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New Issues in IP Licensing and Litigation: A View From In-House Counsel



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Corporate Intellectual Property Assets: The Metes and Bounds of Protection

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Introduction

While intellectual property law affords creators, inventors, and other innovators a variety of legal rights and property interests, those rights do not extend to protection for mere ideas. Indeed, a fundamental precept common to all forms of intellectual property protection is the preservation of the public's right to use freely and develop ideas, whether they are one's own ideas or the ideas of others. Consequently, pervasive throughout American intellectual property law are doctrinal mechanisms which explicitly *exclude* ideas from protection as property.

This outline summarizes the Idea Exclusions in intellectual property law. In copyright law the "Idea/Expression Dichotomy" protects the public's access to aesthetic and informative ideas.¹ In patent law the "Abstract Idea Exemption" protects the public's access to utilitarian ideas.² A third and often overlooked Idea Exclusion emerges from careful examination of how the courts exclude ideas from trade secret protection. Notwithstanding the absence of an express Idea Exclusion doctrine, the judicial requirements that trade secret subject matter be useful, discrete, and provide a competitive commercial advantage effectively preclude protection for abstract ideas. These prerequisites comprise an "Idea/Discrete Application Rule" which preserves the public's access to the ideas embodied within trade secret subject matter. Proper assessment of and appreciation for the Idea Exclusions in IP law can be a critical tool in the effective protection, management, and exploitation of corporate and other IP assets.

The Idea Exclusions in Intellectual Property Law

The prime directive of intellectual property law is to provide individuals with secular incentive to undertake intellectual action upon ideas toward society's ultimate gain.³ Many individuals apply their creative and inventive energies toward the use and development of myriad ideas simply as a matter of innate curiosity or aesthetic inspiration.⁴ Many others are motivated to

¹ See e.g. *Nichols v Universal Pictures Corporation*, *supra*, 45 F.2d 119; *Golan v. Holder*, 132 S. Ct. 873, 890 (2012); 1 *Nimmer on Copyright* § 2A.06 (2018).

² See e.g. *Diamond v. Diehr*, 450 U.S. 175, 185 (1981); *Wyeth v. Stone*, 30 F. Cas. 723, 727 (No. 18,107) (C.C. D. Mass. 1840); 1 *Chisum on Patents* § 1.03 [2] (2018).

³ See U.S. Constitution Art. I Sec. 8: "Congress has the power '[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .'" See generally *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"; *Mazer v. Stein*, 347 U.S. 201, 219 (1954); see e.g. Lateef Mtima, *Tasini and Its Progeny: The New Exclusive Right or Fair Use on the Electronic Publishing Frontier?*, 14 *Fordham Intell. Prop. Media & Ent. L.J.* 369, 396-98 (2004) ("In accordance with [the] constitutional mandate, both Congress and the courts have determined that the 'overarching object of copyright law in the United States is to encourage the widest possible production and dissemination of literary and artistic works.' Through widespread production and dissemination, the greatest amount of creative works is likely to reach the largest audience, who will not only benefit from exposure to these works, but who will in turn build upon the ideas advanced therein and produce additional work.")

⁴ See e.g., Nathan H. Lents, Ph.D., *Why Do Humans Make Art?* *Psychology Today*, <https://www.psychologytoday.com/us/blog/beastly-behavior/201709/why-do-humans-make-art>; Gerard J. Puccio,

act upon ideas in order to address specific problems concerning human health, the physical environment, or any number of social and economic needs and deficiencies.⁵ For those who see creative and inventive endeavor as a means toward personal or communal economic independence and social advancement, however, intellectual property protection can provide critical secular incentives and rewards.⁶

While the particular impetus to engage with an idea will vary, individual intellectual action upon ideas is the means whereby abstract ideas are cultivated towards society's tangible benefit. But whatever the benefits derived from any particular expression or application of an idea, the social value of the idea *itself* is potentially without limit, in as much as ideas are non-rivalrous.⁷ Innumerable individuals can interact with an idea without exhausting its potential as the source for other and future inspiration, development, and application. Consequently no matter how beneficial any particular application of an idea, it is in society's best interest to preserve access to that idea for further exploration, without regard to whoever first applied or even conceived it.⁸

In order to safeguard society's access to the full social potential of ideas, intellectual property jurisprudence has developed the Idea Exclusions, which ensure that no single creative, innovative, or entrepreneurial advance comes at the expense of future development of the ideas upon which it is based.⁹ The two most widely recognized Idea Exclusions are the Idea/Expression

From the Dawn of Humanity to the 21st Century: Creativity as an Enduring Survival Skill, The Journal of Creative Behavior, Volume 51, Issue 4, at p. 2, 4. 12 December 2017 <https://doi.org/10.1002/jocb.203> P2, 4 (“Comparatively speaking humans are a weak species. We are not naturally designed for a wide range of environmental conditions. Yet humans inhabit all regions of the globe. We cannot fly away from danger, hide through natural camouflage, or outrace many four-legged creatures. Despite our obvious physical deficiencies, the human species has survived and thrived. What then has been our competitive advantage? One abundantly clear answer is Creativity.... our competitive advantage, the creative mind, results in creative products, both tangible and intangible, that fundamentally change the environment. Our creativity creates a cycle in which we produce creative ideas that allows us to more effectively adapt to our environment, yet at the same time alters the environments in which we live and work.”)

⁵ See e.g., Christopher W. Schmidt, *Why the 1960 Lunch Counter Sit-Ins Worked: A Case Study of Law and Social Movement Mobilization*, 5. Ind J.L. & Soc. Equality 281 (2017); William Kawkwamba, *The Boy Who Harnessed the Wind*, https://en.wikipedia.org/wiki/William_Kamkwamba; see also Kim Zetter, *Teen's DIY Energy Hacking Gives African Village New Hope*, WIRED (Oct. 2, 2009, 1:32 PM), <https://www.wired.com/2009/10/kamkwamba-windmill/>.

⁶ See Lateef Mtima, INTELLECTUAL PROPERTY, ENTREPRENEURSHIP AND SOCIAL JUSTICE: FROM SWORDS TO PLOUGHSHARES (Edward Elgar 2015); see generally *What Is Social Entrepreneurship?* <https://www.schwabfound.org/what-is-social-entrepreneurship>.

⁷ See e.g. Non-Rivalrous Goods, <https://corporatefinanceinstitute.com/resources/knowledge/economics/non-rivalrous-goods/>; Justin Hughes, *The Philosophy of Intellectual Property*, 77 Geo. L.J. 287, 315 (1988) (“[I]t does not take an unrehabilitated Platonist to think that the ‘field of ideas’ bears a great similarity to a common.... Ideas can be used simultaneously by everyone. Furthermore, people cannot be excluded from ideas in the way that they can be excluded from physical property....The ‘field’ of all possible ideas prior to the formation of property rights is more similar to Locke’s common than is the unclaimed wilderness.”)

⁸ See e.g. *Data East USA, Inc. vs. Epyx, Inc.*, 862 F. 2d 204, 208 (9th Cir. 1988) (noting the “strong public policy” that mandates that ideas remain free for all to use.”) See generally Jessica Litman, *The Public Domain*, 39 Emory L. J. 965 (1990).

⁹ See 1 McCarthy on Trademarks and Unfair Competition § 6:3 (5th ed.) “Contrary to popular belief, neither patent, trademark nor copyright law protects a mere idea.... An idea per se is not patentable, only a tangible application of an inventive idea.... Copyright deals with visual and aural expression and the communication of information and ideas reduced to tangible form. See also Justin Hughes, *supra*, 77 Geo. L.J. at 295 “[T]here are some clear limits to the bundle of rights we will drape around an idea.... ‘[a] fundamental principle common to all genres of intellectual property is that they do not carry any exclusive right in mere abstract ideas. Rather, their exclusivity touches only the concrete, tangible, or physical embodiments of an abstraction.’”

Dichotomy and the Abstract Idea Exemption; case supports the delineation of a third Idea Exclusion, the “Idea/Discrete Application Rule”.

Copyright and the Idea/Expression Dichotomy

Copyright law provides what is perhaps the most well-developed Idea Exclusion doctrine in American intellectual property law. Pursuant to the Idea/Expression Dichotomy, copyright protection extends only to an author’s individual creative expression of an idea and does not encompass any such ideas or facts embodied within that expression.¹⁰

The case that is perhaps the most closely associated with the Idea/Expression Dichotomy is *Baker v. Selden*.¹¹ In *Baker*, the holder of the copyright in a book which explained “a peculiar system of book-keeping”¹² sued the author of a subsequent book which described the same book-keeping system. The plaintiff contended that the defendant’s work infringed plaintiff’s copyright, in that it presented the same subject matter as set forth in the prior book.

