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NEWSLETTER

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Intellectual Property Law Update

We hope everyone is having an excellent summer and is not overly sunburned! To limit your sun exposure and improve your business prospects, please consider these topics that are of great current significance. Among other things, we discuss the federal Defend Trade Secrets Act of 2016, which is likely to be among the most significant intellectual property developments of this decade.

- Steps you need to take now in response to Defend Trade Secrets Act;
- US Supreme Court guidance on copyrightability of clothing;
- Privacy and information security: commercial contracts and EU guidance;
- Patentability standards: requirements for claimed subject matter

New Federal Trade Secrets Law: Why it Matters to You Now

For companies emphasizing protection of their trade secrets as a key element of their business model – which should be all companies, irrespective of whether they have a patent portfolio or consider themselves "high tech" – the new federal Defend Trade Secrets Act of 2016 is a sea change in the legal environment, and probably the business environment. The ability to (i) stop trade secret misappropriation in federal court as opposed to much less efficient state courts; (ii) obtain seizures of goods based upon such action without a traditional adversary hearing; and (iii) obtain attorney fee and enhanced damage recovery, greatly strengthens the hand of those relying on trade secrets besides or instead of patent protection. Additional background on this law in the form of a Power Point presentation done by one of the authors is available upon request.

Trade secrets include many things if they are genuinely kept secret and have actual or potential economic value. While technical chemical or other formulae qualify, the term encompasses many other things such as client or employee lists and client or vendor pricing information. Your FisherBroyles lead can get you to an IP partner to help you determine what qualifies for this status and how best to protect it. However, you must act soon to fully protect your interest under the new statute. The statute requires that you take action now to preserve (or obtain) trade secret status for materials you may need to protect in legal action.

If a company properly utilizes the new law, this is likely to dissuade many potential infringers, such as employees seeking to utilize your hard earned trade secrets in competition with you or competitors seeking shortcuts by hiring such employees. Tasks which you need to do and with which our assistance is needed are:

- Have your BOD adopt and promulgate a formal trade secret policy statement;
- Develop a formal trade secret identification policy to be utilized at early stages of the R&D or business development process;

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- Develop a formal trade secret management program governing creation, use and access to items identified as trade secrets; the elaboration of one of our authors is found here.
- Work with your HR team to ensure proper acknowledgments by all new and existing employees of their obligations on your materials and to refrain from use of those of a prior employer; and
- Ensure that all employees receive proper notice of their 'whistleblower' rights under our recent Client Alert discussing when enhanced damages are available.

Please speak with your FB lead to ensure prompt referral to a IP partner.

Clothing Copyrights? Maybe!

The Supreme Court agreed to hear the appeal of the U.S. Court of Appeals for the Sixth Circuit's holding that cheerleading uniforms can be copyrighted. Whether clothing can be copyrighted is one of the most unresolved questions of copyright law. The Sixth Circuit granted summary judgement for Varsity Brands, Inc. against Star Athletica, LLC arising out of Star Athletica's use of stripes, chevrons, color blocks, and zigzags that Varsity Brands alleges are copied from Varsity Brand's registered copyrights.

Dresses and other articles of clothing such as cheerleading uniforms cannot be copyrighted because they have utilitarian aspects. However, fabric designs can be copyrighted. Also, pictorial, graphic, or sculptural works, can be copyrighted, even if they appear on clothing. The Sixth Circuit found that the graphic features of Varsity Brand's cheerleading uniforms are more like fabric design than dress design. Thus, Varsity Brand's cheerleading uniforms are copyrightable.

In addition, Varsity Brands' cheerleading uniforms are copyrightable because the pictorial, graphic, or sculptural features of the design are separable from its utilitarian aspects. This is true even though the "pictorial, graphic, or sculptural features" of the design of the uniforms cannot be removed physically from the useful article, the cheerleading uniforms, because they are conceptually separable from the utilitarian aspects of the article.

This case will be watched closely by the fashion and sports apparel industries (and by us!). If the Supreme Court finds that the designs are copyrightable, this will be a huge boon to fashion designers. If it goes the other way, and clothing cannot be copyrighted, the brand name fashion industry stands a lot to lose, although it may be beneficial to the makers and sellers of replicas. We will have more to say once the decision comes down. In the meantime, we suggest that those in this industry hold off on any major investments which are dependent upon the outcome.

If you have any questions about the copyrightability of a dress or fabric design or pictorial, graphic, or sculptural work, please contact a Fisher Broyles partner.

