

Intellectual Property

December 2009

2009 Year-End Intellectual Property Issues Advisory

Katten's Intellectual Property Practice covers a broad range of disciplines within the core areas comprising intellectual property rights—namely, trademark, patent and copyright rights. In 2009, there were developments in each area that may have an effect on the scope and enforceability of those rights. We are pleased to provide you with a summary of some of these significant developments.

Patent and Trademark Office Registration Procedures and the Assertion of Fraud

When a trademark registration is secured in the U.S. Patent and Trademark Office (PTO), the certificate of registration identifies and lists all of the specific goods and services on or for which the mark has been used, and is supported by an affidavit of the applicant (sworn under penalty of perjury) which confirms that, in fact, the mark is in use in commerce on all of the specified goods. Following the issuance of the registration, the registration must be maintained by the filing of another affidavit of use between the fifth and sixth years following the issuance, and then again at the tenth year. These supporting maintenance affidavits must also swear that the goods listed in the registration are in use in commerce. If all of the goods covered by the registration are not, in fact, in use, then the registrant must delete those goods where there is no use. If the registrant attests to the fact that the mark is in use on all of the goods but, in fact, they are not, a third party challenger may raise the issue (typically when there is an enforcement action by the registrant) and assert that there has been a fraud committed on the PTO. Consequently, upon the finding of such a fraud, the entire registration could be invalidated and the registrant stripped of the presumptive exclusive rights conferred by the registration.

Over the past several years, the Trademark Trial and Appeal Board (TTAB) (the administrative appellate arm of the PTO, which addresses disputes in the PTO and hears, among other things, challenges raised by one party of the validity of a registration or application owned by the other) applied its fraud standard strictly. This strict interpretation and application resulted in the invalidation of long-standing registrations based only on the mere fact that the mark was not, in fact, in use on the goods shown in the registration at the time that attesting affidavits confirmed such use. It was not necessary for there to have been any intention to commit a fraud or mislead the TTAB or the public; an inadvertent error or a simple misunderstanding of the TTAB Rules could result in forfeiture of valuable registrations.

One such situation yielded a TTAB ruling that directed the cancellation, invalidation and forfeiture of a long-standing trademark registration for the mark WAVE, owned by Bose Corporation, based upon a finding of fraud. Specifically, there was an opposition proceeding before the TTAB in which Bose alleged a likelihood of confusion between the mark sought to be registered by Hexawave and the registered WAVE mark. In the course of the dispute, Hexawave challenged the validity of the WAVE registration on the grounds that it was invalid for fraud because the mark was not in use on all of the goods covered by the registration (even though the renewal affidavit attested to such use). The TTAB held in that case, reported at *Bose Corp. v Hexawave, Inc.*, 88 USPQ 2d 1332 (TTAB 2007), that Bose had, in fact, committed fraud in its renewal application when it claimed use on all goods in the underlying registration when, in fact, it had ceased the manufacture and sale of audio tape recorders and players under this mark. The foundation for the TTAB finding was that the Bose representative that executed the renewal application was aware of this fact.

In the TTAB proceeding, Bose asserted that it believed that the mark was in use (for purposes of registration and renewal) on these goods because Bose continued to accept previously sold audio tape recorders and players for repair pursuant to warranty. This activity required shipment in commerce of the products bearing the mark, which was commensurate with the understanding by the Bose representative that this constituted "use in commerce." The TTAB disagreed.

Bose appealed the TTAB ruling to the Court of Appeals for the Federal Circuit (CAFC or “the Court”). In its decision at *In re Bose Corporation*, 580 F.3d 1240 (Fed. Cir. 2009) the CAFC reviewed the TTAB’s legal conclusions de novo and on August 31, reversed and remanded the case.

At the outset, the Court acknowledged that a third party may petition to cancel another’s registered trademark on the ground that the registration was obtained (or maintained in force and effect) fraudulently. The Court described the elements of such a finding of fraud by noting that it requires that the registrant knowingly makes false, material representations of fact in connection with its application—a standard that requires willfulness.

Applying this basic predicate, the Court concluded that the TTAB applied the wrong standard for determining fraud. Specifically, the TTAB held that the applicant committed fraud in procuring or maintaining a registration if it made a material misrepresentation that it had known or should have been known to be false. The Court held that the TTAB had, in effect, erroneously lowered the fraud standard to a simple negligence standard by including the “should have known” aspect of its criteria.

The Court determined that although Bose had made a material representation because the particular goods were no longer made or sold, this did not rise to the level of fraud because it had been the understanding of Bose that the repair activity constituted sufficient use in commerce. Thus, there was an absence of dishonesty or willful intent to deceive. Rather, the misrepresentation was based upon an honest misunderstanding or mere inadvertence, which the Court concluded did not constitute fraud. The Court relied on testimony of the affiant that he believed that the statements made in the affidavit were true at the time he signed it.

In conclusion, the Court noted that unless challenger Hexawave could point to evidence to support an inference of deceptive intent, it had failed to satisfy the clear and convincing evidence standard required to establish a fraud claim. Therefore, the Court held that the TTAB had erred in invalidating and cancelling the registration in its entirety.

