{196}

The representation agreement was assignable, but by Beanstalk only, and only with AM's consent.\textsuperscript{197} Beanstalk negotiated approximately twenty-four License Agreements on AM General's behalf.\textsuperscript{198} In 1999, AM General entered into a joint-venture agreement with General Motors under which GM would (1) design and engineer a new Hummer\textsuperscript{TM} model; (2) loan AM General $235 million to build a new factory; (3) buy a minimum number of the new Hummers\textsuperscript{TM}; (4) obtain an option on 40% of AM General's common stock; and (5) acquire the HUMMER\textsuperscript{TM} trademark.\textsuperscript{199}

GM informed Beanstalk that it would not compensate Beanstalk for any license agreements after the joint venture became effective because it had not assumed any of AM General's obligations under the representation agreement.\textsuperscript{200} Beanstalk filed a diversity breach of contract action, claiming that it was due thirty-five percent of the consideration running from GM to AM General that was attributable to the trademark transfer.\textsuperscript{201} The district court dismissed the breach of contract claim under Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim.\textsuperscript{202} The Seventh Circuit affirmed.\textsuperscript{203}

The Seventh Circuit concluded that the joint venture agreement was not an agreement contemplated in the broad language defining license agreements for which Beanstalk was due compensation.\textsuperscript{204} The Court explained that there were two bases for ignoring the contract's language. One was a "cultural" interpretation and, the other, an interpretation of the contract as a whole.\textsuperscript{205}

First, the Court could ignore the plain language where that interpretation yielded "absurd" results viewed in "cultural" context.\textsuperscript{206} The Court viewed the joint venture agreement as a sale of the Hummer\textsuperscript{TM} business and not the merchandising covered by the representation agreement.\textsuperscript{207} The joint venture was in essence 'a transfer of the Hummer\textsuperscript{TM} business to GM, where AM General's role was decreased only to manufacturing.'\textsuperscript{208}

According to the Court, Beanstalk was not a business broker.\textsuperscript{209} The Court hypothesized that the parties could hardly have intended to give a

\begin{thebibliography}{99}
\item[196.]{Id. at 1022-23 (emphasis added).}
\item[197.]{Beanstalk Group, 283 F.3d at 858.}
\item[198.]{Beanstalk, 143 F. Supp. 2d at 1024.}
\item[199.]{Beanstalk Group, 283 F.3d at 859.}
\item[200.]{Id.}
\item[201.]{Id.}
\item[202.]{Id. at 858.}
\item[203.]{Id. at 864.}
\item[204.]{Id. at 860-61.}
\item[205.]{Id. at 860-62.}
\item[206.]{Beanstalk Group, 283 F.3d at 859-60.}
\item[207.]{Id. at 860-61.}
\item[208.]{Id.}
\item[209.]{Id. at 861.}
\end{thebibliography}
merchandiser a commission from the sale of the Hummer™ business.\textsuperscript{210} To illustrate the absurdity of Beanstalk's interpretation, the Court noted that if AM General sold its Hummer™ business the day following the signing of the representation agreement, Beanstalk would have been due thirty-five percent of the value of the trademark transfer without having contributed anything to that value.\textsuperscript{211} The Court, however, said it might rely on “cultural” as well as linguistic interpretations:

The cultural background that a judge brings to the decision of a contract case includes as we said a general knowledge of how the world operates, including the commercial world, and this knowledge, precisely because it is general rather than being knowledge of the specific facts of the case (“adjudicative facts”), can show that the literal interpretation of a particular contractual term would be unsound, in which event no evidence need be taken.\textsuperscript{212}

The Court explained its cultural understanding of absurdity as an interpretive principle and not a species of paternalism:

To interpret a contract... [o]ne must know something about the practical as well as the purely verbal context of the language to be interpreted. In the case of a commercial contract, one must have a general acquaintance with commercial practices. This doesn’t mean that judges should have an M.B.A. or have practiced corporate or commercial law...\textsuperscript{213}

According to the Court, it is sufficient that the judge be an alert citizen of a market-oriented society, so that she can recognize business absurdity when she sees it.\textsuperscript{214} The Court was weary of stiff literalism that could lead to nonsensical results.\textsuperscript{215}

Turning from the cultural interpretation to interpreting the contract as a whole, the Court said that Beanstalk’s asserted interpretation ignored that the representation agreement engaged Beanstalk to be AM General’s “sole and exclusive non-employee representative.”\textsuperscript{216} This implied, according to the Court, that AM General’s employees could negotiate license agreements without going through Beanstalk.\textsuperscript{217} Beanstalk conceded this, but argued that, for agreements negotiated by AM General regarding the Hummer™ trademark, receipts still had to be paid to Beanstalk.\textsuperscript{218}

The Seventh Circuit said that Beanstalk’s interpretation would ignore the agreement provisions that required license receipts “on Owner’s behalf” to be accounted to AM General periodically.\textsuperscript{219} The Court said that this implied that Beanstalk would receive receipts only for license agreements that it negotiated, an interpretation reinforced by the failure to include in the

\textsuperscript{210} Id.
\textsuperscript{211} Id.
\textsuperscript{212} Beanstalk Group, 283 F.3d at 862.
\textsuperscript{213} Id. at 860.
\textsuperscript{214} Id.
\textsuperscript{215} Id.
\textsuperscript{216} Id. at 862 (emphasis added).
\textsuperscript{217} Id.
\textsuperscript{218} Id.
\textsuperscript{219} Beanstalk Group, 283 F.3d at 862.
agreement any method of compensating Beanstalk out of receipts received directly by AM General. The Court considered “absurd” Beanstalk’s argument that Beanstalk rather than AM General should have been paid for the Hummer business sale in the first instance.

The Court did not allow Beanstalk to present evidence on its interpretation of the agreement. The only evidence that Beanstalk wanted to present was AM General’s request for an express exclusion from the representation agreement of any agreement “for the purpose of producing motor vehicles.” The Court’s response was stated plainly: But of course. It was simple prudence for AM General to try to head off this lawsuit. It doesn’t follow that the lawsuit has any merit. Indeed, to penalize AM General for attempting an amicable resolution of a potential dispute in advance would violate the spirit of the rule that makes settlement offers inadmissible in an adjudication on the merits.

In her dissent, Judge Rovner voiced her concern that the Court avoid the temptation, heightened by an overburdened docket, to weed out weak claims by “bending the Federal Rules of Civil Procedure past the breaking point.” Judge Rovner’s dissent made a reference to the Seventh Circuit’s decision in Jackson v. Marion County, where the court noted a growing tendency to expand the Federal Rules of Civil Procedure in order to dispose of cases on summary judgment where previously they would have gone to trial. “We drew the line in Jackson [sic],” said Judge Rovner, “to make clear that we will not interpolate a requirement of fact pleading into the federal rules.”

The dissent also questioned the appropriateness of substituting the Court’s “cultural understanding” for a defined term in the contract:

“In the absence of discovery, the majority substitutes its own “cultural understanding,” its own “cultural background,” and its own general knowledge of the commercial world for a defined term in the contract, a dubious proposition at best. Judges are trained in law, not business, and however cosmopolitan we may be about the world of commerce, I think it an unwise practice to substitute our general knowledge of the business world for the express terms of a contract, especially in the absence of any discovery that might elucidate the parties’ true intent.

The dissent observed that most cases resolving a contract interpretation by eliminating those yielding “absurd” results were finalized later in the litigation stage than in the instant case, either in a summary judgment ruling

220. Id.
221. Id.
222. Id. at 863.
223. Id.
224. Id.
225. Id. at 866. See also RICHARD A. POSNER, THE FEDERAL COURTS: CHALLENGE AND REFORM 53–86 (1996) (discussing the increased workload of federal courts).
226. 66 F.3d 151, 153 (7th Cir. 1995).
227. Beanstalk Group, 283 F.3d at 866.
228. Id.
229. Id. at 865-66.
Judge Rovner reasoned that, rather than calling Beanstalk's interpretation absurd, the contract might simply be a bad deal, from which AM General did not need protection, as if an unsophisticated party. The majority's suggestion that AM General could not have intended to pay "double" for licenses negotiated by its own employees by having to pay its employees salaries and a portion of the license fees to Beanstalk, was not proper on the 12(b)(6) motion without discovery on the parties intent, the dissent argued. A line should be drawn in this case "to require discovery on the intentions of the contracting parties rather than substituting our own cultural understanding for ambiguous contract terms."

Judge Rovner agreed with the majority that other provisions in the representation agreement gave some reason to question the plain language of the definition of "License Agreement:" "Although there is a tension between the definition of License Agreement and other provisions of the contract, it is not for us to resolve that tension on a motion to dismiss." In short, the dissent viewed further discovery rather than dismissal as the proper course. The importance of this case is likely to grow over time, impacting more than intellectual property.

In Beanstalk, the Court used its "business sense" to disregard the plain language of a contract when reviewing a motion to dismiss. When Beanstalk stood on the literal terms of the representation agreement, the majority said it stood on "quicksand." The case is already being cited to support the "business sense" means of interpreting contracts. For example, in Gerow v. Rohm & Haas Co., the Court cites Beanstalk and notes: "it is a fundamental principle of contract interpretation that courts read language to make business sense whenever possible." Rovner's dissent is compelling; why not let the record develop and perhaps demonstrate a more appropriate ground for disregarding the agreement's plain language?

In another decision provoking a dissent, Dersch Energies, Inc. v. Shell Oil Co., the Court addressed the Petroleum Marketing Practices Act (PMPA), the first of two cases in which the Seventh Circuit looked at

230. Id.
231. Id. at 865.
232. Id. at 866.
233. Id.
234. Beanstalk Group, 283 F.3d at 866.
235. Id. at 865-66.
236. Id. at 863.
237. 308 F.3d 721 (7th Cir. 2002).
238. Gerow, 308 F.3d at 725.
239. 314 F.3d 846 (7th Cir. 2002) (Flaum, C.J., Cudahy, Manion, JJ.). The case was appealed from the United States District Court for the Southern District of Illinois, 2001 U.S. Dist. LEXIS 22381 (S.D. Ill. May 15, 2001) (Gilbert, J.). The counsel for plaintiff-appellant Dersch Energies, Inc., was William L. Taylor, of Taylor & Powell, Alexandria, VA; the counsel for defendant-appellee Shell Oil Co. and Equilon Enterprises, was William J. Becker, of Heyl, Royster, Voelker & Allen, Edwardsville, IL and Douglas C. Crone, of Tribler, Orpet & Crone, Chicago, IL.
allegations invoking that statute.\textsuperscript{241} Both cases were decided in favor of the franchisors. The PMPA is a federal statute for the protection of franchised dealers and distributors, of gasoline and other petroleum products, who have invested in the franchisor’s trademarks, thus creating goodwill that the franchisor might be tempted to appropriate by terminating the franchisee.\textsuperscript{242} Thus, the Act is intended to limit the franchisor’s right to terminate its franchise agreements.\textsuperscript{243}

At issue in the case was Shell Oil’s agreement with Dersch to sell Shell Oil products for resale to retail distributors.\textsuperscript{244} With their franchise agreement set to expire in fall of 1998, the parties began negotiating a renewal in December 1997.\textsuperscript{245} After ten months of negotiating and with Dersch having voiced concern over a number of provisions, Dersch signed the renewal agreement “under protest.”\textsuperscript{246} Dersch operated under the Renewal Agreement for a year, and then filed suit pursuant to the PMPA seeking a declaration that Shell Oil and Equilon (collectively “Equilon”) had violated the PMPA by conditioning the renewal of its franchise agreement on Dersch’s releasing claims and rights it allegedly held under federal and state law.\textsuperscript{247} The district court granted summary judgment in favor of the defendants because it found that Dersch failed to prove as a threshold matter that its franchise was terminated or nonrenewed, as required by 15 U.S.C. § 2805(c) or that the franchise was “constructively” nonrenewed.\textsuperscript{248} The district court rejected Dersch’s argument that the PMPA’s § 2805(f), which prohibited the conditioning a franchise renewal on the franchisee’s releasing or waiving its rights under federal or state law, provided an independent basis for relief upon demonstrating constructive nonrenewal.\textsuperscript{249} The Seventh Circuit affirmed.\textsuperscript{250}

The Court provided an overview of the PMPA: “The PMPA governs franchise arrangements for the sale, consignment or distribution of motor fuel ‘in commerce,’ and protects franchisees from arbitrary or discriminatory termination or nonrenewal of their motor fuel franchises.”\textsuperscript{251} The Court noted that Congress’ goal was to level the playing field and address the disparity in bargaining power between franchisors, often major oil companies, and franchisees in the petroleum industry.\textsuperscript{252} The PMPA was to accomplish this goal by “providing a single, uniform set of rules governing the termination of petroleum franchises and nonrenewal of petroleum

\begin{footnotesize}
\begin{enumerate}
\item See also Draeger Oil Co. v. Uno-Ven Co., 314 F.3d 299 (7th Cir. 2002) (analyzing the PMPA).
\item 15 U.S.C. § 2801.
\item Dersch Energies, 314 F.3d. at 855-56.
\item Id. at 849.
\item Id.
\item Id.
\item Id. at 851.
\item Id. at 853.
\item Id. at 852-53.
\item Dersch Energies, 314 F.3d. at 867.
\item Id. at 855.
\item Id.
\end{enumerate}
\end{footnotesize}
franchise relationships.\textsuperscript{253} The Act prohibits terminating or nonrenewing franchise relationships, as described in § 2802(a)\textsuperscript{254} except on grounds set out in §§ 2802(b)(2)-(3)\textsuperscript{255} or 2803(c) where notice is properly provided pursuant to § 2804.\textsuperscript{256}

MPA § 2805 provides for a federal civil action and also provides for preliminary relief prior to the expiration of a franchise where nonrenewal or termination notice has been provided by the franchisor.\textsuperscript{257} Section 2805(f)(1) provides:

No franchisor shall require, as a condition of entering into or renewing the franchise relationship, a franchisee to release or waive – (A) any right that the franchisee has under this title or other Federal law; or (B) any right that the franchisee may have under any valid and applicable State law.\textsuperscript{258}

The Court noted that the question of whether § 2805(f)(1) contained an implied private cause of action or may be the basis of a constructive nonrenewal claim under the PMPA, was a question of first impression.\textsuperscript{259} Because it is a matter of statutory construction, the standard of review is \textit{de novo}.\textsuperscript{260} The Court said that § 2805(f) must be viewed in the context of other parts of the Act, and § 2805(a) provides for a civil action only where the franchisor “fails to comply with the requirements of Sections 2802 or 2803.”\textsuperscript{261} Similarly, § 2805(b) provides for equitable relief for failures to comply with §§ 2802 and 2803. The Seventh Circuit agreed with the trial court that the explicit causes of action in §§ 2805(a) and 2805(b) made it “highly unlikely that Congress absentmindedly forgot to provide a cause of action for § 2805(f)(1).”\textsuperscript{262} The Seventh Circuit relied on the Supreme Court’s guidance on this canon of statutory construction.\textsuperscript{263} The Court concluded that a franchisee could maintain an action under the PMPA for § 2805(f)(1) violations only if those violations amounted to a nonrenewal of its franchise relationship under §§ 2802 and 2803.\textsuperscript{264}

