



The Umbrella™

An Intellectual Property Law Update

New Patent Rules Add Complexity

By Chad E. Walter

The United States Patent & Trademark Office (“PTO”) recently published new rules for the examination of patent applications. These rules apply to (1) applications filed after November 1, 2007, (2) applications in which a first office action on the merits has not been mailed by November 1, 2007, and (3) Requests for Continued Examinations (“RCEs”) filed after November 1, 2007.

The new rules are complex and cannot be adequately covered in this article. This is the first in a series of articles designed to discuss the content of the new rules and to explain how and why the new rules will change the way we prepare and prosecute applications. The new rules will increase the difficulty and burden placed upon all Applicants during the preparation and prosecution of patent applications and particularly on those who pursue multifaceted and complex applications.

The new rules require new strategic thinking in the filing of patent applications.

The centerpiece of the new rules is the “5/25 threshold.” The “5/25 threshold” requires that any patent application that exceeds 5 independent claims or 25 total claims have a compliant “Examination Support Document” (“ESD”) supplied by the Applicant prior to a first office action on the merits. Consequently, if a first office action on the merits is received after November 1, 2007, and if the originally filed application exceeds the 5/25 threshold, the Applicant must elect between 1) canceling claims to comply with the 5/25 threshold, 2) canceling claims in the pending application and filing one or more continuations for the cancelled claims, or 3) providing an ESD. The Applicant will be given a two-month non-extendable deadline to comply.

A review of the requirements for preparing a compliant ESD all but requires the conclusion that an ESD should be avoided in nearly all situations. To prepare a compliant ESD, one must conduct a comprehensive prior art search of databases for U.S. Patents and published applications, foreign patent references, and non-patent literature and provide a copy of the search methodology used. The most relevant art revealed by the search must then be cited, and for each reference cited, the Applicant must identify all limitations of each claim in the application that is disclosed by the reference. Further, the Applicant must indicate where each limitation of each claim finds proper support in the specification. If an Applicant is claiming priority to an earlier filed application, the Applicant is required to show support in the priority document for any claimed limitation for which priority is claimed. These are just some of the requirements of an ESD; some of these requirements do not apply to “small entities.”

The ESD has precedence in the accelerated examination program enacted last year, which requires an ESD to accelerate examination for an application. During the first eight months of ESD usage in the accelerated examination program, 300 petitions were filed and only 44 (15%) were granted. Consequently 85% of Applicants had their petitions dismissed, presumably after they gave up when given an opportunity to correct deficiencies or because they had their petition finally denied. While there has been some suggestion that the high failure rate is associated with the learning curve for the new program, the failure rate is an indicator of just how high the bar has been set for a compliant ESD.

After November 1, 2007, Applicants will be limited in the number of applications that can be filed as part of a family of applications. For example, absent a showing of cause, an Applicant is limited to filing two continuations, including continuations-in-part (“CIP”), and each continuation must also comply with the 5/25 threshold. Thus, an Applicant is limited to 15 independent claims and 75 total claims in the aggregate for an initial application and two continuation or CIP applications prosecuted serially.

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Purchase A Declaratory Judgment Lawsuit for the Price of a Stamp

By Bobby W. Braxton

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The recent Supreme Court decision in *MedImmune Inc. v Genentech Inc.*, (January 9, 2007) lowered the hurdle a party must clear before filing a declaratory judgment lawsuit. A declaratory judgment lawsuit allows a party to seek a determination of the rights among the parties without waiting for the opposing party to file a claim. Additionally, a potential defendant can race an adversary to the courthouse by filing a declaratory judgment lawsuit in the erstwhile defendant’s choice of forum.

In *MedImmune*, the Supreme Court held that a patent licensee can bring a declaratory judgment

lawsuit against a patent owner even though the licensee continues to make payments under the license agreement. This resulted in a change to the prior rule that a licensee who continues to make payments under a license agreement cannot bring a declaratory judgment lawsuit because there is no “reasonable apprehension of suit.”

