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Inside

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Message from the Chair

It's hard to believe that the third quarter has begun and that the end of the year is near. Most recently we held our annual Member Appreciation Social Event at the Kimberly Hotel in midtown Manhattan. What started as a yearly gathering for the Executive Committee has become an annual event for the entire membership to meet, greet, drink and eat. The event has grown each year and this year we had over 50 people, some old, some new and a number of people interested in becoming active in the Section. We are always looking for new faces to lend a hand and become involved. Thank you to our Program Chair Joy Echer and the entire committee for a successful event.

As I write this message, we are in the final stages of planning for our 5th Corporate Counsel Institute, to be held in Manhattan on November 22nd. It promises to be another informative, insightful and enjoyable event geared specifically to in-house counsel and those that support them. Many thanks to our Co-Chairs Steve Nachimson and Anne Atkinson and the entire committee. While you will have to wait almost another year for an event like this, we have a number of other programs planned for the spring and look forward to having you join us then.

Some of you may know that the Corporate Counsel Section has a Linkedin group. All members of the Section are welcome to join the group. It's a good way to connect with our members. Please take a moment to join and visit us once in a while to join the discussion or start one of your own. Please also watch for the launch of our new NYSBA Community on the website.

Inside

Inside *Inside* 3
(Allison B. Tomlinson)

What's New in Intellectual Property Law

When Your Art Becomes My Art 4
(Alan Behr)

Improving the Use of Mediation in Patent—and Other—Cases 7
(Harrie Samaras and Kathy Bryan)

Intellectual Property Litigation: Managing Outside Counsel Costs 11
(Gaston Kroub)

Already and *Kirtsaeng*: Lessons for Prospective Intellectual Property Enforcement 13
(Theodore K. Cheng)

Brazil's Accession to the Madrid Protocol 18
(José Ricardo de Bastos Martins and Felipe Chiavone Bueno)

A Brief Overview of ICANN and How It Impacts Trademark Owners 19
(Dennis Prahl)

The New Post-Grant Review of Patents 22
(Gerard F. Diebner)

The Evolution of the Brazilian Legal Framework in View of Major Entertainment and Sporting Events 25
(Fábio Pereira and Richard Sobkiewicz)

Litigation in Brazil—The Difficulties and Alternatives 27
(Octávio Aronis)

What's New

Corporate Counsel Section 2013 Member Appreciation Event 29

Editors: Janice Handler and Allison B. Tomlinson

NYSBA

Our Inside Committee, responsible for editing this journal, is looking for volunteers. Whether you can write, edit or solicit articles, we can use your help. Please join the committee if you would like to help.

Thank you to all of those who helped me in my year as Chair. With your assistance we got a good start on welcoming new people into the leadership of the Section. I look forward to staying involved and to continuing to ensure the growth and vitality of our Section. Many thanks to our Section Liaison, Pat Johnson, who kept me on track and without whose help our Section could not function.

With new year upon us it's time again for the NYSBA Annual Meeting. Welcome to those of you in attendance. Please be sure to stop in and see us on Wednesday, January 29 at 8:30 a.m. for our Section meeting and to congratulate our incoming Chair, Tom Reed.

Best Regards,

Howard

Inside Inside

We are so excited to bring you the final edition of the *Inside* newsletter for 2013. In this edition, we're focusing on what's new in Intellectual Property law that would be of interest to in-house counsel. We've also inserted a couple of focused pieces on some new developments in Brazilian law, which has become a hot country to focus on for corporations expanding their footprint in Latin America. Last, we've included some fun photos from our October Annual Member Appreciation Event.

As always, if you would like to contribute an article to upcoming issues of *Inside*, please feel free to contact us directly. Our contact information is at the back of this newsletter.

We wish you happy holidays and a terrific, safe New Year!

Allison B. Tomlinson

Allison B. Tomlinson is Regional Counsel at Gensler, a global architecture and design firm, where her region includes the Northeast of the United States, Ontario, and Latin America. She is a member of the Executive Committee of the New York State Bar Association's Corporate Counsel Section and the International Section, where she co-chairs the Corporate Counsel Committee.

When Your Art Becomes My Art

By Alan Behr

If there are lessons to be learned from the important and potentially playbook-altering decision by the Second Circuit in its recent decision in *Cariou v. Prince*,[1] they would be:

1. As changes in the law follow changes in morality, someone has to lose.
2. Facts are open to interpretation, even on appeal.
3. Fame and fortune matter.
4. Art criticism is easier than it looks.

To backtrack a bit: for about six years, the photographer Patrick Cariou lived among Rastafarians in Jamaica, and in the year 2000, he published a book of photographs from that experience under the title *Yes Rasta*. In 2005, the appropriation artist Richard Prince saw a copy of *Yes Rasta* in a bookstore on the French Caribbean island of Saint Barthélemy. Two years later, Prince had an art show at the island's Eden Rock hotel.[2] Included among the exhibits was *Canal Zone* (2007), which consisted of thirty-five of Cariou's photographs torn from his book and variously cropped and painted over, the results pinned to plywood board. Prince continued to use photographs from the Cariou book for a *Canal Zone* series of what the district court called the "Paintings." The works clearly incorporated Cariou's photographs, altered and combined to varying degrees with photographs by others, including erotic female nudes; Prince added dollops of paint to obscure facial features.

Prince had already made a name for himself from so "appropriating" the works of other photographers without asking permission, most famously when he photographically duplicated and then displayed whole a photograph taken by Garry Gross of the prepubescent, nude Brooke Shields as she stood in a bathtub in full make up, covered in oil. Gross cried foul when Prince appropriated his photograph, but he did not sue for infringement when he had his chance. It was Gross who was hit with a lawsuit—an action by his model to disaffirm parental permission (Gross won).[3] Prince's unaltered version, *Spiritual America*, helped launch his career and gave its name to his retrospective at the Guggenheim Museum, where it was a centerpiece.

In 2008, Cariou commenced an action in federal court against Prince, Prince's gallery, Gagosian, and the gallery's owner, Larry Gagosian, for the *Yes Rasta* appropriation.[4] Both sides filed motions for summary judgment. In a decision issued on March 18, 2011, Judge Deborah A. Batts granted summary judgment to Cariou on his claims of copyright infringement by the defendants and for vicarious and contributory infringement by Larry Gagosian and his gallery. The remedy was severe: the defendants were ordered to surrender all the Prince artworks and exhibition catalogues to Cariou and to require the defendants to notify purchasers of the Prince works already sold that those works could not be displayed.[5]

The district court reached its conclusion by rejecting the defendants' defense based on the doctrine of fair use, which is codified at Section 107 of the Copyright Act.[6] Very generally speaking (because everyone in authority on the topic seems to have a different opinion about this), under the fair use doctrine, a copy is not infringing if it is significantly different from the work it references and it does not interfere with the exploitation of commercial opportunities for the original work. The often-used word is *transformation*: if the second work transforms the original in a meaningful way, variously as to content, purpose and result, the fair use doctrine applies. There are four endlessly debated and reassessed statutory factors to be used in determining if fair use may be found; although they are expressly not inclusive, courts typically apply those factors to the exclusion of nearly all other considerations, which is what the district court did in the *Cariou* case. The court concluded that, for transformative fair use to be found, the second work must "in some way comment on, relate to the historical context of, or critically refer back to the original works."[7] Prince clearly made the judge suspicious by his inability to articulate during discovery what exactly his artistic purpose might have been and why it needed to rely so heavily on Cariou's work. In any event, she had no trouble concluding that he was not making any such commentary.[8]

On appeal, the Second Circuit reversed and remanded, holding that the district court's commentary requirement was wrong as a matter of law. That is entirely correct. You do not necessarily need to comment on an earlier work to transform it, and the holding that comment is an essential element is error. So far so good, and even Judge J. Clifford Wallace, who wrote the clear and succinct dissent to the Second Circuit opinion, concurred on that point. Then the appellate court concluded, solely on the materials submitted on the cross-motions for summary judgment, that twenty-five of the thirty Prince works under review were not infringing under the doctrine of fair use; it remanded to the district court for further proceedings on the remaining five. As we used to observe back in Louisiana about such proclamations, "Say what?"

A few lessons to be drawn from the *Cariou* decision:

If I Can, You Really Should Let Me

The case is important because what seems like a cavalier attitude by the appellate court about photography is actually quite indicative of the *Zeitgeist*: with digital technology making it possible for nearly everyone to copy professionally made visual, audio and audiovisual works with little or no diminution in quality, it is becoming harder by the day to convince anyone, even federal judges, to voice an unkind word about unauthorized copying. Law follows morality, and the morality of the day provides that, if I can make for myself a copy of what you did, rework it and call it my own, I should be allowed to do that. Back when these copyright cat fights were between professionals, courts were relatively sparing in the finding of fair use; now that all can participate, it is getting harder to say no to the kind of mash-ups Richard Prince sells as art and children do for schoolwork and on social media.

The Facts Are in the Telling, Even on Appeal

The fourth fair use factor, which loosely can be called the "money factor," is "the effect of the use upon the potential market for or value of the copyrighted work."[9] The district court in *Cariou* examined not only the harm to the original *Yes Rasta* photographs but to potential derivative works and other opportunities, with licensing opportunities explicitly mentioned. The district court noted that Christiane Celle, a gallery owner, planned to exhibit and sell between thirty to forty images from *Yes Rasta* at her Manhattan gallery at prices ranging from $3,000 to $20,000 but cancelled the show "because she did not want to seem to be capitalizing on Prince's success and notoriety."[10] The district court concluded that Prince's infringement caused Celle's professional deference, damaging Cariou.

Reviewing the same evidence, the appellate court said that "Celle did not decide against putting on a *Yes Rasta* show because it had already been done at Gagosian, but rather because she mistakenly believed that Cariou had collaborated with Prince on the Gagosian show."[11] That was because, when she called Cariou to tell him she had heard about the Prince show, he did not get back to her. The appellate court's review of the facts puts quite a different color to the story of the failed Celle exhibition, but it breezes right by what seems to be an obvious point: if even another New York art dealer believed that the Prince works so heavily made use of Cariou's photographs that the two must be collaborating, would that not be evidence in favor of a finding of infringement? And it relates to another curious point raised by the decision, which is:

Fame and Fortune Really Do Matter

In correcting the district court's interpretation of the law, the Second Circuit stated that it made no difference if the secondary use suppressed or even destroyed the market for the original work, only whether it usurped that market.[12] The court made it clear that Prince sold to a different, which is to say, much finer market. The court took note of Prince's Guggenheim retrospective. It also reported that Cariou's book sold only 5,791 copies, and most of those at below the sixty dollar suggested retail price, earning Cariou just over $8,000. Only a handful of the photographs themselves had sold, and only to people Cariou already knew. Against Celle's expectation of selling Cariou's photographs at her Manhattan gallery for thousands, Gagosian, a renowned international dealer in contemporary art, sold eight of the Prince appropriations for a total of $10,480,000 and exchanged seven others for works by Larry Rivers and Richard Serra valued at about $6 to $8 million. To make the point about what a different market Richard Prince serves and inhabits, the Second Circuit named celebrities who attended the opening night party.[13] Said the court, "Cariou on the other hand has not actively marketed his work or sold work for significant sums, and nothing on the record suggests that anyone will not now purchase Cariou's work…as a result of the market space that Prince's work has taken up."[14] The fourth fair use factor, therefore, correctly belonged to Prince, held the court, reversing the district court's conclusion to the contrary.

