

Intellectual Property

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Final Patent Rules Provide Few Surprises

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In mid-July, the United States Patent and Trademark Office began rolling out final versions of patent rules to implement the America Invents Act (AIA). In the last edition of the *IP Bulletin*, we reported on the PTO's proposed rules and the various public comments that were received on the proposed rules. It appears that the PTO seriously considered the public comments, and made some changes from the proposed rules accordingly. However, for the most part, the proposed rules were left intact, notwithstanding significant concerns about how they would apply in practice.

Patent Trial and Appeal Board Practice

Among the most dramatic of the rules are those addressing procedures to be used by the new Patent Trial and Appeal Board (PTAB). Pursuant to the AIA, the PTAB will replace the existing Board of Patent Appeals and Interferences. The PTO's rules governing trial practice before the PTAB, to be enacted under 37 C.F.R. § 42, apply to *inter partes* review, post-grant review, the transitional program for covered business method patents, and derivation proceedings.

Section 42 in its final form mandates that the default standard in contested cases is to be a "preponderance of the evidence" standard. Some of the proposed procedural constraints, such as page limitations on petitions and responses, have been loosened in the final rulemaking, and the PTO has granted the PTAB greater discretion regarding trial management. This is both good and bad; while it allows parties to argue for case-specific modifications, it also leaves them with less initial guidance on how a trial is likely to play out.

The PTO's proposed fees for *inter partes* review, post-grant review, and covered business method patent review were widely criticized as being unworkably high, but the PTO made only a minor concession in this area. Specifically, the PTO kept the final cost of the *inter partes* procedure at a base level of \$27,200 (about three times the cost of the *inter partes* reexamination it replaces), but allowed an incremental increase of \$600 per claim where over 20 claims are contested. The proposed rulemaking had applied a tiered system based on groups of ten additional claims. The final rules also require that if any contested claim is dependent upon an uncontested independent claim, a further charge is made for the independent claim, as it will need to be analyzed as well. Nor was the PTO deterred from implementing its proposed fees increase for post-grant review and business method patent review—\$35,800 for up to 20 claims and \$800 for each additional claim. Thus, these procedures are unlikely to be used very often by smaller companies or individuals that cannot afford these fees.

The PTO also took a fairly strict stance regarding who can participate in such proceedings. The PTO is requiring that parties be represented by a PTO-registered practitioner as lead counsel, and will only allow *pro hac vice* representation by unregistered counsel upon a showing of good cause. This will be a significant limitation for those litigation firms that do not have patent attorneys/agents on staff, and we expect a scramble over the next months as such firms seek to develop relationships with registered practitioners.

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The PTO has also published a Trial Practice Guide that “is intended to advise the public on the general framework of the rules, including the structure and times for taking action in each of the new proceedings.” The guide provides a plain English explanation of the AIA requirements relating to the proceedings, an overview of the rules and how they work together, as well as some commentary regarding issues that the PTO expects to arise under this new forum. Because the PTAB has been given significant discretion to run these proceedings, such guidance is likely to be heavily relied upon. For example, with regard to the PTO’s requirement that lead counsel be a registered practitioner, the guide states, “The Office expects that lead counsel will, and back-up counsel may, participate in all hearings and conference calls with the Board and will sign all papers submitted in the proceeding. . . . Actions not conducted before the Office (e.g., taking of deposition) may be conducted by lead or back-up counsel.”

For those interested in a general overview of the new AIA contested cases framework, the guide is an excellent starting point. The guide can be found at <http://www.gpo.gov/fdsys/pkg/FR-2012-08-14/pdf/2012-17908.pdf>.

Inventor’s Oath/Declaration

Effective September 16, 2012, the PTO’s new rules regarding who can file and prosecute an application, and how and when inventor documentation gets submitted come into play. Although this might seem at first glance a fairly mundane procedural issue, the new rules significantly streamline common practice and should help to make patent prosecution more cost effective for many companies. For instance, applicants can now postpone filing certain inventor documentation until an application is in condition for allowance, and if an inventor cannot be found or refuses to sign, the rules allow for filing of a substitute statement instead. Since a significant percentage of patent applications never actually issue, and since amendments sometimes change the claims enough that the original listing of inventors is no longer correct at the time of allowance, these changes meaningfully reduce the paperwork that will need to be filed as a routine manner. Many companies may still choose to obtain and file such documentation at the time that an application is first submitted (for instance to avoid the \$130 surcharge for later filing), but that is now optional rather than a required step in seeking patent protection.

The PTO originally interpreted the AIA to prohibit an assignee from being treated as the actual applicant for

the patent (as is common in other countries), but after considering public comments on the proposed rules the PTO has revised its position, and now recognizes that an assignee may be considered the applicant. This is significant for numerous reasons, one of which is that previously, some employee inventors may have considered patent counsel to be representing them personally even when such counsel expressly stated that they were representing the employer and merely acting as attorney for the “applicant” as a necessary step in seeking a patent on the employer’s behalf. Under the new rules, the “applicant” may expressly be the company, even though at some point each inventor will be called upon to execute an oath or declaration. One by-product of this change is that at the time of replying to a notice of allowance, the PTO is requiring applicants who are assignees to notify the PTO of any change in the real party in interest. The PTO has commented that notwithstanding the change in focus, it will still refer to patents by inventor names, as they “tend to provide a more distinct identification than assignee names.” In a related area, the PTO will no longer require inventors to identify country of citizenship in their oaths or declarations.

