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FEDERAL CIRCUIT AFFIRMS PTO IN FIRST APPEAL OF AN *INTER PARTES* REVIEW DECISION

By Matthew I. Kreeger and Jason D. Hall

In a split decision, the Federal Circuit issued its first opinion reviewing a final decision of the Patent Trial and Appeal Board ("Board") of the Patent and Trademark Office ("PTO") in an *inter partes* review case. The court affirmed the PTO's decision finding three claims invalid and denying the patent owner's motion to amend claims. Along the way, the Court made two significant rulings: (1) the Court lacks jurisdiction to review the Board's decision to institute an IPR; and (2) the Board correctly used the "broadest reasonable interpretation" standard to construe claims. Judge Newman dissented because, in her view, "several of the panel majority's rulings are contrary to the legislative purpose of the Leahy-Smith America Invents Act."

This decision provides a first look at how the Federal Circuit will review Board decisions in *inter partes* review cases. The opinion confirms the Board's authority, making the Board's decisions to institute trial unreviewable on appeal, and approving the Board's "broadest reasonable interpretation" standard that can make it easier to invalidate patents. The decision thus confirms the Board's approach in conducting these increasingly important patent review proceedings.

BACKGROUND

Cuozzo is the assignee of U.S. Patent No. 6,778,074 (the '074 patent), which is directed to an interface for displaying both a vehicle's current speed and the speed limit. Garmin filed a petition for *inter partes* review, requesting the Board to cancel three claims of the '074 patent on various grounds, including anticipation and obviousness. The Board instituted the IPR, based on obviousness grounds that differed in some ways from the grounds in the petition.

In a final written decision, the Board construed the claims under the PTO's customary "broadest reasonable interpretation" standard and found the claims invalid as obvious. The Board denied Cuozzo's motion to amend the claims, finding that the amended claims lacked written support under 35 U.S.C. § 112 and improperly enlarged the scope of the claims. Cuozzo appealed the Board's final written decision, as well

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as its decision to institute IPR. The PTO responded to the appeal, but Garmin had settled the case and did not participate.

THE FEDERAL CIRCUIT LACKS JURISDICTION TO REVIEW THE BOARD'S DECISION TO INSTITUTE IPR

The Court's majority opinion—authored by Judge Dyk and joined by Judge Clevenger—held that under 35 U.S.C. § 314(d), a decision to institute IPR may not be appealed at any stage of the proceeding. In a prior decision, the Court held that § 314(d) precludes interlocutory review of decisions whether to institute IPR. *St. Jude Med., Cardiology Div., Inc. v. Volcano Corp.*, 749 F.3d 1373, 1375-76 (Fed. Cir. 2014). Here, the Court sounds the death knell to all efforts to appeal decisions to institute IPR, now holding that the Court cannot on appeal review decisions to institute IPR, even after a final decision.

The Court suggested that a writ of mandamus might be available (after a final decision) to challenge a Board's decision "in situations where the PTO has clearly and indisputably exceeded its authority." The Court declined, however, to rule "whether mandamus to review institution of IPR after a final decision is available." Instead, the Court held that even if it were available, Cuozzo failed to satisfy the requirements for mandamus.

THE PTO'S BROADEST REASONABLE INTERPRETATION STANDARD IS APPROPRIATE

The Court upheld the PTO's use of the "broadest reasonable interpretation" standard for construing claims during IPR. First, the Court found that Congress implicitly adopted this standard by enacting the AIA. "[T]he broadest reasonable interpretation standard has been applied by the PTO and its predecessor for more than 100 years in various types of PTO proceedings." And the Court has approved of this standard in numerous proceedings, including initial examinations, interferences, and post-grant proceedings. Thus, Congress was aware and adopted this prevailing rule through its enactment of the AIA.

Second, the Court held that the PTO properly used its rulemaking power under the AIA to adopt the broadest reasonable interpretation standard. The AIA conveys rulemaking authority to the PTO under 35 U.S.C. § 316(a)(2), which provides that the PTO shall establish regulations "setting forth the standards for the showing of sufficient grounds to institute a review . . . ." Under this authority, the PTO set the broadest reasonable interpretation standard under 37 C.F.R. § 42.100(b). "There is no indication that the AIA was designed to change the claim construction standard that the PTO has applied for more than 100 years." The Court analyzed the validity of the PTO's regulation defining its claim construction standard under the *Chevron* framework and determined that, because of the AIA's silence and the PTO's century-long use of the standard, the regulation was proper.

JUDGE NEWMAN'S DISSENT

Judge Newman dissented and argued that the majority's decisions are inconsistent with the AIA. On the claim construction standard, Judge Newman contended that the PTO needs to "apply the same legal and evidentiary standards as would apply in the district court." Because the express purpose of IPRs is "providing quick and cost effective alternatives to litigation," IPRs are better classified as a "surrogate for district court litigation." Judge Newman also offered the view that appeals of decisions to institute IPR are necessary to ensure that the PTO does not overstep its authority.

