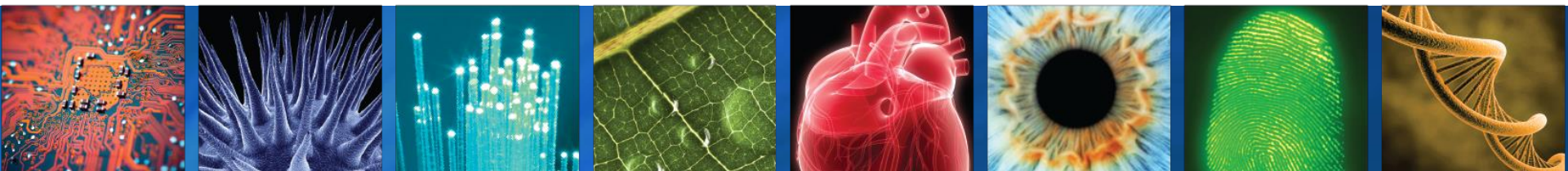


Here's Another Fine Mess You've Gotten Me Into
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ACC Double Header



Benjamin Franklin on Avoiding Messes

“I very explicitly settled, in our articles, everything to be done by or expected from each partner, so that there was nothing to dispute, which precaution I would therefore recommend to all who enter into partnerships; for...little jealousies and disgusts may arise...with lawsuits and other disagreeable consequences.”

» B. Franklin, his autobiography - 1790

Overview of Messes to Avoid

- Split Ownership
- Agreements to Agree
- Agreements with Unclear/Improper:
 - relation to prior agreements
 - term
 - royalty rate
 - execution
- Naming Wrong Entity to Hold IP Rights

A Mess to Avoid – Case Study

- Alloys Cleaning v Richardson
 - Richardson (CONSULTANT) Hired by Alloys Cleaning (Good Co.) to Reduce NO_x Emissions
 - **3 Lawsuits**
 - **7 Law Firms**
 - **18 Patent Filings** (\$300k) – 6 wasted
 - 3 Licensees scared away (2 were \$XB Global)
 - 1 \$XB Potential Licensee – cold call

Why Do We Need to “Keep it Clean”?

- IP is “property” with a Chain of Title (like real property)
- IP Rights can be divided, transferred and licensed in many different ways.
- Contract terms in Chain of Title can impact:
 - ability to USE technology/works of authorship, etc.
 - ability to sell/license IP rights
 - ability to enforce IP rights
 - who may/must participate in IP litigation
 - remedies
 - whether the IP suit can continue

When to Consider IP Ownership Issues

- Hiring creative employees
- Exit interview
- Consultant/Developer agreements
- Filing for patent/trademark/copyright
- Issuance of patent/trademark /copyright
- Employee “visitor” at third party
- Joint Development Agreements
- Entering license
- Intra-company licenses/tax planning
- Prior to filing suit
- Prior to financing/corporate transaction

Root Cause of Split Ownership Messes: Who is the Initial Owner of Inventions?

- **INVENTOR** is the initial *owner*
 - the ownership of the patent initially vests in the named **inventor(s)**. 35 USC § 101, 102; *Stanford v. Roche* 131 S. Ct. 2188 (S. Ct. 2011); *Kennedy v. Hazelton*, 128 U.S. 667, 672, (1888); *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1248, (Fed. Cir. 1993)
 - Patents are assignable by an instrument in writing transferring an alienable ownership interest in the patent or application. 35 U.S.C. 261.

Keeping it Clean: Avoid Split Ownership

- A) Good Co. pays **Full Price** for Inventor's Time
 - **Good Co.** should own
 - *All* rights to invention, full rights of alienation
 - Option: Patent Incentives Program

- B) Good Co. pays **Less Than Full Price** (up front)
 - **Good Co.** should own to avoid complications
 - Agree to **BEFORE** starting work
 - payment for hours +
 - Royalty
 - Option: Internal Incubator, eg., Google's "Area 120"

Keeping it Clean: Inventions on Employee's Own Time

- **State Lawes Implicated re “Employee’s Inventions”**
 - California (California Labor Code § 2870)
 - Delaware (Delaware Code Annotated, Title 19, § 805)
 - Illinois (Illinois Revised Statutes, Chapter 140, § § 301-303)
 - Kansas (Kansas Statutes Annotated § § 44-130)
 - Minnesota (Minnesota Statutes Annotated § 181.78)
 - North Carolina (North Carolina General Statutes § § 66-57.1, 66-57.2)
 - Utah (Utah Code Annotated § § 34-39-2, 34-39-3), and
 - Washington (Washington Revised Code Annotated § § 49.44.140, 49.44.150).

