



IDEAS ON INTELLECTUAL PROPERTY LAW

FEBRUARY/MARCH
2026

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First-filer vs. second-filer

Federal Circuit clarifies AIA derivation proceedings

More than a decade after the America Invents Act (AIA) shifted the U.S. patent system from a “first-to-invent” to a “first-to-file” system, the U.S. Court of Appeals for the Federal Circuit has weighed in for the first time on a derivation proceeding under the law. Its ruling sheds valuable light on the proper framework for such proceedings under the AIA.

DERIVATION DUEL

Global Health Solutions LLC (GHS) and Marc Selner each filed a patent application for the same invention, a method for preparing a wound treatment ointment. When GHS discovered Selner’s application, it filed a petition for a derivation proceeding against him. In a derivation proceeding, the Patent Trial and Appeal Board (PTAB) determines whether 1) an inventor named in an earlier patent application *derived* the claimed invention from an inventor named in the petitioner’s application, and 2) the earlier application was filed without authorization.

According to GHS, its founder, who was listed as the inventor on its application, was the true inventor. The PTAB, however, ruled in Selner’s favor. GHS then

turned to the Federal Circuit, the appellate court that hears all patent-related appeals, for relief.

CONCEPTION AND COMMUNICATION

The court began its analysis by explaining how the AIA has changed the litigation of derivation claims. Under the AIA, it said, a “first-inventor second-filer” must prove that the first-filer derived the purported invention from the second-filer. Because the focus is now on first-to-file, the inquiry in an AIA derivation proceeding centers on whether the petitioner conceived and communicated the invention before the first-filer filed an application.

If the petitioner can show both conception of the invention and communication of it to the first-filer before the latter filed its application, the first-filer isn’t without recourse. That party can overcome the showing by proving independent conception *before* the communication from the petitioner.

An inventor’s testimony alone won’t suffice to establish independent conception; corroboration is required. Documentary or physical evidence that was made contemporaneously with the inventive process provides the most reliable corroboration.

IS REDUCTION-TO-PRACTICE REQUIRED?

The second-filer in *Global Health Solutions* (see main article) also argued that the Patent Trial and Appeal Board erred by rejecting the argument that conception wasn’t complete until the first-filer reduced the invention to practice — that is, actually developed it. The U.S. Court of Appeals for the Federal Circuit rejected this argument, too.

Conception generally can occur without an inventor actually reducing the invention to practice. Exceptions exist, such as when an inventor “is unable to envision the detailed [structure of his invention] so as to distinguish it from other materials, as well as a method for obtaining it.”

But the court had never held that actual reduction to practice is always necessary for complete conception to occur. The first-filer’s conception was complete in this case when he was able to define the invention by its method of preparation or had formed a “definite and permanent idea of the complete operative invention” — despite the fact that he never actually reduced the invention to practice.



In this case, the PTAB had considered contemporaneous emails retrieved from Selner's AOL email account. GHS's founder sent Selner an email on February 14, 2014, with a 4:04 p.m. time stamp, which described the invention. Selner, though, had sent the founder an earlier email on that day that also described the invention. The language in the founder's later email substantially resembled Selner's email. Moreover, the founder sent Selner's daughter an email in April 2014 that acknowledged her father as the inventor.

GHS didn't challenge the authenticity of the emails, so they didn't require independent corroboration. Even if they had, though, the court notably pointed out that the metadata generated by the web-based mail server (including the date and time the emails were sent and received and the addresses of the sender and recipient) indicated that the associated emails weren't authored by Selner. Rather, the corroborating evidence was independent of his own statements and documents.

CO-INVENTOR CLAIM

GHS alternatively argued that, if the court affirmed the PTAB's finding of independent conception, it nonetheless should send the case back to the board to determine whether its founder should be named

as a co-inventor on Selner's application. The Federal Circuit declined to do so.

The court found that GHS had forfeited its request to correct ownership because it hadn't properly presented it. Along with abiding by other requirements, the request should have been made in a separate motion, accompanied by a processing fee and an application data sheet identifying each inventor. GHS, on the other hand, simply included a single sentence with the request in its petition for a derivation proceeding. And it provided no evidence that the founder was a co-inventor.

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FILE FAST AND DOCUMENT

The court's decision provides yet another reason for inventors to promptly file their patent applications. It also highlights the need to maintain careful documentation of invention conception to corroborate inventor testimony. ▣

Bayh-Dole Act

How patent march-in rights really work

Back in 1980, the Bayh-Dole Act established a federal patent policy that allows recipients of federal funding to retain ownership of patent rights in inventions created with such funding. Certain restrictions apply, though, including “march-in rights.”

