



# Intellectual Property Law Section

## State Bar of Texas

Fall 2010

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### Update From The Chair

By Shannon Bates

The 2010-2011 State Bar of Texas year is underway, and I am very honored to be serving you as the Chair of the Intellectual Property Law Section. I look forward to working with each of you this year!



I am also excited to introduce this outstanding Fall 2010 Newsletter, prepared under the leadership of our Newsletter Officer Kristin Jordan Harkins with able assistance from Mike Sebastian, a steadfast member of our Newsletter Committee since its inception. Thanks as well to our Antitrust Committee, International Law Committee, Trademark Legislation/PTO Practice Committee, and Unfair Competition and Trade Secrets Committee for providing the high quality, substantive articles that you will read in this edition of the newsletter.

Some of our goals for the 2010-2011 year are to build and strengthen our committees, increase the level of participation by our 2000+ Section members, continue offering high quality CLE programs and enhance our Section website ([www.texasbariplaw.org](http://www.texasbariplaw.org)).

Committees are the foundation of our Section, and they truly offer the best opportunity for **you** to get involved! I can tell you from personal experience that it is both enjoyable and rewarding to serve the Section through committee involvement while getting to know fellow IP practitioners from across the state.

If you have not done so already, please consider the following list of committees, and then contact our Membership Committee Chair Dawson Lightfoot ([DLightfoot@dfw.conleyrose.com](mailto:DLightfoot@dfw.conleyrose.com)) or me ([Shannon.Bates@kk-llp.com](mailto:Shannon.Bates@kk-llp.com)) to express your interest in joining a committee (or two!): Alternative Dispute Resolution, Antitrust, Copyright, Diversity Task Force, Electronic & Computer Law, Ethics and Unauthorized Practice, International Law, Inventors'

Recognition, Litigation, Membership, Newsletter, Opinions, Patent Legislation/PTO Practice, Pro Bono Task Force, Public Relations, Section Website, Trademark Legislation/PTO Practice and Unfair Competition and Trade Secrets. We have also added a brand new Women in IP Task Force this year.

For our CLE offerings, the Section is gearing up for the 24th Annual Intellectual Property Law Institute, which will be held March 3-4, 2011 at the Westin Hotel Galleria in Dallas. The Course Director for this program is our Section Vice Chair Scott Breedlove. Before the main CLE program, a half-day Agreements Workshop will be offered on March 2, 2011, with Thom Tarnay acting as Course Director. In addition, our new Women in IP Task Force will be hosting a breakfast on Thursday March 3, 2011 with guest speaker Meg Boulware. Please make plans to attend!

The Section is also gearing up for a full day, IP-focused CLE program at the State Bar of Texas Annual Meeting to be held in San Antonio on June 23-24, 2011, with our Chair Elect Steve Malin acting as Course Director. Finally, our Section plans to sponsor an Advanced Patent Litigation program to be held on July 14-15, 2011 at the Hyatt Hill Country Resort and Spa in San Antonio. Watch for mailed brochures and email announcements about all three of these excellent CLE programs!

We look forward to an exciting and productive year. I hope you have an opportunity to join us at some of our CLEs, become active in our committees, and enjoy our Section's activities and publications throughout the year. Of course, if you have any ideas on what we can do this year to better serve our members, I encourage you to contact me or any of our other officers or Council members.



## Mark Your Calendar

**The Dallas Intellectual Property Law Section** will host its December monthly lunchtime CLE seminar on December 3, 2010 at the Belo Mansion, 2101 Ross Avenue in Dallas, featuring Judge Carlisle Walters of the TTAB who will be speaking on "Trademark Trial and Appeal Board Practice." For more information, please visit [www.dbaip.com](http://www.dbaip.com).

**The Houston Intellectual Property Law Association** will host its November monthly lunchtime CLE seminar at The Capital Grille in Houston on November 4, 2010 from 11 a.m.–1 p.m., featuring Craig Kahn from Spoor & Fisher who will be giving a presentation on "IP in Africa." For more information, please visit [www.hipla.org](http://www.hipla.org).

**The International Trademark Association** will host its annual leadership meeting at the JW Marriott Desert Ridge Resort & Spa in Phoenix, November 9–13, 2010. For more information, please visit [www.inta.org](http://www.inta.org).

**The American Intellectual Property Law Association** will host its 2011 mid-winter institute meeting in Orlando, February 2–5, 2011. The topic is "Shaping IP Law: Policy and Practice for a Changing Business Environment." For more information, please visit [www.aipla.org](http://www.aipla.org).

**The State Bar of Texas Intellectual Property Law Section** will host a half day CLE on "Intellectual Property 101: IP Agreements" at the Westin Hotel Galleria in Dallas, March 2, 2011, followed with a two

day CLE on “Advanced Intellectual Property Law” March 3–4. For more information, please visit [www.texasbariplaw.org](http://www.texasbariplaw.org).