What that tells Cariou and artists like him is that the class struggle (rich artist, poor artist) has at last found its way into copyright law. It also says that you sit on your marketing opportunities at your peril and that, in any event, if a better-known artist appropriates or infringes upon your art (pick your preferred concept here), you might be well advised to spare the legal fees and instead send a thank-you note.[15] Perhaps the court is right in that implication: as Richard Prince has proven in his own career, nothing quite helps an artist as much as notoriety. Cariou's photographs could potentially sell for more now (a) due to the controversy and (b) because they will give people who cannot afford an original Richard Prince a backwards way to own a piece of one, as it were. So perhaps this was all an upside down way to get to a win-win result.

Even so, this brave new world of reward for creativity cannot be what Congress intended by expressly admitting fair use into our Copyright Act. There is just something about wealth being generated so seamlessly by the wealthy from the laboriously made work of a man who earned little from it that does not quite seem in harmony with what we would expect from the fair administration of the law of copyright. This is not to say that Prince does not deserve his success. If people will buy it, whatever it is, he would be a fool not to sell it. It just seems equitable, not to say good manners, for him to give Cariou credit and a piece of the action.

Everyone Is a Critic

The new egalitarianism in copyright appears to extend to art criticism. Although the record on appeal was empty of expert testimony, and although it would be understandable if a judge seeking to comprehend contemporary art were to cry out for professional guidance, the appellate court felt it could draw its own conclusions from examining the works at issue. Stated Judge Wallace in his dissent on that portion of the holding:

> Indeed, while I admit freely that I am not an art critic or expert, I fail to see how the majority in its appellate role can "confidently" draw a distinction between the twenty-five works that it has identified as constituting fair use and the five works that do not readily lend themselves to a fair use determination…. Certainly we are not merely to use our personal art views to make the new legal application to the facts of this case…. It would be extremely uncomfortable for me to do so in my appellate capacity, let alone my limited art experience.[16]

Those are true words but offered to no avail when you are outvoted two-to-one. What it means is that, henceforth, at least in the Second Circuit, you can do quite a bit of scanning of photographs that do not belong to you and, with changes no greater than those made by Richard Prince to the fateful Cariou twenty-five, build yourself a pretty good career, or at least keep yourself out of litigation. As a copyright lawyer who works to protect the rights of photographers and other artists, and as both a working photographer and as an art critic, I will endeavor not to take it all personally. I can only hope that brave judges everywhere will put the brakes on fair use's twenty-first century slide—before photographs become little more in the eyes of artists than found objects, each considered as freely useable in the works of others as Marcel Duchamp's urinal[17] and Robert Rauschenberg's bald eagle.[18] Meanwhile, we will all just have to prepare ourselves for the fact that, at least for now, much copying that we previously had thought was infringing may well have become acceptable.

Endnotes

1. 714 F.3d 694 (2d Cir. 2013), *cert. denied,* Nov. 12, 2013 (No. 13-261).
2. Whatever you may think of Richard Prince or his art, anyone who has stayed at the Eden Rock can only admire his taste in venues.
3. *Shields v. Gross*, 88 A.D.2d 846 (1st Dep't 1982).
4. Another defendant was voluntarily dismissed from the action by stipulation.
5. *Cariou v. Prince, et al.*, 784 F. Supp. 2d 337 (S.D.N.Y. 2011).
6. 17 U.S.C. §§ 107 *et seq.*
7. 784 F. Supp. 2d at 348.
8. There is much thematic opacity to Prince's work, to the point of what can read as randomness; the only obvious connection of the Canal Zone to Prince's series is that the artist was born there.
9. 17 U.S.C. § 107(4).
10. 784 F. Supp. 2d at 344.
11. 714 F.3d at 709.
12. *Id.* at 708.
13. In alphabetical order: Tom Brady, Gisele Bündchen, Candace Bushnell, Graydon Carter, Robert DeNiro, Jonathan Franzen, Damien Hirst, Jay-Z, Angelina Jolie, Beyonce Knowles, Jeff Koons, Brad Pitt and Anna Wintour
14. 714 F.3d at 709.
15. Not stated by the court was that, in contrast to Prince's good fortune to be represented by Gagosian, Cariou quite possibly had to pay his publisher a subsidy to print and bring the *Yes Rasta* book to market.
16. *Id.* at 713-714.
17. *Fountain* (1917).
18. In *Canyon* (1959).

Alan Behr is a partner at Phillips Nizer LLP. He is a proud member of the American Society of Media Photographers and the International Association of Art Critics.

Improving the Use of Mediation in Patent—and Other—Cases

By Harrie Samaras and Kathy Bryan

In some areas of the law, mediation has been a mainstay for resolving disputes for many years. In other areas, like patent law, it is still finding its footing. In 2010, the International Institute for Conflict Prevention and Resolution (CPR) recognized that mediation was underutilized in patent cases and wanted to explore the reasons why. CPR President and CEO Kathleen A. Bryan formed the Patent Mediation Task Force, to identify possible barriers to the use of mediation in patent cases and to analyze methods and solutions for improving its use. She appointed Manny W. Schecter, IBM Chief Patent Counsel, to chair the Task Force.

To achieve its goals, the Task Force formed three subcommittees that would examine mediation best practices from various stakeholder perspectives, including in-house counsel, outside counsel, mediators, and judges. Each subcommittee focused its evaluation on one of three areas: pre-mediation, mediation, and unique issues in patent cases. Harrie Samaras, Kevin Casey, and John M. Delehanty, respectively, chaired these subcommittees. They held focus group calls comprised of stakeholders, and used survey tools to gather data about their respective areas.

The findings were organized into a best practices protocol that was then vetted by leading corporate and outside counsel and mediators. This Protocol was published as *The Report of the CPR Patent Mediation Task Force: Effective Practices Protocol* (http://bit.ly/15L6c4N). It is a synopsis of the key issues addressed by the Task Force and consensus opinions expressed by the focus group participants. The Task Force also produced an informational brochure for mediation participants entitled *Why Patent Mediation Works*. It concisely sets forth key aspects about mediation and its benefits, debunks some common myths about mediation, and provides testimonials (http://bit.ly/19kNqlC).

Notwithstanding the Task Force's focus on improving the use of mediation in patent cases, many of the lessons learned are applicable to other mediated disputes. What follows is a sample of the issues that the Task Force explored in the focus groups, along with a portion of their consensus recommendations.

Recommendations to Improve Patent Mediations

Issue 1: Whether and how clients/party representatives should be prepared for mediation

Recommendation: What can thwart a potentially successful mediation is where party representatives are not prepared or ill prepared, including having unrealistic expectations about what the process is, and what their and the mediator's roles are. At a minimum, counsel should educate party representatives about: the difference between mediation and arbitration (often confused, even by commercially savvy individuals); the differing goals between litigation (e.g., who is right/wrong) and mediation (e.g., creating a business solution in a commercial case); the mediation process (e.g., resolution might take more than one session, it is a facilitated negotiation (measured) process); and the mediators roles (what they do and don't do)—for example a mediator is not an arbitrator or a judge and does not render a decision on the merits or act as a conduit for one party that conveys one-sided settlement offers and messages to get the other party to capitulate. Also, party representatives must understand their central role (discussed with respect to Issue 6, below) throughout the mediation process and be prepared for it.

Issue 2: Whether suggesting mediation is a sign of weakness

Recommendation: Although not the concern it once was, there remain some vestiges of apprehension. Suggesting that your client would consider mediation is really nothing more than expressing a willingness to negotiate in a structured setting. However, when and how mediation is suggested might affect how an opponent perceives the overture and how the proponent looks. The perceived "weakness" stigma might be overcome by having the client become a signatory to the CPR Corporate Pledge or identifying whether the opponent has signed it. A signatory agrees to attempt resolution of their disputes through mediation or other forms of ADR before litigating, so suggesting mediation is simply following the law firm's or corporation's pledge. Likewise, courts have tried to remove the stigma by mandating mediation. In these circumstances, the best outcome is often achieved when the parties are not restricted to a list of court mediators or a particular point in time to mediate. When early mediation is required, however, parties often benefit from the in-person contact that often opens communications and paves the way for future negotiations or mediation sessions. Early mediation sessions also permit participants to learn information that would take months to obtain in discovery, if at all (e.g., business interests and needs). Another means to avoid the stigma of raising mediation is including a mediation provision in the dispute resolution clause of contracts.

Issue 3: Whether full-blown discovery is necessary before mediating

Recommendation: Litigation-type discovery and motion practice are unnecessary for a successful mediation. If the parties have sufficient information from initial discovery, or the cooperative exchange of information, to evaluate each other's cases, mediation can be effective. Proceeding with full discovery, especially electronic discovery, frustrates a principal goal of mediation: to avoid expense. The likelihood of finding a "smoking gun" in discovery is rare. Furthermore, it is not necessary to know everything about your adversary's case to have a successful mediation. The Report provides, on pages 15-16, a list of ways to obtain information for mediation if it has not been produced in discovery or if the dispute is not before a court.

Issue 4: Whether mediation is "unsuccessful" when no settlement is reached at the (first) session

Recommendation: There is no such thing as a "failed" mediation. Perspective and an understanding of mediation are key. Mediation is a process, not one in-person session. It may include multiple in-person meetings and phone and email communications (ex parte and joint). Disputes take time to materialize and so do mediated settlements. Even if the dispute is not settled after the first in-person session, mediation gives the parties an opportunity to, for example, gain perspective on the merits of their case and their risks, to learn useful information about the merits of their opponent's case, and to focus on what key interests from both parties may need to be satisfied for a settlement to occur.

Issue 5: Whether the choice of mediator makes a difference

Recommendation: One of the benefits of private mediation is the ability to select the mediator. Some of the main characteristics of a "good" mediator identified in the Report are: patience, optimism, persistence, neutrality, good listening and communication skills, a commitment to devote to the parties the necessary time before, during and after the mediation session, and flexibility in designing the mediation process. Strongly preferred were mediators who:

- explored the nuances of the case;
- allowed the parties to fully express the strengths and weaknesses of their respective positions;
- challenged the parties' unrealistic positions, assumptions and expectations; and
- had a well-established reputation (which helps build trust and confidence).

There was a general consensus that a mediator in a patent case should have strong mediation skills, experience mediating patent cases, and a thorough understanding of patent law and patent litigation. Specific experience with the patented technology is not essential unless the dispute turns entirely on technical issues or the parties have requested an evaluative mediation. Mediators were criticized if they simply conveyed settlement demands and responses back and forth and tried to force the parties to meet somewhere in the middle. If the mediator has the requisite experience and understanding of the business and technology, and he / she is well prepared, parties are more inclined to alter their proposals and be influenced by the mediator's reality testing.

Issue 6: Whether outside counsel make a difference

Recommendation: Since an important purpose of mediation in a patent dispute is to find a business solution, rather than to "win," mediation puts trial counsel in a conundrum. They have to set aside their "gladiator" instincts and adopt the role of business advisors. When this is not possible, some lead trial counsel send someone else from the trial team to the mediation, or use settlement counsel or another attorney in the firm who is close to the client and knowledgeable about the dispute. Good mediation advocates will:

- acknowledge the risks of litigation;
- concede any weaknesses in their positions;
- propose reasonable solutions;
- avoid the temptation to make an aggressive opening statement (assuming they give one), using the opening as an invitation to negotiate;
- insure their clients have an opportunity to speak as part of the joint session;
- avoid interfering with the mediator's reality testing;
- avoid raising artificial barriers to interrupt the mediation process (e.g., by claiming that she / he or his / her client has a plane to catch at an earlier time than planned); and
- be prepared to paper the deal (e.g., have a template settlement or license in hand).

Finally, a good mediation advocate should assure client representatives of the integrity of the mediation process and explain its key elements, such as achieving a mutually beneficial result with no clear winner or loser.

