INTELLECTUAL PROPERTY

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Acquiring Intellectual Property from a Bankrupt Licensor

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Special to the Legal

This article explores the opportunities and pitfalls attendant in a purchase of intellectual property through a Section 363 bankruptcy asset sale. As a 363(f) sale is completed "free and clear" of all pre-bankruptcy interests, the negotiations of a buyer of IP assets focus more on the schedule of contracts to be assigned to the buyer and of those to be rejected by the debtor, rather than the language of the representations and warranties.

The fate of an improvident buyer in a 3rd U.S. Circuit Court of Appeals case, *In re Cellnet Systems Inc.*, illustrates some of the hazards to be navigated in an IP asset purchase agreement with a debtor-licensor.

The value and strategic importance of IP assets has skyrocketed over the last 15 years. According to a Swiss Reinsurance Company report, the ratio of the value of hard assets relative to intangible assets among the major industrial companies of the world went from 62 percent/38 percent in 1982 to 38 percent/62 percent a decade later. The asset value of many of today's technology companies' patents, trademarks and copyrights far outweigh the value their physical assets.

The current contraction of the economy has forced companies, including many once highflying technology darlings with

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rich IP portfolios, into Chapter 11 bankruptcy. The scarcity of credit has prevented many bankrupt companies from obtaining the financing necessary to pursue a viable reorganization. As a result, valuable assets are jettisoned at a fraction of their value in 363 asset sales or simply abandoned. Companies that have access to capital or strong cash reserves should seize upon the current downturn to strengthen their IP portfolios. The *Wall Street Journal* recently characterized the buying, trading and breaking up of large companies in Chapter 11 reorganizations as the hottest venue for M&A activity.

Warner's pending $33 million bid to acquire most of bankrupt Midway-Games' assets appeared to be driven almost exclusively by their interest in Midway's IP catalogue. Likewise, the immense global appeal of the Polaroid brand and Polaroid's broad patent holdings were touted as the foremost reason for a recent joint venture's $87.6 million purchase of most of Polaroid Corp.'s assets out of a bankruptcy. Bankrupt Nortel — whose long-term evolution third-generation mobile patent assets alone are expected to generate up to $2.9 billion in royalties over the next 15 years — is currently auctioning substantial portions of its assets at fire sale prices.

In another case, a technology firm in which venture capitalists had invested over $700 million had anticipated selling itself for roughly $1 billion prior to bankruptcy. The firm was auctioned off at a mere $8 million in a 363 bankruptcy sale.

As a general matter, Chapter 11 bankruptcy acquisitions may be executed either through a Section 363 asset sale or a confirmed plan of reorganization or liquidation. Section 363 sales, which courts have been authorizing increasingly to sell off all or substantially all of the debtor's assets, are preferable in speed and cost to a sale through a formal plan. Although creditors may object to the sale before the court on certain limited statutory grounds, they are not entitled to vote as they would for a proposed plan.

Besides the bargain prices, 363 sales offer significant advantages to firms seeking investment opportunities. Assets purchased in bankruptcy are generally sold free and clear of any liens, claims, encumbrances or interests of third parties. The buyer may cherry-pick assets and liabilities, even some with anti-assignment provisions, generally without the risk of incurring any successor liability. Finally, the bankruptcy court's stamp of approval should ensure the "good faith" of the purchaser, the finality of the sale and the enforceability of purchase documents, such as non-competes, service agreements or licenses.

Navigating the transfer of IP rights through the lens of the Bankruptcy Code demands considerable caution and due diligence, especially when license agreements are involved. The sale of an IP license agreement out of bankruptcy involves a two-step process: the debtor's assumption of the license; and the debtor's assignment of the license to the purchaser. A debtor, however, can only assume or assume and assign an intellectual property license if that license qualifies as an executory contract and the debtor is not in violation of any non-monetary contractual obligations. The debtor must also cure any monetary obligations and provide adequate assurances that it can perform its contractual obligations.

A debtor-licensee's capacity to assign a license without the licensor's consent will vary depending upon the court's definition of an executory contract, the scope of the licensed rights, the assignability of the contract under applicable nonbankruptcy law and the court's adoption of one of the three divergent interpretations of Section 365(c)(1) of the Bankruptcy Code. The inability to assume and assign critical IP licensee

License continues on **IP7**

Is It a Product Claim or a Product by Process Claim? *A Rorschach Test for Patent Claims*

BY LYNN MORREALE
Special to the Legal

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In today's fast-paced markets, businesses continually study and map competitors' intellectual property to identify unpatented territory where opportunity exists or patents that pose infringement risks. As a result, industries seek certainty from the courts and counsel regarding patent scope.

The Court of Appeals for the Federal Circuit has been criticized for rendering opinions based on claim interpretations that were inconsistent, if not contradictory, in the application of claim construction rules. Although such criticism has been muted in recent years, the decision in *Gemtron v. Saint-Gobain* demonstrates that there still exists a haze around the art of claim interpretation and patent scope analyses that can heighten risk.

Gemtron's patent is directed to a two-part refrigerator shelf. The patented shelf has a "snap-secure" feature that allows the two parts (a plastic frame and a glass insert) to snap together during assembly. Despite the presence of this seeming process limitation in the patent claim, the Federal Circuit determined that the limitation was part of the shelf structure, thus altering the analysis of whether Saint-Gobain was guilty of infringement. In doing so, the court relied upon an interesting line of cases that consider when a product invention can morph into a product-by-process invention, i.e. a product defined by the process by which it is made. This article also considers how such an analysis can turn infringement on its head when the patented product is made abroad and imported into the United States.

