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JOURNAL OF THE PATENT AND TRADEMARK OFFICE SOCIETY

100th Anniversary IN THIS ISSUE

Unified Patent Court (UPC) Update: December 18, 2018 communique by the UPC Preparatory Committee

PTAB Practice Tips on Oral Arguments

Warning! Patent Agent Privilege Ends Abruptly

The Likelihood of Exclusion: Economic Disparity in the United States Trademark System

Taking Patent Rights: Sovereign Immunity & the Fourteenth Amendment in Patent Validity & Inventorship Challenges

Preclusive Effect of the International Trade Commission's Patent Decisions: Can District Court Ignore Texas Instruments Inc. v. Cypress Semiconductor Corp.

The Good Faith, the Bad Faith, and the Ugly

Predicting Institution Decisions in Inter Partes Review Proceedings

*JPTOS Editor-in-Chief Personal Notes:
Two-Prongs within Step 2A*

*Celebrating Our First 100 Years of Service
to the Intellectual Property Community*



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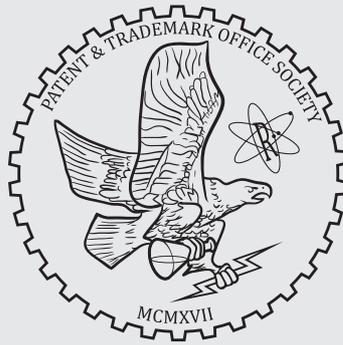
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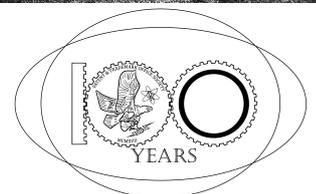
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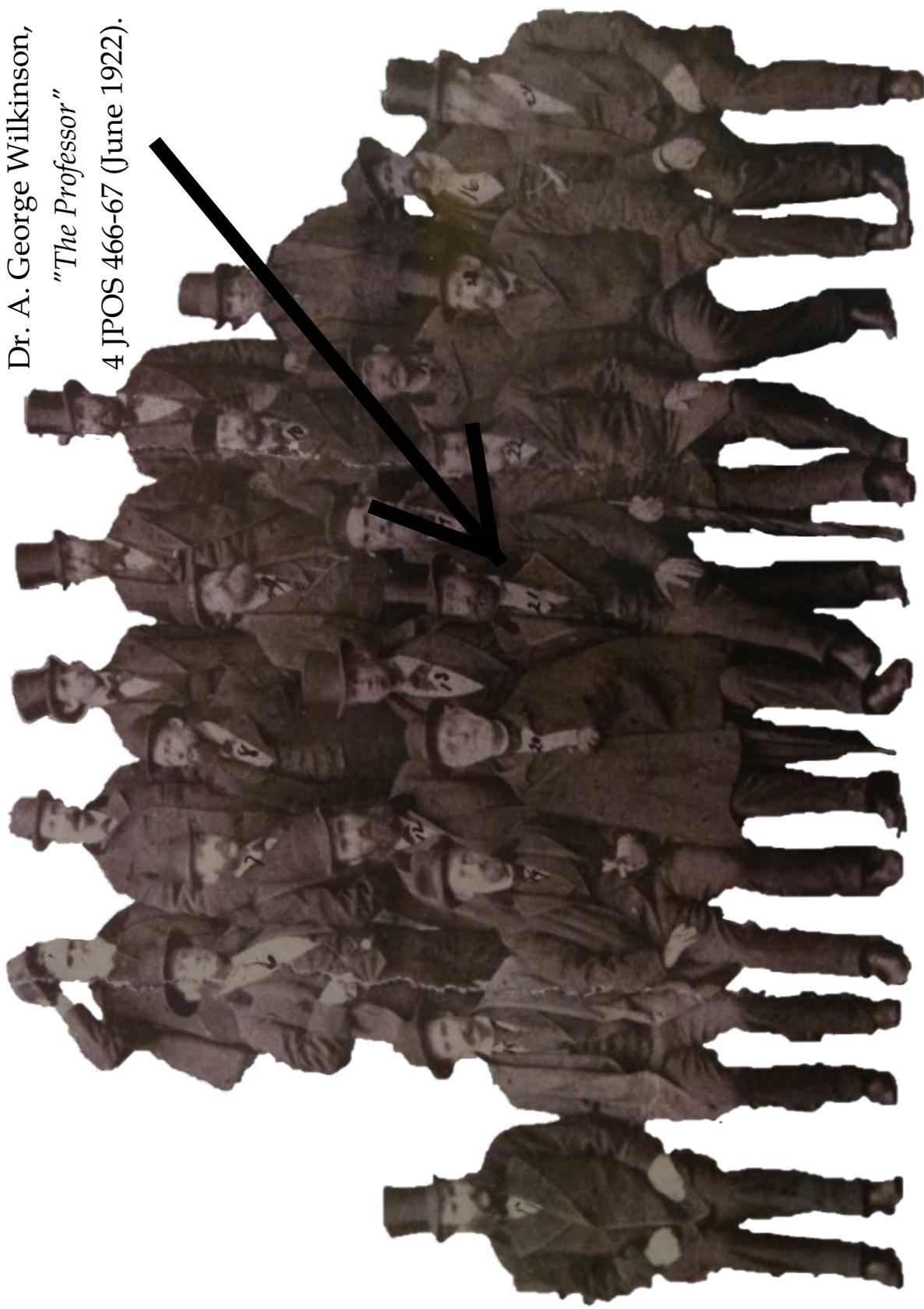


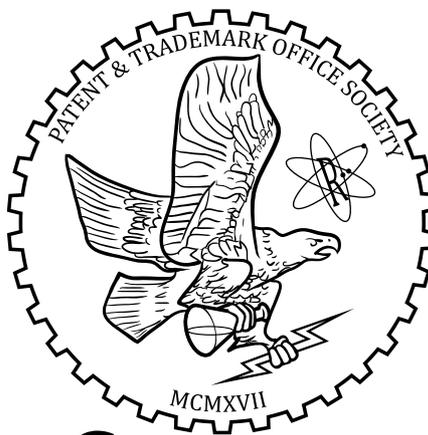
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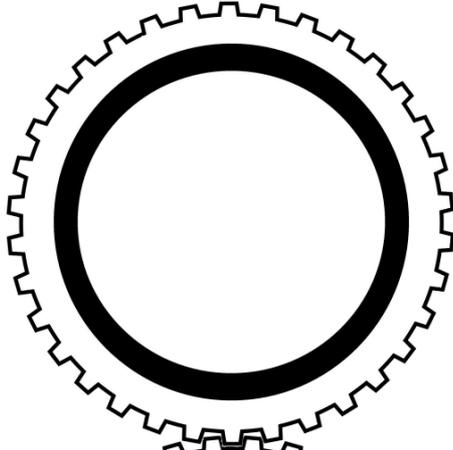
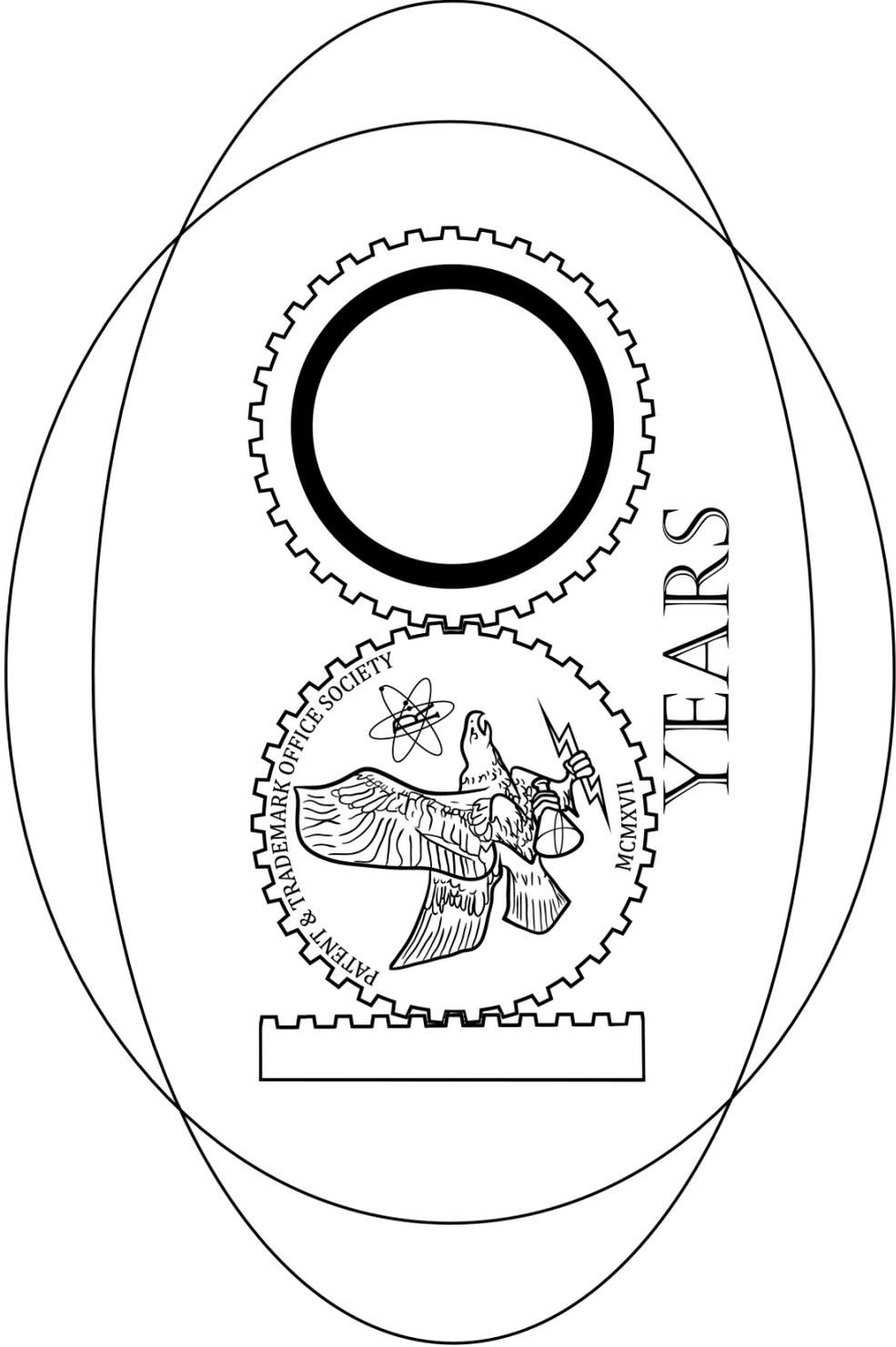




Contents

Unified Patent Court (UPC) Update: December 19, 2018 communique by the UPC Preparatory Committee <i>Markus Nolf</i>	571
PTAB Practice Tips on Oral Arguments <i>The Honorable James A. Worth</i>	572
Warning! Patent Agent Privilege Ends Abruptly <i>Matthew M. Welch</i>	578
The Likelihood of Exclusion: Economic Disparity in the United States Trademark System <i>Michael J. Choi</i>	599
Taking Patent Rights: Sovereign Immunity & the Fourteenth Amendment in Patent Validity & Inventorship Challenges <i>Connor J. Hansen</i>	619
Preclusive Effect of the International Trade Commission's Patent Decisions: Can District Court Ignore <i>Texas Instruments Inc. v. Cypress Semiconductor Corp.</i> <i>Emre Yuzak</i>	657
The Good Faith, the Bad Faith, and the Ugly <i>Katherine Hunziker</i>	671
Predicting Institution Decisions in <i>Inter Partes</i> Review Proceedings <i>Yuh-Harn Yang, Professor Pu-Jen Cheng & Professor Feng-Chi Chen</i>	697
JPTOS Editor-in-Chief Personal Notes: Two-Prongs within Step 2A <i>Alexander Sofocleous</i>	718
Annual Index: Authors & Topics (2018)	722





YEARS

Unified Patent Court (UPC) Update: December 19, 2018 communiqué by the UPC Preparatory Committee

Markus Nollf*

ON December 19, 2018, the Preparatory Committee of the *Unified Patent Court* published a brief end-of-year communiqué stating that it will await the outcome of the complaint pending before the German Constitutional Court before moving into the next phase of provisional application of the UPCA, but that technical and operational preparations for the *Unified Patent Court* will continue. The communiqué is silent about Brexit or when a decision from the German Constitutional Court can be expected.

A positive inference may be drawn from the fact that the technical and operational preparations for the Unified Patent Court will continue and that a provisional application of the UPCA is still being contemplated by the Preparatory Committee. Whether this is justified optimism or just the swan song of the Preparatory Committee before the final demise will have to be seen.



*[Ed. Note: This update supplements Markus Nollf, *Unitary Patents & Unified Patent Court: The Start of a new Epoch in the European Patent System?* 100 J. PAT. & TRADEMARK OFF. SOC'Y 546 (2018).]

Markus Nollf is registered before the *United States Patent and Trademark Office* and is admitted before the Florida Bar. The Author is also the host and author of the website <http://patentsusptoepo.com/> comparing and contrasting, *inter alia*, articles, rules, guidelines/instructions, and their application and interpretation at the USPTO and EPO, and courts, respectively.

The Author appreciates any errors, oversight, omissions, or a lack of clarity being brought to his attention, or any other recommendations/suggestions. The author can be contacted via e-mail at MarkusNollf@gmail.com.

The author would like to thank the *Max Planck Institute for Innovation and Competition* for providing a working place and making available their research library. The author would also like to thank Roy Marsh, *Hoffmann Eitle*, for being a helpful sounding board, and sharing of his insightful understanding of European, British, and German patent law.

Background information regarding PCT, TRIPS, and their respective provisions can be found in the monograph "TRIPS, PCT and Global Patent Procurement" (ISBN 90-411-9740-0), written by the author and published by KLUWER LAW INTERNATIONAL. A revised edition tentatively titled "Global Patent Procurement in the age of Trade Agreements: The ongoing process of moving towards a global patent system" is expected to be published by KLUWER LAW INTERNATIONAL in 2019.

PTAB Practice Tips on Oral Arguments

James A. Worth*

PTAB oral arguments provide an opportunity for parties to highlight select points from their written briefs and to answer questions from the panel hearing the case. Failing to answer questions from the panel is one of the quickest ways to lose credibility with the panel. This article sets forth certain considerations and practice tips for counsel appearing for arguments before the PTAB.

In particular, this article suggests that counsel refrain from relying on evidence not already of record or new theories of a case, that counsel prepare for a wide range of questions based on the record, and with respect to AIA hearings, that counsel may wish to take a flexible approach towards the use of slide presentations and exhibits. This article will address each suggestion in turn, and review some of the animating considerations.

I. *New evidence and argument is not permitted at a hearing*

Arguments that have not been made previously cannot be made at a trial hearing. *St. Jude Medical, Cardiology Division, Inc. v. The Board of Regents of the University of Michigan*, Case IPR2013-00041, slip op. at 2–3 (PTAB Jan. 27, 2014) (Paper 65). Similarly, according to the rules governing ex parte appeals, appellants may only rely at oral argument “on Evidence that has been previously entered and considered by the primary examiner and present argument that has been relied upon in the brief or reply brief.” See 37 C.F.R. § 41.47(e)(1). There is, however, an exception. “Upon a showing of good cause, appellant and/or the primary examiner may rely on a new argument based upon a recent relevant decision of either the Board or a Federal Court.” *Id.* § 41.47(e)(2). For example, good cause may exist if there is a bona fide change in the law, and counsel should be prepared to discuss whether any recent developments impact the case at hand.

*James A. Worth is an Administrative Patent Judge at the Patent Trial and Appeal Board (PTAB) of the USPTO. This article is part of a series of articles sponsored by the PTAB to provide updates and practice tips to the public.

If a party has retained new counsel, or if the counsel at oral argument is otherwise different than the counsel that submitted the briefing (e.g., a partner or associate), this in and of itself does not justify counsel to go beyond the material briefed or take a different tack at oral argument. Accordingly, it is important for counsel to make their arguments during the period of written briefing.

A panel might ask counsel to refer the panel to the place where an argument has been made in the briefing. Because new evidence and argument is not permitted at an oral hearing, counsel should be prepared to point to evidence already of record when answering questions. Furthermore, the panel at the oral hearing will be thinking about the decision to be entered, and it will be helpful for counsel to be ready with citations to the record for this reason—the panel will refer to the evidence in its written decision. Additionally, the panel will be aware that an argument is only as good as the evidence and reasoning behind it, and will want to evaluate the evidence itself. *See, e.g., Dickinson v. Zurko*, 119 S. Ct. 1816 (1999) (decisions in *ex parte* appeals are reviewed for substantial evidence); *Belden Inc. v. Berk-Tek LLC*, 805 F.3d 1064, 1073 (Fed. Cir. 2015) (decisions in AIA trial proceeding reviewed for substantial evidence).

II. *Counsel should be prepared for a wide range of questions*

PTAB judges prepare diligently for oral arguments and may seek to follow up on a variety of points in the record. The panel could become interested in a question that even goes beyond the application or patent, such as a question regarding the nature of the real party in interest.

Further, there are special considerations in the context of *ex parte* appeals that may give rise to a wide range of questions. In an *ex parte* appeal, even if the Board agrees with an appellant, the Board may issue a new ground of rejection with respect to the application under consideration. *See* 37 C.F.R. § 41.50(b).¹ For example, a panel might reverse a rejection based on anticipation and then proceed to issue a new ground of rejection based on obviousness. Or a panel reviewing an application on appeal might issue a new ground of rejection on a different basis, such as a new ground of rejection based on lack of written description support for the claimed subject matter under 35 U.S.C. § 112. Accordingly, counsel appearing for argument need to be familiar with the Specification and all aspects of the application in order to prepare for questions at oral argument that may go beyond the immediate rejection by the Examiner.

As well, the panel is likely to be most interested in the weakest parts of counsel's position because those are the points on which the outcome of the case may turn. Counsel are advised to be prepared to explain why the apparent weakness does not change the legal conclusion that they urge to be drawn in their favor.

¹ An appellant will also have further opportunities to respond to a new ground of rejection. *See id.*

III. *Counsel may wish to consider taking a flexible approach towards the use of slide presentations and exhibits*

In many circumstances, exhibits can be a helpful adjunct to oral argument, but they are by no means required. It has become customary for counsel in AIA trials to prepare demonstrative exhibits, which are permitted by rule in such proceedings. See 37 C.F.R. § 42.70(b) (“Demonstrative exhibits must be served at least seven business days before the oral argument and filed no later than the time of the oral argument.”).² The rules for ex parte appeals do not contain a specific provision for demonstratives; counsel in appeals may refer to exhibits in written materials of record, e.g., figures.

When selecting the type of demonstrative to use during an oral hearing, counsel should bear in mind that some judges may be appearing remotely from other physical locations. Counsel therefore should make sure demonstratives are visible and available to all judges on the panel. Demonstratives displayed on an easel or via projector may not be visible to judges participating remotely by video.

Demonstratives can be helpful to point out the spatial relationship of components in a diagram. Further, demonstratives can be useful to focus attention on the particular wording of a claim for construction, of a Specification for written description support and enablement, of a reference for anticipation or obviousness, or even of a law, regulation, or other legal document for interpretation. Such slides can aid discussion by allowing the panel to view the relevant evidence or text at the time of the discussion. In general, Board judges have a copy of the record on hand during a hearing, but the use of prepared slides, e.g., in AIA proceedings, can eliminate wasted time in which all concerned would have to locate the page or passage under discussion. At the end of the day, the use of exhibits can elevate the level of discussion, and allow the judges to “see for themselves.”

However, once counsel have prepared slides for a trial, counsel might then have a desire to cover each and every slide they have prepared during the hearing; and to do so in the order in which slides occur in a prepared slide deck. There are several reasons why counsel should not need to attempt to cover every slide and do so in order: (a) exhibits at oral hearings are generally demonstrative in nature; (b) the panel will have already received the exhibits prior to the hearing; (c) the judges may have questions that do not follow the order of the slide presentation; and (d) counsel will often have to prioritize arguments at an oral hearing based on the limited time available.

²Counsel must specifically request audio-visual equipment from the hearing staff in advance of a hearing, per the terms of the hearing order, if they intend to conduct a slide presentation.

A. *Exhibits at oral hearings are demonstrative in nature*

According to rules governing AIA trials, substantive evidence consists of “affidavits, transcripts of depositions, documents, and things” and should be filed in the form of an exhibit. *See* 37 C.F.R. § 42.63(a). Substantive evidence is submitted during the course of a proceeding prior to the oral hearing. As set forth above, demonstrative exhibits are permitted at oral argument in AIA trials. *See* 37 C.F.R. § 42.70. However, demonstrative exhibits are not treated as substantive evidence. Demonstrative exhibits at oral argument “cannot be used to advance arguments or introduce evidence not previously presented in the record.” Trial Practice Guide Update (August 2018) (“TPG Update”) at 21 (citing *Dell Inc. v. Accerlon, LLC*, 884 F.3d 1364, 1369 (Fed. Cir. 2018) (noting that the “Board was obligated to dismiss [the petitioner’s] untimely argument . . . raised for the first time during oral argument”).

As stated in the Trial Practice Guide, “[d]emonstrative exhibits used at the final hearing are aids to oral argument and not evidence.” TPG Update at 21. Demonstratives are not an opportunity for additional briefing either. *See St. Jude Medical, Cardiology Division, Inc. v. The Board of Regents of the University of Michigan*, Case IPR2013-00041, slip op. at 2–3 (PTAB Jan. 27, 2014) (Paper 65).³

Therefore, there is no need for counsel to cover every slide in a prepared presentation. If the slide relates to material that is already in evidence and that has already been briefed, then there is no need to cover it. Conversely, if the slide relates to material not yet in evidence or that has not been briefed, it cannot be introduced for the first time at oral hearing.

It is perfectly reasonable for counsel to focus on several important points, and to rest on their briefs for others. *See* TPG Update at 21 (“The most effective demonstrative exhibits tend to be a few presentation slides . . .”). For purposes of the transcript, counsel are advised to explain aloud for the record the exhibit and the parts of the exhibit to which they are pointing.

B. *The panel will have already received the exhibits prior to the hearing*

The panel hearing oral argument will typically already be familiar with the subject matter in the demonstratives as well as the demonstratives themselves. The rules governing AIA trials require parties to file demonstrative exhibits in advance of the oral hearing, *see* 37 C.F.R. § 42.70(b), and most panels issue a hearing order that requires such exhibits to be filed several days in advance.⁴ PTAB judges diligently prepare for oral hearings, studying the briefs, the record, and the demonstrative exhibits before the hearings. This is an additional reason why it is not necessary for counsel to cover every slide at an oral hearing. Nevertheless, even if counsel do not reach a slide, counsel may receive the panel’s

³Demonstratives “should be clearly marked as such.” TPG Update at 21.

⁴E.g., *St. Jude Medical, Cardiology Division, Inc. v. The Board of Regents of the University of Michigan*, Case IPR2013-00041, slip op. at 2 (PTAB Jan. 15, 2014) (Paper 57). A panel will also typically set separate time periods in which parties must *serve* the demonstrative exhibits on each other, object to any matter, confer regarding such objections, and if necessary file their objections with the Board. *See also* 37 C.F.R. § 42.70(b) (requiring service of demonstratives seven days in advance).

attention to the filed demonstrative during the panel's preparation for oral argument.⁵

Of course, gaining the attention of the panel can cut both ways. A demonstrative slide can spur questions as well as make a point.

C. *The PTAB judges may have questions that do not follow the order of the slide presentation*

Although counsel may prepare their presentation in a particular order, the panel will often have questions about the material being presented (or about some other material in the record) that does not follow the order of the prepared presentation. It is not uncommon for counsel to state an intent to reach the material in question later in the presentation, i.e., in order to follow the order of the prepared presentation and address certain points in a certain order. That being said, counsel may very well wish to go ahead to the material in question so as to address the panel's concern and to make sure that counsel are able to do so before the time runs out. See *Oral Advocacy before the Patent Trial and Appeal Board*, at 1, https://www.uspto.gov/sites/default/files/ip/boards/bpai/oral_advocacy_before_the_ptab_20140620.pdf (hereinafter, "Oral Advocacy") ("While your prepared presentation undoubtedly focuses on the points that you find most important, those may not be the areas of greatest concern for the judges. Be prepared to deviate from your prepared presentation to answer the questions asked by the panel."). Oftentimes, the panel will ask a question because the panel believes the matter is important to the resolution of the case. Thus, counsel should embrace questions from the panel as an opportunity to explain why the issue favors, or at least is not harmful, to counsel's position. And when referring to demonstratives during an oral hearing to answer questions, counsel should refer to the specific slide number to make it easier for the panel, especially those judges participating remotely through video, to follow the argument.

D. *Counsel will often have to prioritize arguments at an oral hearing based on time*

It may simply not be possible to cover each and every slide in a long slide presentation, e.g., a slide deck with 60 slides. It may therefore be preferable for counsel to decide in advance what they believe to be the most important issues in the case and to focus the presentation accordingly. As the Trial Practice Guide states: "The Board has found that elaborate demonstrative exhibits are more likely to impede than help an oral argument. The most effective demonstrative exhibits tend to be a few presentation slides" TPG Update at 21. See also *Oral Advocacy*,

⁵Judge Linn has pointed out at a forum on practice tips sponsored by the Federal Circuit Bar Association for attorneys practicing before the Federal Circuit that attorneys may submit a visual aid for a Federal Circuit argument for the reason that the visual aid may garner the attention of the Federal Circuit panel at the time the appellate panel is preparing for argument. See Federal Circuit Rule 34(c).

at 1–2, https://www.uspto.gov/sites/default/files/ip/boards/bpai/oral_advocacy_before_the_ptab_20140620.pdf (“Begin the conversation with the critical issues, not extensive background information. . . . Do not avoid the difficult issues.”).

Further, counsel should avoid arguments about the process that led to the appeal or trial proceeding. For example, in an appeal from an adverse examiner decision, the panel is aware that prosecution is not always easy or straightforward. The remedy for perceived prosecution errors, such as premature final rejections, improper restrictions, or refusal by the examiner to follow proper procedure, is by way of petition to the Director, and not by appeal to the Board.

Sometimes the case will be won or lost on the independent claim limitations that are common to all claims, and that is where counsel will devote the bulk of their time. Other times, the oral argument may be a good opportunity to call attention to special issues regarding dependent claims—if and only if those issues have already been briefed.

According to a new procedure set forth in the Trial Practice Guide Update, parties may request a pre-hearing conference to inquire as to whether the panel is interested in hearing argument on particular issues. *See* TPG Update at 19 (“The purpose of the pre-hearing conference is to afford the parties the opportunity to preview (but not argue) the issues to be discussed at the oral hearing, and to seek the Board’s guidance as to particular issues that the panel would like addressed by the parties.”). The pre-hearing conference may thus help parties in identifying issues that require additional attention.

Conclusion

Counsel may wish to focus on what they believe are the important issues. Counsel should be prepared to answer questions and provide pertinent citations to the record in support of their assertions. Exhibits may be best when they display a key piece of substantive evidence, that it is already of record, for purposes of discussion. Demonstratives can be helpful to the discussion at oral argument in AIA trials, but counsel would be well-advised to be flexible in the manner in which they display slide presentations.

Warning! Patent Agent Privilege Ends Abruptly

Matthew M. Welch*

Contents

I.	INTRODUCTION	579
II.	PATENT PRACTITIONERS	580
	A. Registered Patent Practitioners	580
	B. Patent Attorneys	581
	C. Patent Agents	581
III.	ATTORNEY-CLIENT PRIVILEGE	582
	A. Formulations of Attorney-Client Privilege	582
	1. <i>F.R.E. 501</i>	583
	2. <i>Wigmore's Formulation</i>	583
	3. <i>United Shoe Formulation</i>	583
	4. <i>Proposed F.R.E. 503</i>	584
	5. <i>Restatement (Third) of the Law Governing Lawyers</i>	584
	B. History of Patent Practitioner Privilege Laws	585
	1. <i>Pre-Sperry v. Florida</i>	585
	2. <i>Post-Sperry v. Florida</i>	586
	C. Modern Patent Agent Privilege	588
	1. <i>Federal Law</i>	588
	2. <i>State Law</i>	592
IV.	THE PATENT AGENT PRIVILEGE PROBLEM	593
	A. Federal Patent Agent Privilege Problems	593
	1. <i>Overly Vague</i>	593

*Registered Patent Agent #75,429; J.D. Candidate, 2019, Wake Forest University School of Law; B.S. Mechanical Engineering, 2015, Clemson University.

2.	<i>Too Limited</i>	594
B.	State Patent Agent Privilege Problems	595
1.	<i>Incongruent with Federal Standard</i>	595
2.	<i>Fundamentally Unfair</i>	596
3.	<i>Incentivizes Forum Shopping</i>	597
V.	THE SOLUTION	597
A.	Federal Law	598
B.	State Law	598
VI.	CONCLUSION	598

I. INTRODUCTION

Say I have lost all faith in patents, judges, and everything related to patents.

—Thomas Edison¹

Thomas Edison and many of the innovators following in his footsteps have been disgruntled and discouraged by United States patent law. However, patent-intensive industries promote innovation, increase the GDP, and create millions of jobs.² Patent law is vital to the continued prominence of America as a world power, and, to continue that prominence, patent law must adapt to current times. As a start, it must begin providing solutions to a number of problems plaguing the patent realm. One of the most outstanding problems currently running course through patent law is the dynamic between the attorney-client privilege and patent agents. The problem is two-fold. First, some courts have extended the privilege to patent agents, but the way they are treating this privilege is insufficient. Second, other courts are not recognizing the privilege whatsoever.

Attorney-client privilege is a pillar of the legal system that is entrenched throughout the United States. This privilege was instituted to allow full and frank discussions between clients and their attorneys. The purpose behind this was to allow attorneys to fully represent their clients based on all available facts. However, attorneys are not the only players in the field of patent law. In fact, one fourth of all patent practitioners are non-attorneys.³ These individuals are patent agents.

Patent agents are a relatively new byproduct of the twentieth century. But, because patent agents were not around when the attorney-client privilege was instituted, they have been denied many of the rights of their fellow patent practitioners. It is not the patent agents that suffer because of it. Instead, members

¹JOEL SHURKIN, *ENGINES OF THE MIND: THE EVOLUTION OF THE COMPUTER FROM MAINFRAMES TO MICROPROCESSORS* 281 (1996).

²Justin Antonipillai et al., *Intellectual Property and the U.S. Economy: 2016 Update*, U.S. PATENT AND TRADEMARK OFFICE, at ii (last visited Nov. 28, 2017), <https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf>.

³Patent practitioner roster, <https://oedci.uspto.gov/OEDCI/practitionerRoster.jsp>.

of the general public who hire firms to assist them in procuring a patent for a novel invention are the ones who suffer. Unbeknownst to many inventors, their communications with a patent agent, agents who work hand in hand with patent attorneys, are not privileged under many circumstances. When the inventors do find out about this loophole, it often costs them dearly in court.

Thus, the goal of this paper is to provide an overview of attorney-client privilege and its extension (or lack thereof) to patent agent privilege, analyze the inherent problems in current patent agent privilege laws at both the federal and state level, and provide solutions to these problems. To this end, Section II introduces the important players in patent law. Section III provides a history of attorney-client privilege and its extension to patent agent privilege. Section IV highlights the problems in current patent agent privilege laws at the federal and state level. And lastly, Section V provides solutions to the problems residing within these attorney-client, patent agent privilege dynamics.

II. PATENT PRACTITIONERS

The first step to solving the problem surrounding privilege for patent agents is understanding the problem, and to do this, one must first understand the different players in the patent game. The two most important players are patent agents and patent attorneys. However, many people throw around the words “IP attorney” and “patent practitioner” interchangeably when in fact they are really referring to a patent attorney or a patent agent. Thus, Section II will define these terms so that the roles of each individual player can be analyzed.

A. Registered Patent Practitioners

A patent practitioner is an individual who is registered to practice before the United States Patent and Trademark Office (“PTO”).⁴ To become a patent practitioner, an individual must meet several requirements and pass a certification examination.⁵ The requirements, outside of personal fitness, are educational in nature.⁶ Mainly, the individual must have a bachelor’s degree in a recognized engineering or science discipline, or the individual must have passed a certain number of hours of science and engineering courses.⁷ Once an aspiring patent agent has satisfied the educational requirements, that individual may apply to take the registration examination (“patent bar”).⁸ The patent bar consists of 100 multiple-choice questions and is split into two three-hour sessions, with each session having 50 multiple-choice questions.⁹ If an applicant passes

⁴Stewart Walsh, *What is a USPTO Registered Practitioner?*, SIMPLE PATENTS (Aug. 2, 2011), <http://www.simplepatents.com/general-information/what-is-a-uspto-registered-practitioner/>.

⁵*Id.*

⁶*General Requirements Bulletin for Admission to the Examination for Registration to Practice in Patent Cases before the United States Patent and Trademark Office*, UNITED STATES PATENT AND TRADEMARK OFFICE: OFFICE OF ENROLLMENT AND DISCIPLINE (OED), Feb. 2018, at 4–5.

⁷*Id.*

⁸*Id.* at 20.

⁹*Id.*

the examination, the applicant is given a registration number and can practice before the PTO. Since there is no requirement for a juris doctorate degree, a patent practitioner does not have to be a lawyer.¹⁰ Thus, the term patent practitioner actually encompasses two distinct groups: attorneys who have passed the patent bar (“patent attorneys”) and non-attorneys who have passed the patent bar (“patent agents”).¹¹ While the roles of patent attorneys and agents differ, the PTO views them as one in the same for prosecution matters.¹²

However, the term “intellectual property attorney” (or rather, “IP attorney”) is not as easily defined. While this individual must be an attorney, in some cases this individual may not be registered to practice before the PTO.¹³ Furthermore, most IP attorneys work in multiple intellectual property disciplines.¹⁴ For the purpose of this paper, only patent attorneys and patent agents will be discussed.

B. Patent Attorneys

As defined previously, patent attorneys are attorneys that are registered to practice before the PTO. In addition to representing clients before the PTO during patent prosecution, patent attorneys can also engage in other forms of legal representation, such as representing clients in the courtroom and helping draft licensing and contractual agreements.¹⁵ Thus, a patent attorney is a specialized attorney who not only can practice in the same manner as all other attorneys but also who can represent clients before the PTO during the prosecution of a patent.¹⁶

C. Patent Agents

Like their patent attorney counterparts, patent agents also can represent clients before the PTO during the prosecution of a patent.¹⁷ The prosecution phase encompasses all the pre-filing and post-filing work associated with a patent application and ends when the patent application is granted. However, unlike patent attorneys, patent agents cannot perform any other legal work.¹⁸ They cannot represent clients on litigation matters, even if the litigation involves a patent they helped prosecute.¹⁹ Furthermore, they cannot assist in the licensing of any patent.²⁰ Thus, the role of the patent agent, while indispensable, is very limited.²¹

¹⁰Walsh, *supra* note 5.

¹¹*Id.*

¹²*Id.*

¹³Mary Bellis, Intellectual Property Lawyers—Protecting New Ideas, THOUGHCO. (Feb. 12, 2018), <https://www.thoughtco.com/definition-intellectual-property-lawyers-1991513>.

¹⁴*Id.*

¹⁵Walsh, *supra* note 5.

¹⁶*Id.*

¹⁷37 C.F.R. 11.6(b) (2005).

¹⁸Walsh, *supra* note 5.

¹⁹*Id.*

²⁰*Id.*

²¹*Id.*

Nonetheless, patent agents are a crucial player in the patent game because they are the backbone of patent prosecution. Damon Kali, a registered patent attorney, has described patent agents as “the workhorses of this industry . . .” who “. . . really know their stuff and [who are] great at what they do.”²² This is why many law firms hire patent agents to draft patent applications: these agents have expertise in a specific area of technology.²³ Law firms also hire patent agents because it costs less for the clients since the billing rates for most patent agents is significantly less than patent attorneys.²⁴ Consequently, the expertise of patent agents, coupled with their reduced billing rates, makes them an attractive option for many firms and clients. However, one potentially fatal drawback, discussed later in this paper, is that communications between a patent agent and a client may not be privileged.

III. ATTORNEY-CLIENT PRIVILEGE

Attorney-client privilege is one of the oldest common law doctrines in American jurisprudence.²⁵ The purpose of attorney-client privilege is to “encourage full and frank communication between attorneys and their clients.”²⁶ Common law has recognized that the best method to ensure full communication between an attorney and his or her client is to privilege the communications so that the information cannot later be used against the client in litigation proceedings.²⁷ Even the Supreme Court has said that privilege “is founded upon the necessity, in the interest and administration of justice, of the aid of persons having knowledge of the law and skilled in its practice, which assistance can only be safely and readily availed of when free from the consequences or the apprehension of disclosure.”²⁸ However, this privilege only extends to those communications between an attorney and client that are necessary to provide legal advice.²⁹ Thus, this Section will analyze how courts have defined attorney-client privilege in general and then will delve into attorney-client privilege as it relates to patent practitioners.

A. Formulations of Attorney-Client Privilege

Even though attorney-client privilege is one of the oldest common law doctrines, it has not been statutorily implemented. Thus, courts and commentators have posited many definitions, and while they are substantially similar, subtle differences persist.

²²Stephen Key, *Should You Hire a Patent Agent Instead of a Patent Attorney?*, INC. (Oct. 26, 2016), <https://www.inc.com/stephen-key/should-you-hire-a-patent-agent-instead-of-a-patent-attorney.html>.

²³*Id.*

²⁴*Id.*

²⁵*Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981).

²⁶*Id.*

²⁷*See id.*

²⁸*Hunt v. Blackburn*, 128 U.S. 464, 470 (1888).

²⁹*See Fisher v. United States*, 425 U.S. 391, 403 (1976).

1. *F.R.E. 501*

The Federal Rules of Evidence, which are followed by all federal courts, do not expressly define attorney-client privilege.³⁰ Instead, it only says that the common law governs privilege *unless* the United States Constitution, a federal statute, or the Supreme Court provides otherwise.³¹ Thus, to understand the scope of attorney-client privilege, the common law definitions that courts use must be analyzed.

2. *Wigmore's Formulation*

One of the oldest articulations of attorney-client privilege was set forth by Dean Wigmore in his Evidence treaty. Wigmore put forth the definition of privilege as follows:

Where legal advice of any kind is sought (2) from a professional legal adviser in his capacity as such, (3) the communications relating to that purpose, (4) made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) except the protection be waived.³²

Wigmore's definition has been adopted by numerous federal Circuit Courts including: the First,³³ Second,³⁴ Sixth,³⁵ Seventh,³⁶ Eighth,³⁷ and Ninth.³⁸

3. *United Shoe Formulation*

A more modern definition is that set forth by the District Court of Massachusetts in *United States v. United Shoe Machinery Corporation*. In the opinion, the court stated that privilege only applied when:

(1) the asserted holder of the privilege is or sought to become a client; (2) the person to whom the communication was made (a) is a member of the bar of a court, or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client.³⁹

³⁰ See FED. R. EVID. 501.

³¹ *Id.*

³² See *United States v. Evans*, 113 F.3d 1457, 1461 (7th Cir. 1997) (quoting Wigmore definition).

³³ See, e.g., *Cavallaro v. United States*, 284 F.3d 236, 245 (1st Cir. 2002).

³⁴ See, e.g., *In re Richard Roe, Inc.*, 68 F.3d 38, 39–40 (2d Cir. 1995).

³⁵ See, e.g., *Reed v. Baxter*, 134 F.3d 351, 355–56 (6th Cir. 1998).

³⁶ See, e.g., *United States v. Evans*, 113 F.3d 1457, 1461 (7th Cir. 1997).

³⁷ See, e.g., *Hanes v. Dormire*, 240 F.3d 694, 717 (8th Cir. 2001).

³⁸ See, e.g., *United States v. Martin*, 278 F.3d 988, 999 (9th Cir. 2002).

³⁹ *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 358–59 (D. Mass. 1950).

This formulation expands upon Wigmore's definition in that privilege does not apply to legal advisors who are not a member of a bar. This formulation has been used by federal appellate courts from the Third,⁴⁰ Fourth,⁴¹ Fifth,⁴² Eleventh,⁴³ and District of Columbia⁴⁴ Circuits.

4. *Proposed F.R.E. 503*

In the 1970s, proposed Federal Rule of Evidence 503 specifically defined nine types of privilege,⁴⁵ including attorney-client privilege. The general rule stated that:

A client has a privilege to refuse to disclose and to prevent any other person from disclosing confidential communications made for the purpose of facilitating the rendition of professional legal services to the client, (1) between himself or his representative and his lawyer or his lawyer's representative, or (2) between his lawyer and the lawyer's representative, or (3) by him or his lawyer to a lawyer representing another in a matter of common interest, or (4) between representatives of the client or between the client and a representative of the client, or (5) between lawyers representing the client.⁴⁶

In comparison to Wigmore and *United Shoe*, this definition recognized that attorney-client privilege protects communications from the lawyer to the client. More importantly, it expressly defined a lawyer as a person who is authorized to practice law anywhere.⁴⁷ While proposed rule 503 was rejected by Congress⁴⁸ in favor of the current Federal Rule of Evidence 501⁴⁹ and its more general definition of privilege, many courts have cited to the proposed rule, including both the Fourth⁵⁰ and Eighth⁵¹ Circuits.

5. *Restatement (Third) of the Law Governing Lawyers*

Another formulation of the attorney-client privilege that courts have cited to is the Third Restatement of the law governing lawyers.⁵² Section 68 defines the scope of attorney-client privilege as "(1) a communication (2) made between privileged persons (3) in confidence (4) for the purpose of obtaining or providing legal assistance for the client."⁵³ While this is more general than the other

⁴⁰ See, e.g., *Rhone-Poulenc Rorer Inc. v. Home Indem. Co.*, 32 F.3d 851, 862 (3d Cir. 1994).

⁴¹ See, e.g., *In re Grand Jury Subpoena*, 341 F.3d 331, 335 (4th Cir. 2003).

⁴² See, e.g., *United States v. Robinson*, 121 F.3d 971, 974 (5th Cir. 1997).

⁴³ See, e.g., *In re Grand Jury* (G.J. No. 87-03-A), 845 F.2d 896, 897 (11th Cir. 1988).

⁴⁴ See, e.g., *In re Lindsey*, 158 F.3d 1263, 1270 (D.C. Cir. 1998).

⁴⁵ See *Trammel v. United States*, 445 U.S. 40, 53 (1980).

⁴⁶ Rule 503 Lawyer-Client Privilege (Not enacted), HARVARD LAW, http://www.law.harvard.edu/publications/evidenceiii/rules/503_proposed.htm.

⁴⁷ *Id.*

⁴⁸ See *Trammel v. United States*, 445 U.S. 40, 53 (1980).

⁴⁹ FED. R. EVID. 501.

⁵⁰ See, e.g., *United States v. (Under Seal)*, 748 F.2d 871, 874 n.5 (4th Cir. 1984).

⁵¹ See, e.g., *In re Grand Jury Subpoena Duces Tecum*, 112 F.3d 910, 915 (8th Cir. 1997).

⁵² Restatement (Third) of the Law Governing Lawyers (2000).

⁵³ *Id.* § 68.

formulations, the Court of Appeals for the Second Circuit⁵⁴ and the Southern District of New York⁵⁵ have both cited to this restatement.

B. History of Patent Practitioner Privilege Laws

The attorney-client privilege, as it relates to patent practitioners, is an area of concern for many law firms and clients. This is because most law firms that have a patent prosecution practice employ patent agents to assist in the patent drafting phase. While the attorney-client privilege is protected when a client is communicating with a patent attorney, that privilege may be lost if the client communicates with a patent agent. Thus, to fully understand the patent agent privilege problem, this Section will discuss the attorney-client privilege as it relates to both patent attorneys and patent agents.

1. *Pre-Sperry v. Florida*

Originally, communications between a client and a patent attorney or agent were not protected under the attorney-client privilege exemption.⁵⁶ The author of the *United Shoe* opinion specifically stated that the communications of clients who worked with patent practitioners were not subject to the attorney-client privilege.⁵⁷ The basis of this opinion was that patent prosecution was more scientific than legal in nature. The opinion even expressly said that patent agents could not have attorney-client privilege because “[t]hey are mere solicitors of patents who fall outside the privilege.”⁵⁸

Similarly, in *Zenith Radio Corp. v. Radio Corp. of America*,⁵⁹ the court held that patent practitioners were not subject to attorney-client privilege. The court said that patent attorneys were not functioning as lawyers because they were giving advice on patent prosecution matters, rather than “engaging in legal activities.”⁶⁰ However, all courts did not share this sentiment.

In *Ellis-Foster Co. v. Union Carbide & Carbon Corp.*,⁶¹ a New Jersey District Court case, the court held that the attorney-client privilege existed when a patent attorney communicated with a client. The court stated:

I find myself unable to agree with the implied contention that because an attorney happens to be engaged in the field of patents, in which field nonattorneys are authorized to practice, he is ipso facto deprived of his status as a lawyer in every activity in which he operates so long as patent prosecution is involved. There is enough confusion, sometimes thrice confounded, resulting from derogation from the functions of attorneys, and trespass on their proper

⁵⁴ See *United States v. Constr. Prods. Research, Inc.*, 73 F.3d 464, 473 (2d Cir. 1996).

⁵⁵ See *Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.*, 188 F.R.D. 189, 199 (S.D.N.Y. 1999).

⁵⁶ See *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357, 360–61 (D. Mass. 1950).

⁵⁷ *Id.*

⁵⁸ *Id.* at 360.

⁵⁹ 121 F. Supp. 792 (D. Del. 1954).

⁶⁰ *Id.* at 794.

⁶¹ 159 F. Supp. 917 (D.N.J. 1958).

sphere of activity.⁶²

Thanks to the help of the Supreme Court, this trend of recognizing attorney-client privilege, at least for patent attorneys, would continue.

In 1963, the Supreme Court heard the case of *Sperry v. Florida*.⁶³ In this case, the Supreme Court held that the patent practice is included within the scope of the practice of law. The opinion said:

the preparation and prosecution of patent applications for others constitutes the practice of law. Such conduct inevitably requires the practitioner to consider and advise his clients as to the patentability of their inventions under the statutory criteria . . . as well as to consider the advisability of relying upon alternative forms of protection which may be available under statute law.⁶⁴

While this case did not directly answer the question of whether attorney-client privilege included patent attorneys, it paved the way for future courts to recognize this specific extension of the privilege.

In 1977, a Delaware District Court stated in *Hercules Inc. v. Exxon Corp.*,⁶⁵ “Courts have consistently held that confidential communications between attorney and client for the purpose of securing legal advice concerning preparation or prosecution of a patent application are protected, whether the attorney is employed as outside counsel, house counsel, or as a member of a Patent Department.”⁶⁶ While today it is well settled that communications between patent attorneys and clients are protected by attorney-client privilege,⁶⁷ it is unclear the extent of protections afforded communications between patent agents and clients.

2. Post-Sperry v. Florida

After the Supreme Court recognized that patent prosecution was considered a practice of the law, communications between patent attorneys and clients became privileged. However, there was a district court split on whether communications between patent agents and clients were privileged,⁶⁸ even though

⁶²*Id.* at 920.

⁶³373 U.S. 379 (1963).

⁶⁴*Id.* at 383.

⁶⁵434 F. Supp. 136, 147 (D. Del. 1977).

⁶⁶*Id.*

⁶⁷See *McCook Metals L.L.C. v. Alcoa Inc.*, 192 F.R.D. 242, 248-51 (N.D. Ill. 2000)

⁶⁸*Compare, e.g., Buyer's Direct Inc. v. Belk, Inc.*, No. SACV 12-00370-DOC, 2012 U.S. Dist. LEXIS 57543, 2012 WL 1416639, at *3 (C.D. Cal. Apr. 24, 2012) (recognizing patent-agent privilege); *Polyvision Corp. v. Smart Techs. Inc.*, No. 1:03-cv-476, 2006 U.S. Dist. LEXIS 12688, 2006 WL 581037, at *2 (W.D. Mich. Mar. 7, 2006) (same); *Mold Masters Ltd. v. Husky Injection Molding Sys., Ltd.*, No. 01 C 1576, 2001 U.S. Dist. LEXIS 17094, 2001 WL 1268587, at *4-*5 (N.D. Ill. Nov. 15, 2001) (same); *Dow Chem. Co. v. Atl. Richfield Co.*, No. 83-cv-3763, 1985 U.S. Dist. LEXIS 20480, 1985 WL 71991, at *5 (E.D. Mich. Apr. 23, 1985) (same); *In re Ampicillin Antitrust Litig.*, 81 F.R.D. 377, 383-84, 391-94 (D.D.C. 1978) (same); *Vernitron Med. Prods., Inc. v. Baxter Labs., Inc.*, No. 616-73, 1975 U.S. Dist. LEXIS 12613, 1975 WL 21161, at *1-*2 (D.N.J. Apr. 29, 1975) (same), *with Prowess, Inc. v. Raysearch Labs. AB*, No. WDQ-11-1357, 2013 U.S. Dist. LEXIS 14433, 2013 WL 247531, at *5 (D. Md. Jan. 18, 2013) (declining to recognize patent-agent privilege); *Park v. Cas Enters., Inc.*, No. 08-cv-0385, 2009 U.S. Dist. LEXIS 100148, 2009 WL 3565293, at *3 (S.D. Cal. Oct. 27, 2009) (same); *In re Rivastigmine Patent Litig.*, 237 F.R.D.

patent agents perform the same work as patent attorneys during patent prosecution.

One of the first cases to address the patent agent privilege issue arose in 1966 after the Supreme Court case of *Sperry v. Florida*.⁶⁹ In *Joh. A. Benckiser G.m.b.H., Chemische Fabrik v. Hygrade Food Products Corp.*⁷⁰ the New Jersey District Court was faced with determining whether communications between a patent agent and client during patent prosecution were protected by attorney-client privilege. The court recognized that patent agents were acting as a lawyer when helping clients during the patent prosecution phase.⁷¹ Nevertheless, the court held that, because patent agents were not bar members of any court, attorney-client privilege did not apply.⁷² The court bolstered this proposition by stating that attorney-client privilege did not apply to “non-attorney practitioners who engage in administrative representation short of actual litigation in the courts.”⁷³ However, this logic was incongruent with other courts, like the Eight Circuit. In *Schwimmer v. United States*, the Eight Circuit specifically held that the attorney-client privilege exists “whether the matter is one of consultation or of litigation.”⁷⁴

As time progressed, more federal courts began to recognize a patent agent privilege, but the scope of this privilege was widely debated. Some courts only recognized patent agent privilege when a patent agent was acting as an immediate subordinate of an attorney. This was the case in *Congoleum Industries, Inc. v. GAF Corp.*,⁷⁵ in the Eastern District of Pennsylvania. In this case, a patent agent was employed by an attorney who was outside counsel for the defendant.⁷⁶ Because the patent agent was employed by an attorney, the court held that attorney-client privilege existed since the agent was an “immediate subordinate” of the attorney.⁷⁷ Other courts propounded upon this definition of patent agent privilege and extended the privilege to independent patent agents who contract with patent attorneys,⁷⁸ as well as to patent agents who work in corporate legal offices under the supervision of an attorney.⁷⁹

Another group of modern cases recognized patent agent privilege, not because a patent agent was a subordinate of an attorney, but rather, because of the function of the patent agent. In *Vernitron Med. Prods. v. Baxter Labs., Inc.*, the court held that a patent agent privilege existed because patent agents were au-

69, 102 (S.D.N.Y. 2006) (same); *Agfa Corp. v. Creo Prods.*, No. Civ. A. 00-10836-GAO, 2002 U.S. Dist. LEXIS 14269, 2002 WL 1787534, at *3 (D. Mass. Aug. 1, 2002) (same); and *Sneider v. Kimberly-Clark Corp.*, 91 F.R.D. 1, 5 (N.D. Ill. 1980) (same).

⁶⁹373 U.S. 379 (1963).

⁷⁰253 F. Supp. 999 (D.N.J. 1966).

⁷¹*Id.* at 1001.

⁷²*Id.* at 1002.

⁷³*Id.*

⁷⁴232 F.2d 855 (8th Cir. 1956).

⁷⁵49 F.R.D. 82 (E.D. Pa. 1969), *aff'd*, 478 F.2d 1398 (3d Cir. 1973).

⁷⁶*Id.* at 84.

⁷⁷*Id.*

⁷⁸*Cargill, Inc. v. Sears Petroleum & Transp. Corp.*, No. 5:03-CV-0530 (DEP), 2003 U.S. Dist. LEXIS 27543, at *6 (N.D.N.Y. Sept. 17, 2003).

⁷⁹*Hercules, Inc. v. Exxon Corp.*, 434 F. Supp. 136, 146–47 (D. Del. 1977).

thorized to practice patent law.⁸⁰ Similarly, the court in *In re Ampicillin Antitrust Litigation*⁸¹ held that because patent agents and attorneys stood on equal footing before the PTO, the attorney-client privilege must extend equally to both.⁸² Nevertheless, no matter the reasoning behind courts acknowledging a patent agent privilege, this privilege was very limited: it only protected communications involving patent prosecution.⁸³

C. Modern Patent Agent Privilege

While patent agent privilege has been an issue faced by courts for decades, during the past two years a number of monumental actions regarding patent agent privilege have occurred. First, in the spring of 2016, the Federal Circuit formally recognized patent agent privilege.⁸⁴ Second, in December 2017, 37 C.F.R. 42.57 took effect.⁸⁵ This regulation provides formal recognition of patent agent privilege in matters before the PTO. And, third, on February 23, 2018, the Supreme Court of Texas formally recognized patent agent privilege, making Texas the first state to do so.⁸⁶

1. Federal Law

As was highlighted in the previous Section, patent agent privilege was acknowledged by many federal courts around the country in the modern era. However, the problem was that the definition of this privilege was nonuniform throughout the circuits. This all changed in the spring of 2016 when the Federal Circuit, the preeminent federal appellate court for patent matters,⁸⁷ formally defined the scope of patent agent privilege. While the Federal Circuit's determination on the scope of patent agent privilege was long overdue, it left many questions unanswered and has opened the door to a floodgate of potential problems which will be discussed in Section IV.

The most important patent agent privilege case that has been decided to date is the case of *In re Queen's University* which was heard by the Federal Circuit.⁸⁸ This case involved a patent infringement suit that was initiated by Queen's University against Samsung.⁸⁹ Queen's University was the assignee of three patents that dealt with attentive user interfaces.⁹⁰ These attentive user interfaces allowed devices to change their behavior based on the attentiveness,

⁸⁰No. Civil 616-73, 1975 U.S. Dist. LEXIS 12613, at *5-6 (D.N.J. Apr. 29, 1975).

⁸¹81 F.R.D. 377 (D.D.C. 1978).

⁸²*Id.* at 393.

⁸³See *Vernitron Med. Prods., Inc. v. Baxter Labs., Inc.*, 186 U.S.P.Q. (BNA) 324, 325-26 (D.N.J. 1975); see also *In re Ampicillin Antitrust Litig.*, 81 F.R.D. 377, 393-94 (D.D.C. 1978); see also *Dow Chem. Co. v. Atl. Richfield Co.*, 227 U.S.P.Q. (BNA) 129, 133-134 (E.D. Mich. 1985).

⁸⁴*In re Queen's Univ.*, 820 F.3d 1287 (Fed. Cir. 2016).

⁸⁵37 C.F.R. 42.57 (2017).

⁸⁶*In re Andrew Silver*, No. 16-0682, 2018 Tex. LEXIS 171 (Feb. 23, 2018).

⁸⁷28 U.S.C. 1295(a) (2012).

⁸⁸*In re Queen's Univ.*, 820 F.3d 1287 (Fed. Cir. 2016).

⁸⁹*Id.* at 1289-90.

⁹⁰*Id.* at 1289.

or lack thereof, of users.⁹¹ For example, when a cell phone user is watching a video and looks away, the attentive user interface can pause the video by registering that the user's eyes are no longer locked on the device.⁹² Queen's University believed that Samsung incorporated this technology into its devices and was infringing on Queen's patents.⁹³ During the discovery phase of the case, Queen's University was asked to produce certain documents.⁹⁴ Queen's University refused, arguing that the communications were protected by attorney-client privilege.⁹⁵ The issue was whether the communications, which were made between Queen's University and its patent agents during the prosecution of the allegedly infringed patents, were protected by the attorney-client privilege.⁹⁶ Samsung argued that no patent agent privilege existed and moved the court to compel production of the documents.⁹⁷ After a hearing, the judge granted Samsung's request and held that "communications between Queen's University employees and their non-attorney patent agents [were] not subject to the attorney-client privilege and that a separate patent-agent privilege does not exist."⁹⁸ Queen's University filed an objection which was overruled.⁹⁹ However, the court agreed to stay the production request pending a petition for writ of mandamus.¹⁰⁰ The Federal Circuit then stepped in to rule on the patent agent privilege question.

In the Federal Circuit opinion, the court first declared that it had the authority to decide the case because the Federal Circuit has exclusive appellate jurisdiction for matters involving substantive patent law questions.¹⁰¹ Furthermore, the court concluded that its law applied when deciding what documents were discoverable in a patent case that related to issues of validity and infringement.¹⁰² After declaring that it had the necessary authority to hear the case, the court then delved into the patent agent privilege question.