EU COPYRIGHT: NO RESALE OF DIGITAL CONTENT EXCEPT FOR SOFTWARE? *HOW DOES THE EUROPEAN COURT OF JUSTICE DECISION ON EXHAUSTION OF THE DISTRIBUTION RIGHT UPON FIRST SALE IMPACT THE RESALE OF DIGITAL COPIES?*

By Alistair Maughan and Kristina Ehle

The European Court of Justice (ECJ) has decided that the rule of exhaustion of the distribution right upon first sale (in the U.S. known as the "first sale" doctrine) does *not apply* to post first-sale alterations to the *physical medium* embodying the work *if* such alterations constitute a *new reproduction* of the work (here: the transfer of a painting from paper poster onto a canvas). Consequently, such subsequent alterations require the consent of the owner of the reproduction right to the work.

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In this decision, the ECJ expressly states that exhaustion of the distribution right upon first sale under the EU Copyright Directive applies to the *tangible object* into which a protected work is incorporated. Thus, the first sale of *intangible digital copies* of works subject to the EU Copyright Directive will likely *not* exhaust the distribution right to such copies. This means that the resale of digital music, film, and e-book files duly purchased by way of download from the Internet will likely be considered as copyright infringement if not authorized by the copyright holders.

As regards *software*, the ECJ ruled the opposite in its *UsedSoft* judgment in 2012 by deciding that also the first sale of an *intangible* digital copy of a computer program by way of download from the Internet with the copyright holder's consent *exhausts* the distribution right to such copy. As a consequence, the buyer of such intangible software copy can resell such copy to third parties without the copyright holder's consent. However, this judgment was based on the interpretation of the EU Directive on Protection of Computer Programs and not on the EU Copyright Directive.

This rather formalistic differentiation between works that are ultimately all protected by copyright may, in particular, lead to practical difficulties for industries with multimedia offerings, like digital games, that comprise software and artistic elements (drawings, music, etc.).

WHAT DOES EXHAUSTION OF THE DISTRIBUTION RIGHT MEAN?

When buying a video on a DVD, a hardcover book, or an art painting in the EU that was first sold in the EU with the consent of the copyright holder of such work, one can resell such DVD, book, or painting to any other person in the EU later on. The reseller does not need the copyright holder's consent for such resale. This is possible because Art. 4 (2) of the EU Copyright Directive sets forth that the first sale in the EU of a copy, or of the original, of a copyrighted work by the copyright holder or with his/her consent causes exhaustion of the distribution right of the copyright holder. The copyright holder can neither prohibit such resale nor ask the reseller or purchaser to pay additional compensation.

THE CASE

In the case, Allposters, a Dutch company, bought art posters depicting copyrighted paintings of famous artists that were sold in the EU with the consent of the respective copyright holders. Allposters transferred the image of the painting from the purchased paper poster onto a canvas by a chemical process so that the image no longer appeared on the paper poster but only on the canvas. Thus, there was still only one reproduction of the painting – only that it was on a canvas medium instead of on the original paper poster. The image of the painting itself was *not* altered. The canvases looked much better and bore a much closer resemblance to the original painting than the paper posters did, and Allposters offered such canvases for sale on its websites. Allposters argued that (i) alterations made to a sold copy *after* the distribution right to such copy was exhausted had *no impact* on the previous exhaustion and (ii) the transfer of the image from paper to canvas did not constitute a reproduction of the work, as the image was not duplicated.

THE JUDGMENT

In its decision of January 22, 2015, the EJC states that the exhaustion of the distribution right applies to the

COMING IN HOT!

We'd like to extend our congratulations to our colleagues on recent awards and recognitions:

- The MoFo Intellectual Property Group was recognized as one of the top IP practices in the *Chambers Global* 2015 rankings. Seventeen of the IP Group attorneys were recommended among the best across the United States, Japan, and China.
- The BTI Consulting Group has named **Jayson Cohen** to its annual list of BTI Client Service All-Stars. Jayson is one of 25 IP lawyers named to the list this year.
- In March 2015, *The American Lawyer* named **Grant Esposito** and **Rachel Krevans** as its Litigators of the Week for a victory that will greatly impact the growth of the biosimilar industry.

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physical medium in which the work is embodied (here: the paper poster) and that alterations of the physical medium which result in a *new object* (here: the replacement of a paper poster by a canvas) constitutes *a new reproduction of the work* - which requires the authorization of the holder of the reproduction right. The ECJ therefore decided that "*the rule of exhaustion of the distribution right… does not apply in a situation where a reproduction of a protected work, after having been marketed in the European Union with the copyright holder's consent, has undergone an alteration of its medium, such as the transfer of that reproduction from a paper poster onto a canvas, and is placed on the market again in its new form.*"

EFFECT ON THE RESALE OF DOWNLOADED COPIES?

The, perhaps, even more interesting aspect of this ECJ judgment is its likely impact on the resale of digital copies of copyrighted works purchased by way of download from the Internet:

In the *UsedSoft* judgment of July 3, 2012, the ECJ decided that "*… the distribution right under Art.4 (2) of Directive 2009/24 concerns both tangible and intangible copies of a computer program, and hence also copies of computer programs which, on the occasion of their first sale, have been downloaded from the Internet onto the first acquirer's computer.*" As a consequence, the buyer of such intangible copy can resell such copy to third parties *without* the copyright holder's consent. However, this judgment was based on the interpretation of the EU Directive on the protection of computer programs (Directive 2009/24/EC) that the ECJ considers a *lex specialis* to the EU Copyright Directive.

