BHIPP2024

BakerHostetler IP PERSPECTIVES

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Letter from the Chair

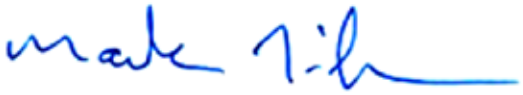
Dear Friends,

I am pleased to introduce our first annual BakerHostetler IP Perspectives (BHIPP). BHIPP is a concise selection of developments in Intellectual Property that we hope you find interesting and valuable.

Many years past the enactment of the America Invents Act in 2011, the high-water mark of district court patent infringement case filings in 2013 and the Supreme Court's 2014 decision in *Alice Corp. v. CLS Bank*, 2023 saw the fewest number of federal court patent cases in over a decade. ITC and PTAB proceedings were similarly at decadelong lows. The Supreme Court weighed in on enablement, artificial intelligence was front and center, and offshore outsourcing continued to boom. And the first court decision addressing non-fungible tokens and trademark infringement, *Hermès v. Rothschild* , came down, boosting IP owners' ability to enforce their rights in the digital marketplace. Our attorneys handled the *Hermes* case, the most prominent in the trademark field in 2023, garnering recognition of the practice as U.S. Trademark Litigation Firm of the Year for 2022-23 by Global IP Awards and a first runner-up award for Litigator of the Week by Litigation Daily. This was on the heels of two AmLaw runner-up awards for Litigator of the Week for the handling of other cases by our IP litigators in 2022.

I am proud of the many accomplishments of our highly recognized IP attorneys and our many rankings in Chambers, Legal 500, IAM Patent 1000, WTR 1000 and elsewhere. 2023 has proven to be a unique and uniquely gratifying year. I hope you enjoy this inaugural BHIPP, and we look forward to continuing to meet our clients' needs and exceed expectations in 2024.

Best regards,



Mark Tidman, Chair, Intellectual Property Practice Group

Moving Forward

Trends, triumphs and challenges – the first annual BakerHostetler IP Perspectives (BHIPP) provides insights on all three fronts in the complex world of intellectual property (IP). From the potential hazards associated with adopting artificial intelligence (AI) and the ubiquitous fraud that surrounds copyrights and trademarks to the due diligence required of offshore outsourcing and the fallout of a drop in patent litigation, risks abound.

BHIPP offers a critical reminder of why so many business leaders turn to our award-winning IP attorneys to confront the constantly evolving landscape.

Artificial Intelligence: Risks and Rewards

The pitfalls of modern technology have become clearer with the advent of generative AI, requiring companies to adopt AI usage policies. This year, our attorneys have seen noteworthy growth in requests for counsel involving the legal consequences of AI technology, increasingly integrated with the development, management and protection of IP.

> "Companies will have to decide how much AI involvement to permit, weighing both the need to own the IP that results from such efforts and the efficiency that can be gained by using AI."

> "Contractually allocating infringement risk between AI providers and their customers, as well as developing internal governance to mitigate risk, are becoming integral parts of companies' AI policies."

- **Using AI to create IP.** What seems to be settled – AI cannot be an "author" under the Copyright Act or an "inventor" under the Patent Act – will have implications for a company's research and development procedures and, ultimately, their IP enforcement activities. How much human involvement is necessary to confer either authorship or inventorship is going to be fact- and technology-specific. Companies will have to decide how much AI involvement to permit, weighing both the need to own the IP that results from such efforts and the efficiency that can be gained by using AI. Additionally, companies will need to figure out processes to document the role AI played in the development of the IP. In enforcement proceedings, accused infringers are likely to attack the scope of copyright protection and the enforceability of patents based on whether human involvement in the creation of the IP was sufficient.

- **Using IP to improve AI.** Content and data are fuel for AI technology, and technology providers are looking for new ways to incorporate and develop AI technology. While negotiating data usage rights in technology agreements has become commonplace, these clauses need to be revisited, since previously broad data usage grants have different implications in the context of AI. As more companies use AI technology in their business, there will be renewed interest in negotiating data usage rights and confidentiality provisions.

