Intellectual Property

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Just Moot It: Supreme Court in *Already v. Nike* Clarifies When a Covenant Not to Sue Can Kill a Declaratory Judgment Case

BY JEDEDIAH WAKEFIELD AND SEAN WIKNER

In 2007, the Supreme Court in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), broadened the scope of declaratory judgment jurisdiction, making it easier for parties fearing IP claims to bring defensive lawsuits. Last week, the Court made it easier for IP owners to end them.

In *Already, LLC, dba Yums v. Nike, Inc.*, 133 S.Ct. 721 (2013), a trade dress case involving an athletic shoe design, the Court issued a unanimous decision clarifying the applicable legal standard for dismissing a case as moot where the defendant has voluntarily ceased the alleged wrongful behavior. The case started when Nike sued Yums for infringing its trade dress in its "Air Force 1" shoe. After Yums filed a counterclaim to invalidate Nike's trade dress registration, Nike decided it wanted out. It dismissed its claims, and provided Yums a covenant not to sue it in the future. Nike then moved to dismiss the case, arguing that there was no longer any "case or controversy," and thus, no subject matter jurisdiction.

In affirming dismissal of a counterclaim for declaratory judgment, the Supreme Court found that a broad covenant not to sue can render a case moot, removing Article III standing. The Court clarified that such cases are analyzed under the "voluntary cessation" doctrine, and that a party hoping to rely on such tactic will bear a heavy burden of showing that it is "absolutely clear" the allegedly wrongful behavior will not recur.

Although this opinion provides practical guidance on drafting a covenant not to sue sufficient to defeat subject matter jurisdiction, parties considering such a move must carefully consider broader ramifications.

Background

Nike originally filed the lawsuit in federal court in the Southern District of New York, alleging that Yum's "Soulja Boys" and "Sugars" shoe lines infringed and diluted Nike's "Air Force 1" trade dress. Yums denied the allegations and filed a counterclaim contending that the "Air Force 1" trade dress registration was invalid. Several months later, after settlement discussions, Nike issued a covenant not to sue, promising that Nike would not raise trademark or unfair competition claims based on any of Yum's existing footwear designs, or any colorable imitations thereof. Nike then moved to dismiss its own claims and Yum's invalidity counterclaim.

The district court granted Nike's motion. Construing the covenant broadly, the district court found that Yums lacked Article III standing to pursue its declaratory judgment counterclaim. The U.S. Court of Appeals, Second Circuit affirmed, finding it hard to conceive of a shoe that would infringe the "Air Force 1" trademark yet not fall within the scope of the covenant. Yums appealed, and the Supreme Court granted *certiorari* in June 2012.

In This Bulletin

Mootness and Voluntary Cessation

The Supreme Court reaffirmed that Article III of the Constitution requires that an actual controversy exist, not only at the time that the complaint is filed, but through all stages of the litigation. A case becomes moot, and thus no longer a "case or controversy," when the issues presented are no longer live or the parties lack a legally cognizable interest in the outcome.

The Court recognized, however, that a defendant cannot simply moot a case by ceasing the disputed conduct once it is challenged in court. Otherwise, a party could simply stop unlawful conduct when sued, and pick up again when the case is declared moot. Instead, when a party claims that its voluntary compliance moots a case, the Court applies the "voluntary cessation" doctrine. Under this doctrine, a defendant claiming that its voluntary termination of conduct moots a case "bears the formidable burden of showing that it is absolutely clear the allegedly wrongful behavior could not reasonably be expected to recur."

Nike's Covenant Not to Sue

Applying the voluntary cessation doctrine, the Court found that Nike's covenant met the heavy burden imposed by the voluntary cessation test. First, the covenant was unconditional and irrevocable; Nike could not simply change its mind and pursue Yums in the future. Second, the covenant prohibited Nike from not only filing suit, but also from making any claim or any demand. Thus, Yums was protected not only against future lawsuits, but other cease and desist letters, demands or threats that might place a cloud over its business activities. Third, the covenant reached beyond Yums to protect Yum's distributors and customers and protecting Yums from "downstream" IP claims. Fourth, the covenant covered not just current or previous designs, but any colorable imitations of those designs – thus protecting Yums going forward.

In considering whether Nike met its burden, the Court also noted that Yums—despite ample opportunity to do so at all levels of the proceedings—had failed to identify any evidence of current or future shoe designs that would expose it to the prospect of infringement liability yet not be covered by the covenant: "If such a shoe exists, the parties have not pointed to it, there is no evidence that [Yums] 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."