First, the Federal Circuit noted that the question of patent agent privilege was one of first impression and that the district courts were split on this issue.¹⁰³ After going through an analysis of the relevant evidence rules and cases¹⁰⁴, the court held that a limited patent agent privilege existed because "the unique roles of patent agents, the congressional recognition of their authority to act, the Supreme Court's characterization of their activities as the practice of law, and the current realities of patent litigation counsel in favor of recognizing an independent patent-agent privilege."¹⁰⁵ After recognizing

⁹¹ *Id.* at 1290.

⁹² *Id.*

⁹³ *Id.* at 1290.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ *Id.*

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.*

¹⁰¹ *Id.* at 1291.

¹⁰² *Id.*

¹⁰³ *Id.* at 1292.

¹⁰⁴ *Id.* at 1294-1301.

¹⁰⁵ *Id.* at 1295.

a limited patent agent privilege, the court then held that the communications between Queen's University and its patent agents were protected by the patent agent privilege.¹⁰⁶ However, the court did not stop there. Because this was a case of first impression, the court went on to define the scope of patent agent privilege.¹⁰⁷

In defining the scope of patent agent privilege, the court made sure that the privilege was a limited one stating that "the rules of privilege to communications between non-attorney patent agents and their clients must be carefully construed."¹⁰⁸ The exact standard used by the Federal Circuit regarding the scope of patent agent privilege was that the communications must be "within the scope of activities" that Congress authorized patent agents to perform.¹⁰⁹ In particular, the court used 37 C.F.R. § 11.5(b)(1) to describe what the "scope of activities" entailed.

Practice before the Office in patent matters includes, but is not limited to, preparing and prosecuting any patent application, consulting with or giving advice to a client in contemplation of filing a patent application or other document with the Office, drafting the specification or claims of a patent application; drafting an amendment or reply to a communication from the Office that may require written argument to establish the patentability of a claimed invention; drafting a reply to a communication from the Office regarding a patent application; and drafting a communication for a public use, interference, reexamination proceeding, petition, appeal to or any other proceeding before the Patent Trial and Appeal Board, or other proceeding.¹¹⁰

After setting forth the scope of activities, the court then highlighted that the burden of showing whether or not communications are protected by patent agent privilege rests on the party asserting that right.¹¹¹ However, the majority opinion was not without opposition.

The dissenting opinion had one dominant theme: there should be no patent agent privilege.¹¹² The two main points of the dissent were that "the public interest will not be served" and "that there is no real need" for a patent agent privilege.¹¹³ One argument put forth for why "there is no real need" is that PTO regulations already impose a duty on patent practitioners and clients to disclose all information that is material to patentability to the PTO during patent prosecution.¹¹⁴

This theory, however, lacks substantive merit. 37 C.F.R. § 1.56 does require patent practitioners and their clients to disclose all information which may be

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 1301.

¹⁰⁸ *Id.* at 1301.

¹⁰⁹ *Id.*

¹¹⁰ 37 C.F.R. § 11.5(b)(1) (2018).

¹¹¹ 820 F.3d at 1301.

¹¹² *Id.* at 1302-03.

¹¹³ *Id.* at 1303.

¹¹⁴ *Id.* at 1304.

material to patentability to the PTO.¹¹⁵ This includes information that may bar patentability such as prior sales, prior public uses, or similar prior art.¹¹⁶ But, this duty does not include informing the PTO of a patent strategy, informing the PTO of the reasoning behind the intended scope of the claims, informing the PTO of the reasoning behind amendments, informing the PTO of the reasoning for restriction elections, or informing the PTO of a decision to obtain patent protection rather than trade secret protection.¹¹⁷ In the face of these discrepancies, the dissent argued that communications between a client and patent agent regarding these important business decisions, which are not subject to the PTO duty to disclose mandate, should not be privileged. The implementation of such a theory could prove disastrous for clients who have shared proprietary business information with their patent agent because opposing parties in future litigation cases could access this confidential information.

Another interesting point posited in the dissent is that “[o]nly a few cases have arisen . . . involving the issue of an agent-client privilege,” and therefore there is no need to create this privilege.¹¹⁸ While the Supreme Court has yet to define a minimum quota of cases that must be met in order for a court to address an issue, this paper has already referenced a number of patent agent privilege cases. In addition, the Federal Circuit recognized a district court split over the patent agent privilege issue in this case.¹¹⁹ Accordingly, there must have been enough cases for the district courts to disagree over this issue. Moreover, a court should not be compelled based on the number of cases that arise from a particular issue to perform its constitutional duty in interpreting the law.

Another reason put forth in the dissent for not recognizing patent agent privilege is that a patent agent privilege would be complicated.¹²⁰ However, jurisprudence is complicated. This complication is why attorneys must attend law school and pass state bar examinations. If it was easy, anyone could be a lawyer. Furthermore, courts face difficult challenges every day. Thus, the assertion that courts should not do a particular act because it might be complicated, while a valid consideration, should not be dispositive of whether or not to act.

After the Federal Circuit ruled on this case, the PTO also began taking actions to recognize patent agent privilege. This was done through the codification of regulations. In particular, 37 C.F.R. 57, titled “Privilege for Patent Practitioners,” was passed into law on December 7, 2017. This regulation formally recognized patent agent privilege in all matters before the PTO. The scope of the privilege is defined as all matters that are “reasonably necessary and incident to the scope of the practitioner’s authority.”¹²¹ With the Federal Circuit and PTO formally recognizing patent agent privilege, the burden of the patent agent privilege problem then fell to the state courts—a burden that no state

¹¹⁵37 C.F.R. § 1.56 (2018).

¹¹⁶*Id.*

¹¹⁷*See id.*

¹¹⁸820 F.3d at 1305.

¹¹⁹*Id.* at 1292.

¹²⁰*Id.* at 1305–06.

¹²¹37 C.F.R. 57 (2017).

court wanted to rule on. That is, until February 23, 2018.

2. State Law

The courts promulgate attorney-client privilege.¹²² Thus, when determining whether a particular communication is privileged, courts must apply the controlling common law definition of privilege. After the *In re Queen's University* case, federal common law for patent agent privilege was uniform throughout the circuits. However, the federal common law definition of patent agent privilege does not apply to state law claims, even in cases that are heard in federal courts.¹²³ This means that state patent agent privilege laws are equally important. The problem is that, before February 23, 2018, no state had expressly recognized patent agent privilege.¹²⁴ Moreover, some states, like Texas, had expressly denied extending attorney-client privilege to patent agents.¹²⁵

While many states have yet to decide the patent agent privilege problem, it is still an important state law issue. The reason why many states have yet to decide the issue is bifurcated. First, the Federal Circuit only recently recognized a patent agent privilege, so many states have not yet faced this issue. Second, most claims involving patents are the exclusive jurisdiction of the federal courts. Only non-substantive patent law issues can be decided in state courts. But, as more contract and licensing disputes arise involving patents, states will be forced to decide this issue, like the Texas court below.

Shortly after the Federal Circuit's decision to recognize patent agent privilege, a Texas court faced the same issue in the case of *In re Andrew Silver*.¹²⁶ This case revolved around "a contract dispute related to the invention, patenting, and commercialization" of a device that allowed restaurant patrons to play games and pay bills on portable devices.¹²⁷ The inventor objected to producing more than 300 e-mails between himself and his patent agent, claiming the patent agent privilege applied.¹²⁸ The court declined to extend the attorney-client privilege to patent agents, even after expressly recognizing the recent Federal Circuit case of *In re Queen's University*.¹²⁹ The reasoning espoused by the Texas court was that federal law was not controlling in a state law case, and since the case did not involve validity or infringement claims, state law governed.¹³⁰

However, on February 23, 2018, the Supreme Court of Texas overruled the lower court, holding that there is a patent agent privilege.¹³¹ The court reasoned that a patent agent privilege was consistent with Texas Rules of Evidence

¹²² See FED. R. EVID. 501.

¹²³ See *In re Queen's Univ.*, 820 F.3d 1287, 1294 (Fed. Cir. 2016) (saying that "state law governs privilege regarding a claim or defense for which state law supplies the rule of decision").

¹²⁴ *Id.* at 1311–12.

¹²⁵ *In re Andrew Silver*, 500 S.W.3d 644, 646–47 (Tex. App. 2016).

¹²⁶ *Id.*

¹²⁷ *Id.* at 645.

¹²⁸ *Id.* at 645–46.

¹²⁹ *Id.* at 646–47.

¹³⁰ *Id.*

¹³¹ *In re Andrew Silver*, No. 16-0682, 2018 Tex. LEXIS 171, at *4–5 (Feb. 23, 2018).

503.¹³² Furthermore, the court said that recognizing patent agent privilege is not the creation of a new privilege but instead is just an application of attorney-client privilege to communications between clients and patent agents.¹³³ This is a landmark state law case because after the Supreme Court of Texas ruled on the case, Texas became the first state to formally recognize patent agent privilege: hopefully starting a trend which will continue among the states.

The following Section will analyze the implications of recent trends at both the state and federal level regarding patent agent privilege. From there, possible solutions to the problem will be discussed.

IV. THE PATENT AGENT PRIVILEGE PROBLEM

As described in previous Sections, there were many different formulations for patent agent privilege before the Federal Circuit ruling. While the Federal Circuit has helped unite the district courts by providing a framework for future cases, there are still many problems inherent in the decision. Coupled with this, almost all states have failed to recognize, and in some cases outright denied, the existence of a patent agent privilege. This leaves patent owners today without a clear understanding of their rights in court because the federal law is vague and most state law is unknown.

A. Federal Patent Agent Privilege Problems

The Federal Circuit's decision in *In re Queen's University* was a vital step in protecting patent agent privilege. However, like many initial steps, it was not a perfect solution to the problem. Even after this ruling, the scope of patent agent privilege is uncertain. It is also too narrow. Moreover, the overall lack of states recognizing patent agent privilege has led to an incongruence between federal and state law which is fundamentally unfair and incentivizes forum shopping.

1. Overly Vague

The Federal Circuit realized the need to protect communications between clients and patent agents, however the Federal Circuit had never expressly recognized a patent agent privilege before *In re Queen's University*.¹³⁴ Thus, when defining the scope of the privilege, the Federal Circuit likely made the definition of patent agent privilege vague on purpose. This was done to give lower courts leeway for future cases regarding the scope of the privilege. The basic test given by the federal circuit is that the party claiming the privilege must prove that the patent agent was working "within the scope of activities authorized by Congress."¹³⁵ The only guidance on what the scope of activities are is 37 C.F.R. § 11.5(b)(1). But, there are two problems with this guidance. First, not

¹³²*Id.* at 18–19.

¹³³*Id.* at 4–5.

¹³⁴*In re Queen's Univ.*, 820 F.3d 1287 (Fed. Cir. 2016).

¹³⁵*Id.* at 1301.

all the duties of a patent agent are expressly included in this definition. Second, the definition itself is vague.

37 C.F.R. § 11.5(b)(1) says that patent agents can perform all patent prosecution tasks.¹³⁶ However, this regulation does not state whether a patent agent can perform other jobs such as helping a client make business decisions on what inventions to patent.¹³⁷ While helping a client determine the patentability of an invention is definitely covered by the regulation, an experienced patent agent who knows the ins and outs of a particular industry may be working outside the regulation if he gives business advice on whether to patent a particular invention. This could be disastrous for the client if a court determines that the patent agent was working outside the scope of activities authorized by Congress. It would mean that all the communications regarding important business decisions are not privileged. Consequently, opposing parties in future litigation with the client would be able to access the confidential business information since it is not protected. Furthermore, it is unclear whether a patent agent can advise a client on the patentability or potential infringement of devices that are not owned by the client. If a patent agent were to advise a client on this matter and an infringement suit later occurred, the client would be at a serious disadvantage if the court determined the communications between the client and patent agent were not protected.

The second reason the Federal Circuit definition is unduly vague is that the regulation cited by the court is inherently open-ended. The text of the first line leaves open the possibility for an endless number of activities that patent agents can perform that may be authorized by Congress. It says, "Practice before the Office in patent matters includes, *but is not limited to*, preparing and prosecuting any patent application"¹³⁸ The non-exhaustive language "but is not limited to" makes the regulation extremely vague. Therefore, because the Federal Circuit expressly cited to this regulation when defining the scope of patent agent privilege, the definition of patent agent privilege is also overly vague. While flexibility can be beneficial to courts in interpreting statutes, it could prove disastrous for the first person who learns that a certain activity is not included in the definition. That person could lose millions of dollars, and possibly billions, as a result.

2. *Too Limited*

In addition to the inherent vagueness in the definition of patent agent privilege, the definition is too limited. While the definition provides a basic list of all the prosecution activities a patent agent can perform, there are a number of other activities that an experienced patent agent can also perform, which are not included. This includes helping clients make business decisions on whether to patent, providing advice on the patentability of devices not owned by the client, and providing infringement advice, to name just a few. Thus, a better definition of patent agent privilege should include all communications dealing with

¹³⁶37 C.F.R. § 11.5(b)(1).

¹³⁷*See id.*

¹³⁸*Id.*

federal patent law. This definition would alleviate the uncertainty surrounding what communications are privileged. It would also reduce the likelihood of future district court splits regarding the scope of patent agent privilege.

Furthermore, an expanded view of patent agent privilege would still be sufficiently narrow and specific because communications that a patent agent has with a client that are not incidental to federal patent law would not be protected. For example, if a patent agent discussed potential trademark or copyright protection for a device, these communications would not be covered. This adheres to the Federal Circuit's desire to limit the scope of patent agent privilege to only those things which a competent patent agent can provide.¹³⁹ Therefore, since a patent agent is not learned in other areas of the law, any discussions between a patent agent and his client regarding content outside the federal patent realm would not be protected.

B. State Patent Agent Privilege Problems

While federal law now recognizes a limited patent agent privilege, forty-nine states do not. This creates a number of problems for patent owners including: incongruent standards, fundamental unfairness, and potential forum shopping.

1. *Incongruent with Federal Standard*

While the United States is founded on a bifurcation of power between federal and state governments, there are certain fundamental issues where federal law supplants that of the individual states. One of those issues is patent law.¹⁴⁰ As stated in the IP clause of the Constitution, the federal government has the exclusive power to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."¹⁴¹ However, privilege laws are not one of these fundamental issues and states can promulgate privilege laws independent of the federal government.¹⁴² This has led to a significant problem: the incongruence of state and federal patent agent privilege laws.

Until recently, no state formally recognized patent agent privilege.¹⁴³ This changed in *In re Andrew Silver*.¹⁴⁴ However, there are still forty-nine other states that have yet to adopt patent agent privilege. Thus, there is a disparity between a patent owner's rights in federal and state courts. For example, assume that the owner of a patent is in state court facing claims of breach of contract, deceptive trade practice, and unfair competition.¹⁴⁵ Because these are not substantive patent law questions, federal law does not apply. Thus, outside of Texas, the

¹³⁹ *In re Queen's Univ.*, 820 F.3d 1287, 1301 (Fed. Cir. 2016).

¹⁴⁰ *Id.* at 1290.

¹⁴¹ U.S. CONST. art. I, § 8, cl. 8.

¹⁴² *In re Andrew Silver*, 500 S.W.3d 644, 646 (Tex. App. 2016).

¹⁴³ *In re Queen's Univ.*, 820 F.3d 1287, 1311–12 (Fed. Cir. 2016).

¹⁴⁴ *In re Andrew Silver*, No. 16-0682, 2018 Tex. LEXIS 171 (Feb. 23, 2018).

¹⁴⁵ Amicus Brief for Petitioner at 9, *In re Andrew Silver*, (No. 16-0682), 2018 Tex. LEXIS 171 (Feb. 23, 2018), http://www.ipo.org/wp-content/uploads/2017/03/IPO_amicus_brief_letter_stamped.pdf.

court may not recognize patent agent privilege. This means that confidential communications between a client and a patent agent during the patent prosecution phase, matters that are privileged in federal courts, are not protected and can be accessed by the opposing party.

Now, taking the example one step farther, assume the case is in federal court and there are multiple claims. The plaintiff alleges patent infringement, deceptive trade practice, and unfair competition. The defendant counter claims for invalidity of the patent. Thus, there are two federal claims, patent infringement and invalidity, and two state law claims, deceptive trade practice and unfair competition. Because privilege laws are subject to the specific jurisdiction from which the claim originates,¹⁴⁶ this means that different privilege rules will be used in the adjudication of the same case. The federal court will apply the Federal Circuit's patent agent privilege laws to the federal claims. However, the federal court will apply the privilege laws of the state where the state claims originated. If that state does not recognize patent agent privilege, then the federal court would not be able to privilege the communications between the defendant and his patent agent for the state law claims the defendant faces. Yet, the plaintiff's communications would be protected by patent agent privilege because the plaintiff only faces federal claims. This is counterintuitive and fundamentally unfair.

2. *Fundamentally Unfair*

As shown in the example from the previous Section, an incongruence in state and federal patent agent privilege laws leads to fundamental unfairness. First, a patent owner may not even know about the issue of patent agent privilege. Because the patent owner works with a patent agent, a professional who is granted with the right to represent clients before the PTO, the patent owner may assume that communications with the patent agent are privileged. This is logical since all the communications between the patent owner and a patent attorney would be privileged. Thus, the patent owner would be in for a rude awakening when he or she learned that all the communications with the patent agent were not privileged for any state law claims regarding the patent.

Furthermore, even if the patent owner knew about the patent agent privilege issue, it is still fundamentally unfair to have differing privilege laws at play in the same case. This would allow confidential communications about important aspects of the patent at issue to be inaccessible for the opposing party to use for federal claims but accessible for the opposing party to use in state claims. Moreover, while the jury would be given instructions to only use the confidential communications when deciding the state law claims, it is illogical to assume that they will not use any of the information they heard about the confidential communications when deciding the federal claims. Even a person who knows they should not use the information from the confidential communications when deciding the federal claims will make the decision with the subconscious knowledge of those communications. The only fair way to rem-

¹⁴⁶*In re Andrew Silver*, 500 S.W.3d 644, 646 (Tex. App. 2016).

edy this is for state and federal patent agent privilege laws to be congruent.

3. *Incentivizes Forum Shopping*

Another consequence of incongruence between state and federal patent agent privilege laws is that parties in litigation proceedings will be incentivized to forum shop.¹⁴⁷

For example, a party that brings state law claims related to a defendant's patent, like breach of contract, deceptive trade practice, or unfair competition, would be wise to do so in a jurisdiction that does not recognize patent agent privilege. Currently, that is any state but Texas. Thus, the plaintiff's attorney would purposely bring the suit in any state but Texas so that he can access confidential communications between the defendant and the defendant's patent agent. While this is not a major problem currently, as more states recognize patent agent privilege, which is inevitable after the Texas Supreme Court decision¹⁴⁸, the number of anti-patent agent privilege states will decrease. As this decrease occurs, the occurrence of forum shopping will be exacerbated because attorneys who want access to confidential communications between patent owners and their patent agents will be forced into increasingly more attenuated arguments for why their case should be in an anti-patent agent privilege jurisdiction.

Furthermore, forum shopping will also occur, not just for jurisdiction over a case, but also for jurisdiction over specific claims in a case. For example, a party that brings a patent infringement claim in federal court will want access to confidential communications between a defendant and his patent agent. The information in these communications could help the plaintiff win his suit against the defendant. Therefore, an intelligent plaintiff's attorney would also bring state claims against the defendant, regardless of the likelihood of success. The plaintiff's attorney would also make sure the state claims originated in a jurisdiction that does not recognize patent agent privilege. This would allow the jury to hear confidential communications for the state claims and, hopefully for the plaintiff, help him win the federal infringement claim since the jury will have already heard the confidential communications.

V. THE SOLUTION

The solution to the patent agent privilege problem is bifurcated. First, the scope of patent agent privilege at the federal level needs to be broadened and better defined. Second, the states need to formally recognize and implement patent agent privilege laws in congruence with the federal standard. This would prevent future district court splits at the federal level and eliminate fundamental unfairness and forum shopping at the state level.

¹⁴⁷ Amicus Brief for Petitioner at 6, *In re Andrew Silver*, (No. 16-0682), 2018 Tex. LEXIS 171 (Feb. 23, 2018), http://www.ipo.org/wp-content/uploads/2017/03/IPO_amicus_brief_letter_stamped.pdf.

¹⁴⁸ *In re Andrew Silver*, No. 16-0682, 2018 Tex. LEXIS 171 (Feb. 23, 2018).

A. Federal Law

To prevent future district court splits at the federal level regarding the scope of patent agent privilege, either Congress, the Supreme Court, or the Federal Circuit needs to implement a broader and more well-defined explanation of patent agent privilege. This explanation should protect communications between clients and patent agents regarding all information that is incidental to federal patent law. This mirrors the PTO's current version of patent agent privilege which is codified in 37 C.F.R. 42.57.¹⁴⁹ A broader definition alleviates potential conflicts that may arise when a patent agent communicates with a client on the patentability of third party inventions or other similar communications. This definition would also limit the vagueness which is inherent in the current Federal Circuit definition due to the language "but is not limited to" in 37 C.F.R. § 11.5(b)(1).¹⁵⁰

B. State Law

To prevent fundamental unfairness and forum shopping, the states should adopt definitions of patent agent privilege that are congruent with federal law. This can be done by each state at the legislative or judicial level. However, the more effective method would be for Congress or the Supreme Court to formally recognize patent agent privilege for all state and federal claims dealing with patent law. While antagonists may raise constitutional concerns, patent law is already governed solely by the federal government, per the IP clause in the Constitution.¹⁵¹ Thus, it would make sense for patent agent privilege, a doctrine that is intimately connected to patent law, to also be governed solely by the federal government.

VI. CONCLUSION

The patent agent privilege issue has existed for decades. Recently, however, significant progress has been made at the federal and state level in formally recognizing this extension of attorney-client privilege. While these initial steps are promising, they are not without problems. The federal definition is too limited and overly vague. Coupled with this is the incongruence with state law. To remedy these issues, the federal definition of patent agent privilege should be expanded and clearly defined, and the states should implement congruent standards to eliminate fundamental unfairness and de-incentivize forum shopping.

¹⁴⁹37 C.F.R. 42.57 (2017).

¹⁵⁰37 C.F.R. § 11.5(b)(1) (2018).

¹⁵¹U.S. CONST. art. I, § 8, cl. 8.

The Likelihood of Exclusion: Economic Disparity in the United States Trademark System

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Contents

Introduction		600
I. TRADEMARKS IN THE LAW		601
A. <i>From Fraud to Secondary Meaning</i>		601
B. <i>The Registration Process</i>		602
II. THE INADEQUACY OF CURRENT TRADEMARK LAWS		603
A. <i>The Likelihood of Confusion</i>		603
B. <i>Inadequacies Beyond Likelihood of Confusion</i>		605
C. <i>Small Businesses in the Trademark System</i>		607
D. <i>Trademark Bullying</i>		608
E. <i>Trademarks and Minority Suppression</i>		610
F. <i>The Slants and "Disparaging" Marks</i>		611
III. CREATING HAVES OUT OF HAVE-NOTS		613
A. <i>Trademark Law Reform</i>		613
B. <i>Trademark Shaming</i>		614
C. <i>Corporate and Professional Responsibility</i>		616
D. <i>Supporting Small Businesses</i>		617
Conclusion		618

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INTRODUCTION

Trademarks are integral in the marketplace, serving as identifiers of the source of a business's goods or services.¹ Consumers rely on trademarks not only as source identifiers, but also as "quality guarantor[s] and consumer status symbol[s]."² Entrepreneurs use trademarks to develop a brand and pursue opportunities for economic mobility.³ Although trademarks originally sprouted to protect consumers from fraud and counterfeit, the actual effects of modern trademark law severely overshadow these traditional purposes. Patterns in legislation and interpretations reveal a system of favoring the haves over the have-nots, depriving have-nots of both offensive and defensive protections otherwise provided by trademark law.

The value of a trademark in modern day is the mark itself, rather than the brand it represents.⁴ Companies take just as much pride in their logos and brands as their actual products and services.⁵ As a personal property right, a trademark creates the duty to diligently manage and oversee these rights.⁶ However, overzealous trademark policing creates a hostile climate for the freedom of expression, the entrepreneurial spirit, and ultimately, a competitive and free-flowing marketplace. As a result, small businesses and other marginalized groups, often lacking the resources of large companies, are effectively excluded from the trademark system.

This paper observes the trademark system, its evolving infrastructure, and how it contributes to the suppression of small businesses. Part I provides a brief overview of the developments in statutory trademark law and the trademark registration process. Part II discusses the expansion of trademark rights and the lack of legal recourse available for accused infringers. Both contribute to the economic disparity by enabling large businesses to over-enforce their rights against small businesses with impunity.⁷ This section also explores the trademark system's suppression of minority groups and the materialization of recent case law and academic literature seeking to equalize this playing field. Part III suggests remedying these imbalances by reforming the trademark system and its jurisprudence, promoting large corporations' ethical responsibilities as players in a global market, and providing trademark management guidelines and trademark anti-bullying advice for small businesses.

¹J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 3:1 (5th ed. 2017).

²1 ANNE GILSON LALONDE & JEROME GILSON, GILSON ON TRADEMARKS § 1.01 (Matthew Bender).

³See generally Rita Heimes, *Trademarks, Identity, and Justice*, 11 J. MARSHALL REV. INTELL. PROP. L. 133 (2011) (explaining the need to prioritize trademark protections for underserved individuals over broader intellectual property rights concerns).

⁴Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1688 (1999).

⁵See *id.* at 1687.

⁶Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625, 641 (2011).

⁷*Id.* at 642.

I. TRADEMARKS IN THE LAW

Congress recognized the need to prevent fraud and counterfeit in the marketplace by introducing federal trademark laws.⁸ However, legislative attempts to regulate trademark law have contributed to the disparate impact on the trademark rights of small businesses.

A. *From Fraud to Secondary Meaning*

While the United States Constitution enumerates copyright and patent rights in its Copyright Clause, trademark rights are noticeably absent.⁹ In 1876, Congress enacted the first trademark statute prohibiting the sale of counterfeit trademarked goods intrastate.¹⁰ In a series of trademark cases where defendant counterfeiters challenged the statute's constitutional validity, the Supreme Court of the United States invalidated the statute because Congress only had the power to regulate trademarks in interstate commerce.¹¹ The Court held that trademarks have "no necessary relation to invention or discovery,"¹² and that trademark use could fall within Congress's Commerce Clause power if used in interstate commerce.¹³

Invoking the Commerce Clause, Congress enacted a new statute in 1881 limiting regulation to trademarks used "in commerce with foreign nations, or with the Indian tribes."¹⁴ This effectively deregulated interstate trademark use in the United States.¹⁵ In a 1905 statute, the addition of the phrase "among the several States" guaranteed trademark protection within the United States while simultaneously adhering to Congress's Commerce Clause power.¹⁶

The 1905 statute gave rise to a dichotomy for the types of protectable marks—technical trademarks and trade names.¹⁷ On one hand, businesses received a technical trademark registration when their marks identified goods using nondescriptive¹⁸ words or symbols.¹⁹ Only owners of a technical trademark could bring trademark infringement claims under the 1905 statute.²⁰ On the other hand, trade names were either "marks that did not qualify as technical trademarks but had acquired a secondary meaning; [or] names of companies and corporations."²¹ The 1905 statute provided no trademark protection from

⁸McCARTHY, *supra* note 1, § 5:2.

⁹U.S. CONST. art. 1, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

¹⁰*See* Trade-mark goods., ch. 274, 19 Stat. 141 (1876).

¹¹Trade-Mark Cases, 100 U.S. 82, 97 (1879).

¹²*Id.* at 94.

¹³*Id.* at 96.

¹⁴Trade-marks., ch. 138, § 1, 21 Stat. 502 (1881).

¹⁵*See id.*

¹⁶Trade-marks., ch. 592, § 1, 33 Stat. 724 (1905).

¹⁷Grinvald, *supra* note 6, at 634.

¹⁸"Nondescriptive" refers to word marks that are arbitrary, fanciful, or suggestive.

¹⁹McCARTHY, *supra* note 1, § 4:3.

²⁰Grinvald, *supra* note 6, at 634.

²¹McCARTHY, *supra* note 1, § 4:4.

trade name infringement, which was only actionable under an unfair competition claim.²²

Throughout the beginning of the twentieth century, courts adjudicating trademark claims could not “in exactly the same way” distinguish between trademark infringement and unfair competition.²³ The constant blurring between trademark law and unfair competition law and the introduction of “secondary meaning” as a trademark term of art²⁴ signaled a shift from strict to more expansive trademark protection.²⁵ In 1946, Congress addressed the jurisprudential inconsistencies by enacting the Lanham Act.²⁶ The Act treats trade names like technical trademarks if the applicant can establish that the trade name has attained distinctiveness through secondary meaning.²⁷

B. *The Registration Process*

In the United States, both the owner of an existing trademark and an intended user of a potential trademark can file for a federal trademark registration with the United States Patent and Trademark Office (USPTO).²⁸ An owner must provide an application, a verified statement, and specimens of the mark,²⁹ while an intended user must provide an application and a verified statement.³⁰ The application contains the applicant’s information, the basis for filing,³¹ a description of the mark, and the mark’s classification.³² Applicants select at least one class out of a list of 45 classifications that describes which market their product or service will occupy.³³

If done correctly, a typical electronic trademark application for a mark filed under one classification costs \$400.³⁴ Filing under multiple classifications is an

²²*Id.*

²³*Id.* (Some courts used “the terms ‘trademark’ and ‘unfair competition’ interchangeably.”); *see also* *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916) (“[T]he common law of trademarks is but a part of the broader law of unfair competition.”).

²⁴Under the Lanham Act, secondary meaning is synonymous with acquired distinctiveness. *McCarthy*, *supra* note 1, § 15:1.

²⁵“It is undoubtedly true that where such a secondary signification has been acquired, its use in that sense will be protected by restraining the use of the word by others.” *Elgin Nat’l Watch Co. v. Illinois Watch Case Co.*, 179 U.S. 665, 674 (1901).

²⁶*See* *NuPulse, Inc. v. Schlueter Co.*, 853 F.2d 545, 549 (9th Cir. 1988) (“When we view the Lanham Act in its totality, it is clear that Congress intended to create a self-contained statutory device to deal with all kinds of trademark infringement and unfair competition.”).

²⁷15 U.S.C.S. § 1052(f) (LEXIS through Pub. L. No. 115-68).

²⁸*See id.* § 1051.

²⁹*Id.*

³⁰*But see* 15 U.S.C.S. § 1051(d)(1). The intended user must provide, within six months, evidence of the proposed mark’s actual use in commerce.

³¹37 C.F.R. § 2.34 (2017). Basis for filing requires evidence of actual use in commerce (including date of first use and a specimen of the mark) or intent to use in commerce.

³²37 C.F.R. § 2.32.

³³37 C.F.R. § 6.1. A trademark’s classification often determines whether a trademark registration is granted or whether a trademark infringement claim is successful. For example, Class 25 includes products that are “[c]lothing, footwear, [or] headgear,” and likely would not conflict with products in Class 5, which pertain to pharmaceuticals. While businesses typically select multiple (but no more than ten) classes per application in order to diversify coverage, there is no cap to the number of classes per application. The only two bars are costs and whether the mark actually occupies the particular market.

³⁴37 C.F.R. § 2.6.

extra \$400 per additional classification.³⁵ In order to amend an application, file a statement of use, request an extension, communicate with the examiner, or renew a trademark, the applicant must pay an additional \$100–\$300 per class.³⁶ The USPTO encourages minimizing errors during the application process, but even without error the final bill can be daunting.

After reviewing the application, the examiner takes one of two actions. If the examiner finds the mark is entitled to registration, the mark is published for opposition.³⁷ The onus then is on third party registration holders to oppose the mark if they believe the new mark will infringe their mark.³⁸ Registration is granted if no one files an opposition during the statutory period.³⁹

Otherwise, the examiner can refuse registration based on the nature of the mark: if the mark is “immoral, deceptive, or scandalous;” if the mark “comprises a name, portrait, or signature identifying a particular living individual except by written consent;” if the mark “so resembles a mark registered in the Patent and Trademark Office;” or if the mark is merely descriptive or merely functional.⁴⁰ The applicant then has the option to amend the application, appeal the decision, or abandon the process altogether.⁴¹ Communications between the applicant and examiner often take several rounds, with the applicant filing supplementary evidence to prove secondary meaning or refuting the examiner’s arguments until the examiner issues a registration or a final refusal.⁴²

II. THE INADEQUACY OF CURRENT TRADEMARK LAWS

Trademark protection’s inherent flaw is that it grants more protection to some while denying recourse for others. This flaw follows the expansion of rights afforded by trademark law, the scope of which has shifted from consumer protection to personal property interest. The resulting imbalances enable many trademark holders to abuse their rights.

A. *The Likelihood of Confusion*

Trademark infringement claims hinge on a likelihood of confusion analysis.⁴³ Likelihood of confusion analysis considers whether use “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association” of the user with the senior user.⁴⁴ Current trademark law expands what might be considered “confusing,” so rather than considering the

³⁵*Id.*

³⁶*Id.*

³⁷37 C.F.R. § 2.80.

³⁸*Id.*

³⁹*Id.*

⁴⁰15 U.S.C.S. § 1052.

⁴¹McCARTHY, *supra* note 1, § 19:128.

⁴²*Id.*

⁴³*Id.* § 23:1.

⁴⁴*Id.* (quoting the Lanham Act § 43(a)).

harms trademark law historically seeks to prevent (fraud and counterfeit of goods), litigation stems from confusion of the mark itself.⁴⁵ Expanded trademark protections—for descriptive marks, famous marks, and a mark’s foreseeably related markets—demonstrate the growing property interests in trademarks.

As discussed in Part I, the law has expanded to include registrations for descriptive marks⁴⁶ if the owner can establish that the mark has acquired secondary meaning: a “new meaning added second in time to the original primary meaning of the designation.”⁴⁷ Descriptive marks encounter the most opposition and litigation because no evidentiary standard exists for proving secondary meaning.⁴⁸ In contrast, a mark that is fanciful,⁴⁹ arbitrary,⁵⁰ or suggestive⁵¹ is, barring a mark that an examiner deems likely to infringe a different right,⁵² granted trademark registration without a secondary meaning requirement.⁵³ Meanwhile, a generic mark can never receive trademark registration.⁵⁴ Compared to inherently strong marks, descriptive marks invite the most disputes.⁵⁵

Another imbalance in trademark law stems from dilution laws, which aim to protect a famous trademark.⁵⁶ Dilution is likely to harm the famous trademark because it is widely known by the public.⁵⁷ A claim of dilution, either through tarnishment⁵⁸ or blurring,⁵⁹ allows owners of famous trademarks to recover without proving actual likelihood of confusion.⁶⁰ The famous mark’s

⁴⁵ See William McGeeveran & Mark P. McKenna, *Confusion Isn’t Everything*, 89 NOTRE DAME L. REV. 253, 270 (2013).

⁴⁶ See also *Devon Corp. v. Woodhill Chemical Sales Corp.*, 455 F.2d 830 (1st Cir. 1972) (holding that 5-MINUTE for glue that sets in five minutes is descriptive because the mark directly describes the glue’s characteristic, but the mark could receive registration if the owner demonstrates that consumers associate the mark with the specific provider of goods).

⁴⁷ 15 U.S.C.S. § 1052(f); McCARTHY, *supra* note 1, § 15:1.

⁴⁸ There is no specific guide for how much or what kind of evidence is required—“the more descriptive the term, the greater the evidentiary burden to establish secondary meaning.” McCARTHY, *supra* note 1, § 15:28.

⁴⁹ Fanciful marks are created for the sole function of being an identifier. Examples include EXXON for oil, CLOROX for bleach, and HUMMER for sports utility vehicles (*General Motors Corp. v. Let’s Make a Deal*, 223 F. Supp. 2d 1183 (D. Nev. 2002)).

⁵⁰ Arbitrary marks bear no relation to the applied product or service, but have ordinary meanings on their own. Examples include APPLE for computers, CAMEL for cigarettes, and STARBUCKS for coffee (*Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 736 F.3d 198 (2d Cir. 2013)).

⁵¹ Suggestive marks do not describe, but rather imply the product’s functionality. Examples include POM for pomegranate drinks (*Pom Wonderful LLC v. Hubbard*, 775 F.3d 1118 (9th Cir. 2014)), STREETWISE for maps (*Streetwise Maps, Inc. v. VanDam, Inc.*, 159 F.3d 739 (2d Cir. 1998)), and 5-HOUR ENERGY for energy drinks (*Innovation Ventures, LLC v. N.V.E., Inc.*, 694 F.3d 723 (6th Cir. 2012)).

⁵² See 15 U.S.C.S. § 1052 (listing the bases for which an examiner may refuse registration).

⁵³ GILSON, *supra* note 2, § 2.04.

⁵⁴ McCARTHY, *supra* note 1, § 12:1. Examples include BICYCLE for two-wheeled vehicles, DIESEL for engines, and SANDALS for warm-weather footwear.

⁵⁵ See generally *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976) (identifying the categories—arbitrary/fanciful, suggestive, descriptive, or generic—used to evaluate the inherent strength of a mark).

⁵⁶ GILSON, *supra* note 2, § 5A.01.

⁵⁷ *Id.* The mark “must be a household name” (quoting *Thane Int’l v. Trek Bicycle Corp.*, 305 F.3d 894, 911 (9th Cir. 2002)).

⁵⁸ *Id.* Defendant “displac[ed] positive with negative associations.”

⁵⁹ *Id.* Defendant “disturb[ed] the conditioned association of the mark with the prior user.”

⁶⁰ *Id.*

owner must prove: (1) the mark is famous and distinctive, (2) defendant is using the mark commercially, (3) plaintiff's mark became famous before defendant's use, and (4) defendant's mark is likely to cause dilution.⁶¹ While protecting famous marks is important as a policy matter, dilution laws have created a subset of protectable trademarks that is deemed more valuable and thus entitled to better protection.⁶² In an attempt to receive heightened protection, large companies may force alleged infringers into litigation even though courts are hesitant to deem just any mark as famous.⁶³

Lastly, businesses can claim trademark infringement against merely hypothetical competitors through the Lanham Act's "related goods" doctrine.⁶⁴ This expansion allows businesses to sue noncompetitive products if they can reasonably expect to enter the alleged infringer's market.⁶⁵ This broader approach, introduced in *Aunt Jemima Mills Co. v. Rigney & Co.*⁶⁶ and *Yale Electric Corp. v. Robertson*,⁶⁷ grants businesses wider policing latitude since their claims can be based on mere speculation. They can even oppose registrations for marks only tangentially related to their own mark.

B. *Inadequacies Beyond Likelihood of Confusion*

Trademark law depends heavily on the likelihood of confusion analysis, so parties caught in a trademark infringement suit have a limited arsenal with which to defend themselves. Examiners lack a standard of review for granting registrations, and courts cannot rely on any meaningful precedent. As a result, disputes can get costly and lengthy. In addition, the absence of affirmative defenses and misuse claims prevents accused parties from avoiding litigation.

Examiners lack a standard of review because "in the examination of trademark applications, examining attorneys are not required to follow other registration decisions when considering whether or not to register a mark."⁶⁸ Standards for genericness, descriptive, or even suggestive marks are not clear and may depend on each examiner's subjective standards. For example, an examiner refused registration of the mark THE BEST BEER IN AMERICA for beer and ale under genericness, but on appeal the Trademark Trial and Appeal Board (TTAB) held that the mark was merely descriptive.⁶⁹ Consequently, the

⁶¹ *Id.*

⁶² *But see GILSON, supra note 2, § 5A.01.* This increased protection comes at a cost, since the standard for proving fame is incredibly high.

⁶³ *See generally Hasbro, Inc. v. Clue Computing, Inc.*, 66 F. Supp. 2d 117 (D. Mass. 1999) (holding that the mark CLUE, despite having gained household recognition as a board game, was insufficiently famous to warrant dilution protection); *see Grinvald, supra note 6, at 639 n.86* (finding that almost one-third of the trademark infringement claims filed in federal district courts between 1995 and 2010 alleged dilution as a cause of action).

⁶⁴ McCARTHY, *supra* note 1, § 24:6.

⁶⁵ Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1901 (2007).

⁶⁶ *See generally* 247 F. 407 (2d Cir. 1917) (granting plaintiff an injunction because defendant's pancake syrup was reasonably related to plaintiff's pancake batter so the public could reasonably conclude they came from the same source).

⁶⁷ *See generally* 26 F.2d 972 (2d Cir. 1928) (refusing registration of YALE for flashlights because of defendant's use of the mark for its locks).

⁶⁸ Megan M. Carpenter & Kathryn T. Murphy, *Calling Bullshit on the Lanham Act: The 2(a) Bar for Immoral, Scandalous, and Disparaging Marks*, 49 U. LOUISVILLE L. REV. 465, 479 (2011).

⁶⁹ *See In re Boston Beer Co L.P.*, 47 U.S.P.Q.2d 1914 (T.T.A.B. 1998).

registration process is inconsistent and unpredictable, and obtaining a trademark often comes down to chance.

Following the absence of standards for assessing trademark registrations, the existing case law for trademark infringement claims is equally unreliable.⁷⁰ A likelihood of confusion inquiry is fact specific,⁷¹ so predicting which way courts will sway in a new infringement case is difficult.⁷² It is not uncommon for attorneys to advise their clients based on their prior experiences rather than the merits of the case at hand because of the lack of “value in precedential cases.” As a result, attorneys are unable to provide clients with clear guidance.

Statutory and common law defenses are also few and unhelpful.⁷³ The classic fair use defense is narrow, valid only if a descriptive mark is “used fairly and in good faith only to describe the goods or services.”⁷⁴ In contrast, copyright law’s fair use defense lists uses—such as news, commentary, or artistic work—that halt the inquiry and protect the accused infringer from liability.⁷⁵ No screening mechanism exists that will excuse the use of a trademark, so a court in an infringement case still needs to assess the likelihood of confusion.⁷⁶ As a result, the accused must still litigate to justify use of a mark.⁷⁷ Other enumerated defenses, such as genericism and functionality, while available, offer little utility to typical trademark infringement cases.⁷⁸

Lastly, unlike copyright law, trademark law does not recognize trademark misuse claims.⁷⁹ Copyright misuse arises when, “a copyright owner [uses] an infringement suit to obtain property protection . . . that copyright law clearly does not confer . . . over an opponent that may lack the resources or the legal sophistication to resist effectively.”⁸⁰ Overzealous trademark policing mirrors the policy considerations behind copyright misuse because large companies target small businesses knowing these businesses cannot fight back. The absence of a trademark misuse law encourages large companies to police broadly in an effort to uphold the integrity and goodwill of their brand, which in turn puts small businesses at a disadvantage.

⁷⁰ “[I]t is hard to determine with very real certainty how future courts will use prior cases.” Grinvald, *supra* note 6, at 658.

⁷¹ Jessica M. Kiser, *To Bully or Not to Bully: Understanding the Role of Uncertainty in Trademark Enforcement Decisions*, 37 COLUM. J.L. & ARTS 211, 218 (2014).

⁷² Grinvald, *supra* note 6, at 657.

⁷³ See Michael Grynberg, *Things Are Worse Than We Think: Trademark Defenses in a “Formalist” Age*, 24 BERKELEY TECH. L.J. 897, 902 (2009).

⁷⁴ *Id.* at 918.

⁷⁵ See 17 U.S.C. § 107 (2006).

⁷⁶ Grinvald, *supra* note 6, at 659–60.

⁷⁷ *Id.* at 660.

⁷⁸ See Grynberg, *supra* note 73, at 920–24. For example, “the functionality defense often fails outside of its paradigmatic utilitarian case.”

⁷⁹ See William E. Ridgway, *Revitalizing the Doctrine of Trademark Misuse*, 21 BERKELEY TECH. L.J. 1547, 1557 (2006).

⁸⁰ Grinvald, *supra* note 6, at 661 (quoting *Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003)).

C. *Small Businesses in the Trademark System*

Small businesses are typically defined as “firms with 1–499 employees,” although this number is flexible.⁸¹ As of 2014, 99.9% of the United States’ 28.2 million businesses were small businesses.⁸² Of these small businesses, over 78% were sole proprietors, meaning the business owner was also the only employee.⁸³ Of the many types of small businesses, microbusinesses and mom-and-pop shops have the biggest economic hurdles.⁸⁴ Small businesses “cannot unlock economies of scale, which puts them at a further financial disadvantage.”⁸⁵ Because they are undercapitalized, small businesses have little to no prospect of growth or expansion into new communities or markets.⁸⁶ As daily expenditures consume most of the business’s finances, registering for a trademark is often the last thing on an owner’s mind.⁸⁷

Unlike larger businesses, small businesses typically lack the legal funds to expend on trademarks.⁸⁸ As discussed in Part I, a basic trademark registration for a single classification is \$400.⁸⁹ To obtain more comprehensive protection, trademark owners often file under multiple classifications, which a small business owner may be unwilling to do because of cost.⁹⁰ Smaller businesses are also more likely to select a descriptive mark, which relates more closely to their products or services.⁹¹ As a result, it is more likely the business will encounter extra steps in the registration process (e.g., responding to potential oppositions, appealing to the TTAB), which only drives up the total cost of obtaining a registration.⁹² In a recent trademark infringement story, members of Southern California band ViceVersa revealed they spent almost \$3,000 in order to trademark their name, although “[o]n a good month they [only] bring in about \$1,500 from gigs and merchandise.”⁹³ However, merely obtaining a trademark registration does not insulate small businesses from attacks by large companies.

Even after registration, policing a mark to keep infringers at bay and main-

⁸¹ *Small Business Market Update, June 2015*, SMALL BUS. BULL. (Small Bus. Admin. Office of Advocacy, Wash. D.C.), June 2015, at 1, https://www.sba.gov/sites/default/files/Small_business_bulletin_June_2015.pdf.

⁸² Raymond J. Keating, UNLEASHING SMALL BUSINESS THROUGH IP 36 (2d ed. 2016), <http://sbecouncil.org/wp-content/uploads/2016/04/UnleashingSmallBizIP2016.pdf>.

⁸³ Leah Chan Grinvald, *Policing the Cease-and-Desist Letter*, 49 U.S.F. L. REV. 411, 428 (2015).

⁸⁴ Microbusinesses are the smallest of the small businesses with 1–9 employees. Brian Headd, *The Role of Microbusinesses in the Economy*, Small Bus. Facts (Small Bus. Admin. Office of Advocacy, Wash. D.C.), Feb. 2015, https://www.sba.gov/sites/default/files/Microbusinesses_in_the_Economy.pdf.

⁸⁵ Johnny Price, *Venture Capital for Mom and Pop Shops*, Ewing Marion Kauffman Found. (Sept. 26, 2016), <http://www.kauffman.org/blogs/growthology/2016/09/venture-capital-for-mom-and-pop-shops>.

⁸⁶ See Grinvald, *supra* note 6, at 656.

⁸⁷ See *id.* at 655.

⁸⁸ Nicholas Herdrich, *The Great Balancing Act: Limiting Trademark Risks For Early-Stage Businesses in a Limited Capital Environment*, 97 J. PAT. & TRADEMARK OFF. SOC’Y 144, 157 (2015).

⁸⁹ 37 C.F.R. § 2.6.

⁹⁰ For example, a mom-and-pop business that prints and sells shirts should register its business name at least under Class 25 (for clothing and apparel products) and Class 35 (for advertising, business and retail services). The business would incur \$800 just for filing in those two classes (not including additional costs). 37 C.F.R. § 2.6; 37 C.F.R. § 6.1.

⁹¹ Herdrich, *supra* note 88, at 158.

⁹² *Id.*

⁹³ Jason Kandel, *SoCal Band in ‘David vs. Goliath’ Battle with Media Giant*, NBC L.A. (Apr. 23, 2016, 7:27 PM), <https://www.nbclosangeles.com/news/local/SoCal-Band-in-David-vs-Goliath-Battle-With-Media-Giant-376868431.html>.

taining the mark to avoid abandonment is time consuming and expensive. Obtaining legal assistance regarding trademark maintenance is also costly, and managing trademark issues alone is difficult.⁹⁴ Some businesses opt to not register their trademarks for this reason, instead relying on common law remedies if a conflict does arise.

Upon receiving a cease and desist letter, small business owners might want to avoid litigation at all costs.⁹⁵ Pending litigation freezes a trademark holder's rights, disabling further investment in and development of the mark until a decision is made.⁹⁶ Absent legal assistance, small business owners must analyze, respond, and prepare legal strategy on their own, which makes attacking a trademark issue unmanageable.⁹⁷ Even if the business could finance the lawsuit, the appeals process is too lengthy and expensive to be affordable.⁹⁸ All these factors are in addition to the emotional stress that the threat of litigation brings, since small businesses frequently constitute the entire livelihood of business owners and their families.⁹⁹ While these small business operations are limited to one or a few communities, large corporations likely also operate in those communities. These trademark conflicts are inevitable.

D. Trademark Bullying

Increasing trademark protections for tangential goods and markets and famous marks encourages large companies to aggressively police their marks. Large companies have a huge interest in protecting their marks because most of the general public can instantly recognize big-name brands; this in turn generates capital. Large companies, like all rightsholders, must diligently police their marks, since a court will hold that failure to monitor infringing marks indicates assent¹⁰⁰ to infringement or abandonment.¹⁰¹ However, unnecessary and aggressive policing by large corporations can cross into trademark bullying if these infringement claims are unmeritorious.

In her article, Leah Chan Grinvald defines four aspects of trademark bullying: (1) an unreasonable interpretation of trademark rights, (2) intimidation tactics, (3) the trademark enforcer is a large company, and (4) the accused infringer is a small business.¹⁰²

A large company unreasonably interprets its trademark rights when it fails to conduct a complete and objective trademark assessment of the alleged infringer's mark, exaggerates the strength of its own mark, or exaggerates the ex-

⁹⁴Grinvald, *supra* note 6, at 654.

⁹⁵Jeanette Mulvey, *USPTO 'Trademark Bully' Comments Reveal Small Business Headache*, BUS. NEWS DAILY (Apr. 6, 2011, 10:06 AM), <http://www.businessnewsdaily.com/836-uspto-trademark-bullying-comments.html>.

⁹⁶*Id.*

⁹⁷Grinvald, *supra* note 6, at 654; Grinvald, *supra* note 83, at 428. Businesses are often unable to comply with a letter's demands because they do not have the appropriate legal expertise to competently respond.

⁹⁸Grinvald, *supra* note 83, at 429.

⁹⁹Grinvald, *supra* note 6, at 655.

¹⁰⁰See Sara Marie Andrzejewski, Note, "Leave Little Guys Alone!": Protecting Small Businesses from Overly Litigious Corporations and Trademark Infringement Suits, 19 J. INTEL. PROP. L. 117, 125 (2011).

¹⁰¹Kiser, *supra* note 71, at 225.

¹⁰²Grinvald, *supra* note 6, at 642.

tent to which confusion is likely.¹⁰³ Failing to conduct a trademark assessment occurs either when no search is conducted or when a large company is threatened by any and all use without assessing the context of the alleged infringing mark's use.¹⁰⁴ Another instance is when in-house lawyers "send threatening cease and desist letters as a routine response to virtually any unauthorized use of a mark."¹⁰⁵ Exaggeration of the mark's strength or likelihood of confusion is possible because of trademark law's highly subjective and fickle nature; as discussed above, receiving a registration or assessing likelihood of confusion is not dictated by definitive elements or enforceable case law.¹⁰⁶

All large companies typically engage in some level of intimidation when asserting their rights. They are financial powerhouses that employ in-house lawyers and have ample resources to expend on litigation.¹⁰⁷ However, when they place undue economic pressure or coercion on small businesses, this may tip the scale towards bullying behavior.¹⁰⁸ Trademark bullies often scare small business owners into complying by using abusive cease and desist letters.¹⁰⁹ Abusive cease and desist letters may either have complex legalese or harsh language, demands for quick settlement or immediate payment of fees, and/or an unreasonable claim of rights.¹¹⁰ Because small business owners are not well versed in trademark law, most disputes that begin with a cease and desist letter conclude with immediate compliance.¹¹¹ Oftentimes the trademark bullies put small businesses in a lose-lose situation by providing an ultimatum—comply or litigate—knowing that small businesses cannot financially sustain litigation.¹¹²

The third and fourth factors describe the adverse parties: the small business and the large company.¹¹³ The small business must be at a relative economic disadvantage to the large company.¹¹⁴ The disparity in financial strength must exist because it creates the opportunity for the large company to attack small businesses that lack competent legal resources.¹¹⁵

Increasingly, large companies overstep their policing rights by attempting to monopolize the use of descriptive or generic words.¹¹⁶ Entrepreneur Media, for example, brought trademark infringement cases against EntrepreneurPR, Publishing Entrepreneur, Ernst & Young Entrepreneur of the Year Magazine, and even entrepreneurs.com in an attempt to prevent the use of "entrepreneur"

¹⁰³ *Id.* at 643.

¹⁰⁴ *Id.* (describing an instance where Warner Brothers sent cease and desist letters to websites using the term HARRY POTTER, but the websites were solely non-commercial and operated by children).

¹⁰⁵ William McGeeveran, *The Trademark Fair Use Reform Act*, 90 B.U. L. REV. 2267, 2273 (2010).

¹⁰⁶ Grinvald, *supra* note 6, at 643.

¹⁰⁷ *Id.* at 655.

¹⁰⁸ *Id.* at 646–47.

¹⁰⁹ *Id.* at 643.

¹¹⁰ See Grinvald, *supra* note 83, at 420–26.

¹¹¹ See William T. Gallagher, *Trademark and Copyright Enforcement in the Shadow of IP Law*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 453, 478 (2012).

¹¹² *Id.*; see Kiser, *supra* note 71, at 223 (paying damages or destroying inventory and investing in a new trademark could likely bankrupt a small business).

¹¹³ Grinvald, *supra* note 6, at 649.

¹¹⁴ See *id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.* at 644.

in connection with goods or services pertaining to business opportunities.¹¹⁷ The problem is that “entrepreneur” is merely descriptive if not generic, so any business should be able to use the word because it describes precisely the goods or services being offered.

As recently as 2015, athletic wear company Under Armour has policed against companies big and small for using the word “armor” in their marks.¹¹⁸ Under Armour’s in-house counsel have “bullied” Body Armor (sports drink company), Salt Armour (fishing apparel firm), and Ass Armor (manufacturer of shock-absorbing snowboarding shorts).¹¹⁹ In waging a trademark war against fledgling family apparel business Armor & Glory, Under Armour claimed the business would dilute and tarnish the famous mark.¹²⁰ However, a dilution claim would likely be unsuccessful, since a business so new and small would bear little similarity and thus little consequence to a famous company.

In 2012, MonsterFishKeepers, an online forum for aquarium hobbyists, received a cease and desist letter from the famous energy drink conglomerate Monster Beverage.¹²¹ Despite occupying distinctively separate markets from its victims’ marks, Monster has vigilantly policed its mark against all uses involving the word “monster,” having filed “more cases than any company in America [in 2015] with the [TTAB].”¹²² Monster’s policing has the unfair effect of freezing competition in the marketplace because “monster” can be used for a wide variety of different products and services.

E. Trademarks and Minority Suppression

Another defective aspect of trademark law is the unequal treatment of “disparaging” marks under the USPTO. The Lanham Act’s disparagement clause denies registration for marks that “may disparage or . . . bring [persons, institutions, beliefs, or national symbols] into contempt, or disrepute.”¹²³ Arbitrary decisions regarding a mark’s social value further discriminate against minorities, who are often owners of small businesses.¹²⁴ While minority-owned businesses have seen an increase over the years,¹²⁵ these businesses are still

¹¹⁷ Amy Zipkin, *Entrepreneurs Must Choose Their Words with Care*, N.Y. TIMES (Oct. 7, 2004), <http://www.nytimes.com/2004/10/07/business/entrepreneurs-must-choose-their-words-with-care.html>.

¹¹⁸ Drew Harwell, *Under Armour is suing pretty much every company using the name ‘Armor’*, THE WASH. POST (Aug. 1, 2015), https://www.washingtonpost.com/news/business/wp/2015/08/19/under-armour-is-suing-pretty-much-every-company-using-the-name-armor/?utm_term=.9d3ec0524844.

¹¹⁹ *Id.*

¹²⁰ *Id.* As of writing, there are no reports of further action between Under Armour and Armor & Glory.

¹²¹ Drew Harwell, *These students took on one of America’s top trademark bullies—and won*, CHI. TRIB. (Mar. 1, 2016, 8:28 AM), <http://www.chicagotribune.com/business/ct-college-students-monster-trademark-20160301-story.html>.

¹²² *Id.* Monster’s other trademark infringement claims include “Beast from the East” for beer (too similar to “Unleash the Beast”), “Monster Kong Nachos” for nachos (use of “monster”), and Dassault Wine Estates (too similar to “Monster Assault”).

¹²³ 15 U.S.C.S. § 1052(a).

¹²⁴ Jules Lichtenstein, *Demographic Characteristics of Business Owners*, SMALL BUS. BULL. (Small Bus. Admin. Office of Advocacy, Wash. D.C.), Jan. 16, 2014, [https://www.sba.gov/sites/default/files/Issue%20Brief%2022,%20Business%20Owner%20Demographics.pdf](https://www.sba.gov/sites/default/files/Issue%20Brief%202022,%20Business%20Owner%20Demographics.pdf).

