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Claim Construction Standard and Appellate Review Authority in Post-Grant Proceedings



On January 15, 2016, the Supreme Court granted certiorari in *Cuozzo Speed Technologies v. Lee* to address two important questions relating to *inter partes* review proceedings:

Whether the court of appeals erred in holding that, in IPR proceedings, the Board may construe claims in an issued patent according to their broadest reasonable interpretation (“BRI”) rather than their plain and ordinary meaning.

Whether the court of appeals erred in holding that, even if the Board exceeds its statutory authority in instituting an IPR proceeding, the Board’s decision whether to institute an IPR proceeding is judicially unreviewable.¹

The dispute arose out of a petition for *inter partes* review (“IPR”) filed by Garmin International, Inc. (“Garmin”), of claims 10, 14, and 17 of U.S. Patent No. 6,778,074 owned by Cuozzo Speed Technologies, LLC (“Cuozzo”).² The Board denied all grounds on which the challenge to claims 10 and 14 were based, but nevertheless applied to those claims combinations of prior art that Garmin had only cited with respect to claim 17. The Board then instituted IPR for all three claims. The Board subsequently held all three claims to be unpatentable on the same grounds for which it had instituted IPR, and in doing so, applied the BRI, rather than the ordinary meaning, of a key claim term.³ Garmin and Cuozzo settled, but the PTO intervened to defend the Board’s decision on appeal.

¹ Docket No. 15-446.

² Petition for *Inter Partes* Review, No. IPR2012-00001, Paper No. 1 (Sept. 16, 2012).

³ Final Written Decision, IPR2012-00001, Paper No. 59 (Nov. 13, 2013).

A split Federal Circuit panel held that the Board's decision to institute IPR was judicially unreviewable, even while acknowledging that the Board may have acted *ultra vires*.⁴ On the merits, the Board held that the Board had permissibly adopted the BRI standard for claim construction in IPR.⁵ Judge Newman dissented with respect to both issues. Cuozzo filed a petition for rehearing, but it was denied by a vote of 6-5.

Before the Supreme Court, Cuozzo asserts that, while the PTO has long used the BRI standard, it was always in proceedings, such as initial examination, where applicants could amend their claims as part of an iterative exchange with the examiner.⁶ According to Cuozzo, the "Board's use of the BRI protocol in IPR defeats Congress's aim of substituting administrative adjudication for district court adjudication, because it leads to 'different results' than the ordinary-meaning construction used by courts."⁷ With respect to the reviewability of the Board's institution decision, Cuozzo argues that 35 U.S.C. 314(d)—which states that the Board's decision to institute IPR is "final and nonappealable"—only bars an appeal of the Board's institution decision when issued.⁸

The PTO responds that IPRs permit claim amendments, and that Congress has always blessed the use of BRI in such situations, including post-grant proceedings like *inter partes* reexamination. The PTO further argues that the AIA vests the PTO with broad rule making authority, and that its adoption of BRI is entitled to judicial deference as a reasonable exercise of that authority.⁹ On the jurisdictional issue, the PTO's brief relies principally on the plain language of Section 314(d), which does not on its face differentiate between interlocutory appeals and those following a final written decision.

Cuozzo's reply brief attacks the PTO's comparison of IPRs to other examination-like proceedings, where amendments can be made on multiple occasions in an iterative process, and where applicants have an opportunity to disclaim broad claim constructions adopted by an examiner. With respect to the jurisdiction question, Cuozzo asserts that the Federal Circuit's current interpretation allows the Board to violate the AIA's limits without any judicial oversight.

Numerous amici have lined up on both sides of this dispute. Of note, retired Federal Circuit Judge Paul Michel submitted a brief arguing that BRI is inappropriate in IPRs. The Federal Circuit Bar Association and Licensing Executive Society both took the same position, while the Intellectual Property Owners Association and American Intellectual Property Law Association each argued that the Supreme Court should reverse on both the BRI and jurisdictional issues. On the other side, a large group of "technology companies, manufacturers, trade associations of Internet, automotive, computer and communications companies, and retailers that use and sell high-tech products," submitted a brief supporting both of the Federal Circuit's rulings.

