BANNER & WITCOFF, LTD.
INTELLECTUAL PROPERTY LAW

IPUPDATE

FALL/WINTER 2016

IN THIS ISSUE

RECENT DEVELOPMENTS IN POST-GRANT REVIEW ELIGIBILITY


BY JORDAN N. BODNER AND JEFFREY H. CHANG

Post-grant review (PGR) is a trial proceeding introduced under the American Invents Act (AIA) of 2011. Similar to *inter partes* review (IPR), PGRs allow a third party to challenge the validity of an issued patent before the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office. PGRs can be asserted, within nine months of patent grant, against any patent[1] subject to the first-inventor-to-file (FITF) provisions of the AIA — that is, a patent having an effective filing date on or after March 16, 2013.[2] While IPRs are limited to prior art based challenges, PGRs are more powerful, having an expanded toolbox that also includes grounds such as 35 U.S.C. §§ 101 and 112.

Recent PTAB decisions have opened the penstock for petitioners to boldly assert PGRs against *any* patents filed on or after that critical date and claiming priority to a pre-March 16 priority application (so-called "transitional patents"), regardless of whether they share identical disclosures with their priority applications. While PGRs gradually become more popular as the critical March 16, 2013 date shrinks in the rearview mirror,[3] we predict an additional surge in PGR petitions for transitional patents as a result of the decisions.

In addition to addressing petitioner opportunities, we also consider strategies for applicants and owners of transitional patents to reduce their exposure to PGRs.

ANY TRANSITIONAL PATENT IS POTENTIALLY ELIGIBLE FOR PGR

Many practitioners have presumed that a transitional patent having an identical disclosure as its pre-March 16, 2013 priority filing would be safe from PGRs. PTAB decisions over the last year have demonstrated that not only is a successful PGR assertion feasible, but that a detailed claim-by-claim priority analysis to decide PGR eligibility is appropriate during the institution stage.

In *Inguran, LLC d/b/a Sexing Technologies v. Premium Genetics (UK) Ltd.*, PGR2015-00017 (instituted December 22, 2015), the petitioner requested PGR against a transitional patent,

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[**POST-GRANT REVIEW**, FROM PAGE 1]

asserting an analysis of the effective filing date of the claims based on the prosecution history and arguing that at least some claims were subject to FITF. The patent owner argued that such analysis was not warranted at the institution stage. The PTAB held that such an analysis was indeed appropriate, because it was necessary to determine PGR eligibility[4] and because the petitioner bears the burden of setting forth grounds for standing.[5] The PTAB further confirmed that even a single claim subject to FITF would render the entire patent eligible for PGR.[6]

In *US Endodontics, LLC v. Gold Standard Instruments, LLC,* PGR2015-00019 (instituted January 29, 2016), the petitioner argued that claims in a transitional patent lacked enablement and written description support. In this case, the transitional patent at issue claimed priority to a series of continuation and divisional applications reaching back to 2005, *each having substantively identical disclosures* (there were no continuation-in-part applications in the chain). The PTAB determined, consistent with *Inguran*, that the petitioner has the burden to show that the patent is subject to FITF.[7] As for determining the effective filing date, the PTAB referred to the language of 35 U.S.C. § 100(i)(1), which states that the effective filing date for a claimed invention is either:

> (A) if subparagraph (B) does not apply, the actual filing date of the patent or the application for the patent containing a claim to the invention; or
>
> (B) the filing date of the earliest application for which the patent or application is entitled, as to such invention, to a right of priority under section 119, 365(a), or 365(b) or to the benefit of an earlier filing date under section 120, 121, or 365(c).

The PTAB determined that, because the common disclosure did not support at least one claim, subparagraph (B) did not apply to those claims. Instead, the language of the statute requires that subparagraph (A) applies, because subparagraph (A) states that it is invoked "if subparagraph (B) does not apply…"[8] Therefore, the effective filing date of a transitional patent with an unsupported claim is the actual filing date of the patent, "regardless of whether a later-filed amendment to a claim finds sufficient support in the application."[9] The PTAB held that the effective filing date was the actual filing date of the patent (after March 16, 2013) because some of the claims were not enabled by the earlier pre-AIA applications, rendering the patent eligible for PGR.

What about an application filed prior to March 16, 2013, with an unsupported claim that was added by amendment during prosecution after the critical date? In *Front Row Technologies, LLC v. MLB Advanced Media, L.P.*, PGR2015-00023 (institution denied February 22, 2016), the petitioner argued that the patent had an effective filing date as of the amendment date. The PTAB disagreed, holding that the effective filing date must be the actual filing date of the application.[10] The PTAB, again turning to the language of 35 U.S.C. § 100(i)(1), reasoned that the statute does not contemplate that the effective filing date might be anything other than an application filing date.[11] See also *David O.B.A. Adembimpe v. The Johns Hopkins University*, PGR2016-00020 (institution denied July 25, 2016), finding that the effective filing date cannot be later than the actual application filing date.

The examiner's determination of whether an application is being examined under pre-AIA or AIA provisions may also affect whether the patent that ultimately issues qualifies for PGR. In *Mylan Pharmaceuticals Inc. v. Yeda Research &*

Development Co. Ltd., PGR2016-00010 (institution denied January 29, 2016), the patent owner argued that the patent was not subject to FITF, because the examiner already considered this question.[12] The examiner expressly stated that the application was being examined under the pre-AIA first-to-invent provisions, and that the claims of the application that matured into the patent were fully disclosed in the priority application.[13] The PTAB thus agreed that the issue had already been addressed during prosecution.[14] The patent owner further argued that the petitioner had not met its burden of demonstrating that the patent was subject to FITF. The PTAB, while not necessarily endorsing the patent owner's arguments, concluded that the patent owner's arguments supported denial of the petition. For instance, the petitioner did not fully address why certain claims were unsupported, and pointed to patent owner evidence of support.

IMPLICATIONS FOR PETITIONERS

To successfully initiate a PGR, a petitioner must show that it is more likely than not that at least one challenged claim is unpatentable.[15] This threshold standard is higher than the IPR threshold standard (reasonable likelihood that petitioner will prevail), and requires the petitioner to present a complete case at the outset.[16] As we have seen, an important part of the petitioner's complete case is showing that the patent is PGR eligible. Thus, priority issues affecting PGR eligibility should be addressed at the institution stage.[17]

As we learned from *Mylan*, the petitioner may need to directly address statements in the prosecution history indicating whether the patent was being examined as an FITF application. The PTAB may take such a statement as a presumption over which the petitioner must overcome.

As we have also seen, a transitional patent having an identical disclosure as its pre-March 16, 2013 priority filing may be eligible for PGR if the petitioner can show that at least one of the claims is not supported by the specification under 35 U.S.C. § 112. Addressing multiple claims for lack of support is the better strategy, as the petitioner needs to show lack of support for only a single one of the claims, whereas the patent owner needs to win as to each and every addressed claim. However, there is a word limit for a PGR petition, so addressing every claim for lack of support is not advisable.

It is also worth noting that the attack need not be limited to issued claims — the petitioner can attack any claims that were presented during prosecution, even if they were canceled or amended. If, at any time during prosecution of the patent, an application contains a claim not entitled to the benefit of the priority claim, the resulting patent is subject to FITF,[18] and thus eligible for PGR. It is also worth considering an attack on claims presented in a post-AIA parent of the patent, because once an application or patent is subject to FITF, any application or patent claiming priority thereto is also subject to FITF. The FITF status is forevermore in that chain of priority.[19]

STRATEGIES FOR PATENT OWNERS/APPLICANTS

As discussed above, the petitioner can argue for FITF status. The patent owner can challenge the petitioner's PGR eligibility arguments in a preliminary response. If, however, the PTAB agrees with the petitioner and institutes a PGR, all is not lost. Even after a PGR is instituted, the patent owner can still challenge PGR eligibility during trial.[20]

The patent owner/applicant can attempt to reduce the risk of a transitional patent being subject to a PGR by ensuring that the

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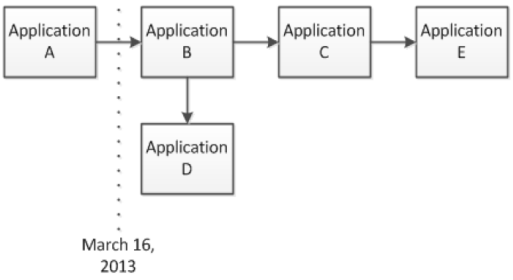
[**POST-GRANT REVIEW**, FROM PAGE 3]

prosecution history is clear about being examined on a pre-AIA basis. While examiners usually state this one way or the other as a matter of procedure, the patent owner should make sure that the record is clear and correct in this regard. As demonstrated in *Mylan*, such statements can create an additional obstacle for petitioners to pass.

