



# Intellectual Property Law Section

## State Bar of Texas

Spring 2014

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### Update From The Chair

By Paul Morico

Welcome to our Section's latest newsletter!

This is my last newsletter as your Chair. It is hard to believe that another bar year has come and gone so quickly. I am honored to have served as your Chair and know that you will be in good hands with my successor, Kristin Jordan Harkins.



This was another active year for our Section. It began with our annual meeting last June in Dallas and will end with the upcoming annual meeting next month, which will take place in Austin. Kristin has put together a great program for this year's annual meeting. Highlights include a full day IP CLE program and our Annual Business Meeting Luncheon during the program. I encourage everyone to attend this excellent CLE and luncheon. The IP CLE is a 5.75 hour program (including .75 hour of ethics) during which a variety of IP related topics will be discussed, including *Misappropriation of Trade Secrets and Corporate Espionage: The New Texas Uniform Trade Secrets Act*

*in Your Arsenal; Fashion Law – The InterSection of Trademark and Copyright; How Confidential Are Confidential Settlement Agreements Involving Patent Disputes*, and updates for Patent and Trademark Law. During the business meeting luncheon, the Section will have an awards presentation for the recipients of the 2<sup>nd</sup> Annual Tom Arnold Lifetime Achievement Award, the Inventor of the Year Award and the Women and Minorities Scholarships. Chair Elect Kristin Jordan Harkins and her planning committee members have put together a quality event – I hope you will attend this program.

I would also like you to put on your calendar the upcoming Advanced Patent Litigation CLE, which will take place in San Antonio on July 17-18 at the JW Marriott resort. Our immediate past chair Scott Breedlove has put together a fine program that you will not want to miss.

Last month our Section's leadership held its first ever retreat. It was held at La Torretta Resort in Conroe, Texas April 4-5. It was attended by almost every officer and council member and a number of our committee chairs. There were a number of fairly significant changes to the Section that came

out of that retreat that I would like to share with you. One significant change is that we have reduced the number of substantive standing committees down to four. The new substantive standing committees are: patent, trademark, copyright and trade secrets. The purpose behind this is to encourage more active involvement by our members by having broader-based committees. We also formed a new committee, the New Lawyers Committee. That committee will focus on members who are just starting out in their careers. To help encourage their participation in the Section, the officers and council also approved waiving the Section dues for attorneys who have practiced less than 2 years.

Other topics discussed at the retreat included ways that the Section can expand and improve its CLE offerings, a revamping of the Section's website to make it more user-friendly and up-to-date, and a fellowship to a limited number of recently licensed attorneys to defer the cost of their attendance at our in-person CLEs. The attendees at the retreat also developed a survey, which you should have received recently. The purpose of this survey is to elicit your feedback on the ways that the Section can better meet your needs. I strongly encourage you to take the 5 or 10 minutes to complete this survey. Your feedback is vital to the future success of our Section.

Finally, I'd like to take this opportunity to thank all of the officers, council members and committee chairs that served with me this year. We accomplished a lot in a short period of time and set a course for the future of our Section, which I am confident will ensure its continued relevance to our members for years to come. We could not have achieved as much as we did without the dedicated leadership group of this Section.



## Mark Your Calendar

**The State Bar of Texas Annual Meeting** will be held at the Hilton Austin Hotel in Austin on June 26-27, 2014. For more information, go to [www.texasbarcle.com](http://www.texasbarcle.com).

### **State Bar of Texas Intellectual Property Law Section**

- A full day CLE will be held during the State Bar of Texas Annual Meeting at the Hilton Austin Hotel in Austin on June 27, 2014. The annual business meeting and awards presentation will be held during the luncheon. A reception will be held the prior evening on June 26, 2014.
- The 10th Annual Advanced Patent Litigation CLE will be held on July 17-18, 2014 at the JW Marriott Hill Country Resort and Spa in San Antonio, Texas.

For more information regarding the SBOT IP Law Section CLE events, go to [www.texasbarcle.com](http://www.texasbarcle.com).