**The State Bar of Texas Intellectual Property Section** will host its annual section meeting and CLE program during the SBOT annual meeting in San Antonio, June 23 and 24, 2011. For more information, please visit [www.texasbariplaw.org](http://www.texasbariplaw.org).

**The State Bar of Texas Intellectual Property Section** will host an Advanced Patent Litigation CLE on July 14–15, 2011 at the Hyatt Hill Country Resort and Spa in San Antonio. For more information, please visit [www.texasbariplaw.org](http://www.texasbariplaw.org).



## In The Section

### ***Women in IP Task Force***

The Intellectual Property Law Section is pleased to announce the formation of the Women in IP Task Force. The objective of this task force is to provide networking resources and opportunities to women practitioners of intellectual property law throughout the state of Texas. Look for upcoming events hosted by the Women in IP Task Force, including a networking breakfast at the Texas Bar Intellectual Property Law CLE in Dallas, on Thursday, March 3, 2011, with guest speaker Meg Boulware.

The Women in IP Task Force is interested in adding Regional Chairs for other cities or districts that are not currently represented. If you would like more information about the Women in IP Task Force, or would like to get involved, please contact one of the following steering committee members.

Chair: Sarah Foley -  
[sfoley@vernonlawgroup.com](mailto:sfoley@vernonlawgroup.com)

Regional Chair, Austin: Elizabeth Fore -  
[ebrownfore@sprinklelaw.com](mailto:ebrownfore@sprinklelaw.com)

Regional Chair, Dallas: Celina Diaz Orr -  
[corr@cclaw.com](mailto:corr@cclaw.com)

Regional Chair, Houston: Iona Kaiser -  
[ikaiser@mwe.com](mailto:ikaiser@mwe.com)

Regional Chair, Eastern District: Jennifer Parker Ainsworth -  
[jainsworth@wilsonlawfirm.com](mailto:jainsworth@wilsonlawfirm.com)

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### ***Call for Submissions and Active Committee Members***

The Newsletter Committee welcomes the submission of articles for potential publication in upcoming editions of the IP Law Section Newsletter, as well as any information regarding IP-related meetings and CLE events. If you are interested in submitting an article to be considered for publication or to calendar an event, please email your submission to [Newsletter@texasbariplaw.org](mailto:Newsletter@texasbariplaw.org).

The Newsletter Committee also welcomes new members who want to take an active role in reviewing articles submitted for publication.

#### **Article Submission Guidelines:**

STYLE: Journalistic, such as a magazine article, in contrast to scholarly, such as a law review article. Articles should be current, interesting, enjoyable to read, and based on

your opinion or analysis.

LENGTH: 1-5 pages, single spaced.

FOOTNOTES AND ENDNOTES: Please refrain! If you must point the reader to a particular case, proposed legislation or Internet site, or credit another author, please use internal citations.

PERSONAL INFO: Please provide a one paragraph bio and a photograph, or approval to use a photo from your company or firm website.

If you have any questions, please contact Kristin Jordan Harkins, Newsletter Officer, at [KHarkins@dfw.ConleyRose.com](mailto:KHarkins@dfw.ConleyRose.com).



## Practice Points

### ***Enough Knowledge to Make Your Client Dangerous***

By Katherine B. Bandy and Kirby B. Drake

Just ask Chris Botticella, formerly of Bimbo Bakeries and currently *not* employed by Hostess Brands, Inc. The courts concluded that he knows too much about the “nooks and crannies” of English muffins, among other trade secret information, to be allowed to work for competitors of Bimbo Bakeries until after the merits of Bimbo Bakeries’ trade secret misappropriation claims could be substantively resolved.

Mr. Botticella was not sued because he had stolen any trade secrets but because of the

potential for him to use the trade secrets when he goes to work for a competitor. In *Bimbo Bakeries USA Inc. v. Botticella*, the Eastern District of Pennsylvania (as well as the Third Circuit on appeal) held that Mr. Botticella would necessarily use information he learned in his high-level position (senior vice president earning \$250,000 plus bonuses) at Bimbo Bakeries to unfairly provide a competitive advantage to Hostess Brands, Inc. More specifically, Mr. Botticella had access to Bimbo Bakeries’ competitive planning documents, including product launch plans and strategies for cutting costs and securing lucrative contracts for store-brand products. The courts agreed that the standard for issuing the injunction was finding “[a] substantial likelihood, if not an inevitability, that [Botticella] will disclose or use Bimbo’s trade secrets in the course of his employment with Hostess.”

