

Proposed Changes to Trademark Rules Of Practice May Make TTAB Cases More Like Infringement Cases

Background

Opposition and cancellation proceedings before the United States Patent and Trademark Office's Trademark Trial and Appeal Board ("TTAB") involve a narrow legal issue: whether a party has the right to obtain or maintain a federal registration of a trademark or service mark. The TTAB has no jurisdiction to prevent a party from using a mark, or to award any injunctive or monetary relief for infringement of a mark. Because of its limited jurisdiction, the TTAB has noted that "[a]n inter partes proceeding before the Board is similar to a civil action in a Federal district court [but] because the Board is an administrative tribunal, its rules and procedures necessarily differ in some respects from those prevailing in the Federal district courts." *Trademark Board Manual of Procedure* § 102.03.

Although TTAB *inter partes* proceedings, like any litigation, can involve a considerable investment of time and money by litigants, such proceedings are generally less expensive than civil infringement suits in federal court. The expense differences arise in large part because of the nature of a TTAB trial, but also because *inter partes* proceedings require less compliance with various pre-trial requirements that are imposed by the Federal Rules of Civil Procedure upon litigants in infringement suits. New rules proposed recently by the TTAB may significantly change this latter feature of TTAB practice, and may reduce the usefulness of *inter partes* proceedings before the TTAB as cost-effective means to avoid or resolve larger disputes over the use of marks.

Proposed Rules Changes

On January 17, 2006, the TTAB gave notice of proposed rulemaking to change some of its procedures in *inter partes* cases, as codified in the Trademark Rules of Practice (37 Code of Federal Regulations, Part 2). The stated purposes of the new rules were "to increase the efficiency of the processes for

commencing inter partes cases" and "to increase the efficiency by which discovery and pre-trial information is exchanged between parties to inter partes cases, by adopting a modified form of the disclosure practice that is uniformly followed in the federal district courts." Fed. Reg. Vol. 71, No. 10 at 2499. According to the TTAB, "[t]hese practices have been found in the courts to enhance settlement prospects and to lead to earlier settlement of cases; and for cases that do not settle, disclosure has been found to promote greater exchange of information, leading to increased procedural fairness and a greater likelihood that cases eventually determined on their merits are determined on a fairly created record." *Id.*

The new rules would require service of process by the party in the position of plaintiff instead of by the TTAB itself, and would impose a modified form of the disclosure procedures applicable in federal district courts. Under the new rules, an opposer or cancellation petitioner (the party in the position of the plaintiff) would be required to file the pleading that commences the proceeding with the TTAB and simultaneously serve it on the applicant or respondent (the party in the position of the defendant) at that party's address in the records of the Patent and Trademark Office. The plaintiff would also be required to serve process on any party that it believes has an ownership interest in the subject application or registration (such as the assignee in an unrecorded assignment). The plaintiff would be required to advise the TTAB of any service copies that were undeliverable. Although the TTAB views this proposed rule as promoting greater efficiency in service because of the frequency with which the TTAB believes opposers or petitioners are in contact with their prospective adversaries or their counsel prior to commencing proceedings, this rule appears primarily to be a cost-shifting measure that will relieve the TTAB of the burden of serving process (although the TTAB will still serve an order commencing the proceeding and setting various case management dates). The utility of the rule in promoting actual notice to the defendant is uncertain

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given that oppositions to pending applications are the lion's share of the TTAB's *inter partes* docket and it is uncommon for an applicant's address of record to be incorrect.

The imposition of a modified form of the initial disclosure requirements under the Federal Rules of Civil Procedure would have farther-reaching consequences. Under the proposed new rules, the TTAB would serve an institution order at the outset of the proceeding that would set specific dates for specific phases of the case (measured by reference to the mailing date of the institution order). These dates include the due date for the answer (40 days from the institution date, as under current practice), the deadline for a discovery conference (a new event to occur within 70 days of the institution date), the date for the opening of discovery (70 days from the institution date), the deadline for making initial disclosures (a new event to occur within 100 days of the institution date), a deadline for expert disclosures (a new event to occur within 160 days of the institution date), the date for the close of discovery (250 days from the institution date), the date for pre-trial disclosures (a new event to occur within 280 days of the institution date), and the dates for the parties' testimony periods.