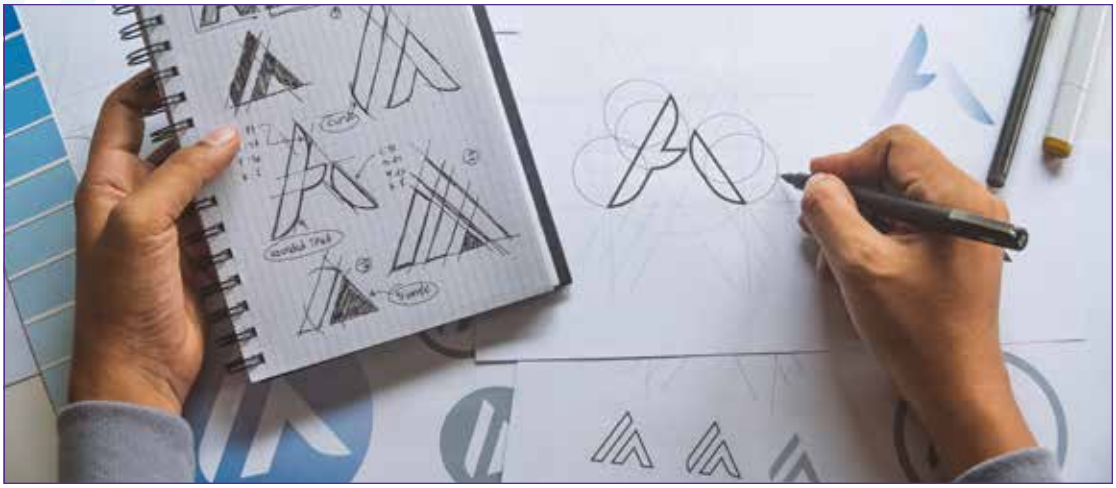
- **Using AI to protect IP.** AI technology has the potential to improve IP program efficiency, including drafting and prosecuting patent applications and managing IP portfolios. The efficacy of AI tools varies greatly, and evaluating different solutions is a significant investment in the short term that can have increased benefits in the long term. Plus, in addition to standard data privacy and security concerns, IP practitioners will have to consider the implications of using AI with client information while still maintaining privilege.

- **Mitigating AI infringement risks.** While infringement lawsuits targeting AI-generated content have focused so far on AI providers, companies using AI recognize infringement risk following downstream use of AI-generated content. AI providers are responding with indemnification and other contractual protections for their customers who find themselves accused of infringement. Contractually allocating infringement risk between AI providers and their customers, as well as developing internal governance to mitigate risk, are becoming integral parts of companies' AI policies.

Trademark and Copyright: The Good Fight

In 2023, BakerHostetler saw cutting-edge legal issues and also the continuing evolution of fraudulent schemes targeting brand owners. Our attorneys have counseled clients on new technologies like non-fungible tokens (NFTs), and we have also dealt with increasingly sophisticated scams involving the misuse of client brands.

> "The *Wall Street Journal* described the trial as "... one of the first to reckon with how NFTs intersect with intellectual-property law and free-speech protections for art."



- **A landmark in the digital realm.** BakerHostetler secured an important win for client Hermès International when a federal judge permanently blocked artist Mason Rothschild from selling his MetaBirkin NFTs. The decision by Judge Jed Rakoff of the U.S. District Court for the Southern District of New York came just four months after BakerHostetler convinced a federal jury in the same court that Rothschild's MetaBirkin NFTs infringed trademarks protecting the name and appearance of the luxury Birkin bags made by Hermès. In his decision, Rakoff wrote that this permanent injunction was justified because Rothschild's continued marketing of the NFTs would likely confuse customers and irreparably harm Hermès. The Wall Street Journal described the trial as "one of the first to reckon with how NFTs intersect with intellectual-property law and free-speech protections for art." It called the verdict "a boost for companies seeking to protect their trademarks in the digital realm." Because of this win, BakerHostetler was named first runner-up Litigator of the Week by for "securing a major trademark trial victory for luxury retailer Hermès International in an early test of how intellectual property laws apply to nonfungible tokens."