¹²⁵ *But see id.* (reporting that as of 2012, minority-owned businesses comprised only 15% of the market).

experiencing additional barriers to market entry.¹²⁶

When assessing disparaging marks in trademark applications, the TTAB has openly admitted that the guidelines are “somewhat vague” and determination based on the guidelines is “highly subjective.”¹²⁷ Registrations are so inconsistent and often puzzling that the Federal Circuit Court of Appeals has called these decisions arbitrary.¹²⁸ For example, the mark QUEER GEAR for clothing was successfully registered,¹²⁹ but the mark CLEARLY QUEER for clothing was refused presumably because “queer” is disparaging to the LGBTQ+ community.¹³⁰ HAVE YOU HEARD SATAN IS A REPUBLICAN was refused registration while THE DEVIL IS A DEMOCRAT was granted registration.¹³¹ The Federal Circuit Court even took note of the several trademarks for FAGDOG, which was registered “three times and refused [] twice, at least once as disparaging.”¹³² In addition to being denied registration for attempting to reclaim a derogatory word, applicants must spend more money during the registration process contesting these arbitrary and inconsistent decisions.

The acquisition of trademark rights is inevitably tied to personal empowerment.¹³³ An individual’s right to use the trademark system should not be contingent on economic or social status.¹³⁴ However, when a social norm bars a marginalized individual from seeking those rights, social justice requires that we reevaluate those standards. Implicit in these problems is economic justice—the system blocks marginalized groups from economic opportunity by reinforcing existing socio-economic power imbalances.

F. *The Slants and “Disparaging” Marks*

In *Matal v. Tam*, the Supreme Court of the United States unanimously invalidated the disparagement clause.¹³⁵ Simon Tam of The Slants, an Asian American band, filed a lawsuit against the USPTO following a denial of federal trademark registration for The Slants.¹³⁶ The examiner denied the registration on the grounds that “slants” is a term that disparages persons of Asian descent.¹³⁷

After finding the disparagement clause applied to marks disparaging racial or ethnic groups, the Court entertained three arguments addressed by the government that, if accepted, would exempt the clause from a First Amendment Free Speech Clause analysis.¹³⁸ The Court rejected each of the government’s arguments: (1) trademarks are government speech, (2) trademarks are a form

¹²⁶ *Id.*

¹²⁷ See generally *In re Hershey*, 6 U.S.P.Q.2d 1470, 1471 (T.T.A.B. 1988) (finding “BIG PECKER BRAND” not scandalous as applied to T-shirts).

¹²⁸ *In re Tam*, 808 F.3d 1321, 1342 n.7 (Fed. Cir. 2015).

¹²⁹ QUEER GEAR, Registration No. 1,828,351.

¹³⁰ U.S. Trademark Application Serial No. 76, 132, 003 (filed Sept. 19, 2000).

¹³¹ *Tam*, 808 F.3d at 1342 n.7.

¹³² *Id.*

¹³³ Heimes, *supra* note 3, at 151.

¹³⁴ *Id.* at 167.

¹³⁵ See 137 S. Ct. 1744, 1765 (2017).

¹³⁶ *Id.* at 1747.

¹³⁷ *Id.* at 1751.

¹³⁸ *Id.* at 1757.

government subsidy, and (3) the disparagement clause should be tested under a government-program doctrine.¹³⁹ The Court found the clause to be overbroad, targeting speech that disparaged any and all persons, groups, or institutions.¹⁴⁰

By invalidating the disparagement clause, the Supreme Court implicitly empowered minorities seeking to reclaim and commercially use derogatory slurs related to their identity and history. However, this victory is especially dangerous given the current political and social climate where political and social polarization is common. Absent inquiry into the context of the mark's use, whether for reclamation or not, non-minorities might attempt to trademark slurs that are for actual derogatory use.

Since the Federal Circuit's (and subsequently, the Supreme Court's) decision invalidating the disparagement clause, many have addressed the implications of disparagement disputes in future trademark litigation. In one such note, Zachary O'Driscoll addresses the disparagement clause in the context of sports mascots.¹⁴¹ O'Driscoll provides a comprehensive overview of one of the most controversial trademark disputes in United States sports franchise history: The Washington Redskins.¹⁴² From its initial trademark cancellation¹⁴³ to the recent *Blackhorse* decision,¹⁴⁴ litigation over the Redskins trademark has been protracted.¹⁴⁵

O'Driscoll, although a proponent of free speech rights, appears to have little concern for the appropriation of slurs in everyday advertising. Implicit in his paper is a critique of the public's sensitivity when it comes to political correctness.¹⁴⁶ He further argues that trademarks similar to the Redskins, such as "the Cleveland Indians, the Chicago Blackhawks, the Notre Dame Fighting Irish, the Duke University Blue Devils, the Capital University Crusaders, and the Wake Forest Demon Deacons" have a new lifeline as a result of The Slants decision.¹⁴⁷

The standard for disparagement has always been inconsistent because the USPTO's decision on any particular trademark is subject to a single trademark examiner's opinion and personal knowledge. A solution to reinstate the disparagement clause would be disclosure of the "potential for disparagement to the examining attorney so that the attorney's own personal knowledge of such disparaging terms becomes less important."¹⁴⁸ If the idea of granting trademark

¹³⁹ See *id.* at 1757–63.

¹⁴⁰ *Id.* ("It is not an anti-discrimination clause; it is a happy-talk clause.")

¹⁴¹ See Zachary S. O'Driscoll, Note, *The Mascot Manifesto: Challenging the Constitutionality of Section 2(a) of the Lanham Act in a Heightened Era of Political Correctness*, 45 *CAR. U. L. REV.* 161, 165–66 (2017).

¹⁴² *Id.* at 166–67.

¹⁴³ See *Harjo v. Pro-Football, Inc.*, 50 U.S.P.Q.2d 1705 (T.T.A.B. 1999); see *Blackhorse v. Pro-Football, Inc.*, 111 U.S.P.Q.2d 1080 (T.T.A.B. 2014).

¹⁴⁴ See *Pro-Football, Inc. v. Blackhorse*, 112 F. Supp. 3d 439 (E.D. Va. 2015).

¹⁴⁵ The Supreme Court's decision in *Matal v. Tam* would overturn most of the precedent relied on by the district court in the Redskins litigation.

¹⁴⁶ O'Driscoll, *supra* note 141, at 161 ("Today, Americans continue to misconstrue their constitutional liberties with a 'right' to never be offended and, consequently, every word, thought, phrase, or behavior has to be scrutinized with a fine-toothed comb.")

¹⁴⁷ *Id.* at 196.

¹⁴⁸ Jessica M. Kiser, *How Dykes on Bikes Got It Right: Procedural Inequities Inherent in the Trademark Office's Review of Disparaging Trademarks*, 46 *U.S.F. L. REV.* 1, 29–30 (2011).

registrations to “disparaging” marks is too detestable, a narrowly tailored disparagement clause where the examiner inquires into the applicant’s identity and relation to the term might be more effective.¹⁴⁹ For example, Asian Americans reclaiming The Slants as a derogatory term should be entitled to registration, but a registration of The Slants by a non-Asian band serves no reclamation purpose and should be denied.

Nothing stops a business from continuing to use a mark that the trademark examiner refuses on the basis of disparagement.¹⁵⁰ The Supreme Court noted that The Slants could still use the mark in commerce; they would just lack the ability to seek remedies under federal trademark law for infringement.¹⁵¹ Nevertheless, the government should not evaluate a mark’s disparaging nature, but rather objectively evaluate the mark’s eligibility for trademark protection. In order to promote a free-flowing marketplace, disparagement assessment should be left to the public, since consumers are more likely to patronize businesses they deem socially and morally acceptable.

III. CREATING HAVES OUT OF HAVE-NOTS

Current trademark law ensures that small businesses are effectively excluded from the trademark system, but this section provides some avenues to equalize these imbalances.

A. Trademark Law Reform

A sweeping solution to empower marginalized businesses is to reform the trademark system itself. One such reform would be to alter the jurisprudence surrounding trademark litigation. Courts could rein in this expansion of rights if they assess trademark rights based merely on trademark theory.¹⁵² “Vigorous application of the old rules” would freeze the continual expansion of trademark rights from an economic principle to personal property interests.¹⁵³ For example, some academics suggest limiting the likelihood of confusion inquiry, where courts could “declare legally irrelevant any form of confusion other than confusion regarding the actual source of a product.”¹⁵⁴

In line with scaling back the various rights trademark law has historically afforded trademark owners, another reform would be purging the existing trademark register.¹⁵⁵ Intent-to-use applications—applications filed prior to actual

¹⁴⁹ Carpenter, *supra* note 68, at 475 (“If a trademark applicant is a member of a traditionally disparaged group and is reappropriating a particular term toward the ends of social justice and empowerment, the applicant’s identity may be relevant to an evaluation of disparagement.”).

¹⁵⁰ K.J. Greene, *Trademark Law and Racial Subordination: From Marketing of Stereotypes to Norms of Authorship*, 58 SYRACUSE L. REV. 431, 433 (2008).

¹⁵¹ *Tam*, 137 S. Ct. at 1762. The Slants often lost opportunities to perform because of their “disparaging” name.

¹⁵² Lemley, *supra* note 4, at 1713.

¹⁵³ *See id.* at 1714 (arguing against the propertization of trademarks).

¹⁵⁴ McGeveran, *supra* note 45, at 300.

¹⁵⁵ *See* Rebecca Tushnet, *Registering Disagreement: Registration in Modern American Trademark Law*, 130 HARV. L. REV. 867, 918 (2017).

use in the marketplace—should have more stringent requirements because almost half of all approved intent-to-use applications are never completed.¹⁵⁶ Owners of intent-to-use applications can still assert their legal rights against applications for similar marks.¹⁵⁷ Applications should require higher evidentiary burdens for proving secondary meaning, since current laws provide an arbitrary division between descriptive and suggestive marks.¹⁵⁸ Only fanciful and arbitrary marks should be inherently distinctive.¹⁵⁹ This will decrease oppositions for descriptive marks since the application will already contain ample evidence for rebuttal.

Adding a trademark misuse claim that parallels copyright misuse can also help minimize trademark bullying, since small businesses would have the ability to countersue and recover statutory damages.¹⁶⁰ Both Australia¹⁶¹ and the United Kingdom¹⁶² provide victims with a substantive right of action against trademark bullies.¹⁶³ The victim need only allege “that a relevant threat has been made, that the person threatened is ‘a person aggrieved,’ and . . . that the threat is unjustified.”¹⁶⁴ Modeling a statutory provision would not be difficult, as misuse language is available from foreign jurisdictions and United States copyright laws.¹⁶⁵

B. Trademark Shaming

Absent trademark misuse, trademark shaming is a solution to ward off trademark bullies.¹⁶⁶ Shaming operates through “public perception and seeks to trigger another person’s shame or inflict reputation-based punishment.”¹⁶⁷ In a system that grants trademark registrations arbitrarily while simultaneously failing to provide adequate legal remedies for infringement harassment, small businesses can turn to social media and the local community to fight back against trademark bullies.¹⁶⁸

To successfully shame a trademark bully, Grinvald suggests at least four mandatory conditions: (1) the target is vulnerable to shaming, (2) the community shares in the norms transgressed by the target, (3) the community includes an overlap between the target’s consumers and the shamer’s consumers, and

¹⁵⁶ *Id.* (These marks are “practically unavailable . . . but they are nonetheless capable of creating legal rights and thus block market entry.”).

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 922.

¹⁵⁹ *Id.*

¹⁶⁰ See *Assessment Techs.*, 350 F.3d at 647.

¹⁶¹ *Trade Marks Act 1995* (Cth) s 129 (Austl.).

¹⁶² *Trade Marks Act 1994*, c. 26, § 21 (Eng.).

¹⁶³ Andrzejewski, *supra* note 100, at 140–41.

¹⁶⁴ *Id.*

¹⁶⁵ See generally Anthony James Dispoto, Comment, *Protecting Small Businesses Against Trademark Bullying: Creating a Federal Law to Remove the Disparity of Leverage Trademark Holders Maintain Over Small Businesses*, 16 SAN DIEGO INT’L L.J. 457, 495–97 (2015) (proposing POLTA (“Prevention of Overreach Through Litigation Tactics Act”), which creates liability for trademark holders that send meritless cease and desist letters).

¹⁶⁶ Grinvald, *supra* note 6, at 664.

¹⁶⁷ See Elizabeth L. Rosenblatt, *Fear and Loathing: Shame, Shaming, and Intellectual Property*, 63 DEPAUL L. REV. 1, 8–12 (2013).

¹⁶⁸ *Id.*

(4) the shamer has credibility in the community.¹⁶⁹ These factors ensure shaming will negatively affect the target; an absence of any of the factors means the target will either be impervious to shaming or the shaming will never materialize.¹⁷⁰ However, larger and well-known companies are often sensitive to public shaming because they know consumers like to patronize businesses of which they approve.¹⁷¹

Shaming is an effective method to fight trademark bullies because it is a cost-effective alternative to litigation.¹⁷² Small businesses may lack the benefits of legal counsel and financial resources to defend themselves,¹⁷³ but shaming is available to anyone with a credible business and an Internet connection.¹⁷⁴ Because of today's social media prevalence, trademark shaming is often a viable option.¹⁷⁵ A business can mobilize the community "simply through 'tweeting' about receiving the cease-and-desist letter."¹⁷⁶ Social media ensures that if the particular bullying is egregious enough, media outlets will report the story.¹⁷⁷

A 2014 trademark dispute between bicycle behemoth Specialized Bicycle Components Inc. and small Canadian bicycle shop Roubaix illustrates this phenomenon.¹⁷⁸ The Internet immediately rushed to Roubaix's aid when it received a cease and desist letter from Specialized.¹⁷⁹ The merits of the infringement claim were irrelevant, as "support for [Roubaix] was so overwhelming, and condemnation of Specialized so swift."¹⁸⁰ Specialized was quick to withdraw its cease and desist letter and issue an apology.¹⁸¹ This story demonstrates the importance of a shamer's credibility in a community, since the Internet would not have mobilized unless Roubaix was a hard-working and respectable business.

However, some disadvantages include the potential for shaming to be ineffective and for small businesses to abuse the shaming process.¹⁸² As discussed above, if any of the above elements are absent, shaming will be wholly ineffective.¹⁸³ Shaming also opens the door for small businesses to respond to every cease and desist letter by attempting to shame the sender.¹⁸⁴ For example, if Roubaix in the above dispute had maliciously infringed Specialized's trademark, mobilizing the community to shame Specialized would have been im-

¹⁶⁹Grinvald, *supra* note 6, at 666–67.

¹⁷⁰*See id.* at 666–68.

¹⁷¹Rosenblatt, *supra* note 167, at 12–13.

¹⁷²Grinvald, *supra* note 6, at 676.

¹⁷³*Id.* at 677.

¹⁷⁴REBECCA M. BLANK & LAWRENCE E. STRICKLING, U.S. DEP'T OF COMMERCE, EXPLORING THE DIGITAL NATION: HOME BROADBAND INTERNET ADOPTION IN THE UNITED STATES 5 (2010).

¹⁷⁵*See* Brian Thompson, *Social Media Can End David-Vs.-Goliath Trademark Cases*, LAW360 (Jan. 29, 2014), <https://www.law360.com/articles/497938/social-media-can-end-david-vs-goliath-trademark-cases>.

¹⁷⁶Grinvald, *supra* note 6, at 677.

¹⁷⁷LON SAFKO, THE SOCIAL MEDIA BIBLE: TACTICS, TOOLS, AND STRATEGIES FOR BUSINESS SUCCESS 269 (2d ed. 2010).

¹⁷⁸Thompson, *supra* note 175.

¹⁷⁹*Id.*

¹⁸⁰*Id.*

¹⁸¹*Id.*

¹⁸²Grinvald, *supra* note 6, at 679.

¹⁸³*Id.*; *see* Rosenblatt, *supra* note 167, at 8–12 ("[F]irms may brush [shaming attempts] off if they don't perceive the 'public' as significant enough to affect profits.")

¹⁸⁴Grinvald, *supra* note 6, at 680–81.

proper. If actual trademark infringement exists, it is the small business's duty to comply. Overzealous shaming that attempts to expand the rights of the small business would lower the credibility of the business in the community and create a negative social perception around trademark shaming.

C. *Corporate and Professional Responsibility*

While small businesses recognize their legal rights in the light of unfair trademark enforcement, large companies should engage in corporate social responsibility. The goodwill a large company builds into its trademarks is not only beneficial for marketing innovations and economic opportunity, but also for the wellbeing of its consumers.¹⁸⁵ After all, the blanket policy rationale for trademark law is to protect consumers from fraud. If large companies are able to engage in corporate social responsibility for its consumers and its innovations, they should also extend this responsibility to its competitors.

In order to effectuate healthy competition, large companies should offer other options to alleged trademark infringers, "such as a co-existence agreement, a licensing agreement, or mediation."¹⁸⁶ If large companies that own famous trademarks can be inspired to consider the plight of the economically disadvantaged, the social good the companies bring would benefit their trademarks' statuses in likelihood of confusion or dilution claims.¹⁸⁷ Mindfulness of the ethical implications in trademark law would serve a top-down effect, inspiring good competition and business practices in mid-size and small businesses and socially beneficial behaviors in consumers.¹⁸⁸ The consumers' abilities to associate ethical and economic considerations with brands would create space to critically ponder and evaluate social issues.¹⁸⁹

As legal representatives of large corporations, in-house counsel should be mindful of their ethical obligations in practice. Counsel should encourage legal integrity before sending abusive cease and desist letters.¹⁹⁰ Over-enforcing rights could subject counsel to sanctions for bringing a frivolous lawsuit.¹⁹¹ The clear limitation is cease and desist letters exist outside the judicial system, so Rule 11 for sanctions only applies once litigation occurs.¹⁹² Attorneys, however, have a duty to create an understanding that although the rules are vague as to application, the rules should prohibit abusive cease and desist letters and unnecessary trademark policing.¹⁹³

¹⁸⁵ See Margaret Chon, *Trademark Goodwill as a Public Good: Brands and Innovations in Corporate Social Responsibility*, 21 LEWIS & CLARK L. REV. 277, 282 (2017).

¹⁸⁶ Grinvald, *supra* note 6, at 646.

¹⁸⁷ Haochen Sun, *Living Together in One Civilized World; How Luxury Companies and Consumers Can Fulfill Their Ethical Responsibilities to the Poor*, 47 U.C. DAVIS L. REV. 547, 565 (2013).

¹⁸⁸ *Id.* at 576.

¹⁸⁹ *Id.* at 577.

¹⁹⁰ Grinvald, *supra* note 83, at 438; MODEL RULES OF PROF'L CONDUCT r. 3.1 (2013) ("A lawyer shall not bring or defend a proceeding, or assert or controvert an issue therein, unless there is a basis in law and fact for doing so that is not frivolous, which includes a good faith argument for an extension, modification, or reversal of existing law.").

¹⁹¹ FED. R. CIV. P. 11.

¹⁹² Grinvald, *supra* note 83, at 439.

¹⁹³ *Id.*

D. Supporting Small Businesses

The seemingly simple solution to help minimize trouble for small businesses is educational outreach.¹⁹⁴ Making “know your intellectual property rights” panels and resources widely available and tailored for small businesses will disseminate trademark basics, such as legal trademark jargon, foreseeable kinks in the registration process, and what to do after receiving a cease and desist letter. Normalizing early-stage business strategies for trademarks, including name selection and registration, can significantly help reduce future risks.¹⁹⁵ Attorneys should prioritize cutting down costs for small businesses, such as helping select a highly distinctive mark to optimize protection and minimize risk of litigation.¹⁹⁶

Pro bono services encourage businesses to seek appropriate legal help. In the case of Monster’s trademark infringement claim against MonsterFishKeepers, the applicant sought assistance from Suffolk University Law School’s Intellectual Property & Entrepreneurship Clinic, where students fought the energy drink conglomerate and eventually won.¹⁹⁷ The TTAB rejected Monster’s opposition to MonsterFishKeepers’s trademark registration.¹⁹⁸

Another approach is to enlighten business owners about cases where small businesses like them went after large companies or fought back against unmeritorious trademark infringement claims. Recent reports of trademark cases include the Unicorn Frappuccino,¹⁹⁹ Food for Thought (Chipotle and Huffington Post’s joint food blog),²⁰⁰ and ViceVersa’s dispute with Vice Media.²⁰¹ The one caveat is because many of these infringement cases settle, conclusive evidence of lawsuit success is difficult to demonstrate.

In *Dreamwerks Production Group v. SKG Studio*, a small Florida company, whose trademark registration for Dreamwerks preceded that of entertainment colossus DreamWorks by four years, brought a trademark infringement suit based on actual consumer confusion.²⁰² Following a likelihood of confusion analysis using the *Sleekcraft* factors,²⁰³ the court reversed the lower court’s holding that Dreamwerks failed to state a claim and thus could not overcome a mo-

¹⁹⁴ Leah Chan Grinvald, *Resolving the IP Disconnect for Small Businesses*, 95 MARQ. L. REV. 1491, 1548 (2012).

¹⁹⁵ Herdrich, *supra* note 88, at 170.

¹⁹⁶ *Id.* at 157.

¹⁹⁷ Harwell, *supra* note 121.

¹⁹⁸ *Id.*

¹⁹⁹ See Starbucks Unicorn Frappuccino slammed by lawsuit, CBS NEWS (May 5, 2017, 11:32 AM), <https://www.cbsnews.com/news/starbucks-unicorn-frappuccino-slammed-by-lawsuit/> (reporting Brooklyn café The End’s lawsuit against Starbucks’s Unicorn Frappuccino for infringing its Unicorn Latte, which The End submitted for trademark registration in January 2017).

²⁰⁰ See *A David vs. Goliath Tale of Trademark Infringement: Did Huffington Post and Chipotle Deliberately Use a Trademarked Name?*, FOOD FOR THOUGHT, <https://foodforthought.net/a-david-vs-goliath-tale-of-trademark-infringement-did-huffington-post-and-chipotle-deliberately-use-a-trademarked-name/> (last visited Nov. 6, 2017) (describing “a new blog launched . . . on the Huffington Post site that uses the same name, and a strikingly similar logo, as [Timothy] Young’s Food for Thought”).

²⁰¹ See Kandel, *supra* note 93.

²⁰² See 142 F.3d 1127, 1129 (9th Cir. 1998).

²⁰³ First used in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979), these factors are: (1) strength of the mark; (2) proximity or relatedness of the goods; (3) similarity of sight, sound, and meaning; (4) evidence of actual confusion; (5) marketing channels; (6) type of goods and purchaser care; (7) intent; and (8) likelihood of expansion.

tion for summary judgment.²⁰⁴ The Ninth Circuit Court of Appeals refused to acknowledge DreamWorks as the entertainment colossus it is, instead chiding the company's counsel for not conducting a diligent search of the mark, which would have revealed that the registration for Dreamwerks existed.²⁰⁵

Informing small businesses they are able to assert their rights and are entitled to fair judgment is a surefire step to give small businesses the confidence they need to appreciate the power a trademark registration holds.

CONCLUSION

Modern day trademark law is rife with defects that continue to disadvantage marginalized groups. A system meant to protect consumers has become a turf war of possessory rights, where large companies employ their financial resources to suppress those who cannot afford to maintain these rights. However, trademark law should apply equally to all businesses and rightsholders because the law should protect intellectual property interests regardless of economic disposition. In our free-flowing marketplace, respect for other rightsholders ensures trademark law returns to the basic concept of protecting consumers from fraud and counterfeit. Economic opportunity, while important, should come second to promoting good business practices in the marketplace. Scaling back the rights and emphasizing trademark law's holistic goals is the only way to equalize the playing field, whether a small business or a large company, marginalized or not.

²⁰⁴*Dreamwerks*, 142 F.3d at 1129.

²⁰⁵*Id.* at 1132.

Taking Patent Rights: Sovereign Immunity & the Fourteenth Amendment in Patent Validity & Inventorship Challenges

*Connor J. Hansen**

Contents

I.	INTRODUCTION	620
II.	THE ENTITLEMENT TO PATENT RIGHTS, THE PROCESS OF OBTAINING THEM & THE PROCESSES FOR CHALLENGING GRANTED PATENTS	623
A.	<i>Obtaining & Owning Patent Rights: Proving Statutory Minimum Standards & Assigning Patent Rights</i>	624
B.	<i>Challenging Patents: Federal Court & PTO Procedures</i>	625
1.	<i>Actions in Federal Court</i>	626
2.	<i>Actions at the PTO</i>	629
C.	<i>Use of Sovereign Immunity in Patent Challenging Procedures</i>	630
III.	USING SOVEREIGN IMMUNITY TO AVOID PATENT VALIDITY & OWNERSHIP CHALLENGES AMOUNTS TO A TAKING OF THE PATENT RIGHTS	632
A.	<i>Patent Rights and the Entitlement Thereto Are Constitutionally Protected Property</i>	632
B.	<i>Sovereign Ownership of Invalid Patents Amounts to an Unconstitutional Taking With Respect to Those with Direct or Competing Interest in the Subject Matter of the Sovereign Patent</i>	635

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1.	Per Se Takings: Cases Brought by Parties with a Direct Ownership Interest in the Sovereign Patent	635
2.	Regulatory Takings: Cases Brought by Parties with Interests in Competing Patent Rights	638
IV.	ALLOWING THE USE OF SOVEREIGN IMMUNITY IN PATENT VALIDITY OR INVENTORSHIP CHALLENGES LEAVES NO SOURCE OF CONSTITUTIONALLY REQUIRED REMEDIES FOR THE TAKING	643
A.	<i>Actions in Federal Court and Challenges at the PTO are the Only Sources of the Required Remedy</i>	643
1.	State Forums Lack Jurisdiction Over Patent Validity and Inventorship Challenges	644
2.	There Are No State Law Remedies That Do Not Necessarily Raise Federal Patent Law	644
B.	<i>Parties Who Have Had Their Patent Rights Taken Have No Means of Avoiding Immunity Under Existing Law</i>	646
1.	The Sovereign is an Indispensable Party Without Whom the Patent Validity or Inventorship Challenge May Not Proceed	647
2.	Traditional Exceptions to Sovereign Immunity Do Not Apply To Patent Validity & Inventorship Challenges	648
	<i>a. Officer Suits under Ex Part Young Are Not Available</i>	648
	<i>b. Patent Validity Challenges are Not In Rem</i>	651
3.	Participation in the Patent System Does Not Waive Immunity	651
C.	<i>Sovereign Immunity Should not be Available in Patent Validity and Inventorship Challenges Brought By Parties With a Takings Claim</i>	653
1.	Non-Sovereign Parties Must Risk Infringement Before Being Able to Address the Taking, With No Guarantee That the Sovereign Will Ever Initiate Litigation	653
2.	Sovereign Maintenance of An Unwarranted Monopoly Has Detrimental Economic Effects	654
V.	CONCLUSION	655

I. INTRODUCTION

The Fourteenth Amendment provides that “No State shall . . . deprive any person of . . . property without due process of law”¹ and has been interpreted to incorporate the Takings Clause of the Fifth Amendment:² “nor shall private

¹U.S. CONST., Amend. XIV.

²See, e.g., *Chi., Burlington & Quincy R.R. Co. v. City of Chicago*, 166 U.S. 226, 241 (1897).

property be taken for public use, without just compensation.”³ Collectively, the Fourteenth Amendment and the Takings Clause, prohibit a state from depriving property owners of all economically beneficial use of their property without providing compensation for that deprivation.⁴

A patent “confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more that it can appropriate or use without compensation land which has been patented to a private purchaser.”⁵ Patent rights “fall squarely within both classical and judicial definitions of protectable property” that may be taken.⁶ This is largely because the right to exclude others concomitant with patent rights is “one of the most essential sticks in the bundle of rights that are commonly characterized as property.”⁷ When a sovereign owns an invalid patent or a patent to which it is not entitled, it has the right to exclude all others, even those who are the rightful owner of the patent or those who developed the prior art that would render the patent invalid, from practicing the claimed innovation. Other parties are also precluded from obtaining patent rights for the subject matter encompassed in the sovereign patent. The state has effectively appropriated from those parties the entire bundle of exclusionary rights conferred by a patent.

Yet, sovereign entities are able to assert immunity from federal actions challenging the validity or inventorship of the patent. The doctrine of sovereign immunity is embodied in the Eleventh Amendment: “The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.”⁸ The Eleventh Amendment has consistently been held to prohibit *any* suit against an unconsenting sovereign in federal courts⁹ or in administrative proceedings that are

³U.S. CONST., Amend. XIV.

⁴See *Lucas v. S.C. Coastal Council*, 505 U.S. 1003, 1017, 1030 (1992).

⁵*Horne v. Dep’t of Agric.*, 576 U.S. ___, No. 14-275, slip op. 6 (June 22, 2015) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)).

⁶*Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985).

⁷*Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979).

⁸U.S. CONST., Amend. XI. The Eleventh Amendment was ratified in 1789 in response to *Chisholm v. Georgia*, wherein the Supreme Court held that Georgia was not immune from suit brought by two South Carolinians, in federal court, to recover a debt. 2 U.S. (2 Dall.) 419, (1793). The *Chisholm* court interpreted the language of Article III, § 2 of the constitution to expressly allow the suit to proceed in federal court because it was one “between a state and citizens of another state.” *Id.* at 432. “[*Chisholm*] created such a shock of surprise throughout the country that, at the first meeting of congress thereafter, the eleventh amendment to the constitution was almost unanimously proposed, and was in due course adopted” *Hans v. Louisiana*, 134 U.S. 1, 11 (1890).

⁹*E.g.*, *In Re State of New York*, 256 U.S. 490, (1921) (“[I]t has become established by repeated decision of this court that the entire judicial power . . . does not embrace authority to entertain a suit brought by private parties against a state without consent given”). There are at least two additional theories for interpreting the Eleventh Amendment that are not as broad as this “official theory.” See generally Erwin Chemerinsky, *State Sovereignty and Federal Court Power: The Eleventh Amendment after Pennhurst v. Halderman*, 12 HASTINGS CONST. L. Q. 647–52 (discussing three theories of interpreting the Eleventh Amendment). The first is the “literal theory,” which argues that the states relinquished their sovereignty when joining the union and the Eleventh Amendment contains the only circumstances under which a state is immune, namely when the case is brought by a non-state citizen. See, e.g., *Employees of Dep’t of Pub. Health & Welfare v. Dep’t of Pub. Health & Welfare*, 411 U.S. 279, 313 (1973) (Brennan, J., dissenting). The second, and the one the author happens to agree with, is the “diversity theory,” which states that sovereign immunity does not bar suits for which federal jurisdiction is based on an issue of federal law but prohibits cases premised on diversity jurisdiction. See, e.g., *Atascadero State Hospital*

sufficiently similar to federal court adjudication.¹⁰ “The preeminent purpose of state sovereign immunity is to accord States the dignity that is consistent with their status as sovereign entities.”¹¹ In effect, it is the state treasury that is immune and in any suit that “is in essence one for the recovery of money from the state, the state is the real, substantial party in interest and is entitled to invoke its sovereign immunity.”¹² This means agencies, public universities, and other sovereign entities are able to assert immunity.¹³

Sovereign entities have used their immunity to avoid patent validity and inventorship challenges in federal court and administrative proceedings before the Patent and Trademark Office (PTO). When sovereign immunity is so used, patents that might otherwise be invalidated for failure to meet statutory requirements of patentability are allowed to remain in force, which stifles competition and creates anticompetitive conditions contrary to general principles of the free market economy. Even more bothersome, sovereign immunity allows sovereigns to retain ownership of patent rights that would otherwise be granted to private parties or that preclude full exploitation of a private party’s competing patent rights. These private parties have been deprived of their constitutionally protected patent rights in contravention of the Takings Clause but are precluded from obtaining constitutionally mandated just compensation due to the use of sovereign immunity to avoid the only proceedings that can provide those required remedies.

This Article argues that sovereign immunity should not and cannot be used to deny access to the only sources of compensation for a party with an interest in a sovereign-owned patent. It begins by outlining the general principles behind U.S. patent law including: the requirements for obtaining a patent, how sovereigns obtain patent rights, the ways in which an individual can challenge the validity or inventorship of a patent, and use of sovereign immunity to avoid such challenges. Next, this Article shows that use of immunity amounts to a taking of property under established principles of the Takings Clause jurisprudence. Finally, this Article argues that states are abdicating their constitutional duty to provide just compensation for taking property rights from individuals by using sovereign immunity to avoid patent challenges and should be prohibited from doing so because there are no alternative means for the individuals to obtain compensation.

v. Scanlon, 473 U.S. 234, 259–63 (Brennan, Marshall, Blackmun, and Stevens, JJ., dissenting). For purposes of this Article, it is taken as a fact that the “official theory” governs and no private party may bring a suit against a sovereign without its consent.

¹⁰ See Fed. Mar. Comm’n v. S.C. State Port Auth., 535 U.S. 743, 745 (2002).

¹¹ *Id.* at 760 (2002) (citing *In re Ayers*, 123 U.S. 443, 505 (1887)).

¹² *Ford Motor Co. v. Dep’t of Treasury of Ind.*, 323 U.S. 459, 464 (1945).

¹³ See *id.*

II. THE ENTITLEMENT TO PATENT RIGHTS, THE PROCESS OF OBTAINING THEM & THE PROCESSES FOR CHALLENGING GRANTED PATENTS

A patent grants the owner “the right to exclude others from making, using, offering for sale, or selling the invention” claimed in the patent.¹⁴ A patent does not confer an affirmative right to practice the patented invention;¹⁵ rather, the entire “bundle of rights” embodied in patents is “an implementation of . . . exclusivity.”¹⁶ During the term of a patent, the patent owner may bring an infringement action against any party who practices the exclusive patent rights without authorization of the patent owner.¹⁷

Patents are intended to incentivize innovation by granting inventors a limited monopoly, during which the inventor can recover his or her investment that led to the innovation.¹⁸ Monopolies granted by patent law are “at odds with the inherent free nature of disclosed ideas — and are not to be freely given”¹⁹ but inventors are entitled to receive patent protection if they satisfy all of the requirements of the patent laws.²⁰ A “carefully crafted” system exists to balance the “interest in motivating innovation” with the “interest in avoiding monopolies that unnecessarily stifle competition.”²¹ Several substantive and procedural safeguards, including the statutory requirements for obtaining patent rights and the system for challenging granted patents, ensure that unwarranted monopolies are not maintained and that ideas in the public domain remain free for use by all.²²

¹⁴35 U.S.C. § 154(a) (2012).

¹⁵See generally *Vaupel Textilmaschinen KG v. Meccanica Euro Italia, SPA*, 944 F.2d 870, 879 n. 4 (Fed. Cir. 1991) (“It is elementary that a patent grants only the right to exclude others and confers no right on its holder to make, use, or sell.”); *energy Security of Am. Corp. v. United States*, 86 Fed. Cl. 554, 563 (Fed. Cl. 2009) (“[P]atents convey the right of exclusivity; they do not offer any assurance that the patentee will in fact be able to make, use, or sell the invention.”).

¹⁶*Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985).

¹⁷35 U.S.C. § 271(a); see *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484 (1964) (“[I]t has often and clearly been held that unauthorized use, without more, constitutes infringement.”).

¹⁸See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) (“The federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.”). In exchange for this monopoly, the inventor must fully disclose how to make or use the patented innovation. See 35 U.S.C. § 112. The public immediately benefits from the disclosure as they are able to learn from and build upon the disclosed innovation. The disclosure also enables the public to practice the patented innovation after the term of the monopoly has ended, after which the innovation is committed to the public domain. E.g., *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (“[The patent system] promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires . . .”).

¹⁹*Graham v. John Deere*, 383 US 1, 9 (1966).

²⁰See *James v. Campbell*, 104 U.S. 356, 356 (1881) (“[T]he grantee [of a patent] is entitled to it as a matter of right, and does not receive it . . . as a matter of grace and favor.”);

²¹*Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

²²See *Aronson*, 440 U.S. at 262 (“[T]he stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.”).

A. *Obtaining & Owning Patent Rights: Proving Statutory Minimum Standards & Assigning Patent Rights*

The Intellectual Property Clause²³ limits Congressional power to ensure that certain protections are incorporated into any patent system that Congress may choose to implement:²⁴

Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must “promote the Progress of . . . useful Arts.” This is the *standard* expressed in the Constitution and it may not be ignored.²⁵

These constitutionally required standards are currently embodied in the novelty and non-obviousness requirements of Sections 102 and 103 of the patent laws.²⁶ Section 102 prohibits granting patent rights for anything that was previously “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public.”²⁷ Section 103 prohibits granting patent rights “if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious . . . to a person having ordinary skill in the art.”²⁸

A party seeking a patent has the burden of proving to the United States Patent and Trademark Office (PTO) that his or her invention is both novel and non-obvious.²⁹ The application process—called patent prosecution—takes several months to complete and involves extensive negotiations between the applicant and an examiner at the PTO through a series of office actions and responses thereto.³⁰ If the statutory minimums are met, the applicant is “entitled to a patent as a matter of right” and the PTO *must* grant it.³¹ Granted patents are presumed valid, but they may be invalidated by a showing that the patent does

²³The Intellectual Property Clause of the Constitution authorizes Congress “to Promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries.” U.S. CONST., art. I, § 8, cl. 8.

²⁴*Graham*, 383 U.S. at 5–6 (characterizing the Intellectual Property Clause as “both a grant of power and a limitation” to the stated purpose of promoting the useful arts).

²⁵*Id.*

²⁶See 35 U.S.C. §§ 102, 103 (2012).

²⁷*Id.* § 102.

²⁸*Id.* § 103.

²⁹There are a number of other requirements a party must satisfy that are not important to this Article. See, e.g., *id.* § 101, 112 (defining patentable subject matter and the disclosure requirements).

³⁰*Id.* § 132(a) (“Whenever, on examination, any claim for a patent is rejected, or any objection or requirement made, the Director shall notify the applicant thereof, stating the reasons for such rejection, or objection or requirement, together with such information and references as may be useful in judging of the propriety of continuing the prosecution of the application . . .”); *id.* § 133 (allowing six months for an applicant to respond to an office action or let the application go abandoned).

³¹See *id.* § 131 (“[T]he Director [of the USPTO] shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefore.”); *James v. Campbell*, 104 U.S. 356, 356 (1881) (“[T]he grantee [of a patent] is entitled to it as a matter of right, and does not receive it . . . as a matter of grace and favor.”); *Tafas v. Doll*, 559 F.3d 1345, 1364 (Fed. Cir. 2009) (citing 35 U.S.C. § 102) (“[T]he applicant will be “entitled to a patent unless” the examiner can make a prima facie case of unpatentability.”).

not satisfy the patentability requirements or was issued to the wrong party.³²

Typically, the applicant for a patent is the inventor of the claimed technology, but entities, are allowed to file applications on behalf of inventors who are associated with the entities.³³ A patent is issued to, and initial ownership of the patent vests in, the applicant of the patent.³⁴ The Bayh-Dole Act authorizes state entities to apply for patents derived from federally funded research, subject to several limitations.³⁵ If a sovereign entity files a patent application pursuant to the Bayh-Doyle Act or on the behalf of state-employed inventors, ownership of the patent vests in the state entity. Sovereign entities may also obtain ownership by assignment. Patentees are free to license their patent rights and if they transfer “all substantial rights” to another, they effectively assign their entire interest in the patent.³⁶ Sovereign employees, including professors and researchers at public universities, are often required to assign their patent interests to their sovereign employer.³⁷ Sovereign entities are also free to acquire and contract for patent assignments on the open market and have expressed more interests in doing so.³⁸ There are several reasons a sovereign entity may wish to acquire a patent—and why a patentee may wish to assign his or her patent rights to a sovereign entity—but one motivating factor may be that patent becomes immune from validity and ownership challenges if owned by a sovereign entity.³⁹

B. Challenging Patents: Federal Court & PTO Procedures

“[A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market” and the public has “a paramount interest in seeing that patent monopolies . . . are kept within their legitimate

³² See 35 U.S.C. § 282; see also *supra* Section II.B.

³³ See Bayh-Dole Act, Pub. L. No 96-517 (1980).

³⁴ For applications filed prior to September 16, 2012, ownership vested in the named inventors, see *Beech Aircraft Corp. v. EDO Corp.*, 990 F.2d 1237, 1248 (Fed. Cir. 1993), after September 16, 2012, ownership vests in the party who filed the patent application. See 37 C.F.R. 3.73(a) (2017).

³⁵ Bayh-Dole Act, Pub. L. No 96-517 (1980); David M. Kettner & William J. Decker, *Fundamentals of Technology Transfer & Intellectual Property Licensing*, NAT'L ASS'N C. & U. ATT'YS (2004).

³⁶ See 35 U.S.C. § 261 (2012); *Speedplay, Inc. v. Bebop, Inc.*, 211 F.3d 1245, 1250 (Fed. Cir. 2000) (“A party that has been granted all substantial rights under the patent is considered the owner regardless of how the parties characterize the transaction that conveyed those rights.”).

³⁷ See, e.g., *Chou v. Univ. of Chicago*, 254 F.3d 1347, 1356–57 (Fed. Cir. 2001) (explaining that the Faculty Handbook of the University of Chicago obligates its employees to assign all patent rights to the University); Kettner & Decker, *supra* note 35 (referencing the standard agreement that the Wisconsin Alumni Research Foundation enters into with employees of the University of Wisconsin system).

³⁸ See generally *Xechem Int'l, Inc. v. Univ. Tex. M.D. Anderson Cancer Ctr.*, 382 F.3d 1324, 1335 (Fed. Cir. 2004) (Newman, J., additional views) (noting that “there is an increasing urgency” to determine the scope of sovereign immunity in patent law “as the states enter the private competitive arena governed by the laws of intellectual property”)

³⁹ A Native American tribe has recently been accused of using their sovereign immunity as a bargaining chip in lucrative patent assignment and licensing deals with a pharmaceutical company. See generally Audrey A. Millemann, *Can Patent Owners Buy Sovereign Immunity?*, The IP Blog (Oct. 26, 2017) <https://www.theiplawblog.com/2017/10/articles/patent-law/can-patent-owners-buy-sovereign-immunity/> (describing the facts of the case). There is a bill in Congress that would abrogate tribal immunity from IPRs to curtail the effects of this loophole. S. 1948, 115th Cong. (2017). For an analysis of the competitive harms of marketing sovereign immunity see Cecilia (Yici) Cheng & Theodore T. Lee, *When Patents Are Sovereigns: The Competitive Harms of Leasing Tribal Immunity*, 127 YALE L.J. F. 848 (2018), <http://www.yalelawjournal.org/forum/when-patents-are-sovereigns>.

scope.”⁴⁰ Allowing an entity to maintain, license, practice, and assert an invalid patent leads to severe anticompetitive effects; the patent owner is simultaneously profiting from the patent monopoly and thwarting competition from weary competitors.⁴¹ A patent holder is able to leverage the patent rights to enter into licensing agreements and “the existence of an unchallenged patent may deter others from attempting to compete with the licensee[s].”⁴² Owners of invalid patents may also threaten to bring infringement actions and these “mere threats of patent suits, due to the expense of defending such litigation, may often prevent lawful completion.”⁴³ The threatened party is compelled to either enter into a licensing agreement, forego the otherwise legal action, proceed with the action and risk willfully infringing the patent, or challenge the validity of the patent.⁴⁴ Due to the economic harm resulting from the assertion of invalid patents, ensuring that granted patents are valid has greater public importance than protecting the patent owner’s rights or allowing the patent owner to assert an invalid patent.⁴⁵

Patents may be invalidated for failure to meet the novelty and non-obviousness requirements or for failing to name the correct inventors.⁴⁶ Only a federal tribunal may invalidate a patent upon a showing that any of the statutory requirements were not met when the patent was granted.⁴⁷ Patent validity is challenged as an affirmative defense in federal court suits brought by the patentee. There are also two primary avenues for offensively challenging the validity or inventorship of patents: (1) declaratory judgment and correction of inventorship actions in federal courts and (2) administrative proceedings in front of the Patent Trial and Appeal Board (PTAB) at the PTO.

1. Actions in Federal Court

Federal courts have exclusive jurisdiction for “action[s] arising under” the patent laws.⁴⁸ A case arises under the patent laws when whenever patent law is the source of the cause of action or the plaintiff’s “right to relief necessarily depends upon resolution of a substantial question of patent law.”⁴⁹ Questions of patent validity or inventorship necessarily depend upon a question of patent

⁴⁰Precision Instruments. Mfg. Co., *Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945).

⁴¹See *Blonder-Tongue Labs., Inc. v. Univ. Ill. Found.*, 402 U.S. 313, 343 (1971).

⁴²*Lear, Inc. v. Adkins*, 395 U.S. 653, 669 (1969).

⁴³*Cover v. Schwarts*, 133 F.2d 541, 545 (2d Cir. 1943).

⁴⁴See *Prima Tek II, LLC v. Polypap SARL*, 412 F.3d 1284, 1289 (Fed. Cir. 2005) (“[I]f an invalid patent is issued, competitors may be deterred from challenging it by the substantial cost of litigation. Even if a successful challenge is brought, competition may be suppressed during the pendency of the litigation.”).

⁴⁵See, e.g., *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330 (1945) (noting that as between infringement and validity, “validity has the greater public importance” and that the “better practice [is to] inquire[e] fully into the validity of [the asserted] patent”).

⁴⁶See, e.g., *Trovan, Ltd. v. Sokymat Sa Irori*, 299 F.3d 1292, 1301 (Fed. Cir. 2002) (“A patent is invalid if more or less than the true inventors are named.”).

⁴⁷*Bates v. Coe*, 98 U.S. 31, 48 (1878) (“[T]he only authority for attacking the originality or validity of the patent is that given in the act of Congress, and consequently the attack must be made in the mode the Patent Act prescribes.”).

⁴⁸28 U.S.C. § 1338(a) (2012).

⁴⁹*Christianson v. Colt Indust. Operating Corp.*, 486 U.S. 800, 808–09 (1988).

law.⁵⁰ As such, federal courts have exclusive jurisdiction over these issues.⁵¹

If charged with infringement, a party may raise the affirmative defense of patent invalidity.⁵² By initiating suit in federal court, a sovereign entity waives immunity for the invalidity challenge because the defense is compulsory: any sovereign initiating an infringement action would expect to face an invalidity challenge.⁵³ The waiver of immunity allows defendants to challenge the validity of the patent; however, it leaves them at a significant strategic disadvantage with no guarantee that the issue will actually be resolved. First, the case may be resolved on other grounds or settle before reaching the invalidity issue, which is particularly troubling if the result of the settlement is a licensing agreement that allows the sovereign to maintain and profit from the invalid patent.⁵⁴ Second, a consequence of the compulsory nature of the affirmative defense is that if defendants fail to raise it, they effectively waive their right to do so and are precluded from challenging the validity or inventorship of the patent.⁵⁵ Third, the waiver of immunity is limited to the specific case brought by the sovereign and to the forum in which the sovereign brought the infringement action — defendants are unable to choose the jurisdiction in which the invalidity issue will be litigated or the timing of the litigation.⁵⁶ Each of these strategic disadvantages may lead to inequity and the “anomalous” result of allowing the sovereign to maintain a patent that does not comply with the requirements of the Patent Act.⁵⁷

The Declaratory Judgment Act allows a party that might be charged with infringement to avoid these strategic disadvantages by bringing an offensive action to preemptively challenge the validity of a patent.⁵⁸ Declaratory judgment actions are intended “to enable a person who is reasonably at legal risk . . . to obtain judicial resolution of [an unresolved] dispute without having to await the commencement of legal action by the other side.”⁵⁹ The interested party

⁵⁰ See *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 33 (1923) (“[T]he validity of the assignment of a patent . . . is a question arising under the patent laws because it depends upon their construction . . .”).

⁵¹ *E.g., id.*; see *infra* Section IV.A.2. (explaining that state court lack the authority to invalidate a patent or change inventorship thereof).

⁵² 35 U.S.C. § 282(b)(2) (2012) (“The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded: . . . Invalidity of the patent or any claim in suit on any ground . . .”); see, e.g., *Optivus Tech., Inv. V. Ion Beam Applications S.A.*, 469 F.3d 978, 991 (Fed. Cir. 2006) (“Having affirmed the judgement of invalidity, we need not address the judgement of non-infringement.”).

⁵³ See, e.g., *Regents Univ. N.M. v. Knight*, 321 F.3d 1111, 1125–26 (Fed. Cir. 2003) (“[W]hen a state files suit in federal court to enforce its claims to certain patents, the state shall be considered to have consented to have litigated in the same forum all compulsory counterclaims . . .”).

⁵⁴ See, e.g., *Solomon Tech., Inc. v. Int’l Trade Comm’n*, 524 F.3d 1310, 1319–20 (Fed. Cir. 2008) (noting that the validity issue would not be reached if the case is determined on other issues). See also *supra* notes 40–44 and accompanying text.

⁵⁵ See *Electric Storage Battery Co. v. Shimadzu*, 307 U.S. 5, 16–17 (1939).

⁵⁶ *Biomedical Patent Mgmt Corp. v. Cal. Dep’t of Health Servs.*, 505 F.3d 1328, 1329–30 (Fed. Cir. 2007) (“[A] State’s waiver of immunity as to the subject matter of a lawsuit does not, by itself, constitute a waiver of immunity in any future lawsuit involving that subject matter.”); *Regents Univ. N.M. v. Knight*, 321 F.3d 1111, 1125–26 (Fed. Cir. 2003) (noting that a state consents to litigation “in the same forum” when it brings an action to assert a patent).

⁵⁷ See *Blonder-Tongue Labs. Inc. v. Univ. Ill. Found.*, 402 U.S. 313, 343 (1971) (“A patent yielding returns for a device that fails to meet the congressionally imposed criteria of patentability is anomalous.”).

⁵⁸ See 28 U.S.C. § 2201(a) (2012).

⁵⁹ *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 977 (Fed. Cir. 1993).

need only prove that he or she has standing under the Article III case or controversy standard.⁶⁰ Declaratory judgment actions serve the purpose and underlying policies of the patent act by allowing parties to challenge the validity of patents without first having to risk infringement of the patent.⁶¹ If a parties could not bring a declaratory judgment action, they would have to knowingly infringe the patent and risk being liable for treble damages for willfully infringing the patent.⁶² Patent owners could avoid litigating the validity of their patents by never initiating an infringement suit while simultaneously using their patent rights to threaten infringement, leverage licensing deals from competitors, or otherwise hinder competition with invalid patents.⁶³ For this reason, “declaratory judgments play a special role in patent cases”⁶⁴ and are “construed with liberality in the patent field.”⁶⁵

Another means to offensively challenge a patent is to bring an inventorship challenge in federal court against a patent owner. Section 256 of the Patent Act allows a party who believes he or she was improperly not named as an inventor in an issued patent to bring in action in federal court to correct inventorship.⁶⁶ The court is empowered to order correction of inventorship with clear and convincing evidence that one or more inventors was omitted.⁶⁷ If it is shown that inventorship is incorrect but a correction is unavailable, the court may invalidate the patent.⁶⁸

A declaratory judgment action or an inventorship action under Section 256 may be brought in any district court with personal jurisdiction over the patent owner.⁶⁹ The party against whom the challenge must be brought, the “necessary” party, is the one who owns “all substantial rights and interests” in the patent — i.e., the original patentees or their assignees.⁷⁰ There may be mul-

⁶⁰ See, e.g., *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1340 (Fed. Cir. 2007) (“The question in this case is whether Teva has a justiciable controversy within Article III, which is the only limitation on our jurisdiction under the Declaratory Judgment Act.”). In the patent context, the standing requirement is met when the patentee has taken some steps to enforce, or has threatened to enforce, its patent rights against the other party. *Id.*

⁶¹ See *id.* at 1336 n.2.

⁶² See 35 U.S.C. § 284 (2012) (authorizing an “increase [of] damages up to three times the amount found or assessed” for willful infringement); *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 134 (2007) (holding that requiring a party to “risk treble damages . . . before seeking a declaration of its actively contested legal rights finds no support in Article III”).

⁶³ See *supra* Section IV.C.1.; see also *Teva Pharm.*, at 1336, n.2 (“Before the declaratory judgment provisions, competitors were ‘victimized’ by patent owners who engaged in ‘extrajudicial patent enforcement with scare-the-customer-and-run tactics that infected the competitive environment of the business community with uncertainty and insecurity’ and that rendered competitors ‘helpless and immobile so long as the patent owner refused to sue.’”) (internal citations and alterations omitted).

⁶⁴ *Interdynamics, Inc. v. Firma Wolf*, 698 F.2d 157, 165 (3d Cir. 1983).

⁶⁵ *Wembley, Inc. v. Superba Cravats, Inc.*, 315 F.2d 87,89 (2d Cir. 2963).

⁶⁶ 35 U.S.C. § 256 (2012).

⁶⁷ See *Xechem Int’l, Inc. v. Univ. Tex. M.D. Anderson Cancer Ctr.*, 382 F.3d 1324, 1329–30 (Fed. Cir. 2004).

⁶⁸ See *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1353 (Fed. Cir. 1998).

⁶⁹ See *Delano Farms Co. v. Cal. Table Grape Comm’n*, 655 F.3d 1337, 1342 (Fed. Cir. 2011). The personal jurisdiction requirements in patent law are the same as for any other case or controversy, *Avocent Huntsville Corp. v. Aten Intern’l Co.*, 551 F.3d 1324, 1332 (Fed. Cir. 2008), and is assumed to exist in at least one jurisdiction for the purposes of this article.

⁷⁰ See *Delano Farms*, 655 F.3d at 1342 (explaining that the proper party is the patentee, but when the patentee assigns all substantial rights, the patentee assignor is “no longer treated as the owner” and the assignee is the proper party to assert and defend patent suits); *Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed.

multiple necessary parties, in which case, a suit may proceed against any one of them unless the excluded party is an indispensable party.⁷¹ If the indispensable party cannot be included in the litigation, the case must be dismissed.⁷² When a sovereign owns or has been assigned a patent, courts have routinely held that the sovereign might “lose all rights in its patents” in the litigation and is therefore a necessary and indispensable party.⁷³ For this reason, when a sovereign asserts immunity in a declaratory judgment or inventorship action, the case is dismissed.⁷⁴

2. Actions at the PTO

Post-grant patent challenges at the PTO are “the new frontier of patent litigation.”⁷⁵ Beginning in 2012, individuals could petition the PTO to challenge granted patents on the basis of novelty or nonobviousness in proceedings called *inter partes* review (IPR).⁷⁶ The traditional standing requirements that limit a party’s ability to bring a suit in federal court do not apply in IPRs because they are not Article III tribunals and IPRs were created with the intent of more freely allowing parties to challenge issued patents.⁷⁷ An IPR can be filed by anyone “who is not the owner of the patent”⁷⁸ provided that party “identifies all real parties in interest” and pleads with particularity “the grounds on which the challenge to each [patent] claim is based, and the evidence that supports the grounds for the challenge to each claim.”⁷⁹

The PTO reviews the petition and will institute the IPR if “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the challenged claims.”⁸⁰ The burden of proving invalidity is reduced in IPRs as compared to federal court litigation; the challenger need only prove invalidity in IPR by a preponderance of the evidence whereas in federal court the challenger must prove invalidity by clear and convincing evidence.⁸¹ The PTAB

Cir. 1998); *Keranos, LLC v. Analog Devices, Inc.*, Nos. 2:10-cv-207, 2:11-cv-331, 2012 WL 12716356, at *2 (E.D. Tex. Sept. 28, 2012) (“[T]he assignor could not sue for infringement of the patent, nor can the assignor be made to defend a declaratory judgment claim related to the assigned patent.”).

⁷¹ See Fed.R.Civ.Pro. 19(b) (setting out the factors for determining whether a party is indispensable); see also *supra* Section IV.B.1.

⁷² See generally *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1222 (Fed. Cir. 2010) (dismissing a case against a university patent owner because the university was both necessary and indispensable but could not be joined due to sovereign immunity).

⁷³ *Id.* at 1221; *accord Delano Farms*, 655 F.3d at 1341–43 (finding that the USDA as patent owner was an indispensable party but allowing joinder because the Administrative Procedures Act waives immunity for federal administrative agencies).

⁷⁴ See *supra* Section IV.B.1.

⁷⁵ *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1037 (Fed. Cir. 2016) (Newman, J., dissenting).

⁷⁶ See 35 U.S.C. § 311(b) (2012); Leahy-Smith America Invents Act, Pub. L. No. 122–29, 125 Stat. 299, Ch. 31 (2011).

⁷⁷ See *Cuozzo Speed Tech., LLC v. Lee*, 136 S.Ct. 2131, 2143–44 (2016) (“Parties that initiate the proceeding need not have a concrete stake in the outcome; indeed, they may lack constitutional standing.”); see also 37 C.F.R. § 42.104 (2017).

⁷⁸ 35 U.S.C. § 311(a).

⁷⁹ *Id.* § 312.

⁸⁰ *Id.* § 314(a). Neither party can appeal the PTAB’s decision to institute or forego instituting an IPR. *Id.* § 314(d); *In re Cuozzo Speed Techs.*, 793 F.3d 1268, 1273–74 (Fed. Cir. 2015) (holding that a patent owner cannot appeal the decision to institute, even after final decision).

