



Intellectual Property Law Section

State Bar of Texas

Fall 2014

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Update From The Chair

By Kristin Jordan Harkins

The Intellectual Property Law Section is off to a great start this 2014 – 2015 year. I am honored to serve as Chair of the Section and I am looking forward to working with and getting to know each of you as we come together to further the activities of the Section.



I am pleased to introduce this Fall 2014 Newsletter which has been prepared under the leadership of Neil Chowdhury, the Section’s Newsletter Officer. Mike Sebastian, a member of our Newsletter Committee since its inception, continues to offer his steadfast assistance to the Newsletter. Thanks are also extended to the Trade Secret Committee and the Patent Committee for contributing the quality, substantive articles that you will read in this edition of the Newsletter. Nicole Franklin, our Website Officer, is also key in distributing the Newsletter to you via her management of the Section’s website.

The Newsletter is a source of pride for our Section and is a great way to highlight our Section’s activities. So please contribute to its continued success by reading it, submitting articles and making announcements in it.

The Section’s 2014 Annual Meeting CLE in Austin was held in June and the highlights of the business luncheon included presentation of awards and election of our new Officers and Council Members, including: Chair-Elect Stephen Koch, Vice Chair Hope Shimabuku, Treasurer Herb Hammond, Secretary Kirby Drake, Newsletter Officer Neil Chowdhury, Website Officer Nicole Franklin, and new Council members Steve Meleen, Bhaveeni Parmar, and Michael Locklar.

Committees are truly the foundation of our Section and offer the best opportunity to become and stay involved in the Section. The personal benefits are great, as it is rewarding to serve the Section while getting to know your fellow IP practitioners in the great state of Texas!

Our committees have recently been reorganized into the following four substantive law committees and multiple

member services committees:

Patent Law, Trademark Law, Copyright Law and Trade Secret Law Committees; and

Diversity, Membership, Newsletter, Public Relations (includes Inventor Recognition), Texas IP Law Journal, Website, Women in IP Law, and New Lawyers Committees.

The chairs of these committees are listed in this Newsletter and I encourage you to reach out to them to express your interest in joining a particular committee. You can also contact our Membership Committee Chair Dawson Lightfoot (DLightfoot@dfw.conleyrose.com) or me to express your interest.



Mark Your Calendar

Austin Intellectual Property Law Association

- The Annual Judges' Dinner featuring Judge S. Jay Plager of the U.S. Court of Appeals for the Federal Circuit will be held on Wednesday, November 19, 2014 at the Stephen F. Austin Hotel.

For more information, go to www.austin-ipla.org.

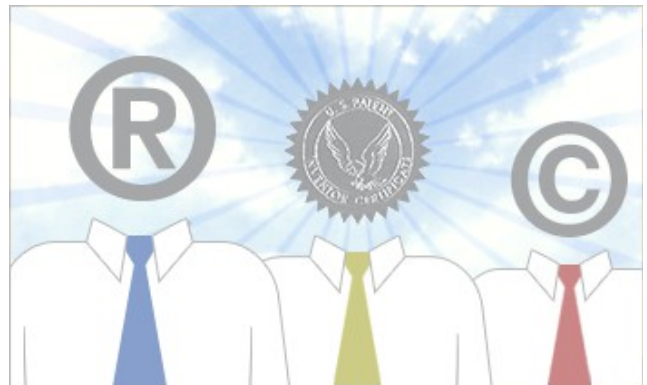
Dallas Bar Association Intellectual Property Law Section will host its October monthly lunchtime CLE seminar on October 24, 2014 at the Belo Mansion, 2101 Ross Avenue in Dallas. For more information, go to www.dbaip.com.

Houston Intellectual Property Law Association will hold the HIPLA Fall Happy Hour on October 23, 2014 starting at 6:00

pm at Celtic Gardens, 2300 Louisiana at Hadley in Houston. For more information, go to www.hipla.org.

The Center for American and International Law will hold its 52nd Annual Conference on Intellectual Property Law on November 10-11, 2014 in Plano, Texas. For more information, go to www.cailaw.org.

American Intellectual Property Law Association will hold its Annual Meeting on October 23-25, 2014 at the Marriott Wardman Park in Washington, DC. For more information, go to www.aipla.org.



In The Section

Invitation to Join an IP Section Committee

Would you like to become involved in the SBOT IP Section? Then join a committee! Committees serve as the "launch pad" for Section activities and are the best way to become active in the Section and get noticed. If you would like to become a member of any of the SBOT IP Section Committees, please email the Section chairs below.

