

Intellectual Property

Don't Forget About Rule 131 Declarations: A Potentially Useful Tool in Your Intellectual Property Toolkit

By Jiaxiao Zhang, McDermott Will & Emery LLP

Do you manage an intellectual property (IP) portfolio that includes patents or patent applications? Are you looking to strengthen your defenses to protect your inventive products?

One option to keep in mind when resolving the novelty of your patent application or validity of your patent is a declaration or oath under 37 C.F.R. § 1.131 ("Rule 131"). The **Rule 131 declaration** establishes invention of the subject matter *prior* to the effective date of another reference or activity.



For example, your patent application is rejected by the U.S. Patent and Trademark Office (USPTO) as already disclosed by Reference "X." You believe that your invention pre-dated Reference X. Submitting a Rule 131 declaration could antedate Reference X.

Alternatively, your issued patent is challenged in the USPTO Patent Trial and Appeal Board (PTAB) through post-grant proceedings (e.g., *inter partes* review (IPR), post-grant review (PGR), covered business method review (CBM), or *ex parte* reexamination). A Rule 131 declaration could antedate reference(s) cited in these proceedings against your patent.

In both situations, the goal is to establish an earlier invention date so that the reference(s) are no longer *prior* art, and thus not citable against your application/patent.

Rule 131 requires a showing of facts to demonstrate either [1] prior reduction to practice or [2] prior conception coupled with due diligence. Exhibits of drawings or records must accompany and form part of the declaration, or their absence be explained. So remind employees with R&D responsibilities to keep notes, logs, and records!

Option [1]: **reduction to practice**

- "actual reduction to practice"
 - If a device that performed or practiced the claimed invention *existed, and worked* for its intended purpose.
- "constructive reduction to practice"
 - Filing a patent application on the claimed invention
 - Presumably, in order to meet application filing requirements, the inventor knew *what* their invention was, *how* it worked, and *described* these aspects.
- Double check filing dates on any relevant invention(s).

Option [2]: **conception of the invention plus due diligence**

- Since a patent (potentially the right to exclude others from your claimed invention) is at stake, thinking or conceiving of the *idea* is not enough.
- To *possess* the invention, the inventor must possess an operative method of making it.
- Recognizing that this takes time, the USPTO allows inventors (and representative entities) to demonstrate due diligence towards reduction to practice.
- To ease this burden, **reasonably continuous activity** may show such diligence.
 - Does not have to be every day (may include periods of inactivity)
 - Working on improvements and evaluating alternatives does not negate diligence.

Reach out to your IP counsel to discuss strategies to overcome prior art, and to ensure your records management procedures support your IP portfolio.

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Intellectual Property

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Design Protection in the Fashion Industry

By Michael K. Friedland and Lauren Keller Katzenellenbogen

There are few industries for which effective design protection is more critical—and more challenging—than fashion. Prestigious fashion products command premium prices for their designs. Naturally, these products spawn imitators, and streets, stores, and the Internet are flooded with everything from designer knock-offs to outright counterfeits.

The law provides many tools to allow creators of fashion products to protect and enforce their innovative and valuable designs. Each tool has advantages and disadvantages for particular fashion products.

Design Patents

A designer may obtain a design patent for “any new, original and ornamental design for an article of manufacture.” The designer must file the application no later than one year after the designer publicly disclosed it, used or offered it for sale.

The design patent application is straightforward. Its substance consists of images of the design. A design patent remains in force for 14 (if filed before May 13, 2015) or 15 years (if filed on or after May 13, 2015) once issued.

Enforcement of a design patent is also straightforward. The test for infringement is the “ordinary observer” test. Under this test, a product infringes if, “an ordinary observer,” familiar with older designs would be deceived into believing the accused infringer’s design is the same as the patented design. The designs need not be identical, and minor differences between them will not prevent a finding of infringement.

A designer can seek lost profits or a reasonable royalty, the potential to increase damages three-fold if the infringement was willful, and an injunction against further infringement. Alternatively, the plaintiff can elect to receive disgorgement of the profits earned by the infringer for its sale of the “article of manufacture” containing the design. (There is ongoing uncertainty as to how to determine these profits in the context of a multi-component product, as the Supreme Court has not yet articulated a test for making that determination.)

