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## Due Diligence in Patent Licensing Transactions

### Introduction

Given the cost and effort involved in developing and commercializing new products and processes, a potential licensee or licensor should conduct a patent due diligence review to allow informed business decision making. For licensing transactions, due diligence can assist potential licensees in identifying any issues that may affect the value of a product or process, or that may hinder development or commercialization of a product or process. Although representations and warranties are an important component of patent licenses,

such representations and warranties should not substitute for competent due diligence review by patent counsel, especially when the warranties are insufficient or third-party rights may exist. This article discusses several principles of patent due diligence in a licensing transaction from both the licensor and licensee's perspective, including the identification and handling of licensing issues.

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## Recent Trends in E-Discovery, Part II: Cost Shifting, Burden Shifting, and Immortal Documents

### Introduction

In this article, our second on e-discovery, we summarize the current standards and guidelines that courts consider in determining whether cost-shifting is appropriate.

Electronic discovery ("e-discovery") often requires the restoration and recreation of electronic databases from archives, back-up systems, and computer hard drives. Beyond the intrusion into confidentiality, a central issue in the e-discovery debate concerns whether the party requesting electronic discovery should also bear the associated costs of the restoration and recreation of this data. This "cost-shifting" issue has been the subject of extensive and controversial debate since the Committee on Rules of Practice and Procedure of the Judicial Conference ("the Standing Committee") began considering amendments to the

Federal Rules of Civil Procedure to address issues of e-discovery.

In May 2004, the Judicial Conference Advisory Committee on Civil Rules submitted proposed amendments to the Standing Committee. The Standing Committee published the proposal for further public commentary in August 2004. As the period for public commentary came to an end in February 2005, there was still no consensus on the issue. If the amendments are approved, they will be submitted to the Judicial Conference, then to the Supreme Court, and finally to Congress. Some of these proposed amendments deal with cost-shifting in e-discovery, but it will take at least several years before the amendments are enacted into law.

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# Recent Trends in E-Discovery, Part II: Cost Shifting, Burden Shifting, and Immortal Documents

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In the meantime, a handful of federal district courts and state courts have enacted local rules addressing specific e-discovery issues, sometimes including procedures for cost-shifting. E-discovery differs from traditional discovery because of the unique nature of electronic information. Because digital data is easily replicated, it tends to grow to enormous size. Moreover, even when an electronic document is deleted, it is often stored in a back-up system or replicated somewhere else. Even if never stored or replicated, this data can often be retrieved by a forensic expert to recreate the original deleted document. In many circumstances, the budget is the only factor that limits the scope of data recovery.

An e-discovery cost-shifting dispute typically arises when a relevant document (for example, a damaging e-mail) is deleted or destroyed, and thus, is not turned over to the requesting party. The requesting party subsequently finds some indicia of proof that this “smoking gun” existed (or exists), and demands production of the full original document. If the email has been deleted, the requesting party can (and will) demand production and restoration of the electronic data stored in various forms of back-up media. See *Zubulake v. USB Warburg, LLC.*, 217 F.R.D. 309, 317 & n.38 (S.D.N.Y. 2003) (citing *Antioch Co. v. Scrapbook Borders, Inc.*, 210 F.R.D. 645, 652 (D. Minn. 2002) (“It is a well accepted proposition that deleted computer files, whether they be e-mails or otherwise, are discoverable.”); *Simon Property Group L.P. v. MySimon, Inc.*, 194 F.R.D. 639, 640 (S.D. Ind. 2000) (“First, computer records, including records that have been ‘deleted,’ are documents discoverable under FED. R. CIV. P. 34.”)).

If permitted, the requesting party would have every “inaccessible” source searched, since deleted documents are prized as an excellent source of probative and potentially damaging information. So the question arises: Should a requesting party be required to pay for the restoration of data from back-up files? And additionally: Does it make a difference if the deletion of the document was willful, automatic, or inadvertent?

The traditional rule for non-electronic discovery has been that each party pays the costs of its own document production. See, e.g., *Zubulake*, 217 F.R.D. at 316. It is unclear whether this traditional rule will also apply to e-discovery. What is clear is that a district court has discretion to grant discovery orders limiting undue burden or expense, “including orders conditioning discovery on the requesting party’s payment of the costs of discovery.” *Id.* At the core of the e-discovery cost-shifting dispute, therefore, is a court’s determination as to whether the cost of restoring documents from archived data has become sufficiently unduly burdensome to require the requesting party to pay for the activity. This is where the consensus breaks down, making it difficult to glean a standard.