Patent Committee, Chair Thomas Kelton, thomas.kelton@haynesboone.com;

Trademark Committee, Chair Heather Foster, hfooster@fossil.com;

Trade Secrets Committee, Chair Joe Cleveland, jcleveland@belaw.com;

Copyright Committee, Chair Larry Waks, lwaks@jw.com;

New Lawyers Committee, Chair Priya Prasad, priya.g.prasad@exxonmobil.com;

Diversity Committee, Chair Shruti Krishnan, skrishnan@excentus.com;

Membership Committee, Chair Dawson Lightfoot, dlightfoot@dfw.conleyrose.com;

Public Relations Committee, Chair Michelle LeCointe, michelle.lecointe@bakerbotts.com;

Texas IP Law Journal Committee, Chair Bill Ramey, wramey@rameybrowning.com;

Website Committee, Chair Nicole S. Franklin, texasiplaw@outlook.com;

Women in IP Committee, Chair Cathryn Berryman, cberryman@winstead.com;

Call for Submissions

The IP Section Newsletter is a great way to get published! 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 add an event to the calendar, please email your submission to texasbaripsection.newsletter@gmail.com.

Article Submission Guidelines:

STYLE: Journalistic, such as a magazine article, in contrast to scholarly, such as a law review article. We want articles that are 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, 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 Indranil Chowdhury, Newsletter Officer, at ichowdhury@cgiplaw.com.

Section Member Profiles

The following section members were asked to answer questions about their professional and personal lives. These questions were:

- Where do you work?
- Describe your legal practice?
- If I weren't an attorney, I would be...
- My favorite (or dream) vacation is...
- In my spare time, I enjoy...
- The best dessert in the world is...
- My favorite movie is...
- If I won the lottery, I would...
- I recommend reading...
- Most SBOT IP Section members probably don't know that...
- You forgot to ask me about...

Nicole Sallie Franklin

Work? Facebook, Inc.

Legal practice? For the past three years, I've worked on the Intellectual Property team within Community Operations, which manages the Notice and Take Down Program, including allegations of Copyright and Trademark infringement. I also develop policies and practices for our IP team, located in Menlo Park, CA,



Dublin, Ireland and Austin. Finally, I address and resolve legally significant policy, procedural and operational gaps relating to the IP team and cross-functional stakeholders.

If I weren't an attorney, I would be... an Iron Chef! I enjoy watching the Food Network and testing new recipes on the weekend.

My favorite (or dream) vacation... spending a week or two in Paris, Colletta or Marrakech with family.

In my spare time, I enjoy... reading and painting. By far, one of the most inspiring books I've read is *A New Earth* by Eckhart Tolle.

The best dessert in the world is... tempura ice cream! A scoop of ice cream wrapped in pound cake, then dipped in tempura batter and fried. It's decadent and worth every calorie.

My favorite movie is... I have too many to name just one... Almost any John Hughes movie.

If I won the lottery, I would... take a couple of months to travel the world and then get back to work!

I recommend reading... *The Success Principles* by Jack Canfield.

Most SBOT IP Section members probably don't know that... I founded my own fashion blog, Thread Conscious, in 2009 while taking a trademark class. I cover fashion news, law and trends, as well as home decor and cuisine.

You forgot to ask me about... my pro bono work. I serve as an IP Coach/Mentor with Avinde (<http://avinde.org>), a Start Up Accelerator for Women, teaching trademark and copyright law, as well as brand strategy. I also taught a copyright/trademark workshop at The Independent Fashion Bloggers Conference in New York.

Bill Schuurman



Work? Meyertons, Hood, Kivlin, Kowert & Goetzel, P.C.

Legal practice? I have focused my practice on Patent Litigation for over 30 years.

If I weren't an attorney, I would be... a director of a major production company.

My favorite vacation is... visiting fabulous game parks in Botswana, South Africa and Namibia.

In my spare time, I enjoy... playing tennis, reading and traveling with my wife.

The best dessert in the world is... chocolate mousse.

My favorite movie is... *Dr. Zhivago*.

If I won the lottery, I would... establish and support wild life sanctuaries.

I recommend reading... *Never Give In!* The Best of Winston Churchill's Speeches.

Most SBOT IP Section members probably don't know that... I was born in South Africa, started learning English at the age of about nine, obtained my BSc and LL.B degrees and practiced patent law for 14 years in South Africa before immigrating to the USA in August 1979. I immediately started working full-time at the well known patent law firm of Arnold, White & Durkee in Houston. I went to law school at night at South Texas College of Law since Texas did not, at that time, recognize foreign law degrees. After graduating from law school and getting through the bar exam, I moved to Austin in 1983 and have been here since then.