⁸¹ *Cuozzo Speed*, 136 S.Ct. at 2144.

“shall issue a final written decision” as to the patentability of any challenged claim within one year of institution⁸² and the patent owner may either appeal the decision to the Federal Circuit or, if no appeal is taken, the claims shall be cancelled if found to be invalid.⁸³

The underlying purpose of IPR proceedings are to “improve patent quality and restore confidence” in the U.S. patent system.⁸⁴ Despite being an administrative proceeding, Congress stressed that IPRs are intended to be “adjudicative proceeding[s]” and not merely a continuation of examination.⁸⁵ IPRs are an adversarial alternative to federal court litigation and provide an avenue for challenging patents that is arguably less burdensome on challengers than federal court litigation.⁸⁶ The lower burden reflects a Congressional policy choice that the experts at the PTO are well suited to determine the ultimate question underlying patent validity challenges—whether the PTO properly granted the patent in the first instance.⁸⁷ It also reflects a policy determination that one need not risk infringement in order to obtain standing to challenge a patent,⁸⁸ giving preference instead to the public importance of ensuring granted patents are valid and eliminating the adverse economic effects that unwarranted patents have on innovation.⁸⁹

C. Use of Sovereign Immunity in Patent Challenging Procedures

Despite the public importance of ensuring that issued patents are valid, “sovereign immunity reigns supreme” in patent validity and inventorship challenges.⁹⁰ The Federal Circuit recently confirmed that sovereign immunity may be used to avoid an inventorship challenge.⁹¹ In *Ali v. Carnegie Institution of Washington*, Mussa Ali alleged that he made a “critical contribution” to a gene inhibition method that led to five patents for the University of Massachusetts and the Carnegie Institute of Washington and a Nobel Peace Prize in Medicine for two of the inventors.⁹² The District Court of Oregon found that the Univer-

⁸²35 U.S.C. § 316(a)(11); 37 C.F.R. § 42.101(c) (“An [IPR] proceeding shall be administered such that pendency before the Board after institution is normally no more than one year. The time can be extended up to six months for good cause by the Chief Administrative Patent Judge, or adjusted by the Board in the case of joinder.”).

⁸³See 35 U.S.C. §§ 318, 319

⁸⁴H.R. Rep. No. 112-98, at 48 (2011).

⁸⁵*Id.* at 46–47 (2011) (“The [America Invents] Act converts inter partes reexamination from an examinational to an adjudicative proceeding, and renames the proceeding ‘inter partes review.’”).

⁸⁶See *id.* at 165 (2011) (characterizing IPR proceedings as “a viable, efficient alternative to litigation for weeding out bad patents”).

⁸⁷See *MCM Portfolio LLC v. Hewlett-Packard*, 812 F.3d 1284, 1291 (Fed. Cir. 2015) (citing *Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985)).

⁸⁸H.R. Rep. No. 112-98, at 45 (noting that an issue with inter partes reexamination was that parties did not see it as valuable so they would opt to risk infringement in order to challenge the patent in federal court instead of through the PTO proceeding).

⁸⁹See *Cuozzo Speed*, 136 S.Ct. at 2155 (Alito & Sotomayor, JJ., concurring-in-part, dissenting-in-part) (noting that IPRs have “a leading role in combating the detrimental effect that bad patents can have on innovation”).

⁹⁰See *Ali v. Carnegie Inst. Wash.*, 684 Fed. App’x 985, 989 (Fed. Cir. 2017).

⁹¹See *id.* (affirming a dismissal of a correction of inventorship claim under Section 256 against a sovereign patent owner).

⁹²*Id.* at 992. The five patents at issue all list the same eight inventors and all but one are assigned to both Carnegie and the University of Massachusetts, the oldest patent is assigned solely to Carnegie. Compare U.S. Patent No. 6,506,559 (filed Dec. 18, 1998) (listing Carnegie as the sole assignee, the oldest patent) with U.S. Patent

sity of Massachusetts was entitled to sovereign immunity from the inventorship challenge.⁹³ The Federal Circuit affirmed and dismissed the case, finding no indication that the University had waived immunity or otherwise consented to suit in federal court.⁹⁴

The Federal Circuit has also recognized that it is appropriate to dismissed declaratory judgment cases challenging the validity of a sovereign patent.⁹⁵ District Courts have followed suit, routinely dismissing invalidity challenges against a sovereign patent.⁹⁶ It is clear that sovereign entities retain broad immunity from patent validity challenges in federal court absent a waiver of immunity.⁹⁷

Recent decision from the PTO have likewise held that sovereign entities are immune from invalidity challenges at the PTAB. The first of which, *Covidien LP v. University of Florida Research Foundation Inc.*, issued last year and found that the similarities between judicial litigation and IPR proceedings are “sufficient to implicate the immunity afforded to the States by the Eleventh Amendment.”⁹⁸ The PTAB has since consistently recognized the availability of sovereign immunity to avoid patent invalid challenges in IPRs.⁹⁹ The Supreme Court recently upheld the constitutionality of IPR proceedings¹⁰⁰ and clarified

No. 8,283,329 (filed Sept. 28, 2007) (listing both Carnegie and UMass as assignee, the newest patent).

⁹³ *Ali v. Carnegie Inst. Wash.*, 967 F. Supp. 2d 1367, 1371, 1379 (D. Or. 2013).

⁹⁴ *Ali*, 684 Fed. App'x at 992.

⁹⁵ See, e.g., *A123 Sys. Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1219–20 (Fed. Cir. 2010) (dismissing a case seeking a declaration that the patent was invalid and not infringed); *Tegic Commc'ns Corp. v. Bd. Regents U. Tex. Sys.*, 458 F.3d 1335, 1344–45 (Fed. Cir. 2006) (dismissing a case seeking a declaration that the patent was invalid and unenforceable). *Accord Delano Farms Co. v. Cal. Table Grape Comm'n*, 655 F.3d 1337, 1342 (Fed. Cir. 2011) (allowing a validity challenge to proceed only because the federal government has waived immunity in patent cases). See *supra* IV.B.3.

⁹⁶ See *Univ. Fla. Research Found. v. Medtronic, Inc.*, No. 1:16CV183-MW/GRJ, 2016 WL 3869877, at *4–6 (N.D. Fla. July 15, 2016) (dismissing an invalidity challenge to a patent owned by the University); *Cyanotech Corp. v. U.S. Nutraceuticals, LLC*, No. 12-00352 JMS-RLP, 2013 WL 504862, at *5–7 (D. Haw. Feb. 7, 2013) (holding that the sovereign patentee is an indispensable party to the invalidity litigation and dismissing based on sovereign immunity).

⁹⁷ *A123 Sys. Inc.*, 626 F.3d 1219–20 (noting that an invalidity case could proceed if the sovereign waived its immunity in any way); see also *supra* Section IV.B.3. (discussing waiver of immunity).

⁹⁸ *Covidien LP v. Univ. Fls. Research Found.*, No. IPR2016-01274 to -01276, 2017 WL 401509, at *11 (P.T.A.B. Jan. 25, 2017). Courts look at several factors to determine whether the administrative proceeding is sufficiently adjudicative, including: (1) whether administrative law judges have similar powers and responsibilities as Article III judges; (2) whether the administrative proceeding uses the Federal Rules of Evidence and the Federal Rules of Civil Procedure or similar rules; (3) whether the discover, motions practice, and other procedures are analogous to federal court proceedings; and (4) whether the administrative proceedings may impose judicial remedies on the parties. *Fed. Mar. Comm'n v. S.C. State Port Auth.*, 535 U.S. 743, 756–60 (2002). The PTAB cited the adversarial nature of IPRs, their use of the Federal Rules of Evidence, and the similarities between the pleadings, motions, and discovery practices in IPRs and civil litigation as supporting recognizing immunity in the administrative proceeding. *Covidien LP*, 2017 WL 401509, at *8–10.

⁹⁹ See *Ericsson Inc. v. Regents Univ. Minn.*, Nos. IPR2017-01186, -01197, -01200, 01214, -01219, 2017 WL 6517563, at *3 (P.T.A.B. Dec. 19, 2017) (recognizing the availability of immunity but finding waiver); *LSI Corp. v. Regents Univ. Minn.*, No. IPR2017-01068, 2017 WL 6517562, at *3 (P.T.A.B. Dec. 19, 2017) (recognizing the availability of immunity but finding waiver); *Reactive Surfaces LTD v. Toyota Motor Corp.*, No. IPR2016-01914, 2017 WL 2992429, at *6 (P.T.A.B. July 13, 2017) (recognizing the ability of immunity but allowing the case to proceed against a non-sovereign patentee who could adequately represent the interest of the sovereign). *But see Mylan Pharma. V. St. Regis Mohawk Tribe*, Nos. IPR2016-01127 to -01132, Paper No. 129, at 16 (P.T.A.B. Feb. 23, 2018) (breaking with the Covidien decision and finding that Native American tribes are not entitled to immunity from IPRs).

¹⁰⁰ *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, No. 16-712, 2018 WL 1914662, at *10–11 (U.S. Apr. 24, 2018).

that an IPR must be instituted for all patent claims challenged in an IPR petition.¹⁰¹ These decisions do not have a direct effect on sovereign immunity at the PTAB, but are likely to spur litigation about the issue.¹⁰²

III. USING SOVEREIGN IMMUNITY TO AVOID PATENT VALIDITY & OWNERSHIP CHALLENGES AMOUNTS TO A TAKING OF THE PATENT RIGHTS

When a sovereign entity owns a patent to which an individual is entitled, it effectively precludes that individual from obtaining ownership of the patent. Sovereign ownership of an invalid patent also harms those with patents on related subject matter who are not able to exploit them due to the monopoly improperly granted to the sovereign. The harm caused to these groups—those with direct interest in the subject matter of the sovereign patent and those with competing interest in other patents—may have a viable takings claim against the sovereign, for which compensation is constitutionally required. This section addresses the status of patent rights as constitutionally protected property and whether sovereign ownership of invalid patents amounts to either a per se or a regulatory a taking.

A. *Patent Rights and the Entitlement Thereto Are Constitutionally Protected Property*

There can be no unconstitutional taking unless there is a protected interest that “is within the Fourteenth Amendment’s protection of liberty and property.”¹⁰³ “It is beyond reasonable doubt that patents are property.”¹⁰⁴ “[T]he right to exclude others is central to the very definition of the property interest” vested by a

¹⁰¹SAS Inst. Inc. v. Iancu, No. 16-696, 2018 WL 1914661, at *2 (U.S. Apr. 24, 2018).

¹⁰²In both cases, the Supreme Court characterized IPR proceeding as one brought by the government against the patentee rather than one brought by a private party, which might be an independent basis for finding no entitlement to immunity. See *Oil States*, 2018 WL 1914662, at *10 n.5 (“[I]nter partes review is not initiated by private parties in the way that a common-law cause of action is. To be sure, a private party files the petition for review. But the decision to institute review is made by the Director and committed to his unreviewable discretion.”); *SAS Inst. Inc.*, 2018 WL 1914661, at *3, *5 (explaining that it is ultimately the Director who determines whether to initiate an IPR proceeding but a private petitioner “defines[s] the contours of the proceeding”); *Alden v. Maine*, 527 U.S. 706, 755–56 (1999) (explaining that sovereign immunity does not extend to actions brought by the federal government). Presumably IPR proceedings will be easier to institute—now requiring a showing that petitioner is likely to succeed on any one claim rather than requiring a claim by claim determination of the likelihood of success—so there may be more IPR petitions and more assertions of immunity therefrom. See *Gene Quinn & Renee C. Quinn, SAS: When the Patent Office Instituted IPR it Must Decide Patentability of All Challenged Claims*, IPWatchdog (Apr. 25, 2018) <http://www.ipwatchdog.com/2018/04/25/sas-patent-office-institutes-ipr/id=96297/>.

¹⁰³*Bd. Regents State Colls. v. Roth*, 408 U.S. 564, 570–71 (1972).

¹⁰⁴*Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (“[W]e would not belabor the point that patent property rights . . . fall squarely within both classical and judicial definitions of protectable [sic] property.”). See also 35 U.S.C. § 261 (2012) (“[P]atents shall have the attributes of personal property”); *Cascades Projection LLC v. Epson Am., Inc.*, 864 F.3d 1309, 1310 (Fed. Cir. 2017) (Newman, J., concurring) (“There is no doubt that a patent is a property right, with the attributes of personal property.”).

patent¹⁰⁵ and the right to exclude is “one of the most essential sticks in the bundle of rights that are commonly characterized as property.”¹⁰⁶ A patent “confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more that it can appropriate or use without compensation land which has been patented to a private purchaser.”¹⁰⁷ Once granted, “[a] patent for an invention is as much property as a patent for land.”¹⁰⁸

Since patents must be granted to anyone who applies and satisfies the statutory minimum requirements,¹⁰⁹ the entitlement in a patent is also a protected property interest. When a person qualifies for a statutory right which is ordinarily given to all qualifying parties, that person has an expectation to receive, and an entitlement in, the right.¹¹⁰ If there is more than a unilateral expectation in the right, the entitlement is treated as a protected property interest.¹¹¹ An applicant for a patent “is entitled to the patent as a matter of right, and not as a discretionary act of the federal government” so he or she has an legitimate expectation in receiving a patent if meeting the statutory requirements.¹¹² Since patent rights are granted as a right and not merely a gift or discretionary benefit from the government, the expectation in receiving a patent is not unilateral but is a protected entitlement.¹¹³

Natural resource law provides a direct analogy supporting this proposition. Mineral extraction from federal lands required the mining entity to obtain a lease from the federal government, with which it could extract minerals from the land while the land remained in the ownership of the federal government.¹¹⁴ If a mining entity proved the existence of “commercial quantities” of valuable minerals, it was entitled to a limited-term lease for the area where it lo-

¹⁰⁵Ruckelshaus v. Monsanto, Co., 467 U.S. 986, 1011 (1984) (discussing trade secrets); Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 215 (1980) (“[T]he essence of a patent grant is the right to exclude others . . .”).

¹⁰⁶Aetna v. United States, 444 U.S. 164, 176 (1979).

¹⁰⁷Horne v. Dep’t of Agriculture., 135 S.Ct. 2419, 2427 (2015).

¹⁰⁸Consol. Fruit-Jar Co. v. Wright, 94 U.S. 92, 96 (1876); accord Hartford-Empire Co. v. United States, 323 U.S. 386, 415 (1945) (“That a patent is property, protected against appropriation both by individuals and government, has long been settled.”). See also Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC, No. 16-712, 2018 WL 1914662, at *11 (U.S. Apr. 24, 2018) (“[O]ur decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.”).

¹⁰⁹See *infra* Section II.A.

¹¹⁰See Goldberg v. Kelly, 397 U.S. 254, 262 (1970) (holding that welfare recipients had a protected property right in welfare benefits because the statutory scheme granted such benefits to all who qualify).

¹¹¹Bd. Regents State Colls. v. Roth, 408 U.S. 564, 577 (1972).

¹¹²See 1 ROBERT A. MATTHEWS, ANNOTATED PATENT DIGEST (MATTHEWS) § 1:12 (2018); see also Sedwick v. Univ. Utah, No. 2:00-CV-412C, 2001 WL 741285, at *3 (D. Utah. Apr. 16, 2001) (finding that an inventor had a protected property interest in an invention for which she could not obtain a patent).

¹¹³See *Chexem Intern’l, Inc. v. U. Tex. M.D. Anderson Cancer Ctr.*, 383 F.3d 1324, 1331 (Fed. Cir. 2004) (“The grant of a patent is not a disbursement of government largesse. A gift is nothing more than the transfer of property without consideration. In contrast, the government grant of a property right, *viz.* the right to exclude for a limited time, is conditioned on the creation and public disclosure of a new and useful invention.”). There is also a valid argument that, in addition to the expectation of patent rights, one has a protected interest in their invention before applying for a patent because he or she is entitled to maintain the invention as a trade secret. See Richard A. Epstein, *The Constitutional Protection of Trade Secrets under the Takings Clause*, 71 U. CHI. L. REV. 57, 59–60 (2004).

¹¹⁴See 30 U.S.C. § 201(b) (1970); see *Nat. Res. Def. Council, Inc. v. Berklund*, 609 F.2d 553, 556–57 (D.C. Cir. 1979).

cated minerals.¹¹⁵ In *Natural Resource Defense Council Inc. v. Berkland*, the mining entity located minerals but was denied a lease.¹¹⁶ The District of Columbia Circuit Court of Appeals held that the miner had “anticipated” property rights that “cannot be diminished” because the statute clearly required the grant of a lease whenever the statutory requirements therefor were satisfied.¹¹⁷

An anticipated patent right has an even stronger case for constitutional protection than an anticipated mineral right. The compulsory language of the mineral leasing provision, held to be a protected entitlement, parallels that of the current patent statute.¹¹⁸ Patent rights, like mineral rights, are created by statute but patent rights are fully vested in the patentee and no the federal government has no ownership interest in a patent.¹¹⁹ The subject matter of a patent does not exist but for the inventor, whereas mineral rights exists no matter who discovers them. It seems obvious that if the anticipated right to access federal property to exploit its resources is a protected property interests, that the anticipated right of exclusive exploitation of an intellectual resource is a protected property interest.¹²⁰ The continued recognition that an inventor may assign property rights in an invention even before a patent application is filed further supports that an expectation in a patent is a protected property interest.¹²¹

The constitutional protection of trade secrets also supports viewing the entitlement in a patent as a protected property interest.¹²² “[I]nterest in unpatented inventions unknown to potential competitors, or trade secrets, constitutes a property right.”¹²³ One who intends to patent an invention is encouraged to keep his or her innovation a trade secret until applying for a patent because if the invention is publicly discloses, he or she could be barred from receiving a patent.¹²⁴ “Bona fide inventors have, even before patent is issued, the exclusive inchoate right . . . to the original patent that may issue.”¹²⁵ Whether viewed as an expectation to receive a patent or a pre-patent trade secret, an entitlement

¹¹⁵30 U.S.C. § 201(b); *Nat. Res. Def. Council*, 609 F.2d at 556–57.

¹¹⁶*Nat. Res. Def. Council*, 609 F.2d at 554.

¹¹⁷*Id.* at 559 (“For the . . . lease applications outstanding under the former version of the provision, the property rights anticipated by permittee applicants cannot be diminished.”).

¹¹⁸*Compare* 30 U.S.C. § 201(b) (1970) (“[The applicant] shall be entitled to a lease under this chapter for all or part of the land in his permit.”) with 35 U.S.C. § 131 (2012) (“[I]f on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefore.”).

¹¹⁹*Compare Nat. Res. Def. Council*, 609 F.2d at 554 (noting that the land subject to a mining lease remains under federal ownership), with *Biedler v. United States*, 153 U.S. 447, 453 (1984) (noting that federal statutes “are the source of all patent rights” and are vested in patentees).

¹²⁰*Accord* Gregory Doling & Irina D. Manta, *Taking Patents*, 73 WASH. & LEE L. REV. 719, 771 (2016) (analogizing a case wherein the federal government regulated the sale of raisins, taking the contingent interest of the farmers, to patents and arguing that “even contingent interest in patents would not eliminate the possibility that a taking took place”).

¹²¹*See, e.g.,* *Filmtec Corp. v. Allied-Signal Inc.*, 9393 F.2d 1568, 1572 (Fed. Cir. 1991) (“[I]t is settled law that between the time of an invention and the issuance of a patent, rights in an invention may be assigned an legal title to the ensuing patent will pass to the assignee upon grant of the patent . . . this may be viewed as an assignment of an expectant interest.”) (internal citations omitted).

¹²²*See* Epstien, *supra* note 110, at 59–60.

¹²³*Sedwick v. Univ. Utah*, No. 2:00-CV-412C, 2001 WL 741285, at *2 (D. Utah. Apr. 16, 2001) (citing *Jensen v. Redevelopment Agency*, 998 F.2d 1550, 1556 (10th Cir. 1993)).

¹²⁴35 U.S.C. § 102 (2012) (prohibiting the grant of a patent for anything that was previously “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public”).

¹²⁵*Hendrie v. Sayles*, 98 U.S. 546, 551 (1878).

in a patent is “surely included within the ‘property’ of which no person may be deprived by a State.”¹²⁶

B. *Sovereign Ownership of Invalid Patents Amounts to an Unconstitutional Taking With Respect to Those with Direct or Competing Interest in the Subject Matter of the Sovereign Patent*

Sovereign ownership of a patent, even an invalid one, is not objectionable unless it amounts to a taking of another’s protected patent rights. Takings jurisprudence has developed two principle theories of takings: per se takings and regulatory takings. The deprivation of patent rights and use of immunity to avoid invalidation of or inventorship correction of a sovereign patent is a taking under either theory. Parties with a direct property interest in the subject matter covered in the invalid sovereign patent can rely on a per se taking analogy; those with property interests that compete with and are harmed by the invalid sovereign patent can rely on a regulatory taking analogy.

1. *Per Se Takings: Cases Brought by Parties with a Direct Ownership Interest in the Sovereign Patent*

A court finds an unconstitutional per se taking of property without consideration of the public interests when the sovereign use or occupation of property completely deprives an individual of the use, possession, or disposition of his or her property rights.¹²⁷ The earliest recognized and clearest case of a per se taking is when a sovereign entity physically occupies real property.¹²⁸ The per se taking rule has since expanded to personal property to recognize a taking whenever a sovereign physically appropriates the property.¹²⁹ A physical appropriation of property need not deprive the party with a property interest of “all economically valuable use” of the property to amount to a per se taking;¹³⁰ the determinative issue is whether the sovereign or the individual has control over the property rights.¹³¹

¹²⁶ See Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627, 642 (1999); accord *Sedwick*, 2001 WL 741285, at *3 (noting that the inventors interests in royalties or other monetary gain from her invention were “potential only” but this did not “indicate that [she] did not have a property interest in the invention”).

¹²⁷ See *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 426 (1982) (“We conclude that a permanent physical occupation authorized by government is a taking without regard to the public interest that it may serve.”).

¹²⁸ *Id.* at 426, 441.

¹²⁹ *Horne v. Dep’t of Agriculture*, 135 S.Ct 2419, 2425–27 (2015) (citing *Tahoe-Sierra Pres. Council, Inc. v. Tahoe Reg’l Planning Agency*, 535 U.S. 302, 324 (2002)) (“There is no dispute that the classic taking is one in which the government appropriates private property for its own use. . . . Nothing . . . suggest that personal property was any less protected against physical appropriation than real property.”).

¹³⁰ *Tahoe-Sierra Pres. Council, Inc.*, 535 U.S. at 322–24 (describing cases where there has been a per se taking despite the appropriation being only of a limited are or temporal scope and noting “we do not ask whether a physical appropriation . . . deprives the owner of all economically valuable use”); *Horne*, 135 S.Ct. at 2429 (“The fact that the growers [of the property at issue] retain a contingent interest of indeterminate value does not mean there has been no physical taking . . .”).

¹³¹ *Horne*, 135 S.Ct. at 2429 (finding a per se taking where raisin growers retain the right to profit from government sales of their raisins but lose the “right to control their disposition”).

The personal property rights granted by a patent are, of course, not physical, but this does not preclude a finding that patent rights have been per se taken.¹³² As the Supreme Court has said: Patent “rights rest on the same foundation”¹³³ as other property and “are entitled to protection as any other property.”¹³⁴ This is consistent with the Congressional intent that “patents shall have the attributes of personal property”¹³⁵ and with leading scholars who believe that “[e]xcept in the rarest cases, we should treat intellectual and physical property identically in the law.”¹³⁶ Appropriation of patent rights by a sovereign amounts to a per se taking if the sovereign “directly appropriates [the patent] for its own use” from another who is entitled to the patent.¹³⁷

The continued sovereign ownership of a patent to which it is not entitled due to inventorship errors—which could be challenged in a Section 256 action—in effect allows the sovereign to retain control of the right to exclude others to the detriment of the omitted inventor.¹³⁸ This most certainly amounts to a per se taking of the inventor’s protected interests in the patent. It is axiomatic that the person who invents the subject matter of a patent is the only one entitled to the patent rights¹³⁹ and the sovereign has in effect taken the entire bundle of ownership rights in the patent from the omitted inventor.¹⁴⁰ The inventor may continue to practice the invention unless or until the sovereign brings an infringement action, but the fact that the inventor retains this limited right “does not mean there has been no physical taking.”¹⁴¹ The sovereign has control over the entire bundle of rights that characterizes patent property, the right to exclude others from practicing the invention,¹⁴² and the omitted inventor has no means to obtain the ownership interest to which he or she is entitled.¹⁴³ “[I]t would be hard to argue that such an action is any different from a situation where the government takes land.”¹⁴⁴

The analogy to a per se taking is more tenuous when the sovereign main-

¹³²See Dolin & Manta, *supra* note 117, at 789 (arguing that patent rights may be “physically” taken); Epstein, *supra* note 110, at 61–63 (arguing that trade secrets may be “physically” taken).

¹³³Consol. Fruit-Jar Co. v. Wright, 94 U.S. 92, 96 (1876).

¹³⁴Seymour v. Osbourne, 78 U.S. 516, 533 (1870).

¹³⁵35 U.S.C. § 261 (2012).

¹³⁶Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & PUB. POL’Y 108, 118 (1990); Dolin & Manta, *supra* note 117, at 776 (“[P]atents, like any other private property, can be appropriated by the government for private use.”); F. Scott Kieff, *Pragmatism, Perspectives, and Trade: AD/ CVS, Patents, and Antitrust as Mostly Private Law*, 30 HARV. J.L. & TECH. 97, 109–111 (2017) (advocating for recognizing patent rights as private property); Joshua I. Miller, 28 U.S.C. § 1498(A) and the Unconstitutional Taking of Patents, 13 YALE J.L. & TECH. 1, 18 (2010–2011) (arguing that patents are property that may be taken by eminent domain).

¹³⁷See *Tahoe-Sierra Pres. Council, Inc. v. Tahoe Reg’l Planning Agency*, 535 U.S. 302, 324 (2002).

¹³⁸See *supra* Section I.B.1 (discussing Section 256 inventorship challenges).

¹³⁹See 3 R. CARL MOY, *MOY’S WALKER ON PATENTS* § 10.2 (4th ed. 2017). That is why exclusion of an inventor may be grounds for invalidating an issued patent. See *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1353 (Fed. Cir. 1998).

¹⁴⁰*Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (“[T]he essence of a patent grant is the right to exclude others . . .”).

¹⁴¹See *Horne v. Dep’t of Agriculture*, 135 S.Ct. 2419, 2429 (2015).

¹⁴²See *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (noting that the entire “bundle of rights” conferred by a patent is “an implementation of . . . exclusivity”).

¹⁴³See *infra* Section IV.A.–IV.B.. See also *Ali v. Carnegie Inst. of Wash.*, 684 Fed. App’x. 985, 995 (Fed. Cir. 2017) (Dyk, J., concurring) (“Patent inventorship claims are different. A state law remedy is not available, and a claimant’s only remedy lies in a federal cause of action under 35 U.S.C. § 256 to correct inventorship.”)

¹⁴⁴See Dolin & Manta, *supra* note 117, at 789.

tains ownership of a patent that is invalid for failure to meet statutory requirements.¹⁴⁵ Whether sovereign use of immunity amounts to a per se taking likely depends upon the status of the party that would bring a validity challenge in federal court or at the PTAB. If the party could show that but for the sovereign patent, it would have received the same or similar patent—for example, if the party made a disclosure would serve as prior art for the sovereign patent but not for that party and the disclosure was not considered during prosecution of the sovereign patent¹⁴⁶—then he or she has an ownership interest that directly conflicts with that of the sovereign.¹⁴⁷ The party has an property interest in the subject matter that is claimed in the sovereign patent and the takings analysis would be substantially the same as that of the inventorship case under Section 256.¹⁴⁸ In effect, the sovereign has control over the patent rights to which the party is entitled, thereby depriving the party of its protected property interest.¹⁴⁹

Other validity challenges are less likely to satisfy the per se taking analysis. If a party brings a validity challenge for any strategic reason other than their desire to clarify his or her own property interest in the subject matter, then there can be no per se taking. The party does not have a protected property interest that has been deprived by the sovereign.¹⁵⁰ Even if the party has a competing patent, or unpatented invention, he or she is not being deprived of the control over that invention due to the existence of the sovereign patent.¹⁵¹

In sum, if a party brings an inventorship challenge or validity challenge in which he or she alleges a direct interest in a the subject matter claimed in the sovereign patent, there is a strong case for finding that a per se taking has occurred when the sovereign uses immunity to maintain ownership of the patent to the deprivation of the party. In other situations, where the challenging party has an interest other than a direct property interest in the subject matter of the sovereign patent, there is likely no persuasive analogy to a per se taking. However, parties may be able to make a case under the more ambiguous and ad hoc regulatory taking standards.

¹⁴⁵Such as the novelty or non-obviousness requirements. See *supra* Section II.A.

¹⁴⁶See 35 U.S.C. § 102(b) (2012) (excluding from the scope of prior art disclosures “made by the inventor” or otherwise traceable to the inventor that were made within one year of the patent application date).

¹⁴⁷This situation is likely rare. It would require a situation where: (1) the party made an enabling public disclosure; (2) the sovereign files a patent application, which is published; (3) within one year of the disclosure, the party files a patent application; (4) the sovereign patent application is considered as prior art to preclude the party’s patent from granting; and (5) the party’s disclosure is erroneously not considered prior art for the sovereign patent and the sovereign patent is issued.

¹⁴⁸The only distinction between this case and a Section 256 case would be that, here, the party would have independently invented the subject matter such that he or she cannot be named a co-inventor on the sovereign patent, but rather has an independent claim to the subject matter claimed in the sovereign patent.

¹⁴⁹See *Horne v. Dep’t of Agriculture*, 135 S.Ct. 2419, 2429 (2015) (noting that the “right to control” the property is the determinative factor in a per se takings analysis).

¹⁵⁰See *supra* Section III.A.

¹⁵¹See *supra* Section III.A. (defining the protected property interest as issue in this Article).

2. Regulatory Takings: Cases Brought by Parties with Interests in Competing Patent Rights

Regulatory takings are another route to find that sovereign patent ownership and reliance on immunity to avoid invalidation of the patent is an unconstitutional taking. The theory behind regulatory takings is that although sovereign action may not directly appropriate the property of an individual, it may “go too far” and lead to “depriv[ation] of all economically beneficial uses” of property.¹⁵² The regulatory takings analysis has no “set formula” and relies instead on “essentially ad hoc, factual inquiries.”¹⁵³ The factors courts consider are: “the character of the [sovereign] action, its economic impact, and its interference with reasonable investment-baked expectations.”¹⁵⁴ The prototypical case of a regulatory taking is when the sovereign action is the promulgation of zoning requirements that prohibit the land owner from using his or her land in specified ways.¹⁵⁵ In the context of this article, the sovereign action is maintenance of a patent that is substantively invalid or to which it is not entitled.

As discussed above, parties with a direct ownership interest in the subject matter encompassed in a sovereign patent are likely able to show that their protected property interest have been taken per se.¹⁵⁶ They are also likely to succeed on a regulatory taking theory. The sovereign action, in effect, precludes them from obtaining the right to exclude others from practicing the invention.¹⁵⁷ This action can be characterized as transferring the right to exclude concomitant with patent ownership from the party—who is statutorily entitled thereto—to the sovereign and analogized with a physical appropriation¹⁵⁸ which strongly points towards a regulatory taking.¹⁵⁹ Prior cases wherein the sovereign action facilitated granting the sovereign control over the right to exclude others consistently determined that the character of the action favors finding a regulatory taking.¹⁶⁰ This is particularly true where, as here, “the right to exclude others is central to the very definition of the property interest.”¹⁶¹

The economic impact of the sovereign action on the challenging party is substantial: the sovereign is able to collect profits from any sales, licensing agreements, or other commercialization efforts that are linked to the right to

¹⁵² See *Lucas v. S.C. Coastal Council*, 505 U.S. 1003, 1018 (1992).

¹⁵³ *Penn Cent. Transp. Co. v. City of New York*, 438 U.S. 104, 124 (1978).

¹⁵⁴ *PruneYard Shopping Ctr. v. Robins*, 447 U.S. 74, 83 (1980) (citing *Kaiser Aetna v. United States*, 444 U.S. 164, 176, 175 (1979)).

¹⁵⁵ See *Penn. Cent. Transp. Co.*, 438 U.S. at 125 (citing *Euclid v. Amber Realty Co.*, 272 U.S. 356 (1926)).

¹⁵⁶ See *supra* Section C.1.

¹⁵⁷ See *supra* Section II.A.

¹⁵⁸ See *supra* Section II.A.

¹⁵⁹ *Penn Cent. Transp. Co.*, 438 U.S. at 124 (“A ‘taking’ may be more readily found when the interference with property can be characterized as a physical invasion . . .”).

¹⁶⁰ See *Kaiser Aetna v. United States*, 444 U.S. 164, 176, 175 (1979); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011–12 (1984).

¹⁶¹ *Ruckelshaus*, 467 U.S. at 1011; accord *PruneYard Shopping Ctr.*, 447 U.S. at 84 (finding no regulatory taking because the party “failed to demonstrate that the ‘right to exclude others’ is so essential to the use or economic value of their property”). See also 35 U.S.C. § 154(a) (2012); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (“[T]he essence of a patent grant is the right to exclude others . . .”).

exclude.¹⁶² Even if the sovereign is not monetizing the patent rights, the challenging party can likely show significant economic impact if it can prove that there is a market for the invention and that it would be able to exploit that market if it had ownership of the patent rights.¹⁶³ Similar factors underlie a claim to lost profits in patent infringement disputes.¹⁶⁴

The party would be free to practice his or her invention unless or until the sovereign patent owner brings an infringement action to enjoin that practice.¹⁶⁵ This might weaken the case for finding a regulatory taking because, arguably, the individual has not been deprived of “all economically beneficial use” of the invention.¹⁶⁶ However, the Supreme Court in *Kaiser Aetna v. United States* recognized that “the right to exclude others” is “a fundamental element of the property right” the deprivation of which can amount to a regulatory taking regardless of the economic impact on related property rights.¹⁶⁷ This was so even when the property owner retained the right to use the property because the right to exclude was the profit generating portion of the property at issue.¹⁶⁸ Profiting from the right to exclude others is “the essence of a patent grant”;¹⁶⁹ it “is so essential to the . . . economic value of [the] property” that its deprivation has significant economic impact on the party with a direct property interests in a sovereign patent.¹⁷⁰

As for the interference with reasonable investment-back expectations, “encouragement of investment-based risk is the fundamental purpose of the patent grant, and is based directly on the right to exclude.”¹⁷¹ It is clear that using sovereign immunity to maintain ownership of a patent to the detriment of an individual with a direct ownership interest in that patent significantly interferes with that individual’s investment-backed expectations. The entire con-

¹⁶² See generally *Dawson Chem. Co.*, 448 U.S. at 215 (noting that the right to exclude necessarily includes “the right to exclude others from profiting by the patented invention”); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 600 (Fed. Cir. 1985) (noting that the right to exclude others “is implemented by the licensing and exploitation of patents”).

¹⁶³ A sovereign patent owner, like any patent owner, is under no obligation to actually practice the patent. See generally *King Instruments Corp. v. Perego*, 65 F.3d 941, 950 (Fed. Cir. 1995) (“The [Patent] Act does not dictate that a patentee must manufacture its own invention . . .”).

¹⁶⁴ See *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978) (“To obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.”)

¹⁶⁵ See generally 1 ROBERT A. MATTHEWS, ANNOTATED PATENT DIGEST (MATTHEWS) § 1.5 (2018) (noting that a patent only grants the right to exclude others, not the right to practice the patent).

¹⁶⁶ See *Lucas v. S.C. Coastal Council*, 505 U.S. 1003, 1017, 1030 (1992).

¹⁶⁷ *Kaiser Aetna v. United States*, 444 U.S. 164, 176, 179–80 (1979) (“[W]e hold that the ‘right to exclude,’ so universally held to be a fundamental element of the property right, falls within the category of interests that the Government cannot take”); see also *Horne v. Dep’t of Agriculture*, 135 S.Ct. 2419, 2429 (2015) (noting that having a “contingent interest” in the property does not negate a taking finding and noting that control over the right to exclude is the determining factor).

¹⁶⁸ *Kaiser Aetna*, 444 U.S. at 166. In *Keiser*, the property was a pond that the owners previously charged recreationists to use, the government then granted a free public right of access, thereby removing the profits associated with the prior right to exclude. *Id.*

¹⁶⁹ *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980).

¹⁷⁰ See *PruneYard Shopping Ctr. v. Robins*, 447 U.S. 74, 84 (1980); accord *United States v. General Motors Corp.*, 323 U.S. 373, 378 (noting that government action can be a taking “if its effects are so complete as to deprive the owner of all or most of his interest in the subject matter”).

¹⁷¹ *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985).

cept behind the patent system, and embedded in the Constitution, is the idea that granting innovators the right to exclude others from their inventions will encourage them to invest in pursuits that promote the progress of the useful arts to the benefit of society.¹⁷² Inventors “expend[] resources in expectation of receiving [the] reward” of a patent¹⁷³ and they are reasonable in doing so given the compulsory nature of the patent grant.¹⁷⁴ Preclusion from obtaining patent rights because a sovereign obtained an invalid patent and uses sovereign immunity to avoid any challenge thereto, directly interferes with the reasonable investment-backed expectations of the inventor.

Parties without a direct ownership interest in the sovereign patent will have a more difficult time proving there has been a regulatory taking, but there is a persuasive argument in their favor. The only real distinction from the analysis above is that rather than eliminating their property interests in the subject matter claimed in the sovereign patent, the sovereign action is reducing their ability to exploit their property interests in related subject matter. The sovereign action can be characterized as maintaining a patent that is invalid for failure to comply with substantive Patent Act requirements¹⁷⁵ and that patent interfering with another’s property rights in his or her invention. The economic impact and reasonable investment-backed expectation prongs, and their ad hoc application, would be determinative of the issue.¹⁷⁶

Individuals who own patents in related subject matter but are prohibited from fully exploiting them due to the sovereign patent will have the strongest case. An example case falling into this category would be when the individual has a patent for an improvement upon the sovereign patent: “[I]f an inventor has a patent on an improvement of a previously patented article or process, which patent is still in force, the patent on the improvement does not confer upon the inventor the right to make use, offer to sell, or sell the previously patented article or process with, or without, the improvement.”¹⁷⁷ The patentee may lose out on potential sales and licensing agreements if purchasers and licensees are unwilling to risk infringing the sovereign patent.¹⁷⁸ The exclusive

¹⁷²U.S. CONST., art. I, § 8, cl. 8. See generally *Pfaff v. Wells* (“[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.”).

¹⁷³*King Instruments Corp. v. Perego*, 65 F.3d 941, 950 (Fed. Cir. 1995) (“[T]he Patent Act creates an incentive for innovation. The economic rewards during the period of exclusivity are the carrot. The patent owner expends resources in expectation of receiving this reward.”).

¹⁷⁴See 35 U.S.C. § 131 (2012) (“[T]he Director [of the USPTO] shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefore.”); *James v. Campbell*, 104 U.S. 356, 356 (1881) (“[T]he grantee [of a patent] is entitled to it as a matter of right, and does not receive it . . . as a matter of grace and favor.”). See also *supra* Section II.A.

¹⁷⁵Most often this would be maintenance of a patent that should never have been granted due to its anticipation or obviousness in light of the prior art. See 35 U.S.C. §§ 102, 103.

¹⁷⁶See *Penn Cent. Transp. Co. v. City of New York*, 438 U.S. 104, 124 (1978) (noting the ad hoc, factual application necessary in regulatory takings analyses).

¹⁷⁷1 ROBERT A. MATTHEWS, ANNOTATED PATENT DIGEST (MATTHEWS) § 1:5 (2018) (citing several cases supporting this proposition).

¹⁷⁸See generally *Milken Res. Corp. v. Dan River, Inc.*, 739 F.2d 587, 594 (“[O]ne may not be able to practice the invention protected by a patent direct to an improvement of another’s patent article or method except with a license under the latter.”); *King Instruments Corp. v. Perego*, 65 F.3d 941, 950 (Fed. Cir. 1995) (noting that a patentee, such as the sovereign, is not obligated to practice its patent or to allow others to do so).

rights concomitant with a patent are “implemented by the licensing and exploitation of the patent” so the economic impacts associated with removal of licensing opportunities or other revenue streams due to the sovereign patent would strongly support a finding that a regulatory taking occurred.¹⁷⁹ Still the patentee would have a high burden of showing facts that support a finding that the interference caused by the sovereign patent removes “all or most of his [or her] [economic] interest in the subject matter.”¹⁸⁰

These patentees, might also be able to satisfy the reasonable investment-baked expectation prong of the analysis. The only thing guaranteed by the patent laws is that patents will be granted,¹⁸¹ there is no guarantee that the patent will actually lead to any profit.¹⁸² Still, “[p]atents are obtained in expectation of profit”¹⁸³ and patentees “expend[] resource in expectation of receiving [economic] reward.”¹⁸⁴ Patentees expect the ability to control how they commercialize their inventions; they do not expect to encounter invalid patents that inhibit their commercialization efforts.¹⁸⁵ Patentee’s would also expect to be able to challenge such invalid patent.¹⁸⁶ Removal of licensing or other revenue streams does not *fully* remove the patentee’s ability to achieve the expected return on his or her investment. However, it may be sufficient to support a regulatory taking finding if it significantly limits the patentee’s ability to profit from its use of the patent rights.¹⁸⁷

Other than interference with licensing abilities, there are other situations where sovereign ownership of an invalid patent would interfere with a patentee’s ability to exploit his or her own patent. The takings analysis would be the same in these circumstances as it is for the licensing case. It is difficult to generalize about the success of these takings analysis given the “essentially ad hoc, factual inquiries” behind a regulatory taking analysis.¹⁸⁸ But, it is possible for these patentee’s to show there has been a taking if the sovereign patent interferes with their patent rights in a manner that “deprive[s] [him or her] of all or most of his [or her] interest in the subject matter” claimed in their patents.¹⁸⁹

¹⁷⁹ See *Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 600 (Fed. Cir. 1985).

¹⁸⁰ See *United States v. General Motors Corp.*, 323 U.S. 373, 359–60 (1945).

¹⁸¹ See 35 U.S.C. § 131 (“[I]f . . . it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefore.”); *James v. Campbell*, 104 U.S. 356, 356 (1881) (“[T]he grantee [of a patent] is entitled to it as a matter of right . . .”). See also *supra* Section II.A.

¹⁸² See generally *Studiengesellschaft Kohle mbH v. N. Petrochemical Co.*, 784 F.2d 351, 357 (Fed. Cir. 1986) (“The patent grant is not for the right to use the patented subject matter, but only for the right to exclude others from practice of the patented subject matter.”).

¹⁸³ See *Dolin & Manta*, *supra* note 117, at 792.

¹⁸⁴ *King Instruments Corp.*, 65 F.3d at 950.

¹⁸⁵ See generally *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980) (noting that the right to exclude necessarily includes “the right to exclude others from profiting by the patented invention”); *Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 600 (Fed. Cir. 1985) (noting that the right to exclude others “is implemented by the licensing and exploitation of patents”); *Horne v. Dep’t of Agriculture*, 135 S.Ct. 2419, 2427 (2015) (noting that people “do not expect their property, real or personal,” to be appropriated).

¹⁸⁶ See *supra* Section II.B. (discussing the importance of challenging invalid patents).

¹⁸⁷ See *Kaiser Aetna v. United States*, 444 U.S. 164, 176, 179–80 (1979) (finding a regulatory taking where the most profitable use of land was removed by federal regulation); see also *Horne*, 135 S.Ct. at 2429 (2015) (noting that having a “contingent interest” in profits made from sales of personal property taken by the government does not negate finding there has been a taking).

¹⁸⁸ *Penn Cent. Transp. Co. v. City of New York*, 438 U.S. 104, 124 (1978).

¹⁸⁹ See *United States v. General Motors Corp.*, 323 U.S. 373, 378 (1945).

The only parties who are likely unable to show a regulatory taking are those who might have been granted a patent on subject matter overlapping that in the sovereign patent but are precluded from obtaining a patent because the sovereign patent acts as blocking prior art.¹⁹⁰ Even if the sovereign patent were invalidated, or never granted in the first place, the patent application related to the subject matter therein would continue to serve as prior art to block the individual's subsequent patent application.¹⁹¹ For these individuals, they might experience significant adverse economic effects due to the lack of patent protection, but they had no reasonable expectation to receive a patent in the first place.¹⁹² As discussed, inventors expect to be granted patents *when they meet the statutory patentability requirements*.¹⁹³ Patent applicants are aware of the conditions of patentability, including novelty and non-obviousness, so they could "hardly argue that [their] reasonable investment-backed expectations are disturbed" when those conditions prohibit the grant of a patent.¹⁹⁴

For individuals who are attempting to invalidate the sovereign patent merely, so they may be free to practice the invention without apprehension of infringement, they have no patent right at issue so they will not be able to show a regulatory (or per se) taking. This is not so much a conclusion necessitating a takings analysis, but one derived from the fact that it is the right in the patent—the property interest in the right to exclude—that is being taken in all of the other cases and this individual has no such claim.¹⁹⁵ Unlike parties with a direct interest in the sovereign patent or those with patent rights hindered by the existence of the sovereign patent, these individuals do not have any patent rights that are being appropriated or diminished by the sovereign patent.

¹⁹⁰The individual's patent application could be denied on several grounds, including: obviousness or anticipation with the sovereign patent serving as prior art, or based on the prohibition on double patenting. 35 U.S.C. §§ 102, 103 (2012); *see also* 2 GREGORY E. UPCHURCH, INTELLECTUAL PROPERTY LITIGATION GUIDE: PATENTS & TRADE SECRETS §§ 15:9, 15:24, 15:47 (2018) (describing the novelty and obviousness requirements and the prohibition on double patenting). Anything included in the broadest reasonable interpretation of the sovereign patent claims or in the sovereign patent specification would be prior art. *See generally* Minerals Separation N. Am. Co. v. Magma Copper Co., 280 U.S. 400, 404 ("The question is not what is the precise scope of the claims in [the prior art patent], but what is disclosed in the specification and made known to the world.").

¹⁹¹*See generally* 35 U.S.C. § 102 (noting that a printed publication is prior art and patent applications are printed); *see also* SmithKlein Beecham Corp. v. Apotex Corp., 439 F.3d 1312, 1317 n. 5 ("Although we have previously held the [relevant] patent invalid, it can still, of course, anticipate a later product patent. By virtue of publication, the [invalidated] patent has become prior art.").

¹⁹²*See Ruckelshaus v. Monsanto, Co.*, 467 U.S. 986, 1006–08 (1984) (holding that Monsanto had no "reasonable investment-backed expectations" in protecting its trade secrets when submitting them to the EPA for regulatory approval).

¹⁹³*See supra* Section II.A. *See also* 35 U.S.C. § 131 ("[T]he Director [of the USPTO] shall cause an examination to be made . . . and if on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefore.").

¹⁹⁴*See Ruckelshaus*, 467 U.S. at 1007 (finding no regulatory taking of trade secrets when the party was seeking registration under a federal program and was fully "aware of the conditions" of registration, including disclosure of its trade secrets).

¹⁹⁵*See supra* Section III.A. (discussing the protected property interests at issue in this case). A party in this situation may well have a protected interest in a trade secret that is hindered, *see* Epstein, *supra* note 110, at 72–73, or a protected interests in their right to practice their preferred profession that is harmed. *See generally* Mead v. Indep. Ass'n, 684 F.3d 226, 232 (1st Cir. 2012) ("The right to hold private employment and to pursue one's chosen profession free from unreasonable government interference is encapsulated in the liberty concept of the Due Process Clause."). Both of these theories are beyond the scope of this Article.

IV. ALLOWING THE USE OF SOVEREIGN IMMUNITY IN PATENT VALIDITY OR INVENTORSHIP CHALLENGES LEAVES NO SOURCE OF CONSTITUTIONALLY REQUIRED REMEDIES FOR THE TAKING

“[T]akings and state sovereign immunity cases are fundamentally incompatible with each other.”¹⁹⁶ A sovereign is required to remedy a taking by providing compensation or abandoning the property to give ownership to the rightful owner.¹⁹⁷ Yet, sovereigns have been able to use their immunity to avoid validity and inventorship actions in federal court and at the PTO. This is consistent with the broad application of sovereign immunity under the Eleventh Amendment; however, it allows sovereigns to avoid constitutionally required remedies because the suits avoided by use of immunity are the only ones in which the remedies may be imposed. Therefore, sovereign entities should not be able to assert immunity from patent validity and inventorship challenges when doing so amounts to a taking.

This Section discusses the remedies that would satisfy the taking and where those remedies may be obtained. It then explains that there are currently no exceptions to sovereign immunity that would compel sovereigns to subject themselves to patent validity or inventorship challenges. Reasons why immunity should not be allowed in this circumstance—other than the fact that it facilitates a taking of personal property—are then discussed.

A. *Actions in Federal Court and Challenges at the PTO are the Only Sources of the Required Remedy*

When a taking has occurred, a sovereign is constitutionally required to remedy it by providing compensation, abandoning the property to the rightful owner, terminating the action that led to a regulatory taking, or a combination thereof.¹⁹⁸ Sovereign ownership of an invalid patent that amounts to a taking may only be remedied by providing damages to the party, by transferring ownership of the patent to the rightful inventor, or invalidating the patent so other patentee’s are free to exploit their own inventions.¹⁹⁹ The PTO and federal courts are the only venues in which these remedies may be effectuated.

¹⁹⁶Eric Berger, *The Collision of the Takings and State Sovereign Immunity Doctrines*, 63 WASH. & LEE L. REV. 493, 494 (2006).

¹⁹⁷See *First English Evangelical Lutheran Church v. County of Los Angeles*, 482 U.S. 304, 317–18 (1987) (discussing prior cases where the court allowed the sovereign to elect either abandoning the property or paying compensation for the period of the taking).

¹⁹⁸See *id.*

¹⁹⁹See *supra* Section III.B.

1. State Forums Lack Jurisdiction Over Patent Validity and Inventorship Challenges

Federal courts have exclusive jurisdiction for patent matters, stemming from 28 U.S.C. § 1338(a): “The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents”²⁰⁰ The courts have liberally interpreted this statute to confer federal jurisdiction whenever the plaintiff’s “right to relief necessarily depends upon resolution of a substantial question of patent law.”²⁰¹ Under this standard, any case that raises an issue of inventorship or invalidity of a patent confers exclusive jurisdiction upon the federal courts because “the only authority for attacking the originality or validity of the patent is that given in the . . . Patent Act.”²⁰² In addition to federal court jurisdiction, the Patent Act granted the PTO the authority to invalidate issued patents in PTAB proceedings.²⁰³ These are an adversarial alternative to federal court litigation but do nothing to change the fact that states lack the authority to invalidate patents or correct their inventorship.²⁰⁴

State courts lack the authority to hear issues arising under the patent laws, such as patent validity or inventorship challenges.²⁰⁵ Federal patent law also acts to preempt all state laws that provide patent-like protection or that interfere with federal patent law.²⁰⁶

2. There Are No State Law Remedies That Do Not Necessarily Raise Federal Patent Law

The remedies available to a party attempting to bring an invalidity or inventorship challenge against a sovereign patent depend upon the ownership interest in the patent and the relief sought by that party. If the challenger is an alleged inventor bring suit under Section 256 to correct inventorship,²⁰⁷ his or her only remedies are invalidation of the patent for failure to list the true inventors,²⁰⁸ or amendment of the patent to include the challenger as a patent-

²⁰⁰28 U.S.C. § 1338(a) (2012).

²⁰¹*Christianson v. Colt Indust. Operating Corp.*, 486 U.S. 800, 808–09 (1988).

²⁰²*See generally* *Bates v. Coe*, 98 U.S. 31, 48 (1878) (“[T]he only authority for attacking the originality or validity of the patent is that given in the act of Congress, and consequently the attack must be made in the mode the Patent Act prescribes.”); *Bd. Regents Univ. Tex. Sys. v. Nippon Tel. & Tel. Corp.*, 414 F.3d 1358, 1363 (Fed. Cir. 2005) (noting that “issues of inventorship, infringement, validity and enforceability present sufficiently substantial questions of federal patent law to support jurisdiction under section 1338(a)”).

²⁰³*See supra* Section II.B.2.

²⁰⁴*See* H.R. Rep. No. 112-98, at 165 (2011) (characterizing IPR proceedings as “a viable, efficient alternative to litigation for weeding out bad patents”). *See also* *Vermont v. MPHJ Tech. Invs., LLC*, 803 F.3d 635, (Fed. Cir. 2015) (citing *Gunn v. Minton*, 133 S.Ct. 1059, 1065 (2013)).

²⁰⁵*See* 28 U.S.C. § 1338(a) (2012) (“No state court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patent”).

²⁰⁶*See generally* *Amgen Inc. v. Sandoz Inc.*, 877 F.3d 1315, 1326–27 (Fed. Cir. 2017) (explaining that the Supremacy Clause and federal patent law preempt state law).

²⁰⁷*See* 35 U.S.C. § 256.

²⁰⁸*See* *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1353 (Fed. Cir. 1998) (“To invalidate a patent based on incorrect inventorship it must be shown not only that the inventorship was incorrect, but that correction is unavailable under Section 256.”).

tee.²⁰⁹ There is simply no other way to remedy and omitted inventor's taking: "A state law remedy is not available, and a claimant's only remedy lies in a federal cause of action under 35 U.S.C. § 256 to correct inventorship."²¹⁰ The same is true for other individuals with a direct property interest in the subject matter claimed in the sovereign patent. Their complaint is that but for the sovereign patent, they would have ownership of the subject matter claimed in the sovereign patent, which can only be remedied by invalidation or transfer of the sovereign patent. Some state's purportedly allow those with direct property interest to bring claims like unjust enrichment, conversion, or deceptive trade practices.²¹¹ However, not only are these claims preempted by federal law,²¹² they do not redress the injury central to the complaint: the individual with a direct property interest in the sovereign patent is entitled to that property interest or to invalidation of the patent.²¹³

For those with patent rights that are diminished under the regulatory takings analysis, their acceptable remedies are likewise solely federal in nature. The theory behind these cases is that the sovereign patent, which should be invalidated, prohibits the other patentee from fully exploiting his or patent rights.²¹⁴ There may be a tortious interference or similar state law claim: the sovereign consciously interfered with reasonably probable business relations between the other patentee and potential licensees.²¹⁵ However, the interfering action complained of is the continued ownership of the sovereign patent, which necessarily raises the issue of whether the sovereign patent is invalid.²¹⁶ Since issued patents are presumed valid,²¹⁷ the aggrieved party would have to prove that the sovereign patent is invalid to prevail on the tortious interference claim.²¹⁸ The same is true for any state law claim that might arise in this

²⁰⁹ See *Trovan, Ltd. v. Sokymat SA, Irori*, 299 F.3d 1292, 1301 (Fed. Cir. 2002) ("[T]o the extent that fewer than the true inventors are named on a patent, the patent may be corrected to so reflect . . ."); accord *Ali v. Carnegie Inst. Wash.*, 684 Fed. App'x. 985, 995 (Fed. Cir. 2017) (Dyk, J., concurring). (noting that the "claimant's only remedy lies" in a Section 256 correction of inventorship).

²¹⁰ *Ali*, 684 Fed. App'x at 995 (Dyk, J., concurring).

²¹¹ See 4 ROBERT A. MATTHEWS, ANNOTATED PATENT DIGEST § 26:144.100 (2018) (discussing potential state law causes of action and their preemption by federal patent law).

²¹² See *HIF Bio, Inc. v. Yung Shim Pharm. Indus. Co., Ltd.*, 600 F.3d 1347, 1353 (Fed. Cir. 2010) ("[F]ederal patent law preempts any state law the purports to define rights based on inventorship."); *Tavory v. NTP, Inc.*, 297 Fed. App'x. 976 (Fed. Cir. 2008) (holding that state law unjust enrichment claims are preempted by federal patent law); *Speedfit LLC v. Woodway USA, Inc.*, 226 F. Supp. 3d 149, 159–60 (E.D.N.Y. 2016) (finding state law conversion claim preempted by federal patent law).

²¹³ See *James v. Campbell*, 104 U.S. 356, 356 (1881); *C.R. Bard*, 157 F.3d at 1353; *Trovan*, 299 F.3d at 1301.

²¹⁴ See *supra* Section III.B.2.

²¹⁵ See *Bd. Regents Univ. Tex. v. Nippon Tel. & Tel. Corp.*, 414 F.3d 1358, 1362 (Fed. Cir. 2005). An example of the elements of a tortious interference claim is:

(1) a reasonable probability that the parties would have entered into a contractual relationship; (2) an independently tortious or unlawful act by the defendant that prevented the relationship from occurring; (3) the defendant did the act with a conscious desire to prevent the relationship from occurring or with knowledge that the interference was certain or substantially certain to occur as a result of his conduct; and (4) the plaintiff suffered actual harm or damage as a result of the interference.

Id. (citing *Ash v. Hack Branch Distrib. Co.*, 54 S.W.3d 401, 414–15 (Tex. App. 2001)).

²¹⁶ *Id.* at 1363.