This led the Court to analyze whether Equilon’s alleged violation of § 2805(f)(1) was a nonrenewal actionable under § 2802.\textsuperscript{265} Dersch argued that because Equilon conditioned the renewal of the franchise relationship on

\begin{footnotesize}
\begin{enumerate}
\item 253. \textit{Id.} at 855-56.
\item 255. \textit{Id.} § 2802-3 (2000).
\item 256. \textit{Dersch Energies}, 314 F.3d at 856.
\item 257. \textit{Id.} at 856-57.
\item 259. \textit{Dersch Energies}, 314 F.3d at 855.
\item 260. \textit{Id.}
\item 261. \textit{Id.} at 856-57. Section 2803 applies to trial and interim franchises and thus was not at issue in \textit{Dersch Energies}, since Dersch was a franchisee for over sixteen years. \textit{Id.} at 857 n.10.
\item 262. \textit{Id.} at 857.
\item 263. \textit{Id.} See also \textit{Gonzaga Univ. v. Doe}, 536 U.S. 273, 284 (2002) (holding that even where a statute is phrased so as to create a right, plaintiff must show that the statute manifests an intent to create not just a right but a remedy).
\item 264. \textit{Dersch Energies}, 314 F.3d. at 857-58.
\item 265. \textit{Id.} at 858.
\end{enumerate}
\end{footnotesize}
Dersch’s releasing or waiving certain of its rights under state and federal law, Equilon’s requirement constituted a constructive nonrenewal within the meaning of the PMPA.\textsuperscript{266}

Interestingly, the Seventh Circuit agreed with the trial court’s conclusion but not its reasoning, and cited a rule important in representing an appellee: “[A]n appellate court may affirm the district court’s [decision] on any ground supported by the Record, even if different from the grounds relied upon by the district court.”\textsuperscript{267} The trial court had concluded that the renewal agreement was the same in substance as the original franchise agreement and that any new contract terms were made in good faith and in the normal course of business, as permitted by § 2802(b)(3)(A), and therefore in effect circumvented the prohibitions of § 2805(f)(1).\textsuperscript{268} The Seventh Circuit disagreed that the franchisee could use § 2802(b)(3)(A) to “do an end run” around § 2805(f)(1)’s release and waiver prohibition.\textsuperscript{269} However, the Seventh Circuit did not resolve the question whether Equilon had in fact sought releases and waivers of federal and state law rights. Instead, the Court said that the first question to be asked was whether there was a nonrenewal, either actual or constructive.\textsuperscript{270}

To demonstrate a constructive nonrenewal, the Court said, the plaintiff was required to show that at least one of the three basic elements of a franchise agreement had been terminated or discontinued.\textsuperscript{271} These three elements were (1) the contract to use the refiner’s trademark, (2) the contract for the supply of motor fuel, and (3) the lease of the premises.\textsuperscript{272} Because Dersch could not demonstrate that Equilon’s alleged violations of § 2805(f)(1) resulted in the nonrenewal of the lease of retail premises, motor fuel supply contract or the contract to use the Shell trademark in connection with retail sales, Dersch could not demonstrate the nonrenewal of its franchise relationship.\textsuperscript{273}

The Court rejected Dersch’s argument that its franchise was not renewed because it signed under protest, thereby rejecting the theory earlier endorsed by the Ninth Circuit in \textit{Pro Sales, Inc. v. Texaco, U.S.A.},\textsuperscript{274} and relied on by the dissent.\textsuperscript{275} The Seventh Circuit majority concluded that Dersch’s position was weaker than the plaintiff’s in \textit{Pro Sales}, because in

\begin{itemize}
  \item \textsuperscript{266} Id.
  \item \textsuperscript{267} Id. at 859.
  \item \textsuperscript{268} Id. at 853.
  \item \textsuperscript{269} Id. at 859.
  \item \textsuperscript{270} Id. at 858 n.12.
  \item \textsuperscript{271} \textit{Dersch Energies}, 314 F.3d at 864. Constructive nonrenewals based on the loss of one of the three elements had been recognized by the Seventh Circuit and other circuits, according to the court. Id.
  \item \textsuperscript{272} Id. See also 15 U.S.C. § 2801 (1) (defining franchise as any contract between a franchisor and franchisee under which the franchisor authorizes or permits the franchisee to use, in connection “with the sale, consignment or distribution of motor fuel under a trademark which is owned or controlled by such [franchisor] . . . which authorizes or permits such occupancy”).
  \item \textsuperscript{273} \textit{Dersch Energies}, 314 F.3d at 860.
  \item \textsuperscript{274} 792 F.2d 1394, 1399 (9th Cir. 1986).
  \item \textsuperscript{275} 314 F.3d at 864-65.
\end{itemize}
that case the plaintiff sought to invoke its rights under the PMPA immediately upon signing the contested franchise agreement and also sought preliminary relief under the continuing terms of the old franchise agreement.\textsuperscript{276} More importantly, said the Court, the \textit{Pro Sales} decision disregarded the explicit statutory provisions affording statutory protection to franchisees who receive formal notice of termination or nonrenewal, and relied instead on legislative history to support its holding.\textsuperscript{277}

The Seventh Circuit declined to accept Dersch’s and the dissent’s assertion that its analysis would force the plaintiff to face going out of business before invoking the protections of the PMPA.\textsuperscript{278} On the contrary, said the majority, Dersch could have permitted Equilon to issue a formal notice of nonrenewal and then could have sought preliminary relief.\textsuperscript{279} “However, by signing the renewal agreement, and thus renewing its statutory ‘franchise,’ Dersch divested itself of the right to bring an action under the PMPA.”\textsuperscript{280} The Seventh Circuit explained: “the PMPA is only designed to regulate a narrow aspect of petroleum franchise relationships – the termination of franchises and the nonrenewal of franchise relationships.”\textsuperscript{281}

The Court suggested that although Dersch failed to demonstrate that the alleged § 2805(f)(1) violations amounted to a constructive nonrenewal, it was possible for such violations to result in a nonrenewal.\textsuperscript{282} Additionally, the Seventh Circuit explained that § 2805(f)(1) could be enforced after notice of termination is served, but before the termination takes effect, by requesting preliminary injunctive relief pursuant to § 2805(b)(2).\textsuperscript{283} Moreover, the Court suggested that § 2805(f)(1) violations might be remedied outside of the PMPA, for example, through a state law claim, such as economic duress.\textsuperscript{284}

Judge Cudahy’s dissent asked a critical question: “[w]hat possible purpose could Congress have had in amending the PMPA in 1994 to add Section 2805(f)(1)?”\textsuperscript{285} According to the dissent, the majority virtually wrote § 2805(f)(1) right out of the United States Code and required a franchisee to “commit economic suicide” by allowing its gasoline supply to be terminated.\textsuperscript{286} The dissent’s view of the statute’s plain meaning was that § 2805(f) provided a private right to sue.\textsuperscript{287} The logic of the statute read as a whole required that it provide a remedy for § 2805(f) violations.\textsuperscript{288} The dissent distinguished the statutory construction precedent relied upon by the

\textsuperscript{276} Id. at 865.
\textsuperscript{277} Id.
\textsuperscript{278} Id.
\textsuperscript{279} Id. at 866.
\textsuperscript{280} Id.
\textsuperscript{281} Id. at 860.
\textsuperscript{282} Dersch Energies, 314 F.3d at 860.
\textsuperscript{283} Id. at 862.
\textsuperscript{284} Id.
\textsuperscript{285} Id. at 867.
\textsuperscript{286} Id.
\textsuperscript{287} Id. at 872.
\textsuperscript{288} Id. at 872-73.
majority as inapplicable in the situation where Congress clearly intended to provide remedies and to empower private actors with a cause of action:

This is not, as the majority characterizes it, an attempt to read new types or modes of remedies into the statute. . . . Section 2805 clearly provides for damages as well as injunctive relief. Nor is this an attempt to expand an existing cause of action to capture new, extra statutory conduct. . . . An unarguable purpose of the statute is to furnish private rights to franchisees to protect themselves from franchisors who use imbalances in bargaining power to force compliance with franchisor policies.289

The dissent viewed Seventh Circuit precedent differently from the majority.290 In particular, the Beachler v. Amoco Oil Co.291 case cited by the majority did not stand for the proposition that formal notice of nonrenewal was required for relief; rather it suggested that PMPA arose as soon as Equlon said "take-it-or-leave-it."292 The dissent also viewed the Ninth Circuit decision in Pro Sales differently. Pro Sales should not be distinguished on the basis of the plaintiff's promptness in seeking relief because the nature of relief sought in this case was declaratory rather than preliminary injunctive relief and did not require the same haste.293 Moreover, Dersch complied with the requirement of filing suit within a year of the "nonrenewal" as required by the statute.294

Judge Cudahy also went on to examine whether the disputed contract provisions did indeed require a release or waiver of any of Dersch's rights under state or federal law and determined that one or more might and should have been evaluated on remand.295

Another PMPA case was decided the same day as the Dersch case. In Draeger Oil Co. v. Uno-Ven Co.,296 the Court held that the franchisor properly terminated its franchise agreements.297 In Uno-Ven, a group of Midwest gasoline dealers for Union 76 gasoline filed suit under the PMPA.298 The defendants included several corporate lawyers and partners,
including Union Oil Company of California (Unocal) and its 50-50 partnership, Uno-Ven. The other partner, Petroleos de Venezuela (PDV), was not named a defendant. The partnership purpose was to refine crude oil produced by PDV into gasoline refined by Unocal in Illinois and marketed in the Midwest. As part of the deal, Unocal licensed the "Union 76" trademark to Uno-Ven, and Uno-Ven licensed the marks to Midwest gasoline dealers. However, the partners eventually had a falling out because PDV saw the deal as disadvantageous. Unocal decided to get out of refining and marketing and to focus on exploration and development. Unocal sold its refining and marketing assets to Tosco in 1996, including the "Union 76" trademarks, subject to existing licenses (including the license to Uno-Ven).

When Unocal and PDV dissolved Uno-Ven the following year, Uno-Ven notified the dealers that their franchises were to be terminated a year following the notification because it was going out of business. Uno-Ven was to return the "Union 76" trademarks to Unocal (to be transferred to Tosco). PDV was to get Unocal's Illinois refinery and other Midwest refining and marketing assets, and PDV agreed to support the trademark for the year following termination notification. Tosco, which then had national rights to the "Union 76" mark, decided that at the end of the year in which it was contractually bound to support the trademark, Tosco would not issue any licenses in the Midwest. Thus, the mark was in effect abandoned in the Midwest.

The nub of the gasoline dealer's suit was that the Petroleum Marketing Practices Act was violated when Uno-Ven was dissolved in a way that resulted in the death of the Union 76 trademarks in the Midwest. The plaintiffs argued that Unocal should have recaptured the Union 76 trademark licenses for the Midwest dealers or transferred the Union 76 trademark to PDV. The district court granted summary judgment in favor of the Uno-Ven and Unocal. The Seventh Circuit affirmed.

The Seventh Circuit reasoned that Unocal's withdrawal from the refinery business was in essence a lawful abandonment of property without

299. Id.
300. Id. at 299-300.
301. Id. at 300.
302. Id.
303. Id.
304. Id.
305. Draeger Oil, 314 F.3d at 300.
306. Id.
307. Id.
308. Id.
309. Id. at 301.
310. Id.
311. Id.
312. Draeger Oil, 314 F.3d at 301.
313. Id. at 301-02.
314. Id. at 299.
In such instances, a business has no obligation to compensate any third parties that may be harmed by the withdrawal.

The Court assumed, without deciding, that Unocal was an affiliate of Uno-Ven within the meaning of the PMPA, and thus subject to the Act respecting the termination of the Uno-Ven franchises. The Court said that it was plain that the franchise termination was reasonable and in Unocal’s interest because Unocal wanted out of the marketing end of the oil business and had transferred marketing rights to Tosco.

What is surprisingly absent from the Court’s opinion is an examination of the statute. The Court seems to be saying that a termination that makes good business sense is lawful and therefore results in no duty to compensate those harmed by its decisions. This appears to place the cart before the horse and undermine the policy that resulted in more protection for franchisees. The better approach would be to decide whether the Act creates a franchisor duty to maintain a viable trademark.

In another case involving a franchisee protection statute, this time a Wisconsin statute, the Land O’Lakes’ logo came into play in Van Groll v. Land O’ Lakes, Inc. Van Groll claimed he was protected under Wisconsin’s Fair Dealership Law (WFDL) because Land O’ Lakes made him a “dealer.” Land O’ Lakes attempted to terminate the agreement pursuant to which Van Groll hauled milk from dairy farmers to a Land O’ Lakes production facility. Van Groll alleged that Land O’ Lakes had failed to provide proper notice prior to termination and claimed he was entitled to damages, including the cost of his truck and the amount he paid to buy out a partner. Land O’ Lakes required Van Groll to wear a Land O’ Lakes uniform while hauling milk and paid for its logo on Van Groll’s truck. Under the Wisconsin statute, a dealership requires an agreement “by which a person is granted the right to sell or distribute goods or services, or use a trade name, trademark, service mark, logotype, advertising or other commercial symbol” in which there is a community of business interest. The WFDL was intended to be liberally construed to protect dealers against unfair treatment by grantors, who occupy superior economic and bargaining

315. Id. at 302.
316. Id.
317. Id. at 301.
318. Id.
319. 310 F.3d 566 (7th Cir. 2002) (Posner, Diane P. Wood, Evans, J.J.). The case was appealed from the Eastern District of Wisconsin (Reynolds, J.). The counsel for plaintiff-appellant, Timothy J. Van Groll, was R. George Burnett, Tony A. Kordus, of Liebmann, Conway, Olejniczak & Jerry, Green Bay, WI; the counsel for Land O’Lakes, Inc., defendant-appellee, was Jonathan C. Miesen, of Linquist & Vennum, Minneapolis, MN.
320. Van Groll, 310 F.3d at 568.
321. Id. at 567.
322. Id. at 569.
323. Id. at 567. Judge Evans wrote: “Van Groll and Land O’ Lakes agreed to a deal giving Van Groll’s trucking company, creatively named Tim Van Groll Trucking, exclusive rights to haul milk. . . . “Id. (emphasis added). The author believes this gratuitous slight should have been left out of the opinion.
324. Van Groll, 310 F.3d at 568.
positions during dealership negotiations. The district court concluded that Van Groll was not a "dealer" within the meaning of the statute. The Seventh Circuit agreed, affirming summary judgment in favor of the defendant.