THE DISTRICT COURT DECISION

Gemtron sued Saint-Gobain for patent infringement of U.S. Patent No. 6,679,573. Only the "snap-in" feature of the shelf was in dispute: "a relatively resilient end edge portion which temporarily deflects and subsequently rebounds to snap-secure one of said glass piece front and rear edges in the glass piece edge-receiving channel of said at least one front and rear frame portion."

According to the patent, this claimed feature eliminated the need for adhesive to secure the frame to the glass, thereby reducing costs. It was undisputed that, in use and at room temperature, Saint-Gobain's shelves were relatively inflexible and did not have "a relatively resilient end edge portion" that allowed the glass to snap-secure into the frame. Nevertheless, when the accused shelves were heated, it was possible to snap the glass into the frame. At trial, Gemtron submitted a videotape of Saint-Gobain's manufacturing process in Mexico, demonstrating that the glass shelf was "snap-secured" into a channel of the frame.

The district court interpreted the disputed claim limitation to mean that "the end edge portion is sufficiently resilient that it can temporarily deflect and subsequently rebound when glass is being inserted into the frame," i.e. at the time the glass is assembled into the frame. The jury found that the shelves infringed.

THE FEDERAL CIRCUIT DECISION

On appeal, Saint-Gobain argued that the claim should be interpreted to require that the shelves allow the glass to be snap-fitted into the frame at room temperature, because the patent claim did not specify temperature. Saint-Gobain also argued that the "relatively resilient" language transformed a product claim into a product-by-process claim, and as a result, Saint-Gobain's shelves could not infringe under U.S. law because the process was performed in Mexico. The Federal Circuit rejected Saint-Gobain's arguments and affirmed.

In interpreting the claim, the court highlighted that the claim language did not include any temporal or temperature limitations and noted that it called for "temporary" deflection. Based on these factors, the court concluded, "the 'relatively resilient' limitation requires no more than that the frame of the claimed shelf has the structural characteristic of having been temporarily deflected and subsequently rebounded to snap-secure the glass at the time of manufacture."

The court also declined to interpret the claim to require a process limitation. Although the claim language "ties" the "relatively resilient" properties of the shelf to its function in the manufacture of the item, the court found "that characteristic is nonetheless a structural attribute possessed by the claim frame and is not a process limitation."

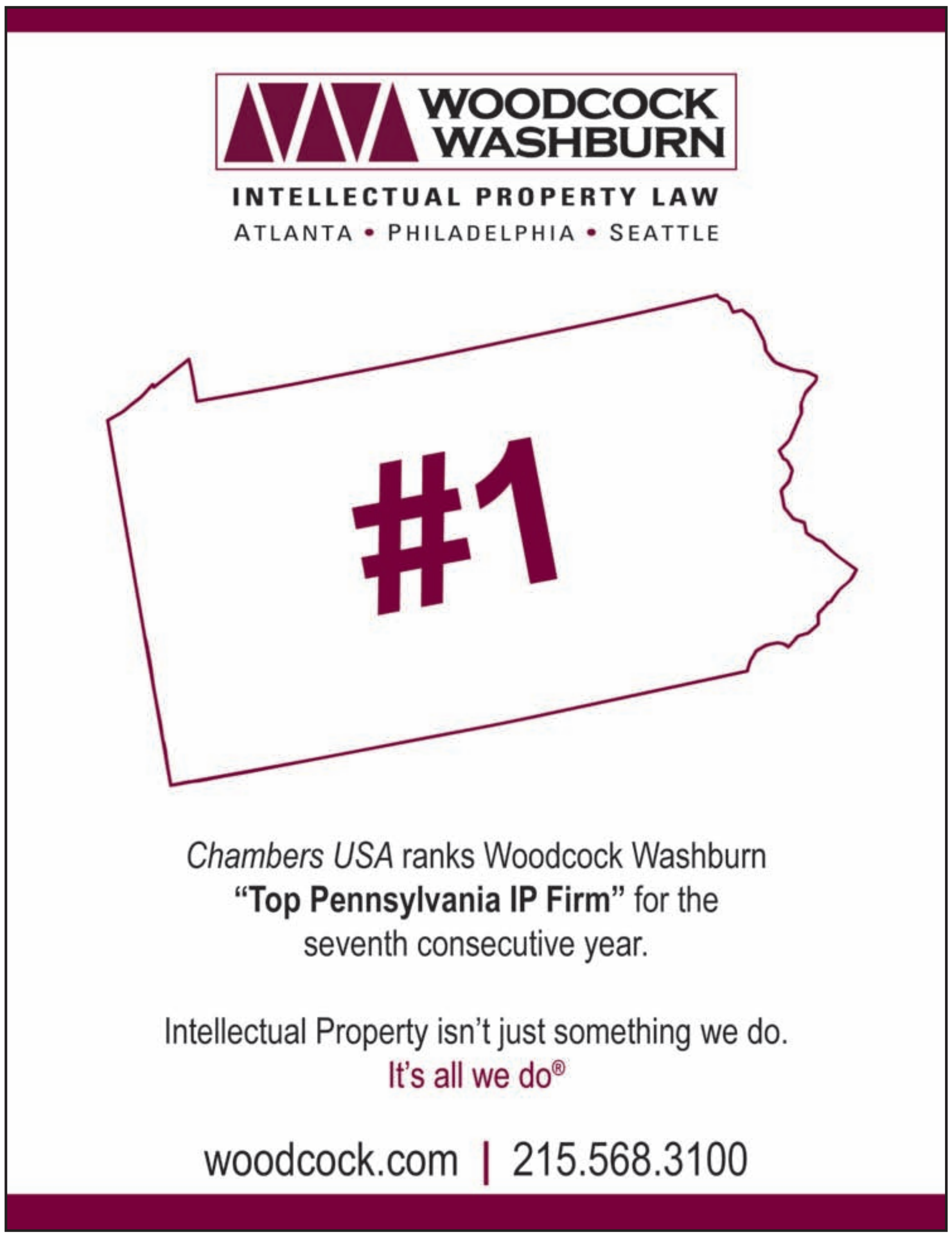
According to the court, "[d]efining a structural component by its functional as well as its physical characteristics is different from defining a structure solely by the process by which it is made." The court supported its conclusion with cases dating back to the 1960s.