²¹⁷ 35 U.S.C. § 282 (2012).

²¹⁸ See *Bd. of Regents Univ. Tex.*, 414 F.3d at 1363. In *Bd. of Regents, U. Tex.*, the tortious interference claim was not preempted by patent law because the party needed to show the patent is valid to satisfy the state law claim, for which he could rely on the presumption of validity. *Id.* Therefore, the patent claim "was not essential to the

context. The central issue is that the sovereign patent is diminishing the property rights of another party and the sovereign has no right to do so because its patent is substantively invalid.²¹⁹ Any state law claim that could compensate the injured party would necessarily require a showing that the sovereign patent is invalid²²⁰—an issue that is devoted to the exclusive jurisdiction of federal courts—and any state law work-arounds would be preempted by federal patent law.²²¹

A sovereign wishing to assert immunity from a patent validity or inventorship challenge will likely argue that there is not a taking issue because the party would be able to challenge patent validity or inventorship as an affirmative defense in any infringement action brought by the sovereign.²²² However, the potential to be able to correct the issue in a later proceeding cannot negate the fact that a taking has occurred.²²³ This proceeding may well provide the due process required by the Fourteenth Amendment, but merely allowing an opportunity to hear the claim and providing due process is not sufficient to correct a taking, which requires compensation.²²⁴

B. *Parties Who Have Had Their Patent Rights Taken Have No Means of Avoiding Immunity Under Existing Law*

Despite the fact that validity and inventorship challenges in federal courts or PTAB proceedings are the only source for the required compensation, sovereign entities have consistently been allowed to assert immunity to avoid these challenges.²²⁵ There are exceptions to sovereign immunity that allow a case to proceed in the absence of the sovereign and a case may proceed against the sovereign if it has waived immunity. This section explains that a sovereign is a necessary and indispensable party to any litigation or administrative adjudication that might invalidate or transfer ownership of a patent, so cases cannot proceed without them if they assert immunity. In addition, traditional exceptions to immunity and waiver of immunity are not applicable in the context of a patent validity or inventorship challenge.

resolution of the Plaintiff's claim." *Id.*

²¹⁹ See *Vermont v. MPHJ Tech. Investments, LLC*, 803 F.3d 635, 646 (Fed. Cir. 2015) (noting that interpretation of the patent law was "the central point of dispute" and therefore arose under the patent laws).

²²⁰ See *Bd. of Regents, U. Tex.*, 414 F.3d at 1363.

²²¹ See *supra* Section IV.A.1.

²²² See *supra* Section II.B.1.

²²³ See *Doling & Manta, supra* note 117, at 771 (citing *Horne v. Dep't of Agriculture*, 135 S.Ct. 2419, 2429 (2015)) ("[E]ven contingent interest in patents would not eliminate the possibility that a taking took place.").

²²⁴ See *generally Chicago, B & Q R.R. Co. v. City of Chicago*, (1897) 166 U.S. 226, 236–37 ("The mere form of the proceeding instituted against the owner, even if he be admitted to defend, cannot convert the process used into due process of law, if the necessary result be to deprive him of his property without compensation.");

²²⁵ See *supra* Section II.C. *Accord In Re State of New York*, 256 U.S. 490, 497 (1921) ("[I]t has become established by repeated decision of this court that the entire judicial power . . . does not embrace authority to entertain a suit brought by private parties against a state without consent given . . ."); see *also Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Savs. Bank*, 527 U.S. 627, 642 (1999) (holding that sovereign immunity is available in patent cases).

1. The Sovereign is an Indispensable Party Without Whom the Patent Validity or Inventorship Challenge May Not Proceed

In federal court, the party against whom an invalidity or inventorship challenge must be brought is the one who owns “all substantial rights and interests” in the patent.²²⁶ Sovereigns fall into this category when the patent was issued to them in the first instance or a patent has been assigned to them.²²⁷ As patentee or assignee, sovereign entities are necessary to the resolution of patent validity and inventorship issues and “[are] required to be joined if feasible.”²²⁸

Even though a sovereign is a necessary party to a patent validity or inventorship challenge, the case may proceed without the sovereign if it is not an indispensable party.²²⁹ If a party is deemed indispensable but cannot be included in the litigation, the case must be dismissed.²³⁰ The Federal Circuit has consistently held that sovereign patentees and assignees are indispensable because proceeding without them would significantly prejudice its interest in the patent given the potential that it “would lose all rights in its patents despite the fact that it had no opportunity to defend its interests in the litigation.”²³¹ The use of sovereign immunity itself is given significant weight in the indispensability analysis, almost amounting to a presumption that the sovereign has substantial interests in the litigation and is an indispensable party without whom that interest cannot be affected.²³² For this reason, “where a sovereign party should be

²²⁶ See *Delano Farms Co. v. Cal. Table Grape Comm’n*, 655 F.3d 1337, 1342 (Fed. Cir. 2011); *Enzo APA & Son, Inc. v. Geapag A.G.*, 134 F.3d 1090, 1093 (Fed. Cir. 1998); *Keranos, LLC v. Analog Devices, Inc.*, Nos. 2:10-cv-207, 2:11-cv-331, 2012 WL 12716356, at *2 (E.D. Tex. Sept. 28, 2012) (“[T]he assignor could not sue for infringement of the patent, nor can the assignor be made to defend a declaratory judgment claim related to the assigned patent.”).

²²⁷ See *supra* Section II.A. See also *Delano Farms Co.*, 655 F.3d 1337, 1342–43 (noting that an exclusive licensee with all substantial rights is treated like an assignee and must be joined to an invalidity challenge); *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336, 1344 (Fed. Cir. 2006) (noting that “a patentee must be joined in any lawsuit involving his or her patent”).

²²⁸ See *Univ. Utah v. Max-Plank-Gesellschaft zur Forderung der Wissenschaften e.V.*, 734 F.3d 1315, 1325 (Fed. Cir. 2013).

²²⁹ *Id.* at 1326 (“When a party that is required to be joined if feasible under Rule 19(a) cannot be joined, the court must determine whether, in equity and good conscience, the action should proceed among the existing parties or should be dismissed.”). The factors for determining whether a party is indispensable include:

(1) the extent to which a judgment rendered in the person’s absence might prejudice that person or the existing parties; (2) the extent to which any prejudice could be lessened or avoided by: (A) protective provisions in the judgement; (B) shaping the relief; or (C) other measures; (3) whether a judgment rendered in the person’s absence would be adequate; and (4) whether the plaintiff would have an adequate remedy if the action were dismissed for nonjoinder.

Fed. R. Civ. P. 19(b).

²³⁰ See generally *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1222 (Fed. Cir. 2010) (dismissing a case against a university patent owner because the university was both necessary and indispensable but could not be joined due to sovereign immunity).

²³¹ *Id.* at 1221; *Delano Farms*, 655 F.3d at 1341–43 (finding that the USDA as patent owner was an indispensable party but allowing joinder because the Administrative Procedures Act waives immunity for administrative agencies); *Ali v. Carnegie Inst. Wash.*, 306 F.R.D. 20, 29 (D. D.C. 2014), *aff’d* 684 Fed. App’x 985 (Fed. Cir. 2017) (holding that an inventorship challenge cannot proceed without the sovereign party because it could lose some ownership interest in the patent); *Dainippon Screen Mfg. Co., Ltd. v. CFMT, Inc.*, 142 F.3d 1266, 1272 (Fed. Cir. 1998) (holding that one who can fully and adequately represent the interest of the patentee—here, an entity created to commercialize the patent—is an indispensable party); *Alfred E. Mann Found. For Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, 1359 (Fed. Cir. 2010) (“[P]atent owner is an indispensable party who must be joined.”); *Univ. of Utah*, 734 F.3d at 1327–28 (explain that one with ownership interests in the patent is an indispensable party); *accord A.L. Smith Iron Co. v. Dickson*, 141 F.2d 3, 5–7 (2d Cir. 1944) (Hand, J.) (holding that the patentee or assignee is an indispensable party).

²³² See 7 CHARLES ALAN WRIGHT & ARTHUR R. MILLER, ET AL., FEDERAL PRACTICE & PROCEDURE CIVIL § 1617 (3d ed.

joined in an action, but cannot be owing to sovereign immunity, the entire case must be dismissed if there is the potential for the interests of the sovereign to be injured.”²³³ Given the sovereign’s interest in the patent, assertion of sovereign immunity will almost bar a patent validity or inventorship challenge.²³⁴

2. Traditional Exceptions to Sovereign Immunity Do Not Apply To Patent Validity & Inventorship Challenges

There are exceptions to the doctrine of sovereign immunity that would seemingly allow a patent validity or inventorship challenge to proceed.²³⁵ The first is an officer suit—a suit against an officer of the sovereign rather than against the sovereign directly. The second is a suit in rem—a suit against a piece of property rather than against the sovereign. However, neither is applicable in patent validity or inventorship challenges.

a. Officer Suits under *Ex Parte Young* Are Not Available The officer-suit exception, first articulated in *Ex Parte Young*, allows one to sue a sovereign official in lieu of suing the sovereign, to enjoin an ongoing violation of federal law.²³⁶ The *Young* exception relies on the fiction that when an officer commits and unconstitutional or unlawful act, he or she is no longer acting on behalf of the state and is therefore not shielded by sovereign immunity.²³⁷ This is true even if his or her actions were authorized or compelled by sovereign statute:²³⁸ “It is

2018) (“No doubt because of the sovereign-immunity concept, the application of Rule 19 in cases involving [a sovereign] reflects a heavy emphasis on protecting its interests.”). *Accord* Republic of Phil. v. Pimentel, 553 U.S. 851, 855 (2008) (“[W]here sovereign immunity is asserted, and the claims of the sovereign are not frivolous, dismissal of the action must be ordered where there is a potential for injury to the interest of the absent sovereign.”); *Ali v. Carnegie Inst. Wash.*, 306 F.R.D. 20, 27 (D. D.C. 2014), *aff’d* 684 Fed. App’x 985 (Fed. Cir. 2017) (“[W]hile the balancing of the Rule 19(b) factors is relevant and important, sovereign immunity reigns supreme in the analysis.”); *accord* Kickapoo Tribe of Indians v. Babbitt, 43 F.3d 1491, 1497 (D.C. Cir. 1995) (“While Rule 19(b) sets forth four non-exclusive factors for the court to consider . . . there is very little room for balancing of other factors set out in Rule 19(b) where a necessary party . . . is immune from suit because immunity may be viewed as one of those interests compelling by themselves.”) (internal citations omitted).

²³³*Klamatch Tribe Claims Comm. v. United States*, 106 Fed. Cl. 87, 96 (Fed. Cl. 2012), *aff’d*, 542 Fed. App’x 974 (Fed. Cir. 2013); *Ali*, 306 F.R.D. at 29; *A123 Sys.*, 626 F.3d at 1221 (holding that dismissal is required because sovereigns that asserted immunity may “lose all rights in [their] patents despite the fact that [they] had no opportunity to defend [their] interests in the litigation.”). Federal Rule of Civil Procedure 12(b)(7) calls for dismissal of a case for “failure to join a party under Rule 19.” Fed. R. Civ. P. 12(b)(7).

²³⁴The only exception might be where there is another party that can be joined who adequately represents the interests of the absent sovereign, which is rare and would require some relationship with the sovereign. *See Univ. of Utah*, 734 F.3d at 1327–28 (allowing an inventorship challenge to proceed without the University of Massachusetts because the University of Utah, the co-owner of the patent, had the same interests as the University of Massachusetts in defending the patent); *c.f. Ali*, 684 Fed. App’x at 989 (holding that an inventorship challenge cannot proceed without the University of Massachusetts because the Carnegie Institute, co-owner of the patent, does not have the same interests in the outcome of the case).

²³⁵They might better be characterized as applications of the doctrine than expectations to it. Each is a legal fiction that declares a case as one against another party or against a piece of property rather than against the sovereign.

²³⁶209 U.S. 123, 159–60 (1908); *Verizon Md., Inc. v. Pub. Serv. Comm’n of Md.*, 535 U.S. 635, 645 (2002) (“In determining whether the complaint alleges an ongoing violation of federal law and seeks relief properly characterized as prospective.”)

²³⁷*See Pennhurst State School & Hosp. v. Halderman*, 465 U.S. 89, 105, 114 n.25 (1984) (characterizing the *Ex Parte Young* doctrine as a fiction).

²³⁸*Ex Parte Young*, 209 U.S. at 159–60.

simply an illegal act upon the part of a state official in attempting . . . to enforce a legislative enactment which is void because unconstitutional.”²³⁹ Sovereigns are presumed not to endorse unconstitutional actions, so courts treat this situation not as an action of the state, but as an action of the official.²⁴⁰

An aggrieved party may only obtain prospective relief in an officer suit.²⁴¹ This ensures that the *Young* exception does not swallow sovereign immunity—“the Eleventh Amendment would have force only in the rare case in which a plaintiff foolishly attempts to sue the [sovereign] in its own name” if all types of relief were available in officer suits.²⁴² As such, a party may only maintain suit against an officer if a remedy against the officer, in his or her individual capacity, is available to redress the injury.²⁴³ If the officer-suit has “essentially the same practical consequences as a judgement against the State itself” then the *Young* exception cannot apply.²⁴⁴ “The general rule is that a suit is against the sovereign if the judgment sought would expend itself on the public treasury . . . or if the effect of the judgement would be to restrain the Government from acting or compel it to act” and the *Young* exception is not available in these circumstances.²⁴⁵

“[C]ontinuing prospective violations of a federal patent right by state officials may be enjoined by federal courts under the *Ex Parte Young* doctrine; however, the Eleventh Amendment precludes the plaintiff from obtaining monetary damages from individual defendants in their official capacities.”²⁴⁶ Sovereign ownership of an invalid patent appears to be a good candidate for a suit under the *Young* exception.²⁴⁷ However, the *Young* exception is not available here because the aggrieved party likely cannot identify an individual responsible for maintaining the sovereign patent. A party whose rights have been taken by the sovereign patent must show a “nexus” between the violation of patent law and a particular individual.²⁴⁸ In patent cases, an officer’s responsibility to manage, oversee, or direct a sovereign’s patent portfolio is insufficient to show a nexus between the taking and the official.²⁴⁹ Whenever a particular, individual officer cannot be identified as responsible for the violation of federal law, the case is viewed as one against the sovereign and is precluded by

²³⁹ *Id.* at 159.

²⁴⁰ *Id.* at 159–60.

²⁴¹ *E.g.*, *Edelman v. Jordan*, 415 U.S. 651, 677 (1974).

²⁴² *Pennhurst*, 465 U.S. at 116.

²⁴³ *Edelman*, 415 U.S. at 668 (noting that any effects on the state must only be “ancillary” for there to be a proper officer suit).

²⁴⁴ *Lake Country Estates, Inc. v. Tahoe Reg’l Planning Agency*, 440 U.S. 391, 401 (1979).

²⁴⁵ *Dugan v. Rank*, 372 U.S. 609, 620 (1963).

²⁴⁶ *Pennington Seed Inc. v. Produce Exch. No. 299*, 457 F.3d 1334, 1341 (Fed. Cir. 2006) (citing *Kentucky v. Graham*, 473 U.S. 159, 169 (1985)).

²⁴⁷ *See supra* Section III.B.; *see also* *See Univ. Utah v. Max-Plank-Gesellschaft zur Forderung der Wissenschaften e.V.*, 881 F. Supp. 2d 151, 155 (D. Mass. 2012), *aff’d* 734 F.3d 1315 (Fed. Cir. 2013) (noting that *Young* has been used in patent infringement cases and might be available in correction of inventorship cases).

²⁴⁸ *Pennington*, 457 F.3d at 1341–42.

²⁴⁹ *See id.* at 1343–44 (“Allegations that a state official directs a University’s patent policy are insufficient to causally connect that state official to a violation of federal patent law The fact that a University Official has a general, state-law obligation to oversee a University’s patent policy does not give rise to a violation of federal patent law.”).

sovereign immunity.²⁵⁰

Even if the party can identify the correct officer—perhaps it is the inventor named on the sovereign patent²⁵¹—the *Young* exception does not apply due to the sovereign’s interest in the patent. Invalidation of or correction of inventorship of a sovereign patent necessarily involves the interest of the sovereign.²⁵² If a suit is allowed to proceed against the officer, there is potential that the sovereign could “lose all rights in its patent despite the fact that it had no opportunity to defend its interest in the litigation” if the patent is ultimately invalidated.²⁵³ Even if the court orders a correction of inventorship rather than invalidating the patent, the sovereign would “lose some of its rights in the [relevant] patent without having participated in the suit.”²⁵⁴ With either outcome, the sovereign “would lose either a whole or partial interest in the patent[.]”²⁵⁵ so the officer suit would have “essentially the same practical consequences as a judgement against the [sovereign] itself” and is therefore barred.²⁵⁶

The presumption that an issued patent is valid²⁵⁷ also precludes the application of the *Young* exception in a patent validity challenge:

[A]n issued patent is presumed to be valid. Unless and until the [sovereign] patent is determined to be invalid, there cannot be an ongoing violation of federal law for the [sovereign], which retains significant interests in its patent, . . . to enforce that presumptively valid patent.²⁵⁸

This might seem counter intuitive. One presumably should not have to prove invalidity, a substantive issue, to show that there they are entitled to bring a suit against an officer.²⁵⁹ Still, “no Federal Circuit or district court [case] has ever applied *Ex Parte Young* to a declaratory relief action seeking a declaration of . . . patent invalidity.”²⁶⁰

²⁵⁰ See *id.* at 1344. “To hold otherwise would not only violate the principles of federalism and a state’s sovereign immunity, but it would be akin to a suit against the state itself.” *Id.*

²⁵¹ See *Univ. Utah*, 881 F. Supp. 2d at 155 (allowing a suit against the named inventor where the inventor is an officer of the state).

²⁵² See *Dugan v. Rank*, 372 U.S. 609, 620 (1963) (explaining that an officer suit cannot proceed if its effects would be primarily felt by the sovereign).

²⁵³ *A123 Sys., Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1221 (Fed. Cir. 2010); accord *Schwarz Pharma Inc. v. Paddock Labs., Inc.*, 504 F.3d 1371, 1374 (Fed. Cir. 2007) (“[A] patent should not be placed at risk of invalidation . . . without participation of the patentee . . .”).

²⁵⁴ *Cyanotech Corp. v. Nutraceuticals, LLC*, No. 12-00352JMS-RLP, 2013 WL 504862, at *7 (D. Haw. Feb. 7, 2013).

²⁵⁵ See *Univ. Utah*, 881 F. Supp. 2d at 155–56. In *University of Utah*, the district court allowed the case to proceed as an officer suit against the state official named as an inventor on the sovereign patent. *Id.* However, on appeal the Federal Circuit held that the *Young* question does not apply to the case in the first place so the district court’s holding on that respect is dicta. See *Univ. Utah v. Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V.*, 734 F.3d 1315, 1325 (Fed. Cir. 2013) (“The district court also considered . . . whether the *Ex Parte Young* exception to sovereign immunity applied. . . . Because this case does not involve a suit by citizens against a State, there is no sovereign immunity issue here.”).

²⁵⁶ *Lake Country Estates, Inc. v. Tahoe Reg’l Planning Agency*, 440 U.S. 391, 401 (1979).

²⁵⁷ See 35 U.S.C. § 282 (2012).

²⁵⁸ *Cyanotech Corp.*, 2013 WL 504862, at *6 (citations omitted).

²⁵⁹ See *Verizon Md., Inc. v. Pub. Serv. Comm’n of Md.*, 535 U.S. 635, 646 (2002) (“But the inquiry into whether suit lies under *Ex parte Young* does not include an analysis of the merits of the claim.”).

²⁶⁰ *Cyanotech Corp.*, 2013 WL 504862, at *7.

b. Patent Validity Challenges are Not In Rem The issue of sovereign immunity may be avoided by bringing an action in rem, in which jurisdiction of a federal forum is based on the property at issue rather than on the party involved.²⁶¹ “The effect of a judgement in such case is limited to the property that supports jurisdiction and does not impose a personal liability on the property owner, since he is not before the court.”²⁶² Since patent validity and inventorship challengers are seeking to affect the property—by invalidating the patent or having it amended to include them as inventor—they have a valid argument that in rem jurisdiction should be available in such cases. However, unlike other in rem actions, invalidity and inventorship actions are not “against the world,” but are instead “directed to evaluating the validity of the *patent owner’s* patent” or inventorship claim.²⁶³ As such, the PTAB and federal courts have repeatedly held that patent validity and inventorship challenged cannot properly be characterized in rem.²⁶⁴

This is consistent with the general principles of in rem jurisdiction and its conflict with sovereign immunity. “[T]he Eleventh Amendment does not bar federal jurisdiction over in rem . . . actions [only] when the [sovereign] is not in possession of the property.”²⁶⁵ As discussed, sovereigns are in possession of patents granted or assigned to them so an in rem action against the patent would necessarily be one against the sovereign.²⁶⁶ In this context, the “premise that a proceeding against the property is not a proceeding against the owners of that property” breaks down and in rem jurisdiction is unwarranted.²⁶⁷

3. Participation in the Patent System Does Not Waive Immunity

Sovereigns may waive immunity and be subject to suit in federal forums but “only under two circumstances: first, if the [sovereign] on its own initiative invokes the jurisdiction of the federal courts; and second, upon a clear declaration by the [sovereign] of its intent to submit to federal jurisdiction.”²⁶⁸ In patent

²⁶¹ See *Shaffer v. Heitner*, 433 U.S. 186, 199 (1977) (“If jurisdiction is based on the court’s power over property within its territory, the action is called ‘in rem’ or ‘quasi in rem.’”).

²⁶² *Id.* at 199; *United States v. Appox. \$1.67 Million in Cash, Stocks and Other Valuable Assets*, 513 F.3d 991, 996 (9th Cir. 2008) (“Jurisdiction in rem is predicated on the ‘fiction of convenience’ that an item of property is a person against whom suits can be filed and judgements entered.”).

²⁶³ See *Covidien LP v. Univ. Fla. Research Found.*, No. IPR2016-01274 to -01276, 2017 WL 4015009, at *6 (P.T.A.B. Jan. 25, 2017).

²⁶⁴ See *VSIM Patent Co. LLC v. Benson*, No. C12-102RSL, 2012 WL 2115373, at *2 (W.D. Wash. June 11, 2012); *Covidien LP*, 2017 WL 401509, at *6; *Reactive Surfaces LTD v. Toyota Motor Corp.*, No. IPR2016-01914, 2017 WL 2992429, at *6 (P.T.A.B. July 13, 2017); *Ericsson Inc. v. Regents of Univ. Minn.*, Nos. IPR2017-01186, -01197, -01200, -01214, -01219, 2017 WL 6517563, at *3 (P.T.A.B. Dec. 19, 2017). *But see Mylan Pharm. V. St. Regis Mohawk Tribe*, Nos. IPR2016-01127 to -01132, Paper No. 129, at 16 (P.T.A.B. Feb. 23, 2018) (allowing an action to proceed in rem against a tribal entity).

²⁶⁵ *Tenn. Student Assistance Corp. v. Hood*, 541 U.S. 440, 446 (2004) (holding that in rem jurisdiction was allowed in an admiralty case because the property at issue did not belong to the state).

²⁶⁶ See *A123 Sys. Inc. v. Hydro-Quebec*, 626 F.3d 1213, 1217–18 (Fed. Cir. 2010) (noting that a patentee is a necessary party to any litigation because any invalidation or change of a patent necessarily affects that patentee); *Covidien LP*, 2017 WL 401509, at *6 (stating that the PTAB is “not prepared to say on the present record and arguments that *inter partes* reviews are purely proceedings *in rem* against patents”).

²⁶⁷ See *Shaffer*, 433 U.S. at 205.

²⁶⁸ *Xechem Int’l, Inc. v. Univ. Tex. M.D. Anderson Cancer Ctr.*, 382 F.3d 1324, 1329 (Fed. Cir. 2004) (citing *Coll. Savs. Bank v. Fl. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 675–76 (1999)). The sovereign’s waiver

law, the fact that a sovereign has availed itself of the patent laws by applying for and maintaining patents does not constitute a waiver of immunity.²⁶⁹ To waive immunity, the sovereign generally has to initiate suit in federal court, usually a patent infringement action, or otherwise seek out litigation over the patent.²⁷⁰ By doing so, the sovereign waives immunity from compulsory counter claims in federal court and from patent validity challenges in the PTAB.²⁷¹

Even where there is a waiver of immunity, it is construed vary narrowly.²⁷² First, any waiver is only effective in the particular jurisdiction in which the sovereign initiates suit.²⁷³ Second, the waiver only applies to the case brought by the sovereign and has no effect on subsequent actions.²⁷⁴ Third, the waiver only applies to counterclaims that are reasonably foreseeable to the sovereign—those it would expect to litigate when initiating suit.²⁷⁵ Finally, the waiver only applies to the claims the defendant has against the sovereign, it does not waive immunity for actions brought by any other party.²⁷⁶

In short, there is no broad waiver of immunity that would allow those with a direct or competing interest in the sovereign patent to initiate a validity or inventorship challenge. The aggrieved party must wait for the sovereign to initiate suit—in the jurisdiction and at the time of its choosing—before it can make its claim.

must be “unequivocally expressed.” *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 99 (1984); *Edelman v. Jordan*, 415 U.S. 651, 677 (1974) (noting that waiver is found only “by the most express language or by such overwhelming implications” such that there is no other reasonable construction).

²⁶⁹ *Ali v. Carnegie Inst. Wash.*, 684 Fed. App’x. 984, 992 (Fed. Cir. 2017) (holding that agreeing to apply for a maintain patents on federally funded subject matter under the Bayh-Dole Act does not waive immunity to any suits regarding those patents); *Vas-Cath, Inc. v. Curators Univ. Mo.*, 473 F.3d 1376, 1383 (Fed. Cir. 2007) (“The district court correctly observed that a state does not waive its sovereign immunity simply by engaging in activities normally conducted by private individuals or corporations.”); *Xechem Int’l, Inc.*, 382 F.3d at 1331 (denying the argument that “a state’s invocation of the authority of the PTO to grant patents is analogous to the state’s invocation of federal authority to enforce its patent rights” and finding no waiver of immunity).

²⁷⁰ See *Regents Univ. N.M. v. Knight*, 321 F.3d 1111, 1125–26 (Fed. Cir. 2003); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Savs. Bank*, 27 U.S. 627, 635 (1999).

²⁷¹ *Knight*, 321 F.3d at 1125–26 (Fed. Cir. 2003) (“[W]hen a state files suit in federal court to enforce its claims to certain patents, the state shall be considered to have consented to have litigated in the same forum all compulsory counterclaims”); *LSI Corp. v. Regents Univ. Minn.*, No. IPR2017-01068, 2017 WL 6517562, at *3 (P.T.A.B. Dec. 19, 2017) (“It would be unfair and inconsistent to allow a State to avail itself of the federal government’s authority by filing a patent infringement action in federal court, but then selectively invoke its sovereign immunity to ensure that a defendant is barred from requesting an inter partes review of the asserted patent from a different branch of that same federal government.”)

²⁷² *Coll. Savs. Bank*, 527 U.S. at 675 (“Courts indulge in every reasonable presumption against waiver of fundamental constitutional rights [including] sovereign immunity.”).

²⁷³ *Knight*, 321 F.3d at 1125–26 (noting that a state consents to litigation “in the same forum” when it brings an action to assert a patent).

²⁷⁴ *Biomedical Patent Mgmt. Corp. v. Cal. Dep’t Health Servs.*, 505 F.3d 1328, 1329–30 (Fed. Cir. 2007) (“[A] State’s waiver of immunity as to the subject matter of a lawsuit does not, by itself, constitute a waiver of immunity in any future lawsuit involving that subject matter.”).

²⁷⁵ *Knight*, 321 F.3d at 1125–26.

²⁷⁶ See *Tegic Commc’ns Corp. v. Bd. Regents Univ. Tex. Sys.*, 458 F.3d 1335, 1341–42 (Fed. Cir. 2006) (holding that initiation of a suit by a University had no effect on the University’s immunity with respect to the declaratory judgement action brought by a third party).

C. *Sovereign Immunity Should not be Available in Patent Validity and Inventorship Challenges Brought By Parties With a Takings Claim*

“[I]f the Federal courts cannot hear a claim of patent [misappropriation] by a state because of the XI Amendment, a patentee will never have a forum for asserting the unconscionability of the taking of his patent.”²⁷⁷ However, due to the lack of exceptions or other means of avoiding sovereign immunity in patent validity and inventorship challenges, “sovereign immunity reigns supreme” and forecloses addressing the takings issue.²⁷⁸ This section discusses why sovereign immunity should fall in the face of a patent validity or inventorship challenge that alleges a taking.

1. *Non-Sovereign Parties Must Risk Infringement Before Being Able to Address the Taking, With No Guarantee That the Sovereign Will Ever Initiate Litigation*

The only way a party can challenge the validity or inventorship of a sovereign patent is to risk infringing the sovereign patent and waiting for the sovereign to initiate a patent infringement suit against the party.²⁷⁹ Not only does this put the aggrieved party at a strategic disadvantage—the sovereign getting to choose the jurisdiction and timing of litigation—there is no guarantee that any such suit will actually be initiated by the sovereign.²⁸⁰ One might think that if a party chooses to infringe the patent and the sovereign never brings an infringement action that there is nothing about which the party can complain: the party gets to practice the subject matter. This may be true for parties just wishing to practice the patented subject matter, but those with an ownership interest in the subject matter are still precluded from controlling the right to exclude concomitant with the patent; this is what amounts to a taking.²⁸¹

By risking infringement, parties are also putting themselves in a position where, if they are wrong about the invalidity of the sovereign patent, they can be liable for treble damages for the infringement.²⁸² “The rule that a plaintiff must . . . risk treble damages . . . before seeking a declaration of its actively contested legal rights finds no support in Article III” and is contrary to principles of patent law.²⁸³ Declaratory judgment actions are intended “to enable a person who is reasonably at legal risk . . . to obtain judicial resolution of [an unresolved] dispute without having to await the commencement of legal action by the other side.”²⁸⁴ Recognizing the importance of delineating the scope

²⁷⁷ *Hercules Inc. v. Minn. State Highway Dep’t*, 337 F. Supp. 795, 799 (D. Minn. 1972).

²⁷⁸ *See Ali v. Carnegie Inst. Wash.*, 684 Fed. App’x. 984, 989 (Fed. Cir. 2017).

²⁷⁹ *See supra* Section IV.A., IV.B.

²⁸⁰ *See generally* *Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.*, 482 F.3d 1330, 1336, 1336 n.2 (Fed. Cir. 2007). (“Before the declaratory judgment provisions, competitors were ‘victimized’ by patent owners who engaged in ‘extrajudicial patent enforcement with scare-the-customer-and-run tactics that infected the competitive environment of the business community with uncertainty and insecurity’ and that rendered competitors ‘helpless and immobile so long as the patent owner refused to sue.’”) (internal citations and alterations omitted).

²⁸¹ *See supra* Section III.B.2.

²⁸² *See* 35 U.S.C. § 284 (authorizing an “increase [of] damages up to three times the amount found or assessed” for willful infringement).

²⁸³ *Medimmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 134 (2007).

²⁸⁴ *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 977 (Fed. Cir. 1993).

of patent rights without risking infringement, courts have repeatedly declared that “declaratory judgments play a special role in patent cases”²⁸⁵ and “should be construed with liberality in the patent field.”²⁸⁶

Post-grant PTAB proceedings also recognize the importance of clearly delineating the scope of issued patents, including their validity.²⁸⁷ IPR’s were created specifically to allow parties to challenge the validity of a patent without first having to risk infringement or wait for the patentee to initiate suit.²⁸⁸ That is why the standing barriers and standards of proof are reduced.²⁸⁹ PTAB proceedings are intended to serve the public purpose of “weeding out bad patents” by liberally allowing the PTO to determine whether a granted patent should have been granted in the first place.²⁹⁰

The purpose of declaratory judgments and PTAB proceedings are to allow challenges on validity and inventorship without “wait[ing] for the patentee to decide when and where to sue.”²⁹¹ Sovereign immunity is contrary to this purpose and against the “public interest favoring the judicial testing of patent validity.”²⁹²

2. Sovereign Maintenance of An Unwarranted Monopoly Has Detrimental Economic Effects

“[A] patent is an exception to the general rule against monopolies and to the right to access to a free and open market” and the public has “a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.”²⁹³ Allowing immunity from patent validity and inventorship challenges allows sovereigns to maintain monopolies, to which they are not entitled, that might have serious anticompetitive effects on competitors.²⁹⁴ Sovereign patent owners can avoid litigating the validity of their patents by never initiating an infringement suit and simultaneously use their patent rights to threaten infringement, leverage licensing deals from competitors, or otherwise hinder competition with invalid patents.²⁹⁵

²⁸⁵ See *Interdynamics, Inc. v. Firma Wolf*, 698 F.2d 157, 165 (3rd Cir. 1983).

²⁸⁶ See *Wembley, Inc. v. Superba Cravats, Inc.*, 315 F.2d 87,89 (2d Cir. 1963).

²⁸⁷ See *Cuozzo Speed Tech., LLC v. Lee*, 136 S.Ct. 2131, 2155 (2016) (noting that IPRs have “a leading role in combating the detrimental effect that bad patents can have on innovation”).

²⁸⁸ H.R. Rep. No. 112-98, at 45 (2011) (noting that an issue with *inter partes* reexamination was that parties did not see it as valuable so they would opt to risk infringement in order to challenge the patent in federal court instead of through the PTO proceeding).

²⁸⁹ See *Cuozzo Speed*, 136 S.Ct. at 2144; see also 37 C.F.R. § 42.104 (2016).

²⁹⁰ H.R. Rep. No. 112-98, at 165. See *MCM Portfolio LLC v. Hewlett-Packard*, 812 F.3d 1284, 1291 (Fed. Cir. 2015) (citing *Paltex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985)).

²⁹¹ See *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996).

²⁹² *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 69 (1973); see also *supra* Section II.B.

²⁹³ *Precision Instruments Mfg. Co., Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945).

²⁹⁴ See generally *Blonder-Tongue Labs., Inc. v. Univ. Ill. Found.*, 402 U.S. 313, 345–46 (1971) (explaining how enforcement of an invalid patent puts licensees of that patent at a competitive disadvantage as compared to parties who have the incentive and means to litigate the patent’s validity rather than accepting a license).

²⁹⁵ *Teva Pharma. USA, Inc. v. Novartis Pharma. Corp.*, 482 F.3d 1330, 1336, 1336 n.2 (Fed. Cir. 2007). (“Before the declaratory judgment provisions, competitors were ‘victimized’ by patent owners who engaged in ‘extrajudicial patent enforcement with scare-the-customer-and-run tactics that infected the competitive environment of the business community with uncertainty and insecurity’ and that rendered competitors ‘helpless and immobile so long as the patent owner refused to sue.’”) (internal citations and alterations omitted).

Parties threatened with infringement “will often decide that paying royalties under a license or settlement is preferable to the costly burden of challenging the patent” or risking infringement.²⁹⁶ And when that patent is owned by a sovereign entity, parties are foreclosed from bringing an invalidity or inventorship challenge so they have no real option but to accept a license or risk infringement and face treble damages.²⁹⁷ This cost associated with paying a license royalty or with significant damages for infringement may be enough to suppress the actions of competitors and innovators in the field.²⁹⁸ The sovereign is able to realize profits from a patent “that fails to meet the congressionally imposed criteria of patentability,” a result that “is anomalous” and contrary to the purpose of the patent system.²⁹⁹

The mere existence of the invalid sovereign patent and the inability to challenge it may also prevent innovation. The entire premise of the patent system is to incentivize investment into socially beneficial technologies by promising the right to recoup that investment and profit off the technology for a limited period of exclusivity.³⁰⁰ The incontestable, invalid sovereign patent serves to foreclose the grant of a patent on similar subject matter or limit the ability of another to exploit a valid patent.³⁰¹ These economic barriers remove the incentive for those individuals to innovate and “unnecessarily stifle[s] competition.”³⁰²

Due to the economic harm resulting from the assertion of invalid patents, ensuring that granted patents are valid has greater public importance than protecting the sovereign’s patent rights or allowing the sovereign to assert an invalid patent.³⁰³ Sovereigns should not be able to use immunity to avoid invalidity and inventorship challenges.

V. CONCLUSION

Sovereign ownership of an invalid patent can amount to a taking of the protected property interests of those with a direct ownership claim in the subject

²⁹⁶ *Blonder-Tongue Labs., Inc.*, 402 U.S. at 338. See also *Cover v. Schwarts*, 133 F.2d 541, 545 (2d Cir. 1943) (noting that the “mere threats of patent suits, due to the expense of defending such litigation, may often prevent lawful completion”); *Prima Tek II, LLC v. Polypap S.A.R.L.*, 412 F.3d 1284, 1289 (Fed. Cir. 2005) (“[W]e are mindful that if an invalid patent is issued, competitors may be deterred from challenging it by the substantial cost of litigation.”)

²⁹⁷ See *Ali v. Carnegie Inst. of Wash.*, 684 Fed. App’x. 985, 995 (Fed. Cir. 2017) (noting that there are inadequate routes for challenging a sovereign patent).

²⁹⁸ See generally *Cover v. Schwarts*, 133 F.2d 541, 545 (2d Cir. 1943) (noting that “the expense of defending such litigation, may often prevent lawful competition”); *Blonder-Tongue Labs., Inc.*, 402 U.S. at 339 (reporting that “there were undoubtedly more suits that were threatened but not filed, because the threat alone was sufficient to forestall a challenge to the patent”).

²⁹⁹ *Blonder-Tongue Labs., Inc.*, 402 U.S. at 343.

³⁰⁰ See generally *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51 (1989) (“The federal patent system . . . embodies a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.”).

³⁰¹ See *supra* Sections II.A., III.B.

³⁰² See *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

³⁰³ See, e.g., *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330 (1945) (noting that as between infringement and validity, “validity has the greater public importance” and that the “better practice [is to] inquire[e] fully into the validity of [the asserted] patent”).

matter of the sovereign patent or with competing property rights that are hindered by the sovereign patent. These parties are entitled to compensation for the taking but sovereign entities are presently allowed to assert immunity from the only forums available to provide the required remedy. Not only does this create a serious constitutional issue, it is against the policy of the patent laws and allows for the maintenance of unwarranted monopolies. Sovereign immunity should not be available when asserting it would facilitate the taking of another's patent rights. "There is no rational to support [sovereign] immunity that outweighs the Constitutional protection of inventors' rights."³⁰⁴

³⁰⁴H.R. REP. NO. 101-960, at 47 (1990).

Preclusive Effect of the International Trade Commission's Patent Decisions: Can District Courts Ignore *Texas Instruments Inc. v. Cypress Semiconductor Corp.*?

Emre Yuzak*

Abstract

Section 337 of the Tariff Act of 1930, as amended, gives complainants a powerful remedy against unfair practices in import trade. It permits the United States International Trade Commission ("ITC") to exclude certain items from importation, directing Customs and Border Patrol to deny their entry. Section 337, with its liberal grants of exclusion orders, attracts mainly intellectual property disputes, including several high-profile smartphone cases.

Litigants in section 337 cases may also bring their disputes to state or federal court, raising the question of what preclusive effect the ITC's decision has. In *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, the Federal Circuit ruled that parties cannot rely on the ITC's decision in patent cases to apply claim preclusion or issue preclusion in other cases.

This article examines the preclusive effect of the ITC's decisions and also examines related issues that are still unresolved. Courts have not agreed on whether the Federal Circuit's decisions on an appeal from the ITC should receive the same treatment as the ITC's own decisions. Several regional courts of appeal have held that the ITC's decision in non-patent cases can have preclusive effect, but none have addressed copyright cases, which may require treatment different from other non-patent cases. Lastly, this article argues that when the Federal Circuit decided the preclusive effect of the ITC's patent decisions in *Texas Instruments*, its holding was potentially not binding on any other court.

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Contents

I.	Introduction	658
II.	Legal background	660
	A. Patent cases	661
	B. Non-patent cases	661
III.	Preclusion and deference to ITC patent decisions today	662
	A. Federal Circuit patent decisions on appeal from the ITC . .	662
	B. ITC patent decisions	663
IV.	Unresolved issues	664
	A. Choice of law for preclusion	664
	B. Copyright matters	667
V.	ITC adjudications meet the requirements for preclusion.	668
	A. Full and fair opportunity to litigate	668
	B. Final judgment	668
	C. Exceptions	669
VI.	Conclusion	670

I. Introduction

The United States International Trade Commission (“ITC”), created by a 1974 amendment to the Tariff Act of 1930, adjudicates disputes involving importation where there are underlying claims of patent, copyright, trademark, trade secret, or antitrust violations.¹ Using administrative proceedings under section 337 of the Tariff Act of 1930 (codified as 19 U.S.C. § 1337), a successful complainant in this quasi-judicial agency’s administrative proceedings earns an exclusion order in almost every case.² An exclusion order bars the respondents in the case, and in special cases, all parties, from importing certain products to the United States.³ Because the ITC offers an attractive remedy and resolves disputes quickly, it has become a popular venue for intellectual property disputes.⁴

¹ See 19 U.S.C. § 1337(a)(1) (2012); William P. Atkins, *Appreciating 337 Actions at the ITC: A Primer on Intellectual Property Issues and Procedures at the U.S. International Trade Commission*, 5 U. BALT. INTELL. PROP. L.J. 103, 105–06 (1996).

² See § 1337(d); Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 SANTA CLARA COMPUTER & HIGH TECH. L. J. 169, 173 (2011).

³ Robert S. Budoff, *A Practitioner’s Guide to Section 337 Litigation before the International Trade Commission*, 17 LAW & POL’Y INT’L BUS. 519, 572–73 (1985) (explaining the difference between a general exclusion order and a limited exclusion order).

⁴ See Chien, *supra* note 2 at 171–72.

ITC complainants can also bring their claims in state or federal court, and most ITC actions have a corresponding federal district court action.⁵ The dual-path litigation raises a question about the preclusive effect of the ITC's decision. In general, a court can preclude parties from making certain arguments based on an administrative agency's prior adjudications by applying claim preclusion (also called *res judicata*) or issue preclusion (also called collateral estoppel).⁶ Common-law principles such as the rules of preclusion apply to administrative agencies' adjudications unless a "statutory purpose to the contrary is evident."⁷

The Federal Circuit has held that ITC decisions on patent matters have no *res judicata* or collateral estoppel effect in district court because the legislative history of section 337 expressed such a "contrary" intent.⁸ That decision only discussed patent matters, and the Federal Circuit has not said the same for non-patent matters.⁹ The Federal Circuit reviews all appeals from patent cases in district court and section 337 cases in the ITC.¹⁰

Although, the Federal Circuit held that a "district court can attribute whatever persuasive value to the prior ITC decision that it considers justified," district courts have not agreed on how much deference to give Federal Circuit decisions on appeal from the ITC, as opposed to ITC decisions without appellate review.¹¹ Some courts have held that ITC decisions about non-patent matters can preclude arguments in other cases, though no court has considered whether to preclude arguments based on an earlier ITC decision about copyright matters.¹²

In Part II, this article explains the legal background to preclusion based on ITC decisions for both patent and non-patent decisions. Then, Part III explains how much deference courts have given to ITC decisions on patents and also Federal Circuit decisions about patent disputes on appeal from the ITC. Part IV discusses two unresolved issues—a choice of law problem and the preclusive effect of the ITC's copyright decisions. Last, Part V addresses arguments that litigants might make to persuade a court that an ITC decision should have no preclusive effect, and it addresses exceptions where preclusion would not apply.

⁵Chien, *supra* note 2 at 171.

⁶Univ. of Tenn. v. Elliott, 478 U.S. 788, 797 (1986).

⁷Astoria Fed. Sav. & Loan Ass'n v. Solimino, 501 U.S. 104, 108 (1991).

⁸See *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568–69, 1568 n.9 (Fed. Cir. 1996). The Federal Circuit applies the law of the district court's regional circuit when applying collateral estoppel, even in patent cases. See *Vardon Golf Co. v. Karsten Mfg. Corp.*, 294 F.3d 1330, 1333 (Fed. Cir. 2002). See *infra* Section IV.A for a discussion about how this affects the relevance of *Texas Instruments*.

⁹See *Tex. Instruments*, 90 F.3d at 1568–69.

¹⁰28 U.S.C. § 1295(a)(1), (6) (2012).

¹¹*Tex. Instruments*, 90 F.3d at 1569; see 28 U.S.C. § 1295(a)(6) (giving the Federal Circuit exclusive jurisdiction over appeals from the ITC); *Alloc, Inc. v. Norman D. Lifton Co.*, No. 03 CIV. 4419 (PAC), 2007 WL 2089303, at *9 (S.D.N.Y. July 18, 2007) (discussing courts' various approaches toward Federal Circuit review of ITC decisions).

¹²See, e.g., *Aunyx Corp. v. Canon U.S.A., Inc.*, 978 F.2d 3, 6 (1st Cir. 1992).

II. Legal background

Claim preclusion applies in a second suit if “(1) there is identity of parties (or their privies); (2) there has been an earlier final judgment on the merits of a claim; and (3) the second claim is based on the same set of transactional facts as the first.”¹³ And issue preclusion applies when “an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment.”¹⁴ That “determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.”¹⁵ Courts also require an “adequate opportunity to litigate” in the prior action before giving it preclusive effect.¹⁶ Both forms of preclusion “protect[] litigants from the burden of relitigating an identical issue with the same party or his privy” and “promot[e] judicial economy by preventing needless litigation.”¹⁷

Courts considering whether to give preclusive effect to ITC decisions have focused on whether Congress expressed an intent “contrary” to the general rule that preclusion can apply.¹⁸ In particular, courts have often looked to the Senate Finance Committee’s report on the Trade Act of 1974 amending section 337.¹⁹ The relevant part of that report states:

The Commission is not . . . empowered . . . to set aside a patent as being invalid or to render it unenforceable The Commission’s findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have a *res judicata* or collateral estoppel effect in cases before such courts.²⁰

Courts that have considered the Senate report have agreed that Congress did not intend for all ITC decisions to have preclusive effect in district court.²¹ The Federal Circuit in *Texas Instruments* held that no patent decision in the ITC should have a preclusive effect.²² Most courts have held that a non-patent decision could have a preclusive effect.²³

¹³*Jet, Inc. v. Sewage Aeration Sys.*, 223 F.3d 1360, 1362 (Fed. Cir. 2000) (citing *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 n.5 (1979)).

¹⁴*Tex. Instruments*, 90 F.3d at 1568.

¹⁵*Id.*

¹⁶*See Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 328–29 (1971); *United States v. Utah Const. & Min. Co.*, 384 U.S. 394, 422 (1966).

¹⁷*Parklane*, 439 U.S. at 326.

¹⁸*See, e.g. Tex. Instruments*, 90 F.3d at 1568–69.

¹⁹*See id.*

²⁰S. Rep. No. 93-1298, at 196 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7186, 7329.

²¹*See infra* Section II.

²²90 F.3d at 1568–69.

²³*See, e.g., Union Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 45 (2d Cir. 1985).

A. Patent cases

Cases predating *Texas Instruments* gave preclusive effect to the ITC's factual findings but not its legal conclusions.²⁴ Prior cases also distinguished patent validity findings, which not did receive preclusive effect, from other issues, which did.²⁵ The *Telectronics* court and other courts justified a distinction between patent validity findings and other findings through the Senate report, which supported the distinction.²⁶ The *Telectronics* court also looked to 28 U.S.C. § 1338(a), which the court said granted to district courts "exclusive jurisdiction over patent claims."²⁷ Courts stopped making distinctions based on factual findings or validity findings after *Texas Instruments*, which made no such distinctions.²⁸ *Texas Instruments* also explicitly permitted relitigation of all defenses to patent infringement.²⁹ It held that "accused infringers can raise *whatever* defenses they believe are justified, regardless whether they previously raised them and lost in the ITC."³⁰

B. Non-patent cases

With one exception, courts have consistently held that ITC decisions on non-patent matters could have preclusive effect. No court, however, has considered whether copyright claims litigated in the ITC can have preclusive effect.

The Second Circuit found that preclusion could apply to non-patent matters, and it justified that outcome by referring to 28 U.S.C. § 1338(a) and the Senate Finance Committee report on the 1974 amendments to section 337.³¹ The Second Circuit, in *Union*, reasoned that Congress made no exception to the general rule that preclusion could apply to the ITC's adjudications of non-patent matters.³² Based on 28 U.S.C. § 1338(a) and the Senate report, the "ITC ha[d] no jurisdiction to determine patent validity except to the limited extent necessary to decide a case otherwise properly before it," and trademark and false designation of origin claims had no such limitation.³³ The Fourth Circuit, citing *Union*, agreed that a district court could preclude certain issues and claims based on earlier litigation at the ITC about an antitrust and unfair competition

²⁴ See *In re Convertible Rowing Exerciser Patent Litig.*, 814 F. Supp. 1197, 1199, 1201, 1208 (D. Del. 1993).

²⁵ See *Union*, 763 F.2d at 45 ("The jurisdictional bar to res judicata treatment of ITC patent validity determinations simply does not apply to other decisions by the ITC."); *Telectronics Proprietary, Ltd. v Medtronic, Inc.*, 687 F. Supp. 832, 846–47 (S.D.N.Y. 1988) (applying collateral estoppel to a license defense—which is not a validity defense—previously raised in a patent dispute at the ITC).

²⁶ See *Telectronics*, 687 F. Supp. at 846 n.42.

²⁷ *Id.* at 845–46; see 28 U.S.C. § 1338(a) (2012); see *infra* Section IV.B (arguing that courts misstated § 1338(a)'s jurisdictional requirements).

²⁸ See, e.g., *Fuji Photo Film Co. v. Jazz Photo Corp.*, 173 F. Supp. 2d 268, 274 n.2 (D.N.J. 2001) ("The Federal Circuit in *Texas Instruments* had ample opportunity to distinguish between a factual or legal preclusive effect and did not do so.")

²⁹ See *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996).

³⁰ *Id.* (emphasis added).

³¹ See, e.g., *Union Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 45–46 (2d Cir. 1985) (finding that res judicata could preclude trademark infringement and false designation of origin claims previously brought in the ITC).

³² *Id.* at 44–46.

³³ *Id.* at 45.

dispute.³⁴ Similarly, the First Circuit found that res judicata could preclude litigation of an antitrust claim in district court based on a prior ITC decision.³⁵ The Eastern District of Wisconsin precluded a defendant from arguing that it did not misappropriate trade secrets by looking to the ITC's determination on the same issue and applying collateral estoppel.³⁶ That court also denied certifying the issue for an interlocutory appeal because there was no "substantial ground for difference of opinion" on that issue even though collateral estoppel based on trade secret claims in the ITC was an issue of first impression.³⁷ Of these cases, only *Union* explicitly considered 28 U.S.C. § 1338 and the legislative history of the 1974 amendments to 19 U.S.C. § 1337.³⁸

One court, addressing whether Lanham Act trademark claims brought in the ITC could have preclusive effect, interpreted the Senate report to mean that no ITC decision can have preclusive effect.³⁹ In that case and one other, the ITC argued as amicus that its decisions should not have preclusive effect.⁴⁰ No other court, however, has adopted this view.

III. Preclusion and deference to ITC patent decisions today

Cases after *Texas Instruments* have not agreed on how much deference to give Federal Circuit decisions on patent matters appealed from the ITC, as opposed to ITC decisions without appellate review.⁴¹ Likewise, courts have given varying degrees of deference to ITC determinations.⁴²

A. Federal Circuit patent decisions on appeal from the ITC

Courts distinguishing between the ITC's findings and the Federal Circuit's findings after an appeal from the ITC have relied on language from *Texas Instruments*. While *Texas Instruments* held that a "district court can attribute whatever persuasive value to the prior ITC decision that it considers justified," the Federal Circuit also said that it was "bound" to its own precedents.⁴³ "[S]hort of

³⁴Balt. Luggage Co. v. Samsonite Corp., No. 91-1758, 977 F.2d 571, 1992 WL 296368, at *1, *3-4 (4th Cir. Oct. 16, 1992) (unpublished table decision).

³⁵Aunyx Corp. v. Canon U.S.A., Inc., 978 F.2d 3, 4 (1st Cir. 1992).

³⁶Manitowoc Cranes LLC v. Sany Am. Inc., No. 13-C-677, 2017 WL 6327551, at *3, *5 (E.D. Wis. Dec. 11, 2017).

³⁷Manitowoc Cranes LLC v. Sany Am. Inc., No. 13-C-677, 15-C-647, 2018 WL 582334, at *2 (E.D. Wis. Jan. 29, 2018).

³⁸See *Union Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 45-46 (2d Cir. 1985).

³⁹*Trade Assocs. v. Makita*, No. C88-1028C, 1990 WL 10848940, at *2 (W.D. Wash. Mar. 2, 1990).

⁴⁰*Id.* at *2; Balt. Luggage Co. v. Samsonite Corp., 727 F. Supp. 202, 205 (D. Md. 1989), *aff'd*, No. 91-1758, 977 F.2d 571, 1992 WL 296368, at *1 (4th Cir. Oct. 16, 1992) (unpublished table decision). The ITC also filed an amicus brief in *In re Convertible Rowing Exerciser Patent Litigation*, 721 F. Supp. 596 (D. Del. 1989), but the court did not discuss the ITC's views on the preclusive effect of its decisions and the brief was not available. *Id.* at 598-603, 603 n.17; see also *Corning Glass Works v. ITC*, 799 F.2d 1559, 1570 n.12 (Fed. Cir. 1986) (noting that the ITC took "the position that its decision have no res judicata effect" in district court litigation).

⁴¹See *Alloc, Inc. v. Norman D. Lifton Co.*, No. 03 CIV. 4419 (PAC), 2007 WL 2089303, at *9 (S.D.N.Y. July 18, 2007).

⁴²See *infra* Section III.A, III.B.

⁴³*Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996).

thoroughly justified grounds,” it had “powerful incentives not to deviate” from prior holdings.⁴⁴ Some districts courts have interpreted that as an instruction to give more deference to the Federal Circuit’s findings, reasoning that if the reviewing court was “bound” to its precedents, then the district court would be at least as constrained.⁴⁵

District courts have not uniformly applied this part of *Texas Instruments*. Cases range from holding that a Federal Circuit decision on appeal from the ITC was binding on the district court to giving no “deferential treatment” to the Federal Circuit decision and deciding anew based on an “independent review of the facts and law.”⁴⁶ Other courts have come out somewhere in between.⁴⁷

Trial courts that have made the distinction between ITC decisions and Federal Circuit decisions after an appeal from the ITC likely decided correctly because *Texas Instruments* also made that distinction. The Federal Circuit instructed courts to attribute “whatever persuasive value to the prior ITC decision” was “justified,” and it also said a subsequent Federal Circuit panel would have “powerful incentives not to deviate” from its prior holdings “short of thoroughly justified grounds.”⁴⁸ The district court in *Flexsys* correctly recognized that “[g]iven the greater authority and capacity of the Federal Circuit, a district court should accord prior rulings *more* deference than would a subsequent Circuit panel.”⁴⁹

B. ITC patent decisions

Most district courts following the Federal Circuit’s guidance that district courts should give ITC decisions “whatever persuasive value” the district court “considers justified” have agreed with the ITC’s findings.⁵⁰ Clarifying in a later case, the Federal Circuit added that the weight an ITC decision deserves “depends on the decision’s content, not its status.”⁵¹ The Patent Trial and Appeal Board has also not given ITC decisions preclusive effect and has not said much else about the persuasive value of ITC decisions.⁵² The only state court case to

⁴⁴*Id.*

⁴⁵See *Minn. Mining & Mfg. Co. v. Beutone Specialties Co.*, 117 F. Supp. 2d 72, 83 (D. Mass. 1999).

⁴⁶*Amgen, Inc. v. F. Hoffman-Laroche Ltd.*, 456 F. Supp. 2d 267, 276 n.6 (D. Mass. 2006); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 173 F. Supp. 2d 268, 274 (D.N.J. 2001).

⁴⁷See *Thomson Consumer Elecs., Inc. v. Innovatron, S.A.*, 3 F. Supp. 2d 49, 51 (D.D.C. 1998) (holding that the Federal Circuit decision receives “near-preclusive effect”); *Flexsys Am. LP v. Kumho Tire U.S.A., Inc.*, 695 F. Supp. 2d 609, 617 (N.D. Ohio 2010) (requiring something more than “thoroughly justified grounds” to deviate from the Federal Circuit decision); *Alloc, Inc. v. Norman D. Lifton Co.*, No. 03 CIV. 4419 (PAC), 2007 WL 2089303, at *9 (S.D.N.Y. July 18, 2007) (same); *Alloc, Inc. v. Pergo, LLC*, No. 00-C-999, 2009 WL 1939034, at *4 (E.D. Wis. July 2, 2009) (requiring “thoroughly justified grounds”), *aff’d without opinion*, 426 F. App’x 909 (Fed. Cir. 2011); *Minn. Mining*, 117 F. Supp. 2d at 83 (same); *Solomon Techs., Inc. v. Toyota Motor Corp.*, No. 8:05-CV-1702-T-MAP, 2010 WL 715243, at *4 (M.D. Fla. Jan. 26, 2010) (requiring a “powerful incentive”).

⁴⁸*Tex. Instruments*, 90 F.3d at 1569.