Based on the language of the covenant not to sue and Yum's failure to show any evidence of a potentially infringing product, the Court found that the case was moot because the challenged conduct could not reasonably be expected to recur.

Alternative Theories of Article III Injury and Policy Consideration

The Court also considered and rejected three alternative theories of Article III injury as insufficient to establish standing. First, Yums argued that as long as Nike remained free to assert its trademark, investors would be apprehensive about investing. The Court disagreed, finding that such investor decisions would be based on conjecture, which does not give rise to a "concrete" and "actual" injury necessary to establish Article III standing.

Second, Yums argued that, given Nike's decision to sue in the first place, Nike's trademarks would hang over Yum's operations "like a Damoclean sword" and that Nike might interfere with its distributors and customers. The Court rejected this argument on the grounds that the hypothetical misconduct would either be barred by the covenant, or would be unrelated to Nike's trademark and would not be prevented by its invalidation.

Third, Yums made the sweeping argument that, as one of Nike's competitors, it inherently had standing to challenge Nike's intellectual property. The Court summarily rejected the premise that a market participant is injured for Article III purposes whenever a competitor benefits from something allegedly unlawful.

Fourth, the Court observed that, in the trademark context, covenants not to sue may be a risky long-term strategy for trademark holders, given that widespread use of a mark by third parties may be evidence of a lack of likelihood of confusion in future litigations, and because uncontrolled, or "naked," licensing may result in a loss of trademark rights. Thus, the concern that the case allowed Nike and other brand owners to bully small innovators was unfounded. The Court observed that adopting the position advocated by Yums, while benefitting the smaller competitor here, would actually enable larger companies with more resources to challenge the intellectual property portfolios of smaller competitors, thus enabling companies to "employ litigation as a weapon against their competitors rather than as a last resort for settling disputes."

Takeaways

This case provides helpful clarification that the "voluntary cessation" doctrine is alive and well, and that a party claiming that its change of conduct has mooted a case will bear a heavy burden. In the intellectual property context, the case makes clear that a properly crafted covenant not to sue remains a viable option to end a declaratory judgment lawsuit. While this situation arises relatively rarely, the ability to terminate a lawsuit, rather than face ongoing litigation expenses or a uniquely bad outcome, may be a useful tool for IP owners managing broad portfolios or enforcement programs.

Nike's covenant not to sue, now blessed at the Supreme Court, will likely become the gold standard against which courts will scrutinize future covenants. Such agreements are more likely to survive scrutiny where they: (1) are irrevocable and unconditional, (2) apply to all demands, not just lawsuits, (3) protect downstream customers, and (4) cover not just past and present conduct, but future infringement as well.

Intellectual property owners should carefully consider the broader implications of such covenants, and should bear in mind the potential risks and consequences to their IP rights.

As for Yums and similarly situated plaintiffs, this decision does not eliminate all recourse. A party claiming harm from a trademark registration may challenge it by pursuing opposition or cancellation proceedings before the Trademark Trial and Appeal Board. Likewise, parties may seek *inter partes* review or *ex parte* reexamination of patents. But this case reaffirms the core principle that federal courts are reserved for disputes over actual injuries.

Murky Waters: Post-Approval Regulatory Activities and the § 271(e)(1) Safe Harbor

EWA M. DAVISON AND DAVID K. TELLEKSON

On January 14, 2013, the U.S. Supreme Court refused to consider the U.S. Court of Appeals for the Federal Circuit's exclusion in *Classen Immunotherapies, Inc. v. Biogen IDEC*, 659 F.3d 1057 (Fed. Cir. 2011), of post-approval regulatory activity from the safe harbor established by 35 U.S.C. § 271(e)(1). The Supreme Court's denial of the petition for *certiorari* filed by GlaxoSmithKline (Glaxo) should not be interpreted, however, as approval of the narrow construction adopted below by a divided Federal Circuit panel. To the contrary, it is likely that the Supreme Court refused to hear this case because the Federal Circuit all but overruled *Classen* in *Momenta Pharmaceuticals, Inc. v. Amphastar Pharmaceuticals, Inc.*, 686 F.3d 1348 (Fed. Cir. 2012)[1].

