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## THE AMERICA INVENTS ACT

By Michael A. Mann  
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Congress recently passed and on September 16, 2011, President Obama signed the America Invents Act. It is the most comprehensive reform of the U.S. patent system since 1952.

The Act is lengthy -- running over 140 pages (well, that *used* to be lengthy) -- and complicated. Some of its provisions are immediately effective, but others are not effective until one year after enactment, and still others, six months after that. Some of its provisions will not be fully understood until years from now, after the courts have had a chance to interpret them.

Unlike other legislation coming out of Congress, this bill enjoyed strong bipartisan support, starting its journey under a Republican president and being signed into law by a Democratic president. Both parties believe the patent system can be improved to encourage innovation and economic growth. Likewise, both parties are hopeful the Act will eventually remove some of the burrs from the US patent system.

For example, patent litigation is expensive and lengthy, and is often used as a weapon. A patent of questionable validity can halt the business plans of others while they weigh the costs and impact of defending themselves in a suit for patent infringement versus the price of a license,

if a license is available. The America Invents Act creates a system for challenging the validity of a patent within the U.S. patent system that is expected to be quicker and likely much cheaper than a court challenge. It also allows the Patent Office to keep filing fees and other fees it collects for use in upgrading its capabilities. By hiring and training more examiners, for example, the examination of patents is expected to become more efficient and effective.

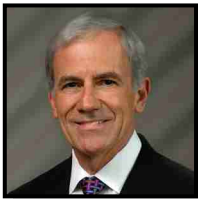
Globalization benefits businesses by greater uniformity from country to country and through some of the changes to the America Invents Act, the US system moves closer to full harmonization with the practices in the rest of the world. For example, right now in most foreign countries, the first person to *file* a patent application is the one who may receive a patent. In the U.S., however, the first to *invent* was the one who could receive a patent -- even if someone else filed earlier. Now, under the America Invents Act, the *first inventor to file* is the one who may receive the patent.

Another burr the Act is designed to address is the spate of lawsuits for false patent marking. Companies who sell products covered by expired patents have been sued for failing to take the patent number off their products. Often, the plaintiffs filing suit are lawyers who have not been harmed by the out-of-date patent notice. The new Act limits standing only to those who can show actual harm.

The new Act also permits patent owners to take steps to reduce the chances their patent rights will be deemed unenforceable due to alleged inequitable conduct. When a patent infringement suit is brought, the defendant will almost invariably allege that the patent is invalid and that the plaintiff engaged in inequitable conduct to obtain the patent by failing to bring relevant prior art to the attention of the patent examiner during patent prosecution. Under the new Act, patentees have several chances to rectify that circumstance and, by doing so, minimize inequitable conduct claims against them,

while simultaneously strengthening (and perhaps narrowing) their patent claims.

The America Invents Act will make significant and beneficial changes to the U.S. Patent system. These changes may be difficult and will no doubt cause stress during a transition period that could last for several years. Amendments to the Act may be needed to address its unintended consequences. Nevertheless, once the new Act is understood and phased in, it will likely make the U.S. patent system run more smoothly and effectively.



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## NPR's *This American Life* Takes on the Patent System

By Daniel C. Leonardi  
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My favorite radio show, *This American Life*, recently aired an episode entitled "When Patents Attack." The gist of the episode is that, at least with respect to software patents, the patent system in the United States is discouraging rather than encouraging innovation. Specifically, through several stories about inventors, businesspeople, and patent licensing firms, "When Patents Attack" makes the argument that the existence and enforcement of thousands of very broad software patents makes it more difficult than it should be to do business in the high-tech sector, particularly for smaller companies and startups.

As I have explained in previous *LightSwitch* articles, licensing firms (also known as non-practicing entities or, less charitably, patent trolls) are companies that own patents but do not utilize the inventions covered by those patents. Instead, licensing firms find *other* companies that are using the inventions and negotiate licenses with

those companies (*i.e.* get those companies to pay them a fee in exchange for a license to continue using the inventions). As you might imagine, negotiating a license often involves threatening to sue for patent infringement. As host Alex Blumberg characterized the actions of a licensing firm that acquired a patent covering certain online photo-sharing technology: "[I]nstead [of becoming Flickr,] they waited for someone *e/se* to build Flickr, and then they sued Flickr."

The first half of the show describes this problem from a small company's perspective and is full of stories about enthusiastic and innovative start-up companies having their dreams dashed by letters from mysterious patent trolls alleging infringement and threatening to sue. The second half of the show is directed to the broader effect the increase in software patent litigation is having and describes how tech-sector heavyweights like Microsoft, Apple, and Google are spending billions of dollars to amass patent portfolios to assert "defensively" against licensing firms and competitors that may sue them. While "When Patents Attack" makes for a very interesting listen and raises a number of thought-provoking questions, it presents some contradictory arguments and ultimately fails to propose any solutions to the problem it highlights.