Ex. California's Protection of Inventors

- CALIFORNIA LABOR CODE SECTION 2870:
 - Any .. employment agreement which provides that an employee shall assign...his or her rights in an invention **shall not apply** to an invention that the employee developed **entirely on his or her own time ...**
- CALIFORNIA LABOR CODE SECTION 2871:
 - No employer shall require [waiver of] Section 2870 as a condition of employment
- CALIFORNIA LABOR CODE SECTION 2872:
 - If an employment agreement [requires] employee to assign ... any invention ... the employer must ... provide a written notification to the employee that the agreement does not apply to ... Section 2870...

Sample Agreements for Avoiding a Mess

- “Employee Nondisclosure and Invention Assignment”
- “Consulting Agreement”
- “Developer Agreement”
- “Vendor Agreement”
- Common Terms?
 - Good Co. Owns All IP rights

Keeping it Clean: Do Not “Agree to Agree”

- Example: Agreeing to Assign at some future date
 - 1st Agreement: “**agree[d] to assign**” to Stanford “right, title and interest in” inventions resulting from employment
 - 2nd Agreement: “**will assign and do[es] hereby assign**” to Cetus “right, title and interest in” inventions made “as a consequence of [his] access” to Cetus.
 - Federal Circuit: “the contract language “agree to assign” reflects a mere promise to assign rights in the future, ***not an immediate transfer*** of expectant interests.”
 - 2nd Agreement trumps 1st, and later patent assignment

Stanford v. Roche 131 S. Ct. 2188 (S. Ct. 2011); *Stanford v. Roche* 583 F.3d 832 (Fed. Cir. 2009)

Keeping it Clean: Dating Agreements

- Legitimate Backdating:
 - execute agreement today
 - state desired date of effect
 - ***memorialize earlier*** oral assignment or license
- Do:
 - Transfer right to recover intervening damages
 - Expressly reference earlier agreement
 - Date currently
- Don't: forgery!

Keeping it Clean: License Agreement Terms

- Patent License Agreements
 - When does royalty obligation end?
 - Royalties due solely to an expired patent is “unlawful *per se*”
Brulotte v. Thys Co., 379 U.S. 29, 32 (1964)
 - Exceptions:
 - Improvement patents "incorporated" in licensed products can extend royalties after original patent expires
Zila, Inc. v. Tinnell, 502 F.3d 1014, 1026 (9th Cir. 2007)
 - Trade secrets licensed
 - Portfolio-wide patent licensing
Automatic Radio Mfg Co v. Hazeltine Research, 339 U.S. 827 (1950)

