

# GSK Lawsuit Moving Toward Resolution

## Summary Judgment Motions Due Dec. 20

By Kurt R. Van Thomme

The order granting GlaxoSmithKline's (GSK) motion for a preliminary injunction barring enforcement of the US Patent and Trademark Office's (USPTO) new claim and continuation limit rules is about everything GSK (and other patent prosecutors) could have hoped for. The court found that each of the four factors considered when deciding whether to grant an injunction favored GSK, although the legal analysis for the contentions underlying the factors was brief. The factors considered are as follows:

### Likelihood of success on the merits

GSK essentially made seven challenges to the new rules: (1) the new rules are substantive, and are thus outside the USPTO's authority to enact, (2) the new rules on continuations are inconsistent with § 120, (3) the new rules regarding RCEs are inconsistent with § 132, (4) the restrictions on claims are inconsistent with §§ 111-112, (5) the rules are arbitrary and capricious, (6) the new rules are impermissibly retroactive, and (7) the ESD requirement is impermissibly vague.

The court found Glaxo demonstrated a likelihood of success for #1, 2, 6, and 7, that neither party demonstrated likelihood of success for #3 and 4, and that Glaxo's likelihood of success for #5 was low. In sum, the court found that the likelihood of success factor favored GSK.

### Irreparable harm

The court also found that the irreparable harm factor favored GSK. As described by the court: "When the Final Rules go into effect, inventors lose some of the patent protection on pending applications they had come to rely upon under the current system. GSK would be unable to sue to reinstate lost patent protection or obtain compensation if the Final Rules are vacated."

The cost of implementing otherwise reasonable regulations is not, in itself, irreparable harm. However, the court held a plaintiff "should not be forced into the position of choosing to either violate an allegedly invalid ordinance and suffer the inherent consequences of doing so or comply with the same and suffer a loss with little hope of recovery."

Although GSK could not precisely quantify amount of monetary loss, the uncertainty caused by the regulations will harm their investments and provide a disincentive to filing new patent applications, and reduce the incentive for researching new pharmaceuticals. The court also noted there was a question as to whether filing an ESD or petitioning for additional RCEs, or continuation would actually prevent GSK from losing rights it would otherwise obtain. This was complicated by the fact that GSK's losses would be unrecoverable. As a result, the court

found irreparable harm likely.

### Balance of hardships

The court heard the USPTO's tale of woe regarding implementation of the rules, and how much hardship will be caused by "forcing a large organization in the midst of instituting a massive change to stop and reverse course," including having to use sub-standard systems and the possibility of "costly computer problems," not to mention the millions already spent on training. GSK responded that many of these costs are already expended "to implement rules the organization knew might not go into effect."

The court found that GSK would instantly suffer from uncertainty regarding the protection afforded their patents and their corresponding investment risk, in addition to the costs of attempting to comply with the Final Rules. As a result, the balance of hardships also favored granting an injunction.

### Public interest

Finally, the court turned to the public interest. The USPTO argued that the public interest is best served by implementation of the rules as scheduled, because they "promote efficiency and timeliness and are needed immediately to alleviate the harm entrepreneurs suffer because of the current system's uncertainty." GSK countered that "preserving the status quo while the litigation proceeds is important for maintaining stability for patent holders." The court noted that:

The fact that three amicus briefs were filed by organizations representing a wide array of industries, all urging the Court to grant the preliminary injunction because their interests will otherwise be harmed, further demonstrates the possibility of potential immediate harm to the public if the rules are allowed to go into effect on November 1.

As a result, the public interested favored an injunction because all four factors weighed in favor of GSK, the court preliminarily enjoined enforcement of the new rules. Now the case moves to the next stage: the parties' summary judgment motions are due to be filed by Dec. 20, 2007, and will be fully briefed in early 2008. While there's no specific timetable for a ruling from the court, the issues are basically legal, with few facts necessary to be considered resulting in a quick decision after the motions are submitted.

Of course, expect whichever party that loses to appeal to the Federal Circuit. Factoring in time for appeal, we may not have final resolution on whether the new rules will go into effect for another year or more. Also, with new USPTO management coming in January 2009 (USPTO management positions are political appointees), new management may choose to stop the new rule-making initiatives currently underway. Time will tell.

