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In this edition of the Intellectual Property Quarterly Newsletter, in addition to our recurring *News and Notes on Reexaminations* and *eBay Scorecard*, we explore the lessons offered by the Federal Circuit in *McKesson v. Bridge Medical* for both patent litigators and prosecutors pertaining to the defense of inequitable conduct; with fraud still on our minds, we turn to a string of recent rulings by the Trademark Office imposing a strict standard on trademark owners for the accuracy of their filed allegations of use; last, we discuss the debate over the preemptive effects of the Uniform Trade Secrets Act on common-law and statutory causes of action from a California perspective. As always, we hope that you find Morrison & Foerster's Intellectual Property Quarterly Newsletter helpful and informative. And while this newsletter does not address the Federal Circuit's recent *Seagate* opinion on willfulness, the

amendments to USPTO rules on filing continuations, or the status of patent law reform in Congress, each of those topics was the subject of a recent MoFo Legal Update (and can be found at [www.mofo.com](http://www.mofo.com)) provided in our continuing effort to keep you abreast of the ever-changing IP landscape. ■

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## The Opportunities and Challenges Presented by the Revitalized Defense of Inequitable Conduct to Patent Infringement: Thoughts for Patent Litigators and Prosecutors

By Jose Patiño and James Mullen III

As we have previously chronicled<sup>1</sup>, the defense of inequitable conduct has been reinvigorated by recent Federal Circuit case law bringing a new vitality to an affirmative defense it previously discouraged as a “plague.”<sup>2</sup> In the latest development on this front, *McKesson Info. Solutions, Inc. v. Bridge Medical Inc.*<sup>3</sup>, the Federal Circuit underscored that this sea change in approach is comprehensive, broadly applicable to all aspects of the duty of candor owed to the PTO, and is not contingent on when the conduct at issue occurred. The apparent new regime regarding unenforceability counsels patent litigators and practitioners alike to conform their practices to a more creative outlook on the duty of disclosure.

The *McKesson* case concerned the concurrent prosecution of a series of co-pending applications in the mid-1980s, pertaining to an interactive, bar coding-based system for use in hospitals to ensure that the right patient, receives the right medication, at the right dosage, for the right ailment, and at the right time.<sup>4</sup> Only one of the patents

that issued from these co-pending cases, the ‘716 patent<sup>5</sup>, was asserted in the litigation. The plaintiff, McKesson Information Solutions, was not involved in the prosecution of the ‘716 patent, and owned that patent only by virtue of a merger with another company. The defendant, Bridge Medical, asserted the affirmative defense of inequitable conduct, and charged that the patent prosecutor, who had never been retained or supervised by McKesson, had withheld (1) prior art made of record in the related co-pending applications from the ‘716 Examiner; (2) two rejections made by another examiner in a co-pending case; and (3) an allowance made by the ‘716 Examiner in another co-pending application under review by the same Examiner<sup>6</sup>. In response, the patent prosecutor argued that he could not recall why he did what he did more than seventeen years before when these patents were prosecuted, that the art withheld from the examiner in the ‘716 case was cumulative, and that it was not the practice of his or any other law firm to cite office actions in the 1980s<sup>7</sup>.

The *McKesson* court affirmed the district court’s finding that the ‘716 patent was unenforceable for inequitable conduct because the patent prosecutor had withheld these three categories of information under circumstances giving rise to an inference of an intent to deceive<sup>8</sup>. In so holding, the Federal Circuit clarified some of its recent decisions to underscore the breadth of the disclosure obligation and the diversity of the circumstantial evidence upon which a finding of inequitable conduct can be made. It revisited its decision in *Bruno Independent Living Aids, Inc. v. Acorn Mobility Services, Ltd.*<sup>9</sup>, where it had held that selectively withholding prior art from the PTO while disclosing it to another Federal agency (in that case, the FDA), supports an inference of an intent to deceive<sup>10</sup>. The *McKesson* court held that *Bruno* applied to material information selectively withheld *within* the PTO, that is, to withhold material art made of record before one examiner while withholding it from another can serve as circumstantial evidence of deceptive intent<sup>11</sup>. It was no defense, moreover, that the patent

prosecutor had disclosed the existence of the co-pending applications to the '716 Examiner where the withheld prior art could be found. The court explained that notwithstanding its ruling in *Akron Polymer Container Corp. v. Exxel Container, Inc.*<sup>12</sup>, which had found disclosure of co-pending applications to be inconsistent with an intent to deceive<sup>13</sup>, the district court did not clearly err when it considered that disclosure but found it to be outweighed by the failure to provide a credible explanation for failing to also co-cite the withheld art<sup>14</sup>.

The *McKesson* court also expounded on its decision in *Dayco Prods., Inc. v. Total Containment, Inc.*<sup>15</sup>, where it held, among other things, that an office action containing the "contrary decision of another examiner reviewing a *substantially similar* claim in a co-pending case" is material information subject to disclosure<sup>16</sup>. It explained that it did not intend to suggest in *Dayco* that substantial similarity was required for office actions to be material in a co-pending case. As long as the evidence shows clearly and convincingly that the contrary decision would have been important to the examiner's consideration of patentability in the co-pending case, the district court may find a rejection issued in a co-pending case subject to the duty of disclosure without regard to substantial similarity<sup>17</sup>.