⁴⁹*Flexsys*, 695 F. Supp. 2d at 617 (quoting *Lifton*, 2007 WL 2089303, at *10).

⁵⁰See *Tex. Instruments*, 90 F.3d at 1569.

⁵¹*LSI Corp. v. ITC*, 604 F. App’x 924, 930 (Fed. Cir. 2015).

⁵²See *Amazon.com, Inc. v. Avago Techs. General IP (Singapore) Pte.*, No. IPR2017-00963, 2017 WL 4082458, at *7, *7 n.10 (P.T.A.B. Sept. 13, 2017) (agreeing with the ITC that a document was not prior art); *Amazon.com, Inc. v. Avago Techs. General IP (Singapore) Pte.*, No. IPR2017-00964, 2017 WL 4082459, at *4–5, *5 n.8 (P.T.A.B. Sept. 13, 2017) (finding that the ITC did not make a “definitive ruling” on the issue it considered); *TRW Auto. U.S. LLC v. Magna Elecs. Inc.*, No. IPR2014-01348, 2016 WL 212791, at *16 (P.T.A.B. Jan. 15, 2016) (ruling against

consider the issue was “not persuaded” by the argument that a court would be “bound . . . by all factual determinations made in an ITC proceeding.”⁵³

Of the five district court cases after *Texas Instruments* that considered the persuasiveness of the ITC’s findings in a case with the same parties, four came to the same conclusion as the ITC.⁵⁴ The *Eaton* court noted that the ALJ’s thorough claim construction analysis was the result of a full hearing that included the Office of Unfair Import Investigations.⁵⁵ *Eaton* adopted the ITC’s finding because under those “circumstances, the ITC claim construction [wa]s entitled to considerable weight.”⁵⁶

In two other cases, the District of Delaware and the Northern District of New York looked to ITC cases in which only the patent holder was a party in the ITC case. The Delaware case looked to the ITC proceeding because it would be “helpful,” but it ultimately rejected the ITC’s finding of invalidity.⁵⁷ The Northern District of New York in a claim construction order “agree[d] with many” of the ITC’s findings but did not give them “any special weight.”⁵⁸

IV. Unresolved issues

A. Choice of law for preclusion

Although district courts have followed the Federal Circuit’s instructions in *Texas Instruments* that they should give no preclusive effect to ITC decisions on patents, that case is potentially not binding on district courts that have not considered the issue.⁵⁹

The Federal Circuit applies the preclusion law of the district court’s regional circuit when applying claim or issue preclusion, even when reviewing patent issues.⁶⁰ Because the Federal Circuit would review a district court’s preclusion ruling using the law in the regional court of appeals, the district court would be bound by the regional circuit and not the Federal Circuit. No regional court

an evidentiary objection that an ITC determination was not “relevant”).

⁵³ *Austl. Unlimited, Inc. v. Hartford Cas. Ins. Co.*, 198 P.3d 514, 523–24 (Wash. Ct. App. 2008).

⁵⁴ *Aten Int’l Co. v. Emine Tech. Co.*, No. SACV 09-0843 AG MLGX, 2011 WL 5149077, at *4 (C.D. Cal. Aug. 10, 2011) (“agree[ing]” with the ITC that the asserted patent disavowed certain prior art); *Eaton Corp. v. ZF Meritor LLC*, No. 03-74844, 2006 WL 6209926, at *3 (E.D. Mich. Aug. 14, 2006) (finding that the administrative law judge’s “thorough” claim construction analysis was “entitled to considerable weight”); *PCTEL, Inc. v. Agere Sys., Inc.*, No. C 03-2474 MJJ, 2005 WL 2206683, at *18 (N.D. Cal. Sept. 8, 2005) (finding the ALJ’s claim construction “persuasive”); *Mentor Graphics Corp. v. Quickturn Design Sys., Inc.*, 999 F. Supp. 1388, 1393 (D. Or. 1997) (finding the ALJ’s reasoning that the defendant did not avoid infringement “persuasive”), *aff’d on other grounds*, 150 F.3d 1374, 1377 (Fed. Cir. 1998). *But see* *PCTEL, Inc. v. Agere Sys., Inc.*, No. C03-02474 MJJ, 2006 WL 734385, at *8 (N.D. Cal. Mar. 20, 2006) (“declin[ing]” to adopt the ALJ’s claim construction).

⁵⁵ *Eaton*, 2006 WL 6209926, at *3.

⁵⁶ *Id.*

⁵⁷ *United Video Props., Inc. v. Haier Grp.*, No. CV 11-1140 (KAJ), 2014 WL 12774922, at *5, *15 (D. Del. May 16, 2014).

⁵⁸ *Pass & Seymour, Inc. v. Hubbell Inc.*, No. 5:07-CV-945 NAM/DEP, 2009 WL 7296903, at *6–7 (N.D.N.Y. Dec. 30, 2009), *adopted by* 2011 WL 32433 (Jan. 5, 2011).

⁵⁹ *See Tex. Instruments*, 90 F.3d at 1569.

⁶⁰ *Vardon Golf Co. v. Karsten Mfg. Corp.*, 294 F.3d 1330, 1333 (Fed. Cir. 2002) (addressing issue preclusion); *id.* at 1335–36 (Dyk, J., concurring) (stating that claim preclusion would be treated the same under the majority’s approach); *see* 28 U.S.C. § 1295(a)(1) (giving the Federal Circuit exclusive jurisdiction over patent appeals).

of appeals has had the opportunity to decide whether it agrees with *Texas Instruments*.

The argument that a district court is not bound by *Texas Instruments* relies on finding that the Federal Circuit's holding on estoppel was a matter of preclusion law and not patent law. The Federal Circuit applies its own law to "issue[s] of patent law" because patent law is a "matter within [its] exclusive jurisdiction."⁶¹ Further, the Federal Circuit's "exclusive jurisdiction" to "review the final determinations" of the ITC would not apply to a district court case deciding whether to preclude certain arguments based on a prior ITC decision.⁶² In that case, the Federal Circuit reviews the district court's decision, not the ITC "final determination[]" that 28 U.S.C. § 1295(a)(6) references when it grants the Federal Circuit appellate jurisdiction.⁶³ On matters outside of the Federal Circuit's exclusive jurisdiction, including the "application of general collateral estoppel principles, such as finality of judgment," the Federal Circuit applies the law of the regional circuit.⁶⁴

Whether *Texas Instruments* is an "application of general collateral estoppel principles" could be resolved in favor of finding that it is such a principle. Discussing collateral estoppel, the Federal Circuit said that "[a]pplication of *Blonder Tongue*," was an "issue of patent law," but the "finality of [a] judgment" was not.⁶⁵ *Blonder Tongue* held that "once the claims of a patent are held invalid in a suit involving one alleged infringer, an unrelated party who is sued for infringement of those claims may reap the benefit of the invalidity decision under the principles of collateral estoppel."⁶⁶ In contrast, *Texas Instruments* reached its decision by looking to *Astoria Federal Savings & Loan Ass'n v. Solimino*, a case that did not involve patents.⁶⁷ Following *Astoria's* guidance that preclusion would apply absent "statutory purpose . . . to the contrary," the *Texas Instruments* court looked to the legislative history of the Trade Act of 1974.⁶⁸ The court noted the Senate Finance Committee's view that ITC decisions about patents had no preclusive effect.⁶⁹ Applying *Astoria* and interpreting the legislative history of a trade law could be considered outside of the Federal Circuit's exclusive jurisdiction, even if that legislative history discussed patents.⁷⁰ The best argument against this view is that the holding in *Texas Instruments* is a specific application of collateral estoppel in patent cases. In that view, the *Texas Instruments* holding therefore is not a "general . . . principle[]" like "finality of judgment" is.⁷¹ If the Federal Circuit only looks to the regional circuit's law for

⁶¹ *Pharmacia & Upjohn Co. v. Mylan Pharm., Inc.*, 170 F.3d 1373, 1381 n.4 (Fed. Cir. 1999).

⁶² See 28 U.S.C. § 1295(a)(6).

⁶³ See *id.*

⁶⁴ *Pharmacia*, 170 F.3d at 1381 n.4.

⁶⁵ *Id.*

⁶⁶ *Mendenhall v. Barber-Greene Co.*, 26 F.3d 1573, 1577 (Fed. Cir. 1994) (summarizing *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1994)).

⁶⁷ *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568 (Fed. Cir. 1996); see *Astoria Fed. Sav. & Loan Ass'n v. Solimino*, 501 U.S. 104, 106-07 (1991).

⁶⁸ *Tex. Instruments*, 90 F.3d at 1568-69; see *Astoria*, 501 U.S. at 108; S. Rep. No. 93-1298, at 196 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7329.

⁶⁹ *Tex. Instruments*, 90 F.3d at 1568-69.

⁷⁰ See *Pharmacia*, 170 F.3d at 1381 n.4.

⁷¹ See *id.*

general principles, then the court would find that *Texas Instruments* is binding on all district courts.

Assuming that the relevant holding in *Texas Instruments* counts as preclusion law and not patent law, the Federal Circuit could be in the awkward position of deciding if it should overturn a district court that with good reason disagrees with *Texas Instruments*. District courts in the Second Circuit, for example, should be bound by *Union* which found that Congress's intention to give no preclusive effect to ITC decisions was limited to the ITC's patent *validity* determinations, whereas *Texas Instruments* would give no preclusive effect to any patent decision from the ITC.⁷²

Moreover, there are other reasons to disagree with *Texas Instruments* that a court might find persuasive. Courts have not agreed on how broadly to interpret the Senate report that discussed the preclusive effect of ITC decisions on patent validity.⁷³ Some courts have held that only patent validity findings are denied preclusive effect and others have held that no ITC decision should have preclusive effect, a view the ITC itself shares.⁷⁴

The district courts in the First, Second, and Fourth Circuits are in the best position to test the issue by following *Union* over *Texas Instruments* and giving preclusive effect to a patent issue other than validity. The First and Fourth Circuits cited *Union* with approval, though neither one explicitly adopted its reasoning.⁷⁵ Because *Union* and *Texas Instruments* rely heavily on legislative history for their conclusions, other courts uncomfortable with using legislative history may come out differently than both, thus providing another way to test whether *Texas Instruments* is binding on district courts.⁷⁶

Although two patent cases since *Texas Instruments* could have addressed this issue, neither did. One district court in the Second Circuit discussed *Texas Instruments* but did not consider *Union*, and the parties did not raise any argument over whether *Union* would require a different result.⁷⁷ Similarly, one district court in the First Circuit cited *Union*, *Texas Instruments*, and *Aunyx*—a First Circuit decision itself citing *Union*—but it did not consider whether they all required the same result.⁷⁸

Many legal scholars have argued in favor of giving preclusive effect to the ITC's patent decisions, suggesting that preclusion would promote uniformity between litigation in the ITC and the courts, reduce duplicative litigation, avoid inconsistent decisions, and invalidate bad patents.⁷⁹ If they are correct, future

⁷²See *Tex. Instruments*, 90 F.3d at 1569; *Union Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 46 n.6 (2d Cir. 1985).

⁷³See *supra* Section II.

⁷⁴*Trade Assocs. v. Makita*, No. C88-1028C, 1990 WL 10848940, at *2 (W.D. Wash. Mar. 2, 1990) (describing the ITC's view); *supra* Section II.

⁷⁵See *Aunyx Corp. v. Canon U.S.A., Inc.*, 978 F.2d 3, 7 (1st Cir. 1992); *Balt. Luggage Co. v. Samsonite Corp.*, No. 91-1758, 977 F.2d 571, 1992 WL 296368, at *3 (4th Cir. Oct. 16, 1992) (unpublished table decision).

⁷⁶See *Tex. Instruments*, 90 F.3d at 1568; *Union*, 763 F.2d at 45–46.

⁷⁷See *Alloc, Inc. v. Norman D. Lifton Co.*, No. 03 CIV. 4419 (PAC), 2007 WL 2089303, at *9–11 (S.D.N.Y. July 18, 2007); Plaintiff's Response Brief on Claim Construction at 13, *Lifton*, 2007 WL 2089303 (No. 1:03CV04419) (Dec. 23, 2005), 2005 WL 6589458.

⁷⁸*Minn. Mining & Mfg. Co. v. Beautone Specialties Co.*, 117 F. Supp. 2d 72, 81–83 (D. Mass. 1999); see *Aunyx*, 978 F.2d at 7.

⁷⁹Note, *Recasting the U.S. International Trade Commission's Role in the Patent System*, 126 HARV. L. REV. 2337, 2339

litigants should also include those arguments when they ask district courts to give preclusive effect to the ITC's patent decisions.

B. Copyright matters

No court has considered whether copyright claims litigated in the ITC can have preclusive effect, and there is a reasonable argument based on *Union* that copyright matters should get treatment similar to patent matters and therefore have no preclusive effect. *Union* relied on 28 U.S.C. § 1338(a) for its decision, but under a better view of § 1338(a), the ITC's copyright decisions should have preclusive effect.⁸⁰

Based on § 1338(a), *Union* found that Congress denied the ITC "jurisdiction to determine patent validity except to the limited extent necessary to decide a case otherwise properly before it."⁸¹ The court reasoned that Congress granted "exclusive original jurisdiction over patent cases" to district courts and therefore denied the ITC that jurisdiction.⁸² According to the court, that limitation did not apply to trademarks since § 1338(a) did not deny any court jurisdiction over trademarks.⁸³

Applying *Union*'s reasoning to copyright claims means that copyright claims litigated in the ITC cannot be the basis for claim or issue preclusion in district court because patents and copyrights receive the same treatment in § 1338.⁸⁴ Section 1338(a) grants the district courts "original jurisdiction" over "any civil action arising under any Act of Congress relating to" patents and copyrights, among other things, and denies "State court[s]" jurisdiction over those patent and copyright claims.⁸⁵

Future litigants can avoid the outcome applying *Union* to copyright claims suggests because *Union* misstated what § 1338(a) requires. Rather than giving "exclusive" jurisdiction to any court, as *Union* suggested, § 1338(a) grants jurisdiction to district courts, denies it to state courts, and says nothing about the ITC's jurisdiction.⁸⁶

Union's overall holding remains intact because the court provided an independent reason to find that non-patent matters decided in the ITC can preclude litigation in other courts.⁸⁷ The *Union* court found that the legislative history to the 1974 amendments to 19 U.S.C. § 1337 expressed Congress's intent to deny preclusive effect to ITC decisions only when they concerned patent validity.⁸⁸

n.16 (2013) (summarizing the literature); *id.* at 2339–40 (arguing that giving preclusive effect to the ITC's patent decisions would invalidate more patents, which would be a benefit to the public).

⁸⁰ See *Union Mfg. Co. v. Han Baek Trading Co.*, 763 F.2d 42, 45–46 (2d Cir. 1985).

⁸¹ *Id.* at 45.

⁸² *Id.*

⁸³ See *id.*

⁸⁴ See 28 U.S.C. § 1338(a); *Union*, 763 F.2d at 45–46.

⁸⁵ § 1338(a).

⁸⁶ See § 1338(a); *Union*, 763 F.2d at 45–46.

⁸⁷ See *Union*, 763 F.2d at 45.

⁸⁸ *Id.* at 46 n.42; see S. Rep. No. 93-1298, at 196, 1974 U.S.C.C.A.N. 7186, 7329. *Texas Instruments* ended the practice of distinguishing patent invalidity defenses from other patent issues. See *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996); *supra* Section II.A.

That reasoning supported the court's decision to apply *res judicata* to trademark and false designation of origin claims.⁸⁹

V. ITC adjudications meet the requirements for preclusion.

Courts have generally found that ITC adjudications meet the requirements for preclusion.⁹⁰ Litigants opposing preclusion based on non-patent ITC decisions are likely to make only two arguments: that the ITC does not provide a "full and fair" or "adequate" opportunity to litigate or that the decision was not "final."⁹¹ In some limited circumstances, preclusion would not apply because of limitations on the ITC's jurisdiction.⁹²

A. Full and fair opportunity to litigate

The ITC likely provides a "full and fair" and "adequate" opportunity to litigate before it because several courts have resolved the issue in favor of applying preclusion.⁹³ Supporting the use of preclusion, one court noted that the procedures in ITC investigations "closely resemble" the Federal Rules of Civil Procedure.⁹⁴ The investigations allow discovery and opportunities to cross-examine witnesses.⁹⁵ Although there are no jury trials in the ITC, that has not prevented courts from giving preclusive effect to ITC decisions.⁹⁶ Only in one dissent has a judge found that the ITC does not provide a "full and fair opportunity to litigate."⁹⁷ There, the dissenting judge thought that the ITC respondent did not have a "full and fair opportunity to litigate" because respondents could not litigate counterclaims there and because the ITC used "an accelerated timetable, which disadvantages respondents who do not have the luxury of choosing the forum."⁹⁸ Since no court has refused to apply preclusion based on an argument that the ITC provides an inadequate opportunity, such challenges are likely to fail.

B. Final judgment

An ITC determination becomes "final" for preclusion purposes when the Commission reaches "a final administrative decision on the merits, excluding or

⁸⁹ See *Union*, 763 F.2d at 45–46.

⁹⁰ See, e.g., *id.* at 45–46.

⁹¹ See *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 328–29 (1994); *Univ. of Tenn. v. Elliott*, 478 U.S. 788, 797 (1986); RESTATEMENT (SECOND) OF JUDGMENTS §§ 13, 27, 83(2) (1982); *supra* Section V.C.

⁹² See RESTATEMENT (SECOND) OF JUDGMENTS §§ 26(1)(c), 28(3).

⁹³ See, e.g., *Balt. Luggage Co. v. Samsonite Corp.*, No. 91-1758, 977 F.2d 571, 1992 WL 296368, at *4 (4th Cir. Oct. 16, 1992) (unpublished table decision).

⁹⁴ *In re Convertible Rowing Exerciser Patent Litig.*, 721 F. Supp. 596, 600 (D. Del. 1989).

⁹⁵ *Id.*

⁹⁶ See *Balt. Luggage*, 1992 WL 296368, at *4.

⁹⁷ See *id.* at *7 (Hall, J., dissenting).

⁹⁸ *Id.*

refusing to exclude articles from entry' under 19 U.S.C. § 1337(d), (e), or (f)" and the decision is subject to appeal.⁹⁹ Commission actions become final and subject to appeal after the presidential review period¹⁰⁰ concludes or when the President approves the Commission's actions.¹⁰¹ A decision that is not final, for example, would be an ALJ's initial determination before the Commission has adopted it in its own review or by application of Commission Rule 210.42(h).¹⁰² Litigants trying to preclude arguments based on an ITC decision can do so successfully by waiting for the proper time set by the Commission rules.

C. Exceptions

Two notable exceptions to the general rules of claim preclusion limit its application to ITC decisions.

First, claim preclusion allows a complainant at the ITC to relitigate the same claim in district court to recover damages.¹⁰³ Even if the ITC complainant loses, a final judgment at the ITC likely does not bar a later action for damages.¹⁰⁴ The damages action is not barred because *res judicata* does not apply when subject-matter jurisdiction or other restrictions on the court's authority limit the relief available.¹⁰⁵ The ITC cannot award damages, so its final judgment likely will not preclude a later action for damages.¹⁰⁶ The Federal Circuit narrowed the exception that jurisdictional limits make preclusion unavailable when it held that a final judgment in district court could preclude the same claim from being litigated in the ITC.¹⁰⁷ The *Young* court recognized that claim preclusion assumes that "all forms of relief could have been requested in the first action."¹⁰⁸ It also noted that a district court could not issue an order excluding products from the United States as the ITC can, but added that some adaptation of claim preclusion was "necessary . . . in its application to administrative proceedings."¹⁰⁹ Taking a "pragmatic approach," the Federal Circuit noted that *res judicata* based on a district court judgment could preclude claims in the ITC.¹¹⁰

⁹⁹Block v. ITC, 777 F.2d 1568, 1571-72 (Fed. Cir. 1985) (emphasis deleted) (quoting *Import Motors Ltd. v. ITC*, 530 F.2d 940, 944 (C.C.P.A. 1976)).

¹⁰⁰The president has a sixty-day period to make the Commission's orders ineffective by notifying the Commission of his disapproval. 19 U.S.C. § 1337(j)(2) (2012).

¹⁰¹19 U.S.C. § 1337(c) ("Any person adversely affected by a final determination . . . may appeal such determination, within 60 days after the determination becomes final"); 19 C.F.R. § 210.49(d) (2017).

¹⁰²See 19 C.F.R. § 210.42(h) (specifying that the ALJ's decision are automatically adopted by the Commission if the Commission does not act within a certain time); § 210.45(c) (explaining that the Commission may review the ALJ's decisions and "affirm, reverse, modify, set aside or remand for further proceedings").

¹⁰³*Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563-64 (Fed. Cir. 1996).

¹⁰⁴See *id.* at 1563.

¹⁰⁵*Id.* at 1563-64; RESTATEMENT (SECOND) OF JUDGMENTS § 26(1)(c), cmt. c.

¹⁰⁶19 U.S.C. § 1337(d), (f), (i) (2012) (specifying the relief the ITC may grant); *Genentech*, 80 F.3d at 1563. Issue preclusion could preclude those issues that were actually litigated and determined in the ITC action. See RESTATEMENT (SECOND) OF JUDGMENTS § 27. The exception that permits relitigation based on "factors relating to the allocation of jurisdiction between" the two forums does not apply in "many" cases. *Id.* § 28(3), cmt. d; see *id.* § 28, cmt. e (stating that a State court determination "on a patent license agreement upholding the defense that the patent was invalid" is not binding in a patent infringement action in federal court).

¹⁰⁷See *Young Eng'rs, Inc. v. ITC*, 721 F.2d 1305, 1316 (Fed. Cir. 1983).

¹⁰⁸*Id.* at 1314.

¹⁰⁹*Id.* at 1314-15.

¹¹⁰*Id.* at 1315-16.

Another relevant exception applies to counterclaims brought in the ITC. Claim preclusion does not preclude counterclaims that could have been brought in the ITC because counterclaims are subject to mandatory removal to district court.¹¹¹ Claim preclusion cannot apply when the first forum could not hear the claim.¹¹²

VI. Conclusion

Although there are some unresolved issues about the preclusive effect of ITC decisions, patent decisions from the ITC are unlikely to have preclusive effect as long as courts continue to follow *Texas Instruments*, while non-patent decisions from the ITC will have preclusive effect. The Federal Circuit's findings after an appeal from the ITC are likely to be treated with more deference than the ITC's own findings.

¹¹¹ 19 U.S.C. § 1337(e) (2012); *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1075 (W.D. Wis. 2012); 19 C.F.R. § 210.14(e).

¹¹² *See Apple*, 886 F. Supp. 2d at 1075 (citing *Carver v. Nall*, 172 F.3d 513, 516 (7th Cir. 1999)).

The Good Faith, the Bad Faith and the Ugly

Katherine Hunziker*

Contents

I.	INTRODUCTION	672
A.	<i>“Knowledge Only” Approach</i>	673
B.	<i>“Knowledge Plus Intent” Approach</i>	674
C.	<i>Undecided</i>	675
II.	DEFINING THE ELEMENTS	676
A.	<i>Knowledge</i>	676
B.	<i>Use in Commerce</i>	677
C.	<i>Remoteness</i>	678
	1. <i>The Four-Factor Test</i>	678
	2. <i>The Internet as a Separate Zone</i>	679
III.	A NATURAL READ OF THE CASES	680
A.	<i>The “Tea Rose” Case</i>	680
B.	<i>The “Rectanus” Case</i>	681
	1. <i>Protection of Junior User’s Investment</i>	682
IV.	THE GOALS OF TRADEMARK LAW	683
A.	<i>Consumer protection</i>	683
B.	<i>Trademark Owner Protection</i>	685
V.	EXPANSION OF RIGHTS FOR UNREGISTERED TRADEMARKS	686
A.	<i>Knowledge Only Conflicts with Plain Reading of §43</i>	687
B.	<i>Knowledge Only Expands Right Until Nearly Identical to a Federal Registration</i>	688

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C.	<i>Knowledge Only is at Odds with Supreme Court's Statements</i>	688
VI.	"GOOD FAITH" IN EXISTING TRADEMARK LAW	689
A.	<i>Likelihood of Consumer Confusion</i>	690
B.	<i>Descriptive Fair Use</i>	691
C.	<i>Cybersquatting</i>	691
D.	<i>Territorial Rights of Foreign Marks</i>	692
VII.	IMPRACTICALITY OF THE RESULT	693
A.	<i>Is There a Duty to Search?</i>	693
B.	<i>If No Duty, Why Search?</i>	695
VIII.	CONCLUSION	696

I. INTRODUCTION

If a person¹ has a federally registered trademark², that person enjoys all the rights and protections provided by the Lanham Act across the country, excluding areas in which another person was using the mark *prior* to federal application^{3,4}. A federal registration confers constructive notice of priority throughout the country beginning at the time of application.⁵ Thus, an owner of a registered trademark can enjoin any subsequent user from using that mark. An unregistered trademark owner, however, has common law rights to their mark, but only in the areas in which it is being used in commerce and known by the relevant public.⁶ As a result, the first to use the unregistered mark (the senior user) cannot claim priority over a subsequent remote use of the mark by another person (the junior user) who adopted the mark in good faith.⁷

The issue addressed here arises when one or both of the users of the same or similar unregistered mark expand into one another's territory. Of course, the senior user can not enjoin the junior user without first proving that he has a protectable mark and that the junior user's use of the same or similar mark is likely to cause consumer confusion.⁸ Thus, once the junior and senior user expand, and their respective uses of the marks are likely to cause consumer

¹The term "person" includes natural persons, firms, corporations, unions, associations, or other organizations capable of suing and being sued in a court of law. 15 U.S.C.A. § 1127.

²The term "trademark" includes any word, name, symbol, or device, or any combination thereof ... to identify and distinguish his or her goods. 15 U.S.C.A. § 1127.

³15 U.S.C. § 1057(c)(1).

⁴In *Dawn Donuts* jurisdictions, even a federal registration does not immediately give the trademark owner the right to enjoin a junior user who adopted the mark after the senior user received federal registration. In these jurisdictions, the senior user may only enjoin the junior user when the senior user expands into that area and the uses become confusing. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 121 U.S.P.Q. 430 (2d Cir. 1959).

The Tea Rose Rectanus defense is not available for the junior user in jurisdictions follow the *Dawn Donut* rule. 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 26:33 (5th ed.).

⁵15 U.S.C. § 1057(c)(1).

⁶*Id.* at § 43.

⁷*United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

⁸*Gruner + Jahr USA Publ'g v. Meredith Corp.*, 991 F.2d 1072, 1074 (2d Cir. 1993).

confusion, the junior user can raise the affirmative defense⁹ provided by the Tea Rose-Rectanus doctrine.¹⁰ Once the junior user has established that she adopted the mark in good faith, the senior user may not oust the geographically remote junior user, regardless of the fact that the senior user was the first to adopt the mark.¹¹

The common law doctrine of good faith adoption stems from two Supreme Court cases decided in 1916 and 1918. In both cases, the Court was called upon to decide whether the senior user was entitled to enjoin the national junior user regardless of the fact that the junior user was the first to use that mark in that area. From these decisions came the “Tea Rose-Rectanus” doctrine. The doctrine states that:

(1) The territorial scope of an unregistered mark is limited to the territory in which the mark is known and recognized by relevant consumers in that territory.¹²

(2) The national senior user of an unregistered mark cannot stop the use of a territorially “remote” good faith national junior user who was first to use the mark in that “remote” territory.¹³

The practical result of these two cases, and those that have come later, is that the national senior user does not have priority over the national junior user throughout the entire United States. Conversely, a junior user has the right to exclude the senior user from expanding into his area so long as the junior user adopted the mark in good faith. While this is a well established and universally accepted defense to trademark infringement, the circuit courts are split on what the Supreme Court meant by “good faith” adoption. Those circuits that have been called upon to determine this answer have generally fallen into two categories: knowledge only and knowledge plus intent. The remaining circuits have yet to choose a side.

A. “Knowledge Only” Approach

One interpretation of good faith that has been adopted by the majority of the circuits is the knowledge only interpretation. Those circuits have held that a junior user cannot receive the benefits and protections from the doctrine if they had knowledge of the senior user’s use of the mark prior to adoption.¹⁴ Under this standard, knowledge alone defeats the junior user’s ability to put forth the affirmative defense of good faith adoption.

For example, the Ninth Circuit, in *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, detailed a lengthy discussion on the circuit court split before decid-

⁹*Emergency One, Inc. v. Am. Fire Eagle Engine Co.*, 332 F.3d 264, 271 (4th Cir. 2003) (“A good-faith remote user claim qualifies as an affirmative defense.”)

¹⁰McCARTHY, *supra* note 4, § 26:4.

¹¹*Id.*

¹²*Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916).

¹³*United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

¹⁴*Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 674 (7th Cir. 1982) (“A good faith junior user is one who begins using a mark with no knowledge that someone else is already using it.”); *Woman’s World Shops Inc. v. Lane Bryant, Inc.*, 5 U.S.P.Q.2d 1985 (T.T.A.B. Jan. 4, 1988) (“Where a junior user appropriates a mark with knowledge that it is actually being used by another, that use is not believed to be a good faith”).

ing that the knowledge only approach better suits trademark law.¹⁵ In arriving at this conclusion, the Court laid out multiple reasons why this is the superior approach. First, it stated that the knowledge only interpretation better follows the Supreme Court's holding in the two cases in which the junior users had adopted the mark without knowledge.¹⁶ Second, the Court noted that the knowledge only approach better serves the policy underlying the Tea Rose-Rectanus doctrine.¹⁷ It argued that the doctrine was adopted to protect the junior user who adopted the mark in good faith and invested time and money establishing goodwill in that area.¹⁸ It reasoned that the junior user who knew of the senior user's mark should not be afforded the protection because he knew the senior user would be unable to expand into that territory, thus acting in bad faith.¹⁹ Finally, the Court explained that the knowledge only standard better serves the Lanham Act.²⁰ In illustrating this point, the Court noted that the Lanham Act provides a defense for a junior user that adopted the mark without knowledge of the prior use by the registrant.²¹ Further, it reasoned that the Lanham Act grants a federally registered mark constructive notice of ownership, thus defeating any defensive claim of good faith.²² Therefore, it held that notice of a senior user's use of the mark should likewise defeat any good faith defense for unregistered marks.

B. "Knowledge Plus Intent" Approach

The remaining circuits that have answered the question of what good faith means have followed another, minority interpretation. Under the knowledge plus intent standard, knowledge of the senior user's use of the mark alone does not defeat good faith.²³ Rather, knowledge of the senior user's mark plus the intent to capitalize on his goodwill defeats the shelter of the doctrine.²⁴ The circuits that follow this interpretation hold that the junior user's knowledge may be a factor in determining bad faith or may even raise an inference of bad faith, but does not end the inquiry.²⁵

For example, the Tenth Circuit addressed this issue in *GTE Corp. v. Williams*.²⁶ In this case, the plaintiff had been using the trademark "General Telephone Corporation" in various parts of the United States beginning in 1935.²⁷ With knowledge of the plaintiff's previous use, the defendant began

¹⁵Stone Creek, Inc. v. Omnia Italian Design, Inc., 875 F.3d 426 (9th Cir. 2017)

¹⁶*Id.* at 437-38.

¹⁷*Id.*

¹⁸*Id.*

¹⁹*Id.* at 439.

²⁰*Id.*

²¹*Id.*

²²*Id.*

²³*El Chico, Inc. v. El Chico Cafe*, 214 F.2d 721, 726 (5th Cir. 1954) (holding that knowledge "in the absence of an intent to benefit from the reputation or goodwill of the [senior user], does not defeat good faith.")

²⁴*Id.*

²⁵*Jordache Enterprises, Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1486 (10th Cir. 1987) (noting that choosing to adopt a mark the defendant knew was being used by the plaintiff raises an inference of bad faith, but holding the real inquiry is whether the defendant intended to benefit from the plaintiff's reputation.)

²⁶*GTE Corp. v. Williams*, 904 F.2d 536 (10th Cir. 1990)

²⁷*Id.*

using the mark "General Telephone" in Utah in 1974.²⁸ In holding that the defendant had satisfied the good faith adoption defense, the Court acknowledged that the circuit court split provided precedents for both sides of the argument. The Court noted that while it may raise an inference of bad faith, "mere knowledge does not foreclose further inquiry."²⁹ Rather, "[t]he ultimate focus is on whether the second user had the intent to benefit from the reputation or goodwill of the first user."³⁰ The Court held that although the defendant knew of the plaintiff's prior use, there was no evidence he intended to benefit from the goodwill.³¹

C. *Undecided*

The remaining circuits have evaded the issue by deciding cases on other grounds. For example, the Third Circuit noted that while the issue raises "interesting questions" regarding the effect of knowledge on a mark owner's geographic scope of rights,³² it has "not decided whether a junior user's knowledge of the senior user's use of a mark is sufficient to attribute bad faith adoption of the mark."³³ However, in an early decision, the Court stated that the doctrine was available "unless at least it appear that the second adopter has selected the mark with some design inimical to the interests of the first user."³⁴

The district courts within the Third Circuit have tended to follow the growing trend that knowledge is merely a factor in determining good faith. For example, in *ACCU Personnel, Inc. v. AccuStaff, Inc.*, the District Court for the District of Delaware discussed the unresolved issue before deciding that knowledge is probative, not dispositive.³⁵ Other courts within the Third Circuit, however, have been hesitant to follow suit. In *Members First Federal Credit Union v. Members 1st Federal Credit Union*, the District Court for the Middle District of Pennsylvania acknowledged that the majority of the district courts require intent and nevertheless stated the Court is not persuaded that the Tea Rose-Rectanus doctrine was available in light of the defendant's knowledge of the plaintiff's mark.³⁶ This discrepancy among district courts within undecided circuits remains prevalent today.

In addition to the circuit court split regarding the correct interpretation of good faith, particularly in cases involving the internet, there are a multitude of traditional trademark terms of art that are being shaped and reshaped to handle the changing world. The various approaches, definitions and standards emphasize the need for a universal articulation of good faith adoption. Further,

²⁸*Id.* at 541.

²⁹*Id.*

³⁰*Id.*

³¹*Id.*

³²*A.J. Canfield Co. v. Honickman*, 808 F.2d 291 (3d Cir.1986) n. 7.

³³*Lucent Info. Mgmt., Inc. v. Lucent Techs., Inc.*, 186 F.3d 311, 318 (3d Cir.1999).

³⁴*Adam Hat Stores, Inc. v. Lefco*, 134 F.2d 101, 104 (3d Cir.1943)

³⁵*ACCU Personnel, Inc. v. AccuStaff, Inc.*, 846 F. Supp. 1191, 1211 (D. Del. 1994). *See also* *Rockland Mortgage Corp. v. Shareholders Funding, Inc.*, 835 F.Supp. 182, 195 (D.Del.1993) ("declin[ing] to attribute to defendant bad faith absent some 'plan antagonistic to [plaintiff's] interests'").

³⁶*Members First Federal Credit Union v. Members 1st Federal Credit Union*, 54 F.Supp.2d 393 (M.D. Penn. 1999).

the accelerated increase in internet development and interactions necessitates a higher standard to account for the heavily connected world in which some level of knowledge is almost impossible to avoid.

II. DEFINING THE ELEMENTS

Whether knowledge alone defeats good faith or is used as a factor in the determination, a general definition and understanding of the words comprising the doctrine is necessary. In order for a remote junior user to have the requisite knowledge, she must subjectively know that the senior user is using the mark in commerce.³⁷ The “use in commerce” requirement has been relatively straight forward until the development of the internet. As defined by the Lanham Act, “use” means a bona fide use of the mark in commerce.³⁸ In the traditional brick-and-mortar application, the senior user was using the mark in connection with the goods or services being sold in a physical location. However, knowledge, commercial use, and remoteness are not as easily applied in the internet era.

A. Knowledge

Of course, a search of the Patent and Trademark Office revealing a federal registration amounts notice.³⁹ However, a finding of no prior registration is not the final step. The internet raises numerous and difficult questions regarding the level of awareness needed to be considered “knowledge” in the trademark sense. If the potential junior user attempts to create an email account or social media profile bearing the mark, and that name is already taken, does that mean that he or she “knows” of the senior user’s mark? Similarly, does the junior user “know” of the senior user’s use of the mark if the junior user types in his own domain name incorrectly and happens to stumble upon the senior user’s website? Either instance would, in the general sense, lead to the conclusion that someone other than the junior user has rights to the mark. However, it has yet to be determined whether those or similar circumstances would give rise to the type of knowledge needed to defeat good faith.

It has been argued that an internet presence may amount to notice.⁴⁰ For example, in *Pure Imagination, Inc. v. Pure Imagination Studio, Inc.*, the Court noted that the operation of an active website on the Internet could constitute

³⁷ McCARTHY, *supra* note 4, § 26:9.

³⁸ “A mark shall be deemed to be in use in commerce—

(1) on goods when—

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) the goods are sold or transported in commerce,

(2) on services when it is used or displayed in the sale or advertising of services and the services are rendered in commerce, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services is engaged in commerce in connection with the services. 15 U.S.C. §1127.

³⁹ 15 U.S.C. § 1057.

⁴⁰ David S. Barrett, *The Future of the Concurrent Use of Trademarks Doctrine in the Information Age*, 23 HASTINGS COMM. & ENT L.J. 687, 709 (2001)

nationwide trademark use.”⁴¹ However, the court declined to decide the issue.⁴² To date, there are no cases that expressly address this issue. Although not weighty, there is at least some evidence that an online presence can amount to notice. If the senior user has an internet presence, junior users throughout the country with access to the internet could potentially have notice that the mark is being used, and thus be prohibited from adopting the mark. Thus, an internet presence has the potential to serve as notice across the map.

B. *Use in Commerce*

To have notice the junior user must know that senior user is using the mark *in commerce*. The First Circuit set forth the test to determine whether the use in commerce requirement was satisfied in order to have ownership of a mark. The senior user must show “first, adoption and, second, use in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.”⁴³ Again, this relatively straightforward principle is becoming harder to apply in new trademark law. Slowly, courts have attempted to define commercial use in regards to internet presence and activity. The registration of a domain name alone does not amount to a commercial use.⁴⁴ Similarly, creating an active website under that domain name, a Facebook page or even an Etsy store may not, in some cases, be enough to satisfy the use in commerce requirement. However, the bar for commercial use is not set much higher.

For example, the Eleventh Circuit, in *Planetary Motion, Inc. v. Techsplosion, Inc.*, held that the mark “Coolmail” had been used in commerce when a link to the software was posted on a website and sent to end users through an email containing that designation.⁴⁵ The Court reasoned that the software was available to “anyone that had access to the internet” and was distributed to the target public.⁴⁶ The Court further held that it was not relevant the “Coolmail” software was not sold, but given to the public to download for free.⁴⁷ Thus, the free online distribution of software under the plaintiff’s trademark was enough to constitute commercial use.

Additionally, there has been a disagreement among the circuits on whether advertising alone can ever satisfy the use in commerce requirement. Some circuits have held that advertising and promotions are insufficient to constitute commercial use.⁴⁸ On the other hand, some circuits have held that advertis-

⁴¹Pure Imagination, Inc. v. Pure Imagination Studios, Inc., No. 03 C 6070, 2004 WL 2967446, at *11 (N.D. Ill. Nov. 15, 2004) (not citable as precedent).

⁴²*Id.*

⁴³New England Duplicating Co. v. Mendes, 190 F.2d 415, 417–18 (1st Cir.1951)

⁴⁴Brookfield Commc’ns v. West Coast Antm’t Corp., 174 F.3d 1036, 1051 (9th Cir. 1999) (“In the literal sense of the word, [defendant] ‘used’ the term ‘moviebuff.com’ when it registered that domain address Registration with [a domain name registrar], however, does not in itself constitute ‘use’ for purposes of acquiring trademark priority.”)

⁴⁵Planetary Motion, Inc. v. Techsplosion, Inc., 261 F.3d 1188, 1191 (11th Cir. 2001).

⁴⁶*Id.*

⁴⁷*Id.* at 1199.

⁴⁸Electronic Communications, Inc. v. Electronic Components for Industry Co., 443 F.2d 487, 492 (8th Cir.1971) (“The mere advertisement of words or symbols without application to the goods themselves is insufficient to

ing can, in some circumstances, satisfy the use in commerce requirement.⁴⁹ The internet provides a platform for rapid dissemination of advertising. It is still unclear how the already uncertain commercial use requirement will be affected by the internet. If courts allow online advertising to amount to commercial use, mark owners can potentially satisfy the use in commerce requirement anywhere in the country.

C. Remoteness

There continues to be some disagreement whether “remoteness” is a separate factor or whether it is part of the overall good faith analysis, with the majority of courts requiring the defendant to prove both elements.⁵⁰ Whether a use is remote does not necessarily refer to geographics.⁵¹ Rather, a junior user’s use of a mark is remote if the relevant consumers would not recognize the senior user’s mark, and thus are not likely to be confused.⁵² Not surprisingly, this too has become more complicated to apply in cases involving the internet. Courts have attempted to determine “remote use” on the internet in various and complicated ways.

1. The Four-Factor Test

Most courts have followed or modified the four factor test to determine whether the senior user was using the mark in that area. In analyzing whether the senior user is afforded protection in an area, courts look at (1) volume of sales, (2) growth trends, (3) number of buyers in ratio to potential customers, and (4) amount of advertising.⁵³ Although these factors were developed for cases dealing with traditional use, some courts attempt to apply them to cases involving the internet. Thus, although a mark owner may have a website that has the potential to reach consumers throughout the United States, the area in which she is afforded protection is where the relevant purchasers have come to recognize the mark. Therefore, a junior user’s use of the mark is “remote” in those areas in which the senior user’s mark is not being used and recognized by the relevant public.

In applying the four factored test in *Echo Drain v. Newsted*, a district court held that a website without more did not give the plaintiff rights in places the mark has not traveled.⁵⁴ In this case, a band began performing live shows and recording albums in Dallas under the mark “Echo Drain.”⁵⁵ Shortly after, the defendant began using the mark “Echobrain” in connection with similar musical performances and recordings in California.⁵⁶ The plaintiff argued that be-

constitute a trademark.”). See also *Buti v. Perosa*, 139 F.3d 98, 105 (2d Cir.1998).

⁴⁹New West Corp. v. NYM Co. of California, Inc., 595 F.2d 1194, 1200 (9th Cir.1979).

⁵⁰McCARTHY, *supra* note 4, § 26:4.

⁵¹*Id.*

⁵²*Id.* (The “remoteness” enquiry is therefore an issue of the territorial dimension of likelihood of confusion.)

⁵³Allard Enters., Inc. v. Advanced Programming Res., Inc., 249 F.3d 564, 574 (6th Cir. 2001)

⁵⁴*Echo Drain v. Newsted*, 307 F. Supp. 2d 1116 (C.D. Cal. 2003).

⁵⁵*Id.* at 1119.

⁵⁶*Id.*

cause it had a website bearing the mark that can be accessed anywhere in the United States, the defendant's use of the mark in California was not remote.⁵⁷ In applying the four factored test, the court held because all sales of the band's records, live performances and advertising were done in Dallas, protection of their mark was limited to that area.⁵⁸ The Court stated that the plaintiff's online presence did not amount to use throughout the country because, although it is accessible anywhere, the plaintiff presented no evidence anyone outside of the Dallas area was viewing the website.⁵⁹ Thus, the defendant's use of a similar mark in California was remote.⁶⁰

2. The Internet as a Separate Zone

Some courts have considered the idea that the internet may be its own, new territory.⁶¹ For example, in *Optimal Pets, Inc. v. Nutri-Vet LLC*, the court dealt with the issue of a geographic protection for a company based on the internet.⁶² The plaintiff sold pet supplements under the name "Optimal Pets" primarily through internet sales on their website.⁶³ The defendant later began selling pet vitamins and supplements under the same name at Vitamin Shoppe stores throughout the country.⁶⁴ In discussing the issue of geographic protection for a mark relying solely on internet sales, the court noted that "it may be possible to view cyberspace as its own distinct market."⁶⁵ The court went on to state that "as such, it could be evaluated separately from any geographic territory to determine the level of 'cyber-market' penetration and, possibly, establish common law rights for internet sales using a mark even though such rights could not be established as to any physical geographical area."⁶⁶ However, the court went on to hold that a sale done through the website would be considered a sale done in the geographic area in which the customer is located and went on to rely on the traditional four factor test.⁶⁷

Knowledge, commercial use and remoteness have yet to be affirmatively defined in relation to the internet. In the handful of cases that have attempted to frame the terms in the online trademark world, the offered definitions have been anything but clear. The blurry lines come with little guidance and many questions. This uncertainty further underscores the importance of a higher standard. The knowledge plus intent approach requires that the junior user actually knows the senior user is using the mark and intend to benefit from that

⁵⁷ *Id.* at 1127.

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ Shontavia Johnson, *Trademark Territoriality in Cyberspace: An Internet Framework for Common-Law Trademarks*, 29 BERKELEY TECH. L.J. 1253, 1281 (2014) ("Other jurisdictions have acknowledged that the advent of the Internet may necessitate the creation of a new sui generis zone of protection, existing in addition to the zones of actual goodwill and natural expansion.")

⁶² *Optimal Pets, Inc. v. Nutri-Vet, LLC*, 877 F. Supp. 2d 953 (C.D. Cal. 2012).

⁶³ *Id.*

⁶⁴ *Id.* at 956.

⁶⁵ *Id.* at 962. (dicta)

⁶⁶ *Id.*

⁶⁷ *Id.*

reputation, necessitating a some pre existing goodwill present in the minds of relevant consumers in the area in which the junior user is adopting the mark. The necessary intent negates the need to draw arbitrary lines, and instead focuses on whether consumers are likely to be confused and whether goodwill will be misdirected.

In addition to the complexity and indefiniteness of the terms of art that make up good faith adoption, the per se rule that knowledge of the senior user's use of a mark alone defeats the defense of the doctrine is the incorrect standard to apply for a number of other reasons. First, the knowledge plus intent interpretation is a better understanding of the two cases that created the Tea Rose-Rectanus doctrine and its intended purpose. Second, the knowledge plus intent standard better furthers the two most prominent goals of trademark law. Third, the knowledge only approach blurs the differences between common law protection for unregistered marks and that of federally registered marks. Fourth, the knowledge only approach does not mirror applications of good faith in other areas of trademark law. Finally, the low standard that knowledge only promotes discourages junior users from conducting important searches of potential marks in order to avoid knowledge.

III. A NATURAL READ OF THE CASES

The most obvious starting point is the text of the cases themselves. The split among the circuit courts originated from the Supreme Court's ruling that good faith adoption of a trademark is a defense to infringement, without providing a definition of good faith. Although the Supreme Court decided the cases before the passage of the Lanham Act, they continue to be the law governing unregistered trademarks.⁶⁸ Because the principles expressed in the two opinions continue to be relevant today, it is worth analyzing the cases. While minds can differ in interpreting what the Court meant by "good faith," the knowledge plus intent standard is a better understanding of the two cases. Additionally, the knowledge plus intent interpretation better serves the doctrine as it was articulated by the Supreme Court.

A. The "Tea Rose" Case

The first of the two Supreme Court cases, *Hanover Star Milling Co. v. Metcalf*, is commonly referred to as the "Tea Rose" case. In this case, the plaintiff was the national senior user of the mark "Tea Rose" for flour in three Northern states.⁶⁹ The defendant, without knowledge of the plaintiff's mark, later began selling flour under the same mark in southern states.⁷⁰ The plaintiff claimed that because he was the first in the nation to use that mark for flour, he should

⁶⁸*Spartan Food Sys., Inc. v. HFS Corp.*, 813 F.2d 1279, 1282 (4th Cir. 1987) ("Although *Hanover Milling* and *United Drug* were decided before passage of the Lanham Act, their common law exposition of trademark rights applies today.")

⁶⁹*Hanover Star Milling Co.*, 240 U.S. at 415.

⁷⁰*Id.*

be able to enjoin the completely remote defendant from using that mark.⁷¹ The Court held that the senior user does not have the right to enjoin the remote junior user who adopted the mark *in good faith*.⁷²

The Court, in addressing wholly separate markets, stated that prior adopting is not significant unless it “appear[s] that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade.”⁷³ Here, the Court is emphasising the legal importance of the second user’s intent when adopting a mark. Further along in the opinion, the Court went on to state that when the defendant has adopted the mark “in good faith *and* without knowledge” of the plaintiff’s use, the defendant cannot be estopped from using the mark.⁷⁴ If the Supreme Court meant for good faith to mean without knowledge of the plaintiff’s mark, the statement would be redundant and out of sync with the previous statement requiring some intent.

B. *The “Rectanus” Case*

The second of the two Supreme Court cases is *United Drug Co. v. Theodore Rectanus Co.*, but is referred to as the “Rectanus” case. The plaintiff here was the national senior user of the mark “Rex” for drugs.⁷⁵ The defendant began using the same mark in a wholly remote location.⁷⁶ The plaintiff later began using the mark in the area in which the defendant’s use of the mark was well known, and brought suit to enjoin the defendant’s continued use.⁷⁷ The Supreme Court held that the plaintiff could not enjoin the defendant’s remote use of the mark that he adopted in good faith, regardless of the fact that the plaintiff was the first to use the mark in the country.⁷⁸ This time the plaintiff and defendant started in geographically remote areas, but later came to operate in the same state.⁷⁹ Again, the Court held that good faith is a requirement in order for the defendant to escape infringement.⁸⁰

As was true with the previous case, there can be arguments made for both sides. For example, the Court wrote, the defendant began using the mark “in perfect good faith; neither side having any knowledge or notice of what was being done by the other.”⁸¹ Some circuit courts have argued that this statement is evidence the Court equates good faith with lack of knowledge. However, read in context, that sentence was part of the Court’s summary of the lower court’s finding. Irrespective of that brief statement, the opinion continued to mention good faith in ways more aligned with knowledge plus intent.

⁷¹*Id.*

⁷²*Id.*

⁷³*Id.* at 415.

⁷⁴*Id.* at 418.

⁷⁵*United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

⁷⁶*Id.*

⁷⁷*Id.*

⁷⁸*Id.*

⁷⁹*Id.*

⁸⁰*Id.*

⁸¹*Id.* at 95.

The Supreme Court quoted the passage from the previous opinion that states prior appropriation of a mark is legally insufficient to negate good faith without a “design inimical to the interests of the first user.”⁸² Although that quote is merely dicta, the Court here underscores the importance of the intent in determining whether the defendant’s adoption of the mark was in good faith. Immediately after, the Court states that there is no “suggestion of a sinister purpose” on the part of the defendant.⁸³ The statements taken together lead to the interpretation that in order to defeat good faith, the defendant needs to have adopted the mark with the intent to do harm to the plaintiff. Therefore, knowledge without the requisite intent is not the correct interpretation of the Supreme Court’s words. Rather, the fact that the defendant lacked knowledge of the plaintiff’s use of the mark seems to have been a factor in determining that he did not intend to harm the plaintiff.

In holding that the plaintiff could not enjoin the defendant’s use of the mark which he adopted in good faith, the Supreme Court stated that he did not know of and did not intend to benefit from the plaintiff’s mark. Although arguments can be made for both sides, the knowledge plus intent interpretation is a better understanding of the holding, taken as a whole.

1. *Protection of Junior User’s Investment*

Some courts have argued that the doctrine was established to protect the junior user who “unwittingly adopted the same mark and invested time and resources into building a business with that mark.”⁸⁴ Under this theory, because the junior user knew of the senior user’s use and nevertheless adopted the mark, he did so at the expense of the senior user.⁸⁵ It is at the expense of the senior user because she cannot later expand her business into the area that is occupied by the junior user. However, this proposition misinterprets both the Court’s reasoning and the application of the Court’s statements.

The Supreme Court’s explanation of the principle of the doctrine is absent of words such as “unwittingly” or “unknowingly”. Rather, the Court reasoned that “it would be a perversion of the rule of priority that an innocent party who had in good faith employed a trade-mark in one state, and by the use of it had built up a trade there, being the first appropriator in that jurisdiction, might afterwards be prevented from using it.”⁸⁶ A requirement that the secondary adoption is done without knowledge is not stated, nor should it be read to imply that. The Court emphasizes again that a remote user who adopts the mark in good faith should not be forced out of the area in which she invested time and money making her mark known solely because she was not the first to use it nationally.

The Tea Rose-Rectanus doctrine emerged from the two cases heard and decided by the Supreme Court. The text of the opinions is the starting point in

⁸² *Id.* at 101.

⁸³ *Id.*

⁸⁴ *Stone Creek, Inc.*, 875 F.3d at 438-39.

⁸⁵ *Id.* at 439.

⁸⁶ *United Drug Co.*, 248 U.S. at 52.

analyzing the correct interpretation of “good faith.” The statements made by the Supreme Court in both cases lead to the inference that something more than mere knowledge of the senior user’s use of the mark is necessary to defeat good faith. Setting aside the arguments on both sides, the reasoning behind the holdings is clear. The purpose of the Tea Rose-Rectanus doctrine is to ensure a mark owner receives the full protection and rights in the area the mark is known without granting her a monopoly by extending those rights to areas that mark has not traveled. In light of today’s world, that cannot be properly accomplished with the knowledge only interpretation.

IV. THE GOALS OF TRADEMARK LAW

It has often been noted that while there are a multitude of ever changing policy arguments supporting trademark protection, there have always been two main goals.⁸⁷ The dual aims of trademark law are consumer protection and protection of a trademark owner’s rights in their mark.⁸⁸ In addressing the passage of the Lanham Act, Congress announced the purpose is “to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.”⁸⁹ With this in mind, it is clear that the knowledge plus intent standard better serves the goals of trademark protection. Neither of these goals are furthered under the knowledge only approach more so than under the knowledge plus intent standard. In fact, the necessity of intent better aligns with the commonly accepted twin purposes of trademark law in the sense that it promotes the two goals without granting the owner of an unregistered trademark too much protection.

A. Consumer protection

As the Supreme Court in *Qualitex* put it, “In principle, trademark law, by preventing others from copying a source-identifying mark, ‘reduce[s] the customer’s costs of shopping and making purchasing decisions,’ for it quickly and easily assures a potential customer that *this* item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past.”⁹⁰ The first of the two main goals of trademark law is protecting consumers by prohibiting confusion that results from concurrent uses of the same or similar marks. Therefore, the crux of trademark infringement is whether the two separate uses of a particular mark cause or

⁸⁷McCARTHY, *supra* note 4, § 2:1.

⁸⁸“The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner.” S.Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946)

⁸⁹S.Rep. No. 1333, 79th Cong., 2d Sess., 3 (1946).

⁹⁰*Qualitex Co. v. Jacobson Prod. Co.*, 514 U.S. 159, 163–64(1995)

are likely to cause consumer confusion. Under the knowledge only approach, consumer confusion is not relevant until litigation.⁹¹ Preventing a junior user from adopting a mark he knows to be used by the senior user does not protect consumers until, and only if, the use of the marks expand such that they are no longer geographically remote. Excluding the junior user from adopting the mark he merely knows to be in use by another is protecting the consumers from possible confusion that may never happen.

It has been argued that the junior user's knowledge is a surrogate of the relevant consumers' knowledge.⁹² In such cases, the fact that the junior user had the requisite knowledge serves as evidence that the senior user's reputation did travel to that area.⁹³ Thus, consumers are likely to be confused by the junior user's adoption of the same or similar mark.

For example, the Ninth Circuit, in *Interstellar Starship Services v. Epix*, held that the defendant's knowledge of the plaintiff's mark was strong evidence consumers would be confused.⁹⁴ In this case, the defendant learned of the plaintiff's mark when he attempted to register the same mark in the PTO.⁹⁵ After learning of the plaintiff's application, the defendant nevertheless registered a domain name containing the mark.⁹⁶ The Court held that knowledge of the plaintiff's mark creates a presumption that the defendant intended to deceive the public, and that intent is strong evidence the public is likely to be confused.⁹⁷ Other circuits have also held that when the junior user adopts a mark knowing the senior user had done so already, it creates a presumption or inference that the relevant consumers will be confused.⁹⁸

Again, however, these precedents miss the mark. A junior user looking to adopt a trademark is likely to do some research which may result in the uncovering of the senior user's mark in a remote location. Similarly, the junior user may choose to adopt a mark without doing research and stumble upon the senior user's mark while attempting to create a website or online profile. In these circumstances, the junior user does know of the senior user's mark, but it is unlikely that consumers in the junior user's area have come to recognize the senior user's mark and will be confused by a subsequent adoption. The justification that the junior user's knowledge equates to the relevant consumers' knowledge makes little sense in light of increased internet usage.

Under the knowledge plus intent standard, the junior user must have the intent to capitalize on the senior user's goodwill and reputation or the intent to cause consumer confusion. The fact that the senior user has a reputation to

⁹¹In order to prevail on a claim of trademark infringement, the plaintiff must prove that the defendant's use of the same or similar mark in commerce is likely to cause consumer confusion.

⁹²MCCARTHY, *supra* note 4, § 26:12 (comment).

⁹³Person's Co. v. Christman, 900 F.2d 1565 (Fed.Cir.1990) (holding that knowledge of a subsequent use may be evidence that mark is already known to relevant consumers). See also Restatement (Third) of Unfair Competition § 19, comment d, Reporters' Note (1995) ("In some instances knowledge by the subsequent user may indicate that the prior user's mark is already known in the relevant area, thus establishing the prior user's priority.")