The effects of a reversal by the Supreme Court remain somewhat unclear. In practice, it is rare that the PTAB's rulings, or Federal Circuit decisions on appeal therefrom, turn on application of the "BRI" standard as opposed to the ordinary "*Phillips*" claim construction standard. Moreover, multiple bills proposed last year in Congress would eliminate the BRI standard in *inter partes* reviews. The jurisdictional issue—whether the Federal Circuit has jurisdiction to rule on at least *ultra vires* acts by the PTAB at the institution stage—may have larger consequences, with pros and cons to both patentees and petitioners. Currently, the Federal Circuit will not review institution decision issues such as the determination of the real party-in-interest

⁴ *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1273 (Fed. Cir. 2015).

⁵ *Id.* at 1278–79.

⁶ Brief for the Petitioner (Feb. 22, 2016).

⁷ *Id.* at 13.

⁸ *Id.* at 15.

⁹ Brief for the Respondent (Mar. 23, 2016).

and privity. If the jurisdictional question is reversed, that could benefit patentees, who could appeal following a final written decision that the PTAB lacked the authority to institute the proceeding in the first place. On the other hand, a reversal on the jurisdictional question could theoretically open the door for petitioners to appeal following a final written decision with the respect to the denial of some, but not all, grounds as redundant.

Either way, this case will mark an important step in the development of IPR jurisprudence.

USPTO Updates Rules for Post Grant Proceedings



On April 1, 2016, the United States Patent and Trademark Office (“USPTO” or “Office”) published a 17-page notice (“Notice”) in the Federal Register of a final rule that “amends the existing consolidated set of rules relating to . . . trial practice for inter partes review (“IPR”), post-grant review (“PGR”), the transitional program for covered business method patents (“CBM”), and derivation proceedings.”¹⁰ The amendments are effective May 2, 2016.¹¹ The final rule is largely the same as the amendments the USPTO proposed on August 20, 2015, and also includes responses to public comments made concerning the August proposal.

The USPTO summarizes the amendments as:

- “allowing new testimonial evidence to be submitted with a patent owner’s preliminary response”;
- “adding a Rule 11-type certification for papers filed in a proceeding”;
- “allowing a claim construction approach that emulates the approach used by a district court following *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) . . . for claims of patents that will expire before entry of a final written decision”; and
- “replacing the current page limit with a word count limit for major briefing.”¹²

Also of note is the one area in which the Office has decided not to implement its August proposals. In the Notice, the Office indicates that, while it “sought comments [in August] on whether to conduct a pilot program under which the determination of whether to institute a trial would be made by a single APJ, . . . [t]he majority of comments opposed the proposed pilot program.”¹³ Therefore, “the Office has decided not to go forward with the proposed pilot program at this time.”¹⁴

Of the four bulleted changes above, the “new testimonial evidence” and the “*Phillips*-type Claim Construction Analysis” are the most interesting to practitioners, and are explored further herein.

¹⁰ 81 Fed. Reg. 18750, 18750 (Apr. 1, 2016) (to be codified at 37 C.F.R. pt. 42).

¹¹ *Id.*

¹² *Id.*

¹³ *Id.* at 18751.

¹⁴ *Id.*

New Testimonial Evidence to be Submitted with a Patent Owner's Preliminary Response

The USPTO, responding to patent owners' complaints that they are at a disadvantage in post-grant proceedings, will allow patent owners to include expert declarations and other testimonial evidence in the optional preliminary response to a petition.¹⁵

However, the USPTO does not shift the advantage that significantly in Patent Owner's direction, explaining that, "[b]ecause the time frame for the preliminary phase of an AIA proceeding does not allow generally for cross-examination of a declarant before institution as of right, nor for the petitioner to file a reply brief as of right, . . . any factual dispute created by testimonial evidence that is material to the institution decision will be resolved in favor of the petitioner . . . for purposes of determining whether to institute a trial."¹⁶ And, further, "a panel, in its discretion, may order some limited discovery, including cross-examination of witnesses, before institution,"¹⁷ thus giving Petitioner a chance to test the strength of the expert or other testimonial evidence. The USPTO also warns against any pre-institution shenanigans, stating in the Notice that, "if the testimony is withdrawn at the trial stage, the Board would have to consider whether cross-examination falls within the scope of additional discovery,"¹⁸ and that "submission of patent owner testimonial evidence at the preliminary stage may warrant granting petitioner a reply to such evidence."¹⁹