HERMÈS
PARIS

- Web domain scams persisted in 2023, with bad actors setting up fraudulent web domains that often targeted the financial sector, biotech, retail and information technology businesses. We remained vigilant, and our attorneys filed and prevailed in 40 Uniform Domain-Name Dispute-Resolution Policy actions to transfer more than 50 squatted domains to their rightful brand owners. We also took down numerous infringing websites through the Digital Millennium Copyright Act.

- Clients have increasingly been on the receiving end of false and misleading trademark-related solicitations. Scammers have become more sophisticated with their solicitations by claiming to be attorneys or law firms with expertise in trademark law. They are targeting both new applicants and established registrants. These seemingly legitimate communications usually urge the recipient to take immediate steps to either register their brand name or renew their trademark registration. One approach used is warning the recipient about a third party having an interest in registering the same business name, further cautioning that this third party could abscond with their brand name unless they register it first. The email will often mention that "the USPTO treats applications on a first-come, first-served basis" to raise apprehension and garner immediate action from the recipient.

The Build-Operate-Transfer (BOT) Model: Careful Consideration

The BOT model continues to boom among business owners, courtesy of its cost-saving structure, opportunities for resource control and more. Our attorneys have been assisting clients navigate and address many critical issues to be considered for successful BOT structure, including intellectual property, tax, labor and employment, export compliance, privacy, and data security.

> "In part, offshore outsourcing has surged because of the need for companies to reduce their operating costs in the current economic slowdown."

> "The upside is that the company can take advantage of some of the financial benefits of outsourcing, while assuming greater resource control and security."

> "Navigating the complexities of foreign laws drives home the importance of staffing managers and executives familiar with local practices and local counsel to assist with understanding the region's compliance aspects."

- **An overseas opportunity.** One of the trends that continues to escalate, especially in the IT industry, is the use of low-cost labor centers overseas. In part, offshore outsourcing has surged because of the need for companies to reduce their operating costs in the current economic slowdown. The outsourcing model sees a company or a client hire a third party outsourcing company and essentially pay for contract labor or managed services.

  An alternative rapidly gaining popularity is the build-operate-transfer/captive-site model, in which a company creates its own captive site, or subsidiary, at an offshore location and staffs it with locals who become the company's employees. The upside is that the company can take advantage of some of the financial benefits of outsourcing, while assuming greater resource control and security. Generally, the company enters into a contractual relationship with a service provider to set up, optimize and run an IT or business process service delivery operation, with the contractually stipulated intent of transferring the operation to the organization as a captive center.

- **Investigating the road ahead.** The BOT model offers cost savings; however, there are challenges that must be addressed. The company must conduct due diligence, since a tremendous amount of financial investment is required from the outset. It must also pay close attention to an unfamiliar culture and foreign accounting, legal, regulatory, operational, political and business process practices. Regardless of size, a company must fully evaluate why it wants to create an offshore entity and what it hopes to accomplish. Offshore captive sites can result in remarkable cost savings, but the expectation of an instant financial benefit should not be the only reason to pursue a project.

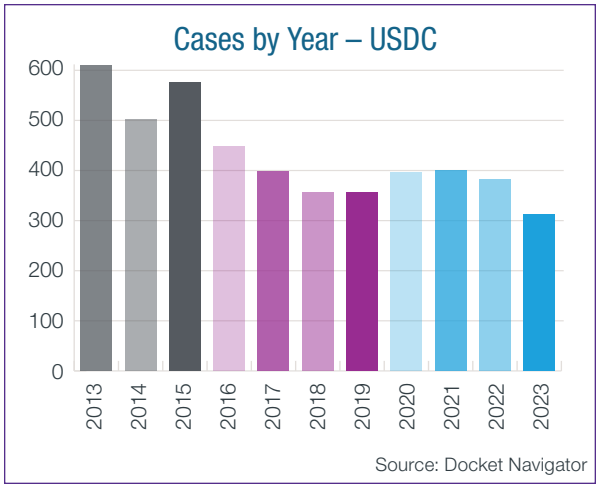
  Navigating the complexities of foreign laws drives home the importance of staffing managers and executives familiar with local practices and local counsel to assist with understanding the region's compliance aspects. By planning ahead, acknowledging the challenges of setting up shop abroad and partnering with the right parties, service providers and counsel – including in the areas of tax, labor and employment, export compliance, privacy, and data security – companies can make something half a world away seem much closer.

