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Bright Ideas

A publication of the Intellectual Property Law Section of the New York State Bar Association

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Counseling Content Providers in the Digital Age

A Handbook for Lawyers

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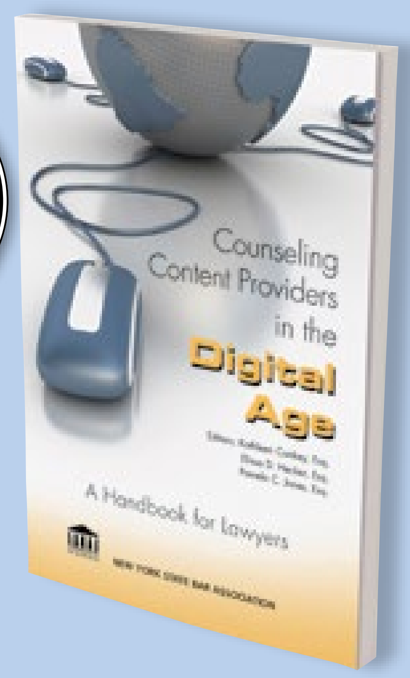

For as long as there have been printing presses, there have been accusations of libel, invasion of privacy, intellectual property infringements and a variety of other torts. Now that much of the content reaching the public is distributed over the Internet, television (including cable and satellite), radio and film as well as in print, the field of pre-publication review has become more complicated and more important. *Counseling Content Providers in the Digital Age* provides an overview of the issues content reviewers face repeatedly.

Counseling Content Providers in the Digital Age was written and edited by experienced media law attorneys from California and New York. This book is invaluable to anyone entering the field of pre-publication review as well as anyone responsible for vetting the content of their client's or their firm's Web site.

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Message from the Chair

As Fall approaches and then begins to settle in, we experience both the excitement of a new season and the comfort of age-old traditions. Kids go back to school, incoming associates begin their careers, and the air takes on a crisp quality that infuses all with a fresh energy, encouraging us to conquer old challenges and to take on new ones. Juxtaposed against this vibrancy of reawakening is our anticipation of the changing leaves, our return to focusing on professional networking and business development, and our reconnecting with colleagues and friends after the harried schedules of summer. It is a perfect time to reflect on the successes of the year so far and to enthusiastically forge forward with opportunities yet to be explored.

The Section has had an amazing year so far, starting off on a high note with yet another wildly successful Annual Meeting. As has become the standard for our Section, the topics featured were thought-provoking and timely, and the quality of the presentations was top-notch. The Annual Meeting also engaged cross-generational participation, providing an effective platform for mentoring experiences by our more seasoned attorneys and offering leadership roles to our younger members. Our outgoing Section Chair, Charles Weigell, brilliantly engaged each of our Committees to develop topics relevant to the Committees' different fields of interest, leading to a comprehensive, beautifully curated day of learning, followed by an always enjoyable networking reception.

Then with summer came our 14th Annual Women in IP Program, spearheaded by the phenomenal and never-tiring efforts of Past Section Chair Joyce Creidy. The sold-out event was held at my firm, Kramer Levin, and featured a panel of extremely successful women with careers in various sectors of IP: Gaby L. Longsworth, Ph.D., Director, Sterne Kessler Goldstein Fox; Patrice P. Jean, Partner, Hughes Hubbard & Reed LLP; Chehrazade Chemcham, Trademark Counsel, Colgate-Palmolive Company (and past Co-Chair of the Section's International Intellectual Property Law Committee); and Stacey Abiraj, Associate Counsel, HBO. The Women in IP program is always a highlight of the Section year, and this year's event raised the bar even higher.

Fall promises even more phenomenal offerings by the Section, with several innovative programs and exciting events teed up for the months ahead. On September 15, the Litigation Committee (co-chaired by Marc Lieberstein and Paul Garrity) will present a dynamic and timely discussion entitled "Transatlantic Transactions: Minimizing Risk, Maximizing Value." This program stems from extensive intra-NYSBA Sectional collaboration, bringing together the IP Section, the Business Law Section (Sarah Gold, Section Chair), the Franchise, Distribution and Licensing Law Committee (Justin Klein, Committee Chair), and the International Law Section (Neil Quartaro, Section Chair). The program will be held at Kilpatrick Stockton and promises to provide benefits that far exceed the cost of admission (free!).

On November 9-13, the Section is participating in yet another collaborative event, this time joining with the NYSBA EASL Section and the Florida State Bar Association EASL Section on the North American Entertainment, Sports and IP Law Summit, being held in Riviera Maya, Mexico. This program offers unique networking opportunities, bringing together professionals in complementary fields to meet and build synergies. The Section is proud to support our members' wide array of interests and experiences, all of which add to our diverse collective identity.

In addition, for the second year in a row, the Section will be sponsoring a full-day CLE program this Fall, focusing this year on The Future of IP. Last Fall's program, IP Due Diligence in Corporate Transactions, was very successful and engaged participation of many new faces. The program will again be led by the Co-Chairs of the Transactional Law Committee, Danielle Gorman and Robin Silverman (also Section Vice-Chair), and will be held at Kramer Levin on Thursday, November 10, making it a perfect excuse for a long weekend downstate, coordinated with the Veterans Day holiday the following day. Having participated in the Section's Cooperstown and Lake George Fall events in years past, I'm excited to see this one-day offering becoming a new Fall tradition for the Section.

In addition to all of the above, there are plans in the works focused on young lawyers, diversity, pro bono, and many other areas of interest for our members. The Section has always encouraged our members to originate and develop new programs and events, and as the incoming Chair, I urge you to seize this opportunity. It is all of you, our members, who make the Section special. I'm looking forward to all that Fall has to offer—learning about new topics, forging new friendships, and building new traditions. I hope you'll join us.

Erica D. Klein

What You Need to Know About the Defend Trade Secrets Act

By Victoria A. Cundiff

I. Introduction

Every organization has trade secrets. Digitization, globalization, and increased movement of key employees and consultants among competitive organizations, often across jurisdictions, can place them at heightened risk of misappropriation by others. In the United States, losses from misappropriation have been estimated to be in the tens or even hundreds of billions of dollars annually[1] and more than 2 percent of the U.S. gross domestic product.[2]

Historically, outside the criminal realm, legal protection of trade secrets in the United States has been the subject of state law. Forty-eight states have adopted some variant of the Uniform Trade Secrets Act. New York, along with Massachusetts, has not,[3] but nonetheless, applying principles from the *Restatement (First) of Torts*[4] and common law, has afforded robust protection to trade secrets.[5] Many commentators and trade secrets owners have argued, however, that leaving trade secret protection primarily to overburdened state courts[6] applying a number of state law variations may be inadequate in some cases, particularly given the increased need for interstate and international discovery and service of process in many trade secrets disputes. They have also argued that making a federal statement concerning the importance of trade secrets and establishing greater uniformity in U.S. law governing trade secrets will be useful in negotiating treaties requiring the adoption of trade secrets protections by U.S. trading partners.[7]

After years of proposals, counterproposals, hearings, and negotiations, on May 11, 2016 President Obama signed into law the Defend Trade Secrets Act (DTSA), which provides a federal private right of action against trade secrets misappropriation. The DTSA is the newest addition to the Federal Economic Espionage Act, the 1996 Federal criminal trade secrets statute.[8] Congressional support for the DTSA was notably bipartisan and bicameral. The Act passed unanimously in the Senate and 410-2 in the House, reflecting the sense of Congress that "trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies."[9] The DTSA is expected to be an important additional tool for protecting trade secrets.[10]

II. Overview of the DTSA

A. What Trade Secrets Does the DTSA Protect?

The DTSA protects trade secrets *related to a product or service used in, or intended for use in, interstate or foreign commerce*.[11] The Act defines "trade secret" to mean 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, *whether tangible or intangible*, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if

- The owner has taken *reasonable measures* to keep such information secret; and
- The information *derives independent economic value, actual or potential, from not being generally known* to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.[12]

The DTSA applies to any misappropriation of trade secrets for which any act occurs on or after May 11, 2016.

B. What Is the Reach of the DTSA?

The DTSA is part of the Economic Espionage Act and affords remedies for conduct occurring both inside and outside the United States if the offender is a citizen or permanent resident alien of the United States or an organization organized under the laws of the United States or a State, or if an act in furtherance of the offense was committed in the United States.[13]

C. What Is Familiar in the DTSA? The Definition of Misappropriation and Many Remedies

Much of the DTSA will look familiar, particularly to those who have litigated cases under the Uniform Trade Secrets Act, on which it is patterned. The DTSA permits the "owner" of a qualifying trade secret to bring a claim under the Act in federal court for "misappropriation," which is defined to include the actual or threatened wrongful acquisition, use, and/or disclosure of a trade secret.[14] Like the Uniform Trade Secrets Act and current New York state law, the DTSA permits an award of actual damages, disgorgement of unjust gains, or a reasonable royalty and injunctive relief, subject to limitations discussed below, as well as an order requiring affirmative actions to be taken to protect the trade secret.[15]

Like the Uniform Trade Secrets Act,[16] the DTSA expressly provides that in cases of willful and malicious misappropriation, the court may award exemplary damages. The DTSA caps exemplary damages at twice actual damages.[17] Where (i) a claim of misappropriation is made in bad faith—something the DTSA provides may be established by circumstantial evidence; (ii) a motion to terminate an injunction is made or opposed in bad faith; or (iii) the trade secret was willfully and maliciously misappropriated, under the DTSA the court may award reasonable attorneys' fees to the prevailing party.[18] This remedy generally is not currently available under New York's state trade secrets law except as a sanction for specific litigation misconduct.

The DTSA expressly recognizes that "improper means" of acquiring trade secrets "does not include reverse engineering, independent derivation, or any other lawful means of acquisition,"[19] thus capturing a key insight from the Reporter's Comments to the Uniform Trade Secrets Act as well as a number of state-law variations of the UTSA: it is not improper to discover trade secrets by "reverse engineering," that is, by starting with a lawfully obtained known product and working backward to find the method by which it was developed.[20] This approach to protecting lawful reverse engineering is also consistent with existing New York law.[21]

The DTSA establishes a three-year statute of limitations, to be measured from the date by which the misappropriation is, or by the exercise of reasonable diligence should have been, discovered.[22] Like the law of most states that have adopted the Uniform Trade Secrets Act, under the DTSA, for statute of limitations purposes a continuing misappropriation constitutes a single claim.[23] New York state law, however, currently follows a different rule: New York treats each successive unauthorized use or disclosure of a trade secret as a new tort that restarts the statute of limitations for so long as the information at issue remains a trade secret.[24] In some circumstances this difference will determine whether a trade secrets plaintiff will choose to bring a case under New York state law rather than under the DTSA.

D. What Is the DTSA's Relationship to State Courts and State Law?

The DTSA provides that federal district courts have original jurisdiction over claims arising under the DTSA.[25] However, their jurisdiction over DTSA claims is not exclusive, and litigants can choose to bring DTSA claims in state court. While in many cases federal courts will be the most attractive option for litigating trade secrets claims, in other cases the caseload, experience, schedules, and courtroom practices of a particular forum or case-specific issues may make state court a better choice, even where the primary or only claim arises under the DTSA. Note, however, that a defendant sued under the DTSA in state court may remove the DTSA claim to federal court.[26]

The DTSA expressly does not preempt state law concerning trade secrets[27] except to the extent it affords an immunity, discussed below, from criminal or civil liability under any federal or state trade secret law for the disclosure of a trade secret made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law or in a complaint or other document filed in a lawsuit or other proceeding under seal.[28] This means that aggrieved parties can continue to avail themselves of state trade secrets law, either in addition to or, if they choose, in place of the DTSA. In some cases, state law may offer dispute-specific advantages such as applying different rules on standing to sue, statutes of limitations, or preemption of common-law claims or by offering particular procedures for addressing specific types of misappropriation.[29] In the handful of cases that have been filed under the DTSA to date, a number of plaintiffs have pled claims under both the DTSA and state law.[30]

The DTSA is not a "workaround" to state laws prohibiting post-employment restraints. It expressly provides that courts enforcing the DTSA have broad authority to grant injunctive relief, provided, however, among other things, that the order does not otherwise conflict with an applicable state law prohibiting restraints on the practice of a lawful profession, trade, or business.[31]

E. Protecting Trade Secrets During Litigation

Litigating trade secrets cases can put trade secrets at risk, particularly since courtroom proceedings and court records are presumptively open to the public. Like the Uniform Trade Secrets Act, the DTSA, as part of the Economic Espionage Act, provides that courts "shall" issue orders to protect trade secrets in trade secrets cases.[32] The DTSA goes further and provides that the court "may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information secret."[33] This provision will apparently apply to filings made by either party that assertedly would reveal an owner's trade secrets.

III. What Is Different About the DTSA?

A. Limitations on Injunctive Relief; Requirement of Evidence of Threatened Misappropriation

Under the Uniform Trade Secrets Act and common law, some courts applying the case law of some states have ordered so-called "inevitable disclosure" injunctions prohibiting individuals who are not bound by non-compete agreements from accepting employment with a competitor because the particular employment is shown to pose the risk that it will be virtually "inevitable" that the employee will use or disclose the former employer's trade secrets in the new job. While many of these "inevitable disclosure" injunctions have been entered only after a showing that the employee has engaged in "bad acts" found to threaten misappropriation of trade secrets[34] or have used "inevitable disclosure" language to enforce negotiated non-compete agreements[35] or have permitted the individual at the center of the dispute to assume some role with the new organization but with restrictions,[36] some rare cases have prohibited employees from accepting *any* employment within a particular division of a specific competing organization for a limited period of time based solely on the sensitivity of the information the individual knows.[37]

The DTSA flatly prohibits courts from entering an injunction to "prevent a person from entering into an employment relationship."[38] Further, it expressly requires that "conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows"[39]—in other words, a greater showing than simply that the employee knows trade secrets and is moving to an organization where they could be useful.

"The DTSA flatly prohibits courts from entering an injunction to 'prevent a person from entering into an employment relationship.'"

While presenting *evidence* of why misappropriation in a particular context is *actually* threatened, rather than simply speculation, has always been good practice, and courts applying state law, particularly New York law, have increasingly demanded "facts not fears" in support of a request for an order limiting employment activities,[40] the DTSA makes this best practice an express condition for securing employment activity restraints under the DTSA.

In some disputes these limitations on injunctive relief under the DTSA may make litigating under some state laws a more attractive vehicle for requests for immediate relief to impose conditions on or even bar an employee's competitive employment, but litigators are reminded that presenting evidence, even if partially circumstantial, is generally key to success in every forum. Further, those litigating trade secrets cases in New York state and federal courts should recognize that the DTSA's insistence on presenting evidence going beyond the question of "what the employee knows" has already been the norm in New York courts under New York law even before passage of the DTSA.[41] Under the DTSA, however, failing to offer evidence can lead not only to a denial of relief but, if case law that has developed under the Uniform Trade Secrets Act serves as a guide, potentially also an award of attorneys' fees to the other side.[42]

B. *Ex Parte* Seizure Orders

Federal Rule of Civil Procedure 65 provides for the possibility of a temporary restraining order without written or oral notice to the adverse party or its attorney only if the movant presents specific facts in an affidavit or verified complaint clearly showing that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition, and the movant's attorney certifies in writing any efforts made to give notice and the reasons why it should not be required.

Trade secrets claimants concerned that massive amounts of digital data could be stealthily removed via thumb drives and other similar devices or that models, designs, useful bacterial strains, or other objects and materials incorporating trade secrets could be spirited out of the jurisdiction and broadly disseminated and used absent court intervention urged Congress to establish a further mechanism to prevent the propagation or dissemination of trade secrets. These efforts led to the DTSA's Civil Seizure Remedy,[43] which is the longest section of the DTSA and which was the focus of substantial attention and debate before the DTSA's adoption. Recognizing the tensions attendant to such a remedy, the DTSA includes a statement that it is the sense of Congress that "it is important when seizing information to balance the need to prevent or remedy misappropriation with the need to avoid interrupting the—

> business of third parties; and
>
> legitimate interests of the party accused of wrongdoing."[44]

Anyone contemplating seeking an *ex parte* civil seizure order is cautioned to read, and reread, the DTSA's statutory requirements carefully. These provisions make clear that such an order may be granted only in "extraordinary circumstances"[45] based on "specific facts,"[46] not conjecture, and must be as narrowly tailored as possible to achieve the purpose.[47] An applicant must submit an affidavit or verified complaint describing with "reasonable particularity" the matter to be seized,[48] and the court must make a finding that it clearly appears from specific facts that an order under Rule 65 or another form of equitable relief would be inadequate; that an immediate and irreparable injury will occur if seizure is not ordered; that the harm to the applicant of denying the application substantially outweighs the harm to the legitimate interests of the person against whom seizure is sought and any affected third party who may be harmed by the seizure; that the applicant is likely to succeed in showing that the information at issue is a trade secret; and that the person against whom the order is sought misappropriated the trade secret or conspired to do so, along with certain other factors.[49]

In other words, the movant must do substantial work to identify and protect the trade secret and investigate and develop the evidence necessary to establish misappropriation **before** moving for the seizure order.