But given the split in Federal Circuit jurisprudence, the competing public policy considerations, and the need of the pharmaceutical industry for bright-line guidance as to which post-approval regulatory activities fall within the scope of § 271(e)(1) and which fall without, it seems likely that the Supreme Court will soon have another opportunity to construe the scope of the safe harbor—perhaps in the *Momenta* decision itself.

The § 271(e)(1) Safe Harbor

Generally, a patent is infringed when the patented invention is made, used, offered for sale, or sold in the United States, or imported into the United States, without authority. 35 U.S.C. § 271(a). In 1984, however, Congress exempted from patent infringement certain activities related to satisfying federal regulatory requirements. As amended, this exemption—codified at 35 U.S.C. § 271(e)(1)—applies to otherwise infringing activities that are undertaken "solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products." Congress created the § 271(e)(1) safe harbor as part of its attempt to balance competing societal interests in promoting innovation through patent protection and hastening the market entry of generic drugs.

The Supreme Court has twice considered the scope of the exemption established by § 271(e)(1), and in both cases adopted a broad, inclusive construction. First, the Court held in *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990), that the § 271(e)(1) safe harbor encompasses not only pharmaceutical products but also medical devices. And in *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 208 (2005), the Court concluded that, whether or not ultimately submitted to the FDA, preclinical research is also protected within the § 271(e)(1) safe harbor "as long as there is a reasonable basis for believing that the experiments will produce the types of information that are relevant to an IND or NDA." In so holding, the Supreme Court

1 While one panel of the Federal Circuit cannot overrule another, the government, in its amicus brief opposing Glaxo's petition of certiorari, characterized the *Momenta* opinion as "cabining" the holding of *Classen*.

observed that § 271(e)(1) encompasses "a wide berth," as it "exempt[s] from infringement *all* uses of patented compounds 'reasonably related' to the process of developing information for submission under *any* federal law regulating the manufacture, use, or distribution of drugs." The Supreme Court has not, however, considered whether regulatory activities undertaken *after* a drug's approval by the FDA fall within the confines of the § 271(e)(1) safe harbor.

Post-Approval Regulatory Activities—Take One: *Classen*

Classen Immunotherapies sued Biogen IDEC, Glaxo, and several additional pharmaceutical companies for infringement of patents relating to methods for improving the safety of vaccine administration schedules. According to these patents, the development of certain chronic disorders can be affected by the timing of infant immunizations. After Dr. Classen published articles suggesting such a relationship, a study sponsored by the Centers for Disease Control and Prevention (CDC) examined the vaccination histories of more than 1000 children and found no association between vaccination schedules and development of diabetes. Classen charged Biogen and Glaxo with infringement based largely on their participation in the CDC-sponsored study. Relying on the Supreme Court's broad language in *Merck*, the district court granted summary judgment to Biogen and Glaxo on the basis that their activities fell within the § 271(e)(1) safe harbor, reasoning that evaluation of vaccination risks was reasonably related to information required by the FDA, such as annual reports of post-marketing studies as well as reports of adverse reactions. *Classen Immunotherapies, Inc. v. Biogen IDEC*, 381 F. Supp. 2d 452 (D. Md. 2005).

A divided panel of the Federal Circuit vacated the district court's judgment of non-infringement based on the § 271(e)(1) safe harbor[2]. In a decision written by Judge Newman and joined by Judge Rader, the panel majority held that "§ 271(e)(1) provides an exception to the law of infringement in order to expedite development of information for *regulatory approval* . . . [and] does not apply to information that may be routinely reported to the FDA, long after marketing approval has been obtained" (emphasis added). In reaching this conclusion, the majority relied on legislative history, as well as the Supreme Court's decisions in *Eli Lilly* and *Merck*, noting that all of these sources discussed § 271(e)(1) solely in the context of pre-approval activity. Accordingly, the majority rejected encompassing post-approval activity within the safe harbor as "a massive enlargement of the statutory exemption."

Judge Moore dissented from the majority's limitation of § 271(e)(1) to pre-approval activities. Judge Moore observed that nothing in the plain language of the statute supported such a limitation in the scope of the safe harbor; that the Supreme Court in *Merck*, although considering pre-approval activities, "repeatedly underscored the breadth of the statute's text;" and that the legislative history does not speak to whether § 271(e)(1) extends to post-approval activities.

The Federal Circuit refused to rehear the case *en banc*.