Patent Litigation: How Low Can You Go?

There's no question that new patent litigation case filings are down across the board. However, the reason for the downward trend depends on whom you ask. Our attorneys examine the numbers behind the decline and enlist their insights and experiences to explain the drop in filings.

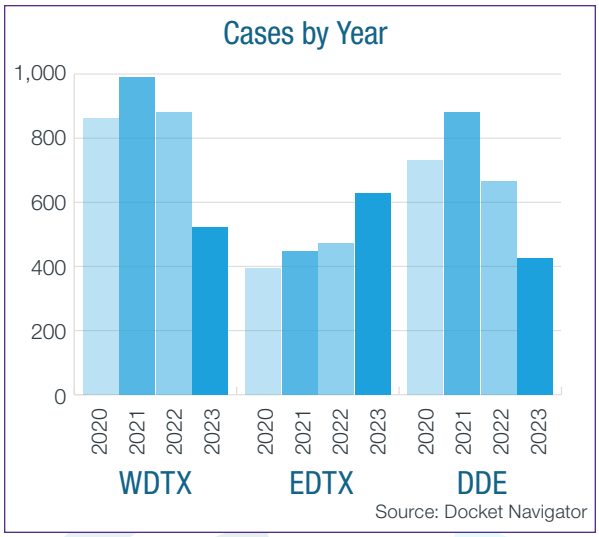
> "The number of district court patent cases filed in 2023 appears to have reached a new low"

- **New federal district court patent cases.** The number of district court patent cases filed in 2023 appears to have reached a new low: There are fewer than 3,000 for the first time since the enactment of the America Invents Act (AIA) in 2011. This is less than half of the more than 6,000 cases filed in 2013 and more than 20 percent below the number filed in 2022. While pundits have several theories about the rationale for the drop, the two most common seem to be the economy – perhaps signaling diminished recession fears in 2023, as opposed to in 2020, which saw an increase in patent cases along with recession fears – and the Supreme Court's 2014 *Alice Corp. v. CLS Bank* decision.



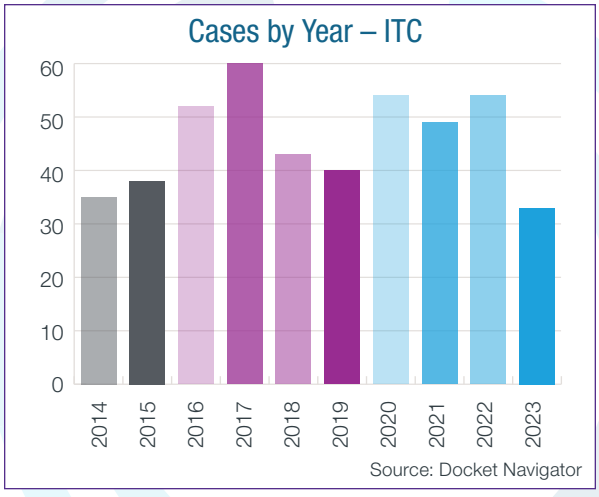
- **The three busiest district courts.** The change in the assignment rules for new patent cases in the U.S. District Court for the Western District of Texas in summer 2022 appears to have led to reduced filings in that court. Nonetheless, this district maintains a heavy docket. The following shows a comparison of patent-case filings in the three busiest district courts since 2020.

  While the rumor mill abounds with stories of a Judge Alan Albright move to Austin and questions naturally percolate on the effect that such a move might have on the Western District's docket, the mill has plenty of room for other rumors. One foreshadows Albright staying put; another suggests that the case-assignment rules for the Western District may be changed. Perhaps 2024 is the year to settle the rumors.



> "Like new district court filings, new Section 337 filings with the International Trade Commission (ITC) are down significantly from those in 2022."

- **New Section 337 Filings in the International Trade Commission.** Like new district court filings, new Section 337 filings with the International Trade Commission (ITC) are down significantly from those in 2022. As of Nov. 27, 2023, the ITC has seen a total of 28 new actions for the year, compared to 54 in 2022. This number is the lowest since 2014, which had a total of 35 new actions.