A Phillips-type Claim Construction Analysis

Regarding claim construction, the Office has "determined to permit either party to request by motion a *Phillips*-type construction if a party certifies that the patent will expire within eighteen months from the entry of the Notice of Filing Date Accorded to Petition."²⁰ The Office requires that the request "must be done by motion, triggering a conference call with the panel to discuss the request to resolve whether such a motion is appropriate under the circumstances and whether any other briefing is necessary."²¹ The Office indicates that it anticipates hearing from the parties early on this issue, explaining that "petitioner may be afforded an opportunity to address a *Phillips*-type construction analysis before patent owner is required to file its preliminary response."²² The Office even contemplates that the "necessary" early briefing would mean that "the petitioner may be able to brief an alternative construction before patent owner files its preliminary response" wherein the petitioner's "claim construction may differ from what a petitioner has presented in its petition."²³

In the Notice, the USPTO indicates that some commenters wished to expand the *Phillips*-type construction analysis to all AIA post-grant proceedings, regardless of the life remaining on the patent-at-issue, but the USPTO rejects the idea.²⁴ The USPTO posits that quality assurance and consistency across its various claim examination proceedings is of paramount importance, and that the broadest reasonable interpretation standard is a useful tool for ensuring both.²⁵ The USPTO appears to recognize that the Patent Owner's ability to amend is an important underpinning to the broadest reasonable

¹⁵ *Id.* at 18755.

¹⁶ *Id.*

¹⁷ *Id.* at 18756.

¹⁸ *Id.*

¹⁹ *Id.* at 18757.

²⁰ *Id.* at 18752.

²¹ *Id.*

²² *Id.*

²³ *Id.* at 18753.

²⁴ *Id.* at 18752.

²⁵ *Id.*

interpretation standard (“[a]ppropriate rationales exist to apply the broadest reasonable interpretation claim construction standard when there is an ability to clarify claim scope”), but insists that the “opportunity to amend exists.”²⁶ The USPTO, as it has previously, reiterates the justification for the difficulty it presents to Patent Owners who seek to amend their claims:

The Board does not conduct a prior art search to evaluate the patentability of the proposed substitute claims, and any such requirement would be impractical given the statutory structure of AIA proceedings. If a motion to amend is granted, the substitute claims become part of an issued patent, without any further examination by the Office. Because of this constraint, the Office has set forth rules for motions to amend that account for the absence of an independent examination by the Office where a prior art search is performed as would be done during prosecution of a patent application, reexamination, or reissue.²⁷

Interestingly, the USPTO indicates in the Notice that “relevant prosecution history should be considered when specifically cited, explained, and relied upon by the parties,”²⁸ leaving one to wonder what exactly is the difference between the broadest reasonable interpretation standard and a *Phillips*-type construction analysis.

The Patent Agent Privilege



In *In re Queen’s University at Kingston*, No. 2015-145 (Fed. Cir. March 7, 2016), the Federal Circuit recognized—on a petition for writ of *mandamus*—the existence of a new patent agent privilege, extending to communications with patent agents when those agents are acting within the scope of their authorized practice of law before the Patent Office.²⁹

This petition arose from a district court litigation filed in the Eastern District of Texas by Queen’s University at Kingston and PARTEQ (“Petitioners”) alleging that Samsung Electronics Co., Ltd. and Samsung Electronics America, Inc. (“Respondents”) were infringing patents relating to user interfaces that change their behavior according to the attentiveness of a user. During fact discovery, Petitioners asserted privilege over communications between Queen’s University employees and registered non-lawyer patent agents discussing the prosecution of the asserted patents.

