On April 19, 2016 Renner Otto announced that Heidi Boehlefeld has been named the firm’s Managing Partner. Heidi succeeds Don Bulson, who held the position since 2005 and who will continue to serve as member of the firm’s Management Committee. Luis Carrion and Mark Saralino are the other members of the Management Committee.

In addition to serving as Managing Partner, Heidi co-chairs Renner Otto’s Chemical Practice Group. Her practice focuses on patent prosecution and counseling including patent validity, infringement and due diligence opinions. She has been recognized as an Ohio Super Lawyer.

Prior to joining Renner Otto in 2000, Heidi served as in-house patent and trademark counsel for The Sherwin-Williams Company. She began her career as a research engineer for B.P. America (The Standard Oil Co.) and later joined the Patent and Licensing Department as an attorney.

Heidi received her B.S. in Chemical Engineering with honors, her M.B.A. and her J.D. from Case Western Reserve University.

TaeRa Franklin and Luis Carrion

When patent owners explore how best to reap the economic benefits of their labor and ingenuity by monetizing their patent portfolio, they should keep in mind many issues. The doctrine of patent exhaustion (“DPE”) is one of those issues especially for those who may be considering retaining some control over their patented items even after a sale, grant of license or the like.

The Doctrine of Patent Exhaustion and Its Exceptions

Under the DPE an “initial authorized sale of a patented item terminates all patent rights to that item”7. In other words, the patentee’s rights on the patented item are deemed to have been exhausted upon such authorized first sale, and thus, he can no longer restrict the purchaser of the patented item from further use or sale. A license is treated similarly to a sale and thus licensing of a patented item generally exhausts the patentee’s rights to the patented item as well.8. The DPE, however, does not foreclose a member of the public (e.g., a competitor of the patentee) from making “a mere replacement” or “repair” of the patented item.9 Nonetheless, if an accused infringer “reconstruct[ed] a patented entity – as to ‘in fact make a new article’” instead of a permissible repair, the infringer cannot rely on the DPE as an affirmative defense.10

Real Life Examples

U.S. v. Univis Lens Co

Corporation A owns patents to lenses. Corporation A licenses to a lens company B to manufacture lens blanks and sell the blanks to designated licensees of A such as wholesalers, finishing retailers and prescription retailers. Corporation A licenses to the designated licensees to purchase the blanks from B, finish the blanks, and sell the finished lenses to consumers but only at a price fixed by A. In this scenario, selling of the lens blanks by A is “in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and a license to practice the final stage of the patent procedure.” Hence, A has “parted with his right to assert the patent monopoly” by selling the lens blanks “embod[y]ing essential features of [its] patented invention, and thus, is no longer free to control the price at which it may be sold either in its unfinished or finished form.”

Jazz Photo Corp. v. ITC

What exactly is a permissible repair? Company C sells single use cameras with a notice on the surface of the camera that only a single use is authorized. Refurbisher D obtains the discarded cameras and refurbishes them and sells them in the U.S. Company C’s patent rights on the film container, unexposed film roll, and a pushbutton intended to avoid inadvertent activation were considered exhausted since “the remanufacturing processes simply reused the original components.” Obtaining cameras disposed of by the original owners and “rebuilding” them by disassembling, cleaning, sorting and replacing old clutches with conditioned parts constituted a permissible repair.

Bowman v. Monsanto Co.

What constitutes an impermissible reconstruction? Farmer E, under a special licensing agreement, buys genetically modified patented soybeans seeds that can survive exposure to a certain ingredient in many herbicides. The licensing agreement allows farmer E to plant the seeds in only one season, consume the resulting crop or sell it as a commodity, but prohibits E from saving any of the harvested soybeans for replanting or supplying them to anyone else for replanting. Not wanting to pay the premium price for the patented seeds, farmer E plants the purchased seeds and saves some seeds from his crop for replanting in forthcoming seasons. According to the U.S. Supreme Court in Bowman v. Monsanto, farmer E “made” a new patented product in violation of patent law; the DPE does not allow farmer E to “make additional patented soybeans without [patentee’s] permission.”

Quanta Computer Inc. v. LG Elecs. Inc.

What if the licensee sold the patented products to downstream purchasers with post-licensing restrictions? Companies H and I are fierce competitors and enter into a patents cross-license with a restriction that neither may grant license to third parties for combining the licensed products with products of the third parties. Further, the license requires I to include a written notice to third party purchasers of such restriction. I sells its product using H’s patents to J who combines the products with its own products. In that scenario, the Supreme Court held that I’s sale to J exhausted H’s patent rights. It reiterated Univis’s holding that “the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold” and found “no reasonable use for [I’s] Products other than incorporating them into computer systems that practice [H’s] Patents.””

Lexmark International Inc. v. Impression Products Inc.