Regarding the contradictory arguments, the show first argues that enforcement of software patents by licensing firms is particularly unfair because the software patents being enforced never should have issued -- they cover things that lots of companies and institutions were doing (and even seeking to patent) when the "inventors" filed their patent applications. If this is in fact true, and the show makes a convincing case that it is, there are serious doubts about the enforceability of these patents. Unfortunately, the legal effect of the questionable validity of these patents is never addressed. Instead of addressing this question, the show interviews two software engineers who further put into question the validity of software patents. Stephan Brunner, the first inventor, claims the patents he worked on in the past are full of "mumbo jumbo, which nobody understands, and which makes no sense

from an engineering perspective whatsoever.” Under federal law, however, all patents must describe an invention “in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same.” 35 U.S.C. § 112, first paragraph. In other words, a patent cannot be “mumbo jumbo” and *must* make sense from an engineering perspective. Testimony *from the inventor* that a patent is meaningless would certainly assist a defendant in showing the patent is invalid. (Unfortunately, the two people that may understand Mr. Brunner’s patent better than anyone, Jason Dunham, who examined the patent at the USPTO, and an attorney at Campbell Stephenson, LLP, who prosecuted Mr. Brunner’s patent application, are not interviewed in the show.)

The second software engineer interviewed, Adam Cohen, explains that the patent he helped obtain while working for a software company “is really meaningless because everybody that has an internet website, basically almost today, uses the stuff we patented to make their website work.” Mr. Cohen fails to explain why his software company is not now enforcing its patent rights against the companies that are practicing the technology the patent covers. Of course, Mr. Cohen may have intended to make the point that the other companies were practicing the technology *before* his company “invented” it and that a court would find the patent invalid if his company sought to enforce it. Neither Mr. Cohen nor anyone else in the show actually makes this argument, however. While the show hammers home the position that these broad software patents should never have issued in the first place, it fails to explain why none of the defendants in the infringement lawsuits are successfully challenging the patents in court and obtaining rulings that the patents are invalid. In other words, the show fails to reconcile its argument that enforcement of these patents is unfair with the inconsistent argument (accompanied by comments from inventors) that software patents are meaningless “mumbo jumbo.”

“When Patents Attack” also fails to propose any solutions to the problems it highlights and, in fact, fails to explain satisfactorily what caused these problems. Although the hosts explain that software has only in the past fifteen years or so been deemed patentable (previously, copyright

protection was the only way to protect software), no one explains why that fact would necessarily lead to the glut of overly-broad software patents in existence today. Could it be that, when software was deemed patentable, the Patent Office was simply unprepared in terms of examiners with software expertise to examine properly patent applications directed to software inventions? Could it be that, because software had historically not been patentable, when software patents were allowed, there were no issued software patents at the Patent Office, making it difficult if not impossible for examiners to do a proper search for prior art? (It is easy to set an Olympic record in a sport that is in the Olympics for the first time!) For either of these reasons, examiners may have mistakenly allowed large numbers of overly-broad patents.

And, least one commentator has suggested the Supreme Court should take decisive action and invalidate software patents. See posting of Timothy Lee of Forbes, <http://forbes.com/site/timothylee/2011/07/28/the-supreme-court-should-invalidate-software-patents/> (Sept. 28, 2011). Alternatively, maybe nothing needs to be done. If most of these overly-broad software patents are ten or fifteen years old, the problem may dissolve over the next five or ten years as the “bad” patents expire. Finally, the America Invents Act became law since the program aired and it will be interesting to see whether any aspect of this new law will alleviate the problems the program highlights.

Notwithstanding that “When Patents Attack” leaves some substantial unanswered questions, it is an entertaining show and well worth a listen. <http://www.thisamericanlife.org/radio-archives/episode/441/whe-patents-attack>



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## Hey! You Stole the Invention I Paid You to Invent!

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You hired an engineer or scientist to help you come up with the next top-of-the-line widget, and -- what do you know -- they succeeded! You are about to capitalize on your investment when your attorney calls and says there is a problem. It turns out the employee applied for and received a patent on the widget you paid to be developed. What now? Did you take on the risk of funding the research and development of a widget just to have it taken away from you right before the pay off?

Unfortunately for you, the answer may be yes. So, what are you to do? A properly drafted employment agreement can eliminate the problem altogether. If, however, you are currently in an employment relationship with no agreement or an inadequate agreement regarding patent rights, a general understanding of the “hired to invent” and “shop rights” doctrines will give you an idea of what rights you may have.