- *In re Garnero*

In this 1965 case, the patent applicant appealed a U.S. Patent Office rejection holding the following patent claim unpatentable: "A composite, porous, thermal insulation panel … consisting essentially of expanded perlite particles which are interbonded one to another by interfusion between the surfaces of the perlite particles while in a pyroplastic state to form a porous perlite panel."

The patent claim was rejected as obvious over prior art that described panels having perlite mixed with calcium oxide. While the presence of the phrase "consisting essentially

Rorschach continues on **IP7**



When Patenting an Invention Is Not a Client's Best Idea

BY STEVE MENDELSOHN
Special to the Legal

There are some good reasons why your clients should patent their inventions, but there are even more good reasons why they should not.

Perhaps the best reason for your clients to patent their inventions is that they can make millions of dollars by enforcing those patents against those who make, use, or sell products embodying those inventions.

Assume, for example, that your client invented intermittent windshield wipers. You might think that that would certainly be a great invention for your client to patent, right? With such a patent, your client could collect millions and millions of dollars in royalty payments by enforcing that patent against automobile manufacturers.

But you would be wrong. Intermittent windshield wipers were patented in 1967 by Robert Kearns of Detroit, Mich., who made millions of dollars in royalty payments by enforcing his patent against automobile manufacturers. The rule is that only the first inventor of an invention is entitled to get a patent on that invention, and your client wasn't the first inventor.

PATENTABILITY V. MARKETABILITY

I know what you are thinking. You're thinking that intermittent windshield wipers was just an example used to make a point. And you would be right. The point is that it is extremely unlikely that you will come up with a patentable invention that is worth even $20 in royalty payments, let alone millions. For example, somebody already invented intermittent windshield wipers.

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Take the woman who called me from Ohio about 10 years ago to tell me that she had just invented the combined carbon monoxide detector/automatic garage door opener. When the device detects a high level of carbon monoxide in the garage, it automatically opens the garage door, thereby reducing the carbon monoxide level and presumably causing the person who was trying to kill himself to swallow a lot of pills instead.

While I was on the phone with this prospective client, I logged onto the U.S. Patent and Trademark Office (USPTO) Web site and did a keyword search on "automatic garage door opener" and "carbon monoxide." Sure enough, someone had already patented the same device. The woman lamented, "Then why can't I buy one?"

That's the point: patentability and marketability are two very different things. Just because an invention is patentable, doesn't mean it is also marketable.

On April 15, 1980, Edward Kelly of Trenton, N.J., was able to get a patent on the combined carbon monoxide detector/automatic garage door opener, but that doesn't mean that he was able to get anyone to buy one. At least, the woman from Ohio that I spoke to 10 years ago couldn't find one when she looked for one in her local hardware store. Apparently, people don't want their garage doors flying open in the middle of the night just because concentrations of potentially deadly gas have reached fatal levels.

From what I've seen over almost 20 years as a patent attorney, for every invention like the intermittent windshield wiper, worth millions of dollars, I'll bet that there are hundreds, if not thousands, of inventions like the detector/opener that aren't worth even $20.

As my colleague Steve Petersen used to say to prospective new clients, "There are professional engineers and scientists who spend their entire careers working in this technology area. The chances that you have come up with something that they have not already thought of and tried to patent are pretty remote."

ROUND AND ROUND WE GO

"You don't need a patent to go into business; you get a patent to keep other people from going into your business."

Patents provide exclusive rights. In other words, a patent gives you the right to exclude others from practicing your invention. Ironically, having a patent does not necessarily mean that you have the right to practice your own invention.

The following is the situation I always use with clients who are new to the world of patents. Assume, I say to them, that you were the first to invent the automobile. You could get a patent on all motorized vehicles. Assume further that, one year later, I invent automatic transmission, which is a patentable improvement on the standard transmission that you had in your automobile. I could then get a patent on all motorized vehicles with automatic transmissions.

In that case, you can make automobiles with standard transmissions, but you can't make automobiles with automatic transmissions without permission from me because I have the patent on them. But wait, I can't make automobiles with automatic transmissions without permission from you, because you have the patent on all motorized vehicles. Aren't patents fun?

The point is that getting a patent will not guarantee that your client can practice his or her own invention.

TAKING A GAMBLE

"If you want real value for your hard-earned money, take the $15,000 you were going to spend on a patent application, go to Atlantic City, put it on red, and spin the wheel. Your chances of making any money will be far greater than with a patent."

I've said this to prospective clients many times, usually prefaced by the phrase, "I don't mean to sound flip, but ..."

Most of the patent applications that we file are for a handful of corporations that understand the probabilities and statistics associated with the patent process. They file hundreds of patent applications every year knowing full well that only a few are going to be worth anything. The problem is that they don't know ahead of time which ones are going to be valuable. If they did, then they would just file those and save the rest of the money for something important, like executive bonuses and congressional lobbying.

Invention continues on **IP8**

Trademark Practice After *In re Sones*: Subtle But Important Shift in IP Law Opens Door for Internet Businesses

BY TIMOTHY J. SZUHAJ
Special to the Legal

On Dec. 23, 2009, the U.S. Court of Appeals for the Federal Circuit handed down a decision that marked a sea change in intellectual property law. In *In re Sones*, the court changed the rules governing how e-commerce business owners can handle registration of their trademarks related to goods.