For patent owners interested in retaining some control over their patents, it would be logical to ask whether the DPE prohibits a patentee from selling patented products with a post-sale restriction. They may also wonder whether the DPE reaches territorially beyond the U.S.

Company F holds patents covering its printer ink cartridges and their use. F gives purchasers a choice of a “Regular Cartridge” at full price...
without any post-sale restriction or a “Return Program Cartridge” at about 20 percent discount with an express single-use/no-resale restriction. The cartridges were sold both domestically and abroad. Some cartridges were sold abroad under the “Return Program Cartridge” with the express post-sale single-use/no-resale restriction. Reseller G imported cartridges originally sold abroad and resold the cartridges in the U.S. after a third party had physically modified them to enable re-use in violation of the post-sale restriction. The cartridges were monitored by means of a built-in chip that communicates with the printer. The third party hacked the chip and created its own chip that “fool[ed] the printer into allowing reuse of cartridge[s]” sold as Return Program Cartridges.\footnote{Continued from page 2}

With respect to the post-sale restriction, the Federal Circuit held that “a patentee may preserve its [patent] rights when itself selling a patented article, through clearly communicated, otherwise-lawful restrictions, as it may do when contracting out the manufacturing and sale.”\footnote{\textit{Lexmark}’s holdings may similarly seem inconsistent with the holding in \textit{Jazz Photo} with respect to permissible replacement or repair.} Thus, the express single-use/no-resale restriction was enforceable.

With respect to the territoriality of the doctrine, according to the Federal Circuit “United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.”\footnote{\textit{Lexmark}’s holdings may similarly seem inconsistent with the holding in \textit{Jazz Photo} with respect to permissible replacement or repair.} This is so because ‘a foreign sale, standing alone, is not reasonably viewed as providing the U.S. Patentee the reward guaranteed by U.S. Patent law. Such a sale is not reasonably viewed as itself a waiver by the patentee of its U.S. patent rights to prevent the buyer or others from bringing that article into the United States and selling or using it to satisfy a U.S.-market demand that the patentee could otherwise help satisfy at U.S.-market prices, as guaranteed by the Patent Act.”\footnote{\textit{Sales abroad did not exhaust patent rights on the cartridges.}}

**Legal Quagmire**

Reading through the aforementioned cases, one may wonder how exactly the DPE applies to one’s patented products. For example, \textit{Lexmark}’s holdings may seem inconsistent with the holding in \textit{Quanta}. Indeed, Impression made that exact argument in \textit{Lexmark}. The Federal Circuit distinguished \textit{Quanta} stating that \textit{Quanta} did not “involve a patentee’s sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction.” rather it “involved a sale made...not by the patentee...but by a manufacturing licensee.”\footnote{\textit{Lexmark}’s holdings may similarly seem inconsistent with the holding in \textit{Jazz Photo} with respect to permissible replacement or repair.} The Federal Circuit also stated that the Supreme Court in \textit{Quanta} ‘repeatedly stated that the relevant contract gave an unrestricted authorization to sell the articles’, and thus, in \textit{Quanta} there was “no patentee sales” and “no restrictions on the sales made by the licensee.”\footnote{\textit{Lexmark}’s holdings may similarly seem inconsistent with the holding in \textit{Jazz Photo} with respect to permissible replacement or repair.}

\textbf{Lexmark}’s holdings may similarly seem inconsistent with the holding in \textit{Jazz Photo} with respect to permissible replacement or repair.

These issues may be made clearer in the near future. A \textit{writ of certiorari} for the Supreme Court to hear the case has been filed in \textit{Lexmark} and it is still pending. Notably, the Supreme Court has asked for the views of the U.S. Solicitor General in \textit{Lexmark} on June 20, 2016, which indicates that the Court may be leaning towards taking the case on.

Meanwhile, it would be prudent for a patentee interested in selling, licensing or monetizing rights to his patents to understand the above outlined summary of the doctrine, cited cases and their backdrops in the field of IP monetization and keep a watchful eye on further development with respect to \textit{Lexmark}.

**Endnotes**

\textbf{TaeRa K. Franklin, Associate}  
TaeRa focuses her practice on patent preparation and prosecution, particularly in the electrical, electronics and telecommunications fields. TaeRa’s technical background is electrical engineering.

\textbf{Luis A. Carrion, Partner}  
Luis represents clients in patent and trademark application preparation, prosecution, licensing and litigation.

