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Supreme Court Rules on Individual Inventor Patents under the Bayh-Dole Act

On June 6, 2011, the Supreme Court ruled that, under the Bayh-Dole Act, an individual inventor retains the initial rights to any patentable inventions he creates while conducting federally-funded research, absent a specifically-worded agreement assigning those rights to his employer. *Board of Trustees of Leland Stanford Junior University v. Roche Molecular Sys.*, No. 09-1159, 2011 WL 2175210 (June 6, 2011).

The Bayh-Dole Act, which was co-authored by Venable partner and former U.S. Senator Birch Bayh, allows universities, small businesses, and nonprofit organizations to retain and manage patent rights in inventions created in their laboratories as a result of federal research grants. Prior to Bayh-Dole, inventions arising from federally-funded research typically became the property of the funding agency, which would make them freely available to all competitors under nonexclusive licenses. This system removed the core incentive of limited exclusivity afforded by the patent system, resulting in thousands of new inventions sitting on government shelves, undeveloped and never commercialized. The Bayh-Dole Act enabled universities, small businesses, and nonprofit organizations to freely retain patent rights in inventions created in their laboratories as a result of federal research grants. By granting universities, small businesses, and nonprofit organizations the right to own and exclusively license these inventions, the Bayh-Dole Act sought to ensure that new technologies arising from federally-funded research would be delivered to the marketplace as efficiently as possible. Since its enactment in 1980, the Bayh-Dole Act has given rise to countless new jobs, new pharmaceuticals, and new technologies.

The *Stanford* case involved a patent dispute between Stanford University and Roche Molecular Systems over whether a Stanford university scientist could unilaterally terminate the university's ownership rights under the Bayh-Dole Act by separately assigning his individual rights to a private laboratory. In the late 1980s, a Stanford researcher named Mark Holodniy conducted HIV research under a federal grant at Stanford while contemporaneously conducting similar research at Cetus, a private laboratory later acquired by Roche. When Holodniy joined Stanford, he executed an agreement with Stanford stating that he "agree[d] to assign" any patentable inventions to the university. Holodniy thereafter conducted similar research at Cetus, where he signed another agreement stating the he "will assign and do[es] hereby assign" inventions arising from his work to Cetus. Holodniy's research at Stanford and Cetus resulted in three patents claiming methods for quantifying HIV in human blood samples. A subsequent patent dispute arose between Stanford and Roche, and the Federal Circuit ruled that Holodniy's Cetus agreement trumped his Stanford agreement because the latter was only a "promise to assign in the future," while the former was an "immediate transfer of expectant interests."

On appeal, the Supreme Court ruled 7-2 that the Bayh-Dole Act does not displace the traditional patent law principle that rights in an invention belong initially to the inventor. In the Court's words, "unless there is an agreement to the contrary, an employer does not have rights in an invention which is the original conception of the employee alone." The Court acknowledged instances in the past where Congress has divested inventors of their rights but noted that each time Congress did so in unambiguous terms which are absent from Bayh-Dole: "We are confident that if Congress had intended such a sea change in intellectual property rights it would have said so clearly."

The *Stanford* case is a cautionary reminder to federally-funded research institutions to exercise great care when drafting employee-assignment agreements. As the Supreme Court noted, the Bayh-Dole system will "work pretty much the way" it always has so long as research institutions obtain effective assignment agreements from their employee-researchers—a practice already employed by most research institutions.

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The strength of the Bayh-Dole Act—a statute that in its 30 years neither Congress nor the Courts have seen fit to alter—is its ability to accommodate the divergent interests of its beneficiaries, including contractor-institutions, inventors, and private businesses. Each party must diligently fulfill its Bayh-Dole obligations to ensure that federally-funded inventions reach the medicine cabinet as quickly as possible.

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The Protect IP Act: A Powerful Tool, A Powerful Controversy

The Protect IP Act[1] is a proposed bill making its way through the Senate as S. 978 that aims to curb online counterfeiting, among other things. Congress is attempting again to pass legislation after COICA[2] failed to pass during the previous session. While the Protect IP Act's stated goals are beyond dispute — to prevent the online sale of counterfeit goods — the means toward achieving those goals remains ripe for debate.

Act Overview

The Protect IP Act uniquely authorizes both the attorney general and individual rights holders to bring a cause of action against the registrant of an Internet site dedicated to infringing activities ("Infringing Site"),[3] its owner/operator, or to proceed directly against the domain name in an *in rem* action. The *in rem* remedy aims to provide a tool in the arsenal of brand owners seeking to attack overseas websites, although the courts arguably already have these inherent powers under the Lanham Act.[4]

The Protect IP Act includes provisions that allow a plaintiff, once an order from the court is obtained, to serve the order on third party "Financial Transaction Providers," preventing them from processing payments, originating in the United States, for the Infringing Site.[5] Similarly, third party "Internet Advertising Services" can be served with the court's order, forcing them to cease advertising on or on behalf of the Infringing Sites. Hitting the sites where revenue is produced is intended to have a deterrent effect.