# USPTO Report Reflects 2007 Performance

By Kurt R. Van Thomme

The USPTO has released its 2007 Performance and Accountability Report. Below are a few highlights:

## Patent

Average time for first office action: 25.3 months  
Average total application pendency: 31.9 months  
Percent of applications filed electronically: 49.3%

## Trademark

Average time for first office action: 2.9 months  
Average total application pendency: 15.1 months  
Percent of applications filed electronically: 95.4%

Commissioner Dudas, when asked about the report, stated that patent application pendency is expected to increase, at least for the next few years. He also believes that the rules limiting claims and continuations that were enjoined on October 31 will eventually be allowed to be implemented.

Also, according to reports, the Patent Reform Act of 2007 is unlikely to be considered by the Senate until at least January. The Act has been stalled since passing the House in September and being marked up by the Senate Judiciary Committee in July. Since then, opposition to the Act has mobilized, and heavy lobbying has been taking place on both sides of the reform issue. If the full Senate does take up the Act in January, it will have to move quickly, as the next legislative session is currently scheduled to begin on January 15.

For the complete report, log on to <http://www.uspto.gov/web/offices/com/annual/2007/2007annualreport.pdf>.

## INTERNATIONAL

# Fee Increase Makes KIPO an Attractive Option

By Wendy K. Marsh

PCT applicants are likely to become less interested in using the U.S. Patent and Trademark Office (USPTO) for their international patent searches, and more willing to give the Korean Patent Office a try.

The PCT process requires PCT applicants at the time of filing to elect an international examining authority to search the invention in their patent claims. In this respect, U.S. applicants have three options for international examination: 1) the USPTO, 2) the European Patent Office (EPO) and 3) the Korean Patent Office (KIPO).

Until November 9 of this year, the USPTO charged a modest \$300 fee to perform an international search on behalf of PCT applicants from the U.S. However, this fee just rose by a factor of six, to an astonishing \$1800. The USPTO has justified this exponential increase by stating it is necessary to cover rising examination costs and to offset increased requests for U.S. examination by qualifying PCT applicants.

On the other hand, the Korean Patent Office is doing everything in its power to encourage PCT applicants to employ its office's international examination services. In this regard, and at least initially, the KIPO seems to have a lot to offer. First, while the USPTO and the EPO have continued to raise their international search fees (\$1800 for the USPTO and \$2197 for the EPO), the KIPO has a comparatively modest examination fee of \$232.

Many naturally assume that the lower cost of international searches in the KIPO brings with it a correspondingly lower quality search. Such has not been the observation of KIPO search recipients, however. In fact, PCT applicants employing the services of the KIPO for international searches have provided very positive feedback to the World Intellectual Property Organization (WIPO) regarding the quality of their KIPO searches.

PCT applicant satisfaction with KIPO international searches is not entirely surprising in view of the efforts the KIPO has made to specially hire and train examiners to examine only PCT applications. The same cannot be said for the USPTO and EPO whose examiners must review and examine both national and international patent applications.

The KIPO also provides the advantages of speed and efficiency. According to WIPO statistics, while only 20 percent of U.S. international search reports are received by applicants within 18 months of the application priority date, 99.7 percent of Korean searches are received within that same time frame. Even worse news for users of the USPTO for international searches, 29 percent of U.S. searches are received after the 30-month national phase deadline.

With all of the advantages outlined above, U.S. PCT applicants are sure to give the KIPO serious consideration when choosing their international search authority.

# Is Wrap Coverage Soon to Shrink?

By Steven P. Smith

In today's world, almost everyone has encountered (and likely agreed to) what is called a shrink-wrap license. A shrink-wrap license essentially is a set of terms and conditions to which the user must agree prior to using a good or service. One of the most common examples (and the namesake) of a shrink-wrap license is the software shrink-wrap license wherein a plastic wrap with a set of terms and conditions surround a CD containing the software to be installed on a computer or other electronic device.

Commonly, this software is protected by some type of intellectual property right, such as a copyright or patent. The shrink-wrap license essentially is a take-it-or-leave-it offer giving a purchaser two options: (a) agree to the terms and conditions and thus obtain permission to use the software under the relevant intellectual property; or (b) reject the terms and conditions and be forced to return the software.