**Austin Intellectual Property Law Association.** The June CLE lunch will be held at the Westwood Country Club in Austin on June 17, 2014 beginning at 11:30 a.m. The lunch speaker will be U.S. Magistrate Judge Andrew W. Austin. For more information, go to [www.austin-ipla.org](http://www.austin-ipla.org).

**Dallas Intellectual Property Law Section.** The June CLE lunch seminar will be held on June 27, 2014 at the Belo Mansion, 2101 Ross Avenue in Dallas, featuring Dwayne Norton from Alston & Bird LLP who will be speaking on "Patent Damages Case Law Update." For more information, go to [www.dbaip.com](http://www.dbaip.com).



## In The Section

### **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](mailto: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](mailto:ichowdhury@cgiplaw.com).

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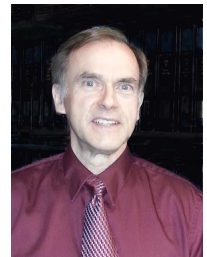
## **Section Member Profiles**

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...

### **Warren Locke Franz**

**Work?** I am now Deputy General Patent Counsel at Texas Instruments in Dallas, but will soon reenter private practice in San Antonio. I also teach Business Law as an adjunct professor of Business Law at Richland Community College.



**Legal practice?** Manage TI's non-US (rest-of-world) patent portfolio and head-up company patent information management functions (disclosure processing, docketing, database, annuities, etc.). Day-to-day patent acquisition, IP transaction/mergers & acquisition support, strategy development, etc. for various business units. Prior to joining TI, in private practice with law firms in Florida, Pennsylvania and New York and served

as general counsel/patent counsel of drilling & production services group with Schlumberger in Sugar Land.

**If I weren't an attorney, I would be...** an entrepreneur-inventor trying to bring new products to the marketplace.

**My favorite (or dream) vacation is...** Alaska's Inside Passage cruise with verandah stateroom view of isolated territory in midnight sun (reminds me of restaurant at end of the universe described in "Hitchhiker's Guide to the Galaxy").

**In my spare time, I enjoy...** singing, playing handbells and attending the theatre (currently serve on Bd. Dirs. of RCT Promenade Theatre/Richardson).

**The best dessert in the world is...** old-fashioned apple pie -- big chunks of apples, a nice thick still warm crust, and two scoops of runny French vanilla ice cream.

**My favorite movie is...** a toss-up between *My Cousin Vinny* (Joe Pesci and Marisa Tomei) and *Ghost* (Whoopi Goldberg).

**If I won the lottery, I would...** like to sponsor talented and aspiring musicians and artists, the way the Medici and Borgia family members did in bygone eras.

**I recommend reading...** Dan Ariely's *Predictably Irrational: The Hidden Forces That Shape Our Decisions* and Ron Chernow's *Alexander Hamilton*.

**Most SBOT IP Section members probably don't know that...** I was one of the trial attorneys on the six-week jury trial *Patlex vs. Control Laser* in Orlando involving the invention of the optically-pumped laser, and served for a time as Chair of the Entertainment, Arts & Sports Law (EASL) Section of The Florida Bar.

**You forgot to ask me about...** my background. I grew up in Europe, went to British boarding school, and studied Engineering Physics and Aerospace

Engineering at Cornell. I met my wife Helen while working on defense contracts with Booz, Allen (same company as leaker Edward Snowden), and translated German to English for Naval Intelligence while a JAG Officer in the U.S. Navy Reserves.

## **Bhaveeni Parmar**

**Work?** I run an IP and Social Media law boutique firm based in Dallas.

**Legal practice?** My practice has evolved over the years. Today, I primarily assist clients with their technology transactions, privacy & social media policies, and branding strategy needs.

**If I weren't an attorney, I would be...** a chocolatier. I know nothing about making chocolate, but the idea of it is intriguing.