The Seventh Circuit looked at three similar cases to determine whether Van Groll "distributed goods" within the meaning of the statute defining dealer. In Moodie v. School Book Fairs, Inc., the Seventh Circuit held that a truck driver who delivered books to school book fairs was a "dealer," within the meaning of the statute where, pursuant to a written agreement giving him an exclusive distribution area, the truck driver was required to maintain a place to store the books and required to maintain a truck to haul the books. The Seventh Circuit, in Rakowski Distributing, Inc. v. Marigold Foods, Inc., concluded that a milk hauler was not a "dealer." The milk hauler was not required to purchase trucks or to build storage facilities in order to satisfy their agreement, although it found it convenient to do so. The hauler's responsibilities were limited to transporting products to customers and did not include maintaining inventory, placing products on shelves, monitoring customer inventories, or scheduling future deliveries. The Wisconsin Supreme Court found that a trucking company was not a dealer where it picked up packages from customers and dropped them off at a central location, in Kania v. Airborne Freight Corp.

The Seventh Circuit concluded that the Van Groll case more closely resembled the Rakowski or Kania case, where the hauler was not a "dealer" than the Moodie case. Important to the Seventh Circuit in determining whether Van Groll was a dealer was whether there was a community of interest demonstrated by requirements from the grantor of additional requirements. The Court concluded that Van Groll's expenses in buying his truck and in buying out his former partner were not required by Land O' Lakes. The Seventh Circuit also rejected Van Groll's argument that a non-compete clause that applied to the farmers Van Groll served for Land O' Lakes indicated intertwined interests. The Court was not persuaded that Land O' Lakes exerted control over Van Groll by giving Van Groll an instruction manual which consisted of applicable federal and state

325. Id.
326. Id.
327. Id. at 571.
328. Id. at 568-69.
329. 889 F.2d 739 (7th Cir. 1989).
330. Van Groll, 310 F.3d at 568.
331. 193 F.3d 504 (7th Cir. 1999).
332. Van Groll, 310 F.3d at 568-69.
333. Id. at 569.
334. Id.
335. See id. at 569 (citing 200 N.W.2d 63 (1981)).
336. Id. at 570.
337. Id. at 569-570.
338. Id. at 569.
339. Van Groll, 310 F.3d at 570.
regulations and required him to wear a clean uniform and to keep the milk clean. 340

The Court also concluded that Van Groll's use of the Land O' Lakes trademark was not sufficient to make him a "dealer:" plaintiffs need to make a "substantial investment in the trademark" and not just a de minimis use before a dealer is considered "over the barrel" and protected under the Fair Dealing Act. 341 "Simply put, defining 'dealership' in terms of trademark use is meant to protect against situations in which a dealer spends money advertising for or promoting a company, an investment that is lost when the company terminates the relationship," the Court stated. 342 Van Groll did not make this financial investment. 343

D. Insurance Coverage and Miscellaneous Matters

1. Insurance Coverage

One of two cases in the last year looking at insurance coverage of intellectual property claims 344 was Charter Oak Fire Ins. Co. v. Hedeen & Co. 345 The Seventh Circuit affirmed the district court's ruling that a commercial general liability insurance contract covering "advertising injury" gave rise to a duty to defend a trademark infringement suit. 346

The trademark claim was based on the use of Micro MachinesTM trademarks on the letterhead of the Hedeens' toy development company. 347 Galoob Toys had entered into a royalty agreement with the Hedeens whereby Galoob agreed to pay royalties for the right to market miniature toy vehicles. 348 Galoob registered the Micro MachinesTM trademark, and the product line grew in popularity, becoming a $700 million line of toys by some estimates. 349 Royalty disputes began, and the Hedeens asserted breach of the royalty agreements. 350 Galoob filed a declaratory judgment action and

340. Id.
341. Id.
342. Id.
343. Id. at 570-71.
345. 280 F.3d 730 (7th Cir. 2002) (Harlington Wood, Jr., Coffey, Williams, JJ.), reh'g and reh'g en banc denied, 2002 U.S. App. LEXIS 3348 (7th Cir. Feb. 27, 2002). The case was appealed from the United States District Court for the Eastern District of Wisconsin, No. 97-C-0037 (Reynolds, J.). The counsel for plaintiff-appellant, was Joshua G. Vincent, of Hinshaw, Culbertson, Chicago, IL and Thomas Holden, Morison-Knox of Kasdorf, Lewis, Walnut Creek, CA; the counsel for defendants-appellees, was Jeffrey A. Schmeckpeper, of Kasdorf, Lewis & Swietlik, Milwaukee, WI.
346. Charter Oak, 280 F.3d at 734.
347. Id. at 734.
348. Id. at 733.
349. Id.
350. Id.
in its amended complaint included a trademark claim based on the Hedeens’ use of Micro Machine™ on its company letterhead. Charter Oak refused to defend the Hedeens.

Charter Oak filed a declaratory judgment action seeking a declaration that it had no duty to defend the Hedeens on Galoob’s trademark claim. On cross motions for summary judgment, the district court concluded that Charter Oak was required to defend and granted declaratory judgment in favor of the Hedeens. The Seventh Circuit affirmed.

Advertising injury was defined in the policy as injury “caused by an offense committed in the course of advertising your goods, products or services” and included injury arising out of “infringement of copyright, title or slogan.” The Seventh Circuit concluded that “infringement . . . of title” was broad enough to encompass trademark infringement claims. The Court declined to follow the views of the Eighth and Sixth Circuits that the language referred only to the noncopyrightable title of a book, film, or other literary or artistic work. The Court also concluded that the use of Micro Machine™ on the Hedeens’ letterhead, as alleged in the complaint was an advertising use that gave rise to a duty to defend because it impacted “the commercial public” and resulted in unlawful profits.

In another insurance coverage case, Platinum Technology, Inc. v. Federal Insurance Co., the Seventh Circuit reviewed the factual question whether a settlement was release of legal liability or a trademark sale. The trademark at issue was Platinum™, Platinum Software Corporation’s (PSC) federally registered trademark used in connection with its personal computer software business. Platinum Technology, Inc (PTI) used Platinum™ in connection with its mainframe computer software.

In 1993, after PSC and PTI became aware of each other’s use, they reached a settlement agreement not to use Platinum™ in markets where both companies competed. In 1996, PSC considered rebranding itself and

351. Id.
352. Id. at 734.
353. Charter Oak, 280 F.3d at 734.
354. Id.
355. Id. at 740.
356. Id. at 735.
357. Id. at 736.
358. Id.
359. Id. at 736-37.
360. 282 F.3d 927, 929 (7th Cir. 2002) (Bauer, Coffey, Evans, JJ.), reh’g and reh’g en banc denied, No. 01-2503, 2002 U.S. App. LEXIS 17763 (7th Cir. Apr. 17, 2002). The case was appealed from the United States District Court for the Northern District of Illinois, No. 99-C-7378, 2001 U.S. Dist. LEXIS 1031 (N.D. Ill. Feb. 1, 2001) (Holderman, J.). The counsel for Platinum Technology, plaintiff-appellee was John F. Zabriskie, of Foley & Lardner, Chicago, IL; the counsel for Federal Insurance Co., defendant-appellant, was Fred A. Smith, III (Chicago, IL) and Kirk C. Jenkins (San Francisco, CA), Sedgwick, Detert, Morgan & Arnold.
361. Platinum Technology, 282 F.3d at 930.
362. Id.
363. Id.
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approached PTI to see if it wanted to buy the PLATINUM trademark. The parties could not agree on an amount and negotiations broke down. In 1997, PSC sued PTI for trademark infringement. PTI informed Federal Insurance of the lawsuit and, pursuant to the insurance policy, tendered its defense to its insurer. However, Federal refused to defend or indemnify PTI. During the settlement negotiations PSC sought an amount sufficient to rebrand itself. Settlement was reached in the amount of about $4 million cash and $6 million in original equipment manufacturer (OEM) product credits.

PTI sued Federal in a four count lawsuit for failure to defend and sought to recover the settlement amount. The district court entered summary judgment for PTI on Count 1, breach of duty, but ruled that there was an issue of material fact and held a bench trial on the other counts. The district court awarded PTI over $9 million damages and attorney fees. The Seventh Circuit reversed in part the judgment respecting the cash award but found Federal liable for the Original Equipment Manufacturer (OEM) product credit cash amount. Federal’s argument on appeal was that the cash amount was actually a purchase of trademarks and therefore an unreasonable amount as a legal liability release. This factual question was reviewed and the Seventh Circuit concluded the district court had committed clear error. The Court noted that the settlement agreement was also called a trademark assignment. The Court found it compelling that PTI recorded the Platinum™ trademark as a new asset with a value of $4 million and began depreciating it.

2. Laches

A pleasure of trademark cases is the likelihood that the reader has heard of one of the parties or products, such as Nike and Michael Jordan, who prevailed in the following case. The owner of JORDAN Blouse Division was barred by laches on its trademark infringement claims against Nike and

364. Id.
365. Id.
366. Id. at 930.
367. Id.
368. Platinum Technology, 282 F.3d at 930.
369. Id.
370. Id.
371. Id. at 929.
372. Id.
373. Id. at 930-31.
374. Id. at 932-33. However, because the OEM judgment was based purely on speculation, the appellate court remanded this issue to determine the monetary value of the OEM credits. Platinum Technology, 282 F.3d at 933.
375. Id. at 931.
376. Id. at 932.
377. Id. See also Mark A. Lemley, The Modern Lanham Act and the Death of Common Sense, 108 YALE L.J. 1687, 1687-88 (1999) (discussing the judicial willingness to permit firms to sell trademarks as things in and of themselves, apart from the item itself).
378. Platinum Technology, 282 F.3d at 930.
Michael Jordan in *Chattanooga Manufacturing v. Nike.*

Since 1979, Chattanooga and its Jordan blouse division manufactured women’s apparel. Chattanooga never made or distributed men’s clothing or footwear. Chattanooga applied for a trademark registration for JORDAN for use on various women’s apparel. The application was first made in 1997 and granted in 1998.

Nike introduced its Michael Jordan-endorsed products in 1984, including apparel and footwear for men, boys, and small children (with the exception of a women’s athletic shoe sold only in 1999). Nike used the name JORDAN with various products, such as the JORDAN PULLOVER and the JORDAN SHOOTING SHIRT and also used JORDAN with Nike’s Jumpman logo. In 1997, Nike established the Jordan Brand Division of Nike, devoted to producing and marketing Michael Jordan-endorsed products. Under their contract, Nike was designated the “sole and absolute owner” of the Michael Jordan-related marks.

Chattanooga filed suit alleging trademark infringement and unfair competition under the Lanham Act. Defendants alleged laches as a defense and filed counterclaims seeking to have Chattanooga’s mark canceled. The parties filed cross-motions for summary judgment. The district court granted the defendants’ motion on the ground of laches and denied summary judgment on the remaining grounds.

The trial court noted that Chattanooga had constructive notice of Nike’s use of the JORDAN mark as early as 1985 and no later than 1990. The trial court noted widespread advertisement of and media references to Nike’s Michael Jordan-endorsed products as JORDAN products. The nine-year delay from Chattanooga’s latest notice date to the filing of the lawsuit created

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379. 301 F.3d 789 (7th Cir. 2002) (Ripple, Kanne, Evans, JJ.). The case was appealed from the United States District Court for the Northern District of Illinois, 140 F. Supp. 2d 917 (N.D. Ill. 2001) (Castillo, J.). The counsel for plaintiff-appellant, Chattanooga Manufacturing, was Timothy J. Riordan, of Defrees & Fiske, Chicago, IL and Robert I. Goodman, of Rye Brook, NY and Kenneth F. McCallion, McCallion & Assocs., New York, NY; the counsel for defendant-appellee Nike, Inc., Keith W. Medansky, Alan S. Dalinka, Piper Rudnick, Chicago, IL. The counsel for defendant-appellee Michael Jordan, was Frederick J. Sperling, of Schiff, Hardin & Waite, Chicago, IL).

380. *Chattanooga,* 301 F.3d at 791.

381. Id.

382. Id.

383. Id.

384. Id. at 792.

385. Id. at 791.

386. Id. at 792.

387. *Chattanooga,* 301 F.3d at 791-92.

388. Id. at 792.

389. Id.

390. Id.

391. Id. The district court did grant Michael Jordan’s motion on the alternative basis that the evidence did not establish his personal liability. Id. at 792 n.2. When Chattanooga failed to address that issue in its main brief, the Seventh Circuit deemed it waived. Id.

392. Id. at 792.

393. Id.
a presumption of laches, for which Chattanoga failed to explain.\textsuperscript{394} The trial
court deemed the substantial amount of marketing and advertising by Nike of
its Jordan-endorsed products sufficient prejudice to preclude Chattanoga
from now asserting its rights.\textsuperscript{395}

On appeal, the Seventh Circuit found the district court did not abuse its
discretion in its analysis of laches.\textsuperscript{396} Laches, it said, is established by
demonstrating: (1) the plaintiff knew the defendant was using the trademark,
(2) unexcused delay in taking action against defendant's use of the disputed
mark, and (3) prejudice to the defendant if plaintiff were allowed to assert its
rights after the delay.\textsuperscript{397} On the first part of the analysis, the Seventh Circuit
concluded that the district court had not erred in finding that Chattanoga had
constructive notice of Nike's use of Jordan through its national advertising
campaign.\textsuperscript{398} Because Chattanoga conceded that since at least 1990 the
media referred to Michael Jordan-endorsed products as JORDAN products, it
was chargeable with knowledge of Nike's use of the JORDAN marks no
later than 1990.\textsuperscript{399}

On the reasonableness of the delay, the Seventh Circuit noted that the
district court had correctly looked to an analogous state statute of limitation
to see if a presumption of laches would apply.\textsuperscript{400} On the doctrine of
progressive encroachment, the Seventh Circuit concluded that, "Chattanoga
presents no evidence that over time Nike has directed its Michael Jordan-
endorsed products' marketing or manufacturing efforts to compete more
directly with Chattanoga's women's apparel, and therefore there was no
progressive encroachment."\textsuperscript{401} Chattanoga attempted, but failed, to establish
that by creating the JORDAN BRANDS DIVISION. Nike was directly
marketing to women and therefore the statute should only begin to run after
the JORDAN BRANDS DIVISION was created in 1997.\textsuperscript{402}

On the prejudice prong of the analysis, the Court noted that prejudice
may be shown where plaintiff's unexcused failure to assert its rights results
in a defendant relying to its detriment on that nonassertion and building up a
valuable business around the trademark.\textsuperscript{403} The conclusion that Nike had
been prejudiced was supported by the "vast" amount of money it spent.\textsuperscript{404}

The Seventh Circuit modified the district court's dismissal of Nike's
counterclaims to be without prejudice, rather than with prejudice, because
some evidence existed that Chattanoga might try to "get even" with Nike by
passing off Chattanoga garments as Nike garments:

\textsuperscript{394}. Id.
\textsuperscript{395}. Id.
\textsuperscript{396}. Id.
\textsuperscript{397}. Chattanoga, 301 F.3d at 793.
\textsuperscript{398}. Id. at 793.
\textsuperscript{399}. Id.
\textsuperscript{400}. Id.
\textsuperscript{401}. Id. at 794.
\textsuperscript{402}. Id.
\textsuperscript{403}. Id. at 795.
\textsuperscript{404}. Chattanoga, 301 F.3d at 795.
While we agree that the finding of laches moots Nike's counterclaims because with that finding there is no ripe case or controversy between the parties, it was error to dismiss the counterclaims with prejudice... If a dispute ripens between the parties, Nike should have the opportunity to litigate its claims.  

