



# The Umbrella™

An Intellectual Property Law Update

## Is a Compulsory License the New Remedy for Successful Patent Litigation?

By David W. Carstens

A patent provides its owner with the right to exclude others from making, using or selling a patented product. These rights may be enforced by filing an infringement lawsuit. In such a lawsuit, the Patent Act empowers the court to issue an injunction against an infringer “in accordance with the principles of equity.” So how is it possible to acknowledge and honor the right to exclude the making of an infringing product without always granting an injunction against the infringer of those rights? One Texas court is trying carefully to balance these principles of equity to determine when a permanent injunction is appropriate.

In *Finisar v. DirecTV*, the Eastern District of Texas decided to allow DirecTV to continue infringing a Finisar patent. According to appeal briefs filed by both parties, the court imposed a compulsory license obligating DirecTV to pay a court determined royalty to Finisar of \$1.60 per set top box for the duration of

the patent. The court also awarded past damages of \$78 million, but denied Finisar’s request for a permanent injunction against DirecTV.

To understand why the permanent injunction was denied, one need look no further than the 2006 decision in *eBay v. MercExchange* by the Supreme Court. In *eBay*, the Court held that patent cases are no different than other cases, in that a plaintiff seeking a permanent injunction must still satisfy the traditional four-factor test before a court may grant such relief. A plaintiff must demonstrate that: (1) it has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.

(Continued on page 5)

### Inside this issue:

Is a Compulsory License the New Remedy for Successful Patent Litigation?	1
Can I Patent My Teddy Bear?	1
What’s An Inventor to Do With All That Knowledge?	3
Willful Infringement Vaccine	4
New Patent Rules Blocked by an 11th Hour Injunction	5
Attorney Profile	6

## Can I Patent My Teddy Bear?

By Colin P. Cahoon

Years ago a non-patent lawyer colleague of mine told me that he had been asked by one of his clients if it was possible to obtain patent protection on the client’s new stuffed animal design. “There was nothing special about what the stuffed animal did or how it was made. It just looked like, you know, a variation on a teddy bear. The client wanted to know if we could get a patent on the look of this fluffy creation, and I said ‘No.’” I informed my colleague that he needed to call the client back and revise his answer, be-

cause he had just given bad advice.

When most people think about patents they think about intellectual property protection for a novel idea such as a novel process, composition, machine, etc... This concept of a patent focuses on the invention having functionality, as opposed to a distinctive look, and refers more specifically to a “utility patent.” However, under U.S. law there are more types of patents than just utility patents available. This article takes a look at an often overlooked type of patent, the “design patent.”

(Continued on page 2)

## Teddy Bear

(Continued from page 1)

A design patent protects the ornamentality of the article claimed. The design application is made up primarily of several different views of the article illustrating the novelty or the special “look” of the article. Practically any three dimensional object can potentially have sufficient novelty to qualify for design patent protection. For example, a quick search of issued patents turned up seven issued design patents on teddy bears in just the last ten years. Automobile manufacturers often patent grill, fender, and other automobile design features. Bottles and retail food containers are frequently patented. Jewelry is another good candidate for design protection.

The test for infringement of a design patent is whether the ordinary observer believes that the allegedly infringing article is substantially similar in appearance to the claimed invention. Design patents are enforceable for fourteen years from the date of issuance and are relatively inexpensive to obtain compared to the aforementioned utility patents.

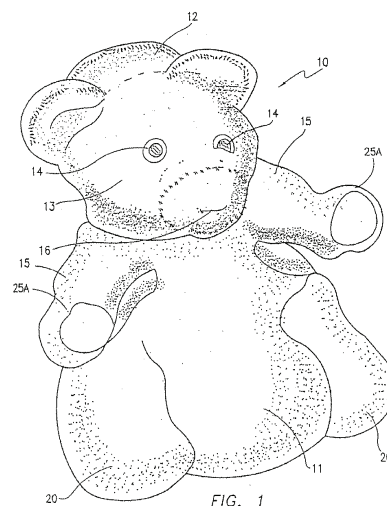
---

*Practically any three dimensional object can potentially have sufficient novelty to qualify for design patent protection.*

---

Design patents can provide powerful intellectual property protection for the patent holder. As with a utility patent, a third-party infringes a design patent by making, using, or selling an infringing article in the United States. There is no such thing as an innocent

infringement of a design patent. Also, consumer confusion about the origin of the patented article, a concept that comes up frequently in trademark law, is irrelevant in patent law. If you have a patent on a teddy



bear and a third-party makes, uses, or sells a substantially similar looking teddy bear, that party infringes your patent and is subject to all the damages available to patent holders.