Issue 7: Whether there is an optimal time to mediate a dispute

Recommendation: Although there is no optimal time, mediation of a patent case should take place as early as possible, when the parties have sufficient information to evaluate the strengths and weaknesses of their legal positions, their risks, and the costs versus the benefits of settling / litigating. An optimal time to mediate is when both parties are somewhat uncertain about their respective litigation positions (e.g., when a ruling on the interpretation of patent claims (*Markman*) is pending). Events during a case often present times to mediate, including (a) significant changes in the parties' respective businesses or competitive positions; (b) the impending deposition of a person who does not want to be deposed; (c) an interim decision by the court on an important issue; and (d) an early *Markman* ruling. An early mediation might avoid the costs of a trial and perhaps full discovery (the substantial cost of any patent case), and it might enhance the chances of settlement, because the parties are often less entrenched in their positions and they have not yet incurred the high costs of the litigation. Mediation should not be confined to either the beginning or the end of the litigation, but should be a continuing process. Multiple mediations often lead to settlement.

Issue 8: Whether pre-mediation (ex parte) conferences are worthwhile

Recommendation: Pre-mediation conferences (telephonic / in-person) are essential. The mediator can learn the details of the dispute (business, personal, legal issues), explain the mediation process to the parties, and discuss ground rules to guide the parties through the process. They also enable the mediator to identify any personal or business issues that may exist as, or may become, obstacles to settlement. Pre-mediation conferences often stimulate more focused preparation between counsel and client representatives, and they often shorten the length of the mediation, permitting the mediator and parties to tackle important issues earlier.

Issue 9: Whether representatives with full settlement authority must be present

Recommendation: Much helpful information can be lost in translation when representatives with full settlement authority are not present at the mediation session. Business representatives (in patent cases) who understand the relevant strategic plans and business interests and concerns are in a unique position to fashion business solutions that might not have any direct relationship to the dispute. Moreover, the representatives attending should have equal or comparable status. There are circumstances where the disputants have an obligation to individuals or entities that are not parties to the litigation or underlying dispute (e.g., licensees, investors, insurers), but who may have an interest in the outcome, and possibly a say in it. And there might be legitimate reasons why such individuals would not attend the mediation sessions. In those circumstances, the parties should identify such stakeholders, brief them before the mediation session, define settlement parameters, and obtain their buy-in.

The Leadership Role Corporate Counsel Can Play

- Mediation is a potentially case-dispositive process in which client representatives assume a central role; they must therefore be well prepared. This includes working with them (1) to understand the difference between the objectives of mediation and arbitration / litigation; (2) regarding what to expect during the mediation session and how the mediation process can continue if settlement is not reached; (3) to understand their and the mediator's roles; (4) on analyzing litigation risks and costs; (5) to identify the benefits of settling; and (6) to prepare proposals and consider options to meet their needs. Client representatives should also be involved in the preparation of the pre-mediation submission(s). They must be encouraged to set aside whatever time is necessary to prepare.
- Insure that the right (e.g., demeanor) client representatives attend who have full settlement authority and that, if stakeholders (e.g., investors, insurers, relevant managers, Board members) cannot attend, they are fully briefed before the mediation session and kept abreast of developments during the session as necessary.
- Determine what information the client representatives might need in considering various proposals, and develop a plan to obtain it without full discovery (e.g., party-to-party or mediated information exchange; focused expedited discovery with court assistance).
- Consider a mediation strategy beyond one in-person meeting (e.g., pre-mediation ex parte call with the mediator, contacting your counterpart at the opponent company to discuss preliminary issues (ice breakers), other in-person mediation sessions depending upon progress made by telephone / email or case events).

- Be engaged from the time the mediation process begins (e.g., choosing the mediator) through pre-mediation calls with the mediator, preparation of all mediation submissions, preparation for the mediation with outside counsel and the client, participating at the mediation, and any follow up negotiations. This permits first-hand knowledge of what is occurring for reporting to corporate management. Also, clients appreciate the support of in-house legal colleagues (you are an important advocate with the mediator and your opponent regarding the interests and needs of your client).
- If outside counsel will attend, choose counsel with proven experience representing clients in mediations, including having the requisite demeanor to communicate with opposing counsel and the mediator, tenacity and patience, and the ability to guide client representatives through mediation evaluation and strategies.
- If you are a transactional attorney, consider including mediation as one of the dispute resolution processes in contracts. If your practice is litigation, influence your corporate transactional colleagues to incorporate a mediation step in contracts and encourage your business clients to pursue mediation at any time during the life of a dispute.
- Solicit mediators to give in-house presentations on mediation topics that teach the basics of the mediation process, as well as mediation advocacy and preparation, to legal and non-legal employees.
- Early case assessment (ECA) is an important means of preparing yourself and your client for the mediation. If your company does not have an ECA policy or common practice consider CPR's ECA Toolkit (http://bit.ly/16lxbCG), or contact outside counsel with ECA experience.

Harrie Samaras founded the ADR & Law Office of Harrie Samaras, focusing on providing dispute resolution services including the arbitration and mediation of domestic and international commercial disputes. Kathy Bryan co-authored this article.

Intellectual Property Litigation: Managing Outside Counsel Costs

By Gaston Kroub

For corporate counsel, intellectual property litigation can present tremendous challenges—particularly with respect to cost management. Irrespective of whether corporate counsel is at a company embroiled in large-scale patent litigation like Samsung & Apple, or trying to enforce a trademark against a small-scale infringer, intellectual property litigation is frequently a key area of strategic interest for companies. Accompanying that interest, however, is an awareness that intellectual property litigation (particularly those cases involving patents) is an expensive endeavor. Managing the impact of that expense on a particular company remains a challenge for corporate counsel, who are usually not privy to the inner workings of the legal marketplace for intellectual property litigation services, and are often pressed to select outside counsel on short time frames and without a lot of time for "comparison shopping" in terms of fee structures. Despite this general opacity, it is indisputable that intellectual property litigation costs remain a pressing area of concern for companies of all sizes, whether they be asserting their intellectual property in an attempt to generate revenue in an effort to boost their share price, or defensively engaged in defending their rights against infringement claims raised by competitors and, quite frequently, patent trolls.

The reason that intellectual property litigation costs are an area of concern for companies is tied to both the complex nature of the subject matter and the propensity for that complexity to drive up outside counsel costs. We can use patent litigation as an example. There is little dispute that patent cases, from both an average cost and maximum cost perspective, are very expensive relative to other frequently encountered litigation matters. Unsurprisingly, the single biggest contributor to the high cost of patent litigation (and other intellectual property litigation for that matter) is outside counsel fees, or the cost of hiring experienced counsel with both patent and litigation experience to handle a particular case. Just as there is a wide range (in terms of experience, locale, and type of law firm) of potential patent litigators available for companies to hire, so there is a wide variety of fee structures that have been deployed by companies wishing to retain their services. Importantly, new structures continue to be experimented with, as companies search for the right formula to secure the services of competent, driven, and skilled attorneys who will handle their case efficiently—while winning, of course.

Just how expensive are outside counsel fees in patent litigation? Some examples. At the highest end, consider the reported expenditure on outside counsel by Samsung on its series of "smartphone wars" patent cases with Apple. There are a number of reports that Samsung has already incurred legal costs in the hundreds of millions of dollars on just those set of cases. Apple, with its own army of lawyers (from three different leading law firms), has surely spent serious money on those cases as well. Of course, the overwhelming majority of patent cases are not of the scale or importance of *Apple v. Samsung*. That said, it is important to realize that the upper range of patent litigation costs is measured in the millions, and sometimes tens of millions. Some other examples. One area of continuing and frequent patent litigation activity is the battles between large pharmaceutical companies and generic drug manufacturers over patent rights to blockbuster drugs that could be offered in a generic version. Each of those cases normally carries a litigation budget in the millions, with each side willing to absorb the cost because of the commercial importance of those cases. What about "patent toll" cases where a non-practicing entity brings lawsuits against a variety of large companies in the hopes of extracting quick settlements? While the trolls themselves are typically represented by contingency firms (who usually reserve 40-50% of the recovery, with the higher amount usually depending on whether they are also covering other litigation expenses in addition to their own fees), defense costs for a troll case can easily rise into the millions, especially if such a case goes to trial. And the trolls know that a minimum outlay for the defense of these cases can reach into the hundreds of thousands of dollars very quickly, a fact that the trolls exploit to extract settlements quickly. In all, troll suits can heavily impact a litigation budget, particularly for frequent litigants like Samsung, Apple, Google and other technology companies, in addition to major retailers (whether online or brick and mortar) whose websites are frequently targeted by patent trolls. Nor are smaller companies spared these costs. The complexity of a patent case is usually tied to the number of issues involved, rather than the size of a litigant. So the small company forced to sue an even smaller competitor will also need to contend with the likelihood of a sizable legal bill.

While we have focused on patent litigation costs as an example, other intellectual property litigation can also generate large attorney fees. For company counsel, it is often difficult to evaluate whether a company is pursuing a sound strategy in regards to its hiring of outside counsel to help with its intellectual property litigation needs. And make no mistake, the handling of intellectual property litigation costs should be a critical factor in assessing the stewardship of company counsel over a company's legal budget, even if only because of the higher-than-usual risk for those engagements to generate large fees. Because of the likely scrutiny over their selection of intellectual property counsel, there is an increasing reluctance to pay outside counsel their full hourly rates, or even on full (35%+) contingency arrangements when it comes to plaintiff-side work. Companies today have instead pursued creative fee arrangements with outside intellectual property litigation counsel. Those efforts should be applauded. In all cases, company counsel should be prepared to provide an explanation to management as to the search process used to retain outside counsel, and why a particular fee arrangement is in place for any existing cases.

Flat-fee arrangements have deservedly generated a lot of attention recently, particularly in the intellectual property litigation space. While this is a welcome development, company counsel should give care to not only negotiate the flat fee amount, but also the composition of the legal team. This is important because the composition of the legal team is as important as the amount that team costs to put on the field, and even within a law firm there can be great variations in terms of experience level and ability to focus on a particular matter among attorneys. Ignoring team composition on a deal to pay a law firm a flat-fee for a representation will usually—in the absence of a specific commitment otherwise—incentivize that firm to have as much of the work done as possible by cheaper, less experienced attorneys within the firm. This incentive to "push work down" and free up the more experienced lawyers is a frequent problem in contingency engagements as well, but at the same time is not an excuse to blindly pay full hourly rates to secure outside counsel's attention either. Company counsel simply must be mindful of the options available when deciding on the fee structure they will use with outside counsel for their intellectual property litigation matters.

Of course, most companies want to hire the most qualified lawyers for their matters, even if it means paying a premium for their services on occasion. There is a place for the latter approach, just as there is a case to be made that companies should place equal value on using fee structures that maintain their flexibility to add or subtract from their litigation teams as needed. For example, patent and other intellectual property cases can often be filed nationwide, and while there is often great value to a company to have its core outside litigation team located close by, quite frequently cases are filed and even come to trial in far-flung jurisdictions. In those cases hiring a well-regarded local trial attorney to help present the case can be of great value. Securing reputable representation, while maintaining the flexibility to add firepower when necessary, should be a goal for corporate counsel facing a need for outside litigation counsel to deal with an intellectual property matter.