## **Incorporating E-Discovery into the Federal Civil Rules**

Proposed amendments to the Federal Rules of Civil Procedure incorporate provisions for electronic information into Rules 16, 26, 33, 34, 37, and 45. Hearing transcripts, comments, and proposed changes are available on the federal rulemaking website: <http://www.uscourts.gov/rules/proposed0205.html>. Specifically, proposed changes concerning

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**An e-discovery cost-shifting dispute typically arises when a relevant document (for example, a damaging e-mail) is deleted or destroyed, and thus, is not turned over to the requesting party.**

e-discovery have been incorporated into Rules 26, 34, and 37.

In sum, electronic information in active use would be presumptively discoverable because it is readily accessible; any documents which are “not reasonably accessible” would require the requesting party to show good cause for compelling production. In effect, the proposal creates a compromise two-tier system that is adaptable to new technologies while considering the efficiency and burden in preserving and restoring data.

The level of accessibility of digital data depends on the media in which the information is stored and the state of the applicable digital storage technology. *Zubulake* provides an excellent description of the various types of accessible versus inaccessible electronic data. 217 F.R.D. at 318-21. In order of most accessible to least accessible, such electronic data includes:

1. Active, on-line data. Examples of on-line data include hard drives.
2. Near-line data. Examples include optical disks.
3. Off-line storage/archives. Examples include removable optical disk or magnetic tape media, which can be labeled and stored in a shelf or rack. Accessibility to off-line media involves manual intervention and is much slower than on-line or near-line storage.
4. Back-up tapes. Back-up tapes typically employ some sort of data compression, permitting more data to be stored on each tape, but also making restoration more time consuming and expensive, especially given the lack of a uniform standard governing data compression.

5. Erased, fragmented, or damaged data. Such data can only be accessed after significant processing.

### **Local Rules Adopted by Some Jurisdictions**

In federal courts, many jurisdictions have noted that a Rule 26(f) conference is the proper forum for discussing e-discovery issues, such as whether restoration of deleted digital information may be necessary; whether backup or historical data is within the scope of discovery; and who will bear the costs of preservation, production, and restoration of any digital discovery. D.N.J.R. 26.1(d); D. Wyo. Civ. R. 26.1(d); see also D. Kan. Electronic Discovery Guidelines (issued in connection with the FED. R. CIV. P. 26(f) conference); E.D. ARK. and W.D. ARK. R. 26.1 (using the “ordinary course of business standard” and requiring parties to file a Rule 26(f) report with the court).

Delaware has established a default standard requiring a similar exchange of information prior to the Rule 26(f) conference. However, Delaware also establishes a sequence for e-discovery that postpones searches of limited accessibility documents until a time period after the search for other responsive electronic documents. This standard applies if the parties have not reached an agreement by the time of the Rule 16 scheduling conference. The court apportions costs upon a showing of good cause; otherwise each party bears its own production costs.

### **Factors to Be Considered in Shifting Costs to the Other Party**

When the local jurisdiction provides no specific guidance—and perhaps even when it does—the most influential source of guidance on the issue of cost-shifting may be the seven factor test provided by

U.S. District Court Judge Sheindlin in *Zubulake*:

1. The extent to which the request is specifically tailored to discover relevant information;
2. The availability of such information from other sources;
3. The total cost of production, compared to the amount in controversy;
4. The total cost of production, compared to the resources available to each party;
5. The relative ability of each party to control costs and its incentive to do so;
6. The importance of the issues at stake in the litigation; and
7. The relative benefits to the parties of obtaining the information.

*Id.* at 322. Note that the factors should be weighed with decreasing significance and that the central question is whether the request imposes an “undue burden or expense” on the responding party. *Id.*

One recent example of the high-stakes impact of e-discovery disputes comes from Florida. On May 16, 2005, a Florida jury awarded over \$600 million in a case in which the primary issue concerned the handling of requests for electronic discovery by defendant Morgan Stanley and its attorneys. A few days later, the same jury added another \$850 million for punitive damages, making the total damage award more than \$1.4 billion. During the case, Florida Circuit Judge Elizabeth Maass frowned on the defendant’s repeated delays in producing e-mails and finally instructed the jury that it could infer that the e-mails contained negative information. The jury subsequently deter-

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# Recent Trends in E-Discovery, Part II: Cost Shifting, Burden Shifting, and Immortal Documents

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mined that investors, such as plaintiff Ron Perelman, had been defrauded by the defendant. Morgan Stanley fired its attorneys (Kirkland & Ellis) two weeks before the start of trial, and has reportedly threatened the firm with malpractice. The estimated cost of complying with Perelman's discovery requests would have been on the order of hundreds of thousands of dollars—not cheap, but less expensive than the consequences.