The lesson to be learned is that it remains critical for a trademark owner to ensure accuracy in obtaining registrations in the PTO and in maintaining existing registrations when required to do so, pursuant to statute. It remains more important to be correct and accurate than to have a broadly defined registration that covers goods for which the mark is not actually in use. Under circumstances where the registration is broader than the actual use, the entire registration still remains vulnerable to invalidation and cancellation. If a trademark owner wants to retain rights covering a product for which there is no current use but an intention to commence or re-commence use in the future, it is recommended that a new Intent to Use application be filed for such products. With the proper tools in place and a critical review of all filings and business objectives, a good faith belief in the accuracy of the filing and supporting declarations will now be adequate to defend against third party challenges.

TTAB Determines Personal Names Are Inherently Distinctive

In *Brooks v. Creative Arts by Calloway LLC*, Opposition No. 91169266 (October 30, 2009), Christopher Brooks, the grandson of the band leader Cab Calloway, opposed the registration of the mark CAB CALLOWAY (the “Mark”) by Creative Arts by Calloway LLC. Brooks had first used his mark THE CAB CALLOWAY ORCHESTRA in connection with musical performances and on CDs and videotapes prior to the registration of the Mark by Creative Arts.

The issue presented before the TTAB was whether Brooks could establish rights in THE CAB CALLOWAY ORCHESTRA prior to the filing date of the Creative Arts application for the Mark.

Under common law, to warrant trademark protection supporting registration, personal names must have secondary meaning. Creative Arts attempted to persuade the TTAB that personal names are descriptive and not entitled to protection absent secondary meaning. However, the TTAB advised that while surnames continue to require a showing of secondary meaning under the Lanham Act, personal or full names do not.

Therefore, it was held that when a plaintiff asserts prior rights based on a personal name, not a surname, the personal name is inherently distinctive. Brooks’s opposition was upheld and it was established that he was the prior user of not only his service mark but also the trade name THE CAB CALLOWAY ORCHESTRA, since Brooks had developed a trade identity in the name.

The TTAB rejected the argument presented by Creative Arts that Brooks had failed to establish secondary meaning and that to rule otherwise would be in direct conflict with the basic underpinning of trademark law, which is that rights are obtained through use, and not by being the first to file an application.

Second Circuit Clarifies “Use in Commerce” Requirement for Trademark Infringement Claims Involving Keyword Advertising

On April 3, the U.S. Court of Appeals for the Second Circuit reversed a dismissal by the U.S. District Court for the Northern District of New York of a lawsuit filed by Rescuecom Corp. against Google Inc., thus forcing Google to defend itself and its AdWords and Keyword Suggestion Tool programs against Rescuecom’s allegations of trademark infringement. In *Rescuecom Corp. v. Google Inc.*, the Second Circuit held that Google’s recommendation, display, offer and sale of Rescuecom’s trademark to advertisers for purposes of keyword advertising constituted “use in commerce” sufficient to support a claim for infringement, false designation of origin, and dilution of Rescuecom’s trademark. This decision is important for any trademark owner because, contrary to prior Second Circuit rulings, it stands for the proposition that the “use” of another’s mark in the context of internet keyword advertising is sufficient to support a trademark infringement claim in the Second Circuit.

Background

The Lanham Act, 15 U.S.C. §§ 1114 & 1125, *inter alia*, imposes liability for the unauthorized “use in commerce” of another’s mark which is “likely to cause confusion, or to cause mistake, or to deceive,” § 1114, “as to the affiliation . . . or as to the origin, sponsorship or approval of his or her goods [or] services . . . by another person.” § 1125(a)(1)(A). Under this test, a trademark infringement plaintiff must prove (i) “use in commerce,” and (ii) likelihood of confusion. Where a plaintiff cannot prove such “use in commerce,” all other issues, including likelihood of confusion, become moot and the defendant is entitled to summary judgment.

Prior to *Rescuecom*, the Second Circuit’s opinion in *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005) provided guidance for determining whether a plaintiff had adequately alleged that a defendant made “use in commerce” of the plaintiff’s trademark sufficient to support an infringement claim in the context of internet keyword advertising. In *1-800 Contacts*, the Second Circuit held that, “as a matter of law, [the defendant] WhenU does not ‘use’ [plaintiff] 1-800’s trademarks within the meaning of the Lanham Act, 15 U.S.C. 1127, when it (1) includes 1-800’s website address, which is almost identical to 1-800’s trademark, in an unpublished directory of terms that trigger delivery of WhenU’s contextually relevant advertising to C-users; or (2) causes separate, branded pop-up ads to appear on a C-user’s computer screen either above, below, or along the bottom edge of the 1-800 website window.”

Drawing heavily upon the *1-800 Contacts* decision, the district court in *Rescuecom* granted Google’s motion to dismiss Rescuecom’s claims. The district court determined that Google’s actions were not a “use in commerce” because “the competitor’s advertisements triggered by Google’s programs did not exhibit Rescuecom’s trademark.” The court also accepted Google’s argument that Google’s use of Rescuecom’s mark in recommending and selling it as a keyword to trigger a competitor’s advertisements or website link was merely an internal use and did not constitute “use in commerce” under the Lanham Act.

