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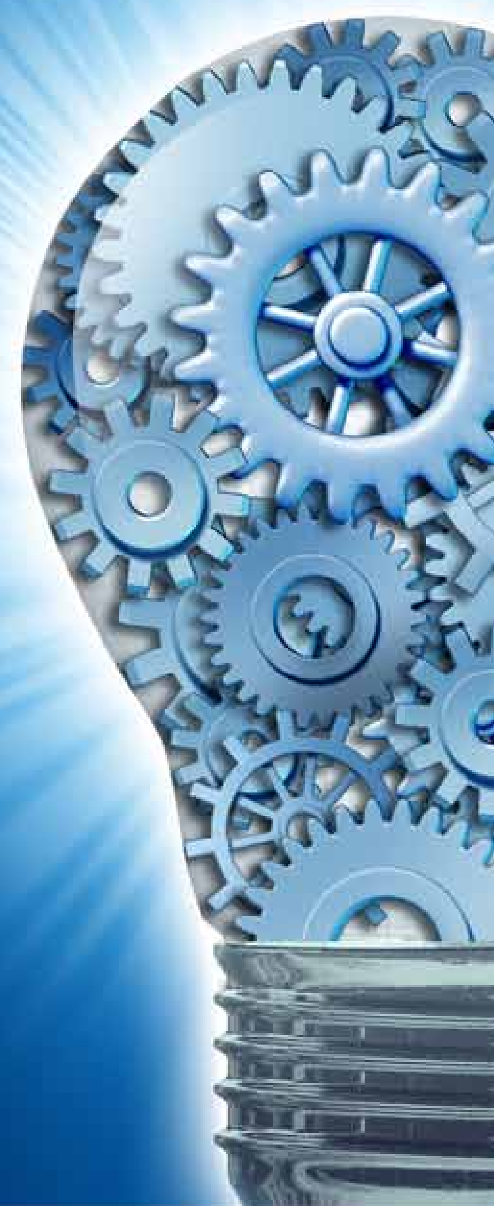

Intellectual Property

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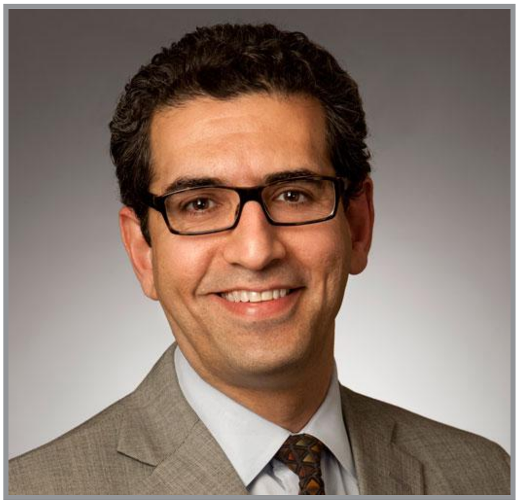
Preserving Employer’s Patent Rights with Shop Rights & Hire...

Tuesday, October 01, 2019



Babak Kusha

By default, U.S. patent law presumes that inventors own their inventions, even when developed during the course of employment. [1] As such, employers typically require new employees to sign an employment agreement, assigning patent rights to the employer at the time of hire. But what happens when no such agreement is executed or an employee refuses to assign the rights? Are the employer’s rights in an invention developed at the employer’s worksite, using employer resources unequivocally lost? In this article, we will explore two common law doctrines — shop rights and hired-to-invent — that may protect the employer’s interest in patented inventions developed by employees on the job.

I.
Shop Rights: What Are They and How Are They Effective?

Essentially, shop rights allow the employer to benefit in some degree from the invention it helped to subsidize by granting it an irrevocable, royalty-free, non-exclusive license to use an invention [2] when the employee uses company time, materials, facilities, or equipment to create and patent an invention. Under shop rights, companies can use the patented invention internally, during the course of business, even without a signed agreement, while also securing an equitable defense against patent infringement. [3] That said, shop rights are not a substitute for an assignment, and the license to use is generally non-transferrable, unless the business is sold in its entirety. [4] Thus, it is prudent to have assignments in place to avoid any difficulties when formally transferring ownership rights.

A common law doctrine based on equitable principles, [5] shop rights historically represent an implied license to use or a form of estoppel to prevent a former employee from suing an employer for patent infringement. Depending on which theory the court applies, the factual inquiry can change. As such, modern courts typically use a combination of the two theories, and look at the totality of the circumstances to decide what outcome is the most fair. [6]

Implied License to Use. When treated as an implied license, courts primarily looked at facts around the invention’s development. Facts showing that an employee created the invention during employment hours and using employer facilities and resources, typically support a finding of shop rights. [7]
Inventions by independent contractors may also be eligible for shop rights; courts often consider the employment arrangement/relationship as a determining factor when looking

at the totality of the circumstances. [8]

Estoppel Against Infringement. When shop rights are treated as a form of estoppel, courts are more interested in the parties' behavior and their relationship after the invention's creation. [9] For instance, if the inventor acquiesces or encourages the employer's use of the invention or benefits from the employer's involvement in the invention, courts lean heavily toward creating shop rights to prevent the employee from suing for patent infringement. [10]

II.
Hired-to-Invent: A Backdoor to Patent Rights

Unlike shop rights, which only give employers a license to use, the hired-to-invent doctrine can grant the employer full ownership of the invention. When hired specifically to create a particular invention or to solve a particular problem, the employee is said to have already been compensated for his/her inventive work, and therefore cannot claim patent rights. [11]

To determine if the hired-to-invent doctrine applies, courts look at the specific relationship between the employer and employee at the onset of the inventive process to see if an implied-in-fact contract to assign invention rights exists. [12] Making this factual determination can sometimes prove difficult, especially when onboarding paperwork is lacking or when factual determinations hinge on
mere nuances, including subjective intentions. For example, in *Banks v. Unisys Corp.*, [13]
the court ruled that an employee-at-will's refusal to sign an assignment
agreement made it questionable whether the employee intended to forfeit his inventive ownership even though he was clearly hired to invent.

Caveat:Work-For-Hire Doctrine & Corporate Officers. Under the work-for-hire doctrine, an employee also serving as a corporate officer typically has a fiduciary duty to assign the patent rights for inventions created during his/her tenure to the company. To do otherwise would be a clear violation of his/her duties as an employee and a fiduciary not to interfere with corporate operations.

III.
Conclusion

Without a written agreement assigning or licensing inventive works, it becomes difficult and fact-intensive for an employer to claim ownership rights. Because both the shop right and hired-to-invent doctrines are based in common law and revolve around fairness, it can be particularly risky for an employer to rely on a judge's discretion for use or ownership of a valuable invention. So both doctrines should be treated as options of last resort. That said, both doctrines can rescue employers
if facts demonstrate equitable entitlement to use or own an inventive work, especially when the evidence shows the employer and employee's subjective intent.

[1] *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys.*, Inc., 563 U.S. 776, 790 (2011).

[2]
Mechmetals

Corp. v. Telex Computer Products, Inc. , 709 F.2d 1287, 1291 (9th Cir. 1983); *Lariscey v. United States* ,
949 F.2d 1137, 1144 (Fed. Cir. 1991).

[3]
See
e.g.,Wommack
v. Durham Pecan Co. ,
715 F.2d 962, 965 (5th Cir. 1983).

[4]
California
Eastern Laboratories, Inc. v. Gould , 896 F.2d 400, 402 (9th Cir. 1990).

[5]
McElmurry
v. Arkansas Power & Light Co. ,
995 F.2d 1576, 1580 (Fed. Cir. 1993).

[6]
Id. at 1580.

[7]
Francklyn
v. Guilford Packing Co. ,
695 F.2d 1158, 1161 (9th Cir. 1983).

[8]
Id.; *Kierulff*
v. Metropolitan Stevedore Co. ,
315 F.2d 839, 842 (9th Cir. 1963); *But see,*
Nartron
Corp. v. Borg Indak, Inc. ,
848 F.Supp.2d 725, 754 (E.D. Mich. 2012) (disagreeing with *Francklyn*
that shop rights
can exist with a non-employee).

[9]
Hobbs
v. United States ,
376 F.2d 488, 495 (5th Cir. 1967); *McElmurry* , 995 F.2d 1576 at 1581.

[10]
Francklyn , 695 F.2d at 1161.

[11]
United
States v. Dubilier Condenser Corp. ,
289 U.S. 178, 187 (1933).