The patent owner/applicant may also want to be careful when presenting claims during prosecution that are more vulnerable to being attacked for lack of support in the specification. For instance, the applicant should consider isolating such claims in a parallel branch of the family tree, so that any FITF finding for that application does not automatically bump child applications into FITF territory. An example of this is shown in the figure below. If vulnerable claims are placed in Application B, then Application B is a weak link in the chain because a finding of FITF status for Application B will cause Applications C and E to also be FITF applications.[21] If instead vulnerable claims are placed in parallel to Application D, then any FITF finding of Application D will not affect the other applications in the family.



CONCLUSION

Certifying that a transitional patent qualifies for PGR has its challenges. However, as we have learned from recent PTAB decisions, these challenges are not insurmountable. The petitioner needs to show that only a single claim is not entitled to a pre-AIA effective filing date, and can even attack claims that were presented during prosecution but not issued. If the PGR is instituted, the petitioner has access to a larger toolbox to challenge the patent than IPRs.

The patent applicant should take precautions during prosecution of transitional applications to reduce PGR exposure, such as by ensuring the prosecution history is clear as to whether FITF applies, and by isolating weakly supported claims. ■

1. With the exception of covered business method patents, which are directed to non-technological inventions for financial products/services and are subject to a separate review process.
2. AIA §§ 3(n)(1) and 6(f)(2)(A).
3. PGR filings have been few and far between. According to USPTO statistics (www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics), as of September 30, only 37 PGRs have been requested, whereas 143 IPRs have been requested.
4. *Inguran* Decision – Institution of Post-Grant Review (Paper 8), pp. 11-12.
5. *Id.* at 8.
6. *Id.* at 17-18, in which the PTAB determined that the transitional patent at issue was only entitled to its actual post-AIA filing date (and thus qualified for PGR) because one of the claims was not disclosed in a pre-AIA priority application in a manner required by 35 U.S.C. § 112(a).
7. *US Endodontics* Decision – Institution of Post-Grant Review (Paper 17), pp. 11-12.
8. *Id.* at 3.
9. *Id.*
10. *Front Row* Decision – Denying Institution of Post-Grant Review (Paper 8), pp. 3-4.
11. *Id.* at 3.
12. *Mylan Decision* – Denying Institution of Post-Grant Review (Paper 9), p. 6.
13. *Id.* at 6-7.
14. *Id.* at 7.
15. 35 U.S.C. § 324(a).
16. 112 Cong. Rec. S1375 (daily ed. March 8, 2011) (Senator Kyl Remarks).
17. *Inguran* Decision at 12.
18. AIA § 3(n)(1)(A), 125 Stat. at 293.
19. AIA § 3(n)(1)(B), 125 Stat. at 293.
20. *See, Inguran* Decision at 12.
21. AIA § 3(n)(1)(B), 125 Stat. at 293.

SUPREME COURT IP CASES TO WATCH

STAR ATHLETICA V. VARSITY BRANDS

On Oct. 31, 2016, the Supreme Court reviewed an August 2015 ruling by the U.S. Court of Appeals for the Sixth Circuit, as to whether Varsity's two-dimensional graphic designs are entitled to copyright protection as "pictorial, graphic, and sculptural works" under the copyright law. It was the first time the Supreme Court addressed copyright protection for apparel.

Varsity received U.S. copyright registrations for several of its cheerleading uniform designs for "two-dimensional artwork," including graphical elements such as stripes, chevrons, zigzags and colorblocks. Star advertised cheerleading uniforms that were strikingly similar to Varsity's designs, and Varsity sued for copyright infringement. The Sixth Circuit vacated the district court's judgment and ruled in favor of Varsity, holding that its designs are copyrightable pictoral, graphic or sculptural works.

The Supreme Court's decision in this case will likely be instructive for design-driven apparel companies seeking to overcome the obstacle of separability and obtain copyright protection.

SCA HYGIENE PRODUCTS V. FIRST QUALITY BABY PRODUCTS

On Nov. 1, 2016, the Supreme Court considered whether laches can be a defense in patent cases, reviewing a Federal Circuit decision that the defense remains available even though the high court eliminated it in copyright cases in a case involving the film "Raging Bull."

Diaper maker SCA Hygiene Products argues in its petition that the en banc Federal Circuit's 6-5 decision that laches is a viable defense in patent cases cannot be reconciled with the high court's 2014 ruling, *Petrella v. Metro-Goldwyn-Mayer Inc.* Laches bars legal remedies when a plaintiff unreasonably delays bringing a suit, and the Federal Circuit ruled that the doctrine prevents SCA from suing rival First Quality Baby Products over an adult diaper patent.

The Supreme Court is likely to decide in this case whether the "Raging Bull" decision should apply to patent litigation.

LIFE TECHNOLOGIES V. PROMEGA

The Supreme Court has agreed to consider whether the Federal Circuit erred in holding that supplying a single, commodity component of a multi-component invention from the United States is an infringing act under Section 271(f)(1), exposing the manufacturer to liability for all worldwide sales.

Promega's patent claimed a process for examining polymorphism in DNA samples. In a facility overseas, LifeTech's subsidiary produced genetic testing kits that included one component manufactured by LifeTech in the United States. The district court found that LifeTech could not be liable for inducement to infringe because Patent Act section 271(f)(1) required "the involvement of another," but a split Federal Circuit held no third party was required in order "to actively induce the combination" of components outside the United States.

Oral arguments were Dec. 6, 2016.

LEE V. TAM

The Supreme Court has agreed to consider whether the federal government can withhold legal protections for trademarks it concludes are disparaging.

Justices will consider whether a federal trademark examiner violated the Constitution's free-speech guarantee when they rejected an application from the lead singer of the Slants, an Asian-American dance-rock band. The Trademark Trial and Appeal Board affirmed the examiner's refusal to register the mark, and Federal Circuit panel affirmed the TTAB's finding that the mark was disparaging. The Federal Circuit held *en banc*, however, that the disparagement provision of Section 2(a) of the Lanham Act is unconstitutional and violates the First Amendment.

Oral arguments are scheduled for Jan. 18, 2017.

The Supreme Court is expected to issue its decisions in these cases by June 2017.

ADDING TO YOUR COMPANY'S BOTTOM LINE WITH INTANGIBLE ASSETS: CREATING, MAINTAINING & ADVANCING YOUR IP PORTFOLIO

BY BRADLEY J. VAN PELT AND LUKE S. CURRAN

Intellectual property portfolios commonly rank as one of the most valuable assets within a company's corporate arsenal.[1] Protecting the company brand, internal know-how, and innovation plays a crucial role in maintaining a competitive advantage in today's global marketplace. However, the costs associated with procuring, preserving, and advancing intellectual property rights can affect the company's bottom line. This can put pressure on the company's decision-makers. Outside of the ability to halt the disingenuous efforts of infringers and obtain monetary damages when asserting IP rights, there are other creative and less litigious ways to extract additional value from your portfolio.