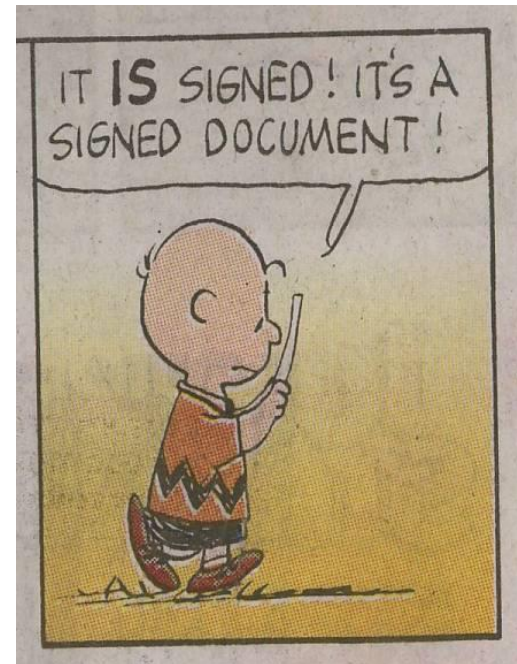
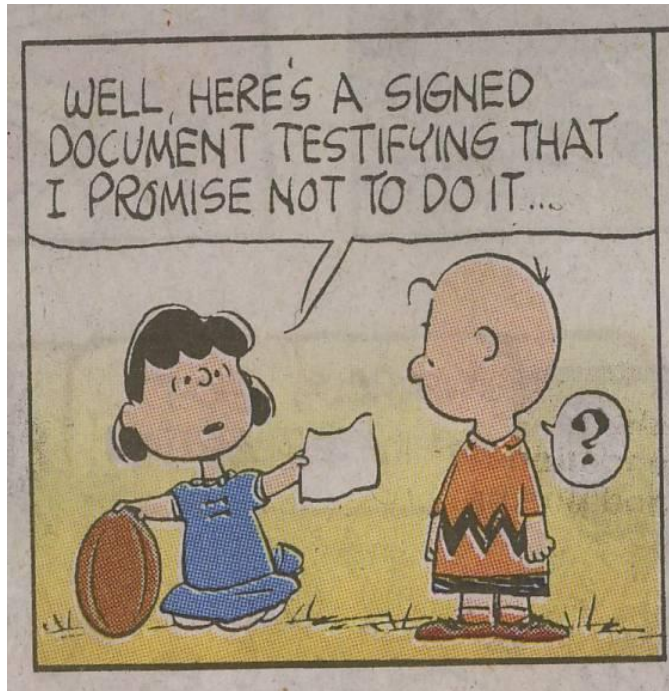
Keeping it Clean: License Agreement Term

- License Agreements – pitfalls on term (cont'd)
 - Articulate administrative convenience/legal ground for term tied to something other than patent expiration
 - Example of what **not** to do:
 - "The royalties shall be paid for so long as the patents to be issued on said patent application and **improvements** thereon represented by improvement patents **shall be in existence** and shall terminate on the expiration of such patents and improvement patents."

Keeping it Clean: Set Finite Royalty Rates

- Developer Agreements – pitfalls
 - Agreeing to negotiate royalty rates
 - “Contractor has exclusive right to control design created under this agreement, pending payment of a reasonable all-inclusive royalty . . . **to be negotiated in a future agreement** with Subcontractor.”
 - Listing factors to consider in negotiation **no help**

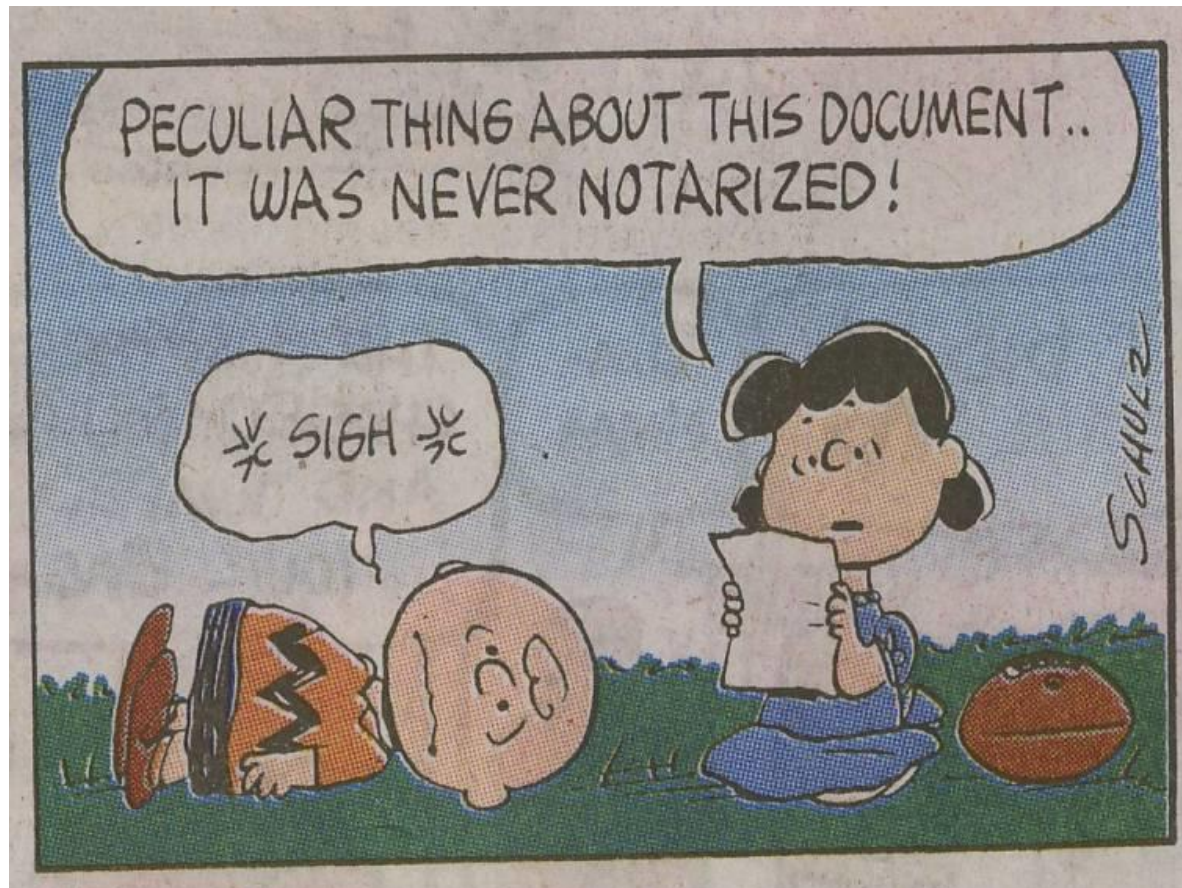
Don't Make a Mess: Signing the Agreement