The Supreme Court held for the defendant, holding that plaintiff’s copyright extended only to the *expression* of the subject matter covered in the earlier work, and did not encompass the *subject matter or ideas* presented therein.¹³

There is no doubt that a work on the subject of book-keeping, though only explanatory of well-known systems, may be the subject of a copyright; but, then, it is claimed only as a book.... But there is a clear distinction between the book, as such, and the art which it is intended to illustrate....A treatise on the composition and use of medicines, be they old or new; on the construction and use of ploughs, or watches, or churns; or on the mixture and application of colors for painting or dyeing; or on the mode of drawing lines to produce the effect of perspective, -- would be the subject of copyright; but no one would contend that the copyright of

¹⁰ See e.g. *Mason v. Montgomery Data, Inc.*, 967 F.2d 135, 138 (5th Cir. 1992) (“The Copyright Act extends copyright protection to “original works of authorship fixed in any tangible medium of expression.”...however...“In no case does copyright protection for an original work of authorship extend to any *idea*, ... regardless of the form in which it is described, explained, illustrated, or embodied in such work.” (emphasis added); *Feist Publ’ns, Inc. v. Rural Telephone Serv. Co., Inc.* 499 U.S. 340 (1991). “Others are free to utilize the ‘idea’ so long as they do not plagiarize its ‘expression.’ ”” *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 741 (9th Cir.1971).) (“A copyright...bars use of the particular ‘expression’ of an idea in a copyrighted work but does not bar use of the ‘idea’ itself. Others are free to utilize the ‘idea’ so long as they do not plagiarize its ‘expression.’”); *Coquico, Inc. vs. Rodriguez-Miranda*, 562 F. 3d 62, 67 (“Of course, copyright law protects original expressions of ideas, not the ideas themselves.” citing *Johnson v. Gordon*, 409 F.3d 12, 19 (1st Cir.2005).)

¹¹ 101 U.S. 99 (1879).

¹² *Id.* at 100.

¹³ In this case, the “idea” or subject of plaintiff’s book was plaintiff’s system for book-keeping. See 1 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT 6, § 2.3.2; Pamela Samuelson, *Reconceptualizing Copyright’s Merger Doctrine*, 63 J. Copyright Soc’y U.S.A. 417, 442 (2016). While plaintiff’s system for book-keeping was potentially eligible for protection under the patent and trade secret laws, given that he had not applied for a patent, upon the publication of his book, the system was ceded to the public domain. Accordingly, others were free to use, as well as describe or express, the system as they saw fit. “Where the truths of a science or the methods of an art are the common property of the whole world, an author has the right to express the one, or explain and use the other, in his own way.” 101 U.S. at 101.

the treatise would give the exclusive right to the art or manufacture described therein.¹⁴

Consequently while defendant's subsequent work did indeed cover the same subject matter, i.e., the system for book-keeping, defendant employed his own expression to describe and explain the system, which he was free to do under copyright law.¹⁵

Works which involve the expression of literary ideas or aesthetic concepts are of course closer to the core focus of copyright. The seminal case concerning application of the Idea/Expression Dichotomy in the context of a literary work is *Nichols v Universal Pictures Corporation et al.*¹⁶ In *Nichols*, the plaintiff author wrote a play about a romance between two young people of Jewish and Irish Catholic religious faiths, with each having a widowed father who would object to their relationship on religious grounds. The ensuing story line involves a secret marriage, rejection by both fathers, the birth of twins, and eventual familial reconciliations and accompanying acceptance of perspectives of religious tolerance.

Subsequent to the publication of plaintiff's play, the defendants produced a movie about a Jewish and an Irish Catholic family living side by side in a New York City tenement "in a state of perpetual enmity...[who] share in the mutual animosity, as do [their] two small sons, and even the respective dogs."¹⁷ Similar to the characters and events depicted in the plaintiff's play, a daughter and a son from each family become romantically involved, secretly marry, and give birth to a child. At the same time, the film contained many plot lines and characters completely different from those of plaintiff's play, including confusion regarding an inheritance, the still-living mothers of the young lovers, and a scheming, covetous lawyer. Moreover, the movie did not replicate any literal expression from the play. These distinctions notwithstanding, the plaintiff brought copyright infringement litigation against the producers of the film.

The court began its analysis by noting that whereas literal creative expression is protected under copyright, the question of infringement is more complicated where two works are based upon the same idea. "[W]hen the plagiarist does not take out a block in situ, but an abstract of the whole, decision is more troublesome."¹⁸ While the idea that is the subject of an expressive work

¹⁴ Id. at 101-02. The Idea/Expression Dichotomy has since been codified at Section 102(b) of the Copyright Act. See 1 Nimmer on Copyright § 2A.06[A] "[Section 102(b)] operates as an exclusionary provision by eliminating specified matters from the scope of coverage..." Pursuant to Section 102(b) of the Copyright Act, copyright protection is also withheld from procedures, processes, systems, methods of operation, concepts, principles, and discoveries. To the extent that intellectual property protection is warranted for such accomplishments, it is provided under the patent law and other regimes which protect utilitarian invention. Of course, an author's *creative expression* of such concepts, for example, a description of the steps that make up a particular process, or an explanation of how a particular process works, is eligible for copyright protection. See generally Pamela Samuelson, *Why Copyright Law Excludes Systems and Processes from the Scope of Its Protection*, 85 Tex. L. Rev. 1921 (2007).

¹⁵ Defendant also replicated some of the actual expression contained in plaintiff's book, however, that expression was excluded from copyright protection pursuant to the copyright merger doctrine. See e.g. *Mason v. Montgomery Data, Inc.*, 967 F.2d 135, 138-39 (5th Cir. 1992) ("[T]he court must first identify the idea that the work expresses, and then attempt to distinguish that idea from the author's expression of it. If the court concludes that the idea and its expression are inseparable, then the merger doctrine applies and the expression will not be protected.")

¹⁶ 45 F.2d 119 (2d Cir. 1930).

¹⁷ Id. at 120.

¹⁸ Id. at 121.

can be creatively conveyed through the author's personal selection of literal words, brush strokes, or musical notes, creative choices can also be reflected in the "non-literal" selection and arrangement of plot lines, character constructions, and other constituent elements of the work. Copyright protection also extends to such non-literal creative expression,¹⁹ and consequently where two works share a common idea, a court will often find it necessary to segregate both literal and non-literal creative expression from the ideas embodied therein.

In distinguishing between protectable non-literal expression and unprotectable ideas, the court noted the importance of recognizing that there can be non-literal components or attributes that are integral to, and thus elements or aspects of an idea:

"If Twelfth Night were copyrighted, it is quite possible that a second comer might so closely imitate Sir Toby Belch or Malvolio as to infringe, but it would not be enough that for one of his characters he cast a riotous knight who kept wassail to the discomfort of the household, or a vain and foppish steward who became amorous of his mistress. These would be no more than Shakespeare's 'ideas' in the play, as little capable of monopoly as Einstein's Doctrine of Relativity, or Darwin's theory of the Origin of Species."²⁰

Building upon the Idea/Expression Dichotomy, Judge Learned Hand formulated what has since become the seminal methodology for comparing expressive works that share common ideas, themes, and settings, and distinguishing the protectable literal and non-literal expression therein from the unprotectable ideas they are intended to convey.

Upon any work, and especially upon a play, a great number of patterns of increasing generality will fit equally well, as more and more of the incident is left out. The last may perhaps be no more than the most general statement of what the play is about, and at times might consist only of its title; but there is a point in this series of abstractions where they are no longer protected, since otherwise the playwright could prevent the use of his 'ideas,' to which, apart from their expression, his property is never extended.... Nobody has ever been able to fix that boundary, and nobody ever can.²¹

The court concluded by holding for the defendant, having found that the elements present in both works were only those *intrinsic to the common idea* that each work was intended to convey.

In the two plays at bar we think both as to incident and character, the defendant took no more -- assuming that it took anything at all -- than the law allowed....If the defendant took so much from the plaintiff, it may well have been because her amazing success seemed to prove that this was a subject of enduring popularity. Even so, granting that the plaintiff's play was wholly original...there is no monopoly in such a background. Though the plaintiff discovered the vein, she

¹⁹ "It is of course essential to any protection of literary property...that the right cannot be limited literally to the text, else a plagiarist would escape by immaterial variations." *Id.*

²⁰ *Id.* at 121.

²¹ *Id.* at 121.

could not keep it to herself; so defined, the theme was too generalized an abstraction from what she wrote. It was only a part of her ‘ideas.’²²

The Idea/Express Dichotomy serves as an important demarcation pylon of copyright protection.²³ It supports the myriad expression of ideas throughout the spectrum of human imagination and facilitates the broad dissemination of fresh perspectives on venerable ideas for new generations.²⁴

Patent and the Abstract Idea Exemption

Just as copyright law relies upon the Idea/Expression Dichotomy to distinguish protectable creative expression from unprotectable ideas, patent jurisprudence has long employed the Abstract Idea Exemption to safeguard public access to the utilitarian ideas embodied within patented inventions. “Like copyright, which only protects the expression of an idea and not the idea itself... a patent does not protect an abstract idea of an invention. Rather, it only protects the expression of the idea as embodied in the claimed realization of the idea.”²⁵

²² Id. at 121-22 “A comedy based upon conflicts between Irish and Jews, into which the marriage of their children enters, is no more susceptible of copyright than the outline of Romeo and Juliet.”. Of course, the nigh universal literary theme of “love conquers all”, or at least that true love should be considered more important than personal prejudices or disagreements, is expressed in many great works. In Robert Wise and Jerome Robbins musical narrative *Westside Story*, the idea is expressed in tragedies about young lovers from different racial and ethnic backgrounds. Other expressions of this idea include the Celtic legend of *Tristan and Iseult* and the Chinese tale of *The Butterfly Lovers*. There are innumerable ways in which to express this and other ideas.

