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INTELLECTUAL PROPERTY LAW UPDATE

Winter 2010

Federal Circuit Confirms Cislo & Thomas' Arguments that *Egyptian Goddess* Applies to Design Patent Validity

Adopting the position that Cislo & Thomas argued in briefs before the Federal Circuit, the Court has confirmed that the point of novelty is no longer to be used to determine design patent validity based on anticipation. For many years, the Federal Circuit has held that the tests for infringement and anticipation are identical, based on the Supreme Court's 120-year-old edict of "that which infringes, if later, anticipates, if earlier." In *Egyptian Goddess* the Federal Circuit eliminated the "point of novelty" test for determining design patent infringement, and held that the "ordinary observer" test was the sole test.

But the *Egyptian Goddess* Court stated that its adopted approach was "not a test for determining validity, but is designed solely as a test of infringement." Given that the case law had long held that the tests were identical, this statement seemed to conflict with precedent. However, in a recent decision, *International Seaway v. Walgreen's*, 2009 U.S. App. LEXIS 27648, December 17, 2009, the Federal Circuit confirmed that the tests were to remain identical, retaining the ordinary observer test as the sole test for both infringement and invalidity by anticipation.

As a result of this decision, design patents should be easier for an alleged infringer to invalidate. The ordinary observer test states "that if, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other." In the anticipation context, if the patented design meets the test when compared to the prior art, the patent is invalid.

This is very important as design patents were previously given new strength when determining infringement, but are now more subject to invalidity by applying the same "ordinary observer" test.

The Supreme Court is Set to Decide the Scope of Business Method Patent Protection

In November 2009, the U.S. Supreme Court heard oral arguments in the case of *In re Bilski*, which may alter the validity of existing business method patents and make them more difficult to obtain. We expect a decision in the first half of 2010. Cislo & Thomas was one of the first firms to pioneer business method patents.

The case began as a challenge to the rejection of a 1997 patent application for a method of hedging risks in commodities trading. This type of patent is commonly known as a "business method" patent, which is a variation of the traditional method or process patent. The Federal Circuit decided to review the case *en banc*, meaning that all of the judges considered the issue, rather than just a three-judge panel. The Federal Circuit upheld the Patent Office's rejection, because the claims failed to meet either of the two newly-stated criteria for method patents: "A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or

thing.”

The Federal Circuit held Bilski's method claim to be patent-ineligible because it did not “transform any article to a different state or thing.” The legal obligations and business risks at issue “cannot meet the test because they are not physical objects or substances,” and even if transformed signals were involved, they were not representative of physical objects or substances. Accordingly, Bilski's claim failed the “machine-or-transformation” test. Bilski then appealed the case to the Supreme Court.

The first question to be considered by the Supreme Court is whether the “machine-or-transformation” test is valid “despite this Court’s precedent declining to limit the broad statutory grant of patent eligibility for ‘any’ new and useful process beyond excluding patents for ‘laws of nature, physical phenomena, and abstract ideas.’” The second question is whether that test “contradicts the clear Congressional intent that patents protect ‘method[s] of doing or conducting business.’” 35 U.S.C. § 273.

Many assume that the Supreme Court will severely limit or eliminate certain business method patents. Of course, we will have to wait and see how the Supreme Court actually rules. In the meantime, owners and applicants for business method patents should understand that the Supreme Court may limit their scope in the future.

Supreme Court to Decide Whether Copyrights Must Be Registered Before Filing Lawsuit. File Copyright Applications Early

After debating for months over whether to review the case (*Reed Elsevier, Inc. v. Muchnick*, 509 F.3d 116 (2d Cir. 2007)), the U.S. Supreme Court recently heard oral arguments on whether the Copyright Act restricts federal court jurisdiction to registered copyrights. For many years, federal courts have refused jurisdiction over cases involving copyrights that were not registered prior to filing the lawsuit. Thus, although copyright protection is not dependent on registering the copyright, federal courts refuse to hear cases regarding unregistered copyrights.