Continuing its guidance with respect to the disclosure of office actions, the *McKesson* court also addressed notices of allowance. It held that the patent prosecutor breached his duty by failing to make of record in the '716 case the allowance of a co-pending application by the same examiner<sup>18</sup>. Because the allowance in the related case "plainly gives rise to a conceivable double patenting rejection," it was material and subject to disclosure<sup>19</sup>. Further, that it was the same examiner who allowed the co-pending case was not of consequence to the duty of disclosure. Adopting the reasoning of the Manual of Patent Examining Procedure (the "MPEP"), and the Seventh Circuit's 1972 decision in *Armour & Co. v. Swift & Co.*<sup>20</sup>, the Federal Circuit held that the patent prosecutor was not entitled to assume that a busy examiner "would recall his decision to grant the claims" in the co-pending case<sup>21</sup>.

And there is much more to take note of in the *McKesson* court's treatment of inequitable conduct. For example, the patent prosecutor offered certain explanations for his conduct, although he could not specifically recall the prosecution seventeen years before. Those explanations were deemed to lack credibility, and hence supportive of an intent to deceive under the law<sup>22</sup>, in part because there was no written evidence<sup>23</sup>. The court held that the district court

did not clearly err in its finding that the prosecutor's argument that he must have believed the prior art withheld from the '716 prosecution was cumulative was not credible, because there were no notes or other documentation from the prosecution file offered to corroborate the prosecutor as is recommended by the MPEP<sup>24</sup>. Notably, this is the first point of law from *McKesson* that has been cited in support of a finding of inequitable conduct in a subsequent case<sup>25</sup>.

In addition, the *McKesson* prosecutor contested the charge that he must have known of the materiality of the withheld prior art because he cancelled certain claims in the co-pending prosecution in light of that art, noting that it was "legitimate and acceptable practice" to cancel claims for later prosecution to position the remaining claims for allowance, and noting that he "explicitly stated that he was not acquiescing in the rejection but reserving the right to bring the claims in a further application."<sup>26</sup> The Federal Circuit held that cancellation of the claims was still evidence that the rejection in the co-pending case "could not be easily overcome" because of the withheld art, and as a consequence, "whether it is characterized as 'acquiescence' or 'legitimate and acceptable practice' [it] is evidence of materiality."<sup>27</sup> Further rejecting the notion that a customary patent prosecution practice is a defense

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## Inequitable Conduct

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to inequitable conduct, the court also observed that where a prosecutor either knows or should have known, based on the MPEP or otherwise, that a common practice may breach the duty of candor in a particular instance, it is “untenable” to rely on that practice in response to the charge of inequitable conduct<sup>28</sup>.

The evolution of the case law offers the patent litigator a number of strategic approaches for the advancement and defense of inequitable conduct cases. When assessing the response to an assertion of patent infringement, the question of unenforceability now deserves the same “deep dive” that is commonplace for invalidity. The file history must be assessed with care, not only to determine what the inventors and the patent prosecutors knew, but also to determine what they should have known that was either not disclosed or disclosed in a misleading fashion. The early assistance of a patent law expert may now be vital. Special attention is deserved by patents emerging from co-pending cases to determine whether selective disclosure has occurred, and to consider whether office actions containing important information relating to the

patentability of the patent at issue were disclosed as required.

For those litigators on the defense side of the issue, the guiding principle is now that all claims of inequitable conduct are to be taken seriously, even those apparently innocuous acts or decisions the patent bar may call “standard practice.” The duty of candor as codified at 37 C.F.R. § 1.56 makes no such distinction, and the danger of relying on that concept is featured prominently in *McKesson*. Moreover, while developing a defense to the merits of the charge is an appropriate mission, consider whether an error or mistake should be conceded. It remains the law that even “gross negligence” will not support a finding of inequitable conduct<sup>29</sup>. This is an unusual area of the law where pleading *nolo contendere* on the facts can set one free, but the impulse to contest must be battled to find the way to plead it.

The holdings in *McKesson* also present patent prosecutors with an array of issues to address. Measures will have to be developed to mitigate the risk imposed by the greater threat of inequitable conduct charges that can stick. *McKesson’s* holding that all material prior art references must be disclosed to the Patent Office is certainly not news to a patent attorney. But the requirement that material office actions from related cases must be disclosed to meet the duty of

candor may be new to some. Prosecutors should now review clients’ patent estates to identify pending cases that could be characterized as containing overlapping subject matter and target those cases for the supplemental disclosure of office actions from related cases.

There may be a temptation to resist as an anachronism the holding of *McKesson* regarding the materiality of office actions in co-pending cases before the same examiner. During prosecution of the patents at issue in *McKesson*, a busy examiner would need to request a physical file and wait for some time for delivery in order to check matter in a co-pending case, where now it is electronically available instantly. But the *McKesson* court did not relegate this holding to the bygone era. Patent prosecutors must thus be sensitive to this requirement in the context of co-pending cases before the same examiner.

Patent prosecutors will also soon face an added degree of complexity in their effort to meet the duty of disclosure more clearly defined in *McKesson*. The PTO promulgated proposed rules in the summer of 2006, including an overhaul of the rules governing Information Disclosure Statement (IDS) practice<sup>30</sup>. The proposed rules include a requirement to characterize disclosed references when more than twenty (20) references are submitted to the PTO. The characterization consists

of applicants stating which portion of the reference is considered material and to which portion of the application the material relates<sup>31</sup>. In the post-*McKesson* world, applicants prosecuting applications in families with multiple members will likely reach the twenty-reference threshold quickly and implicate characterization in most cases. Prosecutors should be prepared to spend more time on applications to adequately characterize the references.

