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contents

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feature articles

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editor's note

The Necessity of Protection

Today's general counsel is in survival mode. Our current state of affairs is marked by corporations folding and business cutbacks where a company's existence can be hanging on by a thread. The recession has magnified the need to maintain a competitive edge and more importantly an increased call for protection of the products of the human mind: copyrights and patents. Sound advice and up-to-date knowledge of federal law has become more vital, and the outside counsel writing in this issue provide invaluable guidance.

Many technology and science industries are entering into joint ventures as a way to rely on each other's expertise in research and development of new products. However, these agreements may result in unexpected twists and turns regarding the disposition of potential intellectual property that may be developed by the parties. Robert J. Paradiso and Elizabeth Pietrowski caution that failure to properly plan for the disposition may lead to the failure of the collaboration along with the accompanying loss of invested time and resources (page 4). Further, Cathryn A. Mitchell's article offers an interesting perspective on today's intellectual property competition, noting that antitrust and intellectual property are complementary fields, with IP rights providing incentives, as opposed to bases to eliminate innovation (page 18).

The most common forms of intellectual property are confidential business information, proprietary information and trade secrets. The owner of the business will often believe that it has been damaged if a former employee has access to such information. States have long recognized that the owner of a business has a protectable interest in trade secrets and just plain confidential business information. However, the application of the law depends on the facts, and Ira Hammer's article warns that the effectiveness of a non-compete agreement remains in the details (page 14). Also as a further precautionary matter, read Anthony S. Volpe's and Melissa D. Doogan's article on why the chain of title to intellectual property needs to reflect successive ownership changes, with each one linked to the next so that an "unbroken chain" is formed (page 21).

The new USPTO rules, which were issued in August 2007, change the process for patent applications by introducing limits to the number of continuation applications that a company may file, and the number of claims that can be included in one patent application. Marc S. Friedman and Michelle C. Gabriel explain why biotechnical and pharmaceutical companies anxiously await the the fate of these recently enacted rules that have been challenged within the federal circuits (page 6). In addition to new federal rules and procedures, any savvy intellectual property attorney, according to Joseph M. Manak's article, needs to know the basics of discovery in patent litigation, such as using the "funnel approach" of starting with general questions to get the witness to give a broad lay of the land and then be able to drill into more targeted questions (page 10). However, having knowledge of federal rules and litigation tactics might not be enough for today's intellectual property attorney. In Noel D. Humphreys' article, he describes how picking a geographic descriptive trademark might also make the difference (page 16).

All of this is sound advice at a time where remaining strong amongst your competitors will make the difference between survival and disaster. The importance of protecting your ideas, names and innovations remains at the heart of a business' longevity.

Jennifer Manger

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Dilemmas of Joint Patent Ownership

Provide a clear understanding of the parties' expectations

By Robert J. Paradiso and Elizabeth Pietrowski

Across many industries, it is becoming increasingly less common for a single organization to maintain the internal infrastructure and staff for all essential aspects of their business. Many companies are outsourcing even their key business functions and the trend of forming strategic alliances, partnerships and joint ventures in order to commercialize and bring to market new technologies is becoming more commonplace.

This trend is particularly apparent in technology and science industries, whose companies rely upon each other's expertise in the research and development of new products, ranging from electronic devices to pharmaceutical drug candidates. When entering into any type of collaboration, it is essential to establish the disposition of potential intellectual property that may be developed by the parties at the forefront in order to provide a clear understanding of the parties' expectations.

Dividing ownership in co-developed intellectual property equally among all participants of the joint endeavor may appear to be the most equitable manner to handle this issue. However, this solution can cause many unexpected twists down the road that are completely unanticipated and unintended by the participants. Therefore, it would behoove the parties to understand the nuances of joint ownership, as well as to explore alternative options in order to meet the best interests of the collaboration.

One important concept to consider with joint ownership of patents is that patent ownership is based on inventorship. Patent inventorship is based on the claims, i.e., the numbered paragraphs at the end of a patent that sets forth the "meets and bounds" of the invention. Patents typically have multiple claims, each with varying scope and significance. In order to be named as an inventor, it is only necessary to have contributed to at least one of the claims, not all of them. Inventorship can play an important role in patent ownership as under U.S. Patent laws, each inventor shall have an undivided interest in the patent. Therefore an inventor who contributed an insubstantial amount in a joint project would have an undivided interest equal to a party who was a major contributor and the driving force behind the invention. By way of example, language in an agreement may indicate that inventions created solely by Company A are owned by Company A, inventions created solely by Company B are owned by Company B, and inventions made by both Company A and Company B will be jointly owned. Thus, there is the possibility that an inventor from Company A whose only contribution was a single narrow claim, could be named as an inventor to a patent application largely based on the contributions of Company B.

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Regardless of the relative inventive contributions of each company, joint ownership in and of itself may have downfalls. 35 U.S.C. Section 262 states that "[i]n the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners." Therefore, unless stated otherwise, an owner of a patent, even one who only contrib-

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uted to a minor aspect of the invention, can assign, license and practice the entire scope of the invention disclosed in all of the claims of the patent without the consent or approval of the other owners.

The ability for each owner to freely assign or license the patented invention can create a host of problems for either contributor to the technology. For example, using the above scenario, Company A can enter into negotiations with a third party in order to license the patented technology, without Company B's approval, or even knowledge. If the third party is a competitor of Company B, such licensing can result in the third-party competitor obtaining the rights to a patent that Company B filed with the intent to stifle competition. Such a scenario would defeat the intent and purpose of Company B filing the patent. Also, if the third party is savvy and aware of the existence of the joint ownership arrangement, the third party is free to conduct simultaneous negotiations with the other patent owner. In this situation, the third party can play each company against each other (and to the detriment of each other) in order to obtain the best terms for themselves, but potentially resulting in a depreciation of the value of the patent. Also, without the consent of the other owners, a party cannot offer an exclusive license to a third party as the other owners are free and clear to license to any party on their own. This can further depreciate the patent asset as a third party may not wish to pay a premium for anything less than exclusive rights.

Another factor to consider is the effect of joint patent ownership in an international context. In today's global economy it is important that agreements between parties be consistently enforced in various countries. However, laws vary between countries. For example, the laws of Japan and certain European countries are not consistent with the United States with respect to joint ownership of intellectual property. In these countries, any joint owner is free to commercialize the technology underlying the patent for their own benefit similar to the U.S., however, the assent of all joint owners is essential in order to allow a party to exploit the technology for the benefit of a third party.

Another issue of joint patent ownership is one that can arise during infringement litigation. If a patent owner wishes to allege infringement of their patent, they must have the co-owner join the lawsuit. Otherwise, the party will not have proper standing. A patent owner without proper standing to sue has no leverage in negotiations and essentially has no way to enforce their rights.

By filing separate patent applications, the party who owns the patent would be able to transact with third parties without worry of undercutting by the other party.

There are measures that can be taken to minimize the potential problems associated with joint patent ownership. These measures can include filing separate patent applications or having the parties enter into "an agreement to the contrary," in accordance with 35 U.S.C. Section 262.

Filing separate patent applications with claims directed only to the contributions of the inventive entity of the respective party can avoid many of these issues, but can thwart the overall intent of the parties entering into such collaborations in the first place. By filing separate patent applications, the party who owns the patent would be able to transact with third parties without worry of undercutting by the other party. However, one party may need the benefit of the other party's patent in order to realize the benefits of the arrangement. The same can hold true when a third party seeks to obtain a license, as it may need to procure licenses from each party in order to be able to exploit the benefits of the invention. Also, given how the claims of a patent application are typically amended during patent prosecution, it can be painstaking to assure that each invention be maintained in separate applications without overlap. Failure to maintain proper inventorship can have dire consequences, as a patent may be held invalid if inventorship is not correct under 35 U.S.C. Section 102(f), which states in part "a person shall be entitled to a patent unless . . . he did not himself invent the subject matter sought to be patented."

Creating an agreement which gives one party full ownership of all jointly developed intellectual property, with a license back to the other party, is also a way to circumvent these issues. At first blush, such an arrangement may not appear to be equitable for the nonowner licensee. However, it should be remembered that many collaborations are situations wherein one party receives compensation in order to provide outsourced services to the other party. In such situations the compensation makes the licensee whole while the licensor/owner has the rights to exploit the co-invented technology. This is similar to a "work for hire" or employer/employee-type relationship.

In joint ventures where both parties are seeking to exploit and utilize the co-developed technology, another option is to assign ownership of any resultant patent to a newly formed company. The intent of the newly formed company would be to capitalize on the new technology for the benefit of the parties to the joint venture. In these situations, the board of the new company would include members from each participating company to assure that decisions are being made for the mutual benefit of the parties.

The proper arrangement of the disposition of intellectual property in collaborations ultimately depends on the responsibilities and expectations of the participants and should be taken into account at the time of the agreement. Failure to properly plan for such future events may lead to the failure of the collaboration along with the accompanying loss of invested time and resources. ■

Are the New USPTO Rules Patently Wrong?

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Severely curtail companies' rights to prosecute patents

By Marc S. Friedman and Michelle C. Gabriel

After the Senate Judiciary Committee confirmed David Kappo as the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office ("USPTO"), on August 7, biotechnical and pharmaceutical companies await the fate of recently enacted rules that could dramatically change the way patent applications are evaluated.

The new USPTO rules, which were issued in August 2007, change the process for patent applications by introducing limits to the number of continuation applications that a company may file, and the number of claims that can be included in one patent application. The rules were immediately challenged in court by plaintiffs Triantafyllos Tafas, SmithKline Beecham Corporation, and Glaxo Group Limited (all members of the health-care and life sciences industry) in the case of *Tafas v. Dudas*, 511 F. Supp. 2d 805 (E. D. Va. 2007). In *Tafas*, the U.S. District Court for the Eastern District of Virginia enjoined the implementation of the rules, concluding that most of the USPTO's new rules exceeded the agency's rule-making powers.

In a split decision, *Tafas v. Dudas* was reversed by the U.S. Court of Appeals for the federal

The new rules change the process for patent applications by limiting the number of continuation applications that a company may file and the number of claims that can be included in one application.