In the *Allposters* decision, the ECJ clearly states that "*exhaustion of the distribution right applies to the tangible object into which a protected work or its copy is incorporated.*" For this purpose, it explicitly relies on (i) the wording of recital 28 of the EU Copyright Directive, according to which copyright "*protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article*" and (ii) the agreed statement concerning Articles 6 and 7 of the WIPO Copyright Treaty (1996), according to which "*the expressions 'copies' and 'original and copies' being subject to the right of distribution … refer exclusively to fixed copies that can be put into circulation as tangible objects.*" In the *Allposters* case, the ECJ applies precisely those arguments that it had previously rejected as not being applicable in the *UsedSoft* case. Considering this argumentation, it would appear to be difficult for the ECJ in future cases to turn around and decide that exhaustion of the distribution right under the EU Copyright Directive also applies to the first sale of intangible digital copies.

Therefore, the underlying arguments of the ECJ in the *Allposters* case are a strong indication that with regard to copyrighted works other than software (e.g., music, literature, film, art), the ECJ will likely not apply the rule of exhaustion of the distribution right to the first sale of intangible digital copies of such works by way of download from the Internet (e.g., music, film, and e-book files). This would mean that, except for the resale of downloaded software copies, the resale of downloaded copies of such works will continue to require the consent of the copyright holder in each case.

WHAT ABOUT ALTERATIONS THAT ARE NOT NEW REPRODUCTIONS?

The ECJ did *not* rule on the impact of subsequent alterations of sold physical copies of a work which *did not qualify* as new reproductions of that work. As regards alterations of a copyrighted work itself, one has to look at the applicable national copyright law of the EU countries, because the exclusive right of authors to authorize adaptations, arrangements and other alterations of their works is not granted by the EU Copyright Directive, but by *Article 12 of the Berne Convention* as implemented into national law of those countries which are party to this multilateral copyright treaty (including all EU Member States). This alteration right to the work is not impacted by the exhaustion of the distribution right upon first sale. This means that subsequent alterations of the sold work itself *require* the copyright holder's consent (e.g., changing a painting of an artist after purchase). However, depending on the national copyright law of the respective country, the mere alteration of the sold physical medium embodying the work can also be qualified as an alteration of the work itself, if such alteration puts the work into a different context, e.g., if the purchaser of a painting changes its frame to a very different frame containing patterns or images that modify the context of the work (so decided by the German Federal Supreme Court in 2002, I ZR 304/99).

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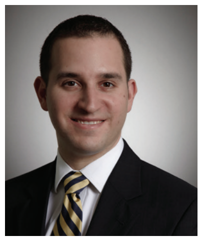
QUALCOMM AGREES TO $975 MILLION FINE AND CONDUCT REMEDIES TO RESOLVE CHINESE STANDARD ESSENTIAL PATENT LICENSING INVESTIGATION

By Bradley S. Lui, Sean P. Gates, and Joshua A. Hartman



The assertion of standard essential patents (SEPs) by patent-holders has raised patent, contract, and competition issues in jurisdictions around the world. One SEP holder, Qualcomm, has faced particular scrutiny with respect to its licensing practices, which are under investigation by enforcement agencies in the U.S., Europe, and Asia. On February 9, 2015, China's National Development and Reform Commission (NDRC) announced that it had concluded its investigation into Qualcomm's patent licensing practices, with Qualcomm agreeing to pay a $975 million fine and to several remedial commitments affecting its patent licensing practices in China.

BACKGROUND OF THE NDRC'S INVESTIGATION

The NDRC commenced its investigation of Qualcomm in November 2013, focusing on whether Qualcomm's patent licensing practices constituted abuse of dominance prohibited under China's Anti-Monopoly Law (AML). According to its published statement, the NDRC received information from dozens of Chinese and international mobile phone and baseband chip manufacturers. The NDRC also discussed its investigation with Qualcomm.

THE NDRC'S FINDINGS OF ABUSE OF DOMINANCE

The NDRC concluded that Qualcomm's patent licensing practices violated the AML. It found Qualcomm to be dominant in the markets for CDMA/WCDMA/LTE wireless communication SEPs and for baseband chips. It then found that Qualcomm had abused its dominant position through several practices.

First, the NDRC concluded that Qualcomm charged unfairly high patent royalties by:

- refusing to provide to Chinese licensees a list of the patents for which they were charged royalties;
- charging royalties for certain expired patents;
- demanding Chinese licensees provide royalty-free grant-back licenses under their relevant patents, with no offsets to their royalty payments to Qualcomm; and
- requiring royalties to be based on the selling price of mobile phone handsets.

Second, the NDRC concluded that Qualcomm tied licenses to wireless communication SEPs without justification to licenses to non-SEPs by refusing to license separately SEPs and non-SEPs. The NDRC found that this practice forced some Chinese companies to license non-SEPs from Qualcomm.

