



The Umbrella™

An Intellectual Property Law Update

Ding-Dong! The Witch is Dead...Or is She?



By Vincent J. Allen

Which old witch? The wicked witch of patent reform. Many in the patent community are singing the joyous news that the Patent Reform Act of 2007 is dead.

Recent events in Congress lead to this conclusion. The departure on May 1, 2008 of the former Solicitor of the U.S. Patent and Trademark Office, John Whealan, from his temporary position with Senate Judiciary Committee Chairman Patrick Leahy (D-Vt.) is a strong indicator that patent reform legislation will not pass in 2008.

Whealan's departure was not the only sign that the bill is finished. On April 10, 2008, Senator Arlin Specter (R-Pa.), ranking minority member of the Senate Judiciary Committee, commented on the floor of the Senate that the Republican caucus may refuse to act on pending patent reform legislation "as a matter

of leverage to get fair and equitable treatment" in regard to the confirmation of federal judges. On the same day, Senate Majority Leader Harry Reid (D-Nev.) stated that he was "disappointed we are not going to be able to move to the patent bill . . . we are not going to do a patent bill now."

The two most controversial portions of the bill are the apportionment of damages and the Applicant Quality Submissions (AQS) provisions. The current damages apportionment provision in the bill provides for a reasonable royalty to be calculated based on the economic value attributable to an invention's specific contribution over the prior art. This provision is opposed by the Bush Administration, the Court of Appeals for the Federal Circuit, and the PTO.

The AQS provision of the bill would burden patent

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To Use or Not to Use a Trademark: The Question of Fraud on the PTO



By Steven H. Washam

Consider the following. Several years ago the vice president of your company filed a trademark application to use the mark SWILL on energy drinks, sports bottles, baseball caps and golf shirts. The registration was granted and your company has been using the mark ever since.

Five years have passed since the grant and you must now verify use of your trademark in commerce on the

stated goods. As you prepare the mandatory section 8 "Declaration of Continued Use" for submission to the United States Patent and Trademark Office (PTO), you recall never having seen a baseball cap or shirt printed with the logo.

Before you sign the affidavit's declaration, you decide to contact the marketing department. Your suspicions are confirmed. The company has consistently used the mark on energy drinks and sports

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applicants with a duty to search and describe the prior art in connection with filing an application. The patent bar vehemently opposes the AQS provision, while the Bush Administration and the PTO are strongly in favor of AQS.

Hal Wegner, a prolific commentator and former director of the intellectual property law program at George Washington University Law School, suggests that the AQS provision “is a major reason why many in the patent community have moved away from Senator Leahy’s bill.” He also opines, “Indeed, it is hard to understand responsible members of the patent community supporting this provision.” A system similar to that of AQS has already been tested in the PTO’s accelerated examination program initiated in August 2006. According to PTO statistics, 85% of all petitions for accelerated examination during the first eight months of the program were dismissed or denied. This was for applicants who voluntarily elected to apply for accelerated examination. Although a portion of the failure rate may be attributable to the learning curve associated with a new program, the statistics do not bode well for the success of an involuntary AQS program.

Almost a year ago, the PTO attempted to implement rules designed to limit the number of claims in a patent application to five independent claims and twenty-five total claims. The rules also limited the number of con-

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tinuation applications that could be filed absent a showing of good cause. Although these rules were blocked by a permanent injunction on April 1, 2008 in the *Tafas v. Du-*
das litigation in the Eastern District of Virginia, the Patent Reform Act provides for a legislative override of the permanent injunction. The PTO has also appealed the court’s injunction to the Federal Circuit. The PTO’s attempt to strong arm the patent community into accepting the new rules along with the PTO’s tireless lobbying for AQS has angered many in the patent bar.

Although the supporters of patent reform legislation promised on numerous occasions over the past several months that she would live, the witch is most sincerely

dead. The year 2008 will probably pass without patent reform legislation. In any event, it is unlikely that the bill would be signed into law without major revisions.



This is not good news to the groups who lobbied Congress for patent reform. The Coalition for Patent Fairness, a group of technology companies desiring to limit the damage awards and legal costs associated with patent litigation, spent \$2.5 million on lobbyists during the past fifteen months according to the *New York Times*. The group’s antithesis, the Coalition for 21st Century Patent reform, spent \$1.8 million. Apparently, the groups were unwilling to compromise on the major portions of the bill as reflected by the inability of the Senators to come to an agreement.

Although the Patent Reform Act of 2007 may be dead, reform of the patent system will be proposed again. While change may be necessary to keep up with the times, change for the sake of change or to protect the special interests of lobbyists is not the solution. As noted by Abraham Lincoln: “The patent system . . . added the fuel of interest to the fire of genius, in the discovery and production of new and useful things.” Before making major changes to our patent system, we should encourage an open and honest debate about the best means for accomplishing a productive change. Otherwise, we could end up harming the very system that has led to unprecedented innovation during the United States’ short history.