**My favorite (or dream) vacation was...** a three-day trip to Aurangabad, Ajanta and Ellora in India. The historical ruins, cave paintings and sculptures dating back as early as the 2nd century BC were truly a sight to behold. I was fortunate to have a tour guide who did a fantastic job of pointing out everything from the engineering savvy of the gutter systems carved in each level of the cave dwellings to the intricate details in the paintings.

**In my spare time, I enjoy...** traveling, cooking and spending time with family and friends.

**The best dessert in the world is...** a bowl of freshly picked strawberries.

**My favorite movies are...** *To Kill a Mockingbird* (among English movies) and *Pushpak* (a comedic silent movie produced in India).

**If I won the lottery, I would...** live somewhere where it was 75 degrees pretty much all year, complete my travel





bucket list, and set-up a non-profit organization to help award educational scholarships to needy children (this is something I know my parents would love to run after they retire).

**I recommend reading...** *Tuesdays with Morrie* by Mitch Albom. I love the author's writing style and this book, in particular, had a profound effect on me.

**Most SBOT IP Section members probably don't know that...** I collect mini bags and purses from all over the world.

**You forgot to ask me about...** my addiction to the Pinterest social media site. I think I have an inspiration board for everything – it is out of control!

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](mailto:texasbaripsection.newsletter@gmail.com) and we will email you a questionnaire.

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## Practice Points

### ***Attorney's Fee Awards in Patent Litigation***

By Ajeet Pai and Samantha Kuhn

Both Congress and the federal courts have increased their focus on attorney's fee awards in patent cases in recent years, and patent litigators—as well as parties involved in patent cases— would be wise to do the same. Patent cases have become more prevalent; an informal review of statistics compiled by the Administrative Office of the U.S. Courts and by DocketNavigator® shows an increase from an average of roughly 2,800 cases per year during the past decade to more than 5,000 filings in 2013 alone. While the anti-joinder provisions of the America Invents Act and the rise of non-practicing entities have accounted for some of the increased volume, there also has been a notably greater focus on monetizing patents in general. At the same time, parties involved in patent litigation are, in many cases, facing much heftier bills than in previous years. As a result of these pressures, attorney's fee awards are becoming an increasingly important consideration in any patent case.

Although the general sources of authority for obtaining attorney's fees (such as Rules 11 and 37 of the Federal Rules of Civil Procedure) are applicable in patent cases as well, the focus of this article is the "exceptional case" statute, 35 U.S.C. § 285, which is the primary basis for attorney's fee

awards in patent litigation.

### **Section 285: the “Exceptional” Case Standard**

With respect to patent litigation, 35 U.S.C. § 285 provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” As in other contexts, to be a prevailing party, a party must have succeeded on some significant issue related to the overall objective or purpose of the litigation. For example, a defendant who receives a judgment of noninfringement can still be a prevailing party even if the defendant’s invalidity theory fails, because that defendant’s goal has been achieved: it defeats liability under the patent. Assuming that the party seeking attorney’s fees is the prevailing party, the determination of exceptionality of the case is a two-step process. First, the court must

determine whether the case is “exceptional.” While this showing, until recently, required proof by clear and convincing evidence, the Supreme Court recently clarified that such a heightened burden is not required. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, No. 12-1184, 2014 WL 1672251, at \*7 (U.S. Apr. 29, 2014). Second, upon a finding of exceptionality, the court must make a discretionary determination of whether fees should be awarded, and if so, in what amount.

### **Traditional Bases for “Exceptional Case” Findings**

Traditionally, the Federal Circuit has deemed cases “exceptional” where at least one of four circumstances is present: willful infringement, inequitable conduct before the Patent Office, litigation misconduct, or bad

faith litigation. See, e.g., *Lee v. Mike’s Novelties, Inc.*, No. 2013-1049, 2013 WL 6097232, at \*6 (Fed. Cir. Nov. 21, 2013) (The Federal Circuit has “repeatedly identified as exceptional cases those cases involving inequitable conduct before the [Patent Office]; litigation misconduct; vexatious, unjustified, and otherwise bad faith litigation; a frivolous suit or willful infringement.” (internal quotations and citations omitted)).