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circuit in *Tafas v. Doll*, 2009 WL 723353 (Fed. Cir. 2009), where the court held that most of the new rules were, in fact, within the USPTO's rulemaking authority. Although the court struck down the rule limiting continuation applications because it conflicted with 35 U.S.C. Section 120 (the patent law that allows inventors the benefit of an earlier filed application), it held that the other rules were within the USPTO's rulemaking authority and would, therefore, stand. In its decision, the federal circuit said that the USPTO was entitled to *Chevron* deference, which allows federal agencies the last official interpretation of ambiguous statutes, so long as the statutes involve procedural rather than substantive law.

After issuing the *Tafas* holding, the federal circuit decision drew criticism in the intellectual property world for its lack of clarity on a critically important issue. The ruling comprised three different opinions by three different judges, and affected companies argued that the lack of bright-line rules did not provide the USPTO sufficient guidance on how to review patent applications. A highly-respected jurist, Circuit Judge Randall Rader, wrote a dissenting opinion that echoed the concerns of many opponents of the new rules. In his dissent, Rader said that since the new rules dramatically changed the current parent application process — to the point of altering inventors' rights — they were substantive, not procedural. Judge Rader thus concluded that the USPTO impermissibly exceeded its rulemaking authority.

On July 6, the federal circuit vacated its decision in *Tafas* and announced that it would schedule oral argument for an en banc hearing of the case, giving companies that rely heavily on the patentability of their products hope that the remaining rules will be struck down. A key issue in the en banc rehearing would be whether the court was correct in characterizing the new rules as merely procedural, rather than substantive.

A review of the new rules may never come, however; on July 27, both parties to the dispute filed a joint motion to stay the case until 60 days after the U.S. Senate confirmed Kappos' appointment. The attorney for Tafas, Steve Moore, and the many opponents of the new rules hope that Kappos will withdraw the rules rather than face the risk that the federal circuit will issue a decision in the en banc hearing that limits the power of the USPTO. Additionally, Kappos has gone on record with a strong critique of the new rules. He personally filed an affidavit in support of the American Intellectual Property Law Association amicus brief, which argues that the new rules will cause patent applicants great hardship.

Kappos, who currently manages IBM's patent and trademark portfolio, fielded questions from Senator Arlen Specter (D-Pa.) during his Senate Judiciary Committee hearing on July 29, before he was appoved as director of the USPTO, about how he planned to handle *Tafas*, which would affect IBM dif-

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ARBITRATOR AND MEDIATOR

Pete Michaelson arbitrates and mediates complex, often high-stakes/high-risk, international and domestic IP, IT, telecommunications, technology, energy (oil/gas) and other disputes.

Pete is an approved arbitrator and mediator for the USDC-EDNY and an approved mediator for the N.J. Superior Court, and a panelist for various widely respected domestic and international ADR organizations, including:

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- World Intellectual Property Org.
- ICC
- London Court of Int. Arbitration
- AAA -- ICDR and AAA Commercial panels
- Chartered Institute of Arbitrators
- Financial Industry Regulatory Authority (FINRA)
- National Arbitration Forum

Pete is also a Fellow and Chartered Arbitrator of the Chartered Institute of Arbitrators (UK), Fellow of the College of Commercial Arbitrators (US) and of the ACICA (Australia), and an accredited mediator for CEDR (UK).

Substantial matters recently handled:

- **Arbitrated**, as Chair of a three-person panel and via a CPR referral, a domestic patent dispute involving a genetically-engineered pharmaceutical drug having cumulative sales through 2006 of approximately US $ 4.4 Billion and expected additional sales, through the remaining terms of the patents in dispute, of approximately US $ 22 Billion.
- **Arbitrated**, as a member of a three-person panel operating under the UNCITRAL rules and administered through the LCIA, a bilateral investment treaty (BIT) dispute between a US telecommunications company and a foreign government involving alleged governmental expropriation of a national telecommunications network, with damages being claimed by the telecommunications company of approximately US $150 Million.
- **Mediated,** on a court-annexed basis for the USDC-EDNY, four separate Hatch-Waxman patent disputes, consolidated for mediation and involving a common prescription drug then having annual sales of approximately US $350-400 Million, collectively initiated by three innovator pharmaceutical companies against three generic pharmaceutical companies.
- **Arbitrated**, as a member of a three-person panel and via a CPR referral, a US patent dispute involving coronary stents, with multiple patents at issue, between two major multi-national competing medical device manufacturers with potential liability estimated between US $400-800 Million.
- **Mediated**, via a WIPO referral, an international patent dispute involving both mechanical and electronic aeronautical technologies, with multiple US patents at issue, between two large aircraft manufacturers with potential liability to each side of approximately US $300 Million.

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ferently than some other companies. Kappos responded by pledging to "put my previous role behind me and focus on doing the right thing for the United States of America . . . in the *Tafas* case."

If allowed to stand, the new rules implemented by the USPTO would severely curtail companies' rights to prosecute patents. As noted above, one of the new rules restricts continuation applications, requiring patent applicants who want to file more than two continuations to submit a petition "showing that the amendment, argument, or evidence sought to be entered could not have been submitted during the prosecution of the prior-filed application." An identical rule was also enacted that applied the new restriction on continuation applications to requests for continued examination, or a request for continued prosecution after the USPTO has issued a final rejection of a filer's patent application.

Additionally, the new rules make it more difficult to file an application that includes more than five independent claims, or 25 total claims, by requiring the filer to include a so-called examination support document with the application. The examination support document must include a pre-examination prior art search, information relating to relevant references and limitations disclosed by such references, an explanation of why the claims are patentable despite the references submitted in the document, and an analysis of the claims' limitations.

Proponents of the new rules argue that their benefits range from reducing consumers' pharmaceutical costs to helping generic drug manufacturers enter the marketplace by reducing the number of patent applications the USPTO must review every year. In an amicus brief, the Public Patent Foundation (which includes advocacy and public interest groups such as the American Association of Retired Persons, Consumer Watchdog and Prescription Access Litigation) stated that, under the old patent application rules, "some applicants purposefully attempt to overwhelm the USPTO examiner by submitting dozens, if not hundreds, of claims in their application with the hope that the examiner will simply not have sufficient time to fully analyze and review each one."

Biotechnical, life sciences and pharmaceutical companies are among those who strongly oppose the rules, and who have been speaking out against their implementation. These companies' profitability is largely based on their exclusive rights to sell certain products, which are secured by patents, as well as their ability to attract venture capital funding. A change in the patent application rules affects both their business plan and discourages investment in research and development, since they cannot provide investors with guarantees that their products will receive patent protection. Additionally, some companies fear that the new patent application rules are more likely to be appealed, which would draw out the patent application process and further postpone applicants' profits on patented products.

Biotechnical, life sciences and pharamaceutical companies are among those who strongly oppose the rules, and who have been speaking out aginst their implementation.

The effects of these rules would be especially severe in the Northeast, where major pharmaceutical and biotechnical companies rely on patents to protect their inventions. New Jersey is the fourth-largest biotechnical center in the country, and is home to almost 240 biotechnical companies that employ more than 6,000 people. The state has the third-highest concentration of life science employment in the U.S., with about 10 percent of all New Jersey workers playing some role in the biotech industry. The international science and services company DuPont, which also profits from the patents on its wide variety of projects, is based oin Delaware, and has major research and development facilities in both Delaware and New Jersey.

From 1998-2004, New York state was the second-largest bioscience employer in the nation, behind California. Also, in Pennsylvania, which was home to the country's first hospital and first polio vaccine, continues to grow as a bioetechnical center as the local companies attract investment dollars to state.

These companies attract investors by promising a financial stake in patented products, and would face major hurdles in raising capital if the new patent application rules remain in place. Currently, New Jersey is one of the nation's leading states in number of biotechnical patents granted, and it also leads the nation in receipt of venture capital funds. In 2007, research and development expenditures were $1.2 billion, a dramatic increase from 2005, when expenditures were $737 million. Finally, by discouraging investment in New Jersey companies, the new patent rules could stunt a recent period of growth in the biotechnical industry. The number of biotechnical companies in the state increased from 226 in 2006 to 238 in 2008, despite a national trend toward mergers and acquisitions, according to the BioNJ 2008 biotechnical industry survey.

If Kappos decides not to overturn the rules, biotechnical, life sciences and pharmaceutical companies, like others, will anxiously wait to see if the federal circuit, which would begin to hear oral argument on this case in October, will take a different view about the applicability of *Chevron* deference to *Tafas*. And while these companies fear the worst if the rules are not overturned — dramatically reduced numbers of patent applications, and onerous application and continuation procedures—- they can only wait, and hope that one of Kappos' first official actions will be in their favor. ■

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In a deposition, counsel can probe facts by tailoring questions in different ways and following up on answers with additional questions that may elicit key details.

Discovery In Patent Litigation: The Basics

By Joseph M. Manak

Discovery is the search for and gathering of information that is relevant to or bears upon the claims or defenses in a case. The Federal Rules of Civil Procedure govern discovery. Discovery should be tailored to meet the objectives of the client and to develop evidence that will aid in the exposition of your theme and theory of the case. Discovery should not become a means unto itself.

The importance of focusing discovery can be illustrated by the following example. Patent trial counsel is considering whether to take a deposition. The decision should be made in light of such factors as: (1) what testimony does counsel expect to gain? (2) How will it help the case? (3) What are the costs? (4) Are there other means to obtain the same admissible evidence? (5) Is the witness likely to be called at trial? (6) Does the witness have unique evidence? (7) Are there key documents regarding the witness? (8) Are there important documents to be authenticated? and (9) Is the witness outside the jurisdiction of the court?

Mandatory Discovery and the Joint Status and Discovery Report: Once issue is joined, a court will schedule a pretrial Rule 16 conference. Prior to the conference, and during the litigation, Rule 26(a)(1) requires the parties to exchange relevant information and documents. Otherwise, such evidence may be precluded at trial. Also, counsel are required under Rule 26(f) to "meet and confer" and develop a discovery plan to be submitted to the court. The Rule 26(f) conference is oftentimes a good place to create a stipulated protective order ("SPO") pursuant to Rule 26(c) that protects sensitive and competitive technical and business information inherent in patent cases.

