

# The Ever-Changing State of Intellectual Property Law

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Friday, March 10, 2017, Seattle, WA

*Presented by WSBA CLE  
in partnership with the Intellectual Property Law Section*

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# Co-Chairs and Faculty

## A Special Thank You to Our Program Co-Chairs and Faculty!

Those who have planned and will present at this WSBA CLE seminar are volunteers. Their generous contributions of time, talent, and energy have made this program possible. We appreciate their work and their service to the legal profession.

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# Program Schedule

## The Ever-Changing State of Intellectual Property Law

Friday, March 10, 2017

8:00 a.m. Check-in • Walk-in Registration • Coffee and Pastry Service

### - PATENT LAW TRACK -

8:25 a.m. **Welcome and Introductions by Program Co-Chair**  
*Thomas J. Satagaj, Seed Intellectual Property Law Group LLP, Seattle*

8:30 a.m. **Patent Law Year In Review**  
This presentation will recount the wild, zany, and otherwise eventful developments in patent law in 2016. We will talk about the Supreme Court's rejections of the Federal Circuit's damages frameworks in Halo/Stryker and Apple v. Samsung, and we will look ahead to the key issues it will decide in 2017. We also will discuss the Federal Circuit's most notable 2016 opinions.  
*Theodore Angelis, K&L Gates LLP, Seattle*

9:30 a.m. **Patent Litigation Strategies in Light of *Alice Corp. v. CLS Bank Int'l***  
Alice v CLS Bank has wreaked havoc upon enforcement of method patents, especially software and Internet patents, making "unpatentable subject matter" a critical litigation defense. Sufficient decisions from both District Courts and the Federal Circuit have occurred to provide guidance on strategies for both plaintiffs and defendants. This session will explore the best and worst of those strategies.  
*Jerry A. Riedinger, Perkins Coie LLP, Seattle*

10:30 a.m. **BREAK**

10:45 a.m. **The Evolution of PTAB Trial Practice - Just Because You Can, Doesn't Mean You Should!**  
From motion practice to development of the trial record to discovery tactics, there are plenty of opportunities to shoot oneself in the foot at the PTAB. This segment will explore the significant differences between administrative trial before the PTAB and district court practices. Best practices will be discussed along with expected changes and trends going forward.  
*Scott Mckeown, Oblon, McClelland, Maier and Neustadt LLP, Alexandria, VA*

11:45 a.m. **BREAK and move to Luncheon**

Schedule continued on next page

Program Schedule (cont.)

**- COPYRIGHT/TRADEMARK LAW TRACK -**

- 8:25 a.m. Welcome and Introductions by Program Co-Chair**  
*Kevin A. Zeck, Perkins Coie LLP, Seattle*
- 8:30 a.m. Copyright Law - Year in Review: Key Developments and Pending Cases**  
We'll review an active year of copyright law, looking at key decisions and pending cases concerning copyrightability/originality, fair use, public performance rights and streaming, the DMCA safe harbor, and copyright infringement and substantial similarity determinations. We'll be looking at litigation about cheerleader uniforms, the Batmobile, monkey selfies, Star Trek fan fiction, chicken sandwiches, Madonna's "Vogue," Led Zeppelin's "Stairway to Heaven," PlumbBobs, pre-1972 sound recordings, mobile device software, stream-ripping, "Who's on First?" -- and more.  
*Mark Wittow, K&L Gates LLP, Seattle*
- 9:30 a.m. Trademark Law - Year in Review**  
We will review recent developments in trademark law, including: (1) the constitutionality of § 2(a) of the Lanham Act following *In re Tam*; (2) the effect of *B&B Hardware*; (3) the availability of preliminary injunctive relief and the presumption of irreparable harm; and (4) initial interest confusion under the Ninth Circuit's recent decision in *Multi Time Machine, Inc. v. Amazon*.  
*Patchen Haggerty, Perkins Coie LLP, Seattle*
- 10:30 a.m. BREAK**
- 10:45 a.m. Recent Developments in Generic Top Level Domain Names**  
*William C. Rava, Perkins Coie LLP, Seattle*
- 11:45 a.m. BREAK and move to Luncheon**
- 11:45 a.m. Luncheon with the Intellectual Property Section Annual Meeting and Elections**  
Keynote Presentation: *Judge Benjamin Settle, United States District Court*
- 1:00 p.m. Data Privacy & Cybersecurity: Why It Matters to the IP Practitioner**  
Hackers and cyber attackers are not just after personal data, many (including nation-state actors) are after trade secrets and intellectual property. Thus, preparing for such attacks and ensuring we are appropriately and reasonably protecting such information is key. In this session, we will cover proactive cybersecurity and the interplay with trade secret protections.  
*Aravind Swaminathan, Orrick, Herrington & Sutcliffe LLP, Seattle*

Schedule continued on next page

*Program Schedule (cont.)*

- 2:00 p.m. DTSA - A Review of the Defend Trade Secrets Act and its Application in the First Year Since Enactment**  
This discussion will cover the key provisions of the federal Defend Trade Secrets Act, enacted in 2016, and review the early cases in which the Act has been interpreted and applied. We will touch on the data, including individual cases, preferred jurisdictions, and the outcomes. We will discuss the extraordinary seizure provisions, temporary restraining orders involving the Act, and assess the materiality of the differences between the Act and state law trade secrets remedies.  
*Nagendra Setty, Orrick, Herrington & Sutcliffe LLP, Seattle*
- 3:00 p.m. BREAK**
- 3:15 p.m. Recent Developments in Cannabis Law and Intellectual Property**  
This session will cover the current state of intellectual property in the cannabis industry as it pertains to federal and state trademarks, trademark licensing, copyrights, trade secrets, and IP litigation.  
*Alison Malsbury, Harris Bricken, Seattle*  
*Robert McVay, Harris Bricken, Seattle*
- 4:00 p.m. Surviving The Perfect Protostorm: An Anthology of Recent IP Malpractice Decisions**  
The threat of legal malpractice looms large in the private practice of intellectual property law. Whether your work is in the field of IP prosecution, litigation, or licensing, it makes no difference. Attorneys who practice in the field of IP law are at significant risk of malpractice litigation by dissatisfied clients. Moreover, although IP malpractice lawsuits are relatively rare compared to similar types of actions in other practice areas, when an IP malpractice claim hits, it usually hits hard. Relatively high defense costs, time and energy consumed on defending a claim, and the possibility of a substantial damages award can create the “perfect storm.” This session will tell the stories behind some of the most important recent IP malpractice decisions and the lessons IP practitioners and law firms can learn from those cases.  
*Michael E. McCabe, Jr., Funk & Bolton PA, Baltimore, MD*
- 5:00 p.m. Adjourn • Complete Evaluation Forms**
- 5:15 p.m. Meet and Greet**

# Co-Chair Biographies

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## **Elizabeth Reilly**

Elizabeth Reilly is a patent attorney and owner of the law firm Patentpending, PLLC, where she focuses her legal practice on patent prosecution, patent disputes, trademark prosecution, and trademark disputes, generally, for the individual inventor. She represents a formidable list of domestic clients in a wide variety of industries, particularly, mechanical devices, medical devices, fashion apparel, glassware, and food consumer goods. She, also, serves on the Washington State Bar Association's Intellectual Property Executive Committee as Chair. She is a registered attorney with the United States Patent and Trademark Office; Washington State Bar; and New York State Bar.

## **Thomas J. Satagaj**

Tom Satagaj is a patent attorney & partner at Seed IP Law Group PLLC, once again a U.S. News & World Report and Best Lawyers® Tier 1 patent law firm. Before joining Seed in 2006, Tom spent nearly 20 years as an embedded engineer, systems architect, and team leader in the electronics industry.

## **Kevin A. Zeck**

Kevin Zeck is Counsel with the law firm Perkins Coie LLP, where he focuses his practice on patent and trade secret litigation. He has been named a Rising Star (Intellectual Property Litigation) by Super Lawyers Magazine, 2015-2016. He has also served on the Executive Committee of the Washington State Bar Association's Intellectual Property Section since 2012, and is currently the Chair-Elect of the IP Section. He was admitted to the Washington State Bar in 2009.



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<b>Seminar Name:</b>	The Ever-Changing State of Intellectual Property Law (17602SEA)									
<b>Seminar Date:</b>	March 10, 2017									
<b>Approved Credits:</b>	<u>6.75</u> CLE Credits for Washington Attorneys ( <u>5.75</u> Law & Legal Procedure, <u>1.0</u> Ethics and <u>0.0</u> Other)									
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## CHAPTER ONE

**PATENT LAW YEAR IN REVIEW**

March 2017

**Theodore Angelis  
K&L Gates LLP**Phone: (206) 623-7580  
theo.angelis@klgates.com

**THEODORE ANGELIS** is a partner at K&L Gates LLP. His practice focuses on Intellectual Property and appellate litigation in U.S. District Courts, before the U.S. Court of Appeals, before the PTAB, and before the International Trade Commission. Theo is listed in the Best Lawyers in America for both IP Litigation and Commercial Litigation, and he is a Washington Super Lawyer. He recently was recognized by the King County Bar Association (“KCBA”) as Mentor of the Year, and earlier in his career the KCBA named him Outstanding Young Lawyer. Theo served as the editor of the Washington Lawyer’s Practice Manual for many years, and while in law school served as articles editor for the Yale Law Journal and Managing Editor of the Yale Law & Policy Review. Theo received his law degree from Yale Law School, he holds Masters degrees from the University of Oxford and London School of Economics, and he received his B.A. from Claremont McKenna College.

## **Patent Law Track 2016 (and early 2017) -- Year In Review**

For the past decade, commentators have tended to end each year by announcing whether that year's opinions gave patent litigation plaintiffs or defendants more reason to cheer. The consensus for 2016 is that plaintiffs had more to celebrate. In *Halo* and *Stryker*, the Supreme Court tossed out the rigid *Seagate* framework that made it harder to recover enhanced damages under 35 U.S.C. § 284. In addition, the heightened pleading obligations that took effect in early 2016 appear not to have had a substantial impact on plaintiffs' ability to bring lawsuits. Moreover, after years of nearly unbroken losses, plaintiffs enjoyed a slew of opinions from the Federal Circuit agreeing that the particular software patents at issue were eligible for patent protection under 35 U.S.C. § 101.

Defendants had plenty to cheer about as well, however. The big news for defendants was that patent litigation filings were down substantially in 2016. In addition, the Supreme Court's and Federal Circuit's rulings in *Cuozzo* and *MCM Portfolio* confirmed that the PTAB would continue to have a strong role in killing off patent claims that should not have been granted. Likewise, the Supreme Court's recent rulings have been defendant friendly. In *Apple v. Samsung*,<sup>1</sup> the Supreme Court limited the damages available for infringement of a design patent. In *Life Technologies Corp. v. Promega Corp.*, the Supreme Court removed a potential threat to the global supply chain created by the Federal Circuit's expansive reading of § 271(f)(1).

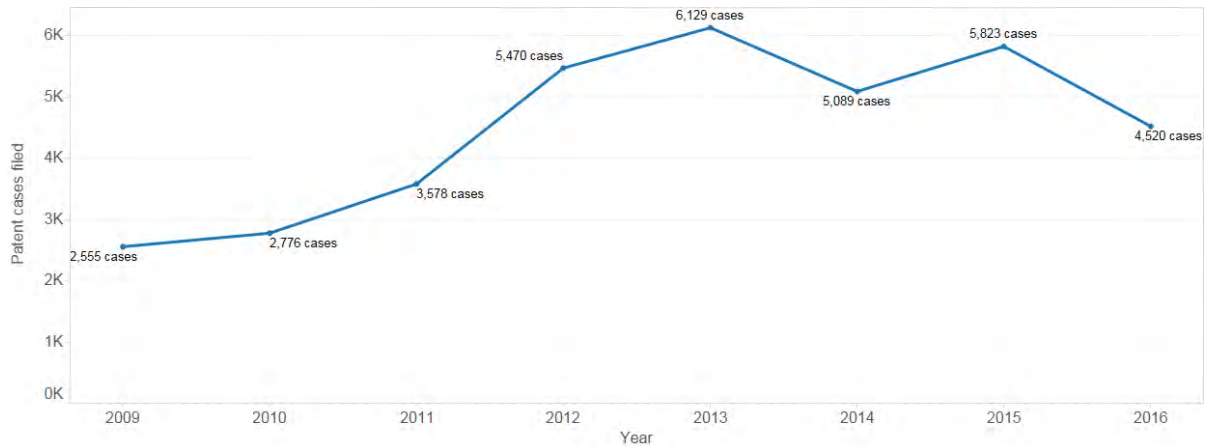
In all, it was an eventful year for patent law, as the summary below demonstrates. (Please note, however, that these materials do not focus on § 101 or PTAB proceedings because other presenters are addressing them).

### **I. Patent Litigation Filings Were Down Substantially in 2016**

According to *Lex Machina*, plaintiffs filed 4,520 cases in 2016, which is only about 78% of the cases filed in 2015.

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<sup>1</sup> Except when citing to particular portions of the opinion, I refer to this case—*Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429, 431 (2016)—by its more recognized name: *Apple v. Samsung*.



See Brian Howard, 2016 Fourth Quarter Litigation Update (Jan. 12, 2017), *available at* <<https://lexmachina.com/q4-litigation-update/>>.

Upon review, however, this drop may not be as dramatic as it appears because plaintiffs ramped up their lawsuits at the end of 2015, to avoid the stricter pleading standard for direct infringement. (The Supreme Court abolished the easily satisfied Form 18 of the Federal Rules of Civil Procedure, and plaintiffs now must satisfy *Iqbal/Twombly* standards when pleading direct patent infringement).

## II. Damages - *Halo and Stryker* Upend the *Seagate* Test

Until 2016, courts determined whether to award enhanced damages under 35 U.S.C. § 284 pursuant to the Federal Circuit’s test announced in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc). That test had both objective and subjective factors, both of which had to be satisfied by clear and convincing evidence. Under the objective prong, enhanced damages were warranted only if the alleged infringer acted in spite of an objectively high likelihood of infringement, which in practice meant that enhancement was allowed only when counsel could identify no colorable defense to infringement. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1930, 1932 (2016). Under the subjective prong, the plaintiff had to show that the alleged infringer knew or should have known of the infringement. *Id.* at 1932

As is now well known, the Supreme Court’s opinion rejected this framework in favor of a holding that the district courts have broad discretion to enhance damages in exceptional cases, and they need not find objective recklessness. *Id.* at 1933. The Supreme Court also rejected the requirement that entitlement to enhanced damages requires “clear and convincing evidence.” *Id.* Instead, enhanced damages are available when the plaintiff shows, by a preponderance of evidence, that they are warranted. The Court warned, however, that “such punishment should generally be reserved for egregious cases typified by willful misconduct.” *Id.* at 1934.

Since *Halo*, the Federal Circuit has affirmed the award of enhanced damages. For example, in *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317 (Fed. Cir. 2016), which the author of these materials helped to litigate(!), the panel affirmed enhanced damages based on the infringer's extensive knowledge of the plaintiff's product and its knowledge of the asserted patent. The Court reasoned that once the infringer learned of the patent, its strong familiarity with the product demonstrated that its continued infringement was willful. *Id.* at 1341-42. *WBIP* is the only case the Federal Circuit has addressed on the merits to date. In all other cases, such as *Apple v. Samsung*, *Stryker, Innovention Toys*, and *WesternGeco*, it has remanded in light of the Supreme Court's decision in *Halo*.

### III. Implementation of New Pleading Standards (Post Form 18)

Before January 1, 2016, plaintiffs could state a claim for direct infringement largely by identifying the asserted patent the plaintiff owned and the allegedly infringing product. The plaintiffs' bar initially feared this change, but although dismissals are up slightly, most plaintiffs have been able to overcome the new hurdles. In a recent article in *IPWatchdog*, Michelle Callaghan identified three ways in which district courts handled the new pleading requirements in 2016. The strictest court--*Thermolife Int'l, LLC v. Vitamin Shoppe, Inc.*, 2016 WL 6678525 (S.D. Fla. June 8, 2016), dismissed two of three asserted claims because the plaintiff pleaded facts that could support infringement of only one claim. *Id.*

The second group of courts identified in the *IPWatchdog* article, in contrast, allowed all claims so long as the plaintiff pleads facts sufficient to support infringement of at least one asserted claim. Some of those courts suggested that an element-by-element, quasi-claim chart would be required to satisfy this requirement. See, e.g., *Atlas IP, LLC v. Exelon Corp.*, \_\_\_F.Supp.3d\_\_\_, 2016 WL 2866134 (N.D. Ill. 2016) (granting dismissal without leave to amend because, after two prior attempts, plaintiff was unable to allege infringement). Others, however, have said that an element-by-element pleading is not required. See, e.g., *Windy City Innovations, LLC v. Microsoft Corporation*, \_\_\_F.Supp.3d\_\_\_, 2016 WL 3361858 (N.D. Cal. 2016). That is especially true when necessary facts are exclusively in the defendant's possession. *Vigil Systems Pty. Ltd. v. Trackit, LLC*, 2016 WL 4595538 (S.D. Cal. Aug. 22, 2016).

The *IPWatchdog* article also identifies a third group of courts that found *Iqbal/Twombly* satisfied when the plaintiff alleged that accused devices have the unique feature that characterizes the alleged invention. See, e.g., *Incom Corp. v. The Walt Disney Company*, No. 15-cv-3011-PSG, Dkt 39, at \*3 (C.D. Cal. Feb. 4, 2016); *Iron Gate Security, Inc. v. Lowe's Companies, Inc.*, 2016 WL 1070853 at \*3-\*4 (S.D.N.Y. Mar. 16, 2016).

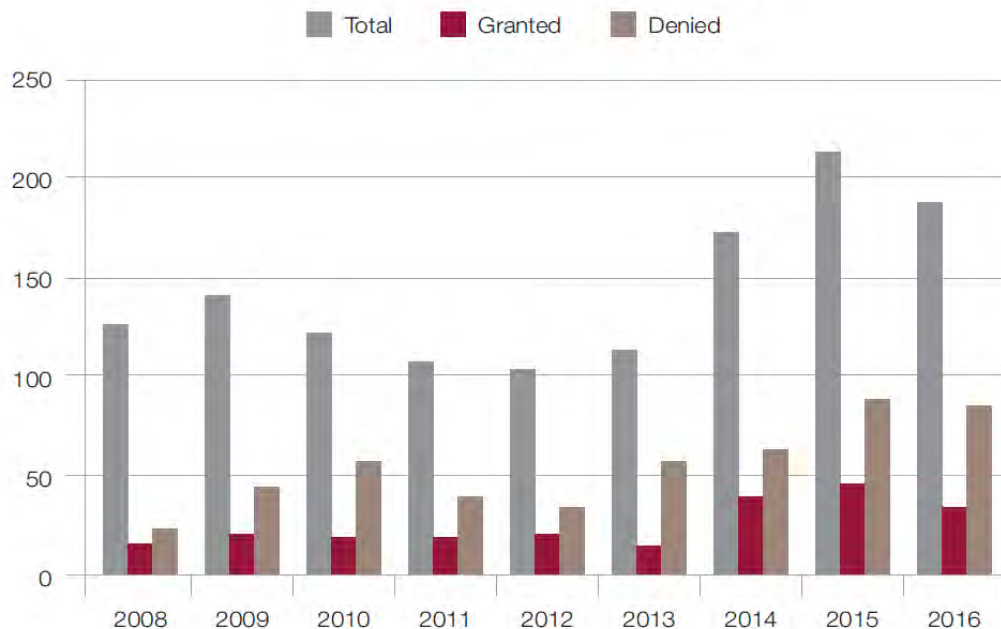
Under *Iqbal/Twombly*, district courts are instructed to use their judgment to weed out meritless cases before discovery. Although courts have approached that task differently, with differing standards of strictness, it's clear that they are properly forming opinions based on a variety of factors, including the care and attention the plaintiff has paid to its pleadings and the way it has litigated its claims. See, e.g., *Ruby Sands LLC v. Am. Nat'l Bank of Tex.*, No. 2:15cv01955 (E.D. Tex. 2016) (dismissing case because the complaint was brought by a “serial litigant who not only failed to plead plausible claims of direct infringement but also repeatedly filed (and failed to correct) pleadings containing indirect infringement allegations replete with extraneous language clearly lifted from some unrelated case.”); *Raniere v. Microsoft Corp.*, No. 3:15-CV-0540 (N.D. Tex. Sep. 2, 2016) (concluding that a case was exceptional because “[e]very time Defendants or the Court identified a defect in his standing, Plaintiff responded with a promise that he could produce evidence that would resolve that defect. Those promises never bore out.”).

#### **IV. Trends in Attorneys' Fees Awards After *Octane Fitness***

Before *Halo*, the Supreme Court decided *Octane Fitness*, which invalidated the Federal Circuit's unduly complex standard for deciding which cases were “exceptional” enough to justify an award of attorneys' fees under 35 U.S.C. § 285. See *Octane Fitness LLC v. Icon Health & Fitness Inc.*, 134 S. Ct. 1749, 1755-56 (2014). Since *Octane*, district courts have had broad discretion to identify which cases are exceptional.

Early evidence suggests that motions for attorneys' fees have increased significantly, and courts are awarding fees somewhat more often than they did before *Octane Fitness*. In particular, from the time *Octane Fitness* was decided until the end of 2016, the number of attorneys' fees motions filed per year has nearly doubled. During that time, the success rate has risen modestly from 16.5% to 21%. The data is less clear, however, than those percentages might suggest. According to tables prepared by Wilson Sonsini Goodrich & Rosati, there was an initial spike in grant rates immediately after *Octane Fitness*, but the grant rate decreased since that time.

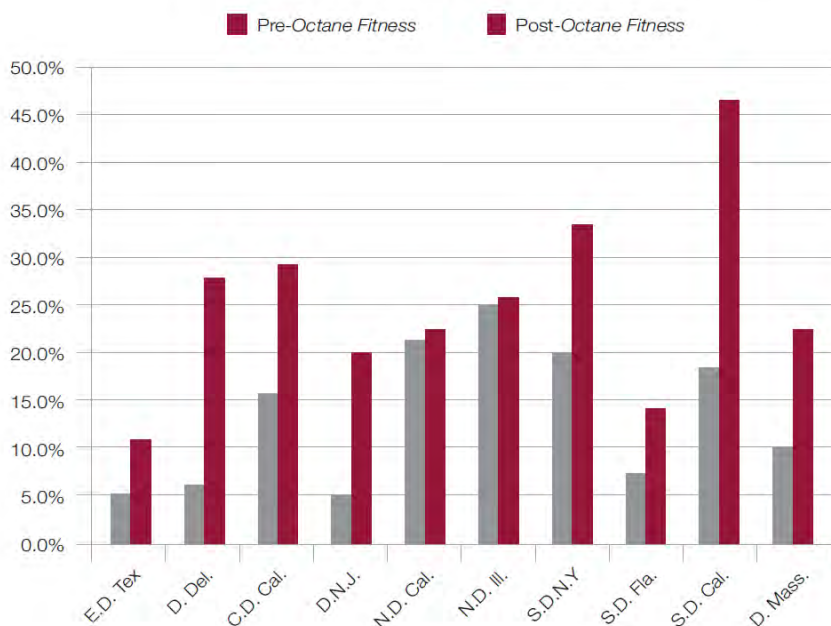
### Orders Regarding Section 285



Wilson Sonsini Goodrich & Rosati, 2016 Patent Litigation Year in Review, available at <https://www.wsgr.com/email/pat-lit-review/2016/Patent-Litigation-Report-2016.pdf>.

In certain districts, there has been a substantial increase in the rate fees are granted post *Octane Fitness*. The chart below provides statistics for the 10 busiest patent jurisdictions.

### Grant Rate of Section 285 Motions by District





*Id.* Some jurisdictions, such as the N.D. California, have remained nearly the same in terms of the percentage of motions granted. Other districts, such as the increasingly busy S.D. California, have more than doubled the percentage of granted motions.

## V. Recent and Upcoming Supreme Court Cases

The 2016-2017 term for the Supreme Court features several high profile cases. The Court has already issued opinions in two cases: (1) *Samsung Electronics Co. v. Apple Inc.*, which limited the scope of damages allowable for infringement of a design patent; and (2) *Life Technologies Corp. v. Promega Corp.*, which held that export of a single component could not create liability under 35 U.S.C. § 271(f)(1). Both cases were decided unanimously, and I discuss their reasoning and likely impacts below. In addition, the Supreme Court is likely to issue opinions in three cases by the end of June: (1) *TC Heartland LLC v. Kraft Food Brands Group LLC*; (2) *SCA Hygiene Products AB v. First Quality Baby Products LLC*; and (3) *Impression Products Inc. v. Lexmark International Inc.*

### A. *Apple v. Samsung*

In *Apple v. Samsung*, the Supreme Court construed 35 U.S.C § 289, which governs damages for infringement of a design patent. It provides that “[a] person who manufactures or sells ‘any article of manufacture to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit.’” *Samsung*, 137 S. Ct. at 432 (quoting 35 U.S.C. § 289). The Federal Circuit had construed “article of manufacture” broadly, reasoning that it applied only to entire products sold to consumers, and it rejected Samsung’s argument that the accused screen or display was the article of manufacture. *Id.* at 433-34.

The Supreme Court reversed. It rejected Apple’s argument that, “in the case of a multicomponent product, the relevant ‘article of manufacture’ must always be the end product sold to the consumer . . . .” *Id.* at 434. The Court held that “the term ‘article of manufacture’ is broad enough to encompass both a product sold to a consumer as well as a component of that product.” *Id.* at 435. The Court reasoned that the text of structure of the Patent Act compelled its conclusion. For example, 35 U.S.C. § 171(a), which addresses the subject matter eligible for design patent protection, provides protection for one component of a multicomponent product. *Id.* The Court also noted that utility patents have long been granted on components of multicomponent processes. *Id.* Finally, the Court noted that the plain meaning of the phrase “article of manufacture” is broad enough to encompass “both a product sold to a consumer and a component of that product, whether sold separately or not.” *Id.* at 436.

*Apple v. Samsung* has had an impact on practitioners’ views of the value of design patents. Prior to the ruling, design patents had received renewed attention, in part

because of the potential for large scale damages if infringed and in part because of the increasing role that interfaces play in consumers' access to technology. This ruling removes some of the growing luster design patents had enjoyed by subjecting design patents to the stricter apportionment rules that apply to utility patents.

B. *Life Technologies Corp. v. Promega Corp.*

In *Life Technologies*, the Supreme Court once again addressed the scope of 35 U.S.C. § 271(f).<sup>2</sup> *Life Technologies Corp. v. Promega Corp.*, \_\_\_ S. Ct. \_\_\_, 2017 WL 685531 (Feb. 22, 2017). In particular, the Court determined whether exporting a single component of a U.S. patented invention could constitute “all or a substantial portion of the components of a patented invention.” *Id.* at \*3 (quoting 35 U.S.C. § 271(f)(1)).

The Federal Circuit had reasoned that a single component could serve as “a substantial portion of the components” of an invention “substantial” means “important” or “essential,” and the evidence at trial established that the accused component was a “main” or “major” component of the accused testing kits. *Id.* at \*4.

The Supreme Court reversed unanimously. It agreed that, in the abstract, the word “substantial” can have a qualitative or quantitative meaning. *Id.* at \*4-\*5. It held, however, that in the context of § 271(f) “substantial” clearly is a quantitative measure. *Id.* at \*5. The Court relied on the surrounding words “all” and “a portion,” which are words referring to quantities. Moreover, the Court pointed to the phrase “components of a patented invention,” which likewise is a quantitative word. *Id.* The Court reasoned that if Congress had meant to give “substantial” a qualitative meaning, it would have referred to “all or a substantial portion of . . . a patented invention.” *Id.*

Having concluded that the statute mandates a quantitative meeting, the Court concluded that a single component can never constitute a “substantial portion” or an invention’s components. *Id.* at \*6-\*7. The Court declined, however, to further elaborate on how many components are necessary to establish infringement under § 271(f)(1). *Id.* at \*8. Justices Thomas and Alito issued a concurring opinion to clarify that, in holding that one component could not satisfy the statute, the Court was not holding that two components *could* satisfy the statute. *Id.* at \*9-\*10 (Alito, J., concurring).

Like *Apple v. Samsung*, *Life Technologies* is a relatively narrow statutory interpretation case. What is notable, however, is that absence of any extended discussion of the presumption against extraterritorial application of U.S. Patent law. That presumption has loomed large in the Supreme Court’s prior cases and also in the Federal Circuit’s damages cases, such as *Carnegie Mellon Univ. v. Marvell Tech.*

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<sup>2</sup> The Court previously addressed § 271(f) in *Microsoft Corp. v. AT&T Corp.*, 550 U. S. 437, 447 (2007).

*Group, Ltd.*, 807 F. 3d 1283 (Fed. Cir. 2015) and *WesternGeco LLC v. Ion Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015). In those cases, the Court relied on the presumption against extraterritoriality when interpreting other portions of the Patent Act, such as the damages provisions of § 284. Some commentators have suggested that the Court’s decision not to discuss extraterritoriality reflects the two step process laid out in *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090 (2016). Under that framework, the presumption against extraterritoriality does not play a role in interpreting a statute--like § 271(f)--that plainly is designed to have extraterritorial reach.

#### C. *TC Heartland LLC v. Kraft Food Brands Group LLC*

Perhaps the most talked about case this term is *TC Heartland*. It involves venue for patent cases. The patent venue statute, 28 U.S.C. § 1400(b), limits venue to “the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” The Supreme Court previously determined that this statute is the “sole and exclusive provision controlling venue in patent infringement actions,” and it held that “corporate residence under § 1400(b) can only be the place of incorporation.” *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222, 226-29 (1957). Thirty years later, however, the Federal Circuit held in Federal Circuit in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990) that changes to the general venue provisions in Title 28 had abrogated *Fourco*’s holding, and venue for patent infringement was now proper in any district where a defendant is subject to personal jurisdiction. *Id.*

The Supreme Court granted certiorari to address whether the Federal Circuit was right in concluding that Congress’s earlier changes to the general venue statute § 1391(c)--several of which have now been removed--had the effect of overruling the Supreme Court’s ruling in *Fourco*. The Court granted certiorari on the following question: “Whether 28 U.S.C. § 1400(b) is the sole and exclusive provision governing venue in patent infringement actions and is not to be supplemented by 28 U.S.C. § 1391(c).”

The impact of *TC Heartland* could be significant for defendants who face lawsuits in the E.D. Texas. Most of those defendants are not Texas corporations and do not have “regular and established place of business” in the Eastern District of Texas. If the Supreme Court reverses, the upshot is likely to be far fewer cases in the E.D. Texas and many more in the District of Delaware.

#### D. *SCA Hygiene Products AB v. First Quality Baby Products LLC*

Laches has been an issue in some of the largest patent verdicts in the past few years. See, e.g., *Carnegie Mellon*, 807 F.3d at 1298-99. District courts have struggled to determine whether laches remains a viable defense in patent cases in the wake of

the Supreme Court's opinion in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014). In *Petrella*, the Court ruled that laches was not a defense to a copyright action, and laches is not an appropriate defense to any action brought within the statute of limitations Congress has set for an action. *Id.* at 1973-74. In *SCA*, however, the Federal Circuit--sitting en banc--ruled that laches remains a defense in patent infringement actions. The Federal Circuit's reasoning is based on portions of the Patent Act that expressly allow for equitable defenses and the wording of the lookback period for damages in a patent case.

During oral argument, the justices appeared skeptical of laches as a defense in light of what amounts to a 6-year statute of limitations in the Patent Act. If the Court overturns the Federal Circuit, it will be easier for patent owners to defer bringing an action even after they know of infringement. Other equitable doctrines, however, such as equitable estoppel, will continue to bar untimely actions if the alleged infringer can show that it relied on the lack of enforcement of a patent.

*E. Impression Products Inc. v. Lexmark International Inc.*

At issue in *Impression Products* is the doctrine of patent exhaustion. In light of the high cost of toner cartridges, entrepreneurs had begun buying spent cartridges, refilling and refurbishing them, and then selling them at a substantial discount. Many of those cartridges had been sold, however, with a restriction that they be used only once. Other cartridges were sold abroad.

The Supreme Court granted certiorari on two questions: (1) whether sale of an item pursuant to "post-sale restrictions" avoids application of the patent-exhaustion doctrine and allows the patent holder to sue for infringement if subsequent sales occur; and (2) whether, in light of *Kirtsaeng v. John Wiley & Sons, Inc.*, an authorized sale of a patented article abroad exhausts U.S. patent rights in that article.

On the first question, the Supreme Court will be construing the scope of its opinion in *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), in which it held that "[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item." *Id.* at 625. The Court will need to consider whether a patentee may place restrictions on the sale that overcome this "longstanding doctrine." On the second question, regarding foreign sales, the Court will need to construe its holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), that publishers may not restrict importation of books sold abroad because their copyrights are exhausted by the first sale. The Federal Circuit had distinguished *Kirtsaeng* and followed its opinion in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), in which it held that the foreign sale of a product

covered by a U.S. patent does not exhaust the patentee's rights. As a result, the patentee can sue for infringement when that product is imported into the United States.

If the Supreme Court reverses the Federal Circuit in *Impression Products*, its holding could have profound impacts for drug companies, who sell patented products for lower prices outside of the United States, and software and medical device sellers, who often use post-sale restrictions to protect against infringement.

## Patent Law Year In Review (2016ish)

March 10, 2017

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Who Won 2016?

## Plaintiffs v. Defendants – Who Won 2016?

- Plaintiffs gained more ground in 2016
  - *Halo/Stryker* made it easier to recover enhanced damages under 35 U.S.C. § 285
  - Form 18's elimination did not have an undue bite
  - The Federal Circuit reversed several district courts who found software patents ineligible for protection under 35 U.S.C. § 101
  - District courts increasingly are awarding attorneys' fees under 35 U.S.C. § 285

## Plaintiffs v. Defendants – Who Won 2016?

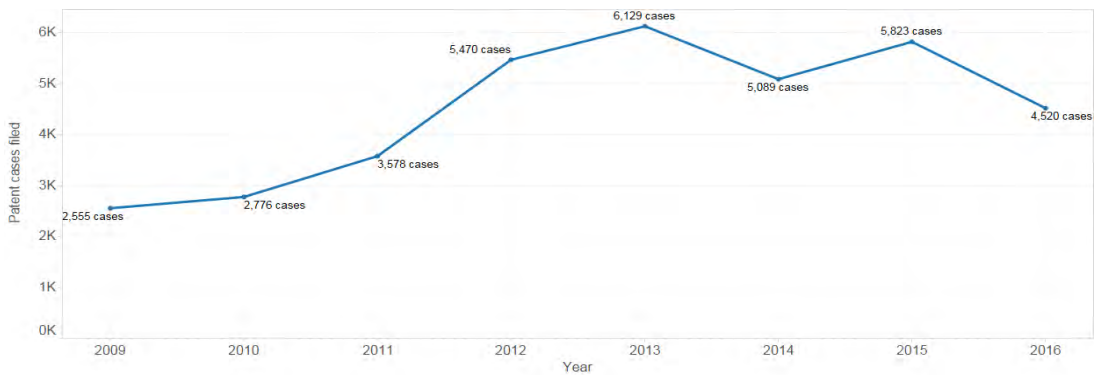
- Defendants also made gains in 2016:
  - Patent litigation filings were down substantially
  - IPRs (and other post grant proceedings) survived potentially existential challenges in *Cuozzo* and *MCM Portfolio*.
  - The Supreme Court limited the damages available for infringement of a design patent in *Apple v. Samsung*.
  - The Supreme Court removed a potential threat to the global supply chain in *Life Technologies Corp. v. Promega Corp.*

## Patent Filings Fell to a Five Year Low



## Patent Filings Fell to a Five Year Low

- According to *Lex Machina*, plaintiffs filed 4,520 cases in 2016, which is only about 78% of the cases filed in 2015.





## Patent Filings Fell to a Five Year Low

- This drop may not be as dramatic as it appears
  - Plaintiffs ramped up their lawsuits at the end of 2015 to avoid the stricter pleading standard for direct infringement.
  - Redistributing 2015's "excess" filings to 2016 would show a relatively even distribution of approximately 5,000 cases per year for 2014-2016.
    - That is nonetheless down substantially from the 2013 peak of 6,129 cases



*Halo/Stryker* and Enhanced Damages

## *Halo/Stryker* and Enhanced Damages

- 35 U.S.C. § 284 provides:
  - “[T]he court may increase ... damages up to three times the amount found or assessed.”
- Until 2016, courts enhanced damages based on *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).
  - Plaintiffs first needed to satisfy the objective prong by showing an “objectively high likelihood of infringement”
    - This was a question of law, reviewed *de novo* on appeal
  - Plaintiffs next needed to satisfy the subjective prong by showing the alleged infringer knew or should have known of the infringement.
    - This was a question of fact
  - Plaintiffs needed to satisfy both prongs through clear and convincing evidence

## *Halo/Stryker* and Enhanced Damages

- As is now well known, the Supreme Court rejected *Seagate*'s fussy formulation.
- It held that, under the plain language of the statute, district courts have broad discretion to enhance damages
  - *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1933 (2016).
- It also rejected the holding that enhanced damages requires “clear and convincing evidence.” *Id.*
  - Enhanced damages are available when the plaintiff shows, by a preponderance of evidence, that they are warranted. *Id.*
- The Court warned, however, that “such punishment should generally be reserved for egregious cases typified by willful misconduct.” *Id.* at 1934.
- In a concurring opinion, Justice Breyer encouraged the Federal Circuit to use its special expertise and judgment to police improper awards of enhanced damages.

## ***Halo/Stryker* and Enhanced Damages**

- Since *Halo*, the Federal Circuit has not had many occasions to review the award of enhanced damages.
- The first case to address the issue is *WBIP, LLC v. Kohler Co.*, 829 F.3d 1317 (Fed. Cir. 2016).
- There, the panel affirmed enhanced damages based on the infringer's extensive knowledge of the plaintiff's product and its knowledge of the asserted patent.
- The Court reasoned that once the infringer learned of the patent, its strong familiarity with the product demonstrated that its continued infringement was willful. *Id.* at 1341-42.
- *WBIP* is the only case the Federal Circuit has addressed on the merits to date.
- In all other cases, such as *Apple v. Samsung*, *Stryker*, *Innovention Toys*, and *WesternGeco*, it has remanded for application of the *Halo* standard.



## Motions To Dismiss After Form 18's Demise

## Motions To Dismiss After Form 18's Demise

- Before January 1, 2016, plaintiffs could state a claim for direct patent infringement through the sparse allegations in Form 18.
- In the year since the Supreme Court abolished Form 18, courts have cracked down on sparse pleadings.
  - Some courts have suggested that the complaint must contain the equivalent of detailed infringement contentions for each asserted claim.
    - See, e.g., *Thermolife Int'l, LLC v. Vitamin Shoppe, Inc.*, 2016 WL 6678525 (S.D. Fla. June 8, 2016) (dismissing two of three asserted claims because the pleaded facts only supported infringement of one claim).

## Motions To Dismiss After Form 18's Demise

- Other courts have been less strict, holding that an element-by-element pleading is not required.
  - See, e.g., *Windy City Innovations, LLC v. Microsoft Corporation*, \_\_\_F.Supp.3d\_\_\_, 2016 WL 3361858 (N.D. Cal. 2016).
- That is especially true when necessary facts are exclusively in the defendant's possession.
  - *Vigil Systems Pty. Ltd. v. Trackit, LLC*, 2016 WL 4595538 (S.D. Cal. Aug. 22, 2016). See generally Michelle Callaghan, *Patent Infringement Pleading Standards Since the Abrogation of Rule 84 and Form 18: A Year in Review*, IP WATCHDOG (Dec. 27, 2016).

## Motions To Dismiss After Form 18's Demise

- These variations are not necessarily cause for concern
  - Under *Iqbal/Twombly*, district courts are instructed to use their judgment, and to consider numerous factors, when deciding to dismiss cases before discovery.
  - 2016's cases show that courts do appear to be considering a variety of factors when deciding whether to dismiss.
    - See, e.g., *Ruby Sands LLC v. Am. Nat'l Bank of Tex.*, No. 2:15cv01955 (E.D. Tex. 2016) (dismissing case because the complaint was brought by a "serial litigant who not only failed to plead plausible claims of direct infringement but also repeatedly filed (and failed to correct) pleadings containing indirect infringement allegations replete with extraneous language clearly lifted from some unrelated case.").

## Motions To Dismiss After Form 18's Demise

- Courts have shown some flexibility (perhaps more than they should) in looking outside the pleadings to determine whether to dismiss
  - In a recent case, U.S. Magistrate Judge Thygne recommended dismissal of claims brought against Expedia's parent company for failure to state a claim for vicarious liability.
  - In reaching her decision, Judge Thygne noted that both sides had referenced materials outside the pleadings, so she would "consider, when appropriate, the information provided by both sides." *T-Jat Systems 2006 Ltd. v. Expedia, Inc.* (DE), No. 16-581-RGA-MPT, D.I. 20, at 7 n.45 (Mar. 7, 2017).

## Award of Attorneys' Fees post-*Octane*

### Award of Attorneys' Fees post-*Octane*

- Before *Halo*, the Supreme Court decided *Octane Fitness*, which invalidated the Federal Circuit's unduly complex standard—the *Read* factors—for deciding which cases were “exceptional” enough to justify an award of attorneys' fees under 35 U.S.C. § 285.
  - See *Octane Fitness LLC v. Icon Health & Fitness Inc.*, 134 S. Ct. 1749, 1755-56 (2014).
- Since *Octane*, district courts have had broad discretion to identify which cases are “exceptional” and justify a fee award.

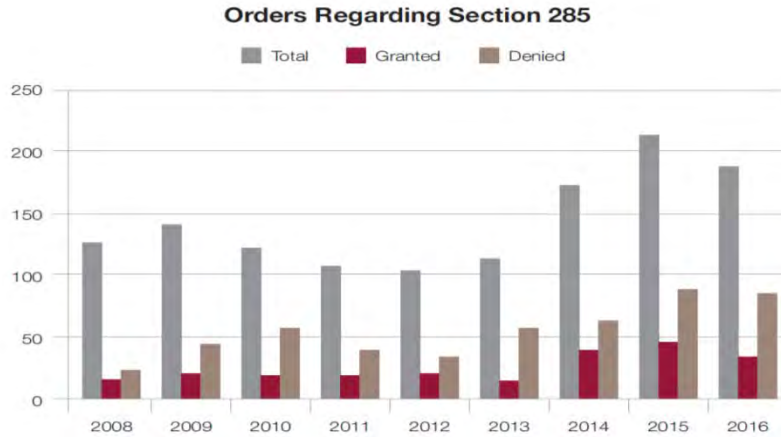
## Award of Attorneys' Fees post-*Octane*

- Recall that under § 285, the standard is:
  - “The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285.
- An “exceptional case” is “uncommon,” “rare,” or “not ordinary,” and “stands out from others with respect to the substantive strength of a party’s litigating position . . . or the unreasonable manner in which the case was litigated.” *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).
  - In determining exceptionality, the Court should consider the “totality of the circumstances.” *Id.*
- “[T]he Supreme Court’s decision in *Octane* did not . . . revoke the discretion of a district court to deny fee awards *even in exceptional cases*.”
  - *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, 576 Fed. Appx. 1002, 1005 (Fed. Cir. Aug. 26, 2014) (emphasis added).

## Award of Attorneys' Fees post-*Octane*

- Motions for attorneys’ fees have increased significantly post-*Octane*
- Courts are awarding fees at only a somewhat higher percentage, however.
  - From the time *Octane Fitness* was decided until the end of 2016, the number of attorneys’ fees motions doubled.
  - The success rate rose only modestly: from 16.5% to 21%.
  - Moreover, there was an initial spike in grant rates immediately after *Octane Fitness*, but the grant rate decreased since that time.

## Award of Attorneys' Fees post-Octane

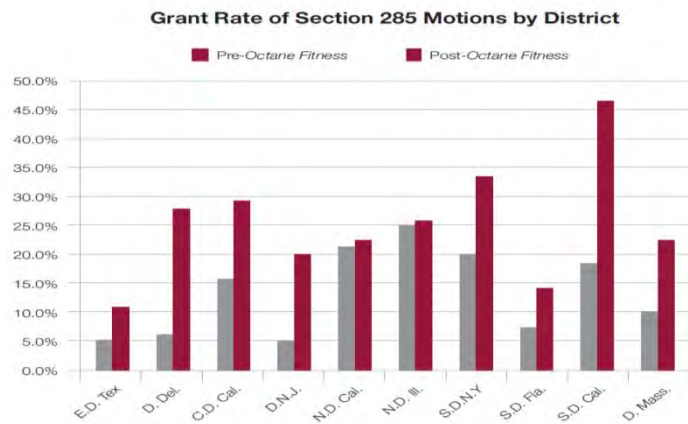


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## Award of Attorneys' Fees post-Octane

- In certain districts, there has been a substantial increase in the rate fees are granted post *Octane Fitness*.



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## Recent and Upcoming Supreme Court Cases

### Recent and Upcoming Supreme Court Cases

- The 2016-2017 term features five patent cases.
- Two have already been decided, and both were unanimous:
  - *Samsung Electronics Co. v. Apple Inc.*, which limited the scope of damages allowable for infringement of a design patent; and
  - *Life Technologies Corp. v. Promega Corp.*, which held that export of a single component could not create liability under 35 U.S.C. § 271(f)(1).
- Three cases remain pending:
  - *TC Heartland LLC v. Kraft Food Brands Group LLC*
  - *SCA Hygiene Products AB v. First Quality Baby Products LLC*
  - *Impression Products Inc. v. Lexmark International Inc.*

## ***Apple v. Samsung***

- The Supreme Court construed 35 U.S.C § 289, which governs damages for infringement of a design patent.
- It provides that “[a] person who manufactures or sells ‘any article of manufacture to which [a patented] design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit.’” *Samsung*, 137 S. Ct. at 432 (quoting 35 U.S.C. § 289).
- The Federal Circuit had construed “article of manufacture” broadly, reasoning that it applied only to entire products sold to consumers, and it rejected Samsung’s argument that the accused screen or display was the article of manufacture. *Id.* at 433-34.

## ***Apple v. Samsung***

- The Supreme Court reversed.
- It rejected Apple’s argument that the “‘article of manufacture’ must always be the end product sold to the consumer . . . .” *Id.* at 434.
- The Court held that “‘article of manufacture’ is broad enough to encompass both a product sold to a consumer as well as a component of that product.” *Id.* at 435.
- The Court reasoned that the text and structure of the Patent Act support that conclusion.
  - 35 U.S.C. § 171(a)—addressing scope of design patent protection—allows a patent for a single component. *Id.*
  - Utility patents have long been allowed on a single component. *Id.*
  - Plain meaning of “article of manufacture” encompasses a component of a product, “whether sold separately or not.” *Id.* at 436.

## ***Apple v. Samsung***

- Prior to *Apple v. Samsung*, design patents had received renewed attention
  - The potential for large scale damages, and resulting leverage, attracted companies
  - Design patents are shorter, cheaper to prosecute, and generally easier to obtain than utility patents
  - Design patents reflected the increasing role that technology interfaces were playing in consumers' choices as to how to access technology and information
- *Apple v. Samsung* appears to have dulled the luster that design patents had enjoyed
- The opinion does, however, begin to harmonize the apportionment rules that apply to damages for utility patents and design patents

## ***Life Technologies v. Promega Corp.***

- In *Life Technologies*, the Supreme Court again construed 35 U.S.C. § 271(f)
  - The Court previously construed § 271(f) in *Microsoft Corp. v. AT&T Corp.* (2007)
- The Court examined whether exporting a single component of a U.S. patented invention could constitute “all or a substantial portion of the components of a patented invention.”
  - *Life Technologies Corp. v. Promega Corp.*, \_\_\_ S. Ct. \_\_\_, 2017 WL 685531, at \*3 (Feb. 22, 2017) (quoting 35 U.S.C. § 271(f)(1))
- The Federal Circuit had concluded that a single component could serve as “a substantial portion of the components” of an invention
  - It reasoned that “substantial” means “important” or “essential”; and
  - The evidence at trial established that the accused component was a “main” or “major” component of the accused testing kits. *Id.* at \*4

## ***Life Technologies v. Promega Corp.***

- The Supreme Court reversed unanimously.
- It agreed that, in the abstract, the word “substantial” can have a qualitative or quantitative meaning. *Id.* at \*4-\*5.
- It held, however, that in the context of § 271(f) “substantial” clearly is a quantitative measure. *Id.* at \*5.
  - The words “all” and “a portion” plainly refer to quantities
  - The phrase “components of a patented invention,” likewise is a quantitative word

## ***Life Technologies v. Promega Corp.***

- The Court also reasoned that if Congress had meant to give “substantial” a *qualitative* meaning, it would have referred to “all or a substantial portion of . . . a patented invention.” *Id.*
- Moreover, the Court feared that a qualitative meaning for “substantial” would have no logical bounds, as every component of an invention is arguably substantial.

### ***Life Technologies v. Promega Corp.***

- Because the statute mandates a quantitative meaning, the Court concluded that a single component can never constitute a “substantial portion” of an invention’s components.
  - *Id.* at \*6-\*7.
- The Court declined to elaborate further on how many components are necessary to establish infringement under § 271(f)(1).
  - *Id.* at \*8.
- Justices Thomas and Alito issued a concurring opinion to clarify that the Court was *not* holding that two components *could* satisfy the statute. That issue remains open.
  - *Id.* at \*9-\*10 (Alito, J., concurring).

### ***Life Technologies v. Promega Corp.***

- *Life Technologies*—like *Apple v. Samsung*—is a relatively narrow statutory interpretation case.
- What is notable, however, is that absence of any extended discussion of the presumption against extraterritorial application of U.S. Patent law.
- That presumption played a key role in *Microsoft v. AT&T*.
- It also has been a staple of recent Federal Circuit cases regarding damages under § 284.
  - *See, e.g., Carnegie Mellon Univ. v. Marvell Tech. Group, Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015); *WesternGeco LLC v. Ion Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015).
- Some commentators have said that the Court’s silence is due to *RJR Nabisco, Inc. v. European Cmty.*, 136 S. Ct. 2090 (2016), which held that the presumption against extraterritoriality does apply to statutes with an obvious extraterritorial reach.

## ***TC Heartland LLC v. Kraft Food Brands Group LLC***

- Perhaps the most talked about case this term
- It involves interpretation of 28 U.S.C. § 1400(b), which limits venue in patent cases to “the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.”
- The Supreme Court previously determined that this statute is the “sole and exclusive provision controlling venue in patent infringement actions,” and it held that “corporate residence under § 1400(b) can only be the place of incorporation.” *Fourco Glass Co. v. Transmirra Products Corp.*, 353 U.S. 222, 226-29 (1957).

## ***TC Heartland LLC v. Kraft Food Brands Group LLC***

- Thirty years after *Fourco*, the Federal Circuit held in *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990), that Congress had abrogated *Fourco*’s holding
  - Congress had revised the general venue statute in 1988 to adopt a new definition of “reside” as applied to venue for corporate defendants.
  - Congress provided that its new definition would apply to the entire “chapter” of the U.S. Code—chapter 87 of Title 28—which encompasses 28 U.S.C. §§ 1391-1412.
  - Accordingly, the Federal Circuit held that Congress meant to redefine “reside” in § 1400(b).
  - The Federal Circuit recognized that “one familiar with the judicial history of Sec. 1400(b) may be tempted to disregard the clear language of Sec. 1391(c) and maintain the independence of that section from Sec. 1400(b),” but the Federal Circuit concluded that Congress had spoken clearly.

## ***TC Heartland LLC v. Kraft Food Brands Group LLC***

- Congress subsequently changed the venue statute once again, and it changed the language that extended the definition of “reside” to the venue chapter, and added language redefining “reside” “[f]or all venue purposes.”
- *TC Heartland* petitioned for a writ of mandamus, asking the Federal Circuit to recognize that Congress’s subsequent amendment undercut and overruled *VE Holding*.
- The Federal Circuit denied the petition.
- It reasoned that Congress’s changes actually broadened, rather than narrowed, the term “reside,” and it reaffirmed *VE Holding*.

## ***TC Heartland LLC v. Kraft Food Brands Group LLC***

- The Supreme Court granted certiorari to address *VE Holding* and to determine if Congress had legislatively overruled *Fourco*.
- The Court will resolve the following question: “Whether 28 U.S.C. §1400(b) is the sole and exclusive provision governing venue in patent infringement actions and is not to be supplemented by 28 U.S.C. § 1391(c).”
- The most obvious impact of *TC Heartland* is for defendants who face lawsuits filed in the E.D. Texas.
  - Most of those defendants are not Texas corporations and do not have “regular and established place of business” in the Eastern District of Texas.
  - If the Supreme Court reverses, the E.D. Texas is likely to immediately shed most of its cases.
  - In contrast, Delaware is likely to grow rapidly as a jurisdiction of choice for plaintiffs.

### ***SCA Hygiene Products v. First Quality Baby Products LLC***

- Laches has been an issue in some of the largest patent verdicts in the past few years.
  - See, e.g., *Carnegie Mellon*, 807 F.3d at 1298-99 (rejecting laches defense to a trial verdict of \$1.17 billion).
- District courts have struggled to determine whether laches remains a viable defense in patent cases after *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014).
  - In *Petrella*, the Court held that laches is not a copyright defense.
  - It reasoned that laches is an inappropriate defense to any action brought within a Congressionally established statute of limitations. *Id.* at 1973-74.

### ***SCA Hygiene Products v. First Quality Baby Products LLC***

- In *SCA*, however, the Federal Circuit--sitting *en banc*--ruled that laches remains a defense in patent infringement actions.
- The Federal Circuit reasoned that the 6-year lookback period serves as a statute of limitations, but 35 U.S.C. § 282(b)(1) specifically allows a defense of “unenforceability,” which includes laches.
- The Federal Circuit divided 6-5 in its opinion, and the Supreme Court unsurprisingly granted cert.



***SCA Hygiene Products v. First Quality Baby Products LLC***

- During oral argument, the justices appeared skeptical of laches as a defense.
- They appeared to agree that the 6-year limitation on damages acts as a statute of limitations.
- They appeared skeptical of the Federal Circuit's interpretation of § 282.

***SCA Hygiene Products v. First Quality Baby Products LLC***

- Impacts
  - If the Court overturns the Federal Circuit, it will be easier for patent owners to defer bringing an action even after they know of infringement.
  - Other equitable doctrines, however, will likely continue to apply.
    - For example, equitable estoppel will likely bar untimely actions if the alleged infringer can show that it relied on the lack of enforcement by, for example, expanding its operations after the plaintiff failed to take action to enforce its patent rights.

***Impression Products Inc. v. Lexmark International Inc.***

- *Impression Products* raises the doctrine of patent exhaustion the Court most recently addressed in *Quanta Computer Inc. v. LG Electronics Inc.*, 553 U.S. 617 (2008)
- Background
  - Toner cartridges are notoriously expensive.
  - Entrepreneurs buy used cartridges (sometimes overseas), refill and refurbish them, and then sell them at a substantial discount.
  - Many of the cartridges sold in the U.S. were subject to a restriction that they be used only once.
  - Other cartridges were sold abroad.

***Impression Products Inc. v. Lexmark International Inc.***

- The Federal Circuit ruled that Lexmark's restrictions on how cartridges could be used ensured that it had not exhausted its patent rights.
- It also ruled that cartridges sold abroad did not exhaust Lexmark's patent rights, which means that subsequent importation of those cartridges was an act of infringement.

***Impression Products Inc. v. Lexmark International Inc.***

- The Supreme Court granted certiorari on two questions:
  - Whether sale of an item pursuant to “post-sale restrictions” avoids application of the patent-exhaustion doctrine and allows the patent holder to sue for infringement if subsequent sales occur; and
  - Whether, in light of *Kirtsaeng v. John Wiley & Sons, Inc.*, an authorized sale of a patented article abroad exhausts U.S. patent rights in that article.

***Impression Products Inc. v. Lexmark International Inc.***

- On the first question, the Supreme Court will be revisiting its holding in *Quanta* that “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.” *Id.* at 625.
- The Court will need to consider whether a patentee may place restrictions on the sale that overcome this “longstanding doctrine.”

***Impression Products Inc. v. Lexmark International Inc.***

- On the second question, regarding foreign sales, the Court will be revisiting its holding in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), that publishers may not restrict importation of books sold abroad because their copyrights are exhausted by the first sale.
- In its *en banc* opinion, the Federal Circuit distinguished *Kirtsaeng*. It held that the text and structure of the Copyright Act were significantly different than the Patent Act.
- The Federal Circuit therefore followed its opinion in *Jazz Photo Corp. v. International Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001), which had held that the foreign sale of a product covered by a U.S. patent does not exhaust the patentee's rights.

***Impression Products Inc. v. Lexmark International Inc.***

- Impacts
  - If the Supreme Court reverses the Federal Circuit in *Impression Products*, its holding could have profound impacts for drug companies, who sell patented products for lower prices outside of the United States.
  - It could also impact software and medical device sellers, who often use post-sale restrictions to protect against infringement.

Questions and Discussion

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## CHAPTER TWO

## PATENT LITIGATION STRATEGIES IN LIGHT OF ALICE CORP. V. CLS BANK INT'L

March 2017

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# LITIGATION STRATEGIES FOR *ALICE CORP. V. CLS BANK INT’L*, TAKING THE WONDER OUT OF WONDERLAND

Jerry A. Riedinger\*

## I. Introduction

In 1852, the Supreme Court decided *Le Roy v. Tatham*,<sup>1</sup> and ruled that a jury instruction improperly described a method of forming pipes under heat and pressure.<sup>2</sup> Lurking in the decision’s background was the comment that a “principle, in the abstract ... cannot be patented...”<sup>3</sup> Innocuous at the time, the “abstract” exception to patentability remained largely dormant, with the Supreme Court only rarely mentioning related concepts<sup>4</sup> through the mid-1960s. This was not surprising, because the exception was unimportant: the vast majority of 19<sup>th</sup> and 20<sup>th</sup> century inventions focused on devices, chemicals and methods of producing tangible items. Yet technology evolved, innovation became more subtle, and the humble “abstract” dicta in *Le Roy* evolved into a leviathan, with the exception used loosely in *Gottschalk v. Benson*<sup>5</sup> and *Parker v. Flook*<sup>6</sup>, and then expressly applied in *Bilski v. Kappos*.<sup>7</sup> It was then fully unleashed on the patent world in *Alice Corp. v. CLS Bank Int’l*.<sup>8</sup> The effect was dramatic: a never-ending flow of cases rendering patents invalid for violation of *Alice*, dominated by contentious debates over “abstract” ideas.

The avalanche of *Alice* decisions created vast problems for patent plaintiffs and correspondingly vast benefits for their opposing defendants, all with “guidance” from the courts that can, at best, be characterized as cryptic. Plaintiffs have gnashed innumerable teeth over the failure of the courts, especially the Supreme Court and the Federal Circuit, to define just when an invention is and is not “abstract,”<sup>9</sup> and just what is the “something significantly more”<sup>10</sup> that can rescue an invention from the “abstract”

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<sup>1</sup> 55 U.S. (14 How.) 156 (1852).

<sup>2</sup> The invention of *Le Roy* was hardly abstract. It involved a method using mechanical components such as a “core,” “guide-piece,” “chamber” and “die.” *Id.* at 178. The patent from *Le Roy* was subsequently upheld, see 65 U.S. 132, 141 (1859). *Le Roy* is well-known for the proposition, since overruled, that the process features of a claimed product are ignored for patentability purposes. 55 U.S. at 188.

<sup>3</sup> *Id.* at 175.

<sup>4</sup> Variations on the “abstract” exception to patentability were mentioned in *O’Reilly v. Morse*, 56 U.S. 62, 117-118 (1853)(explaining how over broad claims can impede “the onward march of science”); *Rubber-Tip Pencil Co.*, 87 U.S. 498, 507 (1874) (an “idea of itself is not patentable”); *Tilghman v. Proctor*, 102 U.S. 707, 724 (1880) (one cannot have a patent on “nothing but a principle”); *Mackay Radio & Telegraph Co. v. Radio Corp. of America*, 306 U.S. 86, 94 (1939) (“a scientific truth, or the mathematical expression of it, is not patentable invention....”).

<sup>5</sup> 409 U.S. 63, 67 (1972). *Gottschalk* referred to “abstract intellectual concepts.” *Id.*

<sup>6</sup> 437 U.S. 584, 589-90 (1978).

<sup>7</sup> 130 S. Ct. 3218, 3231 (2010)

<sup>8</sup> 134 S. Ct. 2347 (2014).

<sup>9</sup> The Supreme Court left great uncertainty when it declared: “we need not labor to delimit the precise contours of the ‘abstract ideas’ category in this case.” *Alice*, 134 S. Ct. at 2357.

<sup>10</sup> *Alice* adopted the two-step analysis first articulated in *Mayo Collaborative Services v. Prometheus Labs.*, 132 S. Ct. 1289, 1294 (2012), where the court first looks to whether the patent claims are directed



gallows. The ambiguity produced a happy condition for defendants, because the absence of definitive guidance allows hostile judges to reject almost any method patent (and even system and device patents) without risk of appellate criticism.

The volume of cases, combined with the absence of critical analytical guidance, spawned an empirical approach to *Alice* strategy; parties seek to match their facts with cases decided in their favor, and argue that their own facts are analogous. Plaintiffs thus argue that the claims and specifications of their asserted patents are analogous to the patents that survived an *Alice* challenge, especially patents approved by the Federal Circuit. If, for example, plaintiff asserts computer-implemented inventions, it contends that their claims specify an improvement in computer function, thereby seeking to apply the rationale of cases such as *Enfish, LLC v. Microsoft Corp.*<sup>11</sup> Defendants, possessed of a wealth of cases finding unpatentable subject matter, choose from an ever-expanding array of potentially analogous judicial criticism.<sup>12</sup> But while the majority of *Alice* cases have resulted in unpatentability, plaintiffs need not despair, because the flood of cases has produced a refined understanding of good and bad strategies, so that plaintiffs can at least improve their odds.

Most *Alice* arguments have focused on similarity to precedent and relegated arguments applying general principles to secondary status. Yet arguments by analogy are often judge specific—arguments that convince one judge are rejected by others, and in any event, are only effective when the facts are indeed analogous. The details in such arguments are often important, creating opportunities for fundamental principles to be lost in the minutia. Other strategies exist, and the volume of decisions have revealed generalized strategies that can be broadly applied. Alternative, generalized arguments are therefore explored below.

## II. Judicial Attitudes

Understanding effective strategies to address *Alice* issues begins with understanding the concerns and priorities of the judges who will resolve those issues. Many practitioners cynically believe some judges are hostile to all patent cases, and will use *Alice* for docket control—it provides an easy tool to permanently dispose of a patent suit. No doubt some cases are dismissed for that purpose, and both plaintiffs and defendants are well-advised to bear such prejudices in mind. Yet judges are driven by more than a desire to relieve themselves of tedious and time-consuming cases.

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to unpatentable subject matter, then to whether there is an “inventive concept” that “amounts to significantly more than a patent upon the” unpatentable subject matter. *Id.* *Alice*, 134 S. Ct. at 2354.

<sup>11</sup> 822 F.3d 1327 (Fed. Cir. 2016). *Enfish* concluded that claims directed to a “data storage and retrieval system” were not abstract, because they were directed to “a specific improvement to the way computers operate....” *Id.* at 1336. The case embellishes upon the earlier decision in *DDR Holdings, LLC v. Hotels.com, L.P.*, 773 F.3d 1245 (Fed. Cir. 2014), where the Federal Circuit found a sufficient inventive concept from a claim “necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.” *Id.* at 1257.

<sup>12</sup> The wealth of cases results from a general court hostility toward broad patentable subject matter, best expressed in *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107, 2117 (2013) (“Groundbreaking, innovative, or even brilliant discovery does not by itself satisfy the § 101 inquiry.”).

A serious concern underlies *Alice* and its predecessors: many judges believe patents can restrict access to knowledge the public already possesses. Patent attorneys, immersed in their knowledge of the nuances of patent theory, know that sections 102 and 103 of the patent statute protect against such improper coverage. Yet generalist judges, lacking the sophistication of patent devotees, have a simpler and more visceral view of patents: some subjects cannot be monopolized by patents, because they are too important to human progress. While unsophisticated (and analytically erroneous), the desire to use § 101 to protect the free use of “the basic tools of scientific and technological work”<sup>13</sup> underlies the willingness, and indeed, eagerness, of many judges to liberally apply *Alice* to invalidate patents. Combined with a widespread perception that overly broad patents frequently take from the public, the stage is set for repeated invocation of *Alice* to dismiss patent claims.

Overbreadth is the primary villain in decisions discussing the rationale for prohibiting patents on abstract subjects. Indeed, concerns for overly broad patents repeatedly arise in Supreme Court patentable subject matter decisions, from *O’Reilly v. Morse*,<sup>14</sup> to *Gottschalk v. Benson*,<sup>15</sup> to the modern Federal Circuit cases. As former Chief Judge Mayer stated:

Patent protection is all about boundaries. An applicant has the right to obtain a patent only if he can describe, with reasonable clarity, the metes and bounds of his invention.

*Intellectual Ventures I LLC v. Symantec Corp.*<sup>16</sup> Patents that lack appropriate boundaries can thus “effectively grant a monopoly over an abstract idea.”<sup>17</sup> To be sure, the cases also focus on whether the patent describes an actual invention; that is, after all, the reasoning behind *Alice*’s requirement for an “inventive concept” that provides “significantly more” than an instruction to apply an abstract idea.<sup>18</sup> Yet concerns that overbroad claims will monopolize fundamental ideas are the heart of judicial *Alice* attacks on patents.