Ultimately, every company needs to get this critical task—finding and securing the services of effective outside counsel at a manageable cost—right if it hopes to successfully handle intellectual property litigation matters from both a business and legal perspective. Aligning incentives with the lawyers who will be arguing the company's cause in court as much as possible is advisable. To that end, companies should seek out qualified lawyers who are willing to: 1) try and handle matters on a flat-fee basis, 2) commit to having only experienced lawyers on the core team, and have that core team assign the highest level of priority to servicing the cases they are retained to handle, 3) be flexible in working with other vendors (and even other outside counsel) in a particular case, and 4) be willing to commit to handling multiple cases on similar terms if that is in the interests of the company. In short, company counsel should aim for win-win relationships with a core group of qualified intellectual property litigators. They will need to, as the traditional fee structures used in these cases becomes more of a hindrance to effective cost-management. At minimum, company counsel should identify what types of fee structures would work for their company when it comes to intellectual property litigation matters, and be willing to discuss their findings with both their outside counsel and management. Engaging in that effort is an important first step to effective cost management of intellectual property litigation costs, an important goal for many companies in today's challenging marketplace.

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Already and *Kirtsaeng*: Lessons for Prospective Intellectual Property Enforcement

By Theodore K. Cheng

Last term, the Supreme Court again issued decisions with far-reaching implications for intellectual property practitioners, owners, and users. Two cases from the Second Circuit afforded particularly important insights and lessons for prospective intellectual property enforcement. *Already, LLC v. Nike, Inc.*[1] provided practical guidance for using covenants not to sue in enforcing trademark portfolios. *Kirtsaeng v. John Wiley & Sons, Inc.*[2] validated the "gray market" for copyrighted works[3] and effectively recognized international copyright exhaustion.[4] This article offers some practical observations for practitioners, owners, and users of intellectual property.

Already v. Nike: Divesting Federal Courts of Jurisdiction Using Covenants Not to Sue

This dispute involved two manufacturers of athletic footwear—Nike, Inc. and Already, LLC. Nike designs, develops, markets, and sells a variety of athletic accessories and services. Specifically, it sells the popular line of athletic footwear under the "Air Force 1s" brand, which Nike produces in more than 1,700 color combinations, selling millions of pairs each year. Nike owns several federal trademark registrations for that brand, including one that protects various design elements.[5]

In July 2009, after an unsuccessful cease-and-desist letter, Nike commenced litigation against Already.[6] Nike alleged that Already was selling "'footwear bearing a confusingly similar imitation'" of the Air Force 1 shoe, including shoes known as "Sugar" and "Soulja Boy."[7] Four months later, Already filed counterclaims for a declaratory judgment that Nike's mark was invalid for not being a "trademark" under either federal or state law and sought its cancellation.[8]

In March 2010, Nike sent Already a "Covenant Not to Sue," stating in the preamble that it had "recently learned that [Already]'s actions complained of in the Complaint no longer infringe or dilute the NIKE Mark at a level sufficient to warrant the substantial time and expense of continued litigation and NIKE wishes to conserve resources relating to its enforcement of the NIKE Mark."[9] The covenant thereafter obligated Nike:

> to refrain from making any claim(s) or demand(s), or from commencing, causing, or permitting to be prosecuted any action in law or equity, against [Already] or any of its [successors or related entities and their customers], on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law in the United Sates [*sic*] relating to the NIKE Mark based on the appearance of any of [Already]'s current and / or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced, distributed, offered for sale, advertised, sold, or otherwise used in commerce before or after the Effective Date of this Covenant.[10]

After issuing the covenant, Nike voluntarily moved to dismiss its claims and also moved to dismiss Already's counterclaims on the ground that the covenant had extinguished the case or controversy. But in Already's view, the counterclaims created an independent controversy about whether Nike had violated Already's rights by improperly obtaining a trademark registration.[11] The District Court not only dismissed Nike's claims, but also dismissed Already's counterclaims, determining that it no longer possessed jurisdiction over them.[12]

The Second Circuit affirmed.[13] Applying the totality of the circumstances test from *MedImmune, Inc. v. Genentech, Inc.*[14] for the first time in an intellectual property case,[15] the panel opined that courts should consider three factors when determining whether a covenant not to sue eliminates a case or controversy in a declaratory judgment action involving a trademark:

> (1) the language of the covenant, (2) whether the covenant covers future, as well as past, activity and products, and (3) evidence of intention or lack of intention, on the part of the party asserting jurisdiction, to engage in new activity or to develop new potentially infringing products that arguably are not covered by the covenant.[16]

Utilizing these factors, the court held that there was no case or controversy.[17]

In its unanimous opinion affirming the Second Circuit, the Supreme Court began its analysis by noting that both parties had standing to pursue their claims in court:

Nike claimed that Already was allegedly infringing its trademark rights, and Already accused Nike of allegedly using an invalid mark to stop legitimate business activity.[18] However, when Nike dismissed its claims with prejudice and issued the covenant, it "call[ed] into question the existence of any continuing case or controversy."[19] Thus, under the "voluntary cessation" doctrine, Nike bore the "burden to show that it could not reasonably be expected to resume its enforcement efforts against Already."[20] Analyzing the plain language of the covenant, the Court concluded that its breadth sufficiently met that burden, noting, in particular, the fact that it was "unconditional and irrevocable" and barred "Nike from making any claim *or* any demand."[21]

Moreover, the covenant stretched beyond Already to protect Already's distributors and customers, and it covered not just current or previous designs, but any "colorable imitations," including the Sugars and Soulja Boys, which Nike had contended infringed its trademark and, thus, were "colorable imitations" of Air Force 1s.[22] Accordingly, the Court agreed with the Second Circuit that "'it is hard to imagine a scenario that would potentially infringe [Nike's trademark] and yet not fall under the Covenant.'"[23] Therefore, it opined that "[i]f such a shoe exists, the parties have not pointed to it, there is no evidence that Already has dreamt of it, and we cannot conceive of it. It sits, as far as we can tell, on a shelf between Dorothy's ruby slippers and Perseus's winged sandals."[24]

Already's Impact on the Strategic Use of Covenants Not to Sue

The outcome in *Already* was not surprising, given the Court's Article III jurisprudence. But the decision's importance to trademark enforcement strategies bears emphasizing.

From the mark owner's perspective, sending a cease-and-desist letter or commencing a litigation always entails the risk of the alleged infringer interposing a declaratory judgment claim and miring the owner in a battle over the mark's validity. *Already* now gives the owner more procedural control by providing the tools to successfully dismiss the declaratory relief claim through the issuance of a broad covenant not to sue.

Under *Already*, the mark owner continues to bear the burden of demonstrating mootness, and whether such a covenant will divest the court of jurisdiction will depend upon its breadth. In the trademark context, the *Already* Court identified the following five characteristics:

(1) be unconditional and irrevocable;

(2) cover the alleged infringer and related entities (e.g., distributors and customers);

(3) cover all current and previous products;

(4) cover all "colorable imitations" of any current and previous products; and

(5) bar the mark owner from making any future claims or demands with respect to the mark-at-issue.

In short, the covenant should render the threat of future litigation between the same parties (and related entities) on the same trademark remote, "inconceivable," or "unimaginable."

Certainly, the decision to issue a covenant not to sue must be balanced against the risk that a court will deem the covenant too narrow to dismiss the invalidity claim. Also significant is how such a covenant will be viewed in future enforcement efforts concerning that same mark against other alleged infringers. Successive issuances of broad covenants not to sue might result in the slow erosion of trademark rights such that the mark may be difficult to enforce against parties not covered by the covenants.

Additionally, the Court's opinion opened the door to possible abuse by mark owners, who could charge competitors with infringement, knowing that a covenant not to sue would allow them to abandon the suit. As Justice Kennedy warned in his concurring opinion, the pendency of a lawsuit itself can dissuade the marketplace from dealing with the alleged infringer.[25] It remains to be seen how this concern will influence courts if mark owners increasingly embark upon aggressive campaigns to enforce their marks, relying on the availability of covenants not to sue to terminate the litigations early. Congress has not been particularly shy in the trademark arena,[26] and, thus, such conduct could spur the enactment of (at least from the mark owners' perspective) unwanted negative legislative action.

The lesson from the alleged infringers' perspective is that, if they desire to maintain their challenge to the mark's validity and seek its cancellation, unlike Already, they must come forward and explicitly set forth an intention to infringe. Doing so will make the mark owner think twice about issuing a covenant not to sue and compel it to defend the mark.

Finally, practitioners, owners, and users should all be on the lookout for how the Court's Article III case and controversy analysis will impact the jurisprudence in patent and copyright declaratory judgment litigations. The lessons from *Already* will surely have ramifications in those fields as well.[27]

Kirtsaeng v. John Wiley: Validating the Gray Market for Copyrighted Works

Under § 106 of the Copyright Act, a copyright owner has certain "exclusive rights," including the right "to distribute copies…of the copyrighted work to the public by sale or other transfer of the ownership."[28] These rights are circumscribed by other sections of the Act,[29] including § 109(a)—also known as the first sale doctrine—which states, in pertinent part, that "the owner of a particular copy or phonorecord lawfully made under this title…is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."[30] Thus, even though a copyright owner has the right to prohibit distribution of copies of the work without permission, once a copy has been lawfully sold, the buyer of that particular copy (and any subsequent owners of that copy) may freely dispose of it.

That analysis is not straightforward when copyrighted works cross national boundaries. Under § 602(a)(1) of the Act, if the copy in question was purchased overseas with the copyright owner's permission, the buyer seemingly may not thereafter import that copy without permission from the copyright owner.[31] However, in 1998, the Supreme Court interpreted the interplay between § 602(a)(1) and § 109(a), unanimously holding the first sale doctrine applicable to imported copies and, consequently, concluding that a copy bought overseas can, in fact, freely be imported into the United States and disposed of without the copyright owner's permission.[32] Notably, there, the copy, although purchased overseas, had initially been manufactured in the United States, and, thus, had experienced a "'round-trip' journey."[33] *Kirtsaeng* addressed the open question of copies that are first made overseas. In a 6-3 decision, the Court held the first sale doctrine applicable to copies of a copyrighted work first made overseas, thereby permitting their importation into the United States without the copyright owner's permission[34] and effectively recognizing international copyright exhaustion.[35]

The alleged infringer, Supap Kirtsaeng, a citizen of Thailand, had moved to the U.S. to study mathematics.[36] While here, he asked his friends and family in Thailand to purchase copies of foreign edition English-language textbooks, where they could be bought at low prices, and ship them to the U.S. for resale at a profit.[37] The publisher of the foreign edition textbooks, John Wiley & Sons, Inc., sold equivalent versions of the same textbooks in the U.S. and filed suit against Kirtsaeng, claiming that his unauthorized importation and later resale amounted to an infringement of its distribution right, as well as the importation prohibition.[38] In defense, Kirtsaeng asserted that, because he had acquired the foreign edition textbooks legitimately in Thailand, they were "lawfully made" under the Act, and, thus, the first sale doctrine permitted him to resell or otherwise dispose of the books without any further permission from Wiley. According to Wiley, however, "lawfully made under this title" geographically limited that doctrine's application to copies actually made in the United States.[39]

The District Court rejected Kirtsaeng's first sale defense, holding that it did not apply to "foreign-manufactured goods," after which a jury found that Kirtsaeng had willfully infringed eight of Wiley's copyrighted titles, assessing statutory damages of $600,000 ($75,000 per work). The Second Circuit, in a split decision, affirmed, with the majority adopting Wiley's reading of § 109(a). Reversing the appellate court, the Supreme Court held that "§109(a)'s language, its context, and the common-law history of the 'first sale' doctrine, taken together, favor a non-geographical interpretation."[40] The Court relied, in part, on the "parade of horribles" that *amici* associations of libraries, used-book dealers, technology companies, consumer-goods retailers, and museums had presented,[41] noting, "We also doubt that Congress would have intended to create the practical copyright-related harms with which a geographical interpretation would threaten ordinary scholarly, artistic, commercial, and consumer activities."[42]

In rejecting the geographical interpretation,[43] the Court notably conceded that its interpretation "will make it difficult, perhaps impossible, for publishers (and other copyright holders) to divide foreign and domestic markets."[44] But it then dismissed that concern because it could also "find no basic principle of copyright law that suggests that publishers are especially entitled to such rights."[45] Consequently, the first sale doctrine now applies to works first made abroad and later imported and resold.

