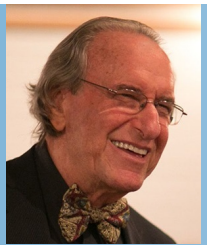
INAPPROPRIATE OUTSOURCING MAY INVALIDATE PATENTS



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Imagine the following unfortunate scenario, which could have been avoided. A representative of a corporate technology client approaches patent counsel with a request to protect a dozen new inventive developments that will be very important to the future of the company. Fully documented invention disclosures are delivered to counsel, together with instructions to file a non-provisional patent application directed to each as soon as possible.

Armed with the knowledge that the US is now governed by a first-to-file patent system, and aware that an arch competitor is experimenting in the same technical area, the client emphasises the need for prompt filing. Counsel is provided with all of the information needed to adequately prepare and file the patent applications and then reaches an agreement with the client on a fixed fee for the authorised work.

Upon receipt of these comprehensive invention disclosures, patent counsel realises that the nature and critical time pressure of this project will require more resources than the firm possesses. Counsel has been approached recently by a foreign-based firm (ForeignCo) about high-quality patent preparation services at low labour rates. Counsel emails the invention disclosures to ForeignCo and reaches agreement with it at a very attractive lump sum price to prepare the applications, a sum which is low enough for counsel to realise a sizable profit based on the difference between the fixed client fee and ForeignCo's lump sum.

There has been an apparent win/win/win, where the client will receive excellent work at the agreed fixed fee, ForeignCo will enjoy this new work at a reasonable lump sum, and patent counsel will be able to satisfy the client's needs while enjoying a nice profit. ForeignCo delivers drafts of all assigned applications on time, the client is pleased with its work product, and the non-provisional patent applications are duly filed with the US Patent and Trademark Office (USPTO).

Trouble ahead

Over the next couple of years, all these patent applications are published on the respective 18-month anniversaries of their filing and issued after overcoming initial rejections of the patent claims. The patents represent a significant portion of the intellectual property portfolio of the client, which is engaged in fierce battles for market share with its arch competitor.

After initial success in marketing its technology at a handsome profit, the client witnesses its arch competitor enter the market with a near-identical technology. The client retains patent counsel to render an infringement opinion directed towards the competitor's offering. Counsel confirms that the claims of the patents "read on" the competitor's products. The stage is now set for a legal confrontation.

The client retains patent litigation attorneys who commence litigation against the competitor. However, the court rules that all of the subject patents are invalid due to the failure of patent prosecution counsel to obtain a required foreign export licence before emailing the invention disclosures to ForeignCo. The same patent counsel is also admonished by the court for failing to inform the client that it had subcontracted the preparation of the underlying patent applications to ForeignCo.

"A FOREIGN FILING LICENCE FROM THE USPTO FOR FILING US APPLICATIONS IN FOREIGN COUNTRIES DOES NOT AUTHORISE THE EXPORTING OF SUBJECT MATTER ABROAD FOR THE PREPARATION OF PATENT APPLICATIONS TO BE FILED IN THE US."

The USPTO, aware of a multibillion-dollar patent outsourcing industry, on July 23, 2008 issued an advisory, warning that US technology export controls can apply to the transfer of technical data outside the country if done so without a foreign export licence in the context of the outsourcing of patent application preparation. It stated that such transfers may be illegal. Had patent counsel been aware of this prohibition, liability and embarrassment could have been avoided.

It is important to realise that a foreign filing licence from the USPTO for filing US applications in foreign countries does not authorise the exporting of subject matter abroad for the preparation of patent applications to be filed in the US.

Applicants or attorneys who are considering exporting subject matter abroad for the preparation of patent applications to be filed in the US should contact the Bureau of Industry and Security at the Department of Commerce for the appropriate clearances. ■

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