You forgot to ask me about... my being appointed by Judge Sparks to represent Jim Tenny pro bono in his Federal Habeas Corpus petition after he had been sentenced to 65 years in prison for killing his wife. With wonderful pro bono help from David Sheppard and many

attorneys at Vinson & Elkins, the Habeas Corpus petition was granted and affirmed by the Fifth Circuit. When he was retried for murder, we voluntarily represented him and we won at trial by relying on important evidence which his original trial counsel had failed to introduce, including Jim Tenny's 911 call that his wife was trying to kill him and burn down the house with gasoline and the testimony of several witnesses who testified about his wife's repeated threats to kill him and burn the house down. The jury in this case, sentenced him to five years for aggravated assault. He had by then already served six and a half years in prison. He is living a great life now.

The State Bar of Texas Intellectual Property Law Section has over 2000 members and the Newsletter Committee is eager to get to know each of you! To this end, each newsletter will publish the profiles of one or two members providing information on where the member works, their practice area, interests and other fun facts! If you are interested in being profiled, send an email to the Newsletter Committee at texasbaripsection.newsletter@gmail.com and we will email you a questionnaire.



Practice Points

Texas Pattern Jury Charge on Trade Secret Misappropriation Near Completion

By Joseph F. Cleveland, Jr.

This fall, the State Bar of Texas is set to publish the latest edition of the Texas Pattern Jury Charges, which will include for the first time jury instructions and questions for misappropriation of trade secrets cases. Texas Pattern Jury Charges is a series of books published by the State Bar of Texas to assist the bench and bar in preparing the court's charge in jury trials. The pattern charges are suggestions and guides for providing definitions, instructions, and questions to a jury in a variety of cases under Texas law. Each year, the Committee on Texas Pattern Jury Charges surveys Texas law to prepare jury charges on new subjects for publication in the Texas Pattern Jury Charges.

In 2013, during the 83rd Legislature, members of the Trade Secrets Committee of the Intellectual Property Section and the Business Law Section of the State Bar of Texas formed a working group to participate in the review of the proposed bill and the bill analysis for what is now known as the Texas Uniform Trade Secrets Act (TUTSA), Tex. Civ. Prac. & Rem. Code § 134A.001, *et seq.* (2013). The bill was enacted on May 2, 2013 and became the governing law for misappropriation of trade secrets cases in Texas on September 1, 2013.

At the request of the Committee on Pattern Jury Charges, the Trade Secrets Committee along with members of the working group held several meetings to consider and discuss the draft pattern charge for claims submitted under TUTSA and to prepare recommendations and a report. The following is a summary of the committee's unanimous recommendations.

Separate Jury Questions on the Existence of a Trade Secret and Misappropriation of a Trade Secret.

Under Texas Rule of Civil Procedure 277, broad-form jury instructions must be submitted "whenever feasible." The committee did not believe, however, that it was feasible for the liability question under TUTSA to be submitted in this fashion for two reasons.

First, plaintiffs who file misappropriation of trade secrets claims almost without exception seek both damages and an injunction. Under Texas Rule of Civil Procedure 683, every order granting an injunction must "be specific in terms; [it] shall describe in reasonable detail and not by reference to the complaint or other document, the act or acts sought to be restrained" Likewise, under TUTSA, "[i]n appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order." Tex. Civ. Prac. & Rem. Code § 134A.003(c). The committee concluded that in order to enter a permanent injunction, the trial court would need jury findings on what constitutes the plaintiff's trade secrets so that the acts sought to be restrained could be described in specific terms. Without a separate question on whether a claimed trade secret exists, it would be impossible for courts to determine

the appropriate scope of any injunction, particularly where multiple trade secrets are involved.

Second, if the plaintiff claims that two or more of its trade secrets were misappropriated, a reviewing court would be unable to determine which of the plaintiff's trade secrets the jury found the defendant misappropriated. If the appellate court were

to find any error, it would have no choice other than to reverse and order a new trial.

For these reasons, the committee recommended that the liability question be broken into two separate questions. The first question would ask the jury to decide whether trade secrets exist and the second question would ask whether

the defendant misappropriated any of those trade secrets. The proposed jury question submits the issue of the existence of a trade secret where multiple trade secrets are claimed. Where only one trade secret is claimed, a broader form of the question that combines the issues of both the existence of a trade secret and misappropriation of a trade secret would be appropriate. Only those trade secrets supported by the pleadings and the evidence, however, should be submitted.

Is Ownership of a Trade Secret Required Under TUTSA?

The committee considered whether a person must own a trade secret to have standing to bring a claim under TUTSA and whether a question on ownership should be submitted to the jury. In *LBDS Holding Co., LLC v. ISOL Tech. Inc.*, 2014 U.S. Dist. LEXIS 31444 (E.D. Tex. 2014), the district court observed that "[t]he Texas Uniform Trade

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Secrets Act does not require ownership of trade secrets to sustain a misappropriation claim or to recover damages.” *Id.* at *3. The committee therefore recommended that the following comment be adopted:

Own or possess a trade secret. If the plaintiff does not own the trade secret, but there is evidence that the plaintiff possesses the trade secret through a license agreement or otherwise, the court may find that the plaintiff has standing to assert a claim under the Act, in which case the word “possess” should be substituted for “own” in the liability question.