Design patents provide clear advantages for protection of fashion products that:

- have been on sale for less than one year;
- have not already had sufficient sales, marketing, and publicity to cause the consuming public to associate the design with the designer (a requirement for trade dress as discussed below);
- have ornamental features that cannot be separated from the products into which they have been incorporated.

Trade Dress

Trade dress generally refers to product configurations, designs, and packaging that the public recognizes as source identifiers. Features such as the “size, shape, color or color combinations, texture, and graphics” can all qualify. A trade dress which the public recognizes as a source identifier is said to have acquired “secondary meaning.” The features must also be “nonfunctional”—not essential to the use or purpose of the product or add a competitive advantage to the product. To determine if a trade dress has acquired secondary meaning, courts typically look to evidence including the length and manner of use of the trade dress, the volume of sales, the amount and manner of advertising, the nature of use of the trade dress in media, consumer-survey evidence. To maintain this secondary meaning, a designer must enforce its trade dress against infringers. To prevail in an infringement action, a plaintiff must prove a likelihood of confusion among consumers between the mark owner’s trade dress and the infringer’s. Designs often rely on surveys and evidence of actual confusion.

A designer can seek lost profits, a reasonable royalty, disgorgement of the infringer’s profits, punitive damages, an injunction, and attorneys’ fees.

Trade dress protection is particularly well-suited to protect the design of fashion products where:

- sales, marketing, and publicity relating to the product are sufficient to establish that the design has acquired secondary meaning;
- the design is in continuous use; and

- the owner of the mark is willing to continuously police the marketplace and enforce its rights against infringers.

Copyright

For purposes of fashion products, copyright protects original “pictorial, graphic, and sculptural works.” The copyright right exists upon the creation of the work. However, the copyright cannot be enforced until the designer has obtained a registration for the copyright.

To prove infringement, a plaintiff must prove that the defendant copied the plaintiff’s copyrighted work. Courts recognize, however, that direct evidence of copying is frequently difficult to obtain. Accordingly, a plaintiff can satisfy its burden of proving copying by providing evidence showing that the defendant had access to the plaintiff’s work and that the two works are substantially similar.

Where the design is part of a useful article, copyright protects the design only if the design is separable from the useful article and can still be conceived as a copyrightable work, either by itself or incorporated into a different useful article. Artwork imprinted on a t-shirt easily meets that test, as would the design of an embroidery pattern on a pair of jeans. A figurine that is part of the base of a lamp also qualifies. The overall design of a watch likely would not qualify, although portions of the watch, such as an artistic design on the face, bracelet, or back might meet this test.

Copyright protects a particular artistic expression; it does not protect an idea. Although copyright can protect a particular floral pattern on fabric, it does not protect the idea of fabric with flowers. Copyright can also protect an original arrangement of unprotectable elements. Thus, an artist can take images of flowers that individually would not be protectable and arrange them in an original way so that the particular arrangement could become a protectable design.

A copyright owner can seek actual damages or the profits of the infringer. The copyright owner can alternatively seek statutory damages, which can range from \$200 to \$150,000 per infringed work.

Copyright is an effective option for protection of fashion product designs where:

- the product design incorporates a pictorial, graphic, or sculptural work that is separable from the useful article; and
- the pictorial, graphic, or sculptural features of the design are sufficiently original to qualify for copyright protection.

Although U.S. law provides tools for protection of fashion designs, no single tool provides the complete answer for protecting fashion products. Although there is no one-size-fits-all tool for protecting fashion designs, the law does provide a tool box with enough tools that are versatile enough that a manufacturer can protect almost any original design.

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Intellectual Property

The Value of Litigation Support in Intellectual Property Disputes

By Ryan Nguyen, CPA, Senior Forensic Manager and Gina Lara, MBA, CFP®, Tax and Forensic Accounting Manager

In litigation support, win or lose isn't as important as by how much. This point is becoming especially significant in intellectual property disputes. Some examples:

Trademark Infringement

We were engaged by Defendant's counsel to provide calculations related to a company that imported and sold purportedly "knock-off" designer apparel. Plaintiff sued the company in Federal Court alleging copyright, trademark, and trade dress infringement. Defendant was found liable for damages arising from three years of sales activity. Since the company maintained poor accounting records, Smith Dickson's work involved reconstructing records from handwritten notes, testing the accuracy of the information, identifying sales data and deductible incremental costs, and determining the unjust enrichment of Defendant. Our testifying expert's opinion of the economic damages ultimately reduced the company's damage payments by over \$14 million.