²³ The Idea/Expression Dichotomy has also proven amenable to adaptation to novel, contemporary challenges such as those presented by the extension of copyright to non-traditional subject matter such as computer software programs, which serve primarily utilitarian as opposed to expressive or aesthetic purposes. See National Commission on New Technology Uses of Copyrighted Works (CONTU) and the Computer Software Protection Act of 1980; see generally *Gates Rubber Co. v. Bando Chemical Industries, Ltd.*, 9 F.3d 823 (10th Cir. 1993); *Lexmark International, Inc. v. Static Control Components, Inc.*, 253 F. Supp. 2d 943, 958 (E.D. Kentucky 2003). Courts generally regard the function of a software program as the “idea” of the work, see e.g. *Computer Associates v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992), and consequently copyright protection extends only to the creative expression of the function that a software program is designed to perform, as set forth in the program’s literal source and object code, much the same as copyright protects the sentences in a textbook or novel. Moreover, the courts have also adapted the protection available for the non-literal but nonetheless expressive elements of a creative work as set forth in *Nichols*, to the non-literal, expressive aspects of a computer software program. Such elements can include the structure and organization of a software program, much the same as copyright protection is available for such non-literal, expressive features as a novel’s plot and character elements.

²⁴ See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (“Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts....[T]he ultimate aim [of copyright is] to stimulate artistic creativity for the general public good.”); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984). See also Jessica Litman, *supra*, 39 Emory L. J. 965, 1015 (“Giving an author a copyright in something that is a basic building block of her art thus risks denying that basic building block to all other authors who come into even fleeting contact with the first author’s work.”)

²⁵ 3 Annotated Patent Digest § 20:9 (Matthews). In fact, the Abstract Idea Exemption is but one of three distinct, judicially created categories of exemption from patentable subject matter. See generally *Mayo Collaborative Services vs. Prometheus Laboratories, Inc.*, 566 U.S. 66, 70 (2012) (“Section 101 of the Patent Act defines patentable subject matter.... The [Supreme] Court has long held that this provision contains an important implicit exception. “[L]aws of nature, natural phenomena, and abstract ideas” are not patentable.”); *Bilski v. Kappos*, 561 U.S. 593, 601-02 (2010) (“The Court’s precedents provide three specific exceptions to Section 101’s broad patent-eligibility principles: “laws of nature, physical phenomena, and abstract ideas. While these exceptions are not required by the statutory text, they are consistent with the notion that a patentable process must be ‘new and useful.’ And, in any case, these exceptions

One of the earliest articulations of the Abstract Idea Exemption by an American court can be found in *Rubber-Tip Pencil Co. v. Howard*.²⁶ The claimed invention in that case was the placement of a piece of rubber on the end of a pencil for use as an eraser. The patentee therein described his invention so as to encompass virtually any attachment of a piece rubber (or similar material) to one end of a pencil (or similar implement) for this purpose.

A patent may be obtained for a new or useful art, machine, manufacture, or composition of matter, or any new and useful improvement thereof. In this case [the] patent was for ‘a new manufacture,’ being a new and useful rubber head for lead-pencils. It was not for the combination of the head with the pencil, but for a head to be attached to a pencil or something else of like character.It is to be made of rubber or rubber and some other material which will increase its erasive properties. This part of the invention alone could not have been patented. Rubber had long been known, and so had rubber combined with other substances to increase its naturally erasive qualities. It is to be of any convenient external form....the patentee is careful to say that ‘he does not limit his invention to the precise forms shown, as it may have such or any other convenient for the purpose, so long as it is made so as to encompass the pencil and present an erasive surface upon the sides of the same.’What, therefore, is left for this patentee but the idea that if a pencil is inserted into a cavity in a piece of rubber smaller than itself the rubber will attach itself to the pencil, and when so attached become convenient for use as an eraser? *An idea of itself is not patentable, but a new device by which it may be made practically useful is.* The idea of this patentee was a good one, but his device to give it effect, though useful, was not new.²⁷

By attempting to claim any means whereby material with “erasive properties” is “attached to a pencil or something else of like character,” the patentee sought to patent the very idea of affixing an eraser to a writing implement. Had the Supreme Court upheld the patentee’s contention that his description constituted a patentable invention, his patent could conceivably encompass virtually any tangible mechanism which combines writing and erasing capabilities and would thereby foreclose the development of any number of devices which combine these functions.²⁸

Similarly in *Burr v. Duryee*,²⁹ the holder of a patent for a machine used for incorporating fur fibers in to the manufacturing of certain kinds of women’s hats sought to establish that his patent was infringed by a subsequent machine which performed the same task.³⁰ The Court

have defined the reach of the statute as a matter of statutory *stare decisis* going back 150 years.... The concepts covered by these exceptions are “part of the storehouse of knowledge of all men ... free to all men and reserved exclusively to none.” See generally *O’Reilly v. Morse*, 15 How. 62, 112–120, 14 L.Ed. 601 (1854); *Le Roy v. Tatham*, 14 How. 156, 174–175, 14 L.Ed. 367 (1853).

²⁶ 87 U.S. 498 (1874)

²⁷ *Id.* at 505-06 Emphasis added.

²⁸ See e.g. *Gottschalk vs. Benson*, 409 U.S. 63, 67 (1972) “[A]bstract intellectual concepts are not patentable, as they are the basic tools of scientific and technological work.” Moreover as the Court noted, even if the patentee had limited his claim to the particular combination he conceived, his specific attachment of a piece of rubber to a pencil for use as an erasure was not a novel device.

²⁹ 68 U.S. 531 (1863)

³⁰ *Id.* at 567-68.

determined that plaintiff's patent did not grant him ownership of the idea embodied therein, i.e., the function that the machine was designed to perform.

The law requires that the specification 'should set forth the principle and the several modes in which he has contemplated the application of that principle... by which it may be distinguished from other inventions, and shall particularly point out [that] which he claims as his own invention or discovery.' We find here no authority to grant a patent for a 'principle' or a 'mode of operation,' or an *idea*, or any other abstraction.³¹

Once again the Supreme Court distinguished the specific embodiment of a useful idea from the idea itself, or as in the case before it, a specific machine from the function it embodies or performs.

That two machines produce the same effect, will not justify the assertion that they are substantially the same, or that the devices used by one are, therefore, mere equivalents for those of the other....If the invention of the patentee be a machine, it will be infringed by a machine which incorporates in its structure and operation the substance of the invention; that is, by an arrangement of mechanism which performs the same service or produces the same effect in the same way, or substantially the same way.'.... The inventor of the first improvement cannot invoke the doctrine of equivalents to suppress all other improvements which are not colorable invasions of the first.'³²

The Court thus rejected plaintiff's claims as an attempt to extend his legitimate rights to his invention to an illegitimate dominion over the idea it embodied. "In this case we have an attempt to convert [a] machine into an abstraction, a principle or mode of operation, or a still more vague and indefinite entity often resorted to in argument, an *'idea.'*"³³

Much the same as with the Idea/Expression Dichotomy, the courts have developed an extensive body of jurisprudence applying the Abstract Idea Exemption to preclude the extension of patent property rights to mere ideas.³⁴ Although in recent years there has been considerable uncertainty as to how the Abstract Idea Exemption should be applied,³⁵ particularly in connection

³¹ Id. at 570

³² Id. at 571-74

³³ Id. at 577. *Accord, Carver vs. Hyde*, 41 U.S. 513, 519 (1842) ("[T]he end to be accomplished is not the subject of a patent. The invention consists in the new and useful means of obtaining it."); *O'Reilly v. Morse*, 56 U.S. (15 How.) 62, 14 L. Ed. 601 (1854); *RCA Corp. v. Applied Digital Data Systems, Inc.*, 730 F. 2d 1440, 1445 (Fed. Cir. 1984) ("It is hornbook law that abstractions, i.e. concepts, are not patentable subject matter.")

³⁴ See e.g. *Alice Corporation PTY. Ltd. vs CLS Bank International*. 134 S. Ct. 2347 (2014); *Mayo Collaborative Services vs. Prometheus Laboratories, Inc.*, 566 U.S. 66, 70 (2012); *CyberSource Corp. v. Retail Decisions, Inc.* 654 F. 3d 1366 (Fed. Cir. 2011); *Bilski v. Kappos*, 561 U.S. 593 (2010).

³⁵ See e.g. Kevin Madigan & Adam Mossoff, *Turning Gold into Lead: How Patent Eligibility Doctrine is Undermining U.S. Leadership in Innovation*, 24 Geo. Mason L. Rev. 939, 941(2017) ("In four decisions issued between 2010 and 2014, the Supreme Court created a new legal test for determining whether an invention or discovery fundamentally counts as a technological innovation worthy of a patent under § 101 of the Patent Act. Unfortunately, as commentators have pointed out, this legal test is rife with indeterminacy, creating substantial doubt as to whether long-term research and development expenditures can be recaptured through stable and effective property rights in technological

with new and developing fields of innovation,³⁶ the Abstract Idea Exemption remains one of the principal judicial doctrines which determine the parameters of patent-eligible subject matter.