Among other technologies, Luis has handled patent matters in the fields of telecommunication systems, uninterruptible (data center and telco) power supplies, fluorescent lighting and ballasts, digital signal processing, audio signal processing, welding equipment, computer programs, software-based control systems, electrical circuits, optical devices, computer hardware, remote monitoring, and mechanical assemblies.

\begin{itemize}
\item[i] \textit{Quanta Computer, Inc. v. LG Electronics, Inc.}, 553 U.S. 617, 625 (2008).
\item[ii] \textit{Adams v. Burke}, 84 U.S. 453, 456 (1873). Adams involved a license to make, use, and sell patented coffin lids within a confined area of the U.S. The patentee sought to enforce its rights under the patent, trying to prevent the use outside of the confined area by a subsequent purchaser of the lids. The Supreme Court held that the licensee’s sale of the lids to the subsequent purchaser was authorized, thereby exhausting the patentee’s rights under the patent. See also \textit{General Talking Pictures v. Western Electric}, 304 U.S. 175, 179-80 (1938). \textit{General Talking} involved a license conditioning sale of patented amplifiers within a designated area for private use in the U.S. The patentee who had already granted an additional license for commercial use deemed that such sale by the private use licensee encroached his patent values in the commercial market. The Supreme Court found that the sale by the private use licensee to the movie theaters violated the license and thus unauthorized. Hence, the patentee’s rights under the patent was held unexhausted there.
\item[iii] \textit{Aro Mfg. co. v. Convertible Top Replacement Co.}, 365 U.S. 336, 346 (1961).
\item[iv] \textit{Ibid.}
\item[v] \textit{U.S. v. Univis Lens Co.}, 316 US 241, 249 (1942).
\item[vi] \textit{Ibid.}
\item[7] \textit{Jazz Photo Corp. v. ITC}, 264 F. 3d 1094, 1107 (Fed. Cir. 2001).
\item[vii] \textit{Id. at 1104} (citing \textit{Dana Corp. v. American Precision Co.}, 827 F.2d 755 (Fed. Cir. 1987)).
\item[viii] \textit{Bowman v. Monsanto Co.}, 153 S. Ct. 1761 (2013).
\item[ix] \textit{Id. at 1767}.
\item[x] \textit{Id. at 1766}.
\item[xi] \textit{Quanta at 632}.
\item[xii] \textit{Lexmark Int’l., Inc. v. Impression Prods. Inc.}, 354 U.S. 176 (1947).
\item[xiii] \textit{Id. at 251}.
\item[xiv] \textit{Id. at 1765}.
\item[xv] \textit{Id. at 1766}.
\item[xvi] \textit{Id. at 1767}.
\item[xvii] \textit{Id. at 1766}.
\item[xviii] \textit{Id. at 29}.
\end{itemize}
Ownership is a fundamental but often overlooked aspect of intellectual property ("IP") assets such as patents, trademarks and copyrights. Being able to properly establish ownership is essential to selling, enforcing, licensing, and even procuring IP assets. Sometimes, individuals and companies get involved in the procurement of IP assets despite not owning the rights to the IP. Often these individuals and companies are unaware of the intricacies of IP ownership and mistakenly believe that they have some or all rights when in actuality they merely have a limited right to use the IP or, worse yet, no rights at all.

This mistaken belief has led some companies to invest heavily in commercializing an IP asset that is actually owned by another. In some cases, once actual ownership is understood, the costs of commercializing may rise dramatically to pay the actual owner for the asset or a license to it. In other cases the commercialization investment may be entirely lost if the actual owner refuses to convey the asset or grant a license, or if the actual owner grants licenses to competitors making commercialization no longer attractive.

Ownership of IP can vary depending on the type of asset, the particular circumstances under which it is created, and the jurisdiction involved. For example, in the U.S. many employers assume that they own the rights to inventions created by their employees, especially inventions that the employees created using company time or property. However, those employers are often surprised to learn that, in many cases, ownership is not so clear-cut.

U.S. patent law adheres to what is known as the hired-to-invent doctrine: in general, someone hired to invent something who succeeds in accomplishing the task during the performance of the contract is bound to assign all rights to the invention to the person that hired them. Most employees, however, are not hired to invent something specific. In these circumstances, courts look at ownership in a case-by-case basis. Lack of clarity regarding ownership can result in added costs to determine ownership, can result in the employees retaining ownership, and in some cases can result in loss of patent rights altogether for an invention.

Determining whether an employee was hired-to-invent is highly factual in nature and rests upon basic contract law principals, which can differ state-by-state. Thus, the determination of whether an employee’s patent rights to an invention are owned by the employer will be case specific and can be different depending on which state’s law will be applied. Courts, however, often look at some common factors in determining ownership. Some of these factors are: 1) whether the employer instructed the employee to create or research new products or processes, or instructed the employee to perform more general tasks, 2) whether the employee utilized company resources to conceive of the invention, 3) the type of work typically performed by the employee and its relation to the invention in question, 4) whether the company pays for the costs of filing and prosecuting the patent application, 5) the details of any written employment agreement between the employer and the employee, and 6) whether the employee refuses to sign papers assigning rights to the invention in question.