Intellectual Property Assignments in Employment Contracts: Employ Creative Thinking



By Celina M. Diaz

If your business employs someone for their creative or technical abilities, you should strongly consider using an intellectual property assignment. An intellectual property assignment can be part of a larger employment contract but, at a minimum, should clearly define ownership rights in the intellectual property created by the employee. Such assignment clauses allow the employer to retain control of a work or invention created by its employees. Like all contracts, employment contracts should be carefully worded to clearly convey the intent of the parties.

While state law generally governs the interpretation of employment contracts, the Court of Appeals for the Federal Circuit recently concluded that federal law determines whether an assignment clause within an employment contract vests legal title of future inventions in the employer or

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is merely a promise to assign. In *DDB Technologies, LLC v. MLB Advanced Media, LP*, the court held that if a contract expressly grants rights in future inventions, “no further act is required [by the employer] once an invention comes into being.” In other words, if the contract contains language expressly assigning all rights in future inventions to the employer, then such inventions are the property of the employer by operation of law. Conversely, if a contract provides only a promise to assign, then a separate assignment must be executed before legal title passes to the employer.

In addition to inventions, copyrights are also subject to assignment in employment contracts. Federal law generally provides that the creator of a work is the legal owner except when a work is “made for hire.” A “work for hire” includes works prepared by an employee within the scope of his or her employment as well as works created by an

independent contractor or a freelancer pursuant to a written agreement. In such a case, copyright ownership is initially vested in the hiring party and an author must ask for permission to use his or her own works unless he or she retained any rights in the employment agreement (or unless the use falls under one of the statutory exemptions). However, it is often difficult to determine whether a work was prepared “within the scope of employment.” The employment agreement can be used to clearly define what works are considered within the scope of employment.

In addition, the employment agreement may provide for automatic assignment of inventions or works that are outside the scope of the employee’s job description. However, to the extent that the invention or work is unrelated to the employer’s business, such an assignment may be void as against public policy and/or in violation of a statutory restriction on such assignments. The law of the state governing the employer/employee relationship should be consulted in this regard.

From an employer’s perspective, intellectual property assignments should be worded to expressly and automatically convey all rights to future inventions and works relating to the employer’s business or anticipated research. The intellectual property assignment should be signed before any invention or work is created. An employee that desires to retain ownership and control of ideas or literary works should have the wording in the employment contract reviewed by an attorney prior to signing.

Any agreement that an idea or literary work falls outside the scope of employment should always be in writing. As a precautionary measure, an employee could request an employer assign “any and all” interest it may have in particular intellectual property over to the employee. If there is any doubt about who owns or will own any intellectual property created by the employee, the parties should attempt to reach an agreement prior to significant investment in the intellectual property. Obtaining a written agreement early in the relationship is usually much simpler than litigating an ownership issue in court.

Patent Pending: A Label with Bark and Bite

By Bobby W. Braxton



You may have noticed the phrases “patented” or “patent pending” stamped onto various products without understanding the message, power, or responsibility that each phrase carries. “Patent pending” refers to an application wherein patent protection has been sought but a patent has not yet been issued. As it may take several years, depending on the technology, before a patent issues, there can be significant lengths of time during which the owner of an invention may sell a product embodying the invention without the benefit of patent protection.

The “patent pending” label serves as notice to competitors that a patent application has been filed covering the product. Thus, while the label does not afford the rights awarded a patent owner, it does give notice to competitors that a patent could issue in the future. The “patent pending” label is often enough to deter competitors from copying an idea during the critical market development phase, even if a patent never issues.

Furthermore, the label could provide a greater monopoly than a granted patent, if only temporarily. The reason for this anomaly is that, unless otherwise requested, patent applications are not published until eighteen months after the filing date. Thus, for at least eighteen months, a product may be marked as “patent pending” and competitors will not know exactly what is claimed as the invention. Further, they will not know the strength of the patent application, potentially giving the applicant a market advantage. Accordingly, competitors may decide to sit on the sidelines until they can analyze the application and determine whether or not to enter the market.

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After publication of an application, federal law allows a patent owner to obtain “reasonable royalties” from an infringer with notice of the published application beginning from the date of publication. Thus, patent owners can ob-

tain damages for infringement occurring before the patent issues. This provides yet another thorn to deter competitors from copying your products. However, the patent claims that ultimately issue must be substantially identical to the claims in the published application to obtain a reasonable royalty. While the “patent pending” label itself is unlikely to constitute “notice” required by the statute, the presence of the label could induce a competitor to search for the published application, thus leading to actual notice of the application.