Supplemental Examination

Under the AIA, a patent owner may request supplemental examination of a patent based on certain relevant information; if the information is found to raise a substantial new question of patentability, the PTO will order *ex parte* reexamination of the patent. The purpose of the supplemental examination is to insulate the patent owner from certain defenses that might be brought by accused infringers, such as allegations of unenforceability of a patent due to failure to apprise the PTO of prior art that the patent owner may have been aware of during the pendency of the application.

The PTO’s final rules list how a patent owner requests such supplemental examination and what information must be provided. Specifically, after identifying each item of information, the patent owner is required to identify each claim of the patent for which supplemental examination is requested, provide an explanation of the relevance and manner of applying the information to each claim, and summarize relevant portions of any submitted document that is more than 50 pages in length. The PTO final rules set base fees of \$5,140 for the supplemental examination request, \$16,120 for any *ex parte* reexamination that results, as well as additional fees for processing documents over 20 pages in length. A patent owner may submit up to a dozen items of information for supplemental examination under a single request.

Because the AIA requires the PTO to conclude the supplemental examination within three months of the request, the PTO included various rules that prevent a request from getting a filing date unless it is in a complete form. Also driven by this tight timeframe is the PTO's approach that an "item of information" will be narrowly construed such that one document such as a declaration relating to both a § 101 issue and § 103 issue will be treated as two items of information. In general, the PTO in its rulemaking has imposed stricter burdens on the patent owner in these rules than in other areas of AIA-related rulemaking, expressly in order for the PTO to be able to stay within the three-month statutory requirement.

Various related issues, such as reexamination fees in general, and how the PTO addresses misconduct and material fraud that it becomes aware of in connection with such proceedings, are also addressed in the final rules. As to the reexamination fees, notwithstanding numerous public comments, the PTO has held fast to a significant fee increase based on the statutory requirement that the PTO set fees at an amount that recovers the estimated average cost to the PTO. In the case of *ex parte* reexaminations, the new fees come close to being an order of magnitude (*i.e.*, ten times) higher than existing fees, particularly when coupled with the supplemental examination request. Notably, the PTO also warned in its August 14 final rulemaking that it is in the process of adjusting and setting *all* patent fees in accordance with AIA mandates, so the reexamination increases that come into play on September 16 may be a harbinger of more generalized increases in the near future.

***Inter Partes* and Post-Grant Review**

The AIA created new *inter partes* and post-grant review proceedings that take effect on September 16, 2012 and that are conducted before the PTAB. The *inter partes* review provisions apply to any patent that issued before, on, or after September 16, 2012. The post-grant review provisions generally apply to patents issuing from patent applications subject to the "first-inventor-to-file" provisions of the AIA, which come into force on March 16, 2013.

Many aspects of the *inter partes* review process are set forth in the AIA itself. For example, the *inter partes* petitioner (anyone not the owner of the patent) may request that the PTAB cancel one or more claims of a patent only on a ground that could be raised under 35 U.S.C. §§ 102 or 103, and only on the basis of prior art consisting of patents or printed publications. The petitioner has the burden of proving unpatentability by a

preponderance of the evidence. A petition for *inter partes* review may be filed after the later of either:

- (1) nine months after the grant of a patent or issuance of a reissue of a patent; or
- (2) if a post-grant review is instituted, the termination of that post-grant review.

Once a petition for *inter partes* review is filed, the patent owner has the right to file a preliminary response that sets forth reasons why no *inter partes* review should be initiated. The PTO may not initiate an *inter partes* review unless it determines that there is a reasonable likelihood that the petitioner will prevail with respect to at least one of the challenged claims. The PTO must grant or deny the petition within three months after: (1) receiving a preliminary response to the petition; or (2) if no preliminary response is filed, the last date on which such response may be filed. The PTO's decision whether to initiate an *inter partes* review is final and not appealable.

During *inter partes* review, the patent owner may file one motion to amend the patent by (1) canceling any challenged patent claims; and (2) for each challenged claim, proposing a reasonable number of substitute claims. Amendments to the claims may not enlarge the scope of the claims or introduce new matter. Additional motions to amend may be permitted at the joint request of the petitioner and patent owner to advance a settlement or as permitted by regulations prescribed by the PTO.

Post-grant review is available only for nine months after a patent issues and provides broader grounds for challenge. Not only can the patent be challenged based on prior art consisting of patents or printed publications, it can be challenged on numerous other grounds as well, including essentially all of the grounds typically asserted as a defense to patent infringement under sections 101, 102, 103, and 112 of the patent statute with the exception of best mode. Further, the standard for review is different; review may be authorized if the Director determines that the information presented in a petition, if not rebutted, "would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable," or if "the petition raises a novel or unsettled legal question that is important to other patents or patent applications."

The PTO's final rules relating to *inter partes* and post-grant review differ from the proposed rules published in February 2012 in several respects. For example, the proposed rules provided that an *inter partes* or post-grant review proceeding must be concluded within one year,

except that a six-month extension was available for good cause. The final rules clarify that the one-year period for completing the review may be adjusted by the PTAB in the case of joinder.