Courts will look at the facts and weigh some, if not all, of the factors above in their application of general contract principals to determine whether the employee was hired-to-invent. The outcome can be quite surprising for many employers since in some cases even engineers and researchers have been found to not have been hired-to-invent, leading courts to rule that the employees, not the employers, owned the patent rights to the invention in question. Thus, determining whether your employees have been hired-to-invent involves what can be a murky analysis that can waste company resources.

For example, when ownership is unclear, extra resources will generally be required to argue for ownership in court or during negotiations with another entity. Also, when ownership is initially unclear, additional time may be required to establish ownership, which may allow a competitor – perhaps a former employee challenging ownership – time to actively advertise, make, and/or sell commercialized products embodying the invention in question.

Companies can take solace in the fact that the issues raised by the hired-to-invent doctrine can be avoided entirely with preventative steps. One such preventative step is for the companies to rely upon written employment agreements to acquire ownership of patent rights from employees. However, it must be kept in mind that not all employment agreements are created equal since additional issues may arise depending on the precise language used in the employment agreements. For example, employment agreements that do not specify a particular invention and employment agreements that merely require an employee to assign rights may be deemed by a court to merely create an obligation for the employee to assign rights without actually being an assignment of ownership rights. Thus, ownership would not necessarily transfer to the employer until an actual assignment is made by the employee. As mentioned above, enforcement against an infringer may be impossible for the employer until actual ownership is established. As discussed further below, other issues can also arise.

Companies often pay for filing and prosecuting of patent applications under the assumption that the resulting issued patent will belong to the company, and that, even if there is an issue with ownership, that the issue can be corrected later. However, if a patent application is submitted without listing the company as the applicant – for example, in cases where the inventors initially file the application or where the company
was not yet an assignee, a person to whom the inventor was obligated to assign to, or able to show sufficient proprietary interest in the application – the company may be at the mercy of its employees or former employees (i.e., the inventors) to avoid abandonment of the application.

It should be noted that the USPTO is the gatekeeper for not only evaluating whether the claimed subject matter of a patent application is allowable to be granted in an issued patent, but the USPTO also dictates the rules and procedures for transitioning an allowed patent application into an issued letters patent. When the company was not listed as the applicant upon filing of a patent application and ownership cannot be established for the patent application, the application may be abandoned. For example, in a case where inventors refuse to sign declarations or are otherwise unavailable, if the company is not listed as the applicant upon filing of a patent application and ownership cannot be established for the patent application, the application may be abandoned. For example, in a case where inventors refuse to sign declarations or are otherwise unavailable, if the company is not listed as the applicant upon filing of a patent application and ownership cannot be established for the patent application, the company may be unable to rectify the fact that inventors declarations were not filed. Thus, even if the USPTO determines that all claims in the patent application are allowable, the USPTO may refuse to allow the company – who may be the actual owner, but unable to prove such at the time – to take care of the necessary formalities to allow a patent to grant.

Also, the USPTO’s procedures require payment of an issuance fee from the applicant of the patent application – or a patent practitioner representing the applicant. Thus, if a patent application is filed without listing the company as the applicant, the USPTO will not accept payment from the company – or the patent practitioner representing the company – without an assignment to the company proving ownership.

For example, if the inventor is listed with the USPTO as the owner and the inventor or the inventor’s representative does not pay the issue fee, the USPTO will allow the patent application to go abandoned instead of issuing a patent. Thus, even if the company pays the issue fee, under the USPTO’s current rules and procedures the USPTO will refuse the payment made by the company and will not even issue a patent in the names of the inventors. Once the patent application becomes abandoned – despite having otherwise allowable subject matter – it may cost thousands of dollars to have just a chance to revive the application to avoid losing the associated rights forever.

Of course relatively minor preventative measures could be taken to avoid the above issues. In general, recognizing the intricacies of IP ownership is key to avoiding the issues that may cause a loss of revenue, especially the issues that could have been prevented and cannot be cured.

Endnotes

Cory N. Nesemann, Associate
Cory’s practice focuses on patent preparation and prosecution. Cory represents clients in a wide variety of technologies, including the mechanical, biomedical, electrical, and software arts. In particular, Cory has prosecuted utility patent applications for hydraulic valves, seals, heat exchangers, medical tools, consumer electronics, and computer programs.

Luis A. Carrion, Partner
Luis represents clients in patent and trademark application preparation, prosecution, licensing and litigation.

Among other technologies, Luis has handled patent matters in the fields of telecommunication systems, uninterruptible (data center and telco) power supplies, fluorescent lighting and ballasts, digital signal processing, audio signal processing, welding equipment, computer programs, software-based control systems, electrical circuits, optical devices, computer hardware, remote monitoring, and mechanical assemblies.