To better position cases to address the forthcoming IDS rules and the impact of *McKesson*, prosecutors should consider adopting a comprehensive program for managing matter that may be subject to disclosure. A separate physical file should be established to maintain the art that presents itself during the prosecution of a patent application. The prosecutor should evaluate whether notes should be prepared regarding each reference reviewed, which *McKesson* identifies as a practice to be considered.

Going forward, prosecutors will need to be sensitive to the subject matter being pursued by a client across the entire scope of that client's patent portfolio. Heightened scrutiny of pending claims with an eye to how those claims overlap will need to be shown to identify patent families in which cross-disclosure is appropriate. This heightened level of

scrutiny is particularly important for larger clients who use multiple outside patent prosecutors to handle their cases. This arrangement can easily produce a situation where references in one family are not cross-disclosed in another that contains overlapping subject matter because no single entity is sensitive to the relevant issues. If nothing else, careful supervision of the processes used to meet an applicant's duty of candor will go far to minimize a negative impact from *McKesson*.

The apparent new direction from the Federal Circuit on the viability of inequitable conduct claims will present more questions than answers in the near term. One thing is certain: allegations of inequitable conduct will take greater prominence in patent litigation. But as the *McKesson* teachings are digested by patent litigators and prosecutors, and incorporated into their practices, the heightened attention to disclosure requirements may very well produce more stable and defensible patents. ■

<sup>1</sup> E. Wilson, "The Resurgence of Inequitable Conduct as a Defense to Patent Infringement (The Special Care Required When Submitting Affidavits to the PTO)," INTELLECTUAL PROPERTY QUARTERLY NEWSLETTER, Spring 2007.

<sup>2</sup> E.g., *Allied Colloids Inc. v. American Cyanamid Co.*, 64 F.3d 1570, 1578 (Fed. Cir. 1995); *Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).

<sup>3</sup> 487 F.3d 897 (Fed. Cir. 2007). Morrison & Foerster was counsel of record for prevailing party,

Bridge Medical, Inc., both at trial and on appeal.

<sup>4</sup> See *McKesson Info. Solutions*, 487 F.3d at 902.

<sup>5</sup> U.S. Patent No. 4,857,716.

<sup>6</sup> See *McKesson Info. Solutions*, 487 F.3d at 907-08.

<sup>7</sup> See *id.* at 908-12.

<sup>8</sup> *Id.* at 901-02.

<sup>9</sup> 394 F.3d 1348 (Fed. Cir. 2005).

<sup>10</sup> *Id.* at 1354-55.

<sup>11</sup> *McKesson Info. Solutions*, 487 F.3d at 916.

<sup>12</sup> 148 F.3d 1380 (Fed. Cir. 1998).

<sup>13</sup> *Id.* at 1384.

<sup>14</sup> See *McKesson Info. Solutions*, 487 F.3d at 917.

<sup>15</sup> 329 F.3d 1358 (Fed. Cir. 2003).

<sup>16</sup> *Id.* at 1368 (emphasis added).

<sup>17</sup> *McKesson Info. Solutions*, 487 F.3d at 920.

<sup>18</sup> *Id.* at 925-26.

<sup>19</sup> *Id.* at 925.

<sup>20</sup> 466 F.2d 767, 779 (7th Cir. 1972).

<sup>21</sup> *McKesson Info. Solutions*, 487 F.3d at 925-26.

<sup>22</sup> E.g., *Bruno*, 394 F.3d at 1354-55 (the lack of "a credible explanation for the nondisclosure" supports inferring an intent to deceive).

<sup>23</sup> *McKesson Info. Solutions*, 487 F.3d at 918.

<sup>24</sup> *Id.* (citing MPEP § 2004(18) (5th ed. rev. 3, 1986)).

<sup>25</sup> *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, No. MJG-01-1504, 2007 U.S. Dist. LEXIS 50311, \* 54- \* 56 (June 26, 2007 D. MD).

<sup>26</sup> *McKesson Info. Solutions*, 487 F.3d at 921-22.

<sup>27</sup> *Id.* at 922.

<sup>28</sup> *Id.* at 922-23.

<sup>29</sup> See *McKesson Info. Solutions*, 487 F.3d at 913 (quoting *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part)). This principle was inapplicable in *McKesson*: "this was not a case of mistake or negligence -- the prosecuting attorney testified that he would make all the same nondisclosure decisions again if prosecuting the same applications today." *Id.* at 901.

<sup>30</sup> 71 Fed. Reg. 38808 (10 July 2006).

<sup>31</sup> See *id.*

## Fraud in the Trademark Office

By Jennifer Lee Taylor

Discovering that your trademark registrations are vulnerable to cancellation because they may have been fraudulently obtained is disconcerting, to say the least, but discovering these vulnerabilities in the midst of litigation can be downright disastrous. Yet, this is exactly what is happening with increasing consistency as a result of a string of recent rulings by the PTO's Trademark Trial and Appeal Board. Each of these cases share one common element: the filing of an allegation of use that included products or services in connection with which the trademark had not been used. These allegations of use are filed in a number of contexts: (i) as part of a use-based application, (ii) as part of a statement of use in connection with an intent-to-use application, and (iii) as part of a Section 8 affidavit demonstrating continuing use of a trademark. Such Section 8 affidavits must be filed between the fifth and sixth year following registration, and again each time the registration is renewed. To date, most of the fraud allegations seem to have arisen in connection with

statements of use filed after intent-to-use applications are allowed or in connection with Section 8 affidavits<sup>1</sup>.