The proposed rules required the petition for *inter partes* or post-grant review to include a certification of standing (the patent is subject to review and the petitioner is not barred or estopped from requesting review) and an identification of the challenge, including the claim(s), the specific statutory grounds on which the challenge is based, how each challenged claim is to be construed, how each construed claim is unpatentable, and the exhibit number(s) of the supporting evidence. The final rules include these same provisions and further clarify that the petitioner must certify that it is not estopped from requesting review of the challenged claims (as opposed to the patent) on the grounds identified in the petition.

The proposed rules allowed the petitioner to serve the patent owner at the correspondence address of record for the patent at issue or at any other address the petitioner knows is likely to effect service, but required the petitioner to contact the PTAB to discuss alternate modes of service if the two modes of service identified in the rule were not effective. The final rule eliminates the requirement that the petitioner contact the PTAB to discuss alternate routes of service and provides that:

- (1) the petitioner may serve the patent owner electronically upon agreement of the parties,
- (2) personal service is not required, and
- (3) service may be by Express Mail or by means at least as fast and reliable as Express Mail.

Under the PTO's proposed rules, the patent owner had two months from the notice assigning the petition a filing date to file a preliminary response setting forth the reasons why an *inter partes* or post-grant review should not be initiated. Likewise, if the PTAB's order granting review did not provide a due date for the patent owner's response, the proposed rules provided that the default due date was two months from the date the review was instituted. The final rules extend the two-month time period for both the preliminary response and the default time period for the patent-owner response to three months.

The final rules still allow the patent owner to file motions to amend the challenged claims. Like the proposed rules, the final rules provide that a motion to amend may be denied where (1) the amendment does not respond to a ground of unpatentability involved in the proceeding, or (2) the amendment seeks to enlarge the scope of the

claims or introduce new subject matter. However, the final rules allow a patent owner to file one motion to amend after conferring with the PTAB only if the motion is filed no later than the filing of the patent owner's response. The final rules allow the PTAB to authorize additional motions to amend only where there is a good-cause showing or a joint request of the petitioner and patent owner to advance a settlement, and instruct the PTAB to consider whether the petitioner has submitted supplemental information after the time period that the patent owner had to file a motion to amend. The final rules further state that a reasonable number of substitute claims is presumed to be one substitute claim per challenged claim, which may be rebutted by a demonstration of need.

The final and proposed rules also differ with respect to filing supplemental information. In particular, the proposed rules provided that a petitioner could request authorization to file a motion identifying supplemental information relevant to the ground for which the trial had been instituted if the request was made within one month of the review being instituted. The final rules further provide that a petitioner who seeks to submit late information, or information that is not relevant to a claim under review, must show why the information reasonably could not have been obtained earlier and that consideration of the information is in the interests of justice.

The final rules have not significantly changed discovery practice under PTAB proceedings relative to what was proposed. Routine discovery is defined slightly differently, the parties are given more flexibility to agree to scope of discovery, international deposition procedures have been made more flexible, and some of the details regarding "information that is inconsistent with a position" advanced by a party have been modified. However, the overall structure of discovery, which is far broader than the PTO has used in the past for any common proceeding, remains as it was previously proposed.

The PTO received numerous comments regarding the proposed rule that the claims in an *inter partes* or post-grant review be given their broadest reasonable construction in light of the patent specification. This differs from the standard used in courts, where there is no attempt to seek the *broadest* reasonable construction. The PTO has been steadfastly asserting that the standard it uses, though admittedly different than that used for the same purpose in courts, is not only sensible but required. The PTO's position remained unchanged in the final rules. The PTO continues to believe that a broader interpretation

is warranted because unlike a proceeding in a court, a proceeding before the PTO gives the patent owner an opportunity to amend claims. In its response to the critical comments, the PTO stated, “Indeed, the Federal Circuit has acknowledged the longstanding practice that the patent system has two claim construction standards, the ‘broadest reasonable interpretation’ standard applied to Office’s [sic] proceedings, and that used by district courts in actions involving invalidity and infringement issues.” Now that the AIA has provided additional mechanisms for potential infringement defendants to challenge patents, we expect to see some forum shopping based on which standard a party believes will best suit its needs in a particular case.

Transitional Program for Covered Business Method Patents

As explained above, the AIA creates a post-grant review process for all granted patents, but generally limits the window for bringing such a challenge to nine months post-issuance. Section 18 of the AIA, however, allows post-grant review of certain “covered business method patents” so long as the challenge is brought between September 16, 2012 and September 16, 2020.

The AIA defines a “covered business method patent” as “a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.” Although the transitional program generally employs the standards and procedures of post-grant review, certain exceptions apply. First, transitional review of covered business method patents may only be sought by a party that has been sued for or charged with infringement of the patent at issue. Second, for challenges based on §§ 102 and 103, only a subset of prior art is available to support the petition, namely: (1) prior art described in pre-AIA § 102(a), or (2) prior art that discloses the invention more than one year before the U.S. patent application date and would be described by pre-AIA § 102(a) if the disclosure had been made by another before the invention by the patentee. And third, if a final written decision issues, the petitioner is estopped from later asserting that the challenged claims are invalid on any ground that the petitioner raised during the transitional proceeding — estoppel does *not* extend to grounds that *could have been* raised during the transitional proceeding.