Third, the NDRC concluded that Qualcomm unfairly conditioned supplies of Qualcomm chipsets on agreements not to challenge Qualcomm's patents. Specifically, the NDRC found that Qualcomm required its baseband chip customers to enter into patent license agreements that included a no-challenge clause in order to receive Qualcomm baseband chipsets. Moreover, the NDRC found that Qualcomm refused to supply chipsets to companies that disputed the inclusion of a no-challenge clause in their license agreement or otherwise litigated over patent licensing.

QUALCOMM'S FINE AND PROPOSED "RECTIFICATION PLAN"

Qualcomm agreed to resolve the NDRC's investigation by paying a fine of $975 million, which equaled 8% of Qualcomm's sales in China in 2013. Qualcomm also proposed a "rectification plan" in which it committed to terms including:

- for licenses of 3G and 4G Chinese SEPs for branded handsets sold for use in China, Qualcomm will charge royalties of 5% for 3G handsets and 3.5% for 4G handsets that do not implement CDMA or WCDMA, basing these royalties on 65% of the handset's wholesale net selling price;
- when licensing to Chinese companies, Qualcomm will license 3G and 4G Chinese SEPs separately from Qualcomm's other patents; and
- Qualcomm will provide Chinese companies a patent list during license negotiations.

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In addition, under its proposed rectification plan, Qualcomm committed to cease requiring that Chinese licensees:

- provide royalty-free grant-back licenses under their patents;
- pay royalties on expired patents; and
- agree not to challenge Qualcomm's patents as a condition to Qualcomm's supply of baseband chips.

The NDRC approved Qualcomm's rectification plan, stating that Qualcomm's proposed remedies satisfied its requirements.

KEY TAKEAWAYS

There are several important takeaways from the resolution of the NDRC's Qualcomm investigation.

First, the NDRC did not specify particular conduct remedies. Instead, the NDRC approved the commitments proposed by Qualcomm in its rectification plan as sufficient to satisfy the NDRC's requirements. Thus, the extent to which private litigants may be able to use these commitments in a damages action or otherwise remains unclear.

Second, Qualcomm's commitments in its rectification plan are limited to its activities in China. The commitments apply only to Qualcomm's licensing of Chinese companies and of Chinese SEPs, and the royalty commitments apply only to sales of handsets for use in China. To the extent Chinese companies sell handsets for use outside of China, the commitments do not prevent Qualcomm from charging royalties in excess of the agreed rates and to assess those royalties based on the full wholesale net selling price of such handsets.

Third, although Qualcomm agreed to cease basing royalties on the full wholesale net selling price of handsets, it committed only to reduce the royalty base to 65% of the wholesale net selling price. Qualcomm did not agree to base royalties on the smallest saleable patent-practicing unit, which is the trend in recent U.S. case law.[1]

Finally, Qualcomm also committed to growing its investments in China. It is unclear what this commitment entails, although Qualcomm noted recent examples of its investments in China, including providing engineering support to China's mobile operators in rolling out 4G LTE networks in China, working closely with Chinese handset manufacturers to build their businesses inside and outside of China, expanding its relationship with a Chinese semiconductor foundry, and creating a China-specific investment fund to support the development in China of mobile and semiconductor technologies.[2]

1 *See, e.g.*, *VirnetX, Inc. v. Cisco Sys., Inc.*, *767* F.3d 1308, 1326-28 (Fed. Cir. 2014).

2 Press Release, Qualcomm Inc., Qualcomm and China's National Development and Reform Commission Reach Resolution – NDRC Accepts Qualcomm's Rectification Plan – Qualcomm Raises Midpoints of Discal 2015 Revenue and Non-GAAP EPS Guidance (Feb. 9, 2015), available at http://files.shareho lder.com/downloads/QCOM/3864235320x0x808060/382E59E5-B9AA-4D 59-ABFF- BDFB9AB8F1E9/Qualcomm_and_C hina_NDRC_Resolutio n_final.pdf.

NAVIGATING FRAUD IN TRADEMARK CASES

By Jennifer Lee Taylor and Dina Roumiantseva

For a memorable period between 2003 and 2009, fraud claims proliferated in *inter partes* proceedings before the Trademark Trial and Appeal Board ("the Board"). These claims were spurred by the Board's decision in *Medinol Ltd. v. Neuro Vasx, Inc.*, which effectively lowered the standard of proof for fraud to mere negligence.[1] In *Medinol*, the applicant in an opposition proceeding counterclaimed that the opposer had fraudulently asserted that its trademark had been used on "all" items included in its application, when the mark had only been used on one of the two items included in the application — catheters, but not stents.

Contrary to the Federal Circuit's prior holding that fraud in the procurement of a trademark registration "occurs when an applicant *knowingly* makes false, material representations of fact in connection with his application,"[2] the Board in *Medinol* held that fraud merely requires a showing that an applicant or registrant made a statement that it "knew or should have known" was false. Finding that the opposer in *Medinol* "knew or should have known" that the mark had never been used on stents, the Board canceled the registration in its entirety.[3]

In the six years following *Medinol*, the Board has issued a remarkable string of decisions canceling trademark registrations on the basis of fraud — but without requiring evidence that the false statements were *knowingly* made. During this period, the Board found fraud in virtually every case where there was evidence that a mark had not been used on all goods in a registration prior to the filing of a use declaration, even where the trademark owners professed inadvertence, lack of knowledge, inability to understand English, illness, or mistake.[4]

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THE FEDERAL CIRCUIT STEPS IN

In 2009, the Federal Circuit finally considered and firmly rejected the Board's "knew or should have known" fraud standard. In its place, the Federal Circuit held that fraud not only required the trademark owner's actual knowledge that a material statement was false, but also required that the trademark owner acted with the intent to deceive the Trademark Office.