In response, Respondents moved the district court to compel the production of these documents. The magistrate judge granted Respondents’ motion to compel, finding that the communications were not privileged because non-attorney patent agents are not subject to the attorney-client privilege and no separate “patent-agent privilege” exists. After Petitioners’ objection was overruled and the district court declined to certify the issue for interlocutory appeal, Petitioners petitioned the Federal Circuit for a writ of *mandamus* directing the district court to withdraw its order compelling production of the documents.

The Federal Circuit granted *mandamus* review after finding that: (1) patent-agent privilege is an issue that splits the district courts, (2) the issue is one of first impression for the Federal Circuit, and (3) the issue involves a detrimental potential loss of confidentiality.³⁰

²⁶ *Id.*

²⁷ *Id.* at 18754.

²⁸ *Id.*

²⁹ *In re Queen’s Univ. at Kingston*, 2016 WL 860311, at *12 (Fed. Cir. Mar. 7, 2016).

The parties did not appear to seriously dispute the court's authority to create testimonial privileges, and so the Federal Circuit's analysis focused on whether this particular new privilege comports with the common law, as interpreted in view of the court's "reason and experience."³¹ In this regard, the court examined the unique role of patent agents and the history and treatment of the profession by Congress and the Supreme Court. From this examination, the court concluded that the agent-client relationship is virtually indistinguishable from the lawyer-client relationship.

As a frame of reference to the role of patent agents, the Federal Circuit relied heavily on *Sperry v. State of Florida ex rel. Florida Bar*, 373 U.S. 379 (1963). In *Sperry*, the Supreme Court considered patent agent activities and found that "the preparation and prosecution of patent applications for others constitutes the practice of law." *Id.* at 383. Accordingly, the Federal Circuit found justification in extending privilege to patent agents on the basis that patent agents do not simply engage in law-like activity, but the practice of law itself.³²

The court left no legislative stone unturned in tracing, largely through *Sperry*, the profession's evolution since 1861. The court acknowledged that Congress designed a dual-path system that provided applicants with freedom of choice—patent agents versus patent attorneys—and to hold against creating a privilege would "frustrate the very purpose of Congress's design."³³

Indeed, this dual-path design appeared to heavily influence the court's reasoning, which culminated in the conclusion that Congress intended no difference between patent agents and patent lawyers with respect to representation before the Patent Office. The court reasoned: "[t]o the extent, therefore, that the traditional attorney-client privilege is justified based on the need for candor between a client and his or her legal professional in relation to the prosecution of a patent, that justification would seem to apply with equal force to patent agents."³⁴ The court also stressed the potential harm to clients by not extending privilege: "a lack of privilege would hinder communications between patent agents and their clients and undermine the Congressionally-designed freedom of choice between agents and attorneys."³⁵

This decision was not made by a unanimous panel, however. The dissent concluded that the majority failed to overcome a presumption against creating a new privilege by showing that the privilege either (1) advances a public interest or (2) solves a particularly pressing need for the privilege.³⁶ Further, the dissent reasoned that agents hold no professional status akin to lawyers and instead likened patent agents to tax advisors or accountants.³⁷ The majority provided a direct response to the dissent on this last point, noting: (1) the Supreme Court's characterization of patent agents' activities in *Sperry*; (2) Congress's clear intent to establish a dual track for patent prosecution; (3) the Patent Office's requirement that patent agents have a technical or scientific degree and pass an extensive examination on patent laws and regulations; and (4) the Patent Office's imposition of specific ethical obligations on agents, including the duties of candor, good faith and disclosure.³⁸ In this last regard, the majority emphasized the Patent Office's requirement of an agent's compliance with the

³⁰ *Id.* at 4.

³¹ *Id.* at 5.

³² *Id.* at 7.

³³ *Id.* at 9.

³⁴ *Id.* at 7.

³⁵ *Id.* at 10.

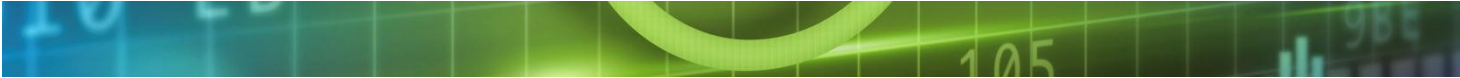
³⁶ *Id.* at 14–15.