3. Phone Number Trademark

One risk of adopting a phone number as a trademark is the proscription against selling phone numbers, which limits the alienability of such a trademark. However, in \textit{Jahn v. 1-800-Flowers.com, Inc.}, the Seventh Circuit concluded that a 1982/1986 royalty agreement respecting the transfer of 1-800-FLOWERS did not violate the 1997 federal regulation prohibiting the "selling of a toll free number by a private entity for a fee" because the statute did not apply retroactively. 

Jahn, the plaintiff, was originally the owner of a trucking business that happened to have the number 1-800-356-9377. Another business person, William Alexander, had an idea for a national flowers-by-phone business and thought that 800-FLOWERS would be an ideal number. However, if one were to dial 800-FLOWERS, he would reach Jahn's business. Alexander approached Jahn with the floral business idea, and after test-marketing and other preparations, 800-FLOWERS was born. Jahn requested that AT&T transfer the number 800-FLOWERS and Jahn took an equity interest in the new company and a royalty interest in revenues derived from phone sales. By later agreement, Jahn gave up the equity interest but retained the royalty interest.

Jahn later filed suit, alleging that 800-FLOWERS was not paying the full royalties due to him. As part of its defense, 800-FLOWERS alleged that royalties on the phone number were illegal due to the 1997 regulation prohibiting phone number brokering. The district court entered judgment

405. \textit{Id.} at 795-96.
407. 284 F.3d 807 (7th Cir. 2002) (Flaum, C.J., Bauer, Easterbrook, JJ.), \textit{cert. denied}, 123 S. Ct. 102 (2002). The case was appealed from the United States District Court for the Western District of Wisconsin, No. 00-C-446-C (Crabb, C.J.). The counsel for plaintiffs-appellants, Curtis P. Jahn, Capital Warehousing Corp., was Earl H. Numson, of Boardman, Suhr, Curry & Field, Madison, WI; the counsel for defendants-appellees, 1-800-Flowers.com, Inc., Fresh Intellectual Properties, Inc., 800-Flowers, Inc., was Jeffrey A. Simmons, of William M. Conley, Foley & Lardner, Madison, WI.
408. \textit{Jahn}, 284 F.3d at 811-12.
409. \textit{Id.} at 808.
410. \textit{Id.}
411. \textit{Id.}
412. \textit{Id.} The 800-FLOWERS company had different corporate reorganizations over time, including 800-Flowers (Wisconsin), 800-Flowers (New York), 800-Flowers (Texas), and a parent corporation 1-800-Flowers.com, Inc. \textit{Id.} at 809. For convenience, the defendants are referred to as 800-FLOWERS.
413. \textit{Id.}
414. \textit{Jahn}, 284 F.3d at 809.
415. \textit{Id.}
416. \textit{Id.}
for defendants, concluding that it need not decide retroactivity because each on-going royalty payment obligation was a fresh violation of the regulation. The Seventh Circuit reversed and remanded.

The case turned on the question of the phone-number-brokering regulation’s retroactivity. The Seventh Circuit noted that federal regulations do not apply retroactively unless that is explicitly authorized, and nothing in this regulation explicitly provided for retroactivity. The Seventh Circuit rejected defendants’ argument that the statute was not being applied retroactively when applied to prospective royalty payments. The Court differentiated between a deferred payment for an earlier lawful sale and a current sale. Section 52.107 prohibited “selling” not payment, according to the Court. The Court said:

A royalty is a risk-sharing agreement. Instead of paying Jahn up front the estimated value of the phone number, the investors who established 800-Flowers (Wisconsin) and its successors divided the risk with Jahn, so that he would be paid only to the extent the new business succeeded. Suppose they had done things otherwise—paying Jahn a lump sum and dividing the risk among investors who financed that payment. Any attempt to force Jahn to disgorge what he received in 1982 or 1986 would be retroactive. Yet this is not different, as an economic matter, from refusing to make ongoing payments.

Thus, the phone-number-brokering regulation was not a defense for 800-FLowers permitting it to suspend royalty payments. Chief Judge Flaum authored a very brief concurrence to reiterate that the Court was not authorizing sale, brokering or hoarding of toll-free numbers, but merely speaking to the unique circumstances of the case.

Two aspects of the 800-Flowers case are particularly interesting in terms of the Seventh Circuit’s economic policy views. First, the Court called a royalty a “risk sharing agreement.” The Court’s view of the economics of royalties, as discussed above, may well have impact in other areas. For example, the Court’s excoriation of the Brulotte decision in the Dolby case, discussed infra, cites the deferred royalty payment discussion in the 800-Flowers case. Second, the Court analogized phone number assignments to domain name assignments. As a matter of economics, the Court saw value in assigning both phone numbers and domain names to businesses that can realize their goodwill and other economic value: “Moving assets to higher

417. Id.
418. Id. at 812.
419. Id. at 810.
420. Id. at 810-811.
421. Jahn, 284 F.3d at 811.
422. Id.
423. Id.
424. Id. at 811-12.
425. Id. at 812.
426. Id. at 811.
427. See infra notes 713-28 and accompanying text.
428. Jahn, 284 F.3d at 809.
and better uses is an important goal of any economic system.\(^{429}\) The Court cited policy reasons for restricting phone number brokering: the public interest in the conservation of scarce toll free numbers and the FCC obligation to promote the orderly use and allocation of toll free numbers.\(^{430}\) Similarly, domain names are a resource, precious to trademark owners, which increasingly require conservation and orderly use and allocation, as evidenced by dispute resolution procedures and federal protection against anti-cybersquatting.\(^{431}\) Thus, the Seventh Circuit view on economic policy may well come through in future cases concerning domain name disputes, and intellectual property law practitioners would do well to keep the Court’s views in mind.

III. COPYRIGHT

Fair use and copyright ownership led the parade of copyright cases decided last year in the Seventh Circuit. In analyzing each, the Court considered the “economic sense” of the circumstances. It also addressed proper settlement conference procedure and criminal penalties for copyright infringement. Additionally, the Seventh Circuit announced that the prevailing party in a copyright case, in which the monetary stakes are small, should have presumptive entitlement to attorney’s fees.

A. Fair Use

*In Ty, Inc. v. Publications International, Ltd.* the Seventh Circuit concluded that Beanie Babies\(^{TM}\) collector’s guides, which included photographs of the toys, may be a fair use of the copyrighted plush toy design.\(^{432}\) Ty accused several Publications books of infringing its copyrights.\(^{433}\) The accused books ranged from a small-text “Beanie Babies Collector’s Guide” to “For the Love of Beanie Babies,” with 150 glossy photographs of Beanie Babies\(^{TM}\) with brief, “childish” text.\(^{434}\) The district court granted summary judgment for Ty and rejected Publications’ fair use defense.\(^{435}\) The Seventh Circuit reversed the summary judgment and

\(^{429}\) Id. at 810.

\(^{430}\) Id. at 809-10.


\(^{432}\) 292 F.3d 512 (7th Cir. 2002) (Flaum, C.J., Posner, Rovner, JJ.). The case was appealed from U.S.D.C. (N.D. Ill. 2002), 2000 U.S. Dist. LEXIS 15382 (N.D. Ill., Oct. 4, 2000) (Zagel, J). The counsel for plaintiff-appellee, James P. White, was Laurie A. Haynie, of Welsh & Katz, Chicago, IL; the counsel for defendant-appellant, was William Patry, of Skadden, Arps, Slate, Meagher & Flom, New York, NY. Notably, defense counsel, Mr. Patry, is a former Solicitor to the Copyright Office and is an editor of Lanham’s Treatise “The Copyright Law,” which includes a volume on copyright fair use. Also, compare the discussion of copyright fair use, which exists pursuant to statute in this *Ty* case, with the trademark “fair use” holding in the *Ty* case discussed *supra* in notes 11 – 44 and accompanying text.

\(^{433}\) Publications, 292 F.3d at 515.

\(^{434}\) Id. at 519.

\(^{435}\) Id. at 515.
remanded for the trial court to separately consider the fair use defense for each accused book.\textsuperscript{436}

As guidance to the trial court on remand, the Seventh Circuit examined the purpose of the fair use defense and its applicability to collector’s guides.\textsuperscript{437} The Court paid particular attention to the economic justifications for the fair use doctrine.\textsuperscript{438} The Court’s explanation was based on an analogy of fair use in book reviews.\textsuperscript{439} The defense of fair use fosters freedom of expression, maintained the Court, because it removes from the copyright holder the control over criticism.\textsuperscript{440} However, the defense of fair use would fail, where a book reviewer quoted so much of the book that the review was a substitute, rather than a complementary use, for the book.\textsuperscript{441} Copying that is complementary to the work, “in the sense that nails are complements of hammers,” is permissible.\textsuperscript{442} Substitutional copying, however, is not.\textsuperscript{443} In economic terms, fair use made sense because it cut down on “transaction costs:”

[P]ublishers want their books reviewed and wouldn’t want reviews inhibited and degraded by a rule requiring the reviewer to obtain a copyright license from the publisher if he wanted to quote from a book. So, in the absence of a fair-use doctrine, most publishers would disclaim control over the contents of reviews. The doctrine makes such disclaimers unnecessary. It thus economizes on transaction costs.\textsuperscript{444}

The Seventh Circuit considered whether the accused books were derivative works.\textsuperscript{445} The publications conceded that Beanie Baby\textsuperscript{TM} photographs were derivative works and Ty conceded that collector’s guides were not derivative works.\textsuperscript{446} The Court viewed the fair use question as requiring an analysis of the text and photographs in each accused book to

\textsuperscript{436} Id. at 523-24. The Court concluded it had jurisdiction, under Federal Rule of Civil Procedure 54(b), and 28 U.S.C. § 1292(a)(1) (2000), of the copyright permanent injunction order, despite outstanding trademark claims. Id. at 515-16.

\textsuperscript{437} Id. at 517.

\textsuperscript{438} Id.


\textsuperscript{440} Publications, 292 F.3d at 517.

\textsuperscript{441} Id.

\textsuperscript{442} Id.

\textsuperscript{443} Id. The Court viewed the term “substitutional” as less confusing than the often-used “transformational” or “superseding” analysis. Id. at 518.


\textsuperscript{445} Publications, 292 F.3d at 518-19. See also 17 U.S.C. § 101 (2000) (defining derivative works as a “work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, elaborations, or other modifications which, as a whole, represent an original work of authorship.”

\textsuperscript{446} Publications, 292 F.3d at 519, 521.
determine whether each should be considered more a compilation of photos or a collector’s guide.\textsuperscript{447} The Court concluded that a critical, evaluative informational collector’s guide was not a derivative work.\textsuperscript{448} The Court noted that “Ty’s concession that a Beanie Babies collectors’ guide is not a derivative work narrows the issue presented by PIL’s appeal nicely (at least as to those books that are plausibly regarded as collectors’ guides) to whether PIL copied more than it had to in order to produce a marketable collector’s guide.”\textsuperscript{449} The Court observed that a collector’s guide would not serve its function if it were less than comprehensive and that congruously a complete copy was not per se excepted from fair use.\textsuperscript{450} The Court rejected Ty’s argument that including photographs went too far.\textsuperscript{451} The Seventh Circuit said that without the photographs a collector’s guide would “sink like a stone in the marketplace no matter how clever and informative its text.”\textsuperscript{452} The Court concluded that the fair use characterization of the Beanie Baby\texttrademark books was a fact-laden issue inappropriate for summary judgment, with the possible exception of “For the Love of Beanie Babies.”\textsuperscript{453}

The Court appeared to consider the question of derivative work as determinative of fair use.\textsuperscript{454} However, the analyses are not synonymous. The preparation of a derivative work is one of the exclusive rights of the copyright owner as described in Section 106 of the Copyright Act. However, whether an accused book was a derivative work would not answer whether it could be considered a fair use: “notwithstanding the provisions of Sections 106 and 106A, the fair use of a copyrighted work... is not an infringement.”\textsuperscript{455} A discussion of the burden of proof, both the initial burden and the burden of persuasion, might have better informed the Court’s opinion. Without the initial proof that an exclusive right had been infringed, there would be no need to establish a fair use defense. As a matter of proof, if the preparation of a collector’s guide was not the preparation of a derivative work, then there would be no need to establish the defense.\textsuperscript{456}

Additionally, the Seventh Circuit’s use of an economic justification for

\textsuperscript{447} Id. at 523.

\textsuperscript{448} Id. at 521.

\textsuperscript{449} Id.

\textsuperscript{450} Id.

\textsuperscript{451} Id.

\textsuperscript{452} Id.

\textsuperscript{453} Publications, 292 F.3d at 523. The Court noted Ty’s argument that its situation was analogous to Twin Peaks Products, Inc. v. Publications, International, 996 F.2d 1366 (2d Cir. 1993), concluding that plot summaries of television series were not fair use and Castle Rock Entertainment v. Carol Publishing Group, Inc., 150 F.3d 132 (2d Cir. 1998), concluding that Seinfeld trivia question book was not a fair use. Id. at 521-23. However, the court determined that the trial court was better positioned to decide the matter in the first instance. Id. at 523.

\textsuperscript{454} Id. at 518-20.


\textsuperscript{456} For a discussion on the proper scope of derivative works and whether economic analysis lends itself to this question, see Lee v. A.R.T. Co., 125 F.3d 580 (7th Cir. 1997) (holding that the mounting of copyright notecards on ceramic tiles does not constitute preparation of derivative works in violations of the Copyright Act).
fair use in this Ty case seems out of step with the primarily noncommercial nature of the defense, being the copyright infringement exceptions where necessary for scientific, educational or free speech purposes.