If seizure is granted, the seizure order must provide for "the narrowest seizure of property necessary" to achieve the purposes of the order and to minimize any interruption of the business operations of third parties and, to the extent possible, the legitimate business operations of the person accused of misappropriation the trade secret.[50] The seized property is to be protected from disclosure until the parties have an opportunity to be heard in court.[51] Any party claiming an interest in the subject matter seized may make a motion, which may be heard *ex parte*, to encrypt seized material.[52]

The statute includes additional safeguards, including protecting the party against whom an order is directed from publicity about the order and seizure at the behest of the person obtaining the order;[53] protecting the seized storage medium; protecting the confidentiality of seized materials that are unrelated to the seized trade secret information; and, where appropriate, appointing a special master and technical experts to assist in taking control of the seized material.[54]

The party seeking an *ex parte* seizure order shall be required to post security to pay damages that any person may be entitled to recover as a result of a wrongful or excess seizure or attempted seizure.[55]

After a seizure hearing, to be held at the earliest possible time and no later than seven days after the order has been issued (absent consent to a later date), the party who obtained the order shall have the burden to prove all facts supporting the findings of fact and conclusions of law necessary to support the order. If the party fails to meet the burden, the seizure order shall be dissolved or modified.[56] Any person who suffers damages by reason of a wrongful or excessive seizure may recover damages that shall not be limited by the security posted as a condition to receiving the order.[57]

As the statute states, the remedy is an "extraordinary" one. Litigants are reminded to use it in only extraordinary cases. The DTSA also mandates that the Federal Judicial Center shall develop recommended best practices for seizure orders and update the recommendations from time to time.[58]

C. Express Immunity for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing in Accordance With Provisions of the DTSA

Concerned by the potential that trade secrets claims could be used to stifle legitimate activity, the DTSA immunizes "employees," defined for these purposes to include contractors and consultants, from criminal or civil liability under any federal or state trade secret law for disclosing trade secrets in confidence to federal, state, or local governments solely for purposes of reporting or investigating a suspected violation of law or in complaints or other documents filed in a lawsuit or other proceeding and filings in anti-retaliation lawsuits relating to such disclosures.[59]

This Immunity Provision is not a "get out of jail free" card for disgruntled employees: to qualify for the immunity, employees must make the disclosures "solely" for the purpose of reporting or investigating a suspected violation of law or in a lawsuit and must file documents containing trade secrets under seal and not make further disclosures of the secrets absent court order.

The DTSA further provides that an employer "shall" provide notice of the immunity in any contract or agreement with an employee entered into or amended after May 11, 2016 that governs the use of a trade secret or other confidential information or, alternatively, by providing a cross-reference to a policy document provided to the employee setting forth the employer's reporting policy for a suspected violation of law.[60] ***If an employer does not comply with the notice requirement, it may not be awarded exemplary damages or attorneys' fees in an action under the DTSA against an employee to whom notice was not provided.*** Since many companies use a variety of agreements to protect confidential information, including employment agreements, standalone confidentiality and inventions agreements, and separation agreements as well as handbooks and policy statements, an immediate review of these documents for compliance is key.[61]

E. Other Changes Brought About by the DTSA

1. Enhanced criminal penalties for criminal misappropriation by organizations

While the DTSA gives private plaintiffs the right to bring civil claims under the amended Economic Espionage Act, it also increases the fines available for criminal theft of trade secrets by an organization from $5,000,000 to "the greater of $5,000,000 or three times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided"[62] and expressly makes a violation of the Act a RICO predicate offense.[63]

2. Ongoing government reporting on trade secrets misappropriation

The DTSA was years in the making. The statute itself contemplates the need for ongoing evaluation and assessment of how well the statute is working to protect trade secrets and whether changes or further tools may be warranted, particularly to combat misappropriation abroad. The DTSA mandates that the Attorney General shall submit a periodic report to Congress on theft of trade secrets of U.S. companies outside the United States, the extent to which such theft is sponsored by foreign governments or agents, and limitations on the ability of trade secrets owners to prevent trade secrets misappropriation outside the United States, enforce judgments against foreign entities for misappropriation, and prevent imports of trade secrets based on theft of trade secrets overseas. The report shall also comment on protections afforded trade secrets by U.S. trading partners and list countries where theft, laws, or enforcement are significant problems for U.S. companies, as well as instances of cooperation and progress made by foreign countries to protect against theft of trade secrets of U.S. companies abroad.[64]

IV. What the DTSA Means for New York Practitioners

The bedrock principles underlying the DTSA are familiar to those who have litigated trade secrets misappropriation claims under New York law. The DTSA now permits, but does not mandate, litigation of many trade secrets claims in Federal court under Federal law. In some disputes claimants will choose to continue to rely on state law, such as where the trade secret at issue is not intended for use in interstate commerce, where the claimant is not the owner or exclusive licensee of the trade secret, where the misappropriation is ongoing and New York's approach to the statute of limitations is more favorable, or for a variety of other reasons. In some disputes, claimants will choose to pursue state or federal trade secrets claims in state court. The DTSA provides some new tools to protect trade secrets: reliable access to federal courts, which may assist in more readily securing interstate and international discovery and remedies; a potential *ex parte* seizure remedy for extraordinary cases; a potential for an award of attorneys' fees in cases of bad faith litigation or willful and malicious misappropriation; and an express statement about and formula relating to the availability of punitive damages.

The DTSA also brings an important new obligation for employers: the need to ensure that agreements and policies entered into or amended with employees after May 11, 2016 give notice of the existence and scope of the whistleblower immunity. It mandates the need to develop facts to support concerns when seeking injunctive relief. It highlights the importance of trade secrets to the economy. It resoundingly states the overwhelming legislative and administration support for protecting trade secrets.[65] And it should serve as an important reminder that organizations must take reasonable measures to protect their trade secrets and that parties in a position to cut corners and misappropriate other's trade secrets will face additional legal risk under the DTSA if they do.

Endnotes

1. *Economic Espionage and Trade Theft: Are Our Laws Adequate for Today's Threats?: Hearing Before the Subcomm. on Crime and Terrorism of the S. Comm. on the Judiciary*, 113th Cong. (May 13, 2014) (statement of Randall Coleman, Assistant Director, Counterterrorism Division, Federal Bureau of Investigation), http://www.judiciary.senate.gov/imo/media/doc/05-13-14ColemanTestimony.pdf.
2. Ctr. for Responsible Enter. & Trade & PricewaterhouseCoopers LLP, Economic Impact of Trade Secret Theft: A Framework for Companies to Safeguard Trade Secrets and Mitigate Potential Threats (2014), https://www.pwc.com/en_US/us/forensic-services/publications/assets/economic-impact.pdf.
3. Legislation to adopt the Uniform Trade Secrets Act in New York has been introduced several times without final action. Senate Bill S3770, introduced in 2015, proposes the adoption of a form of the Uniform Trade Secrets Act and is presently in the Senate Judicial Committee. Massachusetts is also considering adopting a form of the Uniform Trade Secrets Act as part of an act related to judicial enforcement of noncompetition agreements, Bill H. 4323, which was unanimously adopted by the Massachusetts House of Representatives on June 29, 2016.
4. *Restatement (First) of Torts*, §§ 757, *et seq.* (1939). *See, e.g.*, *Ashland Mgm't, Inc. v. Janien*, 82 N.Y. 2d 395,407, 624 N.E. 2d 1007, 1012, 604 N.Y.S. 2d 912, 917 (1993) (observing that New York law follows this version of the Restatement).
5. *See, e.g., Monovis, Inc. v. Aquino*, 905 F. Supp. 1205 (W.D.N.Y. 1994) (entering an injunction permanently enjoining defendants from, among other things, engaging in any manner or to any degree in the manufacturing or other business attending to or involving single-screw compressors or their technology in light of their history of misappropriation of trade secrets in this specialized field).
6. Absent diversity jurisdiction, prior to the passage of the Defend Trade Secrets Act, parties asserting trade secrets claims have been able to do so in federal courts only when they can assert such claims as pendant to claims under other federal statutes. If the parties are not of diverse citizenship, federal courts have discretion, however, to sever and dismiss the state law claims if not sufficiently intertwined with the federal claims. *See, e.g., Aon Risk Svcs. Northeast, Inc. v. Kornblau*, No. 10 CV 2244 (RMB)(JCP), 2010 U.S. Dist. LEXIS 3814 (S.D.N.Y. Apr. 19, 2010) (dismissing nine state law claims, including claim for trade secrets misappropriation, without prejudice to relief in another forum, since the state claims were found to be different from and substantially predominated over the federal Computer Fraud and Abuse Act claim).
7. *See, e.g., D. Kappos, The Defend Trade Secrets Act: IP Legislation Ready to Move Forward Now*, Congress Blog (Dec. 2, 2015), http://thehill.com/blogs/congress-blog/technology/261688-the-defend-trade-secrets-act-ip-legislation-ready-to-move.
8. For an early discussion of the Economic Espionage Act, *see V. Cundiff, What You Need to Know About the Economic Espionage Act*, 2 N.Y. Bus. L.J. (Spring 1998). For a discussion of prosecutions under the EEA, *see* P. Toren, *A Look at 16 Years of EEA Prosecutions*, Law360 (Sept.19, 2012), http://www.law360.com/articles/378560/a-look-at-16-years-of-eea-prosecutions. For analysis by the Department of Justice and press releases describing prosecutions, see the Department of Justice website, cybercrime.gov.
9. Defend Trade Secrets Act, Pub. Law 114-153 § 5(2).
10. Other important federal tools include prosecution for criminal misappropriation and attempts and conspiracies to misappropriate trade secrets under the Economic Espionage Act and initiation of proceedings in the International Trade Commission under the Tariff Act, 19 U.S.C. § 1337, to prohibit the importation of goods made through misappropriation of trade secrets in the United States or abroad.
11. DTSA § 2(b)(1) (emphasis added).
12. 18 U.S.C. § 1839(3) (emphasis added). This definition is similar to New York's definition, drawn from the *Restatement (First) of Torts*, § 757, comment b 1939): "A trade secret may consist of any formula, pattern, device or compilation of information which is

used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it…." In contrast to New York law, the DTSA does not require that the trade secret be "used in one's business," although the discrepancy in wording may not be meaningful in most cases, since New York has held that the "used in one's business" aspect of its definition does not necessarily require that the secret currently be employed in a business but rather only that it cannot be a "single or ephemeral event in the conduct of a business" and that it must offer a competitive advantage. *See, e.g., Zylon Corp. v. Medtronic, Inc.*, No. 650523/08, Slip Op. at 13 (Sup. Ct. N.Y. Co. Apr. 7, 2015), *aff'd*, 137 A.D. 3d 462 (1st Dep't 2016).

13. 18 U.S.C. §1837.

14. DTSA § 2(b)(1) and 18 U.S.C. § 1839(5)(A) and (B). An "owner" for purposes of the DTSA is "the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed." 18 U.S.C. § 1839(4). New York has, under its existing law, also permitted a non-exclusive licensee of the trade secret to bring claims. *See, e.g., Faiveley Transport USA, Inc. v. Wabtec Corp.*, 758 F. Supp. 2d 211, 220 (S.D.N.Y. 2010) (noting that the Second Circuit has consistently held that possession of a trade secret is sufficient to confer standing on a party for a claim of trade secret misappropriation), citing *N. Atl. Instruments, Inc. v. Haber*, 188 F. 3d 38, 43-44 (2d Cir. 1999).

15. DTSA § 2(b)(3). These remedies and measures of damage are also available under current New York law. *See, e.g., E.J. Brooks Co. v. Cambridge Security Seals*, No. 12-CV-2937 (LP), 2015 WL 9704079 (S.D.N.Y. Dec. 23, 2015); *Topps, Inc. v. Cadbury Stani S.A.I.C.*, 380 F. Supp. 2d 250, 268 (S.D.N.Y. 2005); *LinkCo, Inc. v. Fujitsu, Ltd.*, 232 F. Supp. 2d 182, 185-86 (S.D.N.Y. 2002) (all discussing economic remedies under New York law); *SimplexGrinnell LP v. Integrated Sys. & Power, Inc.*, 642 F. Supp. 2d 167, 200 (S.D.N.Y.), *modified on other grounds*, 642 F. Supp. 2d 206 (S.D.N.Y. 2009) (discussing and imposing permanent injunction against continued use of misappropriated software keys to modify computer programs); *Integrated Cash Mgm't Serv., Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370 (S.D.N.Y. 1989), *aff'd*, 920 F. 2d 1717 (2d Cir. 1990) (discussing and imposing "headstart" and anti-distribution injunction to protect trade secrets).

16. Uniform Trade Secrets Act § 3.

17. DTSA § 2(b)(3)(C). Some UTSA states impose different caps on exemplary or punitive damages and differ in whether the court or the jury awards such damages. For a discussion of state law variations under the UTSA on this and other subjects, *see* S. Leach, *Anything but Uniform: A State-by-State Comparison of the Key Differences of the Uniform Trade Secrets Act*, https://www.swlaw.com/assets/pdf/news/2015/10/23/How%20Uniform%20Is%20the%20Uniform%20Trade%20Secrets%20Act%20-%20by%20Sid%20Leach%20-%20AIPLA%20paper.pdf. New York does not expressly provide for punitive damages in cases of misappropriation but has awarded punitive damages subject to its general rules on punitive damages. *See, e.g., Softel, Inc. v. Dragon Medical and Scientific Communications, Inc.*, 891 F. Supp. 935, 945 (S.D.N.Y. 1995) (awarding $100,000 in punitive damages against one defendant and $150,000 against another for willful trade secrets misappropriation and $27,880.28 in actual damages based on defendant's profits).

18. DTSA § 2(b)(3)(D).

19. 18 U.S.C. § 1839(4)(6)(B)

20. The UTSA commentary further cautions that "the acquisition of the known product must, of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse engineering to be lawful." Official Comment, Uniform Commissioners of State Laws, UTSA § 1 (1985).

21. *See, e.g., Kadant, Inc. v. Seeley Machine, Inc.*, 244 F. Supp. 2d 19, 37-38 (N.D.N.Y. 2003).

22. DTSA § 2(b)(3)(d).

23. *Id*.

24. *See, e.g, Architectronics, Inc. v. Control Sys. Inc.*, 935 F. Supp. 425, 433 (S.D.N.Y. 1996).

25. DTSA § 2(c).

26. 28 U.S.C. § 1441(c)(1).

27. DTSA § 2(f).

28. DTSA § 7(b).

29. *See, e.g.*, Nevada's provision specifically addressing the status of trade secrets that have been posted on the Internet by third parties but removed within a reasonable period of time, Nev. Rev. Stat. §§ 600A.010 et seq.

30. *See, e.g., Bonamar, Corp. v. Turkin*, No. 1:16-CV-21746 (S.D. Fla. May 16, 2016) (alleging that employee copied customer files to a flash drive prior to resigning and then contacted customers for a competitor; asserting claims under the DTSA and the Florida Uniform Trade Secrets Act); *Universal Protection Svcs., LP v. Thornburg*, 2:16-CV-00917 (N.D. Tex. May 19, 2016) (alleging misappropriation of trade secrets to establish a competing company while employed by first employer and to compete with employer on bids; asserting DTSA and Texas Uniform Trade Secrets Act claims); *Space Data Corp. v. X, Alphabet Inc. and Google, Inc.*, No. 16-3260 (N.D. Cal. June 13, 2016) (alleging misappropriation of trade secrets allegedly disclosed under an NDA in connection with considering a potential acquisition; asserting claims under the DTSA and the California Uniform Trade Secrets Act).