[12]
Teets

v. Chromalloy Gas Turbine Corp. ,
83 F.3d 403, 407 (Fed. Cir. 1996).

[13]
Banks
v. Unisys Corp. ,
228 F.3d 1357, 1360 (Fed. Cir. 2000).

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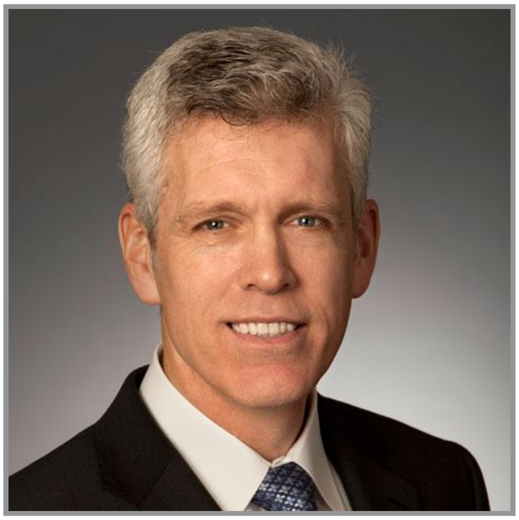
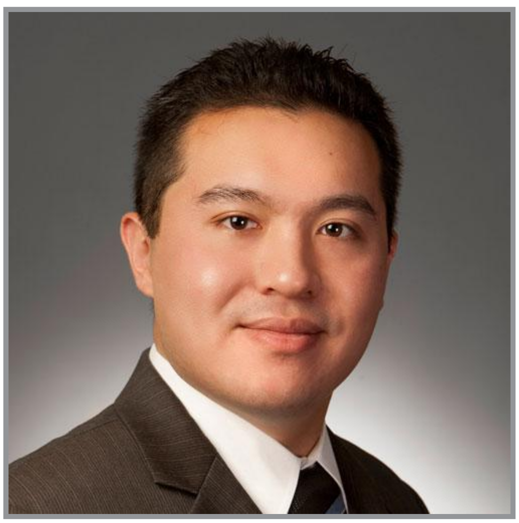
The Evolving Scope of the Inter Partes Review Statutory Time Bar

Tuesday, October 01, 2019



James Isbester



Byron Chin

Inter partes review ("IPR") is an adversarial administrative proceeding at the United States Patent and Trademark Office allowing a party to challenge the validity of an issued patent before the Patent Trial and Appeal Board ("PTAB"). Since the enactment of the America Invents Act, IPR proceedings have become an integral part of litigating patent disputes, often proceeding concurrently with patent infringement lawsuits in United States district courts. Indeed, 9,545 petitions have been filed since IPR proceedings became available in September 2012. [1]

Although any person other than the patent owner may file an IPR petition, in practice the vast majority of IPR petitioners are defendants in concurrent district court litigation, or by related entities. There are numerous reasons why IPRs are particularly attractive to such petitioners, such as having the technical expertise of the PTAB's administrative patent judges, as well as the statutory requirement that the PTAB issue a final decision in an IPR within one year of institution. [2] To provide protection to patent owners, Congress enacted statutory bars to deter accused infringers from abusing the IPR process for harassment or delay. [3] Under 35 U.S.C. § 315(a), an IPR may not be instituted if the petitioner has already filed a declaratory judgment action challenging the validity of the patent in a district court. Section 315(b) imposes a one-year time bar, providing that an IPR cannot be instituted if the petition is "filed more than one year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent." The one-year time period is meant to “afford defendants a reasonable opportunity to identify and understand the patent claims that are relevant to the litigation.” [4]

One important consideration for patent owners as well as IPR petitioners is understanding when the IPR time bar begins and ends. Until recently, the PTAB regularly looked beyond the statutory language to interpret the scope of the time bar. The PTAB, for example, ruled that in view of the legislative history, service of a counterclaim for patent infringement qualified as service of a “complaint” triggering the time bar. [5] Conversely, the PTAB held also held that subsequent events such as the voluntary dismissal of the related patent lawsuit could reset the one-year clock for filing an IPR petition. [6] Likewise, in practice, both patent holders and accused infringers generally understood that a voluntary dismissal would restore the status quo with respect to both the patent infringement suit as well as the accused infringer’s timeframe for filing an IPR petition, and factored this consideration into the calculus of settlement negotiations.

In August 2018, the Federal Circuit’s decision in *Click-to-Call Technologies, LP v. Ingenio, Inc.* signaled a fundamental change in interpreting the statutory time bar. [7] *Click-to-Call* involved an IPR petition that was filed more than one year after the first lawsuit on the patent at issue, which was voluntarily dismissed, but less than one year after the second lawsuit on the same patent. [8] Turning to the statutory language of Section 315(b), the Federal Circuit held that because the statutory language of “served with a complaint alleging infringement of the patent” was plain and unambiguous, the statute therefore did not “contain any exceptions or exemptions for complaints” that were served and subsequently dismissed, nor did it indicate that “the application of § 315(b) is subject to any subsequent act or ruling.” [9] Thus, the Federal Circuit concluded that “§ 315(b)'s time bar is implicated once a party receives notice through official delivery of a complaint in a civil action, irrespective of subsequent events.” [10] This decision is now the final word on this issue after the Supreme Court declined to certify the question for review. [11]

After *Click-to-Call*, decisions from the Federal Circuit and the PTAB generally confirmed that the one-year clock for filing an IPR petition began upon service of a patent infringement complaint, and would run irrespective of any subsequent events. In the *Bennett Regulator Guards* decision, for example, the Federal Circuit held that involuntary dismissal of a patent infringement complaint also did not reset the § 315(b) time bar. [12]

One factual scenario that initially avoided the ambit of *Click-to-Call* was whether the time bar could be triggered by service of a complaint by a party who lacked Article III standing to assert the patent. In a line of decisions before, and shortly after *Click-to-Call*, the PTAB held that service of such a complaint could not trigger the one-year time bar because a complaint without standing could not be a proper federal pleading. [13] In an August 23, 2019 decision, however, the PTAB’s Precedential Opinion Panel reversed the underlying institution decision in *GoPro, Inc. v. 360Heros, Inc.*, holding that the unambiguous language of Section 315(b) made no exceptions for when the time bar applied, including when the party serving the complaint lacked standing to assert the patent. [14] Notably, although this precedential decision represents the final ruling of the PTAB, the Federal Circuit has yet to weigh in on this particular issue. Instead, in the *Hamilton Beach* decision, the Federal Circuit merely observed that whether service of a complaint without standing triggers the § 315(b) time bar was an issue “not present, or considered in *Click-to-Call*." [15] Indeed, the PTAB's decision in *GoPro* acknowledged that " *Hamilton Beach* at least suggests that the question remains an open one." [16]

Although there may still be some unresolved exceptions, as a practical matter, both patent owners and accused infringers should assume that serving a patent infringement complaint will irrevocably start the one-year clock for filing an IPR petition, and that no subsequent events such as a voluntary dismissal or an agreement between the parties can reset the clock. Serving a patent infringement complaint now commits a patent owner to facing a potential IPR, and commits the accused infringer to filing an IPR petition within one year, and parties should keep this consideration in mind in attempting to amicably resolve patent disputes.

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[1] United States Patent and Trademark Office, Trial Statistics IPR, PGM, CBM, June 2019, *available at* https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2019-06-30.pdf.

[2] 35 U.S.C. § 316(a)(11).

[3] *See* 157 Cong. Rec. S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

[4] 157 Cong. Rec. S5429 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

[5] *St. Jude Med. v. Volcano Corp.*, IPR2013-00258, (P.T.A.B. Oct. 16, 2013).

[6] *See, e.g.*, *Macauto U.S.A. v. BOS Gmbh & KG*, IPR2012-00004 (P.T.A.B. Jan. 24, 2013).

[7] *Click-to-Call Techs., LP v. Ingenio, Inc.*, 899 F.3d 1321 (Fed. Cir. 2018), *cert. granted in part*, 139 S. Ct. 2742 (2019).

[8] *Id.* at 1325.

[9] *Id.* at 1330.

[10] *Id.*

[11] *See* 139 S. Ct. 2742 (2019).

[12] *Bennett Regulator Guards, Inc. v. Atlanta Gas Light Co.*, 905 F.3d 1311, 1315 (2018).