Document Requests: Rules 34 and 45: Documents make up a large part of the proofs in patent cases. For example, they may contain descriptions of the features and details of the allegedly infringing product or process, potential admissions of infringement, the level, scope and content of the art, facts relating to written description and enablement, potential damages, prior public uses or sales, the meanings of terms in the art, etc. Drafting and framing document requests presents a significant challenge and requires great care and strategic thought in an

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effort to capture documents relevant to these factors.

Electronic Discovery: In December 2006, Rules 26 and 34 were revised to provide for the discovery of electronically stored information ("ESI"). A full discussion of ESI discovery would fill a large volume. Here is some of the distillate.

You must make an investigation of your client's ESI systems.

On a motion to compel ESI, a court will typically apply a cost/benefit analysis. It will consider the likelihood of obtaining relevant information, the required time and expense, the relative resources of the parties, and the accessibility of the data, etc.

ESI systems make it possible for evidence to be deleted. Therefore, it is often necessary to implement "litigation holds" wherein ESI is not deleted and software that deletes ESI automatically is modified.

Waivers of privilege may occur in producing ESI. To guard against waivers, counsel include "claw back" provisions in stipulated protective orders whereby ESI that is inadvertently produced is returned.

Depositions: Rules 30 and 45: In a deposition, counsel can probe facts by tailoring questions in different ways and following up on answers with additional questions that may elicit key details.

There are typically at least seven goals to be reached in depositions: (1) discover new facts; (2) "lock-in" your opponent to a set of facts; (3) find out facts that may be used against you at trial; (4) conduct cross examination; (5) assess the competing theories of the case; (6) authenticate documents; and (7) elicit testimony to present at trial. In order to achieve these objectives, counsel should toggle between open-ended and leading questions. With experience, doing this becomes intuitive.

The key to a successful deposition is thorough preparation. While there is no one way to prepare for a deposition, at least the following should be done: (1) Identify and write down the facts you need to establish; (2) Organize the facts into relevant topics; (3) Create a useful outline and perhaps script key questions; (4) Review and study the relevant documents; and (5) Tie your outline to the documents.

How to initiate questioning is important. Many use what is called the "Funnel Approach" by starting with general questions to get the witness to give a broad lay of the land. When this is done, counsel can drill down and follow up with more targeted questions because the witness has provided the driving directions. Always try to ask short and simple questions.

To produce a powerful deposition transcript for use at trial, lay "foundations." Say you have a great memorandum written by a witness, which says "Wow, I tested our product and we infringe the patent." What do you ask about it? It says what it says. Lay foundations that make the document come alive. Establish who the recipients are, how important they are, etc. Get the witness to say that he would never say anything to those people that he thought was wrong, false, unsupported or that he had doubts about, etc.

The key to a deposition on the deponent's side is also preparation. There is no single way to prepare a witness, but several guidelines are: (1) thoroughly prepare the witness about depositions; (2) instruct the witness to tell the truth; (3) cover all the salient facts; (4) get the witness's version of the facts; (5) instruct the witness to answer counsel's precise question instead of answering the "question" the witness may think counsel has in mind; (6) have the witness carefully read exhibits shown to her; and (7) do not allow the witness to speculate. The key point to stress is that the job of the witness is not to answer questions, but to listen to questions, slowly and carefully, and answer them one at a time.

There are conflicting decisions as to whether defense counsel may consult with the witness during deposition breaks and whether those consultations are discoverable. Some courts have prohibited such consultations and/or make them open to questioning. Other courts take the opposite view. Thus, it is important to know the governing law in your jurisdiction.

Interrogatories: Rule 33: Interrogatories overall have limited usefulness. Unlike deposition answers, interrogatory answers are prepared by an attorney and are often terse. However, some interrogatories are useful in patent cases, for example, those which seek: (1) the bases for infringement or validity; (2) facts regarding conception and reduction to practice; (3) prior art documents or events under 35 U.S.C. § 102; and (4) financial and market share information, etc.

Requests for Admission Rule 36: RFAs are not discovery devices. Rather, they are designed to narrow the facts to be proven at trial. The rule of thumb for RFAs is that they should be short and very difficult to deny. For example, in drafting an RFA on the existence of a feature of an infringing product, every effort should be made to fashion it so that it cannot be denied.

The Attorney/Client Privilege and Work Product Doctrine: In patent litigation, issues surrounding the ACP and WPD often come into play. Privileged information may be subject to discovery in the following contexts: charges of inequitable conduct; willful infringement; public disclosure of patent counsel's opinions; and patent attorney malpractice actions.

Simply stated, the ACP protects confidential information that passes between an attorney and client if such information is given for the purpose of rendering or obtaining legal advice. However, a client cannot shield patent-related evidence in the form of scientific or business documents by merely sending them to an attorney.

The WPD protects an attorney's thought processes, strategies and files, work with technical consultants, etc., that were prepared during or in anticipation of litigation. The WPD is rooted in the policy that an attorney should be free to prepare and prosecute or defend a case without intrusion by others. Privileged and work product materials should be segregated from nonprivileged documents such as lab notebooks and R&D reports and meeting minutes.

This article has discussed just a few key issues surrounding discovery in patent litigation. It is by no means exhaustive. ■

Maximizing the Effectiveness of Non-Compete Agreements

The devil is in the details

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By Ira Hammer

The most common forms of intellectual property are confidential business information, proprietary information and trade secrets. Almost every business believes that it has proprietary information. The owner of the business will often believe that it has been damaged if a former employee, former business owner or prospective investor/business owner obtains and uses the proprietary information, although the extent to which such damages will be recoverable will vary widely depending on the factual circumstances.

States have long recognized that the owner of a business has a protectable interest in trade secrets and just plain confidential business information. *Sun Dial Corp. v. Rideout,* 16 N.J. 252, 259, 108 A.2d 442 (1954). For example, New Jersey Supreme Court has also long recognized the appropriateness of using non-compete agreements to protect the employer's interest. In *A. Hollander & Son, Inc. v. Imperial Fur Blending Corp.,* 2 N.J. 235 (1949). In the early 1970s, the New Jersey Supreme Court formalized the framework for analyzing cases involving non-compete agreements in a three-part test. *Solari Industries Inc. v. Malady, 55 N.J. 571 (1970); Whitmyer Bros., Inc. v. Doyle,* 58 N.J. 25 (1971). Simply put, a noncompetition covenant was reasonable if it "simply protects the legitimate interests of the employer, imposes no undue hardship on the employee and is not injurious to the public." While the law in this area is relatively settled, the application of the law depends on the facts. In other words, the devil is in the details.

What proprietary information is the employer trying to protect? When drafting a non-compete agreement or restrictive covenant, the key to maximizing its effectiveness is to ask questions of the client both before drafting a general non-compete agreement

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and before completing it for individual employees. The questions below are not exhaustive, but rather cover issues that permeate recent decisions regarding the application of restrictive covenants, particularly in situations where the courts declined to enforce the covenant as written.

Restrictive covenants are a restraint of trade and therefore are not looked on favorably unless they protect a legitimate employer interest. Thus, for a restrictive covenant to be enforceable there must be proprietary information that the employer is entitled to protect. In a number of recent unpublished opinions, the plaintiff's effort to enforce a restrictive covenant failed because the employer could not demonstrate to the satisfaction of the court that there was proprietary information that was entitled to protection. It seems very basic, but make sure that the client has something that is entitled to protection and that the non-compete is tailored to appropriately protect it.

What steps has the employer taken to protect the proprietary information? It is not enough to have employees sign restrictive covenants. The employer must take some reasonable steps to protect the information. Those steps generally include (a) advising the work force as to the proprietary information that must be protected so that the work force is sensitive to the issue; (b) physically securing the proprietary information so that it is only available to those who need to have access to it; (c) electronically securing that proprietary information which resides on computers and/or other electronic devices so that only those who need to have the proprietary information are able to access it; and (d) including confidentiality provisions protecting the proprietary information in agreements with customers and/or vendors who need to have access to such proprietary information, or in the alternative entering into specific confidentiality agreements to protect the exchange proprietary information. *Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 636-637 (1988), citing Restatement of Torts, § 757, comment b. In a recent case, the plaintiff sought an injunction and damages as a result of the defendants' alleged use of, among other things, a prior proposal that had been submitted to and accepted by plaintiff's customer. The Court rejected the argument, noting that the proposal belonged to the plaintiff's customer upon submission and acceptance, and there was evidence suggesting that the customer might have provided the proposal to the defendants when it asked the defendants to submit a proposal for a new project. *Comprehensive Medical Communications, Inc. v. Pinnacle Communications Group, Inc.*, A-2025-03T2, 2005 WL 280452 (N.J.Super. A. D. 2005).

How difficult would it be for a competitor to independently develop the proprietary information? The answer to this question often depends on the nature of the proprietary information, and will often influence a court's decision with regard to the reasonableness of the temporal duration of a restrictive covenant. For a true trade secret, the answer might well be that it would take dozens of years and substantial resources (e.g., the formula for *Coca Cola* has been protected for over 100 years). However, many non-competes protect more mundane confidential business information which has been collected, rather than invented, and can be assembled by others acting independently. Where the proprietary information is a list of customer contacts, however, it may be that there is a published directory for that business or industry that identifies the key decision makers and contacts.

What skills and/or experience does the prospective employee bring to the employer? When the employer is hiring an employee because of that employee's skills, the first concern is that the prospective employee is not violating any existing restrictive covenant in bringing such knowledge and information to the employer. However, when the employee brings only his or her skills and general job experience, the employer cannot convert the employee's own skills and general job experience into protectable proprietary information. In recent cases, employers have attempted to stop baseball players, soccer players, and individuals who already had been trained in the martial arts from leaving to serve another baseball training facility, soccer camp and martial arts studio, to no avail. One of the factors the courts relied on in denying injunctions was that the employer was trying to prevent the former employee from using the individual's existing knowledge.