Although the AIA excludes “technological inventions” from the definition of a “covered business method

patent,” it calls upon the PTO to define what constitutes a “technological invention.” Public comments on the PTO’s proposed rules largely criticized the PTO for defining that term using variants on the word “technological” three times. Nonetheless, the PTO has maintained its position in the final rules, and suggested that future guidelines and case law will be used to better define which patents will be subject to this further level of review. The new rules promulgated by the PTO state that the following will be considered in determining whether a patent is for a technological invention: “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem while using a technical solution.” Notably, the PTO’s commentary on the final rules states general agreement with the notion that the definition of a covered business method patent should be broadly construed, so we expect to see a number of third parties attempt to find the outer boundaries of this definition starting about a month from now.

The procedure for covered business method patents is particularly interesting because it provides a new PTO-based forum for attempting to invalidate patents in a manner that was not previously possible. As discussed above, the PTO’s interpretation of patent claims is expressly broader than that used by courts, so more patents may be subject to challenge than the prior case law would have suggested. Further, as noted above, the AIA includes a requirement that such challenge may only be brought by one who has been sued or “charged with infringement.” In response to public comments, the PTO provided some clarification as to what “charged with infringement” means, stating that it is found when “a real and substantial controversy regarding infringement of a covered business method patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal Court.” This should significantly reduce collateral litigation that would have been brought if the term “charged with infringement” had been left without interpretation.

Notably, these new procedures begin to apply on September 16, 2012, and can then be used immediately against newly issued patents until the post-grant provisions come into play (after which time the post-grant procedure will impose a nine-month bar to bringing a challenge based on the transitional program for covered business method patents).

Third-Party Submission of Materials

The AIA mandates that beginning September 16, 2012, third parties will be able to submit to the PTO materials, such as printed publications, for consideration in a pending patent application. The PTO final rules in this regard call on the submitting party to provide a short statement of relevance regarding each document, as well as a filing fee (exempted for initial submissions of up to three documents). The PTO has developed a dedicated, web-based interface to allow third parties to make such filings electronically, anonymously and without the need for a registered practitioner. Note that the documents submitted may already be of record in the case and may not necessarily even be prior art, thus allowing third parties to provide statements of relevance that may comment on matters missed by an examiner. There are limited time periods available for third parties to make such submissions – depending on circumstances, the window may close as early as six months after publication.

Third parties are also permitted under the AIA to submit in the file of an issued patent written statements of a patent owner filed in a proceeding before a Federal court or the PTO regarding the scope of a claim of the patent. Such statements can then be used in subsequent proceedings, such as *ex parte* reexaminations, *inter partes* reviews and post-grant reviews. The PTO's final rule requires that such statement not only identify the forum and proceeding, but also explain how each statement is a statement in which the patent owner took a position on any claim of the patent and explain the pertinence and manner of applying the statement to at least one patent claim. The rule is significant in that it provides a third party with an opportunity not only to supply the patent owner's statement, but provide the third party's own slant on the relevance of that statement, even by including supporting affidavits or declarations. The PTO also responded to public comments by expanding the scope of what can be submitted from what the PTO had first proposed—now, any document can be submitted as long as at some point it is filed for inclusion in a federal court or PTO proceeding. Thus, a company press release, for example, could under certain circumstances qualify. Although the patent owner needs to be notified and proof of service must accompany such a filing, the filing can still be done anonymously through a registered practitioner.

Other AIA Rulemaking

The AIA also changed the PTO's statute of limitations for addressing violations of the PTO Code of Professional Responsibility, in general, lengthening it from five to ten years but requiring that the PTO commence such

proceedings no later than one year from the date that the misconduct was made known to the PTO. The PTO final rules in this area are, according to some of the comments received, contrary to the statutory provisions, but these squabbles are in fairly minor areas, such as whether notice of misconduct to a PTO examiner would be sufficient to start the one-year clock ticking (the final rules say that the notice needs to be to an appropriate person in the PTO's Office of Enrollment and Discipline).

The PTO final rules also address new "derivation proceedings" applicable after the transition to "first inventor to file" provisions on March 16, 2013. As the time frame for these provisions nears, we will report on the ongoing developments regarding derivation proceedings. In addition to promulgating these final rules, the PTO is still in the process of proposing additional rules for the remaining provisions of the AIA. For example, on July 26, the PTO proposed examination guidelines to implement the first-inventor-to-file provisions of the AIA, which by statute will become effective March 16, 2013. Public comments on those provisions will be accepted until October 5, 2012.

CFAA is Losing Ground as a Tool to Fight Trade Secret Misappropriation

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Aggrieved employers have often turned to the Computer Fraud and Abuse Act (CFAA) in suing former employees that allegedly absconded with information from company computers—especially critical trade secrets. Such suits face bleak prospects in the U.S. Court of Appeals, Ninth Circuit after the ruling in *United States v. Nosal*, 676 F.3d 854 (9th Cir. 2012). In *Nosal*, the *en banc* court held an employee could not be liable under the CFAA for "exceeding authorized access" to an employer's computer by accessing proprietary information in violation of the employer's written computer use policies. In so holding, the Ninth Circuit entrenched its split from other circuits that have interpreted the CFAA more broadly. *Nosal* clarifies the Ninth Circuit's view that the CFAA targets true "hacking," and not violations of company computer use policies or website terms of service, even those involving trade secret theft. Recently, the Ninth Circuit's approach was ratified by the U.S. Court of Appeals, Fourth Circuit in *WEC Carolina Energy Solutions LLC v. Miller*, 2012 WL 3039213 (July 26, 2012) and then by the Solicitor General's decision not to seek certiorari of the *Nosal* decision before the Supreme Court.