The label offers financial “bites” in addition to the cautionary “barks” discussed above. If not used correctly, the “patent pending” or “patented” labels can result in considerable fines. It is illegal to place false markings on goods. A false marking includes the use of the “patent pending” label if an application is not in fact pending. In other words, the application must have been filed and not abandoned. Marking unpatented products as “patented” is also a violation of the statute. Moreover, branding goods as “patented” after the patent has expired is a false marking because the goods became unpatented upon the expiration of the patent. The potential damages for false marking of goods can be as high as \$500 *per* mislabeled good. Thus, potential plaintiffs have considerable incentive to monitor goods to ensure they are correctly marked. Accordingly, manufacturers should carefully monitor their labels to ensure violations of the false marking statute are avoided.

The label “patent pending,” if used correctly, is an inexpensive deterrent useful in protecting your ideas. This “barking dog” on your product will not prevent competitors from copying your product, but it will at least give them pause before they do so.

To Use or Not to Use

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bottles – but never on clothing. You think to yourself, “Ah, it was just a simple mistake. We still have plans to print the caps and shirts, so is this really such a *big deal*?” Absolutely. The trademark around which your company was built is now vulnerable to cancellation based on fraud. You could lose your federal trademark rights as a result.

It is well-settled law that a trademark registration may be cancelled by the PTO if the registration was obtained fraudulently. While fraud is rather difficult to es-

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tablish in the context of an ordinary civil court proceeding, it is relatively easy in a trademark proceeding before the PTO. To the PTO, fraud is committed if the trademark applicant simply makes a statement material to the registration that the applicant knew or should have known was false or misleading.

The statement in the original trademark application for SWILL regarding use of the mark on the stated goods was *material* because the registration would not have been granted without it. Further, the statement was *false* because the mark was used on only a portion of the goods. Even if the vice president had a good-faith belief that the statement was true, it would have been relatively easy to discover the error by merely asking others in the company. Thus, the company *should have known* that the statement regarding use of the mark on baseball caps and shirts was false. Consequently, fraud has been committed in the eyes of the PTO.

How might our hypothetical company correct this difficult situation? The available options are few. The description of goods or services may be amended prior to issuance, but this depends on the type and status of the application.

There are two types of trademark applications: use-based and intent to use (ITU). As the name implies, the use-based application requires a declaration, at the time

of filing, that the mark *is being used* on the stated goods or services. In contrast, an ITU application requires a declaration that the applicant has an *intention to use* the mark on specific goods or services. With the ITU application, the applicant must allege actual use of the mark before the mark is registered.

Regardless of the application type, a trademark examiner reviews the application and makes a subjective determination regarding the mark’s registrability. Once the examiner is satisfied with the mark’s registrability, the application is published in the Official Gazette of Trademarks. This opens a period to allow interested third parties time to oppose registration of the mark. If no opposition occurs, then the trademark rights will take effect upon registration.

Publication is the defining point for a use-based application. A defect in the statement of goods or services may be amended at any time prior to the publication date. Once published, an amendment will not save the application from a claim of fraud.

In an ITU application, the goods or services may be amended up to and including the date that the Declaration of Use is filed, which occurs after publication. After this filing, however, no further amendments are allowed.

With publication having long since passed, our hypothetical company’s only recourse is to file a new application with a correct description of the goods. If the company were to continue use of the mark without filing a new application, a third party could petition the PTO to cancel the registration based upon this fraud. Cancellation would strip the owner of all federal rights in the mark.



The moral of the story: ask questions concerning use of your trademarks prior to signing any declaration of use. If you get it wrong, you could lose your federal rights. Correctly answering the questions will prevent substantial headaches later.

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Attorney Profile—Steven H. Washam

As an associate with the firm, Steven H. Washam leverages his practical engineering industry experience when managing his clients' intellectual property concerns.

From his early roots as an auto mechanic in his father's service station to the present, Mr. Washam has continued to build upon his engineering aptitude and now possesses substantial experience in electrical, computer, mechanical, and nuclear engineering technologies. His career has spanned several vital industries, ranging from automotive, military (he proudly served in the U.S. Navy), health care, defense, and telecommunications. He obtained a bachelor of science degree in computer engineering from Iowa State University, graduating with distinction. His diverse background allows him to identify and analyze issues from many different perspectives.

Mr. Washam is no stranger to the superiority that strong technology provides. As both driver and crew chief, he successfully campaigned a Top Alcohol Funny Car in the NHRA divisional drag-racing ranks. As a reactor operator, he expertly maintained and operated the nuclear reactor onboard a U.S. Navy fast-attack submarine. These unique experiences have ingrained in him an uncommon understanding of the importance of planning and preparation in overcoming the competition.

Mr. Washam is knowledgeable in all aspects of intellectual property – including prosecution, litigation, and licensing of patent, trademark, and copyright matters. He also regularly counsels clients on patentability of inventions as well as registrability of trademarks.

