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Special Report: Intellectual Property

A heady half dozen

May 08, 2006

By: Joel Rothman

This past year was an interesting one for intellectual property attorneys who follow the decisions of the 11th U.S. Circuit Court of Appeals, which covers Florida, Georgia and Alabama.

There were several decisions of note in intellectual property cases. Antitrust concerns continue to weigh heavily on the pharmaceutical industry, as two decisions from the past year occur at the intersection of patent rights and antitrust prohibitions.

Two trademark decisions reflect the increasing value of marks in competitive businesses.

And technical defects proved to be the downfall of two separate litigants in copyright cases.

Here is our 11th Circuit IP year in review.

Patents and antitrust

You can't discuss patent issues without addressing the potential antitrust issues that patents create. Over the last several years, antitrust issues have taken on greater importance in patent infringement disputes.

Typically, a patent grants a company a lawful monopoly right to exclude others from selling a patented product in the marketplace. Along with the right to exclude others from selling your patented product comes the right to sue others who infringe your patent rights and settle those suits for, among other things, licenses and royalty payments.

But sometimes, a patent infringement lawsuit, or a settlement, can be anticompetitive. At least, that is what the Federal Trade



Stamina-Rx and Stamina Pro

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Commission's Antitrust Division thinks.

The FTC has been keeping tabs on settlements between brand and generic drug manufacturers and has noticed that companies are entering settlements in which the generic receives compensation from the branded manufacturer and there is a restriction on the generic's ability to market its product. In fact, three such settlements in 2005 included those terms.

This past year, two cases dealing with this issue went before the 11th Circuit. Both involved the practice of paying generic drug manufacturers to drop patent challenges and agree to stay off the market with generic equivalents in exchange for a payout that the FTC believes constitutes collusion. One was a direct challenge to the FTC's authority in this area, and the other was a dispute between drug companies.

In the case *Schering-Plough Corp. v. FTC*, the Federal Trade Commission had ordered Schering not to enforce a settlement agreement concerning generic versions of Schering's K-Dur potassium chloride drug. The FTC said the \$6 million payment made by the infringer to settle with Schering was not legitimate consideration for licenses to produce a generic version of K-Dur. According to the federal agency, the payment was to keep the generic version of the drug off the market.

But in March 2005, an 11th Circuit panel vacated the FTC's order and upheld Schering's right to enforce its patent monopoly. Relying in part on the policy favoring litigation settlements, the 11th Circuit held that patent owners should not be in a worse position, by virtue of their patent rights, to negotiate and settle infringement lawsuits.

In deciding in Schering-Plough's favor, the 11th Circuit panel stated that "simply because a brand-name pharmaceutical company holding a patent paid its generic competitor money cannot be the sole basis for a violation of antitrust law."

Despite this loss, the FTC has continued to oppose such settlements and has sought certiorari from the U.S. Supreme Court to review the decision in *Schering-Plough*.

In another case, *Andrx Pharmaceuticals Inc. v. Elan Corp.*, the 11th Circuit again was confronted with claims that the enforcement of patent rights created an illegal anticompetitive effect on the market for prescription generic drugs.

The *Andrx* case involved the intersection of FDA regulations concerning the marketing of generics and patent rights. The FDA approval process for generic versions of previously approved prescription drugs includes a provision for the filing of patent infringement lawsuits before the approval to market generic versions of those drugs is granted.

After Ireland-based Elan filed such a suit against Davie-based *Andrx* concerning the anti-inflammatory drug naproxen, *Andrx* counterclaimed that Elan's infringement lawsuit was a sham suit filed solely to maintain an illegal monopoly on the marketing of naproxen which would soon come off patent.

Once again siding with the patent holder, an 11th Circuit panel last August rejected antitrust arguments that would have prevented Elan from enforcing its patent rights. The court determined that Elan, by filing a lawsuit against *Andrx*, had engaged in an activity that could not subject them to antitrust liability.

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Trademark

The 11th Circuit issued noteworthy trademark decisions this past year. But both are unpublished and therefore of limited precedential value.

In *Ferrellgas L.P. v. Barrow*, the 11th Circuit in July addressed common law rights in trademarks transferred in mergers and acquisitions.

The Barrow family, the defendants in *Ferrellgas*, long ago had sold their “Barrow Propane” business to a larger propane supplier. The acquirer continued to operate the business using the “Barrow Propane” name. Several years later, Kansas-based *Ferrellgas* came along and bought the business and also continued to use the “Barrow Propane” name.

But after the business was resold to *Ferrellgas*, the daughter of company founder Homer Barrow tried to get back into the propane business under the name “Barrow Energies.”

When sued, the Barrow family argued that when Mr. Barrow sold his company, he retained ownership of the Barrow name. The Barrows won in the district court.

But in a rare reversal of the denial of a preliminary injunction, the 11th Circuit held that even though the purchase and sale contract made no mention of the transfer of the Barrow name, the plaintiff owned that trademark and could prevent Barrow from using the mark in a competing business.