While customers often overlook or even ignore the terms and conditions in a shrink-wrap license, numerous cases have upheld the validity of shrink-wrap licenses. *See, e.g., ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). As a result, most people using software on a computer are likely to be considered licensees bound to the terms and conditions in the shrink-wrap license even without reading such terms and conditions.

Some consumers' beliefs they are not bound by the license terms and conditions may be founded in what is called the patent exhaustion doctrine. Under the patent exhaustion doctrine, if a patentee makes an unconditional sale of a patented product, the purchaser of that product essentially is free to use the product as the purchaser sees fit without fear of being sued for patent infringement. However, under the current patent case law precedent, if a patentee puts conditions on the transfer of a patented product, the transaction is deemed a conditional license to use the product. As a result, the purchaser of the product is not free to use the product however it desires, but rather, is required to follow all of the conditions set forth in the license.

Earlier this year, the Supreme Court granted certiorari in *Quanta Computer, Inc. v. LG Electronics, Inc.* (No.

06-937). The *Quanta* case raises issues related to how the shrink-wrap license doctrine interplays with the patent exhaustion doctrine.

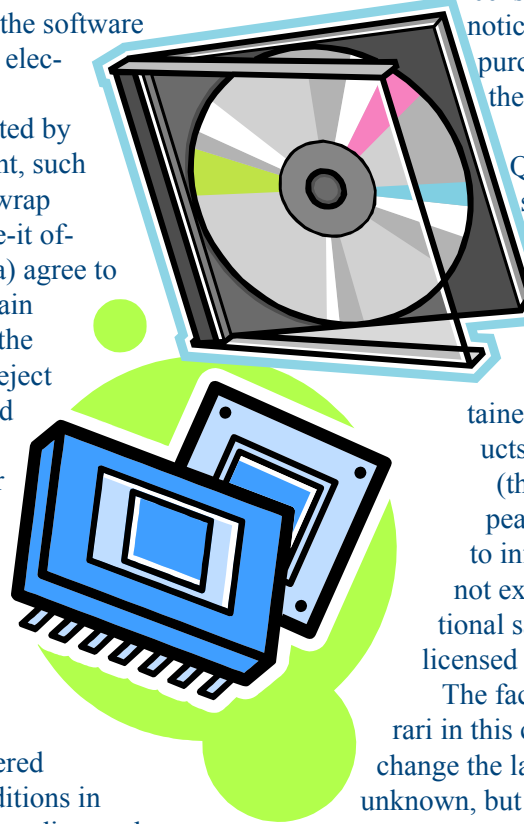
In *Quanta*, LG granted a license to certain patent rights to Intel Corp., whereby Intel was permitted to manufacture certain microprocessors and chipsets for subsequent resale to electronics manufacturers. As part of the license agreement, Intel was required to give notice to purchasers of such products that the purchasers were not authorized to combine the products with non-Intel products.

LG sued many companies (including Quanta) for patent infringement when such companies combined the products with non-Intel products despite such notice. Such purchasers argued both that LG had exhausted its rights under the patent exhaustion doctrine and that such purchasers had obtained an implied license to use Intel's products. The Federal Circuit Court of Appeals (the circuit that handles patent-related appeals) agreed with LG and found such acts to infringe LG's patent rights since LG had not exhausted its patent rights via an unconditional sale, but rather, had merely conditionally licensed its patent rights to Intel.

The fact the Supreme Court granted certiorari in this case suggests the Court may very well change the law in this area. How it may do so is unknown, but it is doubtful the Court will invalidate shrink-wrap licenses completely.

However, the Court may find that, because the only-with-Intel use requirement was merely a notice (as opposed to a term of the sale to which the purchaser would be required to agree to use the product), the sale was an unconditional sale, such that the purchaser has an implied license to use the product as it sees fit. Similarly, the Court may find all transfers of patented products, whether via sale or license, exhaust the patentee's patent law rights. In such case, a patentee (e.g., LG here) would not be able to sue for patent infringement, such that it would only be able to sue its licensees and any downstream purchasers under a beach of a contract theory.