The law and this particular restriction have been the subject of much misinformation lately, leading to a fear of heightened federal scrutiny over inventions subject to it. Let’s set the record straight.

BAYH-DOLE ACT BASICS

The Bayh-Dole Act applies only to patents on inventions conceived or first “reduced to practice” under a federal funding agreement. The ownership of patent rights by the funding recipient is the bedrock of the law that facilitated the law’s success.

The government’s exercise of march-in rights doesn’t put patent *ownership* in jeopardy.

The law was enacted to attempt to realize the full value of federally funded inventions, which likely would not be realized without appropriate private-sector involvement and incentives. In essence, the law permits a funding recipient to retain ownership of the patent rights to use itself or license to industry partners. As a result of the federal funding/private sector partnership, investment money has flowed into companies owning or licensing such patent rights, thereby permitting commercialization of patented products for the benefit of society.

In some circumstances, however, the law authorizes the government to “march in” and require the grant of a license to a third party that will commercialize the invention or take another action not fulfilled by the funding recipient. Specifically, if the agency

determines that any of the following four criteria apply, it can begin the procedure to exercise march-in rights:

- 1) The funding recipient or licensee hasn’t taken, or isn’t expected to take, within a reasonable time, effective steps to achieve practical application of the invention,
- 2) Action is necessary to alleviate health or safety needs that aren’t reasonably satisfied by the funding recipient or its licensees,



3) Action is required to meet public use requirements in federal regulations, or

4) The domestic manufacturing preference hasn't been satisfied.

The domestic manufacturing preference mandates that certain inventions must be “manufactured substantially in the United States.” It applies only to exclusive licensees (not to funding recipients or nonexclusive licensees) and to products sold in the United States. In certain circumstances, the funding agency may grant a waiver. In the absence of a waiver, though, any products “embodying the subject invention or produced through the use of the subject invention” must satisfy the requirement.

In the 45 years since the Bayh-Dole Act became law, no funding agency has ever exercised march-in rights. The current administration's emphasis on increased domestic manufacturing has prompted speculation that it might begin enforcing those rights. However, disturbing the status quo in this way likely would send ripples through a variety of industries, including the life sciences as well as the investment community.

MARCH-IN RIGHTS VS. TAKING OWNERSHIP

Stakeholders understandably are anxious at the prospect of the government exercising march-in rights. But the regulations implementing the Bayh-Dole Act make clear the criteria and circumstances under which such an action may be taken. Moreover, it's important to understand that the government's exercise of march-in rights doesn't put patent *ownership* in jeopardy.

A governmental taking of ownership isn't tied to march-in rights. Rather, a federal agency can request or take title to a subject invention and its associated patent rights only if a funding recipient doesn't timely disclose the invention to the agency and elect title to the patent rights. If the recipient does elect title, a patent application must be timely filed after election. Only the failure to comply with these deadlines can result in the loss of patent ownership.

STAY ON TOP OF YOUR OBLIGATIONS

Federal funding recipients need to understand the basic aspects of the Bayh-Dole Act if they wish to avoid running afoul of its requirements and retain ownership of the patent rights. Whether enforced through march-in rights or taking ownership, noncompliance can prove costly. ▣

Are NFTs “goods” for trademark purposes?

The U.S. Court of Appeals for the Ninth Circuit recently ruled in a case of critical importance to creators of nonfungible tokens (NFTs) and other digital offerings. The ruling extends to them potentially valuable trademark rights in NFT names, logos and other protectible elements.

GORILLA TACTICS

Yuga Labs Inc., created one of the most widely known NFTs — the Bored Ape Yacht Club (BAYC). An NFT is an intangible, fully virtual, authenticating software code that's associated with separate digital or physical content.

Each NFT in the BAYC collection was associated with a unique cartoon “Bored Ape.” Buyers obtained rights

to the ape art, along with membership in an online and offline social club. The membership gave them access to benefits including interactive digital spaces, branded merchandise and events.

Ryder Ripps and Jeremy Cahen subsequently created a nearly identical collection called Ryder Ripps Bored Ape Yacht Club (RR/BAYC), allegedly for purposes of satire. The collection was associated with the exact same Bored Ape cartoons as Yuga's NFTs.