According to the "Intellectual Property and the U.S. Economy: 2016 Update," the licensing of IP rights totaled $115.2 billion in revenue in 2012, which included 28 industries deriving revenues from licensing.[2] By way of example, IBM has enjoyed a successful licensing program. Although IBM may spend several billion dollars a year on research and development, it is able to recapture approximately $1 billion a year through an effective licensing strategy. Implementing a tailored approach to IP monetization can enable companies to realize additional value from product development efforts and recover a portion of the development costs. Patents, for instance, commonly serve leveraging purposes and can lead to advantageous terms when negotiating contracts for the business. Licensing patents to vendors can open the door to competitive pricing and more favorable contract terms, and develop cross-licensing opportunities to help reduce the scope of the company's risk of infringement. Alternately, patent rights can be sold off, act as collateral for financing, and may even be used to obtain tax deductions. Patent rights may also be employed as marketing tools. By touting a product as patented, this may foster the public perception that the company is innovative and that the product is superior, which can also help secure equity backing.

Similarly, it is well-settled that trademarks frequently act as a critical driver of value.[3] The value of a trademark is usually directly linked to the mark's earning power and goodwill. While acting as a source identifier to facilitate consumers' purchasing decisions, trademarks engender the inherent ability to rapidly appreciate in value. If properly safeguarded, marks may potentially live in perpetuity. By maintaining strict quality standards for their goods and services provided in connection with the mark in addition to advertising to inform consumers of these qualities, trademark owners invest in their marks. In turn, this investment leads to greater profits and source recognition. As a result, developing, managing, and advancing a trademark portfolio has transitioned from a primarily legal issue into a strategic agenda. In 2016, according to Brand Finance,[4] the most powerful and valuable brand (not surprisingly) was Apple, which was valued at more than $145 billion. Fig. 1 below

catalogs the top 10 most valuable brands according to the "Annual Report on the World's Most Valuable Brands:"

2016 Rank: 1; 2015 Rank 1	2016 Rank: 6; 2015 Rank 5
Brand Value 2016: $145,918m Brand Value 2015: $128,303m	Brand Value 2016: $63,116m Brand Value 2015: $59,843m
2016 Rank: 2; 2015 Rank 3	**2016 Rank: 7; 2015 Rank 6**
Brand Value 2016: $94,184m Brand Value 2015: $76,683m	Brand Value 2016: $59,904m Brand Value 2015: $58,820m
2016 Rank: 3; 2015 Rank: 2	**2016 Rank 8; 2015 Rank 7**
Brand Value 2016: $83,185m Brand Value 2015: $81,716m	Brand Value 2016 $53,657m Brand Value 2015 $56,705m
2016 Rank: 4; 2015 Rank: 8	**2016 Rank 9; 2015 Rank 11**
Brand Value 2016: $69,642m Brand Value 2015: $56,124m	Brand Value 2016 $49,810m Brand Value 2015 $47,916m
2016 Rank: 5; 2015 Rank: 4	**2016 Rank: 10; 2015 Rank 15**
Brand Value 2016: $67,258m Brand Value 2015: $67,060m	Brand Value 2016: $44,170m Brand Value 2015: $34,925m

Traditionally, IP portfolios are assigned value based on one of the following methods: (1) the income approach (value based on previous and future income streams under the asset); (2) the cost approach (value of the asset should not exceed cost of replacing the asset); (3) the market approach (value of the asset based on comparing publicly available similar asset transactions); and (4) the royalty approach (value based on cost to license).[5] While these approaches can be useful in informing a company's decision on whether to maintain or procure IP, these approaches may be difficult to apply and may not always account for the company's vision.

Accordingly, in order to appraise the commercial and competitive value of intangible assets — whether patents or trademarks — it is important to first blueprint how the asset is being represented (or should be). With increased cost pressures and complexities in asset protection, it is critical that rights holders appreciate the total value from the company's IP portfolio. And in order to extract additional economic rents, it is essential to take a holistic approach by mapping and prioritizing assets when developing, acquiring, and pruning the IP portfolio.

ENLISTING A DIVERSE IP COMMITTEE

Recognizing the shift to a globalized business environment, the ability to traverse the nuances of maximizing, controlling, and extracting value from an IP portfolio requires continually evaluating IP rights throughout their lifecycles. For instance, focusing too heavily on volume may result in a breadth of rights; however, these rights may not be aligned with the underlying goals of the business. Company objectives often pivot, the technology may change or become obsolete, or

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[**IP PORTFOLIO**, FROM PAGE 7]

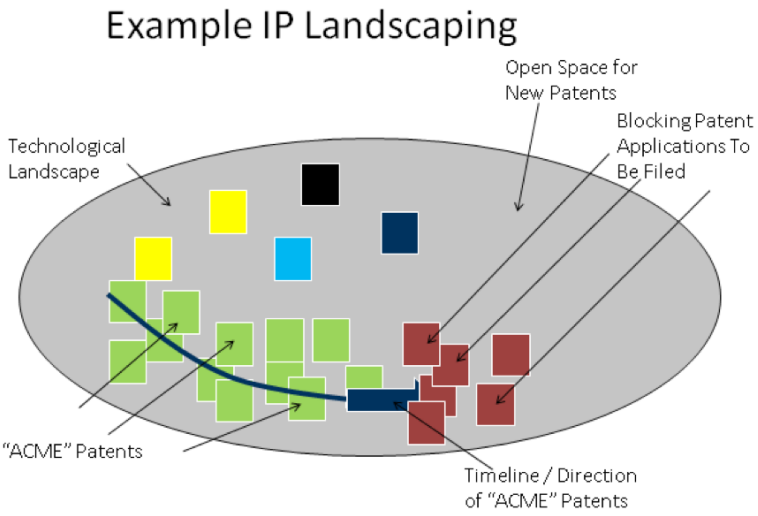

Fig. 2 illustrates an example of mapping patents and future trends. In this example, the gray area represents the entire patent landscape, and the boxes represent patents. Potential patent filings (brown boxes) may have the opportunity to block competitor ACME's patents (green boxes) from moving into a particular space.

the company may no longer be selling the particular product. If the cost of keeping the rights exceeds its expected value — under the cost or income approach — consider reevaluating the need to retain those rights. Under these circumstances, companies often consider abandoning or trying to sell off that segment of the portfolio. In turn, this will reduce maintenance fees, renewals expenses, and ongoing prosecution costs. For a comprehensive approach to combating IP management issues, consider enlisting an IP committee (which can include engineering, business development, marketing, and legal professionals) to prioritize certain filings and manage portfolios. An IP committee helps ensure the company is focused on rights critical to the business strategy while confirming that the company has a consistent prosecution strategy. In short, the committee helps answer the question "why do we own this asset" while realigning IP procurement efforts with the business strategy.

PRIORITIZATION AND PORTFOLIO MAPPING

Once the committee is assembled, it is critical to discern the landscape of the IP rights in the portfolio. Mapping key patents and future trends can help companies see opportunities, threats, strengths, and weakness of patents that are proprietary to the business. This form of information proves to be incredibly valuable in any IP analysis. Determine whether the patent covers core products, whether it has current use or exists for defensive purposes, or whether it can be used for leveraging. One of the primary benefits of auditing a patent portfolio is that it affords companies the opportunity to take a step back, see certain trends, and block competitors from moving into a desired space.

Likewise, when auditing a trademark portfolio — whether domestic or international — it is critical to map the process of how, why, when, and where a company creates and adopts each mark. These are questions the IP committee is well-suited to address. From core brands to marks with limited use, the IP committee must plan the audit and outline prosecution strategy

while considering key and emerging markets (*e.g.,* Cuba and Iran), jurisdictions where products are manufactured, and countries where counterfeiting is common. Further, instituting an IP committee will ultimately generate a fundamental understanding of the underlying process and interaction between legal and other departments, which affords the opportunity to better advance the portfolio by identifying and eliminating inefficiencies.