B. Ownership

Copyright ownership cases decided by the Seventh Circuit during the survey period were straightforward. In Liu v. Price Waterhouse LLP, the dispute centered on improvements to tax preparation software. Yang, a Price Waterhouse employee, sought out programmers in China to increase the speed of RevUp32, a subprogram used to speed up the Price Waterhouse software called the Tax Management System (TMS). Yang selected the Sichuan Sky Company Limited to do the work. To alleviate Yang's concern that she would be excluded from future projects, Price Waterhouse sent her a letter stating that if Yang met the objectives of the project, Price Waterhouse would hire her to head future projects in China. By letter agreement, the arrangement stated:

Price Waterhouse LLP agrees to pay $25,000 (twenty-five thousand dollars) for each 25% increase in TMS speed resulting from work on the RevUp. After the initial 25% improvement is achieved, payment will be made in $1,000 increments for each percentage increase. For example, if the speed is increased by 49%, Price Waterhouse will pay $49,000.00... It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.

Price Waterhouse thereafter disclosed the source code for RevUp32 to Yang. She disclosed the source code to Sichuan Sky, who increased the operating speed of the program by 264% with its China RevUp32, entitling Yang to $264,000. Yang sent the object code to Price Waterhouse, but withheld the source code asking that Price Waterhouse first pay her and guarantee her future work in China. Price Waterhouse refused to pay until

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457. 302 F.3d 749 (7th Cir. 2002) (Harlington Wood, Jr., Kanne, Rovner JJ.). The case was appealed from the United States District Court for the Northern District of Illinois, No. 97 C 3093 (Holderman, J), 182 F. Supp. 2d 666 (N.D. Ill. 2001). The counsel for plaintiffs-appellants, was Dean A. Monco, of Wood, Phillips, VanSanten, Clark & Mortimer, Chicago, IL; the counsel for defendants-appellees, was Leslie M. Smith, of Kirkland & Ellis, Chicago, IL.
458. Liu, 302 F.3d at 751.
459. Id.
460. Id.
461. Id.
462. Id. at 751-52.
463. Source code is the program's operating instructions written in a format allowing the computer programmer to use, maintain, and revise the program. Id. at 752 n.1. While an object code is the instructions written in a format that the computer can read. Id. at 755 n.2.
464. Liu, 302 F.3d at 752.
465. Id.
Sichuan Sky claimed ownership in the improved program but then assigned any ownership interest to Yang's daughter, Liu. Yang registered the copyright for the improved program in Liu's name.

At this point, Price Waterhouse sold the tax management software business to Computer Language Research (CLR). For a year, CLR sold the tax management software including the China RevUp32 improvement. Price Waterhouse and CLR then contacted the original programmer of RevUp32 and had him write a faster program. CLR substituted that improvement for the China RevUp32 improvement. Liu then filed suit against Price Waterhouse and CLR, claiming copyright infringement and breach of contract. A jury determined that Price Waterhouse and CLR owned the copyrights for both the China RevUp32 and the original RevUp32. Liu moved for judgment as a matter of law or a new trial on the grounds that Sichuan Sky had owned and transferred the copyrights to Liu. The district court denied the motions, and the Seventh Circuit affirmed.

The Seventh Circuit noted that the parties did not dispute that the China RevUp32 was a derivative work. While the Copyright Act makes authors of derivative works the presumptive owners of the copyrights in their contribution to the adaptation but not in the underlying work, it allows parties to adjust those rights by contract, said the Court. Moreover, because the owner of the original work possesses the exclusive right to prepare derivative works, the derivative work preparers were limited to only authorized permissible uses of the original work. The Seventh Circuit concluded that the letter agreement authorizing Yang to recruit Sichuan Sky was ambiguous as to copyright ownership in the derivative work. Thus, the Court looked to the intent of the parties. The statement that "upon completion of the project, ALL source code will be given back to Price Waterhouse," viewed in the light most favorable to Price Waterhouse and CLR (as required after the jury verdict in their favor), indicated that Price Waterhouse was intended to own the copyright.

The possibility of better protection than copyright through contractual
alternatives is amply demonstrated in *Dispatch Automation, Inc. v. Richards*. In *Dispatch Automation*, the Seventh Circuit decided a diversity breach of contract action in favor of the defendant software developers.\(^{483}\) The contract dispute centered on the ownership of a software program.\(^{484}\) The software developer, Richards, had created a program called RiMS to help police and fire departments with records management and dispatch.\(^{485}\) Later he and his wife brought in another husband and wife team to help with marketing.\(^{486}\) They formed a corporation, and the articles of incorporation stated:

Among the principal products sold by the corporation will be the RiMS group of computer-aided dispatch and records management software products. *RiMS is owned by Anthony B. Richards and will be licensed to the corporation. A license fee of $1.00 per year will be paid to Anthony B. Richards. All proceeds from the sales of the product will accrue to the corporation. The corporation may continue to develop the product but all ownership rights will remain with Anthony B. Richards.*\(^{487}\)

After the formation of the corporation in 1993, Richards developed subsequent versions of RiMS.\(^{488}\) At about the time Richards was working on RiMS 2000, the couples had a falling out and Richards cancelled the RiMS license to the corporation and resigned from the corporation.\(^{489}\) The corporation sued the Richards for breach of contract, asserting that it owned RiMS 2000 because it was a new product and not a development of the earlier RiMS programs.\(^{490}\) The district court granted summary judgment to the defendants, concluding that no reasonable jury, on the basis of the evidence gathered in pretrial discovery, could find that the corporation, rather than Mr. Richards, was the owner.\(^{491}\) The Seventh Circuit affirmed.\(^{492}\) Dispatch Automation argued that the by-laws gave ownership of new products to it and only small incremental changes in RiMS were owned by Richards.\(^{493}\) Richards argued that he retained ownership in all revisions of computer-aided dispatch and records management software, conceding that the corporation owned other types of products.\(^{494}\) The Seventh Circuit agreed with Richards:

\(^{483}\) 280 F.3d 1116, 1117, 1121 (7th Cir. 2002) (Posner, Ripple, Diane P. Wood, JJ.)
\(^{484}\) *Dispatch Automation*, 280 F.3d at 1117.
\(^{485}\) *Id.*
\(^{486}\) *Id.*
\(^{487}\) *Id.* at 1117-18 (emphasis added).
\(^{488}\) *Id.* at 1118.
\(^{489}\) *Id.*
\(^{490}\) *Id.*
\(^{491}\) *Dispatch Automation*, 280 F.3d at 1117.
\(^{492}\) *Id.* at 1121.
\(^{493}\) *Id.*
\(^{494}\) *Id.* at 1117.
We think that Richards must be right in his understanding of the difference between a new product and the further development of old product. It would have been cockeyed—it would have been contrary to Dispatch Automation's own interests as they then appeared—for the parties to have agreed that Richards would own successive versions provided they made only incremental improvements over their predecessors but that he would have no rights to a successive version that made a real breakthrough. That would have given him an incentive to pull his punches, or to quit the company if he thought he was on the brink of a breakthrough; neither the articles of incorporation nor, so far as we are aware, any other contractual provision binds Richards to Dispatch Automation.\textsuperscript{495}

The Court adopted the Richards' interpretation rather than the corporation's, which made no "economic sense."\textsuperscript{496} The Court rejected the corporation's argument that it was a new product because Richards described RiMS 2000 in a product statement as "a completely different product underneath, a 100% rewrite of RiMS in a new language with a new database."\textsuperscript{497} The Court said that, putting aside the "sales puffery," from the user's standpoint it was not all that new or different and continued to fit "snugly" within the correct contract interpretation.\textsuperscript{498} The Court also noted that one might wonder why no one had registered the program with the copyright office, but suggested that contractual alternatives to copyright might have given the owner more protection, citing commentary to that effect.\textsuperscript{499}

\subsection*{C. Attorney's Fees}

The propriety of awarding attorney's fees was at issue in \textit{Gonzales v. Transfer Technologies, Inc.}\textsuperscript{500} Gonzales owned copyrights on several T-shirt designs.\textsuperscript{501} Transfer Technologies manufactured and sold temporary tattoos identical to his designs.\textsuperscript{502} Transfer Technologies stopped producing the infringing tattoos when Gonzales filed suit.\textsuperscript{503} Gonzales did not seek actual damages.\textsuperscript{504} He was awarded $3000 in statutory damages.\textsuperscript{505}

\begin{thebibliography}{99}
\item 495. \textit{Id.} at 1118-19.
\item 496. \textit{Id.} at 1119.
\item 497. \textit{Id.} at 1120.
\item 498. Dispatch Automation, 280 F.3d at 1120.
\item 500. 301 F.3d 608, 609 (7th Cir. 2002) (Posner, Kanne, Evans, JJ.). The case was appealed from Gonzales v. Kid Zone, Ltd., No. 00 C 3969 2001 U.S. Dist. LEXIS 17579 (N.D. Ill. Oct. 25, 2001) (Kocoras, C.J.). The counsel for plaintiff-appellant, was Edward G. Wierzbicki, of Pattishall, McAuliffe, Newbury, Hilliard & Geraldson, Chicago, IL.
\item 501. Gonzales, 301 F.3d at 608.
\item 502. \textit{Id.}
\item 503. \textit{Id.}
\item 504. \textit{Id.} at 609.
\end{thebibliography}
however, seek attorney’s fees pursuant to 17 U.S.C. § 505. The trial court declined to award attorney’s fees because “Transfer’s actions, though willful, are not the kind of flagrant behavior that would justify an award of attorney’s fees.” The Seventh Circuit vacated and remanded. The Seventh Circuit relied on the Supreme Court’s decision in Fogerty v. Fantasy, Inc. According to the Seventh Circuit, the factors that the Supreme Court suggested for consideration by courts in determining whether to award attorney’s fees “seem rather miscellaneous and ill-assorted.” These four nonexclusive factors included “frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance consideration of compensation and deterrence.” The Seventh Circuit observed that, according to the Fogerty standard, “copyright defenses are as important as copyright claims” since they add to the public domain.

Despite the trial court’s broad discretion whether to award attorney’s fees, the Seventh Circuit did require sufficient explanation by the trial judge for his decision. The Seventh Circuit noted that deterrence was an important factor in cases with small damage awards:

No one can prosecute a copyright infringement suit for $3,000. The effect of the district court’s decision if universalized would be to allow minor infringements, though willful, to be committed with impunity, to be in effect privileged, immune from legal address. The smaller the damages, provided there is a real, and especially a willful, infringement, the stronger the case for an award of attorneys’ fees.

The Seventh Circuit went on to suggest that in copyright cases of small monetary value the prevailing party should enjoy a “presumptive entitlement to attorneys’ fees.” The Court vacated the attorney’s fees ruling and remanded the case for further consideration.

D. Criminal Copyright Infringement and Miscellaneous Matters

In one of two appeals from criminal prosecutions for intellectual property violations, the Seventh Circuit affirmed the restitution order in United States v. Kah Choon Chay. The order required payment of

505. Id.
506. Id.
507. Id.
508. Gonzalez, 301 F.3d at 609.
509. Id.
510. Id.
511. Id.
512. Id.
513. Id. at 610.
514. Id.
515. Id.
516. See infra notes 517-26 and accompanying text.
517. 281 F.3d 682, 687 (7th Cir. 2002) (Bauer, Ripple, Rovner, JJ.). The case was appealed from the United States District Court for the Western District of Wisconsin, No. 01-CR-0021-C-01 (Crabb, J.). The counsel for plaintiff-appellee, was Timothy M.
approximately $50,000 to victim companies holding copyrights.\textsuperscript{518} Chay confessed and pled guilty to counterfeit computer program trafficking, pursuant to 18 U.S.C. 2318(a), but challenged his penalty.\textsuperscript{519}

Chay argued three reasons why the restitution amount should be decreased.\textsuperscript{520} First, Chay argued that the government failed to include a sufficient victim impact statement, pursuant to sentencing guidelines and Federal Rules of Criminal Procedure 34(b)(4)(D) and (F).\textsuperscript{521} The Court rejected this argument because an addendum to the presentencing report (PSR) was deemed sufficient in listing the individual victim companies along with the amount each lost (number of copyrighted games multiplied by price).\textsuperscript{522} Chay’s second argument was that the district court erred in failing to consider his modest financial condition.\textsuperscript{523} According to the Seventh Circuit, the Mandatory Victim Restitution Act, 18 U.S.C. § 3663A, bars the Court from examining the defendant’s ability to pay restitution, so the Court rejected that contention as well.\textsuperscript{524} Third, Chay argued that, in calculating the victim’s losses, the Court should have subtracted (from the number-times-price calculation) Chay’s cost in copying and distributing the copyrighted material.\textsuperscript{525} The Seventh Circuit determined that the district court’s calculation was not an abuse of discretion:

> Mr. Chay’s position is somewhat analogous to a bank robber asking that the amount of money he returns to a bank be offset by the cost of robbing it. We do not think the holder of the copyright ought to be required to subsidize the cost of Mr. Chay’s illegal activity.\textsuperscript{526}

An issue in civil copyright cases is whether settlement talks are binding on the parties. The risk of on-the-record settlement talks is intuitive; the danger of off-the-record settlement talks was shown in Lynch, Inc. v. SamataMason, Inc.\textsuperscript{527} In Lynch, the trial court dismissed the copyright infringement litigation with prejudice but retained jurisdiction to enforce the settlement agreement.\textsuperscript{528}

The parties met for a settlement conference in the magistrate judge’s

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\textsuperscript{518} Kah Choon Chay, 281 F.3d at 683.
\textsuperscript{519} Id.
\textsuperscript{520} Id. at 685.
\textsuperscript{521} Id. at 685-86.
\textsuperscript{522} Id. at 686.
\textsuperscript{523} Id.
\textsuperscript{524} Id.
\textsuperscript{525} Kah Choon Chay, 281 F.3d at 686-87.
\textsuperscript{526} Id. at 687.
\textsuperscript{527} 279 F.3d 487 (7th Cir. 2002) (Bauer, Posner, Easterbrook, JJ.). The case was appealed from the United States District Court for the Northern District of Illinois, Eastern Div., No. 99C4357 (Denlow, Mag. J.). The counsel for plaintiff-appellant, was Robert S. Pinzur, Long Grove, IL; the counsel for defendants-appellees, was Sheri J. Engelken, Michael Kazan, Jeffrey S. Norman, of Kirkland & Ellis, Chicago, IL.
\textsuperscript{528} Lynch, 279 F.3d at 489.
The parties agreed to a settlement in principle. However, neither the discussions nor the ensuing agreement were recorded or transcribed. After the conference, the parties exchanged drafts of a settlement agreement, but could not agree on one paragraph. The parties agreed to submit competing versions of that paragraph to the court and the court would determine if the issue was settled and if so, to determine which version should be included in the settlement. The magistrate judge approved the defendant’s version and directed the parties to execute that version, but the plaintiff refused. The trial court dismissed the litigation with prejudice but stated in the order that the court was retaining jurisdiction to enforce the settlement agreement. The Seventh Circuit affirmed the dismissal.