So, before you so easily dismiss the possibility of obtaining a design patent on something that just looks interesting, remember to consider the possibility of obtaining design patent protection. Because, as you now know, teddy bears are patentable.

## Carstens & Cahoon, LLP Turns Ten

Carstens & Cahoon turned ten years old on January 1, 2008. The firm celebrated by holding an open house 10th anniversary party on January 24<sup>th</sup>. Present for the party were all of the firm’s attorneys, along with many of our local friends and clients. An ice sculpture was created especially for the occasion. It turned out so nicely that Colin Cahoon decided to take it home and put it in his freezer for the next anniversary party. Carstens & Cahoon would like to thank all our clients, friends, and supporters for an outstanding first ten years.



# What's an Inventor to Do With All That Knowledge? The Coming IDS Rule Changes

By Steven H. Washam

From an inventor's standpoint, the patenting process can be quite formulaic. The inventor conceives of an idea, seeks funding, performs research, develops one or more prototypes based on the conception, and seeks patent protection for the invention. While the patent application is being drafted and examined, the inventor refines the invention with an eye towards marketing to recover the costs of development.

Throughout the process, the inventor (and any others intimately involved in the patenting process) "keep tabs" on the competition by continually monitoring the industry and related markets. This monitoring undoubtedly brings to light substantial numbers of documents having information potentially relevant to the applicant's invention (in Patent and Trademark Office terms – "prior art"). Given its potential relevance, what must be done with this newly discovered prior art?

---

*The proposed IDS rules are likely to be enacted in early 2008.*

---

Applicants for a patent have always had a duty to disclose to the Patent and Trademark Office ("PTO") any information known to the individual to be material to the patentability of the invention. After all, it stands to reason that the applicant is in the best position to understand his or her invention as well as the relevant prior art that likely helped shape it. Patent examiners need the best prior art information before them to conduct a thorough and meaningful examination of the patent claims.

Such prior art information known to the applicant can be submitted to the PTO using an Information Disclosure Statement ("IDS"). The current rules for filing an IDS are relatively liberal and allow essentially any number of documents to be submitted without additional disclosure. At most, such a submission may require a basic fee and a simple statement depending on the timeliness of the submission. Historically, the PTO has even *encouraged* the submission of large amounts of potential prior art documents *even if the relevancy is questionable*. "When in doubt," asserted the PTO, "it is desirable and safest to

submit information." This position is poised to change drastically.

## Document Submission

In 2006 the PTO announced proposed changes to the IDS rules. These changes, according to the PTO, are designed to limit the number of documents submitted to only those which are highly relevant to the invention. To accomplish this, a threshold of twenty documents was established. The proposed rules will allow an applicant, before the first office action, to submit to the PTO up to *twenty* documents in an IDS without paying a fee and without additional disclosure. However, if the IDS contains *more than twenty* documents, has a single document with more than 25 pages, or has a document written in a foreign language, additional disclosure is required. Further, increasingly greater disclosure is required over time for an IDS document filed *after* the first office action. In all cases, a submission fee will no longer be necessary.

## Claim Scope Amendments

During patent application examination, it is quite common for the applicant to make amendments affecting a claim's scope. Under the proposed rules, the applicant will be required to update *each IDS disclosure* that has been submitted over the lifetime of the application. This could get quite burdensome, for example, when an applicant has already exceeded the twenty document threshold.

## Third Party Submissions

Historically, third parties have also been allowed to use an IDS to submit prior art documents to the PTO. The proposed rules will expand the period window for such submission. Also, the rules will require the third party to meet the same exacting submission disclosure requirements faced by the applicant. If the third party submits the prior art to the applicant instead, the applicant will be allowed to consent to its submission, by the third party, directly to the PTO. This allows the applicant to get the prior art before the examiner while avoiding the disclosure burden.