The significance of this decision rests in the effective "lessening" of the standards an e-commerce business must meet when proving use of a mark, essentially making it easier for Internet business owners to register their marks.

The advent of the Internet affected intellectual property law and the registration of trademarks, as it did many other areas of law and life. With the rise of the Internet in the mid-1990s, the U.S. Patent and Trademark Office was faced with the dilemma of how to treat e-commerce or online businesses with respect to the registration of trademarks. Were these businesses merely online catalogs or just a new variant of traditional brick-and-mortar businesses?

The answer to this question has a distinct impact upon the trademark registration process.

To register a trademark or service mark in the United States requires a showing of "use" either upon filing of an application asserting use under Section 1(a) of the Lanham Act or after a notice of allowance has issued for applications filed on an "intent to use" basis under Section 1(b) of the Act. Under prevailing law, a trademark owner "uses" a mark with respect to goods when the mark is used "to identify and distinguish his or her goods ... from those manufactured or sold by others and to indicate the source of the goods." To satisfy this "use" requirement, the USPTO requires applicants to submit, inter alia, a specimen of use "showing the mark as used on or in connection with the goods."

Prior to *Sones*, the USPTO treated online display of goods via a website in the same manner as a catalog — that is, business owners had to show a screenshot or photo of the Web site, which contained a picture of the relevant goods, a depiction of the mark "used" sufficiently near the picture and information necessary for ordering the goods. Until last December, this standard had held since the 1990s.

Of course, this standard of using photos and descriptions on Web sites in order to prove use of a mark was problematic for business owners who did not create packaging or a picture catalog for their goods. These difficulties were effectively wiped out with *Sones*.

Sones had filed an intent to use application for the mark "ONE NATION UNDER GOD" for charity bracelets. The USPTO approved the application and published it for opposition. After the opposition period expired, the USPTO issued a notice of allowance. Sones then submitted his statement of use together with a specimen of use within the required time period. Sones' specimen of use consisted of two pages from a Web site. The Web pages bore the title "Beaches Chapel School Store" and contained a listing for "ONE NATION UNDER GOD™" charity bracelets for $2.00. The Web pages also had "shopping cart" functionality for online purchasing. There was no picture of the subject bracelet on the Web pages, however.

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The USPTO rejected Sones' statement of use, noting that the specimen of use "does not show a picture of the goods in close proximity to the mark." Despite having the opportunity to submit a conforming substitute specimen, Sones chose not to do so and, instead, he submitted a legal argument that the original specimen of use was acceptable, presumably because he did not have another specimen dating to prior than the filing date of the statement of use.

The USPTO rejected Sones' arguments and issued a final office action affirming the rejection. Sones appealed to the Trademark Trial and Appeal Board, which affirmed the rejection. The TTAB adopted the USPTO's reasoning: "Upon examination of the webpages, it is readily apparent that they do not include a picture of the goods." Sones appealed to the Federal Circuit.

After considering the record and the apparent practicalities of the situation, the Federal Circuit reversed and remanded the case. First, the court explained that the TTAB's reliance on the three-part test adopted in the prior case law was too narrow. The court stated the TTAB seemingly ignored an additional factor found in the prior case law: "a crucial factor in the analysis is if the use of an alleged mark is at a point of sale location." The court reasoned that a Web page that displays a product and allows customers to order directly from the page can qualify as a "'display associated with the goods,' as long as the mark appears on the Web page in a manner in which the mark is associated with the goods." Second, the court stated that TTAB's "bright-line rule has no basis in trademark statute or policy."

Finally, the court questioned the application of a rule intended for catalogs to Web sites and found that Web pages, categorized as "electronic displays" under the

Internet continues on **IP8**

Resolving Trademark Infringement Disputes With Inter Partes Proceedings

BY REX DONNELLY
Special to the Legal

While conventional wisdom holds that a lawsuit is the best way to address actual trademark infringement, this is not necessarily true in every situation. Although trademark inter partes proceedings, such as oppositions and cancellations, are limited to resolving federal registration rights, the cost of initiating and maintaining such proceedings is usually significantly less than court-based litigation, and can serve as a cost-effective catalyst for a negotiation that can resolve all outstanding issues. Furthermore, inter partes proceedings may offer distinct advantages in certain situations, such as when trademark disputes involve multiple jurisdictions.

TYPES OF PROCEEDINGS

The two most frequently used inter partes proceedings in the U.S. Patent and Trademark Office (USPTO) are oppositions and cancellations. Anyone who believes they would be damaged by the registration of the mark can file a notice of opposition against a pending trademark application. The notice of opposition must be filed during an opposition period that initially lasts 30 days after publication of the subject application, but can be extended up to 90 days without consent of the applicant, or up to 120 days with consent.

Anyone who believes they are or will be damaged by a trademark registration can file a petition to cancel at any time after the registration is issued. A trademark cancellation proceeding is in some ways the closest analog to a patent re-examination proceeding, in that both of these USPTO inter partes proceedings permit a third party to challenge an issued grant of intellectual property rights using a forum other than the district courts.

A U.S. opposition or cancellation can be brought on any grounds available for refusing registration of a mark, including likelihood of confusion, dilution, mere descriptiveness, deceptive misdescriptiveness, disparagement, false suggestion of connection and fraud on the USPTO, as well as issues arising after registration, such as an allegation that the mark has become generic or that the registrant has abandoned use. Marks that have achieved "incontestable" status after five years of continuous use following registration, however, may be canceled only on the limited grounds of fraud, prior right, genericness or non-use. Most countries have proceedings similar to U.S. opposition and cancellation proceedings.