Should you trust a signed agreement?



Should you trust a signed agreement?



Seriously: Notarizing Helps

- Patent Assignments and Licenses
- 35 USC 261
 - Notarization “shall be *prima facie* evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.”
- Non-Notarized Agreements must be Authenticated
 - A Defendant may not be helpful here

Keeping it Clean: Name Right Entity as Owner

- **Why does corporate structure matter for IP?**
 - Impacts ability to enforce IP rights
 - Determines who can participate in IP litigation
 - Can affect what remedies can be recovered
 - May determine whether the IP suit can continue

Who Has Clean Rights to Enforce IP?

Patent	Owner of patent or its exclusive licensee
Trademark	Registered owner and those who obtain the right to sue from the registered owner
Copyright	Copyright owner and any exclusive licensee

Who Has Clean Rights to Enforce IP (cont'd)

- Fact-intensive inquiry
- Use of the term “exclusive” not sufficient; must examine the actual rights conferred in each license agreement
- Continuum of rights

Owner of all rights with no licenses

Exclusive licensee with right to enforce

Exclusive licensee of a subset of rights

Exclusive licensee subject to pre-existing licenses

Non-exclusive licensee

Messes Where Corporate Structure Affected Outcome

- **Related corporate litigants dismissed where they lacked standing to bring suit**

Spine Solutions, Inc. v. Medtronic, 620 F.3d 1305 (Fed. Cir. 2010)

- **Injunctive relief denied where the named plaintiff could not show competitive injury**

Medtronic Sofamor Danek USA v. Globus Medical, 637 F.Supp.2d 290 (E.D. Pa. 2009)

- **Lost profits denied where named plaintiff did not make sales and could not show direct impact from infringing sales**

Poly-America L.P. v. GSE Licensing Technology, Inc., 383 F.3d 1303 (Fed. Cir. 2004)

Mars, Inc. v. Coin Acceptors, Inc., 527 F.3d 1359 (Fed. Cir. 2008)

Keeping it Clean: Maximize Ability to Enforce IP

- Make corporate entity selling in U.S. a party to the lawsuit, either as owner of the IP or exclusive licensee with right to enforce
- To recover lost profits
 - Include the U.S. entity in the suit, or
 - Make a showing that profits from the U.S. entity flow back to the corporate entity bringing the lawsuit

A Fine Mess – True Story

- Good Co. needed to reduce NOx Emissions
 - Existing “Scrubber” too small
 - Scrubber MFG – no solution
- Good Co. Hired CONSULTANT
 - No Agreement re IP Rights
 - CONSULTANT had no solution
- Good Co. Owner and CONSULTANT worked together
 - CO-INVENTED solution
 - Signed **MOU w/o actual assignment**

A Fine Mess – True Story

- **CONSULTANT** offers to file patents, Good Co. agrees
 - **CONSULTANT** hires Patent Attorney #1, files Patent App. #1 as **Sole Inventor**
 - **CONSULTANT** hires Patent Attorney #2, files Patent App. #2 as **Sole Inventor**
 - **CONSULTANT** attempts license to \$XB Chem Co.
- Good Co. Discovers Patent App #1 and #2
 - Missing inventor - Good Co. Owner
 - We step in.