The Court struck down the “reasonable apprehension of suit” test in favor of an “adverse legal interest” test. In other words, a declaratory judgment lawsuit is proper if under all the circumstances, it can be shown there is a substantial controversy between parties (continued on page 3)

Copyright Overview: An Ounce of Prevention is Worth a Pound of Statutory Damages

By Zachary W. Hilton

Both attorneys and laypersons who are not sufficiently familiar with current U.S. copyright law are often guilty of relying upon, and spreading, popular myths and misconceptions concerning basic copyright related issues. In most instances, reliance on copyright myths and misconceptions will not result in any harm. However, for the minority of copyright owners who must one day attempt to protect their copyrighted works, such reliance can have potentially disastrous consequences that can effectively preclude enforcement of the copyright. In hopes of preventing such an unfortunate outcome, a brief primer on the basics of copyright law is provided below.

Obtaining a Copyright

Contrary to popular belief, under current law, a copyright is not obtained upon either the filing of an application for a copyright registration or by marking the created work with a copyright symbol. In fact, the relevant copyright statute provides that “. . . copyright protection subsists . . . in any original works of authorship fixed in any tangible medium of expression . . .” While entire forests have likely been decimated to generate the paper necessary for legal scholars to expound upon the nuances of the foregoing statutory language, it is sufficient for most readers to know that when an author puts pen to paper, or paintbrush to canvas (etc.), to create an original work, the author has a copyright in the work thus created.

The most significant advantage of timely registration is that it gives you the option to elect to receive “statutory damages” for infringement of your copyright, as well as your attorneys’ fees expended in pursuing a successful claim.

Some of you may now be asking yourselves why you went through the trouble and expense of registering your copyrights and marking your creative works with copyright notices if such actions are not required to obtain a copyright. Though not required, the law provides certain attractive benefits to those who take such actions.

Copyright Registration

Registering a copyright with the U.S. Copyright Office is, in most cases, a relatively simple and inexpensive process. The applicant is required to provide the title of the work, the name of the author, the dates of creation and publication (if published), and several other miscellaneous pieces of information. The applicant is also required to attach “deposit” copies of the work, and submit a registration fee (currently \$45) along with the application. The registration is considered “timely” if an application is filed prior to infringement or if it is filed within three months of publication.

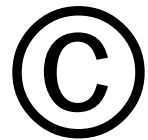
By timely registering your copyrights, you gain several advantages should it become necessary to protect your rights. The most significant advantage of timely registration is that it gives you the option to elect to receive “statutory damages” for infringement of your copyright, as well as your attorneys’ fees expended in pursuing a successful claim. Al-

though a copyright holder may choose to claim actual damages arising from the infringer’s actions and the profits made by the infringer that are attributable to the infringing acts, such damages are often difficult to prove and commonly viewed as speculative by the court in many circumstances. However, timely registration allows for the election of statutory damages which can range, in the discretion of the court, from \$750 to \$30,000 per infringed work, and up to \$150,000 for infringement found to be willful.

Copyright Notices

In the past, failure to provide notice of copyright by marking a published work would result in the loss of copyright. Under current U.S. copyright law, this is no longer true. However, like copyright registration, providing notice gives the copyright owner a leg up in an enforcement action. One such advantage is that an infringer cannot successfully assert that his infringement was an innocent infringement. If the infringer’s actions are found to have been innocent, both actual and statutory damages may be substantially reduced. Therefore, it is prudent to mark any work that is to be published with a proper copyright notice.

A valid copyright notice should be affixed in a location and manner that gives reasonable notice of the claim of copyright. In other words, the copyright notice should be conspicuous and not hidden. A copyright notice should take the following form: 1) © (the letter C in a circle) or the word “Copyright” or “Copr.” (we recommend using the © symbol as some foreign countries require its use); 2) the year of first publication of the work; and 3) the name of the owner of the copyright. Thus, a proper copyright notice would appear as: © 2007 Zachary Hilton (other limited variations are permissible such as: Copyright © 2007 Zachary Hilton).