Post-Approval Regulatory Activities—Take Two: *Momenta*

Less than a year later, however, a divided panel of the Federal Circuit all but overruled *Classen*. At issue in *Momenta* was the manufacturing process for a generic version of Lovenox (enoxaparin), a heparin derivative used to prevent blood clots. The FDA required each generic manufacturer to prove on an ongoing basis that its drug contains about 20 percent of a 1,6-anhydro disaccharide derivative. Amphastar chose to satisfy this requirement by implementing during its manufacturing process a batch-testing method that allegedly infringed Momenta's patent. Relying on *Classen*, the district court concluded that Amphastar's batch-testing method was a post-approval activity that did not fall within the § 271(e)(1) safe harbor, and granted Momenta a preliminary injunction.

A divided panel of the Federal Circuit vacated the district court's decision. The majority, consisting of Judge Moore (the dissenting judge in *Classen*) and Judge Dyk, acknowledged *Classen* as holding that § 271(e)(1) "does not apply to information that may be routinely reported to the FDA, long after marketing approval has been obtained" (quoting *Classen*). Having said that, however, the majority refused to distinguish pre-approval and post-approval regulatory activity for purposes of the safe harbor, observing that "*Classen* did not turn on this artificial distinction, and the plain language of the statute is not restricted to pre-approval activities."

2 The Federal Circuit had previously held Classen's patents invalid under 35 U.S.C. § 101. *Classen Immotherapies, Inc. v. Biogen IDEC*, 304 F. App'x 866 (Fed. Cir. 2008). That prior unpublished decision was vacated by the Supreme Court and remanded for reconsideration in light of *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). *Classen Immotherapies, Inc. v. Biogen IDEC*, 130 S.Ct. 3541 (2010). Because the Federal Circuit concluded on remand that some of Classen's claims survived the § 101 threshold, it also considered the district court's § 271(e)(1) summary judgment decision.

Having opened the § 271(e)(1) safe harbor to post-approval regulatory activity, the majority then concluded that Amphastar's batch testing using Momenta's patented method fell within the confines of the § 271(e)(1) safe harbor. According to the majority, Amphastar's testing of each batch of generic enoxaparin was "anything but 'routine'" because the FDA required that Amphastar demonstrate that its generic enoxaparin possessed the specified composition as a predicate for approval and release of each manufactured batch into commerce. By contrast, the majority further reasoned, the infringing studies at issue in *Classen* were not themselves mandated by the FDA, but rather were conducted voluntarily for reasons largely unrelated to FDA regulatory approval. Nor did the majority find persuasive the fact that Amphastar could have developed an alternative, noninfringing method to test batches of its generic enoxaparin. ("The safe harbor . . . does not mandate the use of a noninfringing alternative when one exists.").

Judge Rader, a member of the majority *Classen* panel, penned a lengthy dissent from the *Momenta* majority's opinion. According to Judge Rader, the *Momenta* majority ignored the statutory text and legislative history of § 271(e)(1), as well as the binding precedent in *Classen* explicitly excluding post-approval regulatory activities from the scope of the safe harbor. In addition to expanding upon the analysis in *Classen*, Judge Rader emphasized that the majority's "interpretation of § 271(e)(1) would essentiSally render manufacturing patents worthless."

As in *Classen*, however, and despite the seemingly inconsistent ruling of the *Momenta* panel, the Federal Circuit refused to rehear the case *en banc*.

Implications

Notwithstanding the contrary assertions of Judges Moore and Dyk, the Federal Circuit's decisions in *Classen* and *Momenta* are difficult to reconcile. The most natural reading of *Classen* excludes all post-approval regulatory activity from the § 271(e)(1) safe harbor. *Momenta*, by contrast, reaches the opposite conclusion. This inconsistency in the Federal Circuit's § 271(e)(1) jurisprudence is particularly troubling given the weighty public policy considerations at play.

On the one hand—as detailed in the *Classen certiorari* briefing of Glaxo, amicus Pharmaceutical Research and Manufacturers of America (PhRMA), and, by request of the Supreme Court, the United States—the *Classen* decision appears to ignore the realities of FDA pharmaceutical regulation. Simply put, the FDA's oversight does not end with the approval of a drug. For example, the FDA may require post-approval studies to assess safety risks that emerge only after a drug has been approved, or to assess the efficacy of a drug whose approval was expedited because it was used to treat a serious or life-threatening disease for which current treatments are inadequate. 21 U.S.C. §§ 355(o)(3)(A), 356(c)(2)(A). Pioneer pharmaceutical manufacturers may also voluntarily undertake post-approval studies in order to obtain FDA approval of new indications for an already approved drug. 21 C.F.R. § 314.70. Exclusion of such post-approval regulatory activity from the § 271(e)(1) safe harbor thus has the potential to discourage manufacturers from seeking new uses for their pharmaceuticals, as well as to expose them to liability where studies required by the FDA infringe another's patent.

