

Patent Reform and the Ongoing Diversion of Patent and Trademark Office User Fees

The reform of the patent systems appears to be moving ahead. Granted, further developments are all but stalled until the current budget negotiations are concluded. The patent reform efforts include many changes which are interesting, dramatic or controversial, and a combination thereof. One of the changes under consideration is moving from a first-to-invent system to the so-called first-inventor-to-file system (i.e., first-to-file). However, if significant patent reform (with or without first-to-file) is to have any hope to be effectively implemented, it will be necessary to eliminate fee diversion.

Fees are collected by the United States Patent and Trademark Office (USPTO) from the users of the USPTO services. Historically the fees were used by the USPTO to fund such services. However,

today the fees collected are placed in a general fund of the Treasury and allow diversion of a significant amount of the fees to non-USPTO activities and programs. Such diversion handicaps the ability of the USPTO to provide timely and efficient services. To wit, the well-reported delay in examining patent applications. One of the USPTO initiatives to expedite examination is the so-called "Track One" Fast-Track Patent Processing. The USPTO announced in April that it was postponing Track One due to reduced spending authority in the Full-Year Continuing Appropriations Act, 2011.

Without the elimination of the fee diversion, it is not understood how the USPTO can be successful in implementing the

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Phone Hacking—Never a Good Idea

In the wake of the *News of the World* phone-hacking scandal, a review of the US law regarding computer hacking and unauthorized telephone recording seems apropos.

First, US law has long held that it is a violation of privacy rights to intercept or listen to private telephone conversations, voicemails or private email communications. Law enforcement agencies may do so, but, as a general rule, they need to obtain a warrant first.

Corporations and private citizens are subject to the Federal Computer Fraud and Abuse Act, 18 U.S.C. § 1030, which prohibits computer hacking and computer fraud. It also covers phone hacking of the type alleged in the *News of the World* scandal because cell phone voicemails are recorded and stored on computer networks run by telecommunications companies.

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Taiwan's New Move to Protect Hologram Trademarks

Taiwan has recently amended its Trademark Act to include some noteworthy provisions that are scheduled to come into effect in the first half of 2012.

First, this new Act defines a protectable trademark as "words, figures, symbols, colors, sounds, three-dimensional shapes or combinations thereof." This change has the effect of extending protection to motion marks and hologram marks, among others. In doing so, Taiwan becomes the first country to protect holograms in its trademark law. As security devices against counterfeiting in the field of credit cards and banknotes for decades, holograms have proved useful to modern businesses. But despite their value to business security, they have faced an uphill battle for trademark registration in most countries because they are difficult to depict in a fixed form on paper. In addition to protection of holograms, this new ex-

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Frisbees and Expired Patents: A Constitutional Conundrum

The False Patent Marking Statute is causing quite a stir. In 2010, FLMC, L.L.C. was formed specifically to pursue false marking claims, after a 2009 Federal Circuit ruling in effect declared open season on companies that marked their products with expired patent numbers. Under this ruling, theoretically, damages could run in the billions or even trillions of dollars for companies providing mass-produced products.

The False Patent Marking Statute provides damages of up to "\$500 for every such offense" for companies that mark their products with expired or false patent numbers or other false indications that a product is patented. In 2009, the Federal Circuit held that a plaintiff in a false marking suit could obtain \$500 for each product sold branded with a false indication of patent protection. As a result, entrepreneurial litigants throughout the country added up the possible billions or even trillions of dollars resulting from a violator who mass-produced a product. FLMC has found an enticing target in Wham-O Inc., a mass-producer of Frisbees, each marked with an expired patent number.

Wham-O and other defendants are arguing that the False Marking Statute is unconstitutional because it violates the "take care" provision of Article II of the U.S. Constitution. This provision provides that the executive branch must "take care that the laws be faithfully executed." Courts have held that this requires certain statutes that allow private citizens to assert rights on behalf of the government to require "sufficient control" of these actions by the executive branch. Because the False Marking Statute allows "any person" to recover, defendants argue that the executive branch does not have sufficient control over enforcement of the law to pass constitutional muster. If this chal-

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many patent reform initiatives, not to mention the reduction of backlog of pending applications and reducing the delay in examination of new applications. While there may not be consensus on the required changes in patent reform, those who use the services of the USPTO and those who understand the potential economic engine of the USPTO, undoubtedly agree that fee diversion is a serious and significant handicap to improving the patent system.

Thus, the passing of the Senate bill S. 23 on March 8, 2011, by a vote of 95-5, was encouraging as the bill included changes to stop fee diversion. In particular, it replaced the Patent and Trademark Office Appropriation Account with a United States Patent and Trademark Office Public Enterprise Fund. The USPTO Public Enterprise Fund is defined as a revolving fund. Any amounts in the fund shall be available for use by the Director of the USPTO without fiscal year limitations,

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The Computer Fraud and Abuse Act makes it a crime to intentionally access a computer without authorization or to exceed authorized access and thereby obtain information from any "protected computer." 18 U.S.C. §1030(a)(2)(C). A "protected computer" is any computer that is used in or affects interstate commerce or foreign commerce or communication—so it is virtually any computer that can access the internet. 18 U.S.C. § 1030(e)(2)(B). "Exceeding authorized access" would include guessing a password in order to gain access to voicemail or email. The statute extends even to computers "located outside the United States" that are "used in a manner that affects interstate or foreign commerce or communications of the United States." 18 U.S.C. § 1030(e)(2)(B). This extra-territorial reach is designed to combat cyber-piracy that originates off-shore, as it frequently does.