In *In re Bose*, the registrant filed a renewal affidavit claiming continued use of its WAVE mark on audio tape recorders and players years after it had stopped selling such goods. In response to fraud allegations, Bose's general counsel claimed that he believed that the WAVE mark was used "in commerce" when he signed the renewal affidavit, because Bose had continued to repair and then ship repaired tape recorders and players bearing the mark.[5]

The Board held that Bose "knew or should have known" that this was not use of the mark in commerce on such goods, and canceled the registration in its entirety. On appeal, the Federal Circuit agreed that shipments of repaired goods did not constitute use in commerce. It further held, however, that an intent to deceive the Trademark Office is an "indispensable element" in the fraud analysis and that proof of such intent was lacking, regardless of whether the general counsel's belief was reasonable.

APPLYING THE BOSE STANDARD, THE BOARD FINALLY FINDS FRAUD AGAIN

In the five years after *Bose*, there were no fraud rulings from the Board beyond motions to dismiss at the pleading stage.[6] The first substantive decision came in the 2014 decision in *Nationstar Mortgage LLC v. Mujahid Ahmad*.[7] That case illustrates the classic dangers of bad facts.

The *Nationstar* applicant was an independent real estate agent who applied for the NATIONSTAR mark for real estate brokerage services, among other services. He filed the application just six days after Nationstar Mortgage contacted him to buy certain "Nationstar-based" domain names — and long before he obtained the licenses necessary to provide real estate brokerage services, or even incorporated his real estate company. Nevertheless, he claimed in his application that the mark was already in use for all services in the application. When the Trademark Office requested that he submit specimens proving use of the NATIONSTAR mark, he printed business cards and attached them to a declaration, claiming that they were in use as of the filing date of the application. Nationstar Mortgage opposed his application, alleging that the applicant had committed fraud with his use claims and fabricated specimens, and that he had done so with an intent to deceive the Trademark Office. The Board readily found that the applicant had made false use claims when he filed his application, deeming his testimony "not at all credible." Having found falsity, the Board held that the *Bose* "intent to deceive" standard was met.

The basis for the Board's holding should be troubling for trademark owners, however, as it seems to undermine *Bose*'s clear standard. Although the Federal Circuit in *Bose* had expressly ruled that reasonableness "is *not* part of the analysis,"[8] the Board in *Nationstar Mortgage* held that "[t]he surrounding facts and circumstances provide clear and convincing evidence that applicant did not have a good faith *reasonable* basis for believing that he was using the NATIONSTAR mark in commerce for all the services identified in the application."[9] The *Nationstar* decision therefore may lead trademark owners to wonder if there will be a resurgence in fraud claims in Board proceedings, despite the clear *Bose* standard, with a focus on the reasonableness of a trademark owner's beliefs.

THE FEDERAL COURTS BRING EVEN MORE UNCERTAINTY

Outside of the Trademark Office, fraud claims are treated very differently depending on where they are filed. The Second Circuit, for example, uses a standard that is precisely the one rejected by the Federal Circuit in *Bose* — that the "person making the false representation knew or *should have known* that the representation was false." Applying this standard, the Second Circuit in *Patsy's Italian Restaurant* affirmed a fraud finding holding that the registrant "knew or should have known" that the applied-for services were broader than those offered by the registrant.

Patsy's Italian Restaurant was not the typical case in which the registrant included extraneous services in its application. Instead, the decision turned on the meaning of "restaurant services." The registrant operated several businesses selling pizza and other food items, and had registered its PATSY'S PIZZERIA mark for "restaurant services." The jury agreed with the plaintiff's argument that the registrant was merely operating pizzerias, not restaurants, and had committed fraud by registering the mark for "restaurant services." The Second Circuit affirmed, finding that the registrant "had to have known" that "restaurant services" were broader than the "pizzeria services" that it offered, and held that the fraud verdict was supported by sufficient evidence.[10]

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In another pizzeria case decided under the Second Circuit's "knew or should have known" standard, the trademark registrant opposed summary judgment by arguing that "there [was] a triable issue of fact as to whether he subjectively intended to defraud the PTO." The district court agreed that "a party alleged to have committed fraud may rely on good faith as a defense," but nevertheless granted summary judgment. It did so after concluding that the trademark registrant lacked a good-faith basis to assert ownership of the PUDGIE'S mark, when he only owned one-third of the family pizza business.[11]

In contrast, the Ninth Circuit's six-element test for fraud requires *knowledge or a belief* that the representation is false[12] and evidence supporting such knowledge. In *Hokto Kinoko*, the registrant's lawyer had signed and submitted on registrant's behalf an application that included "a wide variety of non-mushroom products, ranging from live fish to bonsai trees," although the registrant never intended to use the mark on anything other than mushrooms. The district court denied summary judgment on fraud claims. On appeal, the Ninth Circuit affirmed, finding "no evidence that [the registrant] knew of the misstatement made by its lawyer or intended to defraud the USPTO." These facts no doubt would have satisfied the Board's old "knew or should have known" fraud standard, and one cannot help but wonder if the outcome would have been different had *Hokto Kinoko* been filed within the Second Circuit, where "knew or should have known" is still the standard.