When evaluating an existing trademark portfolio, IP committees may consider implementing a four-tiered approach ranging from most important marks (first tier) to least important marks (fourth tier). These rights can be ranked and prioritized accordingly, and the business can subsequently focus on the rights more central to its core business. First-tier status can be assigned to marks that are used in multiple markets and in connection with the brand's full range of products and services. The second tier traditionally houses secondary brands that represent individual products or services across a range of jurisdictions. Customarily, the third tier is reserved for marks used with the provision of limited or restricted goods or services, such as sub or regional brands. Finally, rank non-traditional marks, slogans, common-law marks, and marks intended to be used for a limited time under the fourth-tier umbrella. Also, in order to realize additional value and fill in coverage gaps, it is critical to chart the nature of each mark, the goods and services covered, what rights are included, and whether they align with business strategies. An annual audit enables companies with substantial portfolios to find value in marks that have been otherwise overlooked while anticipating future needs.

By mapping a trademark portfolio, the company can also identify gaps and new opportunities to expand the portfolio. These checkups often unearth legal exposures by uncovering failures to seek registration of important marks in relevant markets, registrations inadequately covering goods or services used in commerce, and applications that lack commercial value. Armed with a clear picture of their assets, rights holders can also realize additional value and protection through more creative means, such as identifying opportunities for non-traditional marks, licensing, and new uses for existing marks. Equipped with this knowledge, the owner can more confidently prosecute marks for new or existing goods and services in order to fill voids and prune the portfolio.

TRAVERSING NEW MARKETS

With the information derived from the IP audit, a company entering a new market is better equipped to forecast its IP needs and the associated costs. When exploring new markets from a trademark perspective, companies can examine the IP landscape to determine whether to obtain additional registrations and defensive registrations to preempt squatters. When expanding to new markets or applying for new marks, a modicum of forethought often pays dividends. Preempt squatters by acquiring social media handles and domain names that reflect the brand and key variations concurrently when filing applications. Whether domestic or abroad, value can also be added to existing marks through diligent and meritorious enforcement efforts because mark owners are shouldered with the affirmative obligation to police violations of their IP rights. Additional value is also realized by recording registrations covering primary brands with customs offices in key regions to assist in the seizure of counterfeit goods and halt the efforts of counterfeiters that trade off the brand's goodwill.

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[**IP PORTFOLIO**, FROM PAGE 9]

From a patent perspective, international rights can be a fairly large line item for companies as they can get prohibitively expensive if a particular invention is filed in many different jurisdictions. It is important to make sure that your foreign filings correspond with the company's international business ambition. For example, decision-makers should consider the viability and likelihood that the company would ever enforce IP rights abroad.

Take, for instance, Europe. In terms of patents, it can be prohibitively expensive because the patent must be validated in each of the desired countries. In Europe, all applications are initially examined at the European Patent Office and once the application grants, the applicant must decide where to validate the patent. If a single patent is validated in all of Europe, the costs could amount to hundreds of thousands of dollars in annuity fees. One strategy might be to select only key European economies (*e.g.*, Germany, France, and the United Kingdom), which may often afford sufficient protection. For example, if a competitor can be halted in one of these jurisdictions, it can have the effect of blocking the competitor throughout Europe. The competitor is not likely to redesign the particular product for the specific country in Europe; rather, they will only have one product for all of Europe.

MOVING FORWARD

In a globalized marketplace, strive to become proactive as opposed to reactive. Legal intricacies of creating, maintaining, and advancing a comprehensive IP portfolio are commonly not addressed until confronted by an impediment. In order to enjoy a vibrant and profitable portfolio — whether patents or trademarks — rights holders must realign IP assets with business strategy in an age of increased complexities in asset protection. Participation and interaction between lawyers, executives, marketing departments, business units, and product development teams is critical to developing a strong IP strategy while promoting a secure IP culture. Aggressively develop, prosecute and advance IP and meticulously reevaluate the portfolio annually in order to extract additional economic rents. ■

1. *See* Louis Carbonneau, *IP Strategies for Changing Times,* IPWATCHDOG (April 7, 2015) (estimating that "in excess of 85% of the valuation of the Nasdaq Index companies (and of the new global wealth being created) lies in intangible assets.").
2. *See* Intellectual Property and the U.S. Economy: 2016 Update, United States Patent and Trademark Office https://www.uspto.gov/learning-and-resources/ip-motion/intellectual-property-and-us-economy
3. *See e.g.*, Brand Finance, *The Most Valuable Brands of 2016* (2016) (valuating Apple as the most valuable brand of 2016 at more than $140 billion and valuating the second-ranked Google brand at $94 billion).
4. *Id.* (evaluating the top brands based on brand strength index (e.g., brand investment, brand equity, and brand performance), brand royalty rate, and brand revenues).
5. *See* International Trademark Association, *Assignments, Licenses and Valuation of Trademarks* (April 2015) (emphasizing that goodwill is an "intangible asset that provides added value to the trademark owner's worth.").

AT TWO, *ALICE* TODDLES ALONG


BY PETER NIGRELLI AND ASEET PATEL

Since the two-year anniversary of the U.S. Supreme Court's decision in *Alice Corp. v. CLS Bank Int'l,* 134 S. Ct. 2347 (2014),[1] the *Alice* framework for patent eligibility continues to toddle along a meandering path towards patent eligibility for software-based innovations. Almost all of the Court of Appeals for the Federal Circuit's decisions on patent eligibility in the non-life sciences arts have held patent claims to be ineligible as being directed to an abstract idea that fails to recite significantly more. Only two Federal Circuit decisions before the June 2016 anniversary and three more since have found the disputed claims to be patent eligible, now bringing the post-*Alice* total to five Federal Circuit decisions finding patent-eligible subject matter: *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245 (Fed. Cir. 2014); *Enfish, LLC v. Microsoft Corporation*, No. 2015-1244 (Fed. Cir. May 12, 2016); *Bascom Global Internet v. AT&T Mobility LLC*, No. 2015-1763 (Fed. Cir. June 27, 2016); *McRO Inc. v. Bandai Namco Games America*, No. 2015-1080 (Fed. Cir. Sept. 13, 2016); and most recently concurrent with the publication of this article, *Amdocs Ltd. v. Opnet Telecom, Inc.*, No. 2015-1180 (Fed. Cir. Nov. 1, 2016). Additionally, the U.S. Patent and Trademark Office (USPTO), in the wake of *Enfish, LLC v. Microsoft Corporation*, clarified its guidance to examiners about how to judge the patent eligibility of software patents. Even some seemingly unfavorable decisions, such as *Electric Power Group, LLC v. Alstom S.A.*, No. 2015-1778 (Fed. Cir. Aug. 1, 2016), provided valuable insight into the Federal Circuit's application of the test set forth in *Alice*. As the conditions defining software patent eligibility evolve, these holdings and USPTO memorandums serve as a guide to what the Federal Circuit believes are non-abstract, patent-eligible claims.

POST 2-YEAR ANNIVERSARY CASES

BASCOM GLOBAL INTERNET V. AT&T MOBILITY LLC

The *Bascom* decision reversed a ruling on a Fed. R. Civ. P. 12(b)(6) motion in a decision drafted by Judge Chen of the U.S. District Court for the Northern District of California, who also penned the *DDR Holdings* opinion. In the first step of the two-step *Alice* test, the Federal Circuit found the claims to be directed to the abstract idea of filtering content on the Internet. However, in the second step of the *Alice* test, the Federal Circuit found the claims to be patent eligible because "on this limited record, this specific method of filtering Internet content cannot be said, as a matter of law, to have been conventional or generic." Here, the Federal Circuit explained that "the claims do not preempt the use of the abstract idea of filtering content on the Internet or on generic computer components performing conventional activities" because the "claims carve out a specific location for the filtering system (a remote ISP server) and require the filtering system to give users the ability to customize filtering for their individual network accounts." For example, the Federal Circuit noted that by "taking a prior art filter solution (one-size-fits-all filter at the ISP server) and making it more dynamic and efficient (providing individualized filtering at the ISP server), the claimed invention represents a 'software based invention[] that improve[s]

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[**ALICE**, FROM PAGE 11]

the performance of the computer itself.'" With respect to the district court's analysis lacking an explanation of a reason to combine the limitations as claimed, the Federal Circuit reiterated that "the inventive concept inquiry requires more than recognizing that each claim element, by itself, was known in the art," and that as in the instant case, "an inventive concept can be found in the non-conventional and non-generic arrangement of known, conventional pieces." For example, in *Bascom*, the Federal Circuit noted that, although filtering content on the Internet was already a known concept, "the patent describes how its particular arrangement of elements is a technical improvement over prior art ways of filtering such content." Increasingly, as shown in this case, the Federal Circuit is looking to the specification to provide reasoning to show support for patent eligibility.