The Seventh Circuit noted that, having dismissed with prejudice the copyright action, the trial court had no jurisdiction to do anything further because any action on the settlement agreement would have to be brought in state court due to the parties’ lack of diversity. Even though the settlement was of a federal copyright action, state contract law would govern any subsequent suit to enforce the settlement, said the Seventh Circuit.

Although the Seventh Circuit affirmed, it strongly cautioned against the practice followed by the magistrate judge in this case. The circuit court stressed that, during the conference in question, the magistrate judge should have invited a court reporter who should have recorded the terms of the settlement, as understood and agreed upon by the parties.

“But there is no use crying over spilled milk,” quipped the Court. Despite its disapproval of the trial court’s handling of the settlement conference, the Seventh Circuit determined that remand would be fruitless. Two years’ passing would hardly improve the participants’ recollections, particularly in view of the settlement’s complexity, so the Seventh Circuit concluded that future proceedings would be unreliable.

The Seventh Circuit also declined to adopt a per se rule to void settlements where the written record did not resolve the questions whether the case was actually settled. The Court favored the policy of encouraging candid discussions. The Court noted that settlement conferences were not

529. Id.
530. Id.
531. Id.
532. Id.
533. Id.
534. Id.
535. Lynch, 279 F.3d at 489.
536. Id. at 492.
537. Id. at 489-90.
538. Id. at 490-91.
539. Id.
540. Id. at 491.
541. Lynch, 279 F.3d at 491.
542. Id.
543. Id.
544. Id.
required by statute to be on the record.\textsuperscript{545} The Court adopted the Second Circuit's approach, writing "if neither party asks that any part of the discussion be recorded, the judge's failure to insist that a settlement reached in such a discussion be recorded does not invalidate the settlement."\textsuperscript{546}

The Seventh Circuit suggested that both parties had assumed the risk that the judge might remember the settlement conference differently.\textsuperscript{547} The Court suggested two alternatives that would have assisted the copyright owner. The parties could have asked the Court to read the settlement into the record.\textsuperscript{548} Alternatively, the parties could have clarified that the meeting was a settlement conference and would not be deemed final yet.\textsuperscript{549} For either alternative, the copyright owner would have a basis to challenge the district court's recollection that the case had been settled, even if it required asking the district court judge to take the witness stand or answer questions.\textsuperscript{550} Having used neither, the Court said that the copyright owner had to "live with the consequences."\textsuperscript{551}

Although the warning comes in an unpublished decision, the risk of defending intellectual property charges pro se was manifest in \textit{Lyons Partnership, L.P. v. Holmes}.\textsuperscript{552} Lyons charged that Holmes' use of purple dinosaur and green dinosaur costumes in her costume shop violated Barney and Baby Bop copyrights.\textsuperscript{553} After initial denials that she ever owned or rented "putative" Barney and Baby Bop costumes at her costume shop, later discovery responses revealed that defendant had the costumes.\textsuperscript{554} The district court found the initial discovery responses "willfully dishonest" and granted a default judgment as a discovery sanction.\textsuperscript{555} The Seventh Circuit affirmed the default judgment and the award of statutory damages and attorney's fees.\textsuperscript{556}

The Seventh Circuit did not accept the defendant's argument that she had been confused about the meaning of "putative;" it found no clear error in the trial court's determination that she was "dissembling," and not "confused."\textsuperscript{557} The Seventh Circuit was not convinced that the choice of sanction was "fundamentally wrong."\textsuperscript{558} Notwithstanding her pro se status, the Seventh Circuit rejected the defendant's argument that the district court abused its discretion in failing to grant her a jury trial.\textsuperscript{559} The Court

\textsuperscript{545} \textit{Id.}
\textsuperscript{546} \textit{Id.} at 491.
\textsuperscript{547} \textit{Id.}
\textsuperscript{548} \textit{Lynch,} 279 F.3d at 491.
\textsuperscript{549} \textit{Id.}
\textsuperscript{550} \textit{Id.} at 492.
\textsuperscript{551} \textit{Id.} at 491.
\textsuperscript{552} No. 01-3640, 2002 U.S. App. LEXIS 7500 (7th Cir. April 18, 2002) (Bauer, Kanne, Wood, JJ.) (per curiam).
\textsuperscript{553} \textit{Holmes,} 2002 U.S. App. LEXIS at *3.
\textsuperscript{554} \textit{Id.}
\textsuperscript{555} \textit{Id.} at *4.
\textsuperscript{556} \textit{Id.} at *8.
\textsuperscript{557} \textit{Id.} at *5-6.
\textsuperscript{558} \textit{Id.} at *6-7.
\textsuperscript{559} \textit{Id.} at *7-8.
determined that her request was untimely because it came a year and a half after the 10 days permitted for such a motion after the last pleading was filed, as provided in Federal Rule of Civil Procedure 38(b), (d). According to the Court, that rule applied equally to pro se litigants.

V. TRADE SECRETS

In 2002, the Seventh Circuit focused on whether the information at issue was really secret in trade secret cases. Procedural matters were also addressed, including statutes of limitation, mootness of a preliminary injunction, and the specificity required to keep trade secrets under seal on appeal.

A. Secrecy

A trade secret owner lost on its trade secret claim by failing to identify the secrets with sufficient specificity in *IDX Systems Corp. v. Epic Systems Corp.* IDX filed its diversity suit against two former Epic employees, Quade and Rosencrance, who then managed data processing at the University of Wisconsin Medical Foundation. IDX claimed that Quade and Rosencrance conveyed trade secrets in IDX software to Epic, enabling Epic to improve its own software package and take business away from IDX. IDX charged trade secret theft, breach of confidentiality contract, and tortious interference with business relations. The district court granted summary judgment on the trade secret claim because IDX failed to demonstrate what part of its software was a trade secret. The district court also dismissed the tort claims as preempted by Wisconsin trade secret law. The Court deemed the confidentiality agreement unenforceable for lack of geographic and temporal restrictions. The Seventh Circuit affirmed the summary judgment and reversed on the breach of contract and tort claims. The Seventh Circuit rejected IDX’s attempts to define its trade secret. The 43-page description of the methods and processes of

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561. Id.
562. 285 F.3d 581, 587 (7th Cir. 2002) (Easterbrook, Ripple, Wood, JJ.). The case was appealed from the United States District Court for the Western District of Wisconsin, 165 F. Supp. 2d 812 (W.D. Wis. 2001) (Shabaz, J.). The counsel for plaintiff appellee, was Kenneth Starr, of Kirkland & Ellis, Washington, DC and William A. Streff, of Kirkland & Ellis, Chicago, IL; the counsel for defendants-appellees Mitchell Quade and Michael Rosencrance, was Barbara A. Nieder, Stafford Rosenbaum, also for Michael Rosencrance, Steven M. Streck, Axley Brynecson, Madison, WI, for University of Wisconsin Medical Foundation, Jon G. Furlow, Michael, Best & Griedrich, Madison, WI, for Westfield Ins. Co., Michael P. Crooks, Peterson, Johnson & Murray, Madison, WI.
563. *IDX Systems,* 285 F.3d at 583.
564. Id.
565. Id.
566. Id.
567. Id.
568. Id.
569. *IDX Systems* at 587.
570. *IDX Systems,* 285 F.3d at 583.
software failed to adequately delineate what was secret, as opposed to well-known.\textsuperscript{571} Data entry screens for example, were readily ascertainable by proper means, and "a trade secret claim based on readily observable material is a bust."\textsuperscript{572} While underlying algorithms might be trade secrets, IDX had not separated those nor shown that the defendants decompiled the code or otherwise obtained access to the algorithms: "[i]t alleges only that Foundation transferred to Epic those details that ordinary users of the software could observe without reverse engineering."\textsuperscript{573}

However, the Seventh Circuit concluded in favor of IDX that it could validly restrict its customers' use of its software, precluding its examination for the purpose of creating another system.\textsuperscript{574} This was not an unlawful restriction on human capital like the ill-favored employee non-compete clauses.\textsuperscript{575} This was a protection of intellectual property that did not harm or restrict competition so long as competitors are gathering information, not "spong[ing] off another's intellectual property."\textsuperscript{576} The Court also rejected the notion that a geographic limitation on the confidentiality agreement was required, noting that "[k]nowledge does not respect borders."\textsuperscript{577} The Court remanded the case for trial on the contract claims.\textsuperscript{578} The Court also concluded that state trade secret law did not conflict with the asserted tort law claims, noting the absence of any precedent so holding.\textsuperscript{579}

The following case also dealt with proving secrecy. The Seventh Circuit announced a new practice respecting protective orders and trade secrets in \textit{Baxter International v. Abbott Laboratories},\textsuperscript{580} a case reviewing an arbitration between a patentee of an invention and an exclusive licensee. The issue involved the scope of the discovery and what information is to be made public:\textsuperscript{581}

Because no prior published opinion has made clear the need for specificity in motions [to maintain documents under seal] of this kind, we will allow these parties to amend their motion a second time. Having explained the legal requirements, however, the \textit{court will in the future deny outright any motion under Operating Procedure 10 that does not analyze in detail, document by document, the propriety of secrecy, providing reasons and legal citations.}

\textsuperscript{571} Id. at 583-84.
\textsuperscript{572} Id. at 584.
\textsuperscript{573} Id.
\textsuperscript{574} Id. at 585-86.
\textsuperscript{575} Id. at 585.
\textsuperscript{576} Id.
\textsuperscript{577} \textit{IDX Systems}, 285 F.3d at 586.
\textsuperscript{578} Id. at 587.
\textsuperscript{579} Id. at 586-87.
\textsuperscript{580} 297 F.3d 544 (7th Cir. 2002) (Easterbrook, Kanne, Williams, JJ.). The case was appealed from the Northern District of Illinois, Nos., 01 C 4809 & 01 C 4839 (Guzman, J.). The counsel for plaintiff-appellant Baxter International, was Constantine L. Trela, of Sidley Austin Brown & Wood, Chicago, IL; the counsel for defendant-appellee Abbott Laboratories, R. Mark McCareins, Winston & Strawn, Chicago, IL)), later proceeding 315 F.3d 829 (7th Cir. 2003), \textit{reh'g and reh'g in banc denied}, No. 02-2039 2003 U.S. App. LEXIS 6896 (7th Cir. Apr. 10, 2003).
\textsuperscript{581} \textit{Baxter}, 297 F.3d at 547.
Motions that represent serious efforts to apply the governing rules will be entertained favorably, and counsel will be offered the opportunity to repair shortcomings. Motions that simply assert a conclusion without the required reasoning, however, have no prospect of success.582

In Baxter, the Seventh Circuit considered a joint motion by the parties to file seven envelopes of documents pertaining to the appeal under seal.583 The Seventh Circuit motions judge denied the motion without prejudice, explained the motion's problems, and permitted renewal.584 The parties' revised, joint motion exposed that they had previously overclaimed confidentiality for most of the documents.585 The parties even requested that the contract documents at the heart of their dispute should remain under seal, arguing that confidentiality was an integral part of their agreement.586 The Seventh Circuit rejected this as contrary to the policy set forth in Grove Fresh Distributors, Inc. v. Everfresh Juice Co.,587 "that the dispositive documents in any litigation enter the public record, notwithstanding any earlier agreement."588 This rule permits observers to know what the suit is about and to assess the judges' disposition: "Not only the legislature but also students of the judicial system are entitled to know what the heavy financial subsidy of litigation is producing."589

The only information entitled to be kept secret on appeal, according to the Court, included (1) trade secrets; (2) "information covered by a recognized privilege (such as the attorney-client privilege);" and (3) "information required by statute to be maintained in confidence (such as the name of a minor victim of a sexual assault)."590 The question for trade secrets is whether the information derives economic value from its being kept secret.591 A flat claim that disclosure could harm a party's competitive position was insufficient.592 The Court considered the assertion that confidentiality promoted both parties' business interests for five documents that included a copy of a confidential licensing agreement between Abbott and a third party.593 The Seventh Circuit was dissatisfied with the lack of any justifications or explanations by the litigants as to why disclosure of the agreement would be harmful for the parties and why such harm justifies secrecy.594 All that the parties presented, the Court stressed, was "ukase."595

The Court further noted that the joint motion failed to cite a single

582. Id. at 548 (emphasis added).
583. Id. at 545.
584. Id. at 547.
585. Id.
586. Id.
587. 24 F.3d 893 (7th Cir. 1994).
588. Baxter, 297 F.3d at 547.
589. Id.
590. Id.
591. Id.
592. Id.
593. Id.
594. Id.
595. Baxter, 297 F.3d at 547.
statute, rule, or opinion, despite the motions judge’s having stressed the need for specifics and detailed analysis.\(^{596}\)

The Court suggested that parties, fearing harm from disclosure could agree to submit to arbitration, which the parties had done in the instant case.\(^{597}\) Baxter’s breaking of its word to resolve the suit in private might support a cause of action for damages for breach of contract, surmised the Court, but not specific performance of the confidentiality agreement.\(^{598}\) "[Baxter] had, and spurned," said the Court, "a sure path to dispute resolution with complete confidentiality: accept the result of the closed arbitration."\(^{599}\) The Court also suggested that the parties could "pare down the appellate record" and could ask for non-important documents to be returned.\(^{600}\)

The fate of trade secrets during litigation is a major concern for entities that choose this form of protection for technology rather than possible copyrights or patents.\(^{601}\) In trade secret litigation, different courts take different views on the strictness of proof, some requiring the lighter burden of providing notice of trade secrets and others like the Seventh Circuit, in IDX for example, requiring more specificity.\(^{602}\) Often trade secrets that are discoverable in litigation are not even the primary basis of a suit but rather are financial information relevant to damages or collateral issues. Protective orders may be sought pursuant to the Federal Rules of Civil Procedure to protect confidential information.\(^{603}\) A recent national trend, however, finds courts, particularly federal circuit courts of appeal, treating with more suspicion parties’ attempts to maintain confidentiality of their information.\(^{604}\) Particularly suspect are blanket protective orders covering all technical and financial information.\(^{605}\)

A cautionary note to practitioners in the Seventh Circuit is that where confidential information, even that required by agreements to be maintained in confidence, is the basis of a court decision, the party should expect it to be made public. Meticulous analysis is now required for success on any motion to maintain documents under seal filed in the Seventh Circuit or in the district courts in its region.