Who are the competitors and where are they located? The temporal and geographic limits of a restrictive covenant should not be greater than what is necessary to protect the employer's legitimate business interest. This will vary widely depending on the particular business and the nature of the business. Company A, which is conducting its business primarily by electronic contact with a nationwide clientele, rather than in-person contact, may well have a legitimate interest in a nationwide injunction, whereas company B, in the same business but operating a storefront with local radio and newspaper advertisements, an informational Web site and local clientele, only may be fully protected by a covenant covering a 30- or 40-mile radius. *Cost Reduction Systems v. Durkin Group, Inc.*, 2008 WL 3905679 (N.J.Super. 2008).

If the restrictive covenant is enforced, what will the effect be on the prospective employee? A restrictive covenant that will effectively put the primary wage earner on the unemployment lines for two years or in a job position with a substantially lower compensation is often subject to more careful scrutiny by the courts. If coupled with significant severance or other buyout payments, such a covenant may well be enforced. It also does not hurt to include a statement by the employee in the agreement acknowledging the severity of the restrictions and the potential impact on compensation, particularly if the position offers sufficient compensation to allow the employee to build a nest egg. However, in most instances, courts will look for a reason not to enforce a covenant with a draconian impact on the employee. *NASC Services*, supra.

The list of questions provided herein is not exhaustive, but asking and obtaining answers to these questions before finalizing a non-compete agreement should significantly improve the likelihood of successfully enforcing the non-compete agreement, should it become necessary to do so. ■

Geographic Trademarks

The consuming public is not easily deceived

By Noel D. Humphreys

Many Americans have driven a Pontiac Bonneville or a Chrysler Sebring without attending time trials in Utah or races in Florida. Americans may wear a London Fog raincoat or a Tommy Bahama festive shirt and never go to London or Nassau.

Those marks all benefit from U.S. trademark registrations. Bonneville, Daytona, Le Mans, and Sebring are famous for speedy automobiles, but the cars bearing those names were not made in those places. Milano cookies don't come from Milan, Italy, any more than Roman Meal bread comes from Rome.

Recently, the trademark office refused to register Moskovskaya as a mark for vodka, saying the mark was primarily "geographically deceptively misdescriptive," but the federal circuit said the trademark office had looked at a wrong group of consumers to measure the deceptiveness. *In re Spirits Int'l N.V.,* 563 F. 3d 1347, 90 USPQ2d 1489 (Fed. Cir. 2009), which was vacated and remanded. 86 USPQ2d 1078(TTAB 2008).

The vodka does not originate in Moscow, and Moskovskaya means "of or from Moscow." Moscow is known for production of vodka.

Why are the marks Le Mans, Bonneville, Sedona or Daytona for automobiles not deemed primarily geographically deceptively misdescriptive, but Moskovskaya for vodka is? The answer is that, based on little or no evidence, officials worried that too many people would be deceived. Consumers, the trademark examiner decided, would buy Moskovskaya vodka thinking that it comes from Moscow. On the other hand, hardly anyone thinks a Chevy Malibu comes from Malibu.

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Recently, the trademark office refused to register Moskovskaya as a mark for vodka, saying that the mark was geographically misdescriptive.

Section 2(e) (3) of the Lanham Act, (15 U.S.C. Section 1052(e) (3)), controls whether a mark is deemed geographically deceptively misdescriptive. Under that section, in connection with a refusal to register a mark, trademark officials must find that the alleged geographic misdescription materially affects the public's decision to purchase the goods. *In Re California Innovations,* Inc., 329 F.3d 1334 (CAFC, 2003). Since then, courts have struggled with whether the necessary materiality "embodies a requirement that a significant portion of the relevant consumers be deceived."

Judge Rader's opinion in *California Innovations* explains at length the relevant law before and after the 1992 adoption of the North American Free Trade Agreement, as implemented by amendments to the Lanham Act in 1993. Trademark officials cannot register a mark on the grounds that it is "primarily geographically deceptively misdescriptive" under Section 1052(e) (3) if public deception of, or fraud on, consumers is shown.

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The trademark office must show that the "goods-place association" made by the consumer is "material" to the consumer's decision to purchase those goods. Is there evidence that goods like applicant's are a principal product of the geographical area named by the mark? Is there evidence to show that the "place is noted for the particular goods?" In one case, the court concluded that members of the public would mistakenly believe they were purchasing "traditional Venetian products" that did not come from Venice because applicant's products were "indistinguishable" from the products traditionally originating in Venice. In another case, the court backed refusal to register a New York mark for leather goods because New York was "renowned" for such goods.

Judge Rader summarized the test as follows: (1) The primary significance of the mark is a generally known geographic location; (2) The consuming public is likely to believe the place identified by the mark indicates the origin of the goods bearing the mark, when in fact the goods do not come from that place; and (3) The misrepresentation was a material factor in the consumer's decision.

In *California Innovations*, the court determined that the public did not associate "California" with "thermal insulated bags for food and beverages and thermal insulated wraps for cans." Therefore, the proposed registration for California Innovations for such goods did not trigger the kind of association that would make the proposed mark misdescriptive and not registerable.

Courts have struggled with whether the necessary materiality 'embodies a requirement that a significant portion of the relevant consumers be deceived.'

The decision in *California Innovations* raises issues of burden of proof and evidence. Who has the burden of persuasion regarding how many members of the public know the geographic location or believe that the place name indicates place of origin? For example, how does a would-be registrant establish that labeling an SUV with Yukon does not deceive consumers when the vehicle does not come from Canada, while labeling blue cheese with Roquefort does deceive consumers if that cheese was not made in a particular area of France?

Chevrolet marketers must think that people want to own cars that conjure up thoughts of Malibu or Monte Carlo. But customers have to know that these evocative names do not signify origin in the same way that "Champagne" signifies origin of bubbly wine in a particular area in France. How can a court decision capture and describe subtle interplay like that? An evocative name must be "material" enough to customers to cause a car-maker to spend millions in advertising but not "material" enough that a consumer will be misled into thinking that the place name conveys information about the auto's physical origins. What evidence tends to prove such consumer psychology in vast numbers of the public?

In the Moskovskaya case, the trademark office examiner determined that the word Moskovskaya in Russian translates to English as "of or from Moscow." Then, he found that Moscow was a generally known geographic location and that the public would likely believe the goods were from Moscow, because there was a goods/place association between well-regarded vodka and Moscow. Finally, the examiner found that this belief would likely be material to consumers' buying choices.

The Trademark Trials and Appeals Board considered whether an "appreciable segment of the buying public" would understand that Moskovskaya indicates that the vodka comes from Moscow. Approximately 700,000 American speak Russian. Some portion of those would be likely to be induced to purchase the vodka on the mistaken inference that the vodka actually originated from Moscow. The board deemed that a large enough number.

On appeal, the Court of Appeals said that the board should have used a "proportionality" test. Judge Dyk's opinion said that it is "clear" that "appropriate inquiry for materiality purposes is whether a substantial portion of the relevant consumers is likely to be deceived."

Under Section 2(e) (3), the board had said "an appreciable number" of consumers for the goods must be deceived. The board rejected a requirement of "proportionality," in that the board did not consider whether Russian speakers were a "substantial portion of the intended audience." The board should attempt to discern whether a substantial portion of the intended target audience would be deceived, not whether a specific number of potential customers is affected by the potential deception, the appeals court said.

The Court of Appeals remanded the case. The decision noted "We note that only 0.25 percent of the U.S. population speaks Russian… If only one quarter of one percent of the relevant consumers was deceived, this would not] be, by any measure, a substantial portion." However, the board is free to consider whether Russian speakers constituted a greater percentage of the vodka-consuming public and that some number of non-Russian speakers would understand the mark to suggest that the vodka originated in Moscow. Perhaps, these groups together form a substantial portion of the intended audience. Both the TTAB and the appeals court appeared to suggest that only Russian speakers would know that "Moskovskaya" means "of or from Moscow."

These cases do not really clarify why the consuming public is not deceived when we buy a Chevrolet Malibu automobile, Pepperidge Farm Milano cookies or London Fog rain gear, but we would be deceived if the trademark office had registered Moskovskaya for vodka. The language of these decisions lacks the power to explain these outcomes. Sometimes the absurdities of the law simply cannot be readily explained. ■

Intellectual Property And Antitrust: Competition in Balance

A yin and yang forming a perfect circle for competitive markets to thrive

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By Cathryn A Mitchell

It has often been said that intellectual property and antitrust are competitive fields, always in conflict, never in tandem. While there is certainly a natural — and intended and healthy — tension between the two, they are more siblings than competitors, a yin and yang forming a perfect circle for competitive markets to thrive.

Like the practice of yoga, the key to the proper interface of these disciplines that are so essential to the operation of our free-market system is balance.

Intellectual Property

Intellectual property law protects products of the human mind.

Patents: Patent law protects inventions and discoveries that are novel, useful and nonobvious. These include products, processes and designs that the inventor believes are an advancement over the prior art. A U.S. patent grants the owner the right to exclude others from making, using or selling the patented invention in the U.S. for 17 years from the date the patent is granted — often referred to as a patent monopoly.

Trademarks: A trademark is a word, slogan, or logo used in connection with the sale of goods to distinguish them from those made or sold by someone else. Words and logos used in the sale of services, such as those offered by law firms and accounting firms, are service marks. The owner acquires the right to exclude others from using a similar mark on other products or services in a way that is likely to confuse the purchasing public. The US Patent and Trademark Office provides a federal statutory scheme for registration of trademarks and service marks. The idea behind use and investment in a trademark and service mark: consumer recognition of a "brand" that the consumer believes will be consistent in service and quality, therefore acting as somewhat of "second hand" for qualities of a product.

Copyrights: Copyright protection in the U.S. is exclusively governed and conferred by federal law. Federal copyright protection applies to literary, musical and dramatic works, pictorial, sculptural and audiovisual works, and other works of authorship, including computer programs. Copyright protection begins when the work is first "fixed in a tangible medium of expression," i.e., written down or otherwise recorded — and continues for the life of the author plus 50 years.

Trade secrets: A trade secret is an idea or information that has commercial value because it is not widely known, covering business methods, processes, machines, formulas, patterns and techniques. Trade secret protection is acquired as soon as the idea or information is created, and lasts for as long as the information is protected as, and remains, a secret.