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ii See Teets, 83 F.3d at 408.

iii id.

iv id.

v See Dubilier, 289 U.S. at 193-94, 53 S. Ct. at 559-60.

vi See e.g., Banks v. Unisys Corp., 228 F.3d 1357, 1360 (Fed. Cir. 2000).
One hot topic in patent litigation, particularly involving non-practicing entities, is the expansive venue provisions that permit accused patent infringers to be sued seemingly anywhere... such as the federal court in Tyler, Texas and similar places that most companies have never been. These plaintiff-phile venues, and the fact that the available venues for patent Declaratory Judgment (DJ) cases are significantly restricted, seems abusive to many and is spurring action in Congress.

So what is the problem? There are two different, but related, sets of rules that determine where a case can be filed and litigated: personal jurisdiction and venue. As currently written and interpreted by the Court of Appeals for the Federal Circuit ("Federal Circuit"), these rules heavily favor the patentee and usually allow accused infringers, particularly those that are "national," to be sued almost anywhere.

Personal jurisdiction is a constitutional, due process requirement that the defendant have some level of contact with the state in which it is sued. General personal jurisdiction permits a defendant to be sued for any cause of action in the state of incorporation, where it has its principal place of business, or in a state where the defendant’s contacts are so "continuous and systematic" as to render them essentially at home in "that state the forum State." The more limited specific personal jurisdiction requires that the subject of the litigation be related to "certain minimum contacts [between the defendant and the forum state] such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'"

In the 1994 Beverly Hills decision, the Federal Circuit adopted a very expansive and generous view of specific jurisdiction in patent infringement cases that, in practice, finds specific personal jurisdiction in any state to which a defendant shipped directly or even indirectly under a broad "stream of commerce" theory. Moreover, the Federal Circuit allows a defendant to be sued for all acts of infringement anywhere that it could be sued for one act of infringement. While the Supreme Court has recently criticized "stream of commerce" theories and limited specific personal jurisdiction; the Federal Circuit has, unsurprisingly, declined to apply these newer precedents to its own cases.

The expansive scope of personal jurisdiction carries over to the venue inquiry. The patent venue statute, 28 U.S.C. § 1400(b), states:

(b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

While the second provision appears to limit venue to districts where defendant committed infringement AND has a "regular and established place of business," the Federal Circuit's view of the first provision renders the second moot. Incorporating the general venue provisions into the patent rules, the Federal Circuit finds that a corporate defendant "resides... in any judicial district in which such defendant is subject to the court's personal jurisdiction."

Thus, accused infringers (at least corporate ones) can be sued in any state or district in which they are subject to personal jurisdiction, which under the Federal Circuit's stream of commerce analysis is almost anywhere the accused product ends up for sale, even if sold there by someone else.

In contrast, the Federal Circuit has been keen to shield patent owners from personal jurisdiction in declaratory judgment actions by holding that sending threatening letters into a particular state does not give rise to personal jurisdiction for a DJ action despite the suit being based on those letters. Thus, for example, non-practicing entities that send letters threatening infringement can generally only be DJ'd where they are incorporated or have their principal place of business.

The asymmetrical impact of the jurisdiction/venue rules and the perceived abuses in the Eastern District of Texas and other venues has prompted Congress to propose changing the patent venue provisions. Senate Bill 2733, the "Venue Equity and Non-Uniformity Elimination Act of 2016," was introduced in the Senate in March 2016 and seeks to amend the venue laws to allow patent actions to be brought only in judicial districts where:

- the defendant has its principal place of business or is incorporated;
- the defendant has committed an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement;
- the defendant has agreed or consented to be sued;
- an inventor named on the patent conducted research or development that led to the application for the patent in suit; or
- a party has a regular and established physical facility and has managed significant research and development for the invention claimed in the patent, has manufactured a tangible product alleged to embody that invention, or has implemented a manufacturing process for a tangible good in which the process is alleged to embody the invention.

The bill is currently in committee. However, Senate Judiciary Committee Chairman Chuck Grassley (R-Iowa) recently indicated that he is not planning to take action on a bill aimed only at restricting where patent suits can be filed and is instead focused on more comprehensive patent reform legislation. Sen. Grassley is a sponsor of S. 1137, the "Protecting American Talent and Entrepreneurship Act of 2015 or the PATENT Act" which
proposes various patent litigation reforms, but does not at this time include any changes to the venue laws. The PATENT Act is expected to reach the full Senate this fall, and may be amended to include some of the other pending reform measures, including those from S. 2733.