On the other hand, as emphasized by Judge Rader, never before has § 271(e)(1) been interpreted to allow sales of the infringing product *during the life of the blocking patent*. For example, a manufacturer seeking approval for a generic drug is allowed to infringe a patent covering the branded pharmaceutical prior to that patent's expiration in order to generate data required by the FDA for ANDA approval, but, following approval, is not allowed to market the generic drug until after the branded manufacturer's patent has expired. The *Momenta* decision, by contrast, allows Amphastar to infringe Momenta's patent while selling the infringing generic drug. Such an exemption from patent infringement is unprecedented.

In this latter respect, the implications of the *Momenta* decision are likely particularly troubling to the manufacturers of biosimilars, the "generic" versions of complex biological products, such as proteins. Such manufacturers may, like Momenta, seek patent protection for the analytical and quality control methods that they often must develop to satisfy FDA regulations requiring a demonstration that the biosimilar "is highly similar to the reference product." 42 U.S.C. § (k)(2)(A)(i)(I)(aa). *Momenta* strips such patents of all value, allowing competing biosimilar manufacturers to use the patented methodology with impunity. Thus, under *Momenta*, pioneer pharmaceutical companies also seeking to market biosimilars could find their innovations taken by follow-on biosimilar manufacturers.

Given the clear split in Federal Circuit jurisprudence as to whether post-approval regulatory activities fall within the § 271(e)(1) safe harbor, and the associated contrary public policy considerations, the Supreme Court's guidance on this issue would be welcome. Although the Court's denial of Glaxo's *certiorari* petition may signal its approval of the *Momenta* decision, only time will tell. The particular facts of future cases may, however, be better suited for allowing the Supreme Court not only to opine on the scope of § 271(e)(1), but also to delineate bright-line limits to exemption of post-approval regulatory activities from patent infringement. As Momenta has itself recently petitioned for *certiorari*, that opportunity may be at hand.

Quick Updates

The Federal Circuit Provides Guidance on When to Consider Judicial Economy in a Transfer Motion

A recent Federal Circuit decision explains that a transfer motion is to be decided "based on the situation which existed when suit was instituted...Any subsequent familiarity gained by the district court is therefore irrelevant." *In re EMC Corp.*, No. 13-142 (Fed. Cir. Jan. 29, 2013) (citation omitted). The district court denied defendants' motions to transfer, in part, because judicial economy weighed heavily against transfer. The court found that other courts "would have to spend significant resources to familiarize [themselves] with the patents, prosecution history, claim construction, and other issues in th[ese] case[s]." The district court's decision on the motions to transfer came more than two years after the complaint was filed, causing the Federal Circuit to observe that "[t]his case is a prime example of the importance of addressing motions to transfer at the outset of litigation."

In August 2010, Oasis Research LLC filed a complaint in the Eastern District of Texas against 18 defendants for allegedly infringing its online backup and storage patents. Defendants moved to sever and transfer the claims to various venues shortly thereafter in November 2010. In May 2011, Magistrate Judge Amos Mazzant issued a Report and Recommendations denying the motions. Judge Mazzant found that Rule 20 of the Federal Rules of Civil Procedure was not met because "the Defendants' allegedly infringing products are not dramatically different" and therefore determining liability would involve substantially overlapping questions of law and fact. The Report and Recommendations were adopted by the district court in July 2011. Defendants then petitioned for a writ of mandamus in September 2011. The Federal Circuit granted mandamus and, in an order issued in May 2012, rejected Judge Mazzant's test for severance. The Federal Circuit held that, in pre-AIA cases such as this one, claims against independent defendants could not be joined under the transaction-or-occurrence test of FRCP 20 "unless the facts underlying the claim of infringement asserted against each defendant share an aggregate of operative facts." The court did not express an opinion on the issue of venue and remanded to the district court.