In addition to taking revenue from Infringing Sites, Congress also seeks to take their Internet traffic away by providing the attorney general with the ability to serve orders on "Information Location Tools" that provide Domain Name Server ("DNS") services[6] and on search engines such as Google and Yahoo!. Once served, the Information Location Tool must remove or disable access to the Infringing Site associated with the domain name and/or remove from its web content the hypertext links to the Infringing Site.

Potential Issues Identified Thus Far

Many Internet rights groups have been vocal in opposing the bill claiming that it violates free speech and stifles creativity on the internet, comparing the Act to DNS filtering efforts in other countries (e.g. China). Additionally, some domain name scholars have outlined in a whitepaper their various concerns over the design and implementation of the Protect IP Act, focusing on the ease at which

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counterfeiters and users alike could circumvent the remedial measures called for by the Act.[7] The bill is also drawing criticism from traditional supporters of strong intellectual property laws such as the *New York Times* and *Los Angeles Times* based on the broad definitions contained in the Act and the Act's anticipated effectiveness.[8] Other issues that have been raised regarding the Act include: the inherent conflict between DNS filtering and new Internet security measures; the serious security risks that will be created when users try to circumvent the proposed DNS filtering; and the collateral damage caused by DNS filtering (e.g. filtering non-infringing websites).

Current Status

The Protect IP Act was introduced into the Senate on May 12, 2011 by Senator Patrick Leahy (D-VT). It was referred to the Senate Judiciary Committee for debate and the Committee unanimously approved the bill on May 26, 2011. The Protect IP Act is currently waiting to be considered by the full Senate. However, one of the Protect IP Act's key opponents, Senator Ron Wyden (D-OR.) has placed a hold on the bill, preventing it from being voted on by the full Senate.[9] Senator Wyden stated that the Protect IP Act takes an "overreaching approach to policing the Internet when a more balanced and targeted approach would be more effective."[10] While the hold remains on the Act at this time, the Senate could remove the hold with a cloture vote. Whether such a vote will take place, or whether Congress will re-examine the Act in response to the existing criticisms, remains to be seen.

If you have any questions regarding this legislation, or anti-counterfeiting efforts, please contact Marcella Ballard at mballard@Venable.com or Chris Crook at cscrook@Venable.com.

[1] The Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011.

[2] The Combating Online Infringements and Counterfeits Act of 2010.

[3] An Infringing Site is defined by the Act as a website that "(A) has no significant use other than engaging in, enabling, or facilitating the (i) reproduction, distribution, or public performance of copyrighted works, in complete or substantially complete form, in a manner that constitutes copyright infringement under section 501 of title 17, United States Code; (ii) violation of section 1201 of title 17, United States Code; or (iii) sale, distribution, or promotion of goods, services, or materials bearing a counterfeit mark, as that term is defined in section 34(d) of the Lanham Act or (B) is designed, operated, or marketed by its operator or persons operating in concert with the operator, and facts or circumstances suggested is used, primarily as a means for engaging in, enabling, or facilitating the activities described under clauses (i), (ii), or (iii) of subparagraph (A)."

[4] 15 U.S.C. § 1111 *et seq.*

[5] This includes traditional credit card processers, as well as online processers such as PayPal.

[6] Domain Name Servers store and translate the correlation between a domain name and a given IP address.

[7] These concerns are outlined in an often cited white paper drafted by Steve Crocker, Shinkuro, Inc.; David Dagon, Georgia Tech; Dan Kaminsky, DKH; Danny McPherson, Verisign, Inc.; and Paul Vixie, Internet Systems Consortium. See Steve Croker *et al*, SECURITY AND OTHER TECHNICAL CONCERNS RAISED BY THE DNS FILTERING REQUIREMENTS IN THE PROTECT IP BILL, (May 2011) http://www.circleid.com/pdf/PROTECT-IP-Technical-Whitepaper-Final.pdf

[8] See Mike Masnick, NY TIMES & LA TIMES COME OUT AGAINST PROTECT IP ACT AS WRITTEN (June 10, 2011) http://www.techdirt.com/articles/20110609/10064014638/nytimes-la-times-come-out-against-protect-ip-act-as-written.shtml. It should be noted the *New York Times* thinks the Act should be fixed, not discarded.

[9] Senator Wyden similarly opposed COICA.