⁹⁴Interstellar Starship Servs., Ltd. v. Epix Inc., 184 F.3d 1107 (9th Cir. 1999).

⁹⁵*Id.* at 1109.

⁹⁶*Id.*

⁹⁷*Id.* at 1111.

⁹⁸Ferrari S.P.A. v. Roberts, 944 F.2d 1235, 1243 (6th Cir. 1991) (holding that there is a presumption of likelihood of confusion when defendant intentionally copies plaintiff's mark);

protect means that she is known to the relevant consumers. Thus, a secondary use of the mark by the junior user would more likely cause confusion. Without the relevant population being familiar with the senior user's mark, they are not likely to be confused by the junior user's use, even in cases that the junior user had knowledge. Therefore, the knowledge plus intent approach better serves the first goal.

B. Trademark Owner Protection

Similarly, the second of the two main goals of trademark law is better served through the knowledge plus intent approach. In *Qualitex*, the Supreme Court went on to say "the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product."⁹⁹ Therefore, the senior user must have a reputation that is worth protecting. That is to say that the mark must be known to the relevant consumers. Under the knowledge only approach, regardless of whether the junior user is the only one to know that the senior user is using the mark, he would be barred from adopting it. In that case, the majority of the relevant public would not know of the senior user's mark; meaning the senior user has no reputation or goodwill in that area. It would make little sense to protect the reputation of a mark that has not yet garnered any good (or bad) will in an area. Again, the knowledge only approach is preemptively protecting the senior user from harm that may very well never occur.

In addressing the closely related "natural expansion"¹⁰⁰ doctrine, the First Circuit observed the issues in allowing a senior user to enjoin a good faith junior user from adopting the same mark in a remote area. In *Raxton Corp. v. Anania Associates*, the plaintiff used the mark "Rax" in connection with discount stores for women's clothing in multiple states, with only a handful of sales in Massachusetts.¹⁰¹ Soon after, the defendant began using the mark "Rack" for a men's discount clothing store in Massachusetts.¹⁰² In reversing the district court, the First Circuit acknowledged that barring the good faith adoption by the remote defendant makes little sense in light of the statutory protections available for the plaintiff.¹⁰³ The Court stated that to allow this would "weigh the remote prior user's intangible and unregistered interest in future expansion as more important than the subsequent user's actual and good faith use of its name."¹⁰⁴ Further, the Court went on to say that to do so would allow the senior user to monopolize markets that their trade has yet to reach.¹⁰⁵ Rather,

⁹⁹*Id.*

¹⁰⁰Sometimes referred to as the "zone of expansion" doctrine, the natural expansion doctrine allows a senior user of a mark to enjoin a good faith junior user whose use of the mark lays within the senior user's zone of expansion. A senior user's use is "natural" if, at the time the junior user adopted the mark, consumers were likely to be confused by the concurrent uses. MCCARTHY, *supra* note 4, § 24:20.

¹⁰¹*Raxton Corp. v. Anania Assocs., Inc.*, 635 F.2d 924, 926 (1st Cir. 1980).

¹⁰²*Id.*

¹⁰³*Id.*

¹⁰⁴*Id.* at 930.

¹⁰⁵*Id.*

if the plaintiff had used the mark in Massachusetts¹⁰⁶, and was known by purchasers there, the defendant would no longer be an innocent user because it is likely he would benefit from misdirected goodwill.¹⁰⁷

Instead, the knowledge plus intent approach necessitates that the junior user intend to capitalize on the senior user's reputation, thus requiring the senior user to have built up goodwill that requires protection. The second of the two goals of trademark law is ensuring the owner of a valid trademark, and not the infringer, is the one who benefits from the reputation of the mark. When viewed in that context, knowledge plus intent is the better fit. Knowledge only goes too far by barring a junior user from using the mark even in areas in which the senior user has no reputation or goodwill to protect so long as he was aware of the senior user's use prior to adoption. The knowledge plus intent standard accomplishes the second goal of trademark law by ensuring the senior user receives the financial and reputational benefits of his mark without providing protection in places he has not used the mark, but that the junior user knows of it.

At the heart of trademark law is consumer and trademark owner protection. By protecting trademarks, consumers can be confident in the mark that they have come to like or dislike. Also, the owner of a trademark is assured that she is the one benefiting from the reputation of the mark. Under the knowledge only approach, the consumer confusion and reputation are not important until the marks expand until the concurrent uses clash. Regardless of whether consumers are likely to be confused by the junior user's mark or whether the junior user will receive the misdirected benefits of the senior user's reputation are not relevant until the point of litigation. The knowledge plus intent standard better accomplishes the goals of trademark law by taking into account the circumstances in which consumer confusion and misdirected benefits would occur without also expanding the rights of unregistered trademarks too far.

V. EXPANSION OF RIGHTS FOR UNREGISTERED TRADEMARKS

Unregistered trademark owners have common law rights, however only in the area(s) the mark is being used in commerce and known to the relevant public.¹⁰⁸ As noted above, a major difference between registered and unregistered trademark protection is that federal registration serves as constructive notice of ownership everywhere in the country, giving the mark owner the right to exclude any junior user from using the mark, even in areas deemed to be remote.¹⁰⁹ The owner of an unregistered mark cannot exclude a remote junior user from using the mark in good faith.¹¹⁰ As illustrated above, the knowledge only approach

¹⁰⁶The Court held that although the Plaintiff had made private sales in Massachusetts, the commercial use requirement was not satisfied in that area because no advertising or public sales had occurred. *Id.* at 925.

¹⁰⁷*Id.*

¹⁰⁸*Hanover Star Milling Co.*, 240 U.S. 403 (1916).

¹⁰⁹15 U.S.C. § 1057(c).

¹¹⁰*United Drug Co.*, 248 U.S. at 97.

is an extremely low standard to apply in cases involving the internet or social media, as well as more traditional applications. If knowledge alone prevents a junior user from adopting the mark in a remote territory, the senior user's rights could potentially be expanded to anywhere in the country, so long as the junior user has access to the internet. It is clear that the knowledge plus intent interpretation is a better standard to apply in light of the statutory language and the Supreme Court's illustration of territorial rights of unregistered marks. The knowledge only interpretation does not reflect the plain meaning of the section of the Lanham Act dealing with unregistered trademarks, potentially expands trademark protection for unregistered marks to mirror that of a federal registration, and does not align with the Supreme Court's statements regarding common law rights of unregistered trademarks.

A. *Knowledge Only Conflicts with Plain Reading of §43*

It is widely accepted that §43(a) of the Lanham Act applies to unregistered trademarks.¹¹¹ The Lanham Act states that "any person who, on or in connection with any goods or services uses in commerce any [mark] which is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval" of the goods bearing that mark is liable for trademark infringement.¹¹² Read literally, a senior user suing for trademark infringement under § 43(a) must show that there is likely to be confusion as to the origin of the junior user's goods bearing the infringing mark. Therefore, if the senior user is well known in a certain geographic area, and the junior user begins using the same mark in that area, it is likely that consumers will be confused as to the source of the goods. This means that protection under §43(a) applies only in the areas in which the senior user has protection for that mark. Whether the junior user knew of the senior user's use in some remote location, therefore, should not be the end of the inquiry. The junior user alone is not the relevant public, therefore, his knowledge is should not be dispositive. Instead, the junior user's intent to capitalize on the senior user's goodwill requires that the senior user is well known enough in that area as to have a reputation to capitalize on. Without the senior user's mark being well know in the area, there will be no likelihood of consumer confuser if the junior user begins using the mark, regardless of whether he had knowledge. The knowledge plus intent approach is more harmonious to the plain meaning of the section of the Lanham Act pertaining to unregistered marks, which protects marks against consumer confusion.

¹¹¹ See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992) (holding "it is common ground that § 43(a) protects qualifying unregistered trademarks.").

¹¹² 15 U.S.C. § 1125(a).

B. *Knowledge Only Expands Right Until Nearly Identical to a Federal Registration*

Contrast §43(a) to the sections on the territorial scope of registered trademark protection. The Lanham Act states, “the filing of the application to register such mark shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect, on or in connection with the goods or services specified in the registration against any other person.”¹¹³ This provision provides that the owner of a federally registered trademark has priority over anyone adopting the mark after application, and that such application is constructive notice of that ownership.¹¹⁴ That is not the case with unregistered marks. If knowledge of a senior user’s use of the mark alone bars a junior user from adopting the mark, junior users across the country with access to the internet could potentially be barred from adoption. The practical result of this interpretation would be that unregistered marks with any online presence, whether it is a website or social media accounts, could end up receiving the functional equivalent of constructive use throughout the nation. The knowledge only approach offers such a low threshold that it presents the chance that unregistered trademarks will receive the same constructive notice as a mark that has been federally registered. The addition of the necessary intent provides a higher hurdle for unregistered senior users to overcome, and thus protects against expanding the rights of unregistered trademarks to places they have not yet used the mark in commerce. In light of the availability of a federal registration, unregistered trademark owners should not receive the functional equivalent of registration by merely maintaining a website. Federal registration is somewhat of a legal monopoly. Without the necessary registration, mark owners cannot receive such a legal monopoly.

C. *Knowledge Only is at Odds with Supreme Court’s Statements*

The two cases from which the Tea Rose-Rectanus doctrine was born offer further insight into the rights of unregistered trademarks. Because these cases continue to provide the basis for common law rights, it is relevant to have a complete picture of the policy underlying the doctrine. Circuits on both sides of the debate endorse different statements made by the Court in the two cases to support their arguments. Although arguments can be made on both sides, one main principle is clear: the common law does not grant the owner of an unregistered trademark a monopoly. The Supreme Court in *Hanover Star Milling Co.* explained “into whatever markets the use of a trademark has extended, or its meaning has become known, there will the manufacturer or trader whose trade is pirated by an infringing use be entitled to protection.”¹¹⁵ The Court further went on to state that the senior user cannot “monopolize that markets that his trade has never reached.”¹¹⁶ In essence, the Court is stating that a mark is protected in the areas in which it is known, and to protect it in areas in which it

¹¹³15 U.S.C. § 1057(c).

¹¹⁴*Id.*

¹¹⁵*Hanover Star Milling Co.*, 240 U.S. at 415-16.

¹¹⁶*Id.* at 416.

is unknown would amount to a monopoly. Similarly, in the second of the two cases, the Supreme Court stated that “rights to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another’s product as his” and does not “operate as a claim of territorial rights over areas into which it thereafter may be deemed desirable to extend the trade.”¹¹⁷ In each of the two cases the Court emphasized that trademark protection does not grant the owner a monopoly in areas in which he is not using the mark. This continues to hold true for unregistered trademarks.

The knowledge only standard in cases involving heavy internet presence would, in effect, confer upon the senior user the constructive use benefits of a federal registration, thereby granting them a monopoly. In contrast, the knowledge plus intent approach limits the instances that would give rise to a senior user’s ability to prohibit a junior user from using the mark in a remote area. It necessitates a finding of intent to benefit from the senior user’s goodwill in order to bar the junior user’s adoption. This higher standard safeguards against the granting of a monopoly on a unregistered mark.

When a mark is federally registered, the registration serves as constructive notice of ownership,¹¹⁸ eliminating a defense of good faith.¹¹⁹ It has been argued that knowledge alone should defeat a good faith defense as it does with a federal registration. However, constructive knowledge is one of many benefits that a federal registration grants the trademark owner. Unregistered marks have only common law protection. Absent legislative action, the provisions of the Lanham Act dealing with federally registered trademarks should not be read to extend to unregistered marks.

A plain reading of §43 of the Lanham Act illustrates that unregistered trademark owners have a cause of action when a junior user’s use of the same mark is likely to cause consumer confusion. Nowhere does it provide a senior user the right to prevent a remote junior user from using the mark, regardless of her knowledge without the requisite consumer confusion. Further, comparing §43 with the various provisions of the Lanham Act outlining the rights of federally registered marks illustrates that a senior user cannot prevent a remote junior user from using the mark absent a federal registration. To employ the knowledge only interpretation would make the differences a mere formality. Finally, when viewed in the context that common law protections do not grant a monopoly, it is clear that the knowledge only standard is too low.

VI. “GOOD FAITH” IN EXISTING TRADEMARK LAW

The Tea Rose-Rectanus doctrine is not the only area of trademark in which “good faith” and “bad faith” are used. First, the interpretation as applied to likelihood of confusion is important because, simply put, there can be no infringement without the likelihood of consumer confusion. Second, the way in

¹¹⁷ *United Drug Co.*, 248 U.S. at 97-98.

¹¹⁸ 15 U.S.C.A. § 1072.

¹¹⁹ *McCARTHY*, *supra* note 4, § 19:9.

which good faith is used in the descriptive fair use sense is pertinent as a look into the way in which it should be interpreted when applied to an affirmative defense. Third, the Anticybersquatting Consumer Protection Act, enacted expressly to address new issues created by the internet, offers a great insight into the way in which good faith should be applied going forward. Finally, the application of bad faith as applied to foreign use is relevant in analyzing territorial rights of marks. The knowledge only interpretation of good faith in the adoption of a trademark does not comport with the ways in which the circuit courts have defined and illustrated good faith in other contexts. Therefore, the knowledge plus intent interpretation of good faith in the adoption is a more natural understanding.

A. *Likelihood of Consumer Confusion*

In determining whether there has been trademark infringement, courts analyze whether there is a likelihood of confusion between the two marks. Although all of the circuits have developed their own version of the likelihood of confusion test, these tests have closely followed the *Polaroid* factors.¹²⁰ Among the factors considered is the defendant's bad faith in adopting the mark.¹²¹ The circuit courts have held that knowledge alone is not enough to establish bad faith for a likelihood of confusion inquiry.¹²² The bad faith factor incorporates both the defendant's knowledge of the plaintiff's mark *and* the defendant's intent, whether the intent is to capitalize on the plaintiff's goodwill or intent to confuse.¹²³

Also noteworthy is the variation of the factor by circuits that have not specifically adopted the *Polaroid* factor of the defendant's bad faith. Those circuits that have not used the defendant's bad faith as a factor have in fact replaced it with the "defendant's intent," which includes the defendant's intent to confuse consumers¹²⁴ and intent to benefit from the plaintiff's goodwill.¹²⁵ There is at least some argument that bad faith and intent to capitalize or confuse are used interchangeably in the context of consumer confusion.

Although the circuits have all adopted their own list of factors used to determine likelihood of confusion, almost all have been modeled after the *Polaroid* factors. Among those factors was the defendant's bad faith in adopting the mark. The circuits that have not adopted that exact factor often analyze the defendant's intent when choosing the mark. Thus, in the context of the consumer

¹²⁰*Polaroid v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961).

¹²¹*Id.*

¹²²*Packman v. Chicago Tribune Co.*, 267 F.3d 628, 642 (7th Cir. 2001) (Mere knowledge of [plaintiff's] trademark on the phrase is insufficient to establish that [defendant publishers] acted in bad faith and to preclude summary judgment. The defendants' good faith 'can be judged only by inquiry into [their] subjective purpose).

¹²³*Int'l Stamp Art, Inc. v. U.S. Postal Serv.*, 456 F.3d 1270, 1274 (11th Cir. 2006) ("legal standard for good faith in any other trademark infringement context ... asks whether the alleged infringer intended to trade on the good will of the trademark owner by creating confusion as to the source of the goods or services."); *Star Indus., Inc. v. Bacardi & Co.*, 412 F.3d 373, 388 (2d Cir. 2005) (same).

¹²⁴*Stone Creek, Inc.*, 875 F.3d at 434 (whether "the alleged infringer intended to deceive customers")

¹²⁵*SquirtCo. v. Seven-Up Co.*, 628 F.2d 1086, 1091 (8th Cir. 1980) ("Intent on the part of the alleged infringer to pass off its goods as the product of another" is a factor to be considered in determining the likelihood of confusion).

confusion analysis, the knowledge plus intent standard has been universally applied.

B. *Descriptive Fair Use*

Even more persuasive is the definition of good faith as used by the circuit courts in determining whether a use is merely descriptive fair use. Like the Tea Rose Rectanus doctrine, descriptive fair use is an affirmative defense to trademark infringement. The Lanham Act states that the affirmative defense is available when “the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark which is descriptive of and used fairly and *in good faith* only to describe the goods or services of such party”¹²⁶ The Restatement, in synthesizing the common application among the circuits, acknowledged that “knowledge of a prior trademark use of the term does not in itself prove a lack of good faith.”¹²⁷ Almost all circuit courts have followed the Restatement’s interpretation of “good faith” in the fair use sense.¹²⁸ In a handful of circuits, knowledge of a senior user’s use of the mark may weigh into the good faith inquiry.¹²⁹ Because both descriptive fair use and good faith adoption are affirmative defenses to trademark infringement, it is only natural and proper to apply the same definition of “good faith” to both defenses. Again, knowledge of a prior use of the mark does not bar the defendant from the descriptive fair use defense and should likewise not block the good faith defense.

C. *Cybersquatting*

The Anticybersquatting Consumer Protection Act (hereafter ACPA) is a legislative response to the difficulties in applying traditional trademark laws to new technology. Under the ACPA, a person is liable if he or she “(i) has a *bad faith intent* to profit from that mark ...; and (ii) registers, traffics in, or uses a domain name that,” in relation to that mark, is distinctive or famous.¹³⁰ The elements used to determine whether a use constitutes bad faith and the way in which the circuit courts have interpreted this provision are particularly important to the analysis of the proper understanding of good faith adoption going forward in the internet era. The statute further goes on to list nine factors that courts can weigh in determining whether the defendant has acted in bad faith.¹³¹ One factor courts may use to determine bad faith is whether the defendant has an “intent to divert consumers” from the mark owner’s website to his own, either for commercial gain “or with the intent to tarnish or disparage the mark.”¹³²

¹²⁶ 5 U.S.C. § 1115(b)(4) (*emphasis added*).

¹²⁷ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 28 (1995).

¹²⁸ *Sorensen v. WD-40 Co.*, 792 F.3d 712, 725 (7th Cir. 2015) (holding that the defendant’s knowledge of the plaintiff’s use is not enough to warrant an inference of bad faith.).

¹²⁹ *EMI Catalogue P’ship v. Hill, Holliday, Connors, Cosmopolos Inc.*, 228 F.3d 56, 66 (2d Cir. 2000) (“In analyzing the proper scope of fair use good faith ... whether defendant in adopting its mark intended to capitalize on plaintiff’s good will” is the correct inquiry); *Fortune Dynamic, Inc. v. Victoria’s Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1043 (9th Cir. 2010) (same).

¹³⁰ 15 U.S.C. § 1125(d)(1)(A) (*emphasis added*)

¹³¹ *Id.*

¹³² *Id.*

The fact that this type of bad faith requires an examination of multiple factors illustrates that, at least in the cybersquatting sense, knowledge alone does not defeat good faith. Further, the factors require the defendant's intent in registering a domain name.

D. *Territorial Rights of Foreign Marks*

The fourth area of trademark law that has developed a test for bad faith is the rights of a mark first adopted outside the United States. This topic offers further insight into the territorial rights of unregistered trademarks. Foreign use of a mark does not automatically extend protection into the United States. One basis for a federal registration is a registration of that mark in the country from which it originated.¹³³ Without the federal registration or use in the United States, a senior user who adopted the mark in a different country does not have priority over a junior user who was the first to use the mark here.¹³⁴ However, there are limited instances in which the junior user adopted the mark in bad faith, and thus would be unable to continue use regardless of the fact that he was the first to use the mark in the United States. Bad faith can be found first, if the foreign mark is famous within the United States,¹³⁵ and second, if the junior user made nominal use of the mark in order to preserve priority here.¹³⁶

In dealing with this issue, the Circuit Court for the Federal Circuit, in *Person's Co., Ltd. v. Christman*, held that knowledge of the plaintiff's foreign use of the mark did not amount to bad faith. In this case, the plaintiff used the mark "Person's" in connection with sportswear and apparel in Japan.¹³⁷ After traveling to Japan and purchasing various articles of clothing with the plaintiff's mark, the defendant registered the "Person's" mark for the same goods to be sold in America.¹³⁸ Upon hearing of the registration, the plaintiff sought for cancellation of the defendant's mark.¹³⁹ After refusal by the Board, the plaintiff appealed to the Federal Circuit which affirmed the refusal.¹⁴⁰

In affirming the decision, the Court held that the defendant's "knowledge of a foreign use does not preclude good faith adoption and use in the United States."¹⁴¹ In its reasoning, the Court noted that the plaintiff had not used the mark within the U.S. borders and had, therefore, not established goodwill.¹⁴² The Court, in quoting the *Rectanus* case, noted that allowing the plaintiff to obtain priority in the United States without the requisite use would grant him

¹³³The Lanham Act permits qualified foreign applicants who own a registered mark in their country of origin to obtain a U.S. registration without use in U.S. commerce. If a U.S. application is filed within six months of the filing of the foreign application, such U.S. registration will be given the same force and effect as if filed in this country. 15 U.S.C. § 1126.

¹³⁴*Person's Co., Ltd. v. Christman*, 900 F.2d 1565 (Fed. Cir. 1990).

¹³⁵*Mother's Restaurants, Inc. v. Mother's Other Kitchen, Inc.*, 218 USPQ 1046 (T.T.A.B. 1983).

¹³⁶*Davidoff Extension, S.A. v. Davidoff Int'l.*, 221 USPQ 465 (S.D.Fla. 1983).

¹³⁷*Person's Co., Ltd.*, 900 F.2d 1565.

¹³⁸*Id.* at 1568.

¹³⁹*Id.*

¹⁴⁰*Id.*

¹⁴¹*Id.* at 1570.

¹⁴²*Id.*

a monopoly in places that his trade has yet to reach.¹⁴³ Without an attempt to capitalize on the plaintiff's goodwill or intent to ensure the plaintiff could not enter the market, the defendant had not acted in bad faith when he intentionally copied the mark.

Although foreign use of a mark does not grant the mark owner rights or priority in the United States, the bad faith inquiry in this context is nevertheless relevant. The two limited instances that would give rise to a bad faith adoption illustrate that knowledge of a foreign use does not defeat good faith. Rather, something more must be present, including sufficient fame within the borders such that a similar use would cause confusion or an attempt to foreclose this portion of the world market. Again, the knowledge plus intent standard better aligns with this aspect of trademark law.

In determining the proper definition of the phrase "good faith" as applied the adoption of a mark, it is helpful to understand the meaning of the phrase as used in other areas of trademark law. Notably, the good faith/bad faith inquiry emerges in the likelihood of confusion test, the affirmative defense of descriptive fair use, the relatively newly enacted Anticybersquatting Consumer Protection Act, and the national boundaries of foreign trademark use. In each of these four areas of trademark law, good faith means more than just knowledge of another's use of the mark. The knowledge is coupled with an intent to do some harm to the senior user. As stated above, each of these separate, but closely related uses of good faith are important in understanding what "good faith" as stated by the Supreme Court is meant to apply to a junior user's adoption of a trademark. It is clear from the definitions provided by statute, case law and secondary sources that the the knowledge only standard does not fit within the larger, overall scheme of trademark law.

VII. IMPRACTICALITY OF THE RESULT

At the end of the day, the impracticality of applying the knowledge only approach to cases involving the internet is apparent. At the heart of trademark law is prevention of consumer confusion or misdirected goodwill. Whether it is an independent search of potential marks or seeking the advice of counsel, proper research can prevent not only confusion and misappropriated goodwill, but can also protect against expensive litigation. The knowledge only approach discourages junior users from researching potential marks in an attempt to avoid knowledge of prior use. Rather, the knowledge only approach encourages junior user's willful blindness. Although it is still unclear whether there is an affirmative duty to search and just how in depth the search must be, the knowledge only standard clashes with that duty.

A. *Is There a Duty to Search?*

Another area in which there have been varying conclusions and instructions is the potential duty to search for existing trademarks before adoption. The Lan-

¹⁴³*Id.*

ham Act does not impose an affirmative duty to search. However, a defendant that intentionally avoided a trademark search may be subject to treble damages if found to have infringed.¹⁴⁴ The circuits vary on whether such an affirmative duty exists or whether the failure to search can lead to a finding of bad faith. For example, the Ninth Circuit noted that a junior user “may want its trademark attorney to have a preliminary search conducted to see whether the proposed mark conflicts with pre-existing rights.”¹⁴⁵ While this statement seems to suggest that the decision to search rests with the junior user, the Court changed its position in a later decision by stating that “firms need only search the register before embarking on development.”¹⁴⁶ This statement instructs junior users that only a search of the PTO, and no further inquiry, is required.

The Second Circuit, however, held that the decision not to conduct a search factors into the defendant’s bad faith.¹⁴⁷ In deciding this, the Court noted that “[the defendant’s] choice not to perform a full search under these circumstances reminds us of two of the famous trio of monkeys who, by covering their eyes and ears, neither saw nor heard any evil.”¹⁴⁸ This suggests that a trademark search is necessary to avoid bad faith, thus imposing a duty. Along those lines, the Second Circuit has clarified that relying on the advice of counsel demonstrates good faith.¹⁴⁹

In dealing with the duty to search in cases involving the internet, the Court in *Network Network v. CBS, Inc.* stated “[the defendant] certainly should have been aware of the existence of the Internet, of the practice of registering domain names, and of the likelihood that an existing organization with the initials would seek the most obvious domain name for its website.”¹⁵⁰ This indicates that any potential junior user should at least do a cursory search of the internet. Whether that is an affirmative duty to search the internet or statement on common sense is still unclear.

The rise of the internet both complicates and facilitates the possible duty to search. Searches of marks registered in the PTO can be done instantly and by anyone remotely familiar with the website. Of course, this makes investigations quicker and less expensive. However, it prompts a duty to conduct a search into domain names bearing potential marks. This is especially relevant for marks being used primarily in relation to internet goods and services.¹⁵¹ The use of internet search engines reveals vast amounts of information, most of which would not be relevant from the trademark standpoint. Although a duty to conduct a search may be present, the internet raises questions on what exactly is relevant to establish “knowledge”.

¹⁴⁴ 15 U.S.C. §1117.

¹⁴⁵ *Money Store*, 689 F.2d 666.

¹⁴⁶ *Sands Taylor & Woods v. Quaker Oats*, 978 F.2d 947 (7th Cir. 1992).

¹⁴⁷ *International Star Class Yacht Racing Ass’n v. Tommy Hilfiger U.S.A., Inc.*, 80 F.3d 749 (2d Cir. 1996).

¹⁴⁸ *Id.*

¹⁴⁹ *Lang v. Retirement Living Pub. Co., Inc.*, 949 F.2d 576 (2d Cir. 1991)

¹⁵⁰ *Network Network v. CBS, Inc.*, No. CV 98-1349 NM(ANX), 2000 WL 362016, at *4 (C.D. Cal. Jan. 18, 2000)

¹⁵¹ See Ronald Abramson, *Trademarks and the Internet*, 438 PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES 299 (Practising L. Inst. 1996).

B. *If No Duty, Why Search?*

Whether or not a duty exists, and more importantly what that duty imposes, is still being untangled by the courts. However, the potential duty to conduct a search clashes with the knowledge only approach. If the search uncovers a previous use of a mark, the junior user would have knowledge of the prior use and thus be barred from adoption. On the other hand, if the junior user decides to proceed without a proper search, there is no chance that he would have knowledge of the mark. Instead, the failure to inquire would merely be factored into the bad faith factor of the likelihood of confusion analysis.

The Seventh Circuit, in *Zazu Designs v. L'Oreal, S.A.*, dealt with the impracticality of punishing a company for doing a thorough trademark search.¹⁵² In this case, the defendant was the well-known hair care product company, L'Oreal.¹⁵³ The plaintiffs owned a hair salon, which was operated under the name "Zazu Hair Designs."¹⁵⁴ The defendant, hoping to sell hair dye under the mark "Zazu," hired a consulting firm to research the possible mark.¹⁵⁵ The search uncovered one registration for the mark in connection with clothing and the plaintiff's registration for the mark for hair salon services.¹⁵⁶ After inquiring into the plaintiff's mark further, the defendant discovered the plaintiff's were using the solely for the salon, but one day hoped to sell shampoo.¹⁵⁷ Regardless, the plaintiff began selling hair dye under the mark and undertook extensive marketing.¹⁵⁸

The district court held that because the plaintiff had known about the defendant's "Zazu" mark for the salon and their hopes of producing shampoo, the plaintiff was barred from adopting it.¹⁵⁹ In reversing the lower court, the Seventh Circuit underscored the impracticality of this decision.¹⁶⁰ The Court noted that the investigation such as the one that the plaintiff undertook prevent costly litigation and consumer confusion.¹⁶¹ If knowledge alone defeats any chance for good faith adoption, "ignorance would be rewarded" and "businesses with their heads in the sand" would be better off.¹⁶² Potential junior user's would be dissuaded from seeking advice of counsel or doing independent research into possible marks. Instead, the junior user could blindly adopt a mark and successfully demonstrate that he did not have any knowledge of a prior use.

¹⁵²*Zazu Designs v. L'Oreal, S.A.*, 979 F.2d 499 (7th Cir. 1992).

¹⁵³*Id.* at 501.

¹⁵⁴*Id.*

¹⁵⁵*Id.*

¹⁵⁶*Id.*

¹⁵⁷*Id.*

¹⁵⁸*Id.*

¹⁵⁹*Id.* at 502.

¹⁶⁰*Id.* at 504.

¹⁶¹*Id.*

¹⁶²*Id.*

VIII. CONCLUSION

The good faith debate has continued since the Supreme Court decided the two cases that produced the “Tea Rose-Rectanus” doctrine. The doctrine, which continues to be the law of the land on unregistered trademarks, holds that the senior user cannot enjoin a remote junior user who adopted the mark in good faith. Good faith has been interpreted to mean either a lack of knowledge or lack of knowledge and the intent to harm. The circuit courts have expended much time and space detailing why one interpretation is superior to the other. However, the knowledge plus intent standard should be adopted by all the circuits to account for the changes in the world. Due to the advent of the internet and the way in which it has stretched and molded traditional trademark terms, the knowledge and commercial use requirements are more easily satisfied, and the remoteness factor is soon to be extinct. This necessitates a higher standard than the knowledge only approach can provide in order to promote the goals and policies of trademark protection without expanding the rights to mimic a federal registration. Further, the knowledge plus intent interpretation is the correct understanding of good faith in light of the Supreme Court’s statements, its relation to the Lanham Act and dual goals of trademark protection, and its meaning in other trademark law contexts. Although the internet has dramatically altered all areas of law, trademark is particularly susceptible as online shopping and virtual marketplaces are becoming the norm. Because of this, a universal articulation of the Tea Rose-Rectanus doctrine is necessary moving forward.

Predicting Institution Decisions in *Inter Partes* Review Proceedings

Yuh-Harn Yang*, Pu-Jen Cheng[†] and Feng-Chi Chen[‡]

Abstract

Inter partes review (IPR) was introduced in Year 2012 as an adversarial, post-grant patent review process. The principle of claim construction (broadest reasonable interpretation), standard of proving unpatentability (preponderance of evidence), and shortened time to final decision (18-24 months) have made IPR a popular venue for patent challengers. Institution of an IPR mounts substantial pressures on the patentee because the challenged claims are highly likely to be invalidated in the final decision. Therefore, a reliable model to predict institution decisions is critical for patent and business management. In this study, we construct three support vector machine (SVM) models separately based on the contexts of IPR proceedings and features of the disputed patents. The ensemble model that incorporated the three SVMs can predict institution decisions with 79% accuracy and 0.85 Area under the ROC Curve. Separately, the IPR context-based models perform better than the patent feature-based model. Interestingly, most of the features traditionally regarded important for patent values are not significantly associated with institution decisions. Furthermore, models trained on earlier IPR documents can accurately predict the institution decisions in later proceedings. The prediction accuracy increases with the accumulation of training data. In addition, our approach can identify IPR context features that may influence institution decisions. Our results can provide an empirical basis for IPR policy making and business strategic planning.

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Contents

Introduction	698
Methodology	700
Data Retrieval	700
Overview of the Model	701
Step A : Text-based approach	701
Step B : Entity Network	703
Step C: Domain Knowledge	706
Patent-related Features	707
IPR-related Features	707
Construction of SVM Models	707
Results	707
Model Based on Feature Set A : Text-based approach	708
Model Based on Feature Set B : Entity Network	710
Model Based on Feature Set C: Domain Knowledge	712
Temporal Analysis	713
Case Study	714
Implications and Future Work	715
Conclusions	716

Introduction

A patent is an agreement between the government and the patent owner. The government grants a patent owner the right to exclude others from making, offering to sell, selling, using, or importing the claimed invention. In exchange, the patent owner discloses the invention to the public for free access to the invention after the patent expires. However, an improperly granted patent conveys undue rights to the patent owner, countering the purpose of the patent system by restricting public accessibility from what should have been freely available. In 2012, the United States established the *Inter Partes* Review (IPR) system to efficiently screen out low-quality patents. IPR proceedings are heard by administrative judges at the Patent Trial and Appeal Board (PTAB) of the United States Patent and Trademark Office (USPTO). An IPR proceeding includes two phases: pre-trial phase and trial phase. The pre-trial phase begins with a “petition”, in which the petitioner provides evidence to support that the challenged claims are invalid. A panel of three administrative judges decides whether to institute the IPR based on the petition and the patent owner’s preliminary response. A decision on institution (DI) either terminates the IPR (institution denied) or shifts the proceeding to the trial phase (institution granted). The panel will render a final written decision if the proceeding is not otherwise terminated. According to the USPTO year-end statistics of 2016, among the IPR

proceedings that reached a final written decision, 83% had at least one claim invalidated.¹ Therefore, institution of an IPR confers substantial bargaining powers to the petitioner, and imposes searing pressures on the patent owner. Accurate prediction of DI results is critical to stakeholders in the patent system.

Conventional approaches to predicting litigation outcomes rely mainly on domain-specific, expert-selected features. These features are usually applicable only to specific prediction tasks.² For example, Katz et al. extracted features from the Supreme Court Database (SCDB) to predict the decisions of the Supreme Court of the United States. SCDB contains Supreme Court-specific features, such as “MANNER IN WHICH COURT TOOK JURISDICTION” and “JUSTICE TERM.”³ These features are inapplicable to other studies. For patent-related studies, prior work focused on predicting whether a patent will be involved in a litigation, which was considered as an indication of patent value.⁴ Here we aim to predict the outcome of a DI, a topic so far underexplored. The USPTO analyzed the relationship between patent- and patent examination-related characteristics and the likelihood of subsequent infringement litigation or IPR petitions,⁵ a topic different from what is addressed here. The closest study was by David Winer,⁶ in which the author attempted to predict DI outcomes based only on patent-related features. However, the outcome of a DI is affected by factors beyond the challenged patent *per se*. Factors such as judges, experiences of lawyers, selection of prior art evidence, and the patent landscape in the relevant field may all affect the outcome. These factors, however, were not considered in Winer’s study.

Another drawback in Winer’s study was that an IPR lacking a status label was regarded as “denied” if the IPR proceeding had progressed for more than 200 days and no “invalidation decision” was available. This assumption is error-prone because an IPR could be joined into an already instituted IPR.⁷ The final written decision (*i.e.* “invalidation decision”) could be included only in the file folder of the joined IPR but not the joining one. Therefore, the joining IPR may be *de facto* instituted but no invalidation decision can be found. Furthermore, the author adopted a denied/not-denied bisection of IPR cases without

¹ Patent Trial and Appeal Board Statistics (12/31/2016), by the United States Patent and Trademark Office. Available at: https://www.uspto.gov/sites/default/files/documents/aia_statistics_december2016.pdf.

² Nikolaos Aletras, Dimitrios Tsarapatsanis, Daniel Preotiuc-Pietro & Vasileios Lamos, *Predicting judicial decisions of the European Court of Human Rights: a Natural Language Processing perspective*, PEERJ COMPUTER SCI. 2:e93 (2016), <https://doi.org/10.7717/peerj-cs.93>; see also, Daniel Martin Katz, Michael J. Bommarito II, & Josh Blackman, *A general approach for predicting the behavior of the Supreme Court of the United States*, PLoS ONE 12(4): e0174698 (2017), <https://doi.org/10.1371/journal.pone.0174698>.

³ Katz, Bommarito, & Blackman *supra* note 2.

⁴ W. M. Campbell, L. Li, C. K. Dagli, K. Greenfield, E. Wolf & J. P. Campbell, *Predicting and analyzing factors in patent litigation*, 30TH CONFERENCE ON NEURAL INFORMATION PROCESSING SYSTEMS (NIPS 2016); see also, Collen V. Chien, *Predicting patent litigation*, 90 TEX. L. REV. 283 (2011).

⁵ Alan C. Marco, Richard D. Miller, Kathleen Kahler Fonda, Pinchus M. Laufer, Paul Dzierzynski & Martin Rater, *Patent litigation and USPTO trials: Implications for patent examination quality* (Jan. 2015), available at <https://www.uspto.gov/sites/default/files/documents/Patent%20litigation%20and%20USPTO%20trials%2020150130.pdf>.

⁶ David Winer, *Predicting Bad Patents: Employing Machine Learning to Predict Post-Grant Review Outcomes for US Patents* (EECS Dep’t U. of Cal., Berkeley Technical Rep. No. UCB/EECS-2017-60, May 11, 2017), available at <http://www2.eecs.berkeley.edu/Pubs/TechRpts/2017/EECS-2017-60.pdf>

⁷ 37 C.F.R. § 42.122.

examining the official DI documents. Some of the “not-denied” cases could be settled-terminated or otherwise dismissed in the pre-trial phase. These cases did not receive merit-based reviews by the administrative judges to render a DI. They are essentially different from those that were reviewed and subsequently instituted/denied. Prediction models based on this bisection might yield erroneous results.

Here we classify denied/instituted IPRs according to the official DI document, which is the written decision by the PTAB explaining why an IPR is instituted or denied. We constructed three support vector machine (SVM) models based on both contextual features of the IPR proceedings and features of the challenged patents. Interestingly, patent-related features, though previously found to be predictive of subsequent patent litigation,⁸ were mostly unimportant for predicting DI outcomes. In fact, the two IPR context-based models yielded higher prediction accuracies than the patent feature-based model. In addition, models trained on earlier IPR proceedings could accurately predict the DIs of latter proceedings, with the accuracy increasing with accumulating IPR data.

Finally, one of the context-based models (entity network model) revealed hidden connections between entities in different IPR proceedings. Such connections are important references for IPR participants but may be difficult to identify using regular search methods. Overall, our models provide accurate DI predictions and insights into IPR proceedings. Such information is important for IPR policy review and IPR/patent strategy formulation.

Methodology

Data Retrieval

The documents of IPR proceedings dated between September 2012 and April 2017 were downloaded from the USPTO website by using the “PTAB API” available at <https://developer.uspto.gov/api-catalog/ptab-api>. Each IPR proceeding is archived in a file folder that includes all of the documents (in PDF format) submitted to the PTAB by both of the petitioner and the patent owner, plus the judgments, orders, and decisions issued by the PTAB. A total of 6,243 IPR file folders were retrieved. The PDF files were transformed to simple-text files by using the Python package “slate”. A DI document was identified in 3,936 IPR proceedings. The result of a DI could be either “Institution” or “Denial” of the IPR. In our dataset, “Institution” accounted for 67% of the 3,936 DIs, which was consistent with the official statistics by the USPTO.⁹

⁸John R. Allison, Mark A. Lemley, Kimberly A. Moore & R. Derek Trunkey, *Valuable patents*, 92 Geo. L.J. 435 (2004); (Geo. Mason L. & Econ. Res. Paper No. 03-31, 2003), available at SSRN: <https://ssrn.com/abstract=426020>.

⁹*Patent Trial and Appeal Board Statistics*, United States Patent and Trademark Office (12/31/2016), available at https://www.uspto.gov/sites/default/files/documents/aia_statistics_december2016.pdf.

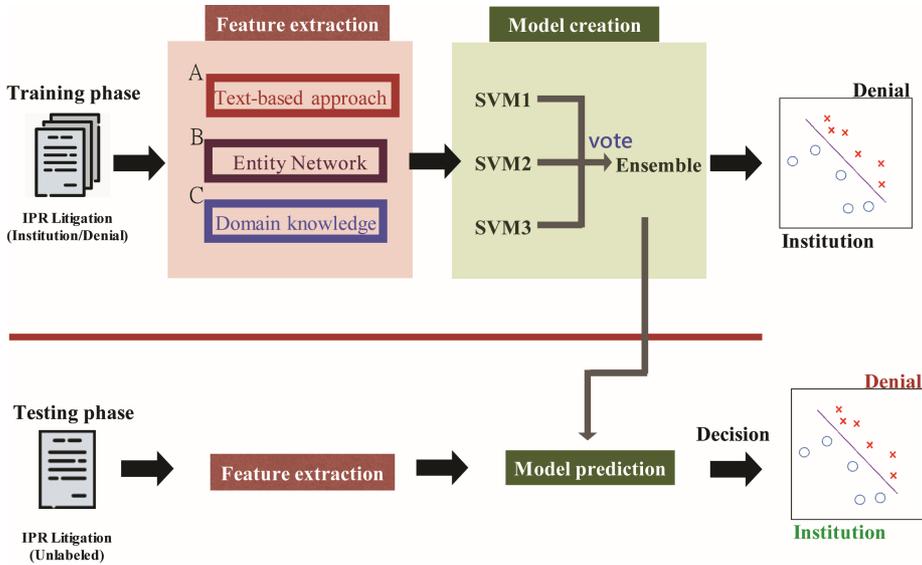


Figure 1: Overview of the method

Overview of the Model

Feature extraction was conducted in two different ways, exploitation (Figure 1, Steps A and C) or exploration (Figure 1, Step B). Three SVMs were constructed based on feature sets retrieved from Steps A-C in Figure 1. The final prediction (“Ensemble”) was based on the vote of the three SVMs.

Step A : Text-based approach

The information content in a petition has major impacts on the DI. Our aim here is, without prior knowledge of the patent or the IPR proceeding, to find terms that can help distinguish between instituted and denied IPRs. Information gain is a powerful method for text classification.¹⁰ However, it is not suitable for our analysis because more discriminative terms might occur only sporadically, while less discriminative terms occurring frequently in a petition. This could result in misclassifications of DIs. An ideal measure could identify terms that were both representative and discriminative. To this end, we defined “discriminative gain” (DG) as

$$DiscriminativeGain(t) = \frac{Max(N_{instituted}(t), N_{denial}(t)) + P}{Min(N_{instituted}(t), N_{denial}(t)) + P}$$

where $N_{denial}(t)$ and $N_{instituted}(t)$, respectively, represented the number of denied and instituted petitions that contained term t . P was an adjustable

¹⁰Yiming Yang & Jan O. Pedersen, *A Comparative Study on Feature Selection in Text Categorization*. In PROCEEDINGS OF THE FOURTEENTH INTERNATIONAL CONFERENCE ON MACHINE LEARNING (1997) 412-420.

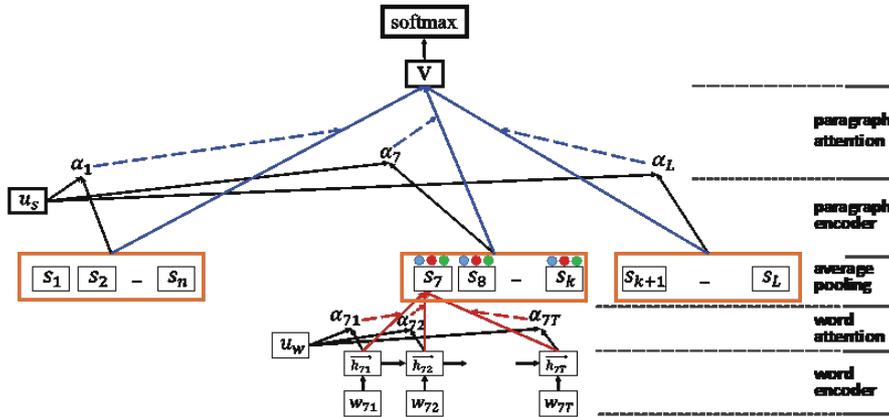


Figure 2: The overall architecture of our RNN mode.

pseudo count to avoid zero denominator values, and to adequately contrast between instituted and denied petitions for the occurrences of representative terms. Terms with a high DG value were discriminative and representative, and were more likely to be selected into our SVM model.

Recently, deep learning neural networks, such as recurrent neural networks based on long-short-term memory (LSTM) or gated recurrent units (GRU)¹¹ and convolutional neural network,¹² have been widely applied to text classification. We applied a state-of-the-art hierarchical attention network (HAN)¹³ for the institution/denial classification task.

The model was slightly modified to accommodate the characteristics of our data (Figure 2). This approach classified documents based on “paragraph attention” rather than on the discriminative power of individual words. Paragraph attention weighed more on classification-relevant “paragraphs” (i.e. interactions between words) than other paragraphs. Complete petitions were input into HAN without a *priori* word selection. The model included five lay-

¹¹Sepp Hochreiter & Jürgen Schmidhuber, *Long Short-Term Memory*, 9 NEURAL COMPUTATION 1735–1780 (1997); Rie Johnson & Tong Zhang, *Supervised and Semi-Supervised Text Categorization using LSTM for Region Embeddings*, In PROCEEDINGS OF THE 33RD INTERNATIONAL CONFERENCE ON MACHINE LEARNING (2016);

Duyu Tang, Bing Qin & Ting Liu, *Document modeling with gated recurrent neural network for sentiment classification*, In PROCEEDINGS OF THE 2015 CONFERENCE ON EMPIRICAL METHODS IN NATURAL LANGUAGE PROCESSING 1422–1432 (Sept. 2015).

¹²Nal Kalchbrenner, Edward Grefenstette & Phil Blunsom, *A Convolutional Neural Network for Modelling Sentences*, In PROCEEDINGS OF THE 52ND ANNUAL MEETING OF THE ASSOCIATION FOR COMPUTATIONAL LINGUISTICS 655–665 (2014); Ronan Collobert, Jason Weston, Léon Bottou, Michael Karlen, Koray Kavukcuoglu & Pavel Kuksa, *Natural Language Processing (Almost) from Scratch*, 12 J. MACHINE LEARNING RES. 2493 (2011); Nal Kalchbrenner & Phil Blunsom, *Recurrent Convolutional Neural Networks for Discourse Compositionality*, In PROCEEDINGS OF THE WORKSHOP ON CONTINUOUS VECTOR SPACE MODELS AND THEIR COMPOSITIONALITY 119–126 (2013).

¹³Zichao Yang, Diyi Yang, Chris Dyer, Xiaodong He, Alex Smola & Eduard Hovy, *Hierarchical Attention Networks for Document Classification*, In PROCEEDINGS OF THE 2016 CONFERENCE OF THE NORTH AMERICAN CHAPTER OF THE ASSOCIATION FOR COMPUTATIONAL LINGUISTICS: HUMAN LANGUAGE TECHNOLOGIES.

ers of neurons: a word encoder, a word-level attention layer, a pooling layer, a paragraph encoder, and a paragraph-attention layer (Figure 2). GRU-based sequence encoder¹⁴ was used in this HAN. GRU is similar to LSTM in that both are designed to remember previous states. First, we embedded each term in a petition into a vector (x_{ij}) by an embedding matrix W_e .

$$x_{ij} = W_e w_{ij}$$

$x_{ij} \in R^{dim}$, which was the embedding vector of w_{ij} . w_{ij} was the j th word of the i th sentence in the petition. GRU was then used to derive the hidden state \vec{h}_{it} .

$$\vec{h}_{it} = \overrightarrow{GRU}(x_{it}), t \in [1, T]$$

where T was the length of the sentence. Next, at the word-level attention layer, words important to the meaning of sentences were extracted and accumulated to form sentence vectors. The formulas were:

$$u_{it} = \tanh(W_w h_{it} + b_w)$$

$$\alpha_{it} = \frac{\exp(u_{it}^T u_w)}{\sum_t \exp(u_{it}^T u_w)}$$

$$s_i = \sum_t \alpha_{it} h_{it}$$

where s_i was the i th sentence vector, W_w was the weight matrix of one-layer perceptron, u_{it} was a hidden representation of h_{it} . α_{it} was a normalized importance weight according to a softmax function. u_w was a word level context vector. Average pooling on these sentence embeddings was then used to catch paragraph embeddings. The same structures of word encoder and word-level attention were applied to paragraph embeddings to derive the final embedding d_v . Softmax function was used to output the predicted probability.

$$p = \text{softmax}(W_c d_v + b_c)$$

The loss function L is defined below:

$$L = - \sum_d \log p_d$$

Step B : Entity Network

IPR proceedings could be viewed as a social network with nodes representing participants (judges, patent owners, and petitioners), IPRs themselves, and important terms extracted from Step A (Figure 3A). Four types of edge were included in this network: (1) IPR - patent owner; (2) IPR - petitioner; (3) IPR

¹⁴Hochreiter & Schmidhuber, *supra* note 11.

- judge; (4) IPR - selected terms from the petition (Figure 3A). The network was constructed by using Node2Vec.¹⁵ Each node was assigned an identification number (ID) for Node2Vec to generate an “edge list” (Figure 3B). A vector of numbers was assigned to each node for the calculation of inter-nodal distances. The edge list recorded the edges and user-adjustable edge weights. The Node2Vec model was trained on real IPR data to update the vectors so that the distances between connected nodes could be minimized. The vectors thus obtained could be used to identify hidden connections between nodes. The parameters of Node2Vec (K, R, L, P, Q) were empirically determined (Figure 3C and Table 1). The outputs of Node2Vec for each combination were input into SVM for evaluation of prediction accuracy. The combination with the highest accuracy was selected. The parameters of Node2Vec used in this study were empirically determined to be $q = 1$, $p = 4$, walk number = 10, walk length = 70, dimension = 64 and the edge weight of node “judges” = 2. The value of p was larger than $\text{Max}(q,1)$, and this result indicated that the model tended to avoid 2-hop redundancy and preferred neighbors with homophily to those with similar structural roles. The edge weight of node judges was larger than unity because judges had major influences on DI.

¹⁵Yang, Yang, Dyer, He, Smola & Hovy, *supra* note 13.

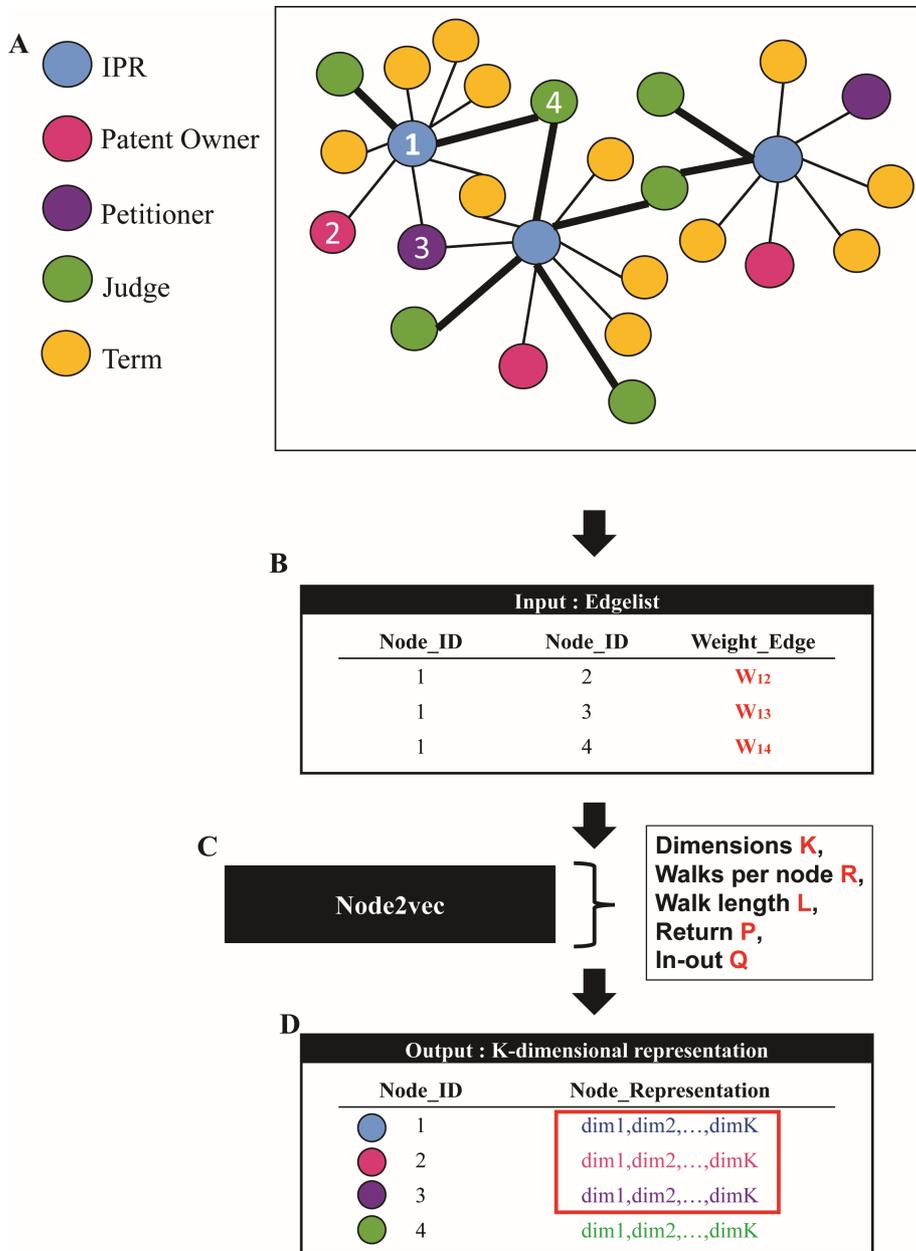


Figure 3: Overview of the entity network model.

Symbol	Parameter	Definition
K	Number of dimensions of each node	This is the dimension of each node's vector representation.
L	Length of walk per source node	We can see this parameter as the window size in NLP. In graph, it means how many neighbors you want to find. If the value is too large, we might get some nodes that have less relation with the source. However, if this value is too low, we may miss some good sample nodes.
R	Number of walks per source	This parameter can be seen as the number of total sentences in NLP. The larger of this value, the more sample paths we can update our model. Yet, getting too many sample paths would probably contain more noise or too overfitting on some nodes, this can cause the model worse.
P	Return hyperparameter	This parameter controls the likelihood of returning a node in the walk right away. If this value is high, it will encourage moderate exploration and prevent the walk from 2-hop redundancy.
Q	In/out hyperparameter	This parameter allows the search to differentiate between "inward" and "outward" nodes. If $q > 1$, the value of $1/q$ will get smaller which leads to walk near the starting node. This setting is more like a BFS behavior which find the neighborhood that have similar structural roles. By contrast, if $q < 1$, the walk has more chance to visit nodes which are further away. This can be assumed as DFS-like exploration.

Table 1: Parameter settings of Node2Vec

Step C: Domain Knowledge

Domain knowledge can be transformed to sparse feature vectors for machine learning. Two classes of domain knowledge were used in this study: patent-related features¹⁶ and IPR-related features. Each feature was normalized to the range [0, 1] to avoid uneven weighting between features. Each feature was then subject to logistic regression against the institution/denial decision.

¹⁶Allison, Lemley, Moore & Trunkey, *supra* note 8.

Patent-related Features

Theoretically, high-value patents are well constructed, and the petitions against these patents are less likely to be instituted. The XML files of US patents and Patent Application Information Retrieval (PAIR) documents were downloaded from the USPTO and parsed using in-house scripts. The following patent features were extracted for this analysis:

1. Number of citations received;
2. Number of US patent references;
3. Number of foreign patent references;
4. Number of non-patent references
5. Number of independent claims;
6. Number of dependent claims;
7. Number of total US applications;
8. Grant lag (in years).

IPR-related Features

The following features were extracted from petitions and DI documents:

1. Average institution rate of the panel judges;
2. Institution rate of the judge who delivered the opinion;
3. Number of words in the petition.

Construction of SVM Models

LIBSVM¹⁷ models were trained separately on feature sets A, B, and C to yield three different SVM models (Figure 1). Each model output binomial predictions of “instituted” or “denied” for each IPR. The voting result of these three predictions (the Ensemble model) yielded the final prediction result (Figure 1).

Results

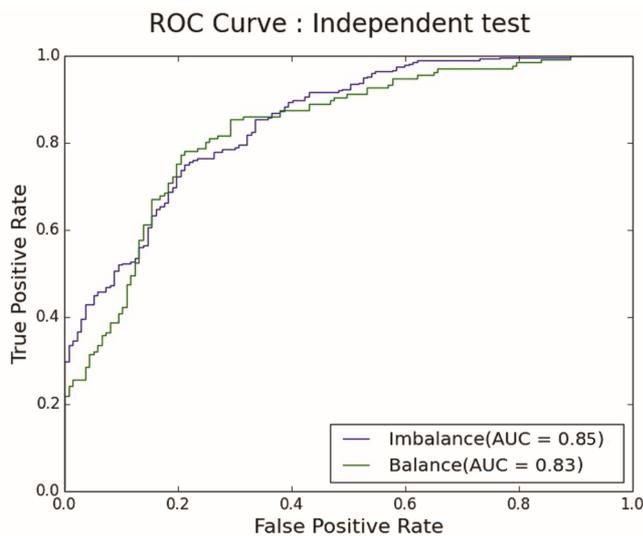
The original IPR dataset was imbalanced because the background institution rate was approximately 67% (Materials and Methods). To evaluate our model on balanced data, we down-sampled the original dataset to generate a 50/50 (instituted/denied) dataset. Figure 4 demonstrates that our Ensemble model yielded an accuracy of 79.13% and an AUC value of 0.85 for imbalanced data.