As another example, in 2003, a Magistrate Judge in the Northern District of Illinois recommended that a party's case should be dismissed with prejudice and that the party should pay its opponent's costs and attorneys' fees for a two month period, primarily because the party had run a software program called "Evidence Eliminator" in order to remove potentially damaging evidence from its computers' hard drives. *Kucala Enter. Ltd. v. Auto Wax Co., Inc.*, 56 Fed. R. Serv. 3d (Callaghan) 487 (N.D. Ill. 2003). District Court Judge Lefkow later modified the recommendation, allowing the accused infringer to defend itself using evidence recovered from the computer hard drives. *Kucala Enter. Ltd. v. Auto Wax Co., Inc.*, 57 Fed. R. Serv. 3d (Callaghan) 501 (N.D. Ill. 2003).

Such cases illustrate that the impact of the electronic evidence can hardly be overstated. These issues will be explored further in our next snippets article on e-discovery.

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# Due Diligence in Patent Licensing Transactions

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## Due Diligence Review from the Perspective of the Licensee/Licensor

Generally, a party will conduct patent due diligence either before or early in the licensing negotiations, and certainly before a deal is concluded. To encourage fair and open due diligence evaluations, the negotiating parties should consider signing confidentiality agreements that allow for the controlled exchange of confidential proprietary information. While due diligence is essentially a two-way process between a licensee and licensor, the potential licensor has a greater burden to gather and provide information and documents to the potential licensee for evaluation. The old axiom of “buyer beware” still applies, even in licensing transactions, and thus the burden of assessing the value of the patent license generally resides on the potential licensee. Obviously, licenses to patents with broad valid claims that can be used to block competitors are generally more valuable than patents having claims directed to minor improvements used by the patentee or licensee.

A potential licensee has three main objectives in due diligence review: the reduction of risk in licensing an asset that may be a liability in the future, the identification of any weaknesses in the patent portfolio, and obtaining value by licensing the patents at the lowest possible cost. Depending on the circumstances, the potential licensee may seek warranties and indemnifications from the potential licensor relating to non-infringement, validity, ownership, and possibly non-competition.

Before any due diligence, the potential licensee should define the product and/or process they wish to commercialize as well as identify the timing of the prod-

uct/process launch and determine the territories for manufacturing and sales.

Conversely, a potential licensor should avoid making any representations or warranties that may result in future liability, avoid any liability due to the licensee’s actions, and obtain the highest possible price for the licensing transaction. Before commencing with due diligence review, the licensor should maintain updated patent files as well as lists of (a) all relevant patents and patent applications, including status and annuity payment history; and (b) assignments, confidentiality agreements, joint development agreements, government contracts, material transfer agreements, etc. Generally, any agreement that relates to the patents and patent applications, including security interests and other liens that encumber a patent owner’s rights, should be included in these lists.

## Steps in a Patent Due Diligence Review

The extent of patent due diligence required depends on the size, value, and nature of the transaction, e.g., patent licensing versus patent acquisition. For licensing transactions, patent due diligence review should be detailed enough to not only verify the ability to exploit the licensed patents, such as by ascertaining ownership and third party rights, but should also ascertain the value of the patents by determining whether the claims cover the product/process, whether the remaining patent term and territory is sufficient for the licensee’s needs, and whether the claims are valid and enforceable. If either party obtains insufficient information during the due diligence review, the parties may consider adjusting the value of the transaction to reflect the uncertainties and shift the potential risk through

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**While due diligence is essentially a two-way process between a licensee and licensor, the potential licensor has a greater burden to gather and provide information and documents to the potential licensee for evaluation.**

# Due Diligence in Patent Licensing Transactions

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appropriate representations and warranties.

## Ownership Rights

As a first step, the due diligence reviewer should confirm that the licensor/patentee owns all of the patents or patent applications subject to the licensing transaction or has the ability to transfer rights to these documents. The reviewer will need to determine how the licensor obtained ownership or license rights to the patents. For instance, did the licensor's employees develop the patented technology, did independent contractors develop it, or did the licensor obtain it by outright acquisition? Failure to confirm true ownership can have serious consequences in any future litigation involving the patents. See, e.g., *Gaia Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 780 (Fed. Cir. 1996) (instructing lower court to dismiss infringement claims because Gaia could not establish that an assignment took place before the filing of the lawsuit, and therefore they lacked standing).