Damages Available Under TUTSA.

TUTSA provides for three measures of damages: (1) the actual loss caused by the misappropriation; (2) unjust enrichment caused by misappropriation that is not taken into account in computing actual loss; and (3) in lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret. The committee drafted instructions on each element of damages to guide the jury in awarding damages under TUTSA.

A. Actual Loss. Actual loss is usually measured by the plaintiff’s lost profits caused by the misappropriation. Lost profits are damages for the loss of net income to a business. They represent income from lost business activity less the expenses attributable to that activity.

B. Unjust Enrichment. In many cases, the defendant has used the plaintiff’s

trade secret to his advantage with no obvious effect on the plaintiff save for the relative differences in their subsequent competitive positions. In such cases, TUTSA provides that a claimant is entitled to recover the unjust enrichment caused by misappropriation of a trade secret that is not taken into account in computing actual loss.

Unjust-enrichment damages may be measured by the defendant’s actual profits from the use of the trade secret or the development costs the defendant avoided incurring through misappropriation.

C. Reasonable Royalty.

TUTSA also authorizes the recovery of a reasonable royalty for a misappropriator’s

unauthorized disclosure or use of a trade secret. A reasonable royalty is the amount of money the plaintiff and defendant would have agreed upon at the time of the misappropriation as a fair price for the use of the trade secret—in other words, what the parties would have agreed upon if both parties were reasonably trying to reach an agreement.

The Trade Secrets Committee was greatly assisted by members of the bar who were willing to share their expertise and time on a project that will promote the development of the law of misappropriation of trade secrets in Texas. The committee’s report and recommendations were submitted to the Honorable Brett Busby, Chair of the Committee on Pattern Jury Charges. The pattern jury charge on misappropriation of trade secrets is expected to be published in the 2014 edition of the Texas Pattern Jury Charges.

Texas Uniform Trade Secrets Act provides for three measures of damages: (1) the actual loss... (2) unjust enrichment... and (3) in lieu of damages measured by any other methods... a reasonable royalty...

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



Joseph F. Cleveland, Jr. practices in the area of intellectual property and commercial litigation at Brackett & Ellis, PC. Mr. Cleveland is the Chair of the Trade Secrets Committee of the Intellectual Property Section of the State Bar of Texas and was a member of the working group responsible for drafting the bill, the bill analysis and testifying in support of the adoption of the Texas Uniform Trade Secrets Act.

EU, China, and the US: Significant Changes to Trade Secrets Laws Underway?

By Nancy Kremers

U.S. and foreign interest in trade secrets (“TS”) law has blossomed in recent years. This is in part due to the well-publicized growth of Internet-based misappropriation and theft. But it is also driven by growing awareness among international litigators that significant procedural obstacles exist in some important foreign jurisdictions, effectively limiting, or even precluding, the use of TS litigation as a defensive tool.

Governments of several major economic powers are now considering changes to their trade secret laws for various reasons, whether to better deter misappropriation, provide different enforcement mechanisms, make it easier to litigate TS cases, or merely to update substantive law concepts. In the United States, Congress is considering legislation aimed at creating a federal civil cause of action for TS and addressing cybertheft. The European Commission—the executive body of the European Union—is looking to establish TS protections consistently across its member states. And China has begun formal review of its major

law governing TS, a necessary first step toward improvement in this area of law. On the federal TS scene in the U.S., there has been a flurry of incremental activity in the last few years, though whether on aggregate it will lead to substantial improvements—less widespread deterrence—is less clear. For those who don’t regularly practice in this area, a quick primer on TS law in the federal context might be helpful.

To start off, only two avenues exist right now for bringing a trade secrets-based cause of action under federal law: 1) a *criminal* prosecution by the Department of Justice (DOJ) under the Economic Espionage Act and the associated interstate/foreign commerce TS theft clauses at 18 U.S.C. 1831-39; or 2) a request for investigation and exclusionary order from the U.S. International Trade Commission (ITC), in accordance with 19 U.S.C. 1337 *et seq.* (The latter type of action is popularly known as “Section 337” litigation. If statutory requirements are met showing unfair competition or infringement of intellectual property under certain conditions, a plaintiff may be able to prevent the opposing party from importing competing products into the U.S. domestic market.) There is also a federal statute commonly referred to as the “Trade Secrets Act” (18 U.S.C. 1905), but it pertains only to the obligation of federal government employees to protect the trade secrets of others, so it’s usually irrelevant. Main takeaway: at least for now, there’s no avenue to initiate a *civil* TS action in a federal district court.