Discussion

On appeal, the Second Circuit distinguished the facts in *Rescuecom* from the holding in *1-800 Contacts*. First, the court noted that, while in *1-800 Contacts* the defendant made no use whatsoever of the plaintiff’s trademark, Google is in fact recommending and selling to its advertisers Rescuecom’s trademark. Second, the court pointed out that, while the defendant in *1-800 Contacts* did not “use or display” or sell trademarks as search terms to advertisers (rather, it used categories to control which advertisements were displayed), Google displays, offers and sells Rescuecom’s mark to Google’s customers when selling its advertising services, going so far as to encourage the purchase of Rescuecom’s mark through its Keyword Suggestion Tool. The court rejected Google’s argument that such “uses” were purely internal or akin to benign product placement, noting that such product placement would only escape liability if it did not cause a likelihood of confusion.

Without deciding the issue of likelihood of confusion, the court held that Google's use constituted "use in commerce" of Rescuecom's mark under 15 U.S.C. § 1127. Accordingly, the court determined that Rescuecom adequately alleged an actionable claim for infringement, false designation of origin, and dilution of Rescuecom's trademark. The court vacated the district court's judgment and remanded the case for further proceedings to determine, *inter alia*, whether Google's use of Rescuecom's trademark was likely to cause confusion.

Conclusion

Prior to its decision in *Rescuecom*, the Second Circuit had been one of a minority of circuit courts that had declined to recognize that the use of another's trademark in the context of keyword advertising is sufficient "use in commerce" under the Lanham Act. In *Rescuecom*, the Second Circuit clarified its position on keyword advertising and joined a majority of courts in holding that the "use" of another's mark in the context of internet keyword advertising is sufficient to support a trademark infringement claim. Although a trademark plaintiff would also need to prove likelihood of confusion to prevail on the merits, the *Rescuecom* decision provides additional protection to trademark owners by preventing such infringement claims from being summarily dismissed for failure to state a claim. Conversely, *Rescuecom* may impose additional liabilities on parties who sell or purchase a third party's trademark for use in internet keyword advertising.

Social Media Outlets and Their Legal Implications

Who Owns the Content?

Social media is growing at a significant pace with the continued increased use of innovations such as Facebook, Twitter, blogs and LinkedIn, to name a few. With millions of people posting different information all over the internet, one of the most prevalent legal questions that arises is, Who owns and controls the content on these social media sites?

From a copyright perspective, an individual posting content generally retains ownership of copyrights with the rights usually being licensed to the site under Terms of Service. Most sites have terms which grant broad licenses to the social media site and give them some rights to "control." From a trademark perspective, trademarks remain governed by traditional principles. Trademarks and trade dress continue to be owned by their owners and should be controlled by their owners.

How Are Your Trade Secrets, Copyrights, Trademarks and Other IP Possibly at Risk?

Trade secrets and copyrights are potentially at risk on social media sites because employees can easily and sometimes unintentionally release information. There is also the issue of fair use with individuals posting links and quotes.

With trademarks, there is the widespread unauthorized use of trademarks in many social media sites, and the duty to police such sites remains with the trademark owner. It is advisable for companies to create policies informing employees of risks and duties and establish processes to monitor social media sites for IP misuse.

Are Postings Protected under Privacy Laws and Subject to Discovery in Litigation?

There should generally be no expectation of privacy for information publicly available or posted on social media sites. A prime example of this is illustrated below:

A job applicant "tweeted" the following: "Cisco just offered me a new job! Now I have to weigh the utility of a fatty paycheck against the daily commute to San Jose and hating the work."

This "tweet" caught the attention of a channel partner advocate for Cisco who responded: "Who is the hiring manager. I'm sure they would love to know that you will hate the work. We here at Cisco are versed in the web."

Best Practices from the Corporate Arena

It is advisable to develop and share social media guidelines with employees and update them regularly, and also to pay attention to what is being said about the company in the social realm. Additionally, a company should select the right people to be its "voice" on blogs and in social media.

In connection with developing corporate policies, many businesses have embraced the use of blogs for promoting their products virally. Companies should be aware of new Federal Trade Commission (FTC) regulations and guidelines governing the use of blogs and social media, generally, for advertising purposes.

The FTC is the primary agency charged with enforcing federal advertising laws. Where a sponsoring advertiser is making a claim about its own products, the FTC Act provides that: (i) advertising must be truthful and non-deceptive; (ii) advertisers must have evidence to back up their claims; and (iii) advertisements cannot be unfair (e.g., they cannot cause or be likely to cause substantial consumer injury which a consumer could not reasonably avoid and are not outweighed by the benefit to consumers). 15 U.S.C. § 45.

With respect to endorsements and testimonials, the regulations are more stringent. The FTC has issued advisory Guides Concerning the Use of Testimonials and Endorsements in Advertising (the “Guides”), which interpret the FTC Act (but are not binding law themselves) and offer practical advice on endorsements and testimonials of consumers, celebrities and experts.

Under the Guides, an “endorsement” means “any advertising message (including verbal statements, demonstrations, or depictions of the name, signature, likeness or other identifying personal characteristics of an individual or the name or seal of an organization) that consumers are likely to believe reflects the opinions, beliefs, findings, or experience of a party other than the sponsoring advertiser.” 16 CFR § 255.0(a).