The licensor preferably has proof of ownership in the form of an assignment by all of the inventors with subsequent recordation in the patent office of the territory. In the United States, recordation of the assignment within three months from the date of execution or before a subsequent purchase protects the patent owner against subsequent good faith purchasers of the patent. See 35 U.S.C. § 261 (2004). The reviewer should perform an independent assignment search at the Patent Office and carefully review the assignments, particularly in cases with joint inventorship, to ensure that all of the inventors actually assigned their rights to the alleged patent owner. In the absence of any agreement to the contrary, a joint

inventor can make, use, or sell the claimed invention without the consent of and without accounting to other joint inventors. See 35 U.S.C. § 262 (2004). A licensee should request that the licensor/patentee record all assignments prior to the conclusion of the deal.

If the licensor is the true owner, the reviewer should next determine whether the licensor/owner has the ability to grant licensed rights. This determination generally involves reviewing documents, such as MTAs, other licenses, assignments, security interests, or other liens, to determine what rights the licensor transferred to third parties.

If the licensor is not the owner but a licensee of a third-party patent, the reviewer will need to determine whether the licensor has the ability to grant sublicenses. Generally, the reviewer should examine all underlying documents related to the patent rights that the licensor received from the third party, e.g., licenses, agreements, contracts, and options. In reviewing such documents, the reviewer should watch for restrictions to fields of use and geographic territories in the underlying agreement as well as the licensor's obligations to the third-party patent owner.

Technology developed with government funds may be subject to government "march-in" rights under 35 U.S.C. § 203 (2004), allowing the funding agency, e.g., the National Institutes of Health, to require the patentee or licensee to grant a license under reasonable terms to reasonable applicants. Thus, the reviewer should check for the existence of any march-in rights and adjust the value of the licensing transaction accordingly.

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The logo for "snippets" features the word in a lowercase, sans-serif font. The letter "i" is stylized with a square bracket above it, and the letter "p" has a square bracket to its left, suggesting a focus on code or document fragments.

**As a first step, the due diligence reviewer should confirm that the licensor/patentee owns all of the patents or patent applications subject to the licensing transaction or has the ability to transfer rights to these documents.**



**When should a due diligence review be conducted?**

**How can validity of a patent or strength of a trademark be determined?**

**What can be done if any intellectual property is the subject of a lawsuit?**

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# **Intellectual Property Due Diligence: A How-To Guide**

**Featuring MBHB partners**

**James M. McCarthy and Emily Miao**

**Thursday, October 27, 2005 at 2:00pm**

**For details or to register, please contact:**

**Megan M. McKeon 312 913 2105 [mckeon@mbhb.com](mailto:mckeon@mbhb.com)**

# Due Diligence in Patent Licensing Transactions

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## Scope and Sufficiency of Protection

As a second step in a proper due diligence strategy, the reviewer should determine the value of the patented technology. This requires determining the scope and sufficiency of the patent claims. The scope-determination process involves reviewing the language of the claims, the patent specification, and the prosecution history. See *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996). This is necessary because, as a threshold matter, if the patent claims do not cover the product and/or process the licensee seeks to commercialize under the licenses, either literally or under the doctrine of equivalents, the patent owner cannot exclude others from making, using, or selling the product and/or process.

Determining whether a patent claim covers the subject technology or an accused product or method entails a two-step analysis. First, the claim must be properly construed to determine its scope and meaning. Secondly, the properly construed claims must be compared to the product/process subject to the transaction. See, e.g., *Kegel Co. v. AMF Bowling, Inc.*, 127 F.3d 1420, 1425 (Fed. Cir. 1997). Literal infringement occurs if the product or process includes the same elements as the patent claims. If a different but similar component has replaced one or more components of the subject technology, a court may find infringement under the doctrine of equivalents if the substitution performs substantially the same function in substantially the same way to obtain substantially the same result. See *Graver Tank & Mfg. Co. v. Linde Air Prod. Co.*, 339 U.S. 605, 608 (1950). The Supreme Court, however, has ruled that when a patentee narrows the scope

of a claim during prosecution for reasons related to patentability, the patentee can be estopped from arguing infringement under the doctrine of equivalents as to the amended portion of the claim. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002).