31. DTSA § 2(b)(3)(A)(i)(II).

32. 18 U.S.C. § 1835 (providing that the court "shall" enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws). The New York County Commercial Division's Model Confidentiality Stipulation is an example of such an order that parties may choose to ask the court to enter. Another example of such a protective order is the Northern District of California's "Stipulated Protective Order for Litigation Involving Patents, Highly Sensitive Confidential Information and/or Trade Secrets," which the court has directed the parties to use in one of the earliest cases under the DTSA, *Henry Schein, Inc. v. Cook*, No. 16-CV-03166-JST (N.D. Cal. June 22, 2016) (order on preliminary injunction).

33. DTSA § 3(a)(2)(B).

34. *See, e.g., DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, 733 (N.Y. Sup. Ct. N.Y. Co. Nov. 7, 1997) (granting order enjoining defendants who were not subject to non-compete agreements from providing services relating to Internet advertising for six months while permitting employment in other roles with a competing organization; court found that individuals had breached their fiduciary duties and misappropriated confidential information to compete with former employer); *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F. 3d 102 (3d Cir. 2010); *PepsiCo, Inc. v. Redmond*, 54 F. 3d 1262 (7th Cir. 1995).

35. *See, e.g., Int'l Bus. Machs. Corp. v. Papermaster*, No. 08 Civ. 9078 (KMK), 2008 WL 4974508, *7 (S.D.N.Y. Nov. 21, 2008) (in analysis of whether irreparable harm can be established without actual misappropriation of trade secrets, "the existence of the Noncompetition Agreement is highly relevant"); *Esteé Lauder Companies, Inc. v. Batra*, 430 F. Supp. 2d 158 (S.D.N.Y. 2006); *Verizon Communications, Inc. v. Pizzirani*, 462 F. Supp. 2d 648, 658 (E.D. Pa. 2006) (applying New York law); *Lumex, Inc v. Highsmith*, 919 F. Supp. 624, 631 (E.D. N.Y. 1996) (crediting defendant's concession "[i]n his candid manner" that it would be possible for him to improve competitor's product to make it more competitive using former employer's trade secrets and concluding that under the circumstances "it would be impossible for Highsmith not to divulge confidential information," even inadvertently).

36. *See, e.g., Nat'l Starch and Chemical Corp. v. Parker Chemical Corp.*, 530 A. 2d 31, 21 N.J. Super. 158 (N.J. Super. 1987) (prohibiting employee from working to develop a specific adhesive whose secret formula he could recite from memory but permitting him to engage in the other 95 percent of his intended job).

37. *See Avery Dennison Corp. v. Finkle*, No. CV010757706, 2002 WL 241284 (Conn. Super. Feb. 1, 2002) (enjoining Finkle from continuing employment with Bic in any capacity dealing with the manufacture, product development, or engineering of writing instruments based on his extensive knowledge of former employer's plans and enforcing former employer's commitment to pay him two-thirds of his base pay during the injunction period).

38. DTSA § 2(b)(3)(a)(I). Presumably such an injunction may be obtained upon a proper evidentiary showing under a separate cause of action to enforce a lawful non-compete contract.

39. *Id*.

40. *See, e.g., International Business Machines Corp. v. Visentin*, No. 11 Civ. 399 (LAP) 2011 WL 672025 (Feb. 16), aff'd, 437 Fed. Appx. 53 (2d Cir. Nov. 3, 2011) (denying injunctive relief in part because "in a majority of the areas of information that IBM now seeks to protect as 'trade secrets'. . . [the Company] failed to provide specific examples of confidential or trade secret information that could actually be used to IBM's detriment if [Defendant] were allowed to assume his new position…."); *American Airlines, Inc. v. Imhof*, No. 09 Civ. 4535 (LAK), 620 F. Supp. 2d 574, 582 (S.D.N.Y. 2009) (denying preliminary injunction where defendant had returned plaintiff's information and satisfied court that he would have no need or intention to use it for his new employer); *Marietta Corp. v. Fairhurst*, 301 A.D. 2d 734, 754 N.Y.S. 2d 62, 65-66 (3d Dep't 2003) (denying activity restriction based on argument that disclosure of trade secrets would be inevitable, holding that "the doctrine of inevitable disclosure is disfavored as well, '[a]bsent evidence of actual misappropriation by an employee"); *Colonize.Com, Inc. v. Perlow*, No. 03 Civ. 466, 2003 WL 24256576, *6 (N.D.N.Y. Oct. 23, 2003) (holding that "absent any wrongdoing that would constitute a breach under the [confidentiality] agreement, mere knowledge of the intricacies of a business is simply not enough.*"). See also Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, No. 14-cv-02727, 2015 WL 3777568 (W.D. Tenn. June 18, 2015) (relying on *American Airlines v. Imhof* to deny preliminary injunction prohibiting employees who were not bound by non-compete agreements from engaging in competitive activities where upon the return of confidential documents, there was no ongoing risk of misusing the information at issue); *Faiveley Transport Malmo AB v. Wabtec Corp*., 559 F. 3d 110, 118 (2d Cir. 2009) (holding that generally irreparable harm from misappropriation should not be presumed and should not be established simply by reciting that "a trade secret once lost is gone forever" without offering a factual basis for the claim that absent an injunction irreparable harm would ensue). For a discussion of evidence that can support a claim for injunctive relief to prevent threatened misappropriation, *see* V.A. Cundiff, *Preventing the Inevitable: How Thinking About What Might Happen Can Help Ensure That it Won't*, 12 N.Y. Bus. L. J. 55 (Fall 2008).

41. *See, e.g*. cases gathered in *supra* note 40.

42. *See, e.g., Cypress Semiconductor Corp. v. Maxim Integrated Products, Inc*., 236 Cal. App. 4th 243, 265 (2015) (affirming award of attorney's fees against plaintiff as a sanction "[g]iven the complete absence of any coherent factual allegations suggesting a threatened misappropriation," plaintiff's reliance on allegations that misappropriation had "apparently" occurred rather than on evidence, and the fact that plaintiff did not subsequently offer any evidence to support its claims other than the implicit suggestion that disclosure of trade secrets was inevitable); *FLIR Sys., Inc. v. Parrish*, 174 Cal. App. 4th 1270, 1277 (Cal. Ct. App. 2d Dist. June 15, 2009). Subsequent proceedings in which Parrish sued the law firm representing FLIR for malicious prosecution are now before the California Supreme Court on review. *Parrish v. Latham & Watkins*, 357 P. 3d 769 (Cal. 2015) (granting review).

43. DTSA§ 2(b)(2).

44. *Id*. § 5 (4).

45. *Id*. § 2(b)(2)(A)(i).

46. *Id*. § 2(b)(2)(A)(ii).

47. *Id*. § 2(b)(2)(B)(ii).

48. *Id*. § 2(b)(2)(A)(ii)(VI).

49. *Id*. § 2(b)(2)(A)(ii).

50. *Id*. § 2(b)(2)(B)(ii).

51. *Id*.

52. *Id*. § 2(b)(2)(H).

53. *Id*. § 2(b)(2)(C).

54. *Id*. § 2(b)(2)(D).

55. *Id*. § 2(b)(2)(B)(vi).

56. *Id*. § 2(b)(2)(F)(ii) and (iii).

57. *Id*. § 2(b)(2)(G).

58. *Id*. § 6.

59. *Id*. § 7(b)(1)(A) and (B); *see also id*. § 7(b)(2).

60. *Id*. § 7(b)(3).

61. In revising employee agreements, handbooks, and policies, employers also should be aware of recent activity by the SEC enforcing its Rule 21F-17, which provides that "No person may take any action to impede an individual from communicating directly with the Commission staff about a possible securities law violation, including enforcing, or threatening to enforce, a confidentiality agreement…with respect to such communications." *In In the Matter of KBR, Inc*., Administrative Proceeding File No. 3-16466 (Apr. 1, 2015), the SEC issued a cease and desist letter and imposed a $130,000 fine on an employer which had issued a confidentiality statement prohibiting discussion of a review without prior authorization of the legal department. Following this action, the revised confidentiality statement included language that "Nothing in this Confidentiality Statement prohibits me from reporting possible violations of federal law or regulation to any governmental agency or entity…or making other disclosures that are protected under the whistleblower provisions of federal law or regulation. I do not need the prior authorization of the Law Department to make any such reports or disclosures and I am not required to notify the company that I have made such reports or disclosures."

62. DTSA § 3(a)(1).

63. *Id*. § 3(b).

64. *Id*. § 4.

65. This commitment to providing strong protections for trade secrets is echoed in other countries. For example, just weeks after the United States adopted the DTSA, the European Union adopted a trade secrets directive setting forth principles to be implemented by member nations in adopting civil legislation to protect trade secrets. *See* "Trade secrets protection: Council adopts new directive" (May 27, 2016), http://www.consilium.europa.eu/en/press/press-releases/2016/05/27-trade-secrets-new-directive/. The EU directive echoes many of the themes addressed by the DTSA. Discussion of prospective legislation in both regions informed and was influenced by shared concerns. For a comparison of the provisions under the DTSA and the EU directive, *see* A. Patel, et al**.** *The Global Harmonization of Trade Secret Law: The Convergence of Protections for Trade Secret Information in the United States and European Union*, Defense Counsel Journal (forthcoming 2016).

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Cuozzo: Long Live IPRs

By Tammy J. Dunn and Peter C. Schechter

A. Introduction

Since *inter partes* review (IPR) became available, the U.S. Patent & Trademark Office (USPTO) has received more than 4,500 petitions from challengers seeking to invalidate patent claims on the basis of prior art printed publications under 35 U.S.C. § 102 and/or § 103.[1] As we approach four years since the creation of these proceedings, two hotly contested issues have emerged: the applicable claim construction standard and the reviewability of Patent Trial and Appeal Board (PTAB) institution decisions. In June, the Supreme Court weighed in and settled these issues in *Cuozzo Speed Technologies LLC v. Lee*, Case No. 15-446. This article discusses *Cuozzo* and its likely implications for current, future, and putative IPR petitioners and patent owners.

B. Background

Among the landmark changes associated with the America Invents Act of 2011 (AIA) was the creation of *inter partes* review (IPR), a replacement for the then-existing *inter partes* reexamination procedure in the PTO. IPRs were intended to provide a more efficient and cost-effective mechanism to eliminate patent claims that never should have issued had the claims been properly examined during *ex parte* prosecution. Hallmark features of IPRs include review by a three-member panel of administrative patent judges with technological backgrounds, limited discovery between the IPR petitioner and the patent owner, and resolution within one year of the institution of an IPR.

Anyone can file a petition for an IPR; however, an IPR petitioner can challenge the validity of a patent only under 35 U.S.C. § 102 (anticipation) and/or § 103 (obviousness) and can do so only on the basis of prior art printed publications. Within six months or less after the filing of an IPR petition, the PTAB determines whether one or more claims in a patent should be reviewed and, if reviewed, whether challenged patent claims are unpatentable in view of the prior art and should, therefore, be cancelled.

Thus, the PTAB's threshold determination (the "institution decision") is critical for both patent owners and petitioners, particularly given the substantial odds that at least some (and likely the broadest) instituted claims will be invalidated. Recently compiled statistics by the PTAB show that as of May 31, 2016, 988 IPRs have proceeded all the way through trial before the PTAB and have resulted in Final Written Decisions.[2] In 704 of these trials, the PTAB found all instituted claims unpatentable;[3] in 142 of them, the PTAB found some instituted claims unpatentable.[4] Given the stakes, institution decisions can be pivotal in overall settlement strategy between parties. Patent owners risk losing their patents. Meanwhile, petitioners, who most often are defending themselves in concurrent district court litigation against charges of infringement of the challenged patent, risk continued mounting legal fees, potential liability, and all the other downstream negative effects of protracted patent litigation.

As critical as the institution decision is to the parties involved in an IPR, it is still merely a preliminary decision and is not reviewable on appeal.[5] The reviewability of the institution decision (or lack thereof) is one of two issues that eventually caught the eye of the Supreme Court in *Cuozzo*.

The second issue in *Cuozzo* involves one of the most coveted features of an IPR (at least by petitioners): the application of the PTO's "Broadest Reasonable Interpretation" (BRI) claim construction standard to patent claims undergoing IPR. Under this standard, a patent claim in an IPR is given "its broadest reasonable construction in light of the specification of the patent in which it appears."[6] This is the same standard applied by PTO examiners when determining whether a patent should issue in the first place. It differs, however, from the claim construction standard used by district courts, which give claims their "ordinary meaning . . . as understood by a person of skill in the art."[7] Because the BRI standard frequently yields a broader claim scope than the district court claim construction standard, invalidation is correspondingly relatively easier. Thus, concerns have arisen that patent claims are too vulnerable to invalidation in an IPR due to this different standard. These and similar concerns fueled debate on the second issue presented to the Supreme Court in *Cuozzo*.

Before discussing the Supreme Court's decision, some procedural background is warranted.

1. *Cuozzo* in the PTAB

Cuozzo began as the first IPR ever filed. On September 16, 2016, the day the provisions of the AIA that created IPR became effective, Garmin International Inc. and Garmin USA , Inc. filed a petition seeking *inter partes* review of Cuozzo Speed Technologies LLC's U.S. Patent No. 6,778,074 (the '074 patent) for a speedometer that will show a driver when he is driving over the speed limit.[8] In its petition, Garmin challenged all twenty claims in the '074 patent as being unpatentable on various grounds of anticipation under 35 U.S.C. § 102 and obviousness under § 103.

On January 9, 2013, the PTAB instituted trial of three (of the 20) challenged claims based on two obviousness grounds.[9] Notably, the grounds the PTAB selected for institution did not exactly match the grounds Garmin had presented in its petition. Although Garmin presented separate combinations of references for each of the instituted claims, the PTAB instituted trial against all three challenged claims based on two grounds Garmin had proposed against only one claim.[10] The fact that the PTAB instituted trial even though Garmin had not explicitly asserted the instituted grounds against the other two claims became the focus of Cuozzo's first issue on appeal. This was also the first example of the PTAB exercising its discretion in such a fashion in these new post-grant proceedings.

Less than a year later, the PTAB issued its Final Written Decision.[11] In that decision, the PTAB construed the instituted claims applying the broadest reasonable interpretation (BRI) claim construction standard and found all three claims obvious in view of the instituted prior art combinations. The PTAB also denied Cuozzo's motion to amend the claims, finding Cuozzo's proposed amendment improperly broadened their scope. As a result, the PTAB cancelled all three instituted claims.

2. On Appeal to the CAFC

Cuozzo appealed the PTAB's decision to the Court of Appeals for the Federal Circuit (CAFC). After filing the appeal, Cuozzo settled with Garmin, and Garmin did not participate further in the case. The settlement could have ended the story; however, the Director of the PTO chose to intervene in the appeal to defend the PTAB's decision.[12] Thus, Cuozzo's fight with Garmin became a battle against the PTO.

Cuozzo raised two primary issues on appeal. First, it argued that the PTAB erred in instituting review because the PTAB instituted IPR trial against claims based on obviousness grounds that Garmin had not explicitly asserted against those claims. Second, Cuozzo argued that the BRI standard should not apply in post-grant proceedings.[13]

In its first of its two decisions in the case, the court ruled against Cuozzo and in favor of the PTO on all points. Judges Clevenger and Dyk formed the panel majority and concluded, among other things, that the court lacked jurisdiction to review PTAB institution decisions. Relying heavily on the plain language of 35 U.S.C. § 314(d), the court held that the statute prohibits review of IPR institution decisions, even after a final written decision from the PTAB has issued.[14]

The majority also affirmed the PTAB's use of the BRI claim construction standard as well as its interpretation of the instituted claims applying the BRI standard. The court recognized that although the AIA created IPR, "the statute on its face does not resolve the issue of whether the broadest reasonable interpretation standard is appropriate in IPRs; it is silent on that issue."[15] The court also recognized that the statute does, however, convey rule-making authority to the PTO, which led to an analysis of whether or not imposing the BRI standard in IPRs was within the purview of the PTO's rulemaking authority.