In short, “all endorsements must reflect the honest experience or opinion of the endorser. Endorsements may not contain representations that would be deceptive, or could not be substantiated, if the advertiser made them directly.” 16 CFR § 255.1(a); “Frequently Asked Advertising Questions: A Guide for Small Business,” available at <http://www.ftc.gov/bcp/edu/pubs/business/adv/bus35.shtm>. To this end, “advertisers must disclose any material connection between a person endorsing a product and the company selling the product. A “material connection” is defined as “a relationship that might affect the weight or credibility of the endorsement.” 16 CFR § 255.5.

Where an endorser is a well-known celebrity or an expert, the Guides do not require disclosure as long as the advertiser does not represent that the endorsement was given without compensation. However, where the endorser is not represented as an expert or is not well-known to a significant portion of the viewing public, “the advertiser should clearly and conspicuously disclose either the payment or promise of compensation prior to and in exchange for the endorsement or the fact that the endorser knew or had reasons to know or to believe that if the endorsement favors the advertised product some benefit, such as an appearance on TV, would be extended to the endorser.” 16 CFR § 255.5.

Recent Revisions to the FTC’s Guides on Endorsements

On October 5, the FTC announced that it approved final revisions to the Guides. See <http://www.ftc.gov/opa/2009/10/endorstest.shtm>. Generally speaking, the revisions address the disclosure requirements for (i) blog endorsements; (ii) celebrity endorsements; and (iii) statements regarding the results a consumer can generally expect. The revisions became effective on December 1, and are the first major updates to the Guides since 1980.

First, with respect to blog endorsements, an FTC-issued press release noted:

The revised Guides add new examples to illustrate the long-standing principle that “material connections” (sometimes payments or free products) between advertisers and endorsers—connections that consumers would not expect—must be disclosed. These examples address what constitutes an endorsement when the message is conveyed by bloggers or other “word-of-mouth” marketers. The revised Guides specify that while decisions will be reached on a case-by-case basis, the post of a blogger who receives cash or in-kind payment to review a product is considered an endorsement. Thus, bloggers who make an endorsement must disclose the material connections they share with the seller of the product or service. Likewise, if a company refers in an advertisement to the findings of a research organization that conducted research sponsored by the company, the advertisement must disclose the connection between the advertiser and the research organization. And a paid endorsement—like any other advertisement—is deceptive if it makes false or misleading claims.

In other words, bloggers who receive products or other consideration from product manufacturers free of charge should clearly and conspicuously disclose such facts, the manufacturer should advise the blogger at the time it provides such consideration that this connection should be disclosed, and the manufacturer should have procedures in place to try to monitor his postings for compliance. See 16 CFR § 255.5, Ex. 7 (available at <http://www.ftc.gov/os/2009/10/091005revisedendorsementguides.pdf>). Bloggers endorsing a product must be bona fide users of the product at the time of the endorsement (e.g., a mere intent to use a product is insufficient). Failure to comply with these guidelines would subject bloggers and/or advertisers liability. Advertisers and bloggers would also be subject to liability for misleading or unsubstantiated representations made through the blogger's endorsement.

Second, the revised Guides impose on celebrities a duty to disclose their relationships with advertisers when making endorsements outside the context of traditional ads, such as on talk shows or in social media (e.g., Twitter or Facebook).

Third, under the revised Guides, advertisements that feature a consumer and convey his or her experience with a product or service as typical when that is not the case, will be required to clearly disclose the results that consumers can generally expect. This contrasts with the 1980 version of the Guides, which allowed advertisers to describe unusual results as long as they included a disclaimer such as "results not typical."

Punishments for violations will range from a warning letter to a fine of up to \$11,000 per violation. The regulations state that both advertisers and endorsers may be liable for false or unsubstantiated claims made in an endorsement or for failure to disclose material connections between the advertiser and endorsers. For parties interested in reporting such conduct, the FTC provides a "Claim Assistant" form on its website. See <https://www.ftccomplaintassistant.gov/>. As the FTC notes, user "complaints can help us detect patterns of wrong-doing, and lead to investigations and prosecutions."

2009 YEAR-END PATENT PROSECUTION DEVELOPMENTS

The year 2009 was marked by a major change in the administration of the U.S. Patent Office, as a new director took over. New leadership heralded a new attitude toward the handling of patent prosecution within the PTO.

David Kappos, the former Vice President and General Patent Counsel of IBM, was named to the position of Director of the PTO and Assistant Secretary of Commerce in 2009 and has already made some significant changes. These changes should foster the cooperative working relationship between applicants and examiners, while at the same time reducing the backlog in the PTO. As Director Kappos expressed in a recent message to his staff, the role of patent examiners is not an adversarial one with the applicants. On the contrary, the purpose of the examiners is to help the applicant obtain a valid and quality patent covering his invention. Secretary of Commerce Gary Locke indicated his ultimate desire to reduce the period of time for pendency of applications in the PTO to 10 months. While it may take some time to achieve this goal, a number of improvements have already taken place.

Previous Proposed Rules

The previous administration of the PTO proposed rules: (i) limiting the number of claims; (ii) limiting the number of continuing applications; and (iii) limiting Information Disclosure Statement (IDS) submissions. An IDS is a submission of relevant background information to the PTO, by an applicant for a patent. There is a duty on all patent applicants to disclose background information that may be relevant to the patentability of the applicant's invention. While the proposed rules (on all three limitations) were initially enjoined by the District Court, a panel of judges at the Court of Appeals for the Federal Circuit reversed the District Court in part, and voted to allow some of these rules to go into effect. The Court of Appeals for the Federal Circuit agreed to review these en banc.