In the Eleventh Circuit, the bar for proving fraud appears to be even higher than the Ninth Circuit's standard, as the Eleventh Circuit looks to the subjective belief and intent of the individual who signs the trademark declaration, not to the *applicant's* intent. Per the Eleventh Circuit, "The declarant-focused text of the application oath requires the signatory's good-faith, subjective belief in the truth of its contents."[13] A legal opinion letter that an earlier, adverse ruling on the mark's ownership had no preclusive effect was sufficient for one court in the Eleventh Circuit to find a good-faith, subjective belief for an ownership claim in a trademark application.[14]

WHAT IS A TRADEMARK OWNER TO DO?

Because it remains to be seen whether *Nationstar* indicates another shift in the Board's approach to fraud, and because a trademark owner cannot control where its trademarks might be challenged, it is imperative for trademark owners to take affirmative steps to minimize risk. Specifically, to make sure that they are in the best possible position to defend fraud claims, trademark owners should: (1) investigate the facts carefully and read documents thoroughly before filing them with the Trademark Office; (2) use broad language to describe goods and services in trademark filings; (3) err on the side of caution and delete goods or services on which the mark has not been used; (4) keep records documenting use of a mark on all goods and services in an application or registration; (5) be candid in Trademark Office communications; (6) consider obtaining an opinion letter if there is a possible dispute as to the ownership of a mark, and, most importantly; (7) audit all registrations and pending applications to ensure the information in them is absolutely correct. If any discrepancies are discovered, the trademark owner should consider petitioning to amend the application or registration before it faces a challenge.

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1 *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

2 *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48 (Fed. Cir. 1986) (emphasis added).

3 *Medinol*, 67 U.S.P.Q.2d at 1209-10.

4 *See, e.g.*, *Bose Corp. v. Hexawave, Inc.*, 88 U.S.P.Q.2d 1332 (T.T.A.B. 2007); *Hachette Filipacchi Presse v. Elle Belle, LLC*, 85 U.S.P.Q.2d 1090 (T.T.A.B. 2007); *Hurley Int'l LLC v. Volta*, 82 U.S.P.Q.2d 1339 (T.T.A.B. 2007); *Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha*, 186 F. App'x 1005 (Fed. Cir. 2006); J.E.M. *Int'l, Inc. v. Happy Rompers Creations Corp.*, 74 U.S.P.Q.2d 1526 (T.T.A.B. 2005).

5 *In re Bose Corp.*, 580 F.3d 1240, 1243 (Fed. Cir. 2009).

6 See *Caymus Vineyards v. Caymus Med., Inc.*, 107 U.S.P.Q.2d 1519 (T.T.A.B. 2013), and *Meckatzer Löwenbräu Benedikt Weiß KG v. White Gold, LLC*, 95 U.S.P.Q.2d 1185 (T.T.A.B. 2010).

7 *Nationstar Mortgage LLC v. Ahmad*, 112 U.S.P.Q.2d 1361 (T.T.A.B. 2014).

8 *In re Bose Corp.*, 580 F.3d at 1246 (emphasis added).

9 *Nationstar Mortgage*, 112 U.S.P.Q.2d at 1374 (emphasis added).

10 *Patsy's Italian Rest., Inc. v. Banas*, 658 F.3d 254, 270-71 (2d Cir. 2011) (emphasis added).

11 *MPC Franchise, LLC v. Tarntino,* No. 11-CV-6310 CJS, 2014 WL 1920531 (W.D.N.Y. May 14, 2014).

12 *Hokto Kinoko Co. v. Concord Farms, Inc.*, 738 F.3d 1085 (9th Cir. 2013).

13 *Sovereign Military Hospitaller Order of Saint John of Jerusalem, of Rhodes & of Malta v. Fla. Priory of the Knights Hospitallers of the Sovereign Order of Saint John of Jerusalem, Knights of Malta, the Ecumenical Order*, 702 F.3d 1279, 1292 (11th Cir. 2012).

14 *Axiom Worldwide, Inc. v. HTRD Grp. Hong Kong Ltd,* 2013 WL 2712787 at *5 (M.D. Fla. June 12, 2013).

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ITC PILOT PROGRAM TO EXPEDITE RULINGS ON WHETHER EXCLUSION ORDERS COVER REDESIGNS AND NEW PRODUCTS

By Brian Busey, Lynn Levine, and Aaron Rauh



On February 24, 2015, the ITC announced a new pilot program to decide whether redesigns or new products are covered by ITC exclusion orders. The announced goal of the program is to test the use of expedited procedures for the Commission to evaluate and rule on new and redesigned products in modification and advisory proceedings. Under the new program, a party to an ITC investigation that resulted in an exclusion order or an importer can file a petition to determine whether a redesigned or new product should be "carved out" of an existing exclusion order.