[13] *See, e.g.*, *GoPro, Inc. v. 360Heros, Inc.*, IPR2018-01754 (PTAB Apr. 3, 2019); *Sling TV, LLC v. Realtime Adaptive Streaming LLC*, IPR2018-01331 (PTAB Jan. 31, 2019); *Hamilton Beach Brands, Inc. v. F'real Foods, LLC,* IPR2016-1107 (PTAB Nov. 30, 2016); *Yamaha Corp. of Am. v. Black Hills Media LLC,* IPR2014-00766 (PTAB Nov. 24, 2014).

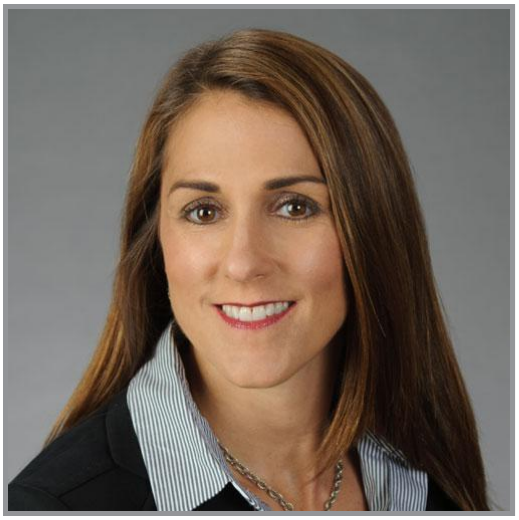
[14] *GoPro, Inc. v. 360Heros, Inc.*, IPR2018-01754 (PTAB Aug. 23, 2019).

[15] *Hamilton Beach Brands, Inc. v. f'real Foods, LLC*, 908 F.3d 1328, 1337 (Fed. Cir. 2018).

[16] *GoPro, Inc. v. 360Heros, Inc.*, IPR2018-01754 (PTAB Aug. 23, 2019)

Important Considerations in Licensing Know-How with Patents

Tuesday, October 01, 2019



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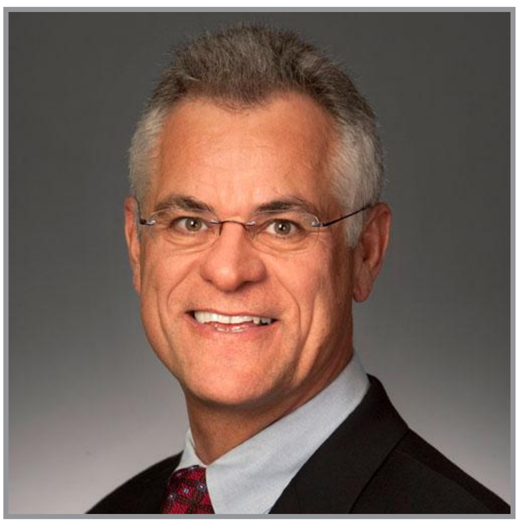

Joseph Snyder, Ph.D.

Companies own many forms of intellectual property (IP) — patents, trademarks, copyrights, and know-how (e.g., unpatented inventions, technical information, specifications, and trade secrets) — and depending on the industry, a given company may own more of a particular type of IP over others. While many companies monetize patents through license agreements, know-how is also a valuable IP asset that can be monetized.

When licensing patents and the technology embodied within the patents, a know-how license is often included to supplement the patent license agreement. For instance, utilization of patented technology might be based on knowledge and skills which, per se, are not patentable, but must be transferred in order to enable full utilization and exploitation of the patented technology. Know-how includes unpublished confidential information, which extends the competitive advantage of the patented technology. For a drug manufacture r, the know-how may include knowledge of synthesis process parameters, including optimum temperature, pressure, and reaction conditions for improved yield.

Know-how should be licensed with patent rights when its use will enable the licensee to fully and effectively exploit the technology, which will benefit commercialization of the patented invention. This will increase sales and ultimately the royalties the licensor receive s d from the licensee.

A patent license agreement, which includes know-how, has provisions common to both forms of IP, such as field of use, territory, and exclusivity terms. Using the above example, the synthesis method may apply to an intermediate molecule useful for a variety of end products, while its field of use may be limited to use of the intermediate for synthesis of only one end product. Similarly, a patent and know-how can be licensed on a non-exclusive or exclusive basis.

When licensing patents and know-how, however, it is important to understand the differences between the protection of patents versus know-how. For example, patents must be obtained on a country-by-country basis with a statutory expiration date. By contrast, know-how has no set expiration date, with the exception of trade secrets for which the protection exists as long as the licensor can maintain its secrecy. Trade secrets are a special form of know-how.
To constitute a trade secret, the know-how must be commercially valuable information that is not readily known or ascertainable that creates a competitive advantage for company and which is subject to protections by the company to maintain its secrecy. The existence of reasonable security precautions is an essential element of a protectable trade secret.

Moreover, a patent license combines matters of federal and state law since patents are subject to federal law whereas contracts are subject to state law. State law, however, applies in interpreting and enforcing a know-how license, which can vary in its application. The intersection of federal law with respect to patent licenses, and state law with respect to know-how licenses can lead to conflicting interpretations. For instance, under federal law the courts have held that a patent license is not assignable unless expressly permitted. Assignability of a know-how license is a matter of state law and the courts have varied on the issue, though state law courts generally construe restrictions on assignment narrowly.

Other issues that must be included in a know-how license that generally do not arise in patent licenses, include the scope of the licensed know-how, whether the know-how can be used to develop improvements or derivative works and the parties' rights associated therewith, and an equitable relief provision allowing the licensor to seek injunctive relief to prevent and/or mitigate the misappropriation of the licensed know-how. The know-how license should also address how the know-how will be transferred to the licensee, for example, through documentation, training, and/or technical support.

In a hybrid agreement, where both patents and know-how are licensed, the license grant, term and royalties schedule for each should be separate. Know-how may have an indefinite term as long as it is kept secret. Patents have a defined term (20 years from filing) and the royalty obligations cannot continue beyond the life of the patent. Courts will only recognize non-patent royalties if the license agreement has a different rate schedule for patent versus know-how royalties or if it is clear that royalties occurring after the patent's expiration are tied to the know-how. As a result, some hybrid agreements include an upfront payment for the license of know-how, with ongoing royalties for the patent license.

The U.S. Supreme Court in *Brulotte v . Thys Co. 379 U.S. 29 (1964)* considered a patent license agreement, addressing post-patent royalties. In *Brulotte*, Thys sold a hop-picking machine to Brulotte that required pre- and post-patent royalty payments. Brulotte refused to pay post-patent royalty payments and Thys sued.

The court sided with Brulotte, holding that a royalty agreement that extends beyond the expiration date of the patent is unlawful *per se*. [1] Thus, by charging the same rate and enforcing the same restrictions in the pre- and post-expiration periods of the patent, attempted to artificially extend the patent term. In response, the majority held that the patent terms were “[a] monopoly power in the post-expiration period when the patent has entered the public domain.” [2]

The same issue was litigated in *Kimble v. Marvel Entertainment LLC*, 135 S. Ct. 2401 (2015). Kimble was awarded U.S. Patent No. 5,072,856 (the ‘856 patent) for a toy comprised of a glove attached to a pressurized container containing foam string delivered to the glove by flexible tubing. Kimble met with Marvel Entertainment, makers of Spider-Man products, seeking to sell or license the ‘856 patent, but the parties failed to execute a licensing agreement. Instead, Marvel began selling the “Web Blaster,” its own web-shooting glove, absent any license or contract. Kimble sued in the district court and was granted breach of contract, but not patent infringement. Both sides appealed and settled, with Kimble agreeing to sell Marvel the ‘856 patent for a $500,000 lump sum and a three percent royalty on Marvel’s future sales of the Web Blaster. The parties, unaware of *Brulotte*, set no end date for royalty, agreeing royalties would continue “for as long as kids want to imitate Spider-Man.” [3]

Later, Marvel uncovered *Brulotte*, discovering that binding precedent prohibited royalty payments beyond 2010, or the expiration of the ‘856 patent. The District Court agreed with Marvel that the “royalty provision was unenforceable after expiration of the Kimble patent.” [4] The Court of Appeals for the Ninth Circuit reluctantly affirmed, criticizing *Brulotte* as “counterintuitive [with] rationale [that] is arguably unconvincing.” [5] In response, Kimble petitioned the Supreme Court to overrule *Brulotte* and certiorari was granted.

Kimble argued that *Brulotte* should be overruled because (1) the holding rests on a mistaken view of the competitive effects of post-expiration royalties, [6] and (2) *Brulotte* suppresses technological innovation and as such harms the nation’s economy. [7] The court, in a 6-3 decision, was not convinced a “special justification” or something significantly more than a belief “that the precedent was wrongly decided” was offered that justified overturning *Brulotte*.