Because an intent-to-use application is filed based upon an *intent* to use a trademark in commerce, and because statements of use need not be filed until a notice of allowance is issued, which might be several years later, many applicants have taken to including a laundry list of items in their intent-to-use applications because they want to give themselves the greatest flexibility in developing their products or services. There is nothing improper per se about this practice. However, they get into trouble when they subsequently file a statement of use without deleting items on which the mark has not been used. Although an applicant must submit proof of use, such as labels, packaging, or tags (*i.e.*, specimens) showing actual use of the mark when the statement of use is filed, only one item in each class included in the application is required. So, for example, in an application for a variety of clothing items in Class 25 and a variety of leather goods in Class 18, the applicant need only submit a specimen showing use on one clothing

item and a specimen showing use on one leather good. The applicant may then file a statement of use for all goods on which the mark has been used without additional proof of use. In so doing, the applicant must take care, however, to delete from the statement of use any clothing items or leather goods on which the mark has not been used. If the applicant does not delete such items, it is fraud, as the Board has concluded in a long line of cases<sup>2</sup> starting with *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d (BNA) 1205, 1206 (T.T.A.B. 2003).

The same issues can easily arise when a Section 8 affidavit is filed, as the goods on which the trademark is used may have changed over the years and the trademark may no longer be used on all the items listed in the registration. As with a statement of use, the Board has held that the filing of a Section 8 affidavit for items on which the trademark is not being used is fraud, and renders the registration vulnerable to cancellation. See *Jimlar Corp. v. Montrexpert S.P.A.*, 2004 TTAB LEXIS 333, at \*20 (June 4, 2004) (not citable as precedent).

In its rulings in each of these cases, the Board has essentially read the “intent” element out of the standard for establishing fraud, instead of holding trademark owners strictly liable for any false statements that were made in any allegations of use. The Board’s position is that the trademark owner has the obligation to know whether the trademark is being used on the items listed in the allegation of use. *See J.E.M. Int’l, Inc. v. Happy Rompers Creations Corp.*, 74 U.S.P.Q.2d (BNA) 1526 (T.T.A.B. 2005) (not citable as precedent) (trademark owner knew or should have known that its mark had not been used on approximately 100 of the 150 clothing items listed in the statement of use); *Hawaiian Moon, Inc. v. Doo*, 2004 TTAB LEXIS 274 (Apr. 29, 2004) (not citable as precedent) (owner of mark would have known that the mark was used only on shirts at the time that he signed the statement of use).

The Board has shown some leniency when the trademark owner was confused as to whether a trademark was “used in commerce,” i.e., across state lines. In so doing, the Board has indicated that it recognizes that “use in commerce” can be a more nuanced issue, particularly for services. *Compare Maids to Order of Ohio, Inc. v. Maid-to-Order, Inc.*,

78 U.S.P.Q.2d (BNA) 1899 (2006) (Board accepted argument that registrant did not understand the meaning of “use in commerce” when the mark was being used in connection with all the services identified in the application) *with Hurley Int’l LLC v. Volta*, 82 U.S.P.Q.2d (BNA) 1339, 1345 (T.T.A.B. 2007) (where mark not in use at all in United States, Board rejected argument that registrants did not understand the meaning of “use in commerce”). However, the Board has shown no leniency when the trademark owner claimed it did not understand the application, did not speak English well, or was not represented by an attorney. *Hachette Filipacchi Presse v. Elle Belle, LLC*, 2007 TTAB LEXIS 53 (Apr. 9, 2007) (limited English ability of applicant did not preclude finding of fraud).

Unfortunately for trademark owners, these issues often arise only after they have asserted their trademarks against a third party, possibly by filing a notice of opposition or a petition to cancel before the Board, only to have their adversary learn through discovery that the trademark was not properly used on all of the items in the registration. This can change the entire dynamic of the opposition or cancellation proceeding, particularly if the adversary files a counterclaim to cancel the trademark

owner’s prior registration. While the trademark owner may still be able to establish prior common-law rights in the trademark, the potential loss of a valuable federal registration can be a strong impetus to settle the original dispute on less favorable terms. In fact, as Board fraud decisions become more and more common, it is likely that some trademark owners are deciding not to pursue infringers for fear that they may end up losing their own trademark registrations as a result of fraud.

Trademark owners can take several steps to ensure that they do not end up in this position. First, they can make sure they include only items on which a trademark has been used in their use-based trademark applications. Second, when filing a statement of use or a Section 8 affidavit, they can err on the side of caution and delete all items where they cannot establish that a trademark has been used, or, in the case of a Section 8 affidavit, is currently being used. Third, they can consider keeping proof of use for each item in their files in event they face a future fraud allegation. Fourth, they can consider auditing their trademark registrations so that they are not vulnerable to cancellation due to fraud. Although the issue of an overly broad allegation of use can arise in connection

## Fraud

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# Uniform Trade Secrets Act Preemption: An Obscure Doctrine Finally Gets Its Day In Court

By Michael Jacobs, Michael Katz, and Jana Gold

with any trademark registration, applications filed on an intent-to-use basis seem to be most at risk. When the Lanham Act was amended in 1989 to permit the filing of applications based upon an intent to use a mark in commerce, many applicants started filing extremely broad intent-to-use applications to get around the Lanham Act's previously strict use requirements. As the Board is making clear with its recent rulings on the subject, this practice can lead to trouble if the broad descriptions are not narrowed when statements of use are filed. ■

<sup>1</sup> This is not to suggest that fraud can never be an issue with a use-based application, as the trademark owner discovered in *Tequila Cazadores S.A. de C.V. v. Tequila Centinela, S.A. de C.V.*, 2004 TTAB LEXIS 109, at \*14 (Feb. 24, 2004) (not citable as precedent) (Board found fraud because applicant included items on which the mark had not been used in its use-based application).

