Intellectual Property Law Update November 2011

Recent months have seen many major developments in the intellectual property field, some of which are certain to impact every business. In this issue, we focus on:

- The New Patent Law
- The SEC's Corporation Finance Division Views About Disclosure of Data Security and IP Theft Issues
- Web Site Management Issues which Impact Your Exposure to Copyright Infringement Claims
- Software License Compliance Issues with Financial Implications for Licensors and Licensees

New Patent Law has Broad Reach and Should Prompt Action

As you may know, the effort to update our patent laws has been over six years in the making and has recently been signed into law as the Smith-Leahy America Invents Act ("AIA").

Many important aspects of the AIA significantly impact the patent system as we know it. First, and perhaps the most significant, is the United States is shifting from a first-to-invent system to a first-to-file system, thereby rendering provisional patent applications prudent in more circumstances. This significant change, however, is not effective until March 16, 2013.

Another important modification to our patent system is that the AIA attempts to shift some patent disputes from the courtroom to the Patent Office. It also creates new Patent Office procedures for post-grant review, inter partes review, derivation disputes and review of business method patents. Generally, these provisions will be effective September 16, 2012. Expedited examination of patent applications is now available to all applicants for the payment of an expedite fee.

Other key provisions, which were effective immediately upon enactment, will have a number of impacts including the following:

- Making the area less attractive to plaintiffs, such as patent trolls, seeking to sue multiple parties. Multiple defendants can no longer be sued in a single action merely based on the fact that they allegedly infringe the same patent.
- Proof of injury requirements for private false marking claims.
- Marking with the number of an expired patent that covered a product will no longer be false marking, now effective and applicable to pending cases.
- The best mode defense will not be applicable in proceedings commenced on or after the date of enactment.
- Virtual patent marking, by reference to a web site, is now effective.
- Issuance of patent claims directed to or encompassing a human organism will be barred as of enactment.

We suggest that the new statute provides both opportunities for value enhancement and potential risks for developers and users of patents.

For additional information about these topics, please contact your principal FSB FisherBroyles LLP contact or

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Among other things which should be discussed with a member of our Intellectual Property Practice Group are:

- Bolstering confidentiality agreements, IP covenants and non-compete terms with employees and contractors.
- Adopting expedited patent filing procedures through the use of provisional applications filings.
- Review of the invention status of joint development projects and expediting patent applications as appropriate.

**SEC Division of Corporate Finance Speaks to All on Data Breaches and Disclosures**

Clients maintaining public web sites, especially publicly traded clients, should be aware of the SEC’s Division of Corporation Finance (“CF”) very recent Disclosure Guidance Release regarding public disclosures associated with data breaches. It is available at http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm.

While not technically "law" in the traditional sense, the material gives a good deal of general guidance as to best practices regarding various topics such as what to say (and do) about securing customer and company data, potential risk from IP theft caused by a cyber-incident, financial statement disclosures, and what to say if a data breach occurs. Concerning data breach disclosure requirements this CF Disclosure Guidance states that CF is "...mindful of potential concerns that detailed disclosures could compromise cybersecurity efforts -- for example, by providing a “roadmap” for those who seek to infiltrate a registrant’s network security -- and we emphasize that disclosures of that nature are not required under the federal securities laws."

While the guidance is especially helpful for public companies with upcoming SEC filings, who will want to avoid problems with SEC staff, it is also a useful road map overview of sorts for private companies interested in properly securing their data and intellectual property ... as all companies must be these days. The special emphasis of the CF Disclosure Guidance on data breach disclosures makes it important reading for all.

**Those with Web Sites Need to Act on Recent Developments**

Clients who maintain public web sites including those accessible with mobile devices should be aware of a couple of legal issues which present both challenges and opportunities. We encourage you to discuss these issues with your FSB contact at your earliest convenience.

- **Web Sites Allowing Public Submissions.** If you allow or encourage customers to submit product comments and anecdotes to a web site, you need to worry about copyright infringement claims.

Several court cases such as MGM v. Grokster, and Viacom v. YouTube, which construe a key federal statute known as the Digital Millennium Copyright Act ("DMCA"), make clear that clients face potential legal exposure not only from their own circulation of materials such as MP3’s, JPEGs and MPEG’s in violation of the copyrights of others, but, more importantly, from their acquiescence in the efforts of others. Anyone with a public web presence who invites public submissions can be liable if such submissions turn out to infringe the copyrights of third parties, unless they are able to demonstrate compliance with a DMCA ‘safe harbor’, in very general terms, requiring:

- non-modification of the submissions
- lack of financial incentive to display infringing content
- designation with the Library of Congress of a contact for receipt of notice of claims from copyright holders; and
- prompt and appropriate response to ‘takedown notices’ from copyright holders.

There are many responsibilities associated with maintaining web sites to which the public may submit materials and several steps...
which should be taken to perfect claims to the safe harbor, and deal with objections to postings in specific cases.

- **Web User Privacy Issues; FTC on the Prowl**. The Federal Trade Commission is making clear that it looks with disfavor on companies tracking the Internet use of website visitors, without making clear that they intend to do so, or, in the case of children, at all. A federal statute makes clear that tracking Internet use by children is flatly unlawful even if the data is not sold. The FTC has brought several recent proceedings resulting in fines for violations of this statute. The [FTC web site](http://www.ftc.gov) provides some general information concerning children’s online privacy (including some recent FTC actions and consent decrees) and is well worth reading. Even for adults, if one intends to track usage by site visitors, they must make this clear in their site ‘terms of use’ and privacy policy or face FTC challenge. All clients with public web sites should promptly and regularly ensure that their privacy policies and terms of use are reviewed and they conform to actual practice.

Web site delivery through mobile devices is governed by the same rules as those applicable to web site delivery through more conventional means (e.g., on a desktop or laptop computer Internet browser). Clients involved with development of mobile apps should take special note.

**Software License Compliance is a Big Deal**  
- Especially with Open Source

While everyone knows of the need to comply with contractual terms in software licenses (and elsewhere), the salient point in this context, is that under several recent cases, failure to do so with respect to a license for copyrighted material (which is usually applicable to software), allows the pursuit in United States District Court of claims for infringement damages under the Copyright Act and related items, such as attorney fees. This is in addition to traditional contract damages, which may be non-existent or difficult to prove. For example, if the evidence establishes (among other things) that the work infringed was a registered work in the U.S. Copyright Office and the infringement was willful, then the court may, in its discretion, award statutory damages of up to $150,000 (regardless of the retail cost of the underlying work).

As licensees of computer software, you should understand that compliance with the letter and spirit of licenses is essential, notwithstanding the apparent absence of substantial actual contractual damages from non-compliance. Infringement damages are likely to be quite substantial. As licensors of computer software, you should be aware of potential leverage which the cases and statutes provide where bona fide non-compliance is found.

Critically, the preceding analysis applies not only to customarily negotiated and executed licenses for proprietary computer software, but also to “open source” software (“OSS”). While OSS is increasingly a cost effective alternative to traditional proprietary software, and we encourage our clients to explore its use, it carries with it binding contractual obligations, which must be identified and complied with. In our practices, we continue to observe a large number of cases where OSS product is embedded in proprietary software. The foregoing suggestions concerning non-OSS works are applicable in these cases to the same extent as in “pure” OSS situations. Licensees should make sure that licensors tell them what OSS product, if any, is being embedded in what is being delivered, while OSS licensors should monitor the use of their products in this context. A brief article by an FSB attorney discussing OSS is available at [http://tinyurl.com/OpenSource2008](http://tinyurl.com/OpenSource2008).

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