¹⁷Chih-Chung Chang & Chih-Jen Lin, *LIBSVM: A Library for Support Vector Machines*, 2 ACM TRANSACTIONS ON INTELLIGENT SYSTEMS AND TECHNOLOGY, Article No. 27 (2011).

The corresponding figures for balanced data were 74.81% and 0.83, respectively. The Ensemble model performed well for both datasets. The three component models, however, differed slightly from each other in prediction accuracy.

Model Based on Feature Set A : Text-based approach

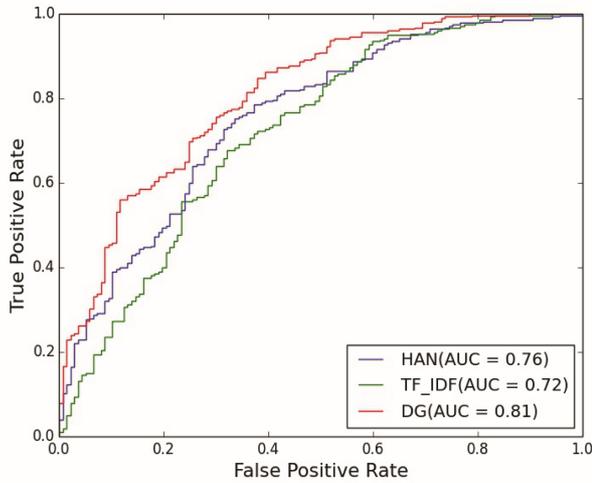
This model yielded the best prediction results among the three SVM models (Figure 4). We extracted high-DG words from petition documents (Materials and Methods), and used two different weighting schemes - DG and TF-IDF (term frequency-inverse document frequency)¹⁸ - for SVM model training.



Model	Imbalanced Acc.	Balanced Acc.
Background Institution Rate	66.70	50.00
SVM1 - Text-based approach	78.40	73.36
SVM2 - Entity Network	77.18	71.90
SVM3 - Domain knowledge	70.87	63.14
Ensemble	79.13	74.81
AUC	0.85	0.83

Figure 4: The ROC curve of the ensemble model (upper panel) and the accuracies of individual SVM models and the ensemble model (lower panel) in imbalanced and balanced data.

¹⁸GERARD SALTON & MICHAEL J. MCGILL, INTRODUCTION TO MODERN INFORMATION RETRIEVAL (McGraw-Hill 1983).



Model	Imbalanced Acc.	AUC
HAN	73.79	0.76
SVM_TF-IDF	74.03	0.72
SVM_DG	78.4	0.81

Figure 5: The ROC curve and accuracies of models based on Feature Set A in imbalanced data .

Coverage	Number of terms	Statistical Inference Accuracy
1	3787	76.0
2	3920	77.91
3	4388	78.4
5	5284	78.15

Table 2: Accuracy of different coverage rates.

We also tried a deep-learning approach - HAN - to predict DI outcomes. Figure 5 showed that the DG-based SVM model performed better (AUC = 0.81) than the HAN model (AUC = 0.76).

Of note, a petition must contain at least one feature term for SVM model training. Therefore, we defined the “coverage” parameter, which was the smallest number of feature terms that one petition document must contain. Feature terms from high- to low-DG value were then searched in petition documents until the coverage requirement was satisfied. The coverage parameter had only minor influences on the accuracy of the SVM model. The prediction accuracies fluctuated slightly (76.0-78.4%) while the number of selected terms differed by as many as ~1,500. The highest accuracy occurred when coverage equaled three (Table 2).

Pseudo Count	Accuracy
1	77.18
3	78.4
5	76.7
7	77.67
10	77.18

Table 3: Performance of different pseudo count.

We also examined the influences of pseudo count in the DG equation. A pseudo count too small might result in failure of DG to distinguish between highly and lowly discriminative terms, whereas one that was too large might blur the contrast of term frequencies between instituted and denied petitions. Our experiments showed that the optimal pseudo count was three (Table 3).

The top 100 high-DG terms are listed in Table 4. These are mostly nouns, such as authors of scientific articles, technical terms in specific fields, companies, and lawyers. This result has several implications. First, the scientific authors could have developed key technologies in the relevant fields. This suggests that a petitioner may gain edges at least in the pre-trial phase by identifying a seminal article (or an article authored by a leading scientist) as a prior art against the challenged patent. On the opposite side, a patent owner may wish to conduct thorough analyses about the leading authors in the field, and to avoid claiming inventions that could possibly overlap with what have been disclosed (or to be disclosed) by such authors. Second, the list included lawyers and law offices. This implies discriminatively high (or low) institution rates of specific lawyers. In other words, selection of legal counsel may strongly affect the outcome of an IPR. Third, the list included numerous technical terms. This suggests that for certain technology subfields, an IPR was more (or less) likely to be instituted. Importantly, this could not be discovered by using, for example, the coarse-grained number of technology center at USPTO (data not shown). Fourth, company names also appeared in Table 2. For instance, “Zond (Inc.)” was a Massachusetts-based company that possessed a patent portfolio of high-density plasma science. The Zond patents were IPR-challenged multiple times. In almost all of the cases, the IPR was instituted. This observation suggests that patent owner-specific factors could also be determinative in an IPR proceeding.

Model Based on Feature Set B : Entity Network

The entity network model yielded an accuracy of 77.18% for imbalanced data, and 71.90% for balanced data (Figure 4). Figure 6 shows that this model yielded an AUC value of 0.82. Social network approaches have an advantage of handling hard-to-computerize features. In the seminal article “Valuable Patents”, the authors identified tens of features that were critical to the value of a patent. However, these features (such as industry and patent category) are not easily amenable to for model construction. In the social network constructed by

magnetron	Renesas	ionize	phys	Steptoe
Mozgrin	Bader	haynesboone	weakly	Iwamura
Franconia	reignite	overvoltages	NMG	steadily
Rauschenbach	Hynix	Kouznetsov	Ah	Mccombs
oscillogram	WGY	Chistyakov	disassociate	Fujitsu
Kudryavtsev	AMD	superdistribution	prognostic	Russian
explosively	inflow	metastable	bombard	Korniczky
DPW	Ohring	argon	conjunctivitis	global-foundries
Kortshagen	Larissa	Moscow	system	preionized
CVC	Zond	duanemorris	rckim	raizer
ionisation	Lantsman	sensors	kW	desorb
ionise	Quasi	Innopharma	Cavanaugh	ignite
stepwise	iridium	Franzinger	torr	direct
designing	Manos	suddenly	Hitachi	deflector
SOV.	Kudrvtsev	geological	glyceride	gland
splatter	noncontracted	therearound	periodical	drift
Skerbov	Koki	DJC	glycerine	regime
idealize	O'Dell	microscopically	explained	magnet
Uwe	ionization	plasm	tomographic	Haynes
Gillette	intense	gantry	conjunctival	relaxation

Note: blue – company name; pink – technical term; brown – lawyer or law firm; purple – author of scientific article; green – others (patent owner, petitioner, article title, or email address).

Table 4: Top 100 high-DG terms.

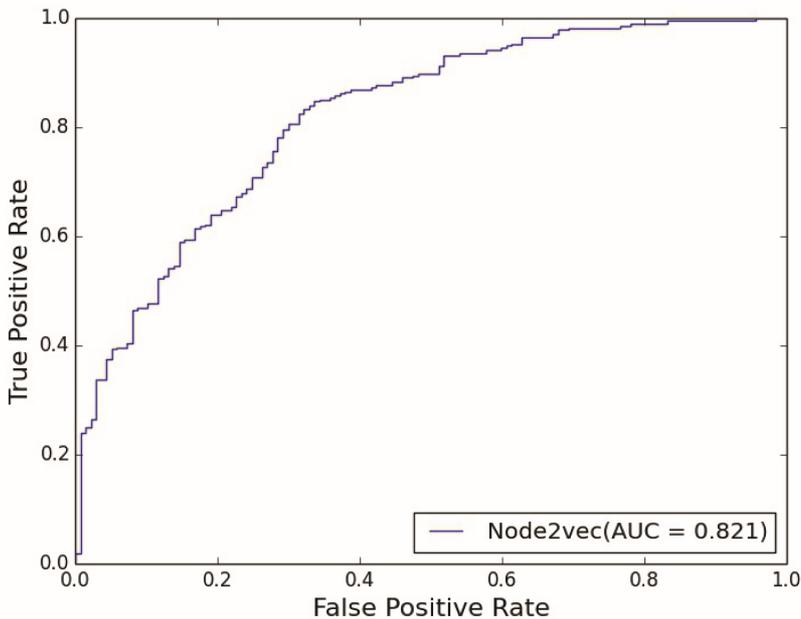


Figure 6: The ROC curve and AUC of the entity network model.

Node2Vec, however, such features can be identified and connected to other features for interpretation.

With node embeddings, we could identify network neighbors using k -nearest neighbors. Our results indicated that first, judges and companies in the same industries were grouped together. Second, entities of the same feature type were grouped together. For instance, an IPRs was placed next to another IPR. Third, this method could identify indirectly related entities. For example, Samsung was grouped with Core Wireless Licensing S.a.r.l, a telecom company that had no patent disputes with Samsung. Interestingly, Core Wireless Licensing S.a.r.l was involved in litigations with Apple (the long-term rival of Samsung) and LG (the kin Korean company of Samsung). This information can help lawyers identify potential evidence or relevant IPRs to formulate strategies.

Model Based on Feature Set C: Domain Knowledge

Patent-related features have been shown to reflect patent value. Theoretically, an IPR challenging a high-value patent is unlikely to be instituted. To this end, we extracted some of the features listed in reference from U.S. patents and PAIR documents for model construction. We also added three IPR-related features to the model (Methodology). We first conducted logistic regression for each

Features	Coefficient	P value	Odds Ratio
CitationsReceived ¹	0.348	0.701	1.006
NumUSPatentReference ²	-0.238	0.761	1.003
NumForeignPatentRefence ³	-0.366	0.753	1.011
NumNonPatentReferencence ⁴	0.969	0.233	1.002
NumIndependent_Claims ⁵	0.474	0.775	1.109
NumDependent_Claims ⁶	-0.155	0.924	1.015
NumTotalUSApps ⁷	-0.502	0.743	1.070
YrsPTO ⁸	-0.264	0.756	1.212
RateOf PanelJudge ⁹	6.720	0.004**	3.647
RateOf AuthorJudge ¹⁰	4.214	0.093	3.630
NumWordsPetition ¹¹	2.195	0.644	1.000

Note: 1: number of citation received; 2: number of references that are US patents; 3: number of references that are patents issued by non-US countries; 4: number of non-patent references; 5: number of independent claims; 6: number of dependent claims; 7: number of total US applications; 8: grant lag (years at USPTO); 9: average institution rate of panel judges; 10: institution rate of the author judge; 11: number of words in a petition.

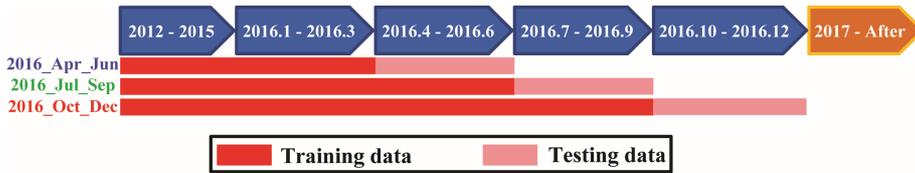
Table 5: The correlations between patent- and IPR-related features and the decision on institution.

of the features against the institution/denial DI outcome. Unexpectedly, only one of the examined features, namely the average institution rate of the panel judges, was significantly related with DI outcome (Table 5). Note that this result could not be directly compared with that described in “Valuable Patents”. This is because the two studies used different datasets in different legal contexts. Given the lack of correlations in Table 5, it was not surprising that the domain knowledge-based model yielded the lowest accuracies among the three models (70.87% for imbalanced data and 63.14% for balanced data; Figure 4).

Temporal Analysis

To examine whether our approach is applicable to real-world predictions, we used earlier IPR cases for model training and latter cases for validation. Three different schemes were tested. In each scheme, IPRs filed in the last three months of a given period was used as the validation dataset, and all of the previously filed IPRs as the training dataset. Figure 7 indicated that the prediction accuracies and the AUC values increased with the size of the training dataset. Of note, the AUC value increased from 0.67 to 0.81 when the training dataset grew from 3,366 to 3,637 cases. The addition of 8.1% (271/3366) of IPR cases to the training dataset increased the AUC value by 20.9% (0.14/0.67). This observation suggested that the size of training dataset was not linearly correlated with the performance of our model. It is likely that specific types of IPR cases were filed during July-December of 2016. Therefore, inclusion of July-September 2016 cases enhanced model performance for October-December

2016 cases. Whether the upward trend of AUC value will sustain remains to be validated.



Testing Range	#Training cases	#Test cases	AUC	ACC.
2016_Apr_Jun	2973	393	0.67	69.97
2016_Jul_Sep	3366	273	0.69	70.11
2016_Oct_Dec	3637	292	0.81	76.20

Figure 7: Three test schemes in the temporal analysis (upper panel) and the corresponding prediction accuracies and AUC values (lower panel).

Case Study

To demonstrate how to interpret the connections between a DI and the relevant features, we conducted a retrospective analysis of an exemplar IPR case. In case number “IPR2014-00917”, the patent owner and the petitioner were, respectively, Zond, LLC and Taiwan Semiconductor Manufacturing Company Ltd (TSMC). For Set A features, eight of the top ten terms that favored institution occurred in this petition. For Set B features, the social network captured the industry related to this IPR (electronics) and neighbors with similar nature. For example, Energetiq Technology, Inc. was one of the neighbors to TSMC. Similar to TSMC, Energetiq is a leading developer and manufacturer of semiconductor. The institute rates of IPRs in the “Electrical/Computer” (71.2%) and “Mechanical/Business Methods” (72.0%) categories are close to the average (70.4%), but higher than that of the Biotech/Pharma category (62.9%) according to the USPTO statistics (9). The top ten nearest neighbors of IPR2014-00917 included eight IPR cases, among which six (75%) were instituted. For Set C features, the average institution rate of judges in this IPR was 0.85, which was higher than the background rate of 0.69. In addition, the grant lag of the challenged patent was only about one-third of the average (one year vs. three years). These values (high judge institution rate and short grant lag) favored institution of the IPR. Accordingly, our model correctly predicted that the IPR would be instituted.

Implications and Future Work

In this study, we constructed three SVM models to predict DI outcomes. The prediction model based on Set A features outperformed the other two models. This is reasonable because judges decide whether to institute an IPR on the merits of the petition and the patent owner's preliminary response. While a petition is required in every IPR, patent owner's preliminary response is not.¹⁹ In the absence of the patent owner's response, the petition would be the only base for the judges to render a DI. Our bag-of-words model could successfully identify terms important to DIs, such as leading authors in the field, law offices, technical terms, and judges. These terms can be good references for both petitioners and patent owners to prepare for IPR proceedings. However, this bag-of-words approach is limited in that it cannot yield semantically meaningful sentences for legal interpretations. Set B features included latent vectors called "embeddings", which represented the relationships between the participants in IPRs as inferred by the Node2Vec algorithm. These vectors can implicitly numericalize the features of patent owners, petitioners and the IPRs themselves. Unlike the other two feature sets, Set B features were mutually dependent on each other. A DI is the integrative outcome of interactions among petitioner, patent owner, lawyers, judges, and the characteristics of the IPR. One difficulty in applying this approach was the large number of possible combinations of Node2Vec parameters (Table 1). It was time-consuming to identify the "optimal" combination. Set C features were extracted from IPRs and the challenged patents. These features were specific to the analyzed IPRs and could be easily numericalized. One advantage of this approach was that the connections between features and DIs were more intuitive than in the other two models, thus allowing easier interpretations. We demonstrated that many of the widely recognized patent features revealed in the seminal study "Valuable Patents"²⁰ did not correlate significantly with DIs (Table 5). This observation could result from the fundamental differences between "Valuable Patents" and our study. First, in "Valuable Patents", the authors assumed that litigated patents were valuable. By contrast, here we aim to predict whether an IPR would be instituted or not. IPR per se can be viewed as a type of "litigation".

Therefore, according to the assumption of "Valuable Patents", all of the IPR-challenged patents are valuable. As a result, features that affect the value of a patent may have limited power in distinguishing between instituted and denied IPRs. Second, an IPR petition attacks "claims" of the challenged patent. One patent can be challenged by multiple IPRs targeting different claims. Multiple IPRs challenging the same patent may end up with different DI outcomes. The features of a "patent" as a whole may not reflect the strengths of individual "claims". Third, even for the same claims of the same patent, petitioners in different IPRs could raise distinct reasons or prior arts to support their invalidity arguments. Therefore, the contents of petitions, which are absent from the challenged patent or the PAIR documents, may significantly influence DI out-

¹⁹37 C.F.R. § 42.107(a).

²⁰Allison, Lemley, Moore & Trunkey, *supra* note 8.

comes. Fourth, the examined datasets are different between “Valuable Patents” and this study. “Valuable Patents” encompassed patents granted between 1960 and 2000. However, the IPR system began in 2012. Many of the challenged patents were granted after 2000. Furthermore, the patent and technology landscapes of many industries changed dramatically between 2000 and 2012. These differences may partly account for the lack of correlation between patent value-related features and DI outcomes.

Neural network (NN) is a powerful tool for prediction tasks. Recent developments in deep learning and novel NN models have led to computational solutions of previously insoluble problems.²¹ Despite the rapid advances in NN, document-level classification remains a standing issue. State-of-the-art NN models can handle an average of 14 sentences in document-level classification tasks. Nevertheless, the average sentence number in a petition is ~400. This length is perhaps beyond what NN models could optimally handle. This is one possible reason why HAN performed less well than the other models (Figure 2). An alternative explanation is that petitions are filled with legal and IPR-related technical jargons. NN models might need to be modified to extract the semantics in such documents. The third reason for the underperformance of HAN is that the training dataset was too small for successful learning. It will be interesting to test NN models again when more data become available.

We have examined cases for which our models yielded incorrect predictions. We identified two possible reasons for the mispredictions. First, the petitions of the mispredicted cases included only low-DG terms. In other words, the information in these petitions was not sufficiently discriminative for Set A-based model to make correct predictions. For example, the DG values of the top three terms in “IPR2015-00480” were 4.79, 4.66 and 4.38. These terms were ranked 610th, 671th and 888th, respectively, in our model. Although these three terms occurred mostly in instituted petitions, IPR2015-00480 was in fact denied of institution. Second, an IPR might contain highly ranked but wrongly labelled terms. For instance, the petition of IPR2014-00980 included the term “DJC”, which was ranked 56th and occurred mostly in instituted IPRs. Unexpectedly, however, IPR2014-00980 was denied of institution by the PTAB.

Conclusions

In this work, we propose an integrative model to predict DI outcomes of IPRs. Institution is the first checkpoint in an IPR proceeding. Once an IPR petition is instituted, the challenged patent will likely have one or more of its claims invalidated. A reliable assessment of whether a petition will be instituted is

²¹Kalchbrenner, Grefenstette, & Blunsom, *supra note 12*; Rie Johnson & Tong Zhang, *Effective Use of Word Order for Text Categorization with Convolutional Neural Networks*, In PROCEEDINGS OF THE 2015 CONFERENCE OF THE NORTH AMERICAN CHAPTER OF THE ASSOCIATION FOR COMPUTATIONAL LINGUISTICS: HUMAN LANGUAGE TECHNOLOGIES 103–112 (2015); Siwei Lai, Linheng Xu, Kang Liu & Jun Zhao, *Recurrent Convolutional Neural Networks for Text Classification*, In PROCEEDINGS OF THE TWENTY-NINTH AAAI CONFERENCE ON ARTIFICIAL INTELLIGENCE 2267–2273 (2015); Rui Lin, Shujie Liu, Muyun Yang, Mu Li, Ming Zhou & Sheng Li, *Hierarchical Recurrent Neural Network for Document Modeling*, In PROCEEDINGS OF THE 2015 CONFERENCE ON EMPIRICAL METHODS IN NATURAL LANGUAGE PROCESSING 899–907 (2015).

thus critical for both of the petitioner and the patent owner to formulate IPR strategies.

Our ensemble model can reach nearly 80% prediction accuracy and ~0.85 AUC. Separately, the three models bring insights from different perspectives – key words, relationships between IPR entities, and patent-related features. Our model thus provides not only WHETHER but also WHY an IPR is instituted. This information is important for IPR participants and IPR policy reviews.

JPTOS Editor-in-Chief Personal Notes: Two-Prongs within Step 2A

Alexander Sofocleous*

PORDERING subject matter eligibility, while browsing the aisles of my favorite hardware store, the following fleeting thought entertained my wandering mind:

Anticipation and obviousness rejections involve the difference between a claim and prior art. Does subject matter eligibility involve a difference between the claim and a claimed judicial exception? Should it be more challenging to differentiate a claim (as a whole) from elements in the claim than to differentiate the same claim from applied prior art?

While studying USPTO's notice of examination guidance and request for comments, *2019 Revised Patent Subject Matter Eligibility Guidance*, 84 FED. REG. 50 (Jan. 7, 2019), I found it helpful to diagram Step 2A side-by-side the former flow-chart, from *2014 Interim Guidance on Patent Subject Matter Eligibility*, 79 FED. REG. 74618, 74621 (Dec. 16, 2014).

I drew my flow-chart showing how the new guidance divides Step 2A into two prongs and added my notes. The first prong narrows to three specific types of abstract ideas:¹ (a) mathematical concepts; (b) certain methods of organizing human activity; and (c) mental processes. It reminds me of an excellent article authored by the honorable Administrative Patent Judge Hung H. Bui, *A Common Sense Approach to Implement the Supreme Court's Alice Two-Step Framework to Provide "Certainty" and "Predictability,"* 100 J. PAT. & TRADEMARK OFF. SOC'Y 165, 244–250 (2018).² The new guidance acknowledges rare circumstances where a claim recites, not one of the three types, but a "tentative abstract idea";³ however, such rejections from the examining Corps require Technology Center Director approval,⁴ and those from the Patent Trial and Appeal Board "should be brought to the attention of the PTAB leadership by written request for clearance."⁵

Step 2A's second prong has two sub-steps: (a) identify any additional elements beyond the judicial exception,⁶ and (b) "evaluat[e] those additional elements individually and in combination to determine whether they integrate

*Editor-in-Chief, JPTOS. Special thanks to Julio Maldonado, Supervisory Patent Examiner of Art Unit 2898, and Roland Casillas, JPTOS Blog Editor, for the design assistance that improved my visual aids.

The views and comments expressed herein are solely the opinion of the author, do not reflect the performance of duties in the author's official capacity, and are not endorsed by, nor should be construed as, any viewpoint official or unofficial of the United States Patent and Trademark Office. The author confirms to the best of his or her knowledge that no information contained herein is privileged, confidential or classified.

¹84 FED. REG. at 52.

²*See esp.* page 249 for the flow-chart narrowly categorizing abstract ideas as: (i) algorithms; (ii) mental steps; and (iii) fundamental business practices; *see* pages 247–250 for the overview, pages 250–252 for summary of algorithms, pages 252–256 summarizing metal steps, pages 256–258 summarizing fundamental economic practices, and pages 258–260 proposing what to do with rare patent claims that do not fall within the three categories and explaining the benefits of a narrow construction of what constitutes an "abstract idea."

³84 Fed. Reg. at 53, 57.

⁴84 Fed. Reg. at 57.

⁵*Id.* n.42.

⁶84 Fed. Reg. at 54–55.

the exception into a practical application.”⁷ I once thought “practical application,” “inventive application,”⁸ and “significantly more” were Step 2B; but it’s different.⁹ Five non-exclusive examples indicate an additional element may have integrated the exception into a practical application:¹⁰

1. “[a]n additional element reflects an improvement in the functioning of a computer, or an improvement to other technology or technical field” (Cf. MPEP § 2106.05(a));
2. “an additional element that applies or uses a judicial exception to effect a particular treatment or prophylaxis for a disease or medical condition”;
3. “an additional element implements a judicial exception with, or uses a judicial exception in conjunction with, a *particular machine* or manufacture that is integral to the claim” (Cf. MPEP § 2106.05(b));
4. “an additional element effects a *transformation* or reduction of a particular article to a different state or thing” (Cf. MPEP § 2106.05(c));
5. “an additional element applies or uses the judicial exception in some other meaningful way beyond generally linking the use of the judicial exception to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the exception” (Cf. MPEP § 2106.05(e)).

Three examples indicate the judicial exception has not been integrated into a practical application:¹¹

1. “[a]n additional element merely recites the words ‘apply it’ (or an equivalent) with the judicial exception, or merely includes instructions to implement an abstract idea on a computer, or merely uses a computer as a tool to perform an abstract idea” (Cf. MPEP § 2106.05(f));
2. “an additional element adds insignificant extra-solution activity to the judicial exception” (Cf. MPEP § 2106.05(g));
3. “an additional element does not more than generally link the use of a judicial exception to a particular technological environment or field or use” (Cf. MPEP § 2106.05(h));

I wonder if the analysis simplifies to whether the claim as a whole *utilizes* the judicial exception or *merely performs* the judicial exception. Thus, my flow-chart has these first-blush categorical headings for the two sets of examples. At this time, the notice is pending public comments; the more time that passes from the new guidance, the more we will understand.¹²

⁷84 Fed. Reg. at 55.

⁸*Parker v. Flook*, 437 U.S. 584, 594 (1978).

⁹84 Fed. Reg. at 55.

¹⁰*Id.*

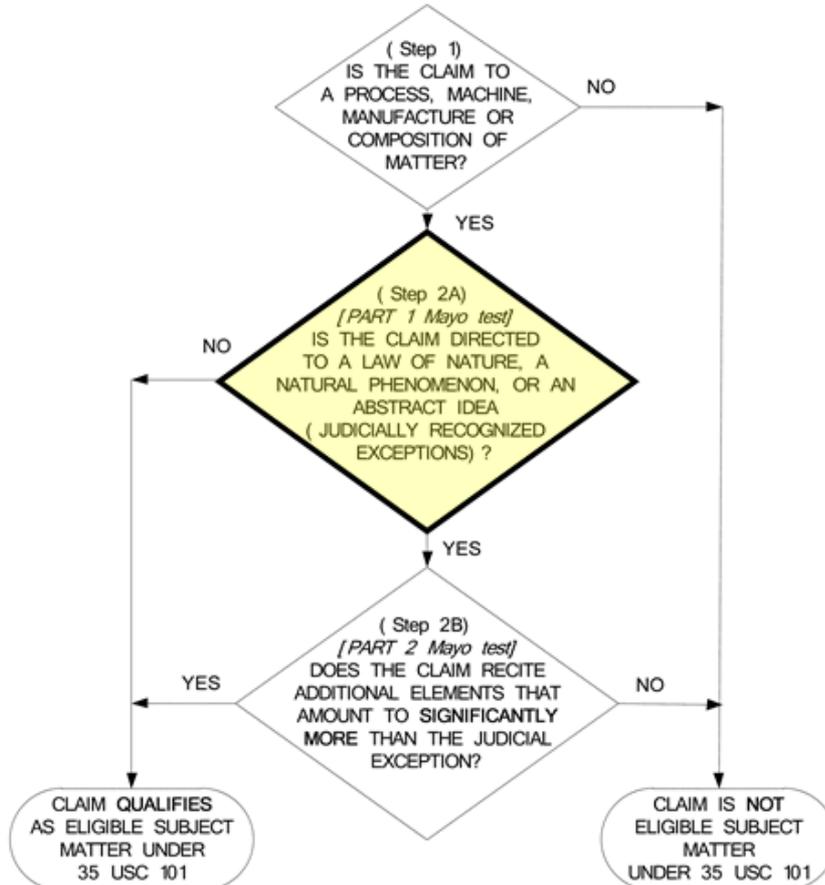
¹¹84 Fed. Reg. at 55.

¹²Hung H. Bui, *A Common Sense Approach to Implement the Supreme Court’s Alice Two-Step Framework to Provide “Certainty” and “Predictability,”* 100 J. Pat. & Trademark Off. Soc’y 165, 270 (2018) (quoting Soren Kierkegaard, “Life can only be understood backwards; but it must be lived forwards.”).

JPTOS Editor-in-Chief PERSONAL NOTES

SUBJECT MATTER ELIGIBILITY TEST FOR PRODUCTS AND PROCESSES

*PRIOR TO EVALUATING A CLAIM FOR PATENTABILITY, ESTABLISH THE
BROADEST REASONABLE INTERPRETATION OF THE CLAIM.
ANALYZE THE CLAIM AS A WHOLE WHEN EVALUATING FOR PATENTABILITY.*



IN ACCORDANCE WITH COMPACT PROSECUTION, ALONG WITH DETERMINING ELIGIBILITY, ALL CLAIMS ARE TO BE FULLY EXAMINED UNDER EACH OF THE OTHER PATENTABILITY REQUIREMENTS: 35 USC §§ 102, 103, 112, and 101 (UTILITY, INVENTORSHIP, DOUBLE PATENTING) AND NON- STATUTORY DOUBLE PATENTING.

Notable changes from prior guidance:

- All claims (product and process) with a judicial exception (any type) are subject to the same steps.
- Claims including a nature-based product are analyzed in Step 2A to identify whether the claim is directed to (recites) a "product of nature" exception. This analysis compares the nature-based product in the claim to its naturally occurring counterpart to identify markedly different characteristics based on structure, function, and/ or properties. The analysis proceeds to Step 2B only when the claim is directed to an exception (when no markedly different characteristics are shown) .

2014 Interim Guidance on Patent Subject Matter Eligibility, 79 FED. REG. 74618, 74621 (Dec. 16, 2014)

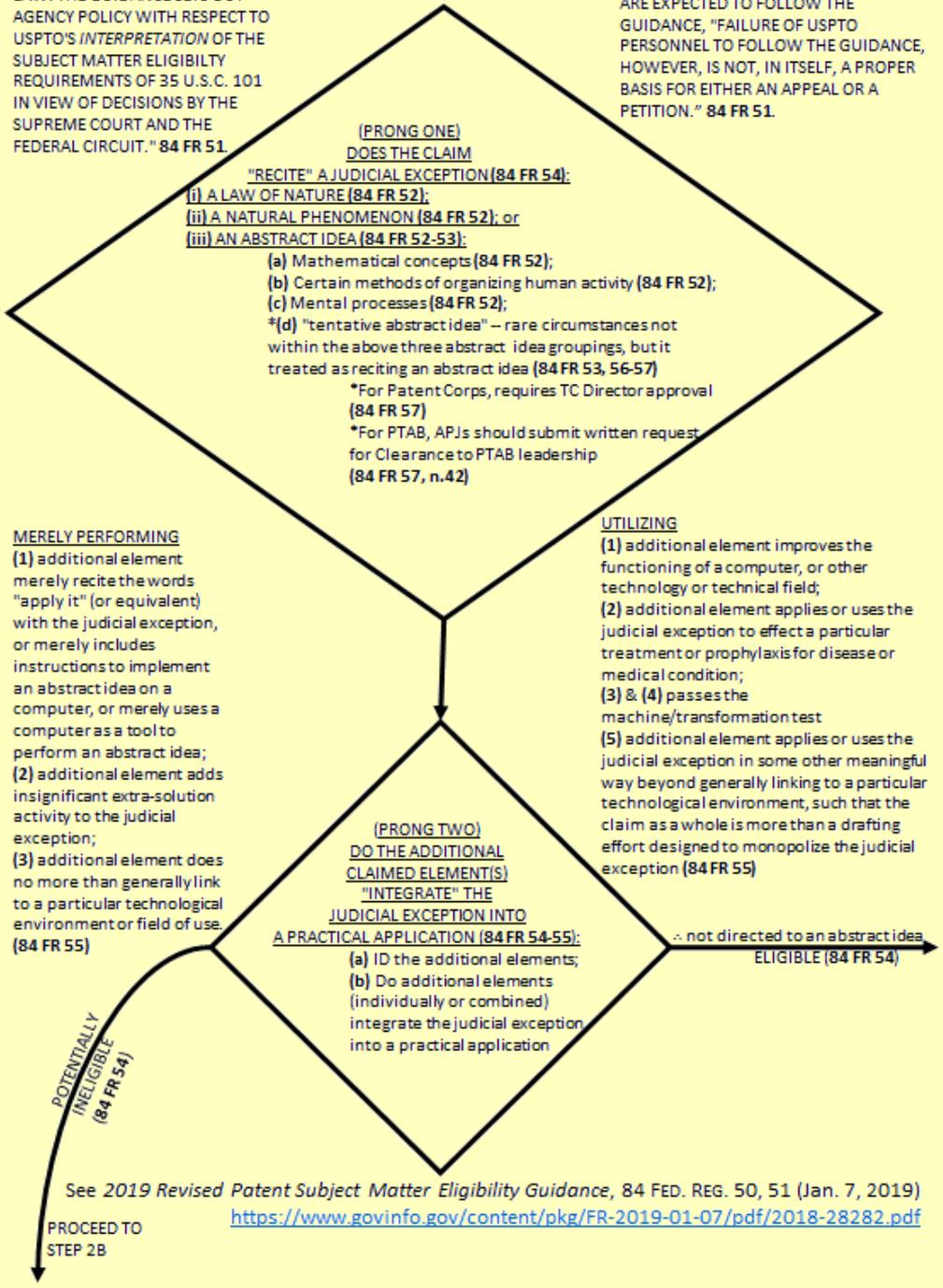
<https://www.govinfo.gov/content/pkg/FR-2014-12-16/pdf/2014-29414.pdf>

JPTOS Editor-in-Chief PERSONAL NOTES

*** "THIS GUIDANCE DOES NOT CONSTITUTE SUBSTANTIVE RULEMAKING AND DOES NOT HAVE THE FORCE OR EFFECT OF LAW. THE GUIDANCE SETS OUT AGENCY POLICY WITH RESPECT TO USPTO'S INTERPRETATION OF THE SUBJECT MATTER ELIGIBILITY REQUIREMENTS OF 35 U.S.C. 101 IN VIEW OF DECISIONS BY THE SUPREME COURT AND THE FEDERAL CIRCUIT." 84 FR 51.

*** MPEP 2106.04((II)) and all versions of the USPTO's "Eligibility [QRGs]" are superseded by the 2019 guidance, to the extent there is a conflict. 84 FR 51.
*** ALTHOUGH ALL USPTO PERSONNEL ARE EXPECTED TO FOLLOW THE GUIDANCE, "FAILURE OF USPTO PERSONNEL TO FOLLOW THE GUIDANCE, HOWEVER, IS NOT, IN ITSELF, A PROPER BASIS FOR EITHER AN APPEAL OR A PETITION." 84 FR 51.

STEP 2A's Two Prongs



MERELY PERFORMING
(1) additional element merely recite the words "apply it" (or equivalent) with the judicial exception, or merely includes instructions to implement an abstract idea on a computer, or merely uses a computer as a tool to perform an abstract idea;
(2) additional element adds insignificant extra-solution activity to the judicial exception;
(3) additional element does no more than generally link to a particular technological environment or field of use. (84 FR 55)

UTILIZING
(1) additional element improves the functioning of a computer, or other technology or technical field;
(2) additional element applies or uses the judicial exception to effect a particular treatment or prophylaxis for disease or medical condition;
(3) & (4) passes the machine/transformation test
(5) additional element applies or uses the judicial exception in some other meaningful way beyond generally linking to a particular technological environment, such that the claim as a whole is more than a drafting effort designed to monopolize the judicial exception (84 FR 55)

(PRONG TWO)
DO THE ADDITIONAL CLAIMED ELEMENT(S)
"INTEGRATE" THE JUDICIAL EXCEPTION INTO A PRACTICAL APPLICATION (84 FR 54-55):
(a) ID the additional elements;
(b) Do additional elements (individually or combined) integrate the judicial exception into a practical application

not directed to an abstract idea
ELIGIBLE (84 FR 54)

POTENTIALLY
INELIGIBLE
(84 FR 54)

See 2019 Revised Patent Subject Matter Eligibility Guidance, 84 FED. REG. 50, 51 (Jan. 7, 2019)
<https://www.govinfo.gov/content/pkg/FR-2019-01-07/pdf/2018-28282.pdf>
PROCEED TO STEP 2B

Annual Index: AUTHORS

–A, B, C–

Brandon Andersen

Tribal Sovereign Immunity at
the Patent and Trademark Office 332

Tom Brody

Rebutting §102-rejections under *NetMoneyIn v. VeriSign*,
as illustrated by opinions from
the Patent Trial and Appeal Board (PTAB) 388

Qingxiu Bu

Extraterritorial Jurisdiction
vis-à-vis Sovereignty In Tackling Transnational Counterfeits:
Between a Rock and a Hard Place? 69

The Honorable Hung H. Bui

A Common Sense Approach to
Implement the Supreme Court's *Alice* Two-Step Framework to
Provide "Certainty" and "Predictability" 165

(with *Alexander Sofocleous & Seahvosh Nikmanesh*)

The Journal of the Patent and Trademark Office Society
Welcomes the Honorable Andrei Iancu,
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office 384

Professor Feng-Chi Chen

(with *Yuh-Harn Yang & Professor Pu-Jen Cheng*)

Predicting Institution Decisions in
Inter Partes Review Proceedings 697

Professor Pu-Jen Cheng

(with *Yuh-Harn Yang & Professor Feng-Chi Chen*)

Predicting Institution Decisions in
Inter Partes Review Proceedings 697

Michael J. Choi

The Likelihood of Exclusion:
Economic Disparity in the
United States Trademark System 599

-D, E, F-

Antonio M. DiNizo

- Krafting *TC Heartland*:
A Legislative Response to Venue Shopping 24

The Honorable Judge Jr-Da Fan

- Compensation for Non-pecuniary Damage of
Trademark Infringement in Taiwan 49

-G, H-

Connor J. Hansen

- Taking Patent Rights:
Sovereign Immunity & the Fourteenth Amendment in
Patent Validity & Inventorship Challenges 619

Professor Richard L. Hindle

- Inventing Venice:
An Urban and Environmental Innovation Model from
the Lagoon City 529

Katherine Hunziker

- The Good Faith, the Bad Faith, and the Ugly 671

-I, J, K-

-L, M, N-

The Honorable Hubert C. Lorin

- The American Association of Patent Judges 386

Seahvosh Nikmanesh, Executive Director

(with *Alexander Sofocleous & the Honorable Hung H. Bui*)

- The Journal of the Patent and Trademark Office Society
Welcomes the Honorable Andrei Iancu,
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office 384



Markus Nolff

- The Patent Provisions of TPP:
An Endpoint or should be just a
mere Starting Point for more and better
Patent Protections in a revised NAFTA 103
- Time for a Midlife Makeover for the PCT:
Will pending Trade Agreements give the necessary Push? 359
- Unitary Patents & Unified Patent Court:
The Start of a new Epoch in the European Patent System? 546
- Unified Patent Court (UPC) Update:
December 19, 2018 communiqué by the
UPC Preparatory Committee 571

–O, P, Q, R–S–

David Orange, Articles Editor

- Part of a Larger Whole:
How Combination Patents Show That
Patent Exhaustion is Part of Patent Misuse 130

Ryan Pool

- Should You Appeal?
A Look at Success Rates Before
the PTAB on an Individual Rejection Basis 320

The Honorable David P. Ruschke
(with *the Honorable James A. Worth*)

- PTAB Practice Tips Post-SAS 271

Joshua Schwartz, Chairman

- Federico and Rossman Awards, 2018 1

Charles W. Shifley

- The Wright Brothers:
Would Their Patent Survive Today's Patent Law Rigors?
Doubtful 12

Alexander Sofocleous, Editor-in-Chief

- JPTOS Editor-in-Chief Personal Notes:
Two-Prongs within Step 2A 718
(with *the Honorable Hung H. Bui & Seahvosh Nikmanesh*)
- The Journal of the Patent and Trademark Office Society
Welcomes the Honorable Andrei Iancu,
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office 384

–T, U, V, W–

Professor Shine Sean Tu

- Three New Metrics for Patent Examiner Activity:
Office Actions per Grant Ratio (OGR),
Office Actions per Disposal Ratio (ODR), and
Grant to Examiner Ratio (GER) 277

Matthew M. Welch

- Warning! Patent Agent Privilege Ends Abruptly 578

The Honorable John F. Witherspoon

- A Tribute to Judge Giles S. Rich 4

The Honorable James A. Worth

- PTAB Practice Tips on Oral Arguments 572
(with *the Honorable David P. Ruschke*)
PTAB Practice Tips Post-SAS 271

–X, Y, Z–

Yuh-Harn Yang

(with *Professor Pu-Jen Cheng & Professor Feng-Chi Chen*)

- Predicting Institution Decisions in
Inter Partes Review Proceedings 697

Emre Yuzak

- Preclusive Effect of the
International Trade Commission's Patent Decisions:
Can District Courts Ignore
Texas Instruments Inc. v. Cypress Semiconductor Corp. 657



TOPICS

–A, B, C–

ANTICIPATION

Tom Brody

- Rebutting §102-rejections under *NetMoneyIn v. VeriSign*,
as illustrated by opinions from
the Patent Trial and Appeal Board (PTAB) 388

APPEALS (EX PARTE) STATISTICS

Ryan Pool

- Should You Appeal?
A Look at Success Rates Before
the PTAB on an Individual Rejection Basis 320

AWARDS

Joshua Schwartz, Chairman

- Federico and Rossman Awards, 2018 1

–D, E, F–

ETHICS

Matthew M. Welch

- Warning! Patent Agent Privilege Ends Abruptly 578

HISTORY - WRIGHT BROTHERS

Charles W. Shifley

- The Wright Brothers:
Would Their Patent Survive Today's Patent Law Rigors?
Doubtful 12

HISTORY - VENICE

Professor Richard L. Hindle

- Inventing Venice:
An Urban and Environmental Innovation Model from
the Lagoon City 529

–I, J, K–

INTER PARTES REVIEW

The Honorable James A. Worth & the Honorable David P. Ruschke

- PTAB Practice Tips Post-SAS 271

Yuh-Harn Yang, Professor Pu-Jen Cheng & Professor Feng-Chi Chen

Predicting Institution Decisions in
Inter Partes Review Proceedings 697

JUDGE GILES SUTHERLAND RICH
The Honorable John F. Witherspoon

A Tribute to Judge Giles S. Rich 4

JURISDICTION
Qingxiu Bu

Extraterritorial Jurisdiction
vis-à-vis Sovereignty In Tackling Transnational Counterfeits:
Between a Rock and a Hard Place? 69

–L, M, N–

LITIGATION - PRECLUSION
Emre Yuzak

Preclusive Effect of the
International Trade Commission's Patent Decisions:
Can District Courts Ignore
Texas Instruments Inc. v. Cypress Semiconductor Corp. 657

LITIGATION - VENUE
Antonio M. DiNizo

Krafting *TC Heartland*:
A Legislative Response to Venue Shopping 24

NOTICES
The Honorable Hubert C. Lorin

The American Association of Patent Judges 386

–O, P, Q, R–

ORAL ARGUMENT
The Honorable James A. Worth

PTAB Practice Tips on Oral Arguments 572

PATENT COOPERATION TREATY (PCT)
Markus Nolff

Time for a Midlife Makeover for the PCT:
Will pending Trade Agreements give the necessary Push? 359



PATENT EXHAUSTION*David Orange, Articles Editor*

- Part of a Larger Whole:
How Combination Patents Show That
Patent Exhaustion is Part of Patent Misuse130

PATENT QUALITY*Professor Shine Sean Tu*

- Three New Metrics for Patent Examiner Activity:
Office Actions per Grant Ratio (OGR),
Office Actions per Disposal Ratio (ODR), and
Grant to Examiner Ratio (GER) 277

PATENTABLE SUBJECT MATTER (SUBJECT MATTER ELIGIBILITY)*The Honorable Hung H. Bui*

- A Common Sense Approach to
Implement the Supreme Court's *Alice* Two-Step Framework to
Provide "Certainty" and "Predictability" 165

Alexander Sofocleous, Editor in Chief

- JPTOS Editor-in-Chief Personal Notes:
Two-Prongs within Step 2A 718

-S, T, U, V-

SOVEREIGN IMMUNITY*Connor J. Hansen*

- Taking Patent Rights:
Sovereign Immunity & the Fourteenth Amendment in
Patent Validity & Inventorship Challenges 619

TRADEMARK*Michael J. Choi*

- The Likelihood of Exclusion:
Economic Disparity in the
United States Trademark System 599

Katherine Hunziker

- The Good Faith, the Bad Faith, and the Ugly 671

TRADEMARK INFRINGEMENT - NON-PECUNIARY DAMAGE*The Honorable Judge Jr-Da Fan*

- Compensation for Non-pecuniary Damage of
Trademark Infringement in Taiwan 49

TRANS-PACIFIC PARTNERSHIP (TPP)

Markus Nollf

- The Patent Provisions of TPP:
 An Endpoint or should be just a
 mere Starting Point for more and better
 Patent Protections in a revised NAFTA.....103

UNITARY PATENTS & UNIFIED PATENT COURT

Markus Nollf

- Unitary Patents & Unified Patent Court:
 The Start of a new Epoch in the European Patent System? 546
- Unified Patent Court (UPC) Update:
 December 19, 2018 communiqué by the
 UPC Preparatory Committee 571

-W, X, Y, Z-

WELCOMES

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 Nikmanesh, Executive Director*

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THE TRAINING OF AN EXAMINER.

By WELLINGTON B. JOHNSON

Associate Examiner, Classification Division

An examiner in the United States Patent Office does not have merely a "job" nor a "position", but is a member of a profession, which has as well marked and distinctive characteristics as that of the lawyer, the engineer or the chemist.

Like these professions, preparation requires a college, university or technical school course, and admittance to the only special school which prepares, the Patent Office itself, is only by way of an examination whose difficulty is such that only about one-fourth of those who attempt it attain a passing grade, and which tests, not simply the ability to acquire knowledge, but the amount of knowledge at one's immediate disposal, and the ability to use this on special problems, mental agility and grasp, as well as mental profundity.

The profession demands knowledge broader in its scope, than any of those named above, for it includes a great portion of that of the lawyer, and also, all or more than that of either chemist or engineer. The examiner should be a linguist, for his field of search is the whole range of human publication. He should be, as need arises, biologist, electrician, draftsman, mechanical engineer, cook, or washer-woman, for there is no field of human activity not entered by applications for patents. Nor does its practise within an Office, under a division chief, with still other chiefs above, and with the Damocletian sword of the Board of Appeals constantly waving over one's head, render it less a profession and a learned one.

But it differs from other professions in this, that while those who would enter the others have schools at their service, specially designed for their training, where they are drilled in fundamental principles, in laboratories, in moot courts, in clinics, and in the field or shop, and one's



entrance into full activity is guarded by laws and license ordinances so that ill-trained, or untrained men may not prey upon the public, the Patent Office examiner is at once set at the work of the profession, and his training is largely incidental to his work, and depends much upon his own initiative and application. The correspondence school slogan, "Learn while you earn" is truly his.

While, under the wise policy instituted by the present Commissioner, one who enters the Office is advised not to take up outside studies for at least one year, the notices of examinations sent out by the Civil Service Commission urge as advantages of the position, the opportunity of obtaining higher education, of preparing one's self for usefulness in other fields. Except for a paper read before the examining corps several years ago by one who is now a law examiner, the writer does not remember any statement from any source that emphasizes the real dignity of the examiner's work, or the fundamental part he plays in the scientific and commercial world.

A study of the advertising matter put out by commercial organizations, for instance, a telephone company, fails to reveal a single word as to the advantages of their positions as training for work in a different field, or as giving opportunity for obtaining such training. Instead, their advertising matter emphasizes the character of the work, the careful training of the workers, the oversight and interest taken in their welfare by the company, the increases in salary, the medals and awards for duty done. The whole world of the employee, so far as the advertising goes, is in the telephone business, and it is worthy of his whole ambition, and future life.

Result, stability of operating force, permanence of positions, enthusiasm for their work, pride in their positions, loyalty, *esprit de corps*, devotion, which holds an operator at the switchboard while riotous crowds are surging through the streets, or office itself, or until the building topples in ruin. Interest, which leads men to work thirty-six hours without rest, repairing damage by a storm.

Ed. Note:
see
Mortimer's
Patent
Office
Papers...
perhaps
EIC
George P.
Tucker's
"A 'Career'
in the
Patent
Office"?



So of department store advertising. No "Help Wanted" ad extols the position offered as preparation for anything else. The user of the telephone in different parts of a city, or even in widely separated cities expects and receives the same courteous, interested attention. In any given department store, of the better class, not only the routine of business, but the manners, to a great extent the costumes, of the sales people, are uniform. In both telephone exchange and department store, constant change of personnel occurs, yet, through the years, this uniformity prevails. This is not accidental, it is the result of purposeful and efficient training. High salaried instructors in telephone work, and in salesmanship are employed in each case, and before an operator is given a board, or a salesman a counter, he has been trained into an efficient servant, rather member, of the organization which employs him.

If, therefore, in commercial establishments, where the problems met by the employees are comparatively simple, and in other learned professions, a training period is found profitable in the one case and necessary in the other, such a training in the examining profession, where the problems are by no means simple, or easy of solution, would seem much more profitable and useful.

But with the constantly changing personnel of the Patent Office examining corps, can such a system be devised, and would it be successful? The writer believes that a successful operative system can be devised. He has dreamed—men of certain age are permitted to "dream dreams" according to very high authority—provided they do not do it within Office hours, according to authorities having jurisdiction within the Office—of a scheme for such training, and presents it here, with the hope that it may possibly stir some other to "vision" and make some such course a reality.

Until the printing of Glascock's *Manual*, the training of the new man was entirely in the hands of the principal examiner, who, himself, had "learned while he earned". There was no systematic, authoritative setting forth of

100 J. PAT. & TRADEMARK OFF. SOC'Y 732 (2019)



the nature of the examiner's work, or of his relation to the Office in general. The issue of the *Manual* was a great step in advance.

But even with the *Manual*, many things need explanation, and it does not, and cannot go into the reasons for all the actions it describes. Moreover, the law and practise is constantly undergoing changes, as the decisions of the courts progress in the evolution of the Patent Law, and alterations in the *Manual* are continually necessary. A principal examiner, overseeing the work of eight to ten men, cannot possibly explain and discuss these changes in detail with the new man, however good his intentions.

Practice within the Office is based upon the Constitutional provision, the Statutes and Rules of Practise, as explained by the decisions of the Supreme Court, the Court of Appeals of the District of Columbia, the Commissioner's Decisions and orders, and, in the specific instances, the decisions of the Board of Appeals.

At least one word in the Constitutional provision has not yet been defined in decisions of the courts. Moreover, each decision is based upon the given state of facts, in the case considered, which are seldom exactly the same in any other case, and is therefore only an example, not a precedent nor a rule, and in each other case, a slightly different set of facts calls for nice discrimination, and considered judgment as to the applicability of the decision.

This independence of judgment is a necessary concomitant of our work, and the right to it should be carefully guarded. Justice to all parties seems to demand that the examiner should study each case in the light of established doctrines and derive his own conclusion, based upon these doctrines and the decisions as he understands them, without one eye turned upward in an attempt to guess the attitude of the appellate body. But this does not mean, it should here be remarked, that the decisions of the appellate bodies should be ignored, they should be



carefully followed, but as guiding principles, in line with which actions and decisions within the examining divisions should be taken. If the various appellate bodies agree with the examiner, he will feel sure justice has been done. If the appellate bodies disagree with him, he may still feel that justice has prevailed, since he has compelled the setting forth of both sides by his action.

But this independence of judgment must be that of trained judgment, and of judgment trained to move in the direction in which the collective mind of the Office and courts is moving, as different phases of the law are evolved and explained, else each division becomes a small patent office, within the larger one.

Let there be chosen an examiner who has the standing, in and out of the Office, necessary to command the respect of the attorneys and office corps for his practise, and who has teaching ability, and give to him two associate examiners of like standing and practise, and let him form a training division, to which new men are assigned on their entry into the Office.

Place in this division simple classes, such as Classes 7, Compound Tools; 81, Tools; 46, Toys; 140, Wire Working; 149, Hides, Skins and Leather.

Other classes might be chosen, but these are named because they each are well fitted for training purposes, and the writer has had the pleasure of training several young men in each of these but one. He really counts himself successful at this training, because within three months each of the men knew more than he did! Moreover, with one exception, they are all now alumni, enjoying fat salaries, and the larger freedom!

Class 7, Compound Tools, brings the doctrine of aggregation, and the distinction between invention and design, constantly to the fore, has a small number of patents, and requires search through a goodly number of other classes for references. Interferences are rare, but there is no danger of failure of justice by strict practise, and the Rules may be strictly applied.



Class 81, Tools, also brings to the fore the question of invention, as distinguished from design and the skill of the workman. The limits of invention are narrow, and again strict application of the Rules is harmless, if indeed, it is ever really harmful. Interferences come occasionally, petitions and appeals are frequent.

The great problem in Class 46, Toys, is that of invention, and Class 140, Wire Working, is named as one which is well classified, and stands well within a field of its own. The devices range from simple crimping tools to complex machines for weaving silver wire purses, and complicated wire structures of all kinds. The drawings are not too difficult, but call for no small amount of skill in their reading.

Class 149, Hides, Skins and Leather, includes work in colloid and biological and physical chemistry, and involves devices ranging from simple sticks with a string attached to them, up to the complicated machines for plucking hairs from furs.

Searches of literature are important and many, appeals and interferences are frequent.

A new man should be started on one of these classes, and his work made the medium for lectures on the form of the claims, and on the various doctrines he meets. As he gains facility, he should receive cases from more advanced classes, and he will soon have had training in both mechanical and process cases, in handling petitions, and appeals, perhaps interferences.

He should be kept in this division for the whole of his probationary period, better, for a year, and should be "protected" from arguments with attorneys during the greater part of that time. In other words, should be made to realize that he is in the student and experimental class, and neither the men nor the division should be held to dates or amount of work.

At the close of the probationary period, he may be assigned to the division where his previous training would be of the most value, and pains should have been



taken to find what store of practical knowledge he may have at his command.

But so far, the plan is not better than the present one, except for the provision for progressive difficulty in cases.

A good examiner needs to know;

- a. The Office organization.
- b. The Patent Law and Rules of Practise.
- c. The formal routine of work as laid down in the excellent Manuals of either Glascock or Stringham.
- d. The decisions, and how to apply them.
- e. His art and related arts and where to find them.
- f. Still more arts, and then still more.
- g. The current literature of his art, and where to search for older literature.
- h. If he desires to climb to the top in the Office, general law.

{Ed. Note: Agreed, with contemporary editorial modification that "he" be replaced with "they"}

doubly important, just like ex parte Hunter, 1889 C.D. at 219.
Thanks Jack, Alex.

There are other things he should know, but these are enough to form the basis of his instruction for one or two years, and lectures should regularly be given on all the branches that lend themselves to such treatment.

Lectures on the Office organization might be given by the Commissioners, the Chief Clerk, and the heads of the several general divisions, A to G, the Financial Clerk, the head of the Docket Division, and the Librarian.

Lectures on subjects b, c, and d, should form a unified and logical course, given by the Chief of the Training Division, and his assistants, with aid from a law examiner, the Examiner of Interferences and members of the Board.

These lectures should be at regular hours, and conducted as in the best universities with reports, seminars, and discussions.

They should extend over the period of at least a year, the men returning to the training division for them if previously assigned to regular divisions.



Men coming in after the opening of a "term" should be given an outline of past lectures, and required to submit reports upon them, possibly, in some cases, to take them when started again.

A "term" should begin every three months, and for the first six months, at least, annual leave should not be allowed to interfere with the lecture hours.

All pressure for number of cases or dates should be omitted in the Training Division, but great attention paid to the thoroughness of work, both on cases and in lectures.

Lectures should come in Office hours, but study and report writing and seminars should be outside them.

Study of subjects in outside schools should be forbidden for at least the first year, since the training course should take a great deal of outside study.

A young man, having taken such training will regard the Office work as paramount, worthy of receiving and enlisting his best efforts. He will be made to feel that he is beginning a "career," learning a profession, will therefore take proper pride in his work, realizing its true importance and dignity.

For we, in the Office, "do not see the woods for the trees". Busied with details, necessarily under constant pressure for dates and cases, we lose sight of the fact that we stand on the outer edge of the known in science and industry, and are permitted glimpses into the unknown along the trails being blazed by the pioneers.

We forget that we are at the same time, judge, jury and witness, the agent and sole representative of the great "public" on whose part we grant the exclusive rights in exchange for information as to new "arts, machines, manufactures, and compositions of matter."

The achievement of this sense of the dignity of our work, will be a great step in the establishment in the examining corps, of a professional spirit, which will give to the Office the solidarity, the morale, which is necessary to the proper functioning of all organizations of men from family to nation, from Boy Scouts to armies.



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