*(Continued on page 4)*

## Willful Infringement Vaccine

By Casey L. Griffith

The Patent Act authorizes a court to enhance damages awarded to a patent owner for infringement of a patent up to three times the amount of actual damages. Potential liability for enhanced damages is a significant factor contributing to the high cost of patent litigation.

Courts historically have linked damage enhancement to a finding that an infringer's conduct was "willful." To avoid a finding of willfulness, companies traditionally have been burdened with an affirmative duty to exercise due care to avoid infringing an existing patent. This affirmative duty included an obligation to obtain legal advice from patent counsel when a potential infringer had actual notice of another's patent rights.

---

*The most effective way of showing that the infringer had no reason to know of the risk is to present evidence that the accused infringer acted in good faith reliance on competent legal advice that there was no infringement and/or that the patent was invalid.*

---

The U.S. Court of Appeals for the Federal Circuit, which has jurisdiction over the appeal of all patent cases in this country, recently issued an important ruling establishing a new standard for determining whether infringement is to be considered willful. In *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the Federal Circuit held that, to establish willful infringement sufficient to permit enhanced damages, a patent owner first must show that an accused infringer's theory for escaping infringement liability was "objectively reckless." To meet this threshold, the court held that a patent owner "must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent." Under this new objective standard, an accused infringer avoids a finding that it was objectively reckless, and thus, the potential for enhanced damages, by presenting either legitimate defenses to infringement or credible invalidity arguments. Even if the patent

owner can satisfy the objective standard, it must also show that the risk of liability for infringement was either known to the accused infringer or so obvious that it should have been known.

The *Seagate* decision therefore represents a significant change to the law concerning enhanced damages. In fact, the Federal Court expressly abandoned any "affirmative duty of due care," including any "affirmative obligation to obtain opinion of counsel." The decision lessens the risk of litigation to an accused infringer, as the new standard considerably reduces the likelihood that an accused infringer will be held liable for enhanced damages.

We nevertheless continue to strongly recommend seeking the advice of counsel when notified of another's patent rights, because finding that a patent has been willfully infringed still depends on the accused infringer's subjective state of mind. A jury that has determined a patent has been infringed, and that the infringer acted despite an objectively high likelihood that its actions constituted infringement (the objective standard) may have little difficulty also finding that the infringer knew or should have known of the risk of liability for infringement (the subjective standard). The most effective way of showing that the infringer had no reason to know of the risk is to present evidence that the accused infringer acted in good faith reliance on competent legal advice that there was no infringement and/or that the patent was invalid. Indeed, it may prove true that good faith reliance on legal advice renders a company immune to claims of willfulness.

---

### What's an Inventor to do?

*(Continued from page 3)*

The proposed IDS rules are likely to be enacted in early 2008. Patent examination may or may not be improved by this measure. However, patent applicants should brace for increased costs due to the increased burden of compliance.

## Compulsory License

(Continued from page 1)

In *Finisar*, the court applied the four factor test as *eBay* instructs. Regarding whether *Finisar* would be irreparably harmed, the court focused on the fact that money was an adequate remedy alone, because *Finisar* had not attempted to commercialize its technology. As a “non-practicing entity” or NPE, *Finisar* did not make any product like the one described in its patent. An amount of money could be determined to make *Finisar* whole for past infringement and future infringement. On the balance of hardship, the court compared DirecTV’s loss or revenue from 15 million viewers against the relative lack of hardship on *Finisar* and found the balance leaned against an injunction. Finally, on the public interest factor, the court found there to be no public interest in limiting satellite television to millions of viewers and that the patent system itself had a public interest in the technology being used.

The *Finisar* decision is perhaps a bellwether, indicating a trend against permanent injunctions, particularly when the patent owner is not practicing his own invention. Even the popular press has discussed the growing number of lawsuits brought by NPEs, sometimes referring to these parties as patent trolls. *Finisar* is a leader in the field of high-speed data communications and does not fit the traditional image of a patent troll. Still, this decision raises two concerns. First, can a non-practicing entity ever suffer irreparable harm from a continuing infringement? Second, how is any court empowered to grant a compulsory license?