<sup>2</sup> The Board's position is simple: (i) the documents filed in connection with trademark applications and registrations are remarkably simple, and (ii) the use claims are supported by the trademark owner's oath, punishable by fine or imprisonment, or both, which requires that the trademark owner investigate the claims before signing and submitting the documents.

In the last five years, the preemption doctrine of the Uniform Trade Secrets Act (the "UTSA") has become a force to be reckoned with in cases alleging theft of confidential business information. Reported cases addressing UTSA preemption were as scarce as hens' teeth in the decade following the 1985 adoption of the Uniform Act. A quick Westlaw search revealed 8 reported decisions nationwide between 1985 and 1995. In contrast, there have been approximately 20 reported cases in the last 6 months alone.

This groundswell of judicial activity is no accident. A fundamental disagreement has emerged over the extent to which the UTSA displaces common law and statutory causes of action based upon theft of confidential information.

Before addressing the jurisdictional split of opinion, it is worth considering the historical purpose behind the UTSA. The drafters of the UTSA were concerned that the common law of misappropriation had developed unevenly state to state. The legal landscape presented diverse causes

of action with distinct statutes of limitations, remedies, and definitional criteria for what business information could be protected and under what circumstances. Forum shopping was common. So too was uncertainty in the business community. The drafters hoped to lend parsimony to this landscape. They proposed a single vehicle for recovery to be adopted by all state legislatures. Preemption, as well as a provision requiring courts to follow the laws of other UTSA jurisdictions, was intended to secure uniformity.

And by all measures the UTSA has been enormously successful. As of the date of this article, 46 of the 50 states (and the District of Columbia) have adopted some variation of the UTSA. The only holdouts are Texas, Massachusetts, New York, and New Jersey, with UTSA legislation pending in the latter two states.

Legislative enthusiasm for the UTSA, however, has not translated into judicial accord on UTSA preemption. Courts nationwide dispute the extent to which the UTSA replaces common law theories of recovery. The majority view construes

UTSA preemption broadly.<sup>1</sup> Under this view, the UTSA displaces all common law and statutory theories of recovery for idea theft, including breach of fiduciary duty, conversion, tortious interference with contract, unfair competition, and quantum meruit.<sup>2</sup> The opposing view holds that UTSA was intended to displace only common law causes of action for misappropriation of trade secrets.<sup>3</sup> Under this view, plaintiffs can seek multiple tort-based remedies for theft of confidential business information in addition to asserting a UTSA claim.

The jurisdictional dispute recently came to a boil in *Burbank Grease v. Sokolowski*, a case pitting a collector of used restaurant grease against a former manager who resigned to work for a competitor, taking with him plaintiff's customer lists and sales information.<sup>4</sup> The intermediate appellate court affirmed the grant of summary judgment holding that the customer lists did not qualify as trade secrets. Plaintiff argued that it should be allowed nonetheless to present a case to the jury that defendant had breached his fiduciary duties by taking confidential information. Defendant argued those claims were preempted. The appellate court reviewed the opinions of all other UTSA jurisdictions. In a detailed opinion,

the court opted to follow the majority of courts and ruled that the other common law claims were preempted by the UTSA.<sup>5</sup> The UTSA, the court held, supplies the sole remedy for theft of confidential information. The court's ruling means that there are only two categories of legally cognizable business information: protectable trade secrets subject to the UTSA, and information in the public domain.<sup>6</sup> Business information that does not qualify as a trade secret can be used freely to compete – at least absent a contract.

The Wisconsin Supreme Court, in a split decision, disagreed.<sup>7</sup> The majority held that UTSA preemption was limited to displacing common law misappropriation. Plaintiff could assert both a UTSA claim, and tort-based theories of recovery, including breach of fiduciary duty and conversion. If the factfinder ultimately determined that the information at issue does not qualify for trade secret protection, the plaintiff could still prevail under a different theory based on theft of confidential information.<sup>8</sup>

The strategic implications for litigating trade secret cases are apparent. Under the weak preemption view, courts should not rule on motions to dismiss

or for summary adjudication based on preemption, other than to dismiss a common law claim for misappropriation of trade secrets. Under the strong preemption view, defendants can take steps early in the litigation to narrow the scope of the pleadings. By motion or demurrer, a defendant can seek dismissal of statutory and tort-based theories of recovery for theft of confidential information. It should not make a difference whether plaintiff has pled a cause of action under the UTSA.

There is further disagreement among court decisions adopting the “strong preemption” view over the extent to which the UTSA displaces common law causes of action. In many instances, a cause of action is asserted alleging multiple wrongful acts, only one of which is the theft of confidential business information. To further complicate things, sometimes the allegations are intertwined, as in the following hypothetical scenario. Consider a case in which a company sues a former executive for breach of fiduciary duty, alleging she misused confidential business plans, and appropriated for her own use and benefit a corporate opportunity consistent with those plans, all the while concealing her scheme in violation of her duties of loyalty and candor. But for her use

## Preemption

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of the information in the business plan, one could argue, she would not have appreciated the potential opportunity that was diverted. Under tests articulated by some California courts, for example *Digital Envoy, Inc. v. Google, Inc.*,<sup>9</sup> it could be argued that the claim for breach of fiduciary duty is preempted because all the wrongful acts arise “under the same nucleus of facts” as the alleged misappropriation. The same argument could be made applying a similar test adopted by yet other courts, asking whether the cause of action is based primarily on trade secret misappropriation. Other courts hold that there is no preemption if a plaintiff can state a cause of action even without the facts related to the misappropriation.<sup>10</sup> No court has analyzed whether these tests are substantively different, as applied.