The patent community expressed dissatisfaction with these proposed rules. Patent associations and industry groups also voiced opposition to the proposed rules. Of interest was that during the course of the legal challenges opposing these rules, two declarations had been submitted on the part of the patent community pointing out that these rules would restrict patent rights. One of these declarations was given by Director Kappos himself during the time he was with IBM. The other declaration was given by Katten partner Samson Helfgott.

The PTO recently announced that these proposed rules have been officially withdrawn and that they would not be put into effect. There was no indication that any substitute rules would replace these.

Some of the new and improved procedures now taking effect include the following:

Examiner Count System Revised

PTO examiners have goals that they must achieve based on a “count” system. The count system credits examiners with counts for various prosecution activities such as a first office action on the merits, a disposition, etc. The count system is tied into a number of hours allotted to the examiner to achieve the particular prosecution milestone.

Under the existing count system, examiners would get no credit for interviews. Furthermore, there was no incentive in the count system for an examiner to allow any cases after a final office action, but instead, the count system was geared to encourage the ongoing filing of Requests for Continuation (RCEs), thereby prolonging the prosecution and increasing the costs.

During the last quarter of 2009, Director Kappos revised the count system and obtained approval of the examiners' union for such revisions. The new count system encourages and gives credit for examiner-initiated interviews and gives reduced credit for ongoing RCEs. The ultimate goal is to encourage examiners to put more time and effort into the initial examination by conducting interviews and working with the applicant to obtain allowable claims without the need for continued and ongoing RCEs.

First Action Interview Program

The first action interview pilot program that had previously existed has now been enhanced and launched as an ongoing program. This program will encourage patent applicants and attorneys to arrange an interview before any first action is even sent by the examiner. This will give the applicant and the examiner an opportunity to understand the invention better and to focus on any issues that have to be addressed as early as possible.

The changes made to the pilot program also eliminated punitive consequences in the event that the applicant fails to adhere to the restrictive timing requirements of this program, and now permits extensions of time for the applicant to respond.

The PTO will advise clients of those cases eligible for this program and it is suggested that, wherever possible, clients should make use of this program as it will expedite the prosecution, achieve a better quality patent and ultimately reduce costs of the prosecution phase.

Examiners Trained in Restriction Requirements

The United States has a different rule with respect to unity of invention than most other countries. While the rest of the countries have a “single inventive concept” rule, permitting within the same application all types of claims relating to a single inventive concept, this is not the case in the United States. In the United States we have what is called “restriction practice,” which is based upon the examiners' opinion that a separate and distinct search would be required for the different sets of claims.

Over the years, examiners have provided continued ongoing restrictions, thereby requiring numerous divisionals and additional restrictions. This has frustrated applicants and has given rise to excessive costs in prosecuting multiple applications, often unnecessarily.

In order to avoid this result, during the new training program examiners were reminded that the rules have to be strictly applied and should not be abused in this manner. Examiners were also reminded that applicants may be able to rejoin some of the claims if a generic claim is allowed, a practice that was previously not encouraged by examiners.

Ombudsman Pilot Program

A new proposal was published by the PTO requesting public comment. The proposal would provide an Ombudsman in each Technical Art Unit who would provide assistance with application-specific issues that may arise during prosecution. The purpose of this program is to expedite the handling of procedural problems and expedite the prosecution process.

This program is meant to deal not with substantive issues, but procedural issues and difficulties encountered during the prosecution process.

The process will be one that will be initiated by an online link to the PTO website. A telephone call back from the Ombudsman's office will occur within one day. There will be no written communications but simply the bibliographic data entered into the system. This should eliminate any prosecution history estoppel issues. The entire matter must be resolved within 10 days. The Ombudsman will follow up with an initial 5-day period to make sure that the matter is being addressed properly.

Work-Sharing Programs

In order to reduce the backlog in prosecuting patent applications to their issuance, Director Kappos plans to make increased use of the work product of other patent offices which are available to the U.S. patent examiners during the prosecution process. Currently there are available or under test, three systems that can make use of the work product of other patent offices. One is the existing Patent Cooperation Treaty (PCT) route, the other is the Patent Prosecution Highway (PPH), and the third is a new program that is first being tested, called SHARE (Strategic Handling of Rapid Examination).

The current PCT system continues to be used by applicants all over the world. About 50% of all foreign-filed applications make use of the PCT system. Currently in the PTO, when handling the national phase of an invention the examiners do not necessarily make use of the International Search Report and Written Opinion that took place during the international phase, even when that search and written opinion was conducted by the United States as the International Search Authority.

Director Kappos indicated that he wants to make the PCT system in the PTO a "world-class" system. He has announced a future PCT Task Force. He also indicated that he plans to adopt a roadmap, originally suggested by the World Intellectual Property Organization (WIPO). Under this roadmap, national patent offices would accept their own international search when the case enters the national phase in that same country. It also requires the Patent Office to make better use of the search results from other searching authorities in order to reduce duplication of efforts as much as possible.