Federal prosecutions for TS theft have risen steeply in the last two years, though actual numbers (25 last year) remain miniscule. In early 2013, the U.S. Congress passed legislation to increase criminal fines significantly for economic espionage TS cases. It also expanded the scope of products and services that can be reached in interstate commerce TS cases, and it

directed the U.S. Sentencing Commission to review penalty sufficiency for TS cases involving foreign governments and actors, which has since resulted in some penalty enhancements. Also last year, the executive branch issued its first-ever national strategy for mitigating theft of trade secrets. Though that document seems to be

mainly aspirational—it contains no work plans or other implementation details and reflects no dedicated funding—it does advocate for increased diplomatic efforts to improve TS protection overseas, promotion of voluntary TS protections among businesses, improvements in domestic law enforcement and legislation for TS, and increased public awareness of TS.

Members of Congress have sponsored a variety of other new TS-related bills since 2012 as well. They address such wide-ranging topics as sweeping federal cybersecurity research and reporting on U.S. economic losses, annual reporting of TS theft data specifically by the U.S. intelligence agencies, and mandatory publishing of the identities of foreign officials involved in cybertheft of U.S. intellectual property. Several bills have been introduced to create a federal civil TS cause of action, increase options for effecting national and foreign service of process in TS cases, and allow for civil forfeiture in TS cases.

In April, Senators Hatch and Coons introduced a bill entitled the “Defend Trade Secrets Act of 2014” (S. 2267), which creates a federal civil cause of action for trade secret misappropriation. It explicitly adds “espionage through electronic or other means” to the current 18 U.S.C. 1839 definition of “improper means” and creates a

5-year statute of limitations for civil actions. It also allows judges to grant (subject to some important limitations) affidavit-based *ex parte* orders to preserve and seize evidence used “in any manner or part” to commit an alleged actual or threatened TS misappropriation or theft relating to economic espionage.

The Federal Circuit’s 2011 ruling in Tian Rui Group Co., Ltd. v. USITC... attracted a lot of attention in China... and it also made U.S. companies realize that ITC proceedings can provide a fruitful new avenue for recourse in some trade secret cases.

This bill was mentioned very favorably during a Senate Judiciary subcommittee hearing on economic espionage held on May 13, 2014. On July 29, the House followed suit, with Representatives Holding, Nadler, and others co-sponsoring a similar bill to create federal civil relief for trade secrets owners: the “Trade Secrets Protection Act of

2014” (H.R. 5233). This bill is quite similar to S. 2267 in many respects but adds a definition of “misappropriation” from the Uniform Trade Secrets Act.

Several members also re-introduced their earlier TS and cyber-related legislative proposals from the previous Congress, giving them new life for this session. And in an interesting twist, a slice of the academic law community also weighed in on the recent legislative discussions: on August 26, thirty-one American intellectual property law school professors (including such IP luminaries as Pam Samuelson, Peter Jaszi, and Shubha Ghosh) sent a letter to Congress in opposition to both S. 2267 and H.R. 5233, urging Congress NOT to create a new private cause of action in federal TS law. Their view is that, for a variety of detailed reasons set forth in the letter, the current deep body of state-based TS law already in existence is sufficient to protect private interests and that passage of the bills would likely result in increased uncertainty,

lack of predictability, and duplicative TS law in the US.

Still, in mid-September, H.R. 5233 was successfully marked up and ordered for reporting out by the House Judiciary Committee, after some discussion of possible potential for misuse of *ex parte* evidence seizure orders. In light of the apparently high degree of Congressional, academic, and public interest in stemming the increasing tide of losses of American TS, it will be interesting to see whether Congress takes any other action needed to complete any new legislation on TS this year.

Finally, no summary of recent American TS law developments can be complete without mentioning the Federal Circuit's 2011 ruling in *Tian Rui Group Co., Ltd. v. USITC*. This ruling allowed a U.S. plaintiff's ITC action for an exclusionary order based on harm caused by theft of its TS by a Chinese company, even though the TS was not currently being used in the plaintiff's own products, and even though both the TS theft and subsequent product manufacture occurred entirely outside the United States. The case attracted a lot of attention in China among government officials and enterprises alike, and it also made U.S. companies realize that ITC proceedings can provide a fruitful new avenue for recourse in some TS cases.

Among the States, the last few remaining strongholds against the Uniform Trade Secrets Act (UTSA) continue to fall. Of course, our own landmark passage of the new Texas UTSA became effective in

September of 2013. And Massachusetts is once again considering a revived version, though noticeably changed from the one that attracted considerable notice earlier this year, in part due to its clear prohibition against all noncompetition agreements.