Rejecting Cuozzo's argument that the BRI standard is inappropriate for post-grant proceedings, the majority emphasized the history of using the BRI standard in the PTO:

> There is no indication that the AIA was designed to change the claim construction standard that the PTO has applied for more than 100 years. Congress is presumed to legislate against the background of the kind of longstanding, consistent existing law that is present here. [internal citations omitted]…
>
> Moreover, Congress in enacting the AIA was well aware that the broadest reasonable interpretation standard was the prevailing rule. … It can therefore be inferred that Congress impliedly approved the existing rule of adopting the broadest reasonable construction.[16]

The court further explained:

> Even if we were to conclude that Congress did not itself approve the broadest reasonable interpretation standard in enacting the AIA, § 316 provides authority to the PTO to adopt the standard in a regulation. Section 316(a)(2) provides that the PTO shall establish regulations "setting forth the standards for the showing of sufficient grounds to institute a review . . . ." 35 U.S.C. § 316(a)(2). Section 316(a)(4) further provides the PTO with authority for "establishing and governing inter partes review under this chapter and the relationship of such review to other proceedings under this title." Id. § 316(a)(4). The broadest reasonable interpretation standard affects both the PTO's determination of whether to institute IPR proceedings and the proceedings after institution and is within the PTO's authority under the statute.[17]

Judge Newman wrote a vigorous dissent, criticizing the panel majority has having "thwart[ed] the statutory plan" of the AIA "in several ways."[18]

Unsatisfied with this decision, Cuozzo sought rehearing *en banc.* In its second decision, a sharply divided court, in a 6-5 vote, rejected Cuozzo's petition. The sharp division was on the issue of whether the BRI claim construction standard should apply in post-grant review proceedings.[19] Those in support of the BRI standard emphasized the language of the AIA and the lack of congressional intent to change that standard:

> Nothing in the America Invents Act ("AIA") indicates congressional intent to change the prevailing broadest reasonable interpretation standard. The dissents are wholly devoid of any evidence in the legislative history that Congress intended in the AIA to change the standard, and we must interpret the statute in light of the long history of the use of the broadest reasonable interpretation standard in PTO proceedings.
>
> * * *
>
> In the absence of evidence of congressional intent to abrogate the broadest reasonable interpretation standard, we should not act to adopt a different standard based on our own notions of appropriate public policy. If the standard is to be changed, that is a matter for Congress. There are pending bills which would do just that.[20]

> *"In other words, because this was an 'ordinary dispute,' the Court saw no justification for ruling contrary to the AIA's 'No Appeal' provision."*

Meanwhile, Judge Newman, who joined a dissenting opinion with Chief Judge Prost and Judges Moore, O'Malley, and Reyna, also wrote her own dissent in view of the significant participation by amici curiae requesting *en banc* review, in which she emphasized:

> The America Invents Act established a new PTO tribunal in order to achieve rapid, efficient, and correct resolution of issues of patent validity that heretofore required trial in the district courts after controversy arose. All of the amici curiae stress the importance, the value, of this new adjudicative plan. Yet the legislative purpose fails if the PTO applies different law than is applied in the courts.[21]

Cuozzo sought review by the Supreme Court of two issues:

1. Whether the court of appeals erred in holding that, in IPR proceedings, the Board may construe claims in an issued patent according to their broadest reasonable interpretation rather than their plain and ordinary meaning.
2. Whether the court of appeals erred in holding that, even if the Board exceeds its statutory authority in instituting an IPR proceeding, the Board's decision whether to institute an IPR proceeding is judicially unreviewable.[22]

On January 15, 2016, the Supreme Court granted certiorari.

III. The Supreme Court Weighs In

On June 20, 2016, in an opinion by Justice Breyer, the Supreme Court affirmed the CAFC's ruling that PTAB institution decisions are not reviewable on appeal and the application of the BRI standard in IPRs.

A. PTAB Institution Decisions Are Preliminary and Not Reviewable

At the outset, the Court made clear its view that the statute's plain language removes any reasonable debate about the reviewability of IPR institution decisions on appeal:

> Like the Court of Appeals, we believe that Cuozzo's contention that the Patent Office unlawfully initiated its agency review is not appealable. For one thing, that is what §314(d) says. It states that the "determination by the [Patent Office] whether to institute an inter partes review under this section shall be final and nonappealable." (Emphasis added.)
>
> For another, the legal dispute at issue is an ordinary dispute about the application of certain relevant patent statutes concerning the Patent Office's decision to institute inter partes review.
>
> * * *
>
> In our view, the "No Appeal" provision's language must, at the least, forbid an appeal that attacks a "determination . . . whether to institute" review by raising this kind of legal question and little more. §314(d).[23]

In other words, because this was an "ordinary dispute," the Court saw no justification for ruling contrary to the AIA's "No Appeal" provision. The Court also noted that a contrary ruling would undermine the congressional objective of "giving the Patent Office significant power to revisit and revise earlier patent grants."[24]

The dissenting opinion on this point, written by Justice Alito and joined by Justice Sotomayor, argued that the "No Appeal" provision was never intended to shield the PTAB from judicial scrutiny entirely, but rather should be construed to prevent only *interlocutory* appeals of institution decisions:

> Congress has given the Patent and Trademark Office considerable authority to review and cancel issued patent claims.

> At the same time, Congress has cabined that power by imposing significant conditions on the Patent Office's institution of patent review proceedings. Unlike the Court, I do not think that Congress intended to shield the Patent Office's compliance—or noncompliance—with these limits from all judicial scrutiny. Rather, consistent with the strong presumption favoring judicial review, Congress required only that judicial review, including of issues bearing on the institution of patent review proceedings, be channeled through an appeal from the agency's final decision.[25]

The Court responded that such an interpretation "reads into the provision a limitation (to interlocutory decisions) that the language nowhere mentions and that is unnecessary."[26] The Court also explained that its ruling would not preclude judicial review in the right circumstances:[27]

> [C]ontrary to the dissent's suggestion, we do not categorically preclude review of a final decision where a petition fails to give "sufficient notice" such that there is a due process problem with the entire proceeding, nor does our interpretation enable the agency to act outside its statutory limits by, for example, canceling a patent claim for "indefiniteness under §112" in inter partes review. Post, at 10–13. Such "shenanigans" may be properly reviewable in the context of §319 and under the Administrative Procedure Act, which enables reviewing courts to "set aside agency action" that is "contrary to constitutional right," "in excess of statutory jurisdiction," or "arbitrary [and] capricious." Compare post, at 13, with 5 U. S. C. §§706(2)(A)–(D).
>
> By contrast, where a patent holder merely challenges the Patent Office's "determin[ation] that the information presented in the petition . . . shows that there is a reasonable likelihood" of success "with respect to at least 1 of the claims challenged," §314(a), or where a patent holder grounds its claim in a statute closely related to that decision to institute inter partes review, §314(d) bars judicial review.

Because Cuozzo's appeal was "little more than a challenge to the Patent Office's conclusion, under § 314(a), that the 'information presented in [Garmin's] petition' warranted review," the Court concluded that section 314(d) barred Cuozzo's efforts to attack the institution decision.[28]

B. The BRI Standard Survives

The second issue in *Cuozzo* was Cuozzo's argument that the PTO lacked the authority to issue 37 CFR § 42.100(b), a regulation that requires the PTAB to give a patent claim in an IPR "its broadest reasonable construction in light of the specification of the patent in which it appears." Cuozzo argued that instead of the BRI standard, the PTAB should apply the same standard applied in district courts and give claims their "ordinary meaning as understood by a person of skill in the art."[29]

Again, the Court disagreed with Cuozzo. Agreeing with the court of appeals, the Court held that the Patent Office's authority to issue "regulations . . . establishing and governing inter partes review" under 35 U. S. C. §316(a)(4), gives the Patent Office the legal authority to issue its broadest reasonable construction regulation.

The Court interpreted section 316(a)(4) in light of its decision in *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc*.[30] Under *Chevron*, where a statute is clear, an agency must follow that statute. But where a statute leaves a "gap" or is "ambiguous," however, the statute is interpreted as granting the agency leeway to enact reasonable rules in light of the text, nature, and purpose of the statute.[31] In acknowledging a gap in the statute at issue, the Court wrote:

> The statute contains such a gap: No statutory provision unambiguously directs the agency to use one standard or the other. And the statute "express[ly] . . . authoriz[es] [the Patent Office] to engage in the process of rulemaking" to address that gap. . . . Indeed, the statute allows the Patent Office to issue rules "governing inter partes review," §316(a)(4), and the broadest reasonable construction regulation is a rule that governs inter partes review.

Thus, the analysis was fairly straightforward. In fact, after making that logical connection, the Court only had two arguments by Cuozzo to address. As an initial matter, the Court quickly dismissed arguments made by Cuozzo and the dissenters in the Court of Appeals that other tools of statutory interpretation announced in other cases interpreting different statutes would lead to a different result. Because those cases interpreted a different statute, they did not dictate a different result.[32]

The Court then addressed the argument by Cuozzo and various amici that the Court would reach a different result from the CAFC if it considered the purpose of *inter partes* review, which, in their view, is "to modify the previous reexamination procedures and to replace them with a 'trial, adjudicatory in nature.'" According to Cuozzo, given various adjudicatory characteristics that make IPRs similar to court proceedings, Congress must have designed IPRs as a "surrogate for court proceedings." As such, Cuozzo argued that the same claim construction standard as applied in district court should apply in IPRs.[33]

Again, the Court disagreed, first pointing out that despite similarities, "in other significant respects, *inter partes* review is less like a judicial proceeding and more like a specialized agency proceeding." For example, parties that initiate IPRs need not have a concrete stake in the outcome and may even lack constitutional standing. In addition, the Patent Office can proceed in an IPR without the adverse party's participation and even may intervene in a later judicial proceeding to defend its decision (as it did here), *even if the private challengers drop out*. The burden of proof is also different. In IPRs, unpatentability must be established "by a preponderance of the evidence." The burden is higher in district court, where invalidity must be proven by "clear and convincing evidence."[34]

After highlighting these differences, the Court explained how the purpose of an IPR differs from that of a district court proceeding:

> Most importantly, these features, as well as inter partes review's predecessors, indicate that the purpose of the proceeding is not quite the same as the purpose of district court litigation. The proceeding involves what used to be called a reexamination (and, as noted above, a cousin of inter partes review, ex parte reexamination, 35 U. S. C.§302 et seq., still bears that name). The name and accompanying procedures suggest that the proceeding offers a second look at an earlier administrative grant of a patent. **Although Congress changed the name from "reexamination" to "review," nothing convinces us that, in doing so, Congress wanted to change its basic purposes, namely, to reexamine an earlier agency decision.** Thus, in addition to helping resolve concrete patent-related disputes among parties, inter partes review helps protect the public's "paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope." Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U. S. 806, 816 (1945); see H. R. Rep., at 39–40 (inter partes review is an "efficient system for challenging patents that should not have issued").[35]

The upshot was that whether one looks to the language of the statute alone or in the context of the statute's purpose, the Court found an express delegation of rulemaking authority, a "gap" that rules might fill, and ambiguity regarding the boundaries of that gap.[36]

The Court then analyzed the PTO's exercise of its rulemaking authority in issuing the rule requiring PTAB to apply the BRI standard in IPRs (37 C.F.R. 42.100(b)) and found it reasonable:

> For one thing, construing a patent claim according to its broadest reasonable construction helps to protect the public. A reasonable, yet unlawfully broad claim might discourage the use of the invention by a member of the public. Because an examiner's (or reexaminer's) use of the broadest reasonable construction standard increases the possibility that the examiner will find the claim too broad (and deny it), use of that standard encourages the applicant to draft narrowly. This helps ensure precision while avoiding overly broad claims, and thereby helps prevent a patent from tying up too much knowledge, while helping members of the public draw useful information from the disclosed invention and better understand the lawful limits of the claim. See §112(a); Nautilus, Inc. v. Biosig Instruments, Inc., 572 U. S. ___, ___ (2014) (slip op., at 10); see also In re Yamamoto, 740 F. 2d 1569, 1571 (CA Fed. 1984).
>
> For another, past practice supports the Patent Office's regulation. See 77 Fed. Reg. 48697 (2012). The Patent Office has used this standard for more than 100 years. 793 F. 3d, at 1276. It has applied that standard in proceedings, which, as here, resemble district court litigation. See Bamberger v. Cheruvu, 55 USPQ 2d 1523, 1527 (BPAI1998) (broadest reasonable construction standard applies in interference proceedings); Brief for Generic Pharmaceutical Association et al. as Amici Curiae 7–16 (describing similarities between interference proceedings and adjudicatory aspects of inter partes review); see also In re Yamamoto, supra, at 1571 (broadest reasonable construction standard applies in reexamination). It also applies that standard in proceedings that may be consolidated with a concurrent inter partes review. See 77 Fed. Reg.48697–48698.[37]

Cuozzo argued that IPRs differed from initial examination of a patent pre-issuance because unlike examination, where an applicant can amend or narrow its claims in the face of rejections by an examiner, there is no absolute right to amend any challenged patent claims in an IPR. Cuozzo thus contended that application of the BRI standard in IPRs was unfair. The Court rejected this argument, noting that IPR petitioners actually do have a right to amend or narrow challenged claims in IPRs by filing a motion to do so. According to the Court, this opportunity to amend in an IPR, when combined with the ability to amend claims during pre-issuance examination, makes the application of BRI to both examination and post-grant review "not unfair to the patent holder in any obvious way."[38]

To Cuozzo's argument that motions to amend had only ever been granted by the PTAB in five IPRs, thus underscoring the unfairness of the BRI standard, the Court found that the question was not before it:

> To the extent Cuozzo's statistical argument takes aim at the manner in which the Patent Office has exercised its authority, that question is not before us. Indeed, in this particular case, the agency determined that Cuozzo's proposed amendment "enlarge[d]," rather than narrowed, the challenged claims. App. to Pet. for Cert. 165a–166a; see §316(d)(3). Cuozzo does not contend that the decision not to allow its amendment is "arbitrary" or "capricious," or "otherwise [un]lawful." 5 U. S. C. §706(2)(a).[39]

The Court also pointed out that so few motions to amend might have been granted because there was nothing the patent owner could do to save the unpatentable claims.[40]

Cuozzo's second argument was that the use of BRI in IPRs could lead to inconsistent results, causing added confusion. A district court may find a patent claim to be valid after applying the "ordinary meaning" claim construction standard, while the agency may later cancel that claim in its own review, having applied the BRI claim construction standard. The Court disposed of this argument, as well, stating:

> This possibility, however, has long been present in our patent system, which provides different tracks—one in the Patent Office and one in the courts—for the review and adjudication of patent claims. As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress' regulatory design. Cf. *One Lot Emerald Cut Stones* v. *United States*, 409 U. S. 232, 235–238 (1972) (*per curiam*).[41]

In addressing the various policy arguments by Cuozzo and supporting amici that the ordinary meaning standard should apply, the Court closed with these observations:

> The Patent Office is legally free to accept or reject such policy arguments on the basis of its own reasoned analysis. Having concluded that the Patent Office's regulation, selecting the broadest reasonable construction standard, is reasonable in light of the rationales described above, we do not decide whether there is a better alternative as a policy matter. That is a question that Congress left to the particular expertise of the Patent Office.[42]

D. The Supreme Court Got It Right

The *Cuozzo* decision is a victory for the U.S. patent system and consistent with the AIA's commitment to strengthening that system. AIA post-grant challenges were created to weed out patents that should not have been issued in the first place. These remedial measures were intended to provide a relatively cost-effective and efficient mechanism for the PTO to correct its own mistakes in granting patents that issued without sufficient examination due to years of limited resources, overworked examiners, and an increasing volume of patent applications being filed. Other countries have flexible post-grant challenge proceedings allowing interested parties to force their patent offices to take "second look," and IPRs are the closest thing we have to such systems in place in Europe, Japan, and elsewhere.

The current BRI standard is critical to that mission. Applying the BRI standard in post grant reviews (whether IPR or PGR) allows the USPTO to correct mistakes made in the original prosecution of patent applications, both before and after the enactment of the AIA. Petitioners—often defendants in patent litigation—have tremendous incentive and greater resources to find prior art that is often much closer to the patented inventions than was known to the USPTO examiner when the patent was initially examined and granted. There is no good reason why analysis of patentability in light of such prior art should be done under different rules than those used during the examiner's original analysis.

The alternative—applying the district court standard, which is, in comparison, a claim construction standard most often viewed as skewed in the patentee's favor—would have crippled these corrective abilities and, as a result, would have sounded a death knell to post-grant review. The effective end to post-grant review would have been a loss for everyone, petitioners and patent owners alike.