³⁷ *Id.* at 23–24.

³⁸ *Id.* at 11.

Patent Office's Rules of Professional Conduct—which conforms to the Model Rules of Professional Conduct of the American Bar Association.³⁹

Awarding Attorneys' Fees in Copyright Cases



Kirtsaeng v. John Wiley & Sons, Inc.—currently before the Supreme Court to determine the appropriate standard for awarding attorneys' fees in copyright cases—arises from a lengthy dispute between plaintiff John Wiley & Sons, a domestic book publisher, and defendant Supap Kirtsaeng, an importer and reseller of Wiley's foreign edition textbooks, over Wiley's exclusive rights to import and distribute certain of its copyrighted books.

This is the second time the case has been before the Supreme Court. In the first go-round, Kirtsaeng argued that he was not liable for copyright infringement under the “first sale” doctrine because he lawfully obtained the copyrighted books abroad, and subsequently imported and sold those lawfully-obtained books in the United States. In Kirtsaeng's view, his initial lawful purchase exhausted Wiley's rights, and he was then free to do with the books as he pleased. The district court and Second Circuit rejected Kirtsaeng's argument, finding that the first sale doctrine did not apply to foreign-manufactured goods (even if made abroad with the copyright owner's permission).⁴⁰ The Supreme Court—resolving a circuit split—reversed and found that the first-sale doctrine has a “*non-geographical interpretation*,” and, thus, a seller is not liable for copyright infringement in the U.S. where the seller “lawfully obtained” its copies abroad.⁴¹

After winning at the Supreme Court, on remand, Kirtsaeng moved for attorneys' fees as the prevailing party.⁴² The district court considered the attorneys' fees factors laid out in the Supreme Court's *Fogarty* decision:

“[1] frivolousness, [2] motivation, [3] objective unreasonableness (both in the factual and in the legal components of the case) and [4] the need in particular circumstances to advance considerations of compensation and deterrence” . . . may be used to guide courts' discretion [in determining whether to award attorney's fees under Section 505], so long as such factors are faithful to the purposes of the Copyright Act and are applied to prevailing plaintiffs and defendants in an evenhanded manner.⁴³

However, pursuant to the Second Circuit's *Bender* decision, the district court “emphasized . . . the importance of the objective unreasonableness factor in guiding the court's discretion”⁴⁴ The district court denied Kirtsaeng's motion, because (1) neither the factual allegations nor Wiley's legal theory (which the court noted “persuaded this Court, the Court of Appeals, and three Justices of the Supreme Court”) were “objectively unreasonable,” and (2) “no other equitable

³⁹ *Id.*

⁴⁰ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1357 (2013).

⁴¹ *Id.* at 1358–59.

⁴² *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08-cv-07834, 2013 WL 6722887, at *1 (S.D.N.Y. Dec. 20, 2013).

⁴³ *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n. 19 (1994).

⁴⁴ *Wiley*, 2013 WL 6722887, at *2 (citing *Matthew Bender & Co. v. West Publ'g Co.*, 240 F.3d 116, 121–22 (2d Cir. 2001)).

consideration weighs in favor of [Kirtsaeng's] request."⁴⁵ In a three-sentence opinion, the Second Circuit affirmed.⁴⁶ Kirtsaeng petitioned the Supreme Court.

On January 15, 2016, the Supreme Court granted certiorari to address what constitutes the appropriate standard for awarding attorneys' fees to a prevailing party under 17 U.S.C. § 505 of the Copyright Act.⁴⁷ Section 505 recites that, "[i]n any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title, *the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.*"⁴⁸