Other inter partes proceedings include interferences and concurrent use proceedings. A trademark interference determines which of two or more parties have priority with respect to registration of a particular mark. Where it is clear that more than one trademark applicant and/or registrant have rights in distinct geographic regions, a concurrent use proceeding focuses on where each party has prior rights and how the rights can be divided in a way that will minimize consumer likelihood of confusion. Interferences and concurrent use proceedings are rarely initiated, and similar proceedings are not available in most foreign countries (typically because many countries grant trademark rights based on a first-to-register system, in contrast to the first-to-use system of the United States).

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Trademark inter partes proceedings in the United States are decided by the Trademark Trial and Appeal Board (TTAB), which has the power to resolve such proceedings by canceling a registration or refusing to register a mark in whole or in part, modifying an application or registration by limiting the goods or services specified, refusing to register any or all of several interfering marks, or registering as many concurrent marks for which confusion is considered unlikely in light of conditions or limitations the TTAB imposes. U.S. inter partes proceedings generally follow the Federal Rules of Procedure, so discovery before the TTAB is comparable to that in the federal courts.

CONTRAST TO LITIGATION

While inter partes trademark proceedings affect the right to register a trademark, they do not directly impact the right to exclude others from using a mark. A senior mark owner seeking damages or an injunction against actual use by a junior mark user can only directly achieve those results by filing a lawsuit. If the junior mark user has not registered or filed an application, litigation is the only option.

Unlike a successful patent re-exam, after which the owner of an invalidated patent no longer can exclude others from practicing the formerly patented invention, a successful trademark cancellation merely removes a trademark from the federal register (or limits the scope of rights of a registration). Accordingly, even after cancellation of the registration, an accused infringer may face a lawsuit (and liability for damages) based upon the mark owner's common law rights.

Sophisticated trademark owners generally seek registration to maximize their IP rights. The risk of losing or never getting a trademark registration may therefore be a very powerful tool in resolving a trademark dispute. Accordingly, a prejudicial ruling from the TTAB may convince an accused infringer to abandon actual use of the disputed mark and choose a new one. Furthermore, because intent-to-use applications publish before the applicant must actually use the mark, oppositions may be decided before any related use begins. A trademark applicant who has not yet built goodwill in a mark is far more likely to consider rebranding than one who has already launched a product bearing the mark.

With some notable exceptions, damage awards are rare in non-counterfeiting trademark litigation, and even when awarded, are typically not comparable to the amounts at issue in patent cases. The 2009 American Intellectual Property Law Association (AIPLA) *Report of the Economic Survey* indicates that the average cost of a trademark cancellation/opposition through completion is almost 70 percent less than the average cost of litigation when less than $1 million is at stake. The same survey shows that 25 percent of inter partes proceedings can be completed for $30,000 or less, versus a similar benchmark of $176,000 for litigation with less than $1 million at stake. As the amount at stake rises, the cost of the litigation increases.

Where two businesses are sophisticated enough to pursue trademark registration and where monetary recovery is not the primary motivation, an inter partes proceeding provides a forum in which experts decide questions such as whether a junior mark creates a likelihood of confusion with or dilutes a senior mark. By contrast, court litigation may be decided by a judge and/or jury with minimal if any experience in deciding trademark cases.

Trademark disputes may often be more readily resolved via a business agreement than patent disputes. Unlike patent litigation, in which an accused infringer knows that a loss may keep it out of the relevant market until the patent monopoly expires, an accused infringer who loses a trademark litigation or inter partes proceeding can still compete with a functionally identical product or service sporting a different mark and/or trade dress.

Meanwhile, every moment the trademark is in dispute, the accused infringer risks creating goodwill in a mark it ultimately may have to abandon, providing a strong business reason to determine early whether a trademark is worth the fight. Similarly, the applicant who has not yet actually used an opposed mark may decide that its investment is better directed toward adopting a new mark.

ADVANTAGES

Since both litigation and inter partes proceedings typically result in a negotiated settlement, and litigation is typically more expensive (with less upside for the plaintiff if successful), a trademark inter partes proceeding may be the best way to provoke a serious negotiation for resolving all aspects of a trademark dispute when actual use and registration are both at issue. If it later becomes clear that the inter partes proceeding will not resolve the entire dispute between the parties, then either party can typically initiate a lawsuit in federal court.

Trademarks, like their associated products, are often used worldwide, and therefore, trademark owners are likely to register the mark in countries where the associated goods and services have a substantial market. Unlike patents, which require novelty and non-obviousness worldwide to secure rights in any country, trademark rights may be acquired by different parties in different countries. Thus, a senior trademark owner in one country may be the junior user elsewhere in the world, meaning that a

Inter Partes continues on **IP7**

License

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rights may be sufficient to undermine the value of the remaining assets and scuttle the entire deal.

In re Cellnet Data Systems Inc. highlights some of the issues that may arise in a purchase of a debtor-licensor's rights. Three years prior to filing bankruptcy, Cellnet, a developer of a wireless data network, entered into an agreement that provided a joint venture, BCN, with an exclusive license to use all of Cellnet's intellectual property rights outside the United States. The license covered patents, copyrights, trade secrets, hardware, software and source codes, and provided for the grant of sublicenses by the joint venture to manufacturers of components.

After extensive pre- and post-filing negotiations, the purchaser, Schlumberger, committed to a $225 million asset purchase agreement (APA) whereby Schlumberger would purchase all of Cellnet's IP assets, with the specific exception of the BCN foreign IP license agreements. Pursuant to the terms of the APA, Cellnet notified the licensee that it was rejecting the exclusive license. The licensee then elected to retain its rights under the license as per Section 365(n) and continue to use the intellectual property and pay royalties. Both the debtor and Schlumberger claimed that they were entitled to receive the $2.2 million in royalties.