Judge Mazzant severed the matter into four separate cases and consolidated the cases for pretrial proceedings. The motions to transfer were denied in separate orders in August 2012, on the basis that the defendants had failed to show that the transferee venues were clearly more convenient, and that judicial economy weighed heavily against transfer. By this time the court had already held a *Markman* hearing. Defendants sought mandamus again, this time asking the Federal Circuit to consider the district court's decision to deny transfer in part on consideration of judicial economy. Defendants argued that there was no "legitimate judicial economy factor" in this case because the district court's familiarity with the case was based on its earlier decision to deny severance, a decision which was found to be in error.

The Federal Circuit agreed that "subsequent familiarity gained by the district court" is irrelevant, but was also careful to note that "any judicial economy benefits which would have been apparent *at the time* the suit was filed" were proper for the district court to consider (emphasis added). For example, courts can "properly consider the benefits to judicial economy" where the same judge is already handling a case involving the same patents and technology for which a transfer is not sought.

Defendants in the Eastern District of Texas have become accustomed to a lengthy delay between submitting a motion to transfer and receiving an order. In an order issued last year, Judge Davis noted that he had approximately 40 pending motions to transfer venue. *See Norman IP Holdings, LLC v. Lexmark Int'l, Inc.*, No. 6:12cv508, 2012 WL 3307942 (E.D. Tex. Aug. 10, 2012) (Davis, J.) ("Venue motions are important, but not any more important than everything else this court has to do. The court rules on these motions as soon as it can.")

The Federal Circuit's decision may not shorten the time it takes a district court to rule on a motion to transfer, but it does place some limits on the factors the court can use in weighing judicial economy. A court cannot put off a ruling on a motion to transfer and subsequently cite its own familiarity with the case as a reason to deny transfer. However, in the post-AIA landscape of severed and consolidated cases involving multiple defendants, any effect this new guidance will have remains to be seen. In the meantime, contrary to Judge Davis' wishes (and no doubt the other judges in the Eastern District of Texas), defendants will continue to challenge venue and engage in this "extremely expensive and time-consuming matter, not only for the Court but for the parties as well."

How Many Section 44(e) and 66(a) Applications and Registrations are Vulnerable for Lack of Bona Fide Intent to Use a Mark in U.S. Commerce?

Foreign trademark owners frequently apply to register marks under Sections 44(d) and (e) or Section 66 of the Trademark Act, relying upon a home-country registration or application and not upon actual use of a mark in the United States. However, a foreign applicant must state that it has a bona fide intention to use its mark in U.S. commerce at the time the application is filed. Recent decisions on the issue of an applicant's bona fide intent require mark owners to support assertions of such intent with documentation. Foreign applicants are likely to be particularly vulnerable to attacks upon bona fide intent to use because foreign applications and registrations that are the basis of Section 44 and 66 filings typically include long lists of goods and/or services for which the mark has never been used anywhere. If challenged, a foreign trademark applicant or registrant may find it very difficult to produce documentation showing a bona fide intention to use the mark in U.S. commerce at the time of filing.

All applications filed with a claim of bona fide intent to use a mark in U.S. commerce are void *ab initio,* and any registration vulnerable to cancellation when the applicant or registrant lacks such bona fide intent. Decisions in 2012 followed earlier decisions cancelling Section 1(b) registrations in holding that registrations under Sections 44(e) and 66(a) are subject to cancellation for non-use and for lack of bona fide intent to use. *SaddleSprings, Inc. v. Mad Croc Brands Inc.*, 104 U.S.P.Q. 2d 1948 (T.T.A.B. 2012) and *Sandro Andy S.A. v. Light, Inc.*, No. 12 Civ. 2392 (HB) (S.D.N.Y., Dec. 27, 2012).

In *Sandro Andy,* the court cited *SaddleSprings* for the holding that "the holder of the international registration shall have the same rights and remedies as the owner of a registration on the Principal Register" and is subject to cancellation "even if the international registration remains valid and subsisting." The district court found that the registration was cancellable in part for all goods regarding which the registrant admitted having no bona fide intention to use the mark in U.S. commerce at the time the application was filed, and ordered the registrant to delete from its registration all such goods. The court invited a future motion challenging the entire registration for the remaining goods were the registrant unable to come forward with evidence of such intent.