Willful infringement requires a showing by the patentee that the infringer acted despite an objectively high likelihood that his actions constituted infringement of a valid patent, and the risk of infringement was either known or so obvious that it should have been known to the defendant. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc). A finding of inequitable conduct

*...the Supreme Court significantly broadened the grounds upon which a district court may make a finding of exceptionality, particularly with regard to litigation conduct... that would not otherwise be independently sanctionable.*

before the Patent Office, as a species of fraud, also will support an exceptional case finding. In these latter situations, however, other grounds for awarding fees involving intentional or reckless misconduct (such as inequitable conduct or misrepresentations to the court) were usually also present, suggesting that something more than repeated, but minor, misconduct will be required in practice. See, e.g., *E-Pass Techs., Inc. v. 3Com Corp.*, 559 F.3d 1374, 1378-79 (Fed. Cir. 2009); *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1359 (Fed. Cir. 2008).

In addition to these three bases, the Federal Circuit has also recognized exceptional case findings on the basis of bad faith litigation, which is also known as “frivolous suit.” In *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, the Federal Circuit articulated a now-

defunct two-prong test for determining whether to impose sanctions for bad faith litigation. Under the *Brooks Furniture* test, sanctions could only be imposed against the patentee if the litigation was both objectively baseless and brought in subjective bad faith, as established by clear and convincing evidence. 393 F.3d 1378, 1381-82 (Fed. Cir. 2005). This was a very high burden: “[t]o be objectively baseless, the infringement allegations must be such that no reasonable litigant could reasonably expect success on the merits.” *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008). Proof of subjective bad faith was equally difficult.

### **The U.S. Supreme Court’s Recent Rejection of the Federal Circuit’s Two-Prong Test**

On April 29, 2014, the Supreme Court rejected the *Brooks Furniture* test and ruled on two separate cases relating to “exceptional” case determinations under § 285. Although the Court did not appear to reject the first three “traditional” grounds as possible bases for declaring cases exceptional, the Court significantly broadened the grounds upon which a district court may make a finding of exceptionality, particularly with regard to litigation conduct (i.e., the bringing of exceptionally weak suits) that would not otherwise be independently sanctionable. Given this broadened discretion, it is unclear whether categorizing the “type” of exceptional case still matters in seeking attorney’s fees under § 285.

The first case, *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, involved the substantive standard (two-part test) for

awarding fees based on allegations of frivolous suit, whereas the second case, *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, dealt with the procedural issue of the standard of review for exceptional case determinations on appeal. In both cases, the petitioners essentially took the position that the Federal Circuit’s interpretation and application of § 285 impermissibly tilted the scale in favor of patentees and improperly infringed upon district courts’ discretion in determining exceptionality. In ruling in favor of the petitioners in both cases, the Supreme Court completely rejected the “unduly rigid” framework “established by the Federal Circuit in *Brooks Furniture*.” *Octane Fitness*, 2014 WL 1672251, at \*5. The Court held that district court determinations of exceptionality should be based on the totality of the circumstances, supported by a

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preponderance of the evidence, and subject to an abuse of discretion standard of review. *Id.*; *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, No. 12-1163, 2014 WL 1672043 (U.S. Apr. 29, 2014).

In *Octane Fitness*, the Supreme Court was presented with the question whether the Federal Circuit’s two-part

objective/subjective test for determining whether a case is frivolous “improperly appropriates a district court’s discretionary authority” to award attorney’s fees to accused infringers. The Supreme Court determined that it did. Relying on the statutory text of § 285 and the ordinary meaning of “exceptional,” the Court held that “an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigation position (considering both the governing law

and the facts of the case) or the unreasonable manner in which the case was litigated.” *Octane Fitness*, 2014 WL 1672251, at \*5. Accordingly, the Court instructed that district courts should make exceptional case determinations on a case-by-case basis, considering the totality of the circumstances. *Id.* Not only did the Supreme Court reject the Federal Circuit’s analytical framework, but the Court further held that the imposition of a “clear and convincing” burden of proof was not justified by the statute. The Court determined that § 285 “demands a simple discretionary inquiry” and “imposes no specific evidentiary burden, much less such a high one.” *Id.* at \*7. Moreover, the Court recognized that “patent-infringement litigation has always been governed by a preponderance of the evidence standard, and that is the standard generally applicable to civil actions[.]” *Id.* (quotations omitted).