Patent Trial and Appeal Board: Following the Trend

Statistics show that petitions for the U.S. Patent Trial and Appeal Board (PTAB) in 2023 have followed the downward trajectory of patent litigation. Docket Navigator reports 1,081 petitions for *inter partes* review (IPR) and post-grant review as of Nov. 27, 2023, compared to 1,358 for 2022 and the far lower 1,797 petitions in 2015.

The PTAB reports a 67 percent petition-institution rate for its fiscal year 2023, up a tick from the 66 percent of FY 2022. The PTAB also reports that the trend for electrical/computer-related petitions remains above 60 percent of all petitions filed in 2023, with mechanical and business-methods inventions accounting for the next-highest, at 20 percent; bio/pharma at 7 percent; and chemical at 3 percent.

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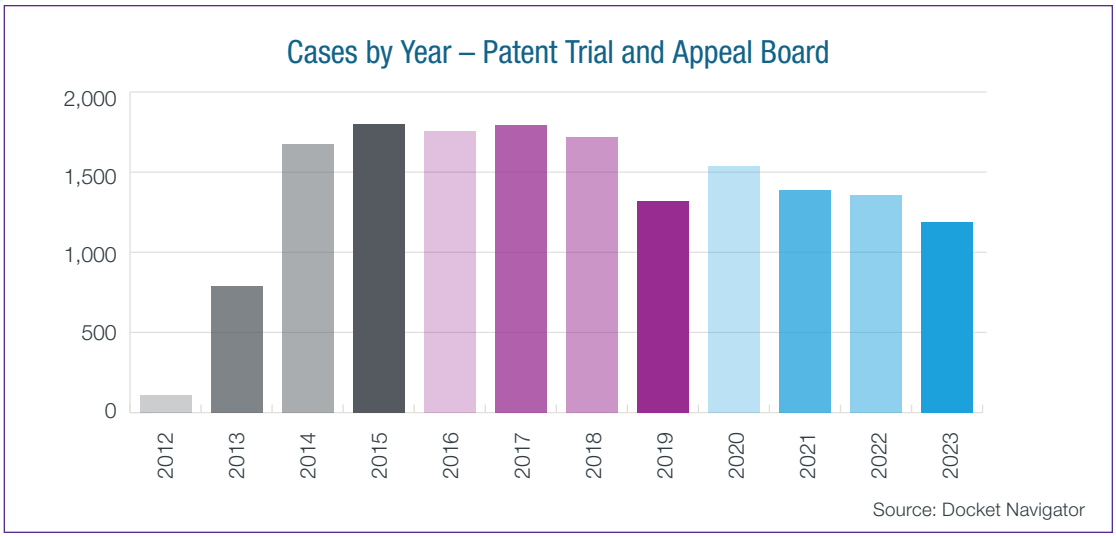

- **IPR estoppel clarified.** Speaking of the PTAB, 2023 saw the U.S. Court of Appeals for the Federal Circuit clarifying estoppel related to PTAB proceedings. In *Ironburg Inventions Ltd. v. Valve Corp.*, 64 F.4th 1274 (Fed. Cir. 2023), the appeals court settled a question that had plagued patent litigants and district courts since the 2011 AIA enactment – namely, what does it mean to say estoppel attaches to any invalidity ground that "reasonably could have been raised" during IPR? The Federal Circuit has now clarified that an invalidity ground reasonably could have been raised in an IPR proceeding if a "skilled searcher" conducting a diligent search reasonably could have been expected to discover the ground at the time the petition was filed. Id. at 1298. The burden of proving this is a preponderance of the evidence and lies with the patentee. Id.

Trade Secret Litigation: The Power of Protection

If, as the saying goes, an ounce of prevention is worth a pound of cure, then the insight provided by our Trade Secret Litigation team is weighty counsel that clients are wise to heed. Our attorneys' understanding of the strength of nondisclosure agreements has led to successful litigation for business owners, while outcomes in certain jurisdictions highlight the misappropriation of ideas claim as an alternative winning route.

"The absence or insufficiency of non-disclosure agreements may lead to the end of trade secrets."

"A number of jurisdictions allow a plaintiff to pursue a claim for misappropriation of ideas. This type of claim is susceptible to a preemption argument under certain circumstances as conflicting with patent law governing the protection of ideas."