MCRO INC. V. BANDAI NAMCO GAMES AMERICA

The Federal Circuit in *McRO Inc. v. Bandai Namco Games America Inc. et al.*, reversed the U.S. District Court for the Central District of California's grant of judgment on the pleadings under Fed. R. Civ. P. 12(c) that the asserted claims of U.S. Patent Nos. 6,307,576 (the '576 patent) and 6,611,278 (the '278 patent) are invalid as lacking patent-eligible subject matter under 35 U.S.C. § 101 in the wake of *Alice*, and remanded for further proceedings. The patents-in-suit describe motion capture technology McRO developed in 1997, that provides an alternative process for automatically animating lip synchronization and facial expressions of animated characters. Similar to the framework the Court followed in *Enfish*, here the Court reached its holding without reaching step two of the *Alice* test. After performing a detailed preemption analysis in step one of the *Alice* test, the Court held "that the ordered combination of claimed steps, using unconventional rules that relate sub-sequences of phonemes, timings, and morph weight sets, is not directed to an abstract idea and is therefore patent-eligible subject matter under § 101."

The Court cautioned against oversimplifying the claims, during step one of the *Alice* test, by looking at them generally and failing to account for the specific features recited in the claims. The Court narrowly construed the claims to be "limited to rules that evaluate subsequences consisting of multiple sequential phonemes," and the Court later reasoned that "[i]t is the incorporation of these claimed rules, not the use of the computer, that improved the existing technological process." The rules recited in claim 1, noted by the Court as being limited to rules with certain common characteristics (e.g., a genus), "render information into a specific format that is then used and applied to create desired results: a sequence of synchronized, animated characters." And although claim 1 recited a genus claim, which increases the risk of preempting all techniques for automating 3-D animation that relies on rules, this does not mean claim 1 is unpatentable. The Court noted that preemption, not tangibility, is the underlying primary concern driving § 101 jurisprudence. In finding that there was no preemption, the Court considered that there had "been no showing that any rules-based lip-synchronization process must use the rules with the specifically claimed characteristics" narrowly recited in McRO's claim 1. Interestingly, the Court noted that "[t]he only information cited to this court … points to the conclusion that there are many other possible approaches to automating lip synchronization using rules." Moreover, as in *Bascom*, the Court looked to the specification and external references in determining "whether the claims

in these [McRO] patents focus[ed] on a specific means or method that improves the relevant technology or are instead directed to a result or effect that itself is the abstract idea and merely invoke generic processes and machinery." Here, the Court, citing *Alice*, found that the "claim uses the limited rules in a process specifically designed to achieve an improved technological result in conventional industry practice."

PRE-2-YEAR ANNIVERSARY CASES

DDR HOLDINGS, LLC V. HOTELS.COM, L.P.

The patent at issue in *DDR Holdings* involved generating a composite webpage that retained the "look and feel" of the host website. *See* U.S. Patent No. 7,818,399. In holding that the claims of the '399 patent were patent eligible, the Court reasoned that the claimed invention was "necessarily rooted in computer technology in order to overcome a problem [(i.e., retaining website visitors)] specifically arising in the realm of computer networks." The Court explained that the patent claims do not merely recite some business practice known from the pre-Internet world along with the requirement to perform it on the Internet. Notably, the Court appears to have arrived at this conclusion at step 2A, as depicted by the USPTO (see graphic on page 14), of the *Alice* test. Therefore, the Court concluded that the claims were simply not directed to an abstract idea. Further scrutiny in step 2B (i.e., whether the claims recited "significantly more" than an abstract idea) seemed unnecessary.

ENFISH, LLC V. MICROSOFT CORPORATION

The patents at issue in *Enfish* concerned a type of computer database program generally involving a "'self-referential' property of a database." *See* U.S. Patent Nos. 6,151,604 and 6,163,775. The Court noted that the patents teach that the self-referential design allows for faster searching of data, more effective storage of data, and more flexibility in configuring a database. In scrutinizing the patent claims for patent eligibility, the Court asked, at the first step (i.e. step 2A of the USPTO's illustration) of the *Alice* analysis, whether the claims are directed to an improvement to computer functionality versus being directed to an abstract idea. The Court cautioned that viewing the claims at "a high level of abstraction and untethered from the language of the claims all but ensures that the exceptions to § 101 swallow the rule." The Court held that the "focus of the claims is on an improvement to computer functionality itself, not on economic or other tasks for which a computer is used in its ordinary capacity." Moreover, the Court added that "software inventions can make non-abstract improvements to computer technology just as hardware improvement can."

OTHER USEFUL GUIDANCE FROM THE USPTO AND THE FEDERAL CIRCUIT

USPTO'S MAY 2016 MEMORANDUM TO EXAMINERS

Shortly after *Enfish*, the USPTO released a memorandum to its patent examiners.[2] In its memo, the USPTO noted that "an examiner may determine that a claim directed to improvements in computer-related technology is not directed to an abstract idea under Step 2A of the subject matter eligibility examination guidelines (and is thus patent eligible), without the need to analyze the additional elements under Step 2B." The memo also reiterated to examiners that "when performing an analysis of whether a claim is directed to an abstract idea (Step 2A), examiners are to continue to determine if the claim recites (i.e., sets forth or describes) a concept that is similar to concepts previously found abstract by the courts." (underlining added). Notably, although the *Enfish* court provided guidance as to how that

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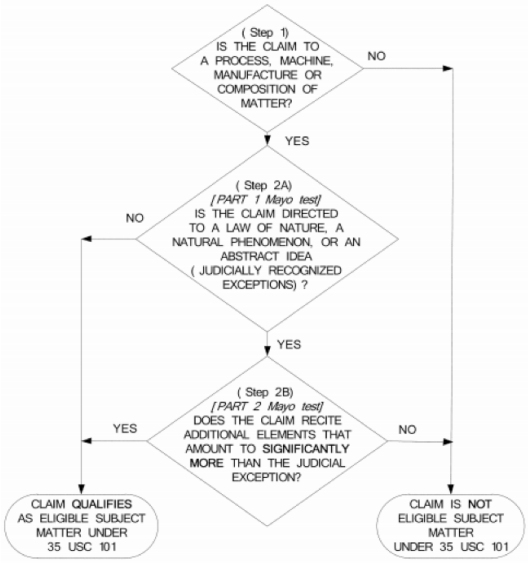
[**ALICE**, FROM PAGE 13]

Court believes the "directed to" inquiry should be applied, the USPTO's memo simply reiterated their previous guidance without expressly including clear, additional guidance to examiners on that front.



ELECTRIC POWER GROUP, LLC V. ALSTOM S.A.