The *Botticella* case is rooted in the application of the inevitable disclosure doctrine. The inevitable disclosure doctrine is essentially a presumption that the trade secrets learned during employment will be used to the employer’s disadvantage when an “in-the-know” employee accepts employment with a competitor. The Eastern District of Pennsylvania ruled that Bimbo Bakeries had the burden to show at least a “substantial threat” of disclosure of a trade secret. The courts settled on this “substantial threat of disclosure” standard after analyzing whether a stricter threshold—true inevitability of disclosure—was appropriate. The inquiry is fact-intensive, and the courts weighed facts including, Mr. Botticella accessed highly sensitive documents via his laptop in his final days of employment with Bimbo Bakeries, and the documents would have been helpful to a competitor. Mr. Botticella’s conduct after accepting the new job offer indicated that he might improperly use Bimbo Bakeries’ trade secrets. For example, he delayed disclosing



his job offer to Bimbo Bakeries, accessed more confidential information following acceptance of the job offer, and he copied confidential information onto external storage devices without adequate explanation. After evaluating these facts, the Eastern District of Pennsylvania concluded that injunctive relief was appropriate.

The Third Circuit agreed with the Eastern District of Pennsylvania that the law empowered the court to enjoin the threatened disclosure of trade secrets without requiring a plaintiff to show that disclosure is inevitable, but the Third Circuit did not consider that an injunction granted absent such a showing was issued pursuant to the “inevitable disclosure doctrine.” Rather, the Third Circuit said that an injunction enjoining one from assuming particular employment may issue where the facts of the case demonstrate a substantial threat of trade secret misappropriation.

Texas courts have not expressly adopted an inevitable disclosure doctrine. Though the standard in Texas continues to develop, it appears Texas courts will require the employer to show that the employee’s job duties in his or her new position are so similar that it will be impossible for him or her not to disclose trade secrets. While Texas court have not expressly adopted the inevitable disclosure doctrine, courts outside Texas have considered the doctrine recently with varying results ranging from the *Botticella* case in Pennsylvania to the California courts, which favor employee mobility and have rejected the inevitable disclosure doctrine altogether. For example, in *Pepsico, Inc. v. Redmond*, 54 F.3d 1262, 1266-72 (7th Cir. 1995), a case widely cited for its inevitable disclosure analysis, the

court focused on the employee’s history of dishonesty, access to confidential information, similarity in product and job duties and the fact that Pepsico’s competitor pursued the employee to support issuing an injunction based on inevitable disclosure. The trial court found that disclosure of Pepsico’s confidential information was inevitable— unless the departing employee “possessed an uncanny ability to compartmentalize information, he would

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***The inevitable disclosure doctrine . . . can be a powerful tool for employers in preventing unfair competition.***

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necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of [Pepsico’s] trade secrets.” *Id.* at 1269.

Courts rejecting the inevitable disclosure doctrine take issue with judicially creating an *ex post facto* covenant not to compete after employment has ceased. Given the potential for granting the extreme remedy of injunctive relief forbidding an employee from working for a competitor, these courts generally believe the employer should have drafted the restriction into the employment agreement at the inception of employment, rather than when the employee is heading out the door. Courts opposed to the inevitable disclosure doctrine also have held that, absent an employment contract to the contrary, companies should expect their employees to compete with them when they leave.

Some savvy employers now take steps to include the inevitable disclosure doctrine in their non-compete and non-disclosure agreements. However, employers often experience mixed success in the enforcement of these inevitable disclosure clauses in their employment agreements. The inevitable disclosure doctrine, where adopted, can be a powerful tool for employers in preventing unfair competition. However, even in jurisdictions where the

doctrine is favorably accepted, its applicability remains a fact-intensive analysis and often requires some showing of the employee's dishonesty or an objective threat to the confidential information that makes the employee dangerous in his or her new role with a competitor. As Mr. Botticella can attest, the nooks and crannies of unfair competition law can be the recipe for unemployment, not to mention a restraining order.

*The above article expresses the view of the authors and not necessarily those of the State Bar of Texas IP Law Section.*



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## ***Skip the Copyright Office and Proceed Directly to Suit?***

By Jason Bloom

It has long been settled, so practitioners thought, that a copyright registration is required before filing suit for copyright infringement. The Supreme Court, however, recently abrogated this longstanding thinking—and a series of Federal Circuit Court decisions—by holding that registration of a copyright is not a jurisdictional prerequisite to filing a copyright infringement lawsuit. The Court, in *Reed Elsevier, Inc. v. Muchnick*, 130 S. Ct. 1237 (2010),

disagreed with the holding of the Second Circuit (as well as longstanding decisions in 6 other circuits) that the Copyright Act's registration requirement was jurisdictional in nature. Rather, the Court found that the registration requirement is a non-jurisdictional pre-condition to suit. *Id.* at 1247. The Court declined, however, to address whether the precondition is mandatory or what, if anything, courts and litigants can or should do when faced with a suit involving an unregistered copyright.