The Idea Exclusion in Trade Secret Protection: The “Idea/Discrete Application Rule”

At first glance, trade secret jurisprudence appears bereft of an explicit, segregate Idea Exclusion doctrine. A careful review of the prerequisites to trade secret protection, however, and particularly how courts typically construe these requirements, confirms that trade secret protection does not extend to abstract ideas.

One of the most widely accepted definition of trade secrets is provided by the Uniform Trade Secrets Act.³⁷ Pursuant to the UTSA, a trade secret is defined as “information, including a

innovation.”); Colleen Chien and Jiun Ying Wu, *Decoding Patentable Subject Matter*, 2018 *Patently-O Patent Law Journal*, <https://patentlyo.com/media/2018/10/Chien.Decoding101.2018.pdf>; Joshua Sarnoff, *A Response to “Is there Any Need to Resort to a § 101 Exception for Prior Art Ideas?”*, *Patently-O*, April 23, 2019, <https://patentlyo.com/patent/2019/04/response-exception-sarnoff.html>; Dennis Crouch, *Abstract Ideas: The Turnstile Keeps Spinning*, *Patently-O*, October 18, 2017, <https://patentlyo.com/tag/abstract-idea>; Dennis Crouch, *Do You Get the Gist: Tracking Mail is an Abstract Idea*, *Patently-O*, October 17, 2017, <https://patentlyo.com/tag/abstract-idea>. See generally *HP Inc. v. Berkheimer*, 2018 WL 6445985; *Innovation Sciences, LLC v. Amazon.com, Inc.* (Fed. Cir. 2019), <http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/18-1495.Opinion.7-2-2019.pdf>; *American Axle & Manufacturing, Inc. v. Neapco Holdings LLC* (Fed. Cir. 2019); <http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/18-1763.Opinion.10-3-2019.pdf>; *PPS DATA, LLC v. Jack Henry & Associates, Inc.* (E.D. Tex. Sept 2019); <https://law.justia.com/cases/federal/district-courts/texas/txedce/2:2018cv00007/180119/69/>.

³⁶ The watershed decision in this respect is perhaps the Supreme Court’s opinion in *Bilski v. Kappos*, 561 U.S. 593, 598 (2010), wherein the claimed invention was described as “a procedure for instructing buyers and sellers how to protect against the risk of price fluctuations in a discrete section of the economy.” The Supreme Court held that the claimed invention was unpatentable as an abstract idea. “Claims 1 and 4 in petitioners’ application explain the basic concept of hedging, or protecting against risk [and] [h]edging is a fundamental economic practice long prevalent in our system of commerce....The concept of hedging...reduced to a mathematical formula in...is an unpatentable abstract idea....Allowing petitioners to patent risk hedging would pre-empt use of this approach in all fields, and would effectively grant a monopoly over an abstract idea.” *Id.* at 609-612. Various legal scholars have commented that the Court’s stated basis for its decision, that hedging is a long prevalent economic practice, does little to explain the conclusion of ineligibility under the Abstract Idea Exemption. See e.g. Kevin Madigan and Adam Mossoff, *supra*, at 947-48 “In reaching this decision, the Court provided no legal guidance on how to determine what counts as an unpatentable “abstract idea,” creating an ambiguous legal precedent that has provided no guidance to stakeholders in the high-tech industry as to how it might be applied to their inventive work-product. Unsurprisingly, commentators bemoan how *Bilski* started a legal practice of mass invalidation of patents on software, business methods, and diagnostic methods with vague or conclusory court opinions, which only picked up speed in the ensuing years.”

³⁷ See e.g. 3 Uniform Trade Secrets Act, § 1(4), 14 U.L.A. 438 The UTSA provides one of the three prevailing but largely consistent definitions of trade secrets generally relied upon by the courts. See James Pooley, *Trade Secrets* Sec 4.01 *Law Journal Press* (ALM Media Properties, LLC. 2018) “[W]e find ourselves today with three primary sources that describe the elements of a trade secret: the Restatement of Torts Section 757, 2 Restatement of Torts, § 757, comment b (1939): “A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.” The Uniform Trade Secrets Act, 3 Uniform Trade Secrets Act [as quoted above]. The Economic Espionage Act, 18 U.S.C. § 1839(5), as amended by the Defend Trade Secrets Act of 2016, uses a variation of this language that is not substantially different: “(3) the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible,

formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

The UTSA definition implicates two of the principal ways in which courts and individuals typically use the term “idea”.³⁸ In general parlance and especially in the context of intellectual property, the term “idea” is usually intended to mean “concept”, such as when referring to the idea (i.e., storyline or plot) of a novel or the idea (i.e., purpose or function) embodied in a machine designed to perform a particular task. Courts and individuals often also use the term “idea” to refer to specific facts or knowledge, such as a combination of various ingredients or elements, or of prospective plans or intentions, such as the intention to launch a marketing campaign on a future date.³⁹ The former use of idea as indicating concept is implicated by the USTA’s illustrative examples of trade secret subject matter; the latter use of the term idea as indicating specific facts or knowledge is implicated by the UTSA’s definitional reference to “information”. As discussed below, however, in neither situation does trade secret protection extend property rights to abstract ideas.

Idea as “Concept”: The Requirements of Utility and Commercial Advantage Preclude Protection for Abstract Ideas

The various statutory and judicial examples of trade secret subject matter reference the utility of qualifying information, which thereby indicates that abstract or conceptual ideas are

and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if-(A) the owner thereof has taken reasonable measures to keep such information secret; and”(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.”...[And finally the] Restatement (Third) of Unfair Competition. 4 Restatement (Third) of Unfair Competition, § 39 (1995):”A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.” These sources, as well as judicial decisions, also suggest a number of factors to be considered in assessing whether the requisite elements are present....See, for example, Restatement of Torts, § 757, Comment b:”Some factors to be considered in determining whether given information is one’s trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.” These factors continue to be cited even in states that have enacted the Uniform Trade Secrets Act.”

³⁸ See e.g. Pamela Samuelson, *supra*, 63 J. Copyright Soc’y U.S.A. at 442, discussing how courts use the term “idea” in to indicate different matters in the field of copyright. “[C]ourts use the term “idea” in at least two different ways: one, as a description of those abstract concepts and principles in copyrighted works that are not within the scope of that law’s protection, and second, as a metaphor for various types of unprotectable elements embodied in copyrighted works, such as the procedures, processes, systems, methods of operation, facts, and functions understood to be outside the scope of copyright under [§ 102\(b\)](#).”

³⁹ Some other examples of “idea” as information include idea as “notion” (e.g., “it was my idea that we have Italian for dinner”) and idea as “aspiration” (e.g., “my idea for tomorrow’s aerobic exercise is to swim ten laps”). As discussed *infra*, in the appropriate circumstances, this kind of factual data or “idea” can qualify as trade secret subject matter.

insufficient. “Generally, a trade secret is described as a plan or process, tool, mechanism, compound, or informational data utilized by a person in his business operations...”⁴⁰

While some abstract or conceptual ideas might initially seem evidently useful – for example, the idea “to organize inventory” or the idea for “a recipe for barbeque chicken”, these general articulations merely identify the subject or ultimate objective of the idea. What method of arrangement is called for in accordance with the general directive to “organize”? Is the inventory to be arranged by size, shape, color, or by some other characteristic or criteria? What particular spices are to be included in the recipe for barbeque chicken, and at what point in the preparation of the dish should a particular spice be applied? Stated as only a general proposition, the *potential utility* of each of these ideas is obvious, but until delineated into specific or discrete steps to be performed or components which can be applied, each directive merely articulates a specified utilitarian aspiration and does not provide any actual methodology or instruction.⁴¹ In short, abstract or conceptual ideas are bereft of concrete utility, and consequently lack a prerequisite attribute to trade secret protection.

Accordingly, courts consistently require that the application of a conceptual idea consist of discrete constituent elements and discernible parameters, in order to be eligible for trade secret protection. “One way the courts have sought to enforce the policy boundaries of trade secrets is to require that the matter claimed be concrete. In other words, the information to be protected must be more than a vague and abstract concept—it must be something real that can be applied in a business to provide it with some competitive advantage.”⁴²

Consequently, courts have construed the legal prerequisites to trade secret protection to preclude protection for conceptual or abstract ideas. For example, in *Postal Presort, Inc. vs. Stasieczko*,⁴³ plaintiff sought enforcement of a former employee’s non-competition agreement in connection with a prospective, secret plan to undertake direct mail advertising through a network of photocopy machine distributors.

The appellate court affirmed the trial court’s finding that the subject “plan” was insufficiently discrete to qualify as a trade secret:

[T]he district court essentially concluded that the concept of marketing direct mail services of the type Postal Presort provides through a network of photocopier distributors lacked the degree of development and concreteness necessary to be a trade secret. At the point [defendant] left Postal Presort and took steps to develop the concept, it was...simply an idea. And that is not enough to be protected under the Act....For example, running a light rail commuter service from Wichita to Kansas City is an idea, but it is not a trade secret. Even meeting with potential

⁴⁰ *Ilg Indus. v. Scott*, 49 Ill. 2d 88, 92 (Sup. Ct. Ill. 1971).