Overbreadth, naturally, goes hand-in-glove with vagueness, a concept that all judges recognize. Federal judges are often presented challenges to statutes as allegedly “void for vagueness.” As the Supreme Court has stated:

[T]he vagueness of a law affects overbreadth analysis. The Court has long recognized that ambiguous meanings cause citizens to ‘steer far

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<sup>13</sup> *Benson*, 409 U.S. at 67, 93 S. Ct. at 255. See also *Mayo Collaborative Services v. Prometheus Labs*, 132 S.Ct. 1289, 1303 (2012) (referring to building blocks of human ingenuity).

<sup>14</sup> 56 U.S. at 117-118 (allowing overly broad patent claims will impede “the onward march of science”).

<sup>15</sup> 409 U.S. at 71 (rejecting claims that “wholly pre-empt” a mathematical formula).

<sup>16</sup> 838 F.3d 1307, 1328 (Fed. Cir. 2016) (Mayer, J., concurring).

<sup>17</sup> *Bilski*, 130 S. Ct. at 3231.

<sup>18</sup> 134. S. Ct. at 2357.

wider of the unlawful zone' ... than if the boundaries of the forbidden areas were clearly marked.<sup>19</sup>

Federal judges are thus primed to reject vague restrictions on the public's use of technology. And therein lies the central problem: all patent claims are necessarily written with a degree of abstraction, which allows the claims to cover more than just the specific embodiment described in the specification. That abstraction in turn necessarily introduces vagueness in the claim's language. Quite aside from *Alice* considerations, the essential ambiguity in patent claims raises alarm bells in the mind of any judge seeking to ensure that the public knows what is and is not prohibited. *Alice* reinforces that concern, and provides ample justification for judges to protect the public by invalidating "abstract" claims.

A second pervasive prejudice similarly governs judicial analysis of *Alice* issues: a concern that Non-Practicing Entities ("NPEs") abuse the system by seeking nuisance royalties from legitimate businesses.<sup>20</sup> The proliferation of NPE cases since 2000 increased judicial hostility to patents, and occurred during increased judicial frustration with the effort needed to resolve even the simplest patent case – just to reach summary judgment usually required a full *Markman* proceeding, since judges could not simply schedule cases for trial and thereafter ignore them.<sup>21</sup> This occurred despite the obvious attempt by many NPEs to broadly assert patents against defendants who appeared to practice technologies unrelated to the invention claimed in the patent. *Alice* then became an effective tool to bypass the normally tedious and wasteful procedural squabbling of patent litigants.

Finally, many judges have the common view of lay persons that patents should be restricted to "technology," which excludes such things as business methods, "fundamental economic practices"<sup>22</sup> and abstract principles, regardless of the degree of innovation – as the Supreme Court stated in *Association for Molecular Pathology v. Myriad*, "[g]roundbreaking, innovative, or even brilliant discovery does not by itself satisfy the § 101 inquiry."<sup>23</sup> Judges are therefore inclined to seek easy tools to restrict patents to "technology" and disregard the more complex requirements of §§ 102 & 103. Defining the boundaries between what is "technological" and what is not is a difficult proposition. Yet the judicial prejudice exists, and that prejudice favors new devices, new drugs and similar familiar marvels of the modern world, and disfavors more esoteric financial and software methods. In the words of Judge Mayer: "*Alice* articulated a

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<sup>19</sup> *Village of Hoffman Estates v. Flipside, Hoffman Estates, Inc.*, 455 U.S. 489, 494 n. 6 (1982) (quoting *Baggett v. Bullitt*, 377 U.S. 360, 372 (1964)).

<sup>20</sup> See, e.g., *OIP Technologies, Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1364 (Fed. Cir. 2015) (Mayer, J. concurring) (application of *Alice* can work "to stem the tide of vexatious suits brought by owners of vague and overbroad business method patents").

<sup>21</sup> *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 981-82 (Fed. Cir. 1995), *aff'd*, 517 U.S. 370 (1996)

<sup>22</sup> *Bilski*, 561 U.S. at 611, 130 S.Ct. at 3218.

<sup>23</sup> 134 S. Ct. 2017, 2117 (2013).

technological arts test for patent eligibility....”<sup>24</sup> Thus, “claims must harness natural laws and scientific principles—those ‘truths[s] about the natural world that ha[ve] always existed.’”<sup>25</sup> Patents directed to arts not based in “natural laws and scientific principles” are, in this view, unpatentable.

The problems for plaintiff’s are compounded by the Supreme Court’s use of multiple related-yet-distinct terms without any serious attempt to explain their relationship or limits. Since the unpatentability of abstract ideas was first introduced in *Le Roy*, the Supreme Court described similar problems with patents covering a “fundamental truth,”<sup>26</sup> a “new power,”<sup>27</sup> an “original cause,”<sup>28</sup> “ideas” generally,<sup>29</sup> “mental processes,”<sup>30</sup> a “scientific truth,”<sup>31</sup> as well as claims that are “so abstract and sweeping,”<sup>32</sup> claims covering “natural law,”<sup>33</sup> “mathematical formula”<sup>34</sup> “mathematical algorithm,”<sup>35</sup> claims covering a “principle”<sup>36</sup> or “abstract principle,”<sup>37</sup> “physical phenomena,”<sup>38</sup> claims covering “manifestations of nature” (that include abstract ideas),<sup>39</sup> and claims that “wholly pre-empt” a mathematical formula<sup>40</sup> or “effectively grant a monopoly.”<sup>41</sup> Defendants thus have access to precedent with an endless variety of terminology that can be used to challenge a patent’s claims, and judges have a corresponding plethora of examples they can follow, allowing defendants to choose the phrase that seems most appropriate for their assigned judge to invalidate a patent.

### III. Basic *Alice* Strategy

The judicial attitudes naturally govern the party’s fundamental strategies. Defendant’s emphasize the breadth of the claims, the vagueness of the claim language, the lack of “technological” features, and how the claims are being stretched beyond the development made by the inventor. Plaintiffs contend that the claims are neither broad nor vague, are directed to a legitimate technology, and are not expanded beyond the inventor’s contribution. Plaintiffs simultaneously emphasize the presence of “something more” in the “inventive concept,” while defendants try to persuade the court that the

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<sup>24</sup> *Ultramercial, Inc. v. Hulu, Inc.*, 772 F.3d 709, 721 (Fec. Cir. 2014) (Mayer, J., concurring). Judge Mayer concluded that “[i]n assessing patent eligibility, advances in non-technological disciplines—such as business, law, or the social sciences—simply do not count.” *Id.*

<sup>25</sup> *Id.* (quoting *Alice*, 134 S. Ct. at 2356).

<sup>26</sup> *Le Roy*, 55 U.S. at 175.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> *Rubber-Tip Pencil*, 87 U.S. at 507.

<sup>30</sup> *Gottschalk*, 409 U.S. at 67.

<sup>31</sup> *Id.*; *Mackay Radio*, 306 US at 94.

<sup>32</sup> *Gottschalk*, 409 us at 67.

<sup>33</sup> *Mayo Collaborative*, 132 S. Ct. at 1204.

<sup>34</sup> *E.g., Mackay Radio & Telegraph Co., v. Radio Corporation of America*, 306 U.S. 86, 94 (1939).

<sup>35</sup> *Diamond v. Diehr*, 450 U.S. 175, 187 (1981) (quoting *Parker v. Flook*, 437 U.S. 584, 590 (1978)).

<sup>36</sup> *Parker v. Flook* 98 S. Ct. at 2525; *Tilghman*, 102 U.S. at 724.

<sup>37</sup> *Bilski*, 130 S. Ct. at 3231.

<sup>38</sup> *In re Chakrabarty*, 447 U.S. 303, 309 (1980). The statement is derived from the “phenomenon of nature” language of *Funk Bros. Seed Co. v. Kalo inoculant Co.*, 68 S. Ct. 440, 441 (1948).

<sup>39</sup> *Mayo Collaborative*,<sup>39</sup> 132 S. Ct. at 1293, (citing *Chakrabarty*, 447 U.S. at 309).

<sup>40</sup> *Gottschalk*, 409 US at 71.

<sup>41</sup> *Bilski*, 130 S. Ct. at 3231.

claims merely describe application of modern technology to old ideas. Patent owners must frame their arguments around the judicial concerns and demonstrate both that their patents contribute something not previously owned by the public, and that their claims restrict their exclusive rights to narrow circumstances that leave much of the field to others. Defendants, naturally, should argue the opposite. These themes are discussed further below.

In approaching *Alice* issues, both the plaintiff and defendant need to remember the basic issues underlying all patent cases, issues that are often lost in analyzing the ocean of *Alice* cases. Yet fundamental patent litigation strategy governs both the plaintiff and defendant approaches to patentable subject matter arguments, just as it governs all other patent litigation issues. As always, the plaintiff seeks to survive the many opportunities for the judge to dismiss or vitiate the plaintiff's case, and reach trial instead, thereby gaining the right to present the matter to the receptive embrace of the jury. Defendants want to avoid juries, so they exploit every opportunity to resolve the case before trial. *Alice* issues are tailor-made for defendants' benefit, since they can fully resolve the case using motion practice, including a Rule 12 motion challenging the complaint. Plaintiffs therefore must employ every tool to prevent early dismissal, while defendants must seek every opportunity for early resolution.

A consequence is that plaintiffs, in arguing *Alice* matters, try to create evidentiary issues that will prevent an early § 101 resolution, since evidentiary issues can preclude both Rule 12 dismissal and summary judgment.<sup>42</sup> Hence, Defendants must use every weapon to demonstrate that no evidentiary issues exist or should be considered, such that Rule 12 dismissal (preferably) or summary judgment (if necessary) should be granted. The mountain of cases resolving §101 issues without analyzing more than the patent gives persuasive power to the defendants plan.<sup>43</sup> Yet Plaintiffs are not without their own tools, and can take steps to increase the obstacles to dismissal based upon mere evaluation of the asserted patent. Both *Alice* issues – resolving whether the claims are or are not “abstract” and whether the patent includes an “inventive concept” – are amenable to persuasion based on evidence, so, despite the sad track record of patent owners, ample opportunity exists for both parties' arguments to succeed.

Equally important is for both parties to avoid procedural pitfalls. Thus, for example, plaintiff's should not give the court an opportunity to dismiss all claims on a single ground, and defendants should strive to exclude any efforts by plaintiffs to introduce evidence to counter a Rule 12 motion. Plaintiffs should seek a claim construction before any resolution of *Alice* motions, and Defendants should resist. Plaintiff's complaint should tell an “invention” story – generally, plaintiff's best chances for survival flow from imposing every possible obstacle to an easy adverse decision by the court, while defendants should show, in every way possible, that *Alice* and its progeny provide a simple route to complete dismissal of the case.

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<sup>42</sup> If the court considers evidence in resolving a Rule 12 motion, the motion is converted into a summary judgement motion and decide under the standards of Rule 56. See F. R. Civ. Proc. 12(d).

<sup>43</sup> As of October, 2016, statistics on the “Bilski Blog” ([www.bilskiblog.com](http://www.bilskiblog.com)) showed 363 *Alice* decision in the federal courts (58 of which were in the Federal Circuit), of which 68% found unpatentable subject matter (63.6% of district court decisions and 91.4% of federal circuit decisions).

#### IV. Defendant's Strategy

The defendant enjoys material advantages in an *Alice* dispute. The overwhelming number of unpatentability decisions provide ample precedent support ineligibility for wide varieties of subjects. Combined with the innumerable cases that have granted summary judgment or Rule 12 dismissal, and the lack of guidance from the Supreme Court and the Federal Circuit (and those court's frequent ineligibility rulings), most concerns by district courts for potential reversal of an ineligibility ruling are alleviated. These advantages exist against the backdrop of the ease by which a court can relieve its docket time-consuming patent matters by finding unpatentable subject matter. Hence, defendants should immediately move for judgment on the pleadings under Fed. R. Civ. Proc. 12(c), and argue that the patent can be invalidated merely by reviewing its four corners.

The defendant's arguments are straight-forward: the defendant will, of course, compare the asserted patent's claims to the claims invalidated by the Supreme Court and Federal Circuit, and argue that the asserted claims are close analogs. When Supreme Court and Federal Circuit precedent is not available, the defendant can select from an endless number of district court cases finding unpatentable subject matter. But the defendant should do much more. Defendants should make every effort to highlight the ambiguity in the claims. And except for claims too narrow to be effective against the defendant, ambiguity will always exist. This is especially true for generalized software or financial terms such as "file content identifiers,"<sup>44</sup> "determining ... a characteristic,"<sup>45</sup> "classification information,"<sup>46</sup> "loan evaluation information,"<sup>47</sup> "a hierarchy of organizational groups"<sup>48</sup> and the like. Such terms are not in ordinary usage, and will immediately appear broad – and unnecessarily abstract – to the judge, meaning the defendant will have already won half of the battle.

The defendant must always push for a single representative claim, and argue the propriety of having all asserted claims rise or fall with the representative. Doing so greatly reduces the analysis needed by the court, and allows the court to see that holding a single claim ineligible can remove an entire patent from the case (in a single patent case, that result, of course, would remove the case from the court's docket). Of course, defendants' naturally need to highlight justifications for a representative claim beyond mere efficiency. Defendants can usually note the use of consistent language throughout the claims, which makes them all appear similar. They can usually point to the similarity in claim structure, and emphasize that the dependent claims all include everything in the independent claims. Defendants also can usually find that all of the claims spring from a core explanation in the patent's specification, and solve the same problem. All of these features will almost always be present in patents written in the currently prevalent style. Of course, defendants can point to innumerable cases where the courts have analyzed patentable subject matter through use of a representative

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<sup>44</sup> *Intellectual Ventures I LLC v. Symantec Corp.*, 838 F.3d 1307, 1313 (Fed. Cir. 2016).

<sup>45</sup> *Id.*

<sup>46</sup> *In re TLI Communications LLC*, 823 F.3d 607, 610 (Fed. Cir. 2016).

<sup>47</sup> *Mortgage Grader, Inc. v. First Choice Loan Services, Inc.*, 811 F.3d 1314, 1318 (Fed. Cir. 2016).

<sup>48</sup> *Versata Development Group, Inc. v. SAP America, Inc.*, 793 F.3d 1306, 1312 (Fed. Cir. 2015).

claim. Finally, defendants should propose the broadest independent claim as “representative,” because that claim will be most ambiguous and will inherently appear the most abstract.

Defendants must next simplify their characterization of the invention. Defendants should never accept the claimed invention as including all of the limitations and clauses in the claims, but should instead lump the features together that emphasize the breadth of the subject matter. Defendants should characterize the invention in a single sentence, emphasizing the few features common to the claims and which are the focus of specification, but are described using very generalized terms. Again, the precedent supports that approach, and gives examples that can guide defendants. For example, a 125 word internet user interface patent can be simplified to “retaining information lost in the navigation of online forms,”<sup>49</sup> and thereby rendered so trivial as to appearing unworthy of patent protection. Such simplifications greatly amplify the plaintiff’s difficulty in demonstrating both a lack of abstractness and the “something significantly more” necessary to make abstract inventions patentable.

Where possible, defendants should mention that the asserted patent is not directed to “technology,” but is instead focused on business or ordinary human activity. This argument will apply to all financially-related patents, as well as patents directed to very simple inventions, but is inapplicable to software methods. Defendants should be careful not to suggest that a “technological arts” standard exists, since the full Federal Circuit has not adopted that approach.<sup>50</sup> Instead, defendants should merely note the absence of traditional technology (if possible), and for simple inventions, always emphasize the absence of the characteristics of modern technology.

No unpatentable subject matter argument by a defendant would be complete without an emphasis on the lack of novelty. Defendants naturally do not use those terms, but instead explain how the various features are all old, as are the other solutions described in the patent. Defendants should identify an “alleged” inventive concept in the invention, and then argue that it is well known. For computer-based inventions, defendants should attempt to characterize the patent as merely using a computer to perform a well-known routine. Above all, defendants need to explain how the asserted patent will remove a basic concept from the possession of the public. Every effort should be made to characterize the patent as performing functions that have long been accomplished in other ways, and then, in the manner of *Gottschalk*, characterize the patent as, in effect, an attempt to pre-empt an entire idea.<sup>51</sup>

Defendants should also resist suggestions that the Supreme Court and Federal Circuit have failed to define “abstract.” Instead, defendants should argue that “abstract” is a word (and concept) in common usage, and the court can well recognize how the asserted patent is abstract. Defendants should note that dictionaries all define “abstract,” and note the Supreme Court’s statement in *Alice* that it was merely declining

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<sup>49</sup> *Internet Patents Corp. v. Active Network, Inc.*, 790 F.3d 1343, 1347 (Fed. Cir. 2015).

<sup>50</sup> Judge Mayer, of course, supports a “technological arts” standard. See, e.g., *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709, 721 (Fed. Cir. 2014) (Mayer, J., concurring).

<sup>51</sup> *Gottschalk*, 409 U.S. at 71-71, 93 S.Ct. at 257.

to specify the outer limits of the “contours” of “abstract”<sup>52</sup> – the core meaning of “abstract” is well-known. Not only does the term have an understandable, well defined meaning in common usage, the Supreme Court provided a handy explanation of “abstract ideas,” if not a definition, when it said: “A principle, in the abstract, is a fundamental truth; an original cause; a motive....”<sup>53</sup> Similarly, the Supreme Court explained that abstract ideas are “the basic tools of scientific and technological work.”<sup>54</sup> Defendant’s should strive in every way to give the court confidence in a ruling that holds the patent abstract.

Defendants need to anticipate the plaintiff’s strategy and arguments, and should be prepared to counter every potential plaintiff’s argument. Since plaintiffs will try to transform as much as possible into evidentiary disputes, defendants should anticipate that the plaintiff will respond to any “patent eligibility” motion with a detailed declaration from at least one expert. Defendants should therefore retain an expert as soon as possible, who is qualified to opine on the subjects most likely to be raised by the plaintiff’s expert.<sup>55</sup> Plaintiffs should not, however, automatically plan to use their expert, and certainly should not include a declaration from their expert in their initial filing. Defendants should bear in mind that, once they submit a declaration in opposition to the plaintiff’s declaration, the court will almost certainly treat the issues as part of a disputed evidentiary matter. Defendants might well not want to submit a declaration at all, but instead vigorously argue that evidence is not needed and the plaintiff’s evidence should be disregarded. Of course, if the court decides the § 101 dispute is an evidentiary matter, a failure to submit evidence could guarantee failure of the § 101 motion. Whether an expert declaration is actually submitted is a subject that should be evaluated and decided after careful evaluation of the unique circumstances of each case, with due consideration given to the relative strengths of the arguments that use, or do not use, a declaration.

Defendant’s should also be prepared for an attempt by the plaintiff to contend that the invention is highly limited, and cannot “preempt” an entire area of technology, because it is limited to a single field. Defendants should counter the argument by explaining, if at all possible, how the plaintiff’s assertion of the patent shows that the plaintiff seeks to apply the claims broadly, and that, indeed, the claims do have that breadth (bearing in mind, of course, that defendants should never argue that the patent is broad enough to cover the defendant’s product or process, unless the defendant does not have any non-infringement defense, in which case the defendant is free to argue even extreme breadth). These arguments should be supported by noting the Supreme Court’s statement that in *Bilski* that “limiting an abstract idea to one field of use ... did not make the concept patentable.”<sup>56</sup>

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<sup>52</sup> *Alice*, 134 S.Ct. at 2357.

<sup>53</sup> *Gottschalk*, 409 U.S. at 67, 93 S. Ct. at 255.

<sup>54</sup> *Id.* at 67.

<sup>55</sup> See section V, *infra*.

<sup>56</sup> *Bilski v. Kappos*, 130 S.Ct. at 3231 (“*Flook* established that limiting an abstract idea to one field of use or adding token post solution components did not make the concept patentable.”)



Defendants should further expect that plaintiff's will argue the claims need to be viewed as a whole, such that individual elements should not be disregarded in the § 101 analysis. Defendants should be prepared to argue that they are not trying to analyze claims at all, but instead are following the guidance of *Alice*, which focuses on the subject matter underlying the claims, and then remind the court that ineligible subject matter cannot be made eligible by reciting mechanical or computer features.<sup>57</sup> Defendants are also well supported by the Supreme Court's explanation in *Parker v. Flook*:

Our approach to respondent's application is, however, not at all inconsistent with the view that a patent claim must be considered as a whole. Respondent's process is unpatentable under § 101, not because it contains a mathematical algorithm as one component, but because once that algorithm is assumed to be within the prior art, *the application*, considered as a whole, contains no patentable invention.<sup>58</sup>

The suggestion that invention's subject matter determination, for patent eligibility, is made by review of the application rather than the claims is analytically suspect, and even misguided. It is, however, the approach taken by the Supreme Court in *Flook*, a case the Supreme Court continues to view as binding precedent. Misguided or not, the above quote provides a useful response to any plaintiff argument that the claims have been oversimplified.

The above arguments are not at all exclusive, and many patents will present unique facts that merit unique approaches. Defendants should nevertheless focus on the big picture, emphasizing the breadth and ambiguity of the asserted claims while using the other arguments to amplify their central point.

## V. Plaintiff's Strategy

Plaintiff's face a far more daunting task than defendants. For plaintiff's, defeating a § 101 motion is "do or die," especially since the odds are less favorable on appeal to the Federal Circuit than at the district court level.<sup>59</sup> The odds being heavily adverse, plaintiff's must pull-out-all-stops to have their best chance of successfully defeating patent ineligibility. This is particularly true for run-of-the-mill software and internet patents written before *Alice*. But even for other kinds of patents, plaintiffs need to exert a maximum effort.

The plaintiff's "maximum effort" begins with careful selection of the patent to assert against the defendant. The criteria is simple: any patent that cannot be defended against an *Alice* claim, or which will be too narrow to produce infringement once the *Alice* challenge has been surmounted, should not be asserted. This means that many

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<sup>57</sup> *Alice*, 134 S.Ct. at 2357.

<sup>58</sup> *Parker v. Flook*, 99 S. Ct. 2522, 2577-78 (1978) (emphasis added).

<sup>59</sup> According to the "Bilski Blog," [www.bilskiblog.com](http://www.bilskiblog.com), as of October 19, 2016, district courts invalidated patents under § 101 63.6% of the time, and the Federal Circuit invalidated those patents in 91.4% of the cases.

patents that would have been asserted before *Alice* will now be relegated to the dust bin.

Assuming the plaintiff has identified a survivable and infringeable patent, plaintiff next turns to planning its defense against the expected *Alice* attack. A central part of plaintiff's approach to any *Alice* motion is to convince the court that the asserted claims are not overly broad, and will not preempt the public's access to the "the basic tools of scientific and technological work."<sup>60</sup> Implementing that strategy begins with selection of the claims to assert, which should be the narrowest dependent claim that covers the infringing product or process. The plaintiff's complaint should identify those claims, to leave no doubt that the patentable subject matter issue should not be decided by reference to the broadest (and therefore most vulnerable) independent claim. Of course, plaintiffs should not as a general rule assert claims with formula's (unless they conform to the *Diehr*<sup>61</sup> decision) or which recite a process that can be readily performed with a pencil and paper.<sup>62</sup> Naming specific claims in the complaint is, of course, not the common strategy, since plaintiff's traditionally file complaints with minimal assertions to allow maximum flexibility to subsequently adjust their contentions. Identifying specific claims is, however, consistent with the abolition of the bare-bones patent complaint example in the former federal rules,<sup>63</sup> as well as the trend represented by *Iqbal*<sup>64</sup> and *Twombly*.<sup>65</sup> Moreover, naming specific claims demonstrates to the court that the complaint is the result of reasoned analysis rather than shot-in-the-dark pleading.

The plaintiff must also plan, before filing the complaint, the best arguments to show the asserted claims are narrow and specific to a limited application of technology. Here, the focus should be on demonstrating that the asserted claims are not directed to "ideas,"<sup>66</sup> but to specific application of ideas. This can be accomplished by telling the invention "story" in the complaint, identifying the problems faced by the inventor, the idea the inventor had to resolve the problem, and the particular, narrow application of the inventor's idea that solved the problem and is the subject of the patent's claim. This, again, is contrary to the normal plaintiff's approach that tries to explain the supposed far-reaching, pioneering nature of the invention. Yet for any patent that is subject to a potential *Alice* defense, the plaintiff must focus on ensuring that the patent survives the § 101 challenge – unless that occurs, any subsequently useful breadth of the patent is irrelevant.

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<sup>60</sup> *Gottschalk*, 93 S.Ct. at 255.

<sup>61</sup> Claims that result in an action creating a physical transformation are patentable. *Diehr*, 101 S.Ct. at 1059.

<sup>62</sup> "Mental processes" are not patentable under *Gottschalk*, 92 S.Ct. at 255.

<sup>63</sup> Old Fed. R. Civ. Proc. 84, abrogated in the 2015 rules changes, specified that pleadings matching the sample forms in the Rule's "Appendix of Forms" were sufficient. Form 18 provided a sample patent complaint, and suggested a minimal amount of information, which did not include specification of particular claims.

<sup>64</sup> *Ashcroft v. Iqbal*, 556 U.S. 662 (2009). Along with *Twombly*, note 66 *infra*, *Iqbal* tightened the specificity requirements for pleadings.

<sup>65</sup> *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007).

<sup>66</sup> *Rubber Tip Pencil*, 87 U.S. at 507.

Plaintiffs, of course, need to select the features of the patent specification and its claims that best support an argument that the claims are narrowly tailored to a specific technology. That includes identifying all of the narrowing details in the claims and specification, and marshaling arguments that focus on the importance of the details. Once again, this goes against the conventional wisdom suggesting infringement is best proved by deemphasizing the details and painting instead with a broad brush. But again, focusing on such details is a necessary evil to avoid an *Alice* invalidation. Naturally, plaintiffs should not focus on details that are absent from the accused product or process. That means that plaintiff must do enough homework before filing the complaint to be certain that the narrowing arguments needed to avoid *Alice* will not preclude infringement.

Plaintiff's strategy must also include a plan, once again begun before the complaint is filed, to submit evidence to oppose the defendant's *Alice* contentions. That evidence should be multifold, and should, at a minimum, include a declaration from a qualified technical expert. Naturally, this means that the plaintiff should retain and consult with the expert before drafting the complaint. Indeed, the expert's declaration should be drafted, at least in preliminary form, before the complaint is prepared. That declaration should discuss multiple topics: the significance of the invention (including the benefits the invention provides), the concrete, real-world applications of the invention, the narrowness of the invention, the meaning of terms in the patent, and especially the claims, using common, non-abstract terms, any "objective indicia"<sup>67</sup> showing how the patent describes a true invention. All of this requires anticipation by the plaintiff of the defendant's *Alice* contentions.

The evidence gathered before filing the complaint should include interviewing the inventor (something that should be done regardless of *Alice* concerns) and getting the inventor on record, in a declaration if possible, telling the story of the invention in a manner that emphasizes the concrete benefits and narrowness of the invention. Any documentary evidence showing those benefits should be gathered, especially news reports, scholarly articles and the like that help bring the patent's invention out of the realm of abstractness and into the real world of its applications. If at all possible, demonstrative exhibits should be prepared showing that the invention has a tangible aspect, and is not just concepts on paper. For example, software used to control inventory could be described in a video that shows the various concrete, real-world steps that result from the various functions in the claimed software method.

A key part of plaintiff's strategy will be to show that the patent describes and "inventive concept" that is "sufficient to transform the claimed abstract idea into a patent eligible application."<sup>68</sup> That showing begins with the pre-complaint work with an expert, but it also includes comparisons to the prior art, to show that the invention is not old. Plaintiff's should anticipate arguments from the defendant saying the supposed

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<sup>67</sup> "Objective indicia" of non-obviousness, also called "secondary considerations," have long been considered an important indicator that the basic criteria of invention – nonobviousness – has been met. See, e.g., *Stratoflex Inc. v. Aeroquip Corp*, 713 F.2d 1530, 1538 (Fed. Cir. 1983) ("secondary considerations may often be the most probative and cogent evidence in the record").

<sup>68</sup> *Alice*, 134 S.Ct. at 2357.

invention is nothing more than implementation of an old idea in a modern technology framework. Plaintiff's should look for examples of earlier approaches to the problem addressed by the inventor, and gather prior art that failed to use the "inventive concept"<sup>69</sup> of the patent's claims. In essence, the plaintiff should prepare, in advance of the complaint if possible, an argument distinguishing the patents claims from the prior art references – of course, if the only distinction is the use of a computer or the internet to perform the method, this is a strong indicator that the plaintiff might reconsider suing on the patent. In planning the arguments showing the inventive features that distinguish the patent's claims, plaintiffs need to avoid overstatement by excessively describing the "novelty" of the invention. Plaintiffs should avoid challenging the judicial belief that "novelty" and the "something significantly more" are distinct concepts. Courts have rejected an argument that "treads too closely to novelty."<sup>70</sup>

Defendant's will always argue abstractness by summarizing the invention using a broad-brush single-sentence description of the supposed abstract idea.<sup>71</sup> Naturally, plaintiff's must vigorously oppose defendant's oversimplified descriptions, first by explaining how the description ignores significant features of the invention, but also by proposing a counter-description of the underlying concept of the invention. Of course, the plaintiff's counter-description will be narrower and more concrete than the broad and vague description of "abstract ideas" that defendant's will argue characterize the invention. Once again, plaintiff's need to plan their counter-description before preparing the complaint. Ideally, this includes a supporting opinion by the expert retained pre-suit.

Plaintiff's efforts to overcome simplification can be aided by referring to the recent analysis by a judge in the Southern District of New York. In *Verint Systems Inc. v. Red Box Recorders Ltd.*, the court provided an eloquent argument that all plaintiff's should emulate:

Virtually every invention could be described at a high level in a few words: "A method to provide answers to questions" for a search engine; "a tool to assist a user to draft documents" for a document-processing program; "a tool to remove a cork from a container" for a battery-operated wine-bottle opener; "a beverage container that does not leak when tipped" for a thermos with a particularly nifty lid. One need only look around a room to think of many more.

Similarly, virtually any invention could be described as simply addressing that which others long ago addressed: the Socratic method to acquire information; quills, pens, typewriters, to create written text; corkscrews to open wine bottles; and clay jugs with covers to prevent spills. This reductionist simplicity may obscure underlying complexity, and it may jeopardize the innovative improvements upon longstanding

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<sup>69</sup> *Id.*

<sup>70</sup> *Chamberlain Group, Inc. v. Linear LLC*, 114 F. Supp.3d 614, 627 (N.D. Ill. 2015)

<sup>71</sup> See, e.g., *Intellectual Ventures I LLC v. Capital One Bank (USA)*, 792 F.3d 1363, 1369 (Fed. Cir. 2015) (characterizing the invention as "providing different newspaper inserts based upon the location of the individual").

accomplishments that patents are intended to incent. Patent law protects the builder of a better mousetrap, even if his or her invention could be described as, simply, a mousetrap—or as a “method to catch a mouse.”

Many recent motions seeking determinations of patent ineligibility suffer from such reductionist simplicity—from characterizing as simply a mousetrap that which is in fact a better mousetrap. Courts faced with such motions must scrutinize reductive descriptions with great care.<sup>72</sup>

Indeed, “reductionist simplicity” is a handy catchphrase that can be used by virtually all plaintiffs to characterize defendants’ repeated attempts to strangle the life out of patent claims.

Of course, language helpful to the plaintiff is available in the Supreme Court decision, and plaintiffs should scour those cases for statements of broad principle they can use to show that their claims are not “abstract” or patent ineligible. Chief among those statements are the statements by Justice Thomas in *Alice* saying:

At the same time, we tread carefully in construing this exclusionary principle lest it swallow all of patent law. ... At some level, ‘all inventions ...embody, use, reflect, rest upon, or apply laws of nature, natural phenomena, or abstract ideas. ... Thus, an invention is not rendered ineligible for patent simply because it involves an abstract concept. ... ‘[A]plication[s]’ of such concepts ‘ to a new and useful end,’ we have said, remain eligible for patent protection.<sup>73</sup>

Similarly, plaintiffs can note that “Congress plainly contemplated that the patent laws would be given wide scope.”<sup>74</sup> Plaintiffs will find many opportunities to usefully remind the court of these principles.

“Representative claims” pose a particular threat to a plaintiff’s defense against an *Alice* assertion. When a district court is able to choose a single claim as “representative” of all claims, it allows the court to invalidate the entire patent in a single, simplified discussion. Plaintiffs therefore need to oppose any suggestion that a single claim represents the entire patent, using every argument at their disposal. Those arguments will vary with the particular patent, but can include: (1) the claims have materially different elements that change the invention—this argument is particularly applicable when some claims, especially dependent claims, include additional physical elements; (2) some claims use materially different language such that they have a materially different coverage; (3) some claims are of a different type, *i.e.*, some are method claims, some system claims, some are device claims and some are means-plus-function claims; (4) the structures of the claims are different, meaning that some claims group elements differently from others; and (5) some of the claims were the subject of argument or amendment during prosecution, such that they must be

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<sup>72</sup> *Verint Systems Inc. v. Red Box Recorders Ltd.*, 2016 WL 7156768, \*1 (S.D.N.Y. 2016).

<sup>73</sup> *Alice*, 134 S.Ct. at 2355 (citations omitted).

<sup>74</sup> *Diamond v. Chakrabarty*, 447 U.S. 303, 309, 100 S. Ct. 2204, 2207 (1980).

interpreted differently from those not addressed in a PTO amendment. Plaintiffs should vigorously contest “representative claims” when any of these or similar claim distinctions are present.

The absence of any guidance from the courts, let alone definitive guidance, on the meaning of “abstract” should not prevent plaintiffs from contending that their claims are not abstract. Instead, plaintiffs should argue that the Supreme Court did not say that “abstract” is a legally undefined term, only that it “need not labor to delimit the precise contours of the ‘abstract ideas’ category in [*Alice*].”<sup>75</sup> Thus, while the “precise contours” of the category are not known, the core concept is well understood. Plaintiffs should therefore choose a helpful definition from a reputable dictionary, and use that definition to aid its argument that the invention does not claim abstract ideas. For example, a popular dictionary defines “abstract” as “thought of apart from any particular instances or material objects; not concrete.”<sup>76</sup> That definition, and similar definitions in a host of other dictionaries, will allow the defendant to emphasize the “concreteness” of the claims (while recognizing, of course, that physical features, by themselves, are not enough to prevent a finding of abstractness<sup>77</sup>).

In challenging a proposed characterization of one or more of the plaintiff’s claims as “abstract,” the plaintiff should argue the “all elements rule”<sup>78</sup> for finding infringement. This foundational rule means that no party can be found to have infringed a claim if even a single element of the claim is not present in the accused product or process. That allows plaintiffs to argue against a supposed improper breadth of the supposedly vague and “abstract” patent. If a claim element is important enough such that a defendant cannot be found to infringe absent the presence of that element, that element should not be ignored in the evaluation of whether the claim is “abstract” or provides “something significantly more” than just a claim to the abstract idea.

Plaintiff should also try in every case to obtain claim construction before any ruling on an *Alice* defense. The court will naturally resist the extra effort needed to construe the claims, but where any disagreement exists between the plaintiff and defendant on the meaning of a term, the defendant should use that disagreement to emphasize the importance of each element. If the court allows briefing or argument (or both) on the meaning of claim terms, that process can be used to emphasize the importance of particular terms and the impropriety of disregarding those terms in the *Alice* analysis. The request for a claim construction process should, if possible, be accompanied by a declaration from an expert setting forth the support for plaintiff’s proposed construction. Even if the court declines to the request to construe claim terms, merely making the request provides the plaintiff with another opportunity to argue that individual elements are important, and thereby again contesting any oversimplification during the *Alice* analysis.

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<sup>75</sup> *Alice*, 134 S.Ct. at 2357.

<sup>76</sup> Webster’s New World College Dictionary, 4<sup>th</sup> Ed., 2001, IDG Books Worldwide, Inc.

<sup>77</sup> *Alice*, 135 S.Ct. at 2357.

<sup>78</sup> See, e.g., *DePuy Spine Inc. v. Medtronic Sofamor Danek, Inc.*, 469 F.3d 1005, 1016-17 (Fed. Cir. 2006).

Plaintiffs must also contend with any concern of the court that the claimed invention does not involve “technology,” a concern that is particularly important for business and financial patents. When such patents are involved, plaintiffs need to address the issue head-on, and argue not only that the claims are not directed to “fundamental economic practices,” but that they represent an extremely innovative, and increasingly important part of modern technology. Many sources are available to help plaintiffs argue that “FinTech” is indeed “technology,” including, among others, the scholarly journals “Financial Innovation,” published by Springer,<sup>79</sup> and the Brazilian publication “Journal of Financial Innovation.”<sup>80</sup> While many courts will not accept an argument that FinTech is actually technology, noting the scholarly works in the area, and the enormous research underway in the field, should cause open minded judges to at least consider that a “business method” invention might actually be worthy of protection.

The above list of arguments and tools is not exhaustive. Every patent and every infringement assertion will have its own unique facts that will produce helpful arguments for plaintiffs. The principle remains the same for all patents subject to an *Alice* challenge: every reasonable effort, and every reasonable argument, should be made to demonstrate patent eligibility. Doing so will help convince the court that simply granting a Rule 12 dismissal is risky, because the thorough presentation and carefully prepared plaintiff arguments make a reversal by the Federal Circuit more likely.

## VI. The Future

Predictions for the future are always risky, but similarly the effort to perceive the future usually worthwhile, if only to better understand the present issue. An attempt will therefore be made to peer, albeit briefly, into the crystal ball and discern at least part of the road forward.

First, the trend is definitely toward fewer *Alice* invalidations, even if the majority of decision still favor defendants. That trend is likely to continue. The power of *Alice* was uncertain when the decision was rendered, but that power is now well known. Vulnerable patents are no longer being asserted (at least with nowhere near the past frequency of such assertions), and, as the precedent continues to grow, along with the knowledge of the views of particular judges, patent owners will be increasingly selective in deciding what patents to assert. Knowledge of the winning and losing arguments is increasing with the steady flow of § 101 cases, leading to better planning by plaintiffs on what arguments to make and what to avoid. And as courts see fewer patents that are highly-vulnerable to *Alice* challenges, the tendency to automatically grant *Alice* motions will dissipate.

Patents are also being written with *Alice* and its progeny in mind, and those patents are only now beginning to emerge from the PTO. While far from invulnerable, the newer patents should present far greater obstacles to a successful *Alice* challenge,

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<sup>79</sup> <http://www.springer.com/economics/macroeconomics/journal/40854>

<sup>80</sup> <https://ideas.repec.org/s/jfi/journal.html>

since they will have better written claims, more useful specifications, and, not insignificantly, many will have survived an *Alice* challenge by the patent examiner. Over time, as the newer patents begin to make up more of the patents still in force, those patents should cause the invalidity rate for *Alice* challenges to become closer to the rates for all other findings of patent invalidity.

Finally, a movement is underway to address § 101 through legislation. While not at all a certain outcome, a reasonable chance exists that legislation will revise the contours of § 101 and minimize or eliminate “abstractness” invalidations. Naturally, the battle over potential over potential § 101 legislation will be intense, pitting entrenched and powerful forces against each other. In the end, some change, even if not a large one, is likely to occur, that, if nothing else, eliminates invalidation of even recognizably brilliant innovations.<sup>81</sup>

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<sup>81</sup> See, *Myriad*, 134 S. Ct. at 2117 (2013).



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COUNSEL TO GREAT COMPANIES

**Patent Litigation  
Strategies in Light of  
*Alice Corp. v. CLS Bank  
Int'l***

Jerry A. Riedinger

Perkins Coie LLP

***Alice Corp. v. CLS Bank Int'l***

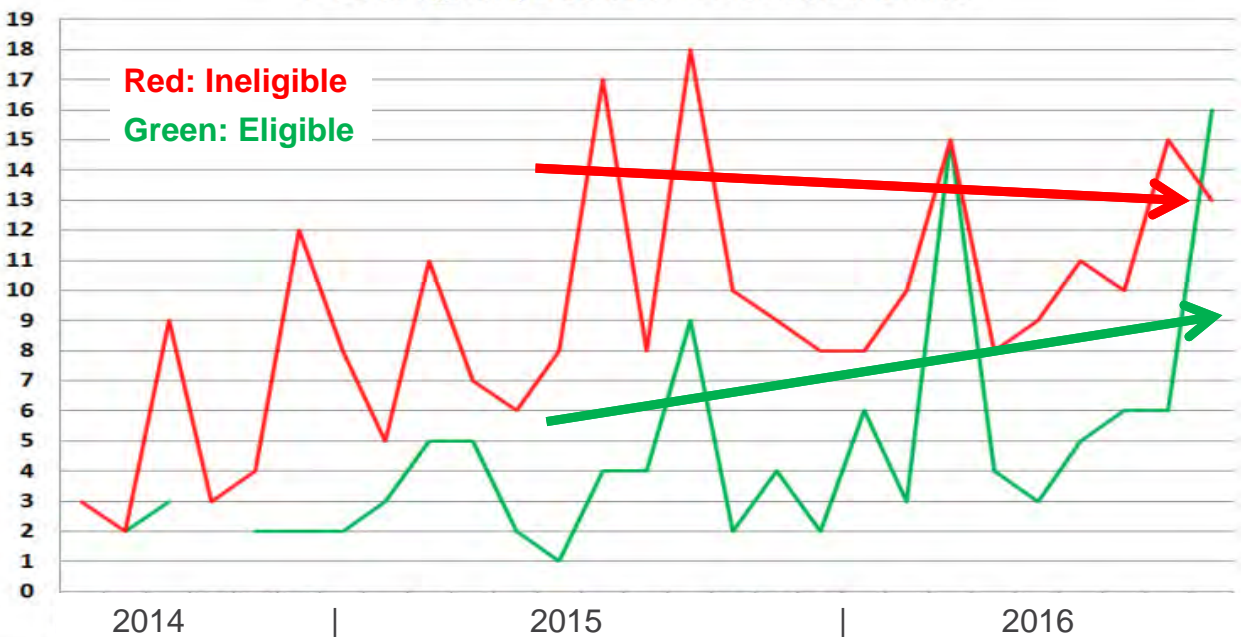
**134 S.Ct. 2347 (2014)**

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# Status of § 101 Rulings

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Patent Eligibility Decisions Per Month Since *Alice*



Source: Bilski Blog, October 19, 2016

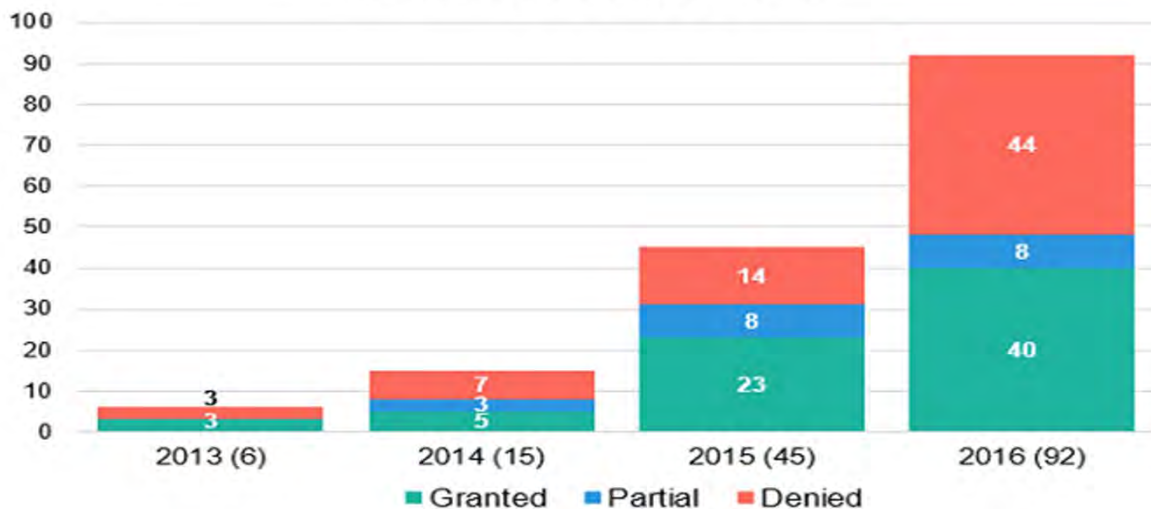
## Patent Ineligibility Decisions Since *Alice* As of October 19, 2016

	Total	Total Invalid Under §101	% Invalid
Fed. Ct. Decisions	363	247	68.0%
Federal Circuit	58	53	91.4%
District Courts	305	194	63.6%
Patents	742	452	60.9%
Claims	20534	12821	62.4%
Motions on Pleadings	208	135	64.9%
PTAB CBM Institutions	141	119	84.4%
PTAB CBM Final	92	89	96.7%
ITC	10	5	50.0%

Source: Bilski Blog

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## Motions to Dismiss for Failure to State a Claim Under 35 USC 101 by Year



Source: Docket Navigator

## Unresolved *Alice* Issues

- ~~• What is and is not “abstract”?~~
- ~~• What is an “inventive concept” that is “sufficient to transform the claimed abstract idea into a patent eligible application”?~~

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## Today's Subject

***What Alice strategies should plaintiffs and defendants follow?***

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***What strategy has normally been followed?***

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***Argument by Analogy***

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***What strategy **should** be followed?***

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## **Thesis:**

- ***Many other strategies are effective for both sides***
- ***Argument by analogy is, at best, a secondary strategy***

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***DDR Holdings, LLC v.  
Hotels.com, L.P.***

**773 F.3d 1245 (2014)**

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**DDR Holdings**

***“A system useful in an  
outsource provider serving  
web pages offering  
commercial  
opportunities....”***

***(Internet sales platform)*** PERKINScoie

## DDR Holdings

***“these claims ... do not merely recite the performance of some business practice known from the pre-Internet world along with the requirement to perform it on the Internet.”***

*DDR, 773 F.3d at 1257.* PERKINScoie

## DDR Holdings

***“Instead, the claimed solution is necessarily rooted in computer technology in order to overcome a problem specifically arising in the realm of computer networks.”***

*DDR, 773 F.3d at 1257.* PERKINScoie



***Enfish, LLC v. Microsoft Corp.,***

**773 F.3d 1245 (2016)**

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**Enfish**

***“A data storage and retrieval system for a computer memory....”***

PERKINScoie

## Enfish

***“We do not read Alice to broadly hold that all improvements in computer-related technology are inherently abstract....”***

*Enfish*, 822 F.3d at 1335. PERKINScoie

## Enfish

***“The plain focus of the claims is on an improvement to computer functionality itself...”***

*Enfish*, 822 F.3d at 1336.

PERKINScoie

# Enfish

***The claims “are directed to a specific improvement to the way computers operate...”***

*Enfish*, 822 F.3d at 1336.

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***Let’s talk strategy!***

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# *Judicial Views*

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## Judicial Attitudes

- *Docket control*
- *Overbreadth*
- *Technology*
- *Restricting “the basic tools of scientific and technological work”*
- *NPEs are out of control*
- *All patent claims are abstract*

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## Judicial Attitudes

- **Docket control**
- **Overbreadth**
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- **All patent claims are abstract**

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## Overbreadth

“Patent protection is all about boundaries. An applicant has the right to obtain a patent **only if he can describe, with reasonable particularity, the metes and bounds of his invention.**”

*Intellectual Ventures I LLC v. Symantec Corp.*, 838 F.3d at 1307, 1327 (Fed. Cir 2016) (Mayer, J, concurring) PERKINScoie

## Judicial Attitudes

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- ***Technology***
- *Restricting “the basic tools of scientific and technological work”*
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# Technology

**“Alice articulated a technological arts test for patent eligibility....**

**...**

**Thus, “claims must harness natural laws and scientific principles....”**

*Ultramercial, Inc. v. Hulu, Inc.*, 772 F.3d at 709, 721 (Fed. Cir. 2014) (Mayer, J, concurring)

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# Judicial Attitudes

- ***Docket control***
- ***Overbreadth***
- ***Technology***
- ***Restricting “the basic tools of scientific and technological work”***
- ***NPEs are out of control***
- ***All patent claims are abstract***

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## Judicial Attitudes

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- *All patent claims are abstract*

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**All patent claims are abstract!**



# What's This?

- *A bucket*
- *A liquid transport system.*

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***Defendant's Strategy***

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## Defendant's Strategy

- *More “dots” for comparison’s*
- *More Supreme Court supporting language*
- *Representative claims*
- *Simple characterizations of the invention*
- *Not “technological”*
- *Old – takes from the public*
- *Anticipate P’s arguments*

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## Patent Ineligibility Decisions Since *Alice* As of October 19, 2016

**363 cases!**

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Source: Bilski Blog

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## Supreme Court Pro-Defendant Language

- ***Ineligible:***

- *“fundamental truth”*
- *Something not a “new power”*
- *“original cause”*
- *“ideas”*
- *“mental processes”*
- *“scientific truth”*
- *“mathematical formula”*
- *“principle”*

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## Supreme Court Pro-Defendant Language

- ***Ineligible:***

- ***Claims that “wholly pre-empt” a field***
- ***Claims that “effectively grant a monopoly” on an idea***

*Gottschalk v. Benson*, 93 S.Ct. 253 (1972)

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# Defendant's Strategy

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- *More Supreme Court supporting language*
- ***Representative claims***
- *Simple characterizations of the invention*
- *Not “technological”*
- *Old – takes from the public*
- *Anticipate P’s arguments*

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# Representative Claims

- *Defendant’s MUST seek a single representative claim*
  - *The judges will be highly supportive*
- *Select the broadest asserted independent claim*
  - *Unless another claim is written more abstractly*

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# Defendant's Strategy

- *More “dots” for comparison’s*
- *More Supreme Court supporting language*
- *Representative claims*
- ***Simple characterizations of the invention***
- *Not “technological”*
- *Old – takes from the public*
- *Anticipate P’s arguments*

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# Simple Characterizations

*Reduce the “invention” to its basic function:*

- *Using categories to store data*
- *Retaining information lost in the navigation of online forms*
- *Calculating when to stop a process*
- *Managing hedged risk*
- *Selecting the next customer based on wait time*

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# Defendant's Strategy

- *More “dots” for comparison’s*
- *More Supreme Court supporting language*
- *Representative claims*
- *Simple characterizations of the invention*
- ***Not “technological”***
- *Old – takes from the public*
- *Anticipate P’s arguments*

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# Not Technological

**“claims must harness natural laws and scientific principles....”**

- *Nothing financial or involving a commercial transaction is “technological”*
- *Anything that can be done with a pencil and paper is not “technological”*
- *Anything appearing very simple is not “technological”*

PERKINScoie

# Defendant's Strategy

- *More “dots” for comparison’s*
- *More Supreme Court supporting language*
- *Representative claims*
- *Simple characterizations of the invention*
- *Not “technological”*
- *Old – takes from the public*
- *Anticipate P’s arguments*

PERKINScoie

## Gottschalk

*Method of using a computer to convert BCD to binary.*

*BCD was old.*

*Gottschalk v. Benson, 93 S.Ct. 253 (1972)*

PERKINScoie



## **Gottschalk**

***Rejected an algorithm-based patent that “would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself.”***

*Gottschalk v. Benson*, 93 S.Ct. 253, 257 (1972) PERKINScoie

## **Mayo**

***“[O]ne must do more than simply state the law of nature while adding the words “apply it.”***

*Mayo Collaborative Services v Prometheus Labs.*, 132 S.Ct. 1289, 1294 (2012)

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# Defendant's Strategy

- *More “dots” for comparison’s*
- *More Supreme Court supporting language*
- *Representative claims*
- *Simple characterizations of the invention*
- *Not “technological”*
- *Old – takes from the public*
- *Anticipate P’s arguments*

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# Anticipate Plaintiff's Arguments

- *Especially evidentiary submissions*
- *Line up your own expert*
  - *But don't use until the plaintiff submits an expert report or declaration*
  - *Be prepared to not use your expert*

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# *Plaintiff's Strategy*

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## **Plaintiff's Strategy**

***Prepare before filing the complaint:***

- *Select a good patent*
- *Select the best claims*
- *Identify vulnerabilities*
- *Research and prepare arguments*
- *Prepare demonstrative exhibits*
  - *Show the invention is “concrete”*

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# Plaintiff's Strategy

***Prepare before filing the complaint:*** \_\_\_\_\_

- ***Gather evidence and select an expert***
  - ***Concreteness***
  - ***Novelty***
  - ***“Objective indicia”***
  - ***Claim construction***

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# Plaintiff's Strategy

***Write a complaint that tells a powerful story:*** \_\_\_\_\_

- ***Worthwhile, concrete invention***
  - ***Especially for FinTech***
  - ***“Technological” invention***
- ***Identify the asserted claims***
  - ***Narrowest dependent infringed***
- ***Explain no “pre-emption”***
- ***Not just an idea***

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## Plaintiff's Strategy

- *Analogy is a secondary argument*
- *Oppose “representative claims”*
  - *Different claim elements*
  - *Different terminology*
  - *Different claim type (especially method and device)*
  - *Different claim structure*
  - *Different treatment in the prosecution history*

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## Plaintiff's Strategy

- *Seek claim construction*
  - *But only if the defendant's Alice motion actually shows the defendants erroneously construe claim terms*
  - *Likely from oversimplification*

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# Plaintiff's Strategy

- ***Oppose oversimplification***
  - ***“all elements rule” and “invention as a whole”***
  - ***Verint Systems, Inc v. Red Box Recorders Ltd.,***

2016 WL 7156768 (S.D.N.Y. 2016)

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# Verint

- ***“reductionist simplicity”***
  - ***“may obscure underlying complexity”***
  - ***“may jeopardize the innovative improvements upon longstanding accomplishments that patents are intended to incent.”***

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## **“Reductionist Simplicity”**

- ***Search engine: “A method to provide answers to questions”***
- ***Word processor: “A tool to assist a user to draft documents”***
- ***Battery operated wine bottle opener: “a tool to remove a cork from a container”***

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## **“Reductionist Simplicity”**

## “Reductionist Simplicity”

*“Patent law protects the builder of a better mousetrap, even if his or her invention could be described as, simply, a mousetrap—or as a ‘method to catch a mouse.’”*

*“Many recent motions seeking determination of patent ineligibility suffer from such reductionist simplicity—from characterizing as simply a mousetrap that which is in fact a better mousetrap.”*

*Verint Systems, 2016 WL 7156768 at \* 1*

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## What is “Abstract”

*Explain the meaning of “abstract”*

- *Alice:* “we need not labor to **delimit the precise contours** of the ‘abstract ideas’ category....”
- *Webster:* “thought of apart from any particular instances or material objects; not concrete....”

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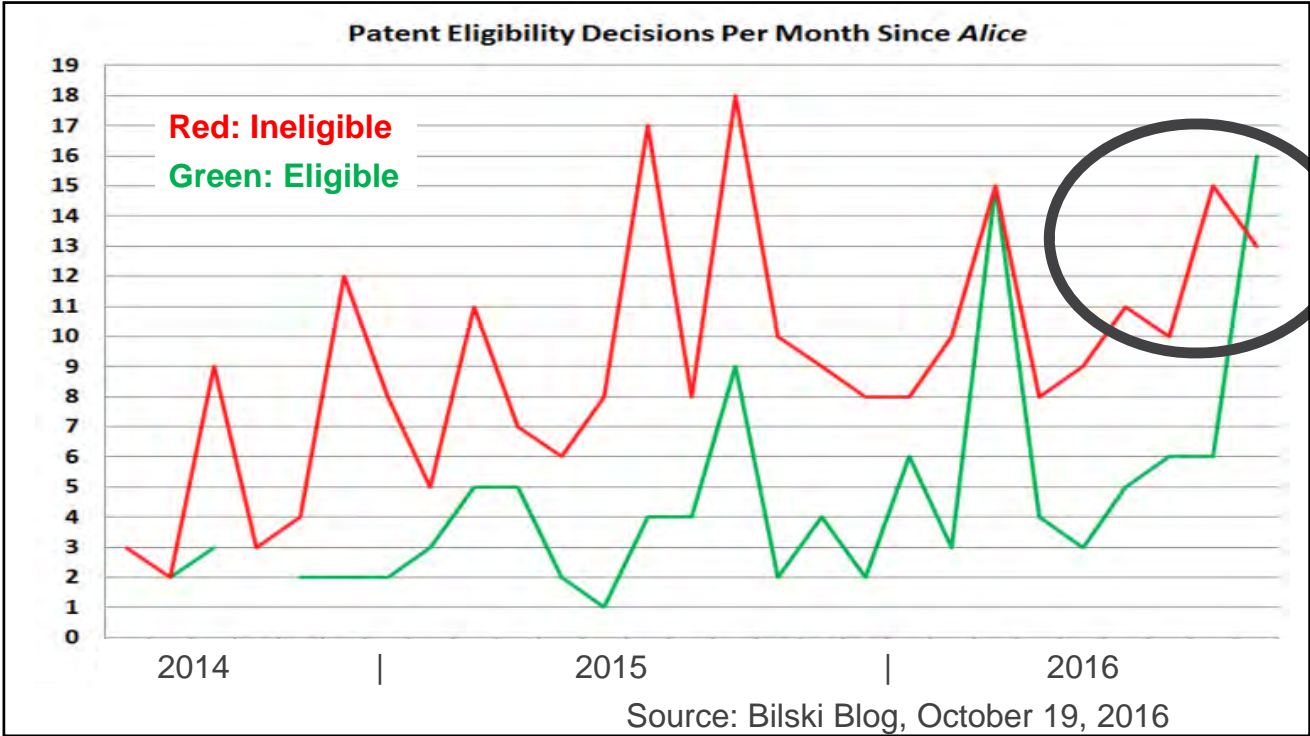
## **Plaintiff's Strategy**

***And argue everything else that the particular facts allow.***

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***The Future***

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# Better Patents

***Who is writing the patents?***

# Better Patents

- *Better claims*
- *Better specifications*
- *Patents that have overcome an Alice challenge at the PTO*
- *Applications with Alice problems will not be filed*

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# Legislation

- *§ 101 will be modified*
- *“Abstract idea” exception will be eliminated*
- *“Law of nature” and “naturally occurring substance” exceptions will remain*
- *AIPLA, IPO, ABA IP Section*
- *2 – 5 years*

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COUNSEL TO GREAT COMPANIES

# Patent Litigation Strategies in Light of *Alice Corp. v. CLS Bank Int'l*

Jerry A. Riedinger

Perkins Coie LLP

## CHAPTER THREE

**THE EVOLUTION OF PTAB TRIAL PRACTICE –  
JUST BECAUSE YOU CAN, DOESN'T MEAN YOU SHOULD!**

March 2017

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**SCOTT MCKEOWN** is a partner with the Oblon firm and serves as a member of the firm's Management Committee. Scott chairs the firm's Post Grant Patent Practice and leads the post grant patent team responsible for electronics, wireless communications, software, computer-related inventions, and business methods.

Mr. McKeown handles all aspects of post-issuance proceedings at the United States Patent and Trademark Office's (USPTO) Patent Trial & Appeal Board (PTAB) and related appeals to the Court Of Appeals for the Federal Circuit (CAFC).

Mr. Mckeown is a Professorial Lecturer in Law at the George Washington University Law School and the editor of the legal treatise Post-Grant Patent Proceedings Before the Patent Trial & Appeal Board. He is also the editor of the widely read legal blog PatentsPostGrant.com.

The Leahy-Smith America Invents Act (“AIA”), enacted into law on September 16, 2011 and implemented in practice on September 16, 2012, established several new trial proceedings to be conducted before the Patent Trial and Appeal Board (“PTAB”), including *inter partes* review (“IPR”), post-grant review (“PGR”), the transitional program for covered business method patents (“CBM”), and derivation proceedings.<sup>1</sup> The purpose of the AIA was “to establish a more efficient and stream-lined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”<sup>2</sup> Thus, the AIA was crafted to ensure that the newly enacted adjudicative proceedings before the PTAB be conducted in a timely manner.<sup>3</sup>

In fact, the AIA required that the Director of the United States Patent and Trademark Office (“USPTO”) prescribe regulations “requiring that the final determination in an inter partes review be issued not later than 1 year after the date on which the Director notices the institution of review under this chapter.”<sup>4</sup> Accordingly, in implementing its rules governing these post-grant proceedings, the USPTO acknowledged that the rules should “be construed to secure the just, speedy, and inexpensive resolution of every proceeding.”<sup>5</sup> Thus, when the USPTO determined how pre- and post-trial submissions would occur in post-grant proceedings, timing was taken into serious consideration.

The USPTO’s response to comments regarding pre-trial conduct in post-grant proceedings, including the topic of this chapter regarding which parties would be allowed to submit new testimonial evidence prior to institution, make clear how

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<sup>1</sup> Leahy-Smith America Invents Act, H.R. 1249, 112th Cong. §§ 3, 6, 18.

<sup>2</sup> Changes to Implement Inter Partes Review Proceedings, 77 Fed. Reg. 7041 (Feb. 10, 2012).

<sup>3</sup> 157 Cong. Rec. S1376 (2011) (statement of Senator Jon Kyl).

<sup>4</sup> 35 U.S.C. § 316(a)(11).

<sup>5</sup> 37 C.F.R. § 42.1(b).

important timing is to these proceedings. For example, in response to concerns that allowing for testimonial evidence in response to the petition at the preliminary response stage would delay the process, the USPTO noted that the AIA did not explicitly provide for the submission of testimonial evidence with the patent owner preliminary response and that, because cross-examination would be provided in such situations, the trial process would be delayed.<sup>6</sup> Accordingly, in setting forth the practice guidelines governing what evidence could be submitted with the patent owner preliminary responses, the USPTO provided that “the preliminary response may present evidence *other than new testimonial evidence* to demonstrate that no review should be instituted.”<sup>7</sup> Thus, at the outset of post-grant proceedings, only petitioner was able to include testimonial evidence with its pre-trial submissions.

From the advent of post-grant proceedings under the AIA, however, the USPTO has also made clear that it was committed to revising the rules and practice guide once the proceedings has been operating for some time and both the PTAB and the public had gained experience with them.<sup>8</sup> For example, in early 2014 the USPTO conducted a nationwide listening tour to hear about experiences with the AIA post-grant proceedings. Then, in furtherance of this effort, in June of 2014 the USPTO requested public input on the AIA administrative trial proceeding rules and trial practice guide.<sup>9</sup> In response to the comments the USPTO received, the USPTO issued a first rule amendment package on

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<sup>6</sup> Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents; Final Rule, 77 Fed. Reg. 48680, 48701 (Aug. 14, 2012) (USPTO’s Response to Comment 50).

<sup>7</sup> Office Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48764 (Aug. 14, 2012).

<sup>8</sup> Request for Comments on Trial Proceedings Under the America Invents Act Before the Patent Trial and Appeal Board, 79 Fed. Reg. 36474, 36475 (Jun. 27, 2014).

<sup>9</sup> *Id.*

May 19, 2015.<sup>10</sup> This amendment package was limited in scope, focusing on generally ministerial changes.<sup>11</sup>

Then, on August 20, 2015, the USPTO issued another proposed rule change package dealing with the claim construction standard for AIA trials, new testimonial evidence submitted with a patent owner's preliminary response, Rule 11-type certification, and word count requirements for major briefs.<sup>12</sup> The USPTO requested comments on these issues and asked that they be received on or before October 19, 2015.<sup>13</sup> And, again, the USPTO made clear that it "anticipates that it will continue to refine the rules governing AIA trials to continue to ensure fairness and efficiency while meeting the congressional mandate."<sup>14</sup>

As a result of the USPTO's August 2015 request for comments, on April 1, 2016, the USPTO issued its rule amendments, which went into effect on May 2, 2016, to the existing rules relating to the USPTO's trial practice for post-grant proceedings.<sup>15</sup> As proposed in August, these Amendments allow patent owners to include relevant testimonial evidence with their preliminary response to a petition, implement a Rule 11-type certification for papers filed in a proceeding before the PTAB, replace the previous page-limit requirements with word-count limits for major briefings, and clarify the claim construction standard the PTAB will use when claims will expire during a proceeding. In

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<sup>10</sup> Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board, 80 Fed. Reg. 28561 (May 19, 2015).

<sup>11</sup> *Id.*

<sup>12</sup> Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board, 80 Fed. Reg. 50720 (Aug. 20, 2015).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> See Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board, 81 Fed. Reg. 18750 (Apr. 1, 2016) (amending 37 C.F.R. § 42) ("Amendments").



this chapter, we will talk primarily about the first change—allowing patent owners to file relevant testimonial evidence with their preliminary response to a petition.

In its Amendments, the USPTO revised 37 C.F.R. § 42.108(c), to read as follows:

Sufficient grounds. Inter partes review shall not be instituted for a ground of unpatentability unless the Board decides that the petition supporting the ground would demonstrate that there is a reasonable likelihood that at least one of the claims challenged in the petition is unpatentable. The Board's decision will take into account a patent owner preliminary response where such a response is filed, *including any testimonial evidence, but a genuine issue of material fact created by such testimonial evidence will be viewed in the light most favorable to the petitioner solely for purposes of deciding whether to institute an inter partes review.* A petitioner may seek leave to file a reply to the preliminary response in accordance with §§ 42.23 and 42.24(c). Any such request must make a showing of good cause.

(emphasis added).

This rule change was implemented to address complaints from patentees that they were disadvantaged by the previous rules, which precluded testimonial evidence from being filed with the preliminary response to the petition.<sup>16</sup> Specifically, patent owners were concerned that the playing field was skewed in favor of the petitioner, who was allowed to, and often did, submit declaration evidence, because patent owner was not allowed to respond with similar evidence. Additionally, many commenters believed that allowing testimonial evidence could lead to early settlement or other early disposition of the proceeding.<sup>17</sup>

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<sup>16</sup> *Id.* at 18755.