Yuga sued Ripps and Cahen for trademark infringement, and the trial court ruled in its favor on summary judgment, meaning without a trial. The defendants appealed to the Ninth Circuit.



GOOD ENOUGH

The defendants argued that Yuga didn't have an enforceable trademark because an NFT isn't a "good" protected by the Lanham Act. As the Ninth Circuit noted, the law doesn't define the term "good."

Instead, the court cited the U.S. Patent and Trademark Office's (PTO) conclusion in a 2024 report to Congress that NFTs are indeed goods covered by the Lanham Act. In the PTO's view, trademarks perform the same functions in NFT markets as in other markets.

The court distinguished NFTs from tangible goods that contain intangible, expressive content, such as video cassettes or compact discs with music. Only the tangible component operates as a protectible source-identifier for the overall product.

Unlike the intangible content in those products, NFTs aren't contained in or associated with tangible goods sold in the traditional marketplace. They exist only in the digital world and are associated with digital files. And they're purchased as commercial goods in online marketplaces specifically curated for NFTs. The appellate court therefore concluded that NFTs are goods eligible for trademark protection.

CONFUSION QUESTION

To succeed with its trademark infringement claim, though, Yuga needed to show a likelihood of consumer confusion between the defendants' marks

and its marks. The lower court had "easily" found that the defendants' use of the marks was likely to cause confusion, but the appeals court disagreed.

To evaluate the likelihood of confusion, the court considered the eight so-called *Sleekcraft* factors (named for the court case that first identified them). In the context of "internet commerce," the court said the most important are the:

- Similarity of the marks,
- Relatedness of the goods or services, and
- Simultaneous use of the internet as a marketing channel.

The court ultimately found that some of the *Sleekcraft* factors indicated a likelihood of confusion, others didn't and some were neutral. This was true even of the three factors especially significant for internet commerce cases. As result, a trial on the issue was necessary.

DON'T GO BANANAS

The finding that NFTs constitute goods for trademark purposes was welcome news for Yuga and similar creators. Yuga, however, still must convince a factfinder at trial that the defendants' use of its marks is likely to cause confusion in the marketplace. □

Understanding the derivative works exception to copyright's termination right

The drafters of the Copyright Act thought ahead in ways authors might not. They included a termination right to free authors from the consequences of granting their copyright rights before they understood the true value of their works.

The termination right is subject to what's called the derivative works exception, though. When one grantee recently tried to push the boundaries of that exception, the U.S. Court of Appeals for the Second Circuit closed the book on the claim.

THE SCENE IS SET

The case involves two derivative theatrical works based on Harper Lee's novel "To Kill a Mockingbird." In 1969, Lee granted The Dramatic Publishing Company an exclusive license to stage "non-first-class" (that is, amateur) productions of adaptations of the book. She later terminated the grant and authorized the development of another stage adaptation. Atticus Limited Liability holds the rights to present and produce that adaptation.

Atticus sought a declaratory judgment that performances of the second adaptation don't infringe any copyright interest Dramatic held under its grant. Dramatic countered that it held an exclusive license to stage amateur adaptations of the novel — even after the termination. The trial court granted declaratory judgment to Atticus, and Dramatic appealed.

THE CURTAIN FALLS

When a copyright grant is terminated, all of the covered rights generally revert to the author. Under the derivative works exception, though, a derivative work prepared under the grant pre-termination may continue to be "utilized under the terms of the grant" after its termination.



Dramatic contended that Lee's grant of an exclusive license to produce amateur stage adaptations is a "term of the grant" protected from termination by the exception. Therefore, it argued, its adaptation continues to be the *exclusive* stage adaptation for amateur productions.

This interpretation, the court said, conflated Dramatic's rights in its play with Lee's rights in "To Kill a Mockingbird." The termination caused all of her rights covered by the grant to revert, including the right to create derivative works and the right to authorize others to create derivative works. Dramatic could continue to "utilize" its play post-termination under the grant's terms, but Lee's promise of exclusive amateur rights wasn't a term governing how Dramatic's play was "utilized."

The court described the upshot of Dramatic's claimed exclusive license as the right to prevent further stage adaptations for amateur productions. That right, however, was part of the copyright in Lee's work and reverted to her on termination of the grant.

THE OTHER SHOW CAN GO ON

Dramatic will have to be satisfied with the ability to continue to perform and license its own derivative play. Because of the court's ruling, it can't block other derivative non-first-class plays based on Lee's novel. ▣

Protect What's Yours

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