In affirming the ruling of the bankruptcy and district courts in favor of the debtor, the 3rd Circuit reasoned that because the buyer had expressly excluded the license agreement from the assets it had purchased, it had in effect severed the right to receive royalties from the IP it had purchased.

Section 365(n) of the Bankruptcy Code provides special protections for the "licensees of intellectual property" following a debtors' rejection of the IP license. Specifically, the licensee may elect "to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable non-bankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property ... as such rights existed immediately before the case commenced ... ."

If the licensee chooses to retain its rights under the licensing agreement, after the debtor rejects the contract, the debtor in possession is effectively absolved of all affirmative obligations it may have under the IP license. Negative covenants, such as respecting an exclusivity provision or a confidentiality agreement, remain in force. The licensee cannot, however, enforce any affirmative debtor obligations under the license to provide technology maintenance, updates or other assistance. The licensee must also waive any claims, such as breach of contract or setoff actions, against the debtor and continue all royalty payments "due under such contract for the duration of such contract."

Schlumberger had operated on the mistaken assumption that, as owner of the underlying assets and the bearer of the obligation to respect the negative covenants, it should be the royalty beneficiary. As Schlumberger had explicitly excluded the license agreements from the APA, the court found the license agreements remained property of the debtor's estate after the APA and until the debtor formally rejected the contract. Once the licensee has exercised his post-rejection 365(n) rights, the court continued, the plain language of the statute requiring the payment of royalties "due under such contract" dictates that the renewed royalties are directly linked to the rejected contract, not the intellectual property.

As the court's decision was based upon the express contractual language of the APA, a future buyer of IP licenses could easily protect himself by expressly assigning the royalty payments to the buyer in the event that the licensee elects to retain its rights. A buyer may also attempt, as Schlumberger had unsuccessfully done so in this case, to strip the IP of the license agreement through the 363 asset sale itself. If an unwary licensee does not object to the 363 sale of the IP "free and clear of all interests" through a court request for adequate protection, it is assumed to consent to the sale free and clear of any licensee interests.

The simplicity of the contractual remedy to Schlumberger's problem masks the larger complexity that Section 365(n) creates for IP purchases. Schlumberger retained the U.S. IP rights without any right to control their exploitation abroad and without any compensation for the loss of such control. Without negotiating a binding commitment directly with each licensee, a buyer cannot determine with any certainty whether it will have control over the intellectual property it is purchasing. Unless a buyer is prepared to assume the debtor's license with the licensee, and the debtor is in fact capable of assuming and assigning such license, 365(n) can serve as a barrier to 363 asset purchases. A vigilant buyer could negotiate the creation of an escrow indemnity fund to compensate for the adverse impact a 365(n) election may have on the remaining assets in the proposed transaction.

Depending, however, upon the nature of the licensing agreement, the absence of any affirmative obligation under 365(n) to maintain the agreement, provide technological updates, or communicate new trade secrets under future improvement clauses, may offer a buyer significant leverage in negotiating the abandonment of the license by the licensee. Where the license involves trademarks, trade names, service marks, trade dress and domain names that are not within the scope of Section 365(n), the ability to sever the licensee's trademark rights from the related software, and thereby destroy those rights, may deter the licensee from exercising its 365(n) election rights with respect to the other intellectual property as well. A savvy licensee may however anticipate and neutralize such an eventuality by broadening the number of goods with which the trademarks are used, procuring a security interest in the trademark itself or imposing onerous liquidated damages clauses in the event of termination.

As an asset purchase agreement may involve representations, warranties and a contract schedule that hinge upon litigable license assumptions and assignments, buyers must incorporate these contingencies in their valuation and protect their interests with indemnification clauses, out-clauses and a careful analysis of the circuit's prior case law and the language of each licensing agreement.

As illustrated by Schlumberger's demise in *Cellnet*, the protections 365(n) offers the non-debtor licensee can trap the unwary. While the purchase of IP assets out of bankruptcy in the current economic downturn may represent a great bargain, the buyer must be mindful of the complex and evolving nature of the law at the intersection of intellectual property and bankruptcy. •

Inter Partes

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comprehensive negotiated settlement may be best for both parties.

The universality and relative low cost of inter partes proceedings permits trademark battles to be fought and/or rights preserved on multiple fronts at the same time. Even if only registrations are directly at issue in such proceedings, once the parties start discussing settlement, all issues, including use, are typically on the table for resolution. Thus, inter partes proceedings can be used as leverage to preserve specific rights locally while resolving the big picture globally. By contrast, simultaneous court litigation in multiple jurisdictions may not only be more costly, but may also come with less flexibility regarding scheduling. Accordingly, inter partes proceedings have a distinct advantage for disputes not limited to one country or region.

In the United States, trademark actions under the Lanham Act are generally limited to dealing with marks that create a likelihood of confusion, cause dilution or constitute misrepresentation. Trademark oppositions and cancellations, however, permit an opposer or petitioner to proactively allege descriptiveness or genericness of an application or registration, rather than having to use the disputed mark, provoke an enforcement action or demand letter, and then litigate validity in a counterclaim or declaratory judgment action.

Sometimes, a trademark dispute can be very narrowly defined such that the parties can benefit from the ruling of a neutral decision maker relatively quickly. While expedited proceedings such as a TRO or preliminary injunction are available in the courts in rare circumstances, most trademark litigation takes time. By contrast, accelerated case resolution (ACR) procedures available in the United States can greatly streamline the timing of oppositions and cancellations. Parties that need only limited discovery and are willing to stipulate to a number of facts can use ACR to accelerate the close of discovery and quickly move into summary judgment.

For parties that want more time to resolve issues amicably, the TTAB permits suspensions or extensions of time as long as the parties show continued progress toward settlement. Many foreign countries have similar flexibility or built-in delays to facilitate settlement discussions, such as the set "cooling off period" of two months, extendible by 22 months, in the European Union.