[10] See Declan McCullagh, PROTECT IP COPYRIGHT BILL FACES GROWING CRITICISM, (June 7, 2011) http://news.cnet.com/8301-31921_3-20069824-281/protect-ip-copyright-bill-faces-growing-criticism/#ixzz1P7Sc5MXR.

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Green-Lighting the Deal: Practical Tips for Drafting and Negotiating Letters of Intent

Overview

The letter of intent establishes fundamental terms of the business transaction that are determined during early phases of negotiation. The process of arriving at key terms in a letter of intent often allows negotiations to proceed on a faster time frame by avoiding the drafting time and expense that are required for full legal documentation. It also enables the parties to negotiate high-level terms without having to take a position on the multitude of issues that a complex transaction presents. This not only allows transacting parties to minimize legal costs by saving time, but also may prevent a buyer or seller from taking a stance on a point under one deal structure that it seeks to change at a later date under a new structure. The letter of intent also serves other useful functions. For example, it is a summary of the deal that can be provided to a board of directors or legal, accounting, or other business advisors needing to review the transaction. A signed letter of intent may also assist in the acquisition of transaction financing by enabling lenders to evaluate a transaction agreed to in writing by the parties.

Provisions

A letter of intent typically includes two categories of provisions: key business terms of the transaction and provisions that set forth the ground rules of the parties during negotiations. Key deal terms may include:

- description of the business transaction (e.g., asset or stock deal);
- purchase price and payment terms (e.g., cash, earn-out, debt);
- identification of important employment and non-competition agreements; or
- certain representations and warranties, covenants and indemnities.

These terms are generally non-binding and often evolve over the course of negotiations. However, it is important to state clearly whether there is an intent to be bound or not in every letter of intent. Nearly every letter of intent includes an overview of the structure of the transaction and a provision addressing the purchase price or purchase price formula. Other specific provisions may be included in the letter of intent, rather than waiting for the definitive agreement, as determined by the unique needs of a party to the transaction. For example, when representing a seller, it may be particularly helpful to address, within the letter of intent, indemnities and other issues that should be considered when agreeing upon a purchase price.

The provisions that govern the negotiation process typically address:

- access to the company, personnel, property, and books and records for due diligence purposes;
- exclusive dealing;
- break-up fees;
- conduct of business (i.e., ordinary course);
- confidentiality;
- non-disclosure (i.e., no public comment); and
- allocation of expenses.

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These components of the letter of intent usually are intended to be binding upon the parties as they proceed toward a definitive agreement; of course, the parties should be unambiguous about such intent.

Disadvantages

In some cases, a letter of intent can be disadvantageous. A letter of intent may cause transacting parties to build momentum without working through all of the issues that inevitably will have to be resolved prior to closing. If certain points are set out in the letter of intent, it can be more difficult for a party to adjust the terms because of the social norms associated with negotiation practice. Such circumstances reduce a party's bargaining leverage and may result in a deal that is ultimately less acceptable to that party.

Public Companies

If a public company is party to the transaction, a letter of intent can raise difficult disclosure issues under the securities laws. SEC rules require disclosure when there is an affirmative disclosure obligation, such as an annual or quarterly report filing, or other specific disclosure event. Depending on the context and content of the disclosure, not disclosing a potential deal can be seen as an omission. Because letters of intent are an indication of intent to enter into a transaction, they are frequently not used in the public company context.

Conclusion

Whether or not to use a letter of intent is something that lawyers should discuss early on with their clients, making sure the client understands the strategic impact of signing a letter of intent. If a buyer ultimately decides not to use a letter of intent, it is recommended that the buyer enter into a stand-alone no-shop agreement with the seller to prevent the seller from soliciting other buyers while the buyer is expending resources to evaluate the transaction. In all cases, parties need not feel bound to a rigid formulation; the content of the deal should drive the content of the letter of intent.

Sources

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3. Carolyn E.C. Paris, How to Draft for Corporate Finance §§ 4.1 – 4.4 (2006).
4. *Term Sheets*, Practical Law, 2011, http://uscorporate.practicallaw.com/topic5-380-6823.

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Supreme Court Clarifies Standard for Induced Patent Infringement in *Global-Tech*

On May 31, 2011, the Supreme Court announced that a defendant, to be liable for actively inducing patent infringement under 35 U.S.C. § 271(b), must have "knowledge that the induced acts constitute patent infringement." *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6, 2011 WL 2119109 (May 31, 2011). In the first of three patent decisions to be handed down this term, the Court parted ways with the analysis, but not the outcome, of the Federal Circuit, which had previously held that the intent element for induced infringement required only that a plaintiff show that the alleged infringer "knew or should have known that his actions would induce actual infringements." The Court nevertheless affirmed the Federal Circuit's judgment based on evidence showing that the petitioner-defendant, Pentalpha, had "willfully blinded itself to the infringing nature" of the induced conduct.