The PPH, which is still little used, permits an Office of Second Filing (OSF) to make use of an allowance granted by an Office of First Filing (OFF) on the same invention and accelerate the handling of that application. The applicant is required to conform the claims in the OSF to those allowed in the OFF and submit the search and examination results from the OFF. The OSF will then accelerate the examination and use, as much as possible, the results of the search and examination of the OFF.

In the PTO, cases arriving from other countries using the PTO as an office of first filing, have found huge success. While the normal grant rate of cases filed in the United States is currently 44%, those under the Patent Prosecution Highway system have an allowance rate of 95%. Additionally, the time of pendency of such PPH cases is an average of 5 months to allowance, as compared to over 25 months for non-PPH cases.

It is suggested that wherever possible, applicants should take advantage of the PPH route, whether they have made foreign filings of the application and are coming into the U.S. PTO as an OSF, or whether the case has been allowed in the United States as an OFF and they are now making use of the results to obtain patent protection in foreign countries.

The SHARE concept is one where a patent office will give priority to examination of those cases in which its office serves as OFF and delay handling other cases until the respective OFF of that case sends the search and examination results to the U.S. PTO. At present, a trial program has been initiated between the U.S. PTO and the Korean Patent Office to see if this program can produce workable results.

Other PTO Initiatives

In addition to specific initiatives that have been produced or announced, Director Kappos indicated that he would be addressing a number of other areas. We expect that during the next year we will see other new initiatives as well.

Director Kappos established a Task Force to set up guidelines and procedures to improve the quality of the prosecution process within the PTO. He has made it clear that rejecting good inventions is as poor a measure of the quality of the system as allowing patents on bad inventions.

The PTO also indicated that it recognizes the difficulties being faced in connection with filing appeals to the Board of Appeals and Patent Interference. The current rules are such that errors can easily be made, and, in fact, appeal briefs are regularly returned for failure to comply with minor formalities. Currently there is a 40% non-compliance rate with those rules. Director Kappos indicated that the rules will be reviewed and simplified.

Likewise, the PTO recognizes that the current requirements for requesting Accelerated Examination are filled with hazards relating to inequitable conduct and fraud on the Patent Office issues, as the applicant is required to disclose a significant amount of information before Accelerated Examination will be granted. Furthermore, the rules for such request are so complex that at least 50% of those requests are denied, simply because of procedural matters. Director Kappos indicated that he would be reviewing the rules for requesting Accelerated Examination, and we anticipate new rules to be introduced next year.

Duty to Disclose Information from Related Applicants

Currently, the PTO requires patent applicants to disclose material information that is known to the applicant in order to assist the examiners in the prosecution of the application. Failure to disclose material information can be considered fraud on the Patent Office, if an intent to deceive is found on the part of the applicant. As a result, applicants are always cautious to submit all relative information.

As a result of the 2009 Federal Circuit decision *Larson Mfg. Co. of South Dakota, Inc. v. Alumin Art Products, Ltd.*, 559 F.3d 1317, Fed. Cir. 2009, more information may be required to be submitted. It is now strongly recommended to submit to the PTO the Examiner's Office Actions as well as references from one related case to another, whether it is a continuing application or not, as long as the claims are related.

Although not covered by this case, it is also recommended to submit copies and translations of relevant parts of foreign office actions along with the submission of any new material references. This will satisfy the requirement for the "statement of relevance" of the reference as well as any potential issue relating to material information.

Business Method Patents

The issue of what constitutes subject matter eligible for patent protection continues to dominate the patent arena. For many years, the PTO was granting business method patents. However, during the past year the Court of Appeals for the Federal Circuit (CAFC) tightened up on defining patentable subject matter. In the CAFC decision *In re Bilski*, a new standard for patent-eligible subject matter referred to as "machine or transformation" was established. Under this new standard, in order for a business method—or for that matter any method claimed—to be allowable it must include structure, such as a machine or a computer, in a substantive way, not merely as a peripheral part of the claim. Alternately, the method claim must demonstrate a transformation of a physical object.

The U.S. Supreme Court has granted certiorari in this case, and oral arguments were presented in November. It is anticipated that the Supreme Court will issue a decision on what constitutes patent-eligible subject matter somewhere in the middle of 2010. The status of whether business method patents are allowable or not will then probably be decided. It is anticipated that the PTO will promptly issue new guidelines consistent with whatever decision the Supreme Court decides.

Anticipated Increase in Patent Office Fees

Around the world, patent offices have already indicated that there will be increases in fees in 2010. By way of example, the Korean Patent Office, which serves as one of the International Searching Authorities for U.S. applicants under the Patent Cooperation Treaty, has indicated an increase of at least 50% from their current fees. For a considerable period of time, the Korean Patent Office was the most favored International Searching Authority by U.S. applicants because of its promptness and low cost. This increase in fees will place the Korean Patent Office more in line with some of the other patent offices, although still less than U.S. and European costs for the same service.

The European Patent Office also has indicated substantial increases in the beginning of 2010. These increases will relate to increased fees for the number of claims filed, which are being introduced almost as a “punitive fee” to try and limit the number of claims that are filed within the European Patent Office. It would therefore be advisable for applicants to revise their claims before entering into the European Patent Office to be sure that their costs will not be excessive as a result of unnecessary claims. It should be remembered that in the European Patent System, multiple dependent claims are allowed and that these should be used as much as possible to reduce the need for excessive claims.