Antitrust Law

Antitrust regulation touches virtually every business and industry in the United States. The basic antitrust statutes include the Sherman Antitrust Act of 1890; the Clayton Act; and the Federal Trade Commission Act of 1914.

Rule of Reason and Per Se Offenses — only "unreasonable" restraints of trade prohibited: Section 1 of the Sherman Act prohibits "every contract, combination . . . or conspiracy in restraint of trade..." But not all such arrangements are prohibited. The U.S. Supreme Court has said that despite the broad language, the Sherman Act reaches only those trade restraints that are unreasonable.

Horizontal Restraints among Competitors: Horizontal restraints of trade — concerted actions

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among entities in actual or potential competition with one another — have traditionally been considered the most serious of antitrust infractions.

Price Fixing: Horizontal price fixing is often considered antitrust's 'capital offense." Agreements among competitors regarding prices for products or services are illegal per se — that is, illegal on their face, without an analysis as to the reasonableness of the restriction. It is therefore unlawful for competitors to agree on the prices they will charge or pay for a product or service. They may not agree on a price range within which they will compete, on list price from which discounts may fluctuate, or on the discounts themselves.

Allocation of Markets or Customers: Agreements among competitors dividing markets by territory or by customers are blatantly anticompetitive and illegal per se, since they leave no room for competition of any kind.

Vertical Restraints: Antitrust analysis distinguishes between economic relationships between entities on the same level of distribution (competitors/horizontal) and relationships between suppliers and customers on different distributional levels (vertical).

Vertical Price Fixing: Vertical price-fixing agreements, pursuant to which a seller and a buyer agree with respect to the price at which the buyer will resell a product or service, are illegal per se. However, sellers may grant an exclusive franchise to a particular dealer in a specified territory by agreeing to sell only to that dealer within its area of responsibility. Section 3 of the Clayton Act prohibits exclusive dealing arrangements if they are likely to substantially lessen competition. If they tie up a significant portion of the market, the seller's competitors will be foreclosed from market access and competitively disadvantaged. In typing arrangements, sellers with more than one product may seek to tie — or connect — the sale of one (which the customer presumably desires) with that of another (which it presumably does not want). Such tie-ins are prohibited by the Sherman and Clayton Acts to the extent the likely result is to substantially lessen competition.

Antitrust/IP Interface

The IP Agreement: An intellectual property license – or, for that matter, a refusal to issue an IP license — is, by its very nature, at the crossroads of antitrust and IP. These issues often arise, for example, in connection with conditional refusals to license IP. That is, making the decision as to whether or not to license IP to another company — often a competitor — based on factors that may raise antitrust concern.

These issues may arise in a number of ways, including in connection with allegations of exclusive dealing, grant backs and typing arrangements. Issues to consider include an analysis of whether the parties are competitors or may be competitors in the future; whether either or both of the parties have "market power"; and whether there is anticompetitive harm or, conversely, there are pro-competitive benefits to the proposed license arrangement.

Antitrust issues tend to be more prevalent in agreements between competitors in a horizontal relationship than between a vendor and a customer in a vertical relationship, given the two competitors' potential ability to affect pricing on a broad level, particularly if they have market power, or the ability to maintain prices above, or output below, competitive levels for a substantial period of time.

License arrangements that potentially raise antitrust eyebrows include cross licenses, exclusive licenses, territorial or customer restrictions, field of use restrictions in the context of a license arrangement, and noncompeting agreements.

Licensing: The following questions should be asked regarding licensing arrangements: (1) Does the intellectual property agreement, and any restraint that is part of the agreement, have a pro-competitive justification? For example, does it facilitate the combination of a licensor's intellectual property with complementary factors of production owned by the licensee? (2) Do restraints in the licensing agreements further the pro-competitive purposes, for example, by aligning the incentives of the licensor and the licensees to promote the development and marketing of the licensed technology or substantially reducing transaction costs?

An agreement or restraint with no pro-competitive justification may be susceptible to antitrust regulatory scrutiny particularly where the agreement or restraint is of the type that always, or almost always, tends to raise price or reduce output.

Structuring Pro-competitive Agreements: Other Factors to Consider: To encourage technological innovation, the patent system provides inventors a 17-year limited "monopoly" that can run counter to the antitrust principle encouraging free and open markets

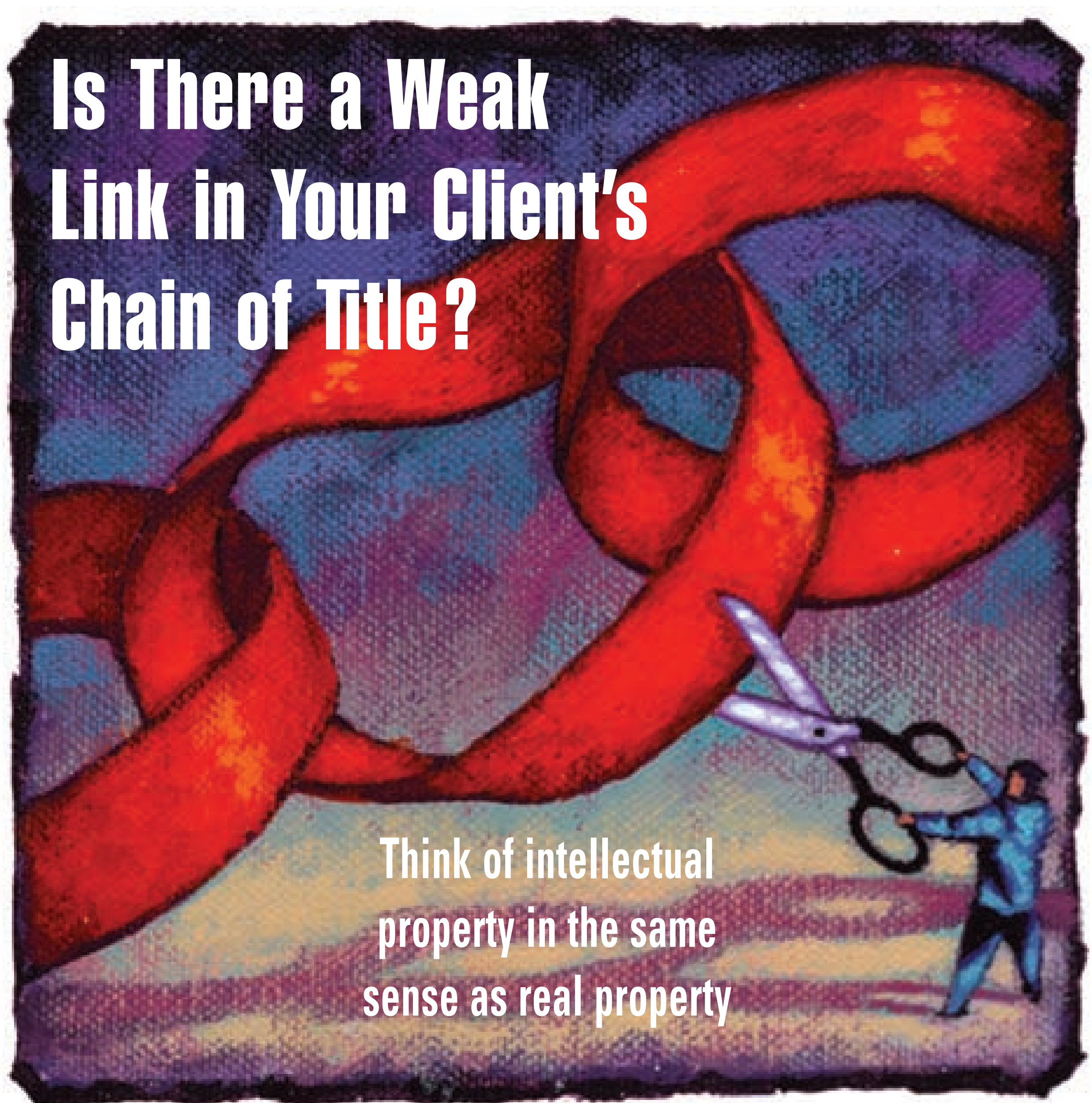
It is not an act of monopolization or an attempt to monopolize to receive a patent which confers the power to exclude all competition from a relevant market. But if the owner of a patent acquired the patent improperly, for example, through fraud, or attempts to use its power beyond the limitations of the patent grant, the antitrust exemption does not apply.

License agreements may be written to increase the likelihood of pro-competitive results: (1) Non-exclusivity — i.e., make patents available to others who are not parties to the arrangement; (2) Allowing each party to license its own patents independently, without requiring the consent of the other parties to the agreement; and (3) The license may also include only those patents that are complementary, and not those in competition, with one another.

Conclusion

While it used to be the case that antitrust and intellectual property were perceived to be at odds with each other, the current prevailing view is that the fields are instead complementary, with IP rights providing *incentives* — as opposed to bases to eliminate — innovation. This, in turn, is now seen as promoting competition, the goal of the antitrust laws. Two disciplines that, when operating in perfect harmony and balance, provide essential stability to our global economy. ■

Is There a Weak Link in Your Client's Chain of Title?



Think of intellectual property in the same sense as real property

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By Anthony S. Volpe And Melissa D. Doogan

Although intellectual property is generally not thought about as being physical property, it is good to think of intellectual property in the same sense as real property. It has value to the owner, is subject to opposing claims and can be transferred for value from one owner to another. Also, like real property, the owner can create subservient rights through licensing, which is a form of rent for use of the property. And, like real property, it is subject to trespass. Clear and defensible title is especially important if your client has a business or income stream dependent on the value of its intellectual property.

The issue of preserving the chain of title over time also varies by the property at issue. While patents have a fixed life, trademark and trade secrets can last for indefinite periods. Trademarks only require continued use on the registered goods and trade secrets can last as long as they are not disclosed or independently discovered by another.