Overseas, interest in improving trade secrets laws and enforcement mechanisms is also quickly gaining momentum. Late last November, the European Commission (EC) issued its widely anticipated *Proposal for a Directive on Trade Secrets Protection*. A

One industry-commissioned study in 2010 found that most EU Member States' legal regimes do not recognize trade secrets as a form of intellectual property in its own right, but instead address it within country patent, copyright, and trademark laws, or else in a fragmented way via unfair competition, contract, tort, and criminal laws.

culminating outcome of two major research studies commissioned over the last three years by the EC, together with public online stakeholder consultations, the proposal is one deliverable in the EU's wider 2020 development strategy. Private industry also influenced EU views on the need for greater TS protections, forming a coalition of major businesses and actively lobbying the EC.

The business coalition's own studies noted the current lack of any EU-wide TS laws or effective enforcement mechanisms to protect victims of TS theft, including via customs exclusions, despite treaty obligations to protect "undisclosed information" under the TRIPs (Trade-Related Aspects of Intellectual Property) Agreement.

One industry-commissioned study in 2010 found that most EU Member States' legal regimes do not recognize TS as a form of intellectual property in its own right, but instead address it within country patent, copyright, and trademark laws, or else in a fragmented way via unfair competition, contract, tort, and criminal laws. And a

structured survey of more than 500 companies found that 69% of respondents in principle would support an EU-wide TS legal improvements initiative; many companies acknowledged they do not share TS within the EU due to feared risks of misappropriation.

The resulting EC proposal aimed at establishing TS protections consistently across the Internal Market (*i.e.*, in and among the EU Member States) and ensuring effective legal redress for misappropriation. By

design, the proposal addressed only civil, not criminal, law and remedies. One of the most important steps forward was that the proposal recommended establishing specific procedural protections in TS litigation that are generally not now available in the EU. These include restricted party and third-party access to documentary evidence containing TS, limitations on permissible attendees at hearings in which TS may be disclosed, allowing TS-redacted court opinions, and post-trial protection for TS information. The proposal also allows for interlocutory injunctions and precautionary seizures of potentially infringing goods during TS litigation. These changes would make judicial recourse against TS misappropriation much more likely to be successful than it is now in the EU.

In late May, the European Council membership adopted much of the proposal, with some relatively minor adjustments for flexibility of Member State laws to adopt stricter standards if desired, lengthening the proposed statute of limitations for misappropriation actions to six years,

increasing assurances for confidentiality during litigation, and certain other changes relating to damages, employee protections, and charitable organizations. The European Parliament will next consider and negotiate with the Council on the proposal with an eye toward future passage. While this is likely to take some time, it seems fair to say that the proposal's relatively quick initial issuance by the Commission and progress through the Council signifies serious EU intent to improve its own legal environment for protecting TS.

China has also recently announced it will begin revision work this year on its Anti-Unfair Competition Law. This is a major law covering many different topics relating to business activities that are considered unfair, including some activities relating to trade secrets.

Finally, another major overseas player, China, has also recently announced it will begin revision work this year on its Anti-Unfair Competition Law (AUCL). This is a major law covering many different topics relating to business activities that are considered unfair, including some activities relating to TS. Just how much emphasis the

Chinese government intends to place on upgrading the TS part of the law isn't clear yet, though attorneys everywhere are waiting for an indication of possible initial draft changes in the law with great interest.

In China, major challenges exist for making noticeable TS law improvements. For a start, the AUCL is only one of many laws that govern trade secrets issues, with other provisions scattered throughout other laws, including the employment, contracts, civil procedure, and criminal procedure laws. (China is a civil law jurisdiction, with much of its IP law based on German law.) China's well-established legal reform process normally entails working on revising only one or two major laws at a time, often over a period of years. Many of the most-needed changes would require amending laws other

than the AUCL, so they may fall prey to being ignored until such time as those laws are reached in the revision work queue. Such changes include significantly jacking up criminal penalties, ensuring easier evidence access and preservation, allowing greater access to pretrial and interim injunctive relief, and protecting against TS disclosures during litigation.

Another major challenge for Chinese law, but exacerbated in fact-intensive TS cases, is that the litigation system is organized around a foundational principle of recognizing in the main only properly authenticated, documentary evidence. Very little witness testimony (limited to experts in a very narrow set of circumstances) is ever permitted in Chinese litigation. And though many attorneys believe that increasing prosecutions for TS theft would have a rapid deterrent effect, current procedural rules governing investigative thresholds and prosecutorial case acceptance prevent using this avenue for now.