To say the least, the Court's holding in the *Quanta* case may very well dramatically impact how patentees construct licenses with licensees and the requirements patentees place on the agreements licensees have with downstream purchasers of patented products.



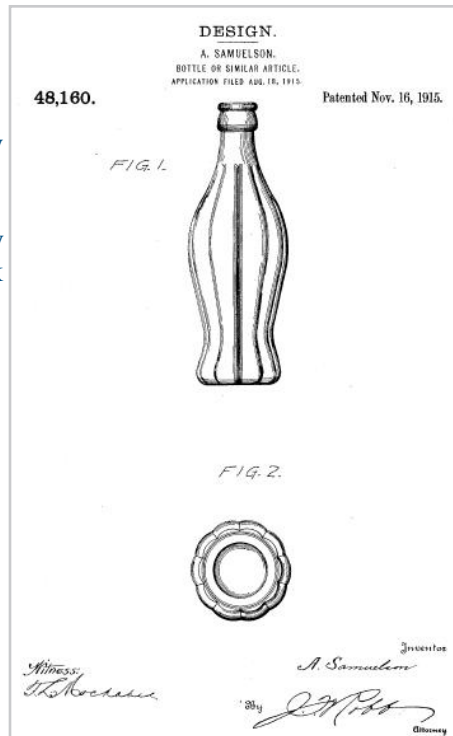
# Design Patents Offer Another Layer of Protection

By Kyle S. Coleman

Tis the season when shoppers peruse catalogs, websites and stores for the latest consumer craze. For the gazing eye, the allure is often a result of a product’s trendy look or attractive appearance. Savvy companies recognize this—that product sales or consumer patronage is often inseparably connected with appearance—and thus seek protection for products their competitors are likely to copy. One defensive tool in a company’s arsenal for protecting sales is a design patent.

By definition, a design patent protects the visual ornamental characteristics embodied in, or applied to, an article of manufacture. Since a design is manifested in appearance, the subject matter of a design patent application may relate to the configuration or shape of an article, to the surface ornamentation applied, or to the combination of both. Issuance of a design patent conveys to the patentee an exclusive right to exclude others from making, using, selling, importing, and offering to sell a product having the same or substantially similar appearance as the patented design.

Although design patents are often disregarded in lieu of the more robust utility patent which protects functionality or the utility, many companies recognize instances



Original Coca-Cola bottle design patent.

where design protection is appropriate and strive to build strong design patent portfolios.

Some instances where a design patent may be appropriate include:

- Any company selling consumer products purchased at least in part because of their aesthetic appeal or ornamental appearance;
- A company wanting to leverage the product in the marketplace by labeling with terms such as “patent pending” and “patent applied for” after filing the patent;
- A desire to bolster the strength of a utility filing or application covering the functional aspects of the invention with the additional protection on the ornamental appearance; and
- A company manufacturing products in a rapidly-changing market which results in a short-lived return on investment.

Companies with successful products ranging from electronic goods and appliances to sporting goods and graphical user interfaces file design applications as a matter of routine, and certainly have not limited their filings to the aforementioned instances, to be leaders in design in their respective fields.

## DEFINITION

### Use-Based Application

A trademark application based on actual use of the applied-for-mark in commerce. There are four filing bases on which an application may be based. One filing basis is use of the trademark or service mark in commerce. (The other three are filing based on an intent-to-use the mark in commerce, filing based on a pending foreign application, and filing based on a foreign registration.)

Applicants who file based on use in commerce must be using the mark they wish to register with the goods or services in the application prior to or at the time of filing the application.

To base the application on the applicant’s use of the mark in commerce, the applicant must submit the following four items:

- (1) A statement that the mark is in use in commerce, and was in use in such commerce on or in connection with the goods or services listed in the application on the application filing date;
- (2) The date of the applicant’s first use of the mark anywhere on or in connection with the goods or services;
- (3) The date of the applicant’s first use of the mark in commerce as a trademark or service mark; and
- (4) One specimen for each class showing how the applicant actually uses the mark in commerce. If the specimen is not filed with the initial application, applicant must submit a statement that the specimen was in use in commerce at least as early as the application filing date. These items must be verified by the applicant, supported either by an affidavit or by a declaration.