Like real property, the chain of title to intellectual property needs to reflect the successive ownership changes, with each one linked to the next so that an "unbroken chain" is formed. To be within the unbroken chain of title, the conveying instrument must be traceable through a linking conveyance from the present owner, who can trace title through prior successive owners, back to the original owner or grantor. If any gap or break exists in the chain, it may not be possible to recover the information and repair the chain. In order to determine if a proper chain of title exists, it is not always sufficient to confirm that the present conveyor has a properly execut-

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ed and recorded deed of assignment. It is important to review all filings, including statutory recordings and Article 9 security interests, dealing with patents, trademarks, trade secrets and copyrights, as well as relevant license agreements, confidentiality agreements, joint-venture agreements and, where applicable, confirmation of payment of any official fees.

Finally, it is advisable to review litigation settlements or other judicial decrees related to the proffered rights, as they may place limits on the use of the rights. Generally, the conveying entity will have records of the prior events and various transfers. However, things like bankruptcy, the wrap-up of a statutory entity or an estate settlement can often lead to a break in the chain. While it is true that these can often be rectified, they need to be discovered first.

In order to reduce error in the chain of title for intellectual property, strict formalities must be observed in the due-diligence phase of transactions. All documents related to transfers or changes of ownership, whether by sale or license, need to be reviewed. There should also be a check against official records to ensure that any statutory notice formalities have been attended to and that the records have been managed and stored appropriately within the conveying organization.

The benefit of intellectual property due diligence at the outset of a transaction is that it may provide a basis to renegotiate a lower price or other more favorable terms for key issues.

The importance of intellectual property due diligence is often underestimated and often relegated to the end of a deal checklist or in a last-minute manner, causing the buyer or seller's positions to be seriously compromised. The benefit of intellectual property due diligence at the outset of a transaction is that it may provide a basis to renegotiate a lower price or other more favorable terms for key issues once the information comes to light.

For example, the buyer may discover that the seller does not own the intellectual property at issue but is merely a licensee; or the seller is the owner of a derivative work but does not own the original copyright; or the inventor or author has not properly assigned the invention or copyright; or the seller has use of a trademark but has not registered the mark, which creates the possibility that a third party may have a valid right to use the mark. It is possible that a buyer is willing to close on the deal having these infirmities, but that is a choice that should be made with full knowledge of the facts.

If the transaction involves international rights, attention must be paid to the laws, rules and regulations in the various countries, as they do not always accept what is acceptable in the United States. In the United Kingdom, if a company fails to register an assignment of the patent right with the United Kingdom Intellectual Property Office within a six-month limit, it may be barred from recovering damages or costs in an infringement proceeding. This result applies whenever the chain of title has not been properly updated, even if the company can show that it is the rightful owner of the intellectual property.

In the United Arab Emirates, significant fines are incurred if an assignment is not recorded within six months of the effective date of transfer. In South Korea, a Corporate Nationality Certificate must be submitted by the same signatory as appears on the deed of assignment in order to effect a legal transfer. If the signatories are no longer available when the application to record is filed, the owner may have difficulty recording.

Concerns about prior transfers of intellectual property rights should be resolved before any acquisition of intellectual property. Any questions regarding charges of infringement on the proffered property by a third party, or questions about the proffered property being an infringement upon the property of another, should be addressed and resolved before closing. Research into any unasserted claims, evaluation of the current status of litigation and examination of employment agreements to ascertain whether they adequately protect the proffered property also must be considered. Here, the adage that an ounce of prevention is worth a pound of cure proves its worth.

If the seller is selling less than an entire business, it is important to evaluate the proffered IP assets to determine if it needs to keep rights in a particular piece of intellectual property through grant backs or a license in connection with business assets that are not being transferred. It may also be essential to determine future rights, such as derivative works for a copyright, if the conveyed work is needed for continuing business.

Despite the abundance of information available highlighting the importance of due diligence, many high-profile companies continue to make embarrassing mistakes during intellectual property acquisitions. In 1998, Volkswagen outbid BMW to buy Rolls-Royce and Bentley cars and their ancient British factory from Vickers PLC for $917 million. The Rolls-Royce trademark was viewed as the crown jewel in the assets. After Volkswagen paid this hefty price, it found that it had not acquired any rights in the valuable Rolls-Royce trademark. An odd twist in the deal allowed the Rolls-Royce aerospace company to sell rights to the Rolls-Royce brand to BMW, who had separately negotiated to acquire the trademark rights. This might have resulted from the failure to recognize that a trademark can acquire rights in different classes of goods and can be transferred separately. It may also have resulted from a failure to secure a local opinion on the rights. What it clearly demonstrates is the potential for even the most sophisticated companies to stub a toe.

It is necessary to have good record-keeping procedures in any company, and those procedures need to be applied to intellectual property assets and the company's strategy for profiting from those assets. All documents, including officially recorded copies and subsequent changes, should be maintained with the company's important documents. With the availability of electronic storage and document scanning, it is advisable to have a secure electronic file for storing important documents in the event that any of the originals are lost or damaged, such as through a flood or fire. While it may become necessary to get official copies as replacements, the electronic information will provide details that can be critical to obtaining those official copies.

For a potential seller, the advice is to keep good records, as they are important for providing the value of the asset.

For a potential seller, the advice is to keep good records, as they are important for proving the value of the asset. For the buyer, the advice is to do your due diligence and test the seller's record keeping. Poor record keeping may be an indication of a poorly run business and that should increase your diligence for the entire transaction. On the other hand, having access to good records should make the task of demonstrating a solid chain of title an easy one, and that may reduce the post-closing headaches for all concerned. ■

L to R: Scott Chambers, Gerard Norton, Wendy Miller, Peter Michaelson

PHOTO BY CARMEN NATALE

Patent Practice: A Shifting Landscape

Patent practice today is about belt-tightening, changing attitudes and teamwork. We've invited four noted practitioners to give us the lay of the land, and they say they see hard times and changing laws as an opportunity for creative lawyering. Our panelists are Scott A.M. Chambers, partner at Patton Boggs in McLean, Va.; Peter L. Michaelson of Michaelson & Associates in Shrewsbury, N.J.; Wendy E. Miller, partner at Cooper & Dunham in New York City; and Gerard P. Norton, partner at Fox Rothschild in Princeton. This roundtable was moderated by freelance reporter Anne Dorfman and reported by Robert M. Levine of Rosenberg & Associates.

MODERATOR: Let's start by taking a look at the trend toward alternative dispute resolution in intellectual property cases.

MICHAELSON: As a profession, we need to do things faster, cheaper and better. In no area is that more important than dispute resolution, particularly in litigation. Most firms, and certainly very large firms, have an overhead rate of approximately 50 to 80 percent. The current recession-induced decrease in IP litigation is unprecedented and is devastating to law firm profitability, and law firms, particularly large ones, are scrambling to reduce costs. I've been an arbitrator and mediator for 18 years, and I've seen a pronounced uptick in what I do, particularly in the last five years, due to a confluence of factors. We've had pressure from the courts since the mid-'90s, when President Clinton signed a bill requiring each federal judicial district to implement an ADR process. The second factor was a movement by state ethics boards, starting in the late '70s, which basically required all attorneys to counsel clients to use ADR prior to instituting litigation. The third factor, which is probably the most important, is our clients — our customers. Corporations need to save money and are decreasing their litigation expenditures. This is a significant impetus for lawyers to at least become familiar with ADR processes and not just run off to court reflexively as they have often done in the past. Also, judges, by and large, do not like patent cases. Consequently these cases tend to be shunted off to mediation very quickly because, generally speaking, court-annexed mediation has a settlement rate of about 50 percent.

MODERATOR: Have the rest of you seen evidence of a move toward ADR in your practices?

NORTON: It's case specific. ADR can come in at the very beginning of the process, where you ask your client, “Look, is there something we can do to settle this? Because it is going to be very expensive.” Depending on the complexity of the issues, it can cost as little as $100,000 or many millions of dollars to litigate a patent case. I had a recent case in the Southern District of New York where about two months into the litigation I picked up the phone, called the other attorney, and asked, "Why don't we just take it out of the court's hands and let a neutral arbitrator decide?” We were able to wrap it up in two hours.

MICHAELSON: As an example, I had a $2 million case — rather small as patent cases go — that was referred to me by the AAA. The disputants had pulled the matter out of court in the Eastern District of Texas after discovery was completed and the court had issued a claim construction ruling. The disputants wanted to resolve the matter cost effectively and get it behind them. I ran an expedited arbitration, including a full day of hearings. It was about eight weeks from the time I received the case until I issued my reasoned award. Rarely, if ever, will a court act this quickly. Why are cases being pulled out of court midway through the process for arbitration? Predominantly for cost.

NORTON: New Jersey is No. 5 in the country in the total number of patent cases being litigated in federal courts. A tremendous number of patent cases are currently being litigated here, and the magistrate judges are working with the attorneys early on in the process to try to streamline the issues as much as they can.

CHAMBERS: The District Court of Delaware actually has a particular magistrate, Judge Mary Pat Thynge, who does a great deal of mediation and settlement. She knows whose arm to twist and when to twist it. She’s done a very good job of resolving things long before they had to go to trial.

NORTON: In many, many cases it makes sense to settle, and judges are putting pressure on both sides to settle — some of them through mediation. Sometimes the judges themselves act as mediators.

MILLER: What I’ve found is that the parties who participate in ADR are not always prepared to reach a resolution. They don't want to give up their principles, and they hold on to the advice they got from their lawyer at the beginning of the case. In more than one case we've had to go back for two, three and four sessions. In the meantime, you've got to continue to litigate. We suggest that when budgets are tight, you adjust your approach to ADR. You have to reset your risk basis, because right now the risk is not just losing — the risk is blowing your budget. You also have to reset your principles to make ADR work. You can't always stand on principle, even if you're right, because you don't have the budget to prove you're right.

MICHAELSON: What I try to impress upon people is the difference between mediation and arbitration. Arbitration, like litigation, is about finding the truth. Mediation is about finding a deal; the truth is irrelevant. It's amazing the deals you can structure when you're not limited by what a court can do — which is essentially awarding money damages or issuing an injunction.

MILLER: It's our job to tell the client, “I know I told you at the beginning that your upside was $20 million, but we're on a different playing field now. I wasn't wrong, but circumstances have changed.”