Background of the *Nosal* Decision

Defendant Nosal, a former employee of an executive search firm, allegedly convinced several former colleagues to download and transmit lists of executives so that he could compete with his former employer. The employer had required employees to sign agreements that they would only use company information for legitimate business purposes, and further featured prominent warnings in its database against unauthorized use.

Nosal was criminally charged with violating the CFAA's prohibition on "exceeding authorized access" to a protected computer, on the grounds that taking of the employer's information for hostile competitive use was clearly unauthorized under the employer's written policies and employment agreements. Nosal was also charged with 15 additional criminal counts, including federal trade secret misappropriation. Nosal moved to dismiss the CFAA charges, arguing that the CFAA's "exceeds authorized access" prong was not satisfied because the employees in question had authorized access to the computers. It did not matter whether the use of the information was authorized.

Illustrating the extent to which opinions (and Circuits) differ on this issue, the district court granted Nosal's motion, the Ninth Circuit panel reversed, and the *en banc* Ninth Circuit vacated the panel decision and affirmed the district court's dismissal.

The Ninth Circuit's Decision

In affirming the district court's decision, the *en banc* Ninth Circuit held that "the phrase 'exceeds authorized access' in the CFAA does not extend to violations of use restrictions." For more than a decade, courts have wrestled with the scope of the terms "authorization" and "access." The issue boils down to whether a computer owner can allow access to its computer for certain purposes, but not others. The Ninth Circuit has now clarified that the CFAA is not triggered where there is merely unauthorized use of information—the defendant's access itself must have been without or in excess of authorization. Thus, under *Nosal*, if a business wants to protect sensitive information, it must either limit access, or rely on legal remedies other than the CFAA.

The *Nosal* opinion expresses grave concern that the broad reading advocated by the government could criminalize much innocuous activity. In particular, the court noted that the phrase "exceeds authorized access" appears in another section of the CFAA, § 1030(a)(2)(C), which has no requirement of fraudulent purpose, and requires only

that the person who "exceeds authorized access" has "obtain[ed] . . . information from any protected computer" (*i.e.*, any computer that can connect to the Internet). The government's view, the Court feared, could make "every violation of a private computer use policy a federal crime."

Judge Kozinski noted the ubiquity of transgressions against computer use policies, wryly observing that the universe of those who use a computer in violation of computer use restrictions "may well include everyone who uses a computer." Judge Kozinski colorfully cautioned, "Under the government's proposed interpretation of the CFAA . . . describing yourself [on a dating website] as 'tall, dark, and handsome,' when you're actually short and homely, will earn you a handsome orange jumpsuit." The Court reasoned that a narrow interpretation, requiring that access itself must be unauthorized, best comports with Congress's intent to criminalize computer hacking.

The opinion concludes by recognizing that the Ninth Circuit is at odds with the Fifth, Seventh, and Eleventh Circuits, each of which has adopted broader interpretations of the CFAA's "authorization" requirement.

Implications

The *Nosal* opinion mostly preserves, and slightly expands, the *status quo* limitations on the CFAA. The Ninth Circuit had already adopted a narrow interpretation of the CFAA's access prong in *LVRC Holdings LLC v. Brekka*, 581 F.3d 1127 (2009). *Brekka* found the term "without authorization" did not apply to an employee who took confidential information from his employer merely because the employee breached his duty of loyalty to his employer, but *Brekka* did not involve breach of a signed employee agreement. Now, in the Ninth Circuit, it is clear that even where the use violates written agreements as well as employer computer use policies, CFAA liability does not ensue as long as the employee was authorized to access the computer. In other circuits, however, contractual use restrictions remain enforceable through the CFAA.

While *Nosal* involved criminal charges, the CFAA provision at issue also extends to civil actions under § 1030(g). Not surprisingly, the Fourth Circuit in *WEC Carolina Energy* explicitly extended *Nosal*'s holding to a civil litigation. The implications of these decisions cover a range of scenarios:

Trade Secret Litigation The Ninth Circuit was quite explicit that the CFAA's "general purpose is to punish hacking—the circumvention of technological access barriers—not misappropriation of trade secrets—a subject Congress has dealt

with elsewhere.” But the federal trade secrets law, codified at § 1832 et seq., does not provide a private right of action. In the last decade, victims of trade secret theft increasingly filed trade secret litigation in federal courts, arguing such courts had original jurisdiction over CFAA claims and supplemental jurisdiction over the trade secret claims. *Nosal* and *WEC Carolina Energy* suggest that victims of trade secret theft will no longer have that option, limiting federal trade secrets cases to those where there is diversity of parties.