First, how do you prevent something like this from ever happening? Believe it or not, the answer is simple. When you hire an employee, include in the employment contract an express provision assigning to you all of the employee’s patent rights to any inventions he or she creates while under contract. It is important that the language express not only an agreement to assign the rights but a present assignment of those rights (“agrees to assign and *hereby does assign*”). An agreement to assign rights in the future may not prevent the employee from simply refusing to assign them to you. In which case, should you want to enforce the patent rights against an infringer (perhaps even against the employee), before getting a chance to show infringement, you will first have to prove the employee breached the agreement to assign.

Bottom line, putting it in the contract is the best and easiest solution. Courts will always look to the employment contract first. If you have the above provision, sleep easy and enjoy your widgets. If you do not, you will be left depending on the inconsistent and uncertain guidance of the “hired to invent” and “shop rights” doctrines.

The “hired to invent” doctrine is an exception to the rule that an inventor owns all rights to the invention. In general, someone hired to invent something who succeeds in accomplishing the task during the performance of the contract is bound to assign all rights to the invention to the person that hired them. Seems simple enough: I pay you to make something for me, you do what you are paid to do, and I get what you created. However, as is often the case, the rule is not as simple in application as it is in theory.

Whether a court will deem an employee “hired to invent” depends on whether the circumstances of the employment reflect an agreement (explicit or implicit) that the employee assigned all of his or her patent rights to the employer. Courts examine many different factors to determine if there was an actual agreement to assign rights. While there is no exact list, most courts generally look to some combination of these factors:

1. Whether or not there was a written employment agreement addressing patent rights,
2. Whether past employment agreements or policies addressed patent rights,
3. Whether the employment was in an inventive capacity,
4. Whether the contracted-for inventive work was performed by the employee,
5. Whether the inventive work was performed at the employer’s facility,
6. Whether the employee permitted or refused to allow the employer to use the invention,
7. Whether the employer provided guidance and direction to the employee, and
8. Whether the employer’s resources were used in development.

This list is by no means exhaustive, but it gives you a sense of what the courts look for in deciding whether to assign rights to the employer. For example, if you instructed the employee to make the exact widget he made, he worked on it predominantly on your

time with your materials, and you encouraged, directed and paid him to do it, then a court is more likely to find that you, and not the employee, own the patent rights to the widget.

Unfortunately, because courts inconsistently apply the “hired to invent” doctrine, it is often difficult to predict what a court will decide. There is no guarantee that any factor (other than a strong employment agreement) or combination of factors will guarantee the patent rights are deemed the employer’s. Some cases involving employee relationships do not even discuss the doctrine, others confuse its application and purpose, and when the employee is an independent contractor, the application of this doctrine becomes even more difficult. For example, some districts hold that the “hired to invent” doctrine can never apply to independent contractors while other courts will look less to the legal status of the employee and more to the circumstances surrounding the employment in determining whether an employee was hired to invent.

What if the court finds you do not have patent rights to the invention? You may not be happy, but not all is lost. This is where the “shop rights” doctrine steps in. Generally, when an employee makes and reduces to practice an invention on his employer’s time, using his employer’s tools and the services of other employees, the employer is the recipient of an implied, non-exclusive, royalty-free license. This non-exclusive license is referred to as “shop rights,” and courts look to the circumstances of the employment to determine if the employer has them.

Since courts look to all the facts surrounding the employment in shop right analysis, any number of factors may be relevant.

Some factors that are almost always considered include:

1. Whether the employee made unreimbursed use of the employer’s facilities in perfecting the invention;
2. Whether the invention was made on company time with company materials; and
3. Whether the employee consented or acquiesced in the employer’s use of the invention.

Of course, there is never a guarantee that an employer will have “shop rights” in an invention, but if your employee invents something using your materials, your funding, your shop, your time, and lets you use it at all, there is a good chance you have a non-exclusive, royalty-free license -- “shop rights”.

Lesson to be learned: Do not leave any uncertainty in the equation. Make sure you have clear employment contracts to ensure you get exactly what you paid for.



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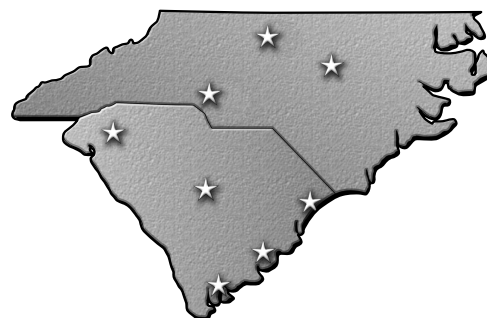
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