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IP Newsflash



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DISTRICT COURT CASES

District Court Opinion Underscores Importance of Careful Drafting of Settlement Agreements

A recent opinion penned by Chief Judge James C. Dever of the Eastern District of North Carolina reflects the importance of carefully drafting settlement agreements to avoid potentially inconsistent provisions. Zachery Crain had an idea for an improved beer cozy. He then partnered with Zachary DeBartolo to make that idea a reality. Mr. DeBartolo filed a patent application for the cozy in both their names, and the patent issued in 2012 naming Mr. Crain and Mr. DeBartolo as joint inventors.

Unfortunately, the relationship soured, which led to litigation and mediation. In 2013, the parties settled. The settlement agreement included, among other things, two seemingly straightforward provisions regarding inventorship and validity:

Inventorship Provision: “[E]ach party agrees that he will not remove or replace the other party from the patent.”

Validity Provision: “To avoid any possible confusion, notwithstanding anything to the contrary herein, nothing in this agreement shall be deemed to prevent a party from taking any action to maintain or ensure the validity of the patent.”

In 2014, Mr. Crain sued Mr. DeBartolo seeking to remove him as a joint inventor of the beer cozy patent pursuant to 35 U.S.C. § 256. Mr. DeBartolo counterclaimed for breach of the settlement agreement and moved for summary judgment, arguing that the inventorship provision of the settlement agreement plainly barred Mr. Crain’s correction-of-inventorship lawsuit. The court disagreed, reasoning that Mr. Crain’s lawsuit qualified as an “action to maintain or ensure the validity of the patent” (because incorrect inventorship may void the patent), and therefore the validity provision permitted Mr. Crain’s lawsuit “notwithstanding anything to the contrary” in the agreement, including the inventorship provision. In effect, the court concluded that the “notwithstanding” language in the validity provision “trump[ed] conflicting language” in the inventorship provision.

This decision serves a valuable reminder: do not lose the forest for the trees when negotiating and finalizing settlement agreements. Make sure the various provisions work together harmoniously, or there may be trouble down the road.

Crain v. DeBartolo, No. 7:14–CV–29–D, 2015 WL 73961 (E.D.N.C. Jan. 6, 2015) (Dever, C.J.).

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DECISIONS ON PATENTABLE SUBJECT MATTER UNDER *ALICE CORP.*

PTAB Finds Patent Claims on Methods for Asset Disposition Unpatentable Under *Alice*

In a final written decision, a Patent Trial and Appeal Board (PTAB) panel has ruled that claims related to managing disposition of surplus capital assets, such as obsolete computers, are directed to an abstract idea unpatentable under § 101. Dell, Inc. filed a petition for a covered business method patent review challenging all claims of U.S. Patent 5,424,944 in response to a suit filed by patent owner Disposition Services, LLC in the Eastern District of Texas. The district court case was stayed pending the PTAB’s review. The ‘944 patent claims methods for creating records for assets being disposed and tracking them through the disposal process. The invention attempts to solve the problem of inadvertent or fraudulent disposal of such assets on the black market. The claimed disposition process includes an interactive multimedia system that combines images of the assets with relevant data, audio records, and disposition instructions. In response to Dell’s petition, Disposition Services argued that the disposition of the asset is a “necessarily physical and tangible outcome achieved through the use of a system with specific defined recited structure.” The panel rejected that argument, stating that under *Alice*, the fact that an asset exists in the physical realm is irrelevant to the § 101 inquiry. The panel also concluded that modes of disposition involving the physical transformation of the asset, such as refurbishing, dismantling, dysfunctioning, reclaiming, and destroying the asset merely constitute “insignificant extra-solution activity” that cannot transform an unpatentable process into a patentable one. The panel found computer and database limitations recited in some of the claims were not meaningful given that the function performed by the computer was purely conventional. Lastly, the panel rejected the patent owner’s argument that the claims of the ‘944 patent are designed to solve a technological problem, writing that “the claims do not add any inventive concept to the abstract idea of handling a customer’s physical item in such a way that the customer can verify that its handling instructions were followed.”

Dell Inc. v. Disposition Servs. LLC., No. CBM2013-00040 (PTAB Jan. 9, 2015) [Medley, Turner, Clements (opinion)].

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