In the latter scenario, it is not the case that preemption has no place in the defendants’ strategy. Rather, the doctrine may not be enforced by procedural vehicles, such as demurrer or motion for summary adjudication, which cannot dispose of only a part of a cause of action. Cal. Civ. Code

437 c(f)<sup>11</sup> (Under the hypothetical scenario described above, a defendant may use a motion to strike to remove all allegations of theft of confidential information in the complaint, other than those asserted in support of a claim arising under the UTSA or a contract. See *Mortgage Specialists*, 902 A.2d at 665.<sup>12</sup> In federal court, the defendant could move for partial summary judgment, *Bean v. Reiker*.<sup>13</sup> Or the defendant may wait until trial and file a motion for non-suit removing those allegations. The point is, there are procedural and strategic implications to whether the weak or strong view of preemption prevails.

So where does California fit into this jurisdictional divide? A growing number of federal decisions hold that some form of the strong preemption view applies under California’s UTSA. At least one state appellate decision, *American Credit Indemnity Co. v. Sacks* 213 Cal. App.3d 622, 630 (1989),<sup>14</sup> citing the legislative history verbatim, has embraced the strong preemption view – albeit in dicta – stating that California’s UTSA provides: “unitary definitions of trade secret and trade secret misappropriation and a single statute of limitations of the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability

utilized at common law.” But binding state authority is scant.

Federal and state decisions directly conflict on at least one issue: whether a claim for misappropriation of confidential information under Section 17200 of the Business and Professions Code is preempted by the UTSA. Several federal cases say yes. These cases do not follow *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App.3d 1278 (1990),<sup>15</sup> a state appellate decision holding that a misappropriation claim under Section 17200 was not preempted because the UTSA, by its own terms at Civil Code § 3426.7, subdivision (a), does not preempt statutes “relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets.” The federal courts, without explanation, disagreed that this statutory language was intended to cover Section 17200. So who got it right?

The federal courts are correct. The legislative history to California’s UTSA makes clear that the language at section 3426.7, subdivision(a), was intended to exempt statutes that either regulate trade secrets, such as Penal Code Section 499c, which criminalizes trade secret misappropriation, or that provide that certain types of information are in

the public domain. UTSA legislative history, for example, identifies Government Code Section 6254.7(d) as a statute “relating to misappropriation of trade secrets.” Analyses of Assembly Bill 501 prepared for the Assembly Committee on Judiciary<sup>16</sup> Section 6254.7(d) provides that pollution data cannot be a trade secret. Subdivision (a) does not address the availability of other statutory remedies. That is the provenance of subdivision (b).

The federal courts are correct for a second reason. Permitting a plaintiff to assert a trade secret misappropriation claim under Section 17200, a statute routinely pled in state court, would undermine the very purpose of the UTSA: to create a unitary remedial scheme governed by a single burden of proof, statute of limitations, fee-shifting provision, and the like. To give but one example, the assertion of parallel claims under the UTSA and Section 17200 invites a court to grant different injunctive relief under Section 17200 than would be permitted under the UTSA. This would require a court to substitute its own view of what is equitable, and its own policy preferences, for those of California’s Legislature expressed in the UTSA. Finally, Section 3426.7, subdivision (b), expressly states that the UTSA preserves only civil remedies that “are not based

on misappropriation of a trade secret.” And while Section 17200 provides that the remedies afforded therein are cumulative, the statute goes on to say “[u]nless otherwise expressly provided.” Bus. & Prof. Code § 17205.

Ironically, a doctrine adopted by state legislatures to displace common law remedies has gained judicial acceptance only through the slow accretion of the common law. That process has yet to play out in California. But if the recent surge in opinions is any guide, we likely will not have to wait another 25 years for California appellate courts to weigh in on UTSA preemption. ■

<sup>1</sup> See, e.g., *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 971 (N.D. Ill. 2000); *AutoChannel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 788-89 (W.D. Ky. 2001) (holding that permitting both common law and UTSA claims to be asserted “would undermine the uniformity and clarity that motivated the creation and passage of the Uniform Act.”); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7<sup>th</sup> Cir. 1992) (the Illinois Trade Secrets Act abolished all common law theories of misuse of confidential information).

<sup>2</sup> See, e.g., *Accuimage Diagnostics Corp. v. Terarecon, Inc.*, 260 F. Supp. 2d 941, 953-54 (N.D. Cal. 2003) (common law trade secret misappropriation claim preempted); *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 666 (N.H., 2006) (UTSA preempts conversion); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025 (N.D. Cal. 2005), *vacated on other grounds*, 2006 U.S. Dist. LEXIS 6449 (N.D. Cal. Jan. 25, 2006) (UTSA preempts common law and statutory unfair competition and unjust enrichment); *Convolve, Inc. v. Compaq Computer Corp.*, No. 00CV5141, 2006 U.S. Dist. LEXIS 13848 (S.D.N.Y. Mar. 29, 2006) (UTSA preempts claims for tortious interference

with contract and prospective business advantage); *Opteum Financial Services, LLC v. Spain*, 406 F. Supp. 3d 1378 (N.D. Ga. 2005) (UTSA preempts claim for quantum meruit); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 972 (N.D. Ill. 2000) (ITSA preempts claim for breach of fiduciary duty); *MicroStrategy, Inc. v. Business Objects, S.A.*, 429 F.3d 1344 (Fed. Cir. 2005) (Virginia UTSA preempts claim for civil conspiracy).