In *Highmark*, the Court was faced with the question of what standard of review the Federal Circuit should apply to exceptional case determinations made by district courts. The Federal Circuit had previously applied a different standard of review to each of the objective and subjective prongs of its exceptional case test, reviewing subjective bad faith determinations for clear error while reviewing objective baselessness determinations *de novo*. The petitioner, however, argued that Supreme Court precedent favors an abuse of discretion standard of review. In light of its rejection of the Federal Circuit’s two-part test in *Octane Fitness*, the Supreme Court held that an exceptional case determination made by a

district court is a “matter of discretion” to be reviewed for abuse of discretion. *Highmark*, 2014 WL 1672043, at \*3. Thus “an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court’s § 285 determination.” *Id.* at \*4.

By broadening the discretion of district courts and constraining appellate review of exceptional case determinations, the Supreme Court has greatly increased the role of district courts in evaluating whether particular cases are “exceptional.” It seems likely that the Supreme Court’s decisions will discourage plaintiffs from bringing marginal suits. However, this greater discretion comes with a possible cost to uniformity of patent law. The Supreme Court’s elimination of a uniform standard and test to be applied by district courts introduces considerable uncertainty into how district courts will determine which cases “stand out” from others such that they are considered “exceptional.”

*In light of the Supreme Court’s decision to provide district courts with considerably more discretion and deference in awarding fees, it is likely that litigation over fees as well as fee awards will become more common in patent cases.*

**Interest from the Legislative Branch**

It is worth noting that the judiciary is not alone in taking a greater interest in the issue of attorney’s fee awards in patent cases; a number of bills were introduced in Congress in 2013 that would make the award of attorney’s fees

presumptive, rather than the exception, in patent cases. For example, the “Innovation Act,” H.R. 3309, which passed the House of Representatives in December 2013 proposes to revise § 285 to require courts to award fees unless the court finds that the non-prevailing party’s position and conduct were “reasonably justified.” Should such proposals become law, many of the issues that have been heavily litigated will become moot. However, in the wake of the Supreme



Court's decisions in *Octane Fitness* and *Highmark*, it is unclear to what extent the proponents of such bills will consider it necessary to rewrite § 285.

### Practice Pointers

In light of the Supreme Court's decision to provide district courts with considerably more discretion and deference in awarding fees, it is likely that litigation over fees as well as fee awards will become more common in patent cases. Accordingly, patent plaintiffs should exercise particular caution in evaluating cases before entering into or threatening litigation. Because bad-faith litigation is typically assessed on a claim-by-claim basis, plaintiffs should be careful not to include claims that could later be characterized as "frivolous" or exceptionally weak along with meritorious claims, and they should consider the reasonableness of each claim early in the litigation before defense costs have accrued.

Plaintiffs also should strive to establish a clear and simple record from the beginning of litigation to prevent future claims by the defendant of shifting legal theories or misconduct, while defendants should seek to establish an equally clear record when faced with a frivolous suit.

Plaintiffs and defendants alike should continue to be diligent about recording and delineating fees spent, including enough detail to support future fee requests, and ensure that fee requests are timely filed. And perhaps most importantly, parties should remember that awards are discretionary. Accordingly, a party anticipating it will seek fees must be careful to retain the moral high ground, and avoid engaging in conduct that may suggest unprofessionalism or give the presiding judge reason to suspect "unclean hands" sufficient to defeat a discretionary award of fees.