⁴¹ See e.g. *The Telephone Cases*, 126 US 1, 30-32 (1888) (“It had long been believed that if the vibrations of air caused by the voice in speaking could be reproduced at a distance by means of electricity, the speech itself would be reproduced and understood. How to do it was the question.”) See also definition of the word “useful” at <https://www.merriam-webster.com/dictionary/useful> (“capable of being put to use...serviceable for an end or purpose...of a valuable or productive kind”.)

⁴² Pooley, Trade Secrets Sec 4.01 [3][a][ii].

⁴³ 2015 Kan. App. Unpub. LEXIS 91

investors or design engineers to discuss the concept doesn't turn it into a trade secret. While the idea behind...marketing direct mail services through distributors in a related industry may be more doable than a commuter train or a private space station...the ultimate practicality of an idea doesn't make it a trade secret either. As the statutory definition requires, a trade secret must be possessed of something present...and that something must have substantial content or structure in the nature of a formula, method, or process.⁴⁴

Id. at *5-*6, 7. *See also Waymo LLC v. Uber Techs., Inc.*, 2017 U.S. Dist. LEXIS 73843, at *24, distinguishing plaintiff's right to trade secret protection for its *specific* approach to improving self-driving vehicle technology from claims to rights over the general idea embodied in its approach. "Waymo's descriptions of its asserted trade secrets follow a pattern of claiming broad swaths of solutions to general competing considerations and engineering tradeoffs rather than the single, specific solution adopted by Waymo....Every company in the field can be expected to settle on some specific resolution thereof, and every company's specific resolution may well qualify as a trade secret. But it would be wrong to allow any company to leverage a single solution into a monopoly over broad swaths of other solutions...merely because they all fall on the side of generally favoring a particular consideration over others."

At the same time, however, the *Postal Presort* court noted that had plaintiff reduced its direct mail advertising idea to specific steps, the resulting "plan" would then be sufficiently discrete (and useful) to be eligible for trade secret protection.

Had Postal Presort...actually signed up photocopier distributors under an agreed compensation scheme, the business plan clearly would include proprietary information of interest to competitors and presumably could be classified as a trade secret. Armed with precise information about compensation and other particulars of the arrangement, competitors could outbid Postal Presort...for the services of the photocopier distributors and effectively appropriate the operation. Even an as yet-to-be implemented business plan with a compensation schedule and similar details likely would be proprietary and might well be a trade secret. But [here the evidence shows] that Postal Presort really had nothing much beyond a bare idea...⁴⁵

Similarly in *Computer Care v. Serv. Sys. Enters.*,⁴⁶ the plaintiff claimed a trade secret in connection with its auto service 'reminder letter' business. Plaintiff used a computer program to generate letters on behalf of its auto dealership and repair shop clients which letters reminded car owners that it was time to bring their vehicles in for some type of maintenance service, such as an oil change or a tune up.⁴⁷ In addition to sending letters to its clients' maintenance customers,

⁴⁴Id at *5-*6, 7. *See generally* Pooley, Trade Secret Sec 4.01 "A trade secret...must consist of qualifying information; that is, one must be able...to articulate what it is in such a way that it may be distinguished from general knowledge and skill."

⁴⁵ Id at *5-*6, 7. *Accord, Waymo LLC v. Uber Techs., Inc., supra* at *25. "At face value, [plaintiff's] asserted trade secret broadly captures the *concept* of...diodes on printed circuit boards in a LiDAR transmit block." (Emphasis in original).

⁴⁶ 982 F.2d 1063 (7th Cir. 1992)

⁴⁷ Id. at 1065.

plaintiff also prepared monthly reports which indicated the amount of business generated by the reminder letters, the particular services maintenance customers would elect in connection with the letters, and other information related to the efficacy of plaintiff's service.

At trial, plaintiff submitted evidence detailing the features of its service, which included using twelve service categories as "triggers" for generating letters to individual auto service customers (as opposed to sending reminder letters in connection with only one or two service categories); sending a second reminder letter to customers who did not respond to the initial letter; placing non-responsive customers in an "inactive" file; and similar steps. Although the district court found that plaintiff's service qualified for trade secret status, the Court of Appeals for the Seventh Circuit reversed, holding that the district court had effectively extended trade secret status to a "mere idea":

[T]he district court's injunction does not merely protect Computer Care's twelve triggers, but grants Computer Care a trade secret in the mere *idea* of using more than one trigger. We do not think that the use of multiple triggers is sufficiently 'secret' to be protected.... Nothing in the record suggests that the possibility of using more than one trigger would not be obvious to someone entering the reminder letter business.... Further, the fact that Computer Care is the only company in the industry, other than Service Systems, that uses multiple triggers does not show that the use of multiple triggers is a trade secret. 'Simply being the first or only one to use certain information does not in and of itself transform otherwise general knowledge into a trade secret.'⁴⁸

In other words, using multiple service categories as "triggers" for sending maintenance service reminder letters is simply an inherent and obvious (and thus generally known) aspect of the idea of generating auto service business by reminding existing customers when it is time to have routine maintenance work done on their vehicles.⁴⁹ Vehicle maintenance obviously involves more than one kind of maintenance service; common sense dictates that a service provider is likely to generate more business by reminding its customers of multiple service needs.⁵⁰ While the court acknowledged that evidence which demonstrates that reminder letters sent in connection with a *particular set or grouping* of service items are more effective in generating business could be sufficient to establish trade secret subject matter, there was no such evidence or claim in the case. In fact, plaintiff did not even specify any of the purported twelve categories of service which comprised its individual "trigger" list, but sought instead to covet the idea that sending letters in

⁴⁸ *Id.* at 1073.

⁴⁹ See e.g. [*Metallurgical Indus. v. Fourtek, Inc.*, 790 F.2d 1195](#), 1199 (5th Cir. 1986) ("matters of general knowledge in an industry cannot be appropriated by one as his secret."); *Microbix Biosystems v. BioWhittaker, Inc.*, 172 F. Supp. 2d 665, 674 (D. Md. 2000) ("If...there is no substantial difference between the alleged trade secret and what is generally known, there is no protectible trade secret."); 1 Milgrim on Trade Secrets § 1.09 ("[F]ile memoranda are not elevated to trade secret status by virtue of their being labelled 'Confidential,' if in fact their information is generally known.")

⁵⁰ The court reached the same conclusion in connection with plaintiff's practice of sending a second reminder letter to customers who did not respond to the initial reminder. "Computer Care failed to establish that the idea of sending a second reminder letter to a customer who does not respond the first time is a trade secret, rather than simple common sense.... This is not really surprising, given that the use of follow-up letters is an obvious sales method, as anyone who has ever allowed a magazine subscription to run out can attest." *Id.* at 1074.

connection with *multiple services* is more effective than sending letters in connection with only a single service need.⁵¹

In addition to the codependent requirements of utility and specificity, the further requirement that trade secret subject matter bestow a competitive or commercial advantage or otherwise possess economic value,⁵² further militates against the eligibility of conceptual or abstract ideas for trade secret protection. While an abstract idea or general concept can provide invaluable entrepreneurial *inspiration*, that idea must be reduced to a concrete application, such as a particular process or a compilation of specific factual data or information, in order to provide a genuine competitive or commercial advantage over those who are unaware of it. The *potential* competitive or commercial value of many an abstract idea or concept is typically obvious to those expert in any given field of industry or technology, but said advantage becomes manifest only when someone conceives of an *actual means for putting it into practice*. It is this kind of practical action upon the abstract idea – together with the decision to keep the achievement exclusive for one’s own business use – that provides a commercial advantage over one’s competitors.⁵³

Idea as “Non-discrete Factual Information”: The Rights of Independent Discovery and Reverse Engineering Preclude Ownership of Ideas

In some situations, the term idea is used to refer to knowledge comprised of specific facts or other non-discrete information. For example, a business decision to research an area of commercial industry or to commence a television advertising campaign is often referred to the “idea” to undertake such pursuits. Moreover, even before such ideas or plans are reduced to specific steps or discrete details, the mere knowledge of a competitor’s business intentions can

⁵¹ The court made a similar observation in connection with another feature of plaintiff’s “secret method”, i.e., its practice of timing the service reminder cycles at the intervals requested by its clients, as opposed to the intervals recommended by automobile manufacturers. “Computer Care’s use of adjustable service cycles is not a novel idea developed by Computer Care, but simply a response to its customers’ requests.... There is nothing secret about the idea of listening to a customer and accommodating his wishes.” Id. at 1072-73. “All of the individual features discussed above are either sufficiently obvious that anyone entering the reminder letter business would be likely to incorporate them into his system, or easily duplicated by anyone with legitimate, publicly available knowledge of Computer Care’s business.” Id. at 1075. *Accord, Daktronics, Inc. v. McAfee*, 599 N.W.2d 358, 361 (Sup. Ct. S.D. 1999) (“[S]imply possessing a non-novel idea or concept without more is generally, as a matter of law, insufficient to establish a trade secret.”) *But cf. Computer Care*, at 1073. “Of course, the *way* in which Computer Care adjusts its service cycles--that is, the software it uses to perform that task--is protectable, but that is distinct from the mere idea of adjusting service cycles to customers’ needs.”