Copyright Ownership

A final issue affecting many businesses relates to ownership of the copyright of a work created by an employee or independent contractor. An employer owns, and is considered the author of, any work prepared by an employee that is prepared within the scope of his or her employment. In contrast, an independent contractor is the copyright owner of all works created by the independent contractor, including works which the independent contractor has specifically been hired to create. Therefore, it is essential that a company enter into a written agreement with an independent contractor assigning ownership interest in any copyright before work begins.

Conclusion

While there are many other issues that arise in the enforcement of copyrights, this article points out some of the more common issues. Nevertheless, do not hesitate to seek the assistance of one of our attorneys to obtain advice on your specific circumstances. An ounce of prevention now may be worth a pound of statutory damages later.

New Rules...from page 1

The new rules also limit the number of RCEs that can be filed after November 1, 2007. If more than one RCE is filed for either the initial application or either of the two continuation applications, or if an Applicant wants to file a third continuation, the PTO requires a showing as to why the amendment, argument, or evidence sought to be entered could not have been previously submitted. Moreover, a divisional application can only be filed for claims directed to an invention or inventions that are subject to a restriction requirement.

The new rules require new strategic thinking in the filing of patent applications because of the limitations on filing numerous applications to protect similar technology. It is important that Applicants think through the filing strategy before filing multiple applications on similar inventions.

Although there are a number of possibilities, one such strategy is to file a Suggested Restriction Requirement (SRR) to divide the application into divisional applications. A divisional application is treated as an initially filed application, meaning that two continuations and an RCE can be filed from a divisional application without a petition and showing.

Purchase a Declaratory Judgment Lawsuit...from page 1

having adverse legal interests. Following *MedImmune*, the Federal Circuit in *SanDisk Corp. v. STMicroelectronics Inc.*, held that a patent owner's statement that it "had absolutely no plan whatsoever to sue" coupled with a willingness to enter licensing agreements was insufficient to prevent a declaratory judgment lawsuit. The court held a declaratory judgment lawsuit proper whenever "affirmative action" by the patentee forces the declaratory judgment plaintiff to either abandon its current actions, which may be legal, enter into a license agreement, or pursue arguably illegal behavior.

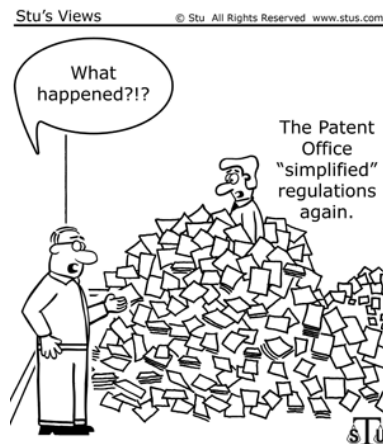
Affirmative action sufficient to warrant a declaratory judgment lawsuit includes sending cease and desist letters if the parties have "adverse legal interests," as the Federal Circuit found in *Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.* Taking any type of action to inform a competitor of alleged or possible infringing activity may give that party a right to file a declaratory judgment lawsuit.

Taking any type of action to inform a competitor of alleged or possible infringing activity may give that party a right to file a declaratory judgment lawsuit.

MedImmune has changed the dynamics between patent owners and licensees, potential licensees, and alleged infringers. If a patent owner attempts to enforce its rights by sending out cease and desist letters, the alleged infringer may file a declaratory judgment lawsuit in the venue of its choice. A licensee also has the benefit of challenging the validity of a patent, in the venue of its choice, while continuing to comply with a license agreement. However, creative drafting of license agreements going forward will likely make this a short term benefit.