Kimble maintains precedent that licensing agreements cannot include royalty payments after patent expiration. Interestingly, although the court appears to recognize that such a rule makes little sense, the majority was unwilling to challenge it. Instead, the court implied other types of "business arrangements" allowed for compensation payment in the post-patent expiration period. The court offered three approaches for maximizing flexibility in negotiating patent licenses within the *Brulotte* framework.

In sum, it is important to understand the differences when licensing patents versus know-how and to carefully draft the terms accordingly in order to avoid unintended consequences which can include the loss of valuable trade secrets and/or the full value of the consideration to be paid for licensed IP.

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[1] *Id.* at 32.

[2] *Id.* at 33.

[3] *Kimble v. Marvel Entertainment LLC* at 2406.

[4] *Id.*

[5] *Id.*

[6] *Id.* at 2412.

[7] *Id.* at 2414.

Don’t Overlook the Estate’s Interest in Intellectual Property! The ...

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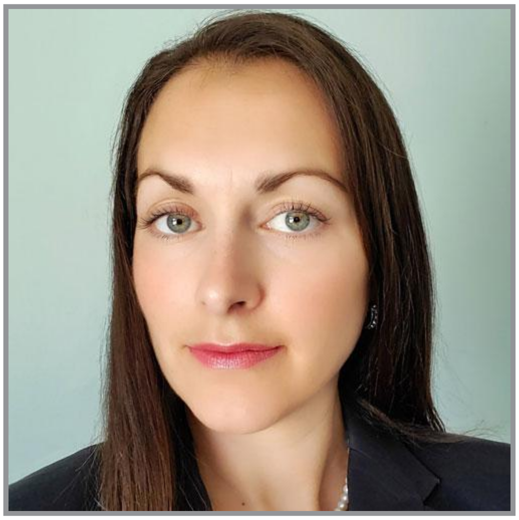


Jaime Herren

When someone dies, someone else steps in to manage the decedent’s affairs. Regardless of whether the fiduciary is a trustee or a personal representative, she must not overlook the decedent’s interests in intellectual property (“IP”) assets such as patents or trademarks.

Investigating and Identifying IP Rights. Generally, the first step for a fiduciary is to investigate potential assets with the purpose of marshaling assets. Surveying a new estate for IP interests should be on every fiduciary’s intake checklist. For example, consider the following hypothetical: When the proprietor of the neighborhood’s favorite café died, no one knew he owned IP. The café was well-known for quality coffee served in compostable cups complete with fettuccini stir sticks. Not only did the café operate under a valuable trademark having considerable good will among regional consumers, the proprietor had invented the famous compostable cup and owned a registered trademark for it. Thus, our fiduciary has three distinct IP assets to collect and manage. (1) the common law trademark for the café (i.e. the business name) (2) the registered trademark for the cup and (3) the patent on the cup.

*Identifying Patent Rights.*A U.S. Patent secures the national exclusive rights of an inventor to make, use, sell, and offer to sell his or her invention for a specified duration of time, after which time the invention belongs to the public. The nature of a patent asset is rarely uncertain. Our fiduciary can quickly and easily search the records of the U.S. Patent and Trademark Office (“USPTO”) to determine the estate’s interests.

Identifying Trademark Rights. Whereas the patent world implicitly tracks ownership and expiration, the trademark world is concerned with distinctiveness and use from the consumers’ perspective. Trademarks are the brand, image, look and feel of a maker or business. If the decedent owned a business, it is always important to consider if a trademark is in use and who owns it.

Unlike the definitive nature of patent searches, a trademark search with the USPTO will be incomplete because trademarks do not require registration (rather registration perfects and adds to the rights of ownership). It is possible to search the USPTO database of registered marks, but the results will not include those marks in use but unregistered (referred to as common law marks). In our hypothetical, a search would render the cup’s registered mark but the café’s common law mark would not appear. Thus, when a fiduciary encounters a decedent who was engaged in commerce, she needs to look for associated trademarks and determine whether they are owned by the decedent or his business.

Marshaling IP Assets. Like real property, IP assets can be sold (assigned) or leased (licensed). Thus, securing title is an important part of marshaling IP assets.

Patents. Patent assignments must be in writing and recorded with the USPTO within three months of the date of assignment (35 USC § 261.) Thus, the fiduciary must record assignment to herself as the trustee or the personal representative of the estate and record a second assignment upon distribution of the asset. This federal requirement for recording assignments is in addition to applicable state laws governing assignments of a decedent's interests as IP rights pass according to state law.

Registered Trademarks. For trademarks, the USPTO advises that assignments or name changes be recorded by submission of an online form. Thus, where a patent assignment *must* be recorded, a trademark *should* be recorded. Another reason the trademark database is not as reliable as its patent counterpart.

Common Law Trademarks. Common law rights arise from use when, in the eyes of the consumer, use of a mark distinguishes an item of commerce from others.
Such rights are geographically limited. As a common law trademark, the café has a limited geographical expansion area, which means the owner can keep restaurants in the area from using the trademark or similar marks but probably cannot prevent a café with the same name from opening in another state. Registration provides advantages including presumption of nationwide ownership and public notice. (15 USC §1116; 15 USC §1072.) The fiduciary needs to consider if the café trademark should be registered. Framing this as a fiduciary consideration: Is the investment of registration reasonably prudent under the circumstances? Circumstances need to include the investment capacity of the estate, intent to carry on or sell the business, valuation of the business with versus without a registered mark, etc.

Affirmative Ownership of IP. Estates with ownership interest in IP have more than just the traditional fiduciary duties at play. (Prob. Code § 16000 et seq.) Those traditional duties include the duty to administer per the governing documents, to identify and marshal assets, to act fairly and in a reasonably prudent fashion, to preserve assets and make them profitable, among others. In addition, there are unique duties and risks associated with trademarks and patents that require a fiduciary to take an active ownership role. Not only is this consistent with fiduciary duties to control, preserve and make assets productive, it is required of IP owners in order to maintain the protections afforded to them.

Infringement. It is an IP owner's duty to monitor the world for infringers and act affirmatively to protect his/her rights. That duty is assumed by the fiduciary with respect to patents and trademarks. Monitoring infringement is fact specific, and there are different levels of engagement varying from simply being in business among competition, to hiring firms that seek out illegal use of your IP. Upon discovery of infringement, a fiduciary needs to seek advice of counsel. Timing is an important consideration as laches is an affirmative defense to infringement.

Continued Use of Trademarks. In addition to monitoring for infringement of a trademark, a fiduciary must ensure uninterrupted use as the strength of a trademark may be significantly weakened or lost without continuous use. Thus, a fiduciary owning an unincorporated business with trademarks, needs to immediately ensure that marks are being used and the business is in continuous operation for the full duration of the fiduciary's ownership. One instance of tension between fiduciary duties and a trademark owner's duties arises in this situation because, where a business entity is unincorporated, a personal representative of a decedent needs court authorization to continue the operation of the business beyond an initial six-month period. (Probate Code § 9760.) Thus, the fiduciary must be proactive in obtaining court authorization if she is not certain distribution of the trademark will occur within the initial six months.

Ongoing Duties. The fiduciary's duty will not end until all assets are assigned, abandoned or expired. The duty to monitor for infringers continues for the life of the IP asset and a fiduciary is not well-seated to deal with what may be high-risk infringement conflict. If a fiduciary holds IP assets for a substantial length of time, she will likely come to the expense of maintenance fees and obstacle of valuation. Depending on circumstance and impending expense, it may be the most prudent path to swiftly distribute IP assets if the fiduciary is reasonably able to do so.

Conclusion. IP assets present a unique set of considerations that fiduciaries must keep in mind when encountering each new estate. Joint ventures and small businesses, like the hypothetical café, are often sources of unmentioned IP assets. Do not forget to act timely in running a conclusive patent search online and following through with a trademark analysis before these valuable assets are damaged or lost. When in doubt, a fiduciary can and should hire knowledgeable counsel.

***Jaime Herren** is a patent attorney with Doyle Low LLP. She has an M.S. in Thermal Sciences & Combustion from UC Berkeley and is the chair of the Litigation Section of the CCCBA. A full version of this article is available from the author, who may be reached atjherren@doylelow.com.*

One Size Does Not Fit All: Tailoring IP Due Diligence to the Transa...