<sup>17</sup> *Id.*

While many commenters were in favor of the rule change, however, there was still some concern that allowing the patent owner to submit testimonial evidence would result in too many factual disputes that could not be resolved prior to institution. To address this, and recognizing that because there is a short time frame before institution that does not allow for cross-examination of a declaration or for the petitioner to file a reply brief, the USPTO provided that “any factual dispute created by testimonial evidence that is material to the institution decision will be resolved in favor of the petitioner solely for the purposes of determining whether to institute a trial.”<sup>18</sup>

But, at the time of the Amendment, there were also concerns that this qualifying language may remove the usefulness of submitting testimonial evidence in support of the preliminary response. Specifically, in most cases the patent owner would submit testimonial evidence with the preliminary response to rebut petitioner’s factual arguments. But, in this situation, where a genuine issue of material fact is created, the evidence will be viewed in a light most favorable to the petitioner. So, in most situations, even if patent owner were to submit testimonial evidence, it is likely that trial will still be instituted.

Additionally, submitting testimonial evidence with the preliminary response raised some additional concerns. For example, if the same declarant supports the preliminary response and the main patent owner response, should trial be instituted, the declaration will be opened up to another 7 hours of deposition (cross-examination) time pursuant to 37 C.F.R. § 42.51(b)(1)(ii)? Further, there was the substantial concern that submitting testimonial evidence would potentially provide greater insight into patent owner’s

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<sup>18</sup> *Id.*; see also 37 C.F.R. § 42.108(c).

arguments, allowing petitioner's expert to be more thoroughly prepared prior to her deposition, and resulting in potentially damaging rebuttal testimony.

Moreover, there was the concern about the optics of an institution decision where the PTAB weighed evidence from both parties. Specifically, if trial is instituted after the PTAB has considered patent owner's main arguments, which were supported by testimonial evidence, the institution decision appears that much more foreboding. Thus, while the Amendments allow patent owners to file testimonial evidence, there were many potential concerns with submitting such evidence that patent owner's needed to weigh.

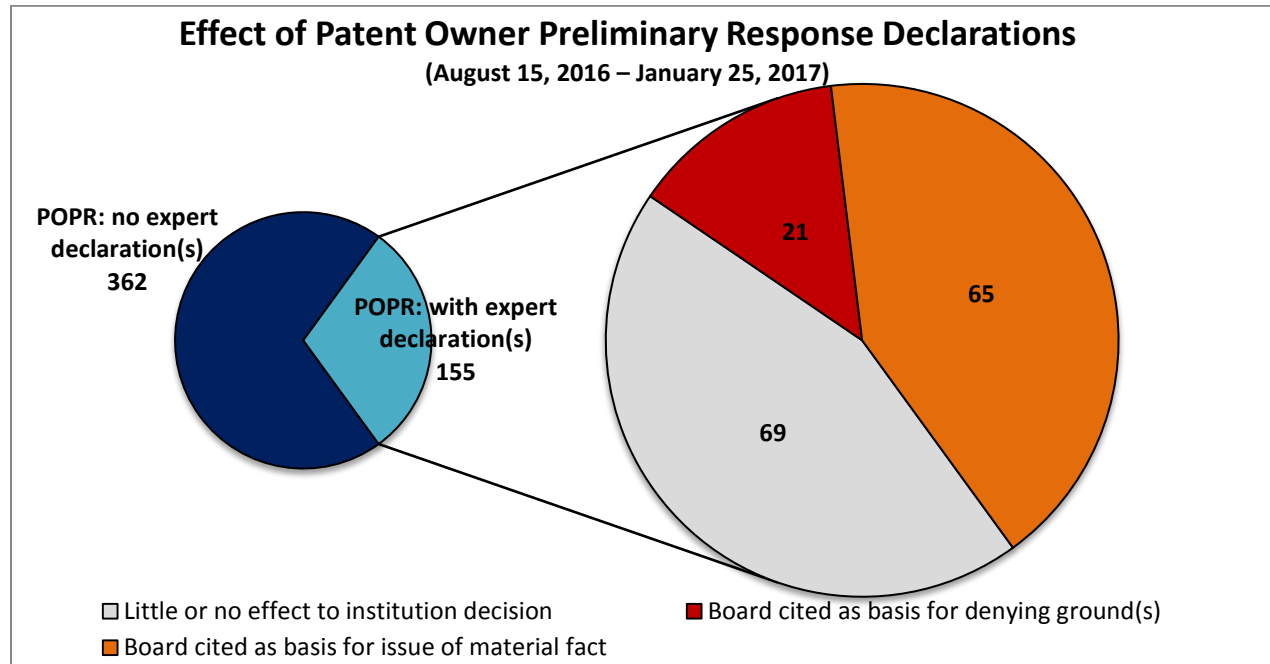
And, based on the below charts, which summarize the effect of patent owner preliminary response declarations from August 15, 2016<sup>19</sup> through January 25, 2017, it appears that introduction of new evidence seems to have done little for patentees thus far. In this 5-month window of Board decisions, only 30% of filers availed themselves of the new option. Of those 155 patentees availing themselves of the new rule, 44% of the Institution Decisions failed to mention the new evidence at all. And, notably, only 13% of the Institution Decisions relied on the testimonial evidence when deciding to deny institution.

In 65 of the Institution Decisions, charted below in orange, the Board considered the evidence when assessing a factual dispute between the parties (likely disputing petitioner declaration evidence, the dispute construed in favor of petitioner for institution purposes). The new evidence was cited as supporting the Board's Decision not to institute an IPR in only 21 decisions (charted in red). Of course, it is hard to gauge the

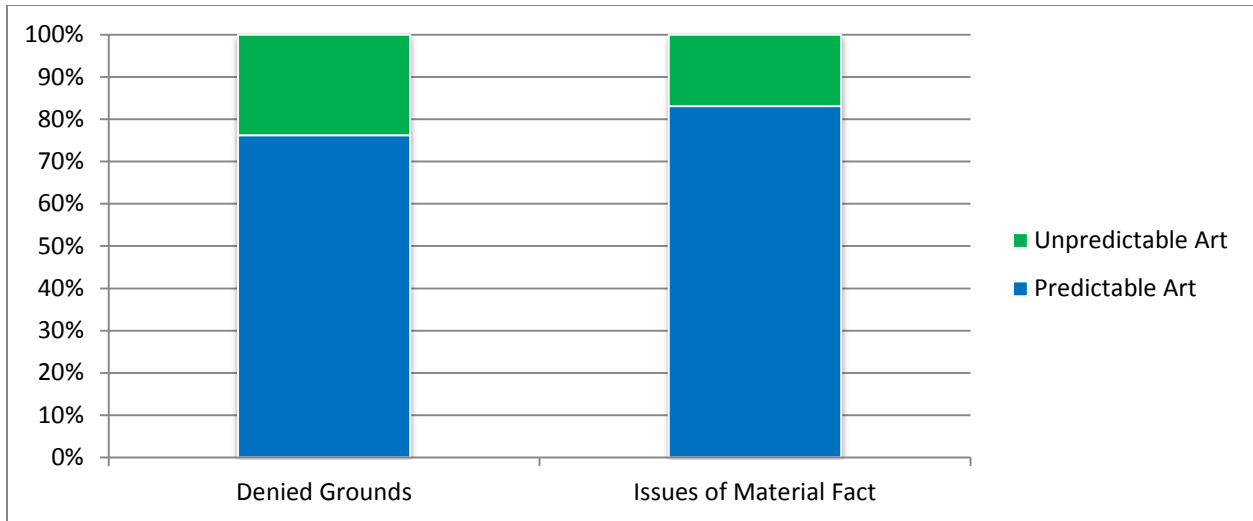
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<sup>19</sup> August 15, 2016 was chosen to capture those Institution Decisions having preliminary responses due on or after May 15, 2016.

value of these submissions in the 69 decisions which did not reference the evidence. For example, although unreferenced, the evidence may have nevertheless reinforced a Board determination one way or the other.



Additionally, as to those cases in which the new evidence was cited, it is interesting to note that there appears to be some difference in efficacy based on technology. In other words, testimonial evidence submitted with the preliminary response in IPRs dealing with the unpredictable arts seem incrementally more likely to result in denied petitions or stalemate (contested fact) determinations when taking into account the fact that the vast majority of filings are in the predictable arts.



As noted above, the data set is still in its infancy. Likewise, the Board itself is still acclimating to this new dynamic. Additionally, because of the newness of the Amendment, it is unclear how preliminary response testimonial evidence will affect the remainder of the IPR proceeding in the 134 cases where the Board instituted IPR and patent owner submitted a declaration. That said, it appears that patent owners should still be cautious when assessing whether to submit testimonial evidence with their patent owner responses.

The new rules that went into effect on May 2, 2016 also allow a petitioner to request leave to file a reply to the patent owner’s preliminary response.<sup>20</sup> But, in order to do so, the petitioner must show good cause.<sup>21</sup> And, although the Board was asked what qualified as “good cause,” the Board did not provide much insight on this issue. In response to comments regarding the “good cause” standard, the Board provided that “the decision concerning whether petitioner will be afforded a reply and the appropriate scope of such a reply rests best with the panel deciding the proceeding to take into

<sup>20</sup> 37 C.F.R. § 42.108(c).

<sup>21</sup> *Id.*

account the specific facts of the particular case.”<sup>22</sup> Thus, while petitioners may seek leave to file a reply brief, there is no clear rubric for determining whether the “good cause” standard is met.

And, because the decision governing reply briefs is panel-specific, and under the new rules the Board is already required to resolve any issues of material fact in favor of the petitioner, the Board’s allowance of reply briefs has been scarce. In fact, in the 155 cases where a patent owner filed new testimonial evidence with its preliminary response, a petitioner reply brief to address this evidence was only allowed in one situation.<sup>23</sup> In that case, the reply responded to patent owner’s assertion that the claims were entitled to an earlier priority date.<sup>24</sup> As this chapter analyzes only the cases prior to January 23, 2017 where an institution decision has issued, it is possible that more panels will authorize reply briefs as the Board becomes more familiar with the evidence. But, for now, this evidence seems to indicate that even if patent owner files testimonial evidence, it is unlikely that the Board will authorize a reply brief.

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<sup>22</sup> 81 Fed. Reg. at 18756-18757.

<sup>23</sup> *Apple Inc. v. Personalized Media Commun’s., LLC*, Case No. IPR2016-00755, Paper 7 (Jun. 24, 2016).

<sup>24</sup> *Id.* at 6-7.

## **Alice Through the CBM Standing Looking Glass**

*Alice Corp. Pty, Ltd. v. CLS Bank Int'l*<sup>1</sup> (“Alice”) distills the patentable subject matter debate into a two-step analysis. This analysis overlaps in significant respect with the two-part analysis for assessing whether or not a patent claim qualifies as a covered business method (“CBM”) under Section 18 of the AIA. For this reason, CBM petitions typically advance a § 101 ground of unpatentability as a matter of course. The similarities in analytical frameworks — particularly between the “search for an inventive concept” of *Alice*’s second step and the “technical solution” in CBM’s second part — have not escaped the attention of the Patent Trial and Appeals Board (“PTAB”) and district courts which have compared and sometimes referenced one to support the other. This relationship should be of particular concern to defendants raising a § 101 invalidity defense in district court actions and should make filing/timing of a CBM petition an important strategic consideration going forward.

### ***Alice* and the Standing Threshold for CBM Review**

In *Alice*, the Supreme Court clarified the analytical framework that it promulgated in *Mayo Collaborative Servs. v. Prometheus Laboratories, Inc.*<sup>2</sup> for patentable subject matter under 35 U.S.C. § 101. The first step in this analysis is to determine whether the claims at issue are directed to laws of nature, natural phenomena, or abstract ideas.<sup>3</sup> If so, the second step — described as “a search for an inventive concept” — requires consideration of the elements of the claims “individually and ‘as an ordered combination’ to determine whether the additional elements ‘transform the nature of the claim’ into a patent-eligible application.”<sup>4</sup> That is, the court “must examine the limitations of the

claims to determine whether the claims contain an ‘inventive concept’ to ‘transform’ the claimed abstract idea into patent-eligible subject matter.”<sup>5</sup>

The second step of the *Alice* analysis resembles the second part of the CBM analysis under AIA § 18 which provides an exception to otherwise qualified business methods that are directed to “technological inventions.” According to this provision, the universe of covered business methods excludes patents for “technological inventions,” which are defined by: (1) “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art” and (2) “solves a technical problem using a technical solution.”<sup>6</sup>

### **Parallels Between the Analytical Frameworks**

The similarity between these provisions has not been lost upon the PTAB which has cited its CBM standing analysis to reinforce the second step of its *Alice* analysis. In *J.P. Morgan Chase v. Intellectual Ventures II LLC*, the PTAB supported both its standing and *Alice* “inventive concept” holdings with its finding that “Patent Owner does not explain sufficiently how the access mechanism recited in [the claim-at-issue], construed as ‘hardware and/or software for controlling access to data,’ requires any more than the generic hardware and computer components disclosed in the [patent-at-issue].”<sup>7</sup> Similarly, the PTAB has referenced its CBM standing analysis to combat patent owners’ arguments that challenged claims have additional elements that transform their abstract ideas into patent-eligible applications.<sup>8</sup>

In its standing analysis, the PTAB will consider whether the challenged claim (a) merely recites “known technologies, such as computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners,



display devices or databases, or specialized machines, such as an ATM or point of sale device[;]” (b) recites “the use of known prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious[;]” or (c) combines “prior art structures to achieve the normal, expected, or predictable result of that combination.”<sup>9</sup> These guideposts mark the same path mapped by *Mayo* and *Alice* — the additional features purportedly limiting the claim from monopolizing the abstract idea must be more than “well-understood, routine, conventional activity.”<sup>10</sup> Accordingly, the PTAB relies on similar factors to assess whether an “inventive concept” exists for purposes of its *Alice* analysis. It cites prior art and/or reference material such as textbooks to determine if the challenged claim covers “well-understood, routine, conventional activity” that “does not add significantly more to the abstract idea.”<sup>11</sup>

<b><i>Alice, Mayo, and progeny</i></b>	<b>Standing for CBM Review</b>
Contains an inventive concept sufficient to transform the claimed abstract idea into a patent-eligible application.	
Machine-or-transformation test provides a “useful clue” — the claim is (1) “tied to a particular machine or apparatus,” or (2) “transforms a particular article into a different state or thing.”	“solves a technical problem using a technical solution.”
Must be more than “well-understood, routine, conventional activity.”	Must be more than (a) “known technologies,” (b) “known prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious,” or (c) a combination of “prior art structures to achieve the normal, expected, or predictable result of that combination.”

### **PTAB and District Court**

The PTAB has closely followed the jurisprudence developing around *Alice*. In *Ultramercial, Inc. v. Hulu, LLC*, the Federal Circuit resurrected the machine-or-

transformation test as “a ‘useful clue’ in the second step of the *Alice* framework.”<sup>12</sup> That is, “[a] claimed process can be patent-eligible under § 101 if: ‘(1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.’”<sup>13</sup> This tie between the claimed process and a particular machine is closely aligned with the “technical solution” required by the second part of CBM standing.

District courts have also recognized the close alignment of the CBM and *Alice* inquiries. In *Sophos Incorporated v. RPost Holdings, Inc. et al*, the court held that the second step of *Alice* had been satisfied and denied judgment on the pleadings that the patents-in-suit were invalid because they claimed unpatentable abstract ideas.<sup>14</sup> Applying *Alice*, the court concluded that the claims did not lack an inventive concept and found support in the PTAB’s denial of petitions to institute CMB review of the patents-in-suit.<sup>15</sup> Furthermore, recalling the language of the second part of CBM standing, the Court noted that “the patents-in-suit aim to solve a **technical problem** of electronic messages” and identified the “patents-in-suit’s **technical solution**” in determining that step two of the analysis under *Alice* was satisfied.<sup>16</sup>

Despite these analytical parallels, a district court will not necessarily follow the PTAB’s lead on CBM standing in its own *Alice* determination for Board determinations that did not hinge on a question of technical contribution in the art. In *Global Cash Access, Inc. v. NRT Technology Corp.*, the court found the first step of *Alice* satisfied and noted its disagreement with the PTAB’s threshold analysis.<sup>17</sup> However, the court disagreed only with whether the challenging party had “oversimplified the challenged claims” and did not express any compunction with a comparison between the CBM standing and *Alice* analyses itself.<sup>18</sup>

## Conclusion and Practical Implications

Petitioners and Patent Owners before the PTAB and parties arguing patent validity of business related patents in district court thus have another source of support for their § 101 positions. However, this PTAB determination is not without risk. The similarities between the second step of *Alice* and the second part of CBM standing have been recognized to allow one to support or undermine the other. Thus, the interrelationship between these two analytical frameworks is another consideration warring parties in district court should have before filing and/or when opposing a petition for CBM review.

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<sup>1</sup> 134 S. Ct. 2347 (2014).

<sup>2</sup> 132 S. Ct. 1289 (2012).

<sup>3</sup> *Alice*, 134 S. Ct. at 2355.

<sup>4</sup> *Id.* (quoting *Mayo*, 132 S. Ct. at 1298, 1297).

<sup>5</sup> *Id.* at 2357 (quoting *Mayo*, 132 S.Ct. at 1294, 1298).

<sup>6</sup> 37 C.F.R. § 42.301(b).

<sup>7</sup> Case CBM2014-00157, Paper 40 at 17 (PTAB Jan. 12, 2016).

<sup>8</sup> See *Informatica Corp v. Protegrity Corp.*, Case CBM2015-00021, Paper 38 at 33 (PTAB May 31, 2016); *Epicor Software Corp. v. Protegrity Corp.*, Case CBM2015-00002, Paper 46 at 31 (PTAB April 20, 2016).

<sup>9</sup> Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, at 48,763–64 (Aug. 14, 2012).

<sup>10</sup> *Alice*, 134 S.Ct. at 2359-60 (quoting *Mayo*, 132 S.Ct. at 1294).

<sup>11</sup> *Epicor Software Corp. v. Protegrity Corp.*, Case CBM2015-00006, Paper 54 at 33 (PTAB Apr. 18, 2016). See also *Apple Inc. v. SmartFlash LLC*, Case CBM2015-00033, Paper 40 at 22 (PTAB May 26, 2016) (prior art was evidence that this concept was well-known and conventional and thus not inventive); *Square, Inc. v. Protegrity Corp.*, Case CBM2014-00182, Paper 60 at 33 (PTAB March 2, 2016) (based on patent, declaration, and textbook, PTAB finds claim is “well-understood, routine, conventional activity that does not add significantly more to the abstract idea.”).

<sup>12</sup> 772 F.3d 709, 716 (Fed. Cir. Nov. 14, 2014).

<sup>13</sup> *Id.* (quoting *In re Bilski*, 545 F.3d 943, 954 (Fed.Cir.2008) (en banc), *aff'd on other grounds*, *Bilski v. Kappos*, 561 U.S. 593, 130 S.Ct. 3218 (2010)).

<sup>14</sup> No. 1-13-cv-12856, at 24-27 (D. Mass. June 3, 2016).

<sup>15</sup> *Id.* at 27 n.6.

<sup>16</sup> *Id.* at 26-27 (emphasis added).

<sup>17</sup> No. 2:15-cv-00822, at 12 n.6 (D. Nev. Mar. 25, 2016).

<sup>18</sup> *Id.*

# PTAB: Just Because You Can Doesn't Mean You Should

WSBA IP Institute 2017

SCOTT MCKEOWN

Patents Post Grant.com

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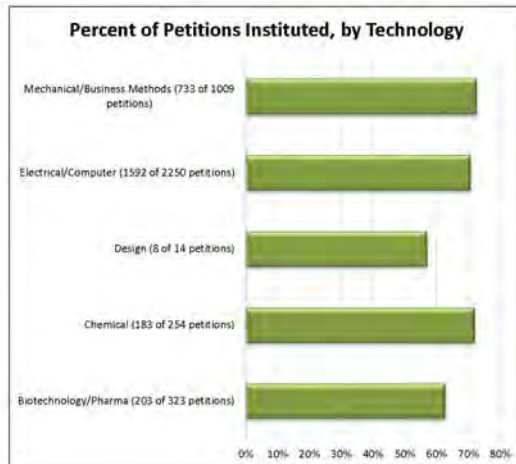
## Bringing a Knife to a Gunfight

- Claims not designed for PTAB
  - Courts 5% to trial
    - EDTX
  - Dreaded Claim 11
- Strategies not PTAB friendly
- Denial is Ending...Cuozzo
- Prosecution *Should* Change
- Patent Value Changed???
- The Game has Changed

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OBLON 2

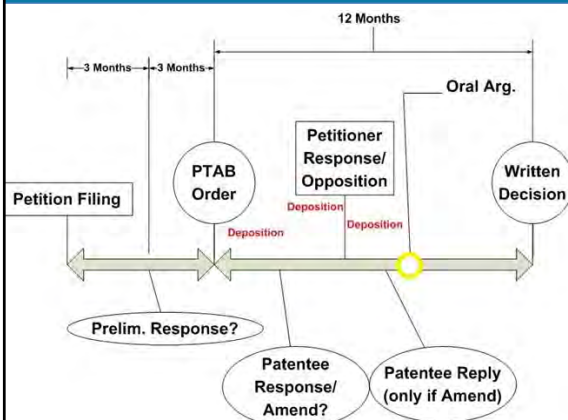
# High Institution Rate Predicable Arts



**Narrative:**  
This chart shows the percentage of petitions instituted of all decisions on petition, by technology area.

\*Data current as of: 7/31/2016

# "Trial" ...Not Really



- Administrative Trial
- Limited access to APJs

- Drastically different than D.Ct
- Fact Finders
- Credibility
- Storytelling
- Arguments

*K40 Electronics, LLC v. Escort, Inc.*, (IPR2013-00203)

## Petition Practice

- Pick your poison: CBM is not the bargain it once was
  - Unwired Planet/Alice
  - Estoppel watered down in IPR
  - Watch PGR window
- 102 is not your friend
  - Don't let litigation drive strategy, it will backfire
- 103 is your friend
- Understand *Dynamic Drinkware*
- Date Your Pubs

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## Petition Practice – cont'd

- *WiFi One*.....beware indemnity, JDG
  - Discovery could become more lax, PGR/CBM
- Construe claim terms necessary for **art**
- 35 USC 301(a)(2)
  - Tell PTAB what is going on in real world
- Consider multiple....even alternative filings
- Declarations should tell the story, not repeat petition
- Anticipate counter arguments!

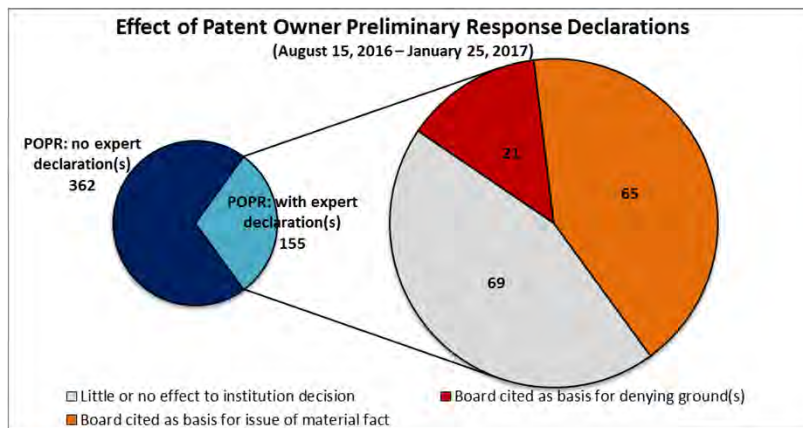
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OBLON 6

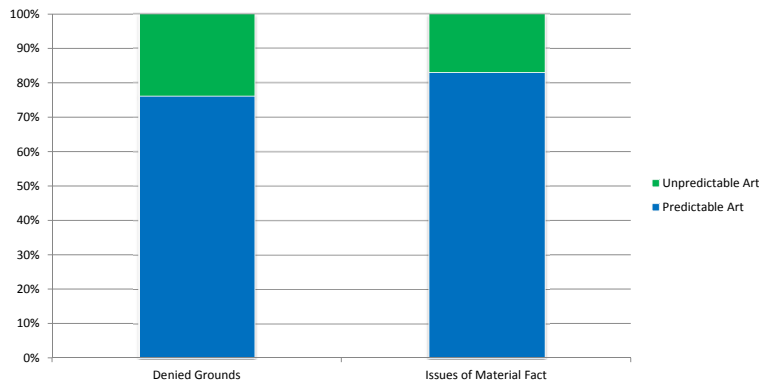
# Preliminary Response

- **New Patentee Evidence (Prelim. Resp.)**
  - Benefit or just more expense?
  - Petitioner Reply?
    - Rare so far
  - What issues are best raised
  - Downside?
  - Is it helping patentees?

# Preliminary Response Evidence (Early Stats)



## Preliminary Response Evidence (Early Stats)



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## Preliminary Response Evidence Impact

- Limited upside in unpredictable arts
  - Fewer issues, experts battle
- Predictable arts
  - Focus on new attacks
    - New claim term
    - Operating principle
    - Existing solution
    - Motivation deficiencies

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## Preliminary Response Evidence Impact

- **Do not argue everything**
  - Creates deposition inventory
  - Contested facts construed in favor of petitioner
  - Lengthier declarations more likely to be ignored
    - Board is looking for "easy out"
    - Don't make it look complicated
- **Petitioners**
  - Anticipate issues
  - "Statement of Facts" section in petition?
- **Mixed Bag to date...learning curve?**

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## Institution

- **Rehearing**
  - Petitioners: Nothing to lose, but almost zero chance
  - Patentee: More harm than good
- **Scheduling Order**
  - Get on Discovery (earlier if possible)
  - Move Oral Arg. immediately or forget it
  - Be flexible!!

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## Trail Practice - Motions

- Objections to Evidence
- Motions to Exclude
  - 9 out of 10 fail!
  - A handful of judges receptive
  - CAFC unlikely to help you given standard of review
- **Really an just invitation for more evidence**
  - **Most just go to weight**
- Email to Judges for motion authorization

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## Routine Discovery -Cross Examination-

- Depositions
  - Understand this is essentially live testimony
  - Redirect far more important
  - Daubert, Skill in the Art....not likely
  - Do you really need to take it?
- No speaking objections
- Calls to judges far more routine
- No video absent agreement
- Transcript goes into record

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## Patentee Trial Response

- Speak to issues not themes
  - Claims, scope of art, teachings, etc.
  - Attacking references individually will not work
  - Forget Markman, or previous wins
  - Provide a reason for narrow claim read
- Amend?...Aqua Products unlikely to help.
  - Markman amend (*Convolve v. Dell*)
- Settle?

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## Petitioner Reply

- *Genzyme* ...mana from heaven
  - New evidence during trial expected
  - But must support ground, not change it
- Rebut only what is necessary
- Resist temptation to go tit-for-tat
- Supplemental declaration only where necessary.
- Tone it down

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## Post-Briefing

- Observations
  - Downside of reply declaration
- Motions to Exclude
  - Waste of money in most cases
- Oral Hearing
  - Demonstratives??

## Oral Argument

- Your mileage may vary
  - Panel dependent
  - Dynamics of remote judges/demonstratives
  - Objections (not usually)
  - Petitioner 2 shots Patentee 1
- Court Reporter
- SAS Institute
  - Create a record

## FWD/CAFC

- Rehearing odds increase
  - But beware making matters worse
  - Need delay?
- Appeal
  - *De novo*, substantial evidence, abuse of discretion
- Solicitor to Intervene?

## Conclusions

- Understand your audience
- Don't treat like district court
- Some mechanisms can backfire
- APA is more important than FRE in most cases
- Don't bring a knife to a gun fight!
- Questions?

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# THANK YOU

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## CHAPTER FOUR

**COPYRIGHT YEAR IN REVIEW:  
2016 CASES (PLUS A FEW OTHER ITEMS OF NOTE)**

March 2017

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**MARK WITTOW** is a partner in the Seattle office of K&L Gates and practice leader for the firm's intellectual property/technology transactions and data protection practice group. His work focuses on intellectual property and technology counseling and transactions of all types, including the acquisition, development, marketing, licensing and distribution of computing devices, software and related services, other types of technology and media content, electronic commerce issues, and complex patent licensing and patent dispositions.

Mr. Wittow teaches the Arts Legal Clinic course and has taught Advanced Copyright Law at Seattle University Law School. He is an active volunteer for Washington Lawyers for the Arts and also is active in the Copyright Law Society and the Intellectual Property Law section of the American Bar Association. Mr. Wittow was admitted to the Washington State Bar in 1988 and also is a member of the Alaska Bar.

## OUTLINE OF CONTENTS

- A. PROCEDURE
- B. COPYRIGHTABILITY/ORIGINALITY
- C. UNCOPYRIGHTABLE/USEFUL ARTICLE/FUNCTIONALITY.
- D. OWNERSHIP
  - 1. Work Made For Hire.
  - 2. Ownership and Joint Authorship.
  - 3. Derivative Works.
- E. CONTRACTS AND LICENSING
- F. MUSIC ISSUES
  - 1. Pre-1972 Sound Recordings.
  - 2. Miscellaneous Issues.
- G. VISUAL ARTISTS RIGHTS ACT (“VARA”)
- H. SUBSTANTIAL SIMILARITY
- I. OTHER PUBLIC PERFORMANCE AND PUBLIC DISPLAY RIGHTS
- J. 17 U.S.C. § 107: THE FAIR USE DEFENSE
- K. DIGITAL MILLENNIUM COPYRIGHT ACT (“DMCA”)
  - 1. Digital Millennium Copyright Act (17 U.S.C. § 512(a)-(d)).
  - 2. DMCA: Copyright Management Information.
  - 3. DMCA: Safe Harbor/Take Down Requirements.
  - 4. DMCA Registration Renewal
- L. OTHER DEFENSES/EXEMPTIONS
  - 1. Statute of Limitations and Act-of-State Doctrine.
  - 2. Public Domain.
  - 3. Sovereign Immunity.
  - 4. De Minimis Copying.
- M. REMEDIES
  - 1. Damages/Injunction Post *eBay*.
  - 2. Attorney Fees (and Statutory Damages).
- N. PREEMPTION



## A. PROCEDURE

- *Ali v. Final Call, Inc.*, No. 15-2963 (7th Cir. Aug. 10, 2016)

The Seventh Circuit held that a district court erred in requiring Jesus Muhammad-Ali, the painter of a portrait of Louis Farrakhan, the leader of the Nation of Islam, to prove unauthorized copying, instead of merely copying, for a copyright infringement claim against the Final Call, a newspaper publisher. The Seventh Circuit confirmed that establishing a valid copyright and that the accused sold copies of the copyrighted work established a *prima facie* case of copyright infringement.

Ali proved that he registered and recorded a valid copyright in the painting in 1986, and that the lithographs sold by the Final Call were copies of it. The district court, relying on a 2013 Seventh Circuit case, placed the burden of demonstrating that the copied lithographs were unauthorized on Ali, which he failed to prove. The Seventh Circuit stated there was a transcription error in the previous case and the burden of proving authorization was on the defense.

The Final Call could not prove authorization because it waived all affirmative defenses. Even if the court resuscitated the waived defense, the court noted that the Final Call could not establish any of the defenses. Accordingly, the Seventh Circuit reversed the district court's ruling and remanded the case for the assessment of damages.

The Final Call filed a writ of certiorari on November 7, 2016, arguing that inter-circuit and intra-circuit splits existed in rulings on the question of whether the defendant has the burden of establishing authorization as an affirmative defense or whether the plaintiff has the burden of establishing lack of authorization as an element of a *prima facie* case of infringement.

## B. COPYRIGHTABILITY/ORIGINALITY

- *Schurr v. Molacek*, No. 2:15-cv-07135 (E.D. LA Nov. 14, 2016)

A district court in Louisiana found that a creator of maps of the Louisiana Gulf Coast region exercised substantial judgment and discretion in the selection, coordination, and arrangement of information, determining the maps to be copyrightable. While "bare facts" are never copyrightable, the court found that by reconciling inconsistencies among various sources, selecting features to include in the map, and portraying information in a way that would be useful to the public, the maps displayed the necessary level of originality.

- *Olivares v. Univ. of Chicago*, No. 1:15-cv-713 (M.D.N.C. Sept. 30, 2016)

In October 2014, Julian Olivares filed a copyright infringement suit against the University of Chicago for their English translations of Olivares' modified version of a 17th-century Spanish text. In September 2016, the Middle District of North Carolina declined summary judgment requested by the University of Chicago based on the fact that the original text was part of the public domain and Olivares' modified version was insufficiently creative to warrant copyright protection.

Olivares, a Spanish-language professor, revised a collection of Spanish stories originally written in 1637 that are part of the public domain. Olivares modified the original text to include punctuation and paragraph break changes during transcription. The court noted that these changes were not typically copyrightable, but the professor's revisions that do not merely fix proofreading errors, but modernize, restore, and clarify the original text are copyrightable. Since the original text could be divided punctually and by paragraph according to different scholars' interpretations and the modifications may not be merely mechanical changes dictated by established conventions, the court held that there is sufficient evidence for a reasonable jury to find that Olivares' modifications satisfy the originality requirement of copyright law.

- *Home Legend, LLC v. Mannington Mills, Inc.*, 784 F.3d 1404 (11th Cir. 2015)

The Eleventh Circuit reversed a grant of summary judgment for Home Legend and held that Mannington Mills' two-dimensional laminate flooring design was eligible for copyright protection because it was a compilation that reflected sufficient creativity, was separable from the actual flooring, and was directed at the design rather than an idea or process.

First, the court held that the flooring design was not a slavish copy of nature, but rather an expression of an idea with sufficient creativity for it to be protectable by copyright. The rustic design was created through a process of distressing, staining, photographing, and digitally altering individual planks and arranging the individual elements in a designed compilation. The compilation reflected artistic judgement and sufficient creativity to meet the low bar set forth in 17 U.S.C. § 103. Second, the court concluded that the flooring design overlay was sufficiently separable from the useful article for it to be copyrightable. "Separability," for the purpose of assessing copyright eligibility of a useful article's design, requires that the design is either physically or conceptually severable from the utilitarian article. Here the court found that the "Glazed Maple" design overlay was both physically and conceptually separable (evidenced by the variety of designs applied to laminate flooring and the ability to use the design as art or wall covering). Third, the court found that although the

evidence presented by Mannington Mills focused on the process of creating the design, the copyright itself was directed at copyrightable artwork.

In sum, Mannington Mills' copyright covers the two-dimensional image used for laminate flooring design. However the copyright protection is not particularly strong because the elements of the design, individual woods planks, are in the public domain. Because it is a derivative work, the design is only afforded protection from identical or near-identical copies. Consequently, the case was remanded to determine if Home Legend's use of a design similar to "Glazed Maple" is identical or near-identical.

On July 24, 2015, Home Legend filed a petition for a writ of certiorari alleging that Mannington's design is a slavish copy of nature, that is inseparable from the utilitarian elements, and that the Eleventh Circuit's opinion created a circuit split.

- *StorageCraft Tech. Corp. v. Persistent Telecom Solutions, Inc.*, No. 2:14-CV-76-DAK, 2016 U.S. Dist. LEXIS 79394 (C.D. Utah June 17, 2016)

StorageCraft, a computer software company that specializes in backup, disaster recovery and system migration software, and Doyenz, a cloud services provider, entered into a license agreement that permitted Doyenz to use a group of StorageCraft proprietary tools, referred to as the Data Center Recovery Product ("DCRP"). Among other things, the DCRP license authorized Doyenz to use four of StorageCraft's proprietary tools. Specifically, Doyenz's cloud services were designed to work primarily with StorageCraft's proprietary backup image files, allowing customers to upload and recover those images in the event of a computer crash.

In 2012, StorageCraft consented to the assignment of its rights and obligations under the DCRP license from Doyenz to Persistent, which was in the process of purchasing all of Doyenz's assets. However in 2013, StorageCraft notified Persistent that it would not be renewing the license agreement, set to expire on October 31, 2013, leaving Persistent without a license to use the DCRP or its component parts. Persistent then developed a replacement solution that relied on StorageCraft's copyrighted tools to automatically convert StorageCraft's proprietary backup files into a new format. Upon learning of Persistent's continued reliance on the DCRP, StorageCraft brought suit alleging that Persistent was engaging in direct and contributory copyright infringement. Among Persistent's affirmative defenses were: (1) Persistent's use was protected under the fair use doctrine and (2) the tools at issue were ineligible for copyright protection. StorageCraft moved for summary judgment on both affirmative defenses.

First, the court denied StorageCraft's motion for summary judgment on the fair use defense, concluding that Persistent had demonstrated genuine disputes of material fact. The court noted that the most important factor in establishing fair use is the "effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). Using expert opinion, Persistent argued that rather than having a negative impact on the DCRP market, its replacement solution was likely to maintain or even increase the market for StorageCraft's proprietary tools because the replacement solution only worked when the tools were installed on the end user's computer. The court held that this factor was enough to demonstrate genuine disputes of material fact.

Second, the court denied StorageCraft's motion for summary judgment regarding whether the tools at issue were ineligible for copyright protection, because Persistent demonstrated the existence of genuine disputes of material fact. Using expert opinion, Persistent argued that StorageCraft's proprietary tools are not protectable by copyright because they are standard, stock, or common in the industry. Specifically the expert's analysis of the source code led him to the opinion that the functions performed by the tools were "common practice in the IT and software industries" and are "old technology and not in any way new or novel." *Id.* at 19-20. The court held that this demonstrated that a genuine dispute of fact existed regarding the copyrightability of StorageCraft's proprietary tools.

### **C. UNCOPYRIGHTABLE/USEFUL ARTICLE/FUNCTIONALITY.**

Section 102(b) of the Copyright Act provides:

In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

- *Design Ideas, Ltd. v. Meijer, Inc.*, No. 15-cv-03093 (C.D. Ill. Aug. 25, 2016)

Design Ideas, a home and office accessories maker, sued Meijer for infringing the copyright of a clothespin with a bird design on top called the "Sparrow Clip." Meijer created a similar clothespin called the "Canary Clip" that's only real change was in color. Meijer argued that the clothespin was not an original design and as a result was not copyrightable. The District Court of the Central District of Illinois rejected Meijer's argument.

The court noted that the bird design was physically and conceptually separable from the utilitarian nature of the work. Additionally, the bird design was not copied and portrayed a distinct and creative pose, posture,

and expression. The choice in coloring and other elements were also copyrightable. With the finding that the Sparrow Clip was copyrightable and that the Canary Clip was essentially identical, the court granted summary judgement in favor of Design Ideas.

- *DC Comics v. Towle*, 802 F.3d 1012 (9th Cir. 2015)

The Ninth Circuit held that the Batmobile is subject to copyright protection, establishing a three-part test for making this determination. Defendant Towle operated a mechanic shop under the name “Gotham Garage.” He provided customers with replica versions of the Batmobile for \$90,000, or alternatively would sell kits that allowed customers to modify their cars to look like the Batmobile. Towle conceded that these replicas copied the designs of the Batmobile from the 1966 television show and the 1989 motion picture.

DC Comics filed this action in May 2011 primarily alleging copyright infringement, trademark infringement, and unfair competition. Towle claimed the Batmobile that appeared in the 1966 television show and 1989 motion picture was not subject to copyright protection. Alternatively, Towle argued that DC did not own the copyright in either production, but rather just in the DC Comics’ version of the Batmobile. He also asserted a laches defense.

The district court found in favor of DC Comics on each issue, except for Towle’s laches defense to the copyright infringement claim. After a joint stipulation, the court entered judgment for DC Comics, and Towle subsequently appealed.

The Ninth Circuit first held that the Batmobile is a character that qualifies for copyright protection. Looking to precedent in the Ninth and Second Circuits, the court established a three-part test for determining whether a character is entitled to copyright protection:

First, the character must generally have “physical as well as conceptual qualities.” Second, the character must be “sufficiently delineated” to be recognizable as the same character whenever it appears. Considering the character as it has appeared in different productions, it must display consistent, identifiable character traits and attributes, although the character need not have a consistent appearance. Third, the character must be “especially distinctive” and “contain some unique elements of expression.” It cannot be a stock character. (citations omitted).

Applying the first element to the case, the court found the Batmobile is not merely a literary character. It has physical and conceptual qualities because it has appeared graphically and also as a three-dimensional car in different productions. Second, the court found the Batmobile has maintained its distinct physical and conceptual qualities in its appearances over time, namely its bat-like appearance, its crime-fighting characteristics, and state-of-the-art weaponry and technology. Specifically rejecting one of Towle's arguments that the Batmobile has changed over time, the court noted that a consistent appearance is not as significant to its analysis as consistent character traits and attributes. Third, the court reiterated that the Batmobile has distinct character traits and is not merely a stock character.

Next, the Ninth Circuit held that Towle infringed DC Comics' copyright. Towle argued that DC Comics did not own any copyright interest in the 1966 television series or 1989 motion picture and thus lacked standing. In other words, Towle admitted to copying the Batmobile from that television series and movie, but said DC Comics owns a copyright in the comic depiction of the Batmobile and not those subsequent works. The court disagreed. When a copyright owner authorizes a third party to create a derivative work, the owner retains a copyright in the underlying work. The work created by the third party does not affect the scope of any copyright protection in the preexisting, underlying work. Thus, the Ninth Circuit affirmed the infringement.

Finally, the Ninth Circuit affirmed the district court's finding that Towle could not assert a laches defense to the trademark infringement claim. Laches is an equitable doctrine that does not apply to cases of willful infringement. The court found that Towle admitted to exploiting DC's trademarks and thus cannot use the defense.

The Supreme Court denied the cert. petition on March 7, 2016.

- *Tomaydo-Tohmahdo, LLC v. Vozary*, 629 Fed.Appx 658 (6th Cir. 2015)

*Tomaydo* involved a dispute between the owner of a restaurant and catering business against the owner's former business partner, who allegedly copied recipes from the owner's recipe book for his own companies. The Sixth Circuit held that a list of ingredient is merely a factual statement and recipe instructions are merely functional directions, neither of which is protectable under copyright law. The court also held that, while recipe books can be protectable to the extent they show originality (by, for example, "lacing their directions for producing dishes with musings about the spiritual nature of cooking"), here nothing about the book was original enough to merit copyright protection. The court did not address any competition issues.

- *Lorenzana v. S. Am. Rest. Corp.*, 799 F.3d 31 (1st Cir. 2015)

In *Lorenzana*, an employee (Norberto Colón Lorenzana) created the “Pechu Sandwich” for his employer, South American Restaurants Corp., but later came to believe that he should be entitled to a percentage of the profits derived from the sandwich’s success. The First Circuit disagreed, holding that a recipe for a specific chicken sandwich was not copyrightable, upholding a grant of a motion to dismiss that reached the same conclusion. The First Circuit also noted that, contrary to Lorenzana’s assertions, the name of the sandwich was also not protectable, as the Copyright Act does not protect words and short phrases like names, titles, and slogans.

- *Bikram’s Yoga Coll. v. Evolation Yoga*, No. 13-55763 (9th Cir. 2015)

Bikram Choudhury developed a yoga class, detailed in his book *Bikram’s Beginning Yoga Class*, in which attendees practice twenty-six individual poses and two breathing exercises over a 90 minute period in a room heated to approximately 105 degrees Fahrenheit. Evolation Yoga offered several types of yoga, among them a “hot yoga” that closely resembles Bikram’s Basic Yoga System. The district court concluded that the sequence of twenty-six poses is not entitled to copyright protection.

Reviewing the district court’s decision de novo, the Ninth Circuit agreed that the sequence of yoga poses is not a proper subject of copyright.

Section 102(a) of the Copyright Act of 1976 explicitly excludes protection for ideas or concepts, only protecting the fixed expression of those ideas. The Ninth Circuit concluded that Bikram’s yoga methodology was an idea, not an expression, and therefore his copyright in *Bikram’s Beginning Yoga Class* did not extend to the poses or sequence of those poses. Copyright protection cannot give Bikram a monopoly on performing the sequence of poses.

The court also rejected the argument that the pose sequence qualifies for protection as a compilation. While a compilation is a proper subject for copyright protection in Section 103 of the Copyright Act, this protection must be seen as a complement to that provided for in Section 102. A compilation therefore must satisfy the requirements of Section 102 to be entitled to protection.

Finally, the court rejected the argument that the yoga system merited protection as a choreographic work. The sequence of poses was not copyrightable as choreography for the same reason that it was not copyrightable as a compilation: it was an idea, process, or system, and it did not comply with the requirements of Section 102.

- *Varsity Brands, Inc. v. Star Athletica, LLC*, 799 F.3d 468 (6th Cir. 2015)

Varsity Brands, maker of cheerleading uniforms, sued Star Athletics, a competitor, for copying their uniform designs. Following a determination by the district court that Varsity did not have a valid copyright because the graphic elements of their designs are not separable from the utilitarian function of a cheerleading uniform, Varsity appealed.

The Sixth Circuit held that the district court erred by failing to give greater deference than it did to the Copyright Office's determination that Varsity has a valid copyright in the designs. The court concluded that Copyright Office determinations merited *Skidmore* deference rather than the more stringent *Chevron* deference because individual decisions about the copyrightability of works were not like rules carrying the force of law, but still merited some deference. This deference should have shifted the burden to Star to overcome the presumption.

The court then turned to the doctrine of useful articles. The relevant test has two prongs: first, whether the design in question is a design of a useful article, and if so, second, whether the design of the useful article incorporates pictorial, graphic, or sculptural features that can be separately identified from the utilitarian aspects of the article and are capable of existing independently of it. There are two ways of determining this separability: physical separability and conceptual separability. The physical separability test asks whether the pictorial, graphic, or sculptural elements of an article may be physically separated from the article while still leaving the utilitarian aspects of the article intact. The conceptual separability test asks whether the pictorial, graphic, or sculptural elements of the article are conceptually separable from the utilitarian aspects. Most courts consider both tests together.

The Sixth Circuit enumerated nine possible approaches to conceptual separability, developing an approach that is a hybrid of several of them. The Sixth Circuit approach asked a series of questions:

1. Is the design a pictorial, graphic, or sculptural work?
2. If so, then is it a design of a useful article?
3. What are the utilitarian aspects of the useful article?
4. Can the viewer of the design identify pictorial, graphic, or sculptural features separately from the utilitarian aspects of the article?
5. Can the pictorial, graphic, or sculptural features of the design exist independently of the utilitarian aspects of the article?

The court concluded that (1) Varsity's designs were graphic works, and (2) the uniforms were indeed useful articles. (3) The utilitarian aspects were



that the uniforms cover the body, wick away moisture, and withstand athletic movements. The graphic features of the uniforms (4) can be identified separately from the utilitarian aspects of the uniform, as the designs did not increase the garments' value in covering the body or any other utilitarian function. Finally, (5) the graphic features can also exist independently of the utilitarian aspects, because the same designs could be placed on any garment. Therefore, the designs were copyrightable.

Finally, the court considered whether the designs in question constitute fabric design, because fabric design is protected while dress design is not. The court concluded that the graphic elements of Varsity's designs are more like fabric design, and so are not excluded from protection.

The Supreme Court granted cert. in this case on May 2, 2016, and heard oral argument on October 31, 2016.

- *DaVinci Editrice S.R.L. v. ZiKo Games, LLC*, No. H-13-3415, 2016 WL 1672519 (S.D. Tx April 27, 2016)

DaVinci, an Italian game company, designed and sold a role-playing card game called *Bang!*. The Chinese game company Yoka drew heavily from *Bang!* in the creation of its own game, called *Legends of the Three Kingdoms* (distributed in the U.S. by ZiKo Games), and DaVinci sued for copyright infringement. The two games have virtually identical formats and rules but different aesthetic themes (The Wild West for *Bang!* and Ancient China for *Three Kingdoms*). In 2014, the southern district of Texas dismissed most of DaVinci's claims because game rules are not copyrightable, and the design aesthetics were sufficiently different so as to be separate expressions. However, the court ruled that one aspect of the game, character roles assigned to each player at the start of each game, was potentially copyrightable.

After discovery and cross-motions for summary judgment, the court decided for ZiKo. The court found the character roles were another rule of the game and thus not protectable expression. Although characters are generally protectable under copyright, in this case they were not truly expressive, literary characters. Instead, they were merely aspects of gameplay, largely because the character roles varied significantly game-to-game and did not have identifiable and protectable character traits.

- *Naruto v. Slater*, No. 15-cv-04324, 2016 WL 362231 (N.D. Cal. Jan. 28, 2016)

In the (in)famous "monkey selfie" case, PETA brought an action on behalf of an Indonesian monkey named Naruto for copyright infringement. Naruto used the camera of photographer David Slater to take pictures of itself, which Slater later published. PETA argued that Naruto is an

“author” under the Copyright Act and thus is the owner of the photos, which Slater and his publisher exploited without the permission of Naruto.

The Northern District of California held that animals have no standing under the Copyright Act and therefore cannot be “authors.” The court noted that the Copyright Office has determined that works must be created by human beings in order to be copyrightable, and there is no protection for works produced by “nature, animals, or plants.”

The case is currently on appeal to the Ninth Circuit.

## D. OWNERSHIP

### 1. Work Made For Hire.

- 17 U.S.C. § 101 provides:

A "Work Made For Hire" is -

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

- *Mohr v. Sci. and Eng'g Serv., Inc.*, No. 5:14-cv-00045-MHH (N.D. Ala. Aug. 31, 2016)

In January 2014, Michael Mohr, an aircraft mechanic turned computer programmer, sued his former employer Science and Energy Service (SES) for infringing an aircraft maintenance inventory computer program which Mohr developed while employed at a previous employer. The Northern District of Alabama granted summary judgment in favor of SES after determining Mohr lacked

ownership, as it constituted a work-for-hire owned by his previous employer.

Mohr developed the program while employed by DynCorp International. While initially developing the computer program on his own initiative, Mohr worked on the program at home and at DynCorp. Mohr's program was within the scope of his employment and consisted of the type of work DynCorp employed him to perform. Mohr used servers and equipment located at DynCorp's facility and tailored his work to serve DynCorp's needs. DynCorp even controlled the work that Mohr did on the program. Based on these circumstances, the court held that Mohr's program constituted a work-for-hire and dismissed the action.

- *Urbont v. Sony Music Entm't*, No. 15-1778 (2d Cir. 2016)

In 2011, Jack Urbont sued Sony, Razor Sharp Records, and Dennis Cole, also known as Ghostface Killah, to enforce his alleged ownership rights in the "Iron Man" theme music. Cole allegedly sampled the original composition used in the 1966 television show *Marvel Super Heroes* for his 2000 album, *Supreme Clientele*. In 2015, the district court granted summary judgment finding Urbont's work was work for hire for Marvel; however, in 2016, the Second Circuit reversed the ruling.

Since Urbont created the composition prior to 1978, the 1909 Copyright Act governs it. At issue was whether the composition was a work for hire under the "instance and expense" test. The district court found that Urbont developed the composition to Marvel's specifications and for their approval, and Urbont's fixed payment of \$3,000 for his work satisfied the test.

On appeal, the Second Circuit rejected the district court's findings because of its limited factual analysis. Regarding the "instance" requirement, there was evidence that Urbont retained all creative control of the project, as Marvel was not permitted to modify the work and only had the right to accept or reject it. In addition, Urbont claimed that there was no prior relationship between himself and Marvel and that he initially approached Marvel and had written the songs "on spec[ulation] hoping Marvel would use them." Regarding the "expense" requirement, Urbont claimed that he produced the compositions with his own resources and rented recording studio and that Marvel essentially paid for only his costs. Additionally, Urbont claims Marvel paid him a fixed sum and royalties. All of these factors supported the inference that a court could find Urbont as the composition's owner. Therefore, the court ruled that there was a genuine issue of material fact over the

ownership of the Iron Man composition and precluded summary judgment.

- *Mahavisno v. Compendia Bioscience, Inc.*, No. 13-12207, 2014 WL 340369 (E.D. Mich. Jan. 30, 2014) and 2016 WL 716866 (E.D. Mich. Feb. 23, 2016)

Mahavisno, in 2002, was a graduate student and consultant at the University of Michigan's Department of Pathology. Creating a computer program that allows cancer researchers to process and analyze genomic and cancer treatment data was a goal pursued by several at that time, including Mahavisno. The program was called 'Oncomine' and Mahavisno and others continued to contribute code over several years. Two of the collaborating colleagues on Oncomine formed a new company, "Compendia", and negotiated with the University of Michigan to license Oncomine for commercial exploitation, granting sublicenses, and creating derivative works.

In 2013, Mahavisno sued claiming authorship status of Oncomine. Compendia contended that Mahavisno was an employee and the work therefore was a work made for hire (WMFH). The court rejected Compendia's contention that Mahavisno's contribution was WMFH.

Compendia filed a motion to dismiss contending that Mahavisno could not establish breach of an implied in fact contract for use of his work because he could not demonstrate a meeting of the minds between Compendia and Mahavisno. The court rejected Compendia's contention stating Mahavisno had plausibly alleged unjust enrichment by alleging a meeting of the minds established by both receipt and implementation of his work.

In 2015, Compendia brought a motion for summary judgment on Mahavisno's copyright infringement and breach of contract claims. First, the court granted Compendia's motion for summary judgement on the copyright infringement claim. The court held that Mahavisno's copyright infringement claim was barred because Compendia had an implied license to use Mahavisno's source code. An implied license arises when the following three elements are satisfied: "(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes the particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requester copy and distribute it." *Lulirama Ltd., Inc. v. Axxcess Broad. Serv.*, 128 F.3d 872, 879 (5th Cir.1997) (quoting *IAE, Inc. v. Shaver*, 74 F.3d 768, 775 (7th Cir.1996)). Here, the court found there was an implied license, evidenced by Mahavisno's testimony which stated he created the software code

and gave it to Compendia with the intent that Compendia would use the software in its products.

Second, the court denied Compendia's motion for summary judgment on the breach of contract claim. Compendia argued that Mahavisno's breach of implied-in-fact contract claim was time barred by Michigan's six year statute of limitations for breach of contract claims. M.C.L. § 600.5807(8). Compendia argued it was clear in April 2007 that it had refused to perform on the promises Mahavisno believed had been made to him. However, the court denied Compendia's motion because a genuine dispute of fact existed regarding the date that Compendia allegedly failed to perform on the implied contract. Specifically, the court found that a reasonable jury could find that Compendia had promised to give Mahavisno an ownership interest or other proceeds when Compendia was sold in 2012.

2. Ownership and Joint Authorship.

3. Derivative Works.

- *Direct Techs., LLC, v. Elec. Arts, Inc.*, No. 14-56266 (9th Cir. Sept. 6, 2016)

In September 2016, the Ninth Circuit revived Direct Technologies copyright suit against Electronic Arts ("EA") for allegedly stolen designs for a "Sims" themed USB flash drive. The Ninth Circuit rejected the district court's summary judgment ruling in favor of EA finding that the "futuristic" cut-away shape may have been sufficiently original to warrant copyright protection.

In May 2008, EA contacted Direct Technologies to produce a flash drive shaped like a "PlumbBob"—a green diamond-shaped icon from the Sims game. Direct Technologies designed and produced a prototype, which EA approved, but EA had the flash drive produced by a cheaper manufacturer without informing Direct Technologies. Direct Technologies sued seeking declaratory judgment of joint ownership, which a district court dismissed.

Since EA held a copyright in the original 2D PlumbBob icon, the Ninth Circuit analyzed whether Direct Technologies' 3D rendition of the PlumbBob as a flash drive was entitled to copyright protection as a derivative work. The court applied a two-part test. First, the court noted that the design of the flash drive—specifically the way the flash drive fit into the PlumbBob with a "futuristic cut away look"—might be considered an aesthetic choice and not "purely functional, utilitarian or mechanical" satisfying the first part of the

test. Second, the court noted that the design of the drive might be of sufficient originality to warrant copyright protection satisfying the “non-trivial” difference part of the test. The court reversed the district court’s ruling holding that these issues were material issues of triable fact for a jury.

- Corbello v. DeVito et al., No. 2:08-cv-00867-RCJ-PAL (D. Nev. Nov. 17, 2016)

In November 2016, a jury sitting in federal district court in Nevada determined that the Broadway hit musical *Jersey Boys*, based on the band The Four Seasons, infringed a copyright in the unpublished autobiography of one of the group’s members, “Tommy DeVito—Then and Now.” The jury concluded the libretto copied elements of the autobiography, which did not constitute fair use.

The facts for this case originated in the 1980s, when Rex Woodard ghostwrote an autobiography of DeVito, one of the band’s founding members, which was never published. In 1991, after Woodard’s death, DeVito applied for a copyright registration for the book. After *Jersey Boys* opened on Broadway in 2005, Donna Corbello, Woodard’s widow, persuaded the U.S. Copyright Office to add Woodard as a co-author to the autobiography, and then brought suit for copyright infringement against DeVito and other members of The Four Seasons.

Relevant to the issues in the case, DeVito had entered into an agreement with fellow Four Seasons members Frankie Valli and Robert Gaudio in 1999 concerning a potential musical about the group. The defendants argued both that the agreement gave them an implied license to use the DeVito autobiography and that the play constituted a fair use of the material. The jury rejected these arguments and found that ten percent of the success of the play was attributable to the infringement. In a separate ruling, the court decided that the other band members were not liable for infringement as they were not aware that the book was copied to create the script, nor did they have the ability to control the writing process. Further, the court found no evidence that any defendant knew of or recklessly disregarded the possibility that copying the unpublished autobiography infringed a copyright. The defendants have pushed for a reversal of the jury’s finding, citing a Ninth Circuit ruling in *Antonick v. EA* made the day after deliberation started, arguing that decision bolsters their argument that jury instructions were inadequate.

- *Antonick v. Elec. Arts*, No. 14-015298 (9th Cir. Nov. 22, 2016)

In 1984, EA hired Antonick to write source code for a computer game called *John Madden Football*. The contract also gave Antonick the right to royalties on “Derivate Works” within the meaning of copyright law. In 2011, Antonick brought suit against EA alleging breach of contract and fraud based on a failure to pay him royalties on the allegedly derivative work, *Sega Madden*. Following a two-phase trial in which the jury found EA breached its contract with Antonick for failing to pay royalties on the sales of *Sega Madden*, as a derivative work, EA was granted a motion for a new trial and judgement as a matter of law regarding Phase II of the jury trial.

The district court found that even construing the evidence in the light most favorable to Antonick, there was no legally sufficient basis for the jury’s verdict in Phase II that any of the *Sega Madden* games as a whole are virtually identical to *John Madden* as a whole because there was no evidence of the games in their entirety provided at trial to make this comparison. Without the original source code to compare, Antonick provided expert testimony to satisfy his burden of proof. Consequently, Antonick did not prove any of the *Sega Madden* games were infringing works, and EA was entitled to judgment as a matter of law.

In November 2016, the Ninth Circuit affirmed the district court’s judgment in EA’s favor in part because the source code at issue was not admitted into evidence. The Ninth Circuit found Antonick’s argument that certain elements of the games were substantially similar unpersuasive to establish infringement of the source code. The court noted that the source code was the copyrighted work, not simply the game aesthetics, and without the source code to compare, the district court did not err.

## **E. CONTRACTS AND LICENSING**

- *Carlin v. Bezos*, No. 15-2774, 2016 WL 2957212 (E.D. Penn. May 23, 2016)

Joseph Carlin provided his four self-published books to CreateSpace, a subsidiary of Amazon. Under the service agreement, Carlin granted CreateSpace a non-exclusive license to publish, distribute, and sell its books through Amazon and other retailers in exchange for royalties. Carlin brought a claim, pro se, for one count of copyright infringement. He alleged that Amazon did not pay him all the royalties he was due and requested \$100 million in damages. As evidence of the withheld royalties, Carlin submitted screenshots of copies of his book being offered for sale

online. Amazon presented evidence that the copies had not been sold, and were merely available for sale to customers.

The court acknowledged that it is possible to maintain a claim for copyright infringement despite a license agreement if the licensee exceeds the scope of the license. For the purposes of its analysis, the court assumed that failure to make agreed-upon royalty payments constitutes copyright infringement. However, the court found that on the evidence presented, no reasonable trier of fact could find that Amazon had sold additional copies of Carlin's books without paying royalties. The district court granted summary judgment to Amazon and denied Carlin's cross-motion for summary judgment. The Third Circuit affirmed.

- *Palmer/Kane LLC v. Rosen Book Works LLC*, No. 15-cv-7406 (S.D.N.Y. Aug. 31, 2016)

In August 2016, the Southern District of New York held Rosen Book Works, a publisher, liable for infringing two stock photograph images by using them outside the scope of their license agreement with the stock photo studio Palmer/Kane. Rosen used one image before the issuance of a license and used another image after the relevant license had expired. The court granted summary judgment in favor of Palmer/Kane holding that Rosen acted either without a valid license or beyond the scope of the license that was issued regarding the two images. The court denied summary judgment concerning additional images that were potentially within the subject of a valid license.

## F. MUSIC ISSUES

### 1. Pre-1972 Sound Recordings.

- *Flo & Eddie, Inc. v. Sirius XM Radio, Inc.*, No. 15-1164-cv, 2016 WL 1445100 (2nd Cir. Apr. 13, 2016); Appeal No. 172 (N.Y. Dec. 20, 2016) (slip opinion)

Flo & Eddie, a company with the rights to a number of songs from the band "The Turtles," sued Sirius Radio, a radio and internet-radio broadcaster, for common-law copyright infringement under New York law in the southern district of New York. At issue in the case is Sirius' unauthorized broadcast of Turtles songs from the 1960s. Federal copyright law only protects sound recordings fixed on or after February 15, 1972, but Flo & Eddie contend New York common law gives holders of pre-1972 sound recordings public performance rights.

Sirius Radio moved for summary judgment, arguing New York had no such common law protections. The district court denied the motion but certified the summary judgment order for interlocutory



appeal. On appeal, the Second Circuit decided the question of whether New York had these common law protections was both unsettled and important, and certified the question for the New York Court of Appeals, New York's highest court, to answer. The New York Court of Appeals accepted the certification and on December 20, 2016, by a 4-2 vote, held that New York law does not recognize a public performance right in pre-1972 sound recordings.

A month prior to the decision, on November 28, 2016, Flo & Eddie filed a proposed settlement in California case that would result in up to \$15 million in payments if Flo & Eddie succeeded on their appeal in New York. The settlement would now be reduced based on the New York decision. The California court and New York court have yet to approve the settlement terms.

- *ABS Entertainment, Inc. v. CBS Corp.*, No. CV 15-6257 PA, 2016 U.S. Dist. LEXIS 71470 (C.D. Cal. May. 30, 2016)

Is a remastered version of a pre-1972 sound recording (which is protected only under state law) entitled to federal copyright protection? According to the central district of California, the answer is yes. ABS and several other companies that own the rights to a variety of pre-1972 sound recordings sued CBS for their unauthorized use across a variety of radio platforms, both digital and broadcast (pre-1972 sound recordings are protected under California state law). The parties agreed that CBS only ever used remastered recordings made after 1972 (which the plaintiffs did not own), but did not agree on the implications of that use. ABS argued that a remaster is essentially just the original track converted to a new medium (which would not give it independent copyright protection) while CBS argued that remastering a track involves enough artistic choices so as to create a derivative work entitled to its own copyright protection.

The court agreed with CBS and granted it summary judgment. The court held that remastering the songs in question involved substantial creativity, including adding new sounds and adjusting bass, treble, midrange, and other frequencies to change what instruments or vocalizations are emphasized. Thus, the remastered recordings qualified as a derivative work and were independently copyrightable. Because the remastered sound recordings qualify for federal copyright protection, California law is preempted.

Note: Additional cases pertaining to music copyright issues are found throughout, particularly in the substantial similarity section.

## 2. Miscellaneous Issues.

- *Willis v. Scorpio Music (Black Scorpio)*, No. 15cv1078 BTM (RBB), 2016 WL 231313 (S.D. Cal. Jan. 19, 2016)

In a prior lawsuit, *Scorpio Music S.A. v. Willis*, No. 11cv1557 BTM (RBB), Scorpio Music (“Scorpio”) and Can’t Stop Productions (“CSP”) sought a judicial determination for the percentage of copyrights to 24 compositions (“24 Disputed Works”) that Victor Willis was entitled to recover upon termination of his grants of copyright. Willis filed a counterclaim for a declaratory judgment that Henri Belolo did not contribute to the authorship of the 24 Disputed Works and that Willis was entitled to recapture 50% of the copyright interest of those works. In February 2015, the court issued a judgment that Belolo was not a joint author in 13 of the 24 Disputed Works (“13 Compositions”) and Willis was entitled to recapture 50% of the copyrights in those works.

On May 13, 2015, Willis commenced an action alleging that all financial and business decisions of CSP were solely made by Belolo and that Belolo had made false claims of authorship for the 13 Compositions, allowing him to collect royalties for those compositions. Willis asserted claims of vicarious copyright infringement against Belolo and breach of fiduciary duty against CSP, alleging that Belolo and CSP allowed Sixuvus, Ltd. (“Sixuvus”) to present grand rights public performances of some of the 13 Compositions, without paying Willis any proceeds. Scorpio, CSP, and Belolo brought motions to dismiss Willis’ claims.

The court granted the motions to dismiss Willis’ first four causes of action (unjust enrichment, conversion, misappropriation, and fraud), which were based on Belolo’s false claim of authorship for the 13 Compositions. The court held that these claims were based on the same transactional nucleus of facts as Willis’ counterclaims in the prior action and were therefore barred by the doctrine of res judicata because they could have been brought in the first action.