What Cuozzo wanted was a "do-over," and with good reason—it lost three of its patent claims. However, a challenged patent does not deserve special treatment or insulation from the same scrutiny it received during initial PTO examination simply because the resource-strapped, underfunded, overworked USPTO passed the application through to issuance the first time. The only difference in an AIA post-grant challenge and pre-issuance examination is that the question of patentability is now decided by three very qualified deciders who have the benefit of better prior art and an interested party advocating unpatentability. Allowing the PTO to uniformly apply the same claim construction standard both before and after issuance will ultimately lead to the best results—stronger patents and a national patent portfolio that will gradually be de-cluttered of weak claims that never should have issued in the first place.

The primary result of the *Cuozzo* decision is that IPRs will live on (at least for now) and will continue to provide all the advantages they were intended to provide. This is a victory for both petitioners and patent owners, as IPRs should eventually help reduce unnecessary district court litigation and leave parties to fight over patents that deserve to be litigated. What remains to be seen, however, is the effect *Cuozzo* will have on future appeals from IPRs where a private party is unsatisfied with the institution decision. Will there be a decline in appeals filed? Or will we instead see a shift in the way appellants frame the issues for appeal, with more claims of PTAB "shenanigans" and "arbitrary and capricious" decisions in order to increase the odds of receiving appellate review? What about the interplay of estoppel against petitioners who never have certain grounds heard due to a PTAB finding of "redundancy" in the institution decision? There are certainly many other questions that arise as a result of this part of the ruling. Time will tell how these will be addressed and resolved.

Endnotes

1. AIPLA USPTO Patent Trial and Appeal Board Bench and Bar Conference "State of the Board," June 15, 2016.
2. *Id.*
3. *Id.*
4. *Id.*
5. 35 U.S.C. 314(d): "The determination by the Director whether to institute an *inter partes* review under this section shall be final and nonappealable."
6. 37 C.F.R. § 42.100(b).
7. *Phillips v. AWH*, 415 F.3d at 1114.
8. *Garmin Inter'l, Inc. et al. v. Cuozzo Speed Technologies LLC*, IPR2012-00001, Petition for *Inter Partes* Review, Paper 1 (P.T.A.B. Sept. 16, 2012).
9. *Garmin Inter'l, Inc. et al. v. Cuozzo Speed Technologies LLC*, IPR2012-00001, Institution Decision, Paper 15 (P.T.A.B. Jan. 9, 2013).
10. Compare Paper 1 (Petition) at 5-6 (arguing obviousness combination of Aumayer, Evans, and Wendt, and combination of Tegethoff, Awada, Evans, and Wendt for claim 17, but not for claims 10 and 14) with Paper 15 (Institution Decision) at 26 (instituting review of claims 10, 14, and 17 based on combination of Aumayer, Evans, and Wendt, and combination of Tegethoff, Awada, Evans, and Wendt).
11. *Garmin Inter'l, Inc. et al. v. Cuozzo Speed Technologies LLC*, IPR2012-00001, Final Decision, Paper 59 (P.T.A.B. Nov. 13, 2013).
12. Under 35 U.S.C. § 143, the Director of the PTO has the right to intervene in IPR appeals.
13. Cuozzo also argued that the Board improperly denied Cuozzo's motion to amend its claims in its effort to avoid prior art; however, this article focuses on the two primary issues of institution decision reviewability and the claim construction standard in IPRs.
14. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1273 (Fed. Cir. 2015).
15. *In re Cuozzo*, 793 F.3d at 1275.
16. *Id.* at 1277.
17. *Id.* at 1278.
18. *Id.* at 1284 (Dissenting Opinion).
19. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1297 (Fed. Cir. 2015) (*en banc*).
20. *In re Cuozzo (en banc)*, 793 at 1299 (J. Dyk concurring).
21. *In re Cuozzo (en banc)*, 793 at 1305 (J. Newman dissenting).
22. *Cuozzo Technologies, LLC v. Lee,* No. 15-446, Petition for Certiorari (U.S. Oct. 6. 2015).
23. *Cuozzo Technologies, LLC v. Lee,* No. 15-446, 579 U.S. ___ , Op. at 7-8 (2016).
24. *Cuozzo*, Op. at 7-8 (citing H. R. Rep., at 45, 48 (explaining that the statute seeks to "improve patent quality and restore confidence in the presumption of validity that comes withissued patents"); 157 Cong. Rec. 9778 (2011) (remarks of Rep. Goodlatte) (noting that inter partes review "screen[s]out bad patents while bolstering valid ones")).
25. *Cuozzo*, Dissenting Op. at 1.
26. *Cuozzo*, Op. at 9.
27. *Id.*
28. *Id.* at 12.
29. *Id.* at 12.
30. 467 U. S. 837, 842 (1984).
31. *Id.* at 12, citing *Mead Corp.*, 533 U. S., at 229; *Chevron U. S. A. Inc.*, supra, at 843.
32. *Id.* at 13.
33. *Id.* at 14.
34. *Id.* at 15.
35. *Id.* at 15 (emphasis added).
36. *Id.* at 16-17.
37. *Id.* at 17-18.
38. *Id.* at 18-19.
39. *Id.* at 19.
40. *Id.*
41. *Id.*
42. *Id.* at 20.

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Arbitrating Patent Disputes in the United States

By Bill Baker

I. Introduction

Arbitration of patent disputes in the United States is a procedure that is not considered as frequently as it should be. According to American Arbitration Association (AAA) executives, only 160 arbitration claims involving intellectual property were filed with the AAA in calendar year 2015, whereas 5,841 such cases were filed in federal district courts during the same time.[1] For the right case, however, arbitration can have many advantages. This article will briefly discuss the statutory regime that governs arbitration of patent matters in the United States, the benefits and disadvantages of such arbitration, and the types of cases for which arbitration might be appropriate.

II. The Applicable Statutes

The arbitrability of patent disputes varies from country to country.[2] In some jurisdictions arbitration of patent disputes is not permitted. Patents are viewed as grants made by the sovereign, and therefore only administrative agencies of the sovereign or courts of the sovereign, not private tribunals, are authorized to determine issues such as the validity of a patent.

In the United States patent arbitrations are governed by 35 U.S.C. § 294. More specifically, section 294(a) states that all issues "relating to patent validity and infringement" may be arbitrated. Section 294(b) further states that all defenses provided for under section 282 "shall be considered by the arbitrator if raised by any party to the proceeding." Such defenses include not only invalidity and noninfringement but also unenforceability and failure to comply with 35 U.S.C. § 112—including failure to meet the written description, definiteness, enablement, and other requirements of section 112.

35 U.S.C. § 294(c) then provides that any award "shall be final and binding between the parties to the arbitration, but shall have no force and effect on any other person." The implication of this language is that, unlike a court proceeding, in which a finding of invalidity binds the patent owner as against the world,[3] an arbitrator's decision does not prevent the patentee from rearguing validity in any future suit brought against other infringers.

Unfortunately, the language of the statute is not as clear as it might be. It does not specifically say that third parties cannot take advantage of an adverse arbitral finding on invalidity, and at least one commentator has argued that the "optional" use of a collateral estoppel defense based on a patent arbitration finding of invalidity should still be allowed.[4] But when the statute says that the arbitration "shall have no force and effect on other parties," what can be the purpose of such language other than to prevent an argument of collateral estoppel (i.e., collateral estoppel is generally the only "force and effect" that an arbitration has on third parties). Such a reading is also consistent with the concept that validity issues affect the broader public interest (or interest of the sovereign) and that a private arbitration is not the way to determine such issues except as between the parties who agreed to arbitrate.

35 U.S.C. § 294(d) and (e) require the patentee to provide notice of any arbitral award, as well as a copy of the award, to the Director of the Patent and Trademark Office (PTO) and state that the "award shall be unenforceable" until such notice is received. The effect of these provisions on what would otherwise be the privacy afforded by arbitration is discussed below.

The Federal Arbitration Act (FAA)[5] further governs patent arbitration proceedings. The grounds for an appeal under the FAA are quite restricted, being largely limited to situations in which "the award was procured by corruption, fraud, or undue means,"[6] "there was evident partiality or corruption in the arbitrators,"[7] "the arbitrators were guilty of misconduct in refusing . . . to hear evidence pertinent and material to the controversy,"[8] or "the arbitrators exceeded their powers."[9] This provision can be viewed as either beneficial, if one is interested in speed, efficiency, and lower cost, or as detrimental if one wants a thorough review to correct any errors. Certain arbitral institutions, however, provided for an internal appellate review, which is discussed below.

III. Advantages and Disadvantages of Arbitrating Patent Disputes

With the above statutory framework in mind, we can look at some of the pros and cons of arbitrating patent disputes.

A. Pros

Expertise. One of the principal advantages of arbitrating complex patent disputes is that one can obtain expertise that is not typically available in courts. As patent litigators know, one of the frustrating aspects of trying such cases to juries is that they are poorly equipped to understand complicated patent issues. By contrast, in arbitration one can obtain expertise specifically tailored to one's case. For example, if the case involves infringement of a chemical patent, one can select a tribunal consisting of one arbitrator well versed in both patent law and arbitration principles, another who is an expert in the particular area of chemistry involved, and a third who is a damages expert. Most arbitral institutions maintain specialized lists of IP arbitrators who have substantial experience in both patent law and arbitration, and there are many other sources from which the parties can choose arbitrators, such as the Silicon Valley Arbitration and Mediation Center (SVAMC), which maintains a list of leading technology neutrals located around the country.[10]

Speed, Efficiency and Cost. Traditionally, speed, efficiency, and cost were among the top reasons for choosing arbitration over litigation for any type of dispute. Due to the creeping importation of greater discovery into arbitrations, however, many users of arbitration have begun to question whether this is always the case. Nonetheless, several analyses indicate that arbitration still remains considerably speedier for patent cases. A 2015 Patent Litigation Study by PWC[11] indicates that the median time to trial for patent cases is about 2.4 years.[12] Then one has to add the time for appeal, inasmuch as PWC reports that appeals were lodged in 75% of the cases it analyzed.[13] The average time from the filing of an appeal to the issuance of a written decision by the Federal Circuit was ten months in 2015.[14] This results in a total time through appeal of approximately 3.2 years.

Perhaps more importantly, PWC reports that 52% of appealed cases were modified in some regard.[15] This means that a number of such cases will be sent back for a second trial, with all the delay and further expense that this involves.

According to AAA executives, the litigation time to final disposition contrasts with a median number of days from the filing of a claim in a large-case AAA arbitration to an award of 488 days. Given the fact that grounds for an appeal are quite limited in arbitrations, this is usually the end of the matter.

A 2013 study on dispute resolution in technology transactions by the World Intellectual Property Organization (WIPO)[16] reports a similar advantage in time to a hearing in international arbitration. WIPO surveyed 393 respondents from 62 countries.[17] Respondents indicated that they spent more time in court litigation than in arbitration and mediation. They estimated that court litigation in their home jurisdictions took an average of three years, whereas arbitration took on average slightly more than one year.[18]

If speed is particularly important in a given case, one can include specific time deadlines in the arbitration clause. One should be careful, however, not to make these deadlines mandatory. For example, if the arbitration clause provides that the hearing on the merits shall be held within six months from the date of the filing of the arbitration, and the arbitrator becomes sick and is unable to hold the hearings within the specified time period, one is exposed to an argument that any action taken by the arbitrator after the expiration of the six-month period is in excess of his authority and a nullity. It is better instead to draft a more general clause such as one that says "Time is of the essence, and the arbitrator shall use her best efforts to hold the hearing on the merits and issue her award within six months."

Not only are patent arbitrations typically speedier than patent litigation, they are also usually less costly. The 2015 American Intellectual Property Law Association (AIPLA) Economic Survey reports that the median litigation fees and costs through disposition are $6,341,000 when over $25 million is at risk and the median fees and costs just through the close of discovery are $3,794,000.[19] Similar statistics are not available for arbitral institutions, but it would be surprising if the fees were as much.

> *"Traditionally, speed, efficiency, and cost were among the top reasons for choosing arbitration over litigation for any type of dispute."*

Flexibility An additional advantage of arbitrating patent disputes is that the parties have the flexibility to craft the arbitration procedures as they see fit. They can agree on the precise amount and types of discovery; the time limits for presentation of the case, the format of the claim construction hearing, and when during the case it is held; and whether to permit summary judgment hearings and if so, when. They can also choose precisely what is to be decided; whether there is to be injunctive relief; and whether they want a reasoned award or a one-liner. If they want, they can require a draft decision for the parties' comments followed by the final decision expressly addressing the parties' comments, or they can require simply a finding of infringement and an award of damages.

In international cases there is often a practice of presenting each witness' testimony through written witness statements. If the parties agree on this and further agree that such statements shall be exchanged substantially in advance of the hearing on the merits, it can be an effective method of finding out what the other party will say without the need for other types of discovery.

The arbitrator(s) are the ultimate determiners of what discovery will be allowed and how the case will proceed, just as a judge is in a court case, but if the parties are in agreement as to what they want, and what they want is not unreasonable, it would be a rare arbitrator who will not give the parties what they have agreed to. After all, arbitration is a creature of contract, and in that sense it is the parties' process to craft as they see fit.

Privacy. Another advantage of arbitration is its privacy. In the author's experience arbitrations are also usually more civil than court cases. The informality of the proceedings, which typically take place in a conference room, does not encourage the kind of grandstanding that sometimes takes place in front of juries or in more public forums. This combination of privacy and civility is ideal for cases in which the parties have an ongoing relationship, such as patent licensor and licensee, and do not want their dispute to disrupt this relationship.

Privacy, however, should not be confused with confidentiality. Whether an arbitration is deemed confidential, in the absence of an express agreement of confidentiality entered into by the parties, depends on the law of the arbitral forum as well as the arbitral rules adopted. For example, under English law, there is an implied agreement of confidentiality, applicable even when the parties do not specify confidentiality in their agreement.[20] In the United States there is no such duty of confidentiality implied by the courts.

The rules of different arbitral institutions also vary as to whether arbitral proceedings are deemed confidential. Under the London Court of International Arbitration (LCIA) Rules, parties are prohibited from disclosing an award, or any materials created in the arbitration, or any documents produced in the arbitration, except as may be required by law.[21] Under the Singapore International Arbitration Centre (SIAC) Rules, parties are prohibited from revealing any aspect of the arbitration, including its existence, except as required by law.[22] In contrast, neither the AAA's Commercial Arbitration Rules, including the procedures for large, complex cases, nor its Supplementary Rules for the Resolution of Patent Disputes provide for the confidentiality of arbitral proceedings. Supplemental Patent Rule 3, however, provides for a preliminary hearing and lists as the first item on the agenda of items that may be considered at such a hearing "the execution of a confidentiality agreement if appropriate."[23]

Regardless of the arbitral forum or governing rules, at the outset of a patent arbitration proceeding, one should enter into a confidentiality agreement of the type used regularly in patent cases filed in court. Such agreements are often meticulously drafted to protect the parties' technology and other confidential information and can provide for various levels of confidentiality, including "attorneys'-eyes-only" review of particularly sensitive documents. This combination of privacy, augmented by an appropriate confidentiality agreement, is ideal for protecting the kind of sensitive information that is typically found in high-technology patent disputes, and in some cases it can protect even the existence of the dispute from the public.

There are some situations, however, in which a patentee may have to disclose the existence of the dispute. If the patentee has other related patent applications pending before the PTO, he or she may be required to disclose the existence of the arbitration once prior art asserted against him or her has been disclosed in the arbitration. In the United States, patent applicants are required to disclose all known matters material to patentability.[24] The Federal Circuit has held that the mere existence of ongoing litigation involving the defenses of invalidity or unenforceability is material to patentability.[25] It is doubtful that the term "litigation" in this context would exclude arbitration.

The previously noted provisions of 35 U.S.C. §§ 294 (d) and (e) also may prevent keeping the very existence of a patent arbitration from the public. Section 294(d) requires the patentee to give notice of an award to the Director of the Patent and Trademark Office (PTO), together with a copy of the award, and section 294(e) states that the award "shall be unenforceable" until notice is filed. There are ways, though, to minimize the effects of these provisions on confidentiality.

First, many awards are satisfied immediately by payment or agreement and never need to go to enforcement. If there is no need to enforce the award, the penalty provided by section 294(e) is no longer a concern, and the filing of the award under section 294(d) may be unnecessary. It is possible, though, that the failure to file the award might in some circumstances be used against the patentee in a later infringement suit alleging infringement of the same patent. One should investigate such a possibility in light of the particular facts of one's case before deciding to skip the filing of the award.