Congressional appropriations or fee diversion.

The House passed H.R. 1249 on June 23, 2011, by a vote of 304-117. Unfortunately, the House bill includes a mechanism which will allow continued fee diversion, albeit a reported "compromise" version. Interestingly, in a press release, the USPTO Director, David Kappos, expressed a general support of the House bill. However, the press release also alluded to assurances by Congress of receiving the necessary funding to implement the USPTO initiatives and patent reform.

There are other differences between the Senate and House bills. The next step in patent reform will require reconciling the Senate and House bills. If patent reform is to occur this year, it remains to be seen whether fee diversion will be a part of patent reform.

—Michael L. Kenaga

But commentators have suggested that it appears to cover the alleged phone hacking conducted by *News of the World* investigators, even though they acted in the UK and (perhaps) not in the United States.

Persons convicted of violating the Computer Fraud and Abuse Act can face jail sentences and fines. Any property they used to commit computer fraud or which is the proceeds of computer fraud is subject to forfeiture. The Act also provides for a private right of action for compensatory damages and injunctive relief.

In addition to the Computer Fraud and Abuse Act, there are laws in all states that limit the recording of telephone calls. Most states allow recording if one party—presumably the recorder—has con-

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lence were to succeed, the rash of litigation surrounding this law would cease.

District courts are divided on whether the law is constitutional. One has ruled that although the False Marking Statute provides civil penalties, it is in fact a criminal statute, given that half of any recovery goes to the U.S. government, and is thus subject to a higher standard of "sufficient control" under the "take care" clause. Others have ruled that the statute is constitutional, but for different reasons. These courts have argued that because laws such as this one, in which citizens can act as private attorney generals, have a long tradition predating the Constitution, the Constitution would not prohibit such a law. Perhaps the most persuasive argument for the constitutionality of the False Marking Law is that although half of the damages go to the government, the statute is still civil rather than criminal in nature given that the law first and foremost creates a private cause of action to be pursued by private citizens. In addition, the government does retain some control over these lawsuits, in that each suit must be reported to the USPTO by federal court clerks and if the government intervenes, it must consent to dismissal of the case.

Regardless of the resolution of this particular case, the issues involved are likely to linger, as the public and the legislature continue to debate the push and pull of patent law policy concerns. False marking is addressed in the presently stalled patent reform efforts. This law was designed to protect businesses and consumers from anti-competitive behavior by companies claiming to have a legal monopoly on their product through the patent laws, but as Wham-O and others in its position have argued, the law may have instead morphed into a criminal statute dealing punishment far disproportionate to the crime.

—Daniel Lano

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pansive definition of trademarks includes many other non-traditional marks that lend themselves poorly to easy graphic representation, and may lead the way to the protection of still yet unforeseen trademarks in the future.

Second, the new proposed trademark law imposes a use requirement for any trademark serving as a basis for an invalidation or a cancellation proceeding. If a proceeding is filed based on a registered trademark, evidence of use for the mark during the previous three years must be submitted. Because a Taiwan registered trademark can be cancelled after three years of non-use, this provision strongly discourages filing on the basis of a trademark that is not currently in the marketplace and therefore deemed not worthy of this type of protection.

Third, the provisions for infringement and dilution actions have also been changed. A trademark owner can successfully halt infringing behavior even if that behavior is not intentional or negligent, but a showing

of intent or negligence is necessary to obtain damages. Also, infringing activities would now include only activities that are "for marketing purposes." As for dilution, the new changes track American dilution law, in that a trademark owner may bring an action for dilution for harm to either the distinctiveness or the reputation of a well-known mark.

The motives behind these changes are to adapt the country's trademark law to a rapidly developing industrial and commercial landscape, to further harmonize Taiwan's trademark legislation with existing international trademark standards, and to streamline the country's trademark procedures. One major effect of these changes will be to allow certain companies to protect trademarks that are associated with emerging technology. For example, as Wang Mei-Hua, director-general of Taiwan's Intellectual Property Office has noted, Nokia could now protect its Nokia Corp. image that appears when its cell phones are turned on in Taiwan. If these changes are implemented, trade-

mark practitioners and businesses alike will be closely monitoring their effects on both businesses and society at large.

—Linda Lei

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sented to the recording. The theory behind such laws is that parties should be allowed to make a record of their phone calls for business purposes. However, 11 states, including California and Illinois, require that both parties consent to being recorded.

The Federal Communications Commission (FCC) has also issued regulations that prevent a telephone company from recording telephone conversations without obtaining the verbal or written consent of all parties to the call. As a result, companies should provide a notification that a call is being recorded or monitored at the beginning of the call, if recording equipment is going to be used.

—Carolyn Knecht