If a patent does not cover the subject technology literally or under the doctrine of equivalents, its value in the licensing transaction may be dubious. However, if there are related pending patent applications, the applicants may possibly add additional new claims directed to the subject technology if the disclosure supports such a claim. However, it may be difficult to predict the outcome of the patent examination proceedings and there is no guarantee that the additional new claims will retain their original scope.

Another important consideration is that patents have limited lifetimes and territorial scope. For sufficiency of the patent claims, the reviewer will need to consider the term remaining for each patent subject to the licensing transaction as well as consider the existence of patents in the relevant territories. For U.S. utility patents filed before June 8, 1995, the term is the longer of 17 years from the date of issue or 20 years from the first filing date of the application. For utility patents filed on and after June 8, 1995, the term is 20 years from the earliest effective filing date of the application. Most foreign patents expire 20 years from the first filed patent application. To preserve the full patent term, a patent office may require payment of periodic maintenance fees. The reviewer should thus examine the maintenance-fee payment history for all patents, including abandoned patents in the event that it is possible for a licensee to revive them. The reviewer should also check



**If a patent does not cover the subject technology literally or under the doctrine of equivalents, its value in the licensing transaction may be dubious.**



the face of a patent as well as prosecution files for any terminal disclaimers that will shorten the term of the patent.

Once a potential licensee determines the scope of a patent's claims, it is necessary to inquire into potential dominating third-party patents. Patents provide the right to exclude others from making, using, or selling the patented technology, but do not include a right to use the technology. Thus, a third-party patent that covers the same technology that is subject to the transaction could prevent the licensor/licensee from exploiting the technology. Generally, a reviewer should conduct a careful patent-clearance search to identify such patents. If any dominating third-party patents are uncovered, the reviewer should also conduct a careful review to verify that the licensor has or will have the necessary third-party patent licenses to exploit the patents and patent applications of the underlying transaction, and determine whether such third-party-patent licensed rights are transferable to others.

Finally, if the patented technology was subject to past and/or present legal proceedings, the potential licensee should seek information from the licensor and/or court docket system and ascertain any defenses raised by third parties, particularly concerning the scope of patent protection, enforceability of the patent, and validity of the patent claims. The reviewer should also examine any settlement agreements relating to such proceedings, as well as all communications alleging infringement of any third-party patent rights.

#### Validity Assessment

The validity of a patent is somewhat related to the scope of protection but there are additional considerations for the lic-

ensee. Generally, a potential licensee may determine the validity of a patent by conducting a prior art search and reviewing the results relative to the claims of the patent at issue. Prior art searches and reviews, however, can be costly and the potential licensee will need to decide whether the licensing transaction is important enough to incur such costs. In the situation where patent enforcement is likely to occur, it is worthwhile for the licensee to have the search performed, especially considering that defendants in an infringement action will certainly conduct such a search on their own as part of a patent invalidation strategy.

The potential licensee should also review both U.S. and foreign patent prosecution histories to verify the absence of a potential inequitable conduct claim resulting from failure to disclose prior art references to the respective patent office. The U.S. patent rules place a duty of candor on all persons involved in the prosecution of an application, requiring disclosure to the Examiner of any prior art references that may be material to the patentability of the claims. See 37 C.F.R. § 1.56. Knowingly failing to disclose such prior art would render a patent unenforceable, and this situation cannot be later cured. If prior art references are discovered after the patent issues, a patentee/licensor should consider requesting reexamination of the patent. Depending on the outcome of the reexamination, some patentable subject matter may still exist and the resulting claims, though potentially narrower in scope, can be stronger than the original claims because they survived a second examination.

The validity and enforceability of a patent also requires that the proper inventorship be recorded. For example, the exclusion

of a true inventor or the inclusion of a non-inventor could result in the invalidity of a patent. The reviewer should identify any inventorship issues by requesting that the patentee provide sufficient documentation, e.g., an invention disclosure, which demonstrates when the inventors first conceived and reduced the subject technology to practice, and such documentation preferably includes the names and signatures of all of the inventors. If the wrong inventorship entity was identified, the licensee should request that the patentee take the necessary steps to correct the inventorship in the Patent Office as soon as possible.

Finally, the reviewing attorney should consider legal opinions relating to patentability, infringement, validity, and enforceability of patents and pending applications subject to the licensing transactions. In particular, the reviewing attorney should review any prior art documents discussed in the opinions, as well as any waivers of infringing activity.

#### **Conclusion**

Patent due diligence is important for informed business decision making. As part of this process, it is important to keep patent counsel informed of business objectives so that they can identify issues that are material to these objectives and work to resolve these issues in order to meet these objectives.