Regardless of how the Court rules, this case serves as a reminder for copyright holders to file for copyright registration as early as possible and preferably within three (3) months of any publication of the copyrightable material and before the commencement of any infringement. The benefits include the availability of recovering damages for infringement, as well as access to federal courts for enforcing the copyright.

New FTC Guidelines for Product Endorsements and Testimonials Increase Risks

Effective December 1, 2009, the Federal Trade Commission (“FTC”) instituted amended guidelines regarding product endorsements and testimonial advertisements. The guidelines are administrative interpretations of the law intended to help advertisers comply with the Federal Trade Commission Act; they are not binding law themselves. The guides, however, suggest that the FTC may concentrate its enforcement efforts in additional areas and may view product endorsements with closer scrutiny. The revisions include the following:

1. Testimonials featuring “non-typical” product (or service) results will require clear disclosure of what consumers should typically expect (*i.e.*, a “results not typical” disclaimer is no longer adequate for compliance).
2. Testimonials made through social networking sites, “word-of-mouth” and blogs may be subject to the new guidelines if the individual is “sponsored” by the advertiser. Depending upon the circumstances, sponsorship may include cash payments, free products, etc.
3. The guidelines include new language stating that celebrities (and presumably experts) have

a duty to disclose relationships with advertisers when making endorsements through “non-conventional” advertisements, such as public appearances (e.g. on talk shows).

4. The guidelines note that, “to limit its potential liability, the advertiser should ensure that the advertising service provides guidance and training to its bloggers concerning the need to ensure that the statements they make are truthful and substantiated. The advertiser should also monitor bloggers who are being paid to promote its products and take steps necessary to halt the continued publication of deceptive representations when they are discovered.”

5. If a company refers in an advertisement to the findings of a research organization that conducted research sponsored by the company, the advertisement must disclose the connection between the advertiser and the research organization.

Now more than ever, it is important to scrutinize your advertising materials with counsel to avoid pitfalls and false advertising claims.

Beware: False Marking Can Result in Penalties of Up to \$500 per Article Sold

In our last issue, we discussed a case involving the penalty for marking a product with a patent number that the patent owner knew did not cover the product. The Federal Circuit just decided the appeal for that case (*The Forest Group, Inc, v. Bon Tool Co.*, 2009 U.S. App. LEXIS 28380, December 28, 2009), reversing the district court decision to impose a single \$500 penalty for an entire shipment of improperly marked goods. Instead, the Federal Circuit held that the penalty of “not more than \$500 for every such offense” means up to \$500 for every article so marked. This is shocking!

The Federal Circuit explained that to hold otherwise would be contrary to the legislative history, and would render the penalty provision an insufficient deterrent to mismarking. The Court also noted that trial courts are free to tailor the penalty to be appropriate under the circumstances, so that in cases where mass quantities of articles were mismarked, the penalty could be as little as a fraction of a penny per article. The amount of damages could be stratospherically high for false marking.

The Federal Circuit also noted that the developing cottage industry of suing for mismarking, by plaintiffs who have not been harmed by the mismarking, is expressly allowed by the false marking statute. The penalty provisions, which require the penalty to be split between the plaintiff and the government, provide incentive for plaintiffs to undertake the costly suits. Defendants in such cases are typically companies that fail to remove expired patent numbers from products.

The only good news about this case is that the plaintiff must prove that the patent owner subjectively intended to mismark the goods (*i.e.*, did not have a reasonable belief that his markings were correct).

This holding is a clear warning to all patent owners, who must be reasonably certain that their marked products are covered by the patents, and must be careful to remove expired patents from such products. Given that a patent owner cannot recover damages for unmarked products, it is critical to: (a) mark patented products, and (b) mark them properly. If you have any questions about your products and their markings, please contact us.