The *Muchnick* case involved a class action by freelance authors and trade groups asserting claims of copyright infringement related to the electronic reproduction of works in which the authors retained copyright ownership. *Id.* at 1242. While the named plaintiffs and many members of the class had registered their works with the United States Copyright Office, some members of the class had not done so. *Id.* After negotiating for 3 years, the parties ultimately arrived at a settlement, which was approved by all but 10 of the freelance authors. *Id.* When the parties moved the district court to certify the class and approve the settlement, the 10 freelance authors who did not approve objected, and ultimately appealed to the Second Circuit. *Id.*

The objecting authors did not raise the issue of subject matter jurisdiction. Rather, even more surprisingly, the Second Circuit *sua sponte* requested briefing on whether 17 U.S.C. § 411(a) deprived federal courts of subject matter jurisdiction over cases involving unregistered copyrights. *Id.* Ultimately, noting agreement on the issue among many circuit courts, the Second Circuit found that § 411(a)'s registration requirement was jurisdictional. *In re Literary Works in Electronic Databases Copyright Litigation*, 509 F.3d 116, 121-22 (2d Cir. 2007)(citing *La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1200 (10th Cir.2005); *Positive Black Talk*

*Inc. v. Cash Money Records Inc.*, 394 F.3d 357, 365 (5th Cir.2004); *Xoom, Inc. v. Imageline, Inc.*, 323 F.3d 279, 283 (4th Cir.2003); *Murray Hill Publ'ns, Inc. v. ABC Commc'ns, Inc.*, 264 F.3d 622, 630 n. 1 (6th Cir.2001); *Brewer-Giorgio v. Producers Video, Inc.*, 216 F.3d 1281, 1285 (11th Cir.2000); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1163 (1st Cir.1994)).

The Supreme Court disagreed with a number of earlier opinions, noting that § 411(a) says nothing about subject matter jurisdiction and is located in a separate code title from 28 U.S.C. §§ 1331 and 1338, the two statutes which grant federal courts subject matter jurisdiction over federal questions and copyright claims, respectively. *Id.* at 1245-46. Section 411(a), which is located in the Copyright Act, rather than with traditional jurisdictional statutes, provides:

Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office and refused, the applicant is entitled to institute a civil action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights. The Register may . . . become a party to the action with respect to the issue of registrability of

the copyright claim . . . but the Register's failure to become a party shall not deprive the court of jurisdiction to determine that issue.

The Court noted that, simply because § 411(a) mentions the word "jurisdiction," the statute does not render the registration requirement contained therein jurisdictional. *Muchnick*, 130 S. Ct. at 1245. Rather, the reference to jurisdiction was only included to clarify that district courts could consider the issue of registrability of a copyright even if the Register did not intervene as a party. *Id.*

The Court also noted that the various exceptions to the registration requirement in § 411(a) make it less likely to be a jurisdictional-requiring statute, although this fact was not, standing alone, dispositive of the issue, the fact that § 411(a) provides so many exceptions to the registration requirement renders it less likely to be a jurisdictional statute. *Id.* at 1246. Section 411(a) does not require registration as a prerequisite to suit when one of the following applies: (i) the work is not a United States

***If a court is inclined to dismiss a copyright infringement claim for lack of a registration, plaintiffs... can now attempt to cure this error simply by showing that they have applied for a registration.***

work, (ii) the claim concerns the right to attribution and integrity under § 106A, and (iii) where registration was attempted but refused. 17 U.S.C. § 411(a). The Court found that "[i]t would at least be

unusual to ascribe jurisdictional significance to a condition subject to these sorts of exceptions." *Muchnick*, 130 S. Ct. at 1246.

Considering these factors, and noting that it must look to the "legal character" of a prerequisite to suit prior to labeling it as jurisdictional, the Supreme Court found that § 411(a), while a prerequisite to suit, is not jurisdictional, but is more akin to a claim-processing rule. *Id.* at 1243-44, 1246-47. In doing, so the Court wiped away the opinions

from 7 circuits that had previously found § 411(a)'s registration requirement to be jurisdictional. See *Well-Made Toys Mfg. Corp. v. Goffa Int'l Corp.*, 354 F.3d 112 (2d Cir. 2003); *Morris v. Business Concepts, Inc.*, 259 F.3d 65 (2d Cir. 2001); *La Resolana Architects*, 416 F.3d 1195; *Positive Black Talk*, 394 F.3d 357; *Xoom*, 323 F.3d 279; *Murray Hill*, 264 F.3d 622; *Brewer-Giorgio*, 216 F.3d 1281; *Data Gen.*, 36 F.3d 1147. The Court did not, however, explain what effect failing to obtain a copyright registration, or otherwise falling into one of § 411(a)'s exceptions, would have on copyright infringement suits going forward.