**Dr. Emily Miao** has broad experience in all aspects of foreign and domestic intellectual property practice, including patent and trademark procurement and portfolio management; client counseling on validity, infringement, freedom-to-operate, and patent strategy matters; due diligence reviews; and licensing/secretary agreements.

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# Find Out What You Have Been Missing with a Trademark Audit

## Introduction

Does your company own trademarks that are not being protected? Even worse, does your company own trademark rights that it does not even know about? While most companies understand the importance of protecting their corporate names and primary brand names, many either are not protecting these rights effectively or are failing to protect other valuable trademark rights. As a result, many companies are allowing competitors to misappropriate their trademark rights and are losing valuable business opportunities. For these companies, it may be time for a trademark audit.

## What Is a Trademark Audit?

A trademark audit is a comprehensive analysis of your company's trademark portfolio that allows your trademark attorney to evaluate whether your marks are being properly used, maintained, and protected. In a complete trademark audit, a trademark attorney reviews your company's trademark registrations, products and services, packaging, web site, and advertisements, as well as any other marketing or promotional materials. Based on this review, the trademark attorney can confirm which trademarks are or are not being used properly and can identify additional trademark rights that may exist or that could be created or exploited.

## Are Your Trademarks Being Properly Used and Maintained?

As a company grows and expands, it often extends the use of its primary brands to goods and services that were not anticipated by prior trademark registrations. McDonald's Corporation, for instance, currently uses the MCDONALD'S trademark for a great deal more than the "drive-in restaurant services" described in its

1963 U.S. trademark registration (U.S. Reg. No. 743,572). Accordingly, periodic trademark audits are necessary to assure that a company's trademark portfolio grows commensurately with the company's business.

A basic trademark audit will reveal whether your company's trademarks are being used in a manner consistent with existing trademark registrations and whether additional trademark applications are necessary. More importantly, however, a trademark audit should identify the holes that typically exist in trademark portfolios as a result of a company's failure to exploit overlooked, non-traditional trademarks.

## Do You Own Any Non-Traditional Trademarks?

As a company grows, it typically expands its product offerings as well as its marketing efforts. As a result, it is frequently building consumer recognition for not only its primary brand names and company name, but also for other related "non-traditional" trademarks. A trademark audit will help you to identify these often overlooked rights and develop ways to protect and exploit rights in the trade dress, color, sound, scent, or animation associated with your company's goods or services.

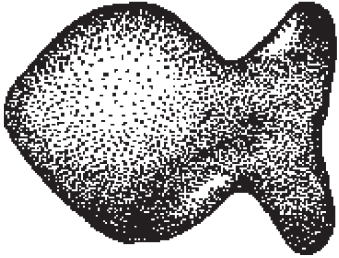
Think about it. Does your company offer a product that has a unique shape like the Weber grill (U.S. Reg. No. 1,481,521)?



snippets

**A trademark audit is a comprehensive analysis of your company's trademark portfolio that allows your trademark attorney to evaluate whether your marks are being properly used, maintained, and protected.**

Or the Goldfish cracker (U.S. Reg. No. 1,640,659)?



Does your company offer products in unique packaging like the Coca-Cola bottle (U.S. Reg. No. 2,085,197)?



Or the Gateway computer box (U.S. Reg. No. 1,725,231)?



Does your company have or offer products or services having a unique scent or using a particular, distinctive color like United Parcel Service's brown vehicles and uniforms (U.S. Reg. Nos. 2,901,090; 2,159,865; and 2,131,693), Owens-Corning's pink insulation and building materials (U.S. Reg. Nos. 2,512,851; 2,695,673; 2,380,742; 2,349,499; 2,380,445; 2,352,998; and 1,439,132), or 3M's yellow Post-it notes (U.S. Reg. No. 2,390,667)? Does your company have a unique animation associated with its products or services like the 20TH CENTURY FOX spotlight introduction (U.S. Reg. No. 1,928,424)?

While your company may not have marks as famous as the non-traditional marks set forth above, it is very likely that it does have unique marks that are not being protected. A trademark audit can help identify these marks and your trademark attorney can recommend strategies for developing and protecting such marks.