Electric Power Group (EPG) received three U.S. patents concerning "systems and methods for performing real-time performance monitoring of an electric power grid by collecting data from multiple data sources, analyzing the data, and displaying the results." EPG argued that a benefit of its invention is to provide a "humanly comprehensible" amount of information useful for users to assess the vulnerability/reliability of a power grid, but the Court did not find that argument persuasive. In *Electric Power Group, LLC v. Alstom S.A.*, the Federal Circuit affirmed the district court's grant of summary judgment, reasoning that although the representative claim of U.S. Patent No. 8,401,710 was "lengthy and numerous," it was "so result-focused, so functional, as to effectively cover any solution to an identified problem," and thus patent ineligible. After some prefacing, the Federal Circuit agreed with the district court that "one helpful way of double-checking the application of the Supreme Court's [two-stage *Alice*] framework to particular claims — specifically, when determining whether the claims meet the requirement of an inventive concept *in application*," is by "invoking an important common-sense distinction between ends sought and particular means of achieving them, between desired results (functions) and particular ways of achieving (performing) them." "[T]here is a critical difference between patenting a particular concrete solution to a problem and attempting to patent the abstract idea of a solution to the problem in general," the district court explained, presumably relying upon the same principle of pre-emption extolled in *Alice*. When the "claims [are] so result-focused, so functional, as to effectively cover any solution to an identified problem," then they inhibit innovation by prohibiting others from developing their own solutions to the problem.

CONCLUSION

With the most recent decision in *Amdocs* and the USPTO's November 2, 2016 publication of a memorandum to its examiners about how they can apply *Bascom* and *McRO* to their examination, the *Alice* progeny continues to grow and mature toward a more certain path to software patent eligibility. We can look forward to further progress with forthcoming updates to the Subject Matter Eligibility guidance, as noted by the USPTO in the November 2016 memo.

Another appeal to watch in this area of patent law is *Thales Visionix, Inc., v. United States*, No. 14-513C, 2015 WL 4396610 (Fed. Cl. July 20, 2015), in which claims reciting specific hardware elements used for tracking motion of objects with respect to a moving reference

frame, were found to be directed to an abstract idea under 35 U.S.C. § 101. Oral arguments were held in November 2016, and an opinion of the Court is not expected until 2017. ■

Article co-author Aseet Patel will present a Clear Law Institute webinar on post-Alice strategies at the USPTO on Jan. 18, 2017. For more information or to register for "Protecting Software Inventions: Learning From the Patents the U.S. Patent Office Has Granted Since Alice," please visit http://clearlawinstitute.com/shop/webinars/protecting-software-inventions-learning-from-the-patents-the-u-s-patent-office-has-granted-since-alice/.

1. *See* Banner & Witcoff IP Alert, "Alice Turns Two," https://bannerwitcoff.com/ip-alert-alice-turns-two/
2. *See* http://www.uspto.gov/patent/laws-and-regulations/examination-policy/examination-guidance-and-training-materials

BANNER & WITCOFF ATTORNEYS VISIT CAMP INVENTION AT FT. HUNT ELEMENTARY IN ALEXANDRIA, VA.

Robert S. Katz, Nigel Fontenot, Shambhavi Patel and Camille Sauer visited elementary school students at Camp Invention at Fort Hunt Elementary in Alexandria, Va., on Aug. 4.

Created by the National Inventors Hall of Fame, Camp Invention is a weeklong summer enrichment program that partners with schools nationwide to reinforce the traditional school year with Science, Technology, Engineering and Math (STEM) concepts. Students not only focus on STEM enrichment, but also on entrepreneurship, creativity and innovation, and professional development.

Banner & Witcoff's Pro Bono Committee, chaired by Darrell G. Mottley, supports and works with Camp Invention to teach students about intellectual property and related skills.

From left to right, Camille Sauer, Robert S. Katz, Shambhavi Patel and Nigel Fontenot visit with students at Camp Invention.

AN INTRO TO DOUBLE PATENTING

BY H. WAYNE PORTER

"Double patenting," one of the more arcane subjects in patent law, is based on a deceptively simple idea. A patent is a government grant that gives an inventor exclusive rights in his or her invention for a limited period. An inventor should not be allowed to circumvent that time limit by obtaining multiple patents for the same invention or for obvious variations of that invention. If an inventor obtains two patents for the same invention, or for the invention and an obvious variation, at least one of those patents will be invalid.

"Claims" and "continuations" are two concepts that are relevant to double patenting. In patent law, an invention is defined by a patent ***claim***. Most patents have multiple claims. Although each of those claims effectively represents a different invention, this is allowed if those claims are drafted so that they are all sufficiently related to one another. However, double patenting is concerned with the existence of multiple claims for the same invention (or obvious variants) in *multiple patents*, and not with multiple claims within a *single patent*.

A patent, as well as the application from which a patent issues, includes a great deal more than claims. In particular, a patent includes a description of how the invention represented by the claims can be implemented. For many technologies, a patent also includes multiple drawings to explain the invention. The description and drawings often include many alternative elements and/or uses, a discussion of the relevant technology, and numerous other things that may not be recited by a claim. It is common for an inventor to file an application and obtain a patent with claims directed to certain aspects of what is set forth in the description and drawings, and to then file a ***continuation*** application to obtain a separate patent. The continuation application (and the resulting separate patent, which may also be called a "continuation") normally has the same description and drawings as the first application and patent (the "parent" application/patent), but has different claims directed to different aspects of what is set forth in the description and drawings.

There are two kinds of double patenting. "Statutory" double patenting bars an inventor from having two patents with the same claim (or with claims that are effectively identical). The prohibition against statutory double patenting arises from 35 U.S.C. § 101, which allows an inventor to "obtain a patent." Because it requires the same claim in two patents, statutory double patenting is relatively easy to avoid and is fairly uncommon.

"Obviousness-type" double patenting bars an inventor from having a patent with a claim that is obvious over a claim in another of the inventor's patents. The prohibition against obviousness-type double patenting arises from case-law doctrine created by judges. The principle behind this doctrine is that an inventor should not be able to extend the life of a first patent by obtaining a second patent with a claim to an obvious variation of the invention claimed in the first patent. The doctrine is also designed to protect third parties from harassment by multiple patent owners in connection with the same invention.

The following example helps to explain obviousness-type double patenting. Assume that Jim, an employee of Tempus Timepieces, Ltd., has invented a mechanical clock. Jim's invention is a system of gears that rotate in response to force from a spring. The gears are selected so that one gear rotates at 60 revolutions per minute (rpm), another rotates at 1 rpm, and another rotates at 1/60 rpm (or 1 revolution per hour). A patent application for Jim's invention is prepared. That application has numerous drawings and an excruciating level of detail that only a patent lawyer or an insomniac could appreciate. Among the many embodiments and variations included in the description and drawings are the following: a free-standing clock, a clock sized and configured to be fastened to an adult wrist by a strap, clocks with three hands (hour, minute, and second), and clocks with only two hands (hour and minute). Jim assigns his invention and the patent application to Tempus. The application issues as patent A with the following claim:

A1. An apparatus comprising:

housing;

a windable spring mounted inside the housing;

an hour hand coupled to an hour gear configured to rotate at 1/60 revolutions per minute (rpm) in response to force from the spring;

a minute hand coupled to a minute gear configured to rotate at 1 rpm in response to force from the spring; and

a second hand coupled to a second gear configured to rotate at 60 rpm in response to force from the spring.

Just before patent A issues, Tempus instructs its patent lawyer to file a continuation application. Tempus' main competitor is Acme Corp. Shortly after patent A issues, Acme begins selling a wrist watch with no second hand. Upon realizing that Acme's wristwatch does not infringe patent A because it lacks a second hand, Tempus' patent lawyer amends the continuation application to include the following claims:

B1. An apparatus comprising:

housing;

a windable spring mounted inside the housing;

an hour hand coupled to an hour gear configured to rotate at 1/60 revolutions per minute (rpm) in response to force from the spring; and

a minute hand coupled to a minute gear configured to rotate at 1 rpm in response to force from the spring.

B2. The apparatus of claim B1, further comprising a strap attached to the housing, and wherein the strap and housing are sized for fastening around an adult human wrist.