Endnotes

Kyle B. Fleming, Partner
Kyle is a versatile and veteran trial lawyer and counselor that has been solving problems and achieving clients’ goals for more than 20 years. Kyle’s diverse experience—including as a partner in large and small law firms, two stints as an in-house general counsel, and co-founder of a startup—provides the perspective and approach to matters that few can match. Kyle has successfully handled numerous and varied appeals and cases involving, for example, patent and intellectual property infringement, importation and trade disputes, complex commercial disputes and breach of contract, securities and anti-trust violations, shareholder/partner disputes, and Constitutional or common law violations.

7 See, e.g., Leupold & Stevens, Inc. v. U.S. Optics, Inc., 552 F.3d 1324, 1338 (Fed Cir. 2008).
9 Some of the other patent-related bills pending in Congress include: H.R. 9, the Innovation Act; H.R. 4829, the Trade Protection Not Troll Protection Act; S. 652, the STRONG Patents Act of 2015; H.R. 2045, the Targeting Rogue and Opaque Letters Act of 2015; and H.R. 1896, the Demand Letter Transparency Act of 2015.

Trade Secrets in the U.S. Invigorated by Large Verdict and Recently-Enacted National Legislation

Stephanie Williams and Nick Gingo

Recent activity by all three branches of the U.S. government has put the spotlight on trade secrets as an effective tool for protecting a company’s closely held information. In April, a Federal court awarded medical software company Epic Systems Corp. $940 million in damages in a trade secret misappropriation lawsuit against Indian information technology provider Tata Consultancy and Tata America International Corp. And in May, Congress and the President enacted the Defend Trade Secrets Act of 2016 (“DTSA”), which creates for the first time a federal private civil cause of action for trade secret misappropriation.

Epic v. Tata

In this recent Wisconsin case, Epic accused Tata employees of “brazenly stealing” trade secrets while working as consultants for Epic. According to Epic’s amended complaint filed in January 2015, Tata inappropriately downloaded more than 6,000 documents from Epic’s computer and provided the documents to Tata’s health care software subsidiary Med Mantra. Based on information obtained from an informant, Epic alleged that Tata employees had been unlawfully accessing Epic’s software beyond what the consulting contract allowed “to unfairly compete with Epic” since as early as 2012. The jury found in Epic’s favor on claims of state-law trade-secret misappropriation, computer-fraud, breach of contract claims, and unfair competition. The damages awarded included $240 million for compensatory damages and $700 million in punitive damages. Tata has indicated that it will appeal the verdict.

The magnitude of the damages awarded to Epic evidences the value trade secrets, like other forms of intellectual property, can provide to a company. However, unlike patents, trademarks, and copyrights, which have federal civil causes of action, civil protection for trade secrets has only been available at the state level. This is about to change.

The Defend Trade Secrets Act of 2016

On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016, which creates a federal private civil cause of action for trade secret misappropriation. The central provision of the DTSA reads, “[a]n owner of a trade secret that is misappropriated may bring a civil action . . . if the trade secret is related to a product or service used in, or intended for use in interstate or foreign commerce.” Currently, trade secrets are protected under a particular state’s adopted version of the Uniform Trade Secrets Act (“UTSA”) and/or common law. In an effort to harmonize each state’s version of the UTSA and variable case law, the DTSA provides a single federal framework for trade secrets misappropriation lawsuits. Notably, the DTSA does not preempt any previously-existing state trade secrets law, but will exist in parallel.

The DTSA broadly defines the term “trade secret” to mean:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

continued on page 8
“Misappropriation” is defined in detail as follows:

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who—

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person, knew or had reason to know that—

(I) the trade secret was a trade secret; and

(II) knowledge of the trade secret had been acquired by accident or mistake.\[x\]

One key provision of the DTSA provides for a civil seizure prior to a finding of misappropriation by which a court may “issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action” based on an ex parte application to the court.\[xii\] Due to the controversy that this provision may cause, several procedural safeguards are included within the Act, including only allowing seizures in “extraordinary circumstances” and requiring that the “applicant has not publicized the requested seizure.”\[xiii\]

Once misappropriation is found, the court may grant an injunction “to prevent any actual or threatened misappropriation” as long as the injunction does not “prevent a person from entering into an employment relationship” and that any conditions placed on employment are “based on evidence of threatened misappropriation and not merely on the information the person knows.”\[xiv\] Damages may include (1) actual loss in combination with any unjust enrichment caused by the misappropriation; or (2) a reasonably royalty for the use.\[xv\] Willful misappropriation can double damages.\[xvi\] Attorneys’ fees are also available for a misappropriation claim brought in bad faith.\[xvii\]

The DTSA also includes a public policy immunity provision for “whistleblower” employees that provides for immunity from liability for disclosure of a trade secret that is made in confidence to a government official or attorney “solely for the purpose of reporting or investigating a suspected violation of law” or in a filing made in a lawsuit made under seal.\[xviii\] Employers are required to provide notice of this immunity “in any contract or agreement with an employee that governs the use of the trade secret or other confidential information.”\[xix\]

The DTSA will fill the gap left by trade secret protection at the state level, which varied between states. As mentioned above, it will not preempt the existing state law regarding trade secrets, but will instead provide an additional tool for companies to use to combat the dissemination of their trade secrets. Given the potential value of trade secrets, companies and counsel should familiarize themselves with the provisions of the DTSA so that they are prepared to leverage this new legislation.