<sup>3</sup> *Burbank Grease Serv., LLC v. Sokolowski*, 717 N.W.2d 781 (Wis. 2006).

<sup>4</sup> *Burbank Grease Serv., LLC v. Sokolowski*, 693 N.W.2d 89, 99-102 (Wis. Ct. App. 2005), *reversed*, 717 N.W.2d 781 (Wis. 2006).

<sup>5</sup> *Id.* at 726.

<sup>6</sup> *Id.* at 718.

<sup>7</sup> *Burbank Grease*, 717 N.W. 2d at 785.

<sup>8</sup> *Id.* at 789-90; 793-94; 798.

<sup>9</sup> 370 F. Supp. 2d 1025, 1034 (N.D. Cal. 2005).

<sup>10</sup> See *Mediware Information Systems, Inc. v. Mckesson Information Solutions, LLC*, 2007 U.S. Dist. LEXIS 22087 (D. Kan. Mar. 26, 2007) (declining to dismiss tortious interference claim at pleading stage because plaintiff had alleged facts to support claim whether trade secret claim survived or not.)

<sup>11</sup> See Cal. Civ. Proc. Code § 437c(f)(1).

<sup>12</sup> See *Mortgage Specialists*, 902 A.2d at 665 “[A] claim is preempted when it is based solely on, or to the extent based on, the allegations or the factual showings of unauthorized use of . . . information or misappropriation of a trade secret.”

<sup>13</sup> *Bean v. Reiker*, 120 Cal. App. 403, 409 (1932).

<sup>14</sup> *American Credit Indemnity Co. v. Sacks*, 213 Cal. App.3d 622, 630 (1989).

<sup>15</sup> *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App.3d 1278 (1990).

<sup>16</sup> Analyses of Assembly Bill 501 prepared for the Assembly Committee on Judiciary.

## News & Notes on Reexaminations

By Robert Saltzberg and Mehran Arjomand

*News & Notes on Reexaminations is a recurring section of the Intellectual Property Quarterly Newsletter.*

### REEXAMINATIONS INCREASE IN POPULARITY

The USPTO has released its reexamination statistics through the third quarter of its fiscal year. Both *ex parte* and *inter partes* filings are on track for record totals, with a large increase seen in *inter partes* filings.

Through June 30, 2007 (the end of the third quarter), the USPTO received 477 *ex parte* reexamination filings. Only 340 requests had been filed by the same time last year. This represents a 40% increase.

The gains are even larger for *inter partes* reexamination. Through June 30, 2007, 90 *inter partes* reexamination requests were filed as compared to 40 requests by the same time last year. Indeed, the 90 requests filed through the first three quarters of fiscal year 2007 is more than the 70 requests filed for *all* of fiscal year 2006.

The increase in *inter partes* reexaminations is particularly surprising given the risk of litigation estoppel. 35 USC 315(c). The

estoppel precludes the requester from later asserting in litigation the invalidity of a claim on any ground which it raised or “could have raised” during the reexamination. Concern about the estoppel has limited the use of *inter partes* reexaminations in the past.

However, the upward trend in *inter partes* filings suggests that any estoppel concern is being outweighed by the perceived benefits of *inter partes* reexamination, particularly in the current patent litigation landscape. An *inter partes* reexamination can stay litigation (and its accompanying costs), and can provide a different forum for the litigation. In fact, the statistics suggest that *inter partes* reexamination is being used more frequently in the context of litigation. Currently 50% of the pending *inter partes* reexaminations are co-pending with litigation as compared to 26% at the same time last year.

The statistics also confirm that almost all *ex parte* reexamination requests (92%) are granted by the

USPTO. Once granted, the odds are the claims will be amended in some form. The claims are changed in 64% of *ex parte* reexaminations. Such amendments may give rise to “intervening rights,” which would allow the third party to continue practicing technology implemented before grant of the reexamination, even though such technology may later infringe a claim amended during reexamination. All the claims are confirmed in 26% of *ex parte* reexaminations, and all claims canceled in only 10% of *ex parte* reexaminations. In other words, claims are amended or canceled in almost 75% of all *ex parte* reexaminations.

For *inter partes* reexaminations, the statistics favor the requester even more (although the statistical sample is much smaller than for *ex parte* reexaminations). Ninety-six percent of all requests are granted. Only eight *inter partes* reexaminations have been completed, but all the claims have been canceled in seven of these eight reexaminations.

In sum, the USPTO has seen a marked increase in reexamination filings, apparently due, at least in part, to the increasing confidence of third-party requesters that reexamination will result in a favorable outcome. This is borne out by recent statistics,

in which, at least for *ex parte* filings, claims in almost 75% of those reexaminations were amended or canceled. We suspect the popularity of reexaminations will continue, as clients and litigators come to view the USPTO as a less expensive, more

favorable forum than the courtroom in many patent disputes. ■

## eBay Scorecard

By Angela Rella

On May 15, 2006, the Supreme Court changed the landscape of patent cases by striking down the Federal Circuit's long-standing rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances and holding that "the traditional four-factor framework that governs the award of injunctive relief" applies to patent cases. *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006) ("eBay"). The Supreme Court stated that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such

discretion must be exercised consistent with the traditional principles of equity, in patent disputes no less than in other cases governed by such standards." *Id.*

We began tracking courts' application of *eBay* in the Spring 2007 inaugural edition of our Intellectual Property Quarterly Newsletter. The second installment of our "eBay Scorecard" tracks the application of such discretion by the district courts, and the review for abuse of that discretion by the Federal Circuit, through June 30, 2007. We hope you find this summary helpful.