Tuesday, October 01, 2019

Siegmar Pohl

Investing in, acquiring, or partnering with companies in the San Francisco Bay Area requires a due diligence investigation, where intellectual property (IP) will likely play a major role. The adequate level of review largely depends on the individual situation, the investor or buyer's strategic objectives, and the type of transaction.

Levels of IP Due Diligence

The depth and intensity of IP due diligence can vary widely and may require reviewing patents, trade secrets, trademarks, copyrights, semiconductor layouts, methods of doing business, special know-how, and product formulations. Further, if the target company owns IP in foreign countries, local counsel may need to review the additional and different types of IP. In addition to other areas of due diligence (e.g., litigation, including IP litigation), an IP review generally falls into four categories.

Level 1: Ownership & Right to Use

In almost all transactions, IP due diligence entails identifying and cataloging all IP owned or used by the target. If the target licenses relevant IP from or to others, the licenses should be reviewed. Potential limitations to the target's right to use should also be identified, including if the IP is pledged or subjected to liens or other encumbrances, such as a loan or other transactional collateral. Licenses (or trademark co-existence agreements) that grant exclusive rights to certain entities also may be limited to territories or fields of use that may conflict with the buyer's current or intended IP use after closing.

Level 2: Relevant IP Scope

Determining whether the subject matter of relevant IP actually and sufficiently covers the target's current products and services may require additional analysis. Often the target company owns patents or trademarks for IP assets that it no longer uses, particularly if the products, services, or branding have developed and improved over time. In some instances, the IP may cover features of current products or services, but not the unique aspects giving them their competitive advantage. Likewise, patents or trademarks covering products in their current form may not hold up if the buyer wants to expand the brand into different markets or the shift the products into a different field of use.

Level 3:Validity & Enforceability

Sometimes, the reviewer needs to verify the patent's validity by determining if it is novel, non-obvious, and if all formal requirements of a patent application are met. Patent enforceability in the U .S . may depend on different aspects, such as a patent owner's equitable conduct in the prosecution history. Identifying inequitable conduct (e.g., intentionally not referencing problematic prior patents) is difficult and has become less important since the America Invests Acts allowed remedying such conduct.

Level 4: Infringement of Third-Party IP (Freedom-to-Operate)

Potentially, the most expansive analysis entails whether the buyer can conduct the acquired business in its anticipated form without infringing third-party IP rights (freedom-to-operate). This product clearance or right to use opinion identifies potential "blocking" patents, which may derail the buyer's entire business strategy. As a side product, a freedom-to-operate study often identifies areas , where new patents can still be filed or where products can be further developed. Another side product includes elements of Level 3 review regarding invalidity. The freedom-to-operate study reveals if the Patent Office examiner, as often happens, missed some earlier invention that would invalidate a patent for lack of novelty or for obviousness.

Transaction Types & Levels of IP Due Diligence

Before deciding the appropriate levels of IP due diligence for investments and acquisitions, one needs to understand the deal structure and objectives of the IP due diligence.

Venture Capital Investments

Seed and angel investors may require little or no IP due diligence, partly because investments are often obtained before invention development and filing applications. Early in the product development cycle, some investors will require freedom-to-operate studies (Level 4). If the study shows that the product cannot be used without infringing existing third-party IP and leading to costly litigation, the investors might recommend product modification or not invest at all.

If the company already owns IP, investors often ask about the solidity of the company's IP, which can require at least Level 1 and possibly some Level 2 review. Typically, one finds that company founders, employees, or consultants still own some IP, never having properly assigned it to the company. The diligence report then recommends executing IP assignments prior to closing. To protect their investment, some investors go further and require evidence showing that all filed patents do in fact cover the technology that provides the target company its competitive advantage (Level 2).

Asset Deals and Acquisitions of Business Units and Divisions

Cataloguing the relevant IP (Level 1) is crucial in an asset deal, where the buyer buys only the assets listed or identified in the asset purchase agreement. Here, recommending formal steps to perfect the IP transfer after closing is particularly important. For trade secrets, these steps also may require documenting clean contractual terms, backed by solid and specific representations, warranties , and indemnifications.

Even more crucial is when the buyer does not buy all company assets, but only those of certain business units or divisions within that company (carve-out transaction). If an IP asset goes unlisted or not sufficiently identified, it will generally not transfer to the purchaser. Interesting situations also arise when the seller uses some IP — often basis technologies — throughout its company and in many different divisions. For those “shared” IP assets, the acquirer must remember to negotiate non-exclusive, fully- paid paid-up licenses as part of the deal, thereby necessitating that due diligence requests include IP assets sold AND assets currently used.

In any acquisition, a Level 2 and 3 analysis proves useful in determining the acquired business’ value, as well as potential liabilities and expansion possibilities. For an established company, a Level 4 analysis is less important since it has sold the same product or service for some time without being sued.

Stock Purchase or Merger

In an acquisition by stock purchase or merger, it may be less critical than in an asset deal to accurately and completely list the target IP (Level 1), since the acquirer in a stock deal automatically receives all company-owned IP, whether it is listed or not. However, analyzing whether the company owns or licenses the IP is just as important, and for purposes of corresponding representations and warranties, schedules listing the IP are still useful. When a third party, including the seller’s group companies, owns technologies, it can be difficult or impossible to convince these individuals to assign or license any missing IP after the main transaction has closed.

By contrast, if a merger’s objective is to combine and synergize the two companies or develop new business opportunities, the IP due diligence should analyze any third-party IP that could hinder expansion into a new field (Level 4). This may entail tailoring the scope and depth of freedom-to-operate studies over a wide range of budgets depending on the deal's importance — often a worthwhile investment, especially when the products yield a high margin or are produced in high volumes.

Going The Extra Mile

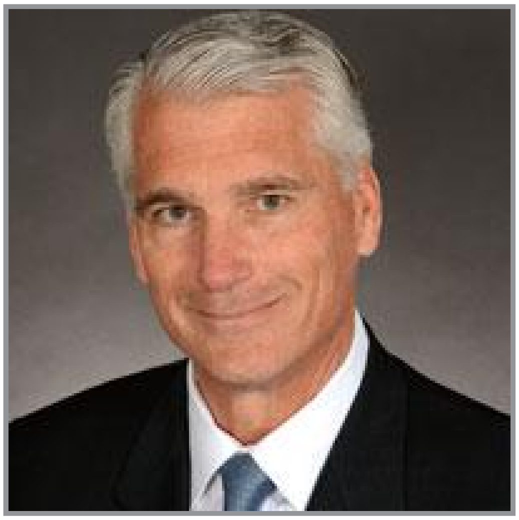
Determining when to go beyond the traditional scope of due diligence (Levels 1-4) often requires an in-depth analysis of the size of the target's patent portfolio, its position relative to competitors, and new or untapped licensing opportunities. By understanding the client's business objectives, the IP assets involved, and the transaction type, one can determine the right approach — whether a traditional due diligence or an even more strategic approach — for the most successful outcome.

Dr. Siegmar Pohl, *Partner at Kirkpatrick Townsend & Stockton, has nearly two decades of experience, and focuses his practice on cross-border A and technology transactions, including deals involving particularly complex or expansive intellectual property (IP) assets.*

https://www.kilpatricktownsend.com/en/People/P/PohlSiegmar

Early Mediation of Intellectual Property Disputes: The Strategic Pr...

Tuesday, October 01, 2019



Mark LeHocky

The peculiarities of different types of intellectual property disputes – patents, trademarks, copyrights and trade secrets – are often cited as reasons to defer settlement efforts. Patent cases are likened to a game of Chutes and Ladders, with multiple spots where a case can fail or proceed. Trade secrets often involve bitter accusations of theft, and trademark and copyright disputes frequently involve dense factual exploration as to how close is too close.

Yet, there is hope – indeed compelling reasons to mediate early on. Based upon work as an IP litigator, a general counsel managing all forms of IP disputes, and two decades mediating these matters, let me share a few countervailing thoughts as to when to start mediating IP disputes.

Patent:
Patent owner plaintiffs face many hurdles pursuing alleged infringers, and the success rate on early dispositive rulings has significantly declined in the past few years, indicating that patent disputes are likely to last much longer and divert even more time and resources.