Kirtsaeng's Exhaustion Requirement on Copyright Industries

Unlike in *Already*, the outcome in *Kirtsaeng* was far from expected. The Second Circuit, Ninth Circuit, and the Solicitor General all advocated a geographical interpretation, and the U.S. has long opposed international exhaustion in global trade negotiations.[46] The Court's decision, however, arguably marks an end to overt price discrimination across national boundaries, at least in the publishing industry, by U.S. copyright owners.

Of course, alternate ways to continue engaging in price discrimination and market segmentation exist. For example, publishers can create different books for the U.S. and foreign markets, or alter the foreign editions of the works sufficiently so that they are less useful in this country (e.g., different ordering, pagination, or illustrations).

They can also contractually bar foreign wholesalers from importing into the U.S., thereby obviating the exhaustion issue altogether. Relatedly, they can restrict the amount of sales in foreign countries to match local demand, thereby curtailing gray market sales of the works.

In the near-term, American consumers may be able to purchase less expensive foreign editions of books at lower prices. Until the marketplace adjusts to the new regime put in place by the Supreme Court—and unless Congress steps in otherwise—entrepreneurs ranging from individuals like Kirtsaeng to retailers like Costco will likely find it profitable to engage in cross-border arbitrage without the fear of being sued for infringement.[47] If this activity becomes widespread, publishers could either lower prices generally or simply eliminate distribution in foreign countries.

While *Kirtsaeng* involved textbooks, it is far from certain that other copyright industries are poised to share the same fate. To the extent that a price differential exists between the U.S. and foreign markets, of course, *Kirtsaeng* will likely have some impact. For example, in the DVD marketplace, prices have commonly been different between geographic regions because, unlike books, DVDs are generally made playable only on machines encoded with the ability to play discs specifically encoded for that region. The open question is whether "work-arounds," modified players, and advancing streaming and downloading technologies will ultimately permit *Kirtsaeng* to have a role.

One lesson from the software industry is the general practice of licensing copies, as opposed to selling them. The first sale doctrine only applies to sales, and, thus, a license would arguably not be subject to the exhaustion mandated by *Kirtsaeng*.[48] Similarly, copyright owners could consider digital licensing of their works in addition to sales of physical copies as a means of supplementing their revenue stream. Moreover, they could justify engaging in price discrimination due to the greater portability and flexibility of digital copies.[49]

Finally, copyright owners should broadly consider the applicability of other intellectual property protections, such as trademarks, trade dress, and design patents—none of which are addressed by *Kirtsaeng*—to augment their rights under the copyright law.

Conclusion

As always, the U.S. Supreme Court term offers a fascinating, albeit slim, view into the laws governing intellectual property. *Already* and *Kirtsaeng* offer important lessons for intellectual property practitioners, owners, and users, while casting long shadows into the future for intellectual property protection, acquisition, licensing, research, and development.

Endnotes

1. 133 S. Ct. 721 (2013).
2. 133 S. Ct. 1351 (2013).
3. The "gray market" generally refers to the trading in goods outside of the normal established distribution system established by the manufacturer. One of the most common gray markets is the importation and sale of goods through unauthorized importers and sellers in a particular geographic region, replacing the typically more expensive distribution system established by the manufacturer. Thus, while sales through the gray market are intended to be legal, they are unofficial, unauthorized, and unintended by the manufacturer.
4. International copyright exhaustion means that the first sale of a copyrighted work, whether manufactured domestically or overseas, is sufficient to "exhaust" the copyright owner's rights to that work, such that the buyer of that particular copy (and any subsequent owners of that copy) may freely dispose of it.
5. *See Nike, Inc. v. Already, LLC*, 663 F.3d 89, 92 (2d Cir. 2011).
6. *See id.* at 91.
7. *Id.* at 92 (quoting complaint).
8. *See id.*
9. *Id.*
10. *Id.*
11. *See id.* at 93.
12. *See id.*
13. *See id.* at 94-99.
14. 549 U.S. 118, 126-27, 137 (2007) (confirming that the totality of the circumstances test for declaratory judgment actions should be applied in intellectual property cases and holding that the "actual controversy" requirement of the Declaratory Judgment Act does not require that a patent licensee terminate or breach the agreement by refusing to pay royalties before suing to declare a patent invalid and enforceable).
15. *See Nike*, 663 F.3d at 96.
16. *Id.* (footnotes omitted).
17. *See id.* at 97-99.
18. *Already*, 133 S. Ct. at 727.
19. *Id.*
20. *Id.* (internal quotation marks omitted).
21. *Id.* at 728 (emphasis in original).
22. *Id.*
23. *Id.* (quoting *Nike*, 663 F.3d at 97).
24. *Id.* The Court further noted that, given the opportunity before the District Court to assert any intent to design or market a shoe that would fall outside of the Covenant, Already failed to do so. *See id.* at 728-29. The Court also rejected Already's attempt to assert various alternative theories of Article III injury to save the case from being moot, namely, that (1) so long as Nike remains free to assert its trademark, investors will be apprehensive about investing in Already; (2) given Nike's decision to sue, Nike's trademarks will now oppressively hang over Already's operations; and (3) as one of Nike's competitors, Already inherently has standing to challenge Nike's intellectual property. *See id.* at 729-32. Finally, the Court rejected the U.S. Solicitor General's suggestion that the case be remanded for further proceedings, concluding that

"such a remand would serve no purpose" in view of the fact that the "[t]he scope of the covenant is clear." *See id.* at 732-33.

25. *See id.* at 733-34 (Kennedy, J., concurring).

26. The Lanham (Trademark) Act of 1946, 15 U.S.C. §§ 1051 *et seq.*, has been amended over thirty times since its enactment.

27. *See, e.g.*, *Organic Seed Growers & Trade Ass'n v. Monsanto Co.*, 718 F.3d 1350, 1357-58 (Fed. Cir. 2013) (dismissing a patent declaratory judgment action under *Already* that involved "binding assurances" as opposed to covenants not to sue); *Perfect-Vision Mfg., Inc. v. PPC Broadband, Inc.*, No. 4:12CV00623 JLH, 2013 U.S. Dist. LEXIS 81011, at *20-23 (E.D. Ark. Jun. 10, 2013) (denying motion to dismiss a patent declaratory judgment action after issuance of a covenant not to sue by the defendant because, unlike in *Already*, the covenant was "not unconditional and irrevocable").

28. 17 U.S.C. § 106(3).

29. *Id.* §§ 107-22.

30. *Id.* § 109(a).

31. *See id.* § 602(a)(1) ("Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.").

32. *See Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 140-54 (1998).

33. *Id.* at 154 (Ginsburg, J., concurring).

34. *See* 133 S. Ct. at 1355.

35. *See id.* at 1371 (characterizing the respondent's argument as describing its decision as "launch[ing] United States copyright law into an unprecedented regime of 'international exhaustion'").

36. *See id.* at 1356.

37. *See id.*

38. *See id.* at 1356-57.

39. *See id.* at 1357.

40. *Id.* at 1358. *See also id.* at 1358-64.

41. *See id.* at 1364-67. For example, a geographical interpretation could mean that U.S. retailers, businesses, and buyers of copyrighted works manufactured abroad would need to track down copyright owners and obtain authorization before reselling or even giving away copies. A geographical interpretation could also prevent resale of goods (e.g., cars or mobile phones) without the owner's permission on every copyrighted piece or component of that good (e.g., software). Libraries, museums, charitable organizations, and non-profit entities could also have to take steps to obtain necessary licensing rights for goods that they import and distribute.

42. *Id.* at 1358.

43. *See id.* at 1367-71.

44. *Id.* at 1370. *See also id.* at 1371 ("[T]he Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain.").

45. *Id.* at 1370.

46. The U.S. has long opposed international exhaustion because it can make territory-based pricing and distribution policies impractical.

47. *See, e.g.*, *Pearson Educ., Inc. v. Kumar*, No. 10-2610-cv, 2013 U.S. App. LEXIS 12632, at *1-2 (2d Cir. Jun. 20, 2013) (in light of *Kirtsaeng*, vacating the district court's judgment in favor of various publishers and directing entry of judgment in favor of the defendants on the claim that the resale in the U.S. of textbooks manufactured by the plaintiffs in India violated the Act).

48. *But see AFL Telecommcns. LLC v. SurplusEQ.com Inc.*, No. CV11-1086 PHX DGC, 2013 U.S. Dist. LEXIS 71084, at *28 (D. Ariz. May 20, 2013) (holding that the first sale defense protected the defendant's later re-sale of certain fiber optic equipment containing copyright protected software that had been first manufactured and sold outside the U.S. to an exclusive distributor under a copyright license agreement).

49. *Cf., e.g.*, *Capitol Records, LLC v. ReDigi Inc.*, No. 12 Civ. 95 (RJS), 2013 U.S. Dist. LEXIS 48043, at *30-36 (S.D.N.Y. Mar. 30, 2013) (rejecting the first sale defense and holding that resale of "used" digital music files infringed on the rights to reproduce and distribute under the Act).

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Brazil's Accession to the Madrid Protocol

By José Ricardo de Bastos Martins and Felipe Chiavone Bueno

In a global and competitive world, trademark protection is a key element in the dissemination of products and services. Upon registering the marks, the owner ensures that its products and services are distinguished and protected from any culprits willing to take advantage of its reputation.

However, many entrepreneurs who maintain business abroad do not always register their trademarks in the country of their interest due to high costs and excessive bureaucracy.

Therefore, it is imperative for Brazil to accede to the Madrid Protocol, which now counts eighty-nine contracting countries.

The Madrid Protocol is an international treaty that was adopted in 1989 (in force as of December 1, 1995) and is administered by the World Intellectual Property Organization (WIPO). This Protocol aims at simultaneously facilitating and unifying the system of the international registration of marks (of products and services) in contracting countries. Thus, a single application for the registration of a certain mark in its country of origin would enjoy protection in many other countries.

A number of Brazilian entities related to the theme have supported Brazil's accession to the Madrid Protocol, particularly the Brazilian Chamber of Foreign Trade and the Instituto Nacional da Propriedade Industrial (INPI), an autonomous government agency that controls the registration of marks in Brazil. Evidently, other interested parties are Brazilian investors and exporters willing to disseminate their products abroad by means of their own mark, thus incrementing Brazilian exports.

Currently, trademark registration in Brazil comprises the Brazilian territory solely. So, if a foreign businessman needs trademark protection in Brazil, he or she must file a separate registration application in the country.

In addition to allowing designation in more than one designated countries, another substantial advantage to be enjoyed with the accession to the Madrid Protocol is the reduction of the term for registration of a certain mark. Today, the INPI takes more than two years to complete a registration procedure. With the aforementioned accession, relevant authorities estimate that the process may shorten to less than one year.

The INPI has already adopted measures to prepare for Brazil's accession to the Madrid Protocol, such as adopting the International Classification of Products and Services (Nice Classification), abandoning the old national classification and implementing the electronic system for application of registration of marks (the so-called *"e-marcas"*).

Another aspect to be highlighted in the Madrid Protocol concerns the definition of French, English and Spanish as official languages in the system of trademark protection. Many government and private entities in Brazil have been requesting that Portuguese be adopted as an official language.

The truth is that Brazil cannot afford avoiding accession to the Protocol, under the penalty of not becoming competitive enough to attract foreign investments.

Expectations are for accession to happen very soon. This will help position Brazil as a major target for long term foreign investments, a fact that may corroborate remediation of the infrastructure bottlenecks stopping the country from experiencing sound economic development, very much expected by the international community.