*This article is intended for educational and informational purposes only and does not constitute legal advice or services. If legal advice is required, the services of a competent professional should be sought. These materials represent the views of and summaries by the authors. They do not necessarily reflect the opinions or views of the State Bar of Texas IP Law Section, Vinson & Elkins LLP or of any of Vinson & Elkins LLP's other attorneys or clients. They are not guaranteed to be correct, complete, or current, and they are not intended to imply or establish standards of care applicable to any attorney in any particular circumstance.*



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engineering and he attended the University of Virginia School of Law.



Samantha Kuhn is an associate in Vinson & Elkins' Austin office, with an intellectual property law practice focused on patent litigation. Kuhn joined Vinson & Elkins after clerking for the U.S. District Court for the Western District of Tennessee. Her undergraduate degree is in biology and she

attended Harvard Law School.

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## **Proposed PTO Rules Regarding "Attributable Owners"**

By Michael D. Karson

The U.S. Patent and Trademark Office ("PTO") is considering new rules requiring the disclosure of the "attributable owner" of patents and patent applications. (Changes to Require Identification of Attributable Owner, 79 Fed. Reg. 4,105 (proposed Jan. 24, 2014) (to be codified at 37 C.F.R. pt. 1) [hereinafter "*Proposed Rules*"].) These proposed rules are intended to provide the PTO and the public with more complete information regarding patent ownership.

While the PTO sought comments on this topic as early as November 2011 (Request for Comments on Eliciting More Complete Patent Assignment Information, 76 Fed. Reg. 72,372 (Nov. 23, 2011)), it did not receive a strong endorsement of its efforts until June 2013, when the White House issued a set of Executive Actions directing the PTO to “begin a rulemaking process to require patent applicants and owners to regularly update ownership information when they are involved in proceedings before the PTO, specifically designating the ‘ultimate parent entity’ in control of the patent or application.” (Fact Sheet, White House, White House Task Force on High-Tech Patent Issues (June 4, 2013) [hereinafter *White House Fact Sheet*], available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.)

This article summarizes the proposed disclosure requirements, describes the deadlines for such disclosure, and explains the consequences of failing to abide by the proposed rules (should the PTO implement the rules as is).

### **Definition of “Attributable Owner”**

The proposed rules require the disclosure of the “attributable owner” of a patent application or patent. (Proposed Rules, at 4,119.) There are four types of entities that qualify as an “attributable owner” under the proposed rules: (1) titleholders; (2) enforcement entities; (3) ultimate parents; and (4) hidden beneficial owners.

#### ***Titleholders***

Under the proposed rules, “titleholders” include any entity that has been assigned title to a patent or patent application, either

exclusively or jointly. (Proposed Rules, at 4,119.) This category of “attributable owner” generally describes traditional patent assignees. “Titleholder” information is substantially the same information that patent owners and applicants currently may voluntarily provide in connection with assignment recordation at the PTO. (*Id.* at 4,110.) The PTO suggested that traditional ownership structures in which a single assignee holds all rights in the patent or patent application will not require additional reporting beyond that which is already relatively routine. (*Id.* at 4,109.)

#### ***Enforcement Entities***

“Enforcement entities” under the proposed rules include any “entity necessary to be joined in a lawsuit in order to have standing to enforce the patent or any patent resulting from the application.” (*Id.* at 4,119.) These entities generally include exclusive licensees that have the right to enforce a patent or an application that issues into a patent. (*Id.* at 4,110.) The PTO has suggested that exclusive licensees in possession of enough rights to be *de facto* assignees may report as “titleholders,” though they are more routinely going to be reported as an “enforcement entity.” (*Id.*)

#### ***Ultimate Parents***

“Ultimate parents” of “titleholders” or “enforcement entities” would also have to be reported to the PTO under the proposed rules. (*Id.* at 4,119.) In its proposed rules, the PTO has proposed incorporating by reference the definition of “ultimate parent” found at 16 C.F.R. § 801.1(a)(3). (*Id.*) Under that section, “[t]he term ultimate parent entity means an entity which is not controlled by any other entity.” (16 C.F.R. §