Furthermore, the court dismissed Willis’ fifth cause of action, which alleged that Belolo was vicariously liable for copyright infringement committed by Sixuvus. The court found Willis’ factual allegations failed to establish that infringement had occurred because there was no underlying infringement on which to base the claim. CSP had granted Sixuvus a license for dramatic performances of the compositions at issue.

Lastly, the court granted the motion to dismiss Willis’ sixth cause of action, which alleged that CSP breached its fiduciary duty to Willis

because it failed to maximize the financial return of the subject compositions. The court found that CSP did not owe a fiduciary duty toward Willis because the duty to a co-owner of a copyright is not tantamount to owing a fiduciary duty. *Brian Jonestown Massacre v. Davies*, 2014 WL4076549 (N.D. Cal. Aug. 18, 2014). Therefore, CSP did not breach a fiduciary duty to Willis because it did not owe him one.

#### **G. VISUAL ARTISTS RIGHTS ACT (“VARA”)**

- *Cheffins v. Stewart*, No. 12-16913, 2016 WL 3190914 (9th Cir. June 8, 2016)

*La Contessa*, a replica of a 16th-century Spanish galleon, began its life as a school bus. Simon Cheffins and Gregory Jones acquired the bus and transformed it into a mobile sculpture of a historical vessel. *La Contessa* appeared at the Burning Man festival in 2002, 2003, and 2005. At Burning Man, *La Contessa* transported festival goers and served as a performance venue for poets and acrobats. When it was not in use, the “boat” was stored on private property. That land came into Michael Stewart’s possession in 2005, when the previous owner abandoned it. *La Contessa* remained on Stewart’s property until December 2006. Stewart then intentionally burned the boat’s wooden structure to allow a scrap metal dealer to remove the bus from his land.

Cheffins and Jones filed suit against Stewart under the Visual Artists Rights Act (VARA). The VARA aims to protect artists’ “moral rights,” including safeguarding works from mutilation or destruction. The protection only extends to works of “visual art,” a term that the statute does not specifically define, although it provides examples of exclusions and inclusions. “Applied art” is excluded from the definition of visual art; however, “applied art” is also undefined. Whether Cheffins and Jones were entitled to protection under VARA turned on whether *La Contessa* was visual or applied art, but the court was left largely adrift without statutory definitions to guide its analysis.

The majority adopted a rule to distinguish applied art from visual art: where an object initially served a utilitarian function and, after an artist’s embellishments and alterations, it continues to serve that utilitarian function, it is applied art. The court concluded that because *La Contessa* continued to serve a transportation function after its transformation, it was applied art and therefore not entitled to protection under the VARA. Judge McKeown concurred in the result but found the majority’s test to be insufficient. She supports a more nuanced test that considers the work as a whole, where the analysis would turn on whether the object’s utilitarian purpose is subservient to the artistic purpose. Her inquiry would address the primary purpose of the resultant work. She concludes that under her

test, *La Contessa* would still be applied art, and thus concurs in the court's judgment.

## H. SUBSTANTIAL SIMILARITY

- *Kullberg et al. v. Pure Flix Entertainment LLC et al.*, No. 2:16-cv-03949 (C.D. Cal. Oct. 12, 2016)

In October 2016, a Central District of California judge dismissed a \$100 million suit brought by Kelly Kullberg and Michael Landon against Pure Flix Entertainment for allegedly copying their screenplay. The court held that Kullberg and Landon's copyrighted screenplay for "Rise" was not substantially similar to Pure Flix's 2014 hit indie Christian film "God's Not Dead." The court noted that although the screenplay and film shared common plot similarities, such as a college student whose faith is challenged by an atheist professor, the characters, sequence of events, and character transformations were not substantially similar. The court noted that the similarities identified regarding the general shared premise (concept) and scenes-a-faire were not protected by copyright and subsequently dismissed the action.

- *ITN Flix et al. v. Univision Holdings et al.*, No. 2:15-cv-00736 (D. Utah Nov. 2, 2016)

In November 2016, the District Court for the District of Utah granted Univision's motion to dismiss a suit alleging that its broadcast of the 2010 film "Machete" infringed the 2006 film "Vengeance." The court noted that the films both starred Danny Trejo as an ex-cop seeking retribution for his family's death shared some ideas, but further noted that copyright protects only the expression of an idea and not the idea itself. Dissecting the movies, the court noted that each claim was a general description of an idea, "not a particular allegation about a protected expression of the idea" and that the plaintiffs did "not allege specific lines, costumes, scenery or other expressions" as being copied or duplicated. In addition, although the filmmaker of "Machete" was the founder of Univision's network that aired the movie, ITX failed to establish that Univision as a Network had access to the protected work. Based on the lack of access and failure to allege substantially similar expression, the suit was dismissed with leave to amend the complaint.

- *Culver Franchising Sys., Inc. v. Steak N Shake Operations Inc.*, No. 1:16-cv-00072 (N.D. Ill. Aug. 5, 2016)

The Northern District of Illinois dismissed Culver Franchising Systems' copyright infringement suit against Steak 'n Shake of copying the rival burger chain's TV commercial finding that Culver had failed to meet the legal threshold of substantial similarity.

Culver alleged that Steak 'n Shake's commercial was similar in their expression, images, dialogue, and sequencing. Both commercials were set in butcher's shop with an older butcher displaying three cuts of meat. Culver argued that the commercials were highly similar in terms of their total concept and feel.

The court noted that common elements to the parties' respective commercials "lack the necessary modicum of creativity to give rise to copyright protection." The court stated that "[i]t is hardly original for an advertisement to describe the origins and quality of a meat product or to feature a butcher" and that the depictions were of "standard grilling practices" without any originality according to the order. The court weighed valuing the suit with prejudice given its failure to prove substantial similarity, but granted the company leave to amend the complaint by August 26, 2016. Culver voluntarily dismissed the suit on August 17, 2016.

- *Eggleston v. Daniels et al.*, No. 4:15-cv-11893 (E.D. Mich. Aug. 16, 2016)

In August 2016, the Eastern District of Michigan refused to dismiss Sophia Eggleston's copyright infringement suit against the creators, writers, and producers of the television series *Empire*. Eggleston alleges that the character Loretta "Cookie" Lyon on *Empire* is substantially similar to her self-characterization in her copyrighted memoir, *The Hidden Hand*.

The district court noted that many of the alleged similarities were typical elements of crime stories (e.g., selling drugs, wearing expensive clothes, and slapping people), but found plausible arguments of substantial similarity. Both Eggleston's character and Lyon are women in the dominant role as gang leader, drug dealer, and perpetrator of violence. Additionally, the characters had similar plot elements including having a gay family member, having had a child kidnapped, having two close family members murdered, having lost a lover while incarcerated, and having shielded others by stepping between them and a loaded gun. Based on these similarities, the court denied in part the defendant's motion to dismiss and the case is currently ongoing.

- *Fulks v. Knowles-Carter et al.*, No. 1:16-cv-04278 (S.D.N.Y. Sept. 23, 2016)

The Southern District of New York dismissed a case filed by Matthew Fulks alleging that Beyoncé's trailer for the hit film "*Lemonade*" infringed a short film he produced and provided on YouTube. The court held that no ordinary observer could find Fulks' short film and the trailer for or film "*Lemonade*" to be substantially similar.

Fulks' short film depicted the "pain of a tumultuous relationship" and consisted of "seemingly unrelated visuals in rapid montage, with the

recitation of a poem used as voiceover against a distinctive soundtrack.” “Lemonade” depicted a woman’s transition from heartbreak to healing and consisted of 11 Beyoncé songs connected by interludes of dialogue and poems. The court noted that once the non-protectable element were removed from Fulks’ work that the two works had very little in common and that Fulks had failed to allege sufficient facts supporting a copyright infringement claim.

- *Northwest Home Designing, Inc. v. Benjamin Ryan Communities, LLC et al.*, No. C15-5808BHS (W.D. Wash. Sept. 26, 2016)

In November 2014, Northwest Home Design filed an amended complaint alleging Benjamin Ryan Communities (“BRC”) infringed Northwest’s copyrighted home plans. In October 2011, BRC consulted with Northwest over possible modifications to one of Northwest’s home plans to fit a project located in Tacoma, WA. After the consultation, BRC opted to order Northwest’s stock home plans and then BRC modified the plan in a similar manner as Northwest’s consulted plans were designed. A copyright infringement action soon followed.

In September 2016, a Western District of Washington judge granted in part a summary judgment motion, dismissing many of Northwest’s allegations. The court held that out of Northwest 140 separate infringement allegations, very few concerned protectable elements. Many of the alleged similarities were “precluded by the merger doctrine because only so many designs may fit onto a narrow deep lot.”

The court noted that certain alleged similarities, such as a “similar porch roof over garage/front porch,” “identical front angled entry design element and porch position,” and the “overall form and composition of space” for both the first and second floor, may be protectable elements outside the scope of the merger doctrine. Without evidence showing these elements were of a popular design or necessitated by an unprotectable element, such as building codes, topography, or engineering necessity, these similarities could result in a viable infringement claim. After dismissing 10 allegations, the court ordered the parties to confer and submit a joint status report on a more efficient means to resolve the remaining 130 comparisons.

- *Home Design Servs., Inc. v. Turner Heritage Homes, Inc. et al.*, No. 15-11912 (11th Cir. 2016)

In June 2016, the Eleventh Circuit held that a district court did not error in granting Turner Heritage Homes’ motion for judgment notwithstanding the jury’s verdict that the builder’s floor plans infringed Home Design Services’ copyrighted floor plan.

In 2008, Home Design, an architectural design firm, sued Turner and others for infringement of Home Design's registered floor plan called HDS-2089. Turner built over 160 homes using two home floor plans that Home Design argued were substantially similar to HDS-2089. After a five-day trial, the jury awarded Home Design \$127,760 in damages. Following the trial, the district court granted Turner's motion for judgment as a matter of law, finding that no reasonable jury could find that Turner's designs were substantially similar to HDS-2089. Home Design appealed.

On appeal, the issue was whether certain elements of the Home Design's plan were protectable under the copyright. While the Eleventh Circuit recognized that the plans shared the same general four-bedroom, three-bathroom split style layout, the general similarity was a noncopyrightable element. The potentially protectable elements of an architectural work were the arrangement and coordination of common elements, such as rooms, windows, and doors. The court noted that the respective plans were different in terms of their dimensions, wall placement, and the presence, arrangement, and function of particular features around the house.

The question of whether elements of the plans were protectable was a matter of law for the judge and, as a result, the Eleventh Circuit upheld the district court's decision that the jury erroneously found that Turner Heritage Homes, Inc., engaged in copyright infringement.

- *Arthur Rutenberg Homes, Inc. v. Jewel Homes, LLC*, No. 15-14965, 2016 WL 3996670 (11th Cir. 2016)

In July 2016, the Eleventh Circuit affirmed the ruling that floor plans developed by Jewel Homes did not infringe architectural plans of Arthur Rutenberg Homes. The court held that when it filtered out the unprotectable elements of the plans from the protectable elements, the parties' respective works were not substantially similar.

In the district court, Arthur Rutenberg Homes asserted claims against Jewel Homes that it was infringing upon Rutenberg's copyrighted plan "Amalfi" by preparing a substantially similar home plan. The district court noted the floor plans were "visually similar" and "the general layout [was] the same" with both plans having a "four-bedroom, four-bath, single-story split-plan home." Further, both plans had the "the garage, utility room, three bedrooms and the bonus room [l]ined up on the right side, [and] the master bathroom and bedroom areas situated on opposite sides of the floor plans." However, the court noted that these shared elements between the two plans are unprotectable elements.

The district court then noted numerous differences in wall placement, dimensions, and the presence, arrangement, and function of particular

features around the house. These differences, which were potentially protectable elements, were so different that there was no genuine question of material fact. The district court granted summary judgment to Jewel Homes on the basis that the differences between the two designs were so significant that no reasonable jury could find the works substantially similar. The Eleventh Circuit affirmed the ruling noting that floor plan was a validly copyrighted work but was only protected to the extent that it was an original work of authorship.

- *Medallion Homes Gulf Coast, Inc. v. Tivoli Homes of Sarasota, Inc.*, No. 15-15393, 2016 WL 3996671 (11th Cir. 2016)

Analogous to *Arthur Rutenberg Homes, Inc. v. Jewel Homes, LLC*, No. 15-14965, 2016 WL 3996670 (11th Cir. 2016), the Eleventh Circuit affirmed a ruling that architectural plans only infringed a copyright when unprotectable elements of the plans are filtered out from protectable elements and the respective protectable elements are substantially similar.

Medallion Homes Gulf Coast alleged that Tivoli Homes of Sarasota infringed Medallion's copyright in an architectural plan by obtaining a copy of the plan and subsequently building a home that was similar. The floor plans of Medallion and Tivoli were both four-bedroom, three-bathroom plans with a master bedroom on one end and three other rooms opposite. Medallion's plan had the master bedroom on the right while Tivoli's plans had the master bedroom on the left. Both plans had similar kitchen, dining room, and great room arrangements as well as two-car garages. However, the district court noted that, despite the similarity in sets of rooms and overall layout, these similarities were not copyrightable elements.

The court then noted numerous differences including dimensions, wall placement, and the presence, arrangement, and function of particular features around the house, such as doors, windows, and other fixtures. Further, while both the Tivoli and Medallion plans had two-car garages, the Tivoli garage plan had an air-conditioned hobby room outside the garage entrance, as well as different dimensions, inclusion of an attic access, and a different number and placement of windows and doors. The district court granted summary judgment based on the numerous differences when viewed at the level of protectable elements. The Eleventh Circuit affirmed the ruling.

- *Loomis v. Cornish, et al.*, No. 13-57093, 2016 U.S. App. LEXIS 16261 (9th Cir. 2016)

In 2012, Will Loomis sued Jessica Cornish, also known as Jessie J, alleging that the singer's hit song "Domino" copied a two-measure vocal melody from his song "Bright Red Chords." In 2016, the Ninth Circuit



upheld the district court's decision to grant summary judgment to Cornish, finding that Loomis did not put forth sufficient admissible evidence to establish that Cornish had access to his song.

Loomis argued that multiple intermediaries could have passed his song to Cornish or her songwriting team and put forth multiple theories. The Ninth Circuit noted, "[n]othing in the record shows the requisite nexus . . . except for Loomis' own speculation." The court also noted that there were only 46 documented sales of Loomis' recording. Since Loomis could not prove Cornish had access to his song with admissible evidence, the circuit court upheld the summary judgment decision.

- *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339 (Fed. Cir. 2014) and C-10-03561 WHA (N.D. Cal. 2016)

API packages are interfaces used by programs in communicating with one another. Many software developers write in the Java language, developed by Oracle's predecessor, and use Oracle's Java API packages, in developing applications for laptops, smartphones, and other devices. The API packages have two kinds of code: the declaring code is a short header identifying a task, while the longer implementing code contains the complete instructions to the device performing the task. In district court, Google obtained a judgment allowing it to use Oracle's Java API packages in developing Google's own Android mobile operating system. The district court held that the declaring code and overall structure were not subject to copyright protection.

The Federal Circuit disagreed with the district court, concluding instead that the declaring code was entitled to copyright protection. The merger doctrine did not preclude copyright protection, as there could exist many ways for Oracle to create the declaration code, and therefore the idea and expression do not merge. The court also held that the declaring code exhibited sufficient creativity to be copyrightable even though it consists of short phrases. The scenes a faire doctrine was held to be irrelevant to the verdict: Google, it found, improperly focused its scenes a faire claim on the circumstances presented to it rather than to Oracle, which represents a misunderstanding of the doctrine.

As to the structure, sequence, and organization of API packages, the court held that these structures, which are original and creative, merit copyright protection despite being functional. Oracle does not have copyright in the idea of organizing functions, but rather over its particular way of naming and organizing the 27 Java API packages at issue.

The court also held that the district court erred in invoking interoperability in its copyrightability analysis. Interoperability belongs instead in an analysis of fair use.

The district court jury hung on Google's fair use defense, and the Federal Circuit remanded the fair use matter for further proceedings, as the record does not contain sufficient factual findings on which the court could base a decision.

Also at issue were a specific computer routine called rangeCheck and eight decompiled security files. Google's copying of the nine-line rangeCheck code and the security files was held to be more than *de minimis*, and therefore the court affirmed the holding of infringement.

A jury trial on the question of fair use began in the Northern District of California on May 9 and concluded on May 23, at which time the jury received detailed and comprehensive jury instructions on fair use from the court for the jury's deliberations. On May 26, the jury reached a verdict that the Google use of the Oracle's software was a fair use.

On June 8, 2016, the court upheld the jury verdict in an Order Denying Rule 50 Motions. On September 29, 2016, the court denied a Rule 59 Motion and a second Rule 50 Motion alleging discovery misconduct.

- *Williams v. Bridgeport Music, Inc.*, No. CV13-06004 (C.D. Cal. July 14, 2015) (Minute Order addressing various post-trial motions, awarding injunctive relief for ongoing royalties, and reducing damages award)

Robin Thicke, Pharrell Williams, and Clifford Harris, Jr. (better known as "T.I.") filed a declaratory action in August 2013 to adjudicate allegations by the successors-in-interest to Marvin Gaye that "Blurred Lines" copied Marvin Gaye's "Got to Give It Up." Gaye's children, the current copyright owners of his music, filed counterclaims against Williams, Thicke, Harris, and a variety of recording companies and publishers. A conflict of interest cross-suit by the Gaye children against EMI-Sony/ATVE, which owned rights to both "Blurred Lines" and "Got to Give It Up," was settled in January 2014. A jury then decided the case in March 2015.

Jury Instruction No. 43 informed the jury that the Gaye children must show "both substantial 'extrinsic similarity' and substantial 'intrinsic similarity.'" Extrinsic similarity considers "the elements of each of the works" and the jury decides if the songs are substantially similar. Alleged similarities included such matters as: the "'Signature Phrase,' hook, 'Theme X,' bass melodies, keyboard parts, word painting, lyrics, [and] rap v. parlando." Instruction No. 43 stated that "[i]ntrinsic similarity is shown if an ordinary, reasonable listener would conclude ... total concept and feel of the [works] are substantially similar." A complete copy of Instruction No. 43 is provided below.

The jury cleared Harris of the infringement allegations against him but held Thicke and Williams liable. The jury held that the Gaye children suffered

\$4 million in actual damages and determined that Thicke and Williams realized profits attributed to their infringement in the respective amounts of \$1,768,191 and \$1,610,455. Statutory damages were additionally awarded for \$9,375, making Thicke and Williams liable for roughly \$7.4 million in damages.

In July 2015, the court granted the (alternative) motion of the Gaye children to receive 50% of future royalties paid to Thicke and Williams for ongoing use of the “Blurred Lines” composition, and reduced the jury damages award by approximately \$2 million.

Williams v. Bridgeport Music, Inc. Jury Instruction No. 43:

“INSTRUCTION NO. 43

In order for the Gaye Parties to meet their burden of proof to show by a preponderance of the evidence that there is substantial similarity between one of the Gaye Parties’ works and one of the Thicke Parties’ works, the Gaye Parties must show that there is both substantial “extrinsic similarity” and substantial “intrinsic similarity” as to that pair of works.

Extrinsic similarity is shown when two works have a similarity of ideas and expression as measured by external, objective criteria. To make this determination, you must consider the elements of each of the works and decide if they are substantially similar. This is not the same as “identical.” There has been testimony and evidence presented by both sides on this issue, including by expert witnesses, as to such matters as: (a) for “Got to Give It Up” and “Blurred Lines,” the so-called “Signature Phrase,” hook, “Theme X,” bass melodies, keyboard parts, word painting, lyrics, rap v. parlando; and (b) for “After the Dance” and “Love After War,” the chorus vocal melody and chords. The Gaye Parties do not have to show that each of these individual elements is substantially similar, but rather that there is enough similarity between a work of the Gaye Parties and an allegedly infringing work of the Thicke Parties to comprise a substantial amount.

Intrinsic similarity is shown if an ordinary, reasonable listener would conclude that the total concept and feel of the Gaye Parties’ work and the Thicke Parties’ work are substantially similar.

In considering whether extrinsic or intrinsic similarities are substantial, you may consider whether portions allegedly copied are either qualitatively or quantitatively important to either of the Gaye Parties’ works. A portion of a work is qualitatively important if, regardless of its size, it is shown to be very important to that work.

The copying of a qualitatively important portion of a work may support a finding of substantial similarity even if that portion is very short. A portion of a work is quantitatively important if it comprises a significant portion of the work.”

- *Paramount Pictures Corp. v. Axanar Prods., Inc.*, No. 15-cv-09938, Dkt. 43 (C.D. Cal. Jan. 3, 2017)

Paramount and CBS are the owners of Star Trek and its copyrights, which include hundreds of episodes of television, a dozen feature films, and novels and various merchandise. Axanar Productions released a short fan-film set in the Star Trek universe called *Prelude to Axanar*. Axanar is attempting, through crowd-funding platforms like Kickstarter, to produce a related feature film. Paramount Pictures sued to block production and release of the Axanar prequel. In January 2017, the District Court of the Central District of California denied both sides’ cross-motions for summary judgment. The primary focus of the court was on substantial similarity and fair use.

Prior to addressing the summary judgment motions, the district court addressed an amicus brief in support of Axanar filed by an institute called the Language Creation Society, on the specific issue of the copyrightability of the Klingon language specifically, and fictional languages generally. The Society argued that as a living and evolving language Klingon is not protectable under copyright law. Because the Court did not reach the copyrightability of individual elements of the Star Trek universe, it declined to review the brief.

The district court concluded that Axanar was not entitled to summary judgment based on fair use. The court stated that the Axanar work was not transformative but rather supplementary to the existing Star Trek universe. The Axanar use was commercial even though the movie would be freely distributed, because its distribution would provide indirect benefits to its creator. The Axanar work did not parody the Star Trek works. Further, being true to the Star Trek universe and storyline in detail entailed using a substantial portion of Star Trek’s copyrighted elements. Lastly, the court noted the prequel was the type of derivative that a copyright holder might create and therefore it hurt the copyrighted work’s market. The court found all four factors weighed against fair use.

Applying the Ninth Circuit’s two-part extrinsic and intrinsic substantial similarity tests, the court noted that there were objective similarities between the Star Trek films and the unauthorized screenplay of Axanar: the defendant centered its screenplay on the Star Trek character Garth, included Klingons and Vulcans throughout the story, set its story on Star Trek planets, referenced numerous overlapping plot points, and had a similar mood as a science-fiction military space drama. Given these

objective similarities, a jury should determine whether there were intrinsic similarities.

On January 20, 2017, the parties settled. The settlement allows Axanar to make no more than two additional films of a maximum of 15 minutes each that may be distributed without ads on YouTube.

- *Croak v. Saatchi & Saatchi, N. Am., Inc.*, 15 Civ. 7201, 2016 WL 1274713 (S.D.N.Y. Mar. 31, 2016)

In 1983 Croak, a visual artist, displayed a large multimedia sculpture depicting a taxidermied horse with wings attached bursting out of the roof of a lowrider car. Saatchi & Saatchi, an advertising agency, developed an ad campaign for Toyota's RAV-4 SUV in 2014 that featured a RAV-4 with an oversized pegasus stuffed animal strapped to the car. Croak sued, alleging copyright infringement. Croak could not copyright the idea of a winged horse, a car, or even the idea of combining them in some fashion. Thus, to prove infringement, he would have to demonstrate that Saatchi & Saatchi's expression of those ideas was "substantially similar" to his. The southern district of New York ruled, on a motion to dismiss by Saatchi & Saatchi, as a matter of law there was no substantial similarity between the two works and therefore no infringement.

The court noted that, despite a few superficially similar elements such as the presence of a large winged horse juxtaposed with a vehicle, no reasonable jury could find that the "total concept and overall feel" of the works was substantially similar. The court found meaningful differences in, among other elements, the horses (real albeit taxidermied versus a child's toy), vehicles (a "cool" lowrider versus a family SUV), and perhaps most importantly the overall tone of the works (cool and edgy versus playful and warm). Thus, the court reasoned an ordinary observer would not regard the aesthetic appeal of the works as the same or perceive Saatchi & Saatchi as having improperly copied Croak's expression.

- *Hayuk v. Starbucks Corp.*, No. 15CV4887, 2016 WL 154121 (S.D.N.Y. Jan. 12, 2016)

Maya Hayuk, a visual artist, brought a copyright infringement lawsuit against Starbucks in the southern district of New York. Hayuk alleged that Starbucks improperly copied her art for a promotional campaign. Hayuk's art style consists of brightly colored geometric shapes, and the ad campaign had a similar style. Hayuk argued that Starbucks infringed the "core" of her work, overlapping colored rays, and through the use of cropped and rotated pictures demonstrated some close similarities. The Court granted Starbucks' motion to dismiss, holding that there was no substantial similarity because Starbucks at most copied Hayuk's general style, which is not protectable. The court noted that colors and geometric

shapes are ideas in the public domain. Furthermore, any similarities to the cropped and rotated pictures were largely irrelevant because Starbucks did not copy the “total concept and feel” of the protectable parts of Hayuk’s work.

- *Gold Glove Prods., LLC v. Handfield*, No. 14-55797, 2016 WL 1553912 (9th Cir. Apr. 18, 2016)

On appeal from the central district of California, the Ninth Circuit upheld a grant of summary judgment in favor of the producers of the baseball movie “Trouble with the Curve.” Gold Glove Productions sued over the movie’s alleged similarities to its own unproduced screenplay “Omaha.” The court found that, while the two stories had some broad similarities (both were father-daughter baseball stories), the similarities were the sort of common storytelling scenes-a-faire that are not copyrightable. Thus both the district court and the Ninth Circuit, applying the “extrinsic test” for substantial similarity, found the more specific, protectable elements quite different as a matter of law.

- *Folkens v. Wyland (NFN)*, No. 2:14-cv-02197-CKD, 2016 WL 1375584 (E.D. Cal. Apr. 7, 2016)

Folkens, a marine researcher and the illustrator of a picture of two dolphins under the sea, sued Wyland for copyright infringement for Wyland’s allegedly similar painting, also of two dolphins under the water. However, a picture of two dolphins underwater is an unprotectable idea, and Folkens failed to identify any protectable elements in his illustration that Wyland’s picture resembled at all, much less one that passed the extrinsic and intrinsic tests for substantial similarity. As the court put it, “much like a narwhal’s tusk, Plaintiff’s arguments do not help it survive in the sea of Ninth Circuit precedent.”

- *Skidmore v. Led Zeppelin*, No. CV 15-3462, 2016 WL 1442461 (C.D. Cal. Apr. 8, 2016)

In May 2014, the Randy Craig Wolfe Trust filed a lawsuit contending that Led Zeppelin’s “Stairway to Heaven” (released in 1971) infringed the song “Taurus,” which the late Wolfe’s band Spirit released in 1967. In April 2015 a federal court in the central district of California denied summary judgment on the issue of whether “Stairway to Heaven” is substantially similar to “Taurus,” allowing the case to proceed to trial in June 2016. However, the court dismissed claims against all defendants that did not perform or distribute “Stairway to Heaven” before 2011 on statute of limitations grounds. The court also dismissed the Wolfe Trust’s somewhat fanciful claims for equitable relief based on “Right of Attribution” and “Falsification of Rock’n’Roll History.”

Trial in the case occurred in June 2016. The jury determined that the plaintiff owned the copyright to "Taurus," that Led Zeppelin members indeed heard it, but that there was no substantial similarity in the extrinsic elements of "Taurus" and "Stairway to Heaven." In August 2016, the defendants lost their bid to recover their attorney's fees.

## I. OTHER PUBLIC PERFORMANCE AND PUBLIC DISPLAY RIGHTS

- *Disney Enterprises Inc. et al. v. VidAngel Inc.*, No. 16-56843 (9th Cir. Dec. 15, 2016)

In December 2016, the Central District of California granted a preliminary injunction against VidAngel Inc. VidAngel is an unlicensed video-on-demand streaming service that allows users to filter objectionable content and stream a movie or television show after purchasing a physical copy through the service, which the purchaser can then sell back. Disney and three other major film studios filed suit alleging VidAngel violated their copyrights. The district court enjoined VidAngel from (1) circumventing technological measures protecting the studios' copyrighted works; (2) copying the studios' copyrighted works, including but not limited to copying the works onto computers or servers; and (3) streaming, transmitting, or otherwise publicly performing or displaying any of the studios' copyrighted works over the internet.

VidAngel engaged in a reformatting process known as "space-shifting," which involves decrypting DVDs or discs to upload onto a computer, circumventing the technological protections. The court found that the DMCA exempted those who would decrypt an encrypted DVD with the authority of a copyright owner from liability, not those who would view a DVD with the authority of the copyright owner. Therefore, VidAngel did not have authority to decrypt the DVD for the user.

Further, the studios asserted VidAngel violated their exclusive public performance and reproduction rights. The district court rejected VidAngel's argument that the Copyright Act did not prohibit "intermediate" copying. Although the intermediate copies were fragmented, they could be perceived directly by users through VidAngel's software. As for the public performance right, even if the purchasing arrangement created a valid ownership interest in the DVD, the court found the interest would only apply to the physical copy, not to the digital content VidAngel streams. Therefore, VidAngel was not transmitting a copyrighted program to those who act as owners or possessors as the user views the stream from a master copy stored on a server. Finally, the court disagreed with VidAngel's "fair use" defense as the altered works merely omitted a small percentage of what viewers found objectionable. VidAngel has appealed the injunction to the Ninth Circuit.

## J. 17 U.S.C. § 107: THE FAIR USE DEFENSE

Notwithstanding the provisions of Sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

- *Louis Vuitton Malletier S.A. v. My Other Bag Inc.*, No. 16-241-cv (2nd Cir. Dec. 22, 2016) (affirming district court summary judgment ruling), 156 F.Supp.3d 425 (S.D.N.Y. 2016)

In December 2016, the Second Circuit upheld a summary judgment ruling in favor of My Other Bag Inc. throwing out Louis Vuitton's claims for copyright infringement, trademark infringement, and trademark dilution. My Other Bag sold cheap canvas totes that parodied designer brands, including Louis Vuitton, with a cartoon image of the designer bag and the words "my other bag." The district court held that the fair use defense defeated Louis Vuitton's copyright claim. The Second Circuit affirmed this ruling, finding that the cartoon variations of designer bags used by My Other Bag were a "new expression and meaning" constituting transformative, non-infringing use. The court noted that the parodic slogan was a "joke on LV's luxury image" and played off the popular "my other car" bumper stickers in a humorous way. Agreeing with the district court's finding that the canvas totes were not replacements for Louis Vuitton's luxury handbags, the Second Circuit affirmed the decision.

- *Authors Guild, Inc. v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015)

In 2004, Google announced agreements with several major research libraries to digitally copy books in their collections. Since that date, Google scanned over twenty million books, delivered digital copies to participating libraries, created an electronic database of books, and made text available for online searching through the use of "snippets." Google did not obtain permission from the copyright holders for any of these usages of their copyrighted works. As a consequence, in 2005, plaintiffs brought this class action charging Google with copyright infringement. An Amended Settlement Agreement (ASA) was filed with the Court in November 2009. The Fairness Hearing took place on February 18, 2010, at which time parties, class members and objectors had an opportunity to



present their positions to Judge Chin. In April, groups of photographers and graphic artists filed their own separate class action suit against Google for use of their work in the Google Books project. This second class action case was assigned to Judge Chin as well.

On March 22, 2011, thirteen months after the February 18, 2010 'Fairness' hearing, Judge Chin rejected the ASA on five grounds:

- (1) Adequacy of Class Representation;
- (2) Scope of Relief and Scope of the Pleadings;
- (3) A Matter for Congress and Copyright Concerns;
- (4) Antitrust Concerns; and
- (5) International Law Concerns.

The court did not reject any settlement of the lawsuit, just the ASA as submitted. On May 31, 2012, Judge Chin issued an opinion denying Google's motion to dismiss and granting the individual plaintiffs' motion for class certification. On July 1, 2013, in a brief *per curiam* opinion, the Second Circuit vacated Judge Chin's opinion and remanded for consideration of the fair use issues. On November 14, 2013, Judge Chin granted summary judgment to Google on fair use grounds, essentially finding Google's use "highly transformative" and that the "significant public benefits" provided by the "invaluable research tool" of the Google Books database did not adversely impact the copyright owners.

On October 16, 2015, the Second Circuit affirmed Judge Chin's fair use decision and held in favor of Google on each of the four fair use factors. The court noted at the outset of its discussion that the ultimate goal of copyright is to benefit the public and expand knowledge and understanding.

For the first fair use factor, which examines the purpose of character of the secondary use, the Second Circuit confirmed Google's use was "highly transformative." The court also rejected the notion that Google's overall profit motivation prohibits a claim of fair use, noting that many of the most universally accepted forms of fair use, such as news reporting, are done commercially for profit.

For the second factor, which examines the nature of the copyrighted work, the Second Circuit reiterated that this factor is rarely dispositive. Looked at in isolation it favors neither party, but in combination with the first factor it slightly favors Google.

For the third factor, which examines the amount and substantiality of the copyrighted work used, the Second Circuit found Google's use of the copyrighted works as a transformative database necessitates the complete copying of the works. In other words, if Google copied less than the entire book into its library, the search function would be useless to its users. The court also noted that Google provides only discontinuous, tiny fragments at a time, amounting to no more than 16% of a book.

For the fourth factor, which examines the effect the secondary use will have on the copyrighted work's market, the Second Circuit recognized that the snippet function can cause some loss in sales. For example, loss of sales could occur when a researcher's need for a book is satisfied by Google's search function. However, the court found there was no "meaningful or significant effect" upon the market.

The Second Circuit also dismissed three other arguments by the plaintiffs. First, the court found plaintiffs had no derivative right in the application of the search and snippet function. Second, the court dismissed plaintiff's claim that Google's database exposed the copyrighted material to the risk that hackers might gain access to the material and disseminate it freely. The court noted that Google protects the material by using the same security measures it uses to protect its own confidential information. Finally, the court found Google's provision of digital copies to libraries that supplied the books, on the assumption the library would use them in accordance with copyright law, was not an infringing use.

The Author's Guild petition for cert. was denied on April 18, 2016.

- ● *TCA TV Corp. v. McCollum*, No. 16-134-cv (2d Cir. Oct. 11, 2016)

In the *McCollum* case, the Second Circuit rejected the Southern District of New York's dismissal of a copyright infringement action on fair use grounds over the use of a significant chunk of Abbott and Costello's seminal comedy routine "Who's On First?" in a Broadway play called *Hand to God*. In the play, a boy uses a puppet to do a part of the routine to impress his crush, but the puppet, which seems to develop a sinister life of its own during the play, undermines the boy. The Second Circuit ultimately upheld the plaintiff's motion to dismiss on grounds of copyright validity.

The Second Circuit rejected the fair use claim, holding that all four statutory factors of fair use weighted against the defense. The Second Circuit found the district court's analysis and finding of the play's use of the comedy routine as "high transformative" was flawed. The Second Circuit noted that the play "may convey a dark critique of society, but it does not transform Abbott and Costello's [r]outine so that it conveys that message." The play's performance of the routine verbatim for audience

recognition, the use of the routine in advertising, and the play's commercial purpose all weighed against a finding of fair use. The court stated that placing an unaltered original copyrighted work in a different context from its original does not warrant protection as a transformative use and rejected the district court's findings.

The Second Circuit affirmed the dismissal on the ground that plaintiffs had failed to plausibly plead ownership of a valid copyright, finding that the various contracts relevant to the routine's rights had resulted in the lapse of the routine's copyright, placing the work into the public domain.

## **K. DIGITAL MILLENNIUM COPYRIGHT ACT ("DMCA")**

### **1. Digital Millennium Copyright Act (17 U.S.C. § 512(a)-(d)).**

- Provides "safe harbor" from liability for online service providers;
- Required to comply with valid "take down" requests;
- Required to comply with valid DMCA subpoena requests;
- Required to maintain "repeat infringer" policy;
- Required to register DMCA Agent with Copyright Office;
- No duty to monitor site activities.

### **2. DMCA: Copyright Management Information.**

17 U.S.C. § 1202 prohibits removal of "copyright management information" knowing, or having reason to know, it will induce, enable or conceal infringement. "Copyright management information" ("CMI") is information provided in connection with copies, performances, or displays of a work, including in digital form:

- Name of author;
- Title and other identifying information about the work;
- Terms and conditions for use of the work;
- "Links" that refer to such information.
- *Friedman v. Live Nation Merch., Inc.*, No. 14-55302 (9th Cir. Aug. 18, 2016)

The Ninth Circuit revived Glen Friedman's, a well-known photographer of American subcultures, claims of willful copyright infringement against Live Nation Merchandise, the merchandising

division of a concert promoter, for using the photographer's images of the hip-hop group Run-DMC on t-shirts, a style guide, and a calendar. The court also reversed summary judgment for Live Nation on removal of copyright management information (CMI) and held that statutory damage awards for infringement are limited to only one award per infringed work.

Friedman took a series of photographs of Run-DMC in the 1980s and published his works in a book. Later, he granted Sony Music a license to reproduce some images accompanied by information indicating that Friedman owned the copyrights.

Live Nation claims that it typically enters into agreements, although not in this case, that artists retain final approval on images and that the artists are not suppose to provide approval if they do not have rights to specific images. Live Nation produced a style guide (collection of Run-DMC images), calendar, and t-shirts after receiving approval from Run-DMC with images from Friedman's book and Sony, but without seeking permission to use the images from Friedman.

Friedman alleged that Live Nation willfully committed the copyright infringement and that Live Nation removed the images' CMI in violation of the DMCA. Live Nation admitted that it had infringed Friedman's copyrights, but disputed the CMI Claim and contended that infringement was not willful or reckless. Friedman also sought statutory damages from Live Nation calculated by the amount of businesses that received infringed work from Live Nation. The district court rejected Friedman's calculation, ruling that Friedman's damages was limited to only one award per infringed work, and granted summary judgment in Live Nation's favor finding that there was no evidence that Live Nation removed CMI from the images or that Live Nation's infringement was willful.

On appeal, the Ninth Circuit found that a jury could reasonably conclude that Live Nation's approval procedures amount to recklessness or willful blindness. Next, the court clarified that a CMI claim does not just prohibit removal of CMI, but also prohibits distributing works where the party knows that CMI has been removed. The court noted Friedman presented evidence showing "striking similarity" between the works and Friedman's images in his book and on Sony's website and stated that a reasonable jury could decided that Live Nation knew the CMI had been removed. Lastly, the court affirmed the district court's ruling on statutory damages noting that statutory damages are limited to all infringements "involved in the action" (e.g. Live Nation) and does not include all downstream infringers unless they are parties to the action.

3. DMCA: Safe Harbor/Take Down Requirements.

Section 512 of the DMCA provides a safe harbor from liability for online service providers for infringing materials residing on their systems, provided that: 1) they have no actual knowledge that the material or activity is infringing, 2) they are not aware of facts from which infringement is apparent, and 3) they act expeditiously to remove or block access to the material upon obtaining knowledge or awareness of the infringement. To qualify under the safe harbor, the provider must:

- Designate an agent to receive notices of claimed infringement, register that agent with the Copyright Office and make the agent's name and contact information available through its services;
- Adopt a policy to terminate the membership of repeat infringers and notify users of that policy; and
- Accommodate and not interfere with "standard technical measures" identifying and protecting copyrighted materials.

Effective notification and counter notification of a claimed infringement must be in writing and must include substantially the elements set forth in sections 512(c) and (g) of the DMCA. Case law on safe harbor/take down issues has been sparse.

- *Hempton v. Pond5, Inc. et al.*, 3:15-cv-05696-BJR (W.D. Wash. Jan. 13, 2017)

Pond5, an online marketplace provider for digital media, obtained summary judgment in a suit brought by Gordon Hempton, self-described as "the world's preeminent nature sound recordist." Pond5's online market place uses a "crowd-sourced model" that allows artists and other media owners to upload digital media. Customers can obtain the rights to content royalty free by purchasing a license. Pond5 retains half the proceeds from the licensing fees, distributing the other half to media owners. Hempton brought a claim of copyright infringement arguing his material was being infringed on Pond5's website. In May 2015, Hempton emailed Pond5 to alert them of a "widespread piracy issue" he had discovered. A subsequent letter from his attorney identified the copyrighted materials at issue as well as a Pond5 user who had allegedly uploaded thousands of infringing files. The day after Pond5 received the letter it suspended the identified user's account and removed the allegedly infringing content from its website.

Hempton's primary argument rested in the safe harbor's requirement that Pond5 adopt and reasonably implement a repeat

infringer policy. The court found that Pond5's Terms of Use and Contributor Agreement, both of which users must accept before uploading content, satisfied this requirement. Although neither used the term "repeat infringer" each made clear Pond5 could terminate or limit access or use for copyright infringement and provided a "working notification system" and procedure for dealing with DMCA-complaint notifications. Pond5's suspension of the user within one day of Hempton's request evidenced reasonable implementation of the policy. Further, the license fees Pond5 received from the infringing user were not the type of financial benefit from infringement that disqualified Pond5 from safe harbor protection. On January 13, 2017, the district court denied Hempsted's motion for reconsideration.

- *EMI Christian Music Group, Inc. et al. v. MP3Tunes LLC et al.*, No. 14-4369, -4509 (2nd Cir. Oct. 25, 2016)

In October 2016, the Second Circuit reinstated a \$48 million verdict won by EMI Christian Music Group against MP3Tunes. Under the DMCA's Safe Harbor provision, websites must ban "repeat infringers"—users that repeatedly upload or download copyrighted content to the website—or lose the Safe Harbor's protection. The Second Circuit found that the district court applied "too narrow" a definition of "repeat infringer" to satisfy the repeat infringer requirement.

The district court ruled that the "repeat" provision only requires websites to terminate "blatant infringers" who "willfully infringe copyrights." The Second Circuit ruled that there was "no support in the text, structure, or legislative history of the DMCA" to set the requirement so low. The court vacated the district court's ruling on the "repeat" requirement and remanded the case for further proceedings.

- *Lenz v. Universal Music Corp.*, 801 F.3d 1126 (9th Cir. 2015)

In February 2007, Stephanie Lenz uploaded a 29-second video to YouTube that led to this action. The video is of her two young children dancing in the family kitchen with a Prince song playing in the background. At that time, Universal was responsible for enforcing Prince's copyrights. An assistant in Universal's legal department was tasked with searching YouTube videos for potential unauthorized uses of Prince's songs. That assistant found the video and sent YouTube a DMCA takedown notification. YouTube subsequently removed the video in early June and notified Lenz of the removal, who responded with a counter-notification. Universal contested this counter-notification, but

eventually the video was reinstated in mid-July. Lenz filed her initial action on July 24, 2007 and after amending her complaint, the district court allowed her claim for misrepresentation under § 512(f) to continue.

Under the DMCA, service providers such as YouTube may avoid liability for posting copyrighted works if they field DMCA takedown requests and “expeditiously” work to remove infringing content. Section 512 outlines the requirements of sending a DMCA takedown notice. One such requirement is “a statement that the complaining party has a good faith belief that the use of the material . . . is not authorized by the copyright owner . . . or the law.”

In order to form this “good faith belief,” the Ninth Circuit held that someone must consider fair use before sending a DMCA takedown notice. The court noted fair use is different from other traditional affirmative defenses. Fair use has been codified under § 107 and while labeled as an “affirmative defense,” fair use is not actually a defense to infringement. Rather, the fair use of copyrighted material is similar to the licensing of protected material in that it is not an infringing use at all. Thus, it is authorized by law. This was an issue of first impression in any circuit across the nation.

Second, the Ninth Circuit turned to the § 512(f) claim and found that it was for the jury to decide whether Universal subjectively formed a good faith belief that the video was not authorized by law, i.e., did not constitute fair use. Section 512(f) makes liable “any person who knowingly materially misrepresents . . . that a material . . . is infringing.” Lenz argued Universal did not consider fair use at all before sending a takedown request and thus should be liable. Universal argued that its procedures were tantamount to considering fair use. In reaching a decision, the Ninth Circuit confirmed the proper inquiry should focus on Universal’s subjective intent, but held that it was up to the jury to determine whether Universal formed that subjective good faith belief. If so, Universal would not be liable for violating § 512(f).

Third, the Ninth Circuit rejected the district court’s conclusion that Lenz could continue forward under the willful blindness doctrine. Willful blindness exists when the defendant (1) subjectively believes that there is a high probability that a fact exists and (2) takes deliberate action to avoid learning of that fact. If Universal acted willfully blind, it would be in violation of § 512(f). The district court allowed Lenz to continue under this theory in finding that Universal failed to provide evidence that it lacked willful blindness. However, the Ninth Circuit said the burden was on Lenz to initially provide

sufficient evidence from which a juror could infer Universal was willfully blind. Because Lenz failed to do so, the court did not allow this theory to advance. Lenz could still proceed under an actual knowledge theory though.

Finally, the Ninth Circuit confirmed that a plaintiff may seek recovery of nominal damages for a § 512(f) injury. Universal argued Lenz must show actual monetary loss to continue but the court noted the statute provides for the recovery of “any damages.” Judge Smith issued an eight-page partial dissent and concurrence in the judgment questioning whether the focus should be on Universal’s subjective good faith belief and also questioning whether the willful blindness doctrine is relevant to analyzing the § 512(f) claim.

Universal has petitioned for certiorari. As of January 2017, the Supreme Court has requested that the solicitor general file a brief expressing the government’s views on whether it should take the case.

- *BMG Rights Mgmt. (US) LLC v. Cox Communications, Inc.*, No. 1:14-cv-1611 (E.D. Va. Aug. 8, 2016)

A federal court in the Eastern District of Virginia ruled that Cox was not entitled to use the safe harbor provisions under the DMCA. BMG claimed that Cox was vicariously and contributorily liable for acts of direct copyright infringement by Cox’s internet users. Users were allegedly sharing digital music files through BitTorrent that contained BMG’s copyrighted material. BMG employed a third-party company that would identify potential infringing uses of BMG’s copyrighted material and subsequently send notices to websites. The company allegedly sent 2.5 million notices to Cox regarding material its users were downloading. Cox failed to forward or respond to these notices and eventually blocked the third-party from sending further notices.

Cox sought to use the safe harbor provisions under § 512(a), which limit liability for service providers. However, the judge ruled on a partial summary judgment that Cox failed to reasonably implement a policy to terminate the accounts of repeat offenders, as required under § 512(i) of the safe harbor provisions. Shortly after this ruling, a jury found Cox liable for \$25 million in damages for contributory infringement. On August 8, 2016, the federal judge firmly upheld the jury decision.

- *Couponcabin, LLC v. Savings.com, Inc.*, No. 2:14-CV-39-TLS, 2016 WL 3181826 (N.D. Ind. June 8, 2016)



Couponcabin, a provider of online, printable grocery coupons, brought state and federal claims against Savings.com, Cox Target Media, Linfield Media, Internet Brands, and Sazze (collectively, “Defendants”) for violations of the Digital Millennium Copyright Act (“DMCA”) 17 U.S.C. § 1201, among other claims. Couponcabin alleged that the Defendants violated the DMCA by engaging in scraping programs that systematically acquired data from Couponcabin’s website, in violation of its Terms and Conditions.

In 2013, Couponcabin noticed an increase in its unique content appearing on competitors’ websites, and launched an investigation into the matter. The investigation allegedly uncovered that the Defendants were using scraping programs to acquire data from Couponcabin’s website. In response to the scraping, Couponcabin hired a third-party security provider to implement technological safeguards and barriers, which included blocking access to all traffic emanating from certain cloud and internet providers identified as being used heavily by the Defendants. Couponcabin also communicated with all but one of the Defendants, demanding that they cease and desist the scraping programs. When the alleged scraping continued, Couponcabin brought action against the Defendants. On January 15, 2016 the Defendants filed a motion to dismiss for failure to state a claim under the DMCA, among other motions.

The court granted the Defendants’ motion to dismiss for failure to state a claim because Couponcabin failed to plead sufficient facts to show that its copyrighted work was “effectively controlled” by a technological measure, as is required by the DMCA under §§ 1201(a)(1)(A) and 1201(a)(2). *Chamberlain Group v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004). The court explained that a “technological measure effectively controls access to a work if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.” § 1201(a)(3)(B). Here, although Couponcabin implemented some technological safeguards and barriers to its website, the website remained accessible to users that had not been blocked by the safeguards. This was evidenced by Couponcabin’s allegation that the Defendants continued to access its website using a variety of servers and internet providers. Therefore, the copyrighted work had not been “effectively controlled” by a technological measure as is required under the DMCA. Accordingly, the court dismissed the complaint without prejudice, with leave for Couponcabin to refile if it could successfully amend its complaint within 14 days of the date of the Order.

- *BWP Media USA, Inc. v. Clarity Digital Group, LLC*, No. 15-1154, 2016 WL 1622399 (10th Cir. Apr. 25, 2016)

BWP, the owner of the rights to photographs of various celebrities, sued Clarity (now known as AXS Digital Media Group), the operator of a news website called Examiner.com, for the unauthorized use of 75 of its photos. Examiner.com's business model relies on various freelance writers contributing content under an independent contractor agreement that explicitly forbids them from using unauthorized copyrighted material, and all of the photos at issue were uploaded as part of these freelance articles. On summary judgment, the district of Colorado ruled that the DMCA's safe harbor provisions applied to Examiner.com because all of the copyrighted material was uploaded by freelance writers and not the ISP itself.

BWP appealed to the Tenth Circuit, arguing that the contributing writers were not "users" under the DMCA because they worked for AXS and thus the safe harbor provisions of the DMCA did not apply. The Tenth Circuit disagreed and affirmed the district court's judgment, holding that the contributing writers were not employees or agents and that independent contractors or contributors are generally "users" under a plain-language reading of the DMCA because they "use" the website. Because all of the other requirements of the DMCA were met, most importantly that AXS did not direct or encourage the posting of the infringing content, AXS qualified for the safe harbor.

- *BWP Media USA, Inc. v. T&S Software Assocs., Inc.* 3:13-CV-2961-BF, 2016 WL 1248908 (N.D. Tex. Mar. 25, 2016)

In the *T&S* case, BWP sued T&S Software Associates for direct and vicarious copyright infringement. T&S operates a website that hosts celebrity-discussion forums. On these forums, users often upload pictures of celebrities, several of which were copyrighted photographs owned by BWP. T&S explicitly forbade users from uploading copyrighted content in its terms of use, and removed copyrighted images once made aware of them. However, T&S failed to designate a DMCA agent as required by the statute. On summary judgment, the northern district of Texas found for T&S on both causes of action. The court held that there was no direct infringement because the pictures were user submitted, and no vicarious infringement because BWP did not provide evidence showing that T&S directly profited from the infringing conduct, despite the presence of traffic-based online advertising on the forum.

The case is on appeal to the Fifth Circuit.

- *BWP Media USA, Inc. v. Polyvore, Inc.*, No. 13-CV-7867 (RA), 2016 WL 3926450 (S.D.N.Y. July 15, 2016)

BWP, the owner of a variety of celebrity photographs, sued Polyvore, the operator of a style website, for the unauthorized use of some of BWP's copyrighted photographs. In a prior action the court denied Polyvore's motion to dismiss because of the factual nature of BWP's claims. BWP had raised an interesting legal issue as to whether the preservation of metadata, which allowed BWP to identify its photographs on other websites and which Polyvore purportedly deleted, is a "standard technical measure" that Polyvore must accommodate and not interfere with in order to invoke the safe harbor provisions of the Digital Millennium Copyright Act ("DMCA") as an affirmative defense. However, in the interim between this case and the prior action BWP did not conduct any depositions or appear to participate in discovery in any meaningful way. Therefore, despite the interesting legal question at hand, the court held that BWP did not meet its initial burden to present proof of any volitional conduct by Polyvore, and thus failed to establish a prima facie case of copyright infringement. Polyvore's motion for summary judgment was granted.

#### 4. DMCA Registration Renewal

On October 31, 2016, the U.S. Copyright Office issued a new rule instituting an electronic system for the designation of copyright agents, which is required to take advantage of the safe harbor from copyright infringement for online service providers under 17 U.S.C. § 512(c). For purposes of § 512, any entity that provides an online service (such as a website, email service, discussion forum, or chat room) generally would qualify as an online service provider. A copyright agent is typically the individual at the online service provider for which contact information is provided in order to receive the various notices provided under § 512.

Under the new system, which takes effect on December 1, 2016, all online service providers seeking safe harbor under § 512(c), including those that have previously designated an agent with the Copyright Office, are required to submit designations through the electronic system. Entities that previously designated a copyright agent via the paper system must submit a new designation through the electronic system by December 31, 2017. Failure to do so will negate the safe harbor from copyright infringement liability established by § 512(c). Designations also must be renewed at least once every three years. (The current paper-based system does not require renewal.) The fee for registration and subsequent renewal(s) is set at US\$6 per designation.

Designating an agent through the electronic system requires creating an online account with the U.S. Copyright Office and providing information similar to what is required under the current paper-based system (e.g., name and address of the service provider and agent contact information), but with some differences. As before, service providers must provide a physical address and cannot use a P.O. Box, however, now a P.O. Box may be used for a service provider's agent. An agent's name does not need to be an actual individual's name and instead a department within the service provider's organization or a third-party entity is acceptable.

Separate legal entities that wish to take advantage of the safe harbor must each file separate designations for each entity. However, a single U.S. Copyright Office account can be used to register and manage designations for multiple service providers (e.g., a parent company may manage designations for its subsidiaries through a single account, but each must register separately).

The current paper-based registration allows but does not require service providers to include "alternative names," such as names under which the service provider is doing business. Under the new system, service providers must list "all alternate names that the public would be likely to use to search for the service provider's designated agent in the directory, including all names under which the service provider is doing business, website names and addresses (i.e., URLs, such as "\_.com" or "\_.org"), software application names, and other commonly used names."

To reemphasize the point stated above, the new DMCA electronic copyright agent system will fully replace the paper-based system. Beginning December 1, 2016, the Copyright Office will no longer accept paper designations. Previously filed paper designations will continue to satisfy the service provider's statutory obligations under § 512(c) until the service provider registers electronically, or through December 31, 2017, whichever occurs earlier. New designations should be filed on December 1, 2016, or as soon as possible thereafter. For more information on the new copyright agent requirements, see <http://www.copyright.gov/rulemaking/onlinesp/NPR/index.html>.

## **L. OTHER DEFENSES/EXEMPTIONS**

### **1. Statute of Limitations and Act-of-State Doctrine.**

- *Geophysical Serv. Inc. v. ConocoPhillips Co.*, No. CV H-15-2766, 2016 WL 2839286 (S.D. Tex. May 13, 2016), *on reconsideration*, No. CV H-15-2766, 2016 WL 3974834 (S.D. Tex. July 25, 2016)

Geophysical Service Incorporated (GSI)'s copyright infringement claims against ConocoPhillips Company (Conoco) were dismissed

as time-barred, barred under act-of-state doctrine, and insufficiently pleaded. GSI provides seismic data services to the gas and oil industry. In Canada, GSI is required to submit its data to a regulatory agency, the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB). After ten years, the CNSOPB will share the data with third parties when they request it.

GSI claimed that Conoco committed contributory infringement by requesting copies of GSI's data from CNSOPB and direct infringement by subsequently copying it and creating derivative works. To sustain a contributory infringement claim, GSI needed to prove that Conoco encouraged an act of direct infringement. Under the act-of-state doctrine, United States courts do not evaluate the legality of foreign governments' actions. The court concluded that CNSOPB, as a foreign state actor, could not be adjudged to have committed direct infringement. The court granted Conoco's motion to dismiss the contributory infringement claim because without an act of direct infringement, Conoco could not have committed contributory infringement. The court also found that the statute of limitations had run on the contributory infringement claim.

For the direct infringement claim, the statute of limitations is three years. The court applied the discovery rule, which states that claims accrue when the infringement is discovered or when they should have been discovered through reasonable diligence. A Canada court concluded in a 2003 case that organizations that submit data to the CNSOPB, like GSI, are entitled to know which entities requested their data. So GSI was free to request the list of organizations that sought its data since 2003, but it did not request the list until nearly a decade later. The court concluded that GSI should have discovered Conoco's alleged infringement by 2003. However, each act of infringement starts the three year statute of limitations afresh. So when GSI filed suit in 2015, any infringement that occurred in the three preceding years was still within the statute of limitations. The court dismissed GSI's direct infringement claims for anything before 2012 as time-barred, but any claims of infringement that occurred between 2012 and 2015 were timely.

Ultimately, the court dismissed even the timely claims. It found that GSI's complaint did not demonstrate that there were any ongoing acts of infringement after 2012. The court was not convinced that Conoco had any reason to continue to copy or create derivative works from decade-old data.

## 2. Public Domain.

- *Am. Soc’y for Testing & Materials v. Public.Resource.Org, Inc.*, No. 13-CV-1215 (TSC), 2017 WL 473822 (D.D.C. Feb. 2, 2017)

Various private industry standards- setting groups sued Public.Resource.Org Inc., an organization committed to expanding access to legal materials. Public.Resource.Org purchased copies of the plaintiffs’ documents that were incorporated into government regulations, and posted them online for the public to freely view and copy. Public.Resource.Org argued that under Section 105 of the Copyright Act, documents incorporated into law should not receive copyright protection. The District Court for the District of Columbia disagreed.

Public.Resource.Org argued Section 105, which provides that government-authored works do not receive copyright protection, should apply to privately created documents that are incorporated into government laws or regulations. The court rejected this argument noting, that government officials or employees did not author the documents, in contrast to the authorship of court case decisions or statutes or regulations. The court noted there might be a public interest in providing greater access to these works, but that was an argument more appropriate for Congress rather than the courts.

Public.Resource.Org’s additional arguments failed to sway the court. The district court noted that the documents, despite being titled a “method” or a “system”- which are not protected by copyright - were copyrightable because they contained commentary and explanations that meet the “extremely low” creatively requirements for protection. Additionally, the court found the claim that the public has a due process right to “access text of ‘the law’” was unpersuasive noting that there is no requirement that laws and regulations must be accessible online at no cost. The district court noted that the materials were publicly available for review, and that copies could be purchased. The court granted summary judgment in favor of the plaintiffs regarding the copyright infringement claim. The court also rejected the defendant’s fair use arguments.

- *Warner Bros. Entm’t, Inc. v. X One X Prods.*, No. 15-3728 (8th Cir. Nov. 1, 2016)

In November 2016, the Eighth Circuit upheld a permanent injunction prohibiting X One X Productions from licensing images related to the films “Gone with the Wind” and “The Wizard of Oz,” and the cartoon “Tom and Jerry.” Warner Bros. holds registered copyrights, as well as common law trademarks, in images, characters, words, names, phrases, and symbols related to those

productions. X One X extracted images of famous characters in the productions from old movie posters and lobby cards, which were uncopyrighted publicity materials in the public domain. X One X licensed the extracted images for use on various consumer products (e.g., shirts, lunch boxes, action figures, etc.). Warner Bros. filed suit in 2006 and in 2009, the district court granted Warner Bros. summary judgment on its copyright infringement claims and entered a permanent injunction prohibiting X One X from using the images “in any way except for exact duplication of publicity materials in the public domain.”

On its first appeal, the Eighth Circuit affirmed in part and reversed in part. The court noted that reproducing an image from a publicity material item in the public domain as an identical two-dimensional image does not violate copyright laws. However, the court found (i) products that juxtapose an extracted image with another extracted image from elsewhere in the publicity materials or adding a printed phrase from the book underlying the subject film to create a new work and (ii) products that extend an extracted image into three dimensions constitute copyright infringement. On remand, the district court awarded statutory damages in the amount of \$2.57 million.

On its second appeal, the Eighth Circuit rejected assertions that the award of damages violated X One X’s Seventh Amendment right to a jury trial and the amount awarded did not comport with due process. The Eighth Circuit rejected both assertions, noting that a Seventh Amendment argument was not raised during the first appeal and was therefore improper. Additionally, the court noted that the damages award of \$10,000 per infringed work was not obviously unreasonable based on the decade of litigation, during which X One X did not cease or limit its infringing activity. Furthermore, the Eighth Circuit rejected X One X’s arguments regarding trademark infringement and unfair competition claims and upheld the court’s previous rulings.

- *Good Morning to You Prods. Corp. et al. v. Warner/Chappell Music Inc. et al.*, No. 2:13-cv-04460, in the U.S. District Court for the Central District of California (*Rupa Marya et al. v. Warner/Chappell Music, Inc. et al.*, 2015 U.S. Dist. LEXIS 129575 (C.D. Cal. Sept. 22, 2015))

In June 2013, Marya, a documentary filmmaker (Good Morning to You Productions), filed a class action complaint against Warner/Chappell Music Inc. seeking a declaratory judgment to have “Happy Birthday” placed into the public domain. The complaint notes that the song was initially composed in 1893, with

the title “Good Morning to All” and alleges that any valid copyright in that song expired no later than 1921 and that the only rights Warner/Chappell controls are for specific piano arrangements published in 1935, as the song itself was put into fixed form long before that. If the suit is not successful, “Happy Birthday” could remain protected under copyright law until 2030. The melody of “Happy Birthday” is the same as another song, “Good Morning to All,” which was authored by two sisters, Mildred and Patty Hill, around 1893. This dispute focuses primarily on the lyrics of the song as both parties agree that any copyright protection in the melody of Happy Birthday expired in 1949.

Warner/Chappell argued the Hill sisters authored the lyrics to “Happy Birthday” around 1893 and held onto the common law rights to the song for years until transferring them to Summy Co., which subsequently registered the copyright in 1935. There was a dispute over this 1935 registration when the Hill sisters sued Summy Co. in 1942. That suit was settled in 1944, resulting in the Hill sisters assigning Summy Co. all eleven of their registered copyrights, including the 1935 registration. Warner/Chappell later acquired Summy Co.

The district court found the 1935 registration by Summy Co. to be insufficient to establish a presumption that Warner/Chappell owned a valid copyright. Specifically, the registration sought to cover a piano arrangement and listed “Preston Ware Orem” as the author. Both parties agreed Orem is not the author of the lyrics. Further, the court found that Warner/Chappell could not establish who authored the lyrics to “Happy Birthday” and whether that author properly transferred any rights. Accordingly, the district court granted summary judgment in Marya’s favor and held Warner/Chappell did not have a valid copyright in the lyrics.

This decision opened up Warner/Chappell to the potential of losing millions in class action damages because it had been charging licensing fees to filmmakers and others who wanted to use the song. However, Warner/Chappell entered into a final settlement with the plaintiffs on December 9, 2015, that provided for \$14 million in payments to those prior licensees, as made public on February 9, 2016.

3. Sovereign Immunity.

- *Wolf v. Oakland Univ. Board of Trustees et al.*, No. 2:15-13560, U.S. Dist. LEXIS 167268 (E.D. Mich. Dec. 5, 2016)



A Michigan federal judge granted partial summary judgment in favor of defendant Oakland University, a public university operated by the State of Michigan, on grounds of sovereign immunity but kept two other defendants in a copyright infringement action. The plaintiff alleged defendants violated the Copyright Act by using her copyrighted written curriculum without permission or payment. The court conducted an extensive analysis of Fifth Circuit pronouncement in *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000) that Section 501(a) and 511 of the Copyright Act were an improper exercise of Congressional legislative power to abrogate state sovereign immunity. The Michigan judge adopted the reasoning of *Chavez*, concluding Congress failed to act pursuant to a valid exercise of legislative power when it sought to abrogate state sovereign immunity in Section 501(a) and 511 of the Copyright Act. Because Michigan had not waived sovereign immunity, the judge found Oakland University entitled to sovereign immunity from infringement claims. As for the two individual defendants, the judge utilized the “course of proceedings” approach to determine that they had been sued in their individual, not official, capacities. The case is currently ongoing.

- *Regents of the Univ. of Cal. v. Aisen*, No. 15-cv-1766-BEN, 2016 WL 1428072 (S.D. Cal. Apr. 12, 2016)

The Southern District of California held that the University of California had waived any sovereign immunity defense from cross-claims when that entity voluntarily brought claims in state court and the case was properly removed to federal court. The underlying case involves a researcher (Aisen) who for many years conducted Alzheimer’s research at the University of California at San Diego (UCSD). In 2015, the University of Southern California (USC) successfully courted Dr. Aisen and members of his research team, and Dr. Aisen took much of his research, and a related computer program, to USC, which prompted UCSD to sue.

Though UCSD sued in state court and explicitly alleged only state law claims (mostly varieties of tortious interference and violations of duties), much of the case depended on who owned Dr. Aisen’s research and the computer program. This necessarily depended on federal copyright law and specifically the work-for-hire doctrine, and Dr. Aisen removed the case to the Southern District of California. The court subsequently ruled this was a proper removal. Once in federal court, Dr. Aisen brought counterclaims, and the court ruled that UCSD’s sovereign immunity defense was waived because UCSD had brought the suit in the first place, albeit in state court. The case is ongoing.

4. De Minimis Copying.

- *VMG Salsoul, LLC v. Ciccone*, Nos. 13-57104 & 14-55837, 2016 WL 3090780 (9th Cir. June 2, 2016)

Setting music sampling up for a potential U.S. Supreme Court battle, the Ninth Circuit sided with Madonna Louise Veronica Ciccone and her producer (Shep Pettibone) in emphatically rejecting the Sixth Circuit's bright-line rule that all unlicensed sampling constitutes copyright infringement. *Cf. Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005).