Endnotes

Stephanie M. Williams, Associate
Stephanie’s primary practice focuses on patent preparation and prosecution, including infringement, validity, freedom-to-market and patentability studies. She has handled patent matters for domestic and international clients involving a variety of technologies in the chemical and mechanical arts, including small scale reactors, fuel additives, polymers, building materials and imaging devices.
At first blush, the consolidated opposition and cancellation proceedings in *Embarcadero Technologies, Inc. v. Delphix Corp.*, 117 USPQ2d 1526 (TTAB 2016) appear to be just another unsuccessful claim regarding a purportedly fraudulent statement of use. The Trademark Trial and Appeal Board (TTAB or Board), however, made an important ruling regarding the filing of statements of use and the use of so-called “insurance” requests for extensions of time.

In the proceedings, Petitioner Embarcadero Technologies sought to cancel Delphix’s registration of the mark *DELPHIX* ("the mark"), for “computer software for use in database management; database management software for managing database storage and provisioning functions.” Ultimately, the case boiled down to Embarcadero’s argument that Delphix had not properly used the mark in a timely manner.

The salient facts regarding the non-use dispute were as follows:

- On July 28, 2009, the notice of allowance issued, giving Delphix until January 28, 2010 to file a statement of use or an extension of time.

- On August 12, 2009 (well before the deadline), Delphix filed a statement of use alleging a date of first use in commerce of March 1, 2009.

- On January 25, 2010 (still before the deadline), after receiving an office action from the United States Patent and Trademark Office (USPTO) finding the specimen of use unacceptable, Delphix filed an “insurance” extension of time, extending the deadline for filing a statement of use until July 28, 2010.

- On February 3, 2010, Delphix submitted a substitute specimen and alleged a new date of first use in commerce of December 3, 2009 (after the filing date of the original statement of use, but still before the deadline for filing a statement of use).

Based on these facts, Embarcadero argued that after Delphix filed a first, inaccurate statement of use on August 12, 2009, it could not later file another statement of use claiming a first-use date after that date. The Board, however, disagreed and explained that the only requirement is that an applicant’s substitute specimen must have been in use prior to the deadline for filing a statement of use. In other words, the actual filing of a statement does not cut short the deadline for meeting the requirement. In this case, the notice of allowance was issued on July 28, 2009, giving Delphix an original deadline to file a statement of use of January 28, 2010. Delphix’s request for an extension of time on January 25, 2010 then extended this deadline to July 28, 2010. Accordingly, because of its “insurance” extension, Delphix actually had until July 28, 2010 to begin using the mark with the identified goods.

The TTAB’s ruling illustrates how useful an “insurance” extension of time can be when there are potential specimen issues. In this case, it meant that Delphix had an additional six months to begin use and submit a proper specimen showing use.

### Endnotes

**Kathryn J. Wieber, Law Clerk**

Kathryn began as a law clerk with Renner Otto in May 2015. Kathryn currently attends Case Western Reserve University School of Law where she focuses her studies on Patent Law. Kathryn graduated with a Bachelors of Science from Central Michigan University in 2014 where she studied Neuroscience and Biomedical Sciences.

**Grant J. Steyer, Ph.D., Associate**

Grant Steyer’s experience in procuring and enforcing a broad range of intellectual property has helped his clients grow, enforce, and manage their intellectual property portfolios. Grant has represented and counseled clients of all sizes on patent application preparation, prosecution, and appeals in a broad range of technical fields including biomedical devices, image processing, optical imaging, and the computer arts. Grant also routinely counsels and represents clients regarding monetizing their intellectual property, including licensing, transfer, and acquisition of trademarks, patents, copyrights, and trade secrets.
IP5 Updates – Updates from the Patent Offices of China (SIPO), Europe (EPO), Japan (JPO), Korea (KIPO) and the U.S. (USPTO)

TaeRa Franklin

USPTO: May 2016 Updates on Patent Eligibility
On May 4, 2016 the USPTO issued The May 2016 Subject Matter Eligibility Update which “provides (i) a memorandum to the examining corps on best practices in formulating a subject matter eligibility rejection and evaluating the applicant’s response, (ii) additional subject matter eligibility examples in the life science area, and (iii) an open-ended comment period to allow ongoing comments on subject matter eligibility topics.” In addition, the Update “announces the selection of subject matter eligibility rejections as a new case study under the Topic Submission for Case Studies Pilot Program.”