Second, even if a patentee decides to file a copy of the award, or needs to do so in order to enforce it, he or she can, through prior agreement, minimize the extent to which it reveals anything of significance. For example, if the patentee is concerned that an express finding of either validity or invalidity, as well the reasons for the finding, might educate other infringers or adversely affect his or her position in any later suits against other infringers, he or she can provide that the award shall not be a fully reasoned award but shall instead merely state whether the arbitrator finds infringement and, if so, the amount of the damages.

For the above reasons, arbitration of patent disputes does not provide perfect confidentiality in some circumstances, but in most cases it provides a substantial amount and certainly more than litigating a dispute publicly in open court.

Enforceability. Another of the advantages of arbitration, especially in international cases, is the ease of enforcement of arbitral awards. Many practitioners are not aware that the United States has no treaty with any other country that requires the other country to recognize and enforce judgments issued by courts in this country. As a matter of comity, foreign courts usually recognize such judgments, but there is no guarantee that this will happen, especially in certain Third World jurisdictions. By contrast, the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention")[26] has been signed by most countries and requires that the signatories to the convention recognize such awards except in very limited circumstances.[27] The 2013 WIPO survey noted above found that 52 percent of the respondents who entered into international arbitration agreements listed enforceability as a consideration in choosing arbitration.[28]

Neutrality. Another of arbitration's advantages that is particularly important in international cases is that it provides a neutral forum. For example, European lawyers have heard horror stories about the excesses of American-style discovery or enormous jury verdicts such as the $52 million verdict against McDonald's for spilling a hot cup of coffee in a customer's lap. For such reasons, they often are afraid to litigate here. Likewise, American lawyers know nothing about procedures in civil law countries, where the judge, not the lawyers, asks most of the questions, and they are leery of litigating in such jurisdictions. When nobody wants to play in the other party's home court, arbitration can provide a neutral forum that satisfies everyone.

Having a single, neutral forum can be particularly advantageous where the alleged infringement takes place in multiple countries. In such cases, the patentee often will have to file a separate suit in each of the countries in which infringement is alleged to have taken place, and the alleged infringer will have to defend in each such jurisdiction. This is an enormously expensive process for both parties and involves much duplication of effort. If the parties instead agree to arbitrate all of the infringement claims in a single, neutral arbitral forum, it can save a substantial amount of expense and eliminate much of the duplication.

Enforcement of any award also may be easy if the losing party has sufficient assets within the jurisdiction where the arbitration is located. If, however, the winning party has to take the award to the losing party's home jurisdiction to enforce the award, and that jurisdiction does not permit the arbitration of patent suits, the winning party could have difficulty. This is because one of the few grounds in the New York Convention for refusing recognition and enforcing of an arbitral award is if the competent authority in the jurisdiction where enforcement is sought finds that "[t]he subject of the difference is not capable of settlement by arbitration under the law of that country." Therefore, it behooves counsel to determine where the opposing party's assets are and what the enforcement prospects are like in the opposing party's country before instituting an international patent infringement arbitration.

B. Cons

Limited Discovery. One of the supposed negative aspects of arbitration is the inability to obtain the same discovery that can be obtained in U.S. courts. It is true that the degree of discovery may not be as broad and precisely defined as provided for in the Federal Rules of Civil Procedure, but experienced arbitrators will see to it that each party can obtain sufficient information from the other side to allow them to adequately prepare their cases. For years, international arbitration has been a widely used mechanism to resolve major international disputes. Such disputes often involve damages claims in the hundreds of millions of dollars. Parties would not continue to use international arbitration for such major disputes if they did not feel it afforded them sufficient due process.

For example, patent disputes in the United States that are administered by the AAA are governed by its Supplementary Rules for the Resolution of Patent Disputes ("Supplementary Rules"), together with its Commercial Arbitration Rules and Mediation Procedures ("Commercial Rules"), unless the parties agree otherwise.[29]

Rule 22 of the Commercial Rules[30] governs the prehearing exchange and production of documents and, among other things, provides that the arbitrator may require (1) the early exchange of documents on which each party intends to rely;[31] (2) the parties, in response to reasonable document requests, to make available documents which are relevant and material to the outcome of disputed issues;[32] and (3) the production of documents maintained in electronic form. Rule 22 further provides that if the parties cannot agree on search parameters for electronically stored documents, the arbitrator may determine reasonable search parameters in order to balance the need for production of electronically stored documents relevant and material to the outcome of disputed issues against the cost of locating and producing them.[33]

Rule 3 of the Supplementary Rules provides for a preliminary hearing and sets forth an extensive but non-exclusive list of matters that may be considered at the preliminary hearing.[34] The list includes the execution of a confidentiality agreement and the content of initial disclosures. The initial disclosures include infringement contentions and invalidity contentions that are substantially the same as those found in the local patent rules of major patent jurisdictions in the United States, such as the Northern District of California and the Eastern District of Texas.

For example, the infringement contentions require disclosure of: the claims of each patent that are allegedly infringed; the identity of each product, process, or item that allegedly infringes the patent (the "Accused Instrumentality"); whether each element of each asserted claim is claimed to be literally present or present under the

Doctrine of Equivalents in the Accused Instrumentality; a copy of the file history for each patent in dispute; and a chart identifying specifically where each element of each asserted claim is found within each Accused Instrumentality, including, for each element that such party contends is governed by 35 U.S.C. § 112(6), the identify of the structure(s), act(s), or material(s) in the Accused Instrumentality that performs the claimed function.[35]

The party claiming infringement is also required to produce (1) all documents that show any discussions or disclosures of the claimed invention to any third parties or the sale or attempted sale of the claimed invention prior to the filing of the applications(s) for the patent(s) at issue and (2) all documents relating to the conception and reduction to practice of the claimed invention(s) that were created prior to the application(s) for the patent(s) at issue.[36]

The invalidity contentions filed by the party opposing patent infringement and the documents accompanying such contentions are equally as extensive,[37] and, as noted, are substantially the same as the invalidity contentions that local patent rules require in many jurisdictions.

In addition to infringement and invalidity contentions, the non-exclusive list of items that may be covered at the preliminary conference include, to name just a few, a date and procedure for a reasonably prompt claim construction hearing;[38] the exchange of proposed claim constructions;[39] the identification and availability of witnesses, including experts and their biographies and expected testimony as may be appropriate;[40] and the exchange of expert reports.[41]

It is apparent from the foregoing discussion of just a few of the non-limiting list of items that the Supplementary Rules provide may be considered at the initial prehearing conference that one will receive enough discovery to adequately prepare one's case. Even if an arbitral institution that does not have separate patent rules administers one's arbitration, one can expect a seasoned arbitrator to consider the same types of items at a preliminary conference and provide for similar discovery.

The one area in which discovery in arbitration is different from that in courts is the use of depositions. In international arbitrations it is unusual for there to be depositions.[42] Even in international arbitrations, however, if both parties agree to certain depositions, and the deponents are willing to appear voluntarily, such depositions, if not unreasonable, usually will be permitted. The same is true in domestic arbitrations.

A problem, however, arises when a deponent is not willing to appear without a subpoena. Section 7 of the FAA[43] gives an arbitrator the power to issue subpoenas for persons to appear before him and to bring documents in appropriate cases. But the Second Circuit, the law of which governs arbitrations located in New York, has held that this power does not include the power to compel persons to appear for pre-hearing depositions. It only authorizes the arbitrator to compel persons to appear before him.[44] There is a way around this restriction, however, in cases where it is critical to obtain documents from third parties or testimony from some person in advance of the main hearing on the merits. The arbitrator, or one member of a tribunal, can hold a separate hearing that is deemed part of the hearing on the merits but separate from the main hearing and can subpoena the person whose testimony is needed, or the third party whose documents are needed, to appear before him and bring documents.[45] If the third party is located in another jurisdiction, the hearing will have to be held near the third party in order to be reasonable and avoid any motion to quash.

In sum, discovery may not be as liberal in arbitration as in litigation, but it typically is enough to provide the parties with all the information they need to adequately prepare their cases.

No Rules of Evidence. Many American litigators are reluctant to arbitrate because they are familiar with the Federal Rules of Evidence and are uncomfortable with a proceeding in which elements of admissibility are not so precisely defined. However, the manner of presenting evidence in large, complex arbitrations such as patent disputes is not dramatically different from that in court. In international cases the parties may adopt the IBA Rules on the Taking of Evidence in International Arbitration[46] or look to them as guidelines. Even if not adopted, the procedures they list are similar to those often used in large arbitrations.

A quick look at a few of the IBA Rules demonstrates that they provide an orderly and fair process. Article 4 deals with fact witnesses and provides that the tribunal may order each party to provide written witness statements in advance of the hearing for all witnesses on whose testimony the party intends to rely. These usually serve as the witness' direct testimony, but the witness will need to attend the hearing and be subject to cross-examination. More specifically, Article 4(7) states that if a witness whose appearance has been requested pursuant to Article 8.1 fails without a valid reason to attend the hearing, the tribunal "shall disregard any Witness Statement related to that Evidentiary Hearing by that witness, unless, in exceptional circumstances, the Arbitral Tribunal decides otherwise." Thus, there is usually assurance that any witness whose statement or affidavit is submitted will be available for cross-examination.

Article 8.1 provides that each party shall inform the tribunal of "the witnesses whose appearance it requests" and that each such witness shall appear at the hearing, subject to the tribunal's power under Article 8.2 to exclude testimony that, among other things is "irrelevant, immaterial, [or] unreasonably burdensome." Article 8.2 further states: "Questions to a witness during direct and re-direct testimony may not be unreasonably leading." Article 8.3 then provides for an orderly procedure of direct, cross, and re-direct examination and for the orderly presentation of expert testimony.

Finally, Article 9(2) provides that the tribunal, at the request of a party or on its own motion, may exclude from evidence any testimony or document that, among other things, lacks "sufficient relevance to the case or materiality to its outcome"; violates a legal "privilege"; creates an "unreasonable burden to produce the evidence"; or is subject to a claim of "commercial or technical confidentiality that the Arbitral Tribunal determines to be compelling" or on such grounds of procedural economy, proportionality, [or] fairness… that the Arbitral Tribunal determines to be compelling."

It is apparent from the above that a tribunal is empowered to run a tight and structured hearing. Although some items may be admitted that would not be in a court, such as hearsay, experienced arbitrators find testimony based on personal knowledge much more persuasive and may give little or no weight to such hearsay. Also, in the United States there is sometimes a tendency to err on the side of allowing items into evidence at an arbitration because one of the few grounds on which an arbitrator can be reversed is where the arbitrator is found "guilty of misconduct…in refusing to hear evidence pertinent and material to the controversy.[47] But, again, although experienced arbitrators might sometimes admit marginal testimony, they usually give it little or no weight.

Limited Rights of Appeal. One legitimate concern about arbitration is the lack of an appeal that reviews the award for errors of law and fact. As noted above, the grounds for appeal under the FAA are quite limited and do not include errors of law. If one is more interested in a rigorous review than in speed, efficacy and efficiency, this is a concern. One cannot avoid this problem by providing for a stricter standard of review in the arbitration clause because the U.S. Supreme Court has held that although arbitration is a creature of contract to be designed as the parties wish, the one thing they do not have power to change is the statutory language of the FAA, which mandates the precise degree of review permitted.[48]

Nonetheless, if one really wants a full review on the facts and the law, both the AAA and JAMS provide optional appellate procedures that permit an internal appeal to a panel of three arbitrators experienced in appellate matters.[49]

Danger of Splitting the Baby. Another concern with arbitration is a perception that there may be a tendency among arbitrators to split the baby. This may have been a legitimate concern in some types of arbitrations years ago, but in large complex arbitrations today, such as patent disputes, it is more a myth than a reality. A 2011 study by the AAA of all arbitral awards issued in the preceding year in all types of cases showed that its arbitrators made decisions largely in favor of one party or the other in over 90 percent of the cases.[50] More particularly, in 52.5 percent of the cases the arbitrators gave the claimant more than 80 percent of what it was asking. In only 5.34 percent of the cases did arbitrators render an award in the midrange of 41 to 60 percent of the amount sought.[51]

IV. Cases in Which Arbitration Is Attractive

Based on the foregoing analysis, arbitration of patent disputes might be most useful in cases where (1) the parties want to avoid a public dispute; (2) the parties have an ongoing business relationship; (3) the parties are roughly the same size; and (4) each can afford to lose the case.

V. Cases That Are Less Suitable for Arbitration

Patent arbitration may be less useful in cases where (1) one party wants to set a precedent to deter other parties; (2) one party is much larger than the other and would prefer "scorched earth" litigation tactics; (3) one party wants to drive the other out of business; (4) the case is too big to lose, and therefore the party wishes to preserve all possible procedural and appellate safeguards.

VI. Conclusion

Arbitration of patent cases should be considered more frequently than at present. In many cases the advantages of arbitration outweigh the supposed disadvantages, which disadvantages are often exaggerated. For the right type of case, arbitration can provide a better process than court litigation.

Endnotes

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6. 9 U.S.C. §10(a)(1).
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15. PWC, *supra* note 12, at 21.

16. WIPO, *Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions* (Mar. 2013).

17. *Id.* at 3.

18. *Id.* at 6.

19. AIPLA, *2015 Economic Report of the Survey* (June 2015).

20. M.A. Smith, *supra* note 3, at 316, citing L.Y. Fortier, *The Occasionally Unwarranted Assumption of Confidentiality*, 15 Arb. Int'l 131 (1999).

21. *See* Arbitration Rules, art. 30.1 (LCIA 2014).

22. *See* Arbitration Rules, Rule 35.2 (SIAC 2013).

23. Supplementary Rules for the Resolution of Patent Disputes, Rule 3 (AAA 2006).

24. *See* 37 C.F.R. § 1.56 (a), (e).

25. *See Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (1997).

26. United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, June 10, 1958).

27. *Id.* at art. V.

28. WIPO, *supra* note 16, at 5.

29. *See* Supplementary Rules, *supra* note 25, Rule 1.

30. *See* Commercial Arbitration Rules and Mediation Procedures, Rule 22 (AAA 2013).

31. *Id.*, Rule 22(b)(i).

32. *Id.*, Rule 22(b)(iii), (iv).

33. *Id.*, Rule 22(b)(iv).

34. *See* Supplementary Rules, *supra,* Rule 3.

35. *Id.*, Rule 3(c)(1).

36. *Id.*, Rule 3(c)(2).

37. *Id.*, Rule 3(c)((3) and (4).

38. *Id.*, Rule 3(g).

39. *Id.*, Rule 3(h).

40. *Id.*, Rule 3(l).

41. *Id.*, Rule 3(m).

42. International Dispute Resolution Procedures (ICDR, 2014), Art. 21(10).

43. 9 U.S.C. § 7.

44. *See Life Receivables Trust v. Syndicate 102 at Lloyd's of London*, 549 F.3d 210 (2d Cir. 2008).

45. *See id.* at 218.

46. IBA Rules on the Taking of Evidence in International Arbitration (IBA 2010).

47. 9 U.S.C. § 10(3).

48. *See Hall Street Associates, L.L.C. v. Mattel, Inc.*, 552 U.S. 576 (2008).

49. Optional Appellate Arbitration Rules (AAA 2013), available at www.adr.org; Optional Arbitration Appeal Procedures (JAMS 2003) available at www.jamsadr.org.

50. *Do AAA Arbitrators Split the Award*, undated article available at http://info.adr.org/not split/.

51. *Id.* at 1.

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Putting the Diligence in Intellectual Property Due Diligence: Cautionary Tales of Those Who Didn't

By Marc Lieberstein and Gwen Peterson

I. Introduction

Dockets throughout the country are replete with cautionary tales demonstrating the consequences of failing to perform sufficient intellectual property due diligence prior to deal consummation. As technology has developed exponentially in recent decades, the driving force behind many stock and asset transactions has become the target entity's intellectual property portfolio, which may consist of patents, copyrights, trademarks, trade secrets, and domain names. As such, the importance of conducting IP-specific due diligence has risen dramatically. Prudent buyers now must conduct the same level of due diligence to verify the ownership, condition, and status of intangible assets as previously was done with respect to tangible assets. Yet frequently, despite the enormous value of these IP assets, businesses continue to assume that IP rights will automatically transfer with the purchased assets or that general representations and warranties will protect them from IP issues that may arise down the road. However, as the cases discussed below illustrate, such assumptions and the failure to put the *diligence* in the IP due diligence process can have embarrassing and commercially disastrous consequences.