The U.S. Patent and Trademark Office promptly rejects claims B1 and B2 for obviousness-type double patenting over claim A1. Claim B1 is similar to claim A1, but omits the second gear and the second hand. In general, a claim that simply omits features of another claim will be considered obvious over that other claim. Claim B2 adds strap and size limitations not present in claim A1. Although the USPTO is not allowed to treat the description and drawings of patent A as part of the prior art, it is allowed to consider the prior art in a double patenting analysis. In this case, the examiner finds an historical document showing a picture of Fred Flintstone's foreman wearing a sun dial on his wrist and using it to tell time. The examiner argues that wrist-borne timepieces were known, and that a person of ordinary

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[**DOUBLE PATENTING**, FROM PAGE 17]

skill would thus have had reason to modify the device of claim A1 to achieve the device of claim B2. Tempus is unable to present a credible counterargument.

Fortunately, U.S. patent law offers a solution. Tempus can overcome the obviousness-type double patenting rejection of claims B1 and B2 by filing a "terminal disclaimer." In that terminal disclaimer, Tempus agrees that the continuation patent with claims B1 and B2 will expire at the same time as the reference patent (parent patent A in the above example), and that the patent with the terminal disclaimer will only be enforceable if it and the reference patent are commonly owned. Terminal disclaimers are only available to avoid obviousness-type double patenting. As indicated above, however, statutory double patenting is easier to avoid (by slightly changing the claimed subject matter) and is not very common.

So if statutory double patenting is easily avoided and obviousness-type double patenting is easily overcome with a terminal disclaimer, what's the big deal? Unfortunately, obviousness-type double patenting is not always as easy to detect as the above example suggests. Applicants often use different words for similar elements in claims of different applications, often arrange claim features in different ways, and otherwise draft claims so that similarities are less noticeable. In such situations, an examiner may simply miss the possible obviousness of one claim over another. This can be a more serious problem in large application families that may involve separate examiners for different applications.

If an examiner allows an application with a claim of a first patent that is obvious over a claim of a second patent, a defendant accused of infringing that first patent claim can assert invalidity because of double patenting as a defense. Although a patentee can submit a terminal disclaimer during litigation, this is only available under certain circumstances. If the reference patent (the patent with the claim over which an asserted claim is obvious) has expired, a terminal disclaimer is not available.

Moreover, a terminal disclaimer will not be helpful if the owner of an asserted patent does not also own the reference patent. For example, the original owner of the asserted and reference patents may have sold one of those patents and retained the other patent. As another example, the same inventor may have obtained one of the patents while working for a different employer. Returning to the previous fact pattern, assume that inventor Jim worked for National Time Devices, Inc., before joining Tempus. While at National, Jim developed a clock that used a rubber band instead of a spring. National filed an application for Jim's rubber band clock and obtained a patent C with the following claim:

C1. An apparatus comprising:

an elongate cabinet having an interior cavity defined therein;

a flattened elastomeric element in the form of a band, the elastomeric element attached to a twistable fixture within the cavity, the elastomeric element being configured to store energy in response to twisting of the twistable fixture and to controllably release said stored energy to turn a drive sprocket;

a first time indicating member attached to a first time cog, wherein the first time cog is positioned within the cavity and is configured to interact with the drive sprocket via multiple intervening cogs and to rotate, in response to a drive force from the drive sprocket, once per hour; and

> a second time indicating member attached to a second time cog, wherein the second time cog is positioned within the cavity and is configured to interact with the drive sprocket via the multiple intervening cogs and one or more additional intervening cogs and to rotate, in response to the drive force from the drive sprocket, once per minute.

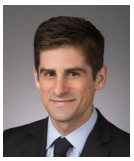
The application that became patent C was filed before the application that became patent A. Because of its earlier filing date, patent C expires before patent A. Patent C also expires before patent B, which issued on the continuation of the patent A application after Tempus filed a terminal disclaimer over patent A. Moreover, the patent C application was examined by Examiner Sally, while the patent A and patent B applications were examined by Examiner Bob. Because of this, and because of different terminology used in claim C1 relative to claims A1, B1, and B2, Examiner Bob did not notice the similarity of claims A1, B1, and B2 to claim C1.

When Tempus tries to assert claim B1 against Acme, Acme could argue that claim B1 is invalid for obviousness-type double patenting over claim C1. "Housing" (claim B1) is a more generic term for "cabinet" (claim C1). "Gear" (claim B1) is generally synonymous with "cog" (claim C1), and there is no apparent difference between a "hand" (claim B1) and an "indicating member" (claim C1). A "spring" (claim B1) is different from a rubber band (i.e., a "flattened elastomeric element in the form of a band," as recited in claim C1). However, a spring and a rubber band are known equivalents for at least some purposes and are used in similar ways in claims B1 and C1. Claim C1 recites more details than claim B1, but the features of claim B1 and the relationships between those features are nonetheless present in claim C1.

If presented with the above argument, Tempus would need to show how a spring is not an obvious replacement for a rubber band, or otherwise show an aspect of claim B1 to be a non-obvious change from claim C1. If Tempus is unable to do so, claim B1 would likely be found invalid. Tempus would not be able to avoid invalidation of claim B1 with a terminal disclaimer over patent C, as Tempus does not own patent C. Acme would thus be able to invalidate claim B1 based on claim C1, even though *patent* C may not be prior art to claim B1. For example, assume Jim was the sole inventor named in patent C and in patent B and that patent C was not issued (or otherwise published) more than a year before the application for patent A (the parent of patent B). Under those facts, which are quite plausible, patent C may not be prior art to patent B. Nevertheless, a *claim* in patent C can still be used to invalidate claim B1.

The above discussion only includes some of the problems that can result from double patenting. There are numerous other situations in which double patenting can raise issues. Accordingly, and regardless of whether it is raised by an examiner during prosecution of a patent application, double patenting should always be a consideration for a patent applicant, patent owner, or a party accused of infringement. ■

STARTING UP IP: PRIORITIES FOR EARLY-STAGE COMPANIES



BY VICTORIA R. M. WEBB AND BENNETT A. INGVOLDSTAD

This article gives a general overview of intellectual property (IP) for companies that are just beginning to recognize and capture the value of the IP they generate. Although early-stage companies have limited resources and time, awareness of some basic issues can help with prioritization and make the first meeting with an IP attorney more productive and less costly.

IDENTIFYING TYPES OF POTENTIAL INTELLECTUAL PROPERTY

Every business generates some type of IP, although not every business recognizes its IP or captures its value. The IP created by early-stage companies, especially those seeking venture capital funding, can often form the company's most valuable assets.[1] The United States, like most countries, provides several legal mechanisms for protecting IP. Trademark and trade dress rights protect the company's ***brand*** — the recognition and goodwill in the minds of its consumers through brand identifiers like logos, trade names, and product configurations. Patents protect a company's ***inventions*** — improvements to the state of the art developed by its employees — in exchange for the company disclosing those inventions to the public. Alternately, a company can keep its inventions secret and rely on trade secret law. Copyright prevents copying of the company's ***authored works*** — anything from code to images to the company website. Each type of IP has pros and cons, and multiple types may be useful in a given situation. Although an attorney can often most effectively identify and evaluate IP, a company short on resources can begin by compiling a list of potential IP before meeting with an attorney.

ELIMINATING QUESTIONS ABOUT OWNERSHIP

Once a company identifies its IP, it must ensure that it owns the IP. Generally, the more successful a business becomes, the more parties will come out of the woodwork with some kind of IP ownership claim.[2] The consequences of a company not actually owning its IP range from inability to enforce its rights against competitors to having to pay significant sums to later acquire the IP. Therefore, getting ownership issues worked out in writing upfront is an essential first step, and often the first time an early-stage company may engage an IP attorney.

For early-stage companies, ownership pitfalls arise at different points in time. First, founders and early collaborators often create IP before a company is incorporated, and that IP is owned by those individuals, not the company. Therefore, an early-stage company should verify that incorporation documents or a separate written agreement transfer ownership of any pre-incorporation IP to the company itself. Additionally, founders may not be employees of the company, so any future IP developed by the founders in connection with the company should be covered by an assignment agreement. Second, as early-stage companies expand, employment agreements should contain IP assignment clauses that effectively transfer ownership of IP developed by company employees. Third, early-stage companies will inevitably contract with third

parties (vendors, consultants, or other contractors). To ensure that ownership of any IP developed for the company by the third parties transfers to the company, the company should include assignment clauses in contracts with the third parties or otherwise acquire the IP rights.