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A Brief Overview of ICANN and How It Impacts Trademark Owners

By Dennis Prahl

The Internet domain name system, that is the address system for the Internet, is about to expand greatly, starting as early as 2014 with enormous ramifications not only for users but also for online businesses, any enterprise with an online presence, and especially trademark owners. Although many people are familiar with domain names that end in .com, .org, .edu and some others, hundreds more of these extensions are about to come online, changing the Internet as we currently know it. This article provides a brief overview of ICANN's recent generic Top-Level domain changes, how those changes will impact trademark owners, and what options trademark owners have in reaction to these changes.

I. The New Generic Top-Level Domain Program

The Internet Corporation for Assigned Names and Numbers (ICANN), which is charged with coordinating the allocation and assignment of domain names and Internet protocol (IP) addresses,[1] approved the new generic Top-Level Domain Program on June 20, 2011.[2] The Program's purpose is to increase dramatically the number of Internet domain name endings, known as generic top-level domains (gTLDs). At the time the program was approved, there were twenty-two gTLDs, the most popular of which include ".com," ".net," and ".org." In addition to increasing the number of Latin character gTLDs, with possibilities such as .shop, .samsung, .eco, etc., the Program will also permit gTLDs in any language or script, thereby increasing Internet accessibility to more areas of the world.

To understand the Program's aims, it is vital to have a basic understanding of domain names. ICANN is responsible for managing and coordinating the Domain Name System (DNS), the global hierarchical system of domain names. A domain name consists of two or more levels which are maintained in a registry database. Top-level domains (TLDs) are the string of letters that appear after the last dot in a domain name, such as "COM" in *www.example.com*. Every TLD has a registry operator who is responsible for the technical operation of the TLD, including what second-level names it recognizes. Second-level names comprise the name directly to the left of the TLD, and have traditionally been the portion of a domain name which identifies the brand or entity. For example, in www.*icann.org*, "ICANN" is the second-level domain. The new program allows new prospective registry operators to apply for TLDs of their choice, greatly expanding the types of domain names available. According to ICANN, allowing Internet address names to end with almost any word in any language will offer "organizations around the world the opportunity to market their brand, products, community or cause in new and innovative ways."[3] In turn, this is meant to "…open up the top level of the Internet's namespace to foster diversity, encourage competition, and enhance the utility of the DNS."[4]

The term "generic" does not mean that a gTLD is not suitable for a trademark. Instead, generic TLDs are the group of TLDs that do not correspond to a 2-letter country code (for example, ".jp" for Japan or .fr for France). The new program allows for a vast amount of new gTLDs that include geographical TLDs such as ".london," community TLDs such as ".gay," industry keyword TLDs such as ".sports" or ".toys," and (most importantly for trademark owners) brand TLDs such as ".google," ".youtube," or ".apple."

II. The Application Process

ICANN received 1,930 applications for new gTLD strings[5] in the first round which is now closed while the applications are processed. A "string" is simply the string of characters that comprise an applied-for gTLD. Dates for subsequent application rounds have not been announced, although ICANN has stated that its goal is to launch subsequent rounds as quickly as possible.[6]

The applications are processed in four major stages.[7] First the application, consisting of detailed financial and operational information, is submitted. In the second stage ICANN performs the administrative completeness check to ensure that all requirements have been met. In the third stage ICANN publicizes the applications on its website, starting a sixty-day public comment period, as well as a seven-month formal Objection Filing period. Anyone may provide commentary on the posted applications, as long as the comments are associated with a specific application.

The Initial Evaluation begins shortly after the applications are made public, and consists of two main elements: string reviews and applicant reviews.[8] The applicant review involves a determination of whether the applicant meets the required technical, operational, and financial capabilities to operate a registry, and is generally less in depth than the string review. The string review concerns the applied for gTLD string rather than the applicant, and includes a determination of whether the string may cause security or stability problems in the DNS. Importantly for trademark owners, ICANN does not review proposed strings for conflicts with existing trademarks.[9] The application will be rejected if the proposed string is an exact match, or will create a probability of user confusion with an existing TLD, a reserved TLD, or ineligible TLD. However, if the proposed string is an exact match, or will likely cause confusion, with another proposed string, both of those strings will enter a contention set (a group of applications containing similar or identical gTLD strings) for additional evaluation.

The Initial Evaluation period for round one lasted approximately thirteen months, ending on August 30, 2013.[10] Of the initial 1,930 applications, 1,745 proposed strings passed Initial Evaluation and proceeded to the following stage, 121 were withdrawn, three were not approved, and the remainder were either on hold or eligible for extended evaluation.

Applicants who successfully complete the above stages must execute several concluding steps before the applied-for gTLD is completed.[11] This final stage, called the Transition to Delegation stage, consists of execution of a registry agreement with ICANN and a technical test to validate information provided in the application. ICANN announced in late August 2013 that the first of the contracted registries had passed pre-delegation testing.[12]

III. Importance for Trademark Owners

This Program will impact trademark owners whether or not they applied for their own gTLD. Although the real impacts of the Program remain to be seen, potential benefits include new opportunities for branding and marketing, greater control over security, and greater access to non-English speaking markets. Entities will now have a greater number of options regarding their online presence, from choosing to remain with a traditional domain name, to using a new gTLD domain name to drive traffic to their traditional website, or branding in a much more active gTLD. Businesses that own a registry will have a significant amount of control over who may secure domain names, and this enhanced security may be used as a tool to increase consumer confidence in their websites. Additionally, the program's allowance of non-Latin characters will allow access to foreign markets that were previously difficult to reach. Brand owners will now be able to register gTLDs specifically targeted to consumers in languages such as Russian, Mandarin, or Arabic.

The new gTLD program will also increase costs for all trademark owners. Those who choose not to participate in the program will be obliged to engage in increased monitoring to ensure that the new gTLDs do not infringe their legal rights or are used in such a way that harms their business activities or brand. Possible negative consequences for brand owners include consumer confusion, increased online fraud, and an increase in cybersquatting. A brand owner's greatest threat is from cybersquatters, who, in bad faith, register, traffic in, or use a domain name that is identical or confusingly similar to a trademark without regard to the goods or services of the parties.[13] While trademark owners already have significant enforcement issues related to second-level domains, the new program only exacerbates the problem while requiring increased monitoring. The costs to trademark owners who choose not to apply for a gTLD will primarily be in the form of enforcement budgets.

IV. Protections Available for Trademarks

There are two ways in which trademarks may be infringed as a result of the new gTLD program. The first is that a proposed gTLD string itself may infringe a trademark. The alternative scenario is when a second-level domain registered under a new gTLD may infringe a trademark. Trademark owners have the benefit of protections provided by both ICANN itself as well as protections outside of the ICANN program.

ICANN provides a number of protections for trademark owners at different stages of the gTLD application process. The first available protection occurs following ICANN's publication of the applications for each round, after which a brand owner may file an objection. Although the objection period for the first round of applications is now closed, this option will be available during future rounds. The grounds for objection most relevant for brand owners are the string confusion and legal rights objection. A string confusion objection is available where a proposed string is identical or confusingly similar to an existing TLD, or to another proposed TLD.[14] The legal rights objection may be asserted when a party has legal rights, such as a trademark, that conflicts with a proposed gTLD string. It is interesting to note that as of September 30, 2013, over 60 legal rights objection decisions have issued and only four have succeeded, indicating that there is a high standard to meet for success in such an objection.

The next level of protection provided by ICANN occurs at the commencement of the gTLD, and specifically addresses potentially infringing second-level domains. The first method of protection is the Trademark Clearinghouse and Claims Service, and the second is the Sunrise period. The Trademark Clearinghouse allows intellectual property owners to record their rights in order to be notified when identical strings are registered in the initial 90-day start up period of the new gTLDs. Each new gTLD must also offer a Sunrise period so intellectual property owners who have registered their rights with the Trademark Clearinghouse have the first opportunity to register those strings in the new gTLD. A variation of this protection allows owners of "abused" brands to record up to 50 abused domains (those that were subject of a successful determination in a prior Uniform Dispute Resolution Proceeding or court decision, such as "brandsucks.com") in the Clearinghouse that can also be used for notification and Sunrise registration.

While not an ideal enforcement mechanism, brand owners do have a remedy after a gTLD has been launched. The Uniform Rapid Suspension (URS) provides trademark owners with a procedure and remedy resulting in suspension of the domain name for the duration of its registration period. There may be some high barriers to bringing such a claim, however, since the URS is designed to be used in cases involving obvious infringement and requires the complainant to prove bad faith by a clear and convincing standard of proof.

The final mechanism provided by ICANN under the Program is the Post-delegation Dispute Resolution Procedure (PDDRP). This procedure allows a trademark owner to file a complaint against the operator of a new gTLD for engaging in a pattern of bad faith exploitation of domain names that conflict with the owner's trademark. If successful, this procedure may result in the suspension of the registrar's business for that activity.

Along with the new protections above, trademark owners still have recourse against infringing domain names through ICANN's Uniform Domain Name Dispute Resolution Policy (UDRP),[15] as well as through the courts under the Anti-Cybersquatting Protection Act (ACPA),[16] and the Lanham Act.[17]

Some operators of the new gTLDs have even promised to provide additional protections to trademark owners, at additional cost, of course. For example, Donuts Inc., which applied for over 300 new gTLDs such as .art, .clothing, .radio and .store, has announced the offering of a Domains Protected Marks List where trademark owners who have registered marks with the Trademark Clearinghouse can use them, for a fee, to block identical domain registrations in any of the Donuts' domains.

V. A Call to Action

In view of these developments and the short time available before these new domains start coming online, it is imperative that trademark owners take several proactive steps to protect their intellectual property on the Internet. The company's internal defensive domain registration policies should be reviewed in preparation for the new gTLDs to consider participation in Sunrise registration periods and defensive registrations. Primary marks should be identified and registered with the Trademark Clearinghouse to receive Trademark Claims alerts of identical new gTLD applications and to participate in Sunrise registration processes. Those primary marks should also be considered for any private protections the new gTLD operators are offering. Finally, since the pre-registration protections available only address identical matches, primary marks should be enrolled in a domain name watch service to detect similar and identical new domain names in the new gTLDs, typosquatting trends and other problems.

The new gTLD program offers potentially many benefits to trademark owners but also introduces many more risks that merit proactive management to head off problems in the future.

Endnotes

1. http://www.icann.org/en/about/governance/bylaws (Article 1 Section 1).
2. http://www.icann.org/en/news/announcements/announcement-20jun11-en.htm.
3. http://www.icann.org/en/news/announcements/announcement-20jun11-en.htm.
4. gTLD Applicant Guidebook, ICANN, at 2 (June 4, 2012), http://newgtlds.icann.org/en/applicants/agb/guidebook-full-04jun12-en.pdf [hereinafter Guidebook].
5. http://newgtlds.icann.org/en/announcements-and-media/announcement-13jun12-en. The list of applications may be viewed at https://gtldresult.icann.org/application-result/applicationstatus.
6. Guidebook, *supra* note 4, §1.1.6, at 22.
7. *Id.* §1.1.2 at 5.
8. *Id.* §1.1.2.5 at 11.
9. Discussed in footnote 89 of The New Generic Top-Level Domain Program: A New Era of Risk for Trademark Owners and the Internet.
10. http://newgtlds.icann.org/en/announcements-and-media/announcement-30aug13-en.
11. Guidebook, *supra* note 4, §1.1.2.11, p. 16.
12. http://newgtlds.icann.org/en/announcements-and-media/announcement-26aug13-en.
13. 15 U.S.C. §1125(d).
14. *Id.* §3.2.2, at 151.
15. UDRP, ICANN.
16. Anticybersquatting Consumer Protection Act (ACPA), 15 U.S.C. §1125(d)(1) (2006).
17. Lanham Act §§32-43, 15 U.S.C. §§1114-1125 (2006).