Accelerated Examination Offered for for Green Technology Patents

The U.S. Patent Office has implemented a pilot program that will accord accelerated examination for green technology patent applications filed prior to December 8, 2010. Qualifying technologies must enhance environmental quality, conserve energy, develop renewable energy resources, or lower greenhouse gas emissions. Only the first 3,000 petitions will be accepted for previously filed applications, so if you have a qualifying application on file, you should file your petition immediately. Cislo & Thomas LLP was one of the first filers of this new petition approach. To see if your pending application or invention

will qualify for this program, please contact us.

Accelerated Examination Offered for Dropping Copending Applications

In an effort to reduce its backlog of pending applications, the U.S. Patent Office is offering applicants the opportunity to accelerate their nonprovisional patent examination if they abandon another copending application. Both applications must have been filed prior to October 1, 2009, the applicant must be a small entity, and the applications must be owned by the same entity or have a common inventor. If you have pending applications that meet these requirements, and want to see if you qualify for this program, please contact us.

Ninth Circuit Adopts Supreme Court Standard, Making Preliminary Injunctions Harder to Obtain

A plaintiff in an intellectual property case may exercise considerable leverage on a defendant if he can obtain a preliminary injunction at the outset of the case, which forces the defendant to immediately stop the infringing activities, rather than later in the litigation. In the past, for a plaintiff in the Ninth Circuit to obtain a preliminary injunction, he had to prove either: (1) a likelihood of success on the merits and the possibility of irreparable injury; or (2) that serious questions going to the merits were raised, and the balance of hardships tips sharply in its favor.

Last year, the U.S. Supreme Court's decision in *Winter v. Natural Res. Def. Council, Inc.*, 129 S. Ct. 365, 374, 172 L. Ed. 2d 249 (2008), overturned that standard as too lenient. A plaintiff must now establish (1) that he is likely to succeed on the merits (2), that he is likely to suffer irreparable harm in the absence of preliminary relief (3), that the balance of equities tips in his favor, and (4) that an injunction is in the public interest.

Last year, the Ninth Circuit has twice applied the *Winter* holding in two separate cases, stating that a plaintiff must show a likelihood of irreparable injury in addition to the other factors. This elevates the standard for preliminary injunctions, and presents a higher hurdle for plaintiffs seeking to deliver a knockout punch early in the litigation.

Cislo & Thomas Attorney Publishes Chapter on Fashion Law

Kristin B. Kosinski, a partner at Cislo & Thomas LLP, co-authored a chapter on Fashion and Apparel Licensing in the recent publication of "Fashion Law A Guide for Designers, Fashion Executives, and Attorney." The book was edited by Guillermo C. Jimenez and Barbara Kolsun and is available on Amazon.com.

Cislo & Thomas Volunteers in the Community

Cislo & Thomas embraced the holiday spirit in November 2009 as employees headed out into the community to lend a helping hand. Managing partner Dan Cislo coordinated a weekend trip with Baja Christian Ministries. In just two days, the Cislo & Thomas team built a house for the Mendez/Garcia family. The firm purchased all of the building materials, and the entire Cislo & Thomas team eagerly provided the labor to build the house.

A week later, Cislo & Thomas staff headed to downtown Los Angeles to participate in Union Rescue Mission's Annual Thanksgiving Street Festival—a bustling, fun event that provides the people of Skid Row some lightness and hope with free food, music and live entertainment. The streets were packed with Downtown LA's homeless residents waiting for a Thanksgiving meal. Over 3,000 people were served before the food ran out. The Cislo & Thomas staff was kept busy seating and serving the grateful and hungry people of Skid Row.



Union Rescue Mission kids fed by Cislo & Thomas



Family who received a Cislo & Thomas home

Peter S. Veregge - Newsletter Editor



On behalf of our attorneys, paralegals, and staff we look forward to better helping you with any clearance, filing, licensing and litigation of intellectual property matters. Be sure to visit our website www.cislo.com and use our [IP SEARCH](#) function to check patent, trademark, copyright, and domain name matters, as well as our [IP NEWS](#) link for the latest news updates. Our goal is to provide Southern California with the best possible legal services for intellectual property and advance the success of our clients. Give us a call if we can help you. Daniel M. Cislo, Esq., Managing Partner.

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