PROTECTING THE BRAND: TRADEMARK, TRADE DRESS, COPYRIGHTS, AND OTHER RIGHTS

A company's brand, as established by brand identifiers and customer-facing materials, may be as important as the products or technology it sells. Brand identifiers such as names, logos, and slogans can be protected using trademarks, trade dress, and domain names. Customer-facing materials (e.g., brochures, websites, advertising, etc.) can be protected using copyright. Although copyrights are created automatically, a company needs to take some steps to establish rights in brand identifiers.

Before investing in a brand identifier (or "mark"), a company should engage a trademark attorney to conduct a full clearance search — a search of federal trademark records, state records, and the Internet to determine availability of the mark. The goal of a clearance search is to evaluate not only whether a trademark application has a good chance of registering, but also whether the business is at risk of future legal troubles from other companies with existing rights in the same or similar marks. Considering the cost of potential litigation (or worse, having to abandon a brand the company has invested in), the cost of a clearance search is relatively minor. Sometimes even a quick do-it-yourself search on the Internet and of federal trademark records[3] before contacting an attorney for a more exhaustive search can reveal potential problems and save resources.

Once a company determines it can use a brand identifier, it can begin creating trademark rights via common law rights and federal trademark registrations. A company can begin to establish common law rights by simply adding a trademark (™) symbol after any mark on the company website, product literature, or other company materials. Although common law rights are cheaper and easier than registering a trademark, they afford fewer protections and make enforcement more difficult. Accordingly, companies should also consider registering their marks with the U.S. Patent and Trademark Office (USPTO). Advantages to registration over common law rights include presumptive ownership of the mark, nationwide protection of the mark, statutory damages for infringement, and benefits for filing internationally. These benefits are especially helpful if the company ever decides to enforce its mark through litigation. A trademark application should be filed as soon as possible, and can be filed even before the mark is being used. An early filing date is important, so if the company becomes aware of any similar mark in use by a competitor in any remotely similar field, a trademark attorney should be contacted immediately. Notwithstanding the added cost of applying for a registration, most businesses will greatly benefit from registering their trademarks.

In addition to filing trademark applications, desired domain names associated with the brand should be purchased. While many companies purchase .com domains early on, companies should also consider specialty domains (.blog, .store, .coupon, etc.) and foreign domain names, especially if the company envisions using these in the future for specialized marketing or for expanding the brand internationally. Once an early-stage company begins generating press attention,

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there is a high risk that cybersquatters will purchase and try to ransom domain names in countries or spaces that the growing company will likely target in the future.

When resources are available, similar steps should be taken to protect all a company's brand identifiers, including product names, logos, slogans, advertising materials, and other branding. In most cases, early-stage companies must prioritize the marks or branding elements that are most critical to the company's overall brand and invest in protecting those marks first.

PROTECTING TECHNOLOGY: PATENTS, TRADE SECRETS, AND OPEN SOURCE ISSUES

In addition to building and protecting its brand, an early-stage company must make smart, strategic, and early choices to protect its investment into the inventions and technology it generates. Inventions and technology can be protected via patents or simply by keeping the inventions secret.

The first option is relying on trade secrets (e.g., the Coca-Cola formula). The default strategy is always to keep technical or inventive information secret, and even companies that rely on patents will choose this strategy while preparing their patent applications. To obtain trade secret protection, a company must take certain steps and use "reasonable efforts" to protect the information from disclosure and theft.[4] However, for some technologies, reverse engineering or re-implementation by competitors may be possible, which destroys the value of the trade secret.

If the company plans to publicly disclose an aspect of its technology, or if the technology is susceptible to reverse engineering or re-implementation, strong consideration should be given to filing a patent application. The patent application ideally should be filed before any public disclosure, and as early as possible once the technology is sufficiently developed. Costs can be minimized by filing cheaper provisional patent applications (a placeholder type of application), but a patent attorney should be involved; do-it-yourself patent applications of any type are usually worth very little.

Some early-stage companies forget that public disclosure includes talks with venture capitalists (VCs), potential partners, potential employees, and anyone not under a contractual obligation to keep information secret.[5] Most companies cannot avoid at least occasional public disclosures, but they can take steps to mitigate the impact on potential patent rights when patent applications have not yet been filed. Accordingly, companies should omit unnecessary detail during unprotected discussions with third parties, including VCs. Avoiding technical descriptions can preserve the company's ability to later patent those aspects. Although United States patent law does allow a one-year grace period for filing a patent application after public disclosure, it comes with significant risk of others taking the invention, modifying it, and patenting the modifications themselves. Additionally, other countries' patent systems do not allow any disclosure before filing patent applications, so if foreign patents are important, a patent application should be filed before any disclosure.

Once an early-stage company has decided to invest in filing patents on its technologies and products, a first meeting with a patent attorney will be most productive if the company has already thought deeply about the business case for filing a patent. A company should consider what aspect of its technology it needs to protect, what distinguishes the product or technology from its competitors, and what

aspect the company believes is novel. The company should further consider which aspects, if protected, would allow it to block competitors in the future. While patent attorneys can determine the legal issues around filing a patent application, a business is in the best position to evaluate the value of a patent in the marketplace. A patent attorney should be able to provide some sense of what aspect of the technology can potentially be patented, and how much protection the business can potentially obtain. However, the scope of any patent (and even whether it will be granted) can be highly uncertain. Ultimately, it is the company's responsibility to manage this uncertainty and decide whether filing a patent is worthwhile.

In addition to carefully considering what to focus on in a patent application prior to meeting with a patent attorney, a company can also cut expenses by preparing detailed descriptions of its inventions before meeting with the patent attorney. Flowcharts, diagrams, and descriptions with as much detail as possible can reduce the time spent on discussions with the patent attorney. In addition, they can aid in development of initial figures or charts for the patent application.

Finally, software-focused companies should also take care when leveraging open source software. Inappropriate use of open source software can taint an entire code base, resulting in a company's valuable secrets becoming open sourced. Software-focused companies should carefully manage and catalog any usage of open source software to avoid accidentally open-sourcing company technology. Particularly, use of GNU General Public License (GPL) code and libraries without consulting an open source expert should be avoided. Keeping detailed records of open source packages, how they are used, and the license they contain will reduce headaches during due diligence (e.g., during a funding round or acquisition).

CONCLUSION

Every business needs to prioritize its IP, and early-stage companies are no exception. Early-stage companies have unique challenges because they rapidly generate IP, and often lack adequate legal representation due to juggling multiple priorities with minimal resources. However, the long-term success of a business can often hinge on whether it took appropriate early steps to protect its IP.

An early-stage company should first ensure its contracts effectively grant ownership of IP to the company itself. Next, a company should take steps to finalize and protect its branding by securing trademark and other rights and registering domains. Finally, an early-stage company should control its technology by filing patents on key aspects before they are disclosed to the public, and take care to avoid conflicts with open source licenses. Qualified attorneys should always be engaged to advise and secure the value of a company's IP. ■

1. IP additionally remains important throughout the lifecycle of a business. One study estimates that intangible assets, of which IP forms a significant part, make up 87 percent of the value of S&P 500 companies. See http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/.
2. A famous example involving a claim of partial ownership of Facebook was dramatized in the 2010 film "The Social Network." See CONNECTU LLC v. Zuckerberg, 522 F.3d 82 (1st Cir. 2008).
3. A basic trademark search can be run at tmsearch.uspto.gov. In the search results, a trademark is currently in force if it has a registration number and is marked "Live."
4. In practice, this often means taking security measures to limit access to the information to key employees.
5. Such contractual obligations often come in the form of nondisclosure agreements (NDAs). Although a company should try to obtain an NDA before any third party disclosure, many potential business partners (including nearly all VCs) will refuse to sign NDAs before hearing a pitch.

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