Before discussing the consequences, readers should understand that IP due diligence is the process of conducting an internal IP audit to help the acquiring entity identify and evaluate a target company's intangible assets and any associated risks. In the merger and acquisition context, the primary goal of the IP due diligence process is to ascertain whether the seller is capable of transferring the rights the purchaser desires and whether the transfer of such rights will allow the purchaser to meet its strategic goals without taking on unnecessary risks.

Although this article will not go into detail about the IP due diligence process, a few key points should be noted. First, regardless of the specific form of IP involved, the purchaser should obtain and study a schedule of all U.S. and international rights, including registrations and pending applications, that are owned by, licensed to, licensed by, or otherwise used by the seller. It is important to investigate whether these rights have been properly maintained, are currently in force, and could be effectively asserted if necessary. All agreements, licenses, and assignments relating to IP should be reviewed to determine their validity and scope. Another major IP due diligence component is to investigate any existing or threatened infringement claims brought by or against the seller and to analyze the potential risk of future conflict or infringement following the deal's consummation. In addition, the purchaser will want to identify any and all liens against, security interests in, or other encumbrances on any of the IP assets included in the transaction. Taking these due diligence obligations seriously from the beginning will help the purchaser avoid the many pitfalls waiting to ensnare the unwary.

II. The Consequences of Failing to Conduct Due Diligence

A. Trademark Acquisitions

At a minimum, a purchaser must ensure that all of the IP assets it desires or believes it is buying are actually included in the deal. The most famous and oft-cited example of a failure to perform proper IP due diligence in the trademark context occurred in 1998, when Volkswagen Group (VW) attempted to buy Rolls-Royce from Vickers PLC. Volkswagen outbid BMW, paying $712.7 million for the luxury automaker. Only after the deal closed, however, did VW discover that the Rolls-Royce trademarks, such as the name and famous flying lady logo, were not included in the sale. While VW received the rights to the factory, design, and equipment, it turned out that the extremely valuable Rolls-Royce trademarks were owned by Rolls-Royce PLC, the aircraft-engine manufacturer, not Rolls-Royce, Ltd., the auto company that VW had purchased. The aircraft company, which had close ties to BMW as a result of prior joint ventures, turned around and licensed the trademarks to BMW for $65 million. An embarrassed VW was forced to negotiate with BMW for assets it thought it had already bought, eventually reaching an agreement under which BMW licensed the trademarks to Volkswagen from 1998 to 2002. Thereafter, BMW took control of the Rolls-Royce name, and VW was forced to continue selling cars under the "Bentley" name only.[1]

Beyond guaranteeing that a target actually owns the IP assets, thorough due diligence requires further investigation to determine whether prior agreements might potentially limit the IP rights bought by the purchaser, i.e., to ensure that the rights acquired will actually allow the purchaser to use the purchased assets. Another trademark-related failure to conduct proper due diligence occurred in 1990, when the Clorox Company purchased the "Pine-Sol" business and trademark, among other assets, from American Cyanamid for $465 million. Clorox planned to leverage the strength of the Pine-Sol mark into other cleaning products that it produced. However, it turned out that Clorox purchased the Pine-Sol brand subject to a prior 1987 agreement between American Cyanamid and Sterling Winthrop, Inc., the owner of the "Lysol" brand. That prior agreement settled an earlier trademark dispute between the brands' owners and included detailed provisions regulating the way Pine-Sol products could be advertised and packaged and restricted the types of Pine-Sol products that could be sold. While Clorox attempted to integrate and diversify its new asset, in 1992 Sterling Winthrop successfully obtained a preliminary injunction against a television commercial for one of Clorox's Pine-Sol products that allegedly violated the advertising restriction in the 1987 agreement. Clorox then filed its own lawsuit, attempting to void the terms of the prior settlement agreement on antitrust grounds, but was unsuccessful.[2]

B. Patent Acquisitions

Assignments can complicate transactions involving IP assets and must be analyzed in detail to determine the true nature and extent of the assignee's rights, especially when agreements include the right to sue for infringement without any other rights accompanying the transfer. A cautionary tale occurred in 2004 in the case of *National Licensing Association, LLC v. Inland Joseph Fruit Company*. The plaintiff in the case was a "collective enforcement"-type entity specifically created for the commercial nursery industry. NLA had obtained via a limited assignment the right to sue for infringement of various plant patents and related trademarks—but none of the other associated IP rights. NLA brought an infringement action against growers in the United States, but the court granted the defendant's motion to dismiss based on a lack of standing. The court held that without the additional transfer of any proprietary interests in the patents and trademarks, NLA was at most a bare licensee with no authorization to sue for infringement. Further reasoning that such infringement actions most often implicate the validity and scope of an IP registration, the court stated that only "the patentee, the registrant, or one with a proprietary interest in the property—one who bears the risk of invalidity or restriction"—can serve as a proper plaintiff in an infringement suit. As a collective enforcement entity, NLA's entire intended purpose for existing was thus in vain.[3]

A key issue in evaluating the value of patents that are subject to an acquisition is determining their validity and scope. In this regard, the potentially disastrous consequences of failing to conduct proper IP due diligence were on display in *Digeo, Inc. v. Audible, Inc.* In 2002, Digeo, a communication technology company, purchased a patent covering pocket e-readers "as is" at a bankruptcy estate sale. Having failed to investigate the validity of the patent before buying it, Digeo later brought action against Audible for alleged patent infringement. During discovery, however, Digeo learned that its patent actually lacked legal title due to fraudulent conduct on the part of the inventors during execution of the declarations and assignment paperwork. As the holder of an unenforceable, and therefore worthless, patent, Digeo was forced to file a voluntary motion to dismiss the complaint with prejudice.[4]

On the flip side, Therakos, Inc., a subsidiary of Johnson & Johnson, was able to avoid a similar fate by engaging in thorough IP due diligence. In 2002, Therakos entered into preliminary investment negotiations with Immunocept, LLC, the assignee of a patent for medical technology that sought financial partners to proceed with clinical trials and commercialization. During the course of due diligence, however, Johnson & Johnson's patent attorneys discovered that the patent had been amended during prosecution to include the limiting phrase "consisting of" in a way that would likely be fatal for any potential infringement claim. Having protected itself through a diligent and thorough IP review, Therakos terminated the investment discussions and was able to avoid the fate suffered by Digeo. Immunocept, meanwhile, was left to file a legal malpractice claim against the prosecuting attorneys, which was later dismissed as barred by the statute of limitations.[5]

C. Copyright Acquisitions

When copyrights are involved in a transaction, particularly transactions covering software and other knowledge assets, proper IP due diligence requires reviewing the copyrights in detail and clarifying the scope and adequacy of any license agreements. Failure to do so resulted in exposure to potential copyright infringement liability for one software company in the 2007 case *Netbula, LLC v. BindView Development Corporation, et al.* As part of its proposed acquisition of BindView, Symantec discovered that software in BindView's product was possibly owned by Netbula. BindView had previously acquired a third-party company that, prior to its acquisition, had purchased one user development license from Netbula. However, BindView could not locate a Netbula license agreement in its records. BindView then contacted Netbula seeking to purchase the necessary additional licenses, but the parties were unable to reach a deal.

Despite Symantec's knowledge of the situation, the company went ahead with the acquisition of BindView, leading Netbula to file copyright infringement and other claims against both Symantec and BindView. The U.S. District Court for the Northern District of California granted summary judgment in favor of the defendants on the copyright claim because none of the parties was able to produce the original license agreement. Consequently, the plaintiff could not carry its burden to prove that the merger constituted an impermissible sale, transfer, or assignment or that the defendants had acted outside the scope of the agreement.[6] Perhaps Symantec's due diligence enabled it to assess the risks and ultimately escape infringement liability. But this muddled case shows that proper records of all IP transactions must be maintained, and any evidence that they have not been should be cause for concern and spark further investigation during the due diligence phase. Such due diligence could avoid needless litigation costs, not to mention the time and effort to untangle the mess created by a failure to investigate.

D. Open Source Software Acquisitions

Open source software can raise unique challenges for companies that distribute software or products containing software. Open source software is generally accessible to all, but license agreements may control or condition its use, distribution, and modification. It is crucial in any transaction involving software for a purchaser to audit and study the seller's usage of open source software. Failure to track such usage, or to ensure compliance with applicable licensing terms, could potentially subject a company's proprietary software to source code publication requirements. Such an unintentional consequence obviously could be catastrophic to the value of a business based on the proprietary nature of its software code. There are entities, such as the Free Software Foundation and the Software Freedom Law Center, that vigorously try to enforce the licenses governing open source software. These entities have filed lawsuits when they have reason to believe that a product is using open source software without disclosing the corresponding open source software source code. Examples of companies that have faced such lawsuits include Best Buy, Samsung, Verizon, and Cisco Systems. These lawsuits typically have settled before a court has forced a source code disclosure. Nevertheless, this is still a costly process that can and should be avoided with proper due diligence that includes a detailed analysis of any licenses that govern any open source software acquired in a transaction.[7]

E. Trade Secrets Issues

Purchasers also have found themselves exposed to liability in the context of trade secrets they acquire without investigating fully and diligently. Such was the case in the Seventh Circuit decision in *Forest Laboratories, Inc. v. Pillsbury Co.* There, Forest Labs had confidentially communicated a trade secret for packing sweetener tablets (so as to extend their shelf life) to another company. The assets of that company were later acquired by Pillsbury. Following this acquisition, a former employee of the other company who was then employed by Pillsbury communicated the secret to other Pillsbury employees along with the knowledge that the Forest trade secret had been received in confidence. Despite awareness that the packaging process was subject to confidentiality restraints, Pillsbury began using the trade secret process for its own tablet sweetener products.

Since Pillsbury had actual knowledge of the trade secret status of the process, the Seventh Circuit held that Pillsbury would be liable unless it had previously paid value for Forest's trade secret in good faith at the time it made the acquisition. The court noted a lack of evidence showing that Pillsbury paid anything of value specifically for the trade secret and held Pillsbury liable for misappropriation. The evidence showed that Pillsbury's purchase of the company's assets involved only the purchase of its packaging facilities as part of the existing marketing structure, which included Forest as supplier, not any specific expertise with a view toward independently exploiting that know-how for its intrinsic value. Had Pillsbury simply investigated the existence and status of its trade secret obligations when it acquired the assets of the company, it likely could have avoided the large judgment levied against it.[8]

F. IP Valuation

IP assets are financial assets and, as such, due diligence should include a detailed review of a company's projections and business model with respect to IP. Courts have proved to be particularly reluctant to grant a remedy to a purchaser that conducts this type of due diligence but then ignores or fails to further investigate uncovered red flags.

In 2000, HA-LO Industries, a manufacturer of promotional products such as coffee mugs bearing company logos, purchased Starbelly.com, Inc., an e-commerce startup, for $240 million. HA-LO believed Starbelly.com would complement and modernize its traditional sales force and sales methods. During the course of due diligence, however, HA-LO learned that Starbelly had never made a sale, was running through venture capital at the rate of $3 million per month, and had provided revenue projections related to its technology that were speculative and unrealistic. Despite the warning signs, HA-LO moved forward and completed the acquisition, then filed for bankruptcy one year later.

HA-LO later sued the investment banker it had hired to issue a fairness opinion, charging gross negligence. The courts were unreceptive to the claim: the Seventh Circuit affirmed the district court's finding that the investment banker had not been grossly negligent. The court noted that the investment banker was contractually obligated to rely on the start-up's projections, even though HA-LO, as the buyer, had knowledge that the projections were unrealistic. The Seventh Circuit characterized the suit as "nothing but an attempt to find a deep pocket to reimburse investors for the costs of managers' blunders."[9]

III. Conclusion

In transactions where the primary motivation may not be the acquisition of IP assets, many purchasers tend to underestimate the importance of conducting a thorough IP due diligence review. Some purchasers have learned the hard way that unidentified or unresolved IP issues can seriously compromise their position or the attractiveness of the transaction. In order to avoid the above-described consequences and to stay out of future articles like this one, it is imperative for any business engaging in a transaction that includes IP to take its due diligence obligations seriously. And once the due diligence has been conducted and the knowledge acquired, it is equally imperative for the purchaser to take the process a step further—to use the knowledge gained to the purchaser's advantage and not ignore it. Leveraging one's IP due diligence results can minimize the purchaser's risk or allow it to negotiate more favorable terms. This may take the form of deal term adjustments, a reduced purchase price, or the ability to construct seller representations and warranties that will limit the buyer's potential liability or cover losses. The lesson is clear: whatever the size, structure, and IP involvement of a proposed transaction, the time and money invested up front in proper IP due diligence should be considered more than worthwhile to avoid becoming a punchline in the business and legal communities.

Endnotes

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Second Circuit Weighs in on Nominative Fair Use, Certification Marks

By Jonathan Bloom and Jessica Falk

I. Introduction

Nominative fair use is the use of a trademark by a third party to invoke another's goods or services. This type of fair use enables resellers and distributors to advertise branded products or create comparative advertisements. For example, an auto body repair shop could use a car company's marks to indicate that it services the company's brands, or a competitor could run an advertisement indicating that its product was preferred to another brand in a study. So long as the use does not confuse consumers by falsely implying authorization, sponsorship, or endorsement by the trademark owner, the trademark owner cannot prevent such uses of their marks by third parties. By contrast, descriptive or "classic" fair use is a defense to trademark infringement where a third party is using someone else's mark (generally, a descriptive mark) to refer to *its own* goods or services. For example, the Fifth Circuit held that the use of the words "Fish Fry" to describe a defendant's batter mix was fair use even though plaintiff had a registration for the mark "FISH-FRI" for a corn flour product.[1]

The courts of appeals have adopted differing approaches to distinguishing a nominative fair use from an infringing use of another's mark. The Second Circuit recently diverged from its sister circuits by holding in *International Information Systems Security Certification Consortium, Inc. v. Security University, LLC*[2] that nominative fair use is neither an affirmative defense to trademark infringement nor exempt from likelihood-of-confusion analysis. Addressing the issue squarely for the first time, the court held that courts must consider the *Polaroid* likelihood-of-confusion factors as well as whether the use of the plaintiff's mark was necessary, limited, and accurate in determining whether a nominative or referential use was infringing. That is, the court held that nominative uses of third-party marks call for a modified likelihood-of-confusion analysis, with the burden of proof ultimately remaining with the plaintiff.

The court also clarified that confusion as to sponsorship, not just as to source, is a relevant type of consumer confusion under the Lanham Act, and it provided guidance as to the ways in which the use of a certification mark may be infringing.

II. Background

International Information Systems Security Certification Consortium, Inc. (ISC^2) is a non-profit organization that uses the registered certification mark CISSP® to indicate a "Certified Information Systems Security Professional" who has met certain requirements and standards for competency, including passing ISC2's certification exam.[3] A certification mark is a mark that, by definition, a person other than its owner uses in commerce and that certifies that the associated goods or services meet certain criteria.[4] Commercial groups such as trade associations often own these marks. Sondra Schneider, a CISSP®-certified individual, formed Security University (SU) to offer information security training, including a CISSP® certification examination training course. ISC2 objected to certain SU advertisements that it believed were misleading as to the CISSP® certification of one of SU's instructors, Clement Dupuis. The statements at issue included "MASTER THE 10 CISSP DOMAINS with the Master CISSP® Clement Dupuis."; "REGISTER NOW to Master the CISSP® Certification with Master CISSP® Instructor Clement Dupuis of www.ccure.org!"; and "Register for CISSP® Prep class with Master CISSP Clement Dupuis today[.]"[5]

III. District Court Proceedings

ISC^2 sued SU in the District of Connecticut, alleging that SU's use of the CISSP® mark violated the Lanham Act and constituted trademark infringement, false designation of origin and false advertising, and trademark dilution, as well as a violation of the Connecticut Unfair Trade Practices Act ("CUTPA").[6] ISC^2 argued that the use of "Master" in connection with its mark would confuse the public into believing that the CISSP® course was "capable of being 'mastered'" and that SU's courses "originate with or are sponsored or otherwise approved by" ISC^2.[7]

On cross-motions for summary judgment, Judge Michael P. Shea found that SU's use of the CISSP® mark was permissible under the doctrine of nominative fair use and that the CISSP® was not famous for the purposes of trademark dilution.[8] With respect to nominative fair use, the court held that when a defendant asserts nominative fair use, the nominative fair use analysis "supplants the likelihood of confusion inquiry,"[9] and it applied the Ninth Circuit's three-part nominative fair use test from *New Kids on the Block v. News Am. Publ'g, Inc.*:

> [1] the product or service in question must be one not readily identifiable without use of the trademark; [2] only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and [3] the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.[10]

The court concluded that SU's use met the *New Kids* test because it was the only way to describe the certification; it only used what was "reasonably necessary"; and nothing suggested that ISC² was offering the classes.[11] The court also held that trademark laws are concerned with whether consumers will be confused "as to the *source* of the goods in question," and because certification marks are "intended to signal a quality-related characteristic . . . rather than source or origin," and because persons other than their owners use them, it would be unlikely for use of a certification mark *not* to constitute nominative fair use.[12]

Accordingly, the court granted SU summary judgment as to the trademark infringement claim and the false advertising and false designation of origin claims and dismissed the CUTPA claim as derivative of the Lanham Act claims.[13]

IV. The Second Circuit Decision

In an opinion by Judge Rosemary S. Pooler, the Second Circuit reversed, finding that the district court erred in three respects: (1) by focusing solely on source confusion; (2) by taking too narrow a view of certification mark infringement; and (3) by incorrectly analyzing consumer confusion in the context of a claimed nominative fair use.