Patent Law Reform

There is currently pending legislation before Congress to reform our patent laws. While these bills have been pending for a number of years, they currently have the backing of the Obama administration, and it is anticipated that we will see patent law reform in the coming year.

Some major changes in our patent system may take place. By way of example, we may ultimately join the rest of the world in changing from a first-to-invent system to a first-inventor-to-file system. This will eliminate the interference procedure in the United States and force everyone to file as soon as possible, as a patent will belong to the first one to win the “race to the patent office door.”

Patent law reform may introduce an opposition system giving third parties an opportunity to oppose granted patents. It could also introduce the ability for third parties to submit references to the patent examiner during the course of the patent prosecution process.

The definition of “prior art” may also be changed, making it into a harmonized system with the rest of the world. Absolute novelty may be introduced whereby any prior art, written or oral, anywhere in the world, will be considered as prior art through a patent application.

Numerous other changes are also being discussed, and currently it is too early to know which, if any of these, may find its way into a final bill. However, it is clear that over the next year, should patent law reform legislation pass Congress, it will dramatically change both prosecution and litigation of patent rights in the United States.

Recent Court Decision Allows New Subsidiaries to Benefit from Cross-Licensing Agreement

In *Imation Corp. v. Koninklijke Philips Elec. N.V.*, No. 09-1208 (Fed. Cir. No. 2099-1208, 11/3/09), Koninklijke Philips Electronics N.V. (“Philips”) had initially entered into a cross-licensing agreement (the “Agreement”) with a company now known as 3M to cross-license patents. In the Agreement, the term “subsidiary” was defined to include entities in which a party held majority ownership “now or hereafter.” After the execution of the Agreement, 3M created a subsidiary, Imation Corp. (“Imation”), to handle data storage and media production and then spun off the company. The Agreement continued between Imation and Philips with it eventually expiring. Imation then entered into a joint venture with Moser Baer India Ltd establishing Global Data Media FZ-LLC, all leading to Imation buying a controlling interest in an entity called Memorex International Inc. In 2007, Imation initiated a declaratory judgment action seeking a declaration that Global Data Media and Memorex qualified as subsidiaries covered by the licenses in the Agreement.

Initially, the U.S. District Court ruled that the subsidiaries could not benefit from the licenses because they were not subsidiaries at the time of expiration. The Federal Circuit reversed the District Court’s ruling and found that these new subsidiaries were eligible to take advantage of the licenses granted therein because there was no language in the Agreement setting a “temporal limitation” after which new subsidiaries would not benefit from the contract, and that in fact the language of the contract referenced subsidiaries created “now or hereafter.”

This decision, although addressing a patent license, is a valuable guideline for drafting similar clauses in all contracts.

Contact Us

For more information, please contact your Katten Muchin Rosenman LLP attorney, or any member of Katten's Intellectual Property Practice.

Karen Artz Ash , National Co-Chair	212.940.8554	karen.ash@kattenlaw.com
Floyd A. Mandell, National Co-Chair	312.902.5235	floyd.mandell@kattenlaw.com

Patents

Samson Helfgott, Director of Patents	212.940.8683	samson.helfgott@kattenlaw.com
Timothy J. Vezeau, Chicago Chair	312.902.5516	timothy.vezeau@kattenlaw.com

CHARLOTTE

Richard L. Farley, Partner	704.444.2037	richard.farley@kattenlaw.com
Stephen B. Williamson, Partner	704.444.2017	stephen.williamson@kattenlaw.com

CHICAGO

Floyd A. Mandell, National Co-Chair	312.902.5235	floyd.mandell@kattenlaw.com
Timothy J. Vezeau, Chicago Chair	312.902.5516	timothy.vezeau@kattenlaw.com
Kristin J. Achterhof, Partner	312.902.5296	kristin.achterhof@kattenlaw.com
Stephen P. Benson, Associate	312.902.5448	stephen.benson@kattenlaw.com
David C. Bohan, Partner	312.902.5566	david.bohan@kattenlaw.com
Robert B. Breisblatt, Partner	312.902.5480	robert.breisblatt@kattenlaw.com
Sharyn M. Castle, Associate	312.902.5268	sharyn.castle@kattenlaw.com
Eric C. Cohen, Partner	312.902.5648	eric.cohen@kattenlaw.com
Tanya L. Curtis, Partner	312.902.5593	tanya.curtis@kattenlaw.com
Jeremy C. Daniel, Associate	312.902.5627	jeremy.daniel@kattenlaw.com
Michael A. Dorfman, Partner	312.902.5658	michael.dorfman@kattenlaw.com
William J. Dorsey, Partner	312.902.5475	william.dorsey@kattenlaw.com
Breighanne A. Eggert, Associate	312.902.5391	breighanne.eggert@kattenlaw.com
Leonard A. Ferber, Partner	312.902.5679	leonard.ferber@kattenlaw.com
Manotti L. Jenkins, Partner	312.902.5230	manotti.jenkins@kattenlaw.com
Jenny Louise Johnson, Partner	312.902.5636	jenny.johnson@kattenlaw.com
Kathy P. Josephson, Associate	312.902.5293	kathy.josephson@kattenlaw.com
Craig M. Kuchii, Associate	312.902.5460	craig.kuchii@kattenlaw.com
Martin T. LeFevour, Partner	312.902.5542	martin.lefevour@kattenlaw.com
Martin S. Masar III, Associate	312.902.5616	martin.masar@kattenlaw.com
Belinda I. Mathie, Associate	312.902.5283	belinda.mathie@kattenlaw.com
John S. Paniaguas, Partner	312.902.5312	johnp@kattenlaw.com
Charles B. Paradis, Associate	312.902.5402	charles.paradis@kattenlaw.com
Carolyn M. Passen, Associate	312.902.5377	carolyn.passen@kattenlaw.com
Lisa K. Shebar, Special Counsel	312.902.5434	lisa.shebar@kattenlaw.com
Cathay Y.N. Smith, Associate	312.902.5252	cathay.smith@kattenlaw.com
Brian Sodikoff, Associate	312.902.5462	brian.sodikoff@kattenlaw.com
Rachel Vorbeck, Partner	312.902.5570	rachel.vorbeck@kattenlaw.com
Becky A. Williams, Staff Attorney	312.902.5665	becky.williams@kattenlaw.com
Peter Zura, Partner	312.902.5548	peter.zura@kattenlaw.com
Rachel S. Schweers, Registered Patent Agent	312.577.8366	rachel.schweers@kattenlaw.com
Michael S. Tomsa, Registered Patent Agent	312.577.8126	michael.tomsa@kattenlaw.com