⁵² *Metallurgical Indus. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986) (“That the cost of devising the secret and the value the secret provides are criteria in the legal formulation of a trade secret shows the equitable underpinnings of this area of the law.... If a businessman has worked hard, has used his imagination, and has taken bold steps to gain an advantage over his competitors, he should be able to profit from his efforts. Because a commercial advantage can vanish once the competition learns of it, the law should protect the businessman’s efforts to keep his achievements secret.”)

⁵³ *See e.g. SI Handling Sys. v. Heisley* 753 F.2d 1244, 1267 (3d Cir. 1985) (concur. op.) (“When deciding the equitable issues surrounding the request for a trade secret injunction, it would seem that a court cannot act as a pure engineer or scientist, assessing the technical import of the information in question. Rather, the court must also consider economic factors, since the very definition of “trade secret” requires an assessment of the competitive advantage a particular item of information affords to a business. Similarly, among the elements to be weighed in determining trade secret status are the value of the information to its owner and to competitors, and the ease or difficulty with which the information may be properly acquired or duplicated.”)

constitute “useful” information⁵⁴ which provides a competitive or commercial advantage in a highly competitive market. Consequently, when such information is kept secret, this kind of “idea” can qualify as trade secret subject matter.⁵⁵

In *Altavion, Inc. vs. Konica Minolta Systems Laboratory, Inc.*,⁵⁶ the plaintiff made confidential disclosures to defendant regarding plaintiff’s secret method of digital document authentication, comprised of a digital stamping technology or “DST”, in connection with negotiations to license plaintiff’s technology. When defendant instead used the information to develop and then patent its own DST, plaintiff brought suit for trade secret misappropriation in connection with (i) defendant’s use of certain aspects of plaintiff’s DST method, and (ii) defendant’s use and public disclosure of plaintiff’s general concept, i.e., the “idea” of undertaking a DST approach toward document authentication.

With respect to plaintiff’s claims in connection with the use of its specific DST method of document authentication, the appellate court affirmed the trial’s court’s finding that plaintiff had detailed its process with sufficiently particularity to warrant trade secret status.

The [trial] court explained [plaintiff’s process] was a method of creating “a self-authenticating paper document, through the use of a digital stamp.... It is ‘unique,’...in that it could detect alterations as well as show where the alterations had occurred in the document.”...the trial court found [defendant] misappropriated particular design concepts identified [by plaintiff] especially aspects of [its enumerated] trade secrets....The Complaint alleges...that [plaintiff] “has created and perfected a novel set of digital document security platform technologies, which are the first of their kind to provide the dual functionality of document authentication via the use of novel stamp embedding techniques and document integrity assessment via novel tamper detection techniques.... [T]he trial court adequately identified the particular...design concepts misappropriated by [defendant].... Although [plaintiff] does not analyze each aspect of [all of its] trade secrets [plaintiff] does identify specific aspects of the identified trade secrets that were misappropriated by [defendant].⁵⁷

With respect to plaintiff’s claims for misappropriation of its general DST concept, the court held that under the circumstances, the knowledge of plaintiff’s approach toward the task of document authentication constituted information which qualified for protection as a trade secret. “[A] trade secret may consist of something we would not ordinarily consider an *idea* (a conceptual datum) at all, but more a *fact* (an empirical datum), such as a customer’s preferences, or the location

⁵⁴ The extension of trade secret protection to this kind of information is predicated upon the perspective that its strategic usefulness to the competitor (as opposed to the party who came up with intention or “idea” in the first place) satisfies the utility requirement; as discussed above, such general “ideas” otherwise lack objective utility until they are reduced to delineated steps or other particulars.

⁵⁵ See e.g. *Pepsico Inc. vs. Redmond*, 54 F.3d 1262 (7th 1995) (Prospective timing of company’s product release dates and marketing campaign protected as trade secret.); 1 Milgrim on Trade Secrets § 1.01. “The classic definition of trade secrets...covers any information...used in business and lending the opportunity to attain a competitive advantage over others who do not know the information.”

⁵⁶ 171 Cal. Rptr. 3d 714 (2014).

⁵⁷ Id. at 729-32, 733.

of a mineral deposit.”⁵⁸ Here, the very fact of plaintiff’s DST concept or approach had been kept secret and disclosed only in the course of the parties’ confidential negotiations. Defendant not only used this information but also destroyed its value as a trade secret by disclosing it in a patent application.

[Defendant] misappropriated Altavion's DST concept as a whole, both by using Altavion's DST in developing [defendant’s] own DST and by disclosing aspects of Altavion's DST in [defendant’s] patents and patent applications.... Because...the detailed design concepts underlying Altavion's DST were undisclosed, a finding of trade secret appropriation could be based on misappropriation of Altavion's DST concept as a whole....[Defendant] does not [dispute] that [it] did not independently develop the digital stamping concepts reflected in its patents. And [defendant] does not dispute that use of Altavion's trade secrets to further its own development would constitute misappropriation.... Thus, even if the patents did not ultimately disclose Altavion's DST in all its particulars, [defendant’s] use of Altavion's DST *on the whole* to further its own DST development and craft its patents and patent applications was a proper basis for a misappropriation finding.⁵⁹

Despite holding that plaintiff’s concept was entitled to trade secret protection, however, the court further noted that plaintiff did not own the “idea” of undertaking a DST approach to document authentication. “[T]he trade secret is not the idea or fact itself, but *information* tending to communicate (disclose) the idea or fact to another.”⁶⁰ Although plaintiff had been the first to pursue the DST approach, anyone, including the defendant, remained free to independently “discover” that idea on their own. In this case, however, the defendant “had no idea, interest or information about DST...prior to their dealings with [plaintiff]”.⁶¹

The *Altavion* court’s observations regarding the limits of plaintiff’s trade secret rights denotes another application of the Idea Exclusion principle in trade secret law. All trade secret rights, whether based upon a discrete application of a general or abstract idea (conceptual datum) or on non-discrete factual information (empirical datum), are limited by the doctrines of independent discovery⁶² and reverse engineering.⁶³ Indeed, these doctrine are particularly relevant to delineating “empirical datum” trade secrets, wherein the protection afforded to factual information is limited to “*the right to control the dissemination of information.*”⁶⁴

⁵⁸ Id. at 736.

⁵⁹ Id. at 730-31, 733; *accord*, *Buffets, Inc. v. Klinke*, 73 F. 3d 965, 968 (9th Cir. 1996) (noting that trade secret status can be afforded to information that is “novel” or that has been disclosed on a confidential basis.)

⁶⁰ Id. at 736.

⁶¹ Id. at 724.

⁶² *See e.g. Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); Uniform Trade Secrets Act, § 1; Defend Trade Secrets Act of 2016, 18 U.S.C. 1839.

⁶³ *Id.*; *see also Chi. Lock Co. v. Fanberg*, 676 F. 2d 400, 402-03 (9th Cir. 1982). *See generally* Samuel J. LaRoque, *Reverse Engineering and Trade Secrets in the Post-Alice World*, 66 Kan. L. Rev. 427, 435-38 (2017).

⁶⁴ *Altavion, supra*, 171 Cal. Rptr. 3d at 738. Accordingly, trade secret protection does not provide ownership over secret, commercially valuable information as such, but rather protects the effort and investment in obtaining, developing, or compiling same. *See e.g. International News Service v. Associated Press.* (248 U.S. 215, 240 (1918) (“[D]efendant ... admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money,...and that ... in appropriating it and selling it as its own is endeavoring to reap where it has not sown.”)

[I]t is clear that if a patentable idea is kept secret, the idea itself can constitute information protectable by trade secret law. In that situation, trade secret law protects the inventor's “*right to control the dissemination of information*” ...the information being the idea itself—rather than the subsequent use of the novel technology.... In other words, trade secret law may be used to sanction the misappropriation of an idea the plaintiff kept secret.⁶⁵

The Idea/Discrete Application Rule: The Idea Exclusion in Trade Secret Law

As the foregoing case law illustrates, where a trade secret is comprised of the application or formulation of a useful idea, the attendant property rights do not extend to the abstract idea or concept embodied therein. Instead, to qualify for trade secret protection, a useful and commercially valuable application of an abstract idea must also be specific and discrete. This “Idea/Discrete Application Rule” implements the Idea Exclusion principle in trade secret law. Moreover, the “Idea/Discrete Application Rule” is buttressed by the doctrines of independent discovery and reverse engineering, which potentially limit exclusive dominion over specific applications of abstract ideas and altogether prohibit the ownership of factual “ideas”, even when such knowledge or information is kept secret.

The Idea/Discrete Application Rule effectuates in trade secret protection what the analogous doctrines achieve in copyright and patent law. Like copyrights and patents, trade secrets incentivize a specific kind of action upon ideas, in this instance the development of discrete, commercially beneficial applications of ideas for use in business.⁶⁶ And similar to the Idea/Expression Dichotomy and the Abstract Idea Exemption, judicial implementation of the Idea/Discrete Application Rule ensures that ground-breaking applications do not come at the expense of further development of the ideas upon which they are based.

Conclusion

Proper assessment of the Idea Exclusions in intellectual property law is important to the protection and exploitation of IP assets. Appreciation for the Idea Exclusions enables corporate in-house and other IP counsel to identify the metes and bounds of IP assets, strategically negotiate IP license transactions, and develop effective IP litigation strategies.

