

**Intellectual Property**  
**Fall 2023**  
**Midterm Memo**

Your grades and some brief comments are available on Canvas. I graded by creating a rubric broken down into individual points, each corresponding to an issue I hoped you would spot, a factual point I hoped you would make, or advice I hoped you would give. (For example, "The '609 patent is expired." was worth a point.) I gave half credit for a wrong answer in the right ballpark; I gave full credit for identifying an issue and analyzing it carefully even if you reached a different conclusion than I did. Indeed, in several cases I awarded bonus points for spotting an issue I missed, or for surprising me with an argument I had not thought of.

The scores on Canvas are raw scores corresponding to the total number of points you received. The class mean was 18.1 and the standard deviation was 4.8. Scores of 21 and above are roughly A-range, scores from 13 to 20 are roughly B-range, and scores of 12 and below are roughly C-range.

The bullet points in the following outline do not precisely correspond to my grading rubric, but they do reflect the overall weight I put on different parts of the analysis.

I will of course be happy to discuss your essays and your grades with you if you have any questions.

## You Know, For Kids

Bingo should go forward with its plans for the Bandit, and should protect its exclusivity by applying for a utility patent on the Bandit's design. The Bandit could realize about \$9.8 million in profit, if Bingo's estimates are correct and a patent can be secured.

### Trade Secret

Bingo has a protectable trade secret in the design of the Bandit, but it is at risk of leaking and will cease to exist when Bingo starts selling Bandits.

- The design of the Bandit is economically valuable, because it will enable Bingo to sell a unique toy.
- The design of the Bandit is currently actually secret. There is no indication that any competitors have learned about the design, notwithstanding the leaks from the Play Lab and the theft from the loading dock. It's theoretically possible, but so far doesn't seem to have happened. Kids do talk to other kids, but the playtesters don't know *how* the toy works, so they can't give away that essential part of the secret.
- Bingo has taken reasonable precautions to protect the secrecy of the Bandit. The disclosures as part of its testing program are covered by the releases the parents sign. (They're not called "NDAs" but they contain the essential promise of confidentiality that characterizes an NDA.) And while having a loading dock door unlocked is not ideal, nothing in the facts so far suggests that this is a complete lack of precautions. This is private property and the intrusion was a criminal theft. Overall, the precautions seem sufficient.
- It is not worth doing anything about the kids talking to their friends. It is not realistic to be able to convince kids to keep quiet about a fun toy. Threatening the parents will just make it harder for Bingo to do future playtesting.
- Bingo has a decent trade-secret claim against the unknown thieves, in addition to its trespass and theft claims against them. But finding the thieves may be impossible, so the claim is mostly theoretical.

- Bingo should be concerned about the possibility that this was a targeted theft—either an inside job or corporate espionage. Either possibility would be a problem.
- Bingo’s trade secret will give it a head start over competitors. Since Bingo only needs to sell 20,000 Bandits to recoup its investment, and it can do so in a matter of months based on anticipated demand, the Bandit would be a worthwhile project based only on this head start.
- Trade secret will not provide good long-term protection for the Bandit. Once it is publicly available, competitors will be able to reverse-engineer it and construct knockoffs. Once that happens, Bingo’s sales and margins will both decrease rapidly.

### Utility Patent Risks

All of the patent infringement risks that Bingo faces from making and selling the Bandit can be managed.

- Most of the Bandit’s components (e.g., pull strings) are unpatented.
- Although the ‘609 patent probably reads on the Bandit (notwithstanding the different uses), its term has long since expired and the invention is in the public domain.
- The ‘455 patent is still in force, and will be until 2026. The impact-operated clutch is an essential component of the Bandit, and there is no indication that Bingo has any reasonable ways to invent around it. So Bingo will need to find a way to use these clutches without infringing.
- Bingo could purchase clutches from Chilico at \$2.50 each. This price is well within Bingo’s overall budget. Once Bingo does so, Chilico’s rights in the clutches will be exhausted and Bingo will be free to install them in Bandits.
- Bingo could save \$1.50 per clutch by purchasing them from Stripe instead. At 100,000 sales per year, this is an annual savings of \$150,000. Unfortunately, it appears likely that Stripe does not have a license to the ‘455 patent: the price is suspiciously low. If Bingo buys and installs Stripe’s clutches, it will be liable for infringement of the ‘455 patent. (NB: this is direct infringement for making and selling, not indirect liability.) This is not recommended.

- Bingo could approach Chilico to discuss a wholesale purchase or licensing arrangement. The risk of this strategy is that it might also convince Chilico to raise its prices.
- Because Chilico's rights will expire in 2026, Bingo should purchase Chilico clutches until then, and then switch to cheaper suppliers.

### Utility Patent Rights

Bingo can and should pursue a utility patent on the design of the Bandit.

- The Bandit is proper statutory subject matter: an tangible article of manufacture.
- The Bandit is useful as a toy.
- The Bandit can be adequately disclosed and claimed in a patent application, and we do not need to worry about the details of a hypothetical application now.
- The Bandit is novel over the various prior art described in the problem: balls, pull-string mechanisms, boomerangs, boomerang balls, the '609 patent, and the '455 patent. None of them have the combination of a ball, a flywheel, a pull-string mechanism, and an impact-operated clutch. Since each of them is missing at least one element, none of them anticipate it. (Note that all of these pieces of prior art are "patented," "in public use," and/or "on sale.")
- The Bandit is also nonobvious over the prior art. The most relevant references are the '609 patent and the '455 patent. But the Bandit uses the flywheel for a very different purpose than the '609 patent does: to make the ball *spin and bounce* rather than to *resist* being moved. Nothing in the clutch mechanism of '455 suggests that it solves an existing problem with balls containing flywheels. While the mechanical effects of the Bandit are physically predictable, the particular application is original.
- The Play Lab probably does not create prior art. First, this is not a "public use" at all. (It is obviously not "patented," "described in a printed publication," "on sale," or "otherwise available to the public.") It is a use carried on under conditions of secrecy (see above), and it is not a commercial use. Bingo pays the parents for their children's participation, not *vice versa*. Second, even if it were a

public use, it would still be an experimental use. The Play Lab involves proper experimental controls, including restrictions on use and observations to gather data. Third, the children's conversations with each other are neither "printed publications" nor enabling (the kids probably can't tell how the devices work just from playing with them).

- The loading-dock theft probably has not created prior art, either. A theft of an embodiment is not one of the categories of prior art. Even if the thieves do disclose the prototypes (perhaps by selling them), this would be a disclosure by "another who obtained the subject matter disclosed directly or indirectly from the inventor" and so would count as a first-party disclosure.
- In light of the Play Lab and theft, however, Bingo should act cautiously and assume that the one-year grace period has already started. It should move expeditiously to file a patent application, including by filing a provisional patent application if necessary.
- Bingo should not start marketing and selling the Bandit until its utility patent application has been filed.