Kirtsaeng submitted his opening brief on February 22, 2016. He argues that the Second Circuit's "rigid" standard is wrong because it places "substantial weight" on the "objectively unreasonable" factor, and improperly favors plaintiffs over defendants.⁴⁹ Instead, Kirtsaeng seeks a flexible standard in which the district court has discretion to balance the relevant factors, and analogizes the Second Circuit's standard to those like the "rigid" two-part test for determining attorney's fees in patent cases recently rejected by the Supreme Court.⁵⁰ Wiley responded on March 23. Wiley emphasizes that the Second Circuit's standard properly follows *Fogerty* and requires assessing all relevant factors on a case-by-case basis; that objective reasonableness has been at the core of attorney's fee awards in copyright cases for over a century; and that Kirtsaeng's argument improperly elevates "jurisprudential importance" to the forefront.⁵¹

A Supreme Court reversal would likely make attorney's fees easier to obtain in copyright cases. On the one hand, it may encourage some smaller, relatively poorly-funded parties (such as Kirtsaeng) to fight, rather than settle, lawsuits it believes are without merit. On the other hand, it may have the unintended consequence of causing such a party to settle out of fear of having to pay potentially large attorneys' fees of its a large, well-funded adversary.

A decision is expected by the end of June.

The VENUE Act: Removing the Eastern District of Texas' Stronghold



Venue in patent infringement cases is determined by a statute only applicable to patent cases: 28 U.S.C. § 1400(b). That statute permits venue "in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." *Id.* On its face, this is narrow, but there is a caveat: The general venue statute, applicable to non-patent cases, states that "[f]or *all venue purposes*" a corporate defendant resides "in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question." 35 U.S.C. § 1391(c)(2) (emphasis added). The courts have held that this provision's similarly-worded

⁴⁵ Wiley, 2013 WL 6722887, at *1-2.

⁴⁶ *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 14-344-CV, 605 Fed. Appx. 48 (2d Cir. 2015).

⁴⁷ *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375.

⁴⁸ 17 U.S.C. § 505 (emphasis added).

⁴⁹ Brief for Petitioner, at 4-5, 12-17.

⁵⁰ *Id.* at 12 (citing *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014)).

⁵¹ Brief of Respondent, at 19-24.

predecessor applies to § 1400(b), with the practical effect that a company selling allegedly infringing products nationwide can properly be sued in *any district*.

This has led to seemingly anomalous statistics: For example, in 2015, 45.5% of patent complaints were filed in the Eastern District of Texas alone, with a single judge in that district handling 20 percent of all patent cases in 2014.

In response to this perceived problem, on March 17, 2016, Sen. Jeff Flake introduced the *Venue Equity and Non-Uniformity Elimination Act of 2016* (an acronym of “*VENUE Act*”). The proposed legislation would replace the current § 1400(b) with a longer but more specific list of permissible venues. As to the defendant, the bill narrows the scope of venue to “(1) where the defendant has its principal place of business or is incorporated; (2) where the defendant has committed an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement; [and] (3) where the defendant has agreed or consented to be sued in the instant action.” This would eliminate nationwide venue and limit venue to a few identifiable districts based on a defendant’s activities. Where the first two criteria do not create venue as to a foreign defendant, that defendant may be sued in any district as provided by § 1391(c)(3).

But the bill also permits venue in districts related to the plaintiff’s or its predecessor’s activities. First, the bill creates venue “(4) where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit.” And, second, the bill allows venue “(5) where a party has a regular and established physical facility that such party controls and operates, not primarily for the purpose of creating venue,” and where the party has either “(A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent; (B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit; or (C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit.” On its face, this provision is applicable to plaintiffs and defendants both, but there is bound to be significant overlap with (2) as to defendants. Both of these provisions principally benefit practicing patent owners, by establishing venue in their home districts, but do not serve NPEs seeking to create venue in a preferred district.