- **Nondisclosure agreements protecting trade secrets can be critical.** The absence or insufficiency of nondisclosure agreements may lead to the end of trade secrets. In Town & Country Linen Corp. and Town & Country Holdings, Inc. v. Ingenious Designs LLC, Joy Mangano and HSN, Inc. (U.S. District Court for the Southern District of New York, Case No. 18-cv-5075 (Judge Lewis J. Liman), the court granted summary judgment for our firm's clients on all but one of plaintiff's alleged trade secrets, based on the plaintiff's disclosure of the trade secrets to Chinese manufacturers without nondisclosures in place or other reasonable safeguards to protect the information.

- **If you lost your trade secret, try an idea.** A number of jurisdictions allow a plaintiff to pursue a claim for misappropriation of ideas. This type of claim is susceptible to a preemption argument under certain circumstances as conflicting with patent law governing the protection of ideas. If not preempted, it can be a powerful tool. In New York, the cause of action for misappropriation of ideas contains two similar elements: "(1) a legal relationship between the parties in the form of a fiduciary relationship, an express contract, implied contract, or quasi contract; and (2) an idea that is novel and concrete." Schroeder v. Pinterest Inc., 17 N.Y.S.3d 678, 692 (1st Dep't 2015). In some jurisdictions (e.g., New York), the claim does not even require that the idea be maintained as a secret. See Victor G. Reiling Assocs. v. Fisher-Price, Inc., 450 F. Supp. 2d 175, 182–83 (D. Conn. 2006) ("A requirement that the idea be 'secret,' however, does not appear in New York misappropriation law.") The idea does not require extensive prosecution and defined claims that come with patents, and the claim does not have a date upon which the idea expires.

Biotechnology, Chemical and Pharmaceutical: Supreme Showdown

This year, a lawsuit that had wound its way through the judicial system for nearly 10 years finally had its day in the U.S. Supreme Court – and made waves in the biotechnology, chemical and pharmaceutical communities. Our attorneys dissect the closely watched decision and how it impacts clients.

> "[T]he specification must enable the full scope of the invention as defined by its claims. The more one claims, the more one must enable."

- ***Amgen Inc. v. Sanofi.*** On May 18, the Supreme Court affirmed the U.S. Court of Appeals for the Federal Circuit's decision in Amgen Inc. v. Sanofi, finding that Amgen's claims lacked enablement for attempting to cover "an entire genus" of antibodies.

- **Demonstrating enablement.** Amgen's patent disclosed the amino acid sequence of 26 antibodies that were said to fall within the scope of the claimed genus, but according to the Supreme Court, Amgen's claims covered more than the 26 antibodies that Amgen described. To demonstrate enablement, per the Patent Act, a patent applicant must be able to describe its invention "in such full, clear, concise and exact terms as to enable any person skilled in the art ... to make and use the [invention]." In its decision, the court wrote, "Amgen's patents failed to meet [the enablement] standard because they sought to claim for Amgen's exclusive use potentially millions more antibodies than the company had taught scientists to make."

  While Amgen argued that the disclosed methods would enable one skilled in the art to make and use the entire class of antibodies without undue experimentation, the court disagreed, saying that the methods would, in fact, force scientists to engage in "painstaking experimentation."

> "It may suffice to give an example if the specification also discloses 'some general quality ... running through' the class that gives it 'a peculiar fitness for the particular purpose.'"

- **Guiding principles.** Without describing exactly how entire classes of processes, machines, manufactures or compositions of matter might meet the enablement requirement, the court attempted to offer some guiding principles, largely in alignment with previous federal court decisions:
  - » A specification "must enable the full scope of the invention as defined by its claims," but it need not always describe how to make and use every embodiment.
  - » Disclosing a "general quality" of the genus may help provide enablement. (The court left the meaning of this unclear.)
  - » A claim may be enabled even if a reasonable amount of experimentation is needed to make and use the claimed invention. Here, the court confirmed that "reasonableness in any case will depend on the nature of the invention and the underlying art."
  - » Functional genus claims are not dead, but "the more a party claims for itself, the more it must enable."