As one example, RPX Corp. recently reported on the success of Section 101 *Alice* motions <="" a="">1“Alice motions” refer to legal challenges as to whether an issued patent indeed claims patentable subject matter, or instead is directed to a judicially-excluded law of nature, a natural phenomenon, or an abstract idea, or in turn whether it amounts to significantly more than one of these judicial exclusions. Based upon a line of United States Supreme Court and lower court decisions, including Alice Corp. v. CLS Bank Int’l, 134 S. Ct. 2347 (2014), these motions are brought pursuant to 35 U.S.C. 101, and are typically asserted as either a motion to dismiss or motion for summary judgment. to challenge patent eligibility following the Federal Circuit’s 2018 decisions in *Berkheimer v. HP, Inc.,* 881 F. 3d 1360, and *Aatrix Software v. Green ShadesSoftware, Inc.,* 882 F. 3d 1121. In the eighteen months since *Berkheimer,* the success rate on *Alice* motions to dismiss dropped from 70% to 45%, and similar summary judgment motions prevailed only 40% of the time (down from 59%). https://www.rpxcorp.com/intelligence/blog/q2-in-review-alice-reined-in-as-invalidation-rate-drops-while-patent-litigation-picks-up/ See also, *MyMail, Ltd. v. ooVoo, LLC* (Fed Cir. 8/16/19; 2018-1758)(reversing patent ineligibility ruling prior to district court’s claim construction).

Also noteworthy is the declining success rate of IPR proceedings. While over 70% of challenged patents were canceled during the first two years of the Patent Trademark and Appeal Board (PTAB)'s existence (counting IPR, covered business method challenges and post-grant reviews), that percentage has been cut in half by 2015. Apparently, much of the low-hanging fruit has already been picked.

Lower success rates on IPR and *Alice*challenges coincide with a sharp uptick in direct spending per IP lawsuit, as reflected in a 2019 report by Morrison & Foerster and BTI Consulting Group measuring the volume and cost of IP litigation matters (not just patent cases, by the way) faced by 53 companies with at least $750 million in revenue. https://www.mofo.com/resources/press-releases/190807-mofo-study-ip-litigation.html

The suggestion here is to concurrently consider IPRs, §101 motions and other traditional litigation steps with early mediation efforts. Parties may indeed leverage these litigation tools and their uncertainty to resolve cases faster and under terms that the parties choose -- rather than what a judge or jury may otherwise impose.

Trademark and Copyright:
Battles over consumer confusion, secondary meaning, actual infringement are often dense factual disputes requiring significant outlays for litigation counsel and experts. As well, trademark and copyright complaints sometimes include allegations that may trigger insurance coverage.

The confluence of an expensive IP dispute, possible insurance coverage and potential coverage disputes argues for everyone mediating early on. Carriers versed in the expense and uncertain outcome of many trademark and copyright disputes have good reason to fund or partially fund a settlement before the litigation expands.

Trade secrets: Trade secret misappropriation claims frequently, if not always, include allegations of theft and other intentional wrongdoing, making an early compromise between warring parties seem unworkable. But consider these countervailing considerations:

Has (or will) a temporary restraining order or preliminary injunction be granted? A preliminary injunction not only enjoins further alleged misuse; it arguably cuts off or significantly reduces the damage done. A preliminary injunction in many instances will limit the scope of damage, allowing the parties to assess early on what's left.

How will customers be impacted? Many high-profile trade secret cases attract media attention and can damage customer perceptions and loyalty. Think of Uber's battle with Waymo over allegations of stolen trade secrets regarding the development of autonomous vehicles. Yet even lower profile trade secret cases harm customer relations if – as is often the case – the trade secret plaintiff must show that specific customers were lost due to the alleged misuse of confidential information. Proving or disproving such losses invariably intrudes on customers and customer relationships, often leaving its own negative residue.

How can we possibly reach a compromise with the other side? Given the underlying allegations of theft of confidential information, the prospects for a civil exchange between adversaries often seems daunting. All the more reasons to bring in a third party neutral experienced in the underlying substantive law.

The Hallmarks of an Effective Early Mediation Strategy:

Test all key assumptions and alternatives as soon as possible: Two decades ago, while still litigating IP and other business cases, I began mediating IP and other complex disputes for the federal court in San Francisco. Under that Court's ADR program, cases are often steered to early mediation, allowing everyone to test assumptions and sort out facts that otherwise perpetuate a series of "false positives" and unfortunate results.

Later, while general counsel to different companies, I inherited hundreds of IP disputes. In that role, I parsed through each case bigger than a bread box to first assess the key facts and assumptions made about the parties, their intentions and the value of the disputes. Notably, in all three roles as litigator, general counsel and mediator, opportunities for clarity as well as early resolution routinely surface.

Thorough due diligence combined with early mediation routinely dispels misunderstandings and surfaces opportunities. Those opportunities often have their own "shelf life," so seizing them early can be critical. Before litigation and other sunk costs create a major barrier to a reasoned resolution, take the time to explore, for example, taking a fixed-term license, an assignment and license back, a negotiated sell-off, or possible co-existence arrangements.

Leverage the uncertainty: A pending IPR petition – like an *Alice* motion or preliminary injunction motion -- can be leveraged to drive a resolution. Aided by a mediator with both legal and business acumen, the prospects for a reasonable compromise may be at their peak.

Avoid bad becoming much worse: Another factor warranting early efforts to settle is the evolving and uncertain prospects for attorneys' fees and enhanced damages awards. Prior to the

Octane Fitness v. Icon Health, 134 S. Ct. 1749 (2014), attorneys' fees awards were limited to a very extreme showing of "exceptional circumstances" under 35 U.S.C. 285. *Octane* lowered that bar, allowing courts to look at the "totality of the circumstances," factoring in the merits, the facts and the litigation behavior. These decisions provide district courts more leeway to award attorney's fees, increasing risk and reasons to mediate sooner.

Halo Electronics, Inc. v. Pulse Electronics, Inc. 136 S. Ct. 1923, 1926-26 (2016)also raised the stakes for alleged infringers, and in turn their incentive to mediate sooner, by exposing them to greater risk of enhanced damages under 35 U.S.C. Section 284. After *Octane Fitness* and *Halo*, we see a full spectrum of findings as to enhanced damages and attorneys' fees, leaving more uncertainty than before is more reason to mediate early on.

The arguable tradeoffs of an early mediation approach:

The principal arguments against mediating early on are (a) we're not ready, and (b) mediation is costly. Those arguments in fact carry less weight as to IP disputes. First, the 2015 amendments to federal pleading requirements and detailed district court disclosure requirements for IP cases compel more specificity than ever. Hence everyone should be more informed early on.

Second, while thorough preparation to mediate an IP case takes substantial effort, such work and expense typically pales by comparison to the time and effort entailed in a fully litigated IP matter. As importantly, early mediation exchanges better inform everyone early on, allowing for reasoned decisions factoring in the good, bad and ambiguity of most disputes.

[1]" *Alice* motions" refer to legal challenges as to whether an issued patent indeed claims patentable subject matter, or instead is directed to a judicially-excluded law of nature, a natural phenomenon, or an abstract idea, or in turn whether it amounts to significantly more than one of these judicial exclusions. Based upon a line of United States Supreme Court and lower court decisions, including *Alice Corp. v. CLS Bank Int'l,* 134 S. Ct. 2347 (2014), these motions are brought pursuant to 35 U.S.C. 101, and are typically asserted as either a motion to dismiss or motion for summary judgment.

[2]"IPRs" refer to *inter partes* review proceeding, allowed under the America Invents Act (35 U.S.C. 318 *et seq.*), to challenge whether a patent was improvidently granted. Unlike *Alice* motions, IPR proceedings are instituted and conducted before the US Patent Trials and Appeals Board (PTAB) and may similarly lead to a determination of patent invalidity.

***Mark LeHocky** is a mediator with ADR Services, Inc. and a nationwide practice. He previously served as general counsel and a senior executive to Nestlé / Dreyer's Grand Ice Cream, Inc. and Ross Stores, Inc., where he managed all litigation and advised their boards on all litigation and risk matters. Prior to his general counsel days, LeHocky spent 20 years litigating complex commercial, IP, antitrust, class action and other disputes for clients ranging from small businesses to Fortune 100 companies.*

Early Stage Protection of IP

Tuesday, October 01, 2019

Peter Tormey

Mike Petrin

Starting a new business is exciting and fun, but too often founders overlook basic Intellectual property (IP) protection. While high tech businesses are aware of patent possibilities, they too often overlook more affordable, and often more valuable, forms of IP protection. Besides patents, intellectual property includes securing rights to valuable assets like the company name, brands, slogans, trademarks, copyrights artistic works, and the most often overlooked aspect of IP protection: trade secrets – which broadly include any information having a business value that is important to its function and would be compromised if made public or stolen. Trade secrets include client lists, suppliers, secret ingredients and formulas, process details, company know-how and other
confidential materials that cannot be adequately protected by patent, trademark or copyright laws.