While it is clear that registration is no longer a jurisdictional prerequisite to a copyright infringement lawsuit, a defendant alleged to have infringed an unregistered copyright is not without recourse. Since *Muchnick*, some district courts, while noting the impact of the Supreme Court's ruling on Rule 12(b) (1) motions to dismiss for lack of subject matter jurisdiction, nevertheless have dismissed infringement claims regarding an unregistered work for failure to state a claim upon which relief could be granted under Rule 12(b)(6). *Staggs v. West*, 2010 U.S. Dist. LEXIS 63174, at \*7-\*9 (D. Md. Jun. 25, 2010)(dismissing claim where plaintiff failed to allege or demonstrate copyright registration); *Sleep Science Partners v. Lieberman*, 2010 U.S. Dist. LEXIS 45385, at \*13-\*17 (N.D. Cal. May 10, 2010)(dismissing claim for lack of registration even though application had been filed); *DRK Photo v. Houghton Mifflin Harcourt Publ'g Co.*, 2010 U.S. Dist. LEXIS 40875, at \*2-\*3 (D. Ariz. Apr. 26, 2010)(dismissing claims for unregistered works, but finding that unregistered works could still fall within scope of injunctive relief). Other district

courts have acknowledged the ruling in *Muchnick*, but nevertheless, dismissed claims regarding unregistered works under § 411(a). *TI Training Corp. v. Otte*, 2010 U.S. Dist. LEXIS 59186, at \*8-\*9 (D. Col. Jun. 15, 2010) (finding registration to be mandatory precondition to suit and dismissing infringement claim *sua sponte*). And, other courts have found the issue

***...failure to register a work before an infringement suit can result in the loss of certain remedies, including potentially substantial attorneys' fees and statutory damages.***

proper for consideration on summary judgment. *Axxiom Mfg., Inc. v. McCoy Inv., Inc.*, 2010 U.S. Dist. LEXIS 61206, at \*13-\*14 (S.D. Tex. Jun. 21, 2010)(finding dismissal of claim regarding unregistered

work appropriate for determination on summary judgment since evidence beyond complaint would need to be considered); *Marketing Tech. Solutions, Inc. v. Medizine, LLC*, 2010 U.S. Dist. LEXIS 50027, at \*15-\*16 (S.D.N.Y. May 18, 2010) (granting summary judgment motion to dismiss claim regarding unregistered work).

Thus, while the waters remain somewhat murky as to the proper approach to defeating a copyright infringement claim based on an unregistered work, many courts seem willing to dismiss such claims on grounds other than lack of subject matter jurisdiction. Since the Supreme Court declined to decide whether § 411(a)'s registration requirement is a *mandatory* precondition to suit, however, the door remains open for courts to refuse to dismiss copyright infringement claims based on unregistered works. And, while the Court in *DRK Photo* dismissed copyright infringement claims based on unregistered works, it nevertheless noted that the unregistered works could still be included in the scope of any injunctive relief ultimately issued by the court. 2010 U.S. Dist. LEXIS 40875, at \*2-\*3.



One important difference does exist between lack of subject matter jurisdiction and failure to state a claim upon which relief can be granted—arguments as to lack of a registration on such grounds can be waived if not timely asserted in the district court. Courts are also less likely to consider non-jurisdictional grounds for dismissal *sua sponte*.

The Supreme Court's ruling in *Muchnick* thus seems to be good news for copyright-holding plaintiffs, especially those seeking a quick injunctive remedy before they are able to register their works with the Copyright Office. Moreover, even if a court is inclined to dismiss a copyright infringement claim for lack of a registration, plaintiffs in many circuits can now attempt to cure this error simply by showing that they have applied for a registration, which may even be done after suit is filed but before a decision is reached. The Supreme Court did not, however, completely remove the teeth from § 411(a), as some courts remain willing to dismiss claims regarding unregistered works at summary judgment or on Rule 12(b)(6) grounds, even if an application has been filed. Additionally, failure to register a work before an infringement suit can result in the loss of certain remedies, including potentially substantial attorneys' fees and statutory damages. See 17 U.S.C. § 411(b). Wary plaintiffs holding unregistered copyrightable works of authorship should therefore at least apply for a copyright registration before or shortly after filing a copyright infringement lawsuit. Similarly, savvy defendants should seek to dismiss claims regarding unregistered works on grounds other than lack of subject matter jurisdiction. The best course for copyright holders to chart through these murky copyright waters remains the same—register early and often.

*The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section.*



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## **Intellectual Property Enforcement in China: Courts, IP Bureaus, and Customs**

By Jason Bryan

The historic rise of China's modern economy and its impact has been recognized worldwide. Although once a mere economic projection, the fact of China's preeminent place is now a reality. In the second quarter of 2010, China surpassed Japan to become the second largest economy in the world. By 2027, it is projected to be the world's largest economy.