Regarding irreparable harm, the Eastern District of Texas has again taken the lead in addressing the issue. In *Commonwealth Scientific and Industrial Research Org. v. Buffalo Technology et al.*, 492 F. Supp. 600 (E.D. Tex

2007), Judge Leonard Davis held that an NPE can establish irreparable harm by showing that existing infringement precludes its ability to license its patents. Other harms could include the disregard of the patent by other potential infringers. Indeed, a rational choice might be to ignore any private negotiations and simply gamble that a judge will provide more favorable terms in a compulsory license. Further, if a compulsory license is granted to one infringer, the patent owner loses the additional value it might have derived from granting an exclusive license.

Another concern raised by *Finisar* is the very concept of a compulsory license. In general, a compulsory license is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state. A compulsory license is more common outside the U.S. and is typically coupled to a requirement that the patent owner “work” his invention in a particular jurisdiction. For example, Australian law allows a person to apply for a compulsory license if the patent owner has not practiced his invention in Australia to the extent required to satisfy the Australian public. In contrast, the U.S. does not have a working requirement. The *Finisar* court has essentially created a “working” requirement — a task that should be handled by Congress if it sees fit to do so.

On its surface, the *Finisar* decision appears to be expedient. From the court’s point of view, the dispute is resolved. A value has been placed on past and future infringement. The public can keep watching its DirecTV programming. But, in reaching these results, the court has indicated to all future infringers that a patent owner’s right to exclude may not mean much at the negotiation table.

---

## New Patent Rules Blocked by an 11th Hour Injunction

By Vincent J. Allen

On the day before the new continuation rules discussed in our previous newsletter were to go into effect, a federal judge in Virginia issued an injunction against the Patent Office that prevented the Patent Office from changing the rules on November 1, 2007 as scheduled. GlaxoSmith-Kline filed suit in Virginia claiming that the new regulations are vague, arbitrary, and capricious. The company also claimed that the rules weakened the patent system and that the USPTO was without statutory authority to create such rules. The Court will eventually reach the merits of

those allegations and decide if the proposed rules can take effect at all. So for now, all patent practitioners are adopting a wait-and-see approach to the proposed rules. On a separate, but related note, supporters of the Patent Reform Act in the Senate are trying to push through major changes to the patent system. Whether the bill’s supporters have the necessary votes to pass the controversial bill remains to be seen. We will keep you advised of any changes in this area.

P. O. Box 802334  
Dallas, TX 75380  
Phone: 972.367.2001  
Fax: 972.367.2002  
E-mail: allen@cclaw.com

## The Umbrella™

The Umbrella™ is published periodically by the law firm of Carstens & Cahoon, LLP to inform readers of recent developments in intellectual property law. It is not intended to be used as a substitute for legal advice or opinions. This publication is not intended to create an attorney-client relationship or to indicate that such a relationship exists between Carstens & Cahoon, LLP and the recipient of this publication, but is provided merely as a courtesy to inform the recipient about recent developments in the law.

For more information, please contact the editor, Vincent Allen, at (972) 367-2001 or email him at [allen@cclaw.com](mailto:allen@cclaw.com).



© 2008 Carstens & Cahoon, LLP  
All Rights Reserved

## Attorney Profile—David W. Carstens

As a partner in the firm, David W. Carstens brings together a highly-skilled background in patent law and engineering to develop winning strategies for clients. He is knowledgeable in all aspects of intellectual property - including patents, trademarks, copyrights, and trade secrets - and helps clients to evaluate their needs and do what is required to protect their innovations.

Holding two technical degrees - a bachelor of science degree in electrical engineering from the University of Texas at Dallas and a bachelor of science degree in mechanical engineering from Texas A&M University, Mr. Carstens represents clients in a wide variety of technical fields such as computer software, cosmetics, oil field equipment, medical devices and telecommunications. Mr. Carstens earned his law degree and MBC from Southern Methodist University.



Mr. Carstens assists clients with both patent and trademark prosecution and litigation. His experience also spans technology-related transactions, including negotiating license agreements and evaluating intellectual property in preparation for mergers. He also counsels clients on infringement issues, employee non-compete agreements, and confidentiality agreements.