Several tactics can be employed to ameliorate the effects of *MedImmune* and its progeny. First, because of the increased possibility of a declaratory judgment lawsuit, a forum selection clause can be added to

Further, because the number of RCEs will be limited, a thorough prior art search prior to filing is important to ensure the originally submitted claims are in as close to condition for allowance as possible. For the same reason, evidence of unexpected results and secondary considerations should be provided as early as possible during prosecution. The new rules add a new layer of complexity that requires a new way of thinking when preparing patent applications.



license agreements. Second, licenses can provide, if feasible, for larger lump sum payments, or at least front loaded payments at the beginning of a license term. This tactic may decrease a licensee's desire to file suit to invalidate a patent when substantial royalty payments have already been made. Such a structure can provide the patent owner with capital to fund the defense of a declaratory judgment lawsuit. The license agreement can also contain a promise by the licensee to continue royalty payments even if the patent is later held invalid, or it can contain a promise not to seek a declaration of invalidity. Third, patent owners must now be more selective when deciding to whom they send cease and desist letters. Because sending such letters will likely be sufficient to trigger a declaratory judgment lawsuit, patent owners must ensure the potential benefits of such a letter outweigh the downside. When sending such letters or making licensing offers, one option is to first approach smaller entities that may be less likely to consider filing a declaratory judgment lawsuit. If a declaratory judgment lawsuit is considered a probable response to a cease and desist letter, a complaint can be filed against the alleged infringer before the letter is sent. This allows the patent owner to choose the forum, while simultaneously providing a few months to negotiate before expiration of the deadline for serving the complaint.

MedImmune will generally make it easier to meet requirements for filing declaratory judgment lawsuits in cases outside the patent arena as well. This includes, for example, trademark actions. Trademarks, unlike patents, must be enforced to avoid abandonment. Therefore, owners should continue to send cease and desist letters promptly upon learning of substantial infringing activity despite the risk of a declaratory judgment lawsuit.

In conclusion, while *MedImmune* has removed impediments for filing a declaratory judgment lawsuit, there are still many tactics that can be employed to protect intellectual property while minimizing your exposure to a declaratory judgment lawsuit. *MedImmune* should be considered before sending a cease and desist letter to an alleged infringer; the stamp used to send the letter could be the price of admission to a declaratory judgment lawsuit.

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Attorney Profile—Chad Walter

Chad Walter grew up in south, central Washington State where his father, also an engineer by training, worked in research and development at the Hanford Site. The Hanford Site was originally constructed during World War II as part of the Manhattan Project and provided special nuclear materials during the Cold War. During high school, Chad participated in a co-op program at the Hanford Site for select high school science students where he performed various chemistry tasks in an analytical laboratory. Chad returned home to Washington State nearly every summer during college to work as an intern assisting scientists and engineers on various research and development projects at the Hanford Site.

Chad very much enjoyed growing up in the Great Northwest and became an avid outdoorsman. He was active in Boy Scouts and achieved the rank of Eagle Scout.

Chad caught the political bug while in college and became president of the fightin' Texas A&M College Republicans, the largest College Republican club in the nation. The club was awarded best chapter in the nation while he was president. Following college graduation, Chad arrived in Dallas and worked as an environmental engineer for several years on soil and groundwater issues. He later became a process and design engineer in the oil refining business prior to entering law school.

While in law school, Chad was Publications Editor of the Houston Journal of International Law. He took advantage of the nationally recognized intellectual property program at the University of Houston where his coursework included several intellectual property related courses such as patent law, trademark law, and licensing and technology transfer.

Chad clerked with Carstens & Cahoon LLP the summer of 2002 and was hired following graduation from law school in May of 2003. He was recently selected as a member of the 2007 Dallas Area Young Lawyers Leadership Class.

Chad resides in Lake Highlands with his better half Shani and his 4 children (with another on the way) – Grant (5), McKenna (4), Drew (2), and Connor (1). They attend St. Patrick's Catholic Church.