Clearly, the world's major economic powers recognize a common need to address the increasing ease with which trade secrets can be misappropriated, as well as the frequency of misappropriation. And the legislative activity is encouraging, to be sure. But, of course, even if some or all of these laws are successfully finalized, the effectiveness of the proposed changes remains to be seen.

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



Nancy Kremers is currently a visiting scholar in the law faculty at Beijing University of Chemical Technologies, where she teaches intellectual property licensing law and is engaged in cooperative research with Chinese law faculty in the field of trade secrets law. She is well-known in China's government, academic, and private industry

intellectual property circles, having served for 3 years as the US Embassy's Senior IPR Attaché in Beijing from 2009-2012. Prior to her appointment as Senior Attaché, she practiced law for over thirty years in the private sector and in the US federal government. She has also served as in-house international counsel in two major corporations, as general counsel in an Internet startup, and as a solo practitioner with a small business/criminal defense litigation practice. Ms. Kremers holds an LL.M. in intellectual property law from the University of Houston, J.D. and M.S.F.S (international trade) degrees from Georgetown University, and a B.A. from Stanford University.

When is an Invention an Invention, and When is it Just an Abstract Idea?

By Thom Tarnay

On June 19, the Supreme Court issued its opinion in *Alice Corporation Pty. Ltd. v. CLS Bank International et al.*, Case No. 13-298, affirming that claims of four patents owned by Alice Corporation on computer implemented inventions were invalid because they were directed to an abstract idea, something that is not eligible for protection under the Patent Act. *Alice Corp.*, slip op. at 1-2.

This case has been closely followed because there has long been debate about the types of inventions that are eligible for patent protection, particularly computer-based inventions, and there had been hope that the Court would lay rest to that ongoing question. While the principle that abstract ideas cannot be patented is simple to state, this concept has proven difficult to apply in practice. The challenge has been how to distinguish an unpatentable abstract idea from a practical application of an idea that may well be patentable. As explained below, the decision in *Alice* provides a framework for analyzing the eligibility of patent claims, but we can anticipate continuing debate about when computer

related inventions, business method patents and other process inventions reflect sufficient implementations of ideas to qualify for patent protection. One clear direction from the *Alice* decision is that in determining whether a patent claim is directed to eligible or ineligible subject matter, courts should look beyond the form in which a patent claim is written. A claim may be found to be directed to an abstract idea regardless of whether the claim is written as a method, as a product, or as a machine. *Id.* at 16-17.

Patent Eligible Subject Matter

Under the Patent Statute, the categories of subject matter eligible for patenting are: processes, machines, manufactures, and compositions of matter. 35 U.S.C. § 101. Although these categories are broad and appear to literally encompass things such as programmed computers (i.e., a machine) and methods of doing business or providing medical treatment (i.e., processes), courts have long excluded from patent protection certain subject matter such as laws of nature, natural phenomena, and abstract ideas. *See Diamond v. Diehr*, 450 U.S. 175, 185 (1981). The prohibition on patenting abstract ideas addresses the concern that one should not be able to patent a bare idea because that would preempt all possible applications of the idea and limit innovation. *Bilski v. Kappos*, 561 U.S. 593, 611-612 (2010). As a result, courts have long concluded that a patent-eligible invention is not the abstract idea itself but something more—such as a practical implementation of the idea.

When computers became prevalent, questions about the eligibility of computer-

based inventions arose. What constituted the necessary "something more," however, remained elusive. The Supreme Court found that a broad and abstract claim to a method performed in a computer is not eligible for protection because such a method, even though implemented on a computer, would "wholly pre-empt the mathematical formula [i.e., an abstract idea] and in practical effect would be a patent on the algorithm itself." *Gottschalk v. Benson*, 409 U.S. 63, 68-72 (1972). That decision did not find that the use of a computer or program in an invention automatically made

an invention ineligible for patenting. Later, in *Diamond v. Diehr*, however, the Court upheld the validity of a claim on a method for curing rubber that used a computer programmed with a mathematical equation to determine when to open the mold. 450 U.S. 175, 191-93 (1981). There, the court found the claimed invention was not directed to an abstract idea but, instead, to an

improvement to an existing technological process of molding rubber, regardless of whether it was implemented on a computer. *Id.* at 181. Cases since then have found some claims ineligible as based on an abstract idea and others not, and there has been a debate ever since on how to tell the difference. Fast forward to the *Alice* case.