\(^{596}\) Id.
\(^{597}\) Id.
\(^{598}\) Id. at 547-48.
\(^{599}\) Id. at 548.
\(^{600}\) Id.
\(^{601}\) See generally Susan V. Metcalfe, Comment, Protecting Trade Secrets: Is The Remedy Worse Than The Wrong?, 104 DICK. L. REV. 503 (2003) (noting that there is a Catch 22 for trade secrets: in order to seek court protection for trade secrets, the secrets must be revealed).
\(^{602}\) IDX Systems Corp., 285 F.3d at 584-85.
\(^{603}\) FED. R. CIV. P. 26(c).
\(^{605}\) Id. at 430-34.
B. Statute of Limitations

In a case reflecting a scattershot approach to an appeal, *Research Systems Corp. v. IPSOS Publicite*, the Seventh Circuit affirmed judgment in favor of the defendants accused of trade secret theft and other violations of state and federal law. RSC accused the defendants, collectively IPSOS, of stealing its trade secrets respecting its ARS Persuasion system, used to market test the effectiveness of television advertisements. The theft allegedly occurred as a result of meetings and negotiations for a potential joint venture between IPSOS, a French advertising company, and RSC to introduce a new testing system in France. ISPOS sold a testing system called Pre*Vision in France but wanted to develop a new system to attract Proctor & Gamble as a new customer. RSC and ISPOS signed confidentiality agreements covering the information that the companies would share and then had an initial visit by IPSOS representatives to RSC. However, the two companies were unable to reach a final agreement. IPSOS subsequently put together a joint proposal with two other European companies for RSC to license ARS Persuasion in Europe. RSC rejected the offer. ISPOS worked with a European company to revise its own Pre*Vision product to make it compatible for Proctor & Gamble’s use. RSC brought suit when it learned of ISPOS’s revised product.

Numerous issues brought up on appeal included various discovery and evidentiary admissibility questions that were disposed of in quick order and do not warrant discussion here. The Court also made quick work of the question of whether the trial court abused its discretion when it denied RSC’s motion for a new trial on the trade secret misappropriation claim. The Seventh Circuit cited evidence that supported the jury’s determinations that RSC had not disclosed any product information that was not generally known or readily ascertainable. The Seventh Circuit said that RSC failed to identify any evidence that confidential information was disclosed to

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606. 276 F.3d 914 (7th Cir. 2002) (Posner, Ripple, Evans, JJ.). The case was appealed from the United States District Court for the Southern District of Indiana, No. 97 C 10 (Young, J.). The counsel for plaintiff-appellant Research Systems Corp., was Barbara Bison Jacobson, of Bison Jacobson Law Office, Cincinnati, OH; the counsel for defendants-appellees PISOS Publicite, IPSOS USA, IPSOS, IPSOS America, was Alexander Dimitrief, of Kirkland & Ellis, Chicago, IL and Ross E. Rudolph, Mattingly, Rudolph, Fine & Porter, Evansville, IN.


608. Id.

609. Id.

610. Id.

611. Id.

612. Id.

613. Id.


615. Id.

616. Id.

617. Id. at 919-20.

618. Id. at 921.

619. Id.
ISPOS during the tour of RSC’s facility: “[t]he jury was entitled to believe IPSOS S.A. president, Didier Truchot, who testified that IPSOS representatives saw little more than the sight of people working in their offices.” RSC also failed to demonstrate that there was insufficient evidence that IPSOS developed its product independently of RSC information. The Court noted that “IPSOS developed Pre*Vision from information derived from IPSOS’ interactions with other European companies and with its clients.”

Whether to toll the three-year statute of limitations for the Indiana Uniform Trade Secrets Act claim was an interesting point of the case. The suit was filed five years after RSC learned of the purported misappropriation. However, when a defendant is a nonresident, Indiana tolls all statutes of limitations and Indiana does not maintain a process server for people who may be served as an agent of the defendant. ISPOS was never a resident in Indiana and did not maintain an agent or anyone else to receive service of process. The district court granted summary judgment for the defendant on this claim based on its conclusion that the tolling provision did not excuse RSC’s late filing because IPSOS could have been timely served by certified mail pursuant to the state’s long arm statute. The Seventh Circuit affirmed.

The Seventh Circuit acknowledged that the Indiana Supreme Court had not addressed the question, but because this was a diversity case the Seventh Circuit had to attempt to predict how the Indiana high court would rule. An Indiana appeals court had ruled, in Haton v. Haton, that the tolling statute did not apply if the defendant was subject to the jurisdiction of the state. Although in Haton the defendant was subject to jurisdiction based on continuing jurisdiction for child support payments following a divorce decree, the district court in the RSC case deemed the long arm statute as analogously making the defendant subject to service of process. The Seventh Circuit noted that the tolling statute did not explicitly provide this exception.

The Seventh Circuit said, however, that the exception fit within the purpose of the statute: to preserve the plaintiff’s claim until such time as

620. Id.
621. Research Systems, 276 F.3d at 921-22.
622. Id. at 922.
623. Id. at 924-25.
624. Id. at 924.
625. Id.
626. Id.
627. Id. at 924-25.
628. Research Systems, 276 F.3d at 925.
629. Id. at 925.
632. Id. at 925.
633. Id. at 926.
service on the defendant is made available. The tolling statute served no purpose, said the Court, where the defendant was amenable to service of process, and it undermined the purpose of the statute of limitations to promote diligence on the part of the plaintiff. The Seventh Circuit noted that prior to a change in Indiana's long arm statute, service on nonresident corporations could be made to the Secretary of State, but under the present law, service on nonresident corporations was to be made by certified mail. Thus, under prior law, the tolling provision did not apply to nonresident corporations because they could be served via the Secretary of State. The Seventh Circuit viewed this as indicating that Indiana law permitted the rule that the statute of limitations would not be tolled where the nonresident defendant was subject to service of process under the long arm statute.

C. Economic Espionage Act

In the only criminal prosecution of a trade secret to reach the Seventh Circuit last year, United States v. Lange, the Seventh Circuit affirmed the conviction. Lange was convicted of stealing the trade secrets of his former employer, Replacement Aircraft Parts Co. (RAPCO) and attempting to sell it to one of RAPCO's competitors in violation of the Economic Espionage Act. The trade secret at issue was how to engineer airplane parts and how to produce parts to meet the same or better specifications. A complex part could take more than a year and tens of thousands of dollars to design and required substantial testing to obtain the required Federal Aviation Administration certification. Lange offered to sell for $100,000 on the Internet the information required to obtain certification for airplane brake components. The FBI was notified by an informant, and arrested Lange after obtaining taped negotiations that supplied sufficient evidence for conviction. Lange challenged the conviction, contending that the information was not a trade secret and that his thirty-month sentence was too long.

The Seventh Circuit considered several aspects of the question whether

634. Id. at 925.
635. Id.
636. Id.
637. Id.
638. Research Systems Corp., 276 F.3d at 926.
639. 312 F.3d 263 (7th Cir. 2002) (Cudahy, Easterbrook, Ripple, JJ.). The case was appealed from the United States District Court for the Eastern District of Wisconsin, No. 99-CR-174 (Stadtmueller, J). The counsel for plaintiff-appellee, was Monica Rimai, Matthew L. Jacobs, of the Office of the United States Attorney, Milwaukee, WI; the counsel for defendant-appellant, was Bridget E. Boyle, of Boyle, Boyle & Smith, Milwaukee, WI.
640. Lange, 312 F.3d at 271.
641. Id. at 264. The Economic Espionage Act can be found at 18 U.S.C. § 1832 (2000).
642. Lange, 312 F.3d at 265.
643. Id.
644. Id.
645. Id.
646. Id. at 266.
the information was a trade secret. First, the Court considered the sufficiency of the measures taken to keep the information secret. Second, the Court looked at whether the information was not readily ascertainable by the "public." Third, the Court touched on the prosecution's argument that Lange could be convicted for an "attempted" trade secret theft, even if the information was not sufficiently secret, if Lange thought he had real trade secrets. As to the first point, the Court was not persuaded that RAPCO failed to take reasonable measures to maintain the information's secrecy. The Court cited the special room (for the computer assisted drawing software, and the manufacturing data and drawings) that was protected by a special lock, an alarm system, and a motion detector. The Court noted that the copies of the sensitive information were kept to a minimum and any surplus copies were shredded. Warning of RAPCO's intellectual property rights were included on drawings and other manufacturing information and were also given to every employee. RAPCO parceled schematics amongst different subcontractors to ensure that none could replicate the product, relying on this rather than an agreement to protect its confidentiality. The Court deemed these measures sufficient.

The Seventh Circuit declined to answer a question of statutory interpretation respecting the statutory requirement that the information derived economic value "from not being generally known to, and not being readily ascertained through proper means by, the public." The prosecution argued that "public" meant "general public," the "ordinary man on the street." The Seventh Circuit questioned this statutory construction because the "problem with using the general public as a reference group for identifying a trade secret is that many things unknown to the public at large are well known to engineers, scientists, and others whose intellectual property the Economic Espionage Act was enacted to protect." According to the Court "[i]t's makes the general public a poor benchmark for separating commercially valuable secrets from obscure (but generally known) information." The Seventh Circuit looked at the Uniform Trade Secrets Act, adopted by many states, which referred to the trade secret information as the information which "derives independent economic value, actual or potential, from not being generally known to, and not being readily

647. Lange, 312 F.3d at 266.
648. Id.
649. Id. at 268.
650. Id. at 266.
651. Id.
652. Id.
653. Id.
654. Lange, 312 F.3d at 266.
655. Id.
656. Id.
657. Id.
658. Id. at 267.
659. Id.
ascertainable through proper means by the public. Although the prosecutor argued that the failure to include in the federal statute the Uniform Act’s limitation demonstrated Congress meant the general public, the Seventh Circuit said that Congress could have intended “public” to be shorthand for the “economically relevant public.” In this case, that would mean engineers and aircraft parts manufacturers would have the means to reverse engineer their competitor’s products — in short, “rivals.” After considering these various interpretations, however, the Court said it need not decide which was correct because the information was “not ‘readily ascertainable’ to the general public, the educated public, the economically relevant public, or any sensible proxy for these groups.”

The Court also declined to decide the question of attempted trade secret theft. According to the Court, the trial judge (in this bench trial) was entitled to find that Lange had real trade secrets. However, the Court did suggest that taking data from an ex-employer might be sufficiently likely to contain trade secrets to justify calling the preparation for sale a substantial step toward completion of the offense and thus a culpable attempt. However, this was only a “plausible” claim, with “sensitivity to the facts,” like what kind of data did the employee think he stole. In any event, the Court said it was not necessary in this case to announce a definitive rule.

Lange challenged two aspects of the judge’s sentencing decision. First, Lange protested the conclusion that he had used “special skill,” which added two levels under applicable federal sentencing guidelines. Lange said his training differed from that denoted in the sentencing guideline application note, which commented on “special skill” as follows: ‘Special skill’ refers to a skill not possessed by members of the general public and usually requiring substantial education, training or licensing. Examples would include pilots, lawyers, doctors, accountants, chemists, and demolition experts.

The Seventh Circuit disagreed:

Drafting skills, including the use of AutoCAD [the computer assisted drawing software], are “not possessed by members of the general public,” require time to master, and played a central role in the offense. A mechanical drafter is in the same category as a pilot or demolition expert — for those skills, too, may be learned outside the academy.

Second, Lange protested the conclusion that he had not accepted responsibility, which would have deducted two levels had the judge

660. Id. at 268.
661. Lange, 312 F.3d at 267-68.
662. Id. at 268.
663. Id.
664. Id. at 269.
665. Id.
666. Id.
667. Id.
668. Lange, 312 F.3d at 269-70.
669. Id. at 269-70.
670. Id. at 270.
671. Id.
According to the Court, this reduction usually accompanied a guilty plea, but Lange went to trial and also appealed his conviction, still arguing his innocence both on factual and legal grounds. Moreover, Lange did not learn his lesson; he consulted an attorney who told him not to sell the data but Lange went ahead and did so anyway. He also tried to persuade a friend to lie to the grand jury. This was more an obstruction of justice than an acceptance of responsibility, said the Court.

Judge Ripple concurred in the judgment, but wrote separately to convey his disapproval of the Court’s confronting issues not necessary to the decision. For example, Judge Ripple read the majority as having rejected out of hand the United States’ position on the meaning of “public” as meaning “general public,” notwithstanding the majority’s concession that it was not deciding the question. Judge Ripple noted that he would also defer discussion on attempted trade secret theft, suggesting that a sister circuit’s decision to the contrary counseled restraint.

D. Injunctions

The secret of enticing olive oil flavors was the subject of *Lucini Italia Company v. Giuseppe Grappolini*. Lucini filed suit against Grappolini, seeking a preliminary injunction for Grappolini’s alleged theft of Lucini’s essential oil trade secrets. The district court denied the motion several months later, stating that the motion was moot after the parties had agreed to maintain the status quo while engaging in settlement talks. The Seventh Circuit vacated and remanded with instructions to proceed to immediate discovery and an expedited hearing on the merits of the preliminary injunction motion.

Lucini was in the business of developing and marketing gourmet foods. Lucini entered into an oral consulting agreement with Grappolini, an Italian citizen who was an olive oil expert, and his company. Lucini wanted to introduce new olive oil products that would include natural

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672. *Id.*
673. *Id.*
674. *Id.*
675. *Lange*, 312 F.3d at 271.
676. *Id.*
677. *Id.*
678. *Id.*
679. *Id.* at 271-72.
680. 288 F.3d 1035 (7th Cir. 2002) (*Flaum*, C.J., Harlington Wood, Jr., Posner, JJ.). The case was appealed from the United States District Court for the Northern District of Illinois (Norgle, J.). The counsel for plaintiff-appellant Lucini Italia Co., was Steven C. Florsheim, Chicago, IL; the counsel for defendants-appellees Giuseppe Grappolini and Grappolini G. S.R.L., was Jose A. Lopez, of Schopf & Weiss, Chicago, IL.
682. *Id.*
683. *Id.* at 1036.
684. *Id.*
685. *Id.*
extracts to provide different flavors, such as garlic or lemon. Grappolini’s responsibility, according to Lucini but disputed by Grappolini, was to identify Italian producers of olive oil and to study the taste and smell of potential products. Lucini was responsible for identifying target markets and customers, establishing price points to best establish a market, and determining which flavors to use and not to use. Lucini required Grappolini to sign confidentiality agreements respecting the information. Grappolini was to obtain an exclusive supply agreement between Lucini and the Vegetal Company, located by Grappolini to produce the essential oils. However, Grappolini himself entered into an agreement with Vegetal and brought to market his own essential-oil-flavored olive oil, Res Essenziale. Lucini filed suit for trade secret misappropriation once it learned of Grappolini’s product sales in the United States.