A second trademark decision from the 11th Circuit this past year, also unpublished, has created a lot of confusion among IP lawyers.

In *Hi-Tech Pharmaceuticals Inc. v. Herbal Health Products Inc.*, Georgia-based Hi-Tech, a maker of nutritional supplements, sued Florida-based Herbal Health, a rival, because Herbal started selling a product called *Stamina Pro* that Hi-Tech claimed infringed on its product *Stamina-RX*.

Herbal previously had been a distributor of Hi-Tech’s *Stamina-RX* product, but then began manufacturing, marketing and selling its own nutritional supplement for improving male sexual performance in competition with Hi-Tech.

The similarity between the product names, their appearance, and their packaging was striking. The *Stamina-RX* pill is blue in the shape of a hexagon. It is packaged in a clear bottle with a white top. The bottle has an image of a robot with raised arms holding a sphere on it. Underneath the robot appear the words “Maximum Sexual Stimulant.”

Herbal’s *Stamina Pro* product is also a blue pill in the shape of a hexagon. It also is sold in a clear bottle with a white top. It also has an image of a robot on bottle, though this robot has his arms at his sides. The words “Maximum Male Sexual Enhancement Formula” are on the bottle with a statement that says “compared to *Stamina-RX*.”

The 11th Circuit looked at these two products and decided last May that the lower court got it right when it found there was no infringement.

This outcome is, to say the least, confusing. Almost everything about *Stamina Pro* screams infringement when compared with *Stamina-RX*.

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The 11th Circuit panel held that there was no infringement because Hi-Tech presented no evidence of actual confusion. The panel wrote that “actual confusion was one of the ‘most important factors in the likelihood of confusion analysis,’ ” and that “the type of mark and evidence of actual confusion are the most weighty of considerations.”

This holding is difficult to reconcile because actual confusion has never been a requirement to demonstrate infringement in any trademark case.

Evidence of actual confusion is hard to come by. It is the unusual case where evidence is presented showing actual consumers actually were confused. Instead, actual confusion is more commonly proven using market research surveys.

Moreover, the requirement of showing actual confusion places an undue burden on trademark holders and is contrary to the trademark statute. The federal Lanham Act, which governs trademark infringement, says that to establish infringement the Johnny-come-lately mark need only be “likely to cause confusion, or to cause mistake, or to deceive.”

If the potential for confusion is strong in other ways, evidence of actual confusion is unnecessary to prove infringement. Hi-Tech seemed to have almost all the other factors going for it. That’s why the 11th Circuit’s decision in Hi-Tech is surprising.

Copyright

In the field of copyright, two decisions this past year underscore the importance of the registration process as a prerequisite for successful copyright infringement actions.

In *Maverick Boat Co. Inc. v. American Marine Holdings Inc.*, the issue was whether the plaintiff’s copyright registration in its boat hull design had been properly registered under the Vessel Hull Design Protection Act.

The statute was enacted to provide shipbuilders with the ability to protect their boat designs from infringement. The statute has specific requirements for registering vessel designs, and these requirements must be followed to the letter. One of these requirements is that the application for registration of an original vessel hull design be submitted within two years of the date the design was made public.

In the *Maverick* case, there were two registrations at issue. The first was for the original design of a boat; the second was for a modification to that design.

Unfortunately for *Maverick*, neither registration held up in the district court. On appeal, the 11th Circuit last July affirmed the district court’s decision, which canceled *Maverick*’s original registration because it was obtained more than two years after its hull design was disclosed to the public.

The 11th Circuit panel also agreed with the district court that *Maverick*’s second registration did not contain a substantial revision to the boat design disclosed in the first registration, so the second registration also could not form the basis for an infringement action involving *Maverick*’s boat hull design.

The *Maverick Boat* case is important for Florida and its substantial boating economy. As the 11th Circuit makes clear, boat builders need to get their registrations in on time

and comply with the statute in order to receive protection for their intellectual property.

In another case involving a failed copyright registration, *Watkins v. Southeastern Newspapers Inc.*, John Watkins, appearing pro se, sued Southeastern for publishing a photograph of civil rights leader Martin Luther King Jr. in the *Augusta Chronicle* that the plaintiff claimed was lifted from his book.

The *Chronicle* moved for summary judgment, arguing that the plaintiff never registered a copyright in his book. The *Chronicle* submitted as evidence a letter from the copyright office that indicated Watkins had not registered his book.

Watkins claimed the letter was inadmissible hearsay. But the district court, over objection, granted summary judgment based on the representations in the letter.

On appeal, the 11th Circuit in January affirmed because he failed to prove he registered the copyright in his book about the late Dr. King before claiming infringement. The panel found that the letter came within the hearsay exception for a report from a public office or agency and was properly relied upon by the district court in granting summary judgment.

Thus, once again, the 11th Circuit reminded IP attorneys of the importance of following technical requirements to the letter in order to prevail in copyright infringement cases.



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