Under the ITC's Rules, a petitioner can seek a modification proceeding to revise a remedy order based on "changed conditions of fact or law." 19 CFR § 210.76. The ITC's Rules also provide for requests for an advisory opinion that a proposed course of conduct is outside the scope of a remedy order. 19 CFR § 210.79. In order to petition for a modification proceeding, the petition "should specify that the petitioner could not have brought evidence of the redesign to the Commission during the original investigation (for example, if the redesign was not completed at the time of the original hearing)." ITC Fact Sheet at 1. Provided that a petitioner can meet this standard, a modification proceeding is in many cases strategically preferable, because the determination in such a proceeding is appealable. By contrast, an advisory opinion is not appealable.

In terms of timing for completion of proceedings under the pilot program, the ITC is offering three different timelines. For petitions involving "purely legal questions," the petition will be assigned to the ITC General Counsel's Office to provide a recommendation, with the Commission's final decision normally issued within 60-90 days after institution. For petitions requiring "minimal factfinding," the Office of Unfair Import Investigation (OUII) will be assigned to conduct the proceeding, with the Commission's final decision normally issued within 90-180 days of institution. Finally, if the petition indicates the necessity for more extensive fact finding, the ITC will delegate the development of a record and issuance of an initial determination to an ALJ, with the Commission's final determination normally issued within 6-9 months after institution.

Prior to the pilot program, the ITC had not linked goals for the length of modification or advisory opinion proceedings to the complexity of the issues presented. Moreover, the pilot program timelines are considerably faster than the time frames the ITC had previously established for such proceedings. In recent years, the ITC performance goal for completion of all modification proceedings was set at 6 months, and performance goals for completion of advisory opinion proceedings ranged from 9 to 12 months. For consolidated proceedings involving modification and/or advisory opinion proceedings, the previous goal was 15 months. *ITC Annual Performance Plan, FY 2015-2016* and *Annual Performance Report, FY 2014*, p. 15. However, in a change in procedure that may have laid some of the groundwork for the new pilot program, in the past year the ITC referred two advisory opinion requests to OUII for issuance of reports approximately 90 days after the referral. These referrals further provided for a decision by the Commission regarding the advisory opinion approximately 45 days after issuance of OUII's report. In the first such referral, in *Certain Kinesiotherapy Devices and Components Thereof*, Inv. No. 337-TA-823, the ITC adopted OUII's report, which concluded that the requestor's products were outside the scope of the exclusion and cease-and-desist orders entered in the underlying investigation. In the second matter, *Certain Cases for Portable Electronic Devices*, Inv. Nos. 337-TA-867/861, the requestor withdrew its request for an advisory opinion shortly after the ITC referred the matter to OUII.

The ITC's announcement of its new pilot program for design arounds and new products follows recent reports that Customs and Border Protection (CBP) is planning to issue a Notice of Proposed Rulemaking (NPRM) to establish a new *inter partes* procedure under Part 177 of CBP Rules, 19 CFR § 177, for evaluating redesigns and new products under outstanding ITC exclusion orders. CBP has in the past interpreted whether redesigned or new products fall within the scope of existing ITC exclusion orders using an *ex parte* process that has been criticized for lacking transparency and fairness, because the process excludes the IP rights holder. It remains to be seen whether the ITC's new pilot program will deter or

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delay CBP from proceeding with the NPRM to establish a new *inter partes* proceeding. However, the CBP's existing Part 177 procedure remain an alternate avenue for entities that seek to import new or redesigned products.

It is also not clear whether the ITC's pilot program will actually result in expediting most decisions on redesigns and new products. If many of the petitions regarding redesigned and new products raise complex fact issues, then even under the new expedited procedures of the pilot program, they may take at least 6-9 months to complete. Under CBP's existing Part 177 rules, CBP has committed in the past to try to complete its rulings on redesigns and new products within approximately 90 days after the ruling request is filed (although such rulings have in past sometimes taken six months or more). Accordingly, the attractiveness of the ITC's new pilot program may turn on whether its process takes less time than the existing CBP process.

RECORD-BREAKING TRADE SECRET CASES IN JAPAN

By Akira Irie

Historically in Japan, trade secret theft by an employee was viewed as a low-risk proposition, given the strong sense of employee loyalty stemming from lifetime employment at Japanese corporations. As a result, significant trade secret misappropriation claims rarely appeared before the Japanese courts. That trend has changed, however. Two recent cases clearly illustrate the commitment and willingness of Japanese companies to enforce their intellectual property rights in their home jurisdiction: *Nippon Steel & Sumitomo Metal Corporation* (Nippon Steel) *v. POSCO* (formerly Pohang Iron & Steel Co.) and *Toshiba Corporation v. SK Hynix Inc.* In both cases, the plaintiffs sought over 100 billion yen in damages and, in a country where the filing fee for a claim of this size is approximately one million USD, the record-breaking claims demonstrated plaintiffs' commitment to enforcing their trade secret rights in Japan.