The district court denied the preliminary injunction as moot, but applied the wrong legal standard, explained the Seventh Circuit. The correct standard requires that no reasonable expectation exists that the alleged wrong will be repeated, and the burden of proof lies with the defendant, said the Court. The parties’ agreement to maintain the status quo during litigation does not deprive a federal court of its power to determine the legality of the suspended practice. Moreover, the Seventh Circuit questioned whether the parties had indeed reached any such agreement, particularly in view of Lucini’s contention that Grappolini continued to sell essential oil products in the United States. The Seventh Circuit pointed out that the trial court had not permitted discovery respecting the extent of Grappolini’s sales and marketing, and thus any contention that Lucini had failed to prove its entitlement on the merits to a preliminary injunction was highly speculative. Although the district court had stayed discovery pending an arbitration in Italy, the Seventh Circuit determined that the instant dispute would not be resolved in that proceeding and thus provided no basis for further staying discovery.

VI. PATENT

It might seem discordant to see a discussion of Seventh Circuit patent appeals because the Federal Circuit has jurisdiction of patent appeals. The

686. Id. at 1037.
687. Id.
688. Lucini, 288 F.3d at 1037.
689. Id.
690. Id.
691. Id.
692. Id. at 1038.
693. Id.
694. Id.
695. Lucini, 288 F.3d at 1038.
696. Id. at 1039.
697. Id.
698. Id. at 1039-40.
influence of the Seventh Circuit on substantive patent law may be on the rise, however, after the United States Supreme Court's decision in *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, holding that the Federal Circuit does not have jurisdiction over a case with no patent claim in the complaint yet including a patent claim as a counterclaim. The *Holmes* case could signal a return in part to the era of disparate regional appellate treatment of patents, and to a time when the Seventh Circuit provided key guidance on patent substantive law.

A. Jurisdiction and Weight of Precedent

The Seventh Circuit's patent power was virtually eliminated in 1982 with the addition of the Federal Circuit to the federal appellate landscape. The Federal Circuit was given jurisdiction of all cases from district courts within the Seventh Circuit's geography that arose under the patent laws of the United States. With its mission to increase the national uniformity and predictability of patent law, the Federal Circuit departed from the Seventh Circuit in both major and minor ways.

The vitality of more than one hundred years of Seventh Circuit patent precedent appeared to be totally swept away when the Federal Circuit decided in *South Corp. v. United States* that the precedent of its predecessor courts was binding. The natural result of the *South* decision was that the Federal Circuit was required to follow the patent precedent of its predecessor courts, the United States Court of Customs and Patent Appeals and the United States Court of Claims, and not that of any regional circuit courts of appeals. Although the Federal Circuit has often referred to regional circuit law on matters of procedure, its consideration of regional patent decisions is infrequent. One example where the Federal Circuit cited favorably a Seventh Circuit patent decision was in *A.C. Aukerman Co. v. R.L. Chaides Construction Co.*, where the Federal Circuit commended the reasons stated in *George J. Meyer Manufacturing v. Miller Manufacturing*.

706. 690 F.2d 1368 (Fed. Cir. 1982) (en banc). This decision was the first appeal heard and the first opinion published for the Federal Circuit. *Id.* at 1361.
707. *SouthCorp.*, 690 F.2d at 1369.
709. 960 F.2d 1020 (Fed. Cir. 1992).
710. 24 F.2d 505, 507 (7th Cir. 1928).
for limiting the laches defense in patent cases to the patentee’s past acts.\textsuperscript{711}

With the return of patent counterclaim case appeals to the Seventh Circuit, the question of how to treat its own precedent and Federal Circuit precedent will be an interesting one to follow. One of the first cases to be bounced from the Federal Circuit to any regional circuit was \textit{Medigene v. Loyola}.\textsuperscript{712} The Seventh Circuit has not yet decided that appeal.

\textbf{B. Licenses}

The only other Seventh Circuit patent question this past year was raised in a patent royalty diversity case. The Seventh Circuit demonstrated its willingness to jump in with both feet on patent questions in \textit{Scheiber v. Dolby Laboratories, Inc.}\textsuperscript{713} Although the Seventh Circuit followed Supreme Court precedent that forbade patent royalties once a patent expired, the Seventh Circuit seriously questioned the rule.\textsuperscript{714}

At issue were royalties from Scheiber’s surround sound patents licensed to Dolby.\textsuperscript{715} The royalties had been set in settlement of litigation.\textsuperscript{716} Dolby negotiated a lower royalty rate in exchange for continued royalty payments until the last of the patents at issue, a Canadian patent, expired.\textsuperscript{717}

In the present litigation, Dolby argued that it had no duty to pay the agreed upon royalties on equipment covered by expired patents, relying on \textit{Brulotte v. Thys Co.}\textsuperscript{718} The district court agreed and granted summary judgment in favor of Dolby.\textsuperscript{719} The Seventh Circuit affirmed.\textsuperscript{720}

The Seventh Circuit recognized that Dolby’s situation, involving an agreement licensing patents that expired on different dates, was indistinguishable from \textit{Brulotte}.\textsuperscript{721} While the Court deemed that precedent dubious, it recognized it was bound to follow the Supreme Court’s decision: “[h]owever, we have no authority to overrule a Supreme Court decision no

\begin{itemize}
\item \textsuperscript{711} \textit{A.C Aukerman Co.}, 960 F.2d at 1040.
\item \textsuperscript{712} See Nos. 02-1235, 02-1308 2002 U.S. App. LEXIS 14503 (Fed. Cir. June 23, 2002) (transferring the appeal from the Federal Circuit to the Seventh Circuit). The case was pending, as of the time of this article’s publication, with briefs filed but no oral argument scheduled. See \textit{Medigene AG v. Medimmune, Inc.}, No. 02-2743, available at http://www.ca7.uscourts.gov/briefs.htm. (last visited September 8, 2003).
\item \textsuperscript{713} 293 F.3d 1014 (7th Cir. 2002) (Posner, Evans, Williams, JJ.) The case was appealed from the United States District Court for the Southern District of Indiana, 95 C 1531 No. 01-2466 (Goodich, Mag. J.). The counsel for plaintiff-appellant and patent owner, was Daniel J. Lueders, of Woodard, Enhhardt, Naughton, Moriarty & McNett, Indianapolis, IN; the counsel for defendants-appellees and patent licensees, was John L Cooper, of Farella, Braun & Martel, San Francisco, CA, Edward W. Harris, III, Sommer & Barnard, Indianapolis, IN, and for co-defendant-appellee, Seven R. Lowenthal, Farella, Braun & Martel, San Francisco, CA.
\item \textsuperscript{714} \textit{Scheiber}, 293 F.3d at 1017, 1023.
\item \textsuperscript{715} \textit{Id.} at 1016.
\item \textsuperscript{716} \textit{Id.}
\item \textsuperscript{717} \textit{Id.}
\item \textsuperscript{718} \textit{Id.} at 1017; \textit{Brulotte v. Thys Co.}, 379 U.S. 29 (1964).
\item \textsuperscript{719} \textit{Scheiber}, 293 F.3d at 1023.
\item \textsuperscript{720} \textit{Id.}
\item \textsuperscript{721} \textit{Id.} at 1017-18.
\end{itemize}
matter how dubious its reasoning strikes us, or even how out of touch with the Supreme Court’s current thinking the decision seems." The problem with Brulotte, according to the Seventh Circuit, was as follows: "[t]he duration of the patent fixes the limit of the patentee’s power to extract royalties; it is a detail whether he extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time." Thus, the Supreme Court was wrong to assume that post-expiration payments reflect an extension of the patent rather than an amortization of its price, said the Seventh Circuit. The Seventh Circuit noted that Brulotte had been "severely" and "justly" criticized, beginning in the dissent and continuing in law review articles.

Scheiber proposed two grounds for disregarding Brulotte, but the Seventh Circuit was persuaded by neither. First, Scheiber argued that the 1988 amendment to the patent law indicated that Congress intended to overrule Brulotte. The amendment limited the reach of the patent misuse defense to infringement, providing in Section 271(d)(5) of the patent statute that:

no patent owner otherwise entitled to relief for infringement . . . shall be . . . deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product.

The Seventh Circuit said that this did not excuse post-expiration royalties because it applied to infringement suits, which this was not. Also, the Court said the provision was limited to tying. The Court viewed the rationale of tying cases, where a seller tries to charge a monopoly price for a product tied to another monopoly-priced product, as "economic nonsense, imputing systematic irrationality to businessmen." However, the bundling of the duration of royalty payments was not tying, so the provision did not apply. The Seventh Circuit also rejected Scheiber’s argument that the unclean hands doctrine should preclude applying Brulotte to the instant case because it was Dolby who proposed the license duration in the first place. The Court said applying the doctrine of unclean hands would totally undermine the policy of refusing enforcement to contracts for

722. Id. at 1018.
723. Id. at 1017.
724. Id. at 1017-18.
725. Id. at 1017.
726. Scheiber, 293 F.3d at 1019-20.
727. Id. at 1019.
728. Id.
729. Id. at 1019-20.
730. Id. at 1020.
731. Id. at 1020-21. However, the court noted that one district court in Sunrise Medical HHG v. AirSep Corp., 95 F. Supp. 2d 348, 357-59 (W.D. Pa. 2000) concluded that the 1988 amendment did overrule Brulotte. Id. at 1021.
732. Scheiber, 293 F.3d at 1021.
the payment of patent royalties after expiration of the patent.\textsuperscript{733}

As demonstrated by the \textit{Scheiber} case, patent cases sometimes raise antitrust issues.\textsuperscript{734} In the following antitrust case, patent law is discussed despite the absence of patent infringement claims. The trial court in \textit{In re Brand Name Prescription Drugs Antitrust Litigation}\textsuperscript{735} granted summary judgment in favor of defendant wholesale sellers of drugs on claims of price fixing in violation of the Sherman Act and against retail sellers of prescription drugs.\textsuperscript{736} The Seventh Circuit affirmed, agreeing with the trial court that there was too little conspiracy evidence against the middlemen wholesalers to infer knowledge or joinder in the alleged antitrust violations.\textsuperscript{737}

This antitrust case tangentially related to both patents and trademarks. The case alleged price discrimination between generics and brand name drugs.\textsuperscript{738} The Court suggested that multiple manufacturers without collusion could not maintain a price differential if the brand-name drugs were interchangeable with generics.\textsuperscript{739} However, if the drugs were not interchangeable, then each individual manufacturer might be able to engage in price discrimination.\textsuperscript{740} The Court suggested that price discrimination might be maintained whether because of chemical differences protected by patents or because of perceived differences having to do with a manufacturer’s reputation or his advertising or other promotional activity.\textsuperscript{741}

“Just as copyrights give the publisher a temporary monopoly of each book he publishes, so patents give manufacturers of drugs a temporary monopoly of

\textsuperscript{733} Id. at 1021-22.

\textsuperscript{734} See generally \textit{USM Corp. v. SPS Tech.}, 694 F.2d 505, 510-512 (7th Cir. 1982) (looking at the anticompetitive effects of patent misuse); Joel R. Bennett, \textit{Patent Misuse: Must An Alleged Infringer Prove an Antitrust Violation}, 17 AIPLA Q.J. 1, 10-11 (1989) (noting that patent misuse is intertwined with anti-trust issues).

\textsuperscript{735} 288 F.3d 1028 (7th Cir. 2002), (Bauer, Posner, Easterbrook, JJ.) The case was appealed from the United States District Court of the Northern District of Illinois, No. 94 CV 897 (Kocoras, C. Judge). The counsel for plaintiffs-appellants was Lawrence Adams, Mark Vehik, of McMath Law Firm, Little Rock, AR and David Boies, Boies, of Schiller & Flexner, Armonk, NY, for Paradise Drugs, Bob’s Pharmacy and Robar One, Melvyn Segal, Forster & Segal, San Jose, CA and David Boies, for Ace Pharmacy, Adams Drug, Advance Drugs, Ackal’s and Agler Drug, Mary Boies, Boies & McGinnis, Beford, NY and Nicholas A. Gravante, Boies, Schiller & Flexner, and David Boies, for Rite Aid, Revco, Snyder’s Drug, Perry Drug, Smith’s Food and Drug, Steve D. Shadowen, Schnader, Harrison, Segal & Lewis, Harrisburg, PA and David Boies, for Malley’s Pharmacy, Meijer, Brookshire Bros., Pharmhouse, Publix Supermarkets, Paul E. Slater, Slater, Slater & Spitz, Chicago, IL; counsel for defendants Bergen Brunswig Corp., Melvin R. Goldman, Morrison & Foerster, San Francisco, CA, for Bindley Western Indus., Donald C. McLean, Arent, Fox, Kintner, Plotkin & Kahn, Washington, DC, for Cardinal Health and Whitmire Distribution, Thomas L. Long, Baker & Hostetler, Columbus, OH, for Foxmeyer Drug Co., Alan Weinschel, Weil, Gotshal & Manges, and for McKesson Corp., J. Thomas Rosch, Latham & Watkins, San Francisco, CA.

\textsuperscript{736} \textit{In re Brand Name}, 288 F.3d at 1029-30.

\textsuperscript{737} Id. at 1033.

\textsuperscript{738} Id. at 1030.

\textsuperscript{739} Id.

\textsuperscript{740} Id.

\textsuperscript{741} Id.
each drug he manufactures. These monopolies create preconditions for discriminatory pricing. 742

This case appears to suggest that a patent provides a presumptive monopoly, without concomittantly examining the patentee’s market power or the presence of other competitors; thus, the case continues a difference of viewpoint between the Seventh and the Federal Circuit respecting the association between patent and monopoly. 743

Differences of viewpoint, if indeed they exist, between the Seventh Circuit and the Federal Circuit might be supposed to be a result of the different jurisdictions. Judge Posner has suggested that judges with strong backgrounds in an area of law may bring strong ideological views to cases in that area. 744 Consequently, decisions of a specialized court comprised of “expert” judges might be open to criticism according to Judge Posner. 745 The same criticism, however questionable, could be leveled at generalist judges with strong backgrounds in an area of law, say economic analysts of the law. Judge Posner has also expressed some antipathy toward the patent bar, in his book Overcoming Law, describing the patent bar as self-interested and guild-like in nature. 746 The potential for circuit splits on patent law may be expected to be closely monitored by those interested in either court.

V. CONCLUSION

During the survey period, the Seventh Circuit applied existing precedent for most of its decisions. However, the Court announced several departures and provided practical and valuable guidance to IP practitioners. The Court accomplished this with its characteristic flair, and those who follow the Court look forward with interest to another year.

742. Id. at 1031.
743. In re BrandName, 288 F.3d at 1031.
745. Id. at 251.