### **Are Your Trademarks Being Fully Enforced and Exploited?**

While many companies already enforce their primary brands by writing cease and desist letters to known infringers, most companies do not have a comprehensive enforcement system in place. Therefore, in addition to identifying and protecting trademark rights, a trademark audit should include a recommended plan for enforcing the company's trademark rights. The enforcement plan can include basic elements such as "watch" services for primary brands in key countries, investigation of potential infringers, and traditional enforcement methods such as cease and desist letters, oppositions, cancellations, and litigation. A trademark audit would not be complete, however, without an analysis of potential false ad-

vertising claims and consideration of whether U.S. Customs officials should be made aware of the potential for the importation of counterfeit goods.

As a final step in a trademark audit, your trademark attorney can help you establish a brand management team to monitor and build your trademark portfolio and to identify opportunities to exploit your newly discovered brands in the future. By coordinating your company's research and development, advertising, and promotion efforts, successful license and product placement opportunities can be identified that will ultimately add value to your brands.

**James M. McCarthy**'s practice emphasizes the procurement, enforcement, and licensing of intellectual property rights. He has litigated and counseled clients on patent, trademark, copyright, trade secret, and unfair competition issues. Mr. McCarthy frequently renders trademark clearance and infringement opinions and develops trademark licensing programs and protection strategies.

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# Patent Reform Act of 2005: Recent Developments

## Introduction

On June 8, 2005, Congressman Lamar Smith (R-TX) introduced a bill that proposes sweeping reforms to fundamental aspects of the U.S. patent laws and procedures. A proposed amendment to the Patent Reform Act of 2005 (HR 2795) would remove the most contentious portion of the Act – compulsory patent licensing. However, the remaining provisions represent an array of dramatic changes that, if enacted, would change the procurement, management, and litigation of patents. Although the Act finds itself held-up by a highly contentious Congress, there is a very real possibility that reform measures will be signed into law in 2005 or 2006.

The changes proposed by the Patent Reform Act include:

- A change to a first-to-file system (including elimination of the one-year grace period for certain third-party public disclosures);
- Elimination of the best mode requirement;
- Changes to the duty of candor (the Patent and Trademark Office will adjudge violations rather than a federal court);
- Damages are to be limited to the inventive contribution rather than calculated on the selling price of an entire product;
- Limitations on damages for willfulness;
- Limitations on the proper venue of patent infringement actions; and
- Introduction of a post-grant opposition procedure and submission of prior art by third parties, etc.

## Commentary

Through the course of several amendments, the reform bill has moved away from several highly-contentious provisions – including a *de facto* compulsory license for patent infringers. Still, this reform measure represents a comprehensive change to U.S. patent law. The proposed legislation has several aspects that have not been discussed extensively in the press and are worth a closer look:

### Novelty (35 U.S.C. § 102)

Much has been written about the first-to-file aspects of the proposed Act, but tucked away in the Act is a provision that sets forth a standard of absolute novelty, unless a prior disclosure was by the inventor or someone who obtained the subject matter disclosed directly from the inventor. 35 U.S.C. § 102(a)(1)(B) (proposed). Disclosures by the inventor or by individuals who obtained subject matter disclosed from the inventor get the same one-year grace period as under the current statute.

The proposed legislation also adds a requirement for “publicly known” prior art: prior art must be “reasonably and effectively accessible through its use, sale or disclosure by other means,” or “embodied or inherent in subject matter that has become reasonably and effectively accessible.” 35 U.S.C. § 102(b)(3) (proposed). The bill then defines “reasonably” and “effectively” accessible as accessible and comprehensible without “undue efforts.” How this will apply in real life remains for the courts to decide.

### Duty of Candor/Unenforceability (35 U.S.C. § 136)

The inequitable conduct provisions would bar district courts from adjudicating misconduct issues during litigation. 35 U.S.C.

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**Although the Act finds itself held-up by a highly contentious Congress, there is a very real possibility that reform measures will be signed into law in 2005 or 2006.**

§ 136(c)(1) (proposed). Rather, a new office at the Patent & Trademark Office (“PTO”) will investigate misconduct at the request of parties to litigation.

Once the PTO has found misconduct, a court may find the patent unenforceable due to the misconduct if (i) the misconduct constituted fraud that resulted in issuance of one or more invalid claims and (ii) the fraud is attributable to the patent owner. 35 U.S.C. § 136(d)(1) (proposed). The fraud will be attributable to the patent owner only if two conditions are met. First, the patent owner (not the patent attorney) or someone who was acting on the patent owner’s behalf who was subject to the duty of candor (again, not the patent attorney) must be shown to have violated the duty of candor (it appears that conduct of the patent attorney may be attributable to the patent owner if the patent owner is first shown to have violated the duty of candor). 35 U.S.C. § 136(d)(3)(A) (proposed). Second, it must be shown, by clear and convincing evidence, that the examiner relied on the misconduct, either by showing that the examiner would not have issued the invalidated claim (“acting reasonably”) or that “based upon the prosecution history as a whole objectively considered would have done so based upon in whole or in part on account of the misconduct.” 35 U.S.C. § 136(d)(3)(B) (proposed). (This last section is a particularly good example of the almost incomprehensible wording of certain parts of the legislation.)