Employment Agreements Companies adopt a variety of technology acceptable-use policies, or restrict the use of confidential data through employment agreements. Under *Nosal*, these are not valid bases for bringing a CFAA claim against an employee, although they are still useful for CFAA litigation outside the Ninth Circuit and for raising breach of contract, trade secret misappropriation, and related state law claims. However, insofar as the CFAA has historically been a popular hook for suing former employees in federal court, *Nosal* throws cold water on such a strategy in the Ninth Circuit.

Website Terms of Use Website owners have also invoked the CFAA as a means of enforcing website terms, arguing that a website user “exceeds authorized access” by accessing a site in violation of its terms. Frequently, the defendant users are competitors scraping data from the plaintiff’s website. *Nosal* can be expected to preclude such cases in the Ninth Circuit; if the user could access the site, the fact that the nature of the use violated the site’s terms would not render the access unauthorized so as to trigger a CFAA violation. The Northern District of California addressed the website scenario in *Facebook v. Power Ventures, Inc.*, 844 F.Supp.2d 1025 (2012) holding that defendant Power Ventures could not be liable under the CFAA for allegedly violating Facebook’s terms of use, but could only face CFAA liability if it had circumvented “technical barriers” such that the access itself was not authorized. *Nosal* corroborates this view, noting the “general purpose” of the CFAA is to “punish hacking—the circumvention of technological access barriers—not misappropriation of trade secrets.”

Privacy Policies Plaintiffs’ lawyers have recently filed a spate of class action lawsuits pleading the CFAA against companies that collect demographic information in alleged excess of what consumers

“authorize.” Under *Nosal*, consumers will have difficulty pleading a CFAA claim under the theory that they did not authorize disclosure by the defendant companies. *Nosal* may push plaintiffs’ lawyers to file future privacy class actions outside the Ninth Circuit.

Looking Forward

The Ninth Circuit and now the Fourth Circuit have adopted a narrow view of “authorization” under the CFAA. On the other side, the Fifth, Seventh, and Eleventh Circuits, and arguably the First and Third Circuits, have adopted broader interpretations. Thus far, only a handful of district court decisions have addressed *Nosal*, but they already highlight lingering ambiguities.

In *Weingand v. Harland Financial Solutions*, 2012 WL 2327660 (June 19, 2012), the United States District Court for the Northern District of California rejected the argument that *Nosal* limited CFAA liability to violations of technical access barriers only, and found that one could state a CFAA claim by alleging access without permission, even if not barred by technical means. That court read *Nosal* to preclude CFAA causes of action based on use restrictions, but not to require actual “hacking” through technical protective measures in order to give rise to a CFAA claim. The *Weingand* opinion referenced the Ninth Circuit’s *Brekka* opinion, which stated that if an employer fired an employee, but had not yet revoked login credentials, the employee would violate the CFAA by using that login. This interpretation, however, appears in tension with *Nosal*, which suggests that even where terms of use purport to deny any permission for access (as with Facebook’s prohibitions on third-party access to user accounts), violation of those terms could not trigger a CFAA violation. Thus, even within the Ninth Circuit, it remains a murky question as to whether violation of a command against access, where access is not technically barred, can be a CFAA violation.

Outside the Ninth Circuit, the United States District Court for the District of New Hampshire, in *Wentworth-Douglass Hospital v. Young & Novis Professional Association*, 2012 WL 1081172 (March 30, 2012), and the United States District Court for the Western District of Michigan, in *Dana Ltd. v. American Axle and Manufacturing Holdings, Inc.*, (June 29, 2012), applied *Nosal* in rejecting CFAA claims. In *Wentworth*, the court held that a contractual restriction on copying files to an external storage drive was not enforceable under the CFAA. In *Dana*, the court rejected the plaintiff’s CFAA claim based on copying data and found that, although the defendants’ could have been

liable for deleting original files, there was no evidence showing such deletion. The Supreme Court has yet to address the CFAA. Although many hoped that the high court would do so on *certiorari* from the Ninth Circuit's *Nosal* decision, the Solicitor General recently decided not to pursue an appeal of the *en banc* decision. Only a week before, however, another route to the Supreme Court opened up when the Fourth Circuit wholly adopted the Ninth Circuit's *Nosal* holding, although it is not yet clear if the civil appellant will petition for *certiorari* in that case.

Quick Updates

You Are Not Your IP Address

A district court judge ruled recently that an IP address, on its own, is not enough to determine a person's identity, throwing a wrench in the copyright infringement claims brought by pornographic film producers in four related mass BitTorrent lawsuits, which involved more than 80 John Doe defendants accused of illegally downloading different pornographic films. *In re: BitTorrent Adult Film Copyright Infringement Cases*, 2012 WL 1570765 (E.D.N.Y. May 1, 2012).

The plaintiffs, K-Beech, Inc., Malibu Media, LLC, and Patrick Collins, Inc, claimed that individuals were illegally downloading their copyrighted works and sought to identify the alleged downloaders in order to bring legal action against them. Such suits have become widespread in the U.S. since mid-2010, and have involved more than 100,000 alleged downloaders, many of whom may have been wrongfully accused.