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The New Post-Grant Review of Patents

By Gerard F. Diebner

I. Introduction

President Obama signed the Leahy-Smith Americas Invents Act ("AIA") into law on September 16, 2011. The AIA enacts sweeping changes to the patent statute, 35 USC. One area which has been substantially changed is post-grant review proceedings. The proceedings give third parties much greater opportunity to challenge patents before the PTO.

II. Post-Grant Review Proceedings

Section 6[1] of the AIA substantially enhances the post-grant review of patents. There are two types of post-grant review proceedings, an inter-parties review[2] and a post-grant review.[3] Also, as discussed more fully below, Section 6 provides expanded opportunities to submit prior art during the prosecution of the patent application.[4]

A. Inter-Parties Review

An inter-parties review is similar to an inter parties reexamination. Here, any third party could request cancellation of one or more patent claims as anticipated or obvious, but only on the basis of prior art patents or publications.[5] This type of review must be filed after the later of 9 months after the grant of a patent or reissue or the conclusion of any post-grant review.[6]

An inter-parties review is commenced by filing a petition.[7] The petition must be accompanied by any applicable fees, and the petition must identify the real party in interest and identify, in writing and with particularity, each claim challenged, the grounds of the challenge, and the evidence which supports the challenge. Copies of patents and printed publication must be included. Also, affidavits or declarations of experts can be included. Finally, petitions are public.

The patent owner has the right to respond to the petition.[8] Based on this information, the Director determines if the information presented is sufficient to show that there is reasonable likelihood that the petitioner would prevail with respect to at least one claim.[9] The Director must make this determination within three months of receiving the patent owner's response or, if no response is filed, within three months of when the response was due.[10] The determination of whether to grant or deny a petition is final and not appealable.[11]

The burden of proof a petitioner must meet in order to have an inter-partes review granted is a reasonable likelihood that at least one of the challenged claims is invalid.[12] The decision of whether to grant the petition is determined on a claim by claim and a challenge by challenge analyses. That is, a petition can be granted as to only some of the claims challenged and only on some of the grounds raised in the petition.

If a petitioner or real party in interest has already commenced a civil action, then the petitioner or real party in interest cannot seek an inter-parties review.[13] Also, an inter-parties review cannot be instituted if the petition is filed more than one year after a patent owner has commenced a civil action against the petitioner, real party in interest or his or her privy.[14]

If a petitioner or real party in interest commences a civil action after filing a petition, the civil action will be automatically stayed until either the patent owner moves to lift the stay, the patent owner claims infringement or the petitioner or real party in interest moves to dismiss the civil action.[15]

An inter-partes review will invoke an estoppel.[16] A petitioner, real party in interest or privy cannot request a proceeding before the PTO on any ground it did or reasonably could have raised in the petition. Also, a petitioner, real party in interest or privy cannot assert, in a civil action or ITC proceedings, any ground it raised or reasonably could have raised in the petition.

An inter-partes review will be public, although protective orders are available. Discovery and depositions of declarants will be available.[17] A patent owner will be allowed to amend or cancel challenged claims.[18]

If more than one inter-partes review is commenced, the Director may join them.[19]

An inter-partes review can be terminated by agreement between the parties.[20] In that event, no estoppel will apply. The agreement to terminate must be in writing and that agreement, and any collateral agreements referred to in the agreement, must be in writing, and a copy must be filed with the PTO. Upon request of any party, this agreement can be kept separate and made available only to Federal Government agencies upon written request or to any person showing good cause.

A decision on an inter-partes review will be issued by the Patent Trial and Appeal Board.[21] This decision will be appealable to the Court of Appeals for the Federal Circuit.[22]

Inter-partes reviews became available on September 16, 2012. They apply to any patent issued before, on or after that date.[23] The Director may limit the number of inter-partes reviews during the first four years.[24]

B. Post-Grant Review

Another procedure available under the AIA is the post-grant review.[25] This type of review can be requested by any third party for any ground of invalidity except best mode.[26] A petition for post-grant review, however, can only be filed no later than 9 months after the grant of a patent or reissue patent.[27] As is the case with an inter-partes review, a post-grant requester can submit expert declarations and affidavits.[28]

A post-grant review petition can be authorized if the petition demonstrates it is more likely than not that at least one challenged claim is unpatentable.[29] Note that this burden is greater than the burden seeking an inter-partes review, which is a reasonable likelihood that at least one of the challenged claims is invalid. In addition, a post-grant review petition can be granted by showing that the petition raises a ground or unsettled legal question that is important to other patents or applications.[30]

Many of the regulations governing a post-grant review are substantially the same as those governing an inter-partes review. One difference, however, is that if a patent owner has filed a civil suit within 3 months of a patent's issuance, a court may not stay a request for a preliminary injunction on the ground that a post-grant review has been requested or has been commenced.[31]

C. Citation of Prior Art

35 U.S.C. §301 was expanded as of September 16, 2012. Under this section, in addition to prior art patents and publications, any person at any time may also cite to the Patent Office statements filed by the patent owner in a proceeding before a Federal Court or the Patent Office in which a patent owner took a position on the scope of any claim of a particular patent.[32] If the party making the submission explains the pertinence of the submission in writing, the statement will become part of the file of the patent.[33] These new types of statements and explanations, however, can only be used to determine the proper meaning of a patent claim during an ex-parte reexamination, inter-partes review or post-grant review.[34] Also, upon written request, the identity of the party making these submissions can be kept confidential and excluded from the patent file.[35]

D. Other Considerations

Ex-parte reexaminations will continue unchanged. Inter-partes reexaminations will be phased out in favor of inter-partes and post-grant reviews.

III. Comparing Inter-Partes Review and Post Grant Review

	Inter-Partes	**Post-Grant**
When	After the later of 9 months after grant of patent, reissue or post-grant review	No later than 9 months after grant of patent or reissue
Grounds	Anticipation or obviousness based on prior art patents or publications	Any ground of invalidity except best mode
Burden of Proof	Reasonable likelihood that at least one challenged claim is invalid	More likely than not that at least one challenged claim is invalid
Affidavits and Declarations Permitted?	Yes	Yes
Discovery Permitted?	Yes	Yes
Estoppel?	Yes	Yes

IV. Conclusions

The new inter-partes and post-grant review procedures substantially enhance a third party's ability to challenge an issued patent before the Patent Office. Be aware, however, that the estoppel rule will prevent a petitioner, a real party in interest or a privy from raising any ground it raised or reasonably could have raised during either procedure in a subsequent proceeding before the Patent Office, an ITC proceeding or a civil action.

Endnotes

1. 35 U.S.C. §§311-329.
2. 35 U.S.C. §§311-319.
3. 35 U.S.C. §§321-329.
4. 35 U.S.C. §301.
5. 35 U.S.C. §§311(b).
6. 35 U.S.C. §311(c).
7. 35 U.S.C. §312.
8. 35 U.S.C. §313.
9. 35 U.S.C. §314(a).
10. 35 U.S.C. §314(b).
11. 35 U.S.C. §314(d).
12. 35 U.S.C. §314(a).
13. 35 U.S.C. §315(a)(1).
14. 35 U.S.C. §315(a)(2).
15. 35 U.S.C. §315(b).
16. 35 U.S.C. §315(e).
17. 35 U.S.C. §315(a)(1).
18. 35 U.S.C. §316(d).
19. 35 U.S.C. §315(c) and (d).
20. 35 U.S.C. §317.
21. 35 U.S.C. §318.
22. 35 U.S.C. §319.
23. 35 U.S.C. §319(c)(2)(A).
24. 35 U.S.C. §315(c)(2)(B).
25. 35 U.S.C. §§321-329.
26. 35 U.S.C. §321(a) and (b).
27. 35 U.S.C. §321(c).
28. 35 U.S.C. §322(a)(3)(B).
29. 35 U.S.C. §324.
30. 35 U.S.C. §324(b).
31. 35 U.S.C. §325(c).
32. 35 U.S.C. §301(a)(2).
33. 35 U.S.C. §301(b).
34. 35 U.S.C. §301(d).
35. 35 U.S.C. §301(e).

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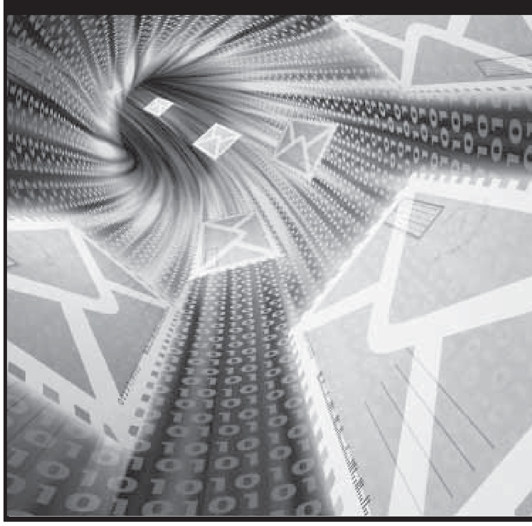

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The Evolution of the Brazilian Legal Framework in View of Major Entertainment and Sporting Events

By Fábio Pereira and Richard Sobkiewicz

With the conclusion of the FIFA Confederations Cup and nationwide political unrest, the world is paying particularly close attention to Brazil. This attention will only grow as Brazil prepares to host the 2014 FIFA World Cup and the 2016 Olympic and Paralympic Games. While major infrastructure upgrades and stadium construction, not to mention the chances of the men's soccer squad, are receiving the bulk of the headlines, significant legislative changes and regulatory reforms are also being considered in anticipation of the Games, especially in the areas of IP and entertainment law. Driven by unprecedented economic growth, the Brazilian government seems determined to turn the country into a more friendly environment, not only for major sporting competitions but for all kinds of events, ranging from religious gatherings such as the World Youth Day 2013 to the most expensive and complex cultural demonstrations, such as rock festivals—Rock in Rio has become a strong brand—and film-making, with movies starting to be made in the country.

This article will provide an overview of recent developments in the areas of IP and entertainment law, indicating that Brazil is on the verge of making numerous changes. While some of the changes were specifically enacted to facilitate the use of content and the protection of right holders during the coming events, most of them are destined to permanently change Brazil's legal landscape.

The two main legal changes relating to Brazil's role as host of the 2014 FIFA World Cup and the 2016 Olympic and Paralympic Games are the World Cup Law (Law 12,663/2012) and the Olympic Act (Law 12,035/2009). The two laws have very different scopes, with the Olympic Act consisting of a preliminary engagement in connection with minimum required standards for hosting the Games (such as brand protection and budgetary concerns) and the World Cup Law containing very detailed provisions protecting organisers and official sponsors' exclusive rights, preventing ambush marketing, safeguarding intellectual property assets, creating commercial restrictions on the areas surrounding stadiums and access roads, and regulating the recording and broadcasting of images of matches.

The existence of those laws is inherently connected with the hosting of the events and their provisions will cease to have effect as soon as all the medals and trophies are awarded. How Brazilian Courts interpret and apply such specific provisions is yet to be discovered and that unknown factor is the main drawback to these laws. If the current pace of Brazilian Courts is taken into account, we will only see a final and non-appealable decision in a lawsuit based on these laws when FIFA and its official sponsors have their eyes turned to Russia, stage for the 2018 FIFA World Cup. In this sense, the laws are expected to serve both as a temporary relief to major problems, while also having an expiatory and deterrent effect.