Music sampling, which is common in some musical genres, is the use of snippets from a sound recording—often altered or enhanced in some manner—in a new sound recording. In *Ciccone*, the Ninth Circuit affirmed the district court's grant of summary judgment in favor of defendants Madonna, Pettibone and their associated record labels, music publishers and distributors on the grounds that—contrary to the Sixth Circuit rule set forth in *Bridgeport*—the de minimis exception to copyright infringement applies to sound recordings just as it does to other types of copyrighted works. The court also recognized that under prior precedent, the de minimis exception precluded a finding that the sampling infringed the underlying musical composition. The samples in question were “horn hits” (punctuation-like snippets of horn section chords) that lasted, respectively, less than a second and less than a quarter-second, and the court found that the average listener was unlikely to recognize their source.

While the sampled horn hits in *Ciccone* were very short and not central to the allegedly infringing song, that was not dispositive. Rather, under U.S. law a “use is de minimis only if the average audience would not recognize the appropriation”—in other words, only if “ordinary observations would cause [the sample] to be recognized as having been taken from the work of another.” This is because “the plaintiff’s legally protected interest” is “the potential financial return... which derive[s] from the lay public’s approbation of his efforts.” *Ciccone* at \*4.

The Ninth Circuit noted that Madonna had taken the samples from only one track (the horns) rather than taking an “entire... temporal segment” of the original song and emphasized the ways in which the producer had digitally altered the sound of the horns. (among other changes, the horn hits were transposed into a different key, truncated to make them “punchier,” and combined with other sounds and effects). *Ciccone*, at \*5–6. A defendant’s digital alteration of the sample is likely to be relevant in many future U.S.

sampling cases because, as one musicologist who has served as an expert in such cases has observed, “samples are rarely used unaltered.... [an] important ethic for many producers is to ‘flip’ or transform the sample in some way in order to show their own creativity.” Alexander Stewart, “Been Caught Stealing: A Musicologist’s Perspective on Unlicensed Sampling Disputes”, 83 UMKC L. Rev. 339, 342 (2014).

The Ninth Circuit also supported its finding that the sample was unrecognizable as to source by discussing the fact that “Plaintiff’s primary expert originally misidentified the source of” one of the two horn hits, opining that it came from a different part of plaintiff’s song and later corrected his opinion after obtaining masters of the accused Madonna song and listening to the horn track separately. Because the standard is whether the average listener can recognize the sample, such a mistake by “a highly qualified and trained musician listening... with the express aim of discerning which parts of the song had been copied” permitted a finding of no infringement as a matter of law. *Id.* at \*6.

The Ninth Circuit broadly attacked the Sixth Circuit’s reasoning in *Bridgeport*. First, the court explained that the Sixth Circuit’s approach to statutory analysis was a “logical fallacy.” *Id.* at \*7–10 (stating, inter alia, that “Bridgeport ignored the statutory structure and § 114(b)’s express limitation on the rights of a copyright holder”). Second, the court rejected *Bridgeport*’s reasoning that sampling involves a “physical taking rather than an intellectual one” and thus even trivial takings have value. *Id.* at \*11 (“the possibility of a ‘physical taking’ exists with respect to other kinds of artistic works,” such as photographs, “to which the de minimis rule applies”). Finally, the court recognized that “a deep split among the federal courts already exists” because “almost every court not bound by [*Bridgeport*] has declined to apply” its bright-line rule. The Ninth Circuit vacated an award of attorney’s fees to defendants because the plaintiff’s claim was premised on a legal theory “adopted [in *Bridgeport*] by the only circuit court to have addressed the issue” and thus was “objectively reasonable.”

## M. REMEDIES

### 1. Damages/Injunction Post eBay.

- *De Fontbrune v. Wofsy*, No. 14-15790, 2016 U.S. App. LEXIS 17477 (9th Cir. 2016)

In 2001, the Paris Court of Appeals held Alan Wofsy, an American art editor, liable for infringement for reproducing copyrighted

images of the works of Pablo Picasso owned by Yves Sicre de Fontbrune. The Paris Court of Appeals ordered Wofsy to pay 800,000 francs in damages, enjoined him from using the images, and entered an “astreinte”—a French term with no direct translation—of 10,000 francs. In 2012, Wofsy violated the 2001 judgment and a Paris court awarded de Fontbrune an astreinte of €2 million.

To enforce the judgment, de Fontbrune sued in California, where the definition of astreinte became a crucial issue. Wofsy argued that the astreinte is a penalty and therefore not collectable under the U.S. Uniform Recognition Act, while de Fontbrune argued that an astreinte could be considered damages. After considering expert declarations from both parties, the district court judge ruled that the astreinte was a penalty and dismissed the suit. In September 2016, the Ninth Circuit rejected the district court judge’s interpretation and held that de Fontbrune can continue his suit to enforce the astreinte.

## 2. Attorney Fees (and Statutory Damages).

- *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375, 568 U.S. \_\_\_ (June 16, 2016); No. 1:08-cv-07834 (S.D.N.Y. Dec. 21, 2016) (remand declining attorney fees)

In 2013, the U.S. Supreme Court determined that Supap Kirtsaeng, a Thai citizen, had the right to resale foreign-made books under the first-sale doctrine. Following that case, Kirtsaeng attempted to recover substantial attorney fees from Wiley pursuant to 17 U.S.C. § 505. There, the Copyright Act provides that reasonable attorney fees may be provided to the prevailing party. Kirtsaeng argued that special consideration should be given when considering whether a lawsuit resolved an important and close legal issue. Conversely, Wiley urged that the objective reasonability of the losing argument should be the primary factor in which a district court determines whether fees should be awarded to the prevailing party. Both the District Court and the Second Circuit dictated that the objective reasonableness of Wiley’s position prevented Kirtsaeng from recovering attorney fees. Cert. was granted.

The Supreme Court held that when determining whether to award attorney fees, under 17 U.S.C. § 505, the District Court should give substantial weight to the objective reasonableness of the losing party’s position, but that weight should not be controlling. The Court reasoned (adopting Wiley’s approach) that giving considerable weight to objective reasonability balances the potential for the pursuit of trial. Parties with strong positions remain

likely to go forward with their petitions, while those with weak positions are deterred from continuing to appeal. Additionally, the Court rejected Kirtsaeng's proposal outright, stating that the result of enforcing a fee-shifting policy would return mixed results, at best. The fee-awards would only serve as enticement to adventurous parties, and discourage parties whose cases may be on either side of a close legal issue. Regardless of the preferred argument, the Court found that the language of the Second Circuit raised a presumption against granting fees, while still properly calling for the district courts to give substantial weight to the reasonableness of a losing party's position. The Supreme Court vacated and remanded the case to District Court, so they could take all other relevant factors into account in addition to the objective reasonableness of the losing party.

On December 21, 2016, the district court ruled that fees were not warranted in the case because Wiley's position was objectively reasonable and not frivolous. The judge noted that the "litigation, looked at holistically and in light of the Copyright Act's goals, does not favor an award of attorneys' fees to Kirtsaeng, even though he is indisputably the prevailing party."

## **N. PREEMPTION**

- *Ultraflo Corp. v. Pelican Tank Parts Inc. et al.*, No. 15-20084 (5th Cir. Jan. 11, 2017)

In January 2017, the Fifth Circuit affirmed a district court's dismissal of a state-based trade secrets claim finding that the general scope of federal copyright law preempted the claim. Ultraflo accused Pelican Tank Parts and a former employee of using stolen drawings of a valve design to design a competing product. Ultraflo brought a claim for unfair competition by misappropriation and argued that its claim avoids preemption because its valve design, when separated from the drawing itself, is afforded no protection under the Copyright Act. The Fifth Circuit agreed that the Copyright Act did not protect the valve design but held that the Copyright Act broadly preempts state laws that fall within the scope of copyright, regardless of whether the design actually is afforded copyright protection. The Fifth Circuit noted that because the Copyright Act excludes ideas in useful articles from protection, a state law cannot undermine such a "deliberate exclusion."

- *GlobeRanger Corp. v. Software AG U.S.A., Inc.*, No. 15-10121, 2016 U.S. App. LEXIS 16429 (5th Cir. 2016)

In 2011, GlobeRanger Corp. filed claims for conversion and trade secret misappropriation in state court. Software AG removed the case from state

court to the District Court for the Northern District of Texas. The district court dismissed the conversion claim and granted a \$15 million judgment on allegations of trade secret misappropriation. Software AG appealed, arguing that the Copyright Act preempted GlobeRanger's trade secret claim and, in the alternative, the court lacked subject matter jurisdiction. The Fifth Circuit affirmed the district court's ruling, finding subject matter jurisdiction and no preemption.

On appeal, Software AG argued that federal copyright law preempted GlobeRanger's trade secret claim. The Fifth Circuit reasoned that trade secret claims seek to protect different rights than those protected under federal copyright law. The court explained that the claims are not based on Software AG's copying of GlobeRanger's technology, but that Software AG did not have access to authorize it. Since a trade secret claim includes an element of unauthorized access, the court held it is different from copyright, and therefore not preempted.

As for subject matter jurisdiction, the court held that the state-based conversion claim was preempted and converted into one brought under the Copyright Act that supported federal question jurisdiction. When the court dismissed the conversion claim, supplemental jurisdiction supported any subsequent decisions.

- *Estate of Graham v. Sotheby's, Inc.*, No. CV-11-08604-MWF-FFM, 2016 WL 1464229 (C.D. Cal. Apr. 11, 2016)

The Central District of California ruled that California's Resale Royalty Act (CRRRA), which mandates a small royalty on all fine art resold in California as long as the seller or sale is in California, is preempted by the federal Copyright Act. The Copyright Act expressly preempts state laws that "fall within the subject matter of copyright." Here, the court held that CRRRA contravenes the first sale doctrine, which says that once an individual copyrighted item (such as a copy of a book) is sold, the buyer owns the rights to that particular item and can re-sell it at will. By interfering with that at-will resale right, the court found that CRRRA impermissibly stepped into the territory of the Copyright Act. TERMINATION

- *Brumley v. Albert E. Brumley & Sons, Inc.*, No. 15-5429, 2016 WL 2848668 (6th Cir. Apr. 20, 2016)

In the late 1920s, Albert Brumley wrote the gospel favorite, "I'll Fly Away." He assigned the rights in the song to a music company, which he later bought, recapturing his assigned copyright. Brumley co-owned his music company with his wife, Goldie. The couple later sold their company to two of their sons, Robert and William. In 1979, after Brumley died, Goldie assigned her rights in the song to her sons' company. William later sold

his interest in the company to Robert. Robert owned the music company and the copyright to “I’ll Fly Away.”

Brumley and Goldie’s four other children sought to terminate the assignment to Robert’s company. Because Brumley initially transferred the copyright before 1978, §304 of the Act governs, which allows the author or his heirs to terminate unfavorable assignments and negotiate new licenses. Termination rights pass from authors to their children and surviving spouses. When Brumley died, half of his termination interest passed to his wife Goldie, and the other half passed in equal shares to his children. When an individual or group with more than half of a termination right complies with the Act’s termination procedure, termination is effected. However, the termination right can only be used once.

Robert argued the siblings’ termination was not effective. First, he argued that Goldie exercised the termination right when she assigned her rights away in 1979. Thus, Robert argued, the termination right had already been used once and could not be used again by the siblings. The court rejected that argument, stating that the Act provides specific requirements for termination. Because the 1979 assignment did not fulfill or even reference those requirements, termination did not occur at that time. The court stated that even if it overlooked the procedural requirements, the contract did not supplant the previous agreement, so it could not be considered a termination. Furthermore, the court points out that in 1979, Goldie only held half of the termination right and could not exercise it alone. Therefore, even if she had intended to use the termination right, she would not have been able to. The district court held that as a matter of law, the siblings’ termination was effective. The Sixth Circuit agreed. *Larson v. Warner Bros Entertainment, Inc.*, Nos. 13-56243, 13-56244, 13-56257, & 13-56259, 2016 WL 537071 (9th Cir. 2016)

This is another appeal in a long-running litigation stemming from the 1938 transfer of the Superman copyright from Jerome Siegel, Superman co-creator, to DC Comics (“DC”). In consolidated actions, Laura Siegel Larson, heir of Jerome Siegel, appealed the courts earlier decision that a 2001 letter from the Siegel family’s attorney to DC’s attorney constituted a binding settlement agreement. The court affirmed its earlier finding, that the letter constituted a present assignment of copyrights, not conditioned on future signing of a formal contractual agreement, because the letter finalized material terms of a contract to which the parties agreed. Additionally, the court held that the agreement by which the Siegel heirs reassigned purportedly recaptured copyrights in exchange for compensation was valid because the heirs had bargained with statutory termination power in hand, and made no showing that they were in any way prejudiced by the agreement under 17 U.S.C.A. § 304(c)(5), (c)(6)(D).

- *McCartney v. Sony/ATV Music Publishing LLC*, No. 1:17-CV-00363-ER (S.D.N.Y. Jan. 18, 2017)

In January, 2017, Beatles superstar Paul McCartney filed a suit against Sony/ATV Music Publishing to enforce his right to terminate copyright assignments. Sony/ATV presently holds the copyright ownership in a number of McCartney's compositions. Under the Copyright Act, McCartney is seeking declaratory relief that his exercise of e termination rights is not, and cannot be, a breach of contract.

The lawsuit is at the pleadings stage.

- *Baldwin v. EMI Feist Catalog, Inc.*, 805 F.3d 18 (2nd Cir. 2015)

In a dispute over the termination rights to "Santa Clause is Coming to Town," the Southern District of New York granted summary judgment to the longtime rights holder, EMI. The song's original writer assigned ownership of the work to Leo Feist, Inc. (a large music publisher and the predecessor to EMI) in 1951, and 30 years later (after Congress granted the termination right), in 1981 executed an agreement that the district court interpreted as a termination and new grant. Because a copyright holder only get one "bite at the apple" to terminate, the district court found that the heirs could no longer terminate the copyright assignment. However, the Second Circuit reversed, finding that the 1981 agreement superseded the one from 1951 and preserved the termination right, and the heirs observed all necessary formalities when they served a termination notice in 2007 for a termination effective in late 2016. EMI petitioned for cert., which the Supreme Court denied on October 3, 2016.



## Copyright Law – Year in Review: Key Developments and Pending Cases

Mark Wittow

WSBA IP Institute Seminar  
March 10, 2017

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### Key 2016 Developments - Overview

- **DECIDED (AND SOME PENDING) CASES**
  - What's protected – copyrightability and originality
  - What can be used without permission – **fair use**
    - DMCA Safe Harbor
  - Copyright Infringement – substantial similarity
  - Public Domain
  - *What were they thinking* (don't file cases like these)

## Law360's Copyright Cases to Watch in 2016

- *Star Athletica v. Varsity Brands*
- *Oracle v. Google*
- *Capitol Records v. Vimeo*
- “Blurred Lines”
- *Flo & Eddie v. Sirius XM*
- *Fox v. FilmOn*
  - Are streaming services like FilmOn eligible for compulsory license to stream copyrighted television content?
  - Ninth Circuit and D.C. Circuit have dueling cases
- *Fox News v. TVEyes*
  - Which functional aspects of TV news search/archive system qualify as fair use?
  - Second Circuit appeal pending



Copyrightability (and Fair Use)

## Copyrightability – Originality

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Original, as the term is used in copyright, means only that the work was **independently created by the author** (as opposed to copied from other works), **and** that it possesses at least **some minimal degree of creativity.**”

*Feist Publications, Inc. v. Rural Tel. Serv. Co.*,  
499 U.S. 340, 345 (1991)

## Copyrightability – “Useful Articles”

- 17 U.S.C. § 102(a)(5) includes “pictorial, graphic, and sculptural works” in list of works of authorship.
- Useful Articles protected “only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.”  
17 U.S.C. § 101.

## Copyrightability

*Varsity Brands v. Star Athletica* (6<sup>th</sup> Cir. 2015) (*cert. granted*, argued Oct. 31, 2016)

- Varsity creates design drawings of cheerleading uniforms.
- Varsity argued that Star Athletica copied the designs and placed them onto uniforms for photographs in its retail catalog.
- Question for Court: Conceptual separability of design from utilitarian functions
- Sixth Circuit identified 9 possible approaches

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## Copyrightability

- Sixth Circuit granted partial summary judgement and remanded
- Held Varsity's graphic designs did not enhance uniform's functionality qua clothing
- Each of graphic design concepts could be identified separately from utilitarian aspects of the cheerleading uniform
- In addition, the designs were transferable to articles other than the traditional cheerleading uniform.
- Therefore - Varsity's graphic designs:
  - **copyrightable** subject matter.

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## Copyrightability

### Conceptual Separability

- Are the allegedly copyrightable features conceptually separate from the utilitarian article?
  - **YES:** utilitarian function of a cheerleading uniform is to clothe the body in a way “that evokes the concept of cheerleading.”

## Copyrightability

### Physical Separability

- Can the design exist independently of the utilitarian article?
  - **YES:** Team colors, stripes, and other designs may be placed on other articles.
  - Compare – dress designs are not protectable because they cannot exist independently of the utilitarian article.

## Put a Bird On It – *Design Ideas v. Meijer* (C.D. Ill Aug. 25, 2016)

- Design Ideas created “Sparrow Clip” – clothespin with silhouetted bird design on top
- Meijer created nearly identical “Canary Clip”
- Bird design physically and conceptually separable from the utilitarian aspect
  - distinct and creative pose, posture, and expression; unique coloring
- Design Ideas’ SJ Motion Granted

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## *Schurr v. Molacek* (E.D. LA Nov. 14, 2016)

- Digital Maps of Louisiana/Gulf Coast
- Molacek combined government data and copyrighted maps to create new digital maps
- Maps were sufficiently creative to qualify as original “compilations” of facts
  - Multiple data sources, stitched together maps reconciling gaps in coverage, color changes, insertion of navigational charts, points of interest, and other info
- Bare facts are not copyrightable
- Molacek’s SJ Motion Granted

## Copyrightability: The Batmobile

- *D.C. Comics v. Towle* (9<sup>th</sup> Cir. 2015) (cert. denied March 2016)

## Copyrightability: The Batmobile

- Mark Towle's custom vehicles modeled after Batmobile infringed DC Comics copyrights
- Batmobile entitled to protection as "automotive character," with distinctive physical and conceptual characteristics and delineated, consistent, identifiable traits – not a stock character

*Naruto, a Crested Macque (by and through his Next Friends ... v. D.J. Slater, Blurb and Wildlife Personalities* (N.D.Cal. 2016)

*Naruto v. Slater* - Motion to Dismiss  
GRANTED Jan. 2016

- Court assumed Naruto purposefully took selfies with Slater's camera
- Naruto has no standing – not a person or legal entity; authors do not include animals
- Copyright Office has determined that works must be created by human being in order to be copyrightable
- No protection for works produced by “nature, animals, or plants”



## Copyrightability

*Oracle America v. Google* (Fed. Cir. 2014) -

- Evaluated the issue of whether Java API packages are entitled to protection under Copyright Act
  - Expressive? (Or have idea/expression merged?)
  - Unprotected short phrases?
  - Method of operation?
  - Is interoperability a consideration in determining copyrightability?

## Copyrightability

*Oracle America v. Google* -

- Federal Circuit held:
  - Code, structure, sequence, and organization of Oracle's Java packages entitled to copyright protection
    - Copyrightability versus interoperability
    - Abstraction, filtration, comparison
  - Google infringed; so remanded for fair use determination

## Oracle v. Google: Holding re Copyrightability

Components of the Work	District Court	Federal Circuit
Structure, sequence and organization (SSO) of 37 API packages	Jury: Infringed Court: Not copyrightable	<b>Copyrightable</b> •No functionality bar
Declaring code of 37 API packages	Jury: Infringed Court: Not copyrightable	<b>Copyrightable</b> •Merger doctrine inapplicable • <i>Scenes a faire</i> doctrine inapplicable •Short phrases doctrine inapplicable
Implementing code - RangeCheck function - Eight security files	Infringed	<b>Infringed</b> •Not <i>de minimis</i>

## Oracle v. Google – Current Status

- June 29, 2015 - Supreme Court denied Google (Oct. 2014) cert. petition
- December 2015 - Google announced it would move to “OpenJDK” as an alternative to Oracle’s Java software, limiting potential damages
- May 9, 2016 – New district court trial began on question of fair use
- **May 26, 2016 - Jury verdict finding of fair use (detailed jury instructions provided)**
- June 8, 2016 - Verdict upheld after two Rule 50 Motions and a Rule 59 Motion

## Oracle v. Google – Fair Use Special Verdict Form

- Has Google shown by a preponderance of the evidence that its use in Android of the declaring lines of code and their structure, sequence, and organization from Java 2 Standard Edition Version 1.4 and Java 2 Standard Edition Version 5.0 constitutes a “fair use” under the Copyright Act?  
Yes     (finding for Google)  
No      (finding for Oracle)
- June 8, 2016 - Verdict upheld after two Rule 50 Motions and a Rule 59 Motion

## Oracle v. Google - Current Status (cont.)

- Post-Trial Decision detailed factors reasonable jurors could have interpreted in finding verdict (see following slides)
- **October 26, 2016 – Oracle appeal filed with the Federal Circuit**
  - Key issues - District Court:
    - Excluded Oracle evidence re scope of potential markets as distinct from existing markets
    - Allowed Oracle evidence re bad faith of Google
    - Provided detailed guidance on “transformative” use and scope of copyright protection for computer code in jury instructions

## **Oracle v. Google – Post-Trial Decision**

- Court found considerable justification for jury verdict:
  - “Both sides are wrong in saying that all reasonable balancings of the statutory factors favor their side only.”
  - “Overall, avoiding cross-system babel promoted the progress of science and useful arts -- or so our jury could reasonably have found.”
  - “[E]ven though Google’s use was commercial, which weighed against fair use, the jury could reasonably have found the open-source character of Android tempered Google’s overall commercial goals.”

## **Oracle v. Google – Post-Trial Decision**

- “On fair use, Oracle’s most emphatic argument remains the “propriety of the defendant’s conduct,” meaning the subjective awareness by Google Inc. of the copyrights and, construing its internal e-mails in a light most unfavorable to Google, its “bad faith.””
- “Given that Oracle was allowed to try to prove Google acted in bad faith, Google was allowed to try to prove good faith.”

## Oracle v. Google – Post-Trial Decision

- “[O]n **Factor One**, our jury could reasonably have found that while the use was commercial, the commercial use was outweighed by a transformative use, namely use of the declaring code as one component in a full stack platform for highly advanced smartphones.”
- “On **Factor Two**, our jury could reasonably have found that the code copied was not highly creative, was mainly functional, and was less deserving of protection.”

## Oracle v. Google – Post-Trial Decision

- “On **Factor Three**, our jury could reasonably have found that Google duplicated only the declaring code, a tiny fraction of the copyrighted works, duplicated to avoid confusion among Java programmers as between the Java system and the Android system ... only so much as was reasonably necessary for a transformative use.”
- “With respect to **Factor Four**, our jury could reasonably have found that use of the declaring lines of code (including their SSO) in Android caused no harm to the market for the copyrighted works, which were for desktop and laptop computers ... or to any mobile derivative.”

## ***Direct Technologies v. Electronic Arts (9th Cir. 2016)***

- Sims “PlumbBob” symbol USB drive design
- DT designed PlumbBob USB drive in 2008 for EA promotion
- EA did not use DT and went with another manufacturer but used DT’s design
- EA holds 2-D PlumbBob copyright (but not 3D)

## ***Direct Technologies v. Electronic Arts***

- District court granted SJ to EA
- Ninth Circuit held jury should determine whether DT’s 3D derivative work is original – 2-part test
- First, are design aspects “purely functional, utilitarian or mechanical”?
  - Other PlumbBob drive designs existed
  - Unique angle with futuristic cut-away look was potentially artistic
  - Manner of USB Drive removal/insertion potentially non-functional
- Second, original aspects of work must be non-trivial



## Fair Use

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### **Fair Use Defense –17 USC § 107**

“[T]he fair use of a copyrighted work, . . . for purposes such as criticism, comment, news reporting, teaching . . ., scholarship, or research, is not an infringement of copyright.”

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## Fair Use Defense –17 USC § 107

“In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include:

1. The **purpose and character of the use**, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. The **nature of the copyrighted work**;
3. The **amount and substantiality of the portion used** in relation to the copyright work as a whole; and
4. The **effect of the use upon the potential market** for or value of the copyrighted work.”

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### A 14-year Saga

- Google began “Google Print Library Project” in 2002; formally announced in 2004
- **2005 - Authors Guild filed suit**
- 2011 - Proposed settlement rejected by SDNY
- 2012 - Google moved for SJ on fair use grounds
- 2013 - SDNY granted SJ on fair use grounds
- Second Circuit affirmed Oct. 16, 2015 (see next page)
- **Cert. DENIED (April 18, 2016)**

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## *The Authors Guild v. Google, Inc.* (2d Cir. 2015)

Factor	Court's Reasoning	Ruling
<b>Purpose and Character of Use</b>	Highly transformative <ul style="list-style-type: none"> <li>• New and efficient way to find books</li> <li>• Promotes "text mining" and access to info</li> <li>• Expands access to books</li> <li>• Preserves out-of-print books</li> <li>• No direct commercialization</li> </ul>	Strongly favors
<b>Nature of Copyrighted Work</b>	<ul style="list-style-type: none"> <li>• 93% are non-fiction</li> <li>• Published works</li> </ul>	A small role
<b>Amount and Substantiality of Portion Used</b>	<ul style="list-style-type: none"> <li>• Copying of the whole work is necessary for full-text searching</li> <li>• Limited amount available to the public - &lt; 16%</li> </ul>	Slightly against
<b>Effect of Use on Potential Market or Value</b>	<ul style="list-style-type: none"> <li>• Google does not sell the scans; not a book replacement</li> <li>• Security measures prevent unauthorized use</li> <li>• No evidence that library access results in unauthorized use</li> <li>• No derivative right to license search and snippet function</li> </ul>	Strongly favors

## *TCA TV Corp. v. McCollum* (2d Cir. Oct. 11, 2016)

- Use of excerpt of Abbott & Costello's "Who's On First" skit in Broadway dark comedy (*Hand to God*)
- District Court found use "highly transformative" therefore fair use, granted 12(b)(6) dismissal
- Second Circuit rejected dismissal
  - Use of work NOT transformative; used unaltered
- Lawsuit dismissed because TCA didn't hold valid copyright

## ***Louis Vuitton v. My Other Bag* (2<sup>nd</sup> Cir. Dec. 22, 2016)**

- Cheap canvas totes with cartoon images of famous handbags
- “New expression and meaning” constituting transformative, non-infringing use
- Court noted the parodic slogan “my other bag” was a “joke on Louis Vuitton’s luxury image” and played off the popular “my other car” bumper stickers in a humorous way
- Affirmed SJ Ruling



Zoey – Tonal Brown Tote  
\$38 on My Other Bag Website

## ***Paramount v. Axanar* (C.D. Cal. Jan. 3, 2017)**

- Judge Klausner wrote that Axanar in “going where no man had gone before in producing *Star Trek* fan films, sought to make ‘a professional production ... with a fully professional crew, many of whom have worked on *Star Trek* itself,’ and raised over a million dollars on crowdsourcing websites.”

## ***Paramount v. Axanar (cont.)***

- Axanar argued new creation permitted by fair use, Court weighed factors:
  - Functions as market substitution
  - Not transformative, not a parody or criticism
  - Star Trek universe/storyline copied in excruciating detail using substantial copyrighted elements
  - Although movie would be freely distributed, provides indirect benefits to creator resulting in commercial use
- Court ruled film is a derivative work not protected by fair use
- Jan. 20, 2017 – Parties settle allowing Axanar to make two 15-minute films distributed without ads on YouTube

## ***Am. Soc’y for Testing & Materials v. Public.Resource.Org (D.D.C. Feb. 2, 2017)***

- PRO expands access to legal materials by posting them online
- PRO argued no copyright protection as gov’t-authored works under Copyright Act section 105, due process and fair use
- Court rejected section 105 claim, noting gov’t officials/employees did not author documents
- Court found argument that due process right to “access text of ‘the law’” unpersuasive as access remained
- Fair use balancing test strongly favored ASTM
- ASTM’s SJ motion granted



## Copyright Infringement – Contracts and Licensing

### ***VHT v. Zillow* (W.D. Wash. Feb. 13, 2017)**

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- Real estate photography company sued Zillow for using more than 28,000 photos without permission
- Zillow argued it had an implied license to use the images
  - VHT licensed photos to local real estate agents
  - Agents posted VHT photos on Zillow
  - Zillow argued VHT's standard licensing agreement allowed use
- Court dismissed claims for postings on main Zillow listing site, but not Zillow Digs

## ***VHT v. Zillow (cont.)***

- Zillow Digs used VHT photos by pairing them with vendors who sell goods / services depicted in the photo

## ***VHT v. Zillow (cont.)***

- Court rejected implied license to post on non-listing site and fair use arguments
- Jury found 3,300 willful violations
  - \$80,000 in actual damages awarded
  - \$8.2 million in statutory damages awarded
  - Detailed special verdict form worth examination

## *Friedman v. Live Nation Merchandise* (9th Cir. Aug. 18, 2016)

- Live Nation used Friedman's Run DMC photographs on t-shirts, style guide, and calendar; had approval from Run DMC but not Friedman
- Live Nation requires merch artists approve final designs
- Live Nation approval forms do not mention copyright or other rights

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## *Friedman v. Live Nation Merchandise (cont.)*

	Law / Facts	District Court	Ninth Circuit
<b>Willful Infringement</b>	<ul style="list-style-type: none"> <li>• LN normally has agreements that artists do background research (not here)</li> <li>• Merchandising forms lacked any requirements on artists to verify rights</li> </ul>	Granted summary judgment finding not willful	<b>Reversed</b> – Jury could determine that LN conduct was reckless or willful blindness based on facts
<b>Copyright Management Information</b>	<ul style="list-style-type: none"> <li>• Images from book and website</li> <li>• No evidence LN removed CMI</li> </ul>	Granted summary judgement finding no evidence of removal	<b>Reversed</b> – Jury triable based on whether LN knew CMI removed (not whether LN actually removed the CMI itself)
<b>Statutory Damages</b>	<ul style="list-style-type: none"> <li>• Friedman asserted entitlement to multiple awards per work based on multiple infringers</li> </ul>	Friedman entitled to only one damages award per infringed work	<b>Affirmed</b> – only LN was named as a defendant

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## Copyright Infringement – Substantial Similarity

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### Copyright Infringement - Substantial Similarity

- *Williams v. Bridgeport Music, Inc.*  
(C.D.Cal.) (filed 2013, tried 2015)
  - Gaye Estate alleged that “Blurred Lines” copied Marvin Gaye’s “Got to Give It Up” and sued Robin Thicke and Pharrell Williams
  - “Blurred Lines” was No. 1 on the Billboard single charts for 10 consecutive weeks and earned \$16.5 million in revenues
  - Jury found for Gaye Estate after an 8-day trial, in a verdict delivered March 10, 2015

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## ***Blurred Lines* - Key Jury Instruction (No. 43)**

- “Gaye ... must show ... both substantial “extrinsic similarity” and substantial “intrinsic similarity”
- ‘Extrinsic similarity ... must consider the **elements** of each of the works and decide if they are substantially similar”
- “[Testimony was presented re] “Signature Phrase,” hook, “Theme X,” bass melodies, keyboard parts, word painting, lyrics, rap v. parlando”
- “Gaye [must show] enough similarity to comprise a substantial amount”
- “Intrinsic similarity is shown if an ordinary, reasonable listener would conclude ... **total concept and feel** of [works] are substantially similar”

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## ***Williams v. Bridgeport Music* (C.D. Cal. 2015)**

- March 10, 2015 Special Verdict – “Blurred Lines” Infringed:
  - **Actual Damages - \$4 million**
  - **Profits – Williams \$1.61 million, Thicke, \$1.77 million**
  - **Not willful; not innocent**
  - **Statutory Damages: \$9,375**

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## Blurred Lines – Current Status

- On July 14, 2015, U.S. District Judge John Kronstadt reduced jury award to \$5.3 million, from \$7.3 million
  - Denied Gaye injunction request, but set an ongoing royalty rate of 50% of publishing revenues
  - Found that Interscope Records, UMG Recordings, Star Trak Entertainment and Clifford Harris were liable along with Thicke and Williams
- Gaye Estate’s attorney’s fees request for \$3.5 million DENIED April 12, 2016 – “novel issues” presented
- 9<sup>th</sup> Cir. Appeal pending

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## *Eggleston v. Daniels* (E.D. Mich. 2016)

- Sophia Eggleston copyrighted memoir *The Hidden Hand* in 2009
  - Alleges *Empire* plot and character Loretta “Cookie” Lyon based on her
- Character Similarities
  - Woman in the dominant role as drug dealer, gang leader, and perpetrator of violence
  - Differentiated from “average gangster”
- Plot Similarities
  - Gay family member;
  - Kidnapping of one of their children;
  - Two close family members murdered;
  - Lost lover while in jail; and
  - Shielded others by stepping between them and loaded guns
- Motion to dismiss denied
- Stay tuned!

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**“Taurus” v.  
“Stairway to  
Heaven”**

*Skidmore v.  
Led Zeppelin*  
(C.D. Cal  
2016)

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**“Taurus” v. “Stairway to Heaven”**  
*Skidmore v. Led Zeppelin (C.D. Cal)*

- May 2014 - Randy Craig Wolfe Trust filed suit, claiming “Stairway to Heaven,” released in 1971, infringed Spirit’s “Taurus,” released in 1967
- April 2016 – Court denies SJ, allows infringement (substantial similarity) claims to proceed to trial against LZ, Page and Plant
  - Also dismisses claims against all defendants that did not perform or distribute “Stairway to Heaven” after May 2011 and **“Right of Attribution-Falsification of Rock’n’Roll History”** claim for equitable relief

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## “Taurus” v. “Stairway to Heaven”

### *Skidmore v. Led Zeppelin* (C.D. Cal)

- In June 2016, jury determined
  - LZ had access to “Taurus”
  - But “Stairway to Heaven” was not extrinsically (objectively) similar to “Taurus”
  - Jury instructed that common chord progressions ineligible for copyright protection
- LZ request for fees (\$800K) denied, appealed to 9<sup>th</sup> Cir.
- Plaintiff also indicated intent to appeal

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## *VMG Salsoul v. Ciccone* (9th Cir. June 2, 2016)

- Madonna (allegedly) sampled “horn hits” (punctuation-like snippets of horn section chords) in 1990’s pop hit “Vogue”
- 9th Cir. held that a “use is de minimis only if the average audience would not recognize the appropriation”
  - Only if “ordinary observations would cause [the sample] to be recognized as having been taken from the work of another”
- Rejects 6th Cir. bright-line rule that all unlicensed sampling constitutes copyright infringement (*Bridgeport*)
- 0.23-second horn hit played in another key with added effects and sound was found to be de minimis

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## ***Culver v. Steak N Shake* (N.D. Ill. Aug. 5, 2016)**

<https://www.youtube.com/watch?v=gfULixDEQio>

<https://www.youtube.com/watch?v=sfwjYym8tWc>

- Culver’s “Butcher-Quality Beef” commercial aired in April 2015
- Steak ‘n Shakes “Original Steak Burger” aired seven weeks later
- Suit filed in January 2016

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## ***Culver v. Steak N Shake* (N.D. Ill. Aug. 5, 2016)**

<b>Seven Common Elements</b>	<b>Court’s Opinion</b>
Butcher in a white uniform in a butcher shop	Not original for ad to feature a butcher
Company logo appears	Nothing unique about displaying logo
Butcher describes the beef’s quality	Not original for ad to describe origins/quality of meat product or feature a butcher
Three different cuts of beef are shown as the butcher identifies the cuts and describes how they are “well-marbled”	Not original
Patties are grilled and flattened with a spatula as the griller describes how the cuts “come[] together,” using the words “sear” and “seal”	Standard grilling practice; not original
Burger is stacked and topped with cheese	Not original
Close-up of the completed burger before the company’s logo again appears	Nothing unique about displaying products/logo

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## ***Culver v. Steak N Shake (N.D. Ill. Aug. 5, 2016)***

- Seven common elements “lack the necessary modicum of creativity to give rise to copyright protection”
- Judge dismissed complaint without prejudice with opportunity to amend
- Culver voluntarily dismissed on August 17, 2016



Copyright Infringement – Other Public Performance and Public Display Rights

## ***Disney v. VidAngel* (9<sup>th</sup> Cir. Dec. 15, 2016)**

- VidAngel filters objectionable content from DVDs and streams movie to user
  - After purchase of physical copy of DVD from VA (which user may sell back), user may access stream
- VA argued “space-shifting”—process that allows decrypting DVDs, circumventing technological protections
- DMCA exemption not applicable
  - Applies only to users with the authority of a copyright owner, not those who view a DVD with the authority of the copyright owner
- “Intermediate” copying argument also rejected
  - Transmission was from master copy and not user’s copy
- Disney’s Preliminary Injunction Granted



Copyright Infringement – Contributory Liability

## *Leonard v. Stemtech Int'l* (3d Cir. Aug. 24, 2016)

- Leonard created images of microscopic subject matter with a scanning electron microscope and registered them
- Stemtech markets and sells nutrition supplements; used Leonard images in marketing materials
  - Required its independent distributors to use ST marketing materials
  - Distributors not allowed to create own websites
- Distributors created websites using Leonard's images as supplied by ST

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## *Leonard v. Stemtech Int'l* (cont.)

Third Circuit affirmed \$1.6 million damages ruling because jury reasonably found:

- **Direct Infringement** - Stemtech not authorized or licensed to use the images
- **Contributory Infringement** – Stemtech created the materials with infringed images, provided them to distributors, and required distributors to use materials
- **Vicarious Infringement** – Stemtech had right and ability to supervise and control infringing activity; Stemtech had contractual right to impose sanctions on non-compliant distributors

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## DMCA (and Fair Use)

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### **DMCA Copyright Agent Registration – 17 USC § 512(c)**

Oct. 31, 2016 – New rule issued requiring electronic system designation of copyright agents for DMCA safe harbor

- Dec. 1, 2016 – Takes effect for all service providers
  - No new paper registrations accepted
  - Previously designated agents via paper system must submit new electronic designation by Dec. 31, 2017
- Failure to designate electronically will negate safe harbor

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## DMCA Registration Renewal – 17 USC § 512(c)

- New Regulation Differences:
  - PO Box may be used for service provider's agent
  - Agent's name does not need be individual's name (department or entity acceptable)
  - All "alternative names" must be listed (URLs, software application names, commonly used names)
- Single U.S. Copyright Office account may register and manage designations for separate legal entities
- BUT - Each legal entity requires a separate copyright agent registration

## ***BMG Rights Mgmt. v. Cox Communications (E.D. Va. 2016)***

- BMG sent 2.5 million notices to Cox regarding material its users were downloading
- Cox failed to forward or respond to these notices and eventually blocked the third-party from sending further notices
- Cox sought to use DMCA safe harbor (§ 512(a)), which limits liability for service providers
- Court ruled Cox failed to reasonably implement policy to terminate accounts of repeat offenders, as required under § 512(i); therefore Cox not entitled to DMCA safe harbor
- Jury found Cox liable for \$25 million in damages for contributory infringement; upheld in post-trial motions; appeal pending
- In February 2017, court awarded \$8.38 million in attorney fees due in part to unreasonable arguments during trial

## ***Hempton v. Pond5* (W.D. Wash. Jan. 13, 2017)**

- Self-described “world’s preeminent nature sound recordist”
- Within one day of Hempton’s notification of a user’s infringement, Pond5 removed content
- Hempton argued no specific “repeat infringer” policy, no DMCA safe harbor
- Court found no need to use term “repeat infringer”
  - User agreements to Terms of Use and Contributor Agreements enough

Gordon Hempton

## ***Capitol Records v. Vimeo* (2d. Cir. June 16, 2016)**

- Vimeo’s video-sharing website hosted videos containing copyrighted music without permission
- Capitol argued Vimeo employees viewed and “liked” infringing videos and encouraged users to upload infringing videos
- Sept. 18, 2013 - SDNY held questions of fact exist as to whether Vimeo had actual or “red flag” knowledge and rejected Capitol’s claim of willful blindness
- Both parties appealed (interlocutory)
  - Pre-1972 sound recordings issues also appealed

## **Capitol Records v. Vimeo (cont.)**

Second Circuit decision focused on two evidence standards:

- “[W]hether evidence of some viewing by Vimeo employees of videos that played all or virtually all of ‘recognizable’ songs was sufficient to satisfy the standard of red flag knowledge”
- “[W]hether Plaintiffs have shown that Vimeo had a general policy of willful blindness to infringement of sound recordings”

## **Capitol Records v. Vimeo (cont.)**

- Red flag knowledge turns on whether the “provider was subjectively aware of facts that would have made the specific infringement ‘objectively’ obvious to a reasonable person”
  - Viewing “recognizable” songs does not make infringement “obvious” to an ordinary reasonable person (standard is not an expert in copyright law)
  - Burden not met
- A general policy of willful blindness may impute specific knowledge of infringement
  - *Viacom* – Service providers have no obligation to monitor user posts
  - Duty to investigate infringement upon circumstances that make infringement *obvious*, not suspicious
  - Evidence of only a few unrelated infringement instances insufficient
  - Burden not met

## *Lenz v. Universal Music*

(9<sup>th</sup> Cir. Sept. 14, 2015)

## *Lenz v. Universal Music*

- Lenz uploads video Feb. 2007
  - “Let’s Go Crazy” plays in background
  - Kids dance; mom talks
- <https://www.youtube.com/watch?v=N1KfJHFWIhQ>
- Universal (Prince’s publisher) sends DMCA takedown to YouTube
- YouTube removes video; Lenz sends YT a DMCA “counter notification” and YT reinstates video
- Lenz files suit July 2007; amended April 2008, alleges misrepresentation under 17 USC sec. 512(f)

## ***Lenz v. Universal Music (cont.)***

- 17 USC 512(f):
- “Any person who knowingly materially misrepresents under this section -- (1) that material or activity is infringing . . . shall be liable for any damages . . . .”
- Sept. 14, 2015 - 9<sup>th</sup> Cir. affirms denial of dueling SJ motions
  - Grants Lenz’s claim that Universal violated Section 512(f) because Universal materially misrepresented that her video was infringing when it was, instead, a fair use.

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## ***Lenz v. Universal Music (cont.)***

9<sup>th</sup> Cir. opinion noted:

- Fair use of a work is not an infringement
  - Therefore “a copyright holder must consider the existence of a fair use before sending a takedown notification.”
- Fair use is different from traditional affirmative defenses and does not amount to infringement at all.
- If copyright owner fails to consider fair use, it could be liable for nominal damages.

Mar. 17, 2016 – Request for rehearing denied; amended previous ruling

- Removed paragraphs stressing that fair use analysis need not be “searching or intensive” removing implications that computer algorithms may meet the obligation

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## ***Lenz v. Universal Music (cont.)***

### Current Status

- Aug. 2016 – Both sides filed cert. petitions
- Oct. 31, 2016 – Supreme Court requested Solicitor General to file a brief expressing the government's viewpoint
- Supreme Court has not yet granted review

*Stay Tuned!*



(Into the) Public Domain

## “Happy Birthday” Class Action

- *Good Morning to You Productions (Rupa Marya) v. Warner/Chappell Music Inc.*
  - Class action complaint seeking DJ to place “Happy Birthday” in public domain – filed 2013
  - \$2 million in revenue each year
  - Was work first published in 1890 or 1935?
  - Was melody/lyrics or piano arrangement protected in 1935?

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## “Happy Birthday” Class Action

- Sept. 22, 2015 – Court ruled WCMI copyright in “Happy Birthday” not valid
  - Warner’s predecessors (Summy Co.) never acquired rights to HB lyrics
  - Warner owned limited rights in piano arrangement
  - HB Melody in public domain
    - Melody came from “Good Morning to All”
- Settlement reached Dec. 2015; in Feb. 2016, \$14 million pay-out to class members announced
  - Licensing fees paid 2009 -> fully refunded
  - Licensing fees paid before 2009 – up to 15% refunded

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## **“We Shall Overcome” Class Action: *We Shall Overcome Foundation v. TRO- Ludlow Music***

- April 2016 – Class action complaint filed alleging “We Shall Overcome” should be put in public domain
- Ludlow Music and The Richmond Organization claim to have copyrighted “We Shall Overcome” in 1960
- Lead plaintiff is documentary filmmaker making movie about the song; could not obtain license from TRO-Ludlow

Pete Seeger (1919-2013)

## **“We Shall Overcome” Class Action**

- Considerable evidence that song dates from 19<sup>th</sup> century; printed in 1909 *United Mine Workers Journal* and 1948 Seeger songbook
  - Minor variations (e.g. “We will overcome” to “We shall overcome”)
- Publisher sought dismissal arguing the changes were sufficient to establish a copyrightable variation
- S.D.N.Y. rejected the motion on Nov. 21, 2016
- Stay tuned



## “This Land Is Your Land” Class Action: *Satorii v. TRO-Ludlow Music*

- June 2016 – Class action complaint filed alleging “This Land Is Your Land” fell into public domain in 1973
- Woody Guthrie first published “This Land” in 1945; never renewed his copyright
  - Under 1909 Copyright Act, rights to song expired after 28 years
- Ludlow purportedly copyrighted song in 1956
- Stay tuned

## Pre-1972 Sound Recording Litigation

*Flo & Eddie, Inc. v. Pandora Media, Sirius XM*

- Feb. 16, 2017 – Second Circuit ruled against Flo & Eddie (based on NY Court of Appeals determination)
- Appeals pending before Ninth & Eleventh Circuits

## Pre-1972 SR Litigation – Flo & Eddie

Nov. 28, 2016 – Flo & Eddie filed proposed settlement terms in California court

- \$25 million for past unlicensed use in CA; \$15 million in additional payments if Flo & Eddie prevail in pending appeals in FL and NY
- 20-year license for recordings by class members with 5.5% royalty rate (estimated value of \$50 million)

## Pre-1972 SR Litigation – Flo & Eddie

- Apr. 13, 2016 - 2d Cir. certified this question to NY Court of Appeals:
  - “Is there a right of public performance for creators of sound recordings under New York law and, if so, what is the nature and scope of that right?”
- Dec. 20, 2016 – NY Court of Appeals, by a 4-2 vote, answered that NY law does not recognize a public performance right in pre-1972 sound recordings
- Proposed settlement payments would be reduced based on decision
- CA court and NY court have yet to approved the settlement terms

## Pre-1972 SR Litigation – More

- *ABS Entertainment v. CBS Corp.*; and *ABS v. Cumulus Media Corp., iHeartMedia Inc.*
  - Class filings denied in Nov. 2015
  - **CBS offered remastering defense, successfully**
- *Arthur Sheridan v. iHeartMedia, Sirius XM Radio*
  - Class Actions filed in 2015 in NY, CA, NJ, IL, GA, (Hagens Berman etc.)
- *Capitol Records v. Vimeo* (2d. Cir. June 16, 2016)
  - Reversed SDNY ruling and held that DMCA safe harbor does apply to state law liability for infringing use of pre-72 sound recordings
  - Cert. filed Dec. 14, 2016
- *Capitol Records v. Sirius XM*
  - Filed in 2014 ... **settled** June 2015 (**\$210 million**)

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Attorney's Fees

## ***John Wiley & Sons, Inc. v. Kirtsaeng*, U.S. Sup. Ct. No. 15-375 (June 16, 2016)**

### **Question before Court: What should be the standard for awarding attorney's fees to a prevailing party in copyright litigation?**

- Supap Kirtsaeng sued by J. Wiley; won 2013 US Supreme Court decision on right to resell foreign-made books under first sale doctrine
- District Court and Second Circuit denied attorney fees request by Kirtsaeng because Wiley's litigation position was objectively reasonable
- Recall that *Fogerty v. Fantasy* (1994) held that prevailing defendant could recover attorney's fees

## **What should be the standard for awarding attorney's fees to a prevailing party in copyright litigation?**

- Court determined that commonly used **objective unreasonableness** factor should have substantial but not determinative weight
  - Other factors should be considered
  - Court remanded for district court to reconsider factors
- Recall that prevailing plaintiff must have timely registered in order to receive attorney's fees
- Whether prevailing party gets fees is discretionary – winning parties often do not

### ***John Wiley & Sons, Inc. v. Kirtsaeng (cont.)***

- On remand, district court ruled fees not warranted finding Wiley's position was objectively reasonable and not frivolous
- Judge noted that the "litigation, looked at holistically and in light of the Copyright Act's goals, does not favor an award of attorneys' fees to Kirtsaeng, even though he is indisputably the prevailing party."



What Were They Thinking?

## ***ITN Flix v. Univision (D. Utah Nov. 2, 2016)***

- “Machete” v. “Vengeance”
- Both star Danny Trejo as ex-cop seeking retribution for family’s death Machete  
(2010)
- Copyright only protects “expressions” not “ideas”
  - Failed to allege similarities in specific lines, costumes, scenery, or other expressions
- Failed to establish Univision had access to work
  - Despite filmmaker of “Machete” being founder of Univision’s network that aired movie Vengeance  
(2006)
- Suit dismissed with leave to amend

## ***Kullberg v. Pure Flix (C.D. Cal. Oct. 12, 2016)***

- Pure Flix’s 2014 hit indie Christian film “God’s Not Dead” was alleged to infringe screenplay of “Rise”
- Similar general premise not protectable
  - College student’s faith challenged by atheist professor
- Different characters, sequence of events, and character transformations
- Case dismissed

## Recipe Cases

- *Tomaydo-Tohmahhdo v. Vozary* (6<sup>th</sup> Cir. 2015)
  - Recipes, recipe instructions and recipe book not protected
- *Lorenzana v. S. Am. Rest. Corp.* (1<sup>st</sup> Circ. 2015)
  - name of and recipe for Pechu chicken sandwich not protectable
    - Chicken, lettuce, tomato, cheese and mayo

## *Croak v. Saatchi & Saatchi* (SDNY 2016)

Motion to dismiss granted March 31, 2016

- Croak - “Pegasus, Some Loves Hurt More Than Others” mixed-media, life-sized work first exhibited in 1983 (at left)
- “Substantially similar to Toyota RAV 4 Ad?:



## Pending Cases

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### Law360's Copyright Cases to Watch in 2017

- *Star Athletica v. Varsity Brands*
- *Oracle v. Google*
- *BMG Rights Mgmt. v. Cox Communications*

#### **Others to Watch:**

- *Lenz v. Universal Music*
- *Capitol Records v. Vimeo*
- "Blurred Lines"
- *Paramount v. Axanar*
- *Fox News v. TVEyes*
- *Flo & Eddie*
- "We Shall Overcome"
- *U.S. v. Hansmeier* (criminal fraud trials re porn copyright troll)



## Additional Cases to Watch

- Penguin Random House v. Colting
  - Unauthorized children's versions of classic books
- McCartney v. Sony
  - Termination rights (UK – US)

**Thank You!**

**Further Questions?**

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Note: Images used in live presentation removed to minimize potential copyright infringement issues

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## CHAPTER FIVE

**TRADEMARK LAW - YEAR IN REVIEW**

March 2017

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**PATCHEN HAGGERTY** is a partner in the Trademark, Copyright, Media & Brand Protection practice of Perkins Coie LLP. Patchen manages global trademark portfolios and trademark enforcement programs for market-leading companies, start-ups and individuals. She also guides clients in the protection, development, commercialization, licensing, assignment and sale of intellectual property rights and assets. Patchen was admitted to the Washington State Bar in 2007 and the Oregon State Bar in 2001.

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## Trademark Year in Review

March 10, 2017

Patchen Haggerty, Partner

Perkins Coie LLP

## Trademark Year in Review – Lanham Act §2(a)

Lanham Act §2(a) bars registration of marks that may disparage or bring into contempt or disrepute people, institutions, beliefs, or national symbols.

Over the past few years, two different cases have asked whether Section 2(a) of the Lanham Act violates the First Amendment as a viewpoint-based restriction on speech: *In Re Tam* and *Blackhorse v. Pro Football, Inc.*

## Trademark Year in Review – Lanham Act §2(a) - *In re Tam*

- In *In re Tam*, the USPTO refused registration of the mark THE SLANTS under §2(a) on the grounds the mark may disparage people of Asian descent. The Applicant appealed to the TTAB on the grounds that his all Asian-American rock band had the right to “take back” a traditionally offensive term, and that the Lanham Act unconstitutionally barred registration.

## Trademark Year in Review – Lanham Act §2(a) - *In re Tam*

- The TTAB upheld the refusal, and the Applicant appealed to the Federal Circuit Court of Appeals.

## Trademark Year in Review – Lanham Act §2(a)

- The Fed. Cir. overturned the refusal on the grounds that Section 2(a) violates the First Amendment, striking down the disparagement provision. *In Re Tam*, Case No. 2014-1203 (Fed. Cir. Dec. 22, 2015).

## Trademark Year in Review – Lanham Act §2(a)

- The USPTO appealed to the Supreme Court. The Court heard arguments on January 18, 2017.

## Trademark Year in Review – Lanham Act §2(a) - *Blackhorse v. Pro Football, Inc.*

In *Blackhorse v. Pro Football, Inc.*, the TTAB cancelled several trademark registrations owned by the Washington Redskins, finding that they were offensive to Native Americans.

## Trademark Year in Review – Lanham Act §2(a) - *Blackhorse v. Pro Football, Inc.*

- A federal district court judge later agreed, and now the Fourth Circuit Court of Appeals has taken up the case. The appeal has been fully briefed, so a decision is imminent.

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Belmora v. Bayer*

- Bayer Consumer Care AG owns the trademark "FLANAX" in Mexico, in use with naproxen sold in Mexico since the 1970s.
- Belmora LLC owns the FLANAX trademark in the United States, in use with naproxen sold in the U.S. since 2004.



## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Belmora v. Bayer*

- In *Belmora v. Bayer*, Bayer successfully petitioned to cancel Belmora's U.S. registration for FLANAX based on deceptive use. Bayer alleged that Belmora used the FLANAX mark to deliberately deceive Mexican-American consumers into thinking they were purchasing Bayer's product, and the TTAB agreed.
- Belmora appealed to a district court, and Bayer filed a separate suit against Belmora for false association and false advertising under § 43 of the Lanham Act (15 USC §§ 1125(a)(1)(A) and 1125(a)(1)(B)).



## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Belmora v. Bayer*

- After the two cases were consolidated, the district court reversed the TTAB's cancellation order and dismissed the false association and false advertising claims.

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Belmora v. Bayer*

- On appeal, the Fourth Circuit Court of Appeals considered whether the Lanham Act permits the owner of a foreign trademark to pursue false association, false advertising, and trademark cancellation claims against the owner of the same mark in the U.S.

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Belmora v. Bayer*

- The Court held that Bayer could sue Belmora for Lanham Act unfair competition and false advertising relating to use of the mark FLANAX in connection with ibuprofen sold within the U.S., notwithstanding the fact that Bayer only uses the mark FLANAX for the over-the-counter pain reliever in Mexico. *Belmora v. Bayer*, 819 F.3d 697 (2016).

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Trader Joe's Co. v. Hallatt*

- Michael Hallatt, a Canadian citizen, frequently traveled from Canada to Washington state to purchase Trader Joe's products at full retail price. He then transported the products across the border to Canada and sold the products unmodified in his store under the name "Pirate Joe's," which was located in Vancouver, BC.



## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Trader Joe's Co. v. Hallatt*

- Trader Joe's was not pleased, and sued Hallatt in the W.D. Washington for trademark infringement and dilution under the Lanham Act alleging that Hallatt used Trader Joe's trademarks to pass as an approved Trader Joe's retailer.



## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Trader Joe's Co. v. Hallatt*

- Upon Pirate Joe's motion to dismiss for lack of subject matter jurisdiction, the Court dismissed Trade Joe's claims applying the Ninth Circuit's three *Timberlane* factors used to determine whether extraterritorial application of the Lanham Act is appropriate.

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Trader Joe's Co. v. Hallatt*

- The Court found that because no part of Pirate Joe's business operated in the U.S. to compete with Trader Joe's, and Trader Joe's did not have any stores located in Canada, any harm to Trader Joe's goodwill was "too tenuous to support a cognizable Lanham Act claim when all infringing conduct [was] abroad." *Trader Joe's Co. v. Hallatt*, No. C13-768 MJP, 2013WL 5492515 (W.D.Wash. Oct. 2, 2013).

## Trademark Year in Review – Extraterritorial reach of the Lanham Act - *Trader Joe's Co. v. Hallatt*

The Ninth Circuit Court of Appeals overturned, ruling that the extraterritorial reach of the Lanham Act is not a jurisdictional question but rather a merits question. The case has now been remanded and is pending in the W.D. Washington. 835 F.3d 960 (2016).

## Trademark Year in Review – Prevailing Party Fees

- In 2014, the USPTO announced that sections of both patent and trademark statutes permit it to recover attorneys' fees from an applicant that appeals an administrative decision to a federal district court.
- The USPTO's position stems from language requiring an appealing applicant to pay "all expenses of the proceeding" in Section 1071(b)(3) of the Lanham Act. Prior to 2014, the USPTO interpreted these sections to only include routine expenses, such as travel and printing costs.

## Trademark Year in Review – Prevailing Party Fees

- In 2015, the Fourth Circuit Court of Appeals accepted the USPTO's interpretation as applied to the Lanham Act, and required an appealing trademark applicant to pay the USPTO's attorneys' fees.

## Trademark Year in Review – Prevailing Party Fees

- The Fifth and Ninth Circuit Courts of Appeals have joined the Third, Fourth, and Sixth Circuits in adopting the Supreme Court's *Octane Fitness* fee-shifting test to Lanham Act cases (*Octane Fitness, LLC v. Icon Health and Fitness, Inc.*, — U.S. —, 134 S.Ct. 1749, 188 L.Ed.2d 816 (2014)).

## Trademark Year in Review – Prevailing Party Fees

- In determining whether a prevailing party should be awarded attorneys' fees, courts in these circuits must consider only two factors: (1) whether the case stands out from others with respect to the substantive strength of the litigants' positions; and (2) whether the unsuccessful party has litigated the case in an unreasonable manner.

## Trademark Year in Review – Prevailing Party Fees - *Louis Vuitton Malletier SA v. My Other Bag Inc.*

In awarding attorney fees to the defendant in *Louis Vuitton Malletier SA v. My Other Bag Inc.*, a New York federal judge ruled that a line of "My Other Bag" totes, decorated with imagery meant to evoke designer handbags, was protected by trademark law's parody defense. In the opinion, the Judge said it is sometimes "better to accept the implied compliment in a parody and to smile or laugh than it is to sue ... Maybe [Louis Vuitton] just cannot take a joke."



## Trademark Year in Review – Prevailing Party Fees

- In *Clark Baker v. Jeffrey Deshong*, the district court ruled in favor of Deshong, finding that Baker failed to raise an inference that a reasonable person could confuse the content of Deshong's website with the OMSJ's "HIV Innocence Group" trademark. However, the district court denied the request for attorney's fees, finding Deshong had not shown by clear and convincing evidence that Baker and the OMSJ pursued the suit in bad faith.

## Trademark Year in Review – Prevailing Party Fees

- The Fifth Circuit overturned applying the *Octane Fitness* factors and awarded attorney's fees to Deshong.

## Trademark Year in Review – Nominative Fair Use

- Nominative fair use provides an affirmative defense to trademark infringement by which a person may use the trademark of another as a reference to describe the other product, or to compare it to their own.
- Split in Circuits as to consideration of a defendant's claim of nominative fair use potentially requiring future resolution.



## Trademark Year in Review – Nominative Fair Use

- The Third Circuit Court of Appeals treats nominative fair use as an affirmative defense only once a likelihood of confusion is shown.

## Trademark Year in Review – Nominative Faire Use

- The Ninth Circuit Court of Appeals employs a three factor test to determine whether use is nominative fair use:
  1. The product or service cannot be readily identified without using the trademark (e.g. trademark is descriptive of a person, place, or product attribute).
  2. The user only uses as much of the mark as is necessary for the identification (e.g. the words but not the font or symbol).

## Trademark Year in Review – Nominative Faire Use

*Cont.*

3. The user does nothing to suggest sponsorship or endorsement by the trademark holder. This applies even if the nominative use is commercial, and the same test applies for metatags.

## Trademark Year in Review – Nominative Fair Use

- In *International Information Systems Security Certification Consortium, Inc. v. Security University, LLC*, the Second Circuit added the Ninth Circuit's three factors to its standard eight-factor likelihood of confusion test.
- Second Circuit practitioners can now look forward to briefing eleven factors in trademark disputes involving a nominative fair use defense.

# Trademark Year in Review

**Questions?**

**Patchen Haggerty**

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## NOTES

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CHAPTER SIX

**RECENT DEVELOPMENTS IN GENERIC TOP LEVEL DOMAIN NAMES**

March 2017

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**WILLIAM C. RAVA** Biography not available at this time.