NORTON: Cost, speed, and product are paramount, and if you deliver those things to your client by working with them as a team from the beginning, you can save costs. For example, having the client do a lot of the discovery work in house can keep costs down.

MICHAELSON: The days of the big patent case are numbered. We're no longer going to have cases which last for years and years, and employ legions of associates, and which lawyers can make a career of. The stark reality is that clients won't pay for it. If you look at a patent litigation, 80 percent of its cost is expended during discovery, and, more and more, the cost of a traditional, full-blown patent litigation is becoming prohibitive.

MODERATOR: Wendy mentioned the adjustments clients are making in their legal departments. What kinds of adjustments are your firms making because of the economic situation?

MILLER: My firm is making adjustments which map onto the adjustments that my clients are making. The most productive thing I'm seeing clients do is to build more efficient channels of communication to avoid miscommunications with me or their business people. If you have to come back to me for a do-over, the costs add up. For example, I have a client who engages me for clearance opinions. We've changed the way we work. Now he is more involved in the planning stages. His bills have decreased at least 20 percent just because I'm doing exactly what his company needs and nothing more.

NORTON: We are now more focused on bringing the client onto the team and including them in all strategy decisions. Clients do not like surprises. If it's a nuance that's come up in discovery that will impact a legal issue in the case, you communicate it to the client rather than waiting until it shows up during cross-examination at trial. Although this has always been good practice, you would be surprised at how often attorneys forget to do this.

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— Wendy Miller

CHAMBERS: Having the CFO in on some of the planning sessions can be very helpful, because I can ask, "When do you next intend to roll out a marketing initiative?" They might not want to be crimped in the third quarter, and if we know that, we can balance the case so that we file at a certain time; the cost is then not found when they can least absorb it. I've seen a push from a lot of clients to use a smaller number of firms. The large clients don't like to go to 60 firms; they want to go to perhaps five or 10 firms. This allows us to become more involved, and more proactive, so that we can actually suggest areas they have not previously considered. For example, my work primarily involves intellectual property, but I can certainly see that a client might need to have an FDA lawyer review a particular issue or pull an export control lawyer into an area that in the past might have been considered purely a patent issue. We have also been pursuing a strategy whereby if the client is willing to give us a certain level of business, we're willing to reduce our rates for certain services. The clients seem very receptive to this; and while most firms seem to be having problems in the recession, this has been responsible for some of the recent growth in our firm's IP section.

NORTON: We've discussed fixed fee arrangements and, sometimes in patent litigation matters, partial contingency fees. As long as the client has skin in the game, such as when they're paying disbursements and a portion of the legal fees, they're more involved in the process than if it's a complete contingency fee case. When your lawyer is working for free, so to speak, you're on the phone with them all the time; it leads to very bad habits. With the partial contingency we're letting the client know that we are working together to achieve the same result.

MICHAELSON: Even in the ADR context, when I run a preliminary hearing in an arbitration, I require that a client representative — not just their counsel, but a business representative — be present, because I want that person to hear what counsel is proposing. I want to get buy-in from the corporation. The client drives the process, because at the end of the day, in ADR, the client owns the process.

MILLER: Streamlining the process is especially important in litigation because you can manage a litigation in a thousand different ways. If the budget is down seven percent, you can cut your litigation budget by an even larger margin by building in efficiencies, so there's no need to avoid "necessary" litigation. We lawyers have a habit of doing things the same way over and over again — we staff a case with so many people, we file a motion to dismiss, we ask for every kind of document imaginable and then we depose everybody under the sun. As a client you want more involvement from the beginning in deciding what you really need for trial. My favorite thing to do is to skip the *Markman* claim-construction hearing. Everybody loves them, but sometimes you can handle claim construction on summary judgment and save the cost of a separate motion. Sometimes that's not possible, but that's where you have to get creative, and the client should participate.

MICHAELSON: There are CPR and AAA protocols that limit the number of documents you ask for in discovery. This can effectuate significant savings and really not prejudice your case at all; even under the best approaches to discovery, you're always going to miss documents.

MILLER: And if you turn over every stone and get every piece of paper, 90 percent of what you get will never see the light of day at trial.

MODERATOR: What else are firms doing in response to hard times?

MILLER: As a boutique, we've always stayed pretty lean, so we haven't suffered too much, although we're watching costs closely and building in our own efficiencies — just as I suggest that our clients do.

NORTON: When I first started out we had a multidistrict litigation with 600 days of depositions. There was no limit on the number of depositions and the attorneys spoke more than the witnesses. Now the courts allow 10 witnesses per side — that's it — and the only thing they want to hear out of the attorney's mouth is objection as to form. No more colloquy. As Wendy said, you staff a case lean and mean. If you're taking two or more depositions at the same time, that's a different story, but for the most part you work with a core group of three or four attorneys, sometimes even fewer. You may have one attorney who is responsible for brief writing. The litigation attorney roles are more focused. You may have first- and second-year associates who are getting on-the-job training, but the clients are not going to be charged for that.

CHAMBERS: We have a history of being heavily involved in public policy, so hiring 20 associates to service a senior partner has never been part of the equation, and we have not had a problem as we've added business units and intellectual property components to the mix. If an associate is not going to make it, we probably tell them a little bit sooner now than we did four years ago, but we have been able to avoid layoffs because we never performed work in a highly leveraged manner. Having a small number of associates working with a small number of partners — we've always done cases like that. This works best for communication because everybody has the information. You don't have little Balkanized areas where individuals have knowledge that is not shared by the group.

MILLER: Clear communication with associates and staff is as important as clear communication with clients. If you give a vague instruction to an associate who then does the wrong thing, a client might not know, but it will show in the bills.

CHAMBERS: One of the worst things you do for a young associate is to just turn them loose with no direction. I'll usually tell them how long I think an assignment is going to take, and that way they can gauge what they need to do. If they think they need to search every district court case, they probably didn't hear it right, and they'd better find out before they run up the bill. If they need more time, they will tell me.

NORTON: Surfing Westlaw can get very expensive.

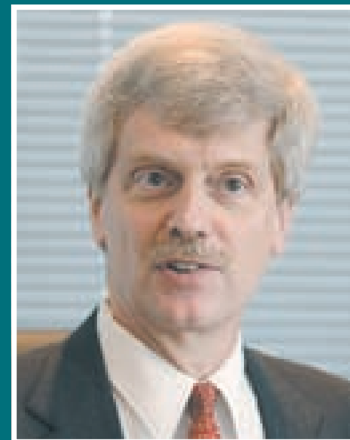
MILLER: Legal research is not a Google search. Young lawyers must learn how to do legal research properly and efficiently. If you're a client and you see that the lawyers are working around the clock on one case, unless it's right before trial, a big motion, or something very important, ask questions. This could suggest a miscommunication or inefficiency which if corrected can avoid costs, and your case doesn't have to suffer.

MODERATOR: Are clients are scrutinizing bills this way?

MILLER: Not in this way. But they should.

NORTON: I would hope so. Twenty years ago you would submit a bill and it would get paid; there wasn't much question. That luxury is over. Now attorneys are scrutinizing the bills. Now the client is only as loyal as the product you delivered that month. You've got to keep delivering speed, good product, and cost. The product is obviously the most important, but the other two are also important.

MICHAELSON: To me, a client is a customer, and as a profession we have a lot to learn from the way large businesses treat their customers. You need to re-earn their trust with each and every thing you do. If you treat them with honesty and respect, they will stay with you for quite some time. That doesn't mean that you need to be the cheapest guy



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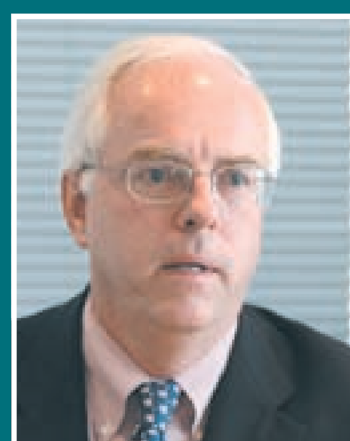

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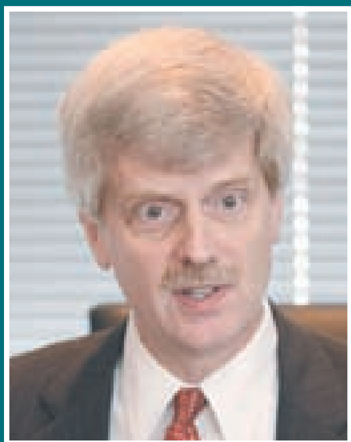

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on the block, but there is a need for transparency, openness, and candor on both sides.

CHAMBERS: As I frequently tell my associates, most of the other attorneys out there are just as smart as we are; the only thing we can really deliver to the client that the others may not is service. You have to be able to provide the right answer, provide it efficiently, and provide it so that the client doesn't suffer needlessly.

MODERATOR: How can you help clients save money during patent prosecution — the process of obtaining a patent?

MILLER: Again, communication is the most important thing. Clients should do the thinking beforehand and come to their attorney with the ideas as well developed as possible. If the attorney prepared an application and it's ready to file based on your first disclosure, and then you offer three new embodiments, you're going to increase the cost, because now the attorney may have to rewrite the specifications and prepare new drawings, not just add a few claims.

NORTON: Even for our Fortune 200 clients there'll be fixed costs, at least a cap. If the cap is X dollars and the young attorney who's done a beautiful job has spent 2X, the client is only going to see 1X. You don't want the product to suffer at all. Make the client, the in-house patent attorney, look good — make them look better than they really are.

MICHAELSON: When I'm faced with, say, some pretty nasty prior art, or with the client's request to take a certain course of action, I always ask , "Why? What's the commercial benefit to you?" I want my client to know that, no matter how well intentioned, that action may be costly. Sometimes when you phrase the question that way they'll say,"Maybe you're right. Maybe it doesn't make much sense." If you can effectuate some cost savings for the client, you may just make the in-house counsel a hero to his or her superiors, and that will reflect well on you.