NIPPON STEEL

In the *Nippon Steel* case, Nippon Steel sued its Korean rival POSCO for trade secret misappropriation in Tokyo District Court. Nippon Steel alleged that one of its former employees stole know-how for manufacturing high-grade steel and delivered it to POSCO.

Somewhat unusually, Nippon Steel initially learned of the theft thanks to POSCO. A few years prior, the Korean government arrested a former POSCO employee on suspicion that he had sold POSCO trade secrets to a Chinese steel manufacturer. When confronted with his act, the accused thief claimed that he didn't steal any POSCO trade secrets because the "trade secrets" were actually Nippon Steel technology that POSCO did not own.

This surprising turn of events led Nippon Steel to initiate legal action in Japan to first seize documents from the trade secret thief's residence (in Japan). The Court granted this request in December 2011 and gave Nippon Steel the ammunition it needed. Armed with these documents, Nippon Steel filed suit against POSCO in April 2012.

Nippon Steel's complaint made a massive damages claim by Japanese standards: 100 billion yen or over one billion USD at that time. According to Nippon Steel, the magnitude of POSCO's theft justified this large damages claim. The stolen trade secrets allowed POSCO to close the large technology gap that used to exist between the two companies.

The *Nippon Steel* case remains pending before the Tokyo District Court, now over two years into its life. Part of the long case pendency can be attributed to POSCO's initial attempt to contest jurisdiction. POSCO argued that Japanese courts should not have jurisdiction over the case because POSCO does all of its product development in Korea and all of the relevant evidence would be located in Korea. Furthermore, POSCO also argued that, to the extent Nippon Steel is seeking damages based on sales in foreign countries, Nippon Steel should be litigating in those countries and that it was inappropriate to aggregate the case in Japan. Ultimately, the Japanese court rejected POSCO's challenge to jurisdiction and the case continues on today.

TOSHIBA CORPORATION

In the second case, Toshiba sued its competitor SK Hynix of Korea for trade secret misappropriation, also in Tokyo District Court.[1] Like Nippon Steel, Toshiba's complaint sought a large damages award—in excess of 100 billion yen.

This case involved not only a civil action, but also a criminal one. On the same day that Toshiba filed its trade secret complaint, the Tokyo Metropolitan Police initiated a criminal action against the alleged trade secret thief and arrested him. Pictures and videos of the thief's arrest appeared on headline news.

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Toshiba filed its suit on learning that the trade secret thief had been arrested in Japan. The employee formerly worked for SanDisk in a NAND flash memory development project conducted in partnership with Toshiba at Toshiba's flash memory technology development and mass production base at Yokaiichi, Japan. The employee allegedly stole Toshiba's proprietary technical information in 2008, and subsequently provided it to SK Hynix when he began employment there.

The case itself was resolved relatively quickly. According to press reports, SK Hynix paid $278 million to Toshiba in exchange for Toshiba's withdrawal of its lawsuit.

The criminal case was also quickly dispatched. In March 2015, the thief was sentenced to five years' imprisonment. During sentencing, Presiding Judge Masahito Murohashi noted that the thief leaked some of the data to the South Korean company in a bid to secure his position. The judge went on to note that "[l]eaking data on the world's smallest memory chip at the time to a foreign country was extremely heinous."

GOING FORWARD

Perhaps as a response to the increased media attention being paid to trade secret misappropriation cases in Japan, the Japanese government has also been considering revising trade secret laws to further strengthen protections for trade secrets. For example, one of the items being considered is an enhancement to the civil and criminal penalties for trade secret misappropriation; currently, the maximum fines are 10 million yen for an individual and 300 million yen for a corporation. Another item up for consideration is a change to the burden of proof; currently, the plaintiff must prove misappropriation. This can be difficult given Japan's limited discovery regime. To alleviate this issue, the government is considering putting the onus on the accused individual or company to prove they did not steal trade secrets. It remains to be seen how far the Japanese lawmakers will go with their reform efforts, but the reforms illustrate the increased attention these types of claims have received in Japan.

Even if the reforms are not forthcoming, the *Nippon Steel* and *Toshiba* cases indicate a willingness to use the Japanese legal system to enforce trade secret rights. Moreover, the reported settlement born out of the Toshiba case suggests that Japanese courts may be an effective, but previously underutilized, vehicle. The cases also serve as a warning to would-be trade secret thieves: Japanese companies will pursue entities that deliberately misappropriate their trade secrets and their efforts, at least so far, are effective.

1 Morrison & Foerster assisted in representing Toshiba in the SK Hynix matter.

WHERE TO FIND US

- **April 28, 2015**
  BayBio Lunch and Learn – Merger, Collaboration Deal of IPO: Getting Your IP House in Order, South San Francisco, CA, Mika Mayer
- **April 28, 2015**
  Institute for Genomic Biology – University of Illinois Urbana-Champaign, Urbana, IL, Michael Ward
- **May 15, 2015**
  Intellectual Property Owners Association Advanced ITC Litigation Class, San Diego, CA, Brian Busey & Lynn Levine
- **June 25-27, 2015**
  Federal Circuit Bar Association Bench & Bar Conference, Dana Point, CA, Deanne Maynard