On the other hand, Brazil's economic situation and the major events it has attracted may also be considered as spurring other necessary (or, at least, long-awaited) legal changes. Entertainment, IP and IT Laws are currently undergoing a series of discussions surrounding bills and laws which are expected to fundamentally change these fields.

Two very important laws have recently been enacted: the Pay-TV Law (Law 12,485/11) and the Carolina Dieckmann Law (Law 12,737/2012). The Pay-TV Law, regulated by the National Cinema Agency (ANCINE), sets out a new broadcasting regime for pay TV, establishing foreign ownership rules and local content requirements. The Law is said to be aimed at fostering the growth of the Brazilian audio-visual market, increasing competition among entities and professionals involved in that market, promoting Brazilian culture and ensuring better service conditions for Brazilian consumers. In this sense, the main purpose of the new regulation is to nurture the audio-visual sector, including not only programmers, producers and content developers but also channel bundlers, advertising agencies and even telecom companies, as well as new players in the audio-visual content market. These changes have already had positive impacts on the audio-visual market, and producers and content developers are rushing to meet the increasing demand.

The Carolina Dieckmann Law, on the other hand, named after a well-known Brazilian actress who was the victim of cyberhacking, establishes certain cyber crimes, and will protect the online banking and e-commerce industries, which helps to create a safer Internet "ecosystem" for online transactions, possibly having an impact on the distribution of online content.

In addition to the above-mentioned laws, there are several bills still under debate and analysis. The Unauthorised Biography Bill aims to clarify the extent to which unauthorised image and personality rights can be used, thereby preventing public figures from blocking the publication of unauthorised biographies, such as books and movies. The Reform of the Copyright Act has been under discussion for several years, given the complexity of the proposed changes. The bill, if approved, will see, as its main effect, broader access to copyrighted works as a result of both an increased number of copyright exclusions (possibly including an open clause, such as fair use or fair dealing) and the creation of legal licences for copyrighted works.

Among those very important changes in copyright matters, an antitrust matter was recently the centre of discussion: the Brazilian Antitrust Authority (CADE) was analysing alleged price-fixing by the Brazilian Central Collection and Distribution Agency (ECAD) used in the collection of public performance rights for music in Brazil. CADE's decision may substantially affect the collection of rights in the near future. As a result, the Senate very recently approved Bill 129/12, which changes the rules for the collection of royalties by ECAD. If passed, the bill will reform ECAD, making it more transparent and efficient by establishing the fees to be charged by ECAD and creating disclosure requirements for both artists and TV and radio broadcasters. The bill has now been submitted to the House of Representatives for approval.

None of these subjects has been so overtly and thoroughly discussed as the Internet Bill of Rights, currently being debated by the House of Representatives. Having undergone several modifications since its introduction, the bill is expected to become a "constitution for the Internet," addressing freedom of expression, access to information, privacy protection, neutrality and preservation of the participatory nature of the Internet. If passed, this bill will represent a major breakthrough for the region and will be the first example of comprehensive protections of citizens' rights to Internet access.

When it comes to data and privacy, Brazil lacks a specific law on data protection. In other words, Brazil, as opposed to a number of countries throughout the world, does not have a comprehensive and specific data protection framework, although the Brazilian Federal Constitution, the Brazilian Civil Code and the Consumer Defence Code contain general provisions. Although there is no specific legislation targeting the protection, transfer and retention of data in Brazil, discussions around data protection have been a hot topic in Brazil in the last decade and the country is expecting the outcome of a specific bill of law in this regard.

The proposed bill of law is intended to represent a regulatory benchmark and aims at establishing a National Council for the Protection of Personal Data to manage and disclose, under specific rules, data such as personal addresses, ID numbers, credit scores and even more "sensitive data," such as religion and sexual orientation. According to some specialists, the bill of law is intended to both protect individuals and to secure investment in Brazil as it brings certainty and legal security to transactions involving foreign companies and their data. This will certainly create safer conditions for companies willing to invest in Brazil, either through partnering with local entities or by establishing a local presence, in anticipation of the major events taking place in the years to come.

In terms of technological development and investments, the Private Equity and Venture Capital Industry is showing consistent growth; the information and communications technology (ICT) and manufacturing sectors were the top two areas for foreign direct investment (FDI) in 2011, accounting for over US$14.8bn, with the Brazilian ICT sector being the world's seventh largest and the leader in Latin America. Technology and innovation are clearly drivers of the economy in the country and Brazil shows consistent growth in Internet and mobile use. According to the Brazilian Institute of Geography and Statistics, between 2005 and 2011, the population over ten years old grew by 9.7%, while the Internet users in the same age range grew by 143.8% and users of mobile phones in that demographic grew by 107.2%. In addition, we see growth of above average world rates in; e-commerce; mobile-commerce and social-commerce; in the use of social networks; in the penetration of mobiles; e-books and tablets. A number of local companies, along with university incubators, are gathering around technology parks, investing in research and development and benefiting from tax incentives to develop technology. These centres of innovation are expected to generate wealth and create "the perfect storm" for foreign investment.

In summary, Brazil is still in a time of economic growth in a number of sectors and entering a period of legal change, aimed at strengthening the rights of IP holders while facilitating the use and dissemination of content as well as the exploitation of copyrights during the World Cup and the Olympic and Paralympic Games. But the changes directly provoked or indirectly promoted by those major events are bound to become a step forward in Brazil's regulation of the Internet, multimedia broadcasting, technology and intellectual assets, in such a way that the country may be in a position to influence lawmaking, even across borders and possibly at the same level as historical players.

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Litigation in Brazil—The Difficulties and Alternatives

By Octávio Aronis

For an attorney with a law firm in Sao Paulo, Brazil (despite significant developments in Brazil in recent years and the progress of our country), civil litigation and navigating the Brazilian legal process can be difficult, time consuming and a far from efficient process.

I always carefully explain to all of my clients, whether domestic or international, that due to the cumbersome, slow and costly bureaucratic process, commercial litigation should only be pursued when all other alternatives have failed. Most notably, regardless of the merits of a case, obtaining a judgment through a civil lawsuit can require anywhere between five to ten years, or even longer.

That said, Brazil has established an excellent regulatory and monitoring agency called the Conselho Nacional de Justiça, which has been effective in prosecuting unethical and corrupt judges, and has worked to monitor court procedures to ensure that litigation processes are not unduly delayed, including reducing the number of cases eligible for presentment to the Supreme Court.

However, and despite this oversight, there is still a lack of management reform and a weakness in aiming for conciliation, mediation, and arbitration and alternative resolution methods throughout the legal system. There is also a lack of control in the number of frivolous lawsuits filed, which ultimately clogs the legal system and contributes to the delay of justice, with approximately 63.5 million pending lawsuits awaiting judgment. Further, there is a lack of regulation over which trial judgments can be appealed, which has led to excessive appellate filings, which further contributes to the delay.

Another important element to be considered before entering into litigation is the legal costs. Due to the length of time required to obtain judgment, the ongoing costs, and the ultimate risk that even after obtaining a money judgment, there is no guarantee of collection, litigation is generally not recommended on commercial claims less than USD $50,000.

In addition to legal fees, there are general costs which must be considered, particularly with foreign claimants, whereby all pertinent documents must be translated into Portuguese by an official translator, as well as certified by the local Brazilian Consulate.

Further contributing to the inherent difficulties in pursuing litigation in Brazil, Brazilian law states that foreign claimants must provide a legal bond, between 10-20% of the claim value, prior to the commencement of a lawsuit, to be available for execution in the event that the plaintiff does not prevail in the lawsuit and is found liable for the defendant's legal fees. While judges have the ability to not require foreign plaintiffs to carry a legal bond, there is always a possibility that it will be required.

Regarding legal fees, I often receive inquiries fro companies abroad that are already involved in litigation in Brazil and suddenly realize they have paid hourly fees equivalent to almost 50% (or more) of the original claim value. As the ongoing and slow bureaucratic process requires significant legal work, in which significant legal fees may accrue, a rigorous investigation should be performed of a defendant's assets, operational status, as well as long-term financial viability to pay a claim, prior to commencing a lawsuit.

Generally speaking, it is considered reasonable to pay legal fees either completely on a contingency basis or as a combination of a handling fee and a success fee based upon the amount collected. Including a contingent fee element provides Brazilian attorneys motivation to resolve legal matters swiftly and encourages the avoidance of unnecessary or lengthy legal processes.

Arbitration, Mediation and Conciliation

In Brazil, there are several Chambers of Arbitration to support the arbitration process. These Chambers employ highly qualified legal personnel who are adept at understanding complicated legal issues and who encourage negotiation amongst parties. While costs for these these Chambers of Arbitration remain relatively high, resolution often comes quicker than through the court system, and should be considered as a forum when negotiating contracts, particularly when high claim amounts may be involved.

Binding Mediation and Conciliation are two other excellent alternatives if all parties have a genuine interest in a resolution. With either of these alternatives, both parties must be willing to present their respective arguments as well as accept the ultimate decision of the mediator(s).

Payment by installments, cash payment with a discount, and loans and personal guarantees are some of the ways in which settlements with a debtor are reached. In some cases, it is recommended to offer a reasonable discount against the amount owed as an initial negotiation strategy, rather than invest significant capital and risk a significant delay in time before payment is eventually made. Further, all efforts should be made to obtain signed acknowledgements of a debtor's obligation as well as payment installment terms, which may ultimately expedite any future possible legal proceedings should terms for payment not be upheld.

In Brazil, it is common practice for a personal guarantee to be used to support a company's credit or debt obligations. However, due to local requirements as to the enforceability of personal guarantees, a local attorney is recommended to verify the legal terms, conditions and value of the guarantee. It is furthermore advisable to register personal guarantees with a Brazilian Notary Public.

Over the years, we have noticed a significant difference in the positive outcome of international claims which have been entrusted to local Brazilian counsel or collection agencies, compared to when they are dealt with directly from overseas. It is the local professional's experience and know-how regarding local laws, legal infrastructure, and cultural peculiarities that helps to minimize expenses, particularly since substantial losses may have been incurred in a creditor not receiving a customer's payment. In particular, this experience and know-how can provide foreign companies with a level of comfort not only in collection activities, but in initial work in establishing operations in Brazil and developing relationships with local vendors, customers, and suppliers.

Finally, it is highly recommended that prior to doing business with a new customer in Brazil, the financial and legal circumstances surrounding that customer should be thoroughly investigated with all contracts and other legal documentation properly reviewed by local counsel. This will minimize potential problems and future misunderstandings, and will ultimately lead to a more positive and profitable experience in Brazil.

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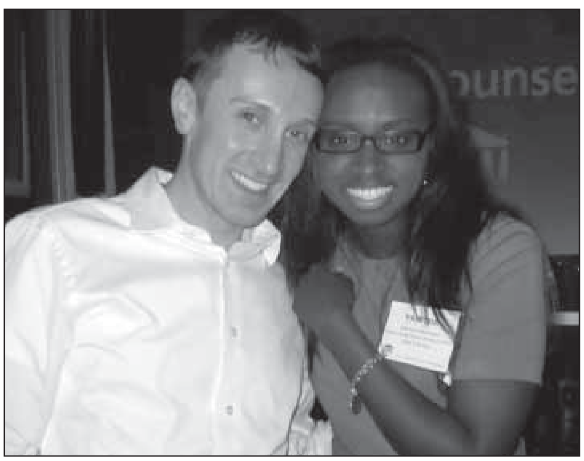
Corporate Counsel Section 2013 Member Appreciation Event

On October 24, 2013, the Section held its annual Member Appreciation Event at the Upstairs at the Kimberly Hotel in midtown Manhattan. It was well attended and a great opportunity to reconnect with old friends and make new ones, as well.



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Inside

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