The plaintiffs filed nearly identical complaints in the four cases, alleging that defendants "acted in concert with each other" to download and share copyright-protected works using file-sharing software. The complaints maintained that the true identity of a defendant could be sufficiently demonstrated using his/her IP address, claiming "[t]he ISP to which each Defendant subscribes can correlate the Defendant's IP address to the Defendant's true identity." The plaintiffs thus sought to subpoena Internet Service Providers (ISP) for further identifying information, including the names, addresses, email addresses, and telephone numbers of the numerous defendants.

The court held that an IP address merely identifies a location at which multiple internet-connected devices may be located. While an IP address is associated with a specific ISP subscriber, it is not sufficient evidence that he/she illegally downloaded the copyrighted material. Importantly, the judge stated that, "It is no more likely

that the subscriber to an IP address carried out a particular computer function — here the purported illegal downloading of a single pornographic film — than to say an individual who pays the telephone bill made a specific phone call."

Referencing the increasing popularity of wireless routers, many of which support multiple internet-connected devices, the court noted that the alleged download could have been performed by a family member, friend, or neighbor of the subscriber. Even if the network had been secured, it is possible that a passerby could have accessed the Internet using the subscriber's IP address. Citing the myriad possibilities surrounding the identity of the supposed downloader and the unlikelihood of determining his or her true identity, the court recommended to the federal district court judges that the cases be dismissed, calling the mass BitTorrent lawsuits a "waste of judicial resources."

Protecting the privacy of their users is of paramount importance to most ISPs and online service providers, so this decision is good news for those companies who receive requests for contact information for users of their services.

The Federal Circuit Addresses the Abstract Idea Exception to 35 U.S.C. § 101

On July 9, 2012, the U.S. Court of Appeals for the Federal Circuit ruled in a 2-1 decision that computer-implemented methods, systems and products are not invalid under 35 U.S.C. § 101 unless it is "manifestly evident" that they cover an abstract idea. *CLS Bank International v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341 (Fed. Cir. 2012).

The Federal Circuit held that test is met when "the single most reasonable understanding is that a claim is directed to nothing more than a fundamental truth or disembodied concept, with no limitations in the claim attaching that idea to a specific application." The decision demonstrates that the Federal Circuit remains divided on the issue of patent-eligible subject matter. While the split is not new, the sweeping rule adopted by the majority, resulting in a strong dissent, is a new approach as compared to the narrower, more case-specific rulings the court has been issuing recently.

Under 35 U.S.C. § 101, "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." There are three judicial exclusions to the four categories

of patentable subject matter: abstract ideas, natural phenomena, and laws of nature.

The four patents held by Alice Corporation included method, system, and computer program product claims and were directed to “a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party so as to eliminate ‘settlement risk’. Settlement risk is the risk that only one party’s obligation will be paid, leaving the other party without its principal.”

CLS Bank had prevailed before the district court on summary judgment in invalidating Alice’s patents as failing the machine-or-transformation test and the abstract idea exception articulated in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010). The majority opinion in *CLS Bank* addressed the “abstract idea” exception, noting that the “abstractness of the ‘abstract ideas’ test to patent eligibility has become a serious problem.” After exploring the recent history of the Federal Circuit’s efforts to address the issue, including the analysis in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* 132 S. Ct. 1289 (2012), the majority opinion by Judge Linn found that “Where the ‘addition of a machine impose[s] a meaningful limit on the scope of a claim,’ and ‘play[s] a significant part in permitting the claimed method to be performed, rather than function[ing] solely as an obvious mechanism for permitting a solution to be achieved more quickly, *i.e.*, through the utilization of a computer for performing calculations,’ that machine limitation renders the method patent eligible.”

The majority stated further that, “It can, thus, be appreciated that a claim that is drawn to a specific way of doing something with a computer is likely to be patent eligible whereas a claim to nothing more than the idea of doing that thing on a computer may not.” The asserted claims of the Alice patents required computer implementation and recited specific ways of performing the exchange of an obligation between parties, such as using a “shadow credit record and a shadow debit record.” The dissent (noting that the Federal Circuit had been reversed in a §101 decision for the second time in its last three terms) argued that the majority had failed to follow the Supreme Court’s instructions in *Prometheus* by neglecting to address whether the claims included an “inventive concept.” Rather than considering the limitations added by the claim language, Judge Prost abstracted the claims to their most basic functions and emphasized the long history of the “inventive concept” of using an intermediary in financial transactions. In response, the majority cautioned that while claims can

be stripped down and left with a core that could be characterized as an abstract idea, courts should not “go hunting for abstractions by ignoring the concrete, palpable, tangible, and otherwise not abstract invention the patentee actually claims.”

Despite the guidance provided in recent opinions by the Supreme Court, the Federal Circuit remains divided on basic questions of what constitutes patentable subject matter under § 101. As panels debate how the Supreme Court precedents should be applied, this area of the law will continue to be unsettled. An *en banc* rehearing or appeal to the Supreme Court may follow — stay tuned.

U.S. Trademark Office Initiates Pilot Program to Assess Accuracy of Trademark Register

On June 21, 2012, the United States Patent and Trademark Office issued a final rule revising the Trademark Rules of Practice and the Rules of Practice for Filings Pursuant to the Madrid Protocol. This new rule allows the PTO to (1) require more than one specimen in connection with a use-based trademark application, an allegation of use, or an amendment to a registered mark, and (2) conduct a two-year pilot program aimed at assessing the accuracy of the register by requiring additional specimens, information, exhibits, affidavits, and/or declarations, as deemed necessary in the examination of a post-registration affidavit or declaration of use or continued non-use.