**PERKINS**coie

COUNSEL TO GREAT COMPANIES

## Trademark Enforcement in the Expanded gTLD Universe

WSBA Intellectual Property Section  
22<sup>nd</sup> Annual Intellectual Property Institute

March 10, 2017

Presented By:  
Will Rava

Perkins Coie LLP

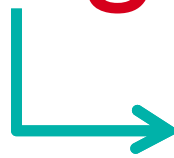
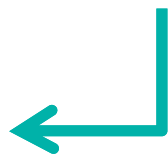
## Today's Agenda

1. Background (vocabulary, governance and enforcement, gTLD process and adoption)
2. Enforcement Mechanisms (ACPA, UDRP, URS)
3. Enforcement Strategies

## Vocabulary

wsba.org

Second Level



Top Level

## Vocabulary

- **Registry:** The authoritative, master database of all domain names registered in each Top Level Domain, including Registrant information (Whois)
- **Registrar:** Accepts and manages reservation of domain names; must be accredited by ICANN
- **Registrant:** Domain name owner; sometimes protected by privacy screen

## Background: Governance and Enforcement

**1998:** ICANN created

**1999:** UDRP launched; ACPA enacted

**2000s:** stakeholder discussions around launch of new gTLDs

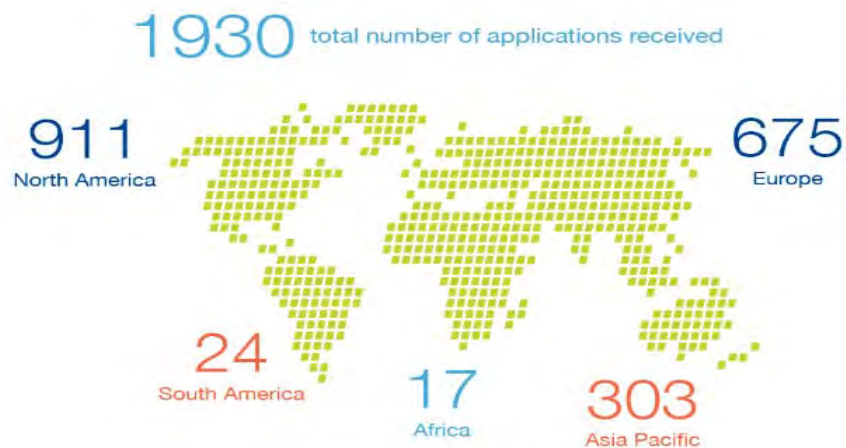
**2011:** ICANN releases new gTLD applicant guidebook

**2012:** application and examination periods

**2014:** new gTLDs enter system; URS launched;

5

## New gTLD Application Submissions



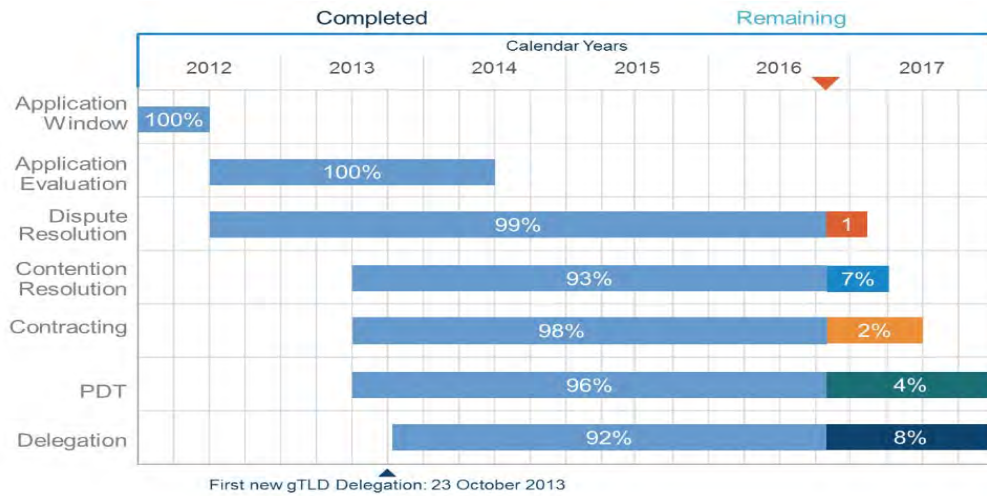
<https://newgtlds.icann.org/en/program-status/statistics>

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# New gTLD Program Timeline



<https://newgtlds.icann.org/sites/default/files/main-images/program-timeline-1011x749-21dec16-en.png>

# New gTLD Application Statistics

Application Statistics: Overview (as of 28 February 2017)	
<b>Total Applications Submitted</b>	<b>1930</b>
<b>Completed New gTLD Program (gTLD Delegated** - introduced into Internet)</b>	<b>1216</b>
<b>Application Withdrawn</b>	<b>586</b>
<b>Applications that Will Not Proceed/Not Approved</b>	<b>42</b>
<b>Currently Proceeding through New gTLD Program*</b>	<b>86</b>

<https://newgtlds.icann.org/en/program-status/statistics>

# New gTLD Breakdown: Delegation Statistics

## \*\*Breakdown: Delegation Statistics

Delegated gTLDs (Introduced into Internet) 1216

Select Subcategories of Delegated gTLDs

(NOTE: gTLDs may fall into more than one subcategory)

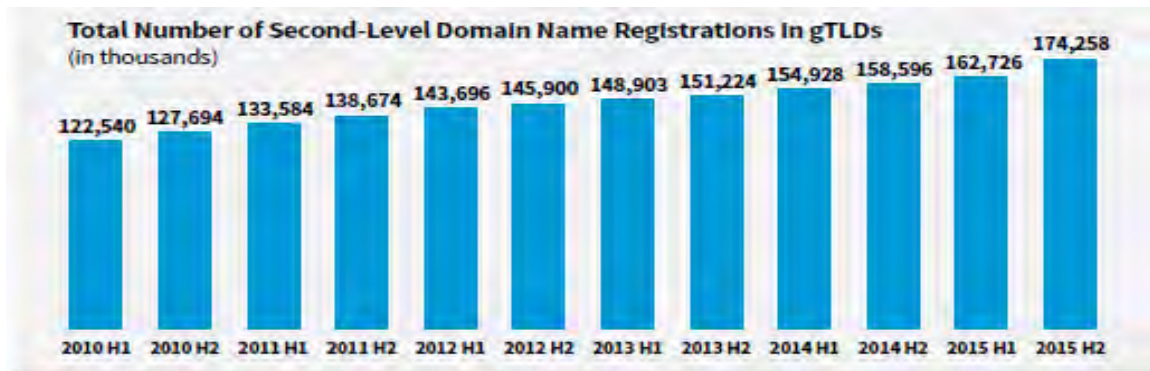
Community 51

Geographic 53

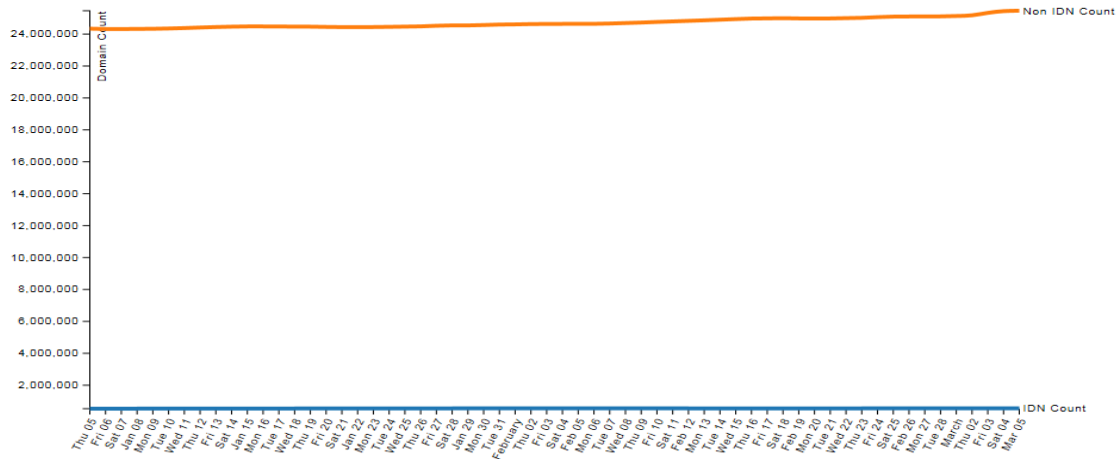
Internationalized Domain Names (IDNs) 92

<https://newgtlds.icann.org/en/program-status/statistics>

# gTLDs - Total



# Daily Growth of New gTLD Registrations

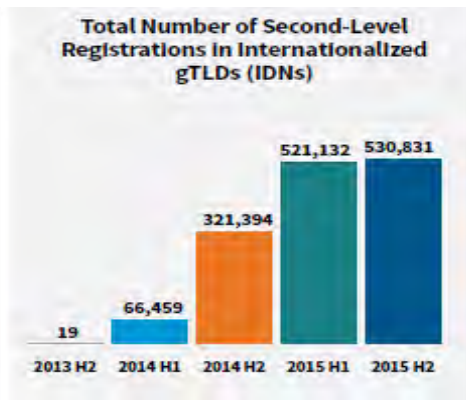
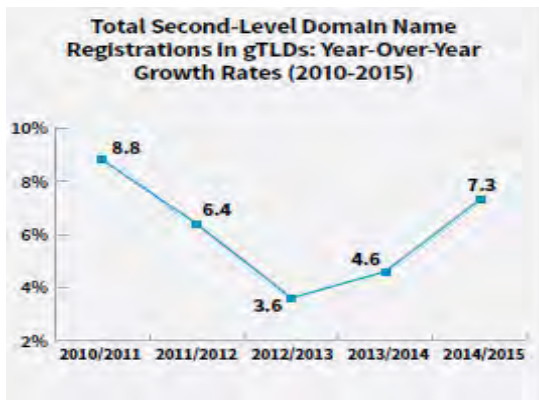


<http://research.domaintools.com/statistics/new-gtlds/>

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# gTLDs - Total

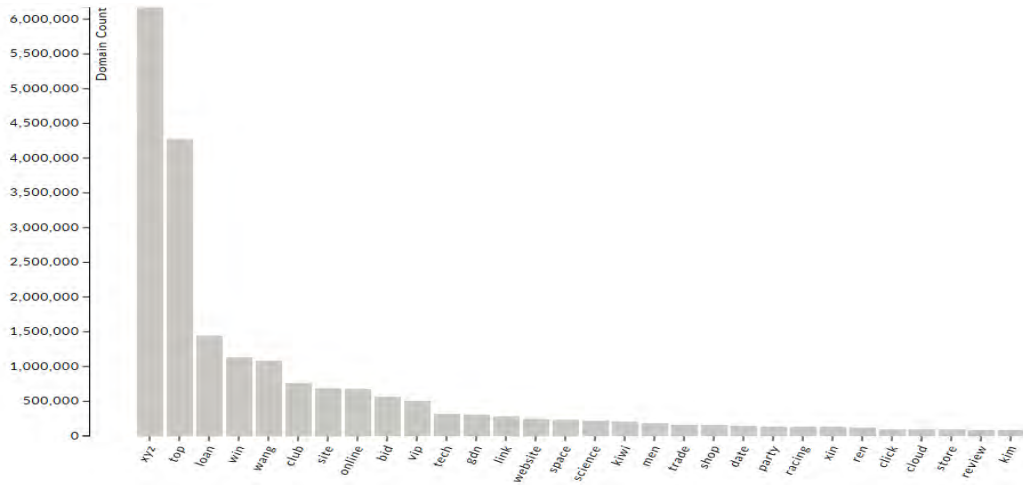


ICANN | GTLD MARKETPLACE HEALTH INDEX (BETA)

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# Domain Count of Top 30 non-IDN gTLDs

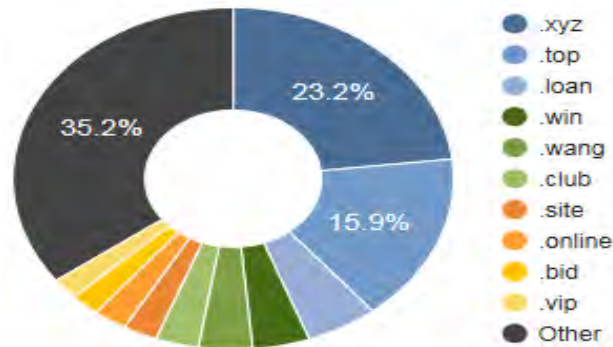


<http://research.domaintools.com/statistics/new-gtlds/>

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# New gTLD Market Share

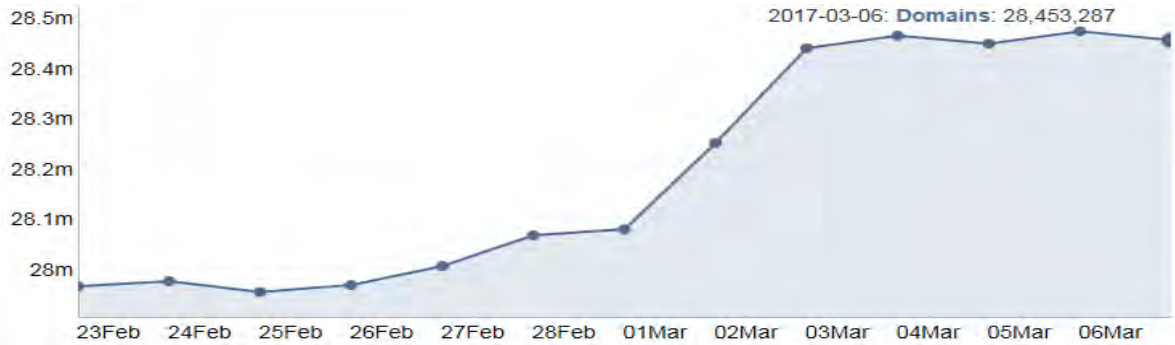


<https://ntldstats.com/tld>

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## New gTLD Domains: Daily Counts



<https://ntldstats.com/tld>

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## Anti-cybersquatting Consumer Protection Act

“[T]o protect consumers and American business, to promote the growth of online commerce, and to provide clarity in the law. . . .”

S.Rep. No. 106-140 at 4 (signed into law on Nov. 29, 1999).

## ACPA elements

- Bad faith intent to profit from a mark, **and**
- Registers, traffics in, **or** uses a domain name, **and**
- Identical of confusingly similar to a mark that was distinctive at the time of registration, **or**
- Identical of confusingly similar to or dilutive of a mark that was famous at the time of registration, 15 USC. 1125(d).

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## ACPA bad faith or lack thereof

Non-exhaustive list of factors in 15 USC 1125(d)(1)(B)(i), including:

- Trademark or other IP rights in domain
- Prior bona fide use of domain name
- Intent to divert consumers/harm goodwill
- Offer to sell domain for financial gain
- Misleading WHOIS information
- Registration of multiple infringing domains

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## ACPA relief

- Injunction and monetary relief under Lanham Act
- Forfeiture, cancellation or transfer of domain
- Statutory damages of \$1000 to \$100,000 per domain (except if domain registered before ACPA enacted)

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## ACPA miscellany

- Personal names and other words (Olympics, etc.) also protected under 15 USC 8131
- Built in fair use defense under 15 USC 1125(d)(1)(B)(ii)
- Availability of *in rem* action if unable to obtain personal jurisdiction under 15 USC 1125(d)(2)

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## Uniform Domain Name Dispute Resolution Policy

- ICANN tasked with fixing “The Trademark Dilemma,” the misuse of trademarks in domains
- WIPO recommends “a mandatory administrative procedure concerning abusive registrations”
- On Dec. 1, 1999, UDRP launched
- Registrants agree UDRP in registration agreements

## UDRP elements

- Domain is identical or confusingly similar to Complainant’s trademark or service mark; **and**
- Respondent has no rights or legitimate interests in domain name; **and**
- Respondent registered **and** is using the domain in bad faith.



## UDRP bad faith (4(b))

- Registered to disrupt a competitor's business
- Registered to prevent the trademark owner from using the mark in a domain
- Registered to divert Internet users
- Registered to sell/rent domain for more than registration costs (=profit)
- Pattern of squatting

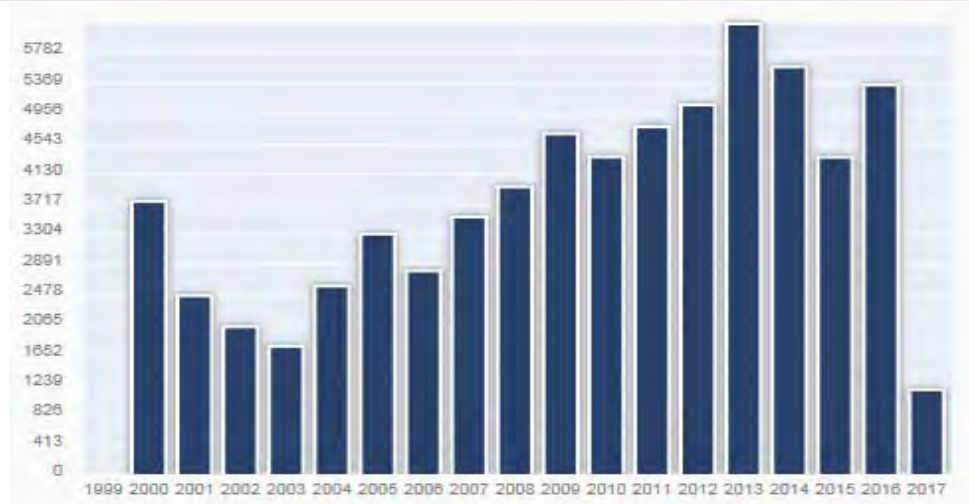
## UDRP relief

- Domain cancellation or transfer to Complainant
- Status quo (= no domain transfer) during proceeding
- No damages
- No injunctions

## UDRP miscellany

- Preponderance of evidence standard
- Either party may bring dispute to court of competent jurisdiction during or after UDRP proceeding
- UDRP providers (NAF and WIPO):
  - Set fees (~\$1500/single domain & panelist)
  - Promulgate rules to supplement the UDRP
  - Provide model complaints, panelist research tools, online filing, etc.

## WIPO UDRP statistics: Contested Domains by Year



<http://www.wipo.int/amc/en/domains/statistics/domains.jsp>



# Uniform Rapid Suspension

## — Uniform Rapid Suspension

The Uniform Rapid Suspension (URS) will provide rapid relief to trademark holders for the most clear-cut cases of infringement and offer cheaper, faster responses than the existing Uniform Domain Name Dispute Resolution Policy (UDRP).

## URS elements

- Domain is identical or confusingly similar to Complainant's mark; **and**
- Registrant has no legitimate right or interest in the domain name; **and**
- Registrant registered **and** is using the domain in bad faith.

## URS relief

- Suspension only
- No transfer
- No damages
- No injunction

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## URS miscellany

- Clear and convincing standard
- Applies only to domains registered in gTLDs launched after Jan. 1, 2013 (ccTLD opt-in)
- Applies only to marks that are registered, court-validated, or statute/treaty-protected; so most common law rights would not qualify
- UDRP or ACPA not precluded if Complainant loses; appeals also available

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# Avoiding Domain Name Disputes

- **Internal: Keep things clean**
  - Register your marks
  - Domain portfolio maintenance and docketing
- **External: Monitor for infringement**
  - Watch services
  - Active policing
  - Trademark Clearinghouse
  - Sunrise periods
  - Other services (e.g. Donuts)

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# Trademark Clearinghouse

## — Trademark Clearinghouse

The Trademark Clearinghouse is one of several important enhanced rights protection mechanisms that have been built into the New gTLD Program. The Trademark Clearinghouse will accept and authenticate rights information, and will support both trademark claims and sunrise services, required in all new gTLDs.

# Sunrise Services

Priority access for Rights Holders to request domain names associated with trademark(s).



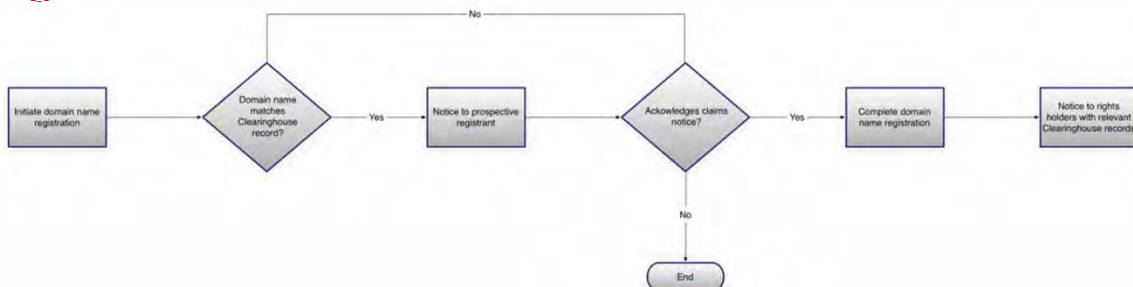
<https://newgtlds.icann.org/en/about/trademark-clearinghouse>

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# Trademark Claims Service

Notification to a Rights Holder after registration, allowing for immediate action if the domain registered is infringing rights.

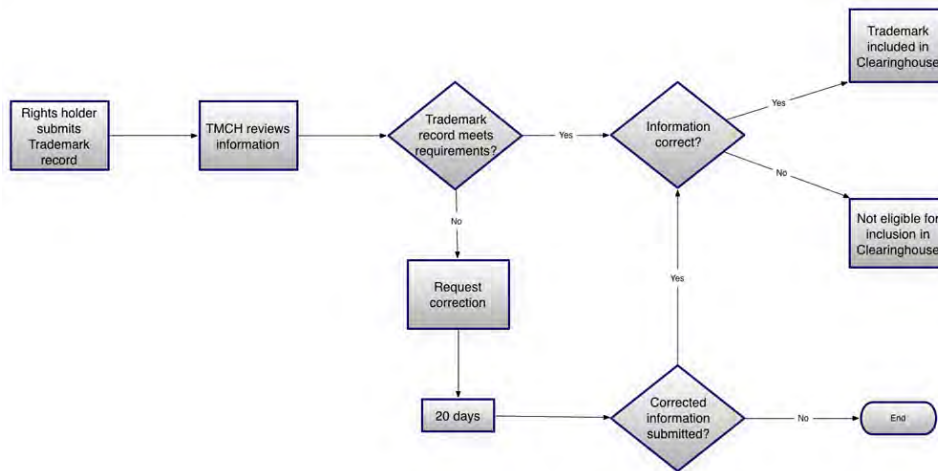


<https://newgtlds.icann.org/en/about/trademark-clearinghouse>

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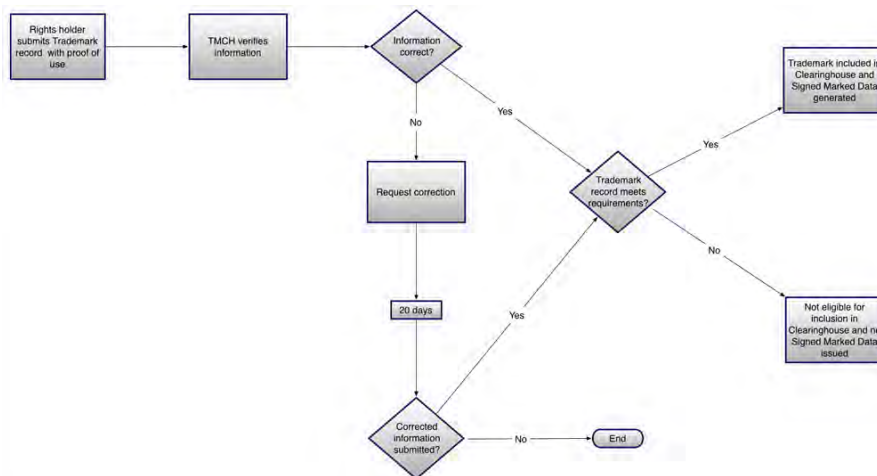
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# Trademark Clearinghouse Processes - Overview of Basic Eligibility for TMCH



<https://newgtlds.icann.org/en/about/trademark-clearinghouse/rights-holders>

# Trademark Clearinghouse Processes - Overview of Sunrise Eligibility for TMCH



<https://newgtlds.icann.org/en/about/trademark-clearinghouse/rights-holders>



## Resolving Domain Name Disputes – Options

- Wait and see
- Demand letter
- URS
- UDRP
- ACPA

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## Filed UDRP and URS Cases

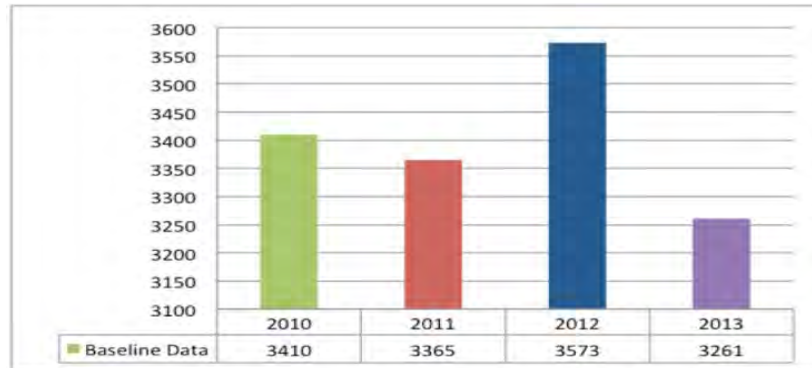
Year	Total
2012	3,987 (UDRP)
2013	3,371 (UDRP)
2014	3,436 (UDRP) & 229 (URS)
2015	3,466 (UDRP) & 220 (URS)
2016	3,712 (UDRP) & 180 (URS)

<https://www.icann.org/resources/pages/cct-metrics-rpm-2016-06-27-en#1.9.a>

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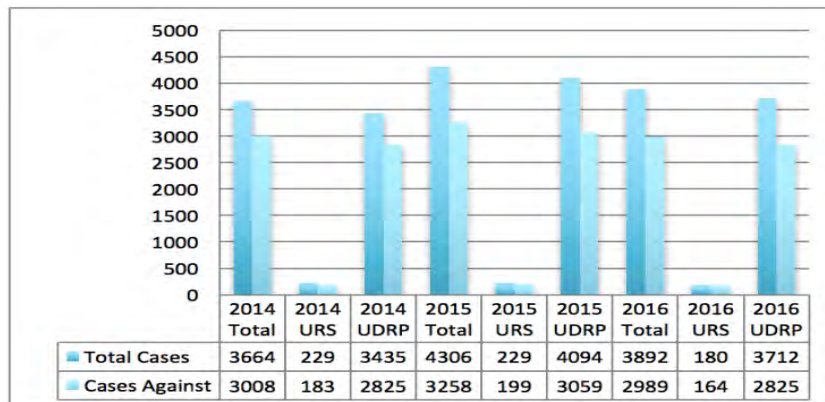
PERKINScoie

# UDRP Decisions Against Registrants



<https://www.icann.org/resources/pages/cct-metrics-rpm-2016-06-27-en#1.9.a>

# UDRP and URS Decisions Against Registrants



<https://www.icann.org/resources/pages/cct-metrics-rpm-2016-06-27-en#1.9.a>

## Enforcement Options – Variables

- Applicability
- Scope
- Cost
- Processes available
- Timing
- Relief
- Standards/Elements
- Rule of law
- Finality/Appeals

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## Enforcement Options – Applicability

ACPA	UDRP	URS
Any domain	All gTLDs (plus some ccTLDs)	New gTLDs only

## Enforcement Options – Scope

ACPA	UDRP	URS
Variety of claims can be included (e.g., trademark infringement/dilution, unfair competition, state law claims)	Domain dispute only	Domain dispute only

## Enforcement Options – Cost

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>Like other federal court litigation – can be difficult to estimate and control.</li> </ul>	<ul style="list-style-type: none"> <li>Predictable and reasonable.                             <ul style="list-style-type: none"> <li>Filing fees = ~ \$1500/domain/single panelist</li> <li>Attorney fees/costs = variable</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Predictable and low.                             <ul style="list-style-type: none"> <li>Filing fees = \$375</li> <li>Attorney fees/costs = low</li> </ul> </li> </ul>

## Enforcement Options – Processes

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>• Mostly federal court</li> <li>• Discovery and other processes available</li> <li>• Testimonial</li> <li>• ECF</li> </ul>	<ul style="list-style-type: none"> <li>• Choice of providers</li> <li>• Document-based</li> <li>• Online filing</li> <li>• Forms available; generally ~15 page limit</li> <li>• No discovery</li> <li>• Reply/response for additional fee</li> </ul>	<ul style="list-style-type: none"> <li>• NAF is provider</li> <li>• Online filing required</li> <li>• 500 word limit in online form</li> </ul>

## Enforcement Options – Timing

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>• Federal court timing (~18 months from filing to trial date)</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions typically issue within 2 months of filing complaint</li> <li>• 3 calendar days for admin reviews</li> <li>• 20 calendar days to answer</li> <li>• Decision within 14 days of panel appointment</li> <li>• 10 days to appeal to court</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions typically within 6 weeks of filing</li> <li>• 2 business days for admin review</li> <li>• 14 calendar days to answer</li> <li>• Decision within 5 days of examiner decision</li> <li>• 14 days to appeal to provider</li> </ul>

## Enforcement Options – Relief

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>• Cancellation or transfer of domain</li> <li>• Monetary damages</li> <li>• Costs and fees</li> <li>• Other injunctive relief</li> </ul>	<ul style="list-style-type: none"> <li>• Cancellation or transfer of domain</li> </ul>	<ul style="list-style-type: none"> <li>• Suspension of registration (domain does not resolve for registered term)</li> </ul>

## Enforcement Options – Standards/Elements

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>• Preponderance</li> <li>• Identical, confusingly similar, or dilutive (timing)</li> <li>• Registered, trafficked in, <u>or</u> used with bad faith intent to profit</li> </ul>	<ul style="list-style-type: none"> <li>• Preponderance</li> <li>• Identical/confusingly similar</li> <li>• Registered <b>and</b> used in bad faith</li> <li>• Registrant has no rights</li> </ul>	<ul style="list-style-type: none"> <li>• “No genuine issue of material fact” by “clear and convincing” evidence</li> <li>• Identical/confusingly similar</li> <li>• Registered <b>and</b> used in bad faith</li> <li>• Registrant has no rights</li> </ul>

## Enforcement Options – Rule of Law

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>Predictable</li> </ul>	<ul style="list-style-type: none"> <li>Panelists generally follow and cite precedent</li> <li>But some inconsistency (differing or undeveloped laws)</li> </ul>	<ul style="list-style-type: none"> <li>TBD?</li> <li>clear and convincing standard is heavy burden</li> <li>Some inconsistent opinions</li> </ul>

## Enforcement Options – Finality/Appeal

ACPA	UDRP	URS
<ul style="list-style-type: none"> <li>Court decisions are final and binding</li> <li>Appeals to federal Court of Appeals</li> </ul>	<ul style="list-style-type: none"> <li>Either party can initiate litigation during or after UDRP proceeding</li> <li>Appeal to USDC under ACPA <i>de novo</i>, or other court of competent jurisdiction</li> </ul>	<ul style="list-style-type: none"> <li>Either party can seek <i>de novo</i> review with URS provider</li> <li>Either party can initiate other action (e.g., UDRP or court action)</li> </ul>

## Enforcement Options – Examples

1. Registered mark, single domain, no other infringement
2. Common law rights only (civil law registrant?)
3. Offshore registrant
4. Multiple domains, maybe with different registrants
5. Can't lose
6. Former distributor/licensee/employee

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# Questions?

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## CHAPTER SEVEN

**KEYNOTE PRESENTATION**

March 2017

**Judge Benjamin H. Settle**  
**United States District Court**Phone: (253) 882-3850  
benjamin\_settle@wawd.uscourts.gov

**JUDGE BENJAMIN H. SETTLE** is a United States District Judge for the Western District of Washington in Tacoma, appointed by President George W. Bush on July 2, 2007

Prior to his appointment, Judge Settle was a founder and partner of the law firm Settle & Johnson PLLC for 30 years in Shelton, Washington. The firm engaged in a general practice with emphasis on civil litigation, business, municipal and real property law.

Judge Settle received his undergraduate degree from Claremont McKenna College in 1969, and his J.D. from Willamette University College of Law in 1972. From 1973 to 1976, he served as a captain in the United States Army Judge Advocate General Corps, as both prosecutor and defense counsel.

Judge Settle was active in the Washington State Bar Association, serving on the Judicial Recommendation Committee and Legislative Committee, and as Special Investigative Counsel. He served on the Ninth Circuit Jury Instruction Committee from 2010 through 2016 and is a member of the Inns of Court, Hon. Robert J. Bryan Chapter XXV.

## NOTES

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## CHAPTER EIGHT

**DATA PRIVACY & CYBERSECURITY:  
WHY IT MATTERS TO THE IP PRACTITIONER**

March 2017

**Aravind Swaminathan  
Orrick, Herrington & Sutcliffe LLP**Phone: (206) 839-4300  
aravind@orrick.com

**ARAVIND SWAMINATHAN** is the Global Co-Chair of Orrick, Herrington & Sutcliffe LLP's Cybersecurity & Data Privacy practice, which is nationally ranked by The Legal 500 in cybercrime matters and was named 2016 Privacy Practice Group of the Year by Law360. A former federal prosecutor, Aravind has directed numerous data breach investigations, including ones with national security implications. Aravind also counsels clients in proactive assessment and management of cybersecurity risks, and advises Boards on cyber-related corporate governance matters, and represents them in cybersecurity and privacy-oriented class action litigation.



# Data Breaches: Prevention and Response

March 10, 2017

Aravind Swaminathan (Seattle), Global Co-Chair Cybersecurity and Data Privacy



## Scope of the Problem

“There are only ‘two categories’ of companies affected by trade secret theft – those that know they’ve been compromised and those that don’t know yet.”

*Former Attorney General Eric Holder*

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# World Economic Forum: Cyber Risk



Figure 3: The Most Likely Global Risks 2016: A Regional Perspective



## Knowing the Adversary



## Threat Actors

Threat Type	Who and What
<b>Industrial Control System Attack</b>	Targeted attack that seeks to disrupt the activities of large-scale companies or organizations, including industrial control systems (e.g., Stuxnet)
<b>Organized Crime</b>	Organized crime rings targeting corporate data, such as personal information, health information, or credit cards, for financial motives (e.g., Target)
<b>Insiders</b>	Employee or contractor using access to release or ex-filtrate information for personal, competitive, or financial gain (e.g., Wikileaks)
<b>Advanced Persistent Threat (APT)</b>	Organized and state-funded groups methodically infiltrating the enterprise, often have maintained presence for months or even years (e.g., "Deep Panda")
<b>Hacktivism</b>	Highly visible attacks to advance "movements," based on political, policy, religious views, to raise PR spotlight, embarrass, effect change (e.g., Anonymous)

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## Attack Targets

*"The top two industries affected are the same as previous years: Public and Financial Services."*

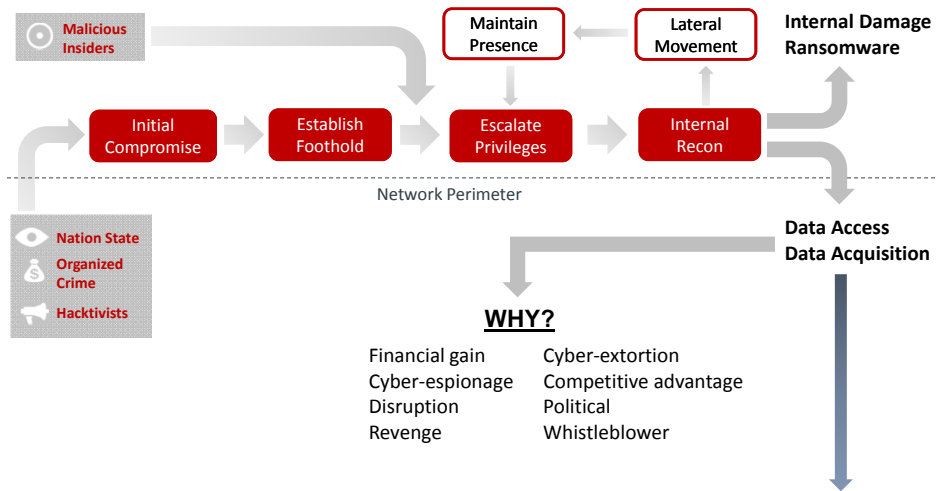
CONFIRMED DATA LOSS

INDUSTRY	TOTAL	SMALL	LARGE	UNKNOWN
Accommodation (72)	223	180	10	33
Administrative (56)	27	6	4	17
Agriculture (11)	2	0	0	2
Construction (23)	2	1	1	0
Educational (61)	65	11	10	44
Entertainment (71)	23	16	0	7
Financial Services(52)	277	33	136	108
Healthcare (62)	141	31	25	85
Information (51)	95	13	17	65
Management (55)	1	0	0	1
Manufacturing (31-33)	235	11	10	214
Mining (21)	17	0	11	6
Other Services (81)	28	8	2	18
Professional (54)	146	14	6	126
Public (92)	303	6	241	56
Real Estate (53)	10	1	1	8
Retail (44-45)	164	95	21	48
Trade (42)	5	4	0	2
Transportation (48-49)	22	2	6	14
Utilities (22)	10	0	0	10
Unknown	325	141	1	183
<b>TOTAL</b>	<b>2,122</b>	<b>573</b>	<b>502</b>	<b>1,047</b>

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Source: Verizon 2015 Data Breach Investigations Report

## Anatomy of an Attack



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## Common "Breach" Scenarios

- External **hacking** into servers
- Successful **phishing** or **spear-phishing** attack
- Access credentials written on a **Post-It** left on train or in taxicab
- PI sent to the **wrong email recipient**
- Misplaced or **lost** laptop or storage device (e.g., courier loses it)
- Inadvertent posting of PI on a **public internet site**
- Failure to properly **shred or dispose of** back-up tapes or hardcopy
- **Employee theft** of data or device
- Breach at **service provider or vendor** who maintains PI on your behalf, or provides a data processing service

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## What You Keep that Attackers Want



- Company data:
  - Customer data (e.g., credit card information, financial account information, etc.)
  - Trade secrets and IP
  - Business intelligence
  - Information about customers: purchase and sale history
- Employee Data:
  - Social Security number
  - Health care information
  - Logins/passwords
  - Other confidential information

## Costs of a Breach...Not Just Economic



## Reputational Impact is Costly



of consumers worry about the security of their personal information.  
Temkin Group "Consumer Benchmark Survey"



of consumers don't believe organizations care about their private data and keeping it safe and secure.  
HyTrust Inc., the Cloud Security Automation Company



of consumers believe failure to keep customer information secure has a significant negative impact on trust in a company.  
Edelman Trust Barometer: Financial Services Industry



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Source: Edelman Proprietary Study, 2014

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## Average Costs for "Small" Breaches

Average Loss to Organization	In 2012	In 2014	In 2016
<b>Average Total Cost</b> (direct and indirect expenses, e.g., forensic experts, outsourcing hotline support, free credit monitoring, discounts, customer loss, diminished customer acquisition)	<b>\$5.5 million</b>	<b>\$6.5 million</b>	<b>\$7.1 million</b>
<b>Cost per compromised record</b>	<b>\$188 per record</b>	<b>\$217 per record</b>	<b>\$221 per record</b>

Source: Ponemon Institute/IBM, 2016 Cost of Data Breach Study: United States

- Averages based on *small* breaches of 5,000 to 99,000 records
- Breaches >100,000 records were excluded because they would skew the results

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## Common Cost Components



<u>Initial response costs</u>	<u>Business Losses</u>
Security consultants	Lost revenue
Forensic imaging	Drop in stock value
Restoring service / security upgrades	Loss of customer confidence
<u>Customer costs</u>	<u>Legal Claims</u>
Breach notification	Class action defense costs and settlement
Identity theft protection	Defense of government proceedings
Credit monitoring	Government fines or penalties
Customer inducements	Card brand assessments

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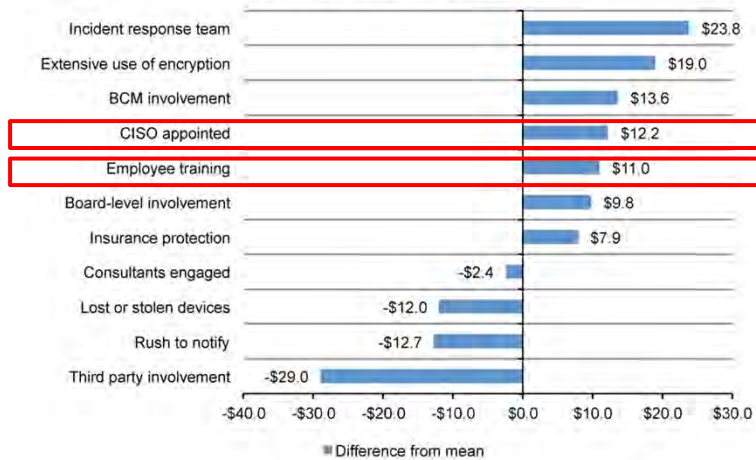
13

## Reducing Per Record Costs

(Positive amounts reflect potential cost reductions)



Figure 7. Impact of 11 factors on the per capita cost of data breach



Source: Ponemon Institute/IBM, 2015 Cost of Data Breach Study: United States

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## Legal Obligations



## U.S. “Cyber” Law . . . A Patchwork



In U.S., no comprehensive federal cyber/data-security law

Laws imposing civil or criminal liability for **hacking**

Laws requiring implementation of **security measures**

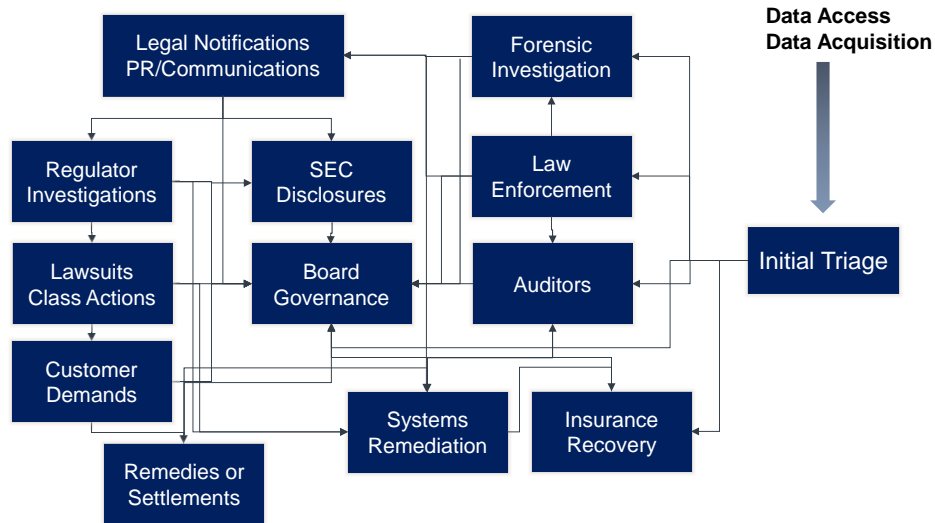
Laws requiring **notification** of security breaches

**Contractual** duties re: security and/or breach notification

Regulator enforcement **consent decrees**, and related requirements

Regulator and industry **standards, guidelines, and frameworks**

## Anatomy of an Incident Response



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## Legal Obligations to Notify

- **Statutes**
  - Narrow federal statutes (e.g., HIPAA) . . . but this could change
  - 47 state statutes (plus D.C., Guam, P.R., V.I.); triggered when 1 or more affected individual is a resident of the state
  - State of individual’s residence applies; not company’s resident state
- **Contracts**
  - Contracts with customer and vendors (e.g., privacy policies, terms of use, etc.)
  - Almost always define “breaches” more broadly than statutes
- **Industry Specific Regulations** (e.g., NYDFS, DFARS, etc.)
- **Industry Rules** (e.g., PCI)
- **Client’s Internal Security Policies**
  - Extends to IP, trade secrets, proprietary data (e.g., financials, M&A activity, R&D, marketing plans)

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## Washington Law (RCW 19.255.010)



- “Breach of the security of the system” means unauthorized acquisition of data that **compromises** the security, confidentiality, or integrity of **personal information** maintained by the business.
- **Notification required to affected entity that licensed personal information from individual:**  
“Any [] business that maintains computerized data that includes **personal information that the [] business does not own shall notify the owner or licensee** of the information of any breach of the security of the data immediately following discovery . . . .”
- Personal information:
  - » First name or first initial *plus*
  - » Last name *plus*
    - (A) Social Security number,
    - (B) driver’s license number or Washington identification card number,
    - (C) account or credit/debit card number plus any code/password needed to access financial account

## Legal Notifications: Other Considerations



- **Law enforcement (delay):** Notification can be delayed if data owner contacts a law enforcement agency after discovery of a breach and LE determines notification will “impede a criminal investigation”
- **Exceptions**
  - No notification required if personal information is encrypted to NIST standard or modified so the information is rendered “unreadable, unusable, or undecipherable” at the time of breach
  - No notification is required if breach “not reasonably likely to subject consumers to a risk of harm”
  - Good faith acquisition of personal information by an employee for purposes of business
  - PI is not used or subject to further unauthorized disclosure
- Substitute Notice
- Maintaining your “own notification procedures”

## Other Considerations: Statutory Notification Differs by State



- Notification law applicable **depends on state of individual's residence at time of notice**
- Definitions of triggering PI can include: DOB; mother's maiden name; any gov't ID; medical or health data; **username + password** (California and Florida)
- Timing of notice: "without undue delay" vs. within 30 days (FL) vs. within 45 days (OH) vs. within 14 days notice to AG (VT)
- Content of notice: e.g., CA wants details, MA does not want details, but must include details on credit freezes
- Threshold for notice to state regulators; sometimes subject to thresholds (e.g., CA requires notice to AG if >500 residents affected, HI if >1000)
- Notice may be required to credit bureaus (e.g., Transunion, Equifax, Experian )

## Class Action Litigation



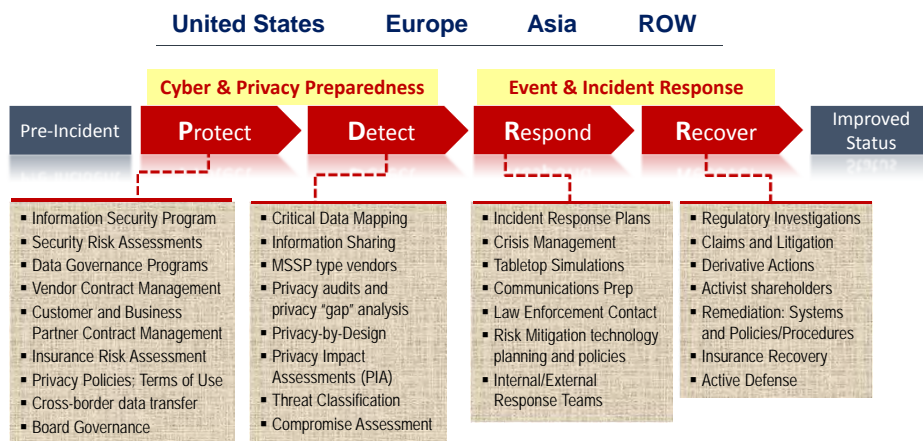
- **Supreme Court's Decision in *Clapper and Spokeo***
  - Has largely gutted data breach class actions
- **But . . . *Neiman Marcus and P.F. Chang's* (7th Circuit) and *Nationwide* (6th Circuit)**
  - Distinguished *Clapper*
  - NM's offer of free credit monitoring served as tacit admission of non-speculative injury
  - P.F. Chang's early notice to all customers, taking all systems offline, and statutorily required advice to "monitor credit reports" supported inference of imminent harm
  - Nationwide recommended credit freezes, without accompanying offer to pay
- **But . . . *Wyndham Worldwide* (3d Circuit 2015)**
  - Federal Trade Commission sued under Section 5 authority to regulate "deceptive" and "unfair" trade practices
  - FTC has never articulated cybersecurity standards

# Proactive Cybersecurity



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## Proactive and Reactive Cybersecurity



Orrick | March 2017

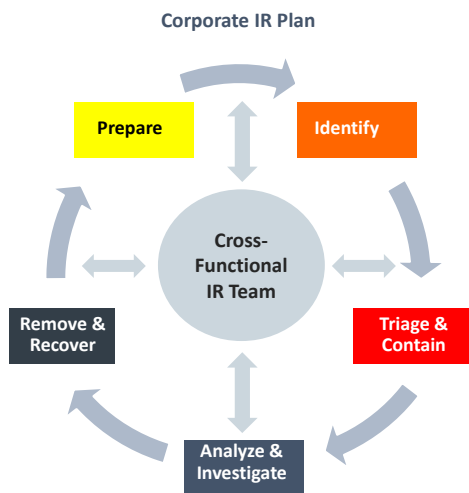
## Strong Governance is Mission One

A sound **governance framework** is essential to a robust cyber program

- Sets the tone and culture
- Assigns roles and responsibilities
- Commits money and resources to cybersecurity as a priority
- Must be supported by intelligent, fact-based decision making
- Bridge communication gaps between technical/cyber experts and leadership
- Use cybersecurity frameworks to guide program and progress (e.g., NIST)
- Assess security through common performance measurement tools

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## Incident Response (IR) Planning



### Cross-Functional IR Team

#### Key Internal Members

IR Team Leader	Executive Liaison
General Counsel/Legal	Privacy Officer
IT Security	Physical Security
Corp. Communications	Customer Support
Human Resources	Risk Management

#### Key External Members

Outside Counsel	Forensics
Crisis Communications	Investor Relations
Vendors (mail house, call center, credit monitoring)	



## Workforce Training



### The “human” element

- » Research shows that >50%, and possibly >90% of all data breaches include an aspect of employee ignorance, negligence, or malice

### Regular employee and contractor training is critical

- » At employee onboarding
- » Index to past experiences and threat intelligence
- » Tailor to meet staff abilities
- » Interactive training with participation
- » Lather . . . Rinse . . . Repeat

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## Workforce Monitoring



### Key Considerations in Monitoring

- Computer/network use policies
- Data loss prevention
- Deep packet inspection
- Auditing and logging
- White list vs. black list
- Behavioral analytics
- *But see* EU considerations

### Key Consideration in Separation

- Timing is everything; be proactive
- Deactivation of credentials and return of equipment
- System hardening

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## Key Elements of Proactive Cybersecurity Program



- **Executive CISO or equivalent function responsible** for cybersecurity with regular and direct reporting to Board (Audit/Risk) Committee
- **Inventory of data and network assets** subject to attack (e.g., data map or network map)
- Regular **enterprise-wide cybersecurity assessments**, properly scoped and managed (not just “pen tests” or routine vulnerability scans, but more holistic)
- Participation in **threat intelligence** sharing forums to develop understanding of threat landscape (e.g., FS-ISAC)
- Certification to **ISO/IEC standards**, such as ISO/IEC 27001:013
- **Encryption** of sensitive data in-transit and at-rest, as appropriate . . . as the bare minimum of protective controls

## Key Elements (cont'd)



- Inclusion of **cybersecurity-related provisions and audit rights** in vendor and business partner contracts, with program for **auditing compliance**
- Development of **security breach incident response plan (IRP)**; periodically tabletop, refine, update
- Implementation of **training programs** for employees and security team on cybersecurity awareness and response
- Retention of **experts and consultants** to provide technical services for purpose of providing legal advice regarding risk
- Procurement of **cyber insurance** to cover costs of forensic analysis, legal services, public relations, credit monitoring, litigation defense, etc.

## Key Proactive Steps



- **Security culture** driven by Board of Directors and C-Suite; starts with creation and staffing of CISO or equivalent function
- **Technical Security Assessment:** *not* just pen tests/scans, and *never* without considering whether counsel should direct it (*Genesco*)
- **Training and education:** *over 90%* of cyber-attacks and breaches are still attributable to some “human element”
- **Incident Response Plan:** step-by-step crisis response game plan
- **Vendor management:** vendors often the largest contributors to increased costs in a breach; multiple steps to manage vendors
- **Cyber-insurance:** assess and procure; make your vendors do it too
- **Use lawyers to create a “safe place” for debates (and mistakes):** cover under privilege/work product, especially the “hard” decisions

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# Trust Anchor

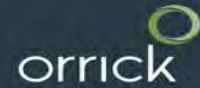
*An established point of trust in a cryptographic system from which a process of validation can begin*

**Blog:** [blogs.orrick.com/trustanchor](https://blogs.orrick.com/trustanchor)

**Twitter:** @Trust\_Anchor



## DISCUSSION



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Aravind Swaminathan is a global co-chair of the firm's Cybersecurity & Data Privacy team, which is nationally ranked by *The Legal 500* for "high-level practical experience and understanding of the law."

Aravind is an accomplished trial lawyer and former federal prosecutor in the complex crimes unit. He has extensive experience in cybersecurity and data breaches, government and internal investigations, and privacy-related matters. Aravind advises clients in proactive assessment and management of internal and external cybersecurity risks, breach incident response planning, and corporate governance related to cybersecurity.

Aravind has directed dozens of internal data breach investigations and incident response efforts, including incidents with national security implications. He also represents companies and organizations facing cybersecurity and privacy-oriented class action litigation. Aravind is a sought-after speaker on cybersecurity issues, including threat landscapes, mitigation strategies, incident response plans, and threat management in mobile device ecosystems.

## CHAPTER NINE

**DTSA - A REVIEW OF THE DEFEND TRADE SECRETS ACT AND ITS  
APPLICATION IN THE FIRST YEAR SINCE ENACTMENT**

March 2017

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**Orrick, Herrington & Sutcliffe LLP**Phone: (206) 839-4332  
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**NAGENDRA (NICK) SETTY** is now a retired partner and counsel to Orrick Herrington & Sutcliffe in the IP trial practice, after 25 years of active practice. Nick has tried more than 25 patent and trade secret cases to verdict and has a 95% win rate. Nick has chaired a global IP practice and been managing partner for a firm. He was appointed to a merit selection panel to choose Federal Magistrate Judges, is a founding member and current Board member of the South Asian Bar Association of North America, held leadership positions with the ABA, AIPLA, PLI and MCCA, and has lectured on IP issues at Berkeley, UVA, NYU, Stanford, Emory and Duke law schools.

Defend Trade Secrets Act (2016)\*

- James Pooley - Senior Counsel
- Nagendra Setty - Retired Partner, Counsel  
Orrick, Herrington & Sutcliffe LLP

\* Excerpt from Treatise "Trade Secrets" - Law Journal Press

## (REPLACEMENT) § 2.05 Federal Civil Claims: the Defend Trade Secrets Act

### [1] Background

[Retain first two paragraphs, with notes, in existing § 2.05, then continue with following:]

In the two decades since passage of the EEA, U.S. industry had become increasingly concerned about a fundamental shift in the nature of trade secret risk and the resolution of disputes. Along with stunning advances in electronic storage and communication of data came vastly increased risks to information security. The state law system for treating local cases of untrustworthy employees seemed ill suited to address the globalized, digital nature of modern commerce, in which interstate and international actors were common, and the need for timely court intervention more critical. Federal court filing was often not possible, since it required either a closely related claim under federal law, or complete diversity of citizenship.<sup>1</sup> And the EEA's criminal remedies were not a practical solution, with an average of only 7 to 8 prosecutions each year.<sup>2</sup>

Trade secret holders therefore began to push Congress for an amendment to the EEA that would give them the option of filing civil misappropriation claims in federal court. Several bills were introduced in the 113th Congress to accomplish this and to authorize provisional remedies for seizure of relevant property to prevent secret technology from being transferred out of the jurisdiction. A revised version was introduced as the "Defend Trade Secrets Act" (DTSA)<sup>3</sup> in July 2015, with identical bills in the House and Senate.<sup>4</sup> After a Senate Judiciary Committee hearing<sup>5</sup> and a later mark-up at which a number of amendments were made to the Senate bill, it passed with no opposition on April 4, 2016. The House accepted the amended Senate version, approving it on April 27, 2016, by a vote

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<sup>1</sup> See § 10.07[2] *infra*.

<sup>2</sup> Peter J. Toren, "An Analysis of Economic Espionage Act Prosecutions: What Companies Can Learn From It and What the Government Should Be Doing About It!", 84 Pat. Trademark & Copyright J. (BNA) No. 2081, at 884 (Sept. 21, 2012).

<sup>3</sup> This was the name given to the bills that ultimately passed Congress as Pub. L. 114-153. Since the legislation effected a series of amendments to the Economic Espionage Act, it might be technically correct to refer to its codified form as the EEA. However, to avoid confusion and to align with what appears to be the emerging convention, the new civil claim provisions of the EEA will be referred to as the DTSA. And for ease of comparison, the Uniform Act will usually be referred to in this context as the UTSA.

<sup>4</sup> The bills were opposed mainly by a group of law professors, who argued, among other things, that the bills would create a new class of litigation abusers, dubbed "trade secret trolls." Your author responded. See Pooley, "The Myth of the Trade Secret Troll: Why the Defend Trade Secrets Act Improves the Protection of Commercial Information," 23 George Mason L Rev 1045 (Summer 2016).

<sup>5</sup> Your author testified at the Senate hearing on December 2, 2015 and later worked with Senate staff on some of the amendments.

of 410 to 2. On May 11, 2016, the DTSA was signed and the new law became effective.<sup>6</sup>

For the most part, the DTSA amended Section 1836 of the EEA to provide a non-preemptive<sup>7</sup> private civil right of action for trade secret misappropriation in federal courts, patterned on the UTSA. However, the law introduced some new features, including provisions for ex parte seizure and whistleblower protections, which will be described below.

## **[2] Relationship to the Uniform Act**

One congressional objective was to establish greater national harmony in trade secret laws, so that trade secret owners could experience more efficiency in the enforcement of their rights around the country. To achieve that goal, the central operating features of the DTSA are taken directly from the UTSA (1985 version). Therefore, to the extent that a state's UTSA adheres to that standard,<sup>8</sup> there will be congruence between federal and state claims.

Specifically, the federal definition of a trade secret is now effectively harmonized with the UTSA. Before enactment of the DTSA, the EEA definition was slightly askew relative to the UTSA, in two ways. First, the EEA definition includes a longer list of examples. While the UTSA speaks of "information, including a formula, pattern, compilation, program device, method, technique or process" that meets the criteria of secrecy, value and reasonable efforts, the EEA refers to "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 . . . ." This distinction remains, but it represents no real difference, since the examples from each can all be read into the other.

The second difference, however, was potentially more consequential. The UTSA defines the relevant value of a trade secret as deriving from its not being generally known to, or readily ascertainable by proper means by, "other persons who can obtain economic value from its disclosure or use." In contrast, the relevant group for EEA purposes was "the public." This difference had been identified as confusing, although not necessarily dispositive, in criminal cases.<sup>9</sup> The DTSA has now resolved the issue, at least prospectively, by amending the EEA definition to substitute the UTSA language.

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<sup>6</sup> Jurisdiction may be claimed for a case in which the misappropriation began before May 11, 2016, if at least some wrongful act occurred after that date. See 18 U.S.C. § 1836(d): the DTSA applies to any misappropriation "for which any act occurs on or after" its effective date.

<sup>7</sup> The law retains the non-preemption language of 18 U.S.C. § 1838, excepting only the new grant of whistleblower immunity contained in § 1833(b).

<sup>8</sup> See § 2.03[7][b] *supra* regarding variations in state enactments of the UTSA.

<sup>9</sup> See, e.g., *United States v. Lange*, 312 F.3d 263, 267-68 (7<sup>th</sup> Cir. 2002). See also § 13.03[2] *infra*.



The multi-part definition of “misappropriation” from Section 1(2) of the UTSA has been carried into the DTSA with effectively identical language.<sup>10</sup> The same is true of the basic definition of “improper means,” which is defined with the same list of examples as in the UTSA. However, the DTSA borrows from the California version of the UTSA to add the proviso that reverse engineering shall not be considered to be improper means of acquisition of a trade secret.<sup>11</sup>

With one exception, addressed below in connection with departing employees, the injunction provisions of the DTSA track the substance of Section 2 of the UTSA. Injunctions may be granted to prevent “actual or threatened” misappropriation.<sup>12</sup> Affirmative actions may be ordered to protect the secret. And in “exceptional circumstances” that would make an injunction inequitable, the court may instead condition future use of the secret on payment of a reasonable royalty.<sup>13</sup>

Regarding damages, the DTSA follows the three-part structure of Section 3(a) of the UTSA, allowing recovery measured by the plaintiff’s actual loss, plus any unjust enrichment not included in the loss calculation, or by a reasonable royalty for the unauthorized disclosure or use.<sup>14</sup> Willful and malicious misappropriation

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<sup>10</sup> 18 U.S.C. § 1839(5).

<sup>11</sup> The California version, found in Cal. Civ. Code § 3426.1(a), states that “[r]everse engineering or independent derivation alone shall not be considered improper means.” The DTSA goes a bit further by excepting “reverse engineering, independent derivation, or any other lawful means of acquisition.” 18 U.S.C. § 1839(6)(B). These additions do not effect a substantive change, however, since true reverse engineering (that is, a process that works backwards from the publicly available information to divine the secret, without being tainted by prior knowledge of it) has never been held to be “improper means.” See generally § 5.02 *infra*.

<sup>12</sup> The DTSA omits the related UTSA requirement that an injunction be terminated when the secret becomes known, subject to extension to eliminate the defendant’s “head start” advantage. Instead, the DTSA provides a broad grant of discretion: injunctions may issue “on such terms as the court deems reasonable.” That said, the DTSA language on royalties in lieu of injunctive relief – also drawn from the UTSA – seems to imply that injunctions should be terminable: the royalty may be required “for no longer than the period of time for which such use could have been prohibited.”

<sup>13</sup> Neither the DTSA nor the UTSA defines “exceptional circumstances,” but the latter states that it may include a defendant’s “material and prejudicial change of position” before receiving notice of the misappropriation. See § 2.03[4][b] *supra* and § 7.03[1][d] *infra*.

<sup>14</sup> 18 U.S.C. § 1836(b)(3)(B). The Committee Reports contain an error in relation to the damages section. At page 9 of the Senate Report (see <https://www.congress.gov/congressional-report/114th-congress/senate-report/220/1>), it correctly observes that the DTSA damages language was drawn from Section 3 of the UTSA. But in a footnote (17) the Report refers to case law characterizing the royalty award in lieu of an injunction under Section 2 of the UTSA as a “remedy of last resort.” The footnote is accurate, but it clearly was intended to refer to the DTSA language on injunctive relief that was patterned directly on that section of the UTSA, and not Section 3 on damages. The same language was copied into the House Report (see <https://www.congress.gov/congressional-report/114th-congress/house-report/529/1>), where it appears at page 13, footnote 13. That said, the DTSA failed to adopt the exception appearing at the beginning UTSA § 3 as a qualification on the right to recover damages: “Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know

may result in an additional award of up to twice the amount of compensatory damages.<sup>15</sup>

Taking language directly from Section 4 of the UTSA, the DTSA allows attorney fee awards when (1) a claim made in bad faith, (2) a motion to terminate an injunction is made or resisted in bad faith, or (3) misappropriation was willful and malicious. Oddly, the DTSA adds the superfluous proviso that the first of these three “may be established by circumstantial evidence.”<sup>16</sup> Apparently this was intended to remove any doubt on the point, rather than to imply that circumstantial evidence may not be used to prove either of the other two predicates to an attorneys fee award.

The same three-year period of limitations applies as under the UTSA. It similarly runs from the time of discovery (or when due diligence should have led to discovery), and the period may not start to run again based on subsequent actions that are part of a “continuing misappropriation.”<sup>17</sup>

One significant difference between the UTSA and DTSA is the statute’s effect on other laws or claims. The UTSA was intended to address problems of uncertainty generated by an array of possible alternative state law theories that could be applied to claims of misappropriation. Therefore, with certain exceptions, Section 7 of the UTSA “displaces conflicting tort, restitutionary, and other law . . . providing civil remedies for misappropriation of a trade secret.” A large majority of states have interpreted this language to deny plaintiffs the opportunity to plead closely related state law claims in the alternative.<sup>18</sup> In contrast, the DTSA is expressly non-preemptive: Section 2(f) of the Act<sup>19</sup> confirms that the original language of the EEA Section 1838 applies to the DTSA amendments.

### **[3] Ex Parte Seizures**

The DTSA adds a remedy that is not expressly granted by the UTSA: ex parte seizure of “property necessary to prevent the propagation or dissemination of the trade secret.”<sup>20</sup> It is designed to address situations in which the trade secret

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of misappropriation renders a monetary recovery inequitable.” It is certainly possible that this omission could lead to different results in some cases decided under the DTSA, where the defendant might have an opportunity to avoid liability for some portion of damages under state law. See § 7.03[1][d] (royalty in lieu of injunction) and § 7.03[2][d] (royalty measure of damages) infra.

<sup>15</sup> 18 U.S.C. § 1836(b)(3)(C).

<sup>16</sup> 18 U.S.C. § 1836(b)(3)(D).

<sup>17</sup> 18 U.S.C. § 1836(d).

<sup>18</sup> See § 2.03(6) supra.

<sup>19</sup> Section 2(f), Pub. L. 114-153: “Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.”

<sup>20</sup> 18 U.S.C. § 1836(b)(2)(A)(i).

owner becomes aware of an impending theft of a trade secret that could involve its being destroyed by publication or transfer from the jurisdiction.

Adapted from similar provisions of the Lanham Act,<sup>21</sup> the seizure language of the DTSA is substantially narrower, with a number of procedural safeguards intended to prevent abuse. An ex parte seizure order under the DTSA is available only when the evidence clearly shows, in addition to the usual irreparable harm and balance of equities, that the alleged wrongdoer (1) “would evade, avoid, or otherwise not comply” with any alternative form of order; (2) has actual possession of specific property containing a trade secret; (3) either misappropriated it or conspired with someone else to do so (this excludes innocent third parties such as cloud providers or ISPs); and (4) would “destroy, move, hide, or otherwise make [the secret] inaccessible” if given notice.<sup>22</sup> A seizure order must (1) include findings and conclusions; (2) “provide for the narrowest seizure of property necessary;” (3) prohibit access by the plaintiff or copying of the information; (4) specify the seizure conditions for law enforcement; (5) set a hearing within seven days; and (6) require a bond.<sup>23</sup> All seized materials must be deposited with the court and maintained in confidence until after the noticed hearing.<sup>24</sup> A special master may be appointed to separate trade secret information from other property and to “facilitate the return” of the latter.<sup>25</sup>

The statute expressly declares the obvious, that an ex parte seizure may only be granted in “extraordinary circumstances.”<sup>26</sup> Another way that it seeks to discourage requests is with a provision allowing recovery of damages for “wrongful or excessive seizure” in an amount not limited by the required bond.<sup>27</sup> Given all of the foregoing, plaintiffs should prepare such applications carefully and should consider pursuing state law alternatives that might be available ex parte, such as replevin or sequestration, or even a mandatory injunction under Section 2 of the UTSA.<sup>28</sup> On the other hand, when compelling evidence shows that valuable information has been taken and that the thief plans to send it (or take it) abroad, it may be sensible to request this special procedure from a federal court with national jurisdiction.

#### **[4] Injunctions Against Departing Employees**

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<sup>21</sup> 15 U.S.C. § 1116(d).

<sup>22</sup> 18 U.S.C. § 1836(b)(2)(A)(ii).

<sup>23</sup> 18 U.S.C. § 1836(b)(2)(B).

<sup>24</sup> 18 U.S.C. § 1836(b)(2)(D)(i).

<sup>25</sup> 18 U.S.C. § 1836(b)(2)(D)(iv).

<sup>26</sup> 18 U.S.C. § 1836(b)(2)(A)(i).

<sup>27</sup> 18 U.S.C. § 1836(b)(2)(G).

<sup>28</sup> See § 2.03[4][b] supra.

As does the UTSA, the DTSA allows injunctions against “actual or threatened misappropriation.” But it cabins the discretion of courts in acting against departing employees. No order may “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;” nor may it prohibit “entering into an employment relationship,” and any conditions placed on employment “shall be based on evidence of threatened misappropriation and not merely on the information the person knows.”<sup>29</sup> This qualification has been described by some as a rejection of the so-called “inevitable disclosure doctrine;” but the reality is more nuanced.

As discussed elsewhere in this volume,<sup>30</sup> the “doctrine” was derived from a 1995 case in which a departing executive was ordered to delay for several months taking up duties in an identical position for a direct competitor working on a very similar new product. The opinion reveals some important facts that led the court to find the existence of a real threat, primarily that the individual had lied repeatedly about his plans. Under the circumstances, the court concluded that he could not be fully trusted not to misuse the highly sensitive information he knew. However, in discussing its reasoning the court observed generally that a plaintiff can prove a trade secret case by “demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.” This dictum was later wrenched from its context by critics and morphed into a popular straw man: courts could stop employees from taking a new job simply because they knew too much.

In reality, the very notion of inevitability, like “threatened misappropriation,” begs the question of what proof is necessary to establish it. The DTSA does not attempt to resolve debate over the seldom-applied abstract “doctrine,” but instead sidesteps it by returning to a fundamental consideration of the statutory language: if a “threat” can be enjoined, what does it take to prove one? As a matter both of public policy and evidence law, most would agree that “knowing too much” is not a workable standard. But when the courts focus on actions from which an inference of untrustworthiness can reasonably be drawn, they have captured the essence of an (implied) “threat.” Therefore, where the facts show that a departing employee has behaved in a way that proves he or she cannot be trusted to keep the secret, a court may be justified in placing conditions on subsequent employment to mitigate the threat of misappropriation.

## **[5] Exceptions For Whistleblowers**

The balancing of interests that characterized trade secrets at common law made room for exceptions to the duty of nondisclosure in light of a paramount public

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<sup>29</sup> 18 U.S.C. § 1836(b)(3)(A)(i).

<sup>30</sup> See § 7.02[2][b][ii].

interest.<sup>31</sup> However, the boundaries of this exception have never been clear. An article<sup>32</sup> by Prof. Peter Menell of the UC Berkeley School of Law described the effect of this uncertainty on the availability of evidence of corporate wrongdoing, due to the concerns of would-be whistleblowers that they might face misappropriation claims from their employers for revealing information to the authorities. Prof. Menell suggested the creation of a limited privilege that would provide immunity for disclosures to government officials. This idea was picked up during Senate consideration of the DTSA and language was proposed and adopted to implement it.

The DTSA amended 18 U.S.C. § 1833 (“exceptions to prohibitions”) to add subsection (b) establishing immunity under any state or federal trade secret law for the confidential disclosure of a trade secret to a federal or state official, or to an attorney, “solely for the purpose of reporting or investigating a suspected violation of law” or when included in a court filing “made under seal.” Employers are required to give notice to employees (including individuals acting as contractors or consultants) of their immunity from liability.<sup>33</sup> The notice must be included in any new or updated confidentiality agreements, and it can consist of a reference to the company’s whistleblower policy.<sup>34</sup> The penalty for non-compliance is not severe: the employer only forfeits the right to claim exemplary damages or attorneys fees in any action against the employee.