The District Court and The Federal Circuit

Alice Corporation owns several patents directed to systems and methods of exchanging financial obligations between parties to reduce so-called "settlement risk," which is a risk that only one party to a transaction will pay what it owes and the

While the principle that abstract ideas cannot be patented is simple to state, this concept has proven difficult to apply in practice. The challenge has been how to distinguish an unpatentable abstract idea from a practical application of an idea that may well be patentable.

other will not. *CLS Bank Int'l v. Alice Corp.* 768 F. Supp. 2d 221, 224 (D.D.C. 2011). The approach taken by the Alice patents uses a trusted third party intermediary to verify before settlement that both parties are able to fulfill their obligations and ensure during settlement that either the obligations of both parties are fulfilled, or neither are performed. *Id.* Some of the claims at issue in the Alice patents were directed to a method, others to a computer system, and still others to a computer program product.

On motion for summary judgment, the district court separately considered the method, apparatus and computer program product claims and concluded that all of the asserted claims were invalid as directed to

the abstract concept of employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk. *Id.* at 243, 252 and 256. A panel of the Federal Circuit initially reversed; however, the Federal Circuit granted rehearing *en banc*, vacated the panel opinion, and on rehearing affirmed the judgment of district court in a *per curiam* opinion finding all of the asserted claims invalid. See 717 F.3d 1269, 1273 (Fed. Cir. 2013). Although the Federal Circuit affirmed, the issues were divisive and seven separate opinions were written, with no single reasoning shared by a majority of the judges.

The decisions by the district court and Federal Circuit were noteworthy, in part, because all of the claims at issue were found to be directed to abstract ideas, even those claims that expressly claimed a computer system. While courts for years have debated whether certain *method* claims address nothing more than mental

processes or abstract concepts, a claim to a system or machine literally addresses something tangible, not abstract. As such, the finding that a claim to a machine was directed to an abstract idea was significant.

The Supreme Court

The Supreme Court analysis focused on the potential of a claim to preempt an abstract idea and impede innovation by tying up the "building blocks of human ingenuity." *Alice Corp.*, slip op. at 5-6. To assess the claims, the Court followed the two-step framework it set up in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 566 U.S. ____, 132 S. Ct. 1289 (2012), which requires:

The Alice decision was by no means the first time that the Court had found claims invalid as directed to an abstract idea, but this time the Court extended that analysis to claims that expressly addressed hardware.

- First assess whether the claims are directed to a patent-ineligible concept such as laws of nature, natural phenomena, and abstract ideas.
- If so, determine whether the claims include an element or combination of elements that ensures

that the claims amount to significantly more than the ineligible concept itself.

Applying this analysis to the claims in the Alice patents, the Court first determined that all of the claims are directed to the abstract idea of "the use of a third party to mitigate settlement risk." *Alice Corp.*, slip op. at 9. In reaching this conclusion, the court compared the claims in the Alice patents to those at issue in *Bilski v. Kappos*, which were directed to "risk hedging." 561 U. S. 593 (2010). In *Alice*, the Court concluded that use of a third party intermediary in a financial transaction, like risk hedging, is simply a fundamental economic practice. *Alice Corp.*, slip op. at 9.

Having found that the claims are directed to an abstract idea, the Court then looked for additional features that go beyond the abstract concept itself. For the method claims, the Court asked "whether the claims here do more than simply instruct the practitioner to implement the abstract idea of intermediated settlement on a generic computer" and concluded they do not. *Id.* at 14-15. The Court noted that the claims do not, "for example, purport to improve the functioning of the computer itself" or "effect an improvement in any other technology or technical field." *Id.* at 15. For the computer system and product claims, the Court provided only a brief analysis and concluded that while the claims recite hardware, such recitation is "purely functional and generic." *Id.* at 16. As a result, the Court concluded "the system claims are no different from the method claims in substance. The method claims recite the abstract idea implemented on a generic computer; the system claims recite a handful of generic computer components configured to implement the same idea." *Id.*

Implications

The full effect of the *Alice* decision remains to be seen, although patent methods entirely performed on generic computers are at risk. Indeed, in a dissenting opinion at the Federal Circuit, Judge Moore stated that "if all of these claims, including the system claims, are not patent-eligible, this case is the death of hundreds of thousands of

patents, including all business method, financial system, and software patents as well as many computer implemented and telecommunications patents." 717 F.3d at 1313. The *Alice* decision was by no means the first time that the Court had found claims invalid as directed to an abstract idea, but this time the Court extended that analysis to claims that expressly addressed hardware. *Alice Corp.*, slip op. at 14. As such, this is a signal to the patent draftsman that courts will look beyond the form of the claim and will not allow patentability to depend merely on how the claims are drafted. *Id.*

In response to the *Alice* decision, the U.S. Patent Office issued "Preliminary Examination Instructions for Determining Subject Matter Eligibility in view of *Alice Corp. v. CLS Bank*," available at http://www.uspto.gov/patents/announce/alice_pec_25jun2014.pdf.

The above article expresses the opinions of the author and not necessarily those of Sidley Austin LLP or the State Bar of Texas IP Law Section.



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