The Mess Gets Messier

- Good Co. Patent Atty refiles patents with correct inventors listed.
- Settlement Discussions Fail
- Good Co. Files Lawsuit # 1 – Fraud
 - CONSULTANT loses license with Chem Co. #1
- CONSULTANT Files Lawsuit #2 – Qui Tam (secretly)
- Settlement # 2 - Lawsuit #1 dismissed w/o prejudice
- Lawsuit # 2 (Qui Tam) made public, \$500M
 - CONSULTANT refuses to dismiss – Breaches Settlement # 2

The Mess Gets Much WORSE

- **CONSULTANT Abandons Patent Applications** (4 wasted patent filings).
 - Good Co. obtains 2 patents, files Foreign Patents (12 patent filings)
- **Settlement #3 – Fails**
- **Lawsuit # 2 – CONSULTANT loses Qui Tam on Demurrer**
- **CONSULTANT Revives patent** after 18 months (2 more wasted patent filings)
- **Chem Co. #2 (\$XB) cold calls Good Co. for License**
 - No deal – too much mess
- **Good Co. Instigates USPTO Interference (Lawsuit #3)**
 - Good Co. Wins. 47-page decision *Miller v Richardson*, Pat Interference No. 106,040.

3 Lawsuits

Good Co.

CONSULTANT

Lawsuit #1 – Fraud – Settlement Failed

Qui Tam – Dismissed w/ Prejudice (Demurrer)

USPTO Interference – Good Co. Wins Co-Inventorship

7 Law Firms

Good Co.

CONSULTANT

Law Firm # 1 (Patent)

Law Firm # 2 (Patent/Co-Representation)

Law Firm # 3 (Knobbe)

Law Firm # 4 (Patent)

Law Firm # 5 (Qui Tam)

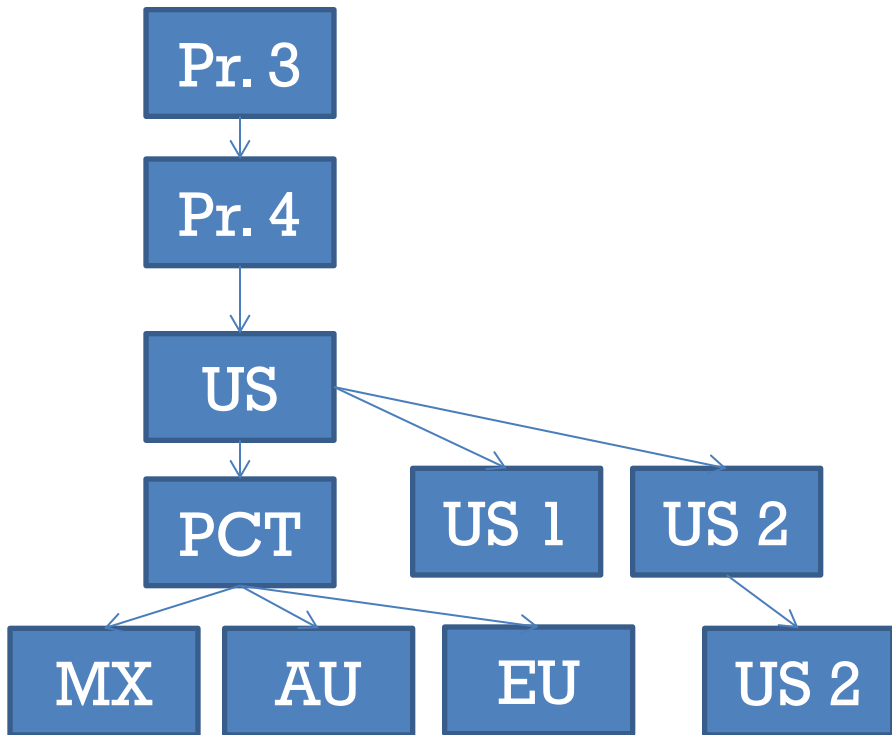
Law Firm # 6 (Qui Tam)