In summary, trademark inter partes proceedings provide flexibility, significantly lower cost, and great potential for resolving more than just registration issues. Consequently, court litigation may not always be the only or the best vehicle for resolving questions of trademark infringement, as parties can readily address actual use as part of a larger resolution prompted by one or more inter partes proceedings. •

Rorschach

continued from **IP3**

of" was enough to rebut the Patent Office's argument, the U.S. Court of Customs and Patent Appeals (CCPA) nevertheless addressed the Patent Office's assertion that the only difference between the claim and the prior art was the process by which the product was made (which was known). The court rejected that argument and instead interpreted "interbonded one to another by interfusion between the surfaces of the perlite particles" as a structural limitation, not a process limitation, that was not disclosed by the prior art. The claim was held to be patentable.

• *Hazani v. U.S. Int'l Trade Comm'n*

Nearly 30 years later, the Federal Circuit again addressed whether a process limitation could be construed in a product claim. The patent was directed to semiconductor memory cells that required "an electrically conductive ... plate having a surface that was chemically engraved to have a predetermined pattern." The patentee asserted that the inclusion of "chemically engraved" in the patent claim resulted in a product-by-process claim that was patentable over the prior art.

But the court disagreed, finding the "chemically engraved" limitation, read in context, "describes the product more by its structure than by the process used to obtain it," and was akin to describing a "textured" surface as recited in another patent claim. The claims were held to be unpatentable.

• *3M Innovative Properties Co. v. Avery Dennison Corp.*

Perhaps most instructive on the issue is the opinion rendered in *3M Innovative Properties Co.* The patent covered sheets of adhesive-backed film that were pre-printed with advertisements. The claim language in dispute concerned the "multiple embossed pattern" on the film surface: "A carrier web comprising: at least one surface that has a multiple embossed pattern having a first embossed pattern and a second embossed pattern, wherein the first embossed pattern forms an array of depressions, wherein the depressions of the first embossed pattern are in the second embossed pattern, wherein the second embossed pattern comprises lands and ridges … ."

The district court held that the claim

Rorschach *continues on* **IP8**

Rorschach

continued from **IP7**

required sequential embossments, but on appeal the Federal Circuit disagreed. The court held that the patent required "two or more embossing patterns" that are "superimposed" and nothing more. The court relied on the definitions in the patent for "embossed" and "multiple embossed" to conclude that the claim language merely described the structural relationship between the embossing patterns, not the method of application.

Rejecting Avery's arguments that the claim language transformed the product claim into one that was limited to serial embossments, the court articulated its view that where an ambiguous claim limitation can be interpreted to include structural or process limitations, such limitations should be interpreted to be structural unless the patentee clearly indicated otherwise: "[E]ven words of limitation that can connote with equal force a structural characteristic of the product or a process of manufacture are commonly and by default interpreted in their structural sense, unless the patentee has demonstrated otherwise."

The court then reviewed the language of the other patent claims, the patent specification and the prosecution history for evidence that the patentee had intended to include the sequential creation of "multiple embossed patterns" in the patent claim. It found none. Instead, the court relied on statements from the patent where the patentee had described the option of creating the pattern in a single step. The court also relied on the patentee's actions during procurement of the patent where, for example, it broadened Claim 1 by deleting the limitation to a "multiple sequentially embossed" web and substituting language directed to the first and second embossed patterns.

Even more surprising, during the patent procurement process the patent examiner had stated that the claim was drafted in the product-by-process format. 3M, however, never responded to the examiner's characterization. The court did not view 3M's silence to constitute "clear and unmistakable" surrender of claim scope. As a result, the court refused to interpret the claim to require process limitations.

RAMIFICATIONS ON INFRINGEMENT

On appeal, Saint-Gobain argued that there was no infringement because after importation, its shelves were inflexible and did not meet the claim requirements. Saint-Gobain also argued that there was no infringement because the "snap-in" step was practiced in Mexico.

Based upon its claim interpretation, the Federal Circuit easily rejected these arguments. Because the limitation was structural, it was sufficient that the accused shelves had the requisite resiliency at the time of manufacture. Further, the evidence showed that the accused product included the "relatively resilient" limitation, as that phrase was interpreted by the court, and under 35 U.S.C. §271(a), importation of an infringing product is enough for liability to exist.

Under U.S. patent law, each step of a method claim must be practiced in the United States for there to be infringement. To infringe product-by-process claims, the accuser must practice each of the recited process steps, as seen in *Abbott Labs. v. Sandoz Inc*. Had the Gemtron patent claim been interpreted to be a product-by-process claim, it is uncertain whether infringement would have been found.

LESSONS TO BE LEARNED

Gemtron demonstrates the general rule that when product claims include description of the process by which the product can be made, those process limitations will be interpreted in their structural sense, absent a clear affirmative statement by the inventor that those limitations are, in fact, process limitations. Therefore, phrases like, "chemically engraved," "intermixed," "embossed," "ground in place," "press fitted," "etched," "welded" and "condensation product," while suggestive of methods of manufacture, properly may be interpreted to be structural limitations.

A creative patent attorney can skillfully draft claims to a novel device, composition, or system that arguably incorporates process requirements that may prove helpful during the patent procurement process, and at the same time, render the manufacturing process practiced by the alleged infringer largely irrelevant when determining infringement. •

Invention

continued from **IP4**

The individual client with a single idea is facing the same odds and likely even worse odds, because that individual is likely not a professional engineer or scientist who has spent his or her entire career working in that technology area. If the chance of an issued patent being worth anything is 1 percent, then, for every 100 patents one of our corporate clients gets, on average, one of them will be worth something. But if your client is an individual who files only one patent application, then it is almost certain (to within an error of 1 percent) that patent will be worthless.