In a future motion challenging the remaining goods, the petitioner in *Sandro Andy* can readily establish a *prima facie* case of lack of bona fide intent through discovery responses. *Spirits International B.V. v. S.S. Taris Zeytin Ve Zeytinyagi Tarim Satis Kooperatifleri Birligi,* 99 U.S.P.Q. 2d 1545 (T.T.A.B. 2011). In *Spirits*, the applicant stated that it had no documents regarding intended use, no promotional or marketing materials and no marketing plans. The opposer, having made its *prima facie* case through the applicant's discovery responses, shifted the burden to applicant to come forward with evidence that would explain or outweigh its failure to provide documentary support for its alleged intent. The applicant provided no such explanation and the board sustained the opposition on the ground of lack of bona fide intent. In *L'Oreal S.A. v. Marcon*, 102 U.S.P.Q. 2d 1434 (T.T.A.B. 2012), the board found that the evidence establishing bona fide intent or lack thereof must be objective and sustained the opposition because the applicant lacked documentation or other objective evidence of taking active steps toward use of its mark in the United States, which "outweigh[ed] any subjective (or even sworn) intent to use the mark."

These decisions involving total or partial cancellation for lack of a bona fide intent to use a mark have significant implications. The implications are potentially much greater for Section 44(e) and 66(a) applications and registrations than for those under Section 1(b). Section 1(b) applicants expect to use a mark in U.S. commerce before obtaining registration and might be more likely to possess documentation evidencing a bona fide intention to use. However, applicants under Sections 44(e) and 66(a) typically recite a very long list of goods and services, for which there is no use anywhere and likely no intended use and, therefore are

unlikely to have documentation evidencing an intent to use a mark, much less an intent to use a mark in U.S. commerce at the time applications are filed. This raises the question: If by chance such an applicant has documentation showing intent to use the mark, but there is no statement as to the geographic scope of such intended use, will it suffice as evidence of intent to use a mark in U.S. commerce?

Inadequate documentation or objective evidence of a bona fide intent to use a mark in U.S. commerce could result in cancellation of Section 44(e) or 66(a) registrations because the mark did not exist at the time the application was filed, even though the registrant later possessed such evidence or began using the mark in the United States. Inability to produce documentary evidence of intended U.S. use before filing could also mean that trademark rights of foreign nationals might be much more circumscribed than many now believe. If a registration is cancelled for failure to produce objective or documentary evidence of a bona fide intent to use a mark in U.S. commerce, a Section 44(e), 44(d) or 66(a) registration will lose its constructive use priority created by the filing date and the owner will be required to rely on the date of its first use in U.S. commerce in any dispute involving a mark.

For Section 44(e) and 66(a) applications already filed, remedial actions are likely limited to locating and preserving any documentary evidence of bona fide intent. For such applications yet to be filed, there is clear learning from these recent decisions: locate — or create — and then retain, documentary evidence of a bona fide intention to use a mark in U.S. commerce before seeking U.S. registration.

Circuit Split Brewing Over Public Performance Right

On December 27, 2012, a federal judge for the Central District of California granted a preliminary injunction ordering the shutdown of AereoKiller, a Los Angeles-based cloud service provider that allowed subscribers to view broadcast television in real time over the Internet, upon a finding that AereoKiller's transmission of the content was likely an infringement of plaintiffs' public performance right. *Fox Television Stations, Inc. v. BarryDriller Content Systems PLC*, No. CV12-6921, 2012 WL 6784498 (C.D. Cal. Dec. 27, 2012).

The preliminary injunction was a significant victory for plaintiff television networks who, just months prior, had been denied a preliminary injunction against Brooklyn-based Aereo (a separate company) under nearly identical facts in the Southern District of New York. *American Broadcasting Companies, Inc. v. Aereo, Inc.*, No. 12 Civ. 1540, 2012 WL 2848158 (S.D.N.Y. July 11, 2012).

The central question in both cases is the same: whether an online service provider, at the request of an individual subscriber, can transmit publicly available (but copyright protected) content over the Internet to be viewed in real time by that individual subscriber. The critical aspect of the dispute is whether the performance is rendered "private," and thus noninfringing, by virtue of the fact that each transmission is uniquely requested by, and directed to, a single individual subscriber. Section 106(4) of the Copyright Act affords a copyright holder the exclusive right to *publicly* perform a protected work. Thus, whether a particular performance of a work is deemed public or private can be determinative as to whether an infringement has occurred.