***There are four types of entities that qualify as an “attributable owner” under the proposed rules: (1) titleholders; (2) enforcement entities; (3) ultimate parents; and (4) hidden beneficial owners.***

801.1(a)(3).) It also includes three examples of “ultimate parent entities:”

1. If corporation A holds 100 percent of the stock of subsidiary B, and B holds 75 percent of the stock of its subsidiary C, corporation A is the ultimate parent entity, since it controls subsidiary B directly and subsidiary C indirectly, and since it is the entity within the person which is not controlled by any other entity.

2. If corporation A is controlled by natural person D, natural person D is the ultimate parent entity.

3. P and Q are the ultimate parent entities within persons “P” and “Q.” If P and Q each own 50 percent of the voting securities of R, then P and Q are both ultimate parents of R, and R is part of both persons “P” and “Q.”

(*Id.*) Tracking this category of “attributable owner” may be particularly inconvenient for organizations that hold patents and patent applications within a variety of subsidiaries. Indeed, the PTO recognized that “corporations sometimes transfers [sic] patents and patent applications within the corporation for legitimate reasons, such as tax savings purposes,” and invited comments on the impact of the proposed rules on such practices. (Proposed Rules, at 4,110.)

Because all corporate and partnership entities have shareholders or partners, another troubling issue is whether individual shareholders or partners may have to be reported. The proposed rules require that a shareholder or partner in a corporate form, partnership, or other association must be

separately identified as an “attributable owner” if he or she meets one of the definitions of an “attributable owner,” even if the corporation, partnership, or other association is also identified as an “attributable owner.” (*Id.* at 4,112; *id.* at 4,120.) The sole exception to this requirement is that the shareholders of a publicly traded company identified as an “attributable owner” need not be disclosed. (*Id.* at 4,112; *id.* at 4,120.)

**Hidden Beneficial Owners**

Finally, the proposed rules require disclosure of “[a]ny entity that, directly or indirectly, creates or uses a trust, proxy, power of attorney, pooling arrangement, or any other contract, arrangement, or device with the purpose or effect of temporarily divesting such entity of attributable ownership of a patent or application, or preventing the vesting of such attributable ownership of a patent or application.” (*Id.* at 4,119.)

The proposed rules have informally termed such entities “hidden beneficial owners.” (*Id.* at 4,110.) The PTO proposed mandatory disclosure of “hidden beneficial owners” of patents and patent applications “to have a complete picture of the attributable owners” and “to discourage intentional shielding of such ownership interests.” (*Id.*) This category of “attributable owners” appears to be predominantly directed at entities the PTO has referred to as “Patent Assertion Entities.” (*Id.* At 4,109.)

**Deadlines to Disclose “Attributable Owners”**

The PTO’s proposed rules include five different deadlines, termed “requirements,”

*Under the proposed rules, failure to timely disclose attributable owner information during the prosecution checkpoints would result in abandonment of the patent application.*

to disclose “attributable owners:” (1) the “Application Filing Requirement;” (2) the “Update Requirement;” (3) the “Issue Fee Payment Requirement;” (4) the “Maintenance Requirement;” and (5) the “Post-Issuance Proceeding Requirement.” (*Id.* at 4,110.) The first three of these requirements apply during patent prosecution, while the final two apply after patent issuance. The nearby chart describes each requirement.

The PTO has proposed that these requirements apply to pending applications, patents for which maintenance fees are still due, and patents that undergo supplemental examination, *ex parte* reexamination, or a trial proceeding before the Patent Trial and Appeals Board on or after the effective date of the final rule. (See *id.* at 4,112–13.) Thus, the rules will retroactively apply so that patent owners and applicants would be required to disclose attributable owner information at the next-occurring requirement, even if the application was filed, or the patent issued, before the effective date of the final rules.