REPEAT OFFENDERS

The USPTO rejects some patent applications that should be allowed, and it also allows lots of applications that should be rejected. You can spend tens of thousands of dollars to get an issued U.S. patent that is worthless, not just because the invention is not marketable, but also because the patent itself is of dubious validity.

As I explained previously, in 1980, Edward Kelly patented the combined carbon monoxide detector/automatic garage door opener. In 1982, Richard Martin of West Bloomfield, Mich., also patented the combined carbon monoxide detector/automatic garage door opener. So did Dean Duhame of Roseville, Mich., and Shigeru Matsuoka of Tokyo, Japan, both in 1982. In 1989, John Vole of Vernon Hills, Ill., also patented one, as did Richard Murphy of Oaklawn, Ill., in 1996 and Thomas Dzurko of Strongville, Ohio, in 2007.

Most recently, in 2009, Thomas John of Roslyn, N.Y., patented the combined carbon dioxide detector/automatic garage door opener. It's possible that I may have missed a few others in there. It's also possible that someone will again patent the detector/opener in 2011.

Let's assume that these devices become the next great fad in America, and dozens of companies start making and selling them. Thomas John, the detector/opener's most recent inventor, wants to recoup some of the thousands of dollars he just spent getting his patent. He has an issued U.S. patent that covers combined carbon dioxide detectors/automatic garage door openers, right? Unfortunately, so did over half a dozen others before him. Remember, only the first inventor is entitled to the patent. The subsequent inventors may have succeeded in getting patents from the USPTO, but that doesn't mean that they were entitled to them. Nor does it mean that a court will uphold their issued but dubiously valid patents.

BROAD V. NARROW

"Broad patents are probably invalid, and valid patents are probably narrow."

There's a famous (and probably inaccurate) story that, in 1899, the head of the USPTO concluded, "Everything that can be invented has been invented." Whether the story is true or not, clearly there have been a few inventions made since 1899, including the intermittent windshield wiper and the detector/opener.

Every week, the USPTO publishes the *Official Gazette* listing the 4,000 to 5,000 patents that issued just that week. For example, on March 16, the patent office issued exactly 4,400 patents. Although I have not analyzed those 4,400 patents, I would hazard to guess that most of them are very narrow in scope and those few that are broader are probably invalid.

I lied earlier when I said that the detector/opener had been patented eight different times. The truth is that the combined carbon dioxide detector/automatic garage door opener per se was patented only once and that was back in 1980 by Edward Kelly. The seven subsequent inventors patented improvements to Kelly's generic detector/opener. They were not entitled to patent the device per se because that had already been patented.

For example, the patent of Thomas John, the most recent detector/opener inventor, has three independent claims. The first requires the device to detect the position of a vehicle and calculate whether the vehicle is moving toward the garage. (Frankly, I don't even understand that invention.) The second claim requires the machine to include a handheld device that is used to close the garage door after the machine has automatically opened the door. The third claim requires the device to include an underground wire that extends underneath all vehicle entrances and exits.

It may very well be true that Thomas John's patent is valid and enforceable. Unfortunately, it is also true that the scope of John's patent is quite narrow and therefore easy to design around by changing the product enough to avoid infringing the patent. If you want to make, use or sell combined detector/openers that do not infringe Thomas John's patent, just make sure your device does not calculate whether a vehicle is moving toward the garage, and does not include a handheld device or an underground wire.

Not only does Thomas John have a patent that covers a product that apparently no one is interested in buying, but the scope of protection provided by that patent is so narrow it would be very easy for someone to design around it to build other types of combined detectors/openers that no one is interested in buying.

"If your client is interested in getting a narrow patent that covers a product that no one wants to buy and is easy to design around, then, by all means, your client should get a patent."

One of the very first patent applications I ever worked on was for a nurse who invented a drawer tray to store the various drugs and paraphenalia used by an anesthesiologist during surgery. Unfortunately, hers was not the first drug drawer tray. The good news is that I was able to get her a patent; the bad news is that her patent was limited to covering drug drawer trays that, among other limitations, had exactly four magnetic feet that prevented the tray from sliding around inside a metal drawer. If someone were to make, use or sell drug drawer trays that were otherwise identical to hers, but had three or five magnetic feet, it may well be that they would succeed in designing around her patent.

I explained all of this to my client, and that she was likely not going to be able to get millions of dollars, or even $20, in royalty payments, but she still wanted to get a patent ... so that she could proudly hang a copy of her issued patent on her wall at home. Now, that's a good reason to get a patent! •

Internet

continued from **IP5**

Trademark Manual of Examining Procedure, can constitute a 'display associated with the goods,' as long as the mark appears on the Web page in a manner in which the mark is associated with the goods, and the web page provides a means for ordering the goods."

In light of these reasons, the court held that an acceptable Web-based specimen of use must simply "in some way evince that the mark is 'associated' with the goods and serves as an indicator of source." This is a much more lenient standard — an Internet business, particularly a business the products of which are not easily put into photos due to the nature of the products or the costs associated with creating a picture catalog, now faces a far easier time of registering a trademark. According to the Federal Circuit, there is no mandatory requirement that a Web-based specimen of use include a picture of the subject goods.

At first glance, this shift appears subtle, but it is significant. The decision opens new avenues for Internet-based business owners to more easily register their trademarks that apply to goods without the need to create packaging or a picture catalog of their products. This makes registering a mark — and proving its use — far easier than in the recent past.

The court's decision may also mark a progression in the acceptance of the Internet and Internet businesses as more like their brick-and-mortar cousins rather than mail order or catalog businesses. Nevertheless, to the Federal Circuit in the *Sones* case, 1,000 words (or some well-chosen and well-placed words) are worth a picture. •