No other exceptions or immunities were created by the DTSA. However, it did include a provision stating that the legislation “shall not be construed to be a law pertaining to intellectual property for purposes of any other act of Congress.”<sup>35</sup> This is almost certainly a reference to Section 230 of the Communications

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<sup>31</sup> See § 6.03[5] *infra*.

<sup>32</sup> Peter S. Menell, “Tailoring a Public Policy Exception to Trade Secret Protection” (Jan. 3, 2016) (unpublished manuscript), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2686565](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2686565).

<sup>33</sup> 18 U.S.C. § 1833(b)(3).

<sup>34</sup> A short form of notice might consist of a statement such as “nothing herein prevents me from reporting, in confidence, potential violations of law to relevant governmental authorities, to my attorney or to a court.” Alternatively, the agreement might specifically refer to the statute: “I acknowledge that the federal Defend Trade Secrets Act (the “DTSA”) provides that an individual shall not be held criminally or civilly liable for the disclosure of a trade secret that is made (i) in confidence to a government official or to an attorney **and** solely for the purpose of reporting or investigating a suspected violation of law; or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. In addition, I acknowledge that the DTSA provides that an individual who files a retaliation lawsuit against an employer for reporting a suspected violation of law may disclose a trade secret to his/her attorney and use the trade secret information in court, **but only** if the individual (i) files any document containing the trade secret under seal; and (ii) does not disclose the trade secret, except pursuant to court order.”

<sup>35</sup> Section 2(g) of Pub. L. 114-153. This should not be taken as a statement by Congress that it does not consider trade secrets to be a form of intellectual property. To the contrary, the first sentence of the Senate Report (see <https://www.congress.gov/congressional-report/114th-congress/senate-report/220/1>) declares otherwise: “Trade secrets are a form of intellectual property that allow for the legal protection of commercially valuable, proprietary information and make up an increasingly important part of American companies’ intellectual property portfolios.”

Decency Act,<sup>36</sup> which declares that providers or users of an “interactive computer service” shall not be deemed to be publishers of another’s content, but which excepts from application any laws pertaining to intellectual property. Therefore, to the extent that Section 230 provides any sort of protection against liability for trade secret misappropriation – a notion that appears not to have been fully tested in the courts – the DTSA does not change the status quo.

## **[6] Changes to Criminal Law**

In addition to providing a new federal civil remedy for trade secret misappropriation, the DTSA amended the EEA’s criminal provisions in certain respects. First, § 1832 (applicable to domestic actions) was amended to provide an alternative calculation for fines: up to three times the value of the stolen trade secret to the offending organization, including saved development costs.<sup>37</sup> Section 1831 (applicable to cases involving foreign entities) had been similarly amended in 2013. Second, violations of §§ 1831 or 1832 were expressly declared to be “predicate offenses” for the RICO statute.<sup>38</sup> Third, the provisions of § 1835 regarding preservation of confidentiality were amended by adding a new subsection (b) providing comfort to trade secret owners that confidential information will be filed in court only under seal and without creating any waiver of secrecy protection.

## **[7] Extraterritoriality**

Criminal jurisdiction under the EEA for acts outside the U.S. was established by Section 1837, applying when the “offender” is a citizen or permanent resident or a corporation registered in the U.S., or when “an act in furtherance of the offense was committed” in the U.S. The DTSA did not change or amend this section, which on its face seems awkward as applied to civil claims. However, the new law included language that reflects clear congressional concerns about international trade secret misappropriation. In Section 5 of the DTSA,<sup>39</sup> the “sense of Congress” was expressed that trade secret theft occurs “around the world” and that “wherever it occurs, harms the companies that own the trade secrets and the employees of the companies . . . .” Section 4, titled “Report on Theft of Trade Secrets Occurring Abroad,”<sup>40</sup> requires the Director of the U.S. Patent and Trademark Office, in consultation with other federal agencies, to issue regular reports on subjects such as the “scope and breadth of the theft of the trade secrets of United States companies occurring outside of the United States” and the “threat posed” by such activity. The reports must also provide

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<sup>36</sup> 47 U.S.C. § 230.

<sup>37</sup> 18 U.S.C. § 1832(b).

<sup>38</sup> Section 3(b) of Pub. L. 114-153.

<sup>39</sup> Section 5 of Pub. L. 114-153.

<sup>40</sup> Section 4 of Pub. L. 114-153.

recommendations to “reduce the threat of and economic impact caused by” foreign misappropriation of U.S. company secrets.

Notwithstanding the presumption against extraterritorial application of federal statutes,<sup>41</sup> given the legislative expression found in the DTSA, a strong case can be made that Congress intended its reach to be coextensive with constitutional standards and limitations under the “effects test” for establishing personal jurisdiction in U.S. courts over a foreign defendant.<sup>42</sup> This would be reasonable, given the nature of the trade secret right, which will naturally continue in the place where the plaintiff holds it, absent a disruption by unauthorized publication or use, which can theoretically occur anywhere in the world.

## **[8] Effects on Trade Secret Litigation**

The DTSA grants an option of federal court jurisdiction to any owner<sup>43</sup> of a misappropriated trade secret that is “related to a product or service used in, or intended for use in, interstate or foreign commerce.”<sup>44</sup> Given the realities of modern business, meeting the interstate commerce threshold should be simple in most cases. But for all qualifying cases the question remains: should a plaintiff exercise the option?

If the case involves actors in other states or countries, then federal court filing is usually the better choice. It provides access to nationwide service of process, obviating the need for local court orders to take discovery in other states and benefiting from a common set of procedural and evidentiary rules. Moreover, if the case presents any difficult issues of personal jurisdiction over a foreign defendant, the court will likely have more experience in weighing issues of fairness and convenience of forum.

If the case is essentially local in character, and counsel is familiar with the procedures of the local state court, then there may be no reason to file in federal court. Even cases of threatened misappropriation that can qualify for the federal *ex parte* seizure remedy may have a greater chance of success in a local court where traditional remedies like replevin or sequestration may be available without notice on a showing less demanding than the DTSA requires.

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<sup>41</sup> See *Kiobel v. Royal Dutch Petroleum Co.*, 133 S.Ct. 1659 (2013).

<sup>42</sup> See § 10.07[4] *infra*. For an instructive analysis of forum effects and congressional intent to apply laws extraterritorially in the trademark context, see *Steele v. Bulova Watch Co., Inc.*, 344 U.S. 280 (1952).

<sup>43</sup> Some commentators have expressed concern that the term “owner” may be too restrictive. However, the word was already defined in the EEA (18 U.S.C. §1839(4)) as “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.” Since trade secret information is properly held either by its original discoverer (who has title) or by someone who has permission (and therefore a license), the concern seems academic. See § 5.01[1] *infra* regarding standing issues.

<sup>44</sup> 18 U.S.C. § 1836(b)(1).

In addition to these rules of thumb, plaintiffs should consider some potentially significant consequences of their choice. Unlike many state courts, federal judges operate on a single assignment system, in which the case is assigned to one judge for all purposes from pleadings through trial. That judge soon understands the limitations of a case, and can easily see the advantage of an early disposition. In contrast, pretrial proceedings in state courts are often heard by judges who will not preside over trial of the case.

At the initial pleading stage, a trade secret plaintiff can be challenged by the federal *Iqbal/Twombly*<sup>45</sup> standards for particularity and plausibility. And even if the sufficiency of the pleading is not attacked, one can expect the defendant at an early time, perhaps at the initial Rule 16 conference,<sup>46</sup> to demand a specific identification of the trade secrets at issue. This unique aspect of trade secret law, in which the subject matter is clarified only during litigation, can have serious consequences for the process, if not the outcome, of the dispute.<sup>47</sup> And while we have not yet had much experience with the new emphasis on discovery proportionality in the 2016 amendments to the Federal Rules of Civil Procedure,<sup>48</sup> it is easy to imagine that these two dimensions – particularity of identification and proportionality in discovery – may lead some courts to constrain discovery relative to what may have been available in state court proceedings.

Another potentially impactful issue is the “reasonable efforts” requirement for establishing the existence of a protectable secret. Courts typically have looked with skepticism at a defendant’s argument that the plaintiff was fatally careless protecting its secrets.<sup>49</sup> But there have been a number of cases where summary judgment has been granted to defendant on this question, most of them federal court decisions.<sup>50</sup> Therefore, a plaintiff whose trade secret protection program seems weak may want to consider whether it might get less scrutiny in a state court proceeding.

Other factors to consider are the risk of transfer, which is usually easier in the federal system, and the requirement for a unanimous verdict, which can affect risk calculations. Removal<sup>51</sup> should not be a particular problem, unless the plaintiff makes the mistake of filing a DTSA claim in state court, the effect of

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<sup>45</sup> *Ashcroft v. Iqbal*, 556 U.S. 662 (2009); *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007)

<sup>46</sup> See, e.g., *United Services Automobile Assoc. v. Mitek Systems, Inc.*, 289 F.R.D. 244, 249 (W.D. Tex. 2013) (compelling identification of trade secrets under FRCP 16(c)(2)(L).

<sup>47</sup> See § 11.02 supra regarding identification issues, including § 11.02[2][b] regarding the California statute that requires identification before discovery begins. Whether or not such a requirement will be adopted by federal courts considering only DTSA claims, the struggle over adequacy of trade secret description is likely to become a significant feature of federal case management.

<sup>48</sup> See Fed. R. Civ. P. 26(b)(1).

<sup>49</sup> See § 4.04[2][b] infra.

<sup>50</sup> *Id.*

<sup>51</sup> See § 10.08[1] infra.



which would be to transfer to the defendant the option of whether to have the case heard in federal court. Given the choice, most defendants will want to be federal court, for all the same reasons that a plaintiff may want to avoid it.

Most DTSA complaints to date have added a claim under the applicable state's version of the Uniform Trade Secrets Act. Because there often exists some meaningful variation between a state's enactment and the "standard" UTSA,<sup>52</sup> there can be substantial advantages in having the state law claim in the case. However, the differences can represent risks as well, and so counsel should carefully consider possible impacts before making a decision.<sup>53</sup>

Where other state law claims, such as breach of a non-compete or other contract, are closely related to the facts required to prove a DTSA claim, those claims may be asserted under the federal court's supplemental jurisdiction. But it is unlikely that federal jurisdiction can be used to pursue theories that have been "displaced" under the state's UTSA §7, as discussed above.<sup>54</sup> The unavailability of such claims is a matter of state law, and it would not make sense to apply that law any differently in federal court than it would be in state court.

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<sup>52</sup> See § 2.03[7][b] *supra*.

<sup>53</sup> Among other things, meaningfully different rules may attach to limitations periods, damage calculations, burdens of proof, and policies on restraint of trade. And of course in states where the UTSA does not apply outcomes under state law may vary considerably from the DTSA. See, e.g., *Bear, Stearns Funding, Inc. v. Interface Group-Nevada, Inc.*, 361 F.Supp.2d 283, 305-306 (S.D.N.Y. 2005) (applying "ephemeral events" exception of Restatement (First) of Torts); *Mann ex rel. Akst v. Cooper Tire Co.*, 816 N.Y.S.2d 45, 52-53 (N.Y. App. Div. 2006) (applying "continuous use" requirement to deny trade secret protection to formula for tire rubber).

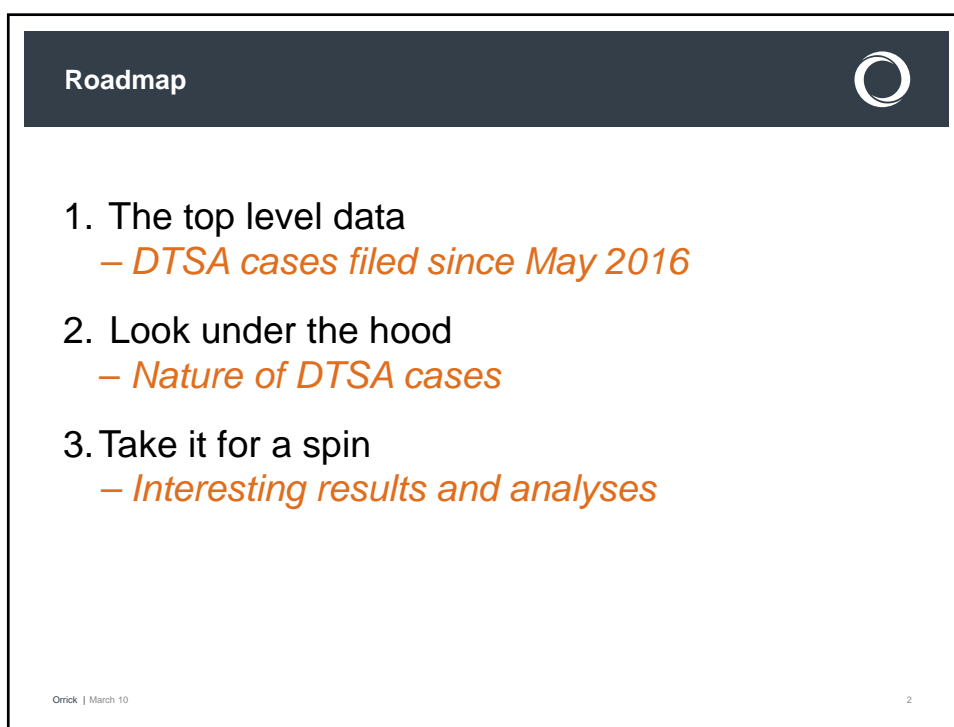
<sup>54</sup> See § 2.05[2] *supra*.




**DTSA**  
*The First 300 Days ...*

Nick Setty, Retired Trial Partner + Counsel

2017 Washington State Bar IP Institute  
March 10, 2017



Roadmap 

1. The top level data
  - *DTSA cases filed since May 2016*
2. Look under the hood
  - *Nature of DTSA cases*
3. Take it for a spin
  - *Interesting results and analyses*

Orrick | March 10 2

## DTSA Cases Filed Since May 2016

– *Who, What, Where, When, Why ...*



### How many cases? Where were they filed?



- >100 cases – since May 11, 2016 (*c.f.*, 4000-5000 patent)
- Original and amended DTSA claims
- No clear geographic bias ... except
  - 5 SDFla, EDMich,
  - 4 SDNY, SDCal,
  - 3 CDCal, EDTex, DColo, DMinn, DNJ, EDPa
  - 2 WDWash
  - 8 **NDIII**
  - 14 **NDCal**

Who has brought DTSA claims?



Orick | March 10

5

## A Peak Under the Hood

*– What should be looking for?*



## We need a framework



## Why enact DTSA? – the Rationale



- Economic losses due to trade secret theft
  - ~ \$160-480B annually – 1-3% GDP/year
  - Trade secret theft > loss of 2.1M American jobs/year.
- Desire to federalize
  - State-by-state variations increasing
  - Better injunctive relief
- Federal judiciary better equipped
- **Superiority** of the new DTSA claim/remedy

# Law Professors' Letters to Congress



**Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015  
(S. 1890, H.R. 3326)**

November 17, 2015

<p>The Honorable Charles E. Grassley Chairman Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p> <p>The Honorable Patrick J. Leahy Ranking Member Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p> <p>Dear Chairman Grassley and Goodlatte, and Ranking Members Leahy and Conyers:</p> <p>In August 2014, sixty-one law professors signed federal legislation to create a <i>quid pro quo</i> cause of action for trade secrets. We believe that the DTSA—which was enacted in 2013 (“DTSA”), S. 1890 and H.R. 3326—will solve the problem identified by its sponsors. Instead of passage of the DTSA is likely to cause any problem of misappropriation, increase the duration and cost of trade secret litigation, and thereby harm the economy. Therefore, the undersigned professors oppose the DTSA.</p> <p><small><sup>1</sup> Professors' Letter in Opposition to the "Defend Trade Secrets Act of 2014" (S. 1890, H.R. 3326) (Aug. 26, 2014), available at <a href="http://www.fticonsultants.com/wp-content/uploads/2014/08/Professors-Letter-1.pdf">http://www.fticonsultants.com/wp-content/uploads/2014/08/Professors-Letter-1.pdf</a> and attached. The letter is attached to the 2014 Professors' Letter.</small></p> <p><small><sup>2</sup> We understand that the House and Senate versions of the legislation are now substantially identical. For convenience, this letter refers to the provisions of the Senate version, S. 1890, 114th Cong. (2015) as introduced on July 29, 2015 (Senate bill “S. 1890”).</small></p>	<p style="text-align: center;"><b>Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015 (S. 1890, H.R. 3326)</b></p> <p style="text-align: center;">November 17, 2015</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>The Honorable Charles E. Grassley Chairman Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p> <p>The Honorable Patrick J. Leahy Ranking Member Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p> </td> <td style="width: 50%; vertical-align: top;"> <p>The Honorable Robert W. Goodlatte Chairman Judiciary Committee United States House of Representatives 2138 Rayburn House Office Building Washington, D.C. 20515</p> <p>The Honorable John Conyers, Jr. Ranking Member Judiciary Committee United States House of Representatives B-251 Rayburn House Office Building Washington D.C. 20515</p> </td> </tr> </table> <p style="text-align: center;">Dear Chairmen Grassley and Goodlatte, and Ranking Members Leahy and Conyers:</p>	<p>The Honorable Charles E. Grassley Chairman Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p> <p>The Honorable Patrick J. Leahy Ranking Member Judiciary Committee United States Senate 224 Dirksen Senate Office Building Washington, D.C. 20510</p>	<p>The Honorable Robert W. Goodlatte Chairman Judiciary Committee United States House of Representatives 2138 Rayburn House Office Building Washington, D.C. 20515</p> <p>The Honorable John Conyers, Jr. Ranking Member Judiciary Committee United States House of Representatives B-251 Rayburn House Office Building Washington D.C. 20515</p>
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## What should we see in DTSA claims? – the Concerns



- 2014 and 2015 law professors letters framed the issues
  1. Ex parte seizure – harm to SMB, innovators
  2. Implicitly recognizes inevitable disclosure
  3. Increase length and cost of litigation – federal court
  4. Decrease in uniformity – federal jurisprudence v states
- DTSA was amended several times
  - 2014, 2015, 2016 versions
  - Most significant IP legislation since Lanham Act

## Response to criticisms



Forthcoming 23 George Mason L. Rev. \_\_ (2016)

**THE MYTH OF THE TRADE SECRET TROLL**  
**Why We Need a Federal Civil Claim for Trade Secret Misappropriation**

By James Pooley<sup>1</sup>

Forthcoming 23 George Mason L. Rev. \_\_ (2016)

**THE MYTH OF THE TRADE SECRET TROLL**  
**Why We Need a Federal Civil Claim for Trade Secret Misappropriation**

By James Pooley<sup>1</sup>

Trade secret troll has been a federal crime since the Espionage Act ("E.A.") that civil misappropriation state court filings under common law or the Defend Trade Secret Act ("DTSA"). Calls the federal increasing importance of information as a technology that makes theft of these examples involving international actors but to respond a straightforward solution. amenable to private a matter of public for private claims.

Several bills were introduced in the 113th Congress to accomplish this, and to authorize provisional remedies for victims of relevant property to prevent secret technology from being transferred out of the jurisdiction. The 2014 legislation was not acted on before Congress adjourned. A revised version is pending again, the Defend Trade Secret Act of 2015 ("DTSA"), reflected an identical House (H.R.3326) and Senate (S.1896) bills.

<sup>1</sup>Mr. Pooley is a professor at the University of California. He recently served as Deputy Director General of the World Intellectual Property Organization, an agency of the United Nations, where he was responsible for managing the international patent system. This service followed 17 years as a trial attorney handling hundreds of trade secret and patent disputes, many of them involving government and university research. He has taught trade secret law and litigation, as an adjunct professor at the University of California, Berkeley and at Santa Clara University. He is the author of the volume "Trade Secrets," first published by Law Business Press in 1997 and subsequently updated seven times. He is also a co-author of the Patent Case Management Judicial Guide (Federal Judicial Center 2008, 2013). His most recent business book is, however, *Emerging Administrative Law in the Age of Cyberespionage* (Oxford Press 2012). Mr. Pooley currently serves as Chairman of the Board of the National Intellectual Property Law Association, a past president of the American Intellectual Property Law Association. This paper was presented at the 2015 Annual Conference of the George Mason University School of Law Center for the Protection of Intellectual Property. The author wishes to thank his former partners and his students for their useful feedback. He also wishes to thank Mark Schley for helpful comments and their advice on the previous version.

<sup>1</sup>U.S.C. §§ 1831-1839  
<http://www.congress.gov/bills/114/congressional-legislation/114-1174>  
<http://www.congress.gov/bills/114/congressional-legislation/114-1190>



1. Seizure remedy extremely narrowly drafted
2. Tightens inevitable disclosure
  - requires predicate “bad behavior”
3. Upside of federal forum outweighs complexity
  - international and interstate case remedy
4. DTSA 2016 “harmonized” with UTSA – no preemption
  - will build on UTSA jurisprudence
5. **But, still, a new cause of action – a *new remedy***

## Exemplary Cases

*– A Look Into a Few Noteworthy, Early Cases*



## Anticipation?



## *Henry Schein, Inc. v. Cook*, No. 16-cv-03166-JST (N.D. Cal. June 10, 2016)



*Henry Schein, Inc. v. Cook*, No. 16-cv-03166-JST  
(N.D. Cal. June 10, 2016)



- P makes medical, dental, and veterinary supplies
- Jennifer Cook, recently departed employee
- P brought Cal and DTSA claims
- TRO granted as to Cook's use of TS
- TRO denied as to Cook contacting Schein custo
  - Deference to Cal policy against non-competes
- "Perhaps the most striking aspect of the court's ruling was ultimately **how little effect the DTSA had upon it.**"
  - Kevin Mahoney, Seyfarth Shaw (August 1, 2016)

*Panera LLC v. Nettles and Papa John's Int'l, Inc.*  
(E.D. Mo. July 19, 2016)



*Panera LLC v. Nettles and Papa John's Int'l, Inc.*  
(E.D. Mo. July 19, 2016)



- P makes ... bread, sandwiches, and other baked goodies
- Nettles senior executive
- TS re “technology” and strategy “playbook”
- TRO granted under MUTSA based on inevitable disclosure rationale
- “almost certainly require him to draw upon and use trade secrets and the confidential strategic planning ...”
- “Interestingly, the Court in a footnote noted that Panera also was likely to prevail under the DTSA, **but did not provide a separate analysis.**” – Orrick TSW (Aug. 29, 2016)

*Dazzle Software II v. Kinney* (E.D. Mich. June 15, 2016)



- *Ex Parte* Seizure Case
- Former customer transferred data onto hard drives and then lied when asked to return
- P sought seizure of hard drives containing trade secrets
- Argued deception – intent to further conceal evidence
- Little commentary, court denied request
- “Slippery slope” of ordering seizure  
– P did not know **precisely** what to seize
- DTSA **irrelevant** – “court ordered the parties to negotiate the terms of a stipulated preservation and ordered expedited discovery” – Weil Gotshal (September 21, 2016)



- TS re locations of ~ 6000 beehives
- D argued that locations were “readily ascertainable” through normal means
- CT found 6000 hives would not “realistically” be ascertainable
- It might have been possible to reconnoiter every highway, country road, and deer path in western Nebraska looking for every one of the approximately 23,000 [McDonald] beehives.... But the Court is not convinced that such a **theoretical possibility** is enough to make the location database “ascertainable....” – Orrick TSW (October 24, 2016)

*Unum Group v. Loftus* (D. Mass. Dec. 6, 2016)



- Unum, insurance carrier, hired Loftus in 1985
- Director of Disability Benefits in 2004
- Inside counsel interviewed Loftus as to some claims irregularities
- Same week, Loftus removes laptop and boxes after hours
- Unum – **“we want that back now.”**
- Loftus – **“talk to my lawyer.”**

*Unum Group v. Loftus* (D. Mass. Dec. 6, 2016)



- (1) Immunity. – An individual **shall not be held criminally or civilly liable** under any Federal or State trade secret law for the disclosure of a trade secret that–
  - (A) is made–
    - (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and
    - (ii) solely for the purpose of reporting or investigating a suspected violation of law; or
  - (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

*Unum Group v. Loftus* (D. Mass. Dec. 6, 2016)



- While Loftus contends that he is entitled to immunity under the DTSA because he handed Unum’s documents over to his attorney to pursue legal action against Unum for alleged unlawful activities, the record lacks facts to support or reject his **affirmative defense** at this stage of litigation. There has been **no discovery** .... Loftus **has not filed** any potential lawsuit .... Taking all facts in the complaint as true, and making all **reasonable inferences in favor of Unum**, the court finds the complaint states a plausible claim for trade secret misappropriation and **declines to dismiss** [the trade secret claims].
- Peter Menell, “Misconstruing Whistleblower Immunity,” *CLS Blue Sky Blog*, January 3, 2017

*Waymo LLC v. Uber Tech. Ottomotto LLC* (N.D. Cal. Feb. 2017)



- XXX



- Waymo = Alphabet = Google
- Anthony Levandowski downloaded 14k docs before resigning January 2016
- Levandowski wiped laptop
- LIDAR – Light Imaging, Detection + Ranging
- Vendor sends Waymo an Uber LIDAR circuit board design by accident
- **DTSA, state, and patent claims - TBD**



## What do the early DTSA claims teach us? – the Facts



1. Every case involves state law and DTSA claims  
– **Opposite** of a new, distinct claim
2. Seizure sought in 1/98 cases  
– Extraordinary circumstances – fleeing to foreign jd
3. Policies as to non-compete vary significantly  
state-to-state
4. One whistleblower case thus far - **mishandled**
5. **Who is right – the proponents or the professors?**

## *TianRui Group v. ITC*, 661 F. 3d 1322 (Fed. Cir. 2011)



- Misappropriation entirely extraterritorial – China
- Tian Rui hired employees of U.S. complainant's Chinese licensee who were subject to NDAs
- Respondent challenged ITC authority over extra-US activities
- ITC asserted jurisdiction – created a new claim
- Federal law rather than state law when a Federal statute prohibits “unfair methods of competition”
- “General principles of trade secrets law” apply
- **Sino Legend – certiorari denied** - January 9, 2017
- **Next ... DTSA claims in ITC?**



So far, the DTSA has been ...



So far, the DTSA has been ...



We hope we have added some light ...





**DTSA**

*The First 300 Days ...*

Nick Setty, Retired Trial Partner + Counsel

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## CHAPTER TEN

## RECENT DEVELOPMENTS IN CANNABIS LAW AND INTELLECTUAL PROPERTY

March 2017

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**ROBERT MCVAY** is an attorney at Harris Bricken and specialized in the areas of export controls, customs, regulatory and trade compliance. Robert works closely with companies and entrepreneurs at every stage of development to assess their legal needs and to pursue their long-term goals. He has assisted countless clients with company formation, Washington State regulatory compliance, and intellectual protection. He has worked at an international trade firm in our nation's capital and at the Bureau of Industry and Security, and the Software Freedom Law Center. Robert received his law degree from Georgetown Law, where he served as Editor-in-Chief of the Georgetown Journal of International Law.

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**ALISON MALSBUY** is an attorney with Harris Bricken LLP. She focuses her practice on corporate and intellectual property transactions, working primarily with cannabis, food and alcohol clients. She assists clients with contracts, company formation, intellectual property protection, and regulatory compliance. Alison has spoken extensively on trademark issues in the cannabis industry, and has been extensively quoted by media outlets.

## Intellectual Property Issues in the Cannabis Industry

Alison Malsbury  
Harris Bricken, LLP

### **1. Brief Overview and Update on Initiative 502:**

In November 2012, the citizens of Washington State voted in favor of Initiative 502 (“I-502”), which legalized under Washington law the possession of an ounce or less of marijuana by adults twenty-one and older within Washington State. I-502 also legalized the commercial cultivation and manufacture of marijuana and retail sales of marijuana to adults twenty-one and older. Now codified at Chapter 69.50 RCW and Chapter 314-55 WAC, I-502 mandates that the Washington State Liquor and Cannabis Board (the “Board”) oversee the regulation of state-licensed marijuana businesses. Additionally, the passage of House Bill 2136 in 2015 made some significant technical fixes to I-502, including changing the overall tax structure to a single 37% excise tax at the retail sale level and fully allowing municipal opt out of I-502.

I-502 created a marijuana industry in Washington State and birthed opportunities for various ancillary businesses. It is, however, important to remember that, although I-502 legalizes the use, cultivation, processing, and distribution of marijuana within Washington as a matter of state law, I-502 has no effect on the Federal Controlled Substances Act.<sup>1</sup> Accordingly, marijuana business owners, and some ancillary business owners, are at risk of arrest, prosecution, and asset forfeiture by the United States Department of Justice. Additionally, the conflict between federal and state law impacts the availability of federal trademark protection for marks used on marijuana and marijuana-related goods and services. It is therefore important to develop a brand protection and development strategy that accounts for the various federal and state laws relating to marijuana.

### **2. The Federal Government:**

The Federal Controlled Substances Act lists marijuana as a Schedule I controlled substance.<sup>2</sup> A Schedule I controlled substance is defined as having “a high potential for abuse; has no currently accepted medical use in treatment in the United States; and there is a lack of accepted safety for its use under medical supervision.”<sup>3</sup> It is a federal crime to possess, cultivate, or distribute marijuana.<sup>4</sup>

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<sup>1</sup> 21 U.S.C. §§ 801-971.

<sup>2</sup> 21 U.S.C. § 812(c).

<sup>3</sup> 21 U.S.C. § 812(b)(1).

<sup>4</sup> 21 U.S.C. § 841.

In states with medical marijuana laws, the federal government has been fairly active in shutting down both state-law abiding marijuana businesses and those running afoul of state law.<sup>5</sup> In addition, the federal government is authorized by 18 U.S.C. § 982(a)(1) to seize property involved in certain criminal activities, including marijuana cultivation, manufacturing and distribution.

**a. The Ogden Memo:**

The U.S. Department of Justice routinely issues policy enforcement memoranda to its U.S. Attorneys to ensure uniformity of federal law enforcement. On October 19, 2009, United States Deputy Attorney General James W. Ogden authored an enforcement memorandum addressing state medical marijuana laws and the Federal Controlled Substances Act.<sup>6</sup> Commonly referred to as “the Ogden Memo,” this was the first Department of Justice memorandum to express the Department’s views on states with medical marijuana laws. It opens by stating that its goal is to provide uniform guidance to all U.S. Attorneys in states that maintain medical marijuana laws and that:

Rather than developing different guidelines for every possible variant of state and local law, this memorandum provides uniform guidance to focus federal investigations and prosecutions in these States on core federal enforcement priorities.<sup>7</sup>

The Ogden Memo then describes the Department of Justice’s enforcement priorities:

The prosecution of significant traffickers of illegal drugs, including marijuana, and the disruption of illegal drug manufacturing and trafficking networks continues to be a core priority in the efforts against narcotics and dangerous drugs, and the Department’s investigative and prosecutorial resources should be directed towards these objectives. *As a general matter, pursuit of these priorities should not focus federal resources in [the States] on individuals whose actions are in clear and unambiguous compliance with existing state laws providing for the medical use of marijuana ... [P]rosecution of commercial enterprises that unlawfully market and sell marijuana for profit continues to be an enforcement priority of the Department.*<sup>8</sup>

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<sup>5</sup> Peter Hecht, *California’s Unlikely Pot Crackdown*, Reason (June 4, 2014), available at <http://reason.com/archives/2014/06/04/californias-unlikely-pot-crack>.

<sup>6</sup> U.S. Dept. of Justice memorandum regarding enforcement of the federal Controlled Substances Act laws in states with medical marijuana laws, authored by U.S. Deputy Attorney General James W. Ogden to all U.S. Attorneys (Oct. 19, 2009) (on file with U.S. Dept. of Justice).

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* (emphasis added).

**b. The 2011 Cole Memo:**

In light of the Ogden Memo, the number of large-scale commercial grow and dispensary facilities in states with medical marijuana laws greatly increased between 2009 and 2011.<sup>9</sup> But on June 29, 2011, United States Deputy Attorney General James M. Cole authored another policy enforcement memorandum (the “Cole Memo”) clarifying the Ogden Memo and, in many respects, backing away from the priorities established in the Ogden Memo.<sup>10</sup>

The Cole Memo begins by noting that “[t]he Ogden Memorandum provides guidance to [U.S. Attorneys] in deploying resources to enforce the [Controlled Substances Act] as part of the exercise of the broad discretion [they] are given to address federal criminal matters within [their] districts.”<sup>11</sup> It then goes on to say that the Ogden Memo was never intended to apply to commercial marijuana enterprises:

A number of states have enacted some form of legislation relating to the medical use of marijuana. Accordingly, the Ogden Memo reiterated to [U.S. Attorneys] that prosecution of significant traffickers of illegal drugs, including marijuana, remains a core priority, but advised that it is likely not an efficient use of federal resources to focus enforcement efforts on individuals with cancer or other serious illnesses who use marijuana as part of a recommended treatment regimen consistent with applicable state law, or their caregivers. The term “caregiver” as used in the [Ogden] memorandum meant just that: individual providing care to individuals with cancer or other serious illnesses, *not commercial operations cultivating, selling or distributing marijuana*.<sup>12</sup>

The Cole Memo clarifies that the Ogden Memo did not grant state-sanctioned medical marijuana businesses the right to operate without federal interference:

The Ogden Memorandum was never intended to shield such activities from federal enforcement action and prosecution, even where those activities purport to comply with state law. *Persons who are in the business of cultivating, selling or distributing marijuana, and those who knowingly facilitate such activities, are in violation of the Controlled Substances Act, regardless of state law.* Consistent with resource constraints and the discretion you may exercise in [a U.S.

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<sup>9</sup> Ryan Grimm and Ryan Reilly, *Obama’s Drug War: After Medical Marijuana Mess, The Feds Face Big Decision On Pot*, Huffington Post, (last updated Feb. 8, 2013, 1:09 p.m.), available at [http://huffingtonpost.com/2013/01/26/obamas-drug-war-medical-marijuana\\_n\\_2546178.html](http://huffingtonpost.com/2013/01/26/obamas-drug-war-medical-marijuana_n_2546178.html).

<sup>10</sup> U.S. Dept. of Justice memorandum regarding enforcement of the federal Controlled Substances Act laws in states with medical marijuana laws, authored by U.S. Deputy Attorney General James M. Cole to all U.S. Attorneys (June 29, 2011) (on file with U.S. Dept. of Justice).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* (emphasis added).



Attorney's] district, such persons are subject to federal enforcement action, including potential prosecution. *State laws or local ordinances are not a defense to civil or criminal enforcement of federal law with respect to such conduct, including enforcement of the CSA.* Those who engage in transactions involving the proceeds of such activity may also be in violation of federal money laundering statutes and other federal financial laws.<sup>13</sup>

The Cole Memo and Ogden Memo left many people and businesses involved in the marijuana industry in Washington wondering if, when, and how the Department of Justice or the United States Drug Enforcement Administration (DEA) would enforce Federal laws against I-502 businesses and related ancillary companies.

### c. The 2013 Cole Memo

On August 29, 2013, after Washington legalized marijuana, and well into Washington State's implementation of I-502, United States Deputy Attorney General Cole issued another policy memo (the "Second Cole Memo") to address the tension between the Federal Controlled Substances Act and states with regulated marijuana regimes. The Second Cole Memo essentially states that the federal government will to a certain extent tolerate well-regulated state licensing schemes for marijuana businesses, either medical or recreational. The memorandum indicated that the Department of Justice would continue to focus on the following enforcement priorities:

- i. Preventing distribution of marijuana to minors;
- ii. Preventing cannabis revenues from going to criminal enterprises, gangs and cartels;
- iii. Preventing diversion of marijuana from states where it is legal to other states;
- iv. Preventing state-authorized activity from being used as a cover for illegal activity, including trafficking of other illegal drugs;
- v. Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- vi. Preventing drugged driving and exacerbation of other adverse public health consequences associated with marijuana use;
- vii. Preventing the growing of marijuana on public lands; and
- viii. Preventing marijuana possession or use on federal property.<sup>14</sup>

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<sup>13</sup> *Id.* (emphasis added).

<sup>14</sup> U.S. Dept. of Justice memorandum regarding enforcement of the federal Controlled Substances Act laws in states with medical marijuana laws, authored by U.S. Deputy Attorney General James M. Cole to all U.S. Attorneys (August 29, 2013) (on file with the U.S. Dept. of Justice).

The Second Cole Memo emphasizes the need for robust state law regimes. The memorandum “rests on its expectation that state and local governments that have enacted laws authorizing marijuana-related conduct will implement strong and effective regulatory and enforcement systems that will address the threat those state laws could pose to public safety, public health, and other law enforcement interests.”<sup>15</sup> Accordingly, if state oversight of the marijuana industry is inadequate, people and businesses involved in Washington’s marijuana industry, including some related ancillary businesses, may find themselves subject to federal enforcement and must remain vigilant regarding the possibility of federal arrest, prosecution, and asset forfeiture.

### **3. Overview and Update on Medical Marijuana in Washington State:**

Washington voters voted to allow qualifying patients to use marijuana for medical use in 1998. Washington’s medical marijuana industry became more commercially oriented in May 2011 with the passage of Senate Bill 5073. In its original form, Senate Bill 5073 allowed for the commercialization of medical marijuana with the Department of Health overseeing that system. After being passed by the legislature, then acting Governor Christine Gregoire vetoed portions of Senate Bill 5073 which, in turn, left massive loopholes in Washington’s medical marijuana legislation.<sup>16</sup> Before signing the bill into law, Gregoire wrote to the Department of Justice seeking guidance on the Department’s reaction to the proposed legislation and how the Department would enforce federal law should Washington adopt Senate Bill 5073 as written.<sup>17</sup> Governor Gregoire received correspondence from U.S. Attorneys Michael Ormsby and Jenny Durkan, the acting attorneys for the Eastern and Western Districts of Washington. That correspondence stated that, should Gregoire sign Senate Bill 5073 into law as written, the U.S. Department of Justice would pursue criminal charges against all state employees licensing any marijuana entities and that any endorsement of Senate Bill 5073 as written was a direct violation of the federal Controlled Substances Act.<sup>18</sup>

Governor Gregoire’s veto nullified the legalization and decriminalization of medical marijuana, but still gave qualifying patients an affirmative defense to existing criminal laws in order to cultivate, distribute and possess marijuana for medical use, ultimately leaving medical marijuana in an unregulated legal gray area. In addition, where Gregoire removed all language related to commercial dispensaries, Washington was left with what is now known as the Collective Garden model. Namely, RCW 69.51A.085 provides that:

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<sup>15</sup> *Id.* (emphasis added).

<sup>16</sup> <http://apps.leg.wa.gov/documents/billdocs/2011-12/Pdf/Bills/Vetoes/Senate/5073-S2.VTO.pdf>.

<sup>17</sup> <http://seattletimes.nwsourc.com/ABPub/2011/04/14/20144777830.pdf>.

<sup>18</sup> <http://seattletimes.nwsourc.com/ABPub/2011/04/14/2014778917.pdf>.

- i. Qualifying patients may create and participate in collective gardens for the purpose of producing, processing, transporting, and delivering cannabis for medical use subject to the following conditions:
  - a. No more than ten qualifying patients may participate in a single collective garden at any time;
  - b. A collective garden may contain no more than fifteen plants per patient up to a total of forty-five plants;
  - c. A collective garden may contain no more than twenty-four ounces of useable cannabis per patient up to a total of seventy-two ounces of useable cannabis;
  - d. A copy of each qualifying patient's valid documentation or proof of registration with the registry established in \*section 901 of this act, including a copy of the patient's proof of identity, must be available at all times on the premises of the collective garden; and
  - e. No useable cannabis from the collective garden is delivered to anyone other than one of the qualifying patients participating in the collective garden.
- ii. For purposes of this section, the creation of a "collective garden" means qualifying patients sharing responsibility for acquiring and supplying the resources required to produce and process cannabis for medical use such as, for example, a location for a collective garden; equipment, supplies, and labor necessary to plant, grow and harvest cannabis; cannabis plants, seeds, and cuttings; and equipment, supplies, and labor necessary for proper construction, plumbing, wiring, and ventilation of a garden of cannabis plants.
- iii. A person who knowingly violates a provision of subsection (1) of this section is not entitled to the protection of this chapter.

Many entrepreneurial qualifying patients saw collective gardens as a legal loophole by which to start non-profit entities through which to distribute marijuana for medical purposes. At the same time, certain cities, like the City of Seattle, embraced the commercialization of the collective garden model and allowed for collective garden "access points" to establish within their borders. Until the implementation of Senate Bill 5052, Seattle maintained more than two hundred (200) collective garden access points and dispensaries.

With the great proliferation of collective garden "access points," some cities rejected their establishment altogether. In 2014, the City of Kent prevailed in a lawsuit against collective garden access point manager Deryck Tsang and individuals Steven Sarich, John Worthington, Arthur West, and the Cannabis Action Coalition in which the superior court ruled that, where all medical marijuana activity is indeed illegal (as established by the availability of patients of only an affirmative defense and by Gregoire's veto), cities and counties have the full authority to prohibit medical marijuana commercial activity. That case

was upheld by the Court of Appeals<sup>19</sup> and was appealed to the Washington State Supreme Court.

Many business owners licensed by the state under I-502 perceived medical marijuana as unfair competition where medical marijuana cultivators and distribution centers were not regulated by the state and where they were not taxed by the state at the robust levels dictated by I-502. In addition, after the passage of I-502, both U.S. Attorneys for the State of Washington issued statements in a press release announcing that Washington's medical marijuana program was "not tenable" as is.<sup>20</sup> Lastly, some cities, like the City of Seattle, mandated that all marijuana businesses must be licensed by the state by July 2016, or face being shut down by the city.<sup>21</sup>

#### **4. Passage of Senate Bill 5052 Changes Everything for Medical Marijuana:**

The Cannabis Patient Protection Act, Senate Bill 5052, passed in 2015, and brought medical marijuana under the authority of the Board and into the I-502 regulated system. The 58-page bill contains many, many regulations for the "new" medical, recreational marijuana hybrid industry, including the below highlights:

- i. Creating the Washington State Liquor and *Cannabis* Board, which pretty much qualifies as the former Liquor Board, but with a new name.
- ii. Qualifying patient debilitating conditions will remain nominally the same as formerly set forth in RCW 69.51A, but a limiting definition was added to mandate that the condition must be "severe enough to significantly interfere with the patient's activities of daily living and ability to function, which can be objectively assessed and evaluated ..."
- iii. In-person visits with health care providers will be required for patients to secure medical marijuana authorization cards and health care professionals will need to have a documented relationship with the patient as a principal care provider or specialist.
- iv. Existing I-502 retailers can apply to hold "medical marijuana endorsements" that will allow them to sell cannabis for medical use to qualifying patients and designated providers.
- v. The Board must develop "a competitive, merit-based application process that includes, at a minimum, the opportunity for an applicant to demonstrate experience and qualifications in the marijuana industry. Operating a collective garden before [application] and having a business license and a history of paying sales tax to the Department of Revenue

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<sup>19</sup> <http://www.courthousenews.com/2014/04/04/Med%20mari%20ruling.pdf>.

<sup>20</sup> <http://www.forbes.com/sites/jacobsullivan/2014/03/21/after-allowing-legalization-of-recreational-marijuana-will-the-feds-crack-down-on-medical-marijuana/>.

<sup>21</sup> <http://komonews.com/news/local/Seattle-sends-warning-letters-to-medical-pot-shops-280222192.html>.

may be factors used to establish the experience and qualifications of the applicant.”

- vi. The Board’s existing one thousand feet perimeter around schools, playgrounds, recreation centers, child care centers, parks, public transit centers, and arcades would still apply, and will apply with equal force to licensed businesses with medical marijuana endorsements.
- vii. Health care professionals will be required to enter the names of their qualifying patients into a centralized database that health care professionals, qualifying patients, retailers, and law enforcement would be able to access in limited ways, with unauthorized access to the database being a class C felony.
- viii. Qualifying patients could grow up to six plants at home (unless a health care professional specifically authorizes more up to a maximum of 15) and qualifying patient cooperative grows would be permitted for up to four patients (with a maximum of 60 plants) if they are at least 15 miles from a retail outlet and if everyone participating is in the foregoing qualifying patient registry. Only one cooperative garden will be allowed per tax parcel.
- ix. Collective gardens as they were currently structured under RCW 69.51A were to be phased out by July 1, 2016.

If marijuana producers want to cultivate marijuana for medical use to sell to retailers with medical marijuana endorsements, they must apply to the state to do so, and they must disclose the amount or percentage of plant canopy they will dedicate to cultivating cannabis for medical use. After these applications were received, the Board was to consider increasing the overall plant canopy for current producers based on the amount of cannabis to be grown for retailers with medical marijuana endorsements.

If current marijuana producers do not use all of the increased production space, the Board may reopen the license period for new marijuana producer license applicants, but only to those marijuana producers who agree to grow plants for marijuana retailers holding medical marijuana endorsements. Priority for licensing will be given to existing producer applicants who are not yet licensed and then will be given to “new producer applicants.” This license period for new marijuana producer license applicants has yet to open.

The Board also reopened the licensing “window” for retailers.

## **5. Federal vs. State Law Conflict**

As examined above, marijuana is a Schedule I controlled substance, and its possession, cultivation, and distribution are federal crimes under the Controlled Substances Act. When states opt to legalize marijuana for either medical or adult use, the conflicts between state and federal law extend beyond the criminal repercussions possible under the CSA. Here are a few examples:

- i. Section 280E of the Internal Revenue Code states, “No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.” Therefore, cannabis business owners cannot deduct their ordinary and necessary business expenses, even if they are operating in compliance with state law.
- ii. Cannabis business owners cannot label their products as organic, since organic certifications are issued by the United States Department of Agriculture, a federal agency.
- iii. Cannabis business owners operating in compliance with state law find it difficult to obtain banking services due to regulations issued by the Financial Crimes Enforcement Network (FinCEN) dealing with money laundering and the Bank Secrecy Act.
- iv. The United States Patent and Trademark Office (USPTO) will not issue trademarks for use on goods and services that violate the CSA, making brand protection and licensing difficult for cannabis businesses.

## 6. Federal Trademarks: “Lawful Use in Commerce:”

In order to obtain a federal trademark registration from the USPTO, an applicant must prove that they have either made, or have a bona fide intent to make, *lawful* use of the mark in commerce.<sup>22</sup> This “lawful use” requirement has made obtaining federal trademarks extremely difficult for cannabis business owners, who are routinely issued office actions containing the following language:

To permit proper examination of the application, applicant must submit additional information about the goods and/or services. See 37 C.F.R. §2.61(b); TMEP §814. The requested information should include fact sheets, brochures, advertisements, and/or similar materials relating to the goods and/or services. If such materials are not available, applicant must provide a detailed factual description of the goods and/or services. Any information submitted in response to this requirement must clearly and accurately indicate the nature of the goods and/or services identified in the application.

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• <sup>22</sup> *Gray v. Daffy Dan’s Bargaintown*, 823 F.2d 522, 526, 3 USPQ2d 1306, 1308 (Fed. Cir. 1987).

In addition, applicant must submit a written statement indicating whether the goods and/or services identified in the application comply with the Controlled Substances Act (CSA), 21 U.S.C. §§801-971. See 37 C.F.R. §2.69; TMEP §907.

The CSA prohibits, among other things, manufacturing, distributing, dispensing, or possessing certain controlled substances, including marijuana and marijuana-based preparations. 21 U.S.C. §§812, 841(a)(1), 844(a); see also 21 U.S.C. §802(16) (defining “[marijuana]”). The CSA also makes it unlawful to sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia, i.e., “any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under [the CSA].” 21 U.S.C. §863.

Finally, applicant must provide written responses to the following questions:

“Do applicant’s identified services include or involve the sale, distribution, delivery or dispensing of marijuana, marijuana-based preparations, marijuana extracts, or the like?” and

“Do applicant’s services comply with the Controlled Substances Act?”

Failure to satisfactorily respond to a requirement for information is a ground for refusing registration. See *In re Cheezwhse.com, Inc.*, 85 USPQ2d 1917, 1919 (TTAB 2008); *In re Garden of Eatin’ Inc.*, 216 USPQ 355, 357 (TTAB 1982); TMEP §814. Please note that merely stating that information about the goods and services is available on applicant’s website is an inappropriate response to the above requirement and is insufficient to make the relevant information properly of record. See *In re Planalytics, Inc.*, 70 USPQ2d 1453, 1457-58 (TTAB 2004).

Applicant is advised that, upon consideration of the information provided by applicant in response to the above requirement, registration of the applied-for mark may be refused on the ground that the mark, as used in connection with the identified goods and/or services, is not in lawful use in commerce. Trademark Act Sections 1 and 45, 15 U.S.C. §§1051, 1127.<sup>23</sup>

37 C.F.R. §2.69 states, with respect to compliance with other laws, “When the sale or transportation of any product for which registration of a trademark is sought is regulated under an Act of Congress, the Patent and Trademark Office may make appropriate inquiry as to compliance with such Act for the sole purpose of determining lawfulness of the commerce recited in the application.” It is on this basis that most cannabis-related

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<sup>23</sup> See also *In re JJ206, LLC, dba Ju-Ju Joints*, attached.

trademark applications are ultimately rejected. Even where applicants are not engaged in commercial activity that violates the CSA but apply for registration of a mark that insinuates a connection to cannabis, they are routinely issued office actions in order to certify that their goods and services do not violate federal law.

## 7. Immoral and Scandalous Matter:

Pursuant to Section 2(a) of the Lanham Act, the USPTO will not grant federal trademark registrations to any mark that consists of or comprises “immoral, deceptive or scandalous matter.”<sup>24</sup> 15 U.S.C. §1052 states:

“No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it ... Consists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute; or a geographical indication which, when used on or in connection with wines or spirits, identifies a place other than the origin of the goods and is first used on or in connection with wines or spirits by the applicant on or after one year after the date on which the WTO Agreement (as defined in section 3501(9) of Title 19) enters into force with respect to the United States.”

Although “immoral, deceptive and scandalous matter” is not typically the basis for rejection of cannabis-related trademark applications, it does seem that the USPTO has recently begun to assert this argument with more frequency. Below is an excerpt from an office action issued to an applicant for their applied-for mark, PRETTYHIGH (emphasis added):

Finally, applicant must provide written responses to the following questions:

- “Do applicant’s identified goods contain, or are they intended for use with, marijuana, marijuana-based preparations, or marijuana extracts or derivatives, synthetic marijuana, or any other illegal controlled substances?”
- “What is the significance of the term “HIGH” in the applied-for mark? Does it refer to being high on drugs?”
- “Are the applicant’s goods lawful pursuant to the Controlled Substances Act?”

Failure to satisfactorily respond to a requirement for information is a ground for refusing registration. *See In re Cheezwhse.com, Inc.*, 85 USPQ2d 1917, 1919 (TTAB 2008); *In re Garden of Eatin’ Inc.*, 216 USPQ 355, 357 (TTAB 1982); TMEP §814. Please note that merely stating that information about the goods is available on applicant’s website is an inappropriate response to the above

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<sup>24</sup> 15 U.S.C. § 1052(a).



requirement and is insufficient to make the relevant information properly of record. See *In re Planalytics, Inc.*, 70 USPQ2d 1453, 1457-58 (TTAB 2004).

The examining attorney's request for information about the significance of the term "HIGH" indicates a possible rejection for immoral and scandalous matter under Section 2(a) of the Lanham Act. Because the validity of Section 2(a) of the Lanham Act is currently under consideration by the Supreme Court in the case *In re Simon Shiao Tam*<sup>25</sup> involving the band name "The Slants," applications that are rejected under Section 2(a) are being placed on hold until the final Supreme Court decision provides the USPTO with guidance on how to interpret the provision.

## **8. How Cannabis Companies Are Protecting Their Brand Assets:**

In light of the difficulties faced by cannabis brand owners in obtaining federal trademark protection, there are two primary tactics used protect cannabis-related brands:

- i. Obtaining federal trademark registrations for ancillary goods and services that do not violate the CSA, such as:
  - a. Smoker's accessories;
  - b. Non-infused beverages;
  - c. Non-infused baked goods;
  - d. Glassware;
  - e. Clothing (note the possible issue of ornamental use); and
  - f. Exhibition and educational services.
- ii. Obtaining state trademark registrations.

State trademark registrations, though limited in scope compared to federal trademarks, provide cannabis brand owners with a greater degree of protection than that provided by common law, put the public on notice of the owner's trademark use, provide enhanced remedies, and are quick to issue and inexpensive. Not all states, however, will issue trademarks for use on cannabis goods and services. Washington will issue these types of registrations, but California currently will not (legislation in California is pending to remedy this once the state's new recreational and medical marijuana licensing rules take effect).

## **9. Trademark Licensing:**

With the limited availability of federal trademarks for cannabis brand owners, trademark licensing, though a burgeoning sector of the cannabis industry, is exceedingly difficult. This is particularly the case for cross-state licensing deals, where the trademark

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<sup>25</sup> [http://www.cafc.uscourts.gov/sites/default/files/s14-1203\\_Opinion\\_2-11-2016\\_1-corrcted.pdf](http://www.cafc.uscourts.gov/sites/default/files/s14-1203_Opinion_2-11-2016_1-corrcted.pdf).

licensor may own no federal trademark rights nor any trademark rights in the licensee's state of operation. The issue of "legal use in commerce" is raised once again at the state level, where we see out-of-state licensor's attempting to obtain trademark protection for their mark in states where they do not, and indeed *cannot*, operate legally.

#### **10. Trademark Infringement and Litigation:**

Despite the foregoing difficulties in obtaining trademark protection for cannabis-related marks, we are seeing a marked uptick in litigation involving cannabis brands. While we're beginning to see litigation between brand owners in the cannabis industry, the most prolific litigation has so far been instigated by non-cannabis brand owners who are asserting trademark infringement by cannabis companies.

Stash Tea Company has taken an aggressive stance against companies in the cannabis industry it alleges are infringing the STASH marks. Seattle's Stash Pot Shop, prompted by pressure and threats of legal action from Stash Tea Company, changed the name of its shop to Lux in early 2017.<sup>26</sup> And in April 2016, Stash Tea Company filed a lawsuit against Stash Cannabis in Beaverton, Oregon alleging trademark infringement. Litigation of this nature will naturally proliferate as the cannabis industry matures.

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<sup>26</sup> Pamplin Media Group (January 24, 2017), *available at* <http://pamplinmedia.com/pt/9-news/341741-222073-seattle-pot-shop-says-stash-tea-legal-pressure-prompts-name-change>.

This Opinion Is a  
Precedent of the TTAB

Mailed: October 27, 2016

UNITED STATES PATENT AND TRADEMARK OFFICE

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Trademark Trial and Appeal Board

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*In re JJ206, LLC, dba JuJu Joints*

———  
Serial Nos. 86474701 & 86236122<sup>1</sup>

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Shreya B. Ley, Esq.  
for JJ206, LLC.

Lindsey H. Ben, Trademark Examining Attorney, Law Office 108,  
Andrew Lawrence, Managing Attorney (Serial No. 86474701).

Robert J. Struck, Trademark Examining Attorney, Law Office 109,  
Michael Kazazian, Managing Attorney (Serial No. 86236122).

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Before Ritchie, Lynch, and Larkin,  
Administrative Trademark Judges.

Opinion by Lynch, Administrative Trademark Judge:

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<sup>1</sup> Because the cases have common questions of fact and of law, and the relevant portions of the records are largely identical, the appeals are hereby consolidated. *See, e.g., In re Anderson*, 101 USPQ2d 1912, 1915 (TTAB 2012) (The Board *sua sponte* consolidated two appeals). The TTABVue citations herein include in parentheses the serial number of the case to which the citation pertains.

JJ206, LLC (“Applicant”) seeks registration on the Principal Register of the following marks:

POWERED BY JUJU, in standard characters, for “smokeless cannabis vaporizing apparatus, namely, oral vaporizers for smoking purposes; vaporizing cannabis delivery device, namely, oral vaporizers for smoking purposes” in International Class 34;<sup>2</sup> and

JUJU JOINTS, in standard characters, for “smokeless marijuana or cannabis vaporizer apparatus, namely, oral vaporizers for smokers; vaporizing marijuana or cannabis delivery device, namely, oral vaporizers for smoking purposes” in International Class 34.<sup>3</sup>

The Examining Attorney has refused registration of the POWERED BY JUJU intent-to-use application based upon the absence of a bona fide intent to use the mark in lawful commerce under Sections 1 and 45 of the Trademark Act, 15 U.S.C. §§ 1051, 1127. Similarly, the Examining Attorney has refused registration of the JUJU JOINTS use-based application based upon lack of lawful use of the mark in commerce under Sections 1 and 45 the Trademark Act, 15 U.S.C. §§ 1051, 1127. *See* Trademark Manual of Examining Procedure (TMEP) § 907 (April 2016) (“For applications based on Trademark Act Section 1(b), 44, or 66(a), if the record indicates that the mark or the identified goods or services are unlawful, actual lawful use in commerce is not possible. Thus, a refusal under Trademark Act Sections 1 and 45 is also appropriate

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<sup>2</sup> Application Serial No. 86474701 was filed December 8, 2014 based upon an intent to use the mark in commerce under Section 1(b) of the Trademark Act, 15 U.S.C. § 1051(b).

<sup>3</sup> Application Serial No. 86236122 was filed March 28, 2014 based upon use in commerce under Section 1(a) of the Trademark Act, 15 U.S.C. § 1051(a). The term “JOINTS” is disclaimed.

for these non-use-based applications, because the applicant does not have a bona fide intent to lawfully use the mark in commerce.”). In both cases, Applicant appealed and requested reconsideration, which each Examining Attorney denied. We affirm the refusals to register.

“We have consistently held that, to qualify for a federal service mark [or trademark] registration, the use of a mark in commerce must be ‘lawful.’” *In re Brown*, 119 USPQ2d 1350, 1351 (TTAB 2016) (affirming the refusal for lack of lawful use of a mark for the retail sale of herbs that included marijuana) (citations omitted); *see also Gray v. Daffy Dan’s Bargaintown*, 823 F.2d 522, 3 USPQ2d 1306, 1308 (Fed. Cir. 1987) (“[a] valid application cannot be filed at all for registration of a mark without ‘lawful use in commerce. . . .’”). Therefore, “any goods . . . for which the mark is used must not be illegal under federal law.” *Brown*, 119 USPQ2d at 1351.

It logically follows that if the goods on which a mark is intended to be used are unlawful, there can be no bona fide intent to use the mark in lawful commerce. In *John W. Carson Found. v. Toilets.com, Inc.*, 94 USPQ2d 1942 (TTAB 2010), the applicant previously had been permanently enjoined by a court against using the applied-for mark because it violated the right of publicity of the opposer’s predecessor in interest. The Board therefore ruled that the applicant lacked the necessary bona fide intent to use the mark, stating, “[b]ecause the permanent injunction enjoins applicant from making the use required to obtain its federal trademark registration, as a matter of law, applicant cannot make lawful use of its mark in commerce. Therefore, it is a legal impossibility for applicant to have a bona fide intent to use its

mark in commerce.” *Id.* at 1947-48. Similarly, where the identified goods are illegal under the federal Controlled Substances Act (CSA), the applicant cannot use its mark in lawful commerce, and “it is a legal impossibility” for the applicant to have the requisite bona fide intent to use the mark.

In both applications in this case, Applicant has explicitly identified its goods as vaporizing devices for cannabis<sup>4</sup> or marijuana. The CSA makes it unlawful to sell, offer for sale, or use any facility of interstate commerce to transport drug paraphernalia, defined as “any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under [the CSA].” 21 U.S.C. § 863; *see also Brown*, 119 USPQ2d at 1352 n.10. The CSA identifies marijuana as a controlled substance that is unlawful to possess. 21 U.S.C. §§ 812(a) & (c) (identifying “Marihuana,” by its alternate spelling, as a controlled substance); 841, 844 (placing prohibitions on the possession of controlled substances). The CSA defines marijuana (or “marihuana”) as “all parts of the plant *Cannabis sativa* L., whether growing or not; . . . the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin,” but for certain exceptions not relevant

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<sup>4</sup> “Cannabis” refers to “any of the preparations (as marijuana or hashish) or chemicals (as THC) that are derived from the hemp and are psychoactive.” (www.merriam-webster.com). The Board may take judicial notice of dictionary definitions, *Univ. of Notre Dame du Lac v. J.C. Gourmet Food Imp. Co.*, 213 USPQ 594 (TTAB 1982), *aff’d*, 703 F.2d 1372, 217 USPQ 505 (Fed. Cir. 1983), including online dictionaries that exist in printed format or regular fixed editions. *In re Red Bull GmbH*, 78 USPQ2d 1375, 1377 (TTAB 2006).

to Applicant's goods.<sup>5</sup> 21 U.S.C. § 802(16). Based on this definition and the evidence of record, we find that Applicant's references to "cannabis" in its identifications are to marijuana, as defined in the CSA. Thus, equipment primarily intended or designed for use in ingesting, inhaling, or otherwise introducing cannabis or marijuana into the human body constitutes unlawful drug paraphernalia under the CSA.

Therefore, we find that Applicant's identified goods fall within the definition of illegal drug paraphernalia under the CSA. The identifications of goods make clear that Applicant's devices are designed and intended for the introduction of marijuana or cannabis into the human body. Applicant has not disputed this fact in either case, and has acknowledged that its goods are "marijuana-related"<sup>6</sup> and "optimized" for cannabis.<sup>7</sup> In its Briefs, Applicant contends that its goods "should be considered in the same league as other oral vaporizing apparatuses, like e-cigarettes,"<sup>8</sup> but the identifications of goods and Applicant's own evidence regarding its goods make clear that its devices are in a different "league" that violates the CSA.

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<sup>5</sup> Footnote 12, *infra*, includes a discussion of some exceptions that may apply to the goods and services in third-party registrations submitted by Applicant.

<sup>6</sup> *See, e.g.*, Serial No. 86236122, 4 TTABVUE 17 (Applicant's Request for Reconsideration); Serial No. 86474701, 4 TTABVUE 10 (Applicant's Request for Reconsideration). In addition, Applicant submitted a posting regarding JUJU JOINTS being voted one of the best marijuana products by Seattle Weekly. Serial No. 86236122, 4 TTABVUE 49 (Applicant's Request for Reconsideration).

<sup>7</sup> Serial No. 86236122, 4 TTABVUE 17 (Applicant's Request for Reconsideration); Serial No. 86474701, 4 TTABVUE 10 (Applicant's Request for Reconsideration). Applicant also submitted an article about its business and founder indicating that he is "cashing in on legal marijuana" and that the vaporizers "come[] preloaded with 250 milligrams of cannabis oil." Serial No. 86236122, 4 TTABVUE 30 (Applicant's Request for Reconsideration).

<sup>8</sup> Serial No. 86474701, 7 TTABVUE 5 (Applicant's Brief); Serial No. 86236122, 5 TTABVUE 4 (Applicant's Brief).

Applicant points to a pending third-party application<sup>9</sup> and four third-party registrations<sup>10</sup> for goods or services that Applicant characterizes as “in support of the marijuana industry,” and claims that its “goods should be treated no differently.”<sup>11</sup> However, each application must be considered on its own record to determine eligibility to register. *In re Cordua Rests., Inc.*, 823 F.3d 594, 118 USPQ2d 1632, 1635 (Fed. Cir. 2016); *see also In re Nett Designs, Inc.*, 236 F.3d 1339, 57 USPQ2d 1564, 1566 (Fed. Cir. 2001) (“Even if some prior registrations had some characteristics similar to Nett Designs’ application, the PTO’s allowance of such prior registrations does not bind the Board or this court.”). Regardless, the third-party pending application evidence shows nothing more than that the application was filed with the USPTO. *In re Binion*, 93 USPQ2d 1531, 1535 n.3 (TTAB 2009). Further, there is no

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<sup>9</sup> Serial No. 86235836 for the mark YE OLDE DOPE SHOP identifies “Retail store services featuring marijuana and related consumer goods.”

<sup>10</sup> Registration No. 4315305 for the mark CANNABIS ENERGY DRINK and design identifies “Energy drinks and sports drinks, including performance drinks, not included in other classes, containing cannabis seed extract or mature cannabis stem extract.”

Registration No. 4651863 for the mark CCOP identifies “Retail store services featuring hemp based products, namely, edible hemp oil, candies, confectioneries, chocolate, tinctures, beverages, coffee, tea, cosmetics, shampoo, conditioner, salve, and vaporizers; providing consumer product information via the Internet; administration of reduced price program based on qualifying income, namely, administration of a discount program for enabling participants to obtain discounts on goods and services through use of discount membership; providing consumer information on reduced price wellness and health products and services.”

Registration No. 4330124 for the mark MJFREEWAY identifies “Computer services, namely, providing on-line non-downloadable web-based computer software for patient documentation and history, inventory control, and inventory management for use among medical marijuana centers, dispensaries, collectives, and patients.”

Registration No. 4714986 for the mark MJARDIN PREMIUM CANNABIS and design identifies “Industrial and engineering design services in the field of agriculture” and Consulting in the field of agriculture.”