Currently, applicants/registrants are only required to submit one specimen per class in connection with the filing of use-based applications, allegations of use, amendments to a registered mark, or post-registration maintenance or renewal filings. The PTO has articulated three reasons for the new rule. The first is to allow applicants and registrants to submit any additional specimens or other information as needed for proper examination. The second is to allow the PTO to conduct this pilot program to assess and improve the accuracy of the register. The third is to make post-registration use-allegation examination rules uniform with current pre-registration examination rules, which allow the PTO to require additional information necessary for the examination of pending applications.

As part of the pilot program, the PTO will randomly select 500 registrations for which post-registration affidavits of use (Section 8 or 71 affidavits) are being filed, and issue office actions requesting proof of use of the mark on two additional goods and/or services per class which the PTO will select. The deadline to respond will be either

within 6 months of the office action issue date, or before the expiration of the relevant filing period, whichever is later. The registrant may either provide additional specimens, or delete the additional goods or services from the application. All filings for registrations selected for the pilot program will be reviewed by what the PTO describes as “specially trained” senior attorneys. In the event that the registrant’s additional specimens are deemed insufficient or if the registrant deletes the additional goods or services, the PTO will further review the registration and may request proof of use of the mark on two or more of the remaining goods or services.

The PTO has clearly stated that this new rule is intended to assess the accuracy of the register and is unrelated to the issue of fraud. Accordingly, failure to provide sufficient specimens showing use of the mark on the additional goods chosen by the PTO will not subject the entire registration, or even an entire class of goods and services, to cancellation. Having said that, it is worth noting that while the rule itself may be unrelated to fraud, a third party could conceivably use a registrant’s failure to comply with an additional specimen requirements as evidence in a cancellation action based on fraud.

As set forth above, owners of trademark registrations with Section 8 or 71 filings due before June 21, 2014 are advised to take extra care to ensure accuracy in their description of goods and services prior to filing their affidavits and specimens.

Plaintiff in California Trade Secret Case Ordered to Pay Nearly Half a Million Dollars in Attorneys’ Fees

Consistent with other states that have adopted the Uniform Trade Secrets Act, California law allows the prevailing party in a trade secrets action to seek recovery of its attorneys’ fees and costs. If the defendant is the prevailing party, it can recover fees and costs if the court determines that plaintiff brought the lawsuit in “bad faith.” A recent California appellate decision, *SASCO v Rosendin Electric, Inc.*, 207 Cal. App. 4th 837 (2012), suggests that trade secret plaintiffs who are unable to elicit strong evidence during discovery run the risk of a “bad faith” determination that could lead to significant attorneys’ fees.

The dispute in *SASCO* began when three senior level employees of *SASCO*, a licensed electrical contractor, left to work for competitor, *Rosendin Electric*. Prior to their departure, the employees had been aware of *SASCO*’s plans to bid on a specific business opportunity. When *Rosendin* ultimately won the bid on that project, *SASCO*’s

CEO became convinced that the former employees must have stolen *SASCO*’s trade secrets—including what was allegedly a unique and proprietary computer program for estimating job costs. *SASCO* sued *Rosendin* on multiple causes of action, including trade secret misappropriation and unfair business practices.

After a drawn-out battle involving multiple discovery skirmishes, *SASCO* voluntarily dismissed its suit shortly after *Rosendin* filed a motion for summary judgment. *Rosendin* brought a motion for attorneys’ fees arguing that *SASCO*’s computer program was not a trade secret and there had been no evidence of trade secret misappropriation, and further accusing *SASCO* of improperly bringing the lawsuit to harass a competitor. *SASCO* objected that *Rosendin* had withheld evidence from discovery. The trial court granted *Rosendin*’s motion, ordering *SASCO* to pay *Rosendin* \$484,943 in attorneys’ fees. The court reasoned that even assuming the computer program qualified as a trade secret, *SASCO* had improperly brought suit on merely a suspicion that the former employees had stolen trade secrets. The CEO’s testimony on this point was particularly damaging. When asked why he believed that his former employees had stolen *SASCO*’s trade secrets, he responded: “Why wouldn’t they?”

SASCO appealed the award of attorneys’ fees, arguing that the trial court had relied on the wrong standard of evidence and had placed too much reliance on certain facts. The California appellate court upheld the trial court’s decision upon concluding that there been an objective lack of evidence supporting *SASCO*’s claims. Notably, the court ignored *SASCO*’s arguments about *Rosendin*’s alleged discovery abuse, reasoning that for purposes of evaluating bad faith under California’s trade secret law, the court should not consider why there is a lack of evidence but rather should stick to the evidence presented on the record.

Given the unenforceability of non-compete agreements in California, many employers in *SASCO*’s situation are understandably tempted to pursue a trade secret misappropriation action when they suspect former employees of providing their confidential business information to competitors. Yet this case underscores the importance of conducting a thorough pre-suit investigation before doing so. For example, forensic testing of former employees’ computers and interviews of knowledgeable individuals—neither of which *SASCO* did before filing suit—might elicit sufficient factual support to protect a plaintiff from subsequent liability for attorneys’ fees.



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