Law Firm # 7 (Patent)

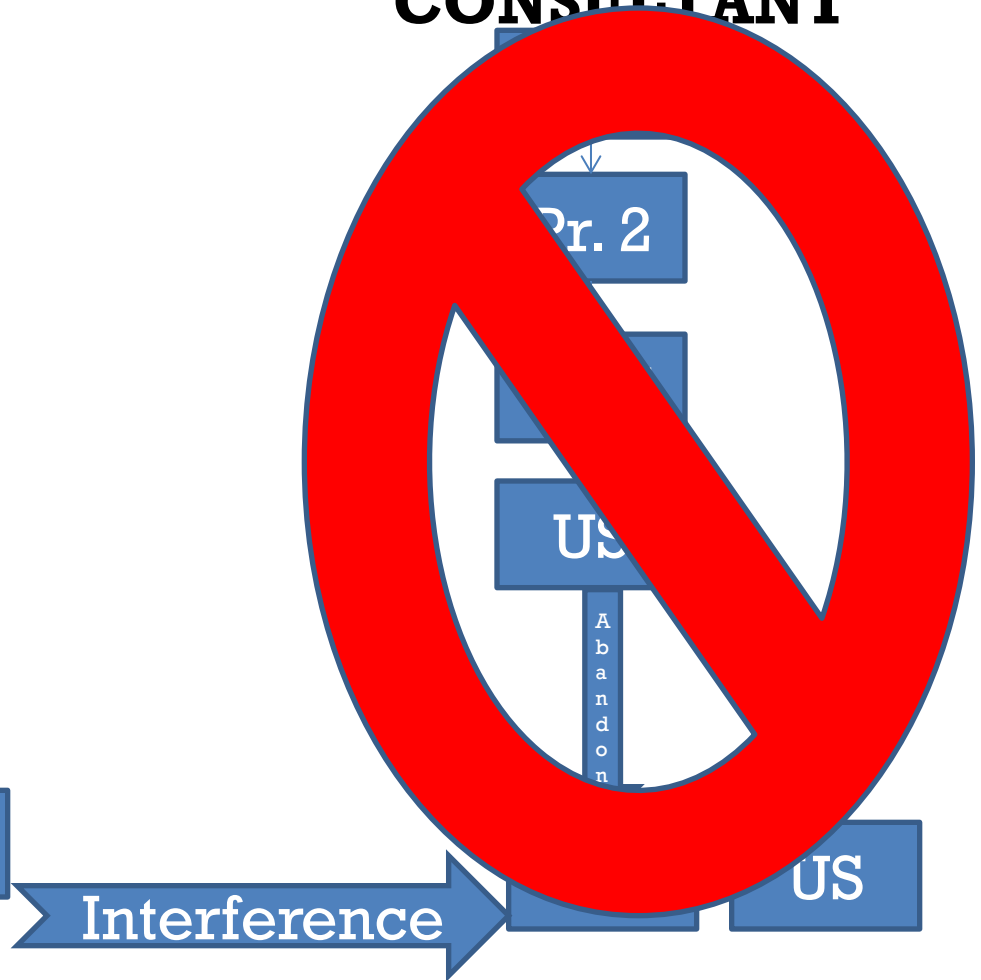
Law Firm # 2 (Patent)

18 Patent Filings

Good Co.



CONSULTANT



Avoid the Mess - Takeaways

- If You Pay For Inventor's Time – You Should Own the Invention
- Execute a Proper Agreement BEFORE work begins
 - Pay Full \$/Hr. or Reduced \$/Hr. + ***Predefined*** Royalty
- If NOT:
 - **2 \$XB Licensees Scared Off**
 - **3 Lawsuits**
 - **6 Wasted Patent Filings**
 - **7 Law Firms**

Disclaimer

- Nothing in this presentation should be construed as legal advice or creating an attorney-client relationship. Every situation is unique; please consult an attorney regarding your situation.