With respect to the first issue—what constitutes actionable confusion—the court rejected the district court's view that source confusion was the only type of confusion relevant to ISC²'s infringement claims.[14] The panel held that the Lanham Act protects against numerous types of confusion, including confusion as to affiliation or sponsorship.[15] The court also held that the Lanham Act prohibits use of a mark that is "likely to cause confusion, or to cause mistake, or to deceive" without reference to any particular type of confusion, and the legislative history indicates a desire to "broaden liability from the prior statutory requirement that confusion, mistake, or deception applied only with respect to purchasers as to the source of origin of such goods or services."[16] Hence, a consumer need not believe that the mark owner produced the item or provided the services; confusion can be found where consumers believe the mark owner is affiliated with or endorsed, sponsored, or otherwise approved of the use of the mark.[17] This confusion can occur if the mark is misused even if it accurately designates the source of the goods.[18]

The Second Circuit also faulted the district court for taking too narrow a view of infringement of certification marks.[19] As the district court recognized, certification marks may be infringed in several ways, such as by use of the mark on a resume by someone not certified by the organization; by use on goods that have not been certified; and by use by a competing certifier of a confusingly similar certification mark.[20] However, the Second Circuit stressed that even those who have met the certification requirements may infringe a certification mark so long as "an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question," or there is confusion "as to plaintiff's sponsorship or endorsement of the junior mark."[21] The court noted that SU's use of the terms "CISSP Master" and "Master CISSP" could infringe ISC² marks by leading customers to believe that ISC² has introduced a new master line of certifications.[22]

Finally, the court addressed how consumer confusion should be analyzed in the nominative fair use context, and in doing so it articulated a different approach from that adopted by other circuits. As noted, the Ninth Circuit uses a three-factor test but does not treat nominative fair use as an affirmative defense; instead, it employs the *New Kids* test in lieu of traditional likelihood-of-confusion analysis.[23] By contrast, the Third Circuit considers nominative fair use an affirmative defense and requires a showing

> (1) that the use of plaintiff's mark is necessary to describe both the plaintiff's product or service and the defendant's product or service; (2) that the defendant uses only so much of the plaintiff's mark as is necessary to describe plaintiff's product; and (3) that the defendant's conduct or language reflect the true and accurate relationship between plaintiff and defendant's products or services.[24]

Prior to *Security University*, the Second Circuit had not adopted either framework, although district courts in the circuit frequently had applied the Ninth Circuit's analysis.[25] In *Security University* the Second Circuit rejected the Third Circuit's treatment of nominative fair use as an affirmative defense, noting that the Lanham Act lists a number of affirmative defenses to trademark infringement, and nominative fair use is not among them.[26] The court then considered whether to adopt a nominative fair use test either to supplement or to replace its multi-factor *Polaroid* likelihood-of-confusion test.[27] The court concluded that the *Polaroid* test remains applicable, but it found that the Ninth Circuit's and Third Circuit's nominative fair use factors were useful tools for analyzing consumer confusion in the context of a referential use, as to which it noted that several of the *Polaroid* factors are "a bad fit."[28] The court thus held that, while none of the factors, standing alone, was dispositive,

> [w]hen considering a likelihood of confusion in nominative fair use cases, *in addition to* discussing each of the *Polaroid* factors, courts are to consider: (1) whether the use of the plaintiff's mark is necessary to describe both the plaintiff's product or service and the defendant's

> product or service, that is, whether the product or service is not readily identifiable without use of the mark; (2) whether the defendant uses only so much of the plaintiff's mark as is necessary to identify the product or service; and (3) whether the defendant did anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the plaintiff holder, that is, whether the defendant's conduct or language reflects the true or accurate relationship between plaintiff's and defendant's products or services.[29]

"Nominative or referential uses of marks raise distinct issues in terms of likelihood-of-confusion analysis."

V. Discussion

Security University creates another branch in a now three-part circuit split over the proper analytical framework for nominative fair use. The result was somewhat unexpected because the Ninth Circuit's decades-old analysis had become widely accepted as a nominative fair use standard, with many courts adopting its three-prong *New Kids* test in lieu of the traditional likelihood-of-confusion analysis.[30] The Second Circuit had referenced but never expressly adopted the Ninth Circuit standard.[31]

Nominative or referential uses of marks raise distinct issues in terms of likelihood-of-confusion analysis. As the Fourth Circuit explained in *Rosetta Stone Ltd. v. Google, Inc.*:

> Unlike the typical infringement fact pattern wherein the defendant "pass[es] off another's mark as its own" and "confus[es] the public as to precisely whose goods are being sold," *id.*, a nominative use is one in which the defendant uses the plaintiff's trademark to identify the plaintiff's own goods, *see Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir. 2010), and "makes it clear to consumers that the plaintiff, not the defendant, is the source of the trademarked product or service," *Century 21*, 425 F.3d at 220; *see Tiffany*, 600 F.3d at 102 (explaining that a "nominative fair use" does not create "confusion about the source of [the] defendant's product" (internal quotation marks omitted)).[32]

The court continued:

> In the context of a referential or nominative type of use, the application of the traditional multi-factor test is difficult because often many of the factors "are either unworkable or not suited or helpful as indicators of confusion in this context." [citations omitted]. For example, . . . the similarity of the marks and the strength of the plaintiff's mark . . . are clearly of limited value for assessing the kind of use at issue here. Consideration of the similarity of the marks will *always* suggest the presence of consumer confusion—the mark used will always be *identical* "because, by definition, nominative use involves the use of *another's* trademark in order to describe the trademark owner's *own* product." [citation omitted]. . . . The strength of the plaintiff's mark is also of limited probative value as to the confusion created by a nominative use . . . . [I]n the nominative use context, the defendant is not passing off its products under the plaintiff's mark but rather is using plaintiff's mark to refer to plaintiff's own products. The strength of the mark is often not informative as to confusion in this context.[33]

Given these differences, the Fourth Circuit held that it was not reversible error for the district court not to have addressed each of that circuit's likelihood-of-confusion factors, but it cautioned that the reasons for skipping certain factors must be articulated. Notably, the court stated that it was "not adopting a position about the viability of the nominative fair-use doctrine as a defense to trademark infringement or whether this doctrine should formally alter our likelihood-of-confusion test in some way."[34]

In *Security University*, rather than approving a truncated likelihood-of-confusion test, as in *Rosetta Stone*, the Second Circuit announced an expanded one, although without suggesting that all of the *Polaroid* factors would necessarily be probative. The court identified three additional nominative fair use factors similar those comprising the *New Kids* test: (1) whether the use is "necessary" to describe the plaintiff's product or service and the defendant's product or service because the product or service "is not readily identifiable without use of the mark"[35]; (2) whether the defendant uses only so much of the plaintiff's mark as is necessary;[36] and (3) whether the relationship between defendant and the trademark owner is "true or accurate."[37] These additional factors add to the plaintiff's burden and thus arguably make a finding of liability harder to obtain with respect to a referential use, which is appropriate in view of the range of legitimate referential uses that otherwise would be vulnerable to overly aggressive trademark owners.

In courts applying either the Ninth Circuit or the Second Circuit standards, once the defendant demonstrates that use of the mark only refers to the plaintiff's trademarked goods or services, the burden then reverts to the plaintiff to demonstrate a likelihood of confusion.[38] Thus, the defendant still will be liable if its use is shown to be likely to cause confusion. By contrast, courts following the Third Circuit's analysis will hold that the defendant's nominative fair use defense defeats a showing of likely confusion.

VI. Conclusion

The Second Circuit's interpretation of nominative fair use sets up a three-way circuit split as to the proper application of the doctrine. The Second Circuit's analysis, which accounts for nominative use within the likelihood-of-confusion test, appears consistent with the plain language of the Lanham Act, which does not identify nominative fair use as an affirmative defense. In the meantime, for cases in the Second Circuit, *Security University* establishes an analytic framework that diverges from both the Ninth and Third Circuits by adding additional factors to the *Polaroid* test designed to capture considerations unique to nominative uses of third-party marks.

In addition, the *Security University* court clarified that confusion as to source is not the exclusive form of actionable consumer confusion under the Lanham Act, as, for example, a misleading use of a certification mark can be infringing even where the source of the goods is clear.

Endnotes

1. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 796 (5th Cir. 1983).
2. *Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC*, No. 14-3456-cv, 2016 WL 2893172, at *1 (2d Cir. May 18, 2016).
3. *Id.*
4. 15 U.S.C. § 1127.
5. 2016 WL 2893172, at *2.
6. *Id.* at *3.
7. *Id.*
8. *Id.*
9. *Id.*
10. 971 F.2d 302, 308 (9th Cir. 1992).
11. *Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC*, No. 3:10-CV-01238 MPS, 2014 WL 3891287, at *5 (D. Conn. Aug. 7, 2014).
12. *Id.*
13. *Id.* at *8-9.
14. *Id.* at *6.
15. *Id.*
16. *Id.*
17. *Id.* at *6-7 (citing *Weight Watchers Int'l, Inc. v. Luigino's Inc.*, 423 F.3d 137, (2d Cir. 2005) (finding a likelihood of endorsement confusion where defendant used brand owner's trademarks without authorization on its packaging)); *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76, 79 (2d Cir. 1981) (finding likelihood of sponsorship confusion where defendant marketed unauthorized toys spun-off from a television series)).
18. *Id.* at *7 (citing *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 73 (2d Cir. 1987) (holding that the unauthorized importation of Cabbage Patch dolls bearing the Cabbage Patch trademark manufactured by a licensee in Spain into the United States caused confusion where the Spanish dolls were materially different from the American dolls)).
19. *Id.* at *8.
20. *Id.*
21. *Id.* at *9.
22. *Id.*
23. *Id.* at *11 (citing *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1150-51 (9th Cir. 2002)).
24. *Id.* (quoting *Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 222 (3d Cir. 2005)).
25. *Id.*
26. *Id.* at *12 (quoting 15 U.S.C. § 1115(b)(4)).
27. *Id.* at *13. The *Polaroid* factors are: (1) strength of the trademark; (2) similarity of the marks; (3) proximity of the products and their competiveness; (4) evidence that the senior user may "bridge the gap" by developing a product for sale in alleged infringer's market; (5) evidence of actual consumer confusion; (6) evidence that the imitative mark was adopted in bad faith; (7) respective quality of the products; and (8) sophistication of consumers in the relevant market.
28. *Id.* at *12.
29. *Id.*
30. *See, e.g.*, *Univ. Commc'n Sys., Inc. v. Lycos, Inc.*, 478 F.3d 413, 424 (1st Cir.2007); *Chambers v. Time Warner, Inc.*, 282 F.3d 147, 156 (2d Cir. 2002); *Ninth Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 547 (5th Cir.1998).
31. *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir. 2010); *Chambers v. Time Warner, Inc.*, 282 F.3d 147, 156 (2d Cir. 2002).
32. *Rosetta Stone Ltd. v. Google, Inc.* 676 F.3d 144, 154 (4th Cir. 2012).
33. *Id.* at 154-55.
34. *Id.* at 155.
35. 2016 WL 2893172, at *13.
36. *Id.*
37. *Id.*
38. *Id.* at *12.

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Section Activities

On June 8, 2016, the Section hosted its **14th Annual Women in Intellectual Property Law** program. The event was hosted by Kramer Levin Naftalis & Frankel LLP. A perennial favorite among annual Section programs, the event was well attended by women attorneys practicing in New York, with a good mix of both private practice lawyers and in-house counsel. A wonderful networking opportunity, the evening began, as it always does, with an hour-long wine and hors d'oeuvres reception. Attorneys practicing in intellectual property took the opportunity to reconnect with friends in the field and share career stories with new acquaintances.

The official program began with a welcome message from Erica Klein, Section Chair, delivered via video, as she was travelling overseas for business. Then, before introducing the distinguished panel, Program Chair Joyce Creidy announced a list of recent achievements of several of the program's attendees, which she had solicited from the audience members prior to the event. Joyce reminded the audience of the importance of taking time to celebrate individual achievements, both one's own and the achievements of fellow friends and colleagues.

Panelists Gaby L. Longsworth, Ph.D. (Sterne Kessler Goldstein Fox), Patrice P. Jean (Hughes Hubbard & Reed LLP), Chehrazade Chemcham (Colgate-Palmolive Company), and Stacey Abiraj (HBO) took turns sharing the narratives of their careers, how they got to where they are now, the struggles along the way, and the perseverance and wisdom that brought them each success in their professional as well as personal lives. The panelists came from diverse backgrounds and faced varied challenges on the way to achieving personal and professional successes. As has become a tradition at this event, the panelists offered inspiration to the audience to reach higher and press forward toward their goals.

Ms. Jean reminded the audience to keep an open mind and not to ever be afraid, as opportunities are everywhere and may well come from unlikely places. Work hard and give your all, but don't forget to take time to reassess your life often. Networking is essential, Ms. Jean reminded us—doing it at work can lead to a promotion, and doing it outside of the office can lead to any number of new opportunities. Most of all, she advised, always help others.

Ms. Chemcham urged those in attendance to define success by their own standards, not to let others define it for you. There may come a time in your life when you need to step back from work and focus on other aspects of your life. Do not fear readjusting your priorities to address these life challenges, she counseled.

Ms. Abiraj advised the attorneys to actively seek balance in their lives because it will not occur otherwise. Take chances and go with your instincts; they will lead you to new and exciting challenges.

Dr. Longsworth advocated tenacity and ambition in pursuit of goals but also cautioned to never forget that relationships are the key to success. Face-to-face interactions are a must in a law firm and in most professional settings. Meet people in your office, talk to people you would not normally interact with in your daily routine, and be visible. Above all, Dr. Longsworth advised, know what you want or you'll never get there.

Ms. Creidy closed out the panel discussion addressing the group with what has become this year's theme: "If you want to go fast, go alone. If you want to go far, go together."

The program concluded with coffee and desserts sponsored by Thomson CompuMark and with the annual raffle of a generous assortment of gifts provided courtesy of Brooks Brothers, Coach, Henry Bendel, L'Oreal, Coty, Revlon, Physique 57, Colgate-Palmolive Company, Singer, Soul Cycle, and NOMI Network.

Lindsey Utrata
Baker & McKenzie LLP

Welcome New Members

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Jacob Baldinger
Adam Blaier
Eric Edwin Bensen
Melanie L. Brown
David C. Buxbaum
Daniel Ryan Cohl
David Collins
Angela Colt
Madeleine Zarya Cynader
Nathan C. Dee
V. Rita Dorgan
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MEMBERSHIP APPLICATION

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Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
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OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual Winter event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section sponsors continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. Now, with Mandatory Continuing Legal Education (MCLE) requirements, Intellectual Property Law Section membership is more valuable than ever before! The Section also sponsors joint programs with Law Schools including an annual writing contest for law students wherein the winning articles appear in an issue of *Bright Ideas*.

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Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Copyright Law; Diversity Initiative; Ethics; Greentech; International IP Law; Internet & Technology Law; Legislative/Amicus; Litigation; Patent Law; Pro Bono and Public Interest; Trademark Law; Trade Secrets; Transactional Law; and Young Lawyers.

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A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 37 to become a member of the Intellectual Property Law Section

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Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 38 of this issue.

___ Advertising Law (IPS3000)
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* * *

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❒ As a member of the NYSBA, I enclose my payment of $30 for Intellectual Property Law Section dues. (Law student rate: $15)

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Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Winter 2016 issue must be received by October 1, 2016.

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