On May 19, 2016, the USPTO issued a memorandum in light of the recent Federal Circuit rulings with respect to patent eligibility (Enfish LLC v. Microsoft Corp. and TLJ Communications LLC v. A.V. Automotive, LLC), stating that “[w]hile [Enfish] does not change the subject matter eligibility framework, it provides additional information and clarification on the inquiry for identifying abstract ideas (Step 2A of the subject matter eligibility examination guidelines).” Hence, while patent examiners are to continue “to determine if the claim recites a concept that is similar to concepts previously found abstract by the courts, the examiners are also advised that “[t]he fact that a claim is directed to an improvement in computer-related technology can demonstrate that the claim does not recite a concept similar to previously identified abstract ideas.”

EPO: Marching on with Unitary Patent Court in the midst of the “Brexit”.
On December 15, 2015, the select committee representing the participating EU member states formalized “a series of agreements into a complete secondary legal framework comprising the implementing rules, budgetary and financial rules, the level of the renewal fees and the rules concerning the distribution of the renewal fees between the EPO and the participating EU member states.” The EPO provides a simulation of online filing for the UPC as of May 18, 2016. The preparatory committee has published the draft code of conduct for representatives appearing before the UPC and has begun to recruit UPC judges in May.

The UK’s EU referendum was held on June 23, 2016 with the UK voting to leave the EU. The vote may present some issues to the UPC. First, the UK may automatically exclude itself from the UPC since EU membership is a prerequisite to the UPC. Also, the UPC can happen only if it has been ratified by 13 countries including the three EU member states in which the most valid European patents are in effect in the year preceding the signing of the agreement (Article 89 UPC agreement) – the U.K. is currently one of the three. If the U.K. exits the EU, then the three states with the most patents become Germany, France and Italy whose ratification legislation is well under way. Brexit may be inconvenient since it will likely delay introduction of the UPC, but the UPC will happen regardless, perhaps just a little later than planned.

SIPO: Supreme People’s Court’s Revised Commentary on Patent Infringement Dispute
On April 1, 2016, the Supreme People’s Court’s revised commentary went into effect. The commentary includes standards related to patent infringement and has been adopted in order to ensure, among others, a correct implementation of the patent law harmonization, refinement of patent infringement process and the referee standards. A total of 31 articles have been adopted, including issues concerning claim interpretation, indirect infringement, damage calculation, and effects of invalidation on infringement proceedings.

The commentary seeks to, among others, increase judicial protection of patent rights, shorten the duration of patent litigation, ease the burden of proving damage and improve the low compensation currently available. By providing a clear legal framework for the public, the Supreme People’s Court hopes to promote a high level of patent drafting. The commentary further manifests its effort to adhere to the principle of balancing interests of the patentees, the public, and others. Further, it also deals with functional features, standard essential patents and estoppel rules.

In May 2016 the JPO issued an outline of the examination guidelines for patent and utility model. It briefly explains the novelty and inventive step requirements under Art. 29(1) and (2) of the Patent Act and the procedures for determining the novelty and inventive step. It discusses secret prior art issue under Art. 29bis and double patenting issues under Art. 39. It describes the overview of the description (such as enablement) and claims requirements (e.g. support, clarity, conciseness, formality requirements). It also explains industrially applicable inventions (akin to patent eligibility), special features, amendment process and restricting the scope of claimed subject matter. It is a brief outline but very informative and easy to follow.

KIPO: Amendment to Trademark Examination System Announced.
On February 22, 2016, KIPO announced an amendment to the trademark examination system. Previously, adding a product class was not permitted since such addition was considered to be changing the subject matter of the original application. The amendment allows such practice of adding a new product class as long as the scope of the protection is not enlarged, thereby easing the financial burden on the applicant as well as reducing the waste of administrative resources. Further, the amendment extends the deadline to submit the applicant’s
opinion in response to an office action as long as the extension does not go beyond four months from the date of the office action, hence affording the applicant more time for negotiations regarding previously registered trademarks. The amendment also adjusts the time in which KIPO must notify its decision as to whether an informant’s information will be used. This is to prevent the informant’s loss of opportunity to appeal the decision as a result of not receiving timely notice.

Endnotes

TaeRa K. Franklin, Associate
TaeRa focuses her practice on patent preparation and prosecution, particularly in the electrical, electronics and telecommunications fields. TaeRa’s technical background is electrical engineering.

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ii Id.


iv Id.


ix See http://www.epo.org/searching-for-patents/helpful-resources/asian/asia-updates/2016/20160404.html; see also http://www.chinacourt.org/article/detail/2016/03/id/1826424.shtml

x The outline available at https://www.jpo.go.jp/tetuzuki_e/t_tokkyo_e/pdf/outline_guideline_patents/outline.pdf