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In 1991, SEB obtained a patent for an innovative deep fryer with external surfaces that remain cool during home use. SEB's deep fryer proved to be a commercial success in the American market. In 1997, Sunbeam Products, an SEB competitor, asked Pentalpha, a Global-Tech unit and Hong Kong manufacturer, to supply it with deep fryers. Pentalpha purchased an SEB deep fryer on the foreign market, copied its noncosmetic aspects, and hired an attorney to conduct an infringement analysis of the resulting product. Pentalpha did not tell the attorney that its fryer was based on the SEB product, however, and the attorney issued an opinion letter stating that Pentalpha's fryer did not infringe any U.S. patents.

Sunbeam marketed the Pentalpha deep fryers in the United States at a lower price than SEB's product. In April 1998, SEB sued Sunbeam for infringing SEB's deep fryer patent; Sunbeam immediately notified Pentalpha of the lawsuit. Despite Sunbeam's warning, Pentalpha proceeded to sell its deep fryers to other major U.S. retailers, including Fingerhut Corp. and Montgomery Ward & Co. After settling with Sunbeam, SEB sued Pentalpha for infringing its deep fryer patent—both directly and by actively inducing the infringement of Sunbeam, Fingerhut, and Montgomery Ward. A jury returned a verdict for SEB on both theories, and the district court denied post-trial motions by Pentalpha. On appeal, the Federal Circuit rejected Pentalpha's claim that SEB failed to prove that Pentalpha actually knew about SEB's patents prior to April 1998. Instead, the Federal Circuit ruled that SEB had demonstrated the requisite intent for induced infringement by showing that Pentalpha "deliberately disregarded a known risk that SEB had a protective patent." *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360, 1377 (Fed. Cir. 2010).

On review, the Supreme Court agreed with defendant Pentalpha that the intent element of induced patent infringement requires that a defendant have actual knowledge of the infringed patent, not just deliberate indifference to a known risk of its existence. In doing so, the Supreme Court noted that, because "induced infringement was not considered a separate theory of indirect liability" prior to the 1952 enactment of section 271, the law of contributory infringement should guide the Court's decision. According to the Court, it "has become a fixture in the law of contributory infringement under section 271(c)" that a contributory infringer must "know that the combination for which his component was especially designed was both patented and infringing." Accordingly, because contributory infringement under section 271(c) requires that the contributor have knowledge of the infringed patent's existence, the Court held that the same knowledge is required for induced infringement under section 271(b).

Although the Supreme Court agreed with Pentalpha that the Federal Circuit incorrectly applied the "deliberate indifference" standard, the Court nevertheless affirmed the lower court's judgment against defendant Pentalpha by invoking the criminal law doctrine of "willful blindness." In the Court's formulation, willful blindness occurs when a defendant "takes deliberate actions to avoid confirming a high probability of wrongdoing." It is as if (1) the defendant subjectively believes that there is a high probability that a fact exists, and (2) the defendant can "almost be said to have actually known the critical facts." Although the theory traditionally arises in criminal law, the Court adapted the doctrine to "civil lawsuits for induced patent infringement" based on its "long history" and "wide acceptance in the Federal Judiciary." The Court ruled that the jury had "more than sufficient" evidence to find that Pentalpha had "willfully blinded itself to the infringing nature of the sales it encouraged Sunbeam to make," especially in light of Pentalpha's decision to copy a foreign, unmarked version of SEB's deep fryer and to withhold that fact from its patent attorney.

The Supreme Court's decision in *Global-Tech* should be a slight boost for manufacturers which create and sell imitative products intended for domestic resale to consumers. Whereas previously a patent owner could sue such a manufacturer for induced infringement by simply alleging that the manufacturer "should have had knowledge" of the infringed patent, now a patent owner must plausibly allege that the manufacturer had "actual knowledge" of the infringed patent's existence. "Actual knowledge" may be satisfied by "willful blindness." We predict, however, that juries will be confused by the elements of that doctrine: What is the defendant's "subjective intent"? What is a "high probability"?—Preponderance of evidence? Clear and convincing evidence? Beyond a reasonable doubt? And what constitutes a "deliberate action" to avoid confirming that probability? Patent litigation under an induced infringement theory just got more complicated.

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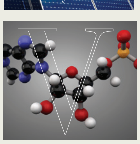

FREQUENTLY ASKED QUESTIONS

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HOW will the VVS program work? Investors, incubators and universities refer candidate companies who obtain an application from Venable. Applications are reviewed and selected companies are offered a one-year renewable engagement in the VVS program as clients.

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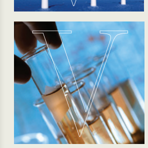

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