<sup>11</sup> Serial No. 86474701, 7 TTABVUE 5-6 (Applicant’s Brief); Serial No. 86236122, 5 TTABVUE 4-5 (Applicant’s Brief).



evidence that it ever matured into registration. With respect to the four registrations, given the differences in the goods and services at issue, none of them presents lawfulness issues analogous to those presented by Applicant's applications.<sup>12</sup>

Applicant next argues that because Applicant markets its goods in states that allow for the sale and distribution of marijuana, its current and intended use therefore constitute lawful use in commerce under the Trademark Act. However, this Board recently rejected this position in affirming the refusal to register a mark for the retail sale of herbs that included marijuana, holding that "the fact that the provision of a product or service may be lawful within a state is irrelevant to the question of federal registration when it is unlawful under federal law." *Brown*, 119 USPQ2d at 1351 (footnotes omitted). "Regardless of individual state laws that may provide for legal activities involving marijuana, marijuana and its psychoactive

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<sup>12</sup> For example, some identified goods are described as "containing cannabis seed extract or mature cannabis stem extract," which likely falls outside the definition of marijuana in the CSA: "The term 'marihuana' ... does not include the mature stalks of [the Cannabis sativa L.] plant, fiber produced from such stalks, oil or cake made from the seeds of such plant, any other compound, manufacture, salt, derivative, mixture, or preparation of such mature stalks (except the resin extracted therefrom), fiber, oil, or cake, or the sterilized seed of such plant which is incapable of germination." 21 U.S.C. § 802(16).

Similarly, other identified services involve the retail sale of a variety of "hemp based" products, and the Drug Enforcement Administration of the U.S. Department of Justice has clarified that "[a]ny portion of the cannabis plant, or any product made therefrom, or any product that is marketed as a 'hemp' product, that is both excluded from the definition of marijuana and contains no THC--natural or synthetic--(nor any other controlled substance) is not a controlled substance." Exemption From Control of Certain Industrial Products and Materials Derived From the Cannabis Plant, 68 Fed. Reg. 55 (March 21, 2003) (final rule notice).

Other services in the registrations involve providing software and industrial and engineering design services in the field of agriculture. Even where the subject matter of such services involves marijuana, on their face they present no CSA violation and therefore differ markedly from Applicant's drug paraphernalia goods.

component, THC, remain Schedule I controlled substances under federal law and are subject to the CSA's prohibitions. 21 C.F.R. § 1308.11." *Id.* at 1352;<sup>13</sup> *see also* U.S. Const. Art. VI. Cl. 2; *Gonzales v. Raich*, 545 U.S. 1, 27, 29 (2005); *United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 491 (2001).

Applicant further maintains that because the jurisdictions where it does business "comply with federal directives such as the *Cole Memo*,"<sup>14</sup> its goods should be considered lawful.<sup>15</sup> The *Cole Memo* refers to a U.S. Department of Justice memorandum to United States Attorneys which addressed the enactment of medical marijuana laws in certain states, affirmed the illegality of marijuana under the CSA, and set out federal "enforcement priorities" "to guide the Department's enforcement of the CSA against marijuana-related conduct."<sup>16</sup> The memo urges federal enforcement efforts to focus on goals including preventing distribution of marijuana to minors, preventing violence and firearm use in marijuana-related activities, and

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<sup>13</sup> *See also* Interpretation of Listing of 'Tetrahydrocannabinols' in Schedule I, 66 Fed. Reg. 51529 (Oct. 9, 2001) ("For the reasons provided herein, the Drug Enforcement Administration (DEA) interprets the Controlled Substances Act (CSA) and DEA regulations to declare any product that contains any amount of tetrahydrocannabinols (THC) to be a schedule I controlled substance, even if such product is made from portions of the cannabis plant that are excluded from the CSA definition of 'marihuana.'"); 4 TTABVUE 24 (Applicant's Request for Reconsideration) (attaching New York Times article on JuJu Joints, which notes that they contain "100 milligrams of THC, twice as much as a traditional joint").

<sup>14</sup> Serial No. 86474701, 7 TTABVUE 6 (Applicant's Brief); Serial No. 86236122, 5 TTABVUE 6 (Applicant's Brief).

<sup>15</sup> Applicant thus raises one of the issues reserved in *In re Brown*, "whether use not lawful under federal law, but not prosecuted by federal authorities, is thereby rendered sufficiently lawful to avoid the unlawful use refusal." *Brown*, 119 USPQ2d at 1351 n.3.

<sup>16</sup> Serial No. 86474701, 4 TTABVUE 12-13 (The *Cole Memo*, attached to Applicant's Request for Reconsideration); Serial No. 86236122, 4 TTABVUE 50-51 (The *Cole Memo*, attached to Applicant's Request for Reconsideration).

“[p]reventing the diversion of marijuana from states where it is legal under state law in some form to other states.”<sup>17</sup> We reject Applicant’s arguments that its use and intended use of the mark are lawful based on the memorandum, as the memorandum does not and cannot override the CSA,<sup>18</sup> and in fact, explicitly underscores that “marijuana is a dangerous drug and that the illegal distribution and sale of marijuana is a serious crime.”<sup>19</sup>

Applicant’s remaining arguments involve policy issues that are beyond our jurisdiction over issues of trademark registrability and that are, in any event, already settled within the existing statutory framework of, and interplay between, the Trademark Act and the CSA. For example, Applicant contends that refusing trademark protection for marijuana-related goods and services that violate the CSA “creates consumer confusion, allows for dilution of brand and quality, and opens the Applicant up to infringement, which is contrary to the purpose and intent of the [Trademark] Act.”<sup>20</sup> Similarly, Applicant claims that its goods should be eligible for registration because there are “accepted medical uses for marijuana,” and “the

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<sup>17</sup> *Id.*

<sup>18</sup> The *Cole Memo* is intended only “as a guide to the exercise of investigative and prosecutorial discretion” and specifically provides that “[n]either the guidance herein nor any state or local law provides a defense to a violation of federal law, including any civil or criminal violation of the CSA.” Serial No. 86474701, 4 TTABVUE 15 (Applicant’s Request for Reconsideration); Serial No. 86236122, 4 TTABVUE 10 (Applicant’s Request for Reconsideration). The *Cole Memo* thus provides no support for the registration of a trademark used on goods whose sale is illegal under federal law. *See generally Christensen v. Harris County*, 529 U.S. 576, 587 (2000) (“policy statements, agency manuals, and enforcement guidelines” all “lack the force of law”) (citations omitted).

<sup>19</sup> *Id.*

<sup>20</sup> Serial No. 86474701, 7 TTABVUE 7 (Applicant’s Brief).

marijuana industry is similar to the alcohol and tobacco industry.”<sup>21</sup> This line of reasoning fails to recognize that lawful use of a mark in commerce is a prerequisite to federal registration, *Gray*, 3 USPQ2d at 1308, and that Congress has made the sale of marijuana paraphernalia illegal under federal law. We cannot simply disregard the requirement of lawful use or intended lawful use in commerce under the Trademark Act, or Congress’s determination as to what uses are illegal, regardless of the alleged business or consumer consequences of denying registration, and regardless of any analogies between marijuana and other goods that do not violate the CSA.

In conclusion, because Applicant’s identified goods constitute illegal drug paraphernalia under the CSA, Applicant’s use and intended use of the applied-for marks on these goods is unlawful, and cannot serve as the basis for federal registration.

**Decision:** The refusals to register Applicant’s marks under Sections 1 and 45 the Trademark Act, 15 U.S.C. §§ 1051, 1127, are affirmed.

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<sup>21</sup> *Id.* at 9; Serial No. 86236122, 5 TTABVUE 7 (Applicant’s Brief).

## CHAPTER ELEVEN

**SURVIVING THE PERFECT PROTOSTORM:  
AN ANTHOLOGY OF RECENT IP MALPRACTICE DECISIONS**

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## I. Malpractice And Subject Matter Conflicts

A new worry for IP practitioners involves so-called “subject matter conflicts.” A subject matter conflict is, loosely speaking, an issue that arises when two clients of the practitioner, or the practitioner’s law firm, are seeking intellectual property rights for the same, or very similar, invention (for patents), marks (for trademarks), or original works (for copyrights). To date, the issue has mainly arisen in the context of patent prosecution. Can two law firms ethically represent different clients in the same “technical space”? How does one define the “technical space” of an invention—from a 60,000 foot level, such as same general area of technology or problem to be solved? Or should “technical space” be defined with respect to the claimed invention?

### ***Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, 473 Mass. 336 (2015)***

The leading case on subject matter conflicts in the IP field is now a little over one-year old. It is important because as a case of generally first impression, it was the first time a court had the chance to address the metes and bounds of a “subject matter conflict” and when (or if) such a conflict could give rise to a cause of action against an IP law firm sounding in legal malpractice.

This action arose from a civil malpractice lawsuit filed in April 2012 in federal court by a sole inventor and his assignee against an IP law firm and several of its attorneys. The complaint alleged that the inventor hired the IP firm to file and prosecute a patent application on an allegedly new eyeglass hinge invention. The complaint further alleged that during the same time it was representing the inventor, the law firm also was representing another client in a similar invention, albeit using different attorneys working from a different office.

As a result of the law firm's representation, the plaintiff as well as the firm's other client were awarded patents on their respective inventions. The complaint alleged that the invention disclosed in the other client's patent was "similar in many important respects" to plaintiff's invention. The complaint further alleged that the law firm had a conflict of interest which "should have been disclosed before and during" the representation and that, due to the purported conflict, the law firm was unable to "fully and without restraint represent" the inventor and his assignee. The complaint still further alleged that plaintiff was unable to market his product as a result of the "similarities" between the other client's invention and plaintiff's invention.

Notably, the complaint failed to allege that any of the services provided by the law firm or any of its attorneys fell below the standard of care applicable to the legal profession generally or to lawyers with a specialty in patents. Moreover, the complaint failed to allege that conflict-free counsel would have represented the client or his assignee any differently or produced a different or better result. In fact, as a result of the law firm's representation, plaintiff was issued several patents on his invention.

The law firm filed a motion to dismiss the complaint for failure to state a claim. While that motion was pending, the United States Supreme Court, on February 20, 2013, issued its decision in *Gunn v. Minton*, holding that state law legal malpractice claims based on patent issues do not arise under the patent laws of the United States, and do not raise substantial enough federal issues to justify the exercise of exclusive federal jurisdiction. The district court *sua sponte* dismissed the case for lack of subject matter jurisdiction.

Plaintiff re-filed his complaint in Massachusetts state court. The law firm again moved to dismiss. On October 29, 2013, the court granted the motion. In ordering dismissal, the court explained:

All four counts are premised on the assertion that [the law firm] had a conflict of interest in representing both the plaintiffs and [its other client]. Massachusetts Rule of Professional Conduct 1.7(a) requires that a lawyer not represent a client if that representation would be 'directly adverse' to another client. Here, the Complaint states only that [the other client] was a competitor of plaintiffs who was seeking a patent for a similar device, but that does not necessarily make them 'adverse' for purposes of Rule 1.7. Indeed, both [the other client] and plaintiffs were successful in obtaining their patents as a consequence of [the law firm's] representation. More important, the Complaint does not allege any facts to suggest that [the law firm's] representation of plaintiffs in applying for the patents was in any way affected by the fact that it also represented [its other client].

The court held that, "In the absence of any allegation that [the law firm's] independent professional judgment was impaired as a result of the dual representation or that it otherwise failed to do something that it would have done had it not been representing [its other client], it is difficult to see how there was a true conflict of interest as defined by Rule 1.7." The court additionally held that even if there were a conflict of interest, the complaint failed to allege facts sufficient to establish that such a "conflict" caused plaintiff any harm.

Plaintiff appealed the dismissal to the Massachusetts Appeals Court – the state's intermediate court of appeal. While that appeal was pending, on December 10, 2014, the Supreme Judicial Court agreed to hear the case.

Mass Rule 1.7(a) prohibits a lawyer from representing a client if the representation of that client will be "directly adverse" to another client, unless:



- (1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and
- (2) each client consents after consultation.

Mass. Rule 1.7(b) states a lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:

- (1) the lawyer reasonably believes the representation will not be adversely affected;  
and
- (2) the client consents after consultation.

No easy answer exists to the question of whether the subject matter of one client's patent or application is "directly adverse" to that of another client. Some courts focus on the alleged "similarity" of the inventions as a proxy for Rule 1.7. But whether a particular invention is sufficiently "similar" to another invention is itself an extremely difficult question to answer.

On December 23, 2015, the Massachusetts Supreme Judicial Court issued an opinion affirming the dismissal of the malpractice complaint. Massachusetts' highest court held that no actionable conflict of issue existed under Mass. R. Prof. C. 1.7 where attorneys in different offices of the same IP law firm simultaneously represented clients in prosecuting patents on allegedly similar inventions. Each count of the complaint was predicated on the existence of an alleged undisclosed "subject matter conflict."

In determining the "similarity" of the inventions, the Massachusetts court focused on the claimed invention. The court held:

Subject matter conflicts do not fit neatly into the traditional conflict analysis. Maling advocates for a broad interpretation of rule 1.7 that would render all subject matter conflicts actionable, per se violations. We

disagree. Rather, we conclude that although subject matter conflicts in patent prosecutions often may present a number of potential legal, ethical, and practical problems for lawyers and their clients, they do not, standing alone, constitute an actionable conflict of interest that violates rule 1.7.

The court held that Maling and the firm's other client were not "directly adverse" under Rule 1.7(a) "in the traditional sense." The court explained that representation is "directly adverse in violation of rule 1.7 (a) (1) when a lawyer 'act[s] as an advocate in one matter against a person the lawyer represents in some other matter, even when the matters are wholly unrelated.'" See *id.* (citing Mass. R. Prof. C. 1.7 comment 6). Maling and Masunaga were not adversaries in the traditional sense, as they were not on opposite sides of litigation and were simply appearing before the USPTO in separate proceedings to seek patents for their respective screwless eyeglass devices. The court rejected Maling's contention that there was a conflict because both clients were competing in the same "patent space." Instead, the court found that at best the clients' economic interests were conflicting, which is insufficient to create a direct conflict.

The court stated that "an actionable conflict of interest could arise under different factual circumstances. For example, where claims in two patent applications filed prior to March 16, 2013, are identical or obvious variants of each other, the USPTO can institute an "interference proceeding" to determine which inventor would be awarded the claims contained in the patent applications. 35 U.S.C. § 135(a) (2002). If the USPTO had called an interference proceeding to resolve conflicting claims in the Maling and Masunaga patent applications, or if Finnegan, acting as a reasonable patent attorney, believed such a proceeding was likely, the legal rights of the parties would have been in conflict, as only one inventor can prevail in an interference proceeding. In such a case,

rule 1.7 would have obliged Finnegan to disclose the conflict and obtain consent from both clients or withdraw from representation. See Mass. R. Prof. C. 1.7 comments 3, 4.”

Although Maling alleged that there was a “high degree of similarity” between his invention and Masanuga’s invention, this was contradicted by the fact that the USPTO issued both clients patents. Moreover, neither party’s patents were cited in, or limited by, the other party’s patents.

The court also rejected Maling’s alternative claim that a conflict existed under Rule 1.7(a)(2). The court explained:

We turn next to the question whether Finnegan’s representation of Masunaga "materially limited" its representation of Maling in contravention of rule 1.7 (a) (2), which prohibits representation where "there is no direct adverseness . . . [but] there is a significant risk that a lawyer's ability to consider, recommend or carry out an appropriate course of action for the client will be materially limited as a result of the lawyer's other responsibilities or interests." Mass. R. Prof. C. 1.7 comment 8. The "critical inquiry" in analyzing potential conflicts under rule 1.7 (a) (2), "is whether the lawyer has a competing interest or responsibility that `will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client.'" . . .

In Maling’s view, Finnegan “pulled its punches” and got more for Masunaga than for Maling before the USPTO. He has failed, however, to allege sufficient facts to support such a proposition. . . .

The court distinguished Maling from *Sentinel Prods. Corp. vs. Platt*, U.S. Dist. Ct., No. 98-11143-GAO (D. Mass. July 22, 2002) (*Sentinel*), another Massachusetts case that illustrates how a subject matter conflict resulting from the prosecution of patents for competing clients could give rise to a conflict of interest under rule 1.7 (a) (2). In the *Sentinel* case, a law firm prosecuted patents for two clients, a company (*Sentinel*), and one of *Sentinel*'s former employees. *Id.* at 1. *Sentinel* brought suit, claiming that because of the simultaneous representation, its patent applications "were

denied, delayed, or otherwise impeded" and that it suffered economic losses as a result. *Id.* at 5. On a motion for summary judgment, the court concluded that the law firm filed applications with the USPTO for Sentinel, and then two weeks later for the former employee. *Id.* at 1-2. The firm's attorneys testified that they thought the applications "overlapped" and that they were unable "to discern a patentable difference between" the applications. *Id.* at 5. A patent for the employee's application was issued first, and Sentinel's application was rejected after the USPTO found it conflicted with claims contained in the employee's patents. *Id.* at 2-3. The firm subsequently narrowed the claims in Sentinel's application to avoid conflict with the former employee's application, and the USPTO issued Sentinel patents containing the narrower claims. *Id.* at 3, 6-7.

The court found the Maling case to be distinguishable from Sentinel, because there was no "claim shaving" and no facts presented that Finnegan's independent professional judgment was impaired or that it likely would have gotten better patent claims if it had conflict-free counsel. The court further stated that:

Before engaging a client, a lawyer must determine whether the potential for conflict counsels against undertaking representation. Comment 8 to rule 1.7 elaborates:

"The mere possibility of subsequent harm does not itself require disclosure and consent. The critical questions are the likelihood that a difference in interests will eventuate and, if it does, whether it will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client."

Maling's complaint does not contain any allegations as to the services or scope of representation agreed upon by Maling and Finnegan other than that Finnegan "agreed to file and prosecute a patent for Maling's inventions." Nor is it adequately alleged that Finnegan should have reasonably anticipated that Maling would need a legal opinion that would create a conflict of interest. There are simply too few facts from which to

infer that Finnegan reasonably should have foreseen the potential conflict in the first place. *See, e.g., Vaxion Therapeutics, Inc. v. Foley & Lardner LLP*, 593 F. Supp. 2d 1153, 1173 (S.D. Cal. 2008) (deciding that expert testimony created question of fact as to likelihood that conflict of interest would develop from firm's simultaneous representation of competitor clients in patent prosecution). Based on these inadequacies, we agree with the motion judge that the complaint does not sufficiently allege that Finnegan violated its duties under rule 1.7 (a) (2) by undertaking representation of both Maling and Masunaga.

Finding no such actionable conflict, the Massachusetts high court entered an order affirming a lower court's judgment dismissing the complaint.

***Access International, Inc. v. Baker Botts. LLP*, No. 05-14-01151-CV, 2016 Tex. App. LEXIS 3081 (Tex. App. Dallas Mar. 24, 2016)**

The case arose from Baker Botts' representation of Axcress International, Inc. and its competitor, Savi Technologies, Inc. Both companies sought, and eventually obtained, patents in the field of active-radio-frequency identification ("RFID") products and services. In 2010, Axcress sued Baker Botts alleging patent malpractice, breach of fiduciary duty, and failure to disclose material information.

A jury found in favor of Axcress on its claim of malpractice, awarding it \$40 million against the law firm. In post-trial motions, the state trial court found the lawsuit was untimely filed and entered a take-nothing judgment in favor of Baker Botts. The court found that Axcress should have known of the injury in 2007, because its executives reviewed competitors' patents listing Baker Botts as counsel at that time. The lawsuit was thus untimely under the two-year statute of limitations.

While several issues were raised on appeal, the Texas appellate court ruled that Axcress failed to prove the element of harm proximately caused by the alleged negligence of Baker Botts. The court held, "In this case, we find no legally sufficient

evidence that Baker Botts' acts or omissions caused Axxcess to suffer a compensable injury.”

At trial, Axxcess's expert testified that “with conflict-free counsel,” Axxcess could have filed or threatened to file an interference proceeding in the USPTO against Savi and amended the claims of one of its patent applications. Axxcess's expert also testified that if Axxcess had succeeded in the hypothetical interference proceeding, then “Savi's lucrative government contracts utilizing the patent would be at risk” and thus Axxcess “would have been in a better position to negotiate a business solution with Savi” that would have resulted in “some unspecified business deal.” A jury awarded Axxcess \$41 million.

The appeals court found that Axxcess's causation evidence was too speculative and that Axxcess had to prove “with competent, non-speculative evidence” what *would* have happened, not simply what *could* have happened.

With regard to the alleged hypothetical interference proceeding, the court further found that Axxcess's opinions “are simply ungrounded in any explanation as to how the USPTO, including the Interference Practice Specialist and the panel of administrative patent judges, would have viewed the hypothetical suggestion of interference.” The court noted that Axxcess's expert witness was not a specialist in the field of interference practice and that the witness “admitted that reasonable people might differ from his conclusions about the similarities of the claims and specification” in the two allegedly interfering patents.

The court also rejected Axxcess's claim that if it had been represented by “conflict-free counsel it would have enhanced its patent claims and Savi would have—as a

rational business person—entered into a deal with Axxcess.” The court again found the evidence presented too speculative and was not supported with its expert’s opinions, which the court characterized as “conclusory” and “without factual basis.” On the contrary, the evidence presented was that in prior dealings, when challenged, Savi fought back on the merits and prevailed. Thus, the court found the expert’s testimony regarding what Savi “would have done” was “too speculative.”

The court ruled as a matter of law that Axxcess’s opinion evidence on causation was speculative and “constitutes legally insufficient evidence of causation.” The court thus upheld the trial court’s judgment based solely on the causation issue without reaching the merits of whether Axxcess’s claim was barred by limitations or suffered from insufficient proof of damages.

***The Gillette Co. v. Provost*, No. 1584CV00149-BLS2, 33 Mass. L. Rep. 327 (Mass. Super. Ct. May 5, 2016)**

On May 5, 2016, a Massachusetts state court dismissed Gillette’s claims for breach of fiduciary duty against its former in-house IP counsel who left Gillette and went to work for a competitor, where he used allegedly privileged information gained during his prior employment and helped his new employer analyze and avoid infringement of Gillette’s patents—including patents over which he oversaw prosecution. The court held that Gillette’s amended complaint failed to state claims for breach of fiduciary duty as a matter of law. Consequently, the court dismissed with prejudice Gillette’s claims against its former in-house attorney.

**Factual Background**

For 17 years, Chester Cekala worked as an in-house patent attorney for Gillette. Mr. Cekala left Gillette in 2006. In 2012, Mr. Cekala joined ShaveLogic, Inc. where he began working on patent matters. In 2015, Gillette sued ShaveLogic and four former Gillette employees who had gone to work for ShaveLogic. The original complaint alleged that the defendants took Gillette's confidential information and misappropriated its trade secrets for the benefit of ShaveLogic.

In 2016, Gillette filed an amended complaint adding Mr. Cekala as an additional defendant. According to Gillette's amended complaint, Mr. Cekala had access to privileged communications and information relating to Gillette's patents and technologies and developed "detailed knowledge" about Gillette's patents and related licensing agreements. ShaveLogic allegedly hired Mr. Cekala to provide freedom to operate opinions regarding Gillette patents—including patents whose prosecution he allegedly oversaw—and to identify potential voids in Gillette's patent portfolios.

The amended complaint further alleged that ShaveLogic competes with Gillette in the market for wet shaving products and that Mr. Cekala's knowledge of Gillette's intellectual property portfolio and patent strategy gives ShaveLogic a "competitive edge in the market." Mr. Cekala's work for ShaveLogic, according to the amended complaint, is substantially related to the legal services he performed while working as counsel for Gillette. The amended complaint alleged Mr. Cekala breached his ethical and fiduciary duties to Gillette, as its former counsel, and that all of the defendants conspired to cause Mr. Cekala to breach his fiduciary duty to Gillette.

## **Procedural History**



Gillette moved for a preliminary injunction to prevent Mr. Cekala, from providing any legal advice regarding Gillette's patents, not only with respect to patent validity but also on infringement and scope of Gillette's patents. Although Cekala's non-compete agreement with Gillette had long expired, Gillette contended that Cekala's legal advice inevitably disclosed Gillette's trade secrets to its competitor given his experience with the company.

The Massachusetts court rejected Gillette's position. The court noted that "if the court were to accept Gillette's logic, Cekala would be effectively prevented from working in any legal position for a competitor in the shaving industry even though his non-competition agreement expired years ago." Mr. Cekala moved to dismiss the claims alleged against him in the amended complaint for failure to state a claim. On May 5, 2016, the court granted Mr. Cekala's motion with prejudice.

### **No Former Client Conflict of Interest**

The court noted at the outset that Mr. Cekala's fiduciary duty as former counsel to Gillette is "narrower" than the broad and undivided duty of loyalty that Mr. Cekala owed to Gillette when he represented the company as its in-house patent counsel. Since Gillette was Mr. Cekala's former client, his ethical duties were limited by Massachusetts law, in particular Mass. R. Prof. Conduct 1.9, to preserve his former client's confidential information and secrets. According to the court,

Representation of a current client impermissibly conflicts with a lawyer's duty to a former client only when the matter for the new client is both 'adverse' to the interests of the former client and also 'substantially related' to work the lawyer had done for the former client.

Gillette's amended complaint alleged several different theories of fiduciary duty claims against Mr. Cekala. The court rejected each theory. First, the court rejected the argument that Mr. Cekala breached any fiduciary duty to Gillette by helping ShaveLogic compete against Gillette. The court cited the Massachusetts Supreme Judicial Court's recent decision in *Maling v. Finnegan Henderson*, 473 Mass. 336, 341044 (2015), which held that "a patent lawyer may simultaneously represent two clients in prosecuting patent applications for inventions that compete in the same market, so long as the claims asserted in each application are neither identical nor obvious variants of each other." Based on the reasoning in *Maling*, the *Gillette* court held that the mere fact that patents are in the "same space" or that products compete in "the same market" does not make the interests of the two clients "materially adverse" and that it,

necessarily follows that the interests of ShaveLogic are not 'materially adverse' to those of Gillette within the meaning of Rule 1.9 merely because ShaveLogic seeks to compete by selling shaving products that are designed so as not to infringe upon any patents held by Gillette.

Second, the fact that Mr. Cekala "developed expertise" regarding the scope of some of Gillette's patents while he worked for Gillette are "beside the point" since issued patents are public documents. The court explained that, "nothing in Rule 1.9 bars a lawyer from using publicly available information" or expertise acquired while representing a former client to help a new client compete against the former client.

Third, the court rejected Gillette's argument that Mr. Cekala's work in assisting ShaveLogic to avoid infringement of Gillette patents—including patents over which he foresaw prosecution—breached his fiduciary duty to Gillette. The court reasoned that assisting ShaveLogic to avoid infringement was not "substantially related to" the work he performed for Gillette. The court distinguished between providing non-infringement

opinions and validity opinions regarding Gillette's patents. As to the latter, the court, in dicta, stated that the result could be different if Mr. Cekala was helping ShaveLogic invalidate patents he helped to prosecute and obtain for Gillette.

In contrast, the court found, "questions about whether any ShaveLogic product or planned product infringes on a Gillette patent do not implicate information known to Gillette but not disclosed in the patent or the accompanying, and now public, patent prosecution history." The court reasoned that the amended complaint alleges no facts suggesting anything Mr. Cekala "learned during his former employment with Gillette is substantially related to any issue likely to arise regarding whether a ShaveLogic product infringes on a Gillette patent."

Finally, the court rejected the amended complaint's "unexplained" allegations that Mr. Cekala disclosed and used privileged information regarding Gillette's IP strategy as conclusory and thus insufficient to state a plausible claim. The court concluded that any further amendments to the amended complaint would be futile. The court therefore dismissed all claims against Mr. Cekala with prejudice.

The case is still ongoing against other defendants based on other causes of action. And it should be noted the court's decision is still subject to appeal. Nevertheless, the *Gillette* decision, coupled with and coming in the aftermath of the *Maling* decision, provide guidance to patent practitioners regarding the scope and application of their ethical duties in providing patent-related legal services in both the current client (as in *Maling*) and former client (as in *Gillette*) settings. And while both cases, strictly speaking, are limited to Massachusetts law, they may very well provide guidance to other courts and bar regulators in other jurisdictions, including the USPTO,

in interpreting the similarly-worded ABA Model Rules of Professional Conduct 1.7 (for current client conflicts) and 1.9 (for former client conflicts) in the context of patent legal services.

***Portus Singapore PTE Ltd. v. Kenyon & Kenyon, No. 1:16-cv-06865 (S.D.N.Y. Oct. 18, 2016)***

On October 18, 2016, Portus Singapore PTE Ltd. (“Portus”) filed an amended complaint for legal malpractice against the recently-shuttered IP boutique, Kenyon & Kenyon (Kenyon), and two of its former partners. In its amended complaint, Portus alleged that it was represented by Kenyon with regard to Portus’ patent portfolio for more than a decade. The amended complaint alleges that defendants were negligent in two respects (1) failing to competently manage Portus’ patent portfolio and (2) failing to disclose to Portus or to obtain from Portus consent for a concurrent conflict of interest.

**The Alleged Negligent Prosecution**

The Amended Complaint alleges that Defendants’ omissions in one of Portus’ “highly valuable smart home and internet protocol (“IP”) video surveillance patents,” which allegedly had numerous “infringement targets and licensees,” resulted in the loss of three (3) years of patent term.

Portus allegedly filed a patent application in Australia on December 17, 1998, covering certain video surveillance technology. On December 17, 1999, Portus filed an international PCT application. On June 15, 2001, Kenyon, at the request of Portus, filed a United States application as the national stage of the PCT Application (“the ’417

Application”). The ’417 Application allegedly had an effective filing date of December 17, 1999--the filing date of the PCT application.

On January 19, 2005, the USPTO issued its first office action in the ’417 Application. The Amended Complaint alleges that, in response to the office action, Kenyon failed to convert the application by filing a continuation of the international application and that “Doing so would have secured patent term adjustment rights that would have enabled Portus to extend the term of the patent.

The Amended Complaint alleged that under the 1999 American Inventors Protection Act, Portus was entitled to patent term adjustment so long as a petition was filed within a reasonable amount of time of Defendants’ knowledge of a potential patent term adjustment issue. The Amended Complaint alleged further that Kenyon waited nine (9) years—until August of 2014—before they advised Portus that Portus was entitled to an additional three and a half years of patent term.

Kenyon allegedly filed a petition to convert the application to claim benefit of the international application in order to extend the patent term. The petition, however, was denied. The Amended Complaint alleges that the grounds for denial of the extended patent term was Kenyon’s failure to convert the application on patent term adjustment grounds within a reasonable time after the January 2005 office action.

### **The Alleged Subject Matter Conflict**

In addition, the Amended Complaint alleges that in 2011, co-defendant Ginsberg defended Bosch in an infringement action brought against Bosch by an unidentified plaintiff “in the smart home and IP video surveillance domain.” In addition to defending

Bosch, Kenyon has also prosecuted patents on behalf of Bosch in the “smart home and IP video surveillance domain.”

According to the Amended Complaint, throughout its representation of Bosh, “Defendants were simultaneously representing Portus in its prosecution of its patent portfolio. According to the Amended Complaint, “Bosch was a potential infringement and licensee target in the patent prosecution, yet Defendants never notified Portus about its representation of Bosch.” The Amended Complaint fails to allege that “but for” this alleged concurrent representation, Portus would have gotten a “better” patent or a broader patent. Nor does the complaint allege that the concurrent representation of Bosch in any way impacted prosecution, such as a rejection of claims based upon any Bosch reference.

The Amended Complaint further alleges that in 2015, Portus provided Defendants with an infringement analysis with “claim charts for a utility deployment of IP video surveillance based on Bosch Video Management System and IP cameras.” Portus allegedly sought Kenyon’s advice as to whether such a deployment would infringe Portus’ patent claims. The Amended Complaint fails to allege what was Kenyon’s response to that request or whether it provided the requested opinion. However, Portus asserts that “to this date, Defendants have never disclosed a potential conflict of interest to Portus.”

On December 9, 2016, Kenyon filed a motion to dismiss the Amended Complaint for failure to state a claim, pursuant to Fed. R. Civ. P. 12(b)(6). In its motion, Kenyon alleges that the failure to file an earlier petition for term extension was not the proximate cause for any harm to Portus and that Portus’s petition to convert would have been

denied even if it had been timely filed (apparently, Kenyon concedes that the conversion petition was untimely). In particular, Kenyon asserts that Portus “misunderstands the law” and that “If a continuation application to the ’417 Application was, in fact, filed in 2005, no patent term adjustment would be available from the period between the effective filing date of the parent application (that is, the ’417 Application), and the date of the first office action in 2005. See *Mohsenzadeh v. Lee*, 790 F.3d 1377, 1382 (Fed. Cir. 2015) (the patent term adjustment statute “does not provide patent term adjustments in continuing applications based on delays in the prosecution of parent applications . . . .”).” The motion to dismiss further argues that, under 37 C.F.R. § 1.704(c)(12), no patent term adjustment can accrue from or carry over from before the filing date.

The motion to dismiss further argues that Portus’ conflict of interest malpractice claim fails to state a cognizable claim because it fails to plausibly allege that but for the alleged conflict regarding Kenyon’s concurrent representation of Portus and Bosch, it suffered any cognizable harm. The only alleged “harm” suffered was the loss of patent term, but the Amended Complaint fails to allege how or why that loss of patent term caused Portus to suffer harm vis-à-vis Bosch. Notable by its absence is any citation in Kenyon’s briefs to the Massachusetts Court’s recent decision dismissing a patent malpractice claim based upon an alleged subject matter conflict between two concurrent clients where the complaint failed to allege how or why the two clients’ concurrent patent rights interfered with one another or how the plaintiff’s rights were adversely impacted by the work done by the IP firm for its other client. See *Maling v. Finnegan, Henderson, Farabow, Garrett & Dunner, LLP*, 473 Mass. 336 (2015)

In its opposition to Kenyon's motion, Portus asserts that Kenyon misconstrues its allegation of malpractice. According to Portus, Kenyon's assertions raised from the USPTO decision are completely irrelevant to Portus's claim. Portus argues that "Defendants' malpractice was their failure to file a continuation application under § 111(a), which made Portus's patent application ineligible for patent term adjustment. Had Defendants' filed a § 111(a) continuation application (instead of the national stage application they did file under § 371), Portus would have been eligible for such patent term adjustment rights." Portus further notes that the USPTO's 2014 decision confirmed that Portus (through Kenyon) "had the ability to file a continuing application claiming the benefit of the international application, which would have secured the desired patent term adjustment rights."

As for the malpractice claim predicated on the alleged undisclosed conflict of interest with Bosch, Portus's argument is limited to the allegation that Kenyon simultaneously represented Portus and Bosch in the same field of "smart home and IP video surveillance" technology. Portus further argues that Bosch "was a potential infringement and licensee target in the patent prosecution, yet Defendants never notified Portus about its representation of Bosch." Notably, no allegation is advanced that Kenyon was ever made aware that Bosch was a "target" for "potential infringement" or licensing of the patent application until earlier than February 2015, when Portus sought a legal opinion regarding infringement by Bosch. Since the opposition (as well as the Amended Complaint) fail to state whether Kenyon ever provided the requested opinion, the implication is that Kenyon declined to do so.



Kenyon's motion to dismiss is pending as of the date of this publication. On January 19, 2017, the district court ordered the parties to submit chambers' copies of their respective briefings. Whether this means the court is getting ready to rule is anyone's guess. Based upon the pleadings, however, it appears that Kenyon has the better argument for dismissal on at least the conflict-malpractice based cause of action.

## **II. Malpractice and Missing Deadlines**

Malpractice insurers rate IP firms as relatively high risk in part because of the risk associated with blowing a statutory deadline or other critical date. Such date-missing mistakes are, generally speaking, per se malpractice. The only issue that really arises in such cases is the damages suffered by the client. The following cases involved blown deadlines.

### ***GPNE Corp. v. Occhiuti & Rohlicek, LLP, 1:15-cv-13481 (D. Mass. Sept. 30, 2015)***

The complaint alleges that in 1992-93, Gabe Wong and Po Sing Tsui "collaborated to invent a system for two-way mobile communications." As an "inventor-owned telecommunication licensing company," GPNE allegedly maintains an international patent portfolio, including a Japanese data communications patent referred to as "the '796 patent." The Japanese '796 patent, which was attached to the complaint without translation, supposedly covers high-speed LTE ("Long-Term Evolution") data technology implemented in mobile "smartphone" devices. GPNE's complaint asserts the technology it patented in Japan is "critical to high speed data transmission" and "[w]ithout it 'smartphones' like the iPhone would not be able to transmit data at speeds that consumers would consider adequate."

The complaint further alleges GPNE hired the Occhiuti law firm to “handle[] patent maintenance, prosecution, and re-examination for GPNE, including the maintenance of the Japanese ‘796 patent.” Under Japanese law, renewal fees are due on patents of any age that are granted at the Japanese Patent Office. Fees for the first to third years are due as a lump sum within 30 days of the decision to grant the patent. After then, the renewal fees are due annually. The complaint, however, fails to provide any details regarding what payment was due, or when. The complaint further alleges the Occhiuti firm “informed the service company for Japanese patents not to pay the renewal fee.” The “service company” is not identified in the complaint and is not (at least yet) a party to the case.

The complaint alleges that as a result of the law firm’s negligence, GPNE is entitled to \$100 million. This amount, according to the complaint, is predicated on “information and belief” that “more than 40 million infringing iPhone and iPad devices have been sold in Japan” and “the average reasonable royalty in Japanese patent cases is 5 percent or more.”

Unfortunately for us, though probably fortunately for the parties, they settled this matter in May 2016. The terms of the settlement were not made public.

***The Medicines Co. v. Fish & Neave, et al.*, No. MRS L-2516-14 (N.J. Super. Ct. Oct. 10, 2014).**

This IP malpractice action arises from a missed deadline on a critical patent filing known as a Patent Term Extension (or PTE) application for Angiomax, an anticoagulant used to inhibit a key contributor to the formation of blood clots. Since 1997, MDCO has held an exclusive license to develop, market, and sell Angoimax worldwide. According

to its Annual Report, MDCO's 2013 U.S. sales of the drug exceeded \$550 million. The complaint alleges that Angiomax is MDCO's "flagship" product.

The lawsuit alleges that in 1997, MDCO retained Fish & Neave to maintain the Angiomax patent portfolio, including U.S. Patent number 5,196,404, the "principal patent covering Angiomax in the United States." On December 23, 1997, MDCO filed a new drug application for Angiomax with the FDA. A new drug cannot be commercially marketed or used until it receives FDA approval, a process which can be time-consuming and expensive. During the FDA review time period, the applicant receives no commercial benefit from any patents on the drug.

Pursuant to 35 U.S.C. § 156 (the Hatch-Waxman Act), the holder of a drug patent may apply for a patent term extension to compensate for the delay in obtaining FDA approval. To request an extension of the patent term, the patent holder or its agent must submit an application to the USPTO "within the sixty-day period beginning on the date the product received permission . . . for commercial marketing or use." 35 U.S.C. § 156(d)(1).

In this matter, the FDA's approval of the new drug application for Angiomax was set forth in a letter faxed to MDCO at 6:17 p.m. on Friday, December 15, 2000. Assuming the 60-day clock meant *calendar* days, and further assuming day 1 was Friday December 15, 2000, then the PTE application for Angiomax was due by Tuesday, February 13, 2001. If day 1 started the next calendar day after FDA approval (*i.e.*, Saturday, December 16, 2000), then the PTE application was due February 14, 2001. MDCO filed its patent term extension application on February 14, 2001. If approved, the extension application would have changed the expiration date of the '404

patent from March 23, 2010 until December 2014. According to the lawsuit, this additional patent term translated into approximately \$2.0 billion in sales.

The USPTO denied MDCO's application for patent-term extension, stating that it was untimely because it should have been filed on February 13, 2001, and thus it was filed one day late. The lawsuit alleges that the untimely filing was the fault of Fish & Neave, which had all necessary information to calculate the 60-day filing deadline and was solely responsible for the filing. MDCO further alleges Fish & Neave failed to enter the approval date into an automatic docketing system or calculate the deadline manually before it lapsed. Instead, Fish & Neave allegedly assigned responsibility for the filing to an unsupervised part-time law student. "In short, Fish & Neave was asleep at the switch," the complaint alleges.

The lawsuit alleges that MDCO fought for a decade to reverse the legal effects of the missed deadline. In March 2010, MDCO sought review of the USPTO's denial of the patent term extension application in the U.S. District Court for the Eastern District of Virginia. District Judge Claude Hilton held the USPTO abused its discretion and was too inflexible. As the district court observed, when the FDA itself gets applications after the close of business, it dates them the next business day. The court found no reason why the same standard should not apply when calculating deadlines for filing Hatch-Waxman extension. Consequently, the court granted summary judgment in favor of MDCO. *The Medicines Co. v. Kappos, et al.*, 731 F. Supp. 2d 470 (E.D. Va. 2010).

The malpractice complaint does not specify the amount of damages sought but alleges that MDCO suffered "seismic" and "irreparable" damages as a result of millions spent on its legal and legislative battles to obtain the patent term extension. The

complaint further alleges MDCO's losses include reduced stock value, missed business opportunities, and impeded growth potential due to the "dark cloud" placed over the company.

In October 2015, the parties settled the lawsuit.

### **III. Other Negligence in IP Prosecution**

***Protostorm LLC et al. v. Antonelli Terry Stout & Kraus LLP*, No. 1:08-cv-00931, 2015 U.S. Dist. LEXIS 139757 (E.D.N.Y. Oct. 14, 2015), *aff'd*, 2016 U.S. App. LEXIS 22864 (2d Cir. Dec. 21, 2016)**

#### **Factual Background**

In February 2000, Protostorm's principals asked Protostorm's corporate counsel to oversee Protostorm's interactions with other attorneys, in particular billing and correspondence. In May 2000, Worthington introduced the principals to the Antonelli firm and Dale Hogue ("Hogue"), who was of counsel to the Antonelli firm. According to one of the Protostorm principals, it was the company's understanding that Antonelli and Hogue would prepare and file any patent applications and oversee the process to completion.

On June 19, 2000, Worthington emailed documents relating to the preparation of a provisional, non-final patent application to Brundidge, an attorney and member of the Antonelli firm. On June 27, 2000, Bailey, an associate at the Antonelli firm, signed a first provisional patent application, dated that day, and submitted it to the USPTO. The Antonelli firm was listed as the contact for correspondence with the USPTO.

On June 25, 2001, counsel from the Antonelli firm (Bailey) filed a final PCT patent application, listing Protostorm as the “applicant.” Bailey and Brundidge of the Antonelli firm were listed as the “agent[s] or common representative[s].” One page of the application included a list of over one hundred PCT signatory countries, next to which were boxes to be checked off to indicate interest in patent protection. The boxes corresponding to approximately one hundred countries were checked, leaving only three unchecked: Mongolia, Zimbabwe, and the United States.

In December 2001, Protostorm was led to believe that the patent application was secured. No one took any further action with respect to the patent application. According to Protostorm, the Antonelli firm never notified it that the firm was withdrawing as counsel.

In 2006, Protostorm learned of possible infringement of its invention by Google. In 2007, the Antonelli firm advised Protostorm that that an international application had been filed, but that it had been deemed “withdrawn,” because no POA or “national stage” submissions had been filed. Protostorm filed its malpractice suit in 2008. A jury verdict was returned in favor of Protostorm in August 2014.

The law firm tried to get the case overturned on appeal based on the *Alice* decision, but the Second Circuit held that the law firm waived this issue by failing to timely raise it before the district court.

***Encyclopedia Britannica v. Dickstein Shapiro*, 128 F. Supp. 3d 103 (D.D.C. 2015), aff’d, 653 Fed. Appx. 764 (D.C. Cir. June 10, 2016)**

In this particular case, the law firm did not wait too long to raise its *Alice* defense, and the court found that the allegedly negligently procured patents were patent ineligible

under Section 101 of the Patent Act—even though the alleged malpractice occurred years before the Supreme Court’s decision.

### **Factual Background**

The Dickstein Shapiro firm was retained by Encyclopedia Britannica, Inc. (EB) in 1993 to file a patent application. The patent issued, and in 2006 EB sued several companies for infringing it. The patent was held invalid due to “an unnoticed defect” in the 1993 application.

After the malpractice suit was filed, *Alice* was decided. The firm then argued that, as a result, the claims were ineligible and so any malpractice by it in 1993 could not have been but-for the cause of harm. The claims would have been “invalid” under 101 even had it not botched the 1993 application, and so there was no harm caused by any error it made.

The district court granted a motion to dismiss for failure to state a claim, finding the subject matter ineligible on the face of the patent. The D.C. Circuit affirmed. The Circuit Court upheld the district court’s finding that *Alice* did not change the law of Section 101, but it only clarified the law. For this and other reasons, the court reasoned that “the only rule that makes sense in this context is to apply the objectively correct legal standard as enunciated by the Supreme Court in *Alice*, rather than an incorrect legal standard that the [district court in the 2006 infringement case] may have applied prior to July 2015 [when the court was deciding the motion.]” The court then applied *Alice* and found the claims “invalid” under 101.

### **IV. Failing To Recognize Your Client**

***Meriturn Partners LLC v. Banner & Witcoff Ltd.*, 2015 II. App. (1<sup>st</sup>) 131883 (III. App. Apr. 28, 2015)**

An Illinois appeals court refused to reduce a \$6 million legal malpractice verdict against the intellectual property firm of Banner & Witcoff. The court rejected the firm's claim that it didn't represent outside investors in a disastrous private equity deal hatched by Meriturn Partners LLC.

This case involved a negligent due diligence review. Banner & Witcoff undertook a patent review and the research into the patents was principally assigned to Paul Rivard, a partner at Banner & Witcoff. This transaction was Rivard's first or second patent due diligence project. Eventually, Banner & Witcoff communicated to Meriturn that all of the patents at issue in the transaction were owned and controlled by Sustainable Solutions. Relying on this advice, Meriturn went forward with the investment. A new business entity was formed that encapsulated Meriturn's takeover of the previous iteration of Sustainable Solutions.

Soon after the transaction was completed, it was learned that one of the patents, the '179 patent, was not owned by Sustainable Solutions, and that Banner & Witcoff's legal advice was, therefore, erroneous. The company quickly faltered and lost a potential business opportunity with a company called SEM. Sustainable Solutions' proposed venture with SEM would have purportedly included a \$23 million investment by SEM resulting in multimillion dollar internally-projected royalties each year for Sustainable Solutions. However, plaintiffs allege that, upon learning that Sustainable Solutions did not own the '179 patent, the proposed venture fell apart.

A three-judge panel agreed that Banner's shoddy due diligence on the target company's patents not only cost Meriturn its \$3 million investment but also another \$3 million lost by outside investors. Banner and its lead attorney on the deal argued that



they weren't responsible for half of the award because they never signed on to represent the outside investors.

## **V. IP Litigation Malpractice**

### ***Brookwood Cos., Inc. v. Alston & Bird LLP*, 2017 NY Slip Op. 00535 (N.Y. 1st Dept. Jan. 26, 2017)**

On January 26, 2017, a New York state appeals court panel affirmed a lower court's dismissal of a \$10 million malpractice complaint filed against Alston & Bird LLP. The court held that the complaint filed by Alston's former client, high-tech fabric maker Brookwood Cos., Inc., failed to state a plausible claim that Brookwood would have avoided millions of dollars in additional legal fees it paid to Alston to defend Brookwood in a patent infringement lawsuit. Notably, Brookwood *prevailed* in the underlying patent infringement lawsuit upon which its malpractice case was predicated.

#### **The Underlying Patent Suit Representation**

In 2007, Nextec sued Brookwood for patent infringement. Nextec's patent included product and process claims. Nextec alleged that Brookwood was making a fabric that infringed the product claims of Nextec's patent, and that Brookwood's method of applying a coating to the fabric infringed the process claims of Nextec's patent. Alston represented Brookwood in the litigation. Brookwood's answer included a defense under 28 U.S.C. § 1498, which provides that whenever a patented invention is made for the United States government, the sole patentee's remedy is to sue the government in the Court of Federal Claims.

In 2009, the district court granted-in-part and denied-in-part Brookwood's motion for summary judgment based on the government contractor defense. The court

dismissed all claims related to fabric products made for eventual delivery to the federal government. The motion was denied to the extent that Nextec raised fact issues regarding whether some of the accused fabric products were sold to the general public. At the close of discovery, Alston, on behalf of Brookwood, moved for summary judgment of invalidity and noninfringement. In the alternative, Brookwood moved to dismiss pursuant to the government contractor defense. In 2010, the district court dismissed seven of the ten method claims but denied that part of Brookwood's motion made pursuant to 28 U.S.C. § 1498 as "premature" because it was plausible for a jury to conclude that it was not necessary to infringe Nextec's patents to fulfill the government contracts.

Brookwood subsequently replaced Alston & Bird with new counsel. Brookwood obtained a judgment of noninfringement, which was affirmed on appeal.

### **The Patent Malpractice Action**

After prevailing in the underlying infringement action, Brookwood sued its former counsel Alston for legal malpractice. Brookwood's theory was that Alston negligently litigated the Section 1498 issue. According to Brookwood's complaint, if Alston not been negligent, the motions that Alston eventually filed based on Section 1498 would have been granted and Brookwood would have avoided \$10 million it expended in additional defense costs before the district court and Federal Circuit. "In other words, but for [Alston's] negligence, Brookwood could have achieved the same result more expeditiously and economically."

The state trial court dismissed the complaint for failure to state a claim, and the appellate court affirmed. The appellate court held that litigation counsel's strategic

decisions and a client's disagreement with that strategy fails to support a malpractice claim. Furthermore, "an attorney's selection of one among several reasonable courses of action does not constitute malpractice."

The appeals court further found that Brookwood's "hindsight arguments concerning the nature and quality of the evidence" that Alston & Bird chose to use in its second summary judgment motion in the Nextec action fail to state a claim. The court further found that Brookwood's malpractice claim "is wholly speculative" and "'depends on too many uncertainties' to support a conclusion that there would have been a more favorable, that is quicker, outcome in the underlying litigation." Because Brookwood prevailed in the underlying infringement action and failed to show that its litigation expenditures were damages proximately caused by Alston's alleged malpractice, the court affirmed dismissal.

***Seed Co. v. Westerman*, 832 F.3d 325 (D.C. Cir. 2016)**

The malpractice claim arose out of an interference proceeding. The lawyer needed to claim priority to an earlier-filed Japanese patent application that had been domesticated through a PCT. The Japanese application and the PCT were in Japanese. Regulations required that a motion to claim benefit had to include English translations of the earlier applications in the claim. The lawyer filed a US translation of the (first-filed) Japanese application, but not the PCT. The Board awarded the earlier Japanese filing date. Seed won.

The Federal Circuit reversed. It held that without the English translation of the PCT, the Board erred in giving the application the filing date of the Japanese application, and, as a result, Seed lost the interference.

In the malpractice case, the district court granted summary judgment to the defendant lawyers, relying upon the “judgmental immunity doctrine.” It reasoned that, because the law was not settled that a translation of the PCT was required, their decision not to file one was immune from second-guessing.

The D.C. Circuit, however, reversed. It stated that the judgmental immunity doctrine was limited to circumstances where “a lawyer makes a strategic choice between two options, each of which has costs and benefits.” Thus, an interpretation of unsettled law that “manifestly risks the loss of a client’s claim for no plausible advantage” was subject to a jury’s inference that “a reasonable lawyer would err on the side of caution by filing the translation if the requirements were ambiguous and there were no reason *not* to do so.” The court concluded that issues of material fact existed as to whether the attorneys’ decisions with respect to the patent application fell within the judgmental immunity doctrine protections.

***Two-Way Media LLC v. AT&T Services, Inc.*, 782 F.3d 1311 (Fed. Cir. 2015)**

In a high-profile case of a blown deadline, the Federal Circuit held in March 2015 that AT&T Inc. could not appeal a \$40 million patent infringement verdict against it because its attorneys from Sidley Austin LLP missed the deadline to appeal. The facts are straightforward. The district court issued an order denying post-trial motions. The attorneys responsible for the case did not appreciate the significance of the order because of how the document was identified on PACER, which indicated that it dealt with a non-substantive issue. In fact, the order that was attached, and that all the lawyers received, triggered the deadline for filing the appeal.

The district court in February 2014 barred AT&T from appealing a jury's verdict that the company infringed streaming media patents owned by Two-Way Media LLC. The Federal Circuit in March 2015 affirmed, finding that the firm had no excuse for missing the deadline and should have been monitoring the docket carefully to learn when the post-trial motions were resolved.

## **VI. *Octane Fitness* and the Future of IP Malpractice**

The Supreme Court's *Octane Fitness* decision in 2014 has opened the door to many prevailing parties in patent and trademark litigation seeking, and being awarded, their attorneys' fees. It is understandable that the side that has to pay up the prevailing party's fees will look to its own attorneys for recompense. This is especially likely to be the case where the court in the patent or trademark case finds that the litigation was objectively baseless or that it was litigated in bad faith.

### **Summary**

The cases summarized above present several important takeaways.

Lessons #1 – Always have a written engagement agreement. Lawyers must make it clear who is their client, and when the representation ends.

Lesson #2 – Counsel that is responsible for filing and prosecution should have one client representative, with authority, for communicating advice and receiving instructions..

Lesson #3 – Be wary of any drafts of applications or other USPTO filings prepared by non-patent counsel and “just filing” them. Simply cutting and pasting someone else's work is putting your fate in someone else's hands.

Lesson #4 – Proofreading is critical in patent preparation and prosecution. Some other level of review should be put in place institutionally to ensure that all of the papers to be filed in the USPTO are complete and in good form.

Lesson #5 – Once you have entered your appearance in the Office, you cannot just unilaterally quit on your client even if you haven't been paid. Before you can withdraw, you need to give the client prompt notice of your intention to withdraw, including advising the client in writing of all deadlines and due dates.

Lesson #6 –Confirming every communication in writing will help to avoid fact issues if a dispute arises between the lawyer and the client over what the lawyer allegedly told the client.

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# **THE PERFECT PROTOSTORM: AN ANTHOLOGY OF RECENT IP MALPRACTICE CASES**

**Michael E. McCabe, Jr.**



***WSBA 22<sup>nd</sup> Annual IP Institute***

March 10, 2017  
Seattle, Washington

## **ETHICS RULES V. MALPRACTICE**

- Ethics rules dictate professional norms.
  - Wash. Rules of Prof. Cond., Preamble [19]
- Violation of ethics rule “should not itself give rise to a cause of action against a lawyer nor should it create any presumption in such case that a legal duty has been breached”
  - Wash. Rules of Prof. Cond., Preamble [20]



## **LEGAL MALPRACTICE ELEMENTS**

- An attorney-client relationship;
- Breach of attorney's duty to client/standard of care;
- Causation, both actual and proximate; and
- Damages suffered by the client.
  - *Parks v. Fink*, 173 Wn. App. 366, 376, 872 P.2d 1080 (1994).

3

## **LEGAL MALPRACTICE – PROXIMATE CAUSATION**

- Client must prove it would have “won” or had a better result in the underlying case.
- In litigation, client must demonstrate better result “but for” alleged malpractice.
- In transactional setting, client must prove better deal if malpractice had never occurred.
  - *Halvorsen v. Ferguson*, 46 Wn. App. 708, 711-12, 735 P.2d 675 (1986)

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## **CONFLICTS AND IP MALPRACTICE**



## **CONFLICTS OF INTEREST**

- Current client.
  - 37 C.F.R. § 11.107
  - Concerns loyalty & confidentiality
- Former client.
  - 37 C.F.R. § 11.109
  - Concerns confidentiality



## **ADVERSITY CURRENT CLIENTS CONFLICTS**

- **Current Client Conflicts:**
  - Direct adversity; or
  - Significant risk that representation will be materially limited by responsibilities to another client, a former client, a third person, or by a personal interest.
    - Wash. R. Prof. Cond. 1.7(a)(1), (a)(2)
    - USPTO 37 C.F.R. § 11.107(a)(1), (a)(2)

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## **SUBJECT MATTER CONFLICT**

- *Maling v. Finnegan Henderson*, 42 N.E. 3d 199 (Mass. 2015)
- Complaint alleges:
  - FH took 14 months to prepare application.
  - Paid FH \$100K and invested millions.
  - Apps. “very similar” and in “same patent space.”
  - FH declined to opine on scope of Masunaga patents
  - Unable to commercialize b/c of Masunaga patents

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## **SM CONFLICT MALPRACTICE**

- Malpractice claim dismissed for no proximate cause. Why?
  - Both Clients received patents.
  - Neither case cited against other.

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## **SM CONFLICT MALPRACTICE**

- Could have been different if:
  - Identical or near identical claims (interference).
  - “Claim shaving.”
  - Opinion given to one client on other client’s IP.

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## **CONFLICT MALPRACTICE**

- *Access Int'l, Inc. v. Baker Botts*, 2016 Tex. App. LEXIS 3081 (Tex. Mar. 2016)
  - Firm represents Axxcess and Savi in obtaining patents in active-radio-frequency (RFID).
  - Jury awards \$41 million for legal malpractice.
  - Court vacates award due to SOL.
  - Appeals Ct affirms on proximate causation.

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## **CONFLICT MALPRACTICE**

- Expert testimony about what “could have” happened with conflict-free counsel insufficient.
- Must prove what “would have,” not “could have” happened.
- Expert not interference specialist.
- Reasonable minds could differ about similarities of inventions.

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## NEGLIGENT PROSECUTION



## NEGLIGENT PROSECUTION – *ALICE* WAIVER

- *Protostorm, LLC v. Antonelli, Terry, Stout & Kraus, LLP*, 2016 U.S. App. LEXIS 22864 (2d Cir. Dec. 21, 2016)
  - 6/2000 – Provisional app. filed.
  - 6/2001 – PCT app. filed.
  - Attorneys designates over 100 countries for possible patent protection except:







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## **NEGLIGENT PROSECUTION (CONT'D)**

- 2006 – Client learns of possible infringement by Google. But no patent rights.
- 2014 – Jury awards \$8 million.
- District court refuses to vacate based on *Alice* defense because Firm never timely raised this issue.
  - Malpractice w/i malpractice?
- 2<sup>nd</sup> Circuit affirms, holds *Alice* issue waived.

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## **NEGLIGENT PROSECUTION**

### **– ALICE SAVES**

- *Encyclopaedia Britannica v. Dickstein Shapiro LLP*, 653 Fed. Appx. 764 (D.C. Cir. 2016)
  - 1993 – Defect in priority application unnoticed.
  - 2006 – EB sues for infringement.
  - 2009 - Patents invalid due to priority application defect.

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## **NEGLIGENT PROSECUTION**

### **– ALICE SAVES**

- 2010- EB sues for prosecution malpractice.
- Firm argues no causation because patents would have been unpatentable under 35 U.S.C. 101 & *Alice*

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## **NEGLIGENT PROSECUTION (CONT'D)**

- District Court rules in favor of Firm.
- *Alice* did not “change” the law prevailing at time of alleged malpractice.
  - 35 U.S.C. 101 “has not changed.”
  - *Alice* “merely clarified.”
- CAFC affirms, holds no proximate cause because claims fail 101/*Alice*.

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## **NEGLIGENT LICENSING**

## NEGLIGENT LICENSING

- *Metamorfyx v. Vanek, Vickers & Masini*, 2015 Cal. App. LEXIS 6477 (Cal. App. Sept. 11, 2015)
  - Clients licensed keyboard patent to Microsoft and others.
  - MS lump sum license of \$400K.
  - Clients allege lost millions in licensing revenue.
  - Trial court excludes Microsoft sales data, dismisses case for failure to prove causation.

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## NEGLIGENT LICENSING (CONT'D)

- Appeals ct vacates:
  - Client's expert testified that license agreement fell below standard of care by limiting payment of royalties.
    - Contract definition was "unduly limiting."
    - Contract also excluded imported products.
  - \$30 million damages expert report and claim charts wrongfully excluded.
  - Jury could have found firm negligent.

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## NEGLIGENT LITIGATION



## MISSED DEADLINE

- *Two-Way Media LLC v. AT&T*, 782 F.3d 1311 (Fed. Cir. 2015)
  - Sidley & Austin represents AT&T in patent litigation.
  - \$40 million verdict entered against client.
  - Law firm misses deadline for filing appeal.
  - District Court bars AT&T from appealing verdict.



## **MISSED DEADLINE**

- CAFC affirms.
- Rejects argument that electronic docket system did not provide notice.
  - 16 lawyers received.
  - No good cause or excusable neglect.
  - Counsel duty to read court orders.

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## **STRATEGIC DEFENSE**

*Brookwood Cos., Inc. v. Alston & Bird LLP,*  
(1/26/2017)

- Alston represents Brookwood in defending patent litigation.
- Raises gov't sale defense.
- SJ granted in part, denied in part.
- Brookwood replaces A&B as counsel, wins on non-infringement.

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## **STRATEGIC DEFENSE**

- Brookwood sues A&B for malpractice.
- Theory: If A&B raised defense sooner, Brookwood would have won sooner, avoided \$10 million in fees.
- Dismissed complaint:
  - Strategic decisions not actionable.
  - Speculative hindsight argument.
  - Failure to state claim for damages proximately caused by A&B's alleged malpractice.

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## **FEE-RELATED MALPRACTICE OBSERVATIONS**

## **FEE-RELATED MALPRACTICE - OBSERVATIONS**

- *Octane Fitness* awards may lead to MP claims.
  - *National Oilwell Varco, L.P. v. Omron Oilfield & Marine, Inc.* (Fed. Cir. Jan. 2017) (fees awarded for “extremely weak” case)
  - *Nalco Co. v. Solenis LLC* (N.D. Ill. Jan. 2017) (fees awarded for “gross negligence” because plaintiff lacked standing)
  - *Iris Connex, LLC v. Dell Inc.* (E.D. Tex. Jan. 2017) (“clearest example of an exceptional case” ever seen) (Gilstrap, J.)

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## **MALPRACTICE TAKEAWAYS**

- Suing for fees often leads to MP.
- Consider engagement agreements with binding arbitration of MP claims.
- Don't dabble.
- MP cases tough to win due to proximate cause requirement.
- But expensive to defend.
- And not an escape from Bar or OED Discipline.

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**THANK YOU!**

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CHAPTER TWELVE  
**RULES OF PROFESSIONAL CONDUCT**

# WASHINGTON'S RULES OF PROFESSIONAL CONDUCT (RPC)

*(Amended effective October 1, 2002, September 1, 2006, September 1, 2010; September 1, 2011; December 13, 2011; September 1, 2012, September 1, 2013, January 1, 2014, April 14, 2015, September 1, 2016)*

Fundamental Principles of Professional Conduct

Preamble and Scope

1.0A Terminology

1.0B Additional Washington Terminology

## **Title 1 Client-Lawyer Relationship**

1.1 Competence

1.2 Scope of Representation and Allocation

1.3 Diligence

1.4 Communication

1.5 Fees

1.6 Confidentiality of Information

1.7 Conflict of Interest: Current Clients

1.8 Conflict of Interest: Current Clients: Specific Rules

1.9 Duties to Former Clients

1.10 Imputation of Conflicts of Interest: General Rule

1.11 Special Conflicts of Interest for Former and Current Government Officers and Employees

1.12 Former Judge, Arbitrator, Mediator or Other Third-Party Neutral

1.13 Organization as Client

1.14 Client with Diminished Capacity

1.15A Safeguarding Property

1.15B Required Trust Account Records

1.16 Declining or Terminating Representation

1.17 Sale of Law Practice

1.18 Duties to Prospective Client

## **Title 2 Counselor**

2.1 Advisor

2.2 (Deleted)

2.3 Evaluation for Use by Third Persons

2.4 Lawyer Serving as Third-Party Neutral

## **Title 3 Advocate**

3.1 Meritorious Claims and Contentions

3.2 Expediting Litigation

3.3 Candor Toward the Tribunal

3.4 Fairness to Opposing Party

3.5 Impartiality and Decorum of the Tribunal

3.6 Trial Publicity

3.7 Lawyer as Witness

3.8 Special Responsibilities of a Prosecutor

3.9 Advocate in Nonadjudicative Proceedings

## **Title 4 Transactions With Persons Other Than Clients**

4.1 Truthfulness in Statements to Others

4.2 Communication With Person Represented by a Lawyer

4.3 Dealing With Person Not Represented by a Lawyer

4.4 Respect for Rights of Third Person

## **Title 5 Law Firms and Associations**

5.1 Responsibilities of Partners, Managers, and Supervisory Lawyers

5.2 Responsibilities of a Subordinate Lawyer

5.3 Responsibilities Regarding Nonlawyer Assistants

5.4 Professional Independence of a Lawyer

5.5 Unauthorized Practice of Law; Multijurisdictional Practice of Law

5.6 Restrictions on Right to Practice

5.7 Responsibilities Regarding Law-Related Services

5.8 Misconduct Involving Lawyers and LLLTs Not Actively Licensed to Practice Law

5.9 Business Structures Involving LLLT and Lawyer Ownership

5.10 Responsibilities Regarding Other Legal Practitioners

## **Title 6 Public Service**

6.1 Pro Bono Publico Service

6.2 Accepting Appointments

6.3 Membership in Legal Services Organization

6.4 Law Reform Activities Affecting Client Interests

6.5 Nonprofit and Court-Annexed Limited Legal Service Programs

## **Title 7 Information About Legal Services**

7.1 Communications Concerning a Lawyers Services

7.2 Advertising

7.3 Solicitation of Clients

7.4 Communication of Fields of Practice and Specialization

7.5 Firm Names and Letterheads

7.6 Political Contributions to Obtain Government Legal Engagements or Appointments by Judges

## **Title 8 Maintaining the Integrity of the Profession**

8.1 Bar Admission and Disciplinary Matters

8.2 Judicial and Legal Officials

8.3 Reporting Professional Misconduct

8.4 Misconduct

8.5 Disciplinary Authority; Choice of Law

**Appendix** Guidelines for Applying Rule of Professional Conduct 3.6