CHAMBERS: One of the things that is most effective in interacting with the Patent Office is to have a personal interview with the examiner. When I was an examiner, having an interview was important, and a face-to-face interview is so much better than a telephonic one because, for one thing, the examiner will actually have prepared. Get in front of the examiner, get an idea about who that person is and what they can do, and then — to the extent you can — get a commitment from them. Once you understand the examiner, they're more willing to assist you by saying, "Well, if you would add this limitation…," and I can ask, "If I come in with a continuation application or expand this explanation, will it allow me to get over that art?" They're often very helpful, even in this day and age.

NORTON: Do that early in the process so you don't go through a few rounds of rejections before the interview with the examiner. When you're actually in the same room, you reduce the risk that they're not going to get your point, or maybe you're missing their point. The goal is to get the patent application claims allowed. It's not The Rejection Office, it's The Patent Office — and they do allow patents.

CHAMBERS: There's a certain beauty in working through issues with the examiner orally, where the record is not quite as complicated as if you tried to fight those same issues out on paper.

MILLER: Absolutely.

CHAMBERS: It would be much faster.

NORTON: Much cheaper.

MILLER: Scott's point is a good one — avoid prosecution history estoppel by keeping the record clean. Another point is to talk with the client about whether it's possible to determine whether a particular application has any commercial value for the client. If it is especially important, it might be worth paying a little more money or spending a little more time to get the claims in good shape, because after it issues and later lands on my desk to litigate, it will be really expensive to litigate a mediocre claim.

MICHAELSON: If it gets to me as an arbitrator, it becomes even more problematic because, candidly, if it's not written right — and I see many patents written by junior patent people which are not — it becomes a real horror story for me to go through and come to a decision. What I tell people is, "We don't know which patents will wind up in litigation and which will not. Put in the time and effort to make sure they're written well, because everything will revolve around the patent." That document has to be done right. This doesn't mean it has to be done expensively, but it has to be done right.

MODERATOR: The Supreme Court has granted cert in *In re Bilski*, which addresses the patentability of processes, particularly business methods.

NORTON: In *Bilski*, the Federal Circuit created a new test under which a method or process is only patent-eligible if it is tied to a specific machine or transforms a particular article or substance. The biotechnology industry is concerned about this new rule because it applies to all technologies, even though it was crafted to deal with business methods and abstract processes involving logical operations and human thinking. *Bilski* requires that process claims in biotechnology patents be tied to a machine or transformation. This could jeopardize biotechnology patents that have already issued, and it creates uncertainty around future grants of biotechnology patents with process claims.

CHAMBERS: I'm a little concerned about the Supreme Court's taking the case. The cases that have recently come down from the Supreme Court have, generally speaking, diminished the value of patents. There was a case, *LabCorp v. Metabolite*, in which the Supreme Court initially granted certiorari, but after briefing decided (in 2006) that it had been improvidently granted. Three of the justices dissented, saying they thought the patent should not have been granted because it violated the rule against patenting natural processes. Its claims were broad, but not anything that was out of the ordinary in the realm of biotechnology patents. So while most people think *Bilski* might impact software or business method patents, I also have a certain level of angst that it might impact the biotechnology community. Bio and pharmaceutical companies are doing amicus briefs. It's important to recognize that some of the value that has come from biotechnology has been obtained because people were pursuing the possibility of exclusive rights in the patent system. More than 90 percent of biotech companies are not profitable, and you're going to be a bit concerned about pursuing frontier research if you don't know that you can protect it. I'm not so worried that the Supreme Court will do away with business method patents. But sometimes they have a view of the patent system that is different than that of intellectual property lawyers.

MICHAELSON: I agree that the case goes way beyond the importance of business methods per se. Any patent prosecutor who's been dealing with business methods applications for some time realizes that it's essentially much ado about nothing — basically articulating form over substance. It's not terribly difficult to craft a business method case with enough hardware, enough process, enough structure around it that it can pass muster under the *Bilski* test. The real question is how the Supreme Court is going to interpret what is patentable.

CHAMBERS: Justice Sotomayor has replaced Justice Souter, who was one of the justices in *LabCorp* that

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appeared to take the view that the broad invention in the case wasn't patentable subject matter, so her vote will definitely be of interest.

NORTON: Let's not forget that she was married to a patent attorney. She's also extremely bright, and I don't think she's going to negatively impact patent laws. But what the Supremes will do, god only knows.

MILLER: I think the Supreme Court will probably affirm and keep the test more stringent, if only because in *Microsoft v. AT&T* they held that software is not a component that falls within § 271 of the Patent Law. This was the case in which Microsoft was exporting a master software disk.

CHAMBERS: The so-called golden master disk case.

MILLER: They would copy the software onto computers that were for sale in foreign countries. The law calls it an infringement when you export components that can be reassembled as an infringing product, and the Supreme Court held that software was not a component. If software is not a component in that circumstance, then for the Supreme Court it is probably not patentable per se.

MICHAELSON: The problem with *Bilski* is that the claimed invention at issue has no hardware components at all. Consequently, it is not a good vehicle for the court to use in deciding the extent of patentable subject matter. The fear among many in the bar is that because the result is so clear under existing precedent, the court will simply affirm the Federal Circuit decision. (The government argued this point in its brief opposing certiorari, but it lost.) I suspect that the court will affirm, at least to some extent.

NORTON: Where is the Supreme Court likely to lead us? *Bilski* is a wake-up call to practitioners who should have realized that *State Street v. Signature Financial* — the case that affirmed the PTO position that methods of doing business were patentable subject matter — never opened the floodgates to patenting processes that apply abstract principles without obtaining a tangible result through implementation of the principle. We can expect the court to delineate how tangible that result must be. Knowing that the goal is not to pre-empt a basic principle is adequate guidance for drafting a claim that will survive future challenges. In the interim, the Federal Circuit has left plenty of opportunities to obtain business method patents on the table, provided the applications and claims are carefully crafted. ■

BIOGRAPHIES

SCOTT CHAMBERS

Dr. Scott Chambers is Chair of Patton Boggs' Intellectual Property Department and helps clients avoid and resolve problems associated with protecting IP, including litigation at the appellate and district court levels, and before the International Trade Commission. His work also includes providing oversight for companies on mergers and acquisitions, patent prosecution, reissue and re-examination procedures, and negotiating technology development and transfer agreements. He has represented companies before the U.S. Patent and Trademark Office, arguing their position regarding patent prosecution and patent term extensions under the Hatch-Waxman Act. He was formerly Associate Solicitor for the USPTO and clerked at the Court of Appeals for the Federal Circuit for the Hon. Judge Rader. He can be reached at schambers@pattonboggs.com.

Based in Washington, D.C., Patton Boggs LLP is a national leader in public policy, litigation and business law, and is well known for its deep bipartisan roots in the national political arena. The firm's core practice areas are Public Policy and Regulatory, Litigation, Business and Intellectual Property. With offices in northern Virginia, New Jersey, New York, Dallas, Denver, Anchorage and internationally in Doha, Qatar, and Abu Dhabi, UAE, our more than 600 lawyers and professionals provide comprehensive, practical and cost-effective legal counsel to clients around the globe. For more information, visit us at www.pattonboggs.com.

PETER MICHAELSON

Pete Michaelson actively practices IP law, since 1979 concentrating in patent matters involving complex electronic, computer and mechanical technologies. Since 1991, he is also an ADR neutral working with numerous U.S., U.K., Australian and other international organizations, including CPR, AAA and WIPO. He has arbitrated and mediated many international and domestic disputes, some involving $500 million-plus. Pete has an L.L.M. in trade regulation from NYU School of Law, a J.D. from Duquesne, an M.S. and a B.S. in electrical engineering and in economics, both from Carnegie-Mellon. He is admitted to practice in New Jersey, New York, Pennsylvania and Alaska. He can be reached at pete@mandw.com.

Started in July 1984, Michaelson & Associatesi in Shrewsbury, N.J., is a full-service IP and technology firm, with heavy practice specializations in ADR, patent and trademark procurement, licensing and related matters. Mr. Michaelson arbitrates domestic and international IP, IT, telecommunications, technology and energy disputes; mediates domestic and international disputes over a wide range of substantive areas, including IP, technology, and commercial matters; and serves as a mediator and court-appointed expert in U.S. district courts. Firm members also prosecute patent applications across a diverse range of electronic, chemical, biotech, and mechanical technologies for clients ranging from Fortune 100 enterprises to small companies. For more information, visit us at www.mandw.com.

WENDY MILLER

Wendy E. Miller is a partner celebrating her 20th year at Cooper & Dunham, an intellectual property boutique established in 1887. Her practice includes litigation, counseling, licensing and portfolio development in all areas of intellectual property, and the prosecution of trademark matters before the U.S. Patent and Trademark Office. She has a bachelor's degree in physics from Penn State and a J.D. from The George Washington University Law School. She is a member of the National Association of Women Lawyers and the Business Council for Peace (Bpeace), a nonprofit providing pro bono business consultation to businesswomen in war-torn regions. She can be reached at wmiller@cooperdunham.com.

Since 1887, Cooper & Dunham LLP has been dedicated to the practice of intellectual property law. The firm, located in New York City, has practice groups in biotechnology and pharmaceuticals, electronics and information technology, litigation and trademarks. The firm's attorneys are known for their technical and legal acumen, their superior customer service and their lengthy and successful track record in this ever-changing field. From major litigation to day-to-day advice, Cooper & Dunham attorneys stand ready to assist their clients in any intellectual property matters that may arise. For more information, visit us at www.cooperdunham.com.

GERARD NORTON

Gerard P. Norton, Ph.D., is a partner in the Princeton office of Fox Rothschild LLP, chair of the firm's Intellectual Property Department and co-chair of the Pharmaceutical and Biotechnology Practice. He represents Fortune 100 companies, universities and nonprofit organizations in all aspects of IP law, including litigating complex patent, trademark, copyright and trade secret matters, and counseling clients on the validity and scope of IP rights, portfolio development, strategic positioning of corporate assets and IP-related matters relevant to corporate transactions. Gerry provides skilled knowledge to clients in pharmaceutical, biotechnology, chemical and medical device arts industries. He can be reached at gnorton@foxrothschild.com.

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