The principal new obligations imposed by this portion of the proposed new rules include participation in the early discovery conference, at which the parties are required to discuss both a discovery plan and settlement, and may request the participation of a TTAB interlocutory attorney or Administrative Trademark Judge, the making of specified initial disclosures prior to requesting discovery or filing a motion for summary judgment, the making of expert disclosures, and the making of certain pre-trial disclosures.

The new required initial disclosures are intended by the proposed rules to be narrower in scope than those required under Rule 26 of the Federal Rules of Civil Procedure in civil suits in view of the TTAB's limited jurisdiction over registrability issues. The proposed rules provide that the disclosure requirements will generally be met if a party provides certain specified information. The information appears to pertain primarily to *inter partes* proceedings involving claims of priority and likelihood of confusion (the most common grounds for opposition and cancellation) because it includes information regarding the origin of the mark at issue, the dates and circumstances of use (if applicable), evidence of actual confusion, evidence regarding known third-party uses of relevant marks, information regarding the classes of customers, channels of trade, and degree of purchaser care regarding the relevant goods,

relevant consumer surveys or market research, information regarding other legal proceedings involving the subject mark, the names of the most knowledgeable potential witnesses, and a general description of and the probable locations of relevant documents and things regarding the matters on which disclosure is made. The proposed rules provide that initial disclosures would be treated in the manner of a party's discovery responses for purposes of possible use on a motion for summary judgment or at trial.

The proposed rules also require expert disclosure at the mid-point of the discovery period (to permit expert discovery during the discovery period) and pre-trial disclosure of identity of trial witnesses and a general description of the subject of each witness's testimony during a testimony deposition and of the documents that are likely to be introduced during each witness's testimony deposition. These rules are likely to have little impact on *inter partes* practice because experts are infrequently used in TTAB cases, and the requirement of witness and document disclosure would appear to involve little additional work in the course of readying a case for trial.

Notwithstanding the TTAB's expressed purposes behind the proposed new rules, it is not clear that there are significant current problems that require solutions through the imposition of new procedural requirements. Although precise figures are not available, experience strongly suggests that, as with civil infringement suits, the vast majority of TTAB cases settle. Settlements often involve agreements pertaining to both registration *and* use of the subject mark that enable the parties to avoid a broader dispute, or an infringement suit itself. The lower expenses and greater informality of *inter partes* proceedings associated with the current rules often facilitate, and certainly almost never hamper, settlement efforts in the vast majority of TTAB cases. The proposed new rules are very likely to increase the costs of TTAB *inter partes* proceedings, and may possibly encourage "satellite litigation" over collateral issues such as the sufficiency of a party's initial disclosures. It is possible, of course, that the perception (or reality) of increased cost and complexity of TTAB proceedings may itself provide an additional incentive for settlement, or that the requirement of an early discovery/settlement conference may force parties to focus on settlement sooner rather than later. As noted above, however, it is not clear that these incentives are needed. It is also not clear that the possible benefits of the proposed rules to the quality of the adjudication of TTAB cases on their merits would outweigh the likely burdens on litigants in practice.

Conclusion

The proposed rules have proven to be somewhat controversial among trademark owners and practitioners, and on March 27, 2006, the TTAB extended the period for public comment on the proposed rules through May 4, 2006. It will be interesting to see what new rules, if any, emerge from the rulemaking process, and we will monitor developments and report them in future issues of the Newsletter.