**Consequences for Failure to Disclose “Attributable Owner” Information**

Under the proposed rules, failure to timely disclose attributable owner information during the prosecution checkpoints would result in abandonment of the patent application. (*Id.* at 4,112–13 and 4,120.) Interestingly, the proposed rules do not describe the consequences of a patent

owner’s failure to report attributable owner information to satisfy the Maintenance Requirement. Additionally, other than refusing to accord a filing date for patent owner-initiated supplemental examination or *ex parte* reexamination (*id.* at 4,113 and 4,120), the proposed rules do not describe the consequences of a patent owner’s failure to report attributable owner information to satisfy the Post-Issuance Proceeding Requirement.

The proposed rules provide that, if a patent applicant or patentee fails to correctly notify the PTO of attributable owner information at the required time, despite a good faith effort,

<b>Requirement</b>	<b>When Disclosure is Required</b>
Application Filing	Due upon filing of a patent application, or in a timely reply to a Notice requiring disclosure. ( <i>Id.</i> at 4,112 and 4,120.) Subject to certain extensions (if applicable), the PTO expects disclosure within eight (8) months of filing an application. ( <i>Id.</i> )
Update	During prosecution of a patent application, due within three (3) months of a change of attributable owner. ( <i>Id.</i> at 4,110, 4,112, and 4,120.)
Issue Fee Payment	Due at the time of issue fee payment. ( <i>Id.</i> at 4,110 and 4,120.)
Maintenance	Due at the time of each maintenance fee payment. ( <i>Id.</i> at 4,110 and 4,120.)
Post-Issuance Proceeding	Due at the commencement of a supplemental examination, <i>ex parte</i> reexamination, or a trial proceeding before the Patent Trial and Appeals Board. ( <i>Id.</i> at 4,110–11 and 4,120–21.)

the applicant or patentee may petition for its error to be excused. (*Id.* at 4,112–14 and 4,120–21.) The petitioner must demonstrate the reason for the delay, error, or incompleteness and must pay a petition fee. (*Id.* at 4,112–14 and 4,120–21.)

**Conclusion**

The Executive Actions issued last June asserted that “Patent trolls often set up shell companies to hide their activities and enable



their abusive litigation and extraction of settlements.” (White House Fact Sheet.) The PTO’s proposed rules appear designed to address the President’s concerns. While reasonable minds might differ with respect to the need for the Executive Actions, it seems that the PTO’s proposed rules will likely have far reaching effects on the patent system if adopted as is.

As an initial matter, corporations and large entities may need to reevaluate their corporate structure and system for allocating patents among business units. Under the proposed rules, an inter-corporate transfer of patents and applications for tax purposes could result in significant reporting requirements. Even a routine corporate structure change affecting parent entities but not patent-owning subsidiaries could inadvertently trigger a reporting requirement. A company could risk abandoning its patent applications or impairing its ability to assert patents if it fails to properly report attributable owner information. And that risk—abandonment of patent rights—seems somewhat draconian in that it could negatively affect an entire portfolio of related patents and applications. One might wonder whether that punishment fits the crime, particularly for those businesses that do not even fall under the “Patent Assertion Entity” umbrella.

Moreover, the attributable owner information reported to the PTO will be made public. (*Id.* at 4,106–07 and 4,110.) While assignment information is made public on a

voluntary basis now, mandatory public disclosure of patent ownership to the extent proposed could have significant and unforeseeable effects on a company’s business, investors, patenting, and patent litigation strategies.

Of course, the PTO’s proposed rules are just that, proposed. They may change in form and substance before being made final. In fact, the extended comment period closed late last month, and the PTO may modify the proposed rules based on public feedback. Nonetheless, patent applicants and owners should be aware of the proposed rules because, at the very least, they are indicative of the type of solutions the PTO is considering to address the issues described in the White House’s June 2013 Executive Actions. And, if made final as is, the proposed rules will have a substantial and immediate impact on patent applicants and owners, among others.

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



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