It Starts with the Name

We often ask our new clients if they are aware of Nike's first patent. For those of you too young to remember it was the waffle pattern running shoe, US Patent No. 3,793,750, granted in 1974. Notice how that patent expired, but the Nike name and iconic swoosh logo live on. Nike's trademarks, which embody the brand equity of the company, are significantly more valuable than its patent. That is true for most companies today. Protecting trademarks protects the overall value of the brand and the business.

The marketplace has shown that name recognition is everything to a brand, and the many successful ones either used words that had no special meaning (but sounded good, like Kodak and Xerox) or suggest the benefit of the company's product, for example, Speedo swimwear, Acura for accuracy, or Nike for the god of victory. Once name recognition is achieved, a business owns the exclusive rights to a unique, easily searchable brand that stands out from the crowd.

Choosing a good company name is critical, so being too conservative and choosing a common name or using common words is appealing but is often a poor choice. One is tempted with the allure of instant recognition of your business or service, such as "East Bay Pools," but this may not be trade-markable and could be confused with similar companies offering the same products or services. Spend the time to map out the new company's benefits and possible names – it is worth it.

As a practical matter, a first step to secure a business name is acquiring the domain (URL) and simultaneously securing the name with a trademark application to reserve the name until commercial use is commenced. One common issue is that once you start searching for the domain, the cost of the domain will increase precipitously, triggered by your search, so if the domain is available buy it before the price goes up.

Owning Your IP – Get it in Writing

Imagine a disgruntled ex-employee suing you for copyright infringement for the software they wrote or the logo they designed for you. Yes, it happens and the only way to protect a business is to make sure those IP rights are transferred with a writing. This is especially true with contract employees because you cannot always rely on shop rights (an implied license under which a company may use IP created by an employee who was working within the scope of their employment). The time to get co-founders, employees, and contractors to sign over their IP rights is when employment first begins.

When onboarding an employee or contractor, it is not sufficient to merely have them agree to transfer their IP rights, you must effectuate a present transfer – even if that IP has not yet been created (see *Filmtec Corp. v. Allied Signal*, 939 F.2d 1568 (Fed. Cir. 1991). The key is to have the employment agreement contain the phrase "hereby assigns" to make sure there is no room for dispute. Besides the assignment, an employment agreement should include an obligation to assist in obtaining IP rights and to preserve confidential information. This includes signing the necessary forms and documents and releasing interest in any IP, even if the person is no longer an employee of the company at the time. Also, when an employee leaves, remind them of their duty to preserve confidences.

The Big Secret

A growing area of significance is trade secrets; therefore the business owner's task is to secure important information, label it confidential as appropriate, limit access and distribution, or in other words, take steps to keep it secret. Labeling as confidential with a suitable warning and date is the first step. Securing the information in a safe place, such as a locked filing cabinet, room or on-line with encryption and a passkey with limited access is the next step. Limit sharing of confidential information to just those who need the information. Having procedures in place for acquiring, updating and controlling access is important and affordable. Have a contractual obligation in place, either through an employment or engagement agreement specifically calling out a duty to protect this information. This makes the party legally responsible for improper use or theft of the information. Something as simple as a customer list for example enables a departing employee with this information to usurp your business by attempting to steal customers away. Numerous examples of high-tech theft abound in the computer and phone industries where competition is fierce. In addition, many countries like China have poor legal enforcement of IP theft, so control of this information is even more important.

It's relatively easy to take steps to protect IP for a startup, but sometimes, the biggest obstacle is the founders themselves. There is a reluctance to asking cofounders and early employees to sign over rights to an entity that is in the process of being born. It's like signing a prenuptial agreement on your wedding day. However, the company is well served and has a greater chance of success if IP issues are addressed early and are incorporated into the company's regular operations.

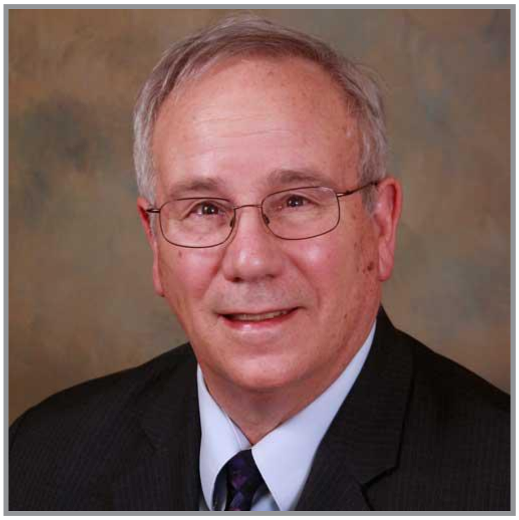
Michael Petrin *has nearly 30 years experience with a Fortune 500 consumer products company, starting as a research scientist with a Doctorate in chemistry. Mr. Petrin's patent expertise includes business applications, chemical arts, foods, consumer products and formulation, devices and instrumentation, polymer technology and nanotechnology.*

Pete Tormey, *Managing Partner, has over 20 years of experience in product development, marketing and intellectual property protection. As a company startup veteran, he brings a unique perspective on the value of intellectual property to a small and growing business.*

Michael Petrin *and Pete Tormey are with Antero, Tormey & Petrin, a business law firm with an emphasis on acquiring and protecting Intellectual Property*

Bypassing Highway [35 U.S.C. Section] 101: Congress In Search Of An...

Tuesday, October 01, 2019



Introduction;

This article is intended to address one of the most contentious issues in US patent law, namely, patent eligibility. This article addresses a draft proposal to overhaul the current law.

1. Proposed Changes to §§100 and 101

A bipartisan group of Senators and Representatives produced a draft framework for amending 35 U.S.C. §§100 and 101 . Senators Thom Tillis (R-NC) and Chris Coons (D-DE), Chair and Ranking Member of the Senate Judiciary Subcommittee on Intellectual Property; Representative Doug Collins (R-GA-9), Ranking Member of the House Judiciary Committee; Hank Johnson (D-GA-4), Chairman of the House Judiciary Subcommittee on Intellectual Property and the Courts; and Steve Stivers (R-OH-15) sent the draft text via press release on 22 May 2019. The stated goal of releasing the draft is to solicit feedback—there will be additional stakeholder feedback and Senate hearings, according to the press release.

According to Senator Coons,

Today, U.S. patent law discourages innovation in some of the most critical areas of technology, including artificial intelligence, medical diagnostics, and personalized medicine. That's why Senator Tillis and I launched this effort to improve U.S. patent law based on input from those impacted most. I am grateful for the engagement of all stakeholders participating in our roundtables, as well as the bipartisan and collaborative efforts of colleagues in both the Senate and the House. I look forward to continuing to receive feedback as we craft a legislative solution that encourages innovation.

Senator
Tillis stated:

Senator Coons and I requested to reinstate the
Senate Judiciary Subcommittee on IP because we saw a need to reform our nation's complicated patent process, starting with section 101. The release of this framework comes after multiple roundtables and extensive discussions with stakeholders who would be affected by reforming Section 101. Senator Coons and I look forward to receiving feedback from the release of this framework and encourage anyone who might potentially be affected to contact our office and offer us input.

Representative
Collins noted: "Upgrading the patent eligibility test is critical if we want American innovation to continue to lead worldwide. Encouraging innovation in Georgia and
throughout our country means restoring confidence for inventors and investors that their patent rights will be upheld in court."

Representative
Johnson, who serves as Chairman of the House Judiciary Subcommittee on Courts, IP and the Internet said:

I'm pleased to participate in this important and
relevant roundtable. Many have voiced concerns about uncertainties in in this area of patent law jurisprudence, and I'm interested in hearing from all stakeholders as we continue to work towards a consensus solution. I particularly look forward to - and welcome - feedback on the outline proposal we're considering here today.

Representative
Stivers followed on:

In my home state of Ohio, leaders in the fields
of biologics research and diagnostics will deliver the cures of tomorrow. This is only possible if we can protect those innovations with the patent protection that rewards the risks and investment necessary to discover the next great idea. We have the opportunity to advance our society in so many exciting and unknown ways, and we need to ensure we have a patent system that encourages that kind of game-changing innovation, instead of stifling it.

**The proposed draft
framework would**:

- Keep
  existing statutory categories of process, machine, manufacture, or composition of matter, or any useful improvement thereof.
- Eliminate,

within the eligibility requirement, that any invention or discovery be both "new and useful." Instead, simply require that the invention meet existing statutory utility requirements.