	Plaintiff Practices Invention?		Infringing Use Limited to Minor Component?		Injunction Would Cause Public Harm?	
	Yes	No	Yes	No	Yes	No
Total (April 1, 2007 through June 30, 2007)						
Injunctions Granted (18)	13	0	0	2	0	12
Injunctions Denied (6)	0	4	2	2	3	0
Total (May 15, 2006 through June 30, 2007)						
Injunctions Granted (21)	14	1	0	4	0	16
Injunctions Denied (7)	1	4	2	2	3	0

\* [Click here](#) for the list of cases that make up this chart.

## Intellectual Property Practice News

### TOP HONORS

The summer awards season has been particularly fruitful for Morrison & Foerster's Intellectual Property practice. Due to its consistently cutting-edge work, the Intellectual Property practice was recently honored with the following awards:

- National Law Journal: *Defense Hot List*  
Award highlights Eastern District of Texas defense victory in *Forgent v. EchoStar* patent infringement jury trial
- Chambers USA: *Band One: National Leading Law Firm*  
Top ranking for the **Intellectual Property** practice and **Life Sciences** practice

### FROM THE DOCKET

#### Victory in Patent Interference in *Enzo v. Eiken*

The Board of Patent Appeals and Interference issued a decision on May 18 granting the motions of Morrison & Foerster client Eiken Chemical Co., Ltd., to deprive Enzo Biochem of its standing as the senior party (first party

to file) in an interference involving DNA amplification technology. The result of this decision is to require Enzo to go back over four years from the filing date the Board's decision gives it in order to show priority of invention. Barry Bretschneider and Peter Davis, with substantial assistance from Takamitsu Fujiu, Laura Santana, and Shantanu Basu, handled the motions for Eiken.

#### Expertise in the Eastern District of Texas

Making this summer's biggest news, a team of **Morrison & Foerster** attorneys and their co-counsel won dismissal of a patent infringement case brought against client **EchoStar Communication Corp.** after a Texas jury took just over an hour to find the plaintiff's patent invalid. It was only the second time on record that a jury in the Eastern District of Texas had handed down a defense win in a patent case by finding the patent at issue invalid. The unanimous verdict

by the eight-person jury was returned in Tyler, Texas, under U.S. District Judge Leonard Davis. Plaintiff **Forgent Networks**, of Austin, Texas, a patent-holding company, sued major satellite and cable TV companies, including EchoStar, in 2005, claiming that their use of DVR (digital video recorder) technology infringed on a 2001 Forgent patent. All of the major cable operators settled with Forgent a few weeks before trial for \$20 million dollars. Satellite TV rival DirectTV reached its own settlement with Forgent just prior to trial for an estimated \$8 million. EchoStar decided to fight Forgent's claims, which exceeded \$205 million in alleged damages. **Rachel Krevans**, a litigation partner in Morrison & Foerster's San Francisco office who led the trial team together with **Otis Carroll** of the Tyler, Texas, firm of **Ireland, Carroll & Kelley, P.C.**, said EchoStar did not dispute infringement at trial, but instead argued that Forgent's

patent was invalid. In addition to Ms. Krevans, the Morrison & Foerster attorneys representing EchoStar included **Charles Barquist**, a litigation partner in the firm's Los Angeles office; San Francisco litigation partner **Jason Crotty**; and **Scott Llewellyn**, a Denver-based litigation partner.

This summer has also been a busy time at Morrison & Foerster for new plaintiff-side patent litigation cases filed in the Eastern District of Texas.

In April, the firm filed a patent infringement lawsuit (*Hitachi Plasma Patent Licensing v. LG Electronics, et al.*) on behalf of Hitachi against its rival LG Electronics, Inc. Hitachi contends defendants are willfully infringing

seven patents covering a range of plasma display features, including full-color surface discharge technology and methods for driving a flat panel. Hitachi is seeking injunctive relief and damages. Leading the trial team are Morrison & Foerster partners **Andrew Monach**, in the San Francisco office; **James Hough**, in the New York office; and **Alex Chartove**, in the Northern Virginia office. Rounding out the litigation team are associates **Shane Brun** and **Francis Ho** in the San Francisco office; **Rachel Quitkin** in the New York office; and **Curtis Lowry** in the Tokyo office.

More recently, representing Sharp Corp., the firm filed a patent

infringement suit (*Sharp Corp. v. Samsung Electronics Co. Ltd., et al.*) against Samsung and two of its subsidiaries. In the complaint, Sharp alleges direct and indirect infringement of five patents relating to liquid crystal display technology. **Barry Bretschneider** and **A.C. Johnston**, partners in the Northern Virginia and Washington D.C. offices, respectively, are leading the trial team. The Washington D.C. team includes **Priya Viswanath**, associate, while the Northern Virginia team includes **Deborah Gladstein**, of counsel, and associate **Michael Anderson**. ■

## About Morrison & Foerster's Intellectual Property Practice

Morrison & Foerster maintains one of the largest and most active intellectual property practices in the world. The IP practice provides the full spectrum of IP services, including litigation and alternative dispute resolution, representation in patent and trademark prosecution, and business and licensing transactions. Morrison & Foerster's IP practice has the distinguishing ability to efficiently and effectively handle issues of any complexity, in any venue, involving any technology. For more information about the IP practice, please visit [www.mofo.com](http://www.mofo.com).

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