The state of China's IP has also reflected this growth. For example, with China's patent system implemented in April 1, 1985, it took 15 years before it received its first one million patent applications. However, in 2009 the Chinese patent office had received almost one million applications for that year alone. The U.S. originated applications represented about one quarter of these 2009 filings. These statistics are even more interesting in light of China's relatively young and still maturing patent and intellectual property system.

However, filings alone are meaningless unless there is sufficient protection to enforce granted patents and trademarks. Accordingly, the decision on whether U.S. or other foreign businesses file in China is very much linked to whether it is believed acquired Chinese IP can be properly enforced. Such a decision should be considered in view of the efforts of the

Chinese government to strengthen IP, as well as the growth of China's economy.

In navigating IP in China, the avenues for enforcement should be understood along with the costs and benefits. For example, China provides for enforcement through both administrative and judicial functions. The most striking differences with the U.S. system are largely due to China's governance structure and design.

### **Administrative**

One track for enforcement of IP is through administrative proceedings. China has local administrative offices, or IP bureaus, at the province, municipality and city level. The role of these IP bureaus is not only for Intellectual Property Rights (IPR) enforcement but additionally, for building regional IP strategy, awareness and promotion.

A party who has an infringed patent can go to an IP bureau and request an infringement proceeding. In order to begin a proceeding, the requesting party generally needs an identification of its organization, proof of IP right (i.e. patent), and identification of the infringement along with evidence. Based on the evidence provided, a decision will be made whether to conduct an investigation. Shortly thereafter, arguments will be requested for filing and a hearing held. Also during this process, mediation is encouraged. Although administrative, the decision is appealable to a court in which the IP bureau takes part as a defendant.

However, one of the limitations of the administrative proceedings is that no monetary damages are available, only injunctive relief. Accordingly, such proceedings are generally useful for lower

cost disputes.

IPR enforcement is not the IP bureaus only function. They also engage in "IP promotion" by staging public events in order to try to improve awareness of IP issues. For example, the Shanghai IP administrative office conducted IP awareness week prior to the World Expo's arrival in China. With the basis of patent law enshrined in its

constitution, the U.S. has over 200 years of history with IP as part of the culture. However, the patent laws and economic changes are more recent in China, so the government takes deliberate action through its local

administrative offices to raise public awareness of IP issues.

With respect to trademark enforcement, the Administrative Authority for Industry and Commerce (AAIC) has authority. This agency is able to order cessation of infringing activity, and destruction of goods carrying infringing marks; however, if money damages are desired, proceedings should be filed instead with the courts.

### **China Courts**

If money damages are desired, infringement suits can be filed with the Chinese Courts.

The Chinese court system is divided into several tiers. The court of highest jurisdiction and court of last resort is the Supreme People's Court. Unlike the U.S. where the Supreme Court has 9 justices, the Supreme People's Court has several hundred judges. Further, the Supreme People's Court has a dedicated intellectual property division (established in 1993) for hearing IP matters.

The lower tier courts include the High

*Along with its economy, the Chinese courts have seen growth in the number of intellectual property cases... 2009 saw a 25% year over year increase in the number of first instance IP civil cases...*

People's Court which is the court for the Province level, the Intermediate People's Court at the capital and city level, and finally the Primary People's Court at the local county level. Each of these lower tier courts has dedicated Intellectual Property divisions. For example, as of 2008, the local courts had a total of 298 separate Intellectual Property Divisions.

Along with its economy, the Chinese courts have seen growth in the number of intellectual property cases. For example, 2009 saw a 25% year over year increase in the number of first instance IP civil cases filed in the local courts, with a total of 30,626 cases (4,422 of these were patent and 6,906 were trademark). Court mediation is heavily encouraged, with over 50% of the cases being settled through these means.

Monetary damages, have historically been small, in the lower 100,000's RMB.

For example, the maximum statutory penalty (awarded in the absence of proven actual damages) for patent damages was 500,000 RMB. With the changes to the Chinese patent law in 2009, this was increased to 1 million RMB.

While the burden of proof is stringent for obtaining actual damages, there are notable instances of success. For example, in 2007 a judgment was rendered against the French company Schneider in favor of the Chinese company Chint Group Corp for patent infringement in the amount of 334 million RMB (later settled in 2009 in mediation on appeal for 157 million RMB). This was the largest damages award in IP up to that point. Accordingly, relatively large judgments are possible in China, and with the increased filings and experience of the Chinese Courts, these could grow more common.

## Customs

In addition to administrative and court avenues, IP rights can be enforced through Chinese Customs. Similarly to Section 337 actions in the U.S. International Trade Commission (ITC), Chinese Customs can prevent offending product from entering or exiting the country. Due to China's well-known manufacturing base, generally much emphasis is placed on preventing export of infringing product.

