IP Transaction Trends and Takeaways: What We Learned in 2014, and What to Expect Going Forward

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It doesn't take a crystal ball to see the vital importance of intellectual property to our economy in 2015 and beyond. In a trend noticeable since the beginning of this decade, legal disputes in the intellectual property sphere have occupied greater attention, at the highest levels of government, from lawmakers and jurists. For those practicing IP law in any form—or with clients affected by it—the trends are interesting to follow and takeaways worth summarizing from the case law from 2014.

IP TRENDS

IP-based transactions drive the new economy. According to industry analysts, 2014 was a boom year for IP-intensive industries. With healthcare and technology sectors leading the way, IPOs were up 24% over 2013, more than double 2012, making 2014 the most active year since 2000. M&As and licenses are likewise expected to set post-recession records in the near future. Even more telling, 80% of corporate value today now resides in intangible assets like intellectual property, up from just 32% in 1985.

Supreme Court's focus on IP cases continues. Last year was another busy one for IP jurisprudence at the U.S. Supreme Court, with ten intellectual property cases on the docket that covered the waterfront of patent, trademark, and copyright issues—including one , *Alice Corp. v. CLS Bank Int'l*, on the patent eligibility of business method/software-related claims. The Supreme Court unanimously reversed the Federal Circuit five times, while still leaving highly contested issues less than settled. In the course of rejecting the patent at issue in *Alice*, for instance, the Supreme Court declined to issue firm guidance on the kinds of software eligible for patent protection. As a result, we can expect continued uncertainty in the coming year as lower courts grapple to apply these new decisions outside of their immediate facts.

We can also expect that the Supreme Court will continue to take elevated numbers of IP cases. The Court has already accepted review of four IP cases for the coming term, including one, *Kimble v. Marvel Enters. Inc.*, raising the question of the enforceability of agreements to pay royalties after patent expiration.

Scope of "what's patentable" continues to shift. Although the statute that defines patentable subject matter has not changed since 1952, Supreme Court decisions applying the statute's broad categories to new technologies (such as found in the decisions in *Alice*, *Myriad*, *Prometheus*, and *Bilski*) have continued to shift the line between what's in and what's out. The USPTO issued interim guidelines in December to articulate the types of inventions deemed patent-eligible—at least the eighth such attempt since 2009, and the third in 2014 alone. The Supreme Court's "judicial exceptions" to patentable subject matter affect not only what can be patented, but also the enforceability of existing patents, meaning increased uncertainty in IP-intensive industries.

Giving away rights remains a risk. A patent owner's rights end with the first authorized and unrestricted sale of a patented item. Seems like common sense, but the Supreme Court's 2008 decision in *Quanta Computer Inc. v. LG Electronics, Inc.*, put licensors on notice that sales may be unintentionally "authorized"—and patent rights inadvertently exhausted—by not directly linking the grant of rights to compliance with the license terms. In 2014, at least two district courts issued decisions that could potentially extend the principle, one holding that patent exhaustion applies to the entire patent, not just on a claim-by-claim basis, and a second holding that patent rights may be exhausted by *offering* a covenant not to sue, even when the parties have not agreed to the terms, let alone signed, the covenant. Deal structures and terms continue to merit close scrutiny to ensure negotiated restrictions actually reflect only the sales the licensor intended to authorize.

IP TAKEAWAYS

Enforcing patent rights requires planning. Two recent Federal Circuit decisions underscore the continued need for purposeful crafting of patent management provisions meant to allow or prevent enforcement of the patent rights. In one case, *STC.UNM v. Intel Corp.*, the court held that a co-owner of a patent who did not agree to join an infringement lawsuit could not be compelled to do so; because both owners were required for standing, the suit was dismissed. In a different twist, the court held in *Azure Networks, LLC v. CSR PLC* that once substantially all rights had been transferred to an exclusive licensee, the *owner* of the patent lacked standing and was prevented from joining the case.

Words really do matter. Several cases in 2014 served as cautionary reminders that words really do matter. One example: in *MLR, LLC v. Hewlett Packard Co.*, a failure to pay attention to the interaction among license provisions resulted in one patent owner unintentionally granting a royalty-free license to an unanticipated affiliate of the original licensee. In the license at issue, the definition of licensee included affiliates, and the definitions of licensed patents and products were very broad. Although the license purported to be personal, it was assignable with the business. After ownership of the original licensee changed hands over time, the net result that the industry leader, as an affiliate of the new owner, became an unintended licensee under a royalty-free license, and the licensor was stymied in enforcing its patents.

Confidentiality protection starts at home. A confidential disclosure agreement is a standard starting point for business discussions. A 2014 Seventh Circuit case, *Closures Inc. v. Block & Co.*, is a reminder that the non-use and non-disclosure obligations in these agreements are only enforceable "when the information sought to be protected is actually confidential and reasonable efforts were made to keep it confidential." The decision cautions against taking comfort in the blanket assumption that any information exchanged is protected.

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