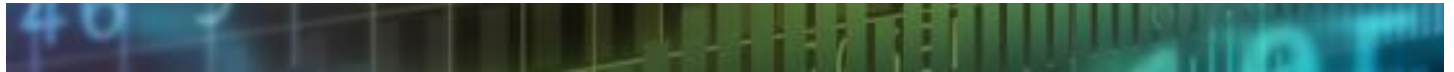
Congressional consideration of this reform bill will be influenced by the Federal Circuit’s decision in *In re TC Heartland LLC*,⁵² a petition for a writ of mandamus that the court recently denied. The petitioner therein argued that the phrase “all venue purposes” in § 1391(c) does not include the patent-specific venue statute. The court relied on a prior holding, from 1990, that the predecessor language in § 1391(c)—“[f]or the purposes of venue under this chapter”—included § 1400(b), since it is part of the same “chapter” as § 1391(c).⁵³ Interestingly, the court also relied, in part, on the pending *VENUE Act* to show Congress’ understanding of current law. But given the incongruous patent docket in East Texas, it is likely that the petitioner in *TC Heartland*, or an aggrieved defendant in a future case, will ask the *en banc* court to overrule its prior decision.

Either of these proposals—legislative or judicial—would serve to balance patent cases more evenly across the courts of the United States.

⁵² No. 2016-105 (Fed. Cir. Apr. 29, 2016) (precedential).

⁵³ *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1578–80 (Fed. Cir. 1990).

The Defend Trade Secrets Act 2016: Federalizing Trade Secret Law



Currently, no federal law provides a private right of action for trade secret misappropriation. On the federal level, the Economic Espionage Act of 1996, as amended by the Theft of Trade Secrets Clarification Act (2012), makes it a crime to knowingly misappropriate trade secrets. See 18 U.S.C. 1832(a).⁵⁴

In terms of civil remedies, aggrieved trade secret owners must bring an action under state law for any misappropriation. All but three states—Massachusetts, North Carolina, and New York—have adopted some form of the Uniform Trade Secrets Act. New York and Massachusetts have bills that have been introduced this year to enact a version of the UTSA.⁵⁵

On July 29, 2015, Congressional leaders in both the House and the Senate introduced identical bills, HR 3326 and S. 1890, that would create a federal private right of action for the misappropriation of trade secrets. In January 2016, Senators Orrin Hatch and Christopher Coons presented several amendments to S. 1890. On April 4, 2016, the amended bill was unanimously passed by the Senate as the Defend Trade Secret Act of 2016 (“DTSA”), and on April 27, 2016, the bill was passed by the House in a 410-2 vote.

The DTSA has a number of similarities with the UTSA. For example, it provides for injunctive relief, compensatory damages (including actual loss and any unjust enrichment), and awards double damages for willful and malicious misappropriation. The DTSA also similarly defines “misappropriation” and has a three-year statute of limitations. However, unlike the UTSA, the DTSA would give trade secret owners access to federal courts. It would also provide, in extraordinary circumstances, for ex parte seizures of property “necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” Under the bill, a court may only order such a seizure after finding that other equitable forms of relief would be inadequate, irreparable injury would result absent a seizure, the harm to the applicant outweighs the harm to the legitimate interests of the person against whom seizure would be ordered, and the applicant is likely to succeed on the merits of its trade secret misappropriation claim. The bill also requires the Attorney General to report, one year after enactment of the bill and biannually thereafter, on (i) trade secret theft from U.S. companies occurring overseas, including that which is sponsored by foreign governments and agents, and (ii) recommendations on legislative and executive action to reduce the threat of trade secret theft from U.S. companies occurring outside the U.S.

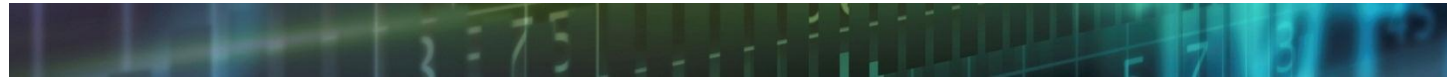
The DTSA will now go to President Obama, who has already indicated that he “strongly supports” the bill and that it would “provide important protection to the Nation’s businesses and industries.”⁵⁶

⁵⁴ The Computer Fraud and Abuse Act is a federal statute that provides for criminal and civil actions in certain situations against anyone who intentionally accesses a computer without authorization, and thereby obtains information from a computer.

⁵⁵ <http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act>.

⁵⁶ https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1890s_20160404.pdf.

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This memorandum is intended only as a general discussion of these issues. It should not be regarded as legal advice. We would be pleased to provide additional details or advice about specific situations if desired.

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