The technology at issue in both cases is also essentially the same. Each defendant operates a large array of micro antennas that receive television broadcast signals. Each individual subscriber is assigned a unique antenna amongst the remote array, and when a subscriber (using an Internet-enabled device) selects a television show for viewing, the subscriber's antenna is tuned to receive the signal carrying that show. A single copy of the content is then captured, digitized, and transmitted over the Internet as it airs to that individual subscriber's device. When 500 subscribers request the same show at the same time, 500 separate antennae process the request, and 500 separate transmissions are sent. And this is by design, because a single transmission that reached multiple subscribers would be "public" and, therefore an infringing public performance.

The difference between the two cases is that the Second Circuit, already poised to rule on plaintiffs' appeal, is ostensibly bound to affirm the denial of the preliminary injunction, based on its own recent (and separate) holding that a remotely accessible Digital Video Recording (DVR) system which recorded and transmitted unique copies of television shows for viewing by individual subscribers constituted a non-infringing private performance. *See Cartoon Network, LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008) (aka "*Cablevision*"). The U.S. Court of Appeals, Ninth Circuit – if an appeal is taken in *AereoKiller* – will be bound by no such precedent, as the district court in *AereoKiller* has already noted.

Historically, any company that has wanted to retransmit broadcast television has been required to pay licensing fees to the broadcasters. This type of arrangement will be impacted if online service providers can legally transmit the same broadcasts, to paying subscribers, without a license. At the same time, many cloud storage and streaming services permit their individual subscribers to store and transmit all varieties of audio-visual content. Those business models rely heavily on *Cablevision's* authority, and many will become non-viable if *Cablevision* is rejected, limited, or overturned. Whether the circuits split or align, the eventual outcome of these cases will have broad ramifications for the content industry, cloud services, and consumers alike.

Trade Secret Protection Elevated to Top of National Policymakers' Agenda

Following the publication of a Virginia-based cyber security firm's report accusing the Chinese military of stealing significant amounts of data from U.S. companies through widespread and "sustained" hacking efforts, the resulting media firestorm has propelled trade secret protection to the top of national policymakers' agenda.

Even before the issuance of the startling report, Congress had been taking legislative action to protect U.S. businesses' confidential business information from private and state-sponsored theft. The Theft of Trade Secrets Clarification Act of 2012, signed into law by President Obama on December 28, 2012, amends language in the Economic Espionage Act (EEA) to ensure that the government has broad authority to prosecute trade secret theft under the EEA. The legislation was prompted by a decision handed down by the U.S. Court of Appeals, Second Circuit in 2012. In the case, *U.S. v. Aleynikov,* 676 F.3d 71 (2d Cir. 2012), the court ruled that the theft of proprietary source code by an employee was not trade secret theft because it was not directly used in interstate commerce, though the company did use it internally to create an advantage in the marketplace. The new law prohibits the theft of a trade secret that is "related to a product or service used in or intended for use in interstate or foreign commerce." Prior to this new law, a trade secret was more narrowly defined as "related to or included in a product that is produced for or placed in interstate or foreign commerce." Another amendment, signed by President Obama on January 14, 2013, increases the maximum penalties for revealing trade secrets to foreign entities, and directs the United States Sentencing Commission to review and, if necessary, amend sentencing guidelines for economic espionage.

In early February, President Obama signed the Executive Order on Improving Critical Infrastructure Cybersecurity that creates voluntary information-sharing programs for companies that operate "critical infrastructure," defined by the order as those "systems and assets, whether physical or virtual, so vital to the United States that [their] incapacity or destruction... would have a debilitating impact on security, national economic security, national public health or safety, or any combination of those matters." The Executive Order also requires federal agencies to share more information about cyber threats to U.S. companies and the public.

More recently, prompted by widespread media coverage and public reaction to the cyber security firm's report, the White House announced a policy plan for combating corporate and state sponsored trade secret theft. The plan calls for a more aggressive diplomatic effort in countries with high incidence of trade secret theft, increasing coordination between the government and the private sector, and increasing coordination within the law enforcement and intelligence community. The House of Representatives, meanwhile, is revisiting the comprehensive Cyber Intelligence Sharing and Protection Act (CISPA), which the Senate rejected in 2012. The Senate is currently considering its own legislation, the Cybersecurity and American Cyber Competitiveness Act of 2013, introduced in January.

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Offices

801 California Street
Mountain View, CA 94041
Tel: 650.988.8500

555 California Street, 12th floor
San Francisco, CA 94104
Tel: 415.875.2300

1191 Second Avenue, 10th Floor
Seattle, WA 98101
Tel: 206.389.4510

www.fenwick.com

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