Privacy and Data Security: Many Contract Issues

When one contracts to host or have hosted a transactional website, the subject of protection of the sensitive credit card, social security, drivers' license and related information is often paramount. When one company shares information of any kind – consumer, employee or trade secret support for business operations - with another company, in a cloud service, consulting or any other situation, the issue usually arises as well. Parties to contracts

often negotiate covenants regarding operations and insurance coverage, indemnities and warranties to assign both operational and legal responsibility for these matters. In such discussions, we urge consideration of:

General:

- Don't Agree that You Have What You Don't. It is quite tempting to draft documents providing for counterparties to acknowledge receipt of virtually every type of sensitive personal data. This is essential if correct, but a major problem otherwise. Agreeing to such language without any basis in fact opens up the data recipient to many unwarranted claims in the event of any data breach.
- Agreeing to Comply with All Applicable Laws. The problem in this area is that in the US, and to some extent other countries, 'law' is not found in traditional places, but exists much more in the form of administrative guidance, which is sometimes seen as informal. It is often best to refer to specific materials which are most relevant.
- Impossible Commitments. Perfect security is unattainable for anyone. Commitments to such effect are usually ill-advised. Undertakings to utilize best or commercially reasonable efforts to do so are usually more suitable.
- Ignoring Operational Due Diligence. You do not want to 'buy a lawsuit' – even one which you will win! - if your counterparty does not do things properly and a data breach occurs.

Cross Border:

When considering personal data transfers from the EU to the US, broader considerations come into play. The vast grey area of indecision surrounding the EU-to-US transfers of personal information appears to be growing, not shrinking.

The fallout of the *Schrems* controversy involving the striking down of the US-EU Safe Harbor framework, continues with a challenge of the use of Standard Contractual Clauses, an alternative for the Safe Harbor. The Irish Data Protection Commissioner issued a statement that it intends "to seek declaratory relief … to determine the legal status of data transfers under Standard Contractual Clauses." The US government has asked to join this case as an amicus curiae. While the outcome is not free from doubt, we still believe that use of the Standard Clauses (where applicable) is preferable to disregard of the topic and is evidence of good faith in any proceedings which do arise following a data breach or investigation.

The so-called Privacy Shield which has been proposed as a replacement for the Safe Harbor also hit some bumps in the road calling into question its viability. Thankfully, though, the European Parliament does appear to endorse the establishment of a legal framework for data transfer to provide parties on both sides of the Atlantic some certainty…. although the European Union has issued an entirely new framework for data protection which will be effective in 2018 and would apparently supersede the Privacy Shield and Standard Clauses in an effort to reflect digital age practice and maximize individuals' control over their data. We will have more to say in future publications about the new rules.

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For now, we urge continued caution regarding cross border transfers and related contract language, and employment of mainstream security practices to safeguard such data. We do not currently recommend substantial investments to comply with any particular pending regimen.

Our privacy and technology partners are pleased to work with you to develop language which is properly suited to each situation whether or not it involves cross-border data transfers.

Patents: New USPTO Guidelines for Applications Covering Naturally Occurring Products

The United States Patent and Trademark Office (USPTO) recently provided new guidance about eligibility of subject matter relating to natural products for patent protection. The new guidelines are of particular interest to companies seeking patents for life sciences applications and products, such as diagnostic methods and compositions that contain naturally occurring components.

In accordance with U.S. patent law, a patent may be obtained for "any new and useful process, machine, manufacture, or composition of matter." However, even if claims are directed to one of these statutory categories of subject matter, they may be precluded from eligibility for patent protection if they encompass abstract ideas, laws of nature, natural phenomena, or natural products. In the past two years, the USPTO has adjusted their processes for review of patent claims based on recent decisions from the U.S. Supreme Court that have addressed these exceptions to subject matter eligibility. In view of these decisions, a claim that encompasses a naturally occurring product is patent eligible only if deemed to recite markedly different characteristics from the product as it occurs in its natural environment.

The new USPTO guidelines, issued in May, 2016 found here, provide a number of examples of claims to compositions that encompass naturally-occurring substances or methods of diagnosing and treating disease conditions by detecting or administering naturally-occurring substances. A number of examples are provided, along with analysis as to why the USPTO would deem a particular claim "eligible" or "ineligible."

For example, claims are provided that recite vaccines containing the hypothetical naturally-occurring "Pigeon flu virus." Of the seven claims presented, six are deemed "eligible" and only one claim is indicated as "ineligible." Attenuated or inactivated Pigeon flu virus renders the subject matter of the claims eligible because they have markedly different structural characteristics in comparison to the naturally occurring virus. Combination of a naturally occurring virus fragment with formulation components that the virus is not found with in a natural environment, or with a vaccine delivery device, also renders the claims eligible. The one ineligible claim recites the virus fragment and "a pharmaceutically acceptable carrier," which the USPTO states could include a naturally occurring mixture of the virus and water. Specifying the carrier as a cream, emulsion, gel, liposome, nanoparticle, or ointment, which the USPTO deems are not naturally occurring mixtures with the virus in nature, restores patent eligibility.

The examples provided in the May, 2016 guidelines are not binding law, but they do provide some guidance and framework for drafting claims in view of recent Supreme Court decisions in the area of patent subject matter eligibility. Our patent attorneys can assist you with a proactive strategy to avoid a subject matter eligibility rejection or to argue against such a rejection if one is received from the USPTO.

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BREAKING NEWS: As this went to press, the U.S. Supreme Court handed down its decision in a patent infringement case involving Stryker Medical products and Zimmer Corp. The Court substantially lowered the standard which must be met for patent owners to prove willful infringement. This strengthens the hand of patent owners and must be taken into account by all market participants. We will have more to say about this case in our next issue, but are pleased to discuss its ramifications in the interim.