- Define,
  in a closed list, exclusive categories of statutory subject matter which alone should not be eligible for patent protection. The sole list of exclusions might include the following categories, for example:
- Fundamental
  scientific principles;
- Products that exist
  solely and exclusively in nature;
- Pure mathematical
  formulas;
- Economic or
  commercial principles;
- Mental
  activities.
- Create
  a "practical application" test to ensure that the statutorily ineligible subject matter is construed narrowly.
- Ensure
  that simply reciting generic technical language or generic functional language does not salvage an otherwise ineligible claim.
- Statutorily
  abrogate judicially created exceptions to patent eligible subject matter in favor of exclusive statutory categories of ineligible subject matter.
- Make
  clear that eligibility is determined by considering each and every element of the claim as a whole and without regard to considerations properly addressed by 102, 103 and 112.

Draft Amendments

The
draft framework to amend 35 U.S.C. Sections 100 and 101 are below.

§100 is proposed to be amended as follows:

§100(a)
Whoever invents or discovers any useful process, machine, manufacture, or composition of matter, or a useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§100(b)
Eligibility under this section shall be determined only while considering the claimed invention as a whole, without discounting or disregarding any claim limitation.

§100(k) is proposed to be amended to define the term
"useful" to mean "any invention or discovery that provides specific and practical utility in any field of technology through human intervention.

Additional Legislative

Provisions

The provisions of section 101 shall be construed in favor of eligibility.

No implicit or other judicially created exceptions to subject matter eligibility, including 'abstract ideas," "laws of nature," or "natural phenomena" shall be used to determine patent eligibility under section 101, and all cases establishing or interpreting those exceptions to eligibility are hereby abrogated.

The eligibility of a claimed invention under section 101 shall be determined without regard to: the manner in which the claimed invention was made; whether individual limitations of a claim are well known, conventional or routine; the state of the art at the time of the invention; or any other considerations relating to sections 102, 103, or 112 of this title.

The framework is supported by **James Pooley [1]** , who commented:

The most important and immediate goals for reforming patent eligibility are predictability, predictability and predictability. This framework, coming from legislators who understand the value to our country of a robust and sensible patent system, is exactly the right approach. It will restore much-needed certainty to the acquisition and enforcement of patent rights, reducing costs for all stakeholders.

Senate Hearings

In June 2019, Senator Richard Blumenthal held a series of hearings with stakeholders. Support and justification for a new framework were provided by several members of Congress, and by outside stakeholders. According to IPWatchdog, during the Senate hearings, Senator Blumenthal set the stage and posed three simple questions:

"Striking the appropriate balance between encouraging innovation and protecting consumers is a key goal of our patent system.

a. What impact will broadening the subject matter that can be patented have on industry?

b. What impact will broadening the subject matter that can be patented have on consumers?

c. Could the proposed reforms increase consumer prices? If so, in what industries or on what products?"

Responses from various panelists have been reported by IPWatchdog. Two panelists below illustrate the two sides of the debate.

Hans Sauer, Deputy General Counsel for IP, Biotechnology Innovation Organization:

Question a. What impact will broadening the subject matter that can be patented have on industry?

Reform of Section 101 of the Patent Act will conform U.S. standards with internationally-prevailing best practices, meaning that inventions that are patentable in other industrialized countries will also be patentable in the United States. This will help with the orderly dissemination of innovation, provide legal certainty, and help maintain U.S. technological leadership for investment-intensive innovative businesses in technology areas ranging widely from artificial intelligence, telecommunications, business software, to antibiotics, industrial enzymes, and biomarker-assisted methods of medical therapy.

Question b. What impact will broadening the subject matter that can be patented have on consumers?

The question, at bottom, is whether the U.S. patent system should incentivize businesses to compete with ever cheaper copies of the same basic products, or by out-innovating each other with new, improved, or disruptive innovative products that may be covered by patents… [I]n my opinion the encouragement of investment in innovation that is inherent in a well-balanced patent system leads to more consumer choice in the long run, and better promotes overall welfare for consumers.

Question c. Could the proposed reforms increase consumer prices? If so, in what industries or on what products?

The kind of invention that is predominantly affected by the current unclear state of Section 101 jurisprudence in the biopharmaceutical space fall more on the side of original or disruptive innovation… For such treatments and tests, the patents that are affected by Section 101 problems are the very patents that make it possible to bring such a product to market in the first place, and absent the availability for patent protection there may not ever be a product to price.

David Jones, Executive Director, High Tech Inventors Alliance:

Question a. What impact will broadening the subject matter that can be patented have on industry?

It will harm industry in the tech sector. As written, the proposed legislation will reduce R&D spending and decrease innovation.

R&D investment, venture capital funding, and company market capitalization have soared in the wake of the Supreme Court's eligibility decisions, hitting new records. The increased availability of business method patents will reverse this trend…

Nearly *two-thirds* of U.S. patent applications are filed by foreign residents, resulting in the majority of U.S. patents being issued to foreign companies… [B]ecause the rights conferred by U.S. patents are geographically limited to U.S. territory, virtually all enforcement of the patents granted as a result of the proposed changes would be against U.S. businesses.

Question b. What impact will broadening the subject matter that can be patented have on consumers?

U.S. consumers will have fewer choices and higher prices… Additionally, there would be a net reduction in competition.

Question c. Could the proposed reforms increase consumer prices? If so, in what industries or on what products?

Patent laws are quite literally intended to increase prices. The exclusive rights granted by a patent are intentionally designed to reduce competition and allow patent owners to charge supra competitive prices… [T]he problem with the proposed bill is that it would extend patenting to non-technological areas where patenting has been shown to *decrease* innovation. As a result, the proposed reforms would decrease both competition and innovation, leading to fewer choices and higher prices for consumers.

The draft bill is still open to discussion, and its text in all likelihood will change following the hearings.

Dr. Borson *is founder of Borson Law Group PC in Lafayette, California, where he advises clients on patenting, commercialization, IP law, legislation, and rules of practice, and is a frequent speaker and contributor to New Matter (* www.borsonlaw.com*; (925) 310-2060).*

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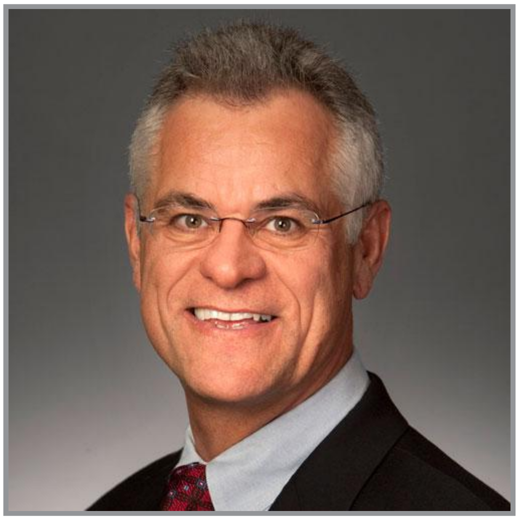
Reflections on the Continuous Evolution of IP Law

Tuesday, October 01, 2019



Joseph Snyder

As the CCCBA IP Section Chair, I am honored to act as Guest Editor for the *Contra Costa Lawyer's* October 2019 issue devoted to intellectual property. Particularly in the last decade, the continuous evolution of IP law has seen new legislation, regulations, and other IP-related opportunities and challenges around the procurement and protection of IP assets. As such, effectively navigating this fascinating, but complex, practice of law has become increasingly crucial. To address several of these important topics, I have assembled a variety of CCCBA practitioners, with invaluable experience and expertise, to share their findings and insights.

In this issue, **D. Benjamin Borson** will examine the proposed new legislation for 35 U.S.C. §101 to obtain patent eligibility; **Jaime Herren** will provide insights into helping fiduciaries identify and prepare for potential flashpoints and vulnerabilities inherent in estate-owned IP; and **A. James Isbester & Byron Chin** will lend insight into the evolving scope of the IPR statutory time bar. **Babak Kusha** will address preserving employer's patent rights with the shop rights and hired-to-invent doctrines. Additionally, **Mark LeHocky** will discuss several compelling reasons for early IP mediation; **Michael Petrin** and **Pete Tormey** will explore early stage IP protection for startups going beyond patent protection; **Siegmar Pohl** will investigate how to tailor IP due diligence to the transaction, while **Michelle Tyde** and I will review important considerations in licensing know-how with patents.

We all hope these articles will provide useful and insightful information, as well as initiate further discussion around these topics.