⁶⁵ Id. at 738, citing [Learning Curve, supra, 342 F.3d at p. 721](#) [misappropriation of “concept” for noise-producing toy railroad track]; *Contour Design, Inc. v. Chance Mold Steel Co.* (D.N.H., Jan. 14, 2010, No. 09-cv-451-JL) 2010 WL 174315 [misappropriation of ergonomic mouse “concept”].) “This is consistent with the proposition that ‘The sine qua non of a trade secret ... is the plaintiff’s possession of information of a type that can, at the possessor’s option, be made known to others, or withheld from them, i.e., kept secret.’”

⁶⁶ See e.g. *Brunswick Corp. v. Outboard Marine Corp.*, 79 Ill. 2d 475, 478 (Sup. Ct. Ill. 1980) “The judicial application of trade secret law has advanced two doctrinal bases for trade secret protection: (1) encouragement of invention and (2) maintenance of commercial morality.” See 1 Milgrim on Trade Secrets § 1.01 (2018); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1001-02 (1984); *Myth, Chameleon, or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law*, 8 Geo. Mason L. Rev. 69.

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Idris has a particular focus on IP operations, embracing technology to modernize IP management, data analytics, and operational effectiveness. Leveraging new workflows, his team has introduced new insights-based metrics for assessing patent portfolio value. They've also employed a data-driven approach to process design improvements, matter management, and improved cross-functional alignment.

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**DRAFT POLICY STATEMENT ON LICENSING NEGOTIATIONS AND
REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO
VOLUNTARY F/RAND COMMITMENTS¹**

December 6, 2021

The U.S. Patent & Trademark Office (USPTO), the National Institute of Standards and Technology (NIST), and the U.S. Department of Justice, Antitrust Division (DOJ) offer the following draft revised statement on remedies for the infringement of standards-essential patents (or SEPs) that are subject to a RAND or F/RAND licensing commitment,² which also provides guidance on what demonstrates good-faith negotiation in this context.

Good-faith negotiation that leads to widespread and efficient licensing between SEP holders and those who seek to implement technologies subject to F/RAND commitments helps to promote technology innovation, further consumer choice, and enable industry competitiveness. The good-faith licensing of SEPs is critical as emerging technologies and

¹ This draft statement has no force or effect of law. It is not intended to be, and may not be, relied upon to create any rights, substantive or procedural, or enforceable at law by any party. Nothing in this statement should be construed as mandating a particular outcome in any specific case, and nothing in this statement limits the discretion of any U.S. government agency to take any action, or not to take action, with respect to matters under its jurisdiction, including the United States Trade Representative's discretion in Presidential reviews under section 337(j) of the Tariff Act of 1930, 19 U.S.C. § 1337(j).

² For purposes of this statement, a patent is subject to a RAND or FRAND commitment where a patent holder has voluntarily committed to make available a license for the patent on reasonable and non-discriminatory (RAND) terms or fair, reasonable, and non-discriminatory (FRAND) terms while participating in standards-setting activities at a standards-developing organization (SDO). Often in the United States, SDO members may commit to license all of their patents that are essential to the SDO standard on RAND terms. Often in other jurisdictions, SDO members may commit to license such patents on FRAND terms. For the purposes of this statement, F/RAND refers to both types of licensing commitments. Commentators frequently use the terms interchangeably to denote the same substantive type of commitment. The specific RAND or FRAND obligations will vary by SDO.

standards continue to develop. Strategies by either SEP holders or implementers to gain undue leverage in licensing negotiations can cause multiple harms, including non-F/RAND patent royalties, increased costs, and delayed introduction of standardized products and services. Stakeholders with fewer resources to hire legal counsel, such as small-entity patent holders or implementers, or consumers of standardized products or services, may be particularly affected.

The USPTO is the executive-branch agency charged with examining patent and trademark applications, issuing patents and registering trademarks, and—through the Secretary of Commerce—advising the President on domestic and certain international issues of intellectual property policy.³ NIST is the executive-branch agency charged with facilitating standards-related information sharing and cooperation among federal agencies and with coordinating federal agency participation in, and use of, private sector standards, emphasizing where possible the use of standards developed by private, consensus organizations, and—through the Secretary of Commerce—advising the President on standards policy pertaining to the nation’s technological competitiveness and innovation ability.⁴ The DOJ is the executive-branch agency charged with promoting and protecting competition through the enforcement of the antitrust laws for the benefit of American consumers and workers.⁵

The patent system promotes innovation and economic growth by providing incentives to inventors to apply their knowledge, take risks, and make investments in research and development. In exchange for publishing their technical advancements in patents so that others

³ See 35 U.S.C. §§ 1, 2 (2012).

⁴ See 15 U.S.C. § 272(b) (2012).

⁵ See 15 U.S.C. §§ 4, 15a.

can build on those advancements with further innovations, inventors receive time-limited rights to exclude others from practicing their inventions. Duly issued patents provide owners and the public confidence in the patent system, and promote vigorous, dynamic competition to the benefit of consumers.

Standards, particularly voluntary consensus standards set by standards developing organizations (SDOs), play a vital role in the economy. Many SDOs develop standards using open, transparent, and consensus-based processes to address issues of interest to their stakeholders. Interoperability standards allow products designed and manufactured by many different firms, including small and medium sized entities, to function together and can fuel the creation and utilization of new and innovative technologies that benefit consumers. As interoperability standards increasingly incorporate technologies covered by intellectual property rights (IPR), their development has become more complicated.

Many SDOs adopt IPR policies that allow for patent licensing in connection with standardized technologies and encourage participation in the development process by both patent holders and implementers, with the goal of achieving the best technical solution. The disclosure and licensing requirements of IPR policies vary, but most policies have the common goals of facilitating access on F/RAND terms to the technology needed to implement a standard and helping to ensure that the rights of patent holders whose technology is used are appropriately respected. These policies may require participants to disclose in a timely manner to the SDO intellectual property that is, or may become, essential to a standard under development. Many policies ask participants to indicate whether they will agree to make available licenses to their technology on F/RAND terms if selected for inclusion. Specific terms of a F/RAND license are

negotiated bilaterally by the SEP holder and an implementer after a standard has been set, and in that context opportunistic behavior by both parties can occur.

By contributing technologies during standards-setting activities at an SDO and voluntarily making a F/RAND licensing commitment under the SDO's policies, a patent holder indicates that it is willing to license that technology for uses implementing the standard and that it will not exercise any market power obtained through standardization. In exchange, it gains access to a potentially large market for its SEPs through the implementation of a successful standard. Where a potential licensee is willing to license and is able to compensate a SEP holder for past infringement and future use of SEPs subject to a voluntary F/RAND commitment, seeking injunctive relief in lieu of good-faith negotiation is inconsistent with the goals of the F/RAND commitment. Opportunistic conduct by SEP holders to obtain, through the threat of exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses.

At the same time, when standards implementers are unwilling to accept a F/RAND license or delay licensing negotiations in bad faith, these strategies can lessen patent holders' incentives to participate in the development process or contribute technologies to standards voluntarily. Without adequate incentives to contribute to a consensus-based process, patent holders may opt for closed, proprietary standards that do not offer the same benefits of interoperability and enhanced consumer choice.

F/RAND commitments can benefit all participants in the standards ecosystem. These commitments provide important licensing assurances to implementers that help encourage a

standard's widespread adoption. Wider adoption benefits SEP holders because they may seek licenses from more implementers in a larger market. Consumers benefit as well. By promoting interoperability across a wide range of products, standardization "make[s] products less costly for firms to produce and more valuable to consumers."⁶

As a general matter, to promote efficient licensing and help reduce the costs and other burdens associated with litigation, SEP holders and potential SEP licensees should engage in good-faith negotiation to reach F/RAND license terms. The Agencies encourage parties to consider the following in pursuit of such negotiation.⁷

A SEP holder engaged in good-faith negotiation should alert a potential licensee of the specific SEPs it believes will be or that are being infringed, provide information as to how the SEPs, to the extent practicable, or a representative set of the SEPs are being infringed,⁸ and make a good-faith F/RAND offer.

A potential licensee willing to take a F/RAND license and engaged in good-faith negotiation should assess the information provided and respond within a commercially reasonable amount of time in a manner that advances the negotiation or results in a license. For example, a potential licensee might respond in good faith by (1) accepting the offer; (2) making

⁶ U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION at 33 (2007).

⁷ The Agencies recognize that good-faith negotiation can be accomplished in more than one way. The examples of good-faith conduct provided are not meant to be exhaustive.

⁸ Providing additional information with the licensing offer that allows a potential licensee to evaluate for each SEP whether (1) a license is needed and (2) the offer is F/RAND can facilitate the progression of negotiations and enable the timely conclusion of a F/RAND license. This may be particularly helpful to small entities that do not have the expertise or resources to fully address SEP issues and may lack access to information from which to draw assurance that proposed terms are F/RAND.

a good-faith F/RAND counteroffer; (3) raising specific concerns about the offer's terms, including with respect to validity and infringement of the patents; (4) proposing that contested issues be resolved by a neutral party; or (5) requesting that the SEP holder provide more specific information reasonably needed to evaluate the offer.