Trade Secret Violations

In a theft of trade secrets case, we were retained by Plaintiff, the nation's second largest real estate industry conglomerate, to assess economic damages arising from a former employee who took a customer list and other confidential information with him to his new employer. Our computations of Plaintiff's profits from these customers before and after the incident revealed that our client suffered over \$1 million in lost profits.

Licensing Disputes

We were engaged by Plaintiff who is one of the world's largest providers of semiconductor and systems solutions for the aerospace and defense industry. The client sued for unpaid royalties from a patented photodiode they licensed to the Defendant. Smith Dickson's expert testified that Defendant's financial records exposed they were unjustly enriched by \$5.4 million. The jury awarded our client this damages amount plus interest.

Smith Dickson, an Accountancy Corporation, has decades of litigation support experience in matters involving intellectual property. Our work includes analyzing financial information, evaluating claims, calculating damages, preparing expert reports, and rendering expert testimony.



LITIGATION SUPPORT for INTELLECTUAL PROPERTY

Smith Dickson, CPAs has decades of experience in litigation support for matters involving intellectual property.

- Damage Calculations
- Lost Profits/Unjust Enrichment
- Forensic Accounting
- Expert Testimony
- Trademark Infringement
- Trade Secret Violations
- Patent Disputes
- Licensing Disputes
- Copyright Disputes



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Intellectual Property

The United States Supreme Court Grants More Protection to Confidential Information Submitted By Companies to Government Agencies

By Michael Katz and Charles S. Barquist

On June 24, in *Food Marketing Institute v. Argus Leader Media*, the U.S. Supreme Court altered the rules governing whether confidential information submitted to a government agency can be discovered under the Freedom of Information Act (FOIA). Until this ruling, companies seeking to prevent disclosure were required to show that they would suffer substantial competitive harm. Absent that showing, a competitor could use a FOIA request to obtain trade secrets that would otherwise be protected under the state's Uniform Trade Secret Act or the federal Defense of Trade Secrets Act. *Food Marketing Institute* eliminated the substantial competitive harm requirement. The significance for any company that must provide confidential information to the Federal Government is that it now has greater confidence that its data will remain secret.

Food Marketing Institute involved a FOIA request to the USDA by a South Dakota newspaper seeking disclosure of data from stores participating in the federal food stamp program. FOIA requires Federal agencies to disclose public records, but exempts from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential [information.]" 5 U.S.C. § 552(b)(4). The USDA refused to produce the requested information, citing its confidentiality.

A federal district court ordered the records produced because the USDA could not show that disclosure was "likely . . . to cause substantial harm to the competitive position of the person from whom the information was obtained." At trial, USDA witnesses testified that retailers closely guard the data and that disclosure would harm the stores by allowing competitors to model consumer behavior better. The District Court found the risk of harm to be incremental, not "substantial." The Eighth Circuit affirmed.

The question presented to the Supreme Court was whether "the statutory term 'confidential' in FOIA Exemption 4 bears its ordinary meaning, thus requiring the



Government to withhold all 'commercial or financial information' that is confidentially held and not publicly disseminated—regardless of whether a party establishes substantial competitive harm from disclosure." Justice Gorsuch, writing for the six member majority, reasoned that the dictionary definition of "confidential" was "private" or "secret." Confidentiality might therefore require two conditions:

First, the information must customarily be closely held by the person imparting it. Second, the person receiving the information must provide an assurance that it will stay secret. Under the facts of the case both conditions applied, because the USDA had promised the stores that it would keep the information secret. Under the Court's reasoning, it is unclear whether the second condition must be met to preclude disclosure under FOIA going forward. The majority rejected the "substantial harm" requirement. The new test applies regardless of whether information is voluntarily disclosed or compelled by the government.

Justice Breyer, joined by Justices Ginsburg and Sotomayor, dissented on the grounds that the majority test would substantially erode the very purpose of FOIA to promote government transparency.

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