#### Correction of Inventorship (35 U.S.C. §§ 116 and 256)

The proposed legislation removes the “no deceptive intent” requirements of the current statutes.

#### Post-Grant Opposition Proceedings (35 U.S.C. §§ 321-340)

Sections 321-340 are worth reading in their entirety. Like an *ex parte* re-examination, the identity of the real party in interest in a post-grant opposition proceeding can be kept confidential (an outside patent attorney can be the opposer of record), but the real party in interest must be disclosed if the opposer relies on affidavits (factual or expert) or if the opposer becomes party to an appeal.

The opposition must be terminated upon joint request of the patent owner and the opposer, unless a written decision under section 331 has been issued. Any agreement between such parties must be in writing and filed. 35 U.S.C. § 338 (proposed).

The proposed bill in its current form can be found at <http://tinyurl.co.uk/t2mn>.

**Grantland G. Drutchas**, a founding partner of MBHB, has nearly 20 years of experience in the practice of intellectual property law, with a particular emphasis on litigation, licensing, and client counseling. His litigation experience encompasses disciplines ranging from DNA sequences, pharmaceuticals, medical diagnostic instruments and medical devices to conference phones, lampposts, and injection molds.

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## mbhb News: Welcome New Associates

McDonnell Boehnen Hulbert & Berghoff LLP (“MBHB”) welcomes the following associates, who joined the firm in September:

- o **Gau Bodepudi**’s work experience includes an internship with Dallas Semiconductor, where he redesigned an I2C bus analyzer circuit project using two-wire protocol, and a summer at Square D, where he prepared engineering approval drawings. He received a B.S. in electrical engineering from the University of Illinois and a J.D. from the University of Chicago School of Law. Gau will be admitted to practice in Illinois in early November.
- o **Marcia M. Ireland** was a research engineer at the University of Texas, where she engineered and evaluated experiments using ribozymes. As a research associate at Indiana University, she pioneered the department’s use of 2D Gel Electrophoresis. Marcia’s academic papers have been published in journals such as *Molecular Microbiology* and the *Journal of Proteome Research*. She received her B.S. and M.A. in microbiology from Indiana University, and her J.D. from Northwestern University School of Law. Marcia will be admitted to practice in Illinois in early November.
- o **Michelle McMullen-Tack, Ph.D.** performed her doctoral research in the field of molecular and reproductive endocrinology. She received her B.S. in microbiology from the University of Illinois, and her Ph.D. in biochemistry, molecular biology, and cell biology from Northwestern University. Michelle received her J.D. from DePaul University School of Law. She is registered to practice before the U.S. Patent and Trademark Office and will be admitted to practice in Illinois in early November.

With more than 60 attorneys, the firm has been one of the fastest growing in the country. Based in Chicago with a west coast office in the Seattle area, MBHB has broad experience in litigation and prosecution of patents, trademarks and copyrights. Most of MBHB’s professionals have Ph.D.s or other advanced technical degrees and practical experience working in high-tech fields ranging from biotechnology, pharmaceuticals, and medical diagnostics to telecommunications, computers, and electrical engineering.

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**McDonnell Boehnen Hulbert & Berghoff LLP** recognizes the ever-increasing importance of intellectual property. Our mission is to enhance the value of our clients' businesses by creating and defending their intellectual property assets. We have built our reputation by guiding our clients through the complex web of legal and technical issues that profoundly affect these assets. We are keenly aware of the trust placed in us by our clients – Fortune 100 corporations, universities, individuals, and start-up companies – and we always remain focused on their ultimate business goals.

With offices in Chicago and Washington state, MBHB provides comprehensive legal services to obtain and enforce our clients' intellectual property rights, from navigating patent office procedures to litigating complex infringement actions.

We don't merely procure rights and litigate cases; we craft winning strategies that achieve our clients' business objectives.

Our entrepreneurial spirit, combined with the wealth of our legal experience and technological expertise, gives McDonnell Boehnen Hulbert & Berghoff LLP the power to achieve success for our clients.

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