*With China having one of the largest economies and still growing, businesses should deal seriously with its impact.*

Chinese Customs is divided into districts with Shanghai Customs experiencing the most business (accounting for 23% of China). While Customs conducts its own policing, IP rights owners

who are aware of offending product can file to prevent export of the goods. If a rightful owner is aware of counterfeit product, which is about to be imported or exported, the owner can file an application with proof of ownership to Chinese Customs. The right owner is also required to provide a deposit equal to the value of the goods.

Customs will then detain the goods, and the patent owner is given 20 working days to file with the courts. If Customs does not receive notice from the Courts within the allotted time, then the goods are released.

Accordingly, under certain circumstances enforcement through Customs may be very effective for protecting one's IP rights.

## U.S. and China

A comprehensive strategy should include IP rights in both the U.S. and China. For example, companies having U.S. and Chinese patents and whose products are the targets of knock-offs manufactured in China can have multiple options for enforcement depending on the most useful and cost effective. Accordingly, such right

holders can enforce in the U.S. courts, including the ITC to prevent importation, and may additionally take action in China, through the judiciary or administrative processes, as well as Customs.

With China having one of the largest economies and still growing, businesses should deal seriously with its impact. Now with the growth of intellectual property and the steps China has made to develop its intellectual property laws, U.S. attorneys should consider the best ways to take advantage of these additional options and whether any benefits can be gained. A full menu of choices is available to U.S. attorneys, to further client's goals to the full extent.

*The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section.*



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## **Antitrust Implications of Standard Essential Claims**

By Jim Harlan

It goes without saying that the activity of Standard Setting Organizations (SSOs) has the potential to raise an eyebrow or two under an antitrust scrutiny. Much has been written on the subject, from Antitrust economics to Zero Rate FRAND commitments (i.e., royalty free), and lawsuits have been decided, most recently seen in *Princo Corp. v Int'l Trade Comm'n*. What's missing, however, is a resolution to a practice that occurs every day, and yet has not yet been decided by a court of

competent jurisdiction; specifically, licensing of Essential Patent Claims. As trivial as a subject as that may appear, the unwary could stumble into a complex analysis of what is suppose to be declared by making a patent license commitment. SSOs differ in their licensing obligations, for example, some require a licensing commitment for Patents or Intellectual Property Rights (IPR) that have been declared Essential by the IPR holder, while others require participants to commit to license declared Essential Patent Claims. Additionally, SSO's vary on the use of the language of whether that commitment is an assurance, a covenant, or something else. This article focuses on the problematic practice of licensing Standard Essential Claims rather than Standard Essential Patents.

### **What is a patent?**

Patent attorneys, in general, accept the notion that a patent is considered a social contract with the government that grants exclusive rights to the patentee for a time-limited monopoly in exchange for full disclosure, as quoted in the U.S. Constitution, Article 1, Section 8, "to promote the progress of science and useful arts." To further that end, 35 USC § 112, paragraph 2, states that patent claims must "particularly point out and distinctly claim the subject matter which the applicant regards as his invention." At its simplest concept, "the claims of a patent define the invention to which the patentee is entitled the right to exclude" others from making, using, selling, etc., the patented invention (see *Phillips v. AWH Corp.* [Fed. Cir. 2005]). From the above, one can discern that a patent is at least 4 things: 1) a time-limited monopoly, 2) granted to one invention, 3) defined by its claims, and 4) provides the patentee the right to exclude others from making/using/selling, the invention embodied in the claims.



## What is a Standard Setting Organization (SSO)?

This is a complex issue that has many answers, but for the purpose of this article, it is a body of interested members working together to further a shared technical objective. SSOs develop technical standards that impact our daily lives in various technologies, for example, telecommunications. The member participants typically include technologists with a lot of knowledge in a particular field. As the participating members work together to further their shared technical objective, they may contribute technology protected by intellectual property rights (IPR), specifically patents, which may exist in the final published standard. Whenever an IPR is becoming part of a standard, the IPR holder has the potential to block the implementation of the standard, by refusing to license its protected technology. SSOs aim to minimize these IPR risks in standards through IPR Policies. Under most SSO IPR Policies, participating members are required to identify the existence of patented (or patent-pending) technology in the standard and to submit patent licensing declarations that they are committed to license under FRAND (fair, reasonable and non-discriminatory) terms or under RF (royalty-free) conditions to an unrestricted number of implementers of the standard. That patent license declaration can apply to Essential Patents or to Essential Patent Claims, depending upon the IPR Policies of the SSO.