LOS ANGELES

Harrison J. Dossick, Partner	310.788.4565	harrison.dossick@kattenlaw.com
Francie R. Gorowitz, Of Counsel	310.788.4495	francie.gorowitz@kattenlaw.com
Susan A. Grode, Partner	310.788.4410	susan.grode@kattenlaw.com
David Halberstadter, Partner	310.788.4408	david.halberstadter@kattenlaw.com
Michael S. Hobel, Partner	310.788.4787	michael.hobel@kattenlaw.com
Kristin L. Holland, Partner	310.788.4647	kristin.holland@kattenlaw.com
Zia F. Modabber, Partner	310.788.4627	zia.modabber@kattenlaw.com
Charles M. Stern, Partner	310.788.4570	charles.stern@kattenlaw.com
Gail Migdal Title, Managing Partner	310.788.4727	gail.title@kattenlaw.com

NEW YORK

Karen Artz Ash , National Co-Chair	212.940.8554	karen.ash@kattenlaw.com
Samson Helfgott, Director of Patents	212.940.8683	samson.helfgott@kattenlaw.com
Linda S. Chan, Associate	212.940.8712	linda.chan@kattenlaw.com
Dexter T. Chang, Associate	212.940.6384	dexter.chang@kattenlaw.com
Bret J. Danow, Partner	212.940.6365	bret.danow@kattenlaw.com
Pedro C. Fernandez, Associate	212.940.6311	pedro.fernandez@kattenlaw.com
Alan R. Friedman, Partner	212.940.8516	alan.friedman@kattenlaw.com
Jessica M. Garrett, Associate	212.940.6523	jessica.garrett@kattenlaw.com
Keely L. Herrick, Associate	212.940.6411	keely.herrick@kattenlaw.com
Paula E. Hopkins, Associate	212.940.6634	paula.hopkins@kattenlaw.com
Jeffrey Alan Hovden, Partner	212.940.8567	jeffrey.hovden@kattenlaw.com
Michael F. Sarney , Special Counsel	212.940.8698	michael.sarney@kattenlaw.com
Hassan A. Shakir, Associate	212.940.6489	hassan.shakir@kattenlaw.com
David Sherman, Associate	212.940.6561	david.sherman@kattenlaw.com
Jan Tamulewicz, Partner	212.940.8673	jan.tamulewicz@kattenlaw.com
Jarrold N. Weber, Associate	212.940.6317	jarrold.weber@kattenlaw.com

WASHINGTON, D.C.

Richard P. Bauer, Washington Chair	202.625.3507	richard.bauer@kattenlaw.com
Matthew E. Fischer, Associate	202.625.3564	matthew.fischer@kattenlaw.com
Keith Fredlake, Associate	202.625.3536	keith.fredlake@kattenlaw.com
Roger P. Furey, Managing Partner	202.625.3630	roger.furey@kattenlaw.com
Jeffrey Gendzwill, Associate	202.625.3620	jeffrey.gendzwill@kattenlaw.com
David J. Gonen, Associate	202.625.3745	david.gonen@kattenlaw.com
James A. Gromada, Associate	202.625.3633	james.gromada@kattenlaw.com
Justin L. Krieger, Partner	202.625.3858	justin.krieger@kattenlaw.com
Rebecca E. McDougall, Associate	202.625.3589	rebecca.mcdougall@kattenlaw.com
Pamela M.W. Reid, Associate	202.625.3708	pamela.reid@kattenlaw.com
Peter J. Riebling, Partner	202.625.3598	peter.riebling@kattenlaw.com

Katten

Katten Muchin Rosenman LLP

www.kattenlaw.com

CHARLOTTE CHICAGO IRVING LONDON LOS ANGELES NEW YORK PALO ALTO WASHINGTON, DC

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