Similarly, a SEP holder engaged in good-faith negotiation should respond to the potential licensee within a commercially reasonable amount of time in a manner that advances the negotiation or results in a license.⁹ For example, a SEP holder might respond in good faith by (1) accepting the counteroffer; (2) addressing specific concerns about the original offer's terms and making a new good-faith F/RAND offer; (3) responding to a request for information so that the potential licensee can better assess the F/RAND offer; or (4) proposing that contested issues be resolved by a neutral party. If licensing negotiations break down, the Agencies encourage the parties to resolve contested issues by agreeing to seek alternative dispute resolution or a judicial resolution of F/RAND-related disputes in a mutually agreeable jurisdiction.¹⁰ The Agencies further encourage the parties to make a good-faith attempt to reach agreement on a license or a path for resolution before unilaterally seeking a resolution in a preferred forum.

The Agencies support the development of SDO IPR policies that promote good-faith negotiation and facilitate voluntary F/RAND licensing both domestically and abroad. Good-

⁹ Parties often choose to negotiate a reciprocal cross-license or a single license covering both SEPs and non-SEPs. Where there is a F/RAND commitment, the negotiation should be free of coercion, such as requiring the licensing of non-SEPs or withholding the sale of a party's product. Conditions on licensing may also raise antitrust concerns. *See, e.g.,* U.S. DEP'T JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 5.3 (rev'd Jan. 2017), <https://www.justice.gov/atr/IPguidelines/download> (discussing tying arrangements) [hereinafter Antitrust-IP Guidelines].

¹⁰ A desire to seek a judicial determination rather than resolution through alternative dispute resolution mechanisms does not connote bad faith. Parties may prefer to have particular issues such as validity and essentiality resolved by a court for a variety of legitimate reasons. They also may be unable to reach consensus on arbitration parameters.

faith negotiation involving F/RAND commitments, supported by application of best practices, can promote licensing efficiency. The application of best practices is consistent with the guidance of OMB Circular A-119, which states that intellectual property rights policies “should be easily accessible, set out clear rules governing the disclosure and licensing of the relevant IPR, and take into account the interests of all stakeholders, including the IPR holders and those seeking to implement the standard.”¹¹ Of course, individual parties may voluntarily contract for or agree to specific dispute resolution mechanisms.¹²

When good-faith negotiations fail and the parties cannot agree on alternative dispute resolution or to seek a F/RAND determination in a mutually agreeable jurisdiction, the existence of F/RAND or similar commitments and the individual circumstances of licensing negotiations between patent holders and potential licensees will affect the appropriate remedy for infringement of a valid and enforceable SEP.¹³ Relevant considerations are enumerated in *eBay Inc. v. MercExchange, L.L.C.*,¹⁴ 35 U.S.C. §§ 283–284, or 19 U.S.C. § 1337,¹⁵ as appropriate.¹⁶

¹¹ See Off. of Mgmt. & Budget, Circular A-119, “Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities,” 81 FR 4673 (Jan. 27, 2016).

¹² See e.g., WIPO ARBITRATION & MEDIATION CTR., GUIDANCE ON WIPO FRAND ALTERNATIVE DISPUTE RESOLUTION (ADR) (2021), <https://www.wipo.int/export/sites/www/amc/en/docs/wipofrandadrguidance.pdf>.

¹³ See e.g., *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014), overruled on other grounds by *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015) (*en banc*) (explaining the circumstances in which injunctive relief for a standards-essential patent holder may be appropriate).

¹⁴ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

¹⁵ Although Section 1337 provides only an exclusion order as a remedy, the International Trade Commission is required to consider the effect of “exclusion upon the public health and welfare, . . . and United States consumers.” 19 U.S.C. § 1337(d)(1).

¹⁶ See also *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119–20 (S.D.N.Y. 1970), *modified and aff’d*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870 (1971); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978); *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016); 35 U.S.C. §§ 283–284, and 19 U.S.C. § 1337.

Rather than adopting a unique set of legal rules for SEPs subject to F/RAND commitments, courts and other neutral decision makers take into account the F/RAND commitment and other relevant facts of a particular case.¹⁷ As a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement.¹⁸

In *eBay*, the U.S. Supreme Court made clear that traditional principles of equity apply in determining whether an injunction should issue in any patent case in federal court.¹⁹ The U.S. Court of Appeals for the Federal Circuit has held that the availability of injunctive relief for infringement of SEPs subject to F/RAND licensing commitments should be analyzed under *eBay*'s equitable framework like all other patents; however, the Federal Circuit recognized that a party's "FRAND commitments are certainly criteria relevant to its entitlement to an injunction."²⁰ Notably, in applying *eBay*, the Federal Circuit has observed that "[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm" when, *inter alia*, the patent holder has agreed to widely license.²¹ In addition, monetary damages may be

¹⁷ Such an approach is also consistent with how DOJ applies antitrust principles to conduct involving patents. The Agencies apply the same analysis to conduct involving intellectual property as to conduct involving other forms of property, taking into account the specific characteristics of a particular intellectual property right. Antitrust-IP Guidelines, *supra* note 9, § 2.1.

¹⁸ *See Apple*, 757 F.3d at 1332.

¹⁹ *See eBay Inc.*, 547 U.S. at 391–93 ("According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.").

²⁰ *Apple*, 757 F.3d at 1331-32.

²¹ *Apple*, 757 F.3d at 1332.

available to redress the infringement, which also counsels against an injunction.²² Courts must further consider the public’s interest in “encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued.”²³

Where a SEP holder has made a voluntary F/RAND commitment, the *eBay* factors, including the irreparable harm analysis, balance of harms, and the public interest generally militate against an injunction. Although courts will review the facts in each case independently, the Agencies observe that since *eBay*, injunctive relief for a SEP subject to a F/RAND commitment has rarely been granted.²⁴ An injunction may be justified where an implementer is unwilling or unable to enter into a F/RAND license.²⁵ For example, a potential licensee could be judged unwilling to take a license if it refuses to pay what has been determined by a court or another neutral decision maker to be a F/RAND royalty.²⁶ By contrast, a potential licensee should not be deemed unwilling to take a F/RAND license if it agrees to be bound by an adjudicated rate determined by a neutral decision maker; if it reserves the right to challenge the validity, enforceability, or essentiality of the standards-essential patent in the context of an arbitration or F/RAND determination; or if it reserves the right to challenge the validity or essentiality of a patent after agreeing to a license.²⁷

²² *Id.*

²³ *Id.*

²⁴ *See id.*

²⁵ *Id.*

²⁶ *See Apple*, 757 F.3d at 1332.

²⁷ *See Medimmune v. Genentech*, 549 U.S. 118 (2007) (holding that a licensee is not required to breach a license agreement prior to seeking declaratory judgment of invalidity).

As with equitable relief, fact finders take into account “the actual [F/RAND] commitment at issue” in awarding damages for patent infringement.²⁸ A F/RAND commitment does not preclude enhanced damages for willful infringement if a potential licensee acts in bad faith.²⁹

In the Agencies’ view, courts and other neutral decision makers in their discretion should continue to consider all relevant facts, including the F/RAND commitment and the conduct of the parties during bilateral licensing negotiations, when making remedy determinations involving standards-essential patents. A balanced, fact-based analysis will facilitate and help to preserve competition and incentives for innovation and continued participation in voluntary, consensus-based standards-setting activity.

Widespread and efficient licensing of SEPs subject to voluntary F/RAND commitments benefits the entire standards ecosystem. Good-faith conduct during F/RAND negotiations helps support such licensing. Moreover, efficient negotiation of F/RAND licenses is likely to improve standardization efforts and support competition and innovation. In contrast, opportunistic conduct by either SEP holders or implementers makes the implementation of standards more costly and deters investment in future standards development, affecting all users and producers

²⁸ *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1231 (Fed. Cir. 2014). A SEP royalty “should reflect the approximate value of that technological contribution, not the value of its widespread adoption due to standardization.” *Id.* at 1233.

²⁹ *See Apple*, 757 F.3d at 1342 (Prost, J., concurring). *See also* Final Judgment, *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, No. 2:14-cv-912, ECF No. 47 (E.D. Tex. Nov. 1, 2016) (awarding enhanced damages for the willful infringement of a SEP); *Core Wireless Licensing S.A.R.L. v. LG Electronics, Inc.*, 2016 WL 4596118, *2-*3 (E.D. Tex. 2016) (rejecting the argument that summary judgment was appropriate because enhanced damages cannot be awarded for infringing an SEP); *Optis Wireless Tech., LLC v. Huawei Device USA, Inc.*, 421 F. Supp. 3d 410, 412 (E.D. Tex. 2019) (“in light of the verdict of willfulness, the Court awarded enhanced the damages by 25 percent” for infringement of SEPs), vacated, No. 2:17-CV-00123-JRG, 2020 WL 5034154 (E.D. Tex. Apr. 3, 2020) (vacated by settlement).

of standardized inputs and products, including small and large firms, inventors, and consumers. The Agencies encourage parties engaged in SEP licensing negotiations to reach consensus on F/RAND terms or on a path to determine disputed F/RAND terms or related issues, including by seeking an alternative dispute resolution mechanism or judicial F/RAND determination in a mutually agreeable forum.