## What occurs in practice?

Assuming for this article that patent 7,xxx,xxx has 2 independent claims, each with 2 dependent claims, e.g., 1(I), 2(D),

3(D), 4(I), 5(D), & 6(D), where 2 through 3 depend from 1 and 5 through 6 depend from 4, respectively. Manufacturer A wants to sell Product Z in the marketplace, but needs a license to the technical standard to do so, i.e., he needs to implement the standard, or will otherwise infringe the patents declared against that standard. Manufacturer A approaches the SSO participating members to obtain the required licenses pursuant to the patent licensing commitments:

Scenario 1: SSO members that have declared to license their Essential Patents have a fairly straight forward negotiation, i.e., Manufacturer A receives a non-exclusive license to make, use, sell US Patent 7,xxx,xxx, and pays a FRAND royalty rate of x %, for example.

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*By allowing the practice of licensing Essential Claims... companies can run afoul of other basic patent concepts.*

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Scenario 2: The SSO Members that undertake a patent licensing commitment for Essential Patent Claims may have things a bit more

complicated and structure their non-exclusive patent licenses to include language like, "Licensed Essential Patent Inventions: means claims 1 and 3 of US Pat. No. 7,xxx,xxx," and "Licensed Non-Essential Patent Inventions: means claims 2 and 4-6 of US Pat. No. 7,xxx,xxx," where the former claims are directed to an integrated circuit and the latter claims are directed to a commercially desirable element that are within the scope of the invention as described in the patent specification, but do not map to parts of the relevant standard, e.g., a smartphone that uses the Licensed Patent Inventions integrated circuit. The SSO Member has bifurcated the claims of the 7,xxx,xxx

patent to charge a FRAND rate of x% on Licensed Essential Patent Inventions, but a much higher royalty rate of y%, where y% is the additional amount that exceeds FRAND for the Licensed Non-Essential Patent Inventions.

### Where's the rub?

The Licensor in Scenario 2 is looking to benefit from more than one monopoly on the singular patented invention by charging different royalty rates, contrary to our original premise of what is a patent. That company is, in essence, seeking a first monopoly on a first set of claims, and a second monopoly on a second set of claims, which can be contrasted with a "field of use" that is generally defined according to market rather than patent claims. Many times the licensor in this scenario satisfies its FRAND commitment to license Essential Claims, but the licensor argues that the Non-Essential Claims are outside the scope of the original commitment. Furthermore, a licensor may submit a FRAND commitment on Essential Patents in one standards body and a FRAND commitment on Essential Patent Claims in another, on the same piece of IP, e.g., 7,xxx,xxx, thereby creating inherent confusion for the implementer.

There is a disconnect between the concept of licensing only Essential Patent Claims and the fundamental idea of the patent grant. This issue has not been tested by the courts and, is *incorrectly* presumed acceptable given that a non-exclusive patent license is merely a right not to sue (see *U.S. Philips Corp. v. Int'l Trade Comm'n* [Fed. Cir. 2005]). The IPR holder is, in essence, bifurcating its singular patent into at least two inventive technologies that resembles a seller of a product requiring its purchasers to take another product as well. To endorse Scenario 2 where the IPR holder pursues

two separate royalty rates is paramount to tying Essential Patent Claims with Non-Essential Claims that runs contrary to the fundamental concepts of patent law: one patent, one invention, one monopoly.

### Conclusion

By allowing the practice of licensing Essential Claims separate from Non-Essential Claims, companies can run afoul of other basic patent concepts such as ownership and assignability. Furthermore, how would a trustee in bankruptcy properly treat an IPR license under this bifurcated model with the executory contract that has two separate claim definitions—essential and non-essential?

When addressing an area that has no jurisprudence, does counsel really want to keep swimming in unknown waters by supporting a practice that could, for example, result in patent 7,xxx,xxx held unenforceable on the ground that the patentee had unlawfully used the patent to "secure an exclusive right or limited monopoly not granted by the PTO and which it is contrary to public policy to grant" (*Morton Salt v. G. S. Suppiger* [U.S. Supreme Court, 1942])?

*The above article expresses the view of the author and not necessarily those of the State Bar of Texas IP Law Section or Research In Motion, Ltd or any of its affiliates.*



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## IP Law Section Activity Highlights from the 2010 Bar Convention

The State Bar of Texas Annual Meeting was held on Thursday and Friday June 10-11, 2010, at the Fort Worth Convention Center in Fort Worth, Texas. In keeping with past tradition, the IP Law Section offered its members a full day of CLE as well as several social opportunities at this event. During the Section luncheon and business meeting, various awards were presented, and the gavel was passed to the new Section Chair.



Bhaveeni Parmar presents one of the scholarship awards to Ricardo Bonilla.



Craig Lundell presents the Chair Award to Bart Showalter.



Michelle LeCointe, chair of the Inventors' Recognition committee, presents Texas Inventor of the Year award to Dr. Naomi Halas.



Bhaveeni Parmar, chair of the Diversity Task Force committee, presents one of the scholarship awards to Shrutu Krishnan.



Craig Lundell passes the Section Chair gavel to Shannon Bates.