Christopher C. Larkin, Los Angeles Office

USPTO Proposing Dramatic Changes To Address “Historic” Backlog

The United States Patent and Trademark Office, (“USPTO”), recently admitted that its backlog for processing patent applications has reached “historic proportions.” According to the agency’s 2005 year-end report, “the volume and complexity of patent applications continues to outpace current capacity to examine them.”¹ Problems with the backlog have caused the agency to increase staffing and propose dramatic changes to examination procedures.

The Problem

In demonstrating the extent of the USPTO’s backlog for processing patent applications, the statistics are telling. From the time an application is filed:

- the agency averages more than 21 months to file a first responsive office action of any type;
- for a business method application, a first response on the merits will take between 25 and 130 months;
- for a pharmaceutical application, a first response on the merits will take between 38 and 51 months;
- for computerized task management, a first response on the merits will take 46 months.²

In short, changes at the USPTO are inevitable as the agency continues to be plagued by its growing backlog.

Hiring Initiatives and Outsourcing

In an effort to increase its capacity for handling incoming applications, the agency hired 978 patent examiners in 2005 and plans to hire 1000 more in 2006. Naturally, this dramatic increase in staff has required the agency to develop creative solutions such as the Telework Program. The Telework Program permits examiners to work from home. It frees up office space in the USPTO’s main campus in Alexandria, VA and helps attract recent college graduates who might otherwise be deterred by lengthy commutes or high housing prices in areas close to Washington, D.C. The agency started to train employees for the Telework program in February this year and expects the total number of trained employees to reach 500.

In addition to increasing its own staff, the USPTO continues to expand its outsourcing of search and examinations for PCT applications.³ International applicants request PCT application searches to help determine if an application meets basic patent criteria before continuing with the full filing process. PTO Director, Jon Dudas, remarked that “the ability to reallocate resources from PCT-related activities to search and examination of U.S. national applications will allow us to open another front in our battle to reduce our growing backlog.” As such, PCT applicants may elect to have the search and examination performed by entities other than the USPTO. The agency has reached agreements with several foreign patent offices and two privately owned search firms.⁴

However, the Telework program has hardly come without dissent. After reviewing details of the program, the Patent Office Professional Association, (“POPA”), called for “better arrangements for leaving the [Telework] program ... and better protection against computer outages and failures.”⁵

¹ <http://www.uspto.gov/web/offices/com/annual/2005/2005annualreport.pdf>

² Statistics found in a slide show presented at a “Town Hall” meeting in Chicago. Presentation materials can be found at www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html

³ The Patent Cooperation Treaty, (“PCT”), is an international agreement that streamlines the process for filing international patent applications. A PCT application may be used as a national application for a patent in any of the designated PCT countries.

⁴ www.uspto.gov/main/homepagenews/bak21dec2005.htm.

⁵ www.popa.org.

Changes to Examination Rules

In addition to the hiring and outsourcing initiatives, the USPTO recently proposed rule changes relating to examination and continuation practice.⁶ According to the agency, “simply hiring more patent examiners will not slow the growth in the time it takes to get a patent or improve the quality of examination. This will occur only through the participation of applicants in facilitating more effective and efficient patent examination.”

Proposed Changes to Examination Practice

The proposed rule changes regarding examination could affect all applicants. Under the changes, initial examination of a patent application will focus solely on “representative claims,” limited to ten or less. The representative claims must include all independent claims. If there are less than ten independent claims, the applicant may select and designate dependent claims for the remainder. Applicants must include a “support document” if an application contains more than ten independent claims or if the applicant wishes to designate dependent claims such that the total number of representative claims exceeds ten. The support document, if needed, is no small matter. Some of the requirements include: a disclosure citing the references most closely related to the representative claims; an identification of all the limitations of the representative claims disclosed by the references cited; an explanation of how each of the representative claims are patentable over the references cited; and a showing of where each representative claim finds support in the specification.

Proposed Changes to Continuation Practice

The proposed changes would also significantly impact the examination of continuation applications. In general, the office is attempting to limit continuations, continuations in part or requests for continued examination to one per application. For any continuation beyond the first, the applicant must include a petition “showing to the satisfaction of the Director as to why the amendment, argument, or evidence could not have been submitted prior to the close of

prosecution” The USPTO has explained that the revised rules will “ease the burden of examining multiple applications ... by requiring that all patentably indistinct claims in such applications be submitted in a single application.” Furthermore, according to the agency, “[a]pplicants should not rely on an unlimited number of continued examination filings to correct deficiencies in the claims and disclosure that applicant or applicant’s representative have not adequately reviewed.”

Objections to the Rule Changes

The proposed rule changes have also met criticism. Some practitioners have remarked that reducing the number of continuations will not reduce the Agency’s workload because inventors will simply file more applications. According to Brian Clise, an associate at Seyfarth Shaw, the new continuation rules may increase the Agency’s workload. “Under the proposed rules, I may be forced to concurrently file separate applications that could go to different examiners. This could increase the Agency’s workload if more than one examiner needs to become familiar with the same subject matter.”

Conclusion

Significant changes at the USPTO are inevitable in-light of the “historic” backlog. Thus, it is important for inventors and attorneys to stay abreast of news from the USPTO as the Agency increases staffing and determines whether to implement the proposed rule changes.⁷

Matthew A. Werber, Chicago Office

⁶ Federal Register / Vol. 71, No. 1 / Tuesday, January 3, 2006 / Proposed Rules.

⁷ There will be no public hearing for the proposed rule changes. However, the USPTO has sponsored a series of “Town Hall” meetings, the last of which is scheduled April 21 at the main campus in Alexandria. Practitioners may also e-mail comments to the USPTO at ab94comments@uspto.gov or ab93Comments@uspto.gov until May 3, 2006.

Ocean Tomo Offering a Computer-Automated Method for Rating or Ranking Patents

Overview

A number of techniques are known for putting a price on a patent, though the value relative to other patents often includes a subjective component. A number of companies have begun using statistical analysis of patents in an attempt to supplement traditional valuation techniques and one such company is Ocean Tomo. Jonathan Barney, an IP attorney formerly with Knobbe Martens, formed a company around his U.S. Patent No. 6,556,992 for a Method and System for Rating Patents and Other Intangible Assets, later joining the company with Ocean Tomo. The following description of the methods and criteria used by Ocean Tomo Patent Ratings relies upon this Patent, as well as Ocean Tomo's web-published Whitepaper on patent ratings.

Ocean Tomo's Method

The method and system rely essentially on a computer model which takes a particular patent, or group of patents, and compares a range of characteristics of the patent or group of patents with the same characteristics of a larger set of patents. This results in specific statistical ratings values for the patent or group of patents. It is Ocean Tomo's belief that these values correlate to the expected value of the patent relative to larger set of patents, assuming rational patent holders.

For the model, two groups of patents are selected based on the "desired" quality or, rather, the characteristic of interest. One group is selected for having the characteristic be relatively high, and the other group is selected for having the characteristic be relatively low. For instance, if the characteristic of interest is whether a patent will be litigated successfully, one group may be successfully litigated patents and the other group would be unsuccessfully litigated patents.

The model compares the two groups based on specific selected metrics. These metrics are always considered in comparison to other patents, and they include "direct" characteristics such as the number of claims, the number of words in each claim, the number of different words per claim, the length of patent specification and number of figures, the number and age of cited prior art references, and a host of

others. Furthermore, the metrics may include "indirect" characteristics such as reported patent litigation results, and patent licenses for the patent.

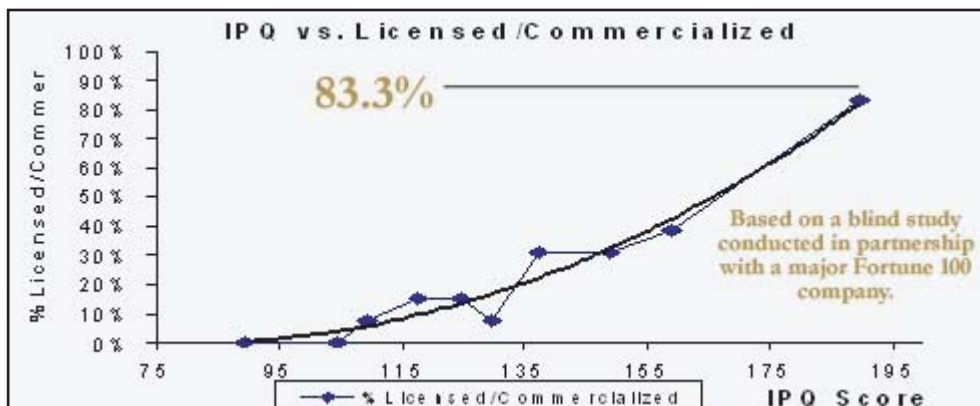
The various metrics are known or presumed relevant. A computer algorithm is then run which to produce a model that fits characteristics of interest with the known characteristics. New information is continually incorporated into the model to retain its supposed accuracy, this new information including recent or new patent litigation decisions, and newly-issued patents.

The purpose of the model is an attempt to correlate the various characteristics to each other. For instance, the model may show a statistical correlation between the number of words per claim to successful and unsuccessful litigation. This results in statistical probabilities of the patent having a desired quality, or of a future event occurring in the patent's life, such as abandonment, litigation, or reissuance. Overall, a patent receives a raw score based on the statistically relevant metrics that shows how the patent ranks relative to all patents or to a relevant subset of patents.

Ocean Tomo represents its methods as producing a variety of ratings. The Patent specifically describes breadth, defensibility, and commercial relevance as three independent ratings. Breadth and defensibility are intended to be predictive of known litigation outcomes, while relevance is predictive of patent maintenance rates and/or mortality rate (*i.e.*, non-payment of maintenance fees). Similarly, the Whitepaper describes three ratings or scores, referred to as IPQ, OTEV, and Patent Relevance.

IPQ stands for Intellectual Property Quotient and is characterized as being similar to Intelligence Quotient (IQ). The IPQ assumes that "more valuable, higher-quality patents will be maintained at a higher frequency (have a longer life) than less valuable patents."

Metrics relied upon for the IPQ score include "the number, length and type of patent claims, the amount and type of prior art cited, the number of forward citations or references made by later-issued patents, the presence or absence of limiting claim language, the patent prosecution history and about 30 other relevant factors." The following graph purports to demonstrate validity by showing the IPQ scores for a set of patents correlated to whether those patents were commercialized or licensed:



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As described in the Whitepaper, OTEV stands for Ocean Tomo Exchange Value and is differentiated from market value. OTEV would more appropriately be termed the “maintenance value,” though Ocean Tomo has indicated a preference for the term “Patent Exchange Value,” or PEV. This quantifies objective relative values between patents based on observed rates of maintenance versus abandonment for a “selected peer group.” The general idea is that patent holders “will tend to pay maintenance fees for patents they perceive as valuable and will tend to not [sic] pay maintenance fees for patents they perceive as less valuable or valueless.”

Patent Relevance is a value attempting to determine the most important patents based on forward and backward prosecution citation. Thus, the patents may be ranked according to this relevance value.

As noted previously, the Ocean Tomo methods are not intended to obviate other valuation techniques, but instead to augment the information available to someone attempting to do so. Both the Patent and the Whitepaper note that the ratings do not produce actual monetary values. For instance, the Patent states the method “compliments and improves upon traditional valuation approaches.”

The Whitepaper describes several uses for the ratings. The IPQ can be related to a company’s stock over time, and then be used as a predictor of future stock performance. For fair market value of the patent, the maintenance value (PEV) can be used to determine a range of values for a “hypothetical market-based transaction.” Patent Relevance can be used to predict which patents are the most valuable based on which ones are most relevant. It is also noted that some of these ratings can be conjoined, such as by looking at the top 50% of relevant patents with a minimum IPQ score, to determine which are most valuable.

Conclusion

In conclusion, a number of organizations are utilizing statistical analysis to place value on patents, as well as attempting to correlate such analysis to monetary values. Ocean Tomo’s methods provide tools for assessing the value of patents towards a number of purposes.

Brian S. Clise, Chicago Office

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Other IP Announcements

Upcoming Speaking Engagements

Patent Portfolio Management, June 6, 2006, New York.

David Newman of the Chicago office will be appearing at The National Forum on Optimizing Patents and IP in Financial Products & Services in New York, NY on Tuesday, June 6, 2006 at 2 p.m. He will be presenting Patent Portfolio Management: Using Financial Services Patents to Generate Revenue and Gain a Competitive Advantage. David's presentation will focus on:

- Structuring licensing agreements for maximum profit
- Negotiating cross-licensing schemes
- Determining when to cut patents from your portfolio
- Strategies for continuations: surrounding the core patent with additional patents
- Identifying and enforcing violations of your patents

For more information on registration please see the event's home page at www.AmericanConference.com/fsip.

Professional Recognitions

Chris Larkin and Joan Kupersmith Larkin of the Los Angeles office were selected for inclusion in Who's Who Legal: USA Trademarks 2006.

Ken Wilton of the Los Angeles office was named a 2006 California Super Lawyer in Intellectual Property.

Past Speaking Engagements

Recent Developments in the TTAB.

Chris Larkin of the Los Angeles office spoke on "Recent Developments in the TTAB: Citable Decisions in 2005" at the Washington in the West 2006 program of the Los Angeles Intellectual Property Law Association in Los Angeles, California on January 25, 2006

Navigating Trademark Practice Before the PTO 2006.

Chris Larkin of the Los Angeles office co-chaired the Practising Law Institute's program entitled "Navigating Trademark Practice Before the PTO 2006: From Filing Through the TTAB Hearing" in New York City on February 23-24, 2006

Trademark Prosecution Pointers.

Joan Kupersmith Larkin of the Los Angeles office moderated a panel discussion on "Trademark Prosecution Pointers—A Practitioner's Workshop" at a program of the Intellectual Property Law Section of the State Bar of California entitled "The Trademark Office Comes to California" in Marina Del Rey, California on April 5, 2006.

Developments in Fraud Upon the USPTO, April 20, 2006, Los Angeles.

Chris Larkin, Joan Kupersmith Larkin, and Ken Wilton of the Los Angeles office hosted a roundtable discussion sponsored by the International Trademark Association on the subject of "Developments in Fraud Upon the U.S. Patent and Trademark Office" in Los Angeles on April 20, 2006.

Designing Around Competitor's Patents.

On March 22, 2006, David Newman presented "Designing Around Competitor's Patents" at National Manufacturing Week 2006 in Rosemont, IL. The presentation focused on designing around competitors' patents as well as tips for strengthening patents to limit competitors' abilities to design around. The presentation incorporated real world examples and multiple design around strategies.

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Brian S. Clise practices all aspects of patent law in the Intellectual Property practice area of Seyfarth Shaw LLP, resident in the Chicago office. Mr. Clise is experienced in all areas of patent preparation and prosecution focused primarily on the mechanical, electro-mechanical, electrical, and software/internet arts. Mr. Clise has extensive experience with prior art analysis and client counseling/strategy, including competitive portfolio assessments as well as invalidity, non-infringement, and design-around studies. Additionally, Mr. Clise has been involved in wide-ranging